Important Notice

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Confirmation of Your Representation: You have been sent this Prospectus on the basis that you have confirmed to Standard Bank Plc and HSBC Bank plc, being the senders of the attached, that (i) the electronic mail (or e-mail) address to which it has been delivered is not located in the United States of America, its territories and possessions, any State of the United States and the District of Columbia, and "possessions" including Puerto Rico, the US Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands and (ii) that you consent to delivery by electronic transmission.

This Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of Standard Bank Plc and HSBC Bank plc or any person who controls either of them or any of their respective directors, officers, employees or agents, or any affiliate of any such person, accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from Standard Bank Plc or HSBC Bank plc

This Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply.

You are reminded that this Prospectus has been delivered to you on the basis that you are a person into whose possession this Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this Prospectus to any other person.

First Ukrainian International Bank

U.S.$150,000,000 9.750 per cent. Loan Participation Notes due 2010

issued by, but without recourse to

Standard Bank Plc

for the sole purpose of funding a loan to

Close Joint-Stock Company "First Ukrainian International bank"

(incorporated in Ukraine)

The outstanding long-term foreign currency debt of Close Joint-Stock Company "First Ukrainian International bank" ("FUIB" or the "Bank") is rated B- by Fitch Ratings Ltd. ("Fitch") and B2 by Moody's Investor Services Limited ("Moodys"). A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

Issuer:	Standard Bank Plc, Cannon Bridge House, 25 Dowgate Hill, EC4R 2SB United Kingdom (the "Lender" or the "Issuer").
Bank:	Close Joint-Stock Company "First Ukrainian International bank", Ukraine.
Interest Rate:	9.750 per cent. per annum from (and including) 14 February 2007 up to (but excluding) the Maturity Date (as defined below)
Issue Price:	100 per cent.
Issue Date:	The Issuer will issue the Global Note Certificate on or before 14 February, 2007, or on or before such other date not later than 28 February 2007 as may be agreed among the Issuer, the Bank and the Joint Lead Managers.
Form and Delivery:	The U.S.$150,000,000 9.750 per cent. Loan Participation Notes due 2010 (the "Notes") will be issued in registered form and will be represented by a global note certificate (the "Global Note Certificate") registered in the name of The Bank of New York Depositary (Nominees) Limited as nominee for and deposited with a common depositary for Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") on or about 14 February 2007 (the "Closing Date"). The Global Note Certificate will be exchangeable for individual note certificates ("Individual Note Certificates") only in certain limited circumstances specified in the Global Note Certificate and described under "Summary of Provisions Relating to the Notes in Global Form".
Denomination:	The Notes will be in denominations of U.S.$100,000 each and integral multiples of U.S.$1,000 in excess thereof. The Notes may only be traded on the SWX Swiss Exchange in integral multiples of U.S.$100,000.
Interest Payment Dates:	16 February and 16 August in each year commencing with 16 August 2007.
Maturity Date:	16 February 2010.
Redemption Amount:	Upon a scheduled redemption, Notes will be redeemed at their principal amount.
Early Redemption:	The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, upon giving notice to the holders of the Notes (the "Noteholders") at the principal amount thereof together with accrued and unpaid interest to the date of redemption and any additional amounts in respect thereof, upon receiving notice that the Bank wishes to prepay the Loan (as defined below) for tax reasons or in the event that it becomes unlawful for the Issuer to fund the advance or allow to remain outstanding the Loan under the loan agreement dated 8 February 2007 between the Issuer and the Bank (the "Loan Agreement") as more fully described in Clause 7 of the Loan Agreement. See also Condition 5 (*Redemption and Purchase*) of the Notes.
Redemption upon a Put Event:	On the announcement or (in the absence of such announcement) the occurrence of a Change of Control (as defined in the Terms and Conditions of the Notes) which results in a Rating Decline (as defined in the Terms and Conditions of the Notes), Noteholders shall have the option to give notice or procure that notice is given for the prepayment of the applicable amount of the Loan. To the extent such amount is actually received by the Issuer from the Bank, each Note held by the relevant Noteholders shall be redeemed. See "Terms and Conditions of the Notes — Redemption and Purchase — Redemption upon a Put Event".
Reopening:	The Issuer reserves the right to reopen this series of Notes (for details see Condition 13 (*Further Issues*) of the Notes).
Assurance:	The obligations of the Issuer to make payments under the Notes constitute direct and general obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. The Notes will constitute the obligations of the Issuer to apply an amount equal to the gross proceeds of the issue of the Notes solely for the purpose of financing a loan (the "Loan") to the Bank pursuant to the terms of the Loan Agreement. The Issuer will account to the Noteholders solely for amounts equivalent to those (if any) received from the Bank under the Loan Agreement less amounts in respect of the Reserved Rights (as defined in the Terms and Conditions of the Notes).
Without Recourse to the Issuer:	**The Notes are without recourse obligations of the Issuer. In each case where amounts are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for all amounts, if any, actually received by or for the account of the Issuer pursuant to the Loan Agreement less amounts in respect of the Reserved Rights. The Issuer will have no other financial obligation under the Notes. Accordingly, Noteholders are deemed to have accepted that they will be relying solely and exclusively on the covenants, credit and financial standing of the Bank in respect of the financial servicing of the Notes.**
Listing:	Application will be made for the listing of the Notes on the main segment of the SWX Swiss Exchange. Application will be made for the Notes to be provisionally admitted to trading on the SWX Swiss Exchange as of 14 February 2007.
Selling Restrictions:	United States of America, United Kingdom, Russian Federation, Ukraine, the Republic of Italy, Hong Kong and Singapore (for details see "Selling Restrictions").
Law and Jurisdiction:	The Notes and all related contractual documentation will be governed by, and construed in accordance with, the laws of England. The place of jurisdiction will be the courts of England.
Risk Factors:	**For a discussion of certain issues that should be considered by prospective purchasers of the Notes, see "Risk Factors" starting on page 5.**

Joint Lead Managers

HSBC **Standard Bank**

ISIN: XS0287015787 Swiss Security Number: 2922365 Common Code: 028701578

The date of this Prospectus is 8 February 2007

THIS PROSPECTUS HAS BEEN PREPARED BY THE BANK IN CONNECTION WITH AN APPLICATION FOR THE LISTING OF THE NOTES ON THE MAIN SEGMENT OF THE SWX SWISS EXCHANGE IN ACCORDANCE WITH COMMUNIQUE NO.9-2005 ON LOAN PARTICIPATION NOTES ("COMMUNIQUE NO.9-2005"). THE BANK ASSUMES FULL RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS DOCUMENT (OTHER THAN THE INFORMATION CONTAINED IN THIS DOCUMENT FOR WHICH THE ISSUER ACCEPTS RESPONSIBILITY) IN ITS CAPACITY AS THE "ECONOMIC ISSUER" (AS DEFINED IN COMMUNIQUE NO.9-2005) OF THE NOTES. IN RELIANCE UPON COMMUNIQUE NO.9-2005, THE ISSUER ACCEPTS RESPONSIBILITY ONLY IN RESPECT OF ITSELF IN ITS CAPACITY AS THE "LEGAL ISSUER" (AS DEFINED IN COMMUNIQUE NO.9-2005) OF THE NOTES.

THIS PROSPECTUS HAS BEEN PREPARED IN RELIANCE UPON THE EXCEPTION CONTAINED IN ARTICLE 3.2(D) OF DIRECTIVE 2003/71/EC OF THE EUROPEAN PARLIAMENT (THE "PROSPECTUS DIRECTIVE") TO PUBLISH A "PROSPECTUS" WITHIN THE MEANING OF THE PROSPECTUS DIRECTIVE, AND DOES NOT, AND IS NOT INTENDED TO, CONSTITUTE A "PROSPECTUS" WITHIN THE MEANING OF THE PROSPECTUS DIRECTIVE.

Selling Restrictions

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Manager (as defined under "Subscription") has agreed that, except as permitted by the Subscription Agreement (as defined under "Subscription"), it will not offer or sell the Notes, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons substantially to the following effect:

"The Notes covered hereby have not been registered under the U.S. Securities Act of 1933 (the "**Securities Act**") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S."

Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has further represented, warranted and undertaken that:

(a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Ukraine

Each Manager has agreed that the Notes shall not be offered by any of them for circulation, distribution, placement, sale, purchase or other transfer in the territory of Ukraine. Accordingly, nothing in this Prospectus or any other documents, information or communications related to the Notes shall be interpreted as containing any offer or invitation to, or solicitation of, any such circulation, distribution, placement, sale, purchase or other transfer in the territory of Ukraine.

Russian Federation

Each Manager has represented and agreed that it has not offered or sold or otherwise transferred and will not offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter any Notes to or for the benefit of any person (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation, unless to the extent otherwise permitted by Russian laws or regulations.

Italy

The offer of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("**CONSOB**") (the Italian Securities and Exchange Commission) pursuant to Italian securities legislation and, accordingly, Notes may not be offered, sold or delivered, nor may copies of this document or of any other document relating to the Notes be distributed in the Republic of Italy in a solicitation to the public at large (*sollecitazione all'investimento*) within the meaning of Article 1, paragraph 1, letter (t) of Legislative Decree no. 58 of 24 February 1998, unless an exemption applies.

Accordingly, in the Republic of Italy, the Notes:

(a) shall only be offered or sold to professional investors (*operatori qualificati*), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1 July 1998, as amended and effected in compliance with the terms and procedures provided therein ("**Regulation No. 11522**"); or

(b) shall only be offered or sold in circumstances which are exempted from the rules on solicitations of investments pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998 (the "**Financial Services Act**") and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999, as amended.

Moreover, and subject to the foregoing, any offer, sale or delivery of the Notes or distribution of copies of this document or any other document relating to the Notes in the Republic of Italy under (a) or (b) above must be:

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the "**Banking Act**"), Regulation No. 11522 and any other applicable laws and regulations; and

(ii) in compliance with any other applicable laws and regulations including any relevant limitations which may be imposed by CONSOB or the Bank of Italy.

Insofar as the requirements above are based on laws which are superseded at any time pursuant to the implementation of the EU Directive No 2003/71 (the "**Prospectus Directive**"), such requirements shall be replaced by the applicable requirements under the Prospectus Directive or the relevant implementing provisions.

Hong Kong

Each Manager has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Singapore

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore (the "MAS") under the Securities and Futures Act, Chapter 289 of Singapore (the "Securities and Futures Act"). Accordingly, the Notes may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of such Notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Each of the following relevant persons specified in Section 275 of the Securities and Futures Act which has subscribed or purchased Notes, namely a person who is:

(i) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor,

should note that shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the Notes under Section 275 of the Securities and Futures Act except:

(A) to an institutional investor under Section 274 of the Securities and Futures Act or to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions, specified in Section 275 of the Securities and Futures Act;

(B) where no consideration is given for the transfer; or

(C) by operation of law.

General

No action has been or will be taken in any jurisdiction by the Issuer, the Bank or any Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by the Issuer, the Bank and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

Forward-Looking Statements

Some statements in this Prospectus may be deemed to be "forward-looking statements". Forward-looking statements include statements concerning the Bank's plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. The Bank uses the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "may", "will", "should" and any similar expressions to identify forward-looking statements. These forward-looking statements are contained in "Summary", "Risk Factors", "Financial Review", "Business", "Asset, Liability and Risk Management" and other sections of this Prospectus. The Bank has based these forward-looking statements on the current views of its management with respect to future events and financial performance. These views reflect the best judgement of the Bank's management but involve uncertainties and are subject to certain risks the occurrence of which could cause actual results to differ materially from those predicted in the Bank's forward-looking statements and from past results, performance or achievements. Although the Bank believes that the expectations, estimates and projections reflected in its forward-looking statements are reasonable, if one or more of the risks or uncertainties materialise or occur, including those which the Bank has identified in this Prospectus, or if any of the Bank's underlying assumptions prove to be incomplete or incorrect, the Bank's actual results of operations may vary from those expected, estimated or projected.

These forward-looking statements speak only as of the date of this Prospectus. Except to the extent required by law, the Bank is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Prospectus whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to the Bank, or persons acting on the Bank's behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward-looking statements.

Enforceability of Judgments

Courts in Ukraine will not recognise and/or enforce any judgment obtained in a court established in a country other than Ukraine unless such enforcement is provided for in an international treaty consent to be bound whereby was expressed by the Parliament of Ukraine or by an "ad hoc" arrangement providing for the enforcement of judgments on a reciprocal basis that is in effect between such country and Ukraine, and then only in accordance with the terms of such treaty or arrangement. There is no such treaty or arrangement in effect between Ukraine and the United Kingdom.

Ukraine is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention") with a reservation to the effect that, in respect of the awards made in a state which is not a party to the New York Convention, Ukraine will only apply the New York Convention on a reciprocal basis. Consequently, a foreign arbitral award obtained in a state which is party to the New York Convention should be recognised and enforced by a Ukrainian court (under the terms of the New York Convention). The Loan Agreement contains a provision allowing for arbitration of disputes with London, England, designated as the seat of arbitration. Since the United Kingdom is a party to the New York Convention, arbitral awards in relation to those disputes may be enforced in Ukraine under the provisions of the New York Convention.

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General Information

Incorporation of Financial Statements

The Bank's audited financial statements as at and for the year ended 31 December 2005 and its unaudited interim financial statements as at 30 September 2006 and for the nine month period ended 30 September 2006 are attached hereto and form an integral part of this Prospectus. The Bank's audited financial statements as at and for the year ended 31 December 2005 included in this Prospectus have been audited by LLC audit firm "PricewaterhouseCoopers (Audit)" who have expressed an opinion on those statements, as stated in their report appearing herein.

Availability of Documents

Copies (and English translations where the documents in question are not in English) of the following documents may be inspected at and are available from the specified offices of Zurich Cantonalbank (the "Swiss Paying Agent") at the address specified at the back of this Prospectus during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) so long as any of the Notes is listed on the main segment of the SWX Swiss Exchange:

(a) the Agency Agreement dated 14 February 2007 between the Issuer, the Trustee, The Bank of New York, as principal paying agent, and others regarding certain arrangements made with respect to the Notes (the "Agency Agreement");

(b) the Trust Deed dated 14 February 2007 between the Issuer and the Trustee, pursuant to which the Issuer assigns rights to the Loan Agreement and Account to the Trustee and the Notes are constituted; the Trust Deed includes the forms of the Global Note Certificate and the Individual Note Certificates;

(c) the audited financial statements of the Bank in respect of the financial year ended 31 December 2005 and the unaudited interim financial statements as at 30 September 2006 and for the nine month period ended 30 September 2006;

(d) the authorisations listed below; and

(e) the Loan Agreement.

Authorisations

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue of the Notes. The execution of the Loan Agreement by the Bank was approved by a resolution of its supervisory board (the "Supervisory Board") dated 18 January 2007. The Bank has obtained all other necessary consents, approvals and authorisations in Ukraine in connection with the Loan, other than the registration with the National Bank of Ukraine (the "NBU") to be performed following the execution of the Loan Agreement and prior to the Borrowing Date (as defined in the Loan Agreement).

No consents, approvals, authorisations or orders of any regulatory authorities are required by the Issuer under the laws of the United Kingdom for the maintaining of the Loan or for the issue and performance of the Notes.

Charter and registration information

The Bank's constitutive document is its Charter. The effective charter of the Bank was adopted by the General Meeting of Shareholders of the Bank on 15 August 2006 and registered with the National Bank of the Ukraine on 14 September 2006. According to article 1.2 of the Bank's Charter, the objective of the Bank's activity is the attraction, accumulation and utilisation of funds for the purpose of the comprehensive economic development of the Bank and gaining profit in line with its shareholder's interests. The Bank's identification code is 14282829 and the bank's state registration date is 23 December 1991.

No Material Change

Save as disclosed in this Prospectus, since 30 September 2006 there has been no material adverse change or any development involving a prospective material adverse change in the condition (financial or otherwise), general affairs or prospects of the Bank that is material in the context of the issue of the Notes.

Litigation

Save as disclosed in this Prospectus, there is no litigation or other legal or administrative or arbitration proceedings against or affecting the Bank, current or pending or, to the best of the knowledge and belief of the Bank, threatened before any court, tribunal, arbitration panel or agency which may have or has had in the 12 months preceding the date of this document, a significant effect on the financial position of the Bank and which might be material in the context of the issue of the Notes.

Representative

In accordance with Article 50 of the listing rules of the SWX Swiss Exchange, the Issuer has appointed Homburger as representative to lodge the listing application with the admission board of the SWX Swiss Exchange.

Prospectus

Copies of this Prospectus are available free of charge from the Swiss Paying Agent and each other Paying Agent at the address specified at the back of this Prospectus.

Stabilisation

IN CONNECTION WITH THE ISSUE OF THE NOTES, HSBC BANK PLC (THE "STABILISING MANAGER") (OR PERSONS ACTING ON ITS BEHALF) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON ITS BEHALF) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. SUCH STABILISATION ACTION SHALL BE IN COMPLIANCE WITH ALL APPLICABLE LAWS, REGULATIONS AND RULES.

Responsibility Statement

The Bank, having made all reasonable enquiries, confirms that this Prospectus contains all information which is material in the context of the issuance and offering of the Notes, that the information contained in this Prospectus is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Prospectus are honestly held and that there are no other facts the omission of which would make this Prospectus or any of such information or the expression of any such opinions or intentions misleading. The Bank accepts responsibility accordingly. The Issuer accepts responsibility for information in respect of itself contained in the section "The Issuer" only.

The statistical information and other data contained in Appendix A to this Prospectus entitled "Ukraine: The Banking Sector" has been extracted from publicly available data (such as information contained on official websites and in publications of governmental agencies of Ukraine, including the NBU, and from other Government or mass media sources) and the Bank accepts responsibility for accurately extracting and reproducing such data but accepts no further responsibility in respect of such information.

No person is authorised to provide any information or to make any representation not contained in this document. Any such representation or information should not be relied upon as having been authorised by the Bank, the Issuer, the Trustee or any of the managers named under "Subscription" (the "Managers").

Neither the delivery of this document nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve an adverse change, in the condition (financial or otherwise) of the Bank since the date of this document.

8 February 2007

Close Joint-Stock Company "First Ukrainian International bank" as Economic Issuer

By:

Title:

Standard Bank Plc as Legal Issuer

By:

Title:

By:

Title:

Presentation of Financial Information

Financial Information

The financial information of the Bank set forth herein, has, unless otherwise indicated, been derived from its audited balance sheets and statements of income, cash flows and changes in equity as at and for the years ended 31 December 2005 and 2004 (the "Audited Financial Statements") prepared in accordance with International Financial Reporting Standards ("IFRS") and the unaudited interim balance sheet, statements of income, cash flows and changes in equity as at 30 September 2006, and for the nine month period ended 30 September 2006 prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") (the "Unaudited Financial Statements", together with the Audited Financial Statements, the "Financial Statements").

The Audited Financial Statements have been audited by and the Unaudited Financial Statements have been reviewed by the Bank's independent auditors, LLC audit firm "PricewaterhouseCoopers (Audit)" located at 4-5 Floors, 38 Turgenevska Street, 01054, Kyiv-54, Ukraine, in accordance with International Standards on Auditing ("ISA") and International Standards on Review Engagements ("ISRE"). The Audited Financial Statements, together with the auditors' report of LLC audit firm "Pricewaterhouse Coopers (Audit)" and the Unaudited Financial Statements together with the review report are set forth elsewhere in this Prospectus.

During 2005 the Bank corrected an error which related to prior periods. The impact of the prior period error was reflected in the 2005 financial statements, contrary to International Accounting Standard 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (IAS 8), which requires an entity to correct material prior period errors retrospectively by restating the opening balances of assets, liabilities and equity for the earliest prior period presented. The impact on the financial statements of the non-compliance with IAS 8 is as follows: the revaluation reserve in respect of fixed assets as at 1 January 2004 is understated by U.S.$4.9 million, retained earnings as at 1 January 2004 is overstated by the same amount; the equity statement movement in revaluation reserve for 2004 is overstated by U.S.$0.3 million and profit for the year ending 31 December 2004 is understated by the same amount; the balance of fixed assets revaluation reserve as at 31 December 2004 is understated by U.S.$4.6 million and retained earnings balance as at 31 December 2004 is overstated by the same amount. There is no impact on the components of equity or net assets as at 31 December 2005, however the Bank posted the deferred tax effect through current year income statement, which resulted in an overstatement of net profit for the year ended 31 December 2005 by U.S.$1.5 million.

During the 9 months ended 30 September 2006 the Bank reconsidered the above approach and corrected the balances of revaluation reserve and retained earning as at 1 January 2005. As a result of this correction, the balance of revaluation reserve was increased by U.S.$4.6 million, net of tax effect of U.S.$1.5 million, and retained earnings as at 1 January 2005 were reduced by the same amount; in addition, previously reported profit for 2005 was reduced by U.S.$1.5 million.

The Bank has previously presented currency swap agreements with other banks in its financial statements as at 31 December 2005 on a gross basis as balances due from other banks. After consideration of the specific requirements of International Accounting Standard 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"), current market practice and the nature of these currency swap agreements, the Bank has decided to revise its accounting policy in respect of this type of transaction. The Bank's new accounting policy is to account for these transactions on a net basis as derivatives so as to reflect that in substance these types of transactions represent one instrument. As a result of this revision the corresponding figures as at 31 December 2005 have been amended as follows: balances due from other banks were reduced by U.S.$58.4 million, balances due to other banks were reduced by U.S.$58.5 million, the balance of deferred tax liability decreased by U.S.$8 thousand, profit for 2005 was increased by U.S.$0.1 million and the balance of retained earnings was increased by U.S.$0.1 million.

The restatements described above have been reflected in the Unaudited Financial Statements. The Audited Financial Statements included in this Prospectus have not been restated and therefore amounts due to other banks, due from other banks, deferred tax liability, total assets, total liabilities, retained earnings as at 31 December 2005, amounts of gains less losses arising from dealing in foreign currencies, operating income, profit before taxation, income tax expense and net profit for the year ended 31 December 2005 and amounts of revaluation reserve for fixed assets and retained earnings as at 1 January 2005 presented in the prospectus under "Risk Factors", "Financial Review", "Description of the Bank's Business" and "Selected Statistical Data and Other Information" do not include the effect of these restatements.

Currency

In this Prospectus, all references to "hryvnia" and "UAH" are to the lawful currency for the time being of Ukraine, all references to "dollars", "U.S. dollars", "USD" and "U.S.$" are to the lawful currency for the time being of the United States of America, all references to "pounds sterling" and "£" are to the lawful currency for the time being of the United Kingdom and all references to "euros", "EUR" or "€" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

Translations of amounts from hryvnia to dollars are solely for the convenience of the reader and are made at exchange rates established by the NBU and effective as at the dates elsewhere in this Prospectus. No representation is made that the hryvnia or dollar amounts referred to herein could have been converted into dollars or hryvnia, as the case may be, at any particular exchange rate or at all. The NBU's hryvnia/dollar exchange rate as reported on 31 December 2005 was UAH5.05 to the dollar, and on 30 September 2006 was UAH 5.05 to the dollar. The NBU's hryvnia/dollar exchange rate as reported on 25 January 2007 was UAH 5.05 to the dollar.

Rounding

Some numerical figures included in this Prospectus have been subject to rounding adjustments.

Summary of the Offering

The following is a summary of certain information contained elsewhere in this Prospectus. Reference is made to, and this Summary is qualified in its entirety by, the more detailed information contained elsewhere in this Prospectus.

Issuer/Lender:	Standard Bank Plc
Bank/Borrower:	Close Joint-Stock Company "First Ukrainian International bank"
Joint Lead Managers:	Standard Bank Plc and HSBC Bank plc
Issue Amount:	U.S.$150,000,000
Issue price:	100 per cent. of the principal amount of the Notes
Issue Date:	The Issuer will issue the Global Note Certificate on or before 14 February 2007, or on or before such other date not later than 28 February 2007 as may be agreed among the Issuer, the Bank and the Joint Lead Managers.
Maturity Date:	16 February 2010
Trustee:	BNY Corporate Trustee Services Limited. The Trustee has the rights and responsibilities set out in the Trust Deed, including holding the security interest charged by the Issuer in relation to certain rights under the Loan Agreement and sums held on deposit as well as certain administrative matters under the Loan Agreement. The Trust Deed provides that the Trustee may be replaced by an Extraordinary Resolution of the Noteholders or if the United Kingdom ceases to be the jurisdiction in which the Trustee is resident and acting through for taxation purposes. The Trust Deed is governed by English law. The address of the Trustee is set out at the back of this Prospectus.
Principal Paying Agent:	The Bank of New York
Swiss Paying Agent:	Zurich Cantonalbank
Interest:	The Notes will bear interest from 14 February 2007 at a rate of 9.750 per cent. per annum payable semi-annually in arrear on 16 February and 16 August in each year commencing on 16 August 2007. There will be a long first coupon.
Use of Proceeds	The proceeds from the offering of the Notes will be used by the Issuer for the purpose of funding the Loan to the Bank. The Bank will receive the gross proceeds of the Loan and will separately pay commissions and fees in connection with the offering and certain expenses. The Bank intends to use the net proceeds of the Loan for general corporate purposes, including, but not limited to, to fund loans to its customers and to repay certain short term indebtedness. See "Capitalisation".
Status:	The Notes will constitute the obligations of the Issuer to apply an amount equal to the gross proceeds of the issue of the Notes solely for the purpose of financing the Loan to the Bank pursuant to the terms of the Loan Agreement. The Issuer will account to the Noteholders solely for amounts equivalent to

those (if any) actually received from the Bank by or for the account of the Issuer under the Loan Agreement less amounts in respect of Reserved Rights (as defined in the Terms and Conditions of the Notes).

Form:	The Notes will be issued in registered form. The Notes will be in denominations of U.S.$100,000 each and integral multiples of U.S.$1,000 in excess thereof and will be represented by a Global Note Certificate which will be exchangeable for Individual Note Certificates in the limited circumstances specified in the Global Note Certificate. The Notes may only be traded on the SWX Swiss Exchange in integral multiples of U.S.$100,000.
Redemption Amount:	Upon a scheduled redemption, Notes will be redeemed at their principal amount.
Early Redemption:	The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, upon giving notice to the Noteholders, at the principal amount thereof together with accrued and unpaid interest to the date of redemption and any additional amounts in respect thereof, upon receiving notice that the Bank wishes to prepay the Loan for tax reasons or in the event that it becomes unlawful for the Issuer to fund the advance or allow to remain outstanding the Loan under the Loan Agreement as more fully described in Clause 7 of the Loan Agreement. See also Condition 5 (*Redemption and Purchase*) in "Terms and Conditions of the Notes".
Redemption upon a Put Event:	On the announcement or (in the absence of such announcement) the occurrence of a Change of Control (as defined in the Notes) which results in a Rating Decline (as defined in the Notes), Noteholders shall have the option to give notice or procure that notice is given for the prepayment of the applicable amount of the Loan. To the extent such amount is actually received by the Issuer from the Bank, each Note held by the relevant Noteholders shall be redeemed. See "Terms and Conditions of the Notes — Redemption and Purchase — Redemption upon a Put Event".
Issuer's Covenant:	As long as any of the Notes remains outstanding, the Issuer will not, without the prior written consent of the Trustee, agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement.
Negative Pledge and Other Covenants:	The Loan Agreement contains a negative pledge in relation to the creation of Security Interests (other than Permitted Security Interests) (each as defined in the Loan Agreement) to secure the Indebtedness of the Bank and its Material Subsidiaries (each as defined in the Loan Agreement) as set out in the Loan Agreement. The Loan Agreement also contains covenants restricting mergers and disposals by the Bank, transactions between the Bank and its Affiliates (as defined in the Loan Agreement) and an Event of Default (as defined in the Loan Agreement) in relation to the making of certain payments and

	distributions by the Bank. The Loan Agreement also contains a covenant by the Bank to comply with the capital adequacy requirements of the NBU.
Events of Default/Relevant Events:	In the case of the occurrence and continuance of an Event of Default or a Relevant Event (as defined in the Conditions), the Trustee may, subject as provided in the Trust Deed, (1) require the Issuer to declare all amounts payable under the Loan Agreement by the Bank to be immediately due and payable (in the case of an Event of Default) or (2) enforce the Note Security (as defined in the Conditions) (in the case of a Relevant Event). Upon repayment of the Loan following an Event of Default, the Notes will be redeemed or repaid at the principal amount thereof, together with interest accrued to the date fixed for redemption and any additional amounts due, and thereupon shall cease to be outstanding.
Withholding Tax:	All payments of principal and interest in respect of the Notes will be made free and clear of and without deduction or withholding for or on account of any taxes, duties, assessments, fees or other governmental charges of the United Kingdom or Ukraine, save as required by law. If any such withholding or deduction is so required, the Issuer shall (subject to certain exceptions) pay such additional amounts, subject to the prior receipt thereof from the Bank, as will result in the receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required. The sum payable by the Bank under the Loan Agreement will be required (subject to certain exceptions) to be increased to the extent necessary to ensure that the Issuer receives a net sum sufficient to enable it to pay such additional amounts. The sole obligation of the Issuer in this respect will be to pay to the Noteholders sums equivalent to the sums actually received by or for account of the Issuer from the Bank. See Condition 7 (*Taxation*) in "Terms and Conditions of the Notes".
Listing:	Application will be made to list the Notes on the main segment of the SWX Swiss Exchange.
Selling Restrictions:	The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Notes may be sold in the United Kingdom, the Russian Federation, the Republic of Italy, Hong Kong and Singapore only in compliance with applicable laws. The Notes have not been registered in Ukraine and may not be offered or sold within Ukraine. The offer and sale of the Notes may also be restricted in other jurisdictions. See "Subscription".
Governing Law:	The Notes and the Trust Deed will be governed by English law.
Risk Factors:	For a discussion of certain issues that should be considered by prospective purchasers of the Notes, see "Risk Factors".

Description of the Transaction

The following summary contains basic information about the Notes and the Loan and should be read in conjunction with, and is qualified in its entirety by, the information set forth under "The Loan Agreement" and "Terms and Conditions of the Notes" appearing elsewhere in this Prospectus.

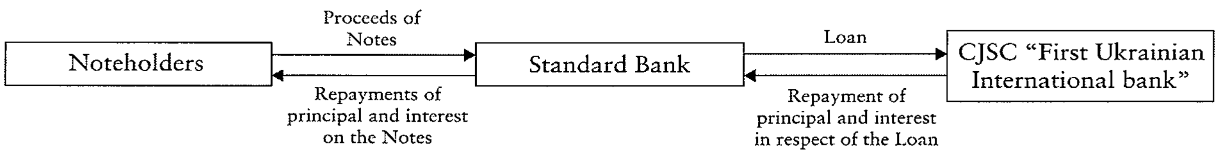
The transaction will be structured as a loan to the Bank by the Lender.

The Notes are without recourse loan participation notes to be issued by the Issuer for the sole purpose of funding the Loan. The Notes will have the benefit of, and be constituted by, the Trust Deed. As provided in the Trust Deed, the Issuer will charge by way of security to the Trustee (a) its rights to principal, interest and other amounts under the Loan Agreement (other than the Reserved Rights (as defined in the Trust Deed)) and (b) sums held on deposit from time to time (other than the Reserved Rights) in an account with The Bank of New York in the name of the Issuer together with the debt represented thereby. The Issuer will also assign certain administrative rights under the Loan Agreement to the Trustee for the benefit of the Noteholders. The Bank will be obliged to make payments under the Loan Agreement to the Lender in accordance with the terms of the Loan Agreement to the account described above. The Issuer will agree in the Trust Deed not to make any amendment or any modification or waiver of or authorise any breach of or proposed breach of, the terms of the Loan Agreement unless the Trustee has given its prior written consent or except as otherwise expressly provided in the Trust Deed and the Loan Agreement. The Issuer will further agree to act at all times in accordance with any instruction of the Trustee from time to time with respect to the Loan Agreement, save as otherwise provided in the Trust Deed. Any amendments, modifications, waivers or authorisations made with the Trustee's consent shall be notified to the Noteholders in accordance with Condition 14 (*Notices*) and shall be binding on the Noteholders. Formal notice of the security interests created by the Trust Deed will be given to the Bank and The Bank of New York, who will each be required to acknowledge the same.

In the event that the Trustee enforces the security interests granted to it, the Trustee will assume certain rights and obligations towards the Noteholders as more fully set out in the Trust Deed.

The Notes are without recourse obligations and the Issuer will not have any obligation to the Noteholders other than the obligation to account to the Noteholders for an amount equal to all amounts of principal, interest and additional amounts (if any) actually received by it under the Loan less the Reserved Rights which the Issuer is entitled to retain from any amounts actually received.

Set out below is a diagrammatic representation of the structure following the issue of the Notes:



Risk Factors

Investment in the Notes involves a high degree of risk. Potential investors should carefully review this entire Prospectus and in particular should consider all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. The materialisation of these risks, individually or together, could have a material adverse effect on the Bank's business, operations and financial condition and/or the trading price of the Notes.

Risks Relating to Ukraine

General

Since independence in 1991, Ukraine has undergone a substantial political transformation from a constituent republic of the former Soviet Union to an independent sovereign democratic state. Concurrently with this transformation, Ukraine has been progressively changing to a market economy. In particular, Ukraine's achievements in market-oriented reforms have been recently recognised by the European Union (the "EU"), which gave Ukraine market economy status at the end of 2005, followed by the U.S. which also granted Ukraine such status in February 2006 (see "Relationships with Western Governments and Institutions").

Although some progress has been made since independence in reforming Ukraine's economy and its political and judicial systems, to a large extent Ukraine still lacks the necessary legal infrastructure and regulatory framework that is essential to support market institutions, the effective transition to a market economy and broad-based social and economic reforms. Set forth below is a brief description of some of the risks incurred by investing in Ukraine, although the list is not an exhaustive one.

Risks Associated with Emerging Markets

Investors in emerging markets such as Ukraine should be aware that these markets are subject to greater risks than more developed markets, including in some cases significant political, economic and legal risks. Investors should also note that emerging economies such as Ukraine's are subject to rapid change and that some or all of the information set out in this Prospectus may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal and financial advisors before making an investment in the Notes.

Official Statistics

Official statistics and other data published by Ukrainian state authorities may not be as complete or reliable as those of more developed countries. Official statistics and other data may also be produced on bases different from those used in more developed countries. The Bank has not independently verified such official statistics and other data, and any discussion of matters relating to Ukraine in this Prospectus is, therefore, subject to uncertainty due to questions regarding the completeness or reliability of such information. Specifically, investors should be aware that certain statistical information and other data contained in this Prospectus have been extracted from official governmental sources in Ukraine and were not prepared in connection with the preparation of this Prospectus. The Bank only accepts responsibility for the correct extraction and reproduction of such information.

Political Considerations

Historically, a lack of political consensus in the *Verkhovna Rada* (Parliament) of Ukraine has made it consistently difficult for the government to sustain a stable coalition of parliamentarians to secure the support necessary to implement a series of policies intended to foster liberalisation, privatisation and financial stability. Since independence in 1991, governmental instability has been a feature of the Ukrainian political scene and, as a result, Ukraine has experienced fifteen changes in Prime Minister, with various actions and decisions being taken based primarily on political considerations. The Ukrainian government's policies and the political leaders who formulate and implement them, are subject to rapid change.

Following the second round of presidential elections in November 2004, mass demonstrations and strikes took place throughout Ukraine to protest against the election process and results. However, tensions in Ukraine appear to have subsided following the invalidation of the November 2004 election results by the Supreme Court of Ukraine and the revote of the presidential runoff held on 26 December 2004 resulting in the victory of Mr. Viktor Yuschenko.

On 26 March 2006, the first elections to the Parliament where all seats were elected by proportional representation were held. Out of 45 participants in the elections, only five political parties and election blocs managed to collect three per cent. or more of the national vote required to gain seats in the Parliament. In particular, *Partiya Regioniv* (the Party of Regions) led by Mr. Viktor Yanukovych, the main opponent to President Yushenko at the 2004 presidential election, has established the largest faction with 186 mandates out of 450 total seats, former Prime Minister Yuliya Tymoshenko's Bloc obtained 129 mandates, *Blok Nasha Ukrayina* (Bloc Our Ukraine) associated with President Yuschenko obtained 81 mandates, the Socialist Party of Ukraine obtained 33 mandates and the Communist Party of Ukraine obtained 21 mandates. Reputable international observers declared the election process fair, transparent and democratic.

On 25 May 2006, when the new Parliament gathered for its first session, the constitutional reform limiting the powers of the President and transferring certain powers of the President to the Parliament and the Prime Minister became effective (with certain provisions already in effect since 1 January 2006). In particular, Parliament is now empowered to appoint, upon the President's nomination, the Prime Minister, Minister of Defence and Minister for Foreign Affairs and, upon the nomination of the Prime Minister, the remaining members of the Government. Parliament is also empowered to dismiss these officials. Conversely, the President's right to appoint members of the Government has been removed.

According to other provisions of the constitutional reform, parliamentarians are now required to form a majority coalition, which coalition is entitled to nominate candidates for the positions of Prime Minister and other members of the Cabinet of Ministers. The President has received new rights for early termination of the powers of the Parliament. In particular, the President will be able to dissolve Parliament if (i) it fails to form a majority coalition within a month upon the commencement of its first session or the dissolution of the previously existing coalition, (ii) it fails to appoint the Government within 60 days following the previous Government's dismissal or resignation or (iii) it fails to convene during 30 days in a continuous period. The President retained the right of veto over laws approved by Parliament (which veto can be overturned only by a two thirds majority of Parliament). There can be no assurance that the amendments to the Constitution will provide for a greater degree of stability or ensure more responsible government policies.

The majority coalition in the Parliament is currently composed of the parliamentary factions of the Party of Regions, the Socialist Party of Ukraine and the Communist Party of Ukraine, and was established on 18 July 2006. The parliamentary factions of the Bloc Our Ukraine and Yuliya Tymoshenko's Bloc are in opposition to the Government and the majority coalition.

On 3 August 2006, President Yuschenko and the leaders of the political powers represented in the Parliament (with the exception of Yuliya Tymoshenko's Bloc) signed the Accord of National Unity setting forth their agreement on major policy issues, including a closer integration with Europe and market reforms. On 4 August 2006, the Parliament appointed Mr. Viktor Yanukovych as Prime Minister and endorsed a new coalition Government. In addition to the nominees from the political parties comprised in the majority coalition, representatives of Bloc Our Ukraine also joined the new Cabinet of Ministers. In particular, while the Party of Regions and its allies obtained all major economic positions in the new Government (including the Ministries of Economy, Finance and Fuel and Energy), Bloc Our Ukraine and its allies obtained such key ministries as Defence, Foreign Affairs, Justice and the Interior. However, after Bloc Our Ukraine joined the opposition, the Minister of Justice, the Minister of Culture and Tourism and the Minister of Family, Youth and Sport representing Bloc Our Ukraine in the Government resigned and the Minister for Foreign Affairs and the Minister of Interior were dismissed by the Parliament. The Minister of

Defence retained its position as nominee of the President rather than a representative of Bloc Our Ukraine. As at the date of this Prospectus, none of the members of the Cabinet of Ministers represents Bloc Our Ukraine.

On 21 December 2006, the Parliament approved the law of Ukraine "On the Cabinet of Ministers of Ukraine" (with effect as of 2 February 2007) determining the principal objectives of the Cabinet's activity, principles of its organisation and other related issues. However, the President has filed a submission with the Constitutional Court of Ukraine, requesting the Court to decide on the Constitutionality of the Law.

Prime Minister Yanukovych and the new Government face a number of challenges, including appeasement of divergent factions within the eastern and western regions of Ukraine, improvement of relations with Russia, implementation of unpopular economic reforms and building of a political consensus. There is no certainty that Prime Minister Yanukovych's and the new Government's policies will succeed or that political stability will be achieved.

It is possible that reform and economic growth may be hindered as a result of such instability. Any changes affecting the government or involving a rejection or reversal of reform policies favouring privatisation, industrial restructuring and administrative reform may have a material adverse effect on the economy and, thus, on the business of the Bank.

Relationships with Western Governments and Institutions

Ukraine continues to pursue the objectives of a closer relationship with the North Atlantic Treaty Organisation and expects to join the World Trade Organisation (the "WTO") in the near future. With effect from 30 December 2005, Ukraine was given market economy status by the EU.

Ukraine has strengthened its relationship with the United States in recent years and was part of the coalition that dispatched troops to Iraq in support of the U.S.-backed military campaign there. Although, in late 2004, the Ukrainian Parliament decided to withdraw Ukrainian troops from Iraq, which was confirmed by the adoption of a presidential decree in April 2005, this did not adversely affect Ukraine's relationship with the United States.

After the visit of President Yuschenko to Washington, D.C. in early 2005, the U.S. Senate allocated an additional U.S.$60 million of financial assistance to Ukraine, which was subsequently approved by the U.S. House of Representatives. Moreover, on 17 February 2006, the United States announced its decision to grant Ukraine market economy status with effect from 1 February 2006 and on 23 March 2006, the Jackson-Vanik amendment that restricted Ukrainian exports was repealed.

As of January 2007, Ukraine has concluded bilateral negotiations on market access issues with 49 members of the WTO (including the United States and the EU). Negotiations are still underway with Kyrgyzstan. The Government has analysed Ukrainian legislation in the spheres governed by WTO agreements and prepared bills to address inconsistencies. As of the date of this Prospectus, all the bills submitted by the Government introducing the remaining amendments to the Ukrainian legislation required for joining the WTO were adopted by the Parliament and signed by the President. Currently, the laws are under examination of the WTO Working Party on Ukraine's accession, which is expected to prepare its report by the end of the first quarter of 2007.

Any major changes in Ukraine's relations with Western governments and institutions, in particular any such changes adversely affecting the ability of Ukrainian manufacturers to access world export markets, may have negative effects on the economy and thus on the business of the Bank.

Regional Relationships

Ukraine generally maintains positive relations with its neighbours. Taking into account its geographical position and history, Ukraine's closest relationships are with the Russian Federation and Poland. Significant relations have also been developed with other countries of the EU (including Germany, Hungary, Romania and Slovakia), the Commonwealth of Independent States (the "CIS") countries (including Belarus and Georgia), as well as Turkey.

Ukraine relies to a significant extent on supplies of energy resources from, or deliveries of such resources through Russia. As a consequence, it has often happened in recent years that any major advances or declines in the relations between the two countries affected the quality of their relations in the energy sphere. At the beginning of August 2004, the *Gosudarstvennaya Duma* (Parliament) of the Russian Federation adopted a law amending certain provisions of Russia's tax code. As a result of these amendments, exports of oil and gas from Russia to Ukraine since 1 January 2005 have been subject to a zero per cent. VAT rate instead of the previously effective 18 per cent. VAT rate, which was generally perceived as an incentive offered to Ukraine to develop a closer economic integration with Russia. However, the outcome of the 2004 Ukrainian presidential elections resulted, to a certain extent, in a cooling of relations with Russia.

Since 2005, Russia has repeatedly increased its oil export duty. For example, Russian oil export duty rose from U.S.$101.00 per tonne as at 1 December 2004 to U.S.$237.6 per tonne as at 1 October 2006. Following the decreases in world oil prices, from 1 December 2006 Russian oil export duty was decreased to U.S.$180.7 per tonne, in line with the general decrease in export duties for various oil products, and a further decrease to U.S.$179.7 is expected from 1 February 2007. However, any future increases could adversely affect the Ukrainian economy. In addition, gas prices in Ukraine rose as a result of new agreements between the Russian gas monopolist, Open Joint Stock Company "Gazprom" ("Gazprom"), and its Ukrainian counterparty, National Joint Stock Company "Naftogas of Ukraine" ("Naftogas"). In late 2005, Gazprom started negotiations with Naftogas with a view to increasing prices for natural gas supplied by Gazprom to Ukraine to levels at which natural gas was sold to its customers in Western Europe. On 1 January 2006, Gazprom temporarily stopped selling natural gas to Naftogas in connection with a dispute over an increase in prices. On 4 January 2006, Gazprom and Naftogas entered into a series of new agreements with an intermediary entity, a Swiss-based company RosUkrEnergo AG, for the supply of natural gas by RosUkrEnergo AG at an increased price of U.S.$95.00 per 1,000 cubic metres (compared to the previous price of U.S.$50.00 per 1,000 cubic metres) and supplies resumed. The parties also agreed upon a new transit fee for Russian natural gas through the territory of Ukraine of U.S.$1.60 per 1,000 cubic metres for each 100 km (compared to the previous fee of U.S.$1.09 per 1,000 cubic metres for each 100 km) effective until 1 January 2011. It was agreed that the established transit fee and the price for natural gas may be changed only by the parties' mutual consent.

In addition, according to the 4 January 2006 agreements Naftogas and RosUkrEnergo AG established a 50-50 joint venture, (Closed Joint-Stock Company "Ukrgaz-Energo" ("Ukrgaz-Energo"), to purchase natural gas supplied by RosUkrEnergo AG for domestic consumption in Ukraine and then sell it to domestic consumers. In October 2006, RosUkrEnergo AG and Ukrgaz-Energo agreed that in 2007 natural gas will be supplied to Ukraine at an increased price of U.S.$130 per 1,000 cubic metres.

Relations between Ukraine and Russia have also been affected, from time to time, by controversy over the stationing of the Russian *Chernomorskiy Flot* (Black Sea Fleet) in Ukraine, including the amount payable to Ukraine for such stationing, the return of certain navigational facilities to Ukraine and compliance with Ukrainian environmental legislation by the Black Sea Fleet. Further, in January 2006, Russia banned imports of Ukrainian livestock and dairy products on the basis of the alleged violation of veterinary and sanitary standards by Ukrainian producers. Following inspections of Ukrainian exporters of such products by the Russian authorities, the ban was lifted in relation to a number of Ukrainian companies. The negotiations on the final settlement of this issue are currently underway.

More than 20 per cent. of Ukrainian exports of goods currently go to Russia, while much of Russia's exports of energy resources are delivered to the EU via Ukraine. The considerable dependence of the Ukrainian economy on Russian exports of energy resources, accompanied by the increase of the price for natural gas by Russia, may adversely affect the pace of economic growth of Ukraine and, consequently, the operations of the Bank. Further, the gas price increases have increased pressure for reforms in the energy sector and modernisation of major energy-consuming industries of Ukraine through the implementation of energy-efficient technologies and modernisation of production facilities. However, there can be no assurance that this will take place.

Although the relationship between Ukraine and Russia has improved, and the risk of politically motivated disputes in the energy sector was reduced as a result of the policies of the new Government, any major changes in Ukraine's relations with Russia, in particular any such changes adversely affecting supplies of energy resources from Russia to Ukraine and/or Ukraine's revenues derived from transit charges for Russian oil and gas, may also have negative effects on the economy and thus on the business of the Bank.

External Debt

In 2000, Ukraine undertook a comprehensive debt restructuring exercise to alleviate its rising external debt resulting from the accumulation of large payments on external debt due in 2000 and 2001. Since the conclusion of this debt restructuring exercise, the ratio of external debt servicing (including principal, interest and fees but excluding debt owed to the International Monetary Fund (the "IMF")) to gross domestic product ("GDP") has risen from approximately 1.9 per cent. as at 31 December 2001 to approximately 2.3 per cent. as at 31 December 2002 and approximately 2.7 per cent. as at 31 December 2003, although it has fallen to approximately 2.1 per cent. as at 31 December 2004 and to approximately 1.8 per cent. as at 31 December 2005 and is estimated to be approximately 1.4 per cent. in 2006 and approximately 1.2 per cent. in 2007, based on official government sources. Total government external debt servicing (excluding payments to the IMF and payments under state guarantees) was approximately U.S.$1.4 billion in 2003, U.S.$1.3 billion in 2004, U.S.$1.5 billion in 2005, U.S.$1.5 billion in 2006 and is estimated to be approximately U.S.$1.4 billion in 2007, based on official government sources.

In 2005, the World Bank and Ukraine entered into five facility agreements for the implementation of systemic and investment projects, the aggregate amount of which totalled approximately U.S.$716 million. Further, in June 2006, the World Bank approved a U.S.$150 million loan for the Access to Financial Services Project for Ukraine (aimed to increase access to financial services in rural areas) and in July 2006, the World Bank approved another U.S.$154.5 million loan for the Second Export Development Project for Ukraine (which is aimed to support export and real sector growth in Ukraine by providing working capital and investment finance to Ukrainian private exporting enterprises and to develop financial intermediation in the Ukrainian banking sector).

Although Ukraine has been able to access international capital markets raising new financing in 2003, 2004, 2005 and 2006 and its long-term credit rating was upgraded from B2 to B1 by Moody's in November 2003, from B+ to BB- by Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc. ("S&P") in May 2005 and from B+ to BB- by Fitch in January 2005 (with its long-term credit rating outlook improved by Fitch and Moody's from "stable" to "positive" in October 2006 and November 2006, respectively), there is insufficient liquidity in the domestic market for treasury obligations, which means that Ukraine remains vulnerable should access to international capital markets in the future not be possible for any reason. Under such circumstances, any failure of Ukraine to receive support from sovereign or private creditors or international financial institutions (such as the IMF and the World Bank) could adversely affect the financing of the budget deficit, the level of inflation and/or the value of the hryvnia (although the Bank believes that the NBU currently has sufficient foreign currency reserves to support the hryvnia), which, in turn, could harm the business of the Bank.

Economic Considerations

In recent years, the Ukrainian economy has been characterised by a number of features which contribute to economic instability, including:

- a relatively weak banking system, providing limited liquidity to Ukrainian enterprises;
- tax evasion;
- significant capital flight; and
- rising but still low wages for a large portion of the Ukrainian population.

Although the Ukrainian government has generally been committed to economic reform, the implementation of reform has consistently been impeded by lack of political consensus, controversies over privatisation and renationalisation (including privatisation of land in the agricultural sector and privatisation of large industrial enterprises), the restructuring of the energy sector, the removal of exemptions and privileges for certain state-owned enterprises or for certain industry sectors, and limited cooperation with international financial institutions.

While the Ukrainian economy has improved in a number of areas since 1999, there has historically been no clear consensus between the government and the Parliament as to the scope, pace and content of economic and political reform. No assurance can be given that current policies favouring privatisation, industrial restructuring and tax reform will continue to be implemented and, even if implemented, that these policies will be successful, or that the economy in Ukraine will continue to improve.

While Ukraine has made significant gains in increasing its GDP, decreasing inflation, stabilising its currency, increasing real wages, and improving its trade balance and current account surplus, the political instability in the fourth quarter of 2004 negatively impacted on the main economic indicators at that time. However, Ukraine's economy generally withstood the 2004 political upheaval.

In 2006, Ukraine's GDP growth amounted to 7.0 per cent., which is higher than 2.7 per cent. recorded in 2005 but lower than 12.1 per cent. recorded in 2004, according to the adjusted figures of the State Statistics Committee of Ukraine. Real GDP growth in the nine months ended 30 September 2006 amounted to 6.2 per cent., compared to real GDP growth of 3.0 per cent. in the nine months ended 30 September 2005. In addition, industrial output grew by 6.2 per cent. in 2006 compared to 3.1 per cent. in 2005 and 12.5 per cent. in 2004. Industrial output growth in the nine months ended 30 September 2006 amounted to 5.5 per cent., compared to industrial output growth of 3.1 per cent. in the nine months ended 30 September 2005.

According to the State Statistics Committee of Ukraine, the rate of inflation for 2006 was 11.6 per cent., which is higher than 10.3 per cent. recorded in 2005, but lower than 12.3 per cent. recorded in 2004. The rate of inflation in the nine months ended 30 September 2006 was 5.9 per cent., compared to 7.1 per cent. for the same period in 2005. An economic downturn may have an adverse effect on the Bank's business and its results of operations and financial condition.

In August 2006 the new government approved its forecast for Ukraine's economic and social development which forecasted that Ukraine's GDP growth would be approximately 6.5 per cent. and that the inflation rate would be approximately 7.5 per cent. in 2007.

The hryvnia appreciated from UAH5.31 to U.S.$1.00 as at 31 December 2004 to UAH 5.19 to U.S.$1.00 as at 20 April 2005. Furthermore, on 21 April 2005, the NBU revalued the hryvnia in an attempt to address the growing imbalance between the hryvnia and U.S. dollar caused by continuing foreign currency inflows into Ukraine and reduced inflationary pressure in the Ukrainian economy. As a result, the hryvnia appreciated against the U.S. dollar from UAH 5.19 to U.S.$1.00 as at 20 April 2005 to UAH 5.05 to U.S.$1.00 as at 21 April 2005. The total cumulative appreciation from the end of 2004 to 21 April 2005 was approximately 5 per cent. Pursuant to the NBU's guiding monetary policy principles for 2007, it is expected that the NBU will maintain the hryvnia/U.S.$ exchange rate at between UAH 4.95 and 5.25 to U.S.$1.00 to address the goal of reducing inflation. Any appreciation of the hryvnia may result in Ukrainian products becoming less competitive on foreign markets.

Fluctuations in the Global Economy

Ukraine's economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In addition, because Ukraine is a major producer and exporter of metal and agricultural products, the Ukrainian economy is especially vulnerable to world commodity prices and/or the imposition of import tariffs by the United States, the EU or by other major export markets. Any such developments may have negative effects on the economy and thus on the business of the Bank.

Lack of Continued Access to Foreign Trade and Investment

Notwithstanding improvements in the Ukrainian economy in recent years, cumulative foreign direct investment remains low for a country the size of Ukraine. As has happened in the past, an increase in the perceived risks associated with investing in Ukraine could reduce foreign direct investment in Ukraine and adversely affect the Ukrainian economy. No assurance can be given that Ukraine will remain receptive to foreign trade and investment. Further, although the government has repeatedly emphasised that the plans announced in early 2005 to review the privatisation of a number of major companies are no longer under consideration, any future attempts to re-privatise or nationalise private enterprises could lead to a deterioration in the climate for foreign direct investment in Ukraine, and this could in turn have a material adverse effect on the economy and thus on the business of the Bank.

Corruption and Money Laundering Issues

External analysts have identified corruption and money laundering as problems in Ukraine. An anti-money laundering law came into force in June 2003 in Ukraine that requires the NBU, other state authorities, as well as various entities carrying out financial transactions to more closely monitor financial transactions for evidence of money laundering. As a result of the passage of this law, the Financial Action Task Force on Money Laundering (the "FATF") recommended lifting sanctions against Ukraine for these efforts to address money laundering. In addition, Ukraine was removed from the FATF's list of non-cooperative countries and territories in February 2004, and in January 2006, the FATF ended its formal monitoring of Ukraine.

Any future allegations of corruption in Ukraine or evidence of money laundering could have a negative effect on the ability of Ukraine to attract foreign investment and thus have a negative effect on the economy of Ukraine and on the business of the Bank.

Ukraine's Business Environment and the Lack of Liquidity

Ukrainian enterprises have a limited history of operating in free-market conditions and have had limited experience (compared with companies in more developed jurisdictions) of entering into and performing contractual obligations. Ukrainian enterprises, when compared to businesses operating in more developed jurisdictions, are often characterised by management that lacks experience in responding to changing market conditions and limited capital resources with which to develop their operations. In addition, Ukraine has a limited infrastructure to support a market system, with communications, banks and other financial infrastructure being less well developed and less well regulated than their counterparts in more developed jurisdictions, Ukrainian enterprises face significant liquidity problems due to a limited supply of domestic savings, few foreign sources of funds, high taxes, limited lending by the banking sector to the industrial sector and other factors. Many Ukrainian enterprises cannot make timely payments for goods or services and owe large amounts in taxes, as well as wages to employees. A deterioration in the business environment in Ukraine could have a material adverse effect on the Bank's business and on the market price of the Notes.

Social Instability in Ukraine

The failure of certain Ukrainian government and private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest. Labour and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism, with restrictions on foreign ownership in the economy of Ukraine, and violence. Any of these events could restrict the Bank's operations and lead to the loss of revenue, thereby materially adversely affecting both the Bank's ability to conduct its business effectively and the market price of the Notes.

Developing Legal System

Risks associated with the Ukrainian legal system include:

- inconsistencies between and among the Constitution of Ukraine and various laws, presidential decrees, governmental, ministerial and local orders, decisions and resolutions and other acts;
- provisions in laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted;

- the lack of judicial and administrative guidance on the interpretation of Ukrainian legislation, including the complicated mechanism of exercising constitutional jurisdiction by the Constitutional Court of Ukraine;
- the general inconsistency in the judicial interpretation of Ukrainian legislation in the same or similar cases; and
- corruption within the judiciary.

Furthermore, several fundamental Ukrainian laws either have only relatively recently become effective or are still pending hearing or adoption by the Parliament. For example, with effect from 2004 and 2005, Ukraine adopted a new civil code, a new civil procedural code, a new economic code, a new code on administrative procedure, new mortgage finance laws, a new law on personal income tax, a new law on state registration of proprietary rights to immovable property and a new law on international private law. In June 2005, Ukraine adopted a new law on credit histories and credit bureaus which entered into force in January 2006. With effect from 2006, a new law on securities and stock market, a new law on holding companies and a new law on mortgage bonds were adopted and the laws on mortgage and real estate construction financing schemes were significantly amended. In January 2006, Ukraine ratified the UNIDROIT Convention on International Financial Leasing and the UNIDROIT Convention on International Factoring. The recent origin of much of Ukrainian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Ukrainian legal system in ways that may not always coincide with market developments place the enforceability and underlying constitutionality of laws in doubt, and result in ambiguities, inconsistencies and anomalies.

In addition, Ukrainian legislation often contemplates implementing regulations. Often such implementing regulations have either not yet been promulgated, leaving substantial gaps in the regulatory infrastructure, or have been promulgated with substantial deviation from the principal rules and conditions imposed by the respective legislation, which results in a lack of clarity and growing conflicts between companies and regulatory authorities.

These weaknesses in the Ukrainian legal system could make it difficult for the Bank to implement its policies or could lead to conflicts between the NBU and the Bank, which may have a negative effect on the business of the Bank.

Uncertainties Relating to the Judicial System

The independence of the judicial system and its immunity from economic and political influences in Ukraine remain questionable. Although the Constitutional Court of Ukraine is the only body authorised to exercise constitutional jurisdiction and has mostly been impartial, the system of constitutional jurisdiction itself remains too complicated to ensure smooth and effective removal of discrepancies between the Constitution and applicable Ukrainian legislation on the one hand and among various laws of Ukraine on the other hand.

The court system is also understaffed and underfunded. Judicial decisions under Ukrainian law generally have no precedential effect. Moreover, courts themselves are generally not bound by earlier decisions taken under the same or similar circumstances, which results in the inconsistent application of Ukrainian legislation to resolve the same or similar disputes. Not all Ukrainian legislation is readily available to the public or organised in a manner that facilitates understanding. Further, judicial decisions are not publicly available and, therefore, their role as guidelines in interpreting applicable Ukrainian legislation to the public at large is limited. However, according to a new law "On Access to Court Decisions" which became effective on 1 June 2006, decisions of courts of general jurisdiction in civil, economic, administrative and criminal matters are becoming available to the public.

The Ukrainian judicial system became more complicated and hierarchical as a result of the recent judicial reforms. The generally perceived result of these reforms is that the Ukrainian judicial system has become even slower than before. All of these factors make judicial decisions in Ukraine difficult to predict and effective redress uncertain. In addition, court claims are often used in furtherance of political aims. The Bank may be subject to such claims and may not be able to receive a fair hearing. Finally, court orders are not always enforced or followed by law enforcement institutions. The uncertainties of the Ukrainian judicial system could have a negative effect on the economy and thus on the business of the Bank.

Uncertainties Relating to the Tax System

The tax legislation in Ukraine is not always clearly written or explained and is subject to the interpretation of the tax authorities and other government bodies. Ukrainian tax laws have not been applied for a significant period of time as compared to more developed market economies, often resulting in unclear or non-existent implementing regulations. Differences of interpretation often exist both among and within governmental ministries and organisations, including tax authorities, creating uncertainties and areas of conflict in relation to taxation.

Tax declarations/returns, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are authorised by law to impose fines, penalties and interest charges. These circumstances create tax risks in Ukraine substantially more significant than typically found in countries with more developed tax systems.

Generally, the Ukrainian tax authorities may re-assess tax liabilities of taxpayers only within three years after the filing of the respective tax declarations. Nonetheless, this term may not be observed, or may be extended, in certain circumstances. Moreover, the fact that a period has been reviewed does not exempt that period, or any tax declaration/return applicable to that period, from further review. While the Bank believes that it is currently in compliance with the tax laws affecting its operations, and is a major taxpayer in the financial sector, it is possible that relevant authorities could take differing positions with regard to interpretative issues, which may result in a material adverse effect on the business of the Bank and on its results of operations and financial condition.

Disclosure and Reporting Requirements and Fiduciary Duties

Disclosure and reporting requirements have only recently been enacted in Ukraine. The anti-fraud legislation has only recently been adapted to the requirements of the free market economy and remains largely untested. Most Ukrainian companies do not have corporate governance procedures that are in line with European standards. Ukrainian banking laws introduced the concept of fiduciary duties owed by a bank's management to the bank and its clients. However, the concept of fiduciary duties of management or members of the board to their companies or shareholders remains underdeveloped in Ukraine. Violations of disclosure and reporting requirements or breaches of fiduciary duties by the Bank's directors could significantly affect the receipt of material information or result in inappropriate management decisions, materially adversely affecting the value of an investment in the Notes.

Risks Relating to the Bank

Management of Growth

The Bank's total assets have grown rapidly in recent years from U.S.$394.8 million as at 31 December 2004 to U.S.$705.6 million at 31 December 2005 and to U.S.$945.4 million as at 30 September 2006. The rapid growth in the Bank's total assets will be continually monitored by the Bank's Assets and Liabilities Committee and Risk Management department for risk management and compliance with the NBU requirements. In addition, the Bank's net customer loan portfolio grew from U.S.$183.5 million as at 31 December 2004 to U.S.$360.2 million at 31 December 2005 and to U.S.$572.4 million as at 30 September 2006. This significant increase in credit exposure will also require continued emphasis by the Bank on credit quality and the adequacy of its provisioning levels and continued development of financial and management control.

The Bank's retail strategy is relatively new, with the Bank having decided in 2005 to actively pursue the retail market. As a result, the Bank does not have a long track record in the retail market. It also has limited experience with managing retail loans in default and taking steps to realise on security taken for such loans.

The Bank plans to significantly expand its network of branches and smaller outlets. The Bank is required to obtain the approval of the NBU in order to open any branch or smaller outlet. Although the Bank has not experienced any difficulties in obtaining such approvals in the past, if the NBU refused to approve the opening of new branches or outlets, the Bank's expansion plans and future growth could be negatively affected.

The Bank requires that its employees have high qualifications and substantial knowledge of the banking industry. Growth rates such as those recently experienced by the Bank require the Bank to continue to attract and to retain qualified personnel. The Bank had 1,377, 1,478 and 1,779 employees as at 31 December 2004, 31 December 2005 and 30 September 2006, respectively. The Bank will require continued growth of personnel headcount in order to continue to grow its distribution network.

Failure to manage growth and development successfully and to maintain the quality of its assets and/or flexibility as to funding sources could have a material adverse effect on the Bank's results of operations and financial condition. In addition, there is no assurance that the Bank's corporate or retail strategy will succeed or that a downturn in the Ukrainian economy in general, or in industries where the Bank's lending volume is significant, will not result in slowing or a reversal in the rate of growth of the Bank's loan portfolio, which may have a material adverse effect on the Bank's financial condition or results of operations.

Concentration of Lending Base

The Bank has a high concentration of its lending portfolio, although such concentration has decreased in the past few years. As at 30 September 2006, the aggregate gross amount of loans issued to the 20 largest borrowers was U.S.$236.8 million, or 39.9 per cent. of the Bank's total gross loan portfolio, compared to U.S.$191.4 million or 51.2 per cent. of the total gross loan portfolio as at 31 December 2005, and U.S.$123.1 million or 63.4 per cent. of the Bank's total gross loan portfolio as at 31 December 2004. These amounts do not include loans to employees or management of the Bank's largest Borrowers. The Bank plans to reduce this concentration and, although it has been successful, the Bank will continue to emphasise diversification of lending, credit quality and the development of financial and management control to monitor this credit exposure. A failure to achieve this could have a material adverse effect on the Bank's results of operations and financial condition.

Concentration of Customer Deposit Base

The Bank has a high concentration of customer accounts. As at 30 September 2006, the aggregate amount of deposits from the Bank's ten largest depositors was U.S.$193.5 million, or 41.6 per cent. of the Bank's total customer accounts, compared with U.S.$169.6 million or 44.6 per cent. of total customer accounts as at 31 December 2005, and U.S.$57.0 million or 29.7 per cent. of total customer accounts as at 31 December 2004. These amounts do not include customer accounts from employees or management of the Bank's largest depositors. The Bank will require emphasis on diversification of its deposit base and if continued to reduce concentration of its deposit base during the last three months of 2006, and plans to continue to reduce the concentration by growing its retail deposit base. Failure to continue to reduce this concentration could expose the Bank to increased liquidity risk and have a material adverse effect on the Bank's results of operations and financial condition.

Transactions with Related Parties

As at 30 September 2006, the amount of loans outstanding to related parties was U.S.$9.0 million, or 1.5 per cent. of the Bank's gross loan portfolio. According to NBU mandatory requirements the limit per one related-party borrower is 5 per cent. of charter capital, and for all related-party borrowers is 30 per cent. of charter capital. The Bank has an internal limit for each related-party borrowing of 5 per cent. of equity, and for a group of related-party borrowers of 15 per cent. of equity. The Bank complies with these limits. As at 30 September 2006, U.S.$140.6 million, or 30.2 per cent. of the Bank's deposits were due to related parties of the Bank.

It is the Bank's policy that transactions with related parties are priced predominantly at market rates and are subject to the same approval procedures and limits as are applied by the Bank to transactions with unrelated parties. Going forward the Bank will comply with the provisions of the Loan Agreement with respect to affiliate transactions. While the Bank believes it is not currently exposed to additional risk as a result of entering into such transactions, and the Bank is in compliance with NBU requirements in relation to related party transactions, any further increase in the level of related party transactions may have an adverse effect on the Bank's results of operations and financial condition.

Increasing Competition

The Ukrainian market for financial services is becoming highly competitive. As at 1 December 2006, there were a total of 191 commercial banks registered in Ukraine, of which 167 banks have been granted licences by the NBU to perform banking transactions. The Bank principally competes with a number of other nation-wide and regional banks, some of which have a broader geographic reach than the Bank. The Bank's most significant competitors include Group 1 banks (Privatbank, Raiffeisen Bank Aval, Prominvestbank, Ukrsotsbank, UkrSibbank BNP PARIBAS Group, Ukreximbank, Oschadbank, OTP Bank, Bank Nadra, Finance and Credit, Brokbusinessbank, Ukprombank, Kreditprombank and Bank Forum), according to the classification of the NBU. *See "Description of the Bank's Business — Competition".*

The Bank expects the Ukrainian banking market to become increasingly competitive as a result of the deregulation of the banking industry and Ukraine's potential accession to the WTO. In particular, the Bank expects increased competition in both deposit-taking and lending activities, which could narrow spreads between deposit and loan rates and in turn could have an adverse impact on the Bank's profitability. The Bank also expects increasing competition from foreign banks, particularly for large corporate customers. As at 1 December 2006, 32 Banks in Ukraine had direct foreign capital, including 11 banks which were wholly owned by foreign investors. In addition, the recent acquisitions and planned acquisitions within the banking sector of Ukraine, including the acquisitions and planned acquisitions of controlling stakes respectively in Bank Aval by Raiffeisen International Bank-Holding AG, UkrSibbank by BNP Paribas, Ukrsotsbank by Banca Intesa, IndexBank by Crédit Agricole S.A., Raiffeisenbank Ukraine by OTP Bank, Mriya Bank by Vneshtorgbank and Prestige Bank by Erste Bank may further increase competition among Ukrainian banks. If the Bank is unable to continue to compete successfully in the Ukrainian banking sector or to execute its strategy for expansion in the retail banking sector, there could be a material adverse effect on the Bank's business and results of operations. See *"Description of the Bank's Business — Competition"* and *"Ukraine: The Banking Sector— Competition"* below.

Banking Activity Risks

The Ukrainian banking sector is in a nascent state compared to its Western counterparts. It is unclear how legal and regulatory developments may affect the competitive banking landscape in Ukraine and whether they will improve certain banking activities.

In November 2004 to February 2005, the Ukrainian financial markets were shaken as a result of the political instability in the country following the controversy surrounding the Presidential election results in November 2004, the subsequent invalidation of the results and the revote of the Presidential elections held on 26 December 2004. The political instability saw retail depositors attempting to withdraw their deposits with banks, which prompted a certain degree of panic in the country as there was speculation in the press that a collapse of the banking sector might be imminent.

The NBU acted swiftly to support the banking sector and enacted a resolution on 30 November 2004 providing temporary measures to support banking operations and to ensure that banks had sufficient liquidity to meet demand. Such measures included a temporary prohibition on the early payment of time deposits and a restriction on new lending activity. In addition, the NBU provided short-term interbank financing for banks allowing them to post certain assets as collateral to the NBU. The measures were gradually lifted over the following months, and were completely removed by the end of February 2005.

No assurance can be given that the political instability and the governmental uncertainty which was experienced between November 2004 and February 2005 will not in some form be repeated. Any such repetition may generate severe pressures on the banking system which may in turn have a material adverse effect on the Bank's business.

Although as at the date of this Prospectus the Bank has coped with the changes in the domestic regulatory landscape, and despite the Bank having been able to manage its cash flow and operations during the uncertainty experienced between November 2004 and February 2005, no assurance can be given that the regulatory environment in which the Bank operates in Ukraine will not change in a manner that has a material adverse effect on the Bank's ability to compete and thus on its business, financial condition, results of operations and prospects.

Lack of Information and Risk Assessments

In June 2005, Parliament passed a Law "On the Organisation of Filing and Circulation of Credit Histories", which came into effect in January 2006, permitting the establishment of credit bureaus, which would deliver information to Ukrainian banks to assist them in evaluating the credit risk of prospective borrowers. However, due to recent adoption of implementing regulations, none of the credit bureaus already established in Ukraine has, so far, been able to obtain a licence required under the law for collecting, processing, storing and utilisation of credit information. In addition, a credit rating agency that provides information regarding participants in the Ukrainian securities market also operates in Ukraine and its information is made publicly available. Furthermore, in 2004, the World Bank launched a project called "Development of the State Statistics System for Monitoring the Social and Economic Transformation Project in Ukraine", which is intended to bring the Ukrainian state statistics system in line with international statistical standards. However, notwithstanding these developments Ukraine's system for gathering and publishing statistical information relating to the Ukrainian economy generally, specific economic sectors or corporate or financial information relating to companies is not as comprehensive as those of many countries with established market economies. Thus, the statistical, corporate and financial information, including audited financial statements, available to the Bank relating to its prospective corporate borrowers or other clients makes the assessment of credit risk, including the valuation of collateral, more difficult. Although the Bank ordinarily estimates the net realisable value of collateral in determining applicable provisioning and collateralisation requirements, the absence of additional statistical, corporate and financial information may decrease the accuracy of the Bank's assessments of credit risk, thereby increasing the risk of borrower default and decreasing the likelihood that the Bank would be able to enforce any security in respect of the corresponding loan or that the relevant collateral will have a value commensurate to the loan secured on it. Furthermore, not all Ukrainian borrowers have credit histories. While the Bank's management considers that it has adequate risk evaluation procedures in place to perform the background checks in order to assess the credit risk of corporate and retail loan applicants, the Bank may be unable to evaluate correctly the current economic condition or determine the long-term economic outlook for each prospective borrower, which could have a material adverse effect on the Bank's business, financial condition or results of operations. See "Risk Management – Credit Risk".

Regulation of the Banking Industry

The NBU's Resolution No. 368, dated 28 August 2001, which authorised the Directive on Ukrainian Banking Activity Regulation (the "**Banking Regulation Directive**"), set forth capital adequacy and other ratios and limits, including concentration, liquidity ratios, open currency position limits and the rules upon which the calculations of the capital adequacy and other ratios and limits are based. The Banking Regulation Directive also provides general rules for submitting statistical information to the NBU. In addition, the NBU established and services from time to time mandatory levels of provisioning for different groups of assets classified according to NBU regulations.

From 31 December 2002, all banks with subsidiaries under their control are required to file consolidated financial statements with the NBU. See Appendix A "Ukraine: The Banking Sector". The Bank does not presently have any subsidiaries.

Notwithstanding the Banking Regulation Directive, regulatory standards applicable to banks in Ukraine and the oversight and enforcement thereof by Ukrainian regulators may differ from those applicable to banking operations in more highly developed regulatory regimes. There can be no assurance that the NBU will not implement regulations or policies, including policies or regulations or legal interpretations of existing banking or other regulations, relating to or affecting taxation, interest rates, inflation, exchange controls, or otherwise take action that could have a material adverse effect on the Bank's business, financial condition or results of operations or that could adversely affect the market price and liquidity of the Notes. Although the Bank has historically strictly adhered to NBU regulations and requirements, if the Bank were to fail to comply with applicable Ukrainian legislation and regulations of the NBU and this results in the loss of significant assets and insolvency of the Bank, the NBU could revoke the Bank's banking licence, which would result in the Bank ceasing to carry out its activities.

Controlling Shareholders

As at the date of the Prospectus, approximately 90 per cent. of the share capital of the Bank is ultimately beneficially owned by Mr Rinat Akhmetov. Mr Akhmetov is not involved with the day-to-day management of the Bank or the Supervisory Board. The appointment of the Supervisory Board and the Management Board is provided by the Management of SCM Finance, though if circumstances were to arise where the interests of Mr Akhmetov, through his control of SCM Finance, conflicted with the interests of Noteholders, Noteholders could be disadvantaged, as Mr Akhmetov could take actions contrary to Noteholders' interests. For example, Mr Akhmetov would have the ability to exercise control over the Bank's pursuit of acquisitions, divestitures, financings or other transactions that could enhance the value of its equity investment, through his control of SCM Finance.

Ukrainian law and the Bank's Charter require the attendance at the General Meeting of Shareholders of shareholders holding more than 60 per cent. of voting rights for a quorum to be present at such meeting. Therefore any shareholder or combination of shareholders representing 40 per cent. or more of the voting rights has the ability to block certain actions by refusing to attend the General Meeting of Shareholders. Currently no such shareholder or block of shareholders exists at the Bank, other than Mr Akhmetov, via his indirect shareholding in the Bank. See "*Description of the Bank's Business – Principal Shareholders*".

Dependence on Key Management and Qualified Personnel

The Bank is dependent on members of its Management Board and the Supervisory Board for the implementation of its strategy.

In addition, the Bank's success will depend, in part, on its ability to continue to retain, motivate, and attract qualified and experienced banking and management personnel. Competition in the Ukrainian banking industry for personnel is considerable. In order to recruit qualified and experienced employees and to increase employee retention, the Bank is establishing a number of programmes with leading Ukrainian educational institutions and attempts to provide an attractive salary package which is also in compliance with standards and safeguards stipulated by Ukrainian employment legislation. The Bank also provides training to its employees through a variety of in-house and external training programmes.

While the Bank believes that it has effective staff recruitment, training and incentive programmes in place, a failure by the Bank to recruit, train and/or retain necessary personnel could have a material adverse effect on its business, financial condition, and results of operations and prospects. See "Description of the Bank's Business — Employees".

The Bank's Business Entails Operational Risk

The Bank is exposed to many types of operational risk, including the risk of fraud by employees or outsiders, unauthorised transactions by employees or operational errors, including clerical or record keeping errors or errors resulting from faulty computer or telecommunications systems.

The Bank maintains a system of controls designed to keep operational risk at appropriate levels. The Bank also has bankers blanket bond insurance, which helps to protect the Bank from losses arising from internal frauds. Banker's blanket bond is a generic name for a type of insurance coverage carried by brokerages, investment bankers, and other financial institutions to protect them against losses due to employee dishonesty. However, there can be no assurance that it will not suffer losses if these controls fail to detect or contain operational risk in the future.

Information Technology

The Bank will need to develop its IT systems in order to keep pace with the growth of the Bank's business and developments in the banking services market. The Bank is continually upgrading and integrating its information technology systems to allow it to implement modern IT-platforms, targeted toward its growing corporate banking business and its new retail banking business, but which can further be used for all of the Bank's operations. The Bank has a 5-year IT expenditure plan which it follows strictly.

However, there can be no assurance that any improved information technology systems will be developed according to schedule, which could have a material adverse effect on the Bank's business, financial condition or results of operations.

Capital Adequacy

The Basel Committee on Banking Supervision (the "Basel Committee") has set international standards for capital adequacy for banks, and the NBU has established minimum capital adequacy ratios that are mandatory for Ukrainian banks.

The Bank complies with the NBU's mandatory minimum capital adequacy ratios for Ukrainian banks. The NBU's mandatory minimum capital adequacy ratio is currently 10 per cent. The Bank's capital adequacy ratio calculated in accordance with the NBU methodology (being the ratio of capital to total risk-weighted assets) was 17 per cent. as at 1 November 2006 compared to 12 per cent. as at 30 September 2006, 13 per cent. as at 31 December 2005 and 18 per cent. as at 31 December 2004.

The Bank also complies with the Basle Committee standards. In accordance with shareholders requirements, the Bank must maintain a total capital ratio (calculated in accordance with the Basle Committee standards) in excess of 15 per cent. As at 30 September 2006, the Bank's capital adequacy calculated in accordance with the Basle Committee standards was 23 per cent. As at 31 December 2005 the Bank's capital adequacy calculated in accordance with the Basle Committee standards was 19 per cent., and as at 31 December 2004 it was 26 per cent.

The Bank must maintain sufficient capital to cover increased risk weighted assets in order to maintain the capital adequacy ratios set forth by the Basel Committee and the NBU and so permit the continuation of the expansion of its loan portfolio. The level of the Bank's net loans to customers (excluding loans to banks) has increased significantly over the past few years to U.S.$572.4 million as at 30 September 2006 from U.S.$360.2 million as at 31 December 2005 and U.S.$183.5 million as at 31 December 2004.

The Bank's authorised, registered and issued share capital amounted to U.S.$30.9 million as at 31 December 2005 and U.S.$90.9 million as at 30 September 2006. The Bank's total equity was U.S.$94.9 million as at 31 December 2005 and U.S.$179.5 million as at 30 September 2006. To support the Bank's capital adequacy ratio, the Bank pursues a policy of capitalising profit. The Bank has generally capitalised all profits (although a U.S.$1 million dividend was declared in 2001, representing 21.5 per cent. of the Bank's net profit for the year ended 31 December 2001). The Bank's strategy is to capitalise profits until the end of 2010. The Bank also plans to further increase shareholder's equity, in line with the shareholder strategy. The Bank will also consider subordinated debt facilities in the future, should such instruments become an attractive option. No assurance, however, can be given that existing or future shareholders will continue to inject such share capital in the future or will not require the Bank to pay dividends.

Any failure by the Bank to maintain required capital adequacy ratios may violate covenants in certain of the Bank's credit and loan agreements with other parties and could lead to the imposition of sanctions by the NBU, either of which could have a material adverse effect on the Bank's results of operations and financial condition. If the Bank fails to comply with applicable Ukrainian legislation and regulations of the NBU and this results in the loss of significant assets and insolvency of the Bank, the NBU may revoke the Bank's banking licence, which would result in the Bank ceasing to carry out its activities.

Moreover, the Basel Committee has issued a new capital adequacy framework (the "Basel Accord") to replace the previous capital accord issued in 1988. With regard to the risk measurement requirements relating to credit risk ratings applied to exposures to sovereign states, the Basel Committee proposes replacing the existing approach by a system that would use both external and internal credit ratings for determining risk weightings or the amount of credit exposures. It is intended that such an approach will also apply, either directly or indirectly and to varying degrees, to the risk measurement for exposures to banks, securities firms and corporate entities. If adopted, the new framework could require financial institutions lending to Ukrainian banks to be subject to higher capital requirements as a result of the credit risk rating of Ukraine, possibly resulting in a higher cost of borrowing for Ukrainian banks. It is also uncertain how the NBU will interpret and implement the new framework.

Concentration of Funding and Liquidity Risks

The Bank has historically relied on corporate and retail depositors to meet its funding needs as access to other funding sources, including syndicated loans and the capital markets, has been limited in Ukraine. However, the Bank is diversifying its funding sources by entering into syndicated facilities, and the Bank is currently trying to diversify its funding sources further by the issuance of capital market instruments, including the Notes. It should be noted that the Bank's ability to attract and maintain such funds could be affected by a number of factors, including Ukrainian economic and political conditions.

Ukrainian companies usually withdraw their deposits on a frequent basis and are not typically in a position to place significant funds within the banking sector on a long-term basis. In addition, due to generally low liquidity of the Ukrainian market, there are limited opportunities for banks to sell or factor assets other than those that are highly liquid, such as state securities. There can be no assurance that decreases in corporate deposits and/or unexpected withdrawals of retail deposits will not result in liquidity gaps that the Bank will need to cover.

The Bank believes that it has a proven liquidity risk management policy, which includes maintaining and monitoring its cash portfolio sufficient to meet currency demands coupled with its ability to call and/or re-price most of its loans on a regular basis, allow and will continue to allow it to meet its liquidity needs. However, a deterioration of the Ukrainian economy, an inability to access alternate sources of funds in the international capital, syndicated loan and interbank markets and/or significant withdrawals of corporate and retail deposits and continued mismatches between the Bank's assets and liabilities may, together or separately, have a material adverse effect on the Bank's business, financial conditions, results of operations or prospects. See "— Banking Activity Risks" and "Asset, Liability and Risk Management".

The Bank has common ownership and an overlap of Supervisory Board membership with Dongorbank

The controlling shareholder of the Bank also controls Dongorbank and has appointed members of the Supervisory Boards common to both banks. Dongorbank is a Ukrainian bank which has most of its business in the Donetsk region. According to official statistics of the NBU, as of 1 December 2006, Dongorbank was the 23rd largest bank in Ukraine in terms of total assets, the 20th largest bank in Ukraine in terms of loans to customers, the 18th largest in terms of corporate deposits and current accounts, and the 27th largest bank in Ukraine in terms of shareholder's equity, all as calculated under Ukrainian Accounting Standards and based on statutory reporting requirements.

The Bank and Dongorbank do not carry out significant joint projects or transactions, except with respect to the coordination of real estate acquisitions through SCM Finance, as the banks seek to expand their branch networks. As at 30 September 2006 deposits from Dongorbank placed with the Bank were U.S.$1.3 million, or 2.6 per. cent, of due to other banks, or 0.2 per. cent of the Bank's total liabilities.

The Bank and Dongorbank are only competitors in the Donetsk region. Dongorbank has a much smaller branch network then the Bank (24 branches and smaller outlets located mainly in the Donetsk region).

Both the Bank and Dongorbank are directly owned by SCM Finance. Mr. Akhmetov, who is the ultimate indirect owner of approximately 90 per cent. of the Bank's share capital, also ultimately indirectly owns approximately 90 per cent of Dongorbank's share capital. Each of the Bank and Dongorbank's General

Meetings of Shareholders has the authority to elect the Supervisory Board of the respective banks, as well as the chairman of their respective Management Boards and their respective internal audit committees. SCM Finance, acting through the General Meeting of Shareholders has appointed Supervisory Boards of the Bank and Dongorbank and three members are common to both banks.

As the ultimate controlling shareholder of both the Bank and Dongorbank, Mr. Akhmetov may also choose to provide additional capital, including additional equity investment to one of the banks, providing the recipient bank with an opportunity to further develop its business, without providing additional capital to the other bank.

Because the Bank and Dongorbank are competitors and share some common Supervisory Board members, the Supervisory Board may not always be able to act in the best interests of the Bank. For example, the Supervisory Board may make strategic decisions to allocate opportunities to Dongorbank or to have Dongorbank, and not the Bank, pursue such opportunities. If the Supervisory Board chooses to allocate opportunities to Dongorbank, the Bank's business may be harmed.

In addition, Mr. Akhmetov has the ability, through control of SCM Finance, to control the General Meeting of Shareholders of both the Bank and Dongorbank. Decisions taken by the General Meeting of Shareholders of Dongorbank may negatively affect the business of the Bank, and decisions taken by the General Meeting of Shareholders of the Bank, may negatively affect the business of Dongorbank.

Risks Relating to the Offering, the Notes and the Trading Market

Noteholders' rights to receive payment on the Notes will be limited to payments received from the Bank under the Loan Agreement.

The Issuer is obliged to make payments under the Notes to Noteholders only to the extent of the amount of principal, interest, Additional Amounts (as defined in the Loan Agreement), if any, and Indemnity Amounts (as defined in the Loan Agreement), if any, actually received by or for the account of the Issuer under the Loan Agreement, less any amount in respect of the Reserved Rights. Consequently, if the Bank fails to fully meet its obligations under the Loan Agreement, Noteholders will, on the relevant due date, receive less than the scheduled amount of principal, interest and/or additional amounts (if any) due and payable under the Notes.

The Bank may be unable to repay the Loan at maturity

At maturity, the Bank may not have the funds to fulfil its obligations under the Loan Agreement and it may not be able to arrange for additional financing. If the maturity date of the Loan occurs at a time when other arrangements prohibit the Bank from repaying the Loan, the Bank would try to obtain waivers of such prohibitions from the lenders under those other arrangements, or it could attempt to refinance the borrowings that contain the restrictions. If the Bank cannot obtain the waivers or refinance these borrowings, it may be unable to repay the Loan.

The Notes may be redeemed prior to maturity

In the event that the Bank would be obliged to increase the amounts payable in respect of the Loan due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Ukraine or any political subdivision thereof or any authority therein or thereof having power to tax, the Bank may prepay the Loan, whereupon all outstanding Notes will be redeemed in accordance with the Conditions.

The Bank may not have the ability to raise the funds necessary to finance the optional redemption upon the occurrence of a Put Event as required by the Conditions and the Loan Agreement

Pursuant to the terms of the Loan Agreement upon the announcement or occurrence of certain events including a Change of Control (as defined in the Notes) which results in a Rating Decline (as defined in the

Notes), Noteholders shall have the option to give notice or procure that notice is given for the prepayment of the applicable amount of the Loan, which would fund the redemption of the Notes by the Issuer. However, it is possible that the Bank will not have sufficient funds at the time of the occurrence of such events to make the required prepayment of the Loan to enable the Issuer to redeem the Notes. See "The Loan Agreement".

Noteholders have no direct recourse to the Bank

Except as otherwise disclosed in the "Terms and Conditions of the Notes" and in the Trust Deed, no proprietary or other direct interest in the Lender's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the Loan Agreement or have direct recourse to the Bank, except through action by the Trustee to enforce the Note Security. Neither the Lender nor the Trustee pursuant to the assignment of the Transferred Rights (as defined in "Terms and Conditions of the Notes") shall be required to enter into proceedings to enforce payment under the Loan Agreement, unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

The claims of Noteholders may be limited in the event that the Bank is declared bankrupt

Ukrainian bankruptcy law differs from the bankruptcy laws of England and the United States, and is subject to varying interpretations. There is insufficient precedent to enable prediction as to how claims of the Lender or the Trustee or the Noteholders against the Bank would be resolved in the event of the Bank's bankruptcy. In the event of the Bank's bankruptcy, its obligations to the Lender, the Trustee or the Noteholders would be subordinated to the following obligations:

- obligations secured by pledges of the Bank's assets;
- expenditures associated with the conduct of the bankruptcy proceedings, including severance pay;
- obligations arising as a result of inflicting harm to the life or health of individuals;
- payment of wages to the Bank's employees due as of the commencement of the liquidation procedure;
- obligations to individual depositors in an amount exceeding that established by the system of guaranteeing the deposits of individuals (currently UAH 15,000), but not more than UAH 50,000 or equivalent in other currency;
- obligations to individual depositors in an amount exceeding UAH 50,000 or equivalent in other currency;
- obligations to the Fund for the Guaranteeing of Deposits of Individuals; and
- obligations to individuals (with the exception of registered entrepreneurs) with blocked accounts.

In the event of the Bank's bankruptcy, Ukrainian bankruptcy law may materially adversely affect its ability to make payments to the Lender or the Trustee

Claims against the Bank may be incapable of enforcement upon the introduction by the NBU of temporary administration for the financial rehabilitation of the Bank. If the NBU determines that a significant threat exists of the Bank becoming insolvent, the NBU is obliged to impose temporary administration of the Bank to improve its financial situation. The NBU also may impose temporary administration of the Bank in certain other cases. The temporary administrator appointed by the NBU would substitute all governing bodies of the Bank for the whole period of the temporary administration (up to one year with possible extension for another year if the Bank's liabilities are equal to or exceed 10 per cent. of the aggregate liabilities of the Ukrainian banking system at that time), and would be authorised to carry out any acts aimed at the financial rehabilitation of the bank, including but not limited to (i) suspending any ongoing operation (e.g. the discharge of any outstanding obligation) of the Bank (without terminating or invalidating the relevant agreement itself), and (ii) terminating, in accordance with Ukrainian legislation, any agreement of the Bank which, in the opinion of the temporary administrator, is loss-making or "unnecessary" for the bank. This may apply only to an agreement which contains outstanding obligations of any party. The temporary administrator would have a broad discretion in determining whether a particular agreement is loss-making or "unnecessary", given that Ukrainian legislation provides no criteria for such determination.

During the term of operation of the temporary administration, but not longer than for a six-month period during such term, the NBU may, in its discretion, order a moratorium on the satisfaction of claims of creditors of the Bank which have become payable before the appointment of the temporary administration. During the term of such moratorium, the Bank may be unable to make payments to the Issuer and the Trustee, and the Issuer's and/or the Trustee's claims against the Bank would not be enforceable. The Bank may not be held liable for the non-performance of its obligations to the Lender and/or the Trustee resulting from the imposition of the moratorium. Upon the termination of the moratorium (other than as a result of the Bank entering bankruptcy proceedings), the Lender and/or the Trustee would be entitled to make, and to enforce, claims against the Bank in the amounts existing as of the date when the moratorium was imposed.

In addition, applicable Ukrainian legislation permits a temporary administrator of a bank appointed pursuant to any such temporary administration to request a Ukrainian court to declare invalid, among other agreements to which such bank may be party, an agreement between the bank and a third party, if there has been, under such agreement, "any operation" (meaning a payment or other transaction): (i) within a six month period before the appointment of such temporary administrator, and the purpose of the operation was to grant a preference to such third party compared to the bank's other creditors; (ii) within one year before the appointment of such temporary administrator between the bank and a related party, and the operation contravened the requirements of Ukrainian legislation or "threatened the interests of depositors and creditors" of the bank; (iii) within three years before the appointment of such temporary administrator, with the purpose of alienating any of the bank's assets free of charge or purchasing assets or services by the bank at a price significantly higher than the value of such assets or services; (iv) within three years before the appointment of such temporary administrator, with the purpose of concealing assets from the bank's creditors or otherwise violating the rights of such creditors; or (v) at any time, if such operation has been based on forged documents or if it was of fraudulent nature. If the Loan Agreement were to be declared invalid on such basis, the Bank would be required to repay to the Lender all funds received from the Lender pursuant to the Loan Agreement, and the Lender would be required to repay to the Bank all funds received from the Bank pursuant to the Loan Agreement. There is also a lack of certainty as to whether, in such event, the court might apply any other consequences of the invalidation of the Loan Agreement (this would depend on the facts of the relevant case).

Ukrainian currency control regulations could impact the Bank's ability to make payments to the Lender or Trustee under the Loan Agreement

The NBU is empowered to define policies for, and regulate, currency operations in Ukraine and has the power to establish restrictions on currency operations and repatriation of profits denominated in foreign currency.

Ukrainian currency control regulations and practice may be subject to continual change, with the NBU exercising considerable autonomy in interpretation and application. While at present the Loan Agreement is subject only to registration with the NBU and no licence is required to be obtained from the NBU in order to make payments of principal and interest under the Loan Agreement, there can be no guarantee that such law and practice will remain unchanged during the term of the Loan.

While the Loan Agreement will be registered with the NBU, payments of principal and interest under the Loan Agreement to any entity other than the Lender (e.g. after enforcement of the security by the Trustee) would require registration with the NBU of the resulting change in the loan transaction. The Bank believes the NBU would be inclined to view enforcement of the security by the Trustee as a mere assignment of the

Lender's claims against the Bank to the Trustee and would be in the position to register the respective change provided the Trustee is a bank or a financial institution.

However, the NBU has a broad discretion in evaluating the documents submitted in connection with such changes, and there can be no assurance that such an assignment of the Lender's claims against the Bank to the Trustee would be successfully registered by the NBU. Should the NBU refuse to register such change, the Bank will not be permitted to make payments of principal and interest to any other entity unless it obtains an individual licence of the NBU permitting such payments. The Bank cannot assure investors that it will receive such a licence in such case and there can be no assurance that the NBU will be satisfied with the status of the Trustee as a bank or financial institution in connection with any such registration or licence. If the Bank does not receive such a licence, no assurance can be given that it will be able to make payments of principal and interest under the Loan Agreement and any proceeds to be realised by the Trustee on any enforcement of the security granted under the Trust Deed will be significantly affected.

The Board of the NBU has passed a resolution prohibiting Ukrainian borrowers from making, in connection with loans granted by foreign lenders, payments of interest, fees, default interest, penalties, additional amounts and other charges which, in aggregate per annum, exceed an amount determined by applying the applicable maximum interest rate established by the NBU (the "MIR") to the principal amount of the loan. As at the date of this Prospectus, the MIR applicable to fixed interest rate loans in major foreign convertible currencies (including U.S. dollars) the maturities of which are less than one year is 9.8 per cent. per annum; the MIR applicable to loans the maturities of which are from one year to three years is 10.0 per cent. per annum; and the MIR applicable to loans the maturities of which are in excess of three years is 11.0 per cent. per annum.

Further, the NBU has the authority to review and modify the MIR from time to time and may refuse to register a change in the loan transaction (e.g. due to assignment to the Trustee) if the effective interest rate (including additional amounts, fees, default interest, penalties and other charges) on the Loan exceeds the then applicable MIR.

At the current MIR, Noteholders should receive payment of the full amount of accrued interest in respect of the Notes since the interest rate on the Loan, and the interest rate applicable to the Notes, are lower than the currently effective MIR. However, any additional amounts, penalties or other charges, if any, payable to Noteholders in connection with the Loan could be limited by the MIR.

In the event of any prepayment of the Loan, the NBU would not permit the amount of interest, fees, default interest, penalties, additional amounts and other charges payable, in the aggregate per annum, in connection with the Loan to exceed an amount determined by applying the relevant MIR to the principal amount of the Loan. While the NBU's regulations on the MIR have not been tested in this regard, the NBU may require the application of the MIR based on the period for which the Loan has been outstanding as at the date of prepayment rather than the contractual maturity, which might result in the application of a lower MIR (e.g. the MIR applicable to fixed interest rate loans the maturities of which are less than one year instead of the MIR applicable to fixed interest rate loans the maturities of which are in excess of three years). Further, since the NBU has the authority to review and modify the MIR from time to time, a reduction in the MIR could further limit the ability of Noteholders to collect interest, default interest or other charges payable to them in connection with a prepayment of the Loan.

There is also an NBU regulation that requires a review by the State Information and Analytical Centre for Monitoring External Commodity Markets (the "SIAC") of the fees for services rendered by a non-resident to a resident under an agreement for services (or a series of agreements for similar services purchased within one calendar year from the same payee) with a value in excess of EUR 100,000 (or an equivalent in another currency), excluding payments made by banks in favour of non-residents for rendering financial services, as well as payments made according to the registration certificate issued for registration of a loan from a non-resident.

Unless a cross-border transaction relating to the non-resident's services is licensed by the NBU or is otherwise subject to an exemption, any such payment can be made only if the SIAC determines that the value of the services set forth in the agreement (or in the series of agreements) is in line with market conditions. If the SIAC for any reason refuses to make that determination, any such payment can be made only on the basis of specific permission from the NBU. If the SIAC determines that the fees are excessive, or refuses to make that determination and the NBU does not grant the permission, the payment of fees cannot be made (unless such decision of the SIAC or the NBU has been overruled by a court order). The Bank believes that its payments of fees under the Loan Agreement are exempt from this requirement as constituting fees for financial services. However, a risk exists that such exemption would not apply if the Bank were required to make any payment of such fees to a non-resident that is not authorised to render financial services under the laws of its jurisdiction, or if such services were not regarded as financial services for purposes of the applicable regulations of the NBU.

Nevertheless, the Bank believes that if the amount of fees is in compliance with the value of such services in the global market, there is a minimal risk that the SIAC would make a negative determination or refuse to make a determination.

If the NBU requires the Bank to obtain a licence in order to make certain payments under the Loan Agreement, the Bank will need to apply for such a licence, and without a licence it may be restricted in its ability to make certain payments to the Lender or the Trustee under the Loan Agreement

The NBU regulations are subject to substantial change and varying interpretations which complicate the process of determining whether a licence is needed to make certain payments under the Loan Agreement as well as the process of obtaining such licence. There is also some uncertainty as to whether or not a licence would be required following an event of default under the Loan Agreement, depending on who would be the recipient of payments under the Loan Agreement at that time (see "—*Ukrainian currency control regulations could impact the Bank's ability to make payments to the Lender or the Trustee under the Loan Agreement*").

If the NBU determines in the future that a licence is required for payments by the Bank under the Loan Agreement, the Bank will need to apply for a licence. The Bank cannot assure investors that it will receive such a licence in such case. If the Bank does not receive such a licence, no assurance can be given that it will be able to make payments under the Loan Agreement.

Interest Payments under the Loan — Availability of Treaty Relief

In general, payments of interest on borrowed funds by a Ukrainian entity to a non-resident legal entity, provided that the interest is not effectively connected with a permanent establishment of the non-resident entity situated in Ukraine, are subject to Ukrainian withholding tax at the rate of 15 per cent., absent its reduction or elimination pursuant to the terms of an applicable tax treaty.

Based on professional advice it has received, the Bank believes that, under the terms of the Convention between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Ukraine for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital Gains signed on 10 February 1993 and which came into effect on 11 August 1993 (the "Double Tax Treaty"), as it is currently applied, payments of interest on the Loan will not be subject to withholding tax, provided that certain conditions set forth in the Double Tax Treaty and under applicable Ukrainian law are duly satisfied. However, there can be no assurance that the exemption from withholding tax under the Double Tax Treaty is, or will continue to be, available.

Specifically, in order for the exemption from withholding under tax the Double Tax Treaty to be applicable, the Lender must be a resident of the United Kingdom for purposes of the Double Tax Treaty, must be the beneficial owner of the interest payments being received in the United Kingdom and must be subject to tax in respect of such interest payments in the United Kingdom. The exemption will not be available under the Double Tax Treaty if the Lender carries on business through a permanent establishment situated in Ukraine, and the debt-claim in respect of which the interest is paid is effectively connected with such permanent establishment. Moreover, it is unclear how the test for taxation of interest payments in the United Kingdom will be interpreted and applied by the Ukrainian tax authorities. In addition, the notion of beneficial ownership is not well defined in Ukrainian tax law. As a consequence, different interpretations are possible and the position could be taken that the Lender should not be viewed as the beneficial owner of the interest payments being received in the United Kingdom. However, the Bank believes that it is unlikely that the Ukrainian tax authorities will adopt this view.

In addition. Article 11(7) of the Double Tax Treaty contains a "main purpose" anti-avoidance provision. While there is no established practice of the Ukrainian tax authorities with respect to the application of this provision, if the Ukrainian tax authorities take a position that one of the main purposes of selection the United Kingdom, the Lender's jurisdiction of residence, for this financing transaction was to take advantage of the tax benefits (i.e. exemption of the interest payments from withholding taxation in Ukraine) under the Double Tax Treaty, the Ukrainian tax authorities may invoke the anti-avoidance provision of Article 11(7) of the Double Tax Treaty. In such circumstances, there is a risk that payments of interest by the Bank under the Loan would cease to have the benefit of the Double Tax Treaty.

Withholding tax risk – enforcement of the security under the Trust Deed

In the event that the Trustee enforces the security under the Trust Deed, the Trustee will be entitled to payments of principal and interest under the Loan Agreement. Consequently, payments under the Loan Agreement may then cease to have the benefit of the Double Tax Treaty and consequently may become subject to Ukrainian withholding tax unless the Trustee meets all the criteria for the exemption under the Double Tax Treaty. In such circumstances, the Bank would be obliged to pay additional amounts on account of Ukrainian taxes withheld and may prepay the Loan at its principal amount, together with accrued interest. Thereupon (subject to receipt of sufficient funds from the Bank) the Issuer would redeem all outstanding Notes.

If the Issuer were to cease to be resident in a Qualifying Jurisdiction for purposes of the Loan Agreement, or the Double Tax Treaty is otherwise rendered inapplicable, payments of interest under the Loan Agreement would be subject to Ukrainian withholding tax

Payments of interest under the Loan Agreement would be subject to Ukrainian withholding tax at the rate of 15 per cent. if the Lender or any successor or assignee of the Lender were to cease to be resident in a jurisdiction that has a double tax treaty with Ukraine that is similar to the Double Tax Treaty, or if the Lender or any successor or assignee of the Lender takes any action that would render the Double Tax Treaty inapplicable. If this were to occur, the Bank would become obligated to pay additional amounts, and may prepay the Loan at its principal amount, together with accrued interest. Thereupon (subject to receipt of sufficient funds from the Bank) the Issuer would prepay all outstanding Notes.

Consequences of Ukrainian Withholding tax on payments under the Loan

If any payments (including payments of interest) under the Loan Agreement are subject to any withholding tax (as a result of which the Issuer would reduce payments under the Notes), the Bank may, in certain circumstances specified in the Loan Agreement, become obliged to pay such additional amounts as may be necessary so that the net payments received by the Lender will not be less than the amount the Lender would have received in the absence of such withholding.

Ukrainian tax law contains restrictions that, if construed broadly, may affect the validity and enforceability of the gross-up provisions in the Loan Agreement. Notwithstanding this, a failure by the Bank to pay additional amounts due under the Loan Agreement would constitute a default under the Loan Agreement. Also, in the event that the Bank would become obliged to pay additional amounts, the Bank may prepay the Loan at its principal amount, together with accrued interest, and thereupon (subject to receipt of the relevant funds from the Bank) all outstanding Notes will be prepaid by the Issuer.

The Issuer is not required to pay additional amounts on account of withholding pursuant to the EU Savings Directive

If the Issuer, the Swiss Paying Agent or any other person by or through whom a payment on the Notes is made or received is required to withhold any amount from any such payment as a consequence of or pursuant to the EU Savings Directive (2003/48/EU) or any law implementing or complying with, or introduced in order to conform to, such Directive, there is no requirement for the Issuer to pay any additional amounts on account of that withholding. In this regard, prospective Noteholders should read the information about the EU Savings Directive in the section entitled "Taxation" and consult their advisors.

Foreign judgments may not be enforceable against the Bank

Courts in Ukraine will not recognise and/or enforce any judgment obtained in a court established in a country other than Ukraine unless such enforcement is envisaged by an international treaty consent to be bound whereby was expressed by the Parliament of Ukraine or by an "ad hoc" arrangement providing for the enforcement of judgments on a reciprocal basis that is in effect between such country and Ukraine, and then only in accordance with the terms of such treaty or arrangement. There is no such treaty or arrangement in effect between Ukraine and the United Kingdom.

Since Ukraine is a party to the New York Convention, an arbitration award obtained in a state which is also a party to the New York Convention, such as the United Kingdom, would be enforceable in Ukraine, subject to the terms of the New York Convention. See "Enforceability of Judgments".

There is no public market for the Notes

There is no existing market for the Notes. Application has been made to list the Notes on the main segment of the SWX Swiss Exchange. There can be no assurance that a liquid market will develop for the Notes, that holders of the Notes will be able to sell their Notes or that holders will be able to sell their Notes for a price that reflects their value.

Because the Global Certificate is held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer and the Bank

The Notes will be represented by the Global Certificate except in certain limited circumstances described in the Global Certificate. The Global Certificate will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Global Certificate, investors will not be entitled to receive definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Certificate. While the Notes are represented by the Global Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Notes by making payments to the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in the Global Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. Neither the Bank nor the Issuer has any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

Holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

The market price of the Notes may be volatile

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Bank's own and the Bank's competitors' operating results, adverse business developments, changes in the regulatory environment in which the Bank operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors, including the trading market for securities issued by or on behalf of Ukraine as a sovereign borrower. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Bank's results of operations, prospects or financial condition.

Financial turmoil in emerging markets could cause the price of the Notes to suffer

The market price of the Notes will be influenced by economic and market conditions in Ukraine and, to a varying degree, economic and market conditions in other CIS, Eastern European and emerging markets generally. Financial turmoil in Ukraine and other emerging markets in 1997 and 1998 adversely affected market prices in the world's securities markets for companies that operate in those developing economies. Even if the Ukrainian economy remains relatively stable, financial turmoil in these countries could materially adversely affect the market price of the Notes.

Any negative change in Ukraine's or the Bank's own credit rating could adversely affect the market price of the Notes

Ukraine's sovereign bonds are rated "BB- (stable outlook)" by S&P, "B1 (positive outlook)" by Moody's and "BB- (positive outlook)" by Fitch. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. The Bank has received credit ratings from Fitch and from Moody's as set out in "Summary — The Bank — Credit Ratings". Any negative change in the Bank's credit rating or the credit rating of Ukraine could materially adversely affect the market price of the Notes.

Use of Proceeds

The proceeds from the offering of the Notes, being U.S.$150,000,000, will be used by the Issuer for the purpose of funding the Loan. The Bank will receive the gross proceeds of the Loan in the amount of U.S.$150,000,000 and will separately pay commissions and fees in connection with the offering of U.S.$1,768,450 and certain expenses. As a result, the net proceeds of the Loan available to the Bank, after payment of such commissions and fees, but before payment of certain expenses incurred in connection with the offering, will be U.S.$148,231,550. The Bank intends to use the net proceeds of the Loan for general corporate purposes, including, but not limited to, to fund loans to its customers and to repay certain short term indebtedness. See "Capitalisation".

Exchange Rates

The following table sets forth, for the periods indicated, the average and period-end official rates set by the NBU, in each case for the purchase of Ukrainian hryvnia, all expressed in Ukrainian hryvnia per U.S. dollar.

	High	Low	Average	Period End
	(Ukrainian hryvnia per U.S. dollar)			
2000	5.60	5.22	5.44	5.43
2001	5.43	5.27	5.37	5.30
2002	5.33	5.30	5.33	5.33
2003	5.33	5.33	5.33	5.33
2004	5.33	5.31	5.32	5.31
2005	5.31	5.05	5.12	5.05
2006	5.05	5.05	5.05	5.05
2007 (to 5 February 2007)	5.05	5.05	5.05	5.05

The Bank has translated certain financial data from Ukrainian hryvnia into U.S. dollars at the rates of UAH 5.31, UAH 5.05, UAH 5.05 and UAH 5.05 to U.S.$1.00 the official rates set by the NBU on 31 December 2004, 30 September 2005, 31 December 2005 and 30 September 2006, respectively. These translations should not be construed as representations that Ukrainian hryvnia amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated as of any at the dates mentioned in this Prospectus or at all. The NBU's hryvnia/dollar exchange rate reported on 5 February 2007 was UAH 5.05 to the dollar.

Capitalisation

The following table sets forth the Bank's capitalisation as at 30 September 2006 as adjusted to reflect the Bank's borrowing under the Loan Agreement and the funding and repayment of a U.S.$50 million bridge loan advanced to the Bank by HSBC Bank plc and Standard Bank Plc. This information was extracted from the Unaudited Financial Statements and should be read in conjunction with "*Use of Proceeds*", "*Financial Review*" and the Financial Statements included elsewhere in this Prospectus.

	30 September 2006	
	Actual	As adjusted[(1)]
	(U.S.$ in thousands, unaudited)	
Liabilities		
Due to banks	51,121	51,121
Customer accounts	465,564	465,564
Certificates of deposit issued	1,321	1,321
Other borrowed funds[(2)]	231,724	231,724
Loan Agreement	–	150,000
Current income tax liability	2,093	2,093
Other liabilities	5,081	5,081
Deferred tax liabilities	9,010	9,010
Total liabilities	765,914	915,914
Equity		
Share capital[(3)]	90,864	90,864
Share premium	11,247	11,247
Revaluation reserve for fund assets	31,446	31,446
Retained earnings	46,058	46,058
Revaluation reserve for investment securities available for sale	(84)	(84)
Total Equity	**179,531**	**179,531**
Total capitalisation	945,445	1,095,445

(1) The "as adjusted" column has been prepared on a pro forma basis and is for illustrative purposes only. Although U.S.$50 million of the proceeds of the Loan will be used to repay the bridge loan referred to in note 2 below, the bridge loan had not been funded as of 30 September 2006 and so no change has been made in the pro forma to other borrowed funds.

(2) A syndicated loan arranged by Standard Bank Plc was extended and in December 2006 the principal was increased to U.S.$55 million. In October 2006 the Bank received a loan from Standard Bank Plc and HSBC Bank plc in the amount of U.S.$50 million, with a final maturity on 27 April 2007, which is required to be repaid from the proceeds advanced under the Loan Agreement. See "Description of the Bank's Business – Debt Funding".

(3) On 22 December 2006, the Bank's shareholders voted to further increase the Bank's capital by an additional U.S.$85 million during the first half of 2007. See "Description of the Bank's Business – Equity Funding".

Except as disclosed above, there has been no material change in the Bank's total capitalisation since 30 September 2006.

Financial Review

The following discussion should be read in conjunction with the Financial Statements included elsewhere in this Prospectus. Unless otherwise specified, the financial data set forth below have been extracted from the Audited Financial Statements which have been prepared in accordance with IFRS and the Unaudited Financial Statements, prepared in accordance with IAS 34. Investors should not rely on the unaudited interim financial results included herein as being indicative of the results the Bank may expect for the full year.

This discussion includes forward-looking statements that involve risks and uncertainties. See "Forward-Looking Statements". Actual results could differ materially from those anticipated in such forward-looking statements as a result of a variety of factors, including the risks discussed in "Risk Factors" included elsewhere in this Prospectus.

Overview

The core business activity of the Bank is corporate banking (including lending, deposit taking, the provision and servicing of customer accounts, investing in securities, foreign exchange and card services). The Bank is also focused on expanding its retail banking business (principally secured retail lending and deposit taking). As at 30 September 2006 the Bank had total assets of U.S.$945.4 million, total net customer loans of U.S.$572.4 million, total amounts due from other banks of U.S.$207.7 million and total customer accounts of U.S.$465.6 million. For the nine months ended 30 September 2006 the Bank generated operating income of U.S.$34.6 million and a net profit of U.S.$8.4 million.

The following table sets forth the Bank's unaudited interim statements of income for the nine-month periods ended 30 September 2006 and 30 September 2005.

Statement of income for the nine months ended 30 September 2006 and 2005

	Nine months ended 30 September	
	2006 (unaudited)	**2005 (unaudited)**
	(U.S.$ in thousands)	
Interest income	58,333	27,296
Interest expense	(28,959)	(11,387)
Net interest income	29,374	15,909
Provision for loan impairment	(8,826)	(5,233)
Net interest income after provision for loan impairment	**20,548**	**10,676**
Fee and commission income	15,934	13,852
Fee and commission expense	(4,223)	(3,240)
Net fee and commission income	**11,711**	**10,612**
Gain less losses arising from dealing in foreign currencies	2,850	1,510
Foreign exchange translation losses less gains/(gains less losses)	(492)	438
Losses less gains arising from securities at fair value through profit or loss	(10)	(119)
(Provision for)/recovery of provision for losses on credit related commitments	(487)	386
Losses on initial recognition of loans to customers	(347)	(237)
Loss on disposal of non-current assets held for sale	(225)	–
Other income	1,034	818
Operating income	**34,582**	**24,084**
Operating expenses	(21,901)	(17,033)
Profit before taxation	**12,681**	**7,051**
Income tax expense	(4,283)	(2,375)
Net profit	**8,398**	**4,676**

Net profit

The Bank made a net profit of U.S.$8.4 million for the nine months ended 30 September 2006, an increase of U.S.$3.7 million, or 79.6 per cent., compared to U.S.$4.7 million for the nine months ended 30 September 2005.

Interest income

The following table sets forth the sources of the Bank's interest income for the nine months ended 30 September 2006 and 30 September 2005:

	Nine months ended 30 September	
	2006 (unaudited)	2005 (unaudited)
	(U.S.$ in thousands)	
Interest income		
Loans to customers		
– legal entities	44,682	21,628
– individuals	2,771	341
Due from other banks	6,826	4,059
Securities	4,054	1,268
Total interest income	58,333	27,296

Total interest income increased to U.S.$58.3 million for the nine months ended 30 September 2006, an increase of U.S.$31.0 million, or 113.7 per cent., compared to U.S.$27.3 million for the nine months ended 30 September 2005.

The increase in total interest income was principally due to the increase in interest income on loans to corporate customers, which was U.S.$44.7 million for the nine months ended 30 September 2006, an increase of U.S.$23.1 million, or 106.6 per cent., compared to U.S.$21.6 million for the nine months ended 30 September 2005. This increase was chiefly attributable to the growth in the Bank's corporate loan portfolio. Loans to individuals contributed U.S.$2.8 million of interest income for the nine months ended 30 September 2006, an increase of U.S.$2.4 million, or 712.6 per cent., compared to U.S.$0.3 million for the nine months ended 30 September 2005. Interest income on amounts due from other banks contributed U.S.$6.8 million of interest income for the nine months ended 30 September 2006, an increase of U.S.$2.8 million, or 68.2 per cent., compared to U.S.$4.1 million for the nine months ended 30 September 2005. This increase was principally due to the increased volume of lending to and amounts placed with other banks in the Ukrainian banking market. Interest income from securities held contributed U.S.$4.1 million of interest income for the nine months ended 30 September 2006, an increase of U.S.$2.8 million, or 219.7 per cent., compared to U.S.$1.3 million for the nine months ended 30 September 2005. This increase was principally due to the acquisition of, and the consequential interest payments from, the Bank's portfolio of corporate loan bonds, which amounted to U.S.$33.5 million as at 30 September 2006, including approximately U.S.$4.0 million of bonds issued by two Ukrainian companies, the issuance of which were underwritten by the Bank, compared to nil at 31 December 2005.

Interest expense

The following table sets forth the sources of the Bank's interest expense for the nine months ended 30 September 2006 and 30 September 2005:

	Nine months ended 30 September	
	2006 (unaudited)	2005 (unaudited)
	(U.S.$ in thousands)	
Interest expense		
Individuals		
– term deposits	(6,527)	(4,389)
– current accounts	(466)	(292)
Legal entities		
– term deposits	(6,605)	(2,956)
– current accounts	(1,441)	(952)
Due to the National Bank of Ukraine and other banks	(3,460)	(1,226)
Other borrowed funds	(10,242)	(1,393)
Certificates of deposit issued	(218)	(179)
Total interest expense	(28,959)	(11,387)

Total interest expense was U.S.$29.0 million for the nine months ended 30 September 2006, an increase of U.S.$17.6 million, or 154.3 per cent., compared to U.S.$11.4 million for the nine months ended 30 September 2005.

Interest expense on term deposits from individuals was U.S.$6.5 million for the nine months ended 30 September 2006, an increase of U.S.$2.1 million, or 48.7 per cent., compared to U.S.$4.4 million for the nine months ended 30 September 2005. Interest expense on individual's current accounts was U.S.$0.5 million for the nine months ended 30 September 2006, an increase of U.S.$0.2 million, or 59.6 per cent., compared to U.S.$0.3 million for the nine months ended 30 September 2005. Both these increases were principally due to the increased numbers of deposits placed by the Bank's retail customers and the increase of salary projects with the Bank by the Bank's corporate customers, whereby the salaries of such corporate customer's employees are paid into accounts held with the Bank, although partially offset by declining interest rates in Ukraine generally.

Interest expense on term deposits from corporate customers was U.S.$6.6 million for the nine months ended 30 September 2006, an increase of U.S.$3.6 million, or 123.4 per cent., compared to U.S.$3.0 million for the nine months ended 30 September 2005. Interest expense on corporate customers' current accounts was U.S.$1.4 million for the nine months ended 30 September 2006, an increase of U.S.$0.5 million, or 51.4 per cent., compared to U.S.$1.0 million for the nine months ended 30 September 2005. Both these increases were principally due to the increased numbers of and volumes of deposits by the Bank's corporate customers, although partially offset by declining interest rates in Ukraine generally.

Interest expense on amounts due to the national Bank of Ukraine and other banks was U.S.$3.5 million for the nine months ended 30 September 2006, an increase of U.S.$2.2 million, or 182.2 per cent., compared to U.S.$1.2 million for the nine months ended 30 September 2005. This increase was principally due to the increases in term deposits of domestic banks held with the Bank, although this was partially offset by declining interest rates in Ukraine generally.

Interest expense on other borrowed funds was U.S.$10.2 million for the nine months ended 30 September 2006, an increase of U.S.$8.8 million, or 635.2 per cent., compared to U.S.$1.4 million for the nine months ended 30 September 2005. This increase was principally due to increased other borrowed funds, including increased borrowings from Cargill Financial Services international, Inc., and a new loan facility from Bank Austria Credianstalt AG. The weighted average cost of borrowed funds increased during the nine months ended 30 September 2006. This increase was due to the increase in international borrowings by the Bank, which are more expensive in terms of interest rates than funds borrowed domestically.

Net interest margin

The Bank's net interest margin (net interest income for the period divided by total average interest bearing assets, calculated as the average of total interest-bearing assets at the beginning and at the end of the period) for the nine months ended 30 September 2006 was 5.6 per cent. (on an annualised basis), compared to 5.4 per cent. (on an annualised basis) for the year ended 31 December 2005. This increase was due to the Bank being able to charge higher interest rates on its interest-bearing assets, although this was partially offset by the increased cost of the Bank's interest-bearing liabilities, chiefly due to increased borrowings by the Bank from international financial institutions, which borrowings typically have higher interest rates than domestic term borrowings.

Net fee and commission income

Net fee and commission income was U.S.$11.7 million for the nine months ended 30 September 2006, an increase of U.S.$1.1 million, or 10.4 per cent., compared to U.S.$10.6 million for the nine months ended 30 September 2005. This increase was principally due to an increase in fee and commission income to U.S.$15.9 million for the nine months ended 30 September 2006, an increase of U.S.$2.1 million, or 15.0 per cent., compared to U.S.$13.9 million for the nine months ended 30 September 2005, chiefly due to increased income from payment cards issued by the Bank. This increase was partially offset by an increase in fee and commission expense to U.S.$4.2 million for the nine months ended 30 September 2006, an increase of U.S.$1.0 million, or 30.3 per cent., compared to U.S.$3.2 million for the nine months ended 30 September 2005, chiefly due to increased expenses related to use of the Bank's payment cards with other banks by the Bank's customers, and a decrease in income from the Bank's documentary operations.

Operating income

Operating income (after provision for loan impairment) was U.S.$34.6 million for the nine months ended 30 September 2006, an increase of U.S.$10.5 million, or 43.6 per cent., compared to U.S.$24.1 million for the nine months ended 30 September 2005.

Operating expenses

The following table sets forth a breakdown of the Bank's operating expenses for the nine-month periods ended 30 September 2006 and 30 September 2005.

	Nine months ended 30 September (unaudited)	
	2006	**2005**
	(U.S.$ in thousands)	
Salary, employee benefits and compulsory contributions to the State funds	(9,724)	(7,225)
Depreciation and amortisation	(4,116)	(3,658)
Maintenance of premises and equipment	(2,275)	(1,836)
State duties and taxes, other than on income	(1,010)	(694)
Lease of premises	(886)	(584)
Communication	(771)	(653)
Advertising, entertainment, representative offices maintenance	(693)	(406)
Audit, legal, consulting services	(627)	(453)
Security services	(560)	(718)
Training	(190)	(171)
Charitable contributions	(105)	(40)
Other	(944)	(595)
Total operating expenses	(21,901)	(17,033)

Included in salary, employee benefits and compulsory contributions to State funds are statutory social security and pension contributions of U.S.$2.3 million (U.S.$1.7 million in 2005). Pension contributions are made into a State pension fund.

Operating expenses were U.S.$21.9 million for the nine months ended 30 September 2006, an increase of U.S.$4.9 million, or 28.6 per cent., compared to U.S.$17.0 million for the nine months ended 30 September 2005. This increase was principally due to increases in salary, employee benefits and compulsory contributions to the State funds of U.S.$2.5 million, due to increases in the Bank's total numbers of employees from 1,436 as at 30 September 2005 to 1,779 as at 30 September 2006, increases in depreciation and amortisation of U.S.$0.5 million and increases in maintenance of premises and equipment of U.S.$0.4 million, both due to the increased property purchased by the Bank, as the Bank has expanded its branch and outlet network. Other operating expenses also increased by U.S.$0.3 million. Much of the increase in the Bank's operating expense is attributable to the Bank's expansion of its retail banking services, including the expansion of the retail branch and outlet network.

Profit before taxation

The Bank made a profit before taxation of U.S.$12.7 million for the nine months ended 30 September 2006, an increase of U.S.$5.6 million, or 79.8 per cent., compared to U.S.$7.1 million for the nine months ended 30 September 2005.

Income tax expense

The Bank's income tax expense was U.S.$4.3 million for the nine months ended 30 September 2006, an increase of U.S.$1.9 million, or 80.3 per cent., compared to U.S.$2.4 million for the nine months ended 30 September 2005. This increase was principally due the increase in the Bank's current tax charge following the increases in operating income and profit for the period.

Balance sheet as at 30 September 2006

	30 September 2006 (unaudited)	31 December 2005
	(U.S.$ in thousands)	
Assets		
Cash on hand and in transit	15,829	16,105
Balances with the National Bank of Ukraine	27,011	41,555
Securities at fair value through profit or loss	–	16,102
Due from other banks	207,701	211,532
Loans to customers	572,351	360,213
Investment securities available for sale	33,483	1,028
Investment securities held to maturity	–	549
Other assets	7,588	3,245
Fixed assets	75,777	49,003
Investment property	2,861	2,311
Intangible assets	2,844	3,190
Non-current assets held for sale	–	725
Total assets	945,445	705,558
Liabilities		
Due to the National Bank of Ukraine	–	547
Due to other banks	51,121	111,770
Customer accounts	465,564	380,529
Certificates of deposit issued	1,321	3,196
Other borrowed funds	231,724	105,792
Current income tax liability	2,093	508
Other liabilities	5,081	3,982
Deferred tax liability	9,010	4,359
Total liabilities	765,914	610,683
Equity		
Share capital	90,864	30,864
Share premium	11,247	11,247
Revaluation reserve for fixed assets	31,446	15,511
Retained earnings	46,058	37,253
Revaluation of investment securities available for sale	(84)	–
Total equity	179,531	94,875
Total liabilities and equity	945,445	705,558

The Bank has previously presented currency swap agreements with other banks in its financial statements as at 31 December 2005 on a gross basis as balances due from other banks. After consideration of the specific requirements of International Accounting Standard 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"), current market practice and the nature of these currency swap agreements, the Bank has decided to revise its accounting policy in respect of this type of transaction. The Bank's new accounting policy is to account for these transactions on a net basis as derivatives so as to reflect that in substance these types of transactions represent one instrument. As a result of this revision the corresponding figures as at 31 December 2005 have been amended as follows: balances due from other banks were reduced by U.S.$58.4 million, balances due to other banks were reduced by U.S.$58.5 million, the balance of deferred tax liability decreased by U.S.$8 thousand, profit for 2005 was increased by U.S.$0.1 million and the balance of retained earnings was increased by U.S.$0.1 million. See "Presentation of Financial Information – Restatement of Previously Reported Balances".

As at 30 September 2006, the Bank's total assets amounted to U.S.$945.4 million, an increase of U.S.$239.9 million, or 34.0 per cent., compared to U.S.$705.6 million as at 31 December 2005. This increase was principally attributable to increases in the Bank's loan portfolio, amounts due from other banks and investment securities available for sale.

Cash on hand and in transit

As at 30 September 2006, the Bank held U.S.$15.8 million in cash on hand and in transit, a decrease of U.S.$0.3 million, or 1.7 per cent., compared to U.S.$16.1 million as at 31 December 2005.

Balances with the National Bank of Ukraine

As at 30 September 2006, the Bank's balances with the NBU were U.S.$27.0 million, a decrease of U.S.$14.5 million, or 35.0 per cent., compared to U.S.$41.6 million as at 31 December 2005. This decrease was due to a decrease in the mandatory reserve requirements of the NBU as at 30 September 2006 compared to the requirements as at 31 December 2005.

Securities at fair value through profit or loss

As at 30 September 2006, the Bank held no securities at fair value through profit or loss, compared to U.S.$16.1 million as at 31 December 2005, following disposals of these securities during the nine months ended 30 September 2006.

Due from other banks

As at 30 September 2006, the Bank had U.S.$207.7 million due from other banks, a decrease of U.S.$3.8 million, or 1.8 per cent., compared to U.S.$211.5 million as at 31 December 2005. This decrease was due to the Bank changing the presentation of transactions relating to currency swaps. See "Presentation of Financial Information – Restatement of Previously Reported Balances".

Loans to customers

As at 30 September 2006, the Bank had U.S.$572.4 million in net loans to customers, an increase of U.S.$212.1 million, or 58.9 per cent., compared to U.S.$360.2 million as at 31 December 2005. These increases were primarily due to an increase in gross loans to trade and agency services customers of U.S.$108.9 million, an increase in gross loans to food industry and agriculture customers of U.S.$65.0 million, both reflecting the growth of the Bank's corporate customer base, and an increase in gross loans to individuals (retail customers) of U.S.$39.0 million, reflecting the expansion of the Bank's distribution network and the increased range and volume of products offered by the Bank to it's retail customers. These increases were partially offset by a decrease in loans to transport, communication and infrastructure customers of U.S.$9.2 million, and by an increase in the provision for impairment of loans to customers to U.S.$21.6 million as at 30 September 2006, an increase of U.S.$7.7 million, or 55.0 per cent., compared to U.S.$13.9 million as at 31 December 2005.

Investment securities available for sale

As at 30 September 2006, the Bank had U.S.$33.5 million in investment securities available for sale, an increase of U.S.$32.5 million, compared to U.S.$1.0 million as at 31 December 2005. This increase was due to the Bank's purchases of U.S.$33.5 million of corporate loan bonds and the redemption of U.S.$1.0 million of promissory notes during the nine months ended 30 September 2006. The corporate loan bonds were acquired as part of the Bank's strategy to diversify its lending asset base and in conjunction with the Bank's underwriting of two issuances of corporate loan bonds by the Bank's clients. In each issuance, the Bank sold 50 per cent. of such issuance into the market, and retained 50 per cent. of the issuance.

Total liabilities

The Bank's total liabilities as at 30 September 2006 were U.S.$765.9 million, an increase of U.S.$155.2 million, or 25.4 per cent., compared to U.S.$610.7 million as at 31 December 2005. This increase was principally attributable to increases in amounts held in customer accounts and increases in other borrowed funds, reflecting the growth in the Bank's activities.

Due to other Banks

As at 30 September 2006, the Bank had U.S.$51.1 million due to other banks, a decrease of U.S.$60.6 million, or 54.3 per cent., compared to U.S.$111.8 million as at 31 December 2005. This decrease was primarily due to the change of presentation of transactions relating to currency swaps. See "Presentation of Financial Information – Restatement of Previously Reported Balances".

Customer accounts

As at 30 September 2006, the Bank had U.S.$465.6 million in customer accounts, an increase of U.S.$85.0 million, or 22.3 per cent., compared to U.S.$380.5 million as at 31 December 2005. This increase was principally due to increases in corporate customers' current accounts of U.S.$81.4 million, increases in individuals' (retail customers') current accounts of U.S.$16.4 million and increases in term deposits from individuals of U.S.$26.1 million, offset by decreases in term deposits from corporate customers of U.S.$39.0 million. These increases were reflective of the growth of the Bank's customer base, in particular the increased volume and range of products offered to individual customers.

Other borrowed funds

As at 30 September 2006, the Bank had U.S.$231.7 million in other borrowed funds, an increase of U.S.$125.9 million, or 119.0 per cent., compared to U.S.$105.8 million as at 31 December 2005. This increase was principally due increased borrowing of U.S.$57.8 million from Cargill Financial Services International Inc., and the borrowing of U.S.$55.0 million under a new loan facility from Bank Austria Credianstalt AG. The Bank borrows from international institutions in order to provide longer-term funding when compared to funding available to the Bank on the domestic borrowing markets.

Other liabilities and current income tax liability

The Bank's other liabilities and current income tax liability amounted to U.S.$7.2 million as at 30 September 2006, an increase of U.S.$2.7 million, or 59.8 per cent., compared to U.S.$4.5 million as at 31 December 2005. This increase was principally due to an increase in current income tax liability of U.S.$1.6 million due to the Bank's increased income and an increase in the provision for credit related commitments of U.S.$0.5 million, due to the increase of the Bank's credit related commitments.

Total equity

Total equity was U.S.$179.5 million as at 30 September 2006, an increase of U.S.$84.7 million, or 89.2 per cent., compared to U.S.$94.9 million as at 31 December 2005. This increase was principally due to the increase in the Bank's share capital to U.S.$90.9 million as at 30 September 2006, an increase of U.S.$60.0 million, as a result of a U.S.$60.0 million increase of the Bank's nominal share capital and the subscription for 1,317,400 ordinary shares by the Bank's shareholders for U.S.$60.0 million. Retained earnings by the Bank also increased to U.S.$46.1 million as at 30 September 2006, an increase of U.S.$8.8 million, or 23.6 per cent., compared to U.S.$37.3 million as at 31 December 2005.

During the nine months ended 30 September 2006, the Bank's building and investment property were independently revalued. Prior to this independent revaluation, such assets were recorded based on a valuation carried out during 2004. As a consequence of this revaluation, the revaluation reserve for fixed assets increased to U.S.$31.4 million as at 30 September 2006, an increase of U.S.$15.9 million, or 102.7 per cent. compared to U.S.$15.5 million as at 31 December 2005.

Statement of income for the year ended 31 December 2005 and 2004

The following table sets forth the Bank's statements of income for the years ended 31 December 2005 and 31 December 2004.

	Year ended 31 December	
	2005	2004
	(U.S.$ in thousands)	
Interest income	43,027	30,298
Interest expense	(18,926)	(10,652)
Net interest income	24,101	19,646
Provision for loan impairment	(5,763)	(3,044)
Net interest income after provision for loan impairment	**18,338**	**16,602**
Fee and commission income	17,977	14,908
Fee and commission expense	(4,106)	(3,349)
Net fee and commission income	**13,871**	**11,559**
Gain less losses arising from dealing in foreign currencies	2,559	2,740
Foreign exchange translation gains less losses/(losses less gains)	509	(31)
Losses less gains arising from securities at fair value through profit or loss	(116)	(61)
Provision for impairment of investment securities available for sale	–	(889)
Other income	1,105	835
Recovery of/(provision) for losses on credit related commitments	192	(650)
Change in fair value of non-current assets held for sale	(608)	–
Losses on initial recognition of loans to customers	(501)	–
Operating income	**35,349**	**30,105**
Operating expenses	(24,950)	(21,380)
Profit before taxation	**10,399**	**8,725**
Income tax expense	(2,026)	(1,981)
Net profit	**8,373**	**6,744**

Net profit

The Bank made a net profit of U.S.$8.4 million for the year ended 31 December 2005, an increase of U.S.$1.6 million, or 24.2 per cent., compared to U.S.$6.7 million for the year ended 31 December 2004.

Interest income

The following table sets forth the sources of the Bank's interest income for the years ended 31 December 2005 and 31 December 2004:

	Year ended 31 December	
	2005	2004
	(U.S.$ in thousands)	
Interest income		
Loans to customers		
– legal entities	33,734	22,157
– individuals	663	101
Securities	2,142	4,129
Due from other banks	6,488	3,911
Total interest income	**43,027**	**30,298**

Total interest income increased to U.S.$43.0 million for the year ended 31 December 2005, an increase of U.S.$12.7 million, or 42.0 per cent., compared to U.S.$30.3 million for the year ended 31 December 2004.

The increase in total interest income was principally due to the increase in interest income on loans to corporate customers, which was U.S.$33.7 million for the year ended 31 December 2005, an increase of U.S.$11.6 million, or 52.2 per cent., compared to U.S.$22.2 million for the year ended 31 December 2004. This increase was chiefly attributable to the growth in the Bank's corporate loan portfolio. Loans to individuals contributed U.S.$0.7 million of interest income for the year ended 31 December 2005, an increase of U.S.$0.6 million, or 556.4 per cent., compared to U.S.$0.1 million for the year ended 31 December 2004. Interest income on amounts due from other banks contributed U.S.$6.5 million of interest income for the year ended 31 December 2005, an increase of U.S.$2.6 million, or 65.9 per cent., compared to U.S.$3.9 million for the year ended 31 December 2004. This increase was principally due to the increased volume of lending to and amounts placed with other banks in the Ukrainian banking market. Interest income from securities held contributed U.S.$2.1 million of interest income for the year ended 31 December 2005, a decrease of U.S.$2.0 million, or 48.1 per cent., compared to U.S.$4.1 million for the year ended 31 December 2004. This was principally due to the Bank holding a reduced volume of interest-bearing securities during 2005 as compared to 2004.

Interest expense

The following table sets forth the sources of the Bank's interest expense for the years ended 31 December 2005 and 31 December 2004:

	Year ended 31 December	
	2005	2004
	(U.S.$ in thousands)	
Interest expense		
Individuals		
– term deposits	(6,084)	(4,459)
– current accounts	(410)	(341)
Legal entities		
– term deposits	(4,522)	(1,282)
– current accounts	(1,446)	(492)
Due to the National Bank of Ukraine and other banks	(3,365)	(2,394)
Other borrowed funds	(2,453)	(1,609)
Certificates of deposit issued	(646)	(75)
Total interest expense	**(18,926)**	**(10,652)**
Net interest income	**24,101**	**19,646**

Total interest expense was U.S.$18.9 million for the year ended 31 December 2005, an increase of U.S.$8.3 million, or 77.7 per cent., compared to U.S.$10.7 million for the year ended 31 December 2004.

Interest expense on term deposits from individuals was U.S.$6.1 million for the year ended 31 December 2005, an increase of U.S.$1.6 million, or 36.4 per cent., compared to U.S.$4.5 million for the year ended 31 December 2004. Interest expense on individuals' current accounts was U.S.$0.4 million for the year ended 31 December 2005, an increase of U.S.$0.1 million, or 20.2 per cent., compared to U.S.$0.3 million for the year ended 31 December 2004. Both these increases were principally due to the increased numbers of and volumes of deposits placed by the Bank's retail customers, although partially offset by reducing interest rates in Ukraine generally.

Interest expense on term deposits from corporate customers was U.S.$4.5 million for the year ended 31 December 2005, an increase of U.S.$3.2 million, or 252.7 per cent., compared to U.S.$1.3 million for the year ended 31 December 2004. Interest expense on corporate customers' current accounts was U.S.$1.4 million for the year ended 31 December 2005, an increase of U.S.$1.0 million, or 193.9 per cent., compared to U.S.$0.5 million for the year ended 31 December 2004. Both these increases were principally due to the increased numbers of the Bank's corporate customers, although partially offset by reducing interest rates in Ukraine generally.

Interest expense on amounts due to the National Bank of Ukraine and other banks was U.S.$3.4 million for the year ended 31 December 2005, an increase of U.S.$1.0 million, or 40.6 per cent., compared to U.S.$2.4 million for the year ended 31 December 2004. This increase was principally due to the increases in term deposits of domestic banks held with the Bank, although this was partially offset by reducing interest rates in Ukraine generally.

Interest expense on other borrowed funds was U.S.$2.5 million for the year ended 31 December 2005, an increase of U.S.$0.8 million, or 52.5 per cent., compared to U.S.$1.6 million for the year ended 31 December 2004. This increase was principally due to increased other borrowed funds, including a new loan facility from Cargill Financial Services International, Inc., and increased borrowings from Standard Bank. The weighted average cost of borrowed funds increased during the year ended 31 December 2005. This increase was due to the increase in international borrowings by the Bank, which are more expensive in terms of interest rates than funds borrowed domestically.

Net interest margin

The Bank's net interest margin (net interest income for the period divided by total average interest bearing assets, calculated as the average of total interest-bearing assets at the beginning and at the end of the period) for the year ended 31 December 2005 was 5.4 per cent., compared to 7.8 per cent. for the year ended 31 December 2004. This decrease was mainly due to the decline in the yield of interest-bearing assets as a result in a decrease on the average interest rates on securities held and loans to customers, together with an increase in the cost of interest-bearing liabilities as a result of a growth in average interest rates on customers' current accounts and term deposits.

Net fee and commission income

Net fee and commission income was U.S.$13.9 million for the year ended 31 December 2005, an increase of U.S.$2.3 million, or 20.0 per cent., compared to U.S.$11.6 million for the year ended 31 December 2004. This increase was principally due to an increase in fee and commission income to U.S.$18.0 million for the year ended 31 December 2005, an increase of U.S.$3.1 million, or 20.6 per cent., compared to U.S.$14.9 million for the year ended 31 December 2004, chiefly due to increased income from payment cards issued by the Bank. This increase was partially offset by an increase in fee and commission expense to U.S.$4.1 million for the year ended 31 December 2005, an increase of U.S.$0.8 million, or 22.6 per cent., compared to U.S.$3.3 million for the year ended 31 December 2004, chiefly due to increased expenses related to use of the Bank's payment cards with other banks by the Bank's customers.

Operating income

Operating income after provision for loan impairment was U.S.$35.3 million for the year ended 31 December 2005, an increase of U.S.$5.2 million, or 17.4 per cent., compared to U.S.$30.1 million for the year ended 31 December 2004.

Operating expenses

The following table sets forth a breakdown of the Bank's operating expenses for the years ended 31 December 2005 and 31 December 2004.

	Year ended 31 December	
	2005	2004
	(U.S.$ in thousands)	
Salary, employee benefits and compulsory contributions to the State funds	(10,492)	(9,041)
Depreciation and amortisation	(5,135)	(4,621)
Maintenance of premises and equipment	(2,953)	(2,202)
State duties and taxes, other than on income	(1,009)	(856)
Communication	(882)	(833)
Lease of premises	(787)	(640)
Advertising, entertainment, representative offices maintenance	(770)	(458)
Security services	(768)	(948)
Audit, legal, consulting services	(693)	(351)
Training	(272)	(311)
Charitable contributions	(99)	(135)
Other	(1,090)	(984)
Total operating expenses	**(24,950)**	**(21,380)**

Operating expenses were U.S.$25.0 million for the year ended 31 December 2005, an increase of U.S.$3.6 million, or 16.7 per cent., compared to U.S.$21.4 million for the year ended 31 December 2004. This increase was principally due to increases in salary, employee benefits and compulsory contributions to the State funds of U.S.$1.5 million, due to increases in the Bank's total numbers of employees from 1,377 as at 31 December 2004 to 1,478 as at 31 December 2005, increases in depreciation and amortisation of U.S.$0.5 million and increases in maintenance of premises and equipment of U.S.$0.8 million, both due to the increased property purchased by the Bank. Advertising, entertainment and representative office maintenance expenses also increased by U.S.$0.3 million. Much of the increase in the Bank's operating expense is attributable to the expansion of the Bank's operations.

Profit before taxation

The Bank made a profit before taxation of U.S.$10.4 million for the year ended 31 December 2005, an increase of U.S.$1.7 million, or 19.2 per cent., compared to U.S.$8.7 million for the year ended 31 December 2004.

Income tax expense

The Bank's income tax expense was U.S.$2.0 million for the year ended 31 December 2005, an increase of U.S.$0.05 million, or 2.3 per cent., compared to U.S.$2.0 million for the year ended 31 December 2004. This increase was principally due the increase in the Bank's current tax charge following the increases in operating income and profit for the period, offset by the tax effect of a restatement of prior year balances. See "Presentation of Financial Information – Restatement of Previously Reported Balances".

Balance sheet as at 31 December 2005 and 31 December 2004

	Year ended 31 December	
	2005	2004
	(U.S.$ in thousands)	
Cash on hand and in transit	16,105	19,564
Balances with the National Bank of Ukraine	41,555	10,035
Securities at fair value through profit or loss	16,102	10,930
Due from other banks	211,532	106,976
Loans to customers	360,213	183,500
Investment securities available for sale	1,028	7,290
Investment securities held to maturity	549	1,680
Other assets	3,245	2,089
Fixed assets	49,003	46,470
Investment property	2,311	2,442
Intangible assets	3,190	3,776
Non-current assets held for sale	725	–
Total assets	705,558	394,752
Liabilities		
Due to the National Bank of Ukraine	547	5,069
Due to other banks	111,770	59,944
Customer accounts	380,529	191,866
Certificates of deposit issued	3,196	657
Other borrowed funds	105,792	44,290
Other liabilities	3,982	4,157
Deferred tax liability	4,359	4,758
Current income tax liability	508	336
Total liabilities	610,683	311,077
Equity		
Share capital	30,864	29,378
Share premium	11,247	10,706
Revaluation reserve for fixed assets	15,511	10,469
Retained earnings	37,253	33,122
Total equity	94,875	83,675
Total liabilities and equity	705,558	394,752

During 2005 the Bank corrected an error which related to prior periods. The impact of the prior period error was reflected in the 2005 financial statements, contrary to International Accounting Standard 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (IAS 8), which requires an entity to correct material prior period errors retrospectively by restating the opening balances of assets, liabilities and equity for the earliest prior period presented. The impact on the financial statements of the non-compliance with IAS 8 is as follows: the revaluation reserve in respect of fixed assets as at 1 January 2004 is understated by U.S.$4.9 million, retained earnings as at 1 January 2004 is overstated by the same amount; the equity statement movement in revaluation reserve for 2004 is overstated by U.S.$0.3 million and profit for the year ending 31 December 2004 is understated by the same amount; the balance of fixed assets revaluation reserve as at 31 December 2004 is understated by U.S.$4.6 million and retained earnings balance as at 31 December 2004 is overstated by the same amount. There is no impact on the components of equity or net assets as at 31 December 2005, however the Bank posted the deferred tax effect through current year income statement, which resulted in an overstatement of net profit for the year ended 31 December 2005 by U.S.$1.5 million.

During the 9 months ended 30 September 2006 the Bank reconsidered the above approach and corrected the balances of revaluation reserve and retained earning as at 1 January 2005. As a result of this correction, the balance of revaluation reserve was increased by U.S.$4.6 million, net of tax effect of U.S.$1.5 million, and retained earnings as at 1 January 2005 were reduced by the same amount; in addition, previously reported profit for 2005 was reduced by U.S.$1.5 million. See "Presentation of Financial Information – Restatement of Previously Reported Balances".

As at 31 December 2005, the Bank's total assets amounted to U.S.$705.6 million, an increase of U.S.$310.8 million, or 78.7 per cent., compared to U.S.$394.8 million as at 31 December 2004. This increase was principally attributable to increases in the Bank's loan portfolio, amounts due from other banks and balances with the NBU. The increase in the Bank's total assets from 31 December 2004 to 31 December 2005 of 78.7 per cent. was greater than the increase for the Ukrainian banking sector as a whole for the same period, which was reported by the NBU to be 57.6 per cent.

Cash on hand and in transit

As at 31 December 2005, the Bank held U.S.$16.1 million in cash on hand and in transit, a decrease of U.S.$3.5 million, or 17.7 per cent., compared to U.S.$19.6 million as at 31 December 2004.

Balances with the National Bank of Ukraine

As at 31 December 2005, the Bank's balances with the NBU were U.S.$41.6 million, an increase of U.S.$31.5 million, or 314.1 per cent., compared to U.S.$10.0 million as at 31 December 2004. This increase was due to the NBU increasing the requirement for the balance maintained on account with the NBU to 90 per cent of the mandatory reserves balance for the preceding months as at 31 December 2005, compared to 60 per cent. as at 31 December 2004.

Securities at fair value through profit or loss

As at 31 December 2005, the Bank held U.S.$16.1 million of securities at fair value through profit or loss, an increase of U.S.$5.2 million, or 47.3 per cent., compared to U.S.$10.9 million as at 31 December 2004. This increase was due to purchases of corporate loan bonds as part of the Bank's strategy to diversify its interest-bearing assets.

Due from other banks

As at 31 December 2005, the Bank had U.S.$211.5 million due from other banks, an increase of U.S.$104.6 million, or 97.7 per cent., compared to U.S.$107.0 million as at 31 December 2004. This increase was due to the Bank placing excess funds in the interbank market on a short term basis. See "Presentation of Financial Information – Restatement of Previously Reported Balances".

Loans to customers

As at 31 December 2005, the Bank had U.S.$360.2 million in loans to customers, an increase of U.S.$176.7 million, or 96.3 per cent., compared to U.S.$183.5 million as at 31 December 2004. These increases were primarily due to an increase in gross loans to trade and agency services customers of U.S.$31.5 million, an increase in gross loans to food industry and agriculture customers of U.S.$40.5 million, an increase in loans to machine building customers of U.S.$23.4 million, an increase in loans to chemical customers of U.S.$31.2 million and an increase in loans to metallurgy customers of U.S.$22.9 million, all reflecting the growth of the Bank's corporate customer base. Loans to others increased by U.S.$23.2 million.

Investment securities available for sale

As at 31 December 2005, the Bank had U.S.$1.0 million in investment securities available for sale, a decrease of U.S.$6.3 million, compared to U.S.$7.3 million as at 31 December 2004. This decrease was due to the Bank's disposals of Ukrainian Government debt securities and of corporate shares during the year ended 31 December 2005 and a transfer of corporate shares to non-current assets held for sale.

Total liabilities

The Bank's total liabilities as at 31 December 2005 were U.S.$610.7 million, an increase of U.S.$299.6 million, or 96.3 per cent., compared to U.S.$311.1 million as at 31 December 2004. This increase was principally attributable to increases in amounts due to other banks, amounts held in customer accounts and increases in other borrowed funds, reflecting the growth in the Bank's activities.

Due to other Banks

As at 31 December 2005, the Bank had U.S.$111.8 million due to other banks, an increase of U.S.$51.8 million, or 86.5 per cent., compared to U.S.$59.9 million as at 31 December 2004. This increase was due to the growth of the Bank's arbitrage operations and currency swaps with other Ukrainian banks. See "Presentation of Financial Information – Restatement of Previously Reported Balances".

Customer accounts

As at 31 December 2005, the Bank had U.S.$380.5 million of customer accounts, an increase of U.S.$188.7 million, or 98.3 per cent., compared to U.S.$191.9 million as at 31 December 2004. This increase was principally due to increases in corporate customers' current accounts of U.S.$55.4 million, increases in corporate customers' term deposits of U.S.$79.4 million, increases in individual's (retail customers) current accounts of U.S.$22.8 million and increases in term deposits from individuals of U.S.$31.1 million. These increases were reflective of the growth of the Bank's customer base, in particular the increased volume and range of products offered to individual customers.

Other borrowed funds

As at 31 December 2005, the Bank had U.S.$105.8 million in other borrowed funds, an increase of U.S.$61.5 million, or 138.9 per cent., compared to U.S.$44.3 million as at 31 December 2004. This increase was principally due to a new loan facility of U.S.$40.9 million from Cargill Financial Services International Inc., and increased borrowing of U.S.$19.5 million under a loan facility from Standard Bank Plc. The Bank borrows from international institutions in order to provide longer-term funding when compared to funding available to the Bank on the domestic borrowing markets.

Other liabilities and current income tax liability

The Bank's other liabilities and current income tax liability amounted to U.S.$4.5 million as at 31 December 2005, as compared to U.S.$4.5 million as at 31 December 2004. Decreases in software costs payable and provision of credit related commitments were offset by increases in current income tax liability, amounts payable under operations with plastic cards add other accruals and deferred income.

Total Equity

Total equity was U.S.$94.9 million as at 31 December 2005, an increase of U.S.$11.2 million, or 13.4 per cent., compared to U.S.$83.7 million as at 31 December 2004. This increase was principally due to the increase in the Bank's revaluation reserve for fixed assets of U.S.$5.0 million. Retained earnings of the Bank also increased to U.S.$37.3 million as at 31 December 2005, an increase of U.S.$4.1 million, or 12.5 per cent., compared to U.S.$33.1 million as at 31 December 2004. See "Presentation of Financial Information – Restatement of Previously Reported Balances".

Description of the Bank's Business

Overview

The Bank is a commercial bank with its registered office in Donetsk. The Bank has split its head office functions between the cities of Donetsk (the industrial centre of south-eastern Ukraine) and Kyiv, the capital of Ukraine. The Bank offers a range of banking services to corporate and retail customers through a network of branches and smaller outlets. As at 31 December 2006, this network comprised of 11 branches and 52 smaller outlets throughout Ukraine. As at 31 December 2006, Mr. Rinat Akhmetov beneficially owned approximately 90.1 per cent. of the Bank's outstanding share capital (see "*Principal Shareholders*").

According to official statistics of the National Bank of Ukraine (the "**NBU**") (as calculated under Ukrainian Accounting Standards and based on statutory reporting requirements), as of 1 December 2006, the Bank was the 15th largest bank in Ukraine in terms of total assets, the 15th largest bank in Ukraine in terms of loans to customers, the 13th largest in terms of corporate deposits and current accounts and after an injection by the Bank's shareholders in the amount of U.S.$60 million, the Bank was the 11th largest bank in Ukraine in terms of total capital.

As at 30 September 2006, the Bank's total assets were U.S.$945.4 million. As at 31 December 2005 the Bank's total assets were U.S.$705.6 million, an increase of 78.7 per cent. as compared to total assets of U.S.$394.8 million as at 31 December 2004. This growth rate of the Bank's total assets in 2005 compared favourably to that of the Ukrainian banking sector as a whole for the year ended 31 December 2005, which was reported by the NBU to be 57.6 per cent.

For the nine months ended 30 September 2006, the Bank made a net profit of U.S.$8.4 million, compared to U.S.$4.7 million for the nine months ended 30 September 2005, an increase of 79.6 per cent. For the year ended 31 December 2005, the Bank made a net profit of U.S.$8.4 million, compared to U.S.$6.7 million for the year ended 31 December 2004.

The Bank's principal activities are corporate, retail and investment banking and treasury services.

Corporate banking has traditionally been the main focus of the Bank's business, representing 91.1 per cent. and 96.3 per cent. of the Bank's gross loan portfolio as at 30 September 2006 and 31 December 2005, respectively and 62.5 per cent. and 65.3 per cent. of the Bank's deposit base (current accounts and term deposits) as at 30 September 2006 and 31 December 2005, respectively.

The Bank's corporate banking business includes corporate lending, deposit taking, trade finance (including the issuance of letters of credit and bank guarantees), arrangement and underwriting services for corporate bond issues, and the provision of pay-roll services. For corporate lending and trade finance purposes the Bank uses funds provided to it by international financial institutions including, among others, Fortis Bank, UBS AG, Credit Suisse International, The Bank of New York, Deutsche Bank, ING Bank, Standard Bank Plc, HSBC Bank Plc, Cargill Financial Services International, Inc., the Black Sea Trade and Development Bank (the "**BSTDB**"), and funds borrowed from the syndicated loan markets. The Bank plans to continue the focus of its corporate business on large corporate entities, and to enter the small and medium-sized enterprise ("**SME**") market.

The retail business of the Bank is focused on high net worth individuals and professionals and their families, and is expanding to focus on middle-sized retail customers, including managers and employees of the Bank's corporate customers ("**Middle-sized Customers**"). The Bank offers a range of products and services to such customers including deposit taking, payment card products, consumer loans, car loans, mortgages, and precious metals operations. The Bank also offers banking services to its mass retail clients attracted mostly through pay-roll projects with its corporate clients. The range of services to mass retail clients comprises maintaining customer accounts, overdrafts on payment cards, cash settlement transactions and money transfers. The Bank does not currently issue credit cards, although it is currently developing its credit card products with a view to re-launching the issuance of credit cards by the end of April 2007.

The Bank is a principal member of both the Visa International and the MasterCard payment systems and had issued over 617,000 cards as at 31 December 2006.

The Bank's treasury business consists primarily of trading in securities, custody services, foreign exchange ("**FX**") operations, and interbank market activities (including FX operations and granting and accepting interbank loans and deposits). The majority of the Bank's FX transactions are spot deals on behalf of customers to sell foreign currency (mostly U.S. Dollars) and purchase Ukrainian hryvnia. For the year ended 31 December 2005, the Bank was ranked second (in terms of volume of trades) among participants of the Ukrainian First Securities Trading System (the "**PFTS**"), a Kyiv based stock exchange.

On 21 November 2006, Fitch Ratings, Ltd. ("**Fitch**") confirmed the Bank's long-term foreign currency rating of B- with a stable outlook, a short-term foreign currency rating of B, a support rating of 5 and an individual rating of D. On 24 January 2007, Moody's Investors Service ("**Moody's**") assigned to the Bank a long-term local currency deposit rating of B2, a short-term local currency rating of NP, a bank financial strength rating of E+ and a long-term national scale rating of A1.ua with a stable outlook.

History

The Bank was founded as a close joint stock company under the laws of Ukraine on 20 November 1991 and commenced its operations in April 1992. The Bank was registered with the NBU on 23 December 1991 under registration number 73 and its current banking license (Number 8) was reissued in October 2006.

The Bank was the first Ukrainian bank with a share of its capital held by a foreign shareholder. The Bank was established by the following founding shareholders: O.F. Zasyadko Coal mine, "Azovstal" Iron and Steel Works, Azov Sea State Steamship Company, "AIOC" Corporation, and regional administration of "Prominvestbank". Bank Mees & Hope N.V., became a shareholder in 1992, acquiring 20 per cent. of the Bank's shares.

In 1999 each of Deutsche Investitions-und Entwicklungsgesellschaft mbH ("**DEG**"), the European Bank for Reconstruction and Development (the "**EBRD**") and International Finance Corporation ("**IFC**") acquired 10 per cent. of the Bank's share capital. In 2000 Fortis Bank became a shareholder of 20 per cent. of the Bank's shares, as legal successor of Bank Mees & Hope N.V.

In February 2005 SCM FINANCE, Ltd. ("**SCM Finance**"), wholly owned finance subsidiary of the System Capital Management Group (the "**SCM Group**"), signed a share purchase agreement with Fortis Bank (Netherlands) N.V. (to purchase 20 per cent. of the Bank's share capital), the EBRD (to purchase 10 per cent. of the Bank's capital), DEG (to purchase 10 per cent. of the Bank's capital) and IFC (to purchase 10 per cent. of the Bank's capital), thus acquiring 50 per cent. of the share capital of the Bank.

In August 2006, SCM Finance acquired 49 per cent. of the Bank's share capital from the Bank's other major shareholder, CJSC "Azovstal" Trade house.

As at 31 December 2006, SCM FINANCE held 99 per cent. of the issued share capital of the Bank. Currently, approximately 90.1 per cent. of the Bank's share capital is beneficially owned by Mr. Rinat Akhmetov through his 90 per cent. shareholding in SCM Group (see "*Principal Shareholders*").

In 1995 the Bank began its cooperation with the EBRD and in 1996 the Bank began its cooperation with Deutsche Investitions-und Entwicklungsgesellschaft MbH ("**DEG**") to increase its corporate lending business by extending loans to large corporate clients. The Bank became one of the first Ukrainian banks to obtain funding from international financial institutions without Government guarantees.

In 1999 each of DEG, the EBRD and the IFC acquired 10 per cent. of the Bank's share capital, and in 2000 Fortis Bank acquired Mees Pierson and became its successor holding 20 per cent. of the Bank's share capital. These international financial institutions implemented western banking practices including systems of reporting, risk management and implementing a transparent management structure. Foreign shareholders, in particular Fortis Bank, have contributed significantly to developing the Bank's systems of credit risk management, improving operating procedures and improving IT systems. The Bank was also one of the first

Ukrainian banks to institute IFRS financial reporting and one of the first to obtain a credit rating from an international credit rating agency.

The Bank has been a member of the Society for Worldwide Interbank Financial Telecommunication (SWIFT) since 1993. In addition, in 2001 the Bank joined the PFTS. The Bank has been a member of, amongst others, the Association of Ukrainian Banks, Ukrainian Interbank Payment Systems Member Association (known as "EMA"), "Ukrainian Credit-Banking Union" Association, Interregional Stock Exchange Union and the Ukrainian Interbank Currency Exchange since June 1993, March 1999, February 2002, October 1996 and December 1992, respectively.

The Bank joined the MasterCard Worldwide payment system in 1993 as a "principal member" and started offering MasterCard payment cards to its customers. The Bank has been a "principal member" of the Visa International payment system since 1996. In 1998 the Bank established its card processing centre allowing it to service its own credit and debit cards transactions and provide such services to other Ukrainian banks. As at 1 January 2007 the Bank's card processing centre served 28 Ukrainian banks.

In 1995 the Bank installed Midas software (a product of Misys IBS Ltd., United Kingdom) as its core banking software.

In 2004 the Bank established a back-up centre separated from its main computer communication network centre, ensuring back-up of all systems of the Bank in case of any error or unforeseen circumstance.

In June 2006, the shareholders of the Bank voted to increase the Bank's capital by UAH 303,002,000 (approximately U.S.$60 million) through the issuance of additional shares. The corresponding changes to the Bank's Charter were approved by the General Meeting of Shareholders of the Bank on 15 August 2006 and were registered by the NBU on 14 September 2006, and the shares of the additional issuance have been paid in full by shareholders. On 22 December 2006, the Bank's shareholders voted to further increase the Bank's capital by an additional U.S.$85 million during the first half of 2007.

As at 29 of November 2006 Commerzbank AG awarded the Bank as the bank with the highest Rate of "Straight Through Processing" among the Banks of CIS countries. "Straight Through Processing" refers to the ability to settle transactions electronically, without re-keying or manual intervention at any of the stages, which helps to avoid operational and settlement risk. The Bank utilises Straight Through Processing in the settlement of payments and equity trading transactions. During the period from January to October of 2006 the Straight Through Processing Rate of the Bank was 98.4 per cent. The quality of the Bank's clearing services was also noted by The Bank of New York (at the level of 99.5 per cent.) and Deutsche Bank Trust Company Americas (at the level of 99.7 per cent.) in 2005.

In July 2005 the Bank's management took the decision to actively pursue the growth of its retail business, which it believes to be a key segment for growth in the Ukrainian banking sector. In order to achieve this, the Bank's management took the decision to expand the Bank's distribution network. See "- Strategy".

Licenses

As a Ukrainian bank, the Bank is regulated and supervised by the NBU.

The Bank was registered with the NBU on 23 December 1991 and its current banking license was reissued on 2 October 2006. The Bank is entitled to conduct various types of banking operations provided for under applicable Ukrainian legislation and specified in the written permit issued by the NBU renewed on 2 October 2006. In particular, the Bank may:

- attract and place foreign currency in Ukraine and abroad;
- open and operate current and deposit accounts for clients and correspondent banks;
- conduct foreign exchange and money market operations;
- sell and purchase securities both for its own account and on behalf of its clients;
- provide guarantees;

- carry out factoring and leasing operations;
- issue and settle cheques, bills of exchange and other payment instruments;
- issue bank cards; and
- provide asset management services.

The Bank holds a license to conduct professional securities market operations (including activities related to the issuance and trading of securities in the securities markets and the provision of custodial services) issued by the Securities and Stock Market State Commission (the "SSMSC"). This renewable licence will expire on 20 October 2009.

Strategy

The Bank's strategic objective is to maintain and strengthen its position in the corporate business and to enter the SME market, as well as to focus on high net worth and professional individual clients and Middle-sized Customers. In July 2005 the Supervisory Board approved a "Business Development Strategy" for 2006 to 2010. The Bank's strategy for the next five years includes the following key components:

To grow its Corporate Banking business

The Bank plans to develop and grow its corporate banking business by continuing to focus on large and medium sized corporate customers in the main sectors of the Ukrainian economy such as machine building, metallurgy, trade, transport, energy generation and mining industries, as well as on growth industries such as chemical, food production and agriculture. However, the Bank will also seek to maintain a broad diversity of corporate customers in terms of both geographical and industry concentration to attain more stable funding. The Bank will seek to grow its corporate customer base by continuing to develop and broaden the product range offered to corporate customers, in particular by offering its corporate customers individually tailored lending products and by effective implementation of cross-selling techniques. In addition, the Bank plans to launch lending products for SMEs to facilitate its entry into this segment of the market. The Bank also intends to further develop its advanced credit products (including syndicated loans, structured finance and international trade finance) in cooperation with international banks and financial institutions.

To grow its Retail Banking business

The Bank intends to increase its share of the retail banking market in Ukraine. The Bank has already increased the proportion of its retail loan portfolio from 3.7 per cent. of total gross loans to customers as at 31 December 2005 to 8.9 per cent. as at 30 September 2006, and is targeting growth of its retail loan portfolio to a maximum of 29 per cent. of its total gross loan portfolio by the end of 2010.

The Bank will seek to attract new high net worth and professional retail customers by offering a wide range of banking products from its expanded distribution network, and by developing various partnership and loyalty programmes for those customers. In particular, the Bank plans to widen the range of its retail banking products with residential mortgage loans, credit cards and consumer loans. The Bank also intends to make its car loans more flexible in terms of maturity, fees and repayment schedule. In addition, the Bank plans to introduce personal banking services which would allow the Bank's VIP customers access to the Bank's services at any time.

The Bank will also focus on providing services to high net worth and professional retail clients and Mid-Level Customers, and their family members by using alternative sales channels for retail banking products through its customer support services such as its call centre, telephone banking, internet banking and other client relationship management ("**CRM**") technologies (see "*Description of the Bank's Business – Banking Activities – Retail Banking - Alternative sales channels*"). The Bank has also put its call centre into operation to ensure clients' access to the Bank's services 24 hours a day, seven days a week, and implement a mobile offices project.

In addition, the Bank is targeting growth of retail deposits to a targeted maximum of approximately 56 per cent. of its total deposits by the end of 2010.

To widen existing and create new distribution channels

The Bank is pursuing the growth of its customer base and its loan and deposit portfolios by expanding its network in the most economically developed and heavily populated regions of Ukraine. The Bank plans to expand its distribution network to 140 branches and outlets by the end of 2010, including 13 branches and 127 smaller outlets. Additional branches will be targeted at both corporate and retail banking customers and smaller outlets will be mostly targeted at retail banking customers. The Bank intends to focus heavily on training the staff it recruits for these new branches and outlets in order to provide a consistently high standard of customer service. See "Description of the Bank's Business – Distribution Network".

The Bank also intends to significantly increase its network of automated teller machines ("**ATM**") and expand its participation in its partners' ATMs network to cover all regions of Ukraine with a specific focus on economically developed and heavily populated regions. In particular, the Bank increased the number of installed ATMs to 280 by the end of 2006, and plans to further increase this to 438 ATMs by the end of 2010. In addition, the Bank will seek to increase its ATM capacity to provide the full range of services available through ATMs.

The Bank plans to expand its GSM (telephone)-Banking and Internet Banking services to make a variety of banking products available on-line, including effecting payments and money transfers. The Bank's Management plans to increase the Bank's cooperation with strategic partners (for example mobile communication operators) to use their points of sale for acquiring new clients and offering certain banking products.

To promote brand image and product lines

The Bank is implementing a network-wide corporate branding strategy in order to broaden public awareness of the Bank. The Bank is actively promoting its brand and product lines via intensive marketing to existing and new customers, including through the targeted use of printed and broadcast media advertising. The Bank will also seek to enhance its profile by using alternative advertising media such as e-marketing and web advertising. The Bank's corporate branding strategy is also used to give its branches a consistent corporate style, thereby enhancing the Bank's corporate image. Additionally, the Bank plans to continue its sponsorship initiatives in Ukraine and to extend the variety of its charities and community projects that it supports.

Market position and competition

As at 1 December 2006, there were 191 commercial banks registered in Ukraine, 167 of which were licensed by the NBU to perform banking transactions. Commercial banks operating in Ukraine are divided by the NBU into four groups according to the size of their assets as at 1 December 2006. Fifteen major banks with total assets of more than UAH 5 billion were classified in the first group: Privatbank, Bank AVAL (currently known as Raiffeisenbank Aval), Prominvestbank, Ukrsotsbank, UkrSibbank (currently known as UkrSibbank BNP PARIBAS Group), Ukreximbank, OschadBank, Raiffeisenbank Ukraina (currently known as OTP Bank), Nadra, Finance and Credit, Brokbusinessbank, Ukrprombank, Kreditprom, Bank Forum and the Bank. According to NBU classifications as at 1 December 2006, the Bank is included in this first group. The second group consists of 19 banks, with total assets from UAH 2 billion to UAH 4.9 billion. The third group consists of 25 banks with total assets from UAH 0.7 billion to UAH 1.9 billion, and the fourth group consists of 108 banks with total assets of less than UAH 0.7 billion. The NBU reviews the classification of banks by groups once a year. As at 31 December 2006, the minimum regulatory capital requirement for a national bank (being a bank which may operate throughout Ukraine), a regional bank and a cooperative bank that existed before 1 January 2002 was €8.0 million, €5 million and €1.5 million, respectively. The two largest banks in Ukraine, Ukreximbank and Oschadbank, are state-owned. See "Appendix A – Ukraine: The Banking Sector – Competition".

Although the Bank believes it is well placed to compete in the Ukrainian banking sector, being as of 31 December 2006 the 15th largest bank of the first group of banks as determined by the NBU (as calculated under Ukrainian Accounting Standards and based on statutory reporting requirements) in terms of total assets, the 15th largest bank in Ukraine in terms of loans to customers, the 13th largest in terms of corporate deposits and current accounts, and the 11th largest bank in Ukraine in terms of total capital), the Bank faces competition from a number of existing participants in the banking sector in Ukraine. The Bank generally considers the 20 other largest banks in Ukraine as its principal competitors, of which the Bank considers UkrSibbank, Ukreximbank, Raiffeisenbank Aval, Ukrsotsbank, Nadra, PrivatBank and OTP Bank to be its main competitors.

As at 1 December 2006, 32 Banks in Ukraine had direct foreign capital, including 11 banks that were wholly owned by foreign investors.

Management believes that the Bank's principal competitive strengths are:

- *Highly qualified management team*

  The Bank has a strong and stable management team with an established track record in the Ukrainian banking sector which has managed the Bank's recent growth. The Bank is also able to draw on the international banking and finance expertise of members of the Bank's Supervisory Board and the management team of SCM Finance.

- *International experience of foreign shareholders*

  Previous foreign shareholders during the 14 years of their ownership of the Bank have implemented high standards of conducting banking business, including internationally tested risk management procedures, operations management processes and a transparent management structure.

- *Strong shareholder support*

  The Bank's majority shareholder is SCM Finance, a wholly owned subsidiary of the SCM Group, which is a large industrial and financial group, with total assets as at 31 December 2005 of approximately U.S.$7.2 billion with its four core activities in the areas of metals and mining, finance, energy generation and telecommunications, together with several other non-core businesses. The SCM Group has confirmed its intention to further develop and strengthen the Bank's operations in the Ukrainian market. In particular, according to the Business Development Strategy, the SCM Group will increase the Bank's capital by up to an additional U.S.$402 million during the period from 2006 to 2010. In line with this strategy the SCM Group has already made the first increase of the Bank's capital by U.S.$60 million, effective as of October 2006 and has further approved on 22 December 2006 an additional issue of capital in the amount of U.S.$85 million. The Bank currently has sufficient regulatory capital to allow development of its lending portfolio and the Bank's Management believes that due to the strong financial support of the Bank's majority shareholder the Bank will be able to continue extension of its lending portfolio and expansion of its presence throughout Ukraine.

- *Diversified funding base*

  The Bank has a diversified funding structure, which includes customer deposits, loans and credit lines from international banks and financial institutions, and equity funding. The Bank cooperates with a number of international financial institutions including, among others, Fortis Bank, UBS AG, Credit Suisse International, The Bank of New York, Deutsche Bank, HSBC Bank plc, ING Bank, UniCredit Group, Standard Bank, BSTDB and Cargill Financial Services. This cooperation enables the Bank to access international funds which are often longer term than those generally available to Ukrainian banks.

- *Focus on corporate banking services*

  The Bank has traditionally been focused on the corporate banking sector. The Bank's focus on lending to large corporate entities in Ukraine allows it to maintain a lower risk loan portfolio. The Bank intends to continue to strengthen its relationships with large corporate customers. The Bank also intends to diversify its corporate loan portfolio by focusing on medium sized corporate lending and on SME lending.

- *New Branding*

  The Bank has undertaken a branding exercise whereby it markets itself to its customers as a "comfortable bank". The Bank believes that its current and prospective customers perceive the Bank as a secure and reliable banking services provider, and the Bank seeks to build partnerships with customers.

- *Leading operator in the stock market*

  The Bank is among the most active stock exchange participants in the Ukrainian market. In 2005, the Bank ranked second (in terms of trade volume) among the participants of the Ukrainian First Securities Trading System (PFTS).

- *Credit Approval Process*

  The Bank has an established and tested credit approval process, based on western banking practices, which the Bank's management believes to be faster and more efficient than many of its competitors.

- *Clear strategy for the next five years*

  The Bank intends to build on the success it has achieved by utilising the credit and control procedures developed with the assistance of Fortis Bank and the EBRD to grow its business. The long-term interest of the SCM Group in the Ukrainian financial sector, and its involvement in the Ukrainian Industrial Sector, provides the Bank with an excellent opportunity to expand its business operations. In this respect, the Bank developed the Business Development Strategy. This strategy will leverage current strengths in the corporate business and quickly build up retail business, which Management believes to be a key growth driver in the Ukrainian banking market. The Bank plans to expand its strong positions, further diversify and manage the risks associated with growth in retail and SME lending in view of the increasingly competitive operating environment.

BANKING ACTIVITIES

Overview

The Bank's main business activities are corporate banking, retail and investment banking and treasury services. Corporate banking currently accounts for the largest proportion of the Bank's loans and deposits. The Bank is currently focusing on increasing the volume of loans extended to and deposits placed by retail customers in its loan and deposit portfolios.

As at 30 September 2006, the Bank had outstanding U.S.$572.4 million in loans to customers, net of allowance for impairment losses, U.S.$257.8 million in customers' current accounts and U.S.$207.8 million in deposits from customers. As at 31 December 2005, the Bank had outstanding U.S.$360.2 million in loans and advances to customers, net of allowance for impairment losses, U.S.$159.9 million in customers' current accounts and U.S.$220.6 million in deposits from customers.

Corporate Banking

Corporate banking has historically been the Bank's strength and is the Bank's largest business segment, representing 91.1 per cent. of the Bank's gross loan portfolio, 74.2 per cent. of the Bank's customers' current accounts and 48.0 per cent. of the Bank's deposit base as at 30 September 2006, compared to 96.3 per cent. of the gross loan portfolio, 68.7 per cent. of the Bank's customers' current accounts and 62.9 per cent. of the Bank's deposit base as at 31 December 2005. Corporate banking includes lending, deposit taking, opening and maintaining current accounts, trade finance, cash settlement transactions, and the provision of payroll services.

The Bank has also developed a range of advanced credit products, such as syndicated loans and trade finance.

The Bank services its corporate customers through branches which cover 10 regions of Ukraine (including Donetsk, Luhansk, Kyiv, Zaporizhzhia, Dnipropetrovsk, Kharkiv, Simferopol, Mykolayiv, Odesa and Lviv) and through other outlets (see "*Description of the Bank's Business - Distribution Network*").

Corporate lending

Corporate lending activities include the provision of loan facilities, overdraft facilities, loans to finance working capital (including purchase of property, plant and equipment), revolving credit facilities and standby facilities. Corporate lending represented 91.1 per cent. of the Bank's total gross loan portfolio or U.S.$541.2 million, as at 30 September 2006. As at 30 September 2006, the largest concentration of the Bank's corporate loans are in the trade and agency services (29.8 per cent. of the Bank's total gross loan portfolio), food industry and agriculture (24.5 per cent.), metallurgy (10.1 per cent.), machine-building (9.4 per cent.) and chemicals (5.2 per cent.) sectors of the economy.

The Bank has strong relationship with large corporate entities. The Bank classifies corporate customers with sales in excess of U.S.$20 million as "large", corporate customers with sales in excess of U.S.$2 million but less than U.S.$20 million as "medium" and corporate customers with sales of less than $2 million as "small". The top 20 aggregate loan exposures of the Bank represent 39.9 per cent. of the Bank's loan portfolio, or U.S.$236.8 million as at 30 September 2006, compared to 51.2 per cent. as at 31 December 2005 and 63.4 per cent. as at 31 December 2004. At the same time, the Bank is cautious to avoid concentration on a single borrower or group of borrowers. Under NBU regulations, a bank's largest single non-cash covered loan exposure to a single borrower or group of borrowers must not exceed 25 per cent. of a bank's regulatory capital. As at 30 September 2006, the Bank's largest single non-cash covered loan exposure to a single borrower amounted to U.S.$20 million, or 19.7 per cent. of the Bank's regulatory capital (as calculated in accordance with NBU methodology). The Bank intends to target the medium sized corporate and SME lending markets in order to diversify its loan portfolio and further reduce lending concentration.

The following table sets out an analysis by economic sector of the Bank's gross loan portfolio (excluding retail customers) as at 30 September 2006 and 31 December 2005:

Loans by economic sector	**30 September 2006**	**31 December 2005**
	(U.S.$ thousands) (unaudited)	*(U.S.$ thousands)*
Trade and agency services	176,932	68,004
Food industry and agriculture	145,810	80,828
Metallurgy	60,197	54,555
Machine-building	55,599	60,301
Chemical industry	30,869	35,408
Mining	22,729	13,868
Transport, communication and infrastructure	10,320	19,502
Other	38,703	27,875
Total loans to customers (gross), excluding loans to individuals	541,159	360,341

The following table sets out analysis by currency of the Bank's loan portfolio as at 30 September 2006 and 31 December 2005:

	30 September 2006 *(unaudited)*					31 December 2005				
	UAH	USD	EUR	Other	Total	UAH	USD	EUR	Other	Total
					(U.S.$ thousands)					
Loans to customers less allowance for impairment losses	226,095	318,000	28,256	–	572,351	115,711	228,657	15,500	345	360,213

Deposit taking

Corporate deposits accounted for 62.5 per cent. of the Bank's deposit base (current accounts and term deposits) as at 30 September 2006. The Bank's top 10 corporate depositors accounted for 41.6 per cent. of the Bank's deposit base as at 30 September 2006. These top 10 deposits were in the metallurgy, mining and energy, trade and agency services, non-banking financial institutions and chemical industry sectors of the economy as at 30 September 2006. The corporate deposit base increased by U.S.$42.5 million or by 17.1 per cent., from U.S.$248.6 million as at 31 December 2005 to U.S.$291.1 million as at 30 September 2006.

The following table sets out analysis by sector of the Bank's corporate deposit base (excluding retail customers):

Deposit base by economic sector	**30 September 2006**	**31 December 2005**
	(USD thousands) (unaudited)	*(USD thousands)*
Metallurgy	70,339	56,449
Mining and energy	54,663	6,119
Chemical industry	43,860	37,127
Non-banking financial institutions	32,520	37,569
Trade and agency services	30,649	43,598
Transport and infrastructure	12,078	13,729
Machine-building	11,693	21,571
Agriculture and food	5,139	5,063
Non-commercial institutions	1,360	1,384
Other	28,750	25,960
Total customer accounts (excluding individuals)	**291,051**	**248,569**

The following table sets out analysis by currency of the Bank's deposit portfolio (including retail customers) as at 30 September 2006 and 31 December 2005:

	30 September 2006 *(unaudited)*					31 December 2005				
	UAH	USD	EUR	Other	Total	UAH	USD	EUR	Other	Total
					(U.S.$ thousands)					
Customer accounts	151,383	275,401	35,483	3,297	465,564	174,323	183,748	19,136	3,322	380,529

Trade finance

As a part of its corporate business, the Bank provides its customers with a full range of trade finance services. The Bank implemented and continues to develop a wide range of trade finance products and applies a variety of schemes for supporting the export-import businesses of its clients. The Bank issues documentary and stand-by letters of credit and bank guarantees, provides post-import and pre-export financing and related consultancy services and assistance.

The Bank funds its trade financing activities under schemes implemented with the participation of major banks and international financing companies including UBS AG, Fortis Bank, Credit Suisse AG, The Bank of New York, Deutsche Bank, BNP Paribas, NLB Interfinanz Ag, SMBC and others. The terms of financing vary from 3 months to 5 years with amounts from U.S.$50,000 to U.S.$10 million. The Bank estimates that the overall volume of trade finance services carried out by the Bank in 2006 exceeded U.S.$400 million.

Management of the Bank estimates that income from the Bank's trade finance activities to be approximately U.S.$2.8 million for the nine months ended 30 September 2006, compared to approximately U.S.$2.0 million for the nine months ended 30 September 2005.

Other corporate services

In addition to the main corporate banking services described above, the Bank is also expanding services to corporate clients to include cash settlement transactions, for example payroll services to corporates and securities transactions.

Retail Banking

The Bank's retail strategy is relatively new, with the Bank having decided in 2005 to actively enter the retail market. The Bank is now focusing on expanding its retail banking business in order to take advantage of the rapidly growing retail banking market in Ukraine. Retail banking includes providing current and deposit accounts, consumer loans, car loans and residential mortgage loans to individuals, debit and credit cards, foreign currency exchange services and money transfers.

As at 30 September 2006, the Bank's retail loan portfolio amounted to U.S.$52.8 million, or 8.9 per cent. of the Bank's gross loan portfolio, an increase of 282.3 per cent. as compared to U.S.$13.8 million as at 31 December 2005. As at 31 December 2006, the Bank had approximately 605,000 retail banking customers, compared to approximately 510,000 as at 31 December 2005.

The Bank is currently placing emphasis on developing its retail banking business, both in terms of numbers of customers and products offered to those customers. The main focus in expanding the Bank's retail customer base will be on high net worth (with a monthly income of over U.S.$5,000) and professional individuals. Following the Bank's recent Strategy review the Bank will also pay special attention to servicing Middle-sized Customers. To this end, the Bank has been expanding its branch network in order to increase its presence in locations where it can attract new retail customers. See "Description of the Bank's Business – Distribution Network". The Bank plans to increase its product offering to retail customers in the near future, with the introduction of loyalty schemes for the Bank's card holders, unsecured consumer loans for employees of the Bank's corporate customers, flexible repayment schedules and fees for consumer loans, residential mortgage loans, and various additional services to be offered from the Bank's ATM network.

The Bank's retail banking activities are divided into the following categories:

Retail Lending

Retail lending activities include the provision of car loans secured by cars purchased by the borrower, residential mortgage loans, limited numbers of credit cards (although the Bank is not currently issuing new credit cards it is improving its credit card products with a view to re-launching by the end of April 2007) and debit cards with overdrafts. As at 30 September 2006, the Bank had U.S.$52.8 million in outstanding retail loans, constituting 8.9 per cent. of the Bank's gross loan portfolio, compared to 3.7 per cent. as at 31 December 2005. Approximately 65 per cent. of the gross retail loan portfolio is comprised by car loans, approximately 12 per cent. is comprised of mortgage loans, approximately 18 per cent. consumer loans and approximately 5 per cent. credit cards (although the Bank does not currently issue further credit cards) and overdrafts.

The Bank aims to increase its share of the Ukrainian retail loan market. In order to achieve this, the Bank has been expanding and will continue to expand its branch and distribution network, including alternative channels of sale such as partnership cooperation with car dealers, insurance companies and real estate agencies. The Bank will also continue to increase brand awareness of the Bank's brand with marketing and advertising campaigns. The Bank has also been committed to launching new products specifically to attract new retail banking customers, with the launch of its residential mortgage business in April 2006, its car finance business in September 2005 and its consumer finance business in May 2006.

The three main types of retail loan offered by the Bank are car loans, mortgage loans and consumer loans.

Car purchase loans are denominated in U.S. dollars, hryvnia or euro and are for terms of up to seven years. Car purchase loans are secured by automobiles purchased with the proceeds of the loan. The average size of a car purchase loans is U.S.$17,800.

Mortgage loans are denominated in U.S. dollars, hryvnia or euro, are typically fixed-rate and are for a term of up to 20 years. Borrowers may repay a mortgage loan in full in the first year of borrowing, subject to a 1 per cent. penalty, and without penalty for the remainder of the loan. Mortgage loans are advanced and secured by existing residential property, and are not made against property not yet constructed. The average size of a mortgage loan is approximately U.S.$40,000.

Consumer loans are denominated in hryvnia, U.S. dollars or euro and are typically for terms of up to ten years. Consumer loans are secured against real estate property. The average size of a consumer loan is U.S.$47,000.

The Bank has only limited experience with the enforcement of security as a result of defaults on retail loans, with no defaults on mortgage repayments and only three defaults on consumer loans (specifically car purchase loans). The Bank will continue to carefully monitor its retail loan portfolio to assess its risk profile.

Current Accounts and Deposit Taking

The Bank offers its retail customers both current account and time deposit facilities denominated in hryvnia and in foreign currencies (U.S. dollars and euro). Retail customers current accounts amounted to U.S.$66.5 million as at 30 September 2006, or 25.8 per cent. of the Bank's total customers' current accounts, compared to U.S.$50.1 million, or 31.3 per cent., as at 31 December 2005. Deposits from retail customers amounted to U.S.$108.0 million as at 30 September 2006, or 52.0 per cent. of the Bank's total deposits from customers, compared to U.S.$81.9 million, or 37.1 per cent. as at 31 December 2005. According to the NBU, as at 1 December 2006 the Bank was the 23rd largest bank in Ukraine as determined by the NBU in terms of retail deposits and customer accounts. The top 20 retail deposits constituted U.S.$10.8 million, or 10.1 per cent. of the Bank's retail deposit base, or 5.4 per cent. of the Bank's total deposit base as at 30 September 2006.

ATM network

The Bank offers its customers the ability to withdraw cash from current accounts via its ATM network. As at 31 December 2006, the Bank had a network of 1,284 ATMs, including 280 ATMs owned by the Bank and a further 1,004 partner-bank ATMs. Customers may, among other things, make cash withdrawals and access information on their accounts and is a constituent part of an automated system of cash operations, intra-bank and inter-bank payments systems from ATM's. The Bank intends to further widen the range of services offered by the Bank's ATMs to include a variety of advanced banking services to retail customers (for example, repayment of fees under consumer loans, residential mortgage loans, card account transfers). ATMs are located both at branches and outlets and away from the Bank's property, subject to appropriate security measures.

As at 31 December 2006, the Bank had a network of 2,442 point-of-sale or "POS" terminals, including 1,064 owned by the Bank and an additional 1,378 partner-bank POS terminals. A POS terminal is an electronic device which provides payments for products, works or services in a trade network, automated cash payout operations, and the execution of payment documentation in electronic form for operations using payment cards issued by the Bank.

Management believes that ATM services are important for attracting customers and increasing the cross-selling opportunities of the Bank's card business.

Cash settlement transactions

The Bank offers a variety of cash settlement and transfer services to retail customers, including opening and maintaining current accounts, deposit services, foreign exchange operations, cheque book operations, cash transfer operations and cash withdrawals over the counter or via ATMs. Management estimates that during the nine months ended 30 September 2006, the overall turnover of UAH denominated payments from retail customers (without opening accounts) amounted to UAH 173 million compared to UAH 134 million for the nine months ended 30 September 2005.

Bank card products and services

The Bank's card business is a growing source of fee and commission income and provides cross-selling opportunities to the Bank. The Bank is a principal member of the Visa International payment system and a principal member of the MasterCard Worldwide payment system. The Bank offers both debit cards with an overdraft option and credit cards to its retail customers. The Bank does not currently issue new credit cards, although it has a limited number of existing cards in issuance. The Bank temporarily ceased issuing credit cards in 2006 in order to improve its product offering and customer service. In particular, the Bank is improving its application processing procedure, its credit scoring procedure and billing approach. The Bank is currently implementing these changes, and plans to recommence issuing credit cards by the end of April 2007.

According to the Ukrainian Interbank Payment Systems Member Association, the Bank occupies 12th position among the credit and debit card issuers in Ukraine in terms of total cards issued. As at 31 December 2006, the Bank had issued over 477,923 payment cards, of which approximately 15,000 were debit cards with overdrafts and 970 were credit cards. Among other card products and services, the Bank offers salary payment cards issued to employees of corporate customers for which it provides payroll services.

Alternative sales channels

During the period from 2000 to 2006 the Bank launched alternative sales channels for its retail banking products, including its customer support services such as the Bank's call centre (launched in May 2006), telephone banking system called "GSM-Banking" (launched in May 2001), Internet Banking (launched in March 2000) and other customer relationship management technologies. The Bank's call centre offers easy access to information on the Bank's services, as well as convenient and easy management of clients' accounts 24 hours a day, seven days a week. The Bank plans to expand the range of GSM-Banking and Internet Banking services to include making payments and money transfers.

Treasury and Capital Markets

The Bank provides a range of treasury and capital markets services, primarily to corporate customers and certain high net worth individuals. Treasury and capital markets services include debt capital markets activities, brokerage services, securities trading and ancillary services such as custodian services. The Bank has focused on developing its treasury and capital market activities since 2005, and believes that it is currently one of the leaders in the Ukrainian stock market.

Debt capital market services

The Bank launched its corporate bond financial advisory activity and underwriting services in March, 2004. Beginning in 2006, the Bank has acted as an arranger of bond issues and provides services including, underwriting, drafting of investment and offering circulars, presentations for investors, securities registration with state authorities, listing of securities, stabilisation and paying agency services. As at 1 November 2006, the Bank had jointly arranged five domestic bond issues for large Ukrainian companies with a total principal value of UAH 425 million. In particular, during the period from March, 2004 to December, 2006 the Bank placed domestic bond issues for leading Ukrainian companies, including SJSC "Chornomornaftogas", JV "Metalen", LLC "Fozzy Group", OJSC "Hlebprom", "Commercial and Industrial Company "Omega-Avtopostavka" LLC. The Bank underwrote the bond offerings for and has retained for its investment portfolio 50 per cent. of each of the issuances of bonds for OJSC "Hlebprom" and "Commercial and Industrial Company "Omega-Avtopostavka" LLC, as part of the Bank's strategy to diversify its asset base. The Bank considers that the Ukrainian domestic bond market is comparatively under-developed and therefore represents an opportunity for further expansion.

Brokerage services and securities trading

The Bank's trading and brokerage business includes the execution of trades in debt securities for corporate customers. The brokerage business involves primarily hryvnia denominated debt securities of Ukrainian corporate issuers. The Bank engages in brokerage activities on behalf of its corporate customers and high net worth private banking clients, primarily on the PFTS. The Bank ranked second (in terms of volume of trade) among participants of the PFTS in 2005. The Bank also maintains a securities portfolio and engages in securities trading on its own account.

Interbank Activities

Activities on the interbank market include settlement transactions, foreign exchange operations, servicing of correspondent bank accounts, granting and accepting of interbank loans and deposits.

Custodian services

The Bank provides a broad range of basic and supplementary custodian services for legal entities and individuals holding securities of Ukrainian issuers. The Bank's current license authorising it to engage in professional depositary services was issued by the SSMSC on 13 October 2006.

Distribution Network

The Bank offers its services through a network of 11 branches and 52 smaller outlets as at 31 December 2006 extending throughout industrially and economically developed regions of Ukraine. The Bank's 11 branches are located in Dnipropetrovsk, Donetsk, Kharkiv, Kyiv, Luhansk, Lviv, Mariupol, Mykolaiv, Odesa, Simferopol and Zaporizhzhia.

The Bank's branches and outlets offer a wide range of banking services including lending, documentary transactions, securities operations, foreign currency transactions, settlement and payment transactions and international payments card operations. Transaction limits for each activity within each branch or outlet are set by the appropriate committees or commissions of the Bank (see "*—Risk Management*").

Branches offer the full range of the Bank's services to the Bank's corporate and retail customers. Each branch has its own lending limits and decision making bodies. Each of the Bank's outlets are smaller and may not offer the full range of the Bank's services. All outlets offer current and deposit customer accounts, settlement transactions, lending to retail customers and foreign exchange services.

The Bank acknowledges that in order to have a major presence in the Ukrainian corporate and retail banking market, it must have a sufficient network of branches and outlets. The Bank is expanding its distribution network of branches and outlets in the most economically developed and densely populated regions of Ukraine. As at the date of this Prospectus, the Bank has a presence in 12 regions of Ukraine. The Bank intends to expand its presence to 22 regions of Ukraine and the Autonomous Republic of Crimea by the end of 2010. The Bank does not have any international expansion plans. All Ukrainian banks require the approval of the NBU to open new branches and outlets. To date the Bank has not experienced any difficulties in gaining such permissions.

Due to the strong real estate market in Ukraine, particularly in Kiev, the Bank faces strong competition for prime locations on which to locate its branches and outlets. The Bank competes for prime retail locations not only with other banks, but also with other types of business. The Bank is able to draw on synergies available within SCM Finance and the SCM Group including Dongorbank in the Donetsk region in order to co-ordinate acquisitions of real-estate locations within the group.

The Bank budgeted U.S.$17.1 million of capital expenditure in relation to its distribution network for the year ended 31 December 2006 and 28.3 million for the year ended 31 December 2007. Expenditure on the distribution network, particularly the expansion of the network, was U.S.$6.4 million during the first nine months of 2006 and U.S.$1.1 million during 2005.

Correspondent and foreign banking relationships

The Bank has a broad network of correspondent banks and, as at 31 December 2006, had correspondent relationships with 86 banking institutions globally, including 42 in Ukraine, 23 in the CIS and 21 in other countries (including financial centres such as Switzerland, USA, Germany, Japan, the Netherlands and the United Kingdom). The Bank carries out settlement transactions, foreign exchange operations, servicing of correspondent bank accounts, granting and accepting of interbank loans and deposits with correspondent banks.

As at 31 December 2006, the Bank had 45 Nostro accounts with major foreign banks available for international settlements in different currencies, including dollars, euro, pounds sterling, Japanese yen and others.

Funding

The main sources of the Bank's funding are deposits and current accounts from corporate customers, deposits and salary payment card accounts (whereby the Bank's corporate customers pay funds directly into accounts of employees held with the Bank) from private clients and other borrowed funds. Access to other funding sources, including syndicated loans and international capital market issuances, has historically been limited for financial institutions in Ukraine, such as the Bank. However, due in part to its cooperation with the EBRD, DEG and IFC, the Bank has been able to attract funding from international financial institutions. In 2004 the Bank began attracting funding from the international syndicated loan markets. The Bank obtained additional funding from contributions by its shareholders through the issue of additional shares in 2006. The Bank plans to further diversify its funding sources and extend the maturity profile of its liabilities by the issuance of the Notes.

The following table sets out the Bank's principal sources of funding as at 31 December 2004 and 2005 and 30 September 2006:

	30 September 2006 (unaudited)	31 December 2005	31 December 2004
	(U.S.$ thousands)		
Due to banks:			
Due to the NBU	–	547	5,069
Due to other banks	51,121	111,770	59,944
Total due to banks	51,121	112,317	65,013
Customer accounts			
Term deposits	207,759	220,580	110,076
Current accounts	257,805	159,949	81,790
Total customer accounts	465,564	380,529	191,866
Certificates of deposit issued	1,321	3,196	657
Other borrowed funds			
Cargill Financial Services International, Inc.	98,648	40,878	–
Bank Austria Creditanstalt AG	54,951	–	–
Standard Bank Plc	41,003	39,676	20,226
LB Interfinanz AG	11,809	5,881	–
BSTDB	10,800	10,109	10,106
EBRD	–	–	5,795
Other facilities	14,513	9,248	8,163
Total other borrowed funds	231,724	105,792	44,290
Total principal sources of funding	749,730	601,834	301,826

The Bank's customer deposits increased to U.S.$465.6 million as at 30 September 2006, as compared to U.S.$380.5 million and U.S.$191.9 million as at 31 December 2005 and 31 December 2004, respectively. Deposits with terms of up to one year are classified as short-term deposits. Deposits with terms exceeding one year are classified as long-term deposits. Current accounts (also short-term, being available on demand) increased to U.S.$257.8 million as at 30 September 2006 compared to U.S.$159.9 million as at 31 December 2005 and U.S.$81.8 million as at 31 December 2004. Term deposits were U.S.$207.8 million as at 30 September 2006 compared to U.S.$220.6 million as at 31 December 2005 and U.S.$110.1 million as at 31 December 2004.

The volume of the Bank's corporate deposits and current accounts increased to U.S.$291.1 million as at 30 September 2006 as compared to U.S.$248.6 million as at 31 December 2005 and U.S.$113.7 million as at 31 December 2004. Customer accounts include U.S.$35.1 million in deposits held as collateral for loans to customers as at 30 September 2006.

As at 30 September 2006, the 10 largest deposits held with the Bank were U.S.$193.5 million, representing 41.6 per cent. of customer deposits, compared to 44.6 per cent. and 29.7 per cent as at 31 December 2005 and 31 December 2004, respectively.

Debt Funding

In 1995 the Bank was one of the first Ukrainian banks to borrow funds on the international borrowing markets without the backing of a sovereign guarantee. The loan facility was provided by the EBRD in a principal amount of U.S.$13 million and had an eight year maturity. Proceeds were used by the Bank for the purposes of trade finance and the loan was fully repaid by the Bank in 2003. In 2000, the EBRD granted another U.S.$10 million loan facility to the Bank. The loan facility had a 5 year maturity and was fully repaid by the Bank in 2005.

In 1996, DEG provided the Bank with a 15 million Deutsch Mark-denominated loan facility with an eight-year maturity. The proceeds of the loan facility were used to fund the Bank's trade finance activities. The loan facility was fully repaid by the Bank in 2003.

The Bank also raised several other trade related borrowings. These include facilities provided pursuant to a Swiss Franc 20 million Import Financing Frame Agreement with UBS AG (Switzerland) in July 2004 and a U.S.$20 million Import Financing Frame Agreement with Deutsche Bank AG (Germany) in August 2004.

In October 2004 the Bank attracted U.S.$10 million trade finance revolving credit line with a maturity of one year from Black Sea Trade and Development Bank. The terms of the loan provide for an increase of the principal loan amount by U.S.$8 million in 2007.

In April 2004 the Bank attracted its first U.S.$20 million syndicated loan facility arranged by Standard Bank Plc (United Kingdom). The loan had a one year maturity and was raised for the purposes of the Bank's trade financing activities. The Bank fully repaid this loan in 2005.

In December 2005 the Bank attracted a second U.S.$40 million syndicated loan facility with a maturity of one year (with option to extend the loan for another year) arranged by Standard Bank Plc. The syndicated loan was extended for one year and in December 2006 the principal was increased to U.S.$55 million. Proceeds of the loan facility are used to fund the Bank's trade financing activities.

The Bank's third syndicated loan facility of U.S.$55 million with a maturity of one year (with option to extend the loan for another year) arranged by ING Bank N.V. (Netherlands), UniCredit Group (Austria) and Fortis Bank (Belgium) in August 2006 was raised for the purpose of the Bank's trade financing activities.

In October 2006 the Bank received a loan from Standard Bank Plc and HSBC Bank plc in the amount of U.S.$50 million, with a final maturity on 27 April 2007. The Bank will be required to repay the bridge loan from the proceeds of Loan.

Equity Funding

The Bank's authorised, registered and issued share capital amounted to UAH 23 million as at 31 December 2005. On 15 June 2006 the Bank's shareholders voted to increase the Bank's authorised, registered capital by UAH 303 million (approximately U.S.$60 million) and as at 1 October 2006, the Bank's authorised, registered and issued capital amounted to UAH 326 million (approximately U.S.$65 million) (by Ukrainian accounting standards). On 22 December 2006, the Bank's shareholders voted to further increase the Bank's capital by an additional U.S.$85 million during the first half of 2007.

Capital Adequacy

The Bank complies with the NBU's mandatory minimum capital adequacy ratios for Ukrainian banks. The NBU's mandatory minimum capital adequacy ratio is currently 10 per cent. The Bank's capital adequacy ratio calculated in accordance with the NBU methodology (being the ratio of capital to total risk-weighted assets) was 17 per cent. as at 1 November 2006 compared to 12 per cent. as at 30 September 2006, 13 per cent. as at 31 December 2005 and 18 per cent. as at 31 December 2004.

The Bank also complies with the Basle Committee standards. In accordance with shareholders requirements, the Bank must maintain a total capital ratio (calculated in accordance with the Basle Committee standards) in excess of 15 per cent. As at 30 September 2006, the Bank's capital adequacy calculated in accordance with the Basle Committee standards was 23 per cent. As at 31 December 2005 the Bank's capital adequacy calculated in accordance with the Basle Accord Committee standards was 19 per cent., and as at 31 December 2004 it was 26 per cent.

The following table sets Bank's risk weighted assets and capital adequacy ratios (calculated in accordance with the Basle Committee standards) as at 31 December 2004, 31 December 2005 and 30 September 2006

	30 September 2006 (unaudited)	31 December 2005	31 December 2004
		(U.S.$ thousands)	
Total Risk Adjusted Assets, Off-Balance Sheet Commitments And Market Risk	821,345	536,775	336,250
Share capital	90,864	30,864	29,378
Share premium	11,247	11,247	10,706
Retained earnings	46,058	37,253	33,122
Tier-1 capital	**148,169**	**79,364**	**73,206**
Tier-1 capital ratio	**18%**	**15%**	**22%**
Revaluation reserve for fixed assets	31,446	15,511	10,469
Revaluation reserve for investment securities available for sale	(84)	–	–
General provision for loan portfolio	10,902	6,328	2,713
Tier-2 capital	**42,264**	**21,839**	**13,182**
Tier-1 and Tier-2 capital	**190,433**	**101,203**	**86,388**
Capital adequacy ratio	**23%**	**19%**	**26%**

The Bank has historically maintained a relatively high level of capital adequacy. This has enabled the Bank to pursue aggressively growth of its loan portfolio without the pressure of capital constraint. The Bank intends to continue to increase its capital in order to maintain this flexibility.

Property

The Bank owns premises for its head offices in Donetsk and Kiev and owns or leases premises for its branches and other banking units. As at 31 December 2005 and 30 September 2006, the net book value of the Bank's premises including leasehold improvements was U.S.$41.4 million and U.S.$65.7 million, respectively. The Bank owned 20 of its total number of 53 premises as at 30 September 2006.

Information Technology

The Bank is committed to developing and maintaining an operations and information technology ("IT") infrastructure that ensures the Bank's provision of high quality service to its clients and minimises operational risks and business interruptions.

In 1995 the Bank installed Midas software (a product of Misys IBS Ltd. (the United Kingdom)) as its core banking software enabling the Bank to process and account for banking transactions, including customer service, settlement operations and the production of management reports. The Bank has upgraded all of its principal IT systems over the last three years.

In addition, in order to ensure higher reliability of the Bank's IT systems, in 2004 the Bank established an off-site back-up centre. This centre ensures complete back-up of all the Bank's IT systems in case of any internal errors, interruptions or damage to the main computer communication network.

The Bank operates its own card processing centre. The Bank's card processing centre also provides services to 28 Ukrainian banks, which do not have their own processing centres. The Bank's wide area network ("WAN") currently connects its existing branches and outlets into a single network throughout Ukraine.

A call centre, using Cisco Systems equipment, was established in 2005.

The Bank has budgeted approximately U.S.$22.8 million for development of its IT systems from 2007 to 2010. In 2005 and in the first nine months of 2006 the Bank spent U.S.$3.3 million and U.S.$4.1 million, respectively, on IT.

Legal Proceedings

From time to time and in the ordinary course of business, the Bank is party to legal proceedings, including proceedings against defaulting borrowers. However, as of the date of this Prospectus, no legal proceeding involving substantial claims against the Bank and no litigation has been initiated or, to the Bank's knowledge, threatened, which could have a material adverse effect on the Bank and its financial condition.

External Auditors

The Bank's external auditors are LLC audit firm "PricewaterhouseCoopers (Audit)".

Risk Management

Overview

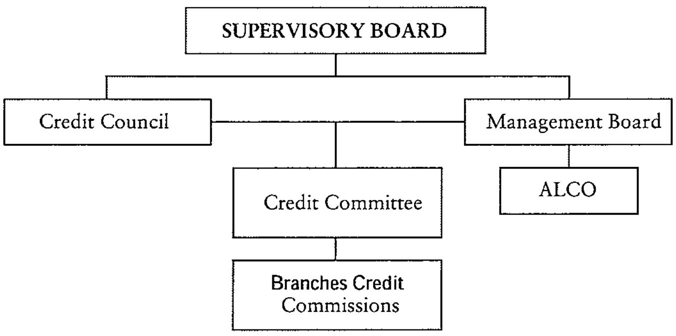
The Bank's asset, liability and risk management strategy aims to evaluate, monitor and manage the size and concentration of risks arising in the course of the Bank's activities. The Bank carries out risk management in respect of financial, operational and legal risks. Financial risks include credit risk, liquidity risk, interest rate risk and currency exchange risk. Operational and legal risk management involves ensuring that the Bank's internal procedures and policies are complied with in order to minimise exposure to operational and legal risks. The Bank's risk management policies and systems are continuously modified and enhanced to reflect changes in the market and products.

The Bank's strategy for asset and liability management is based on diversification of its assets and liabilities in terms of counterparty, sector and geography, and on balancing assets and liabilities in terms of maturity, sensitivity to interest rate movements and currency risk.

Risk Management Bodies

Risk management policy, monitoring and control are conducted by a number of specialised bodies and units within the Bank's structure. The bodies most actively involved in such management are the Credit Risk Management Division and the Market and Operational Risk Management Division, reporting linearly to the Chairman of the Board and functionally to the Credit Council and the Assets and Liabilities Management Committee ("**ALCO**"). In order to minimise credit risks, the Bank has a multi-tier credit approval system for operations which includes the Credit Council, the Credit Committee, and Branch Credit Commissions ("**BCC**"). In addition, the Supervisory Board and the Management Board are involved in the support, application and monitoring of compliance with the Bank's risk management policies.

The organisational structure and reporting lines of the Bank's risk management bodies are set out in the diagram below.



The Supervisory Board has the highest degree of authority with respect to the Bank's risk management, and is empowered through the Bank's Charter to approve any transactions on behalf of the Bank for amounts in excess of 20 per cent. of the value of the Bank's equity capital. The Supervisory Board approves the credit policy of the Bank submitted to it by the Management Board and determines the composition of the Bank's Credit Council which powers cover all issues connected with Bank's exposure to credit risk.

The Management Board is generally responsible for the activities of the Bank, including those relating to risk management. The Management Board of the Bank delegates its powers with respect to the overall asset and liability management of the Bank to ALCO, approves the composition of the ALCO and the Tariff Committee. In addition, the Management Board is responsible for development and preliminary approval of the Bank's credit policy.

ALCO currently consists of nine of the Bank's senior managers and is chaired by the Chairman of the Management Board. The current composition of ALCO is as follows:

Name	Position in the Bank
Alexander Dovgopolyuk	Chairman of the Management Board
Alexandra Voropaeva	Deputy Chairman of the Management Board
Eugene Zelensky	Acting Deputy Chairman of the Management Board
Ludmila Berkovich	Head of Planning and Analysis
Maxim Stakhursky	Head of Corporate Financing
Andrew Ostapenko	Head of Market and Operational Risks
Valery Patsuy	Head of Retail Banking
Alexey Savchenko	Deputy Head of Treasury
Galina Tairova	Head of Corporate Business

ALCO's composition is determined by the Management Board. ALCO meets not less than once every month and reports directly to the Management Board. It is responsible for the development and implementation of the Bank's asset and liability management policies.

The responsibilities and objectives of ALCO include:

- review of factors affecting profitability and risk exposure of Bank's transactions;
- analysis of tendencies in the financial markets and determination of the Bank's strategy;
- monitoring of implementation of risk management policies;
- taking decisions on structure and scope of Bank's transactions to ensure planned profitability and acceptable risk level;
- taking decisions on the limits of risk acceptable to the Bank and setting criteria for evaluation of risks and profitability of Bank's transactions;
- approval of interest rates for credit and debit operations of the Bank; and
- determination of instruments and strategy for risks hedging.

The Bank's credit approval bodies are the Credit Council, the Credit Committee and the BCCs which strictly adhere to the established credit policy and strategy of the Bank.

The Credit Council is responsible for reviewing and taking decisions on credit operations of the Bank, monitoring credit performance and the quality of the Bank's loan portfolio, setting provisioning levels for credit operations of the Bank, taking decisions on non-performing loans and approval of certain credit risk management regulations of the Bank. Members of the Credit Council are appointed by the Supervisory Board and include a Member of the Supervisory Board (to ensure effective development of the Bank's risk management) the Chairman of the Management Board. Currently, the composition of the Credit Council is as follows:

Name	Position	Position in the Bank
Sergey Chernenko	*Chairman*	Member of the Supervisory Board
Alexander Dovgopolyuk	*Member*	Chairman of the Management Board
Maxim Stakhursky	*Member*	Head of Corporate Financing

The approval of the Credit Council is required for loan applications amounts which exceed the lending limits of the Credit Committee. Decisions are adopted by the Credit Council by unanimous vote of all members required to make a quorum at the relevant meeting. The number of members of the Credit Council required for a meeting to quorate differs depending on the amount and tenor of the loan to be approved by the Credit Council.

The Credit Committee is established by the Credit Council and reports to the Credit Council and to the Management Board. According to the Bank's Charter and internal regulations, the composition of the Credit Committee is determined by the Supervisory Board and approved by the Management Board. The Credit Committee consists of a Chief of the Credit Risk Management Division as the Head of the Credit Committee, Chief of the Corporate Financing Division, Chief of the Corporate Business Division, Chief of the Treasury Division, Chief of the Securities Division and Chief of the Legal Division. The approval of the Credit Committee is required for loan applications which exceed lending limits of the BCCs. The Credit Committee may approve loans to individuals of amounts up to U.S.$100,000 and loans to corporates of amounts up to U.S.$2 million. Decisions of the Credit Committee are adopted either by a majority vote or a unanimous vote by all members of the Credit Committee present at the relevant meeting. The number of members of the Credit Committee required for a meeting to be quorate depends on the type of credit product in question, its amount and tenor.

Each BCC consists of the Head of the respective Branch (as the Head of the BCC), Deputy Head of a Branch responsible for corporate business, Chief of the Corporate Business Department, Chief of the Retail Business Department, a branch lawyer and a security official. Each BCC is authorised to approve loans within limits set for it by the Credit Committee, however the maximum limit for loans to individuals is set at U.S.$50,000 (for mortgage loans) and total loans per one corporate at U.S.$300,000. Additionally, depending on BCC's quality appraisal, the limit for each total BCC portfolio is set from U.S.$1 million up to unlimited, in certain cases. Decisions by BCCs are adopted by a unanimous vote by all members of a BCC required to make a quorum for the relevant meeting. The number of members of the BCC required for a meeting to be quorate depends on the type of credit product in question, its amount and tenor.

Each of the Credit Council, Credit Committee, and the BCCs are responsible for considering and approving credit decisions monitoring and reviewing the quality of the Bank's credit portfolio as well as its compliance with the established limits and adequacy of the Bank's provisioning. The Market and Operational Risk Management Division assists ALCO and the Credit Council in performing their respective functions. The Credit Risk Management Division assists the Credit Council, the Credit Committee and BCCs of the Bank in performing their functions.

The Credit risks division provides management of credit risk arising from operations with legal entities, individuals and insurance companies. The Credit risks division functions include an estimation of individual credit projects risks, participation in the development of the Bank's credit policy, risk analysis and development of actions in the event of alteration of risk profile, development of approaches to the estimation of risks, credit procedures, formation of provisions for impairment losses in conformity with IFRS, maintenance of internal ratings system, formation of credit operations insurance policy and policy of security estimation.

The principal categories of market risk to which the Bank, in common with other Ukrainian banks, is exposed through its operations and the way the Bank manages these risks are described below. To date, there have been no material failures of the Bank's risk management system.

Credit Risk

As a result of its lending operations, the Bank takes on exposure to credit risk, which is the risk that a customer (or counterparty bank, as the case may be) will be unable to pay the amounts due to the Bank in full when due.

The Bank manages its credit risk by establishing internal policies aimed at maintaining credit risk exposure within accepted parameters. It achieves this by setting, monitoring and reviewing credit ratings of customers and counterparties, by setting and monitoring lending limits, by obtaining corporate guarantees and taking security over borrower's assets as collateral for loans, by monitoring the creditworthiness of its customers and by establishing allowances for impairment of loan assets. Allowances for impairment of loan assets are established for the purposes of statutory accounts on the basis of NBU requirements, which follow Ukrainian Accounting Standards.

The evaluation of a customer's credit risk is performed through determining the "financial class" of the customer. "Financial class" is assigned on the basis of specific parameters, defined in terms of both the nature of the potential borrower's business and the specific transaction. For corporate borrowers these parameters include general financial condition of the customer (determined on the basis of indices pursuant to the financial statements of the customer, financial plans and forecasts); qualitative characteristics of customer's business, internal and external factors affecting customer's business and its financial condition (its market position, prospects for the industry sector, level of competition, its management and structure, valuation of its production capacity and other factors); and level of devaluation (deterioration of quality of collateral, conflicts within ownership structure of the customer, increase in the amount of overdue accounts receivable and accounts payable). For individual borrowers "financial class" is determined on the basis of appraisal of the structure of transaction, social position (age, marital status, work position, education), level and stability of income of the customer, its ability to provide collateral, credit and other record with the Bank and certain other factors.

When considering loan applications, different financing options are examined, taking into account the analysis of possible sources for repayment of the loan and the availability of collateral or guarantees. Accordingly, different credit products (including term loans, credit lines, overdrafts, investment credits, guarantees, trade finance, and operations with promissory notes) are offered to clients depending on their needs, their financial performance, specific credit risks and the type of collateral proposed.

All loan applications are subject to a detailed review procedure as set forth in "— Lending Policies and Procedures".

Credit Risk Related to Retail and Corporate Lending

The Bank structures the levels of credit risk it assumes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers. Such risks are monitored by the Bank on a revolving basis. Limits on the level of credit risk per a borrower are approved regularly by the Credit Council and the Credit Committee of the Bank. The maximum credit limit for a single borrower (or group of borrowers) is set by the NBU at 25.0 per cent. of the Bank's regulatory capital. As at 30 September 2006, the Bank's largest exposure to a single borrower amounted to 22 per cent. of the Bank's regulatory capital (calculated in accordance with the NBU methodology). As at 30 September 2006, the Bank's largest single loan amounted to 19.7 per cent. of the Bank's regulatory capital (calculated in accordance with the NBU methodology).

The Bank reviews the outlook for the borrower's industry sector and any current or potential changes in factors influencing the borrower's business and its financial condition, and the political and economic situation, governmental control and regulations in its country or region. In addition, the Bank carries out analysis of the effectiveness of the borrower's management structure, organisation chart and production model. The Bank also examines risks connected with the activities of related parties such as the borrower's contract counterparties and their potential influence on the ability of the borrower to meet its repayment obligations under the loan.

A maximum credit limit is set for each individual borrower. This credit limit does not exceed the requirements of the NBU. Credit limits include limits on the amount of the loan together with restrictions on the repayment schedule and use of proceeds and are updated prior to each loan approval. Credit officers within the Bank monitor operations with its customers on a regular basis and notify the Credit Council, the Credit Committee, the BCCs, and the Management Board both periodically and in the event of any exceptional 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 a loan.

The Bank imposes limits on the amounts which individual branches are authorised to lend. Limits are set with respect to the amount of individual loans that can be granted by a branch. The Credit Council regularly reviews credit limits for all branches in order to examine the branches' compliance with the Bank's credit procedures and conduct analysis of the quality of the branches' loan portfolio. Depending on the results of such review the Credit Council may elect to increase decrease or credit limits assigned to a particular branch. If the amount of a loan requested by a customer exceeds the limits established for the respective BCC, the case is escalated to the Credit Committee or the Credit Council.

The Bank's corporate loan book is broadly diversified over different sectors of the economy. The credit policy of the Bank seeks to maintain the diversification of credit risks avoiding concentrations of total indebtedness per individual borrower or particular sector of the national economy. The control of risks related to individual borrower concentration is carried out by establishing limits and by carefully monitoring adherence to those limits. The Bank is focused on further diversifying its credit risk profile by increasing its presence in the SME lending market, and also actively developing its retail business.

The following table sets out an analysis by industry of the Bank's 20 largest exposures to a particular borrower.

Top 20 borrower exposures – Economic sector breakdown	Amount of loan outstanding as at 30 September 2006 (unaudited)
	(U.S.$ thousands)
Food industry and agriculture	62,155
Trade and agency services	60,340
Machine building	32,341
Non-ferrous metallurgy	32,070
Ferrous metallurgy	17,013
Mining	11,901
Coke and chemical industry	11,530
Other	9,402
Total	236,752

Credit Risk Related to Inter-Bank Operations

Credit risk in relation to inter-bank operations arises mainly as a result of such loans being unsecured, although such loans typically have relatively short-term maturities, generally ranging from several hours up to two months. The Treasury Division follows limits set out by the Market and Operational Risk Division. These limits define blank (unsecured) inter-bank credits and swap operations (which are secured). The maturity of blank credits is from overnight (one day) up to 30 days. The maturity of swap operations is from overnight (one day) up to 182 days. All swap operations with a maturity of 35 days or more are executed as pledge agreements and are registered with the State Registry of Chattel Mortgage, the relevant state authority. As at 30 September 2006 all the bank's inter-bank loans with a maturity of 2 months or greater are swap operations with pledge agreements. As at 30 September 2006, amounts (including with current accounts, overnight and term deposits) due from other banks amounted to 22.0 per cent. of the Bank's total assets, as compared to 30.0 per cent. as at 31 December 2005. The Bank's Credit Council only is authorised to approve transactions with other banks within certain limits established by the Supervisory Board. The Bank sets separate limits for bank counterparties based on an evaluation of their financial condition and on any available non-financial information (such as the counterparty's shareholders, customers, the quality of its management, its market position, the concentration of its activity and the rate of its growth). These limits restrict the amount and terms of the loan.

Monitoring Credit Risk

The Bank monitors performance by borrowers of their obligations under their loan agreements, primarily a borrower's obligation to pay interest and repay principal. It also monitors the financial condition of borrowers and the quality of underlying collateral on the basis of information provided by borrowers on a monthly (operating goods, pledge of property rights) and quarterly (real estate, equipment, vehicles) basis to determine whether loans are being used for the purposes prescribed, whether a corporate borrower is meeting targets set in its business plans, collateral values, and certain non-financial information, such as information on actual or pending legal proceedings involving the relevant borrowers. Regular monitoring of the Bank's loan portfolio and underlying collateral enables the Bank to react to changes in the quality of particular loans and determine whether changes to the Bank's standard terms and conditions of lending are necessary. The Management Board and Credit Council are notified of the results of this monitoring on a regular basis or on the occurrence of any particular warning signs. Based on its analysis, the Bank either confirms the terms and conditions of the relevant outstanding loans or, where necessary, negotiates amendments with the borrower.

Off-Balance Sheet and Related Party Credit Risk

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank applies the same credit policies and procedures for evaluating and monitoring credit risk for any off-balance sheet and contingent liabilities. 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 will either reject the loan application or require the transaction to be secured by cash collateral. Off-balance sheet activities include the provision of guarantees, letters of credit and guaranteeing promissory notes with "avals" (endorsements). As at 30 September 2006 the value of non-cash-covered guarantees (including promissory notes endorsements) and letters of credit issued by the Bank amounted to U.S.$79.7 million and U.S.$17.9 million, respectively.

Liquidity Risk

Liquidity risk arises from mismatches between the maturities of assets and liabilities, which may result in the Bank being unable to meet its obligations in a timely manner. It arises in the general funding of the Bank's activities and in the management of its positions and includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and within an appropriate period of time. Managing and controlling mismatches of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. An unmatched position may potentially enhance a bank's profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

The Bank's policy in relation to liquidity risk is that liquidity prevails over profitability. The Bank has developed a comprehensive set of procedures and systems to implement its liquidity risk management strategy. These procedures define the structure of relations between different bodies within the Bank for the purposes of risk management and liquidity monitoring and allocate responsibility for monitoring compliance (and taking actions to correct any potential non-compliance) within established limits.

The Bank manages the liquidity risk at three levels. Within the first level, the Market and Operational Risk Division develops the balance sheet ratios with regard to volumes and structure of Bank's assets and liabilities from a strategic planning perspective and submits them for approval by ALCO. Following ALCO's approval, the respective balance sheet ratios are incorporated into the Bank's business plan by the Planning and Economic Analysis Division.

At the second level, the Market and Operational Risk Management Division on monthly basis prepares the liquidity measurement reports (asset liability mismatch (gap) report, cash-flow projection report and liquidity scenario stress-testing report) to be submitted for ALCO's approval. The decisions of ALCO made on the basis of these reports are mandatory for implementation by the Bank's units, which implementation is monitored by ALCO. This level provides the basis for funding and pricing decisions.

The third level of liquidity management provides for matching cash in-flows with cash out-flows on a day-to-day basis and is performed by the Treasury of the Bank subject to internal procedures of the Bank and ALCO's decisions. The Treasury manages the Bank's balances with the NBU and with other correspondent banks during a day on the basis of information provided by Payment Division and Accounting Division of the bank and current condition of interbank market.

The liquidity position of the Bank as at 30 September 2006 is set out below:

	As at 30 September 2006 (unaudited) (*U.S.$, thousands*)						
	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	No stated maturity	Total (unaudited)
Assets							
Cash on hand and in transit	15,829	–	–	–	–	–	15,829
Balances with the NBU	27,011	–	–	–	–	–	27,011
Due from other banks	198,973	8,728	–	–	–	–	207,701
Loans to customers	44,284	62,221	83,970	143,343	238,533	–	572,351
Investment securities available for sale	2,447	5,717	6,075	19,244	–	–	33,483
Other assets	6,962	626	–	–	–	–	7,588
Fixed assets	–	–	–	–	–	75,777	75,777
Investment property	–	–	–	–	–	2,861	2,861
Intangible assets	–	–	–	–	–	2,844	2,844
Total assets	295,506	77,292	90,045	162,587	238,533	81,482	945,445
Liabilities							
Due to other banks	51,084	37	–	–	–	–	51,121
Customer accounts	305,889	62,539	35,668	49,708	11,760	–	465,564
Certificates of deposit issued	750	90	258	223	–	–	1,321
Other borrowed funds	19,919	54,026	67,172	82,900	7,707	–	231,724
Current income tax liability	–	2,093	–	–	–	–	2,093
Other liabilities	3,648	–	–	–	1,433	–	5,081
Deferred tax liability	–	–	–	–	–	9,010	9,010
Total liabilities	381,290	118,785	103,098	132,831	20,900	9,010	765,914
Liquidity gap	(85,784)	(41,493)	(13,053)	29,756	217,633	72,472	179,531
Cumulative gap as at 30 September 2006	(80,784)	(127,277)	(140,330)	(110,574)	107,059	179,531	–

Though customer current accounts with the Bank of U.S.$258 million have contractual maturity "at sight" and thus are presented in the above table within "Up to one month" time basket, the Bank regards U.S.$144 million of them as relatively stable in the normal course of business (likely to remain with the Bank).

The management of the bank believes that, despite a substantial portion of customer accounts having maturity on demand or less than one month, diversification of these balances by number and type of customers, including certain related party balances, and the past experience of the Bank, indicate that these balances provide a reliable and relatively stable source of funding for the Bank. However the Bank is seeking to redress the mismatches in the Bank's liquidity position, and any further mismatches which may arise with the growth of the Bank's corporate and retail operations, by borrowing more funds on the international syndicated loan markets, and by borrowing funds under the Loan Agreement funded by the issue of the Notes.

In addition, the Bank is subject to liquidity requirements set by the NBU. See "Appendix A — Ukraine: The Banking Sector". The Bank's risk management system incorporates the NBU's requirements and limits set by the Bank's shareholders (the latter being stricter than those of NBU) and does not permit limits set by the NBU or the shareholders to be exceeded.

Interest Rate Risk

The Bank is exposed to interest rate risk, principally as a result of lending at fixed rates, in amounts and for periods, which differ from those of term deposits at fixed interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Bank may incur losses in the event of unfavourable movements in interest rates.

Net interest spread and margin is monthly controlled by ALCO. Projected interest rate risk is evaluated in the framework of Sensitive Asset and Liabilities Revaluation Report (Interest Rate Sensitive Gaps). The evaluation and analysis of the size of interest rate risk is performed at least once a month. The results of such evaluation and analysis are discussed at ALCO meetings.

Currency Risk

Currency risk is the risk of losses resulting from adverse movements in different foreign currency exchange rates. Currency risk results from the Bank having long and short positions in different currencies. Such positions are calculated as differences between assets and liabilities in the same currency.

Currency risk (the risk of open currency positions) is limited by open currency position regulatory ratios (limits) set by the NBU and the Bank's shareholders. The exchange rate of the most important currency pair – UAH/USD – is administratively regulated and is effectively fixed. Changes of this rate occur on the NBU discretion. The maximum 95 per cent. daily FX value at risk in November 2006 amounted to 0.01 per cent. of the Bank's capital.

The ALCO sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. Currency risk is centrally controlled at the head office level by the Treasury. Limits on open currency positions are set for the Bank as a whole. The Treasury monitors compliance with these and submits reports for consideration to the ALCO.

The net currency position of the Bank at 30 September 2006 is set out below:

	As at 30 September 2006 (unaudited) *(U.S.$, thousands)*				
	USD	**UAH**	**EUR**	**Other**	**Total**
Assets					
Cash on hand and in transit	2,769	11,008	1,867	185	15,829
Balances with the NBU	–	27,011	–	–	27,011
Due from other banks	132,751	27,863	23,133	23,954	207,701
Loans to customers	318,000	226,095	28,256	–	572,351
Investment securities available for sale	–	33,483	–	–	33,483
Other assets	1,014	6,134	15	425	7,588
Fixed assets	–	75,777	–	–	75,777
Investment property	–	2,861	–	–	2,861
Intangible assets	–	2,844	–	–	2,844
Total assets	454,534	413,076	53,271	24,564	945,445
Liabilities					
Due to other banks	4,338	46,735	48	–	51,121
Customer accounts	275,401	151,383	35,483	3,297	465,564
Certificates of deposit issued	790	377	154	–	1,321
Other borrowed funds	217,665	–	13,377	682	231,724
Current income tax liability	–	2,093	–	–	2,093
Other liabilities	1,122	2,254	644	1,061	5,081
Deferred tax liability	–	9,010	–	–	9,010
Total liabilities	499,316	211,852	49,706	5,040	765,914
Net balance sheet position as at 30 September 2006	(44,782)	201,224	3,565	19,524	179,531
Outstanding spot foreign exchange contracts	2,670	–	13,730	(16,397)	3
Total net position as at 30 September 2006	(42,112)	201,224	17,295	3,127	179,534

The following table sets out the Bank's long and short currency limits, which are in line with the NBU's requirements. The Bank has never exceeded its long and short currency limits.

NBU limit	% of regulatory capital
1. General open foreign currency position limit (L13)	not more than 30% of regulatory capital
2. General long open foreign currency position limit (L13-1)	not more than 20% of regulatory capital
3. General short open foreign currency position limit (L13-2)	not more than 10% of regulatory capital
4. Long open foreign currency position limit in any (one) hard currency (L14-1)	not more than 15% of regulatory capital
5. Open foreign currency position limit in soft currencies (L15-1; L15-2) and in all banking metals (L16-1; L16-2)	together – not more than 5% of regulatory capital
6. Open forward foreign currency position limit (L17-1; L17-2)	not more than 10% of regulatory capital

The Bank presents its currency swap arrangements on a net basis as due to banks and due from banks. See "Presentation of Financial Information".

Shareholders' regulation

According to regulations set by the Bank's shareholder's, the Bank's general open currency position (the sum of all open currency positions) may not be more than 15 per cent. of the Bank's total capital as calculated according to IFRS. As at 30 September 2006, the Bank's actual open currency position was 2 per cent. of the Bank's capital.

Risk Monitoring

The monitoring of compliance with procedures for financial risk management and the maintenance of their constant adequacy and efficiency is performed by the Market and Operational Risk Department, which reports its findings to ALCO.

The Bank's Management believes that analysis of market risk is of limited usefulness in Ukraine. Analysis of market risk (as the term is more commonly used in economically more developed countries) in the Ukrainian financial market is relatively less valuable than an appropriate credit analysis of the particular security issuer. Traded debt securities, although available for sale, are not always liquid (although the Bank considers them generally to be a good investment, if a holder is able and intends to hold them to maturity). In addition, trade volumes are small, deals are sporadic, terms of deals are individually set by buyers and sellers in over-the-counter manner, and there is no actual market-making institution. A similar situation exists with traded shares (with less transparency and much smaller trade volumes).

The Bank has zero trading positions in listed instruments. The Bank does not trade in equities. Debt securities in the Bank's portfolio (classified as "Investment securities available for sale") are intended mostly for liquidity management purpose and, thus, they are of relatively better credit quality (for the domestic market) and have short-term maturity schedule (as of 30 September 2006, the entirety of the Bank's investment securities available for sale were due to mature within a year).

Operational and Legal Risk

In 2005, the Bank developed and implemented a complex system of operational risk management, which classifies all operational risks to which the Bank is exposed, sets forth the procedure for revealing and assessment of operational risks and establishes specific operational risk control and reporting systems. The Bank has also established and operates a single data-base of operational losses of the Bank. The system of operational risk management has been developed according to recommendations of the Basel Committee and applies to all divisions of the Bank.

The Bank also uses the following procedures to minimise its operational risk:

- authority separation when performing bank operations and transactions (incorporated in operating procedures);
- access rights to information systems are limited appropriately; audits (registration and monitoring) of users' actions are performed;
- access to the non customer-facing areas of the Bank's premises is restricted;
- data back-up is performed and back-up data storage is supported;
- the Bank's primary information system is duplicated – there is a standby IT centre (Reserve Centre) located outside the Bank's Head Office;
- there is an Uninterrupted Operating Support Plan (emergency plan and procedures for switching to standby IT centre and supporting its operations); and
- the Bank's premises (both owned and leased), equipment and property, ATMs and cash in ATMs, and official vehicles are insured with insurance companies; the Bank also has Bankers Blanket Bond insurance.

The Bank's Legal Department monitors and oversees the management of legal risks. This includes applying procedures to protect against the risk of providing loans to entities which lack requisite power or authority and against the risk of failure to secure loans over relevant assets in an effective manner.

Lending Policies and Procedures

Credit Council, Credit Committee and Credit Commissions

The Bank's Credit Council and Credit Committee are responsible for implementing the Bank's lending strategy and forming a balanced and diversified loan portfolio. Lending decisions are taken by the Credit Council, Credit Committee and BCCs within the limits of their respective authorities. The table below sets out the lending limits established by the Bank, which are in line with the NBU requirements:

	Corporate Lending	Retail Lending	Inter-bank Lending
Credit Council	Up to 25% of the Bank's regulatory capital	Up to 25% of the Bank's regulatory capital	Up to U.S.$15 million (or its equivalent in other currency)
Credit Committee	Up to U.S.$2 million (or its equivalent in other currency)	Up to U.S$100,000 (or its equivalent in other currency)	–
BCCs	Up to U.S.$300,000 in total per borrower (or its equivalent in other currency)	Up to U.S.$50,000 (or its equivalent in other currency)	–

Credit Review Process

Credit applications to the Bank are considered by a variety of decision-making bodies, depending on the business segment.

Over 90 per cent. of corporate lending decisions are made by credit bodies of the Bank's head office (by the Credit Council and Credit Committee). Retail lending decisions are made in branches (by BCCs), being made on the basis of standardized credit products and within predefined authority limits. Any applications and decisions that are not standard or exceed authority of the branch are referred for consideration to the Bank's head office. A Credit officer, a legal adviser of the branch, a member of the Security Division and a risk manager typically participate in consideration of a credit application made by a corporate client.

The approval procedure for both corporate and retail customers is illustrated below:

Initiation	– *Preliminary negotiations with a potential borrower* – *Informing clients of parameters, terms and conditions of lending* – *Explaining loan approval process*
Preparatory stage	– *Collecting documentation, verifying company and management background (in the case of corporate borrowers)* – *Assessing strengths and weaknesses of the borrower (financial, market and commercial risks)* – *Based on the conclusions of a credit officer, an authorised employee of the Bank may take a decision at this stage to reject a loan*
Verification stage	– *Borrower's business activity is verified; borrower's credit-worthiness analysis is conducted* – *Joint effort of the Credit, Legal, Risk Management and Security departments*
Decision taking	– *A decision on the loan is taken by the appropriate BCC/Credit Committee/Credit Council (as the case may be)*
Finalisation	– *Preparation of credit file* – *Disbursement of funds*

The Bank extends very few unsecured loans (the Management estimates this to be approximately 2 per cent. of the Bank's total loan portfolio as at 30 September 2006). The unsecured loans extended by the Bank include a limited number of overdraft facilities.

ALCO determines the Bank's loan pricing strategy. ALCO sets interest rate policy of the Bank and reviews such decisions monthly. The interest rates established by ALCO are based upon the term and currency of a particular loan and sources of funding for such loan, together with information on the borrower including credit record and rating and use of funds.

The authorised limits applicable to credit decisions that branches may take without having to refer to the Credit Committee are determined according to the following criteria: quality of credit portfolio, the qualifications of the staff involved in lending activities and adherence to the Bank's requirements for conducting credit operations.

Projects in respect of which branches receive loan applications in excess of their respective lending limits are subject to a procedure of coordination with the Bank's head office. Officers within the Credit Committee check each loan application exceeding such authorised limit to ensure that it conforms to internal regulations and to the Bank's credit policy and then the Credit Committee or the Credit council approve or deny the disbursement of funds.

The Bank is continuously working on the improvement of its lending procedures and training of staff working in this field to reduce credit risks.

Security Division

When considering a credit application, the Security Division of the Bank verifies the authenticity of the data given by the borrower, the client's reputation and checks for compromising materials. In addition, the NBU has recently established a central credit bureau in Ukraine which is intended to maintain records of individuals' credit histories and there are additional databases from which the Bank expects to obtain credit records.

Collateral

The Bank believes that collateral is an essential means of minimising credit risk, albeit that it should not be considered to be the principal source of repayment of a loan. The Bank seeks different types of collateral for each loan granted. The most common forms of collateral accepted by the Bank as security from both corporate and retail borrowers are real estate, equipment and vehicles. The Bank also accepts inventory and rights to property and securities as collateral. Collateral eligibility is determined by taking into account the form of ownership of the borrower, its credit history, financial performance, credit rating and the term of the loan being considered.

Property to be pledged as collateral is also subject to independent appraisal or appraisal by the Bank's credit officers.

Collateral is required to offset the risk of non-payment of principal and interest. The provision of collateral is mandatory for all types of credit, except for unsecured overdrafts. The size of collateral required is determined by the credit rating of the borrower and the type of collateral proposed to be pledged. The value of, for example, real estate collateral pledged must cover a minimum of approximately 150 per cent. of the amount of the loan, including interest.

The monitoring of pledged property is carried out through inspections made by a branch's credit officers no less than every three months for real estate collateral, equipment and vehicles and monthly for operating goods and property rights collateral.

The proportion of collateralised loans was approximately 98 per cent. of the Bank's total loan portfolio as at 30 September 2006 and as at 31 December 2005. This proportion has not changed significantly during 2006.

Loan Classification and Allowances

Provisioning Policy for Statutory Reporting Purposes

The Credit Council sets the amount of provisions for potential losses on loans and advances. In accordance with existing NBU regulations, the Bank creates provisions based on the following three risk evaluation factors:

- the borrower's financial status and creditworthiness;
- loan servicing; and
- loan security.

A borrower's financial status and creditworthiness is based on a five-level credit rating system (from A to E in descending order). Loan servicing is rated on the basis of compliance with the schedule of repayment of principal and payment of interest. According to the NBU regulations, a loan is regarded as poorly-serviced if the delay in the repayment of principal or any interest payment is over seven calendar days. The credit ranking matrix currently in use is based on lowering the credit rating as the borrower descends to a lower class or if the debt servicing index worsens. Loan security assessment is based on the pledged property evaluation system used in the Bank. Depending on the kind of pledged property and debt classification, the cost of pledged property is discounted at the established rate.

The Credit Committee is responsible for classifying any loans as non-performing loans. Where it considers any such loan to be operating at a loss, the Credit Committee will inform the Credit Council and the Management Board and such loan would further be managed by the Bank's Non-Performing Loans Division. The Bank creates provisions in respect of its non-performing loans in accordance with NBU requirements.

Risk Categories of Credit Operations

The table below sets forth the risk classification of credit operations relating to the Bank's provisioning policies in terms of risk categories prescribed by the NBU.

Class of Borrower in terms of financial condition	Good[1]	Poor[2]	Unsatisfactory[3]
A (Best)	Standard	Watch	Substandard
B	Watch	Substandard	Substandard
C	Substandard	Substandard	Doubtful
D	Doubtful	Doubtful	Bad
E (Worst)	Doubtful	Bad	Bad

1 If principal and interest payments are made when due or are overdue by 7 days or less; or a loan has been prolonged (without the borrower's downgrading) for less than 90 days and interest payments are overdue by 7 days or less.

2 If principal payments are overdue by more than 7 days but less than 90 days and interest payments under such loan are paid when due or are overdue by less than 30 days; or a loan has been prolonged (with the borrower's downgrading) for more than 90 days but less than 180 days and interest payments under such loan are overdue by not more than 30 days.

3 If principal payments are overdue by more than 90 days; or the loan has been prolonged (with the borrower's downgrading) for more than 180 days.

The following table sets out NBU requirements on the percentage of the value of collateral used when calculating necessary loan loss provision(s) depending on the security category and the classification of the secured loan prescribed by the NBU:

Lending operation classification	Titles to money deposits and registered deposit certificates issued by the creditor bank, title to money deposits for interbank operations: The same currency as the loan/ freely convertible currency	Titles to money deposits and registered deposit certificates issued by the creditor bank, title to money deposits for interbank operations: Different currency from credit operation	Banking metals	Govt. securities	Non-govt. securities	Residential real estate UAH loans	Residential real estate foreign currency loans	Other real estate	Property rights for future residential real estate (used for calculations for 2 years from the credit date)	Moveable property and precious metals	Other property rights
Standard	100%	90%	80%	100%	50%	70%	50%	50%	50%	50%	30%
Watch	100%	90%	80%	80%	40%	70%	50%	50%	40%	40%	20%
Substandard	100%	90%	60%	50%	20%	40%	40%	40%	20%	20%	10%
Doubtful	100%	90%	20%	20%	10%	20%	20%	20%	10%	10%	5%
Bad	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Based on the risk category of the credit operation and the valuation of the collateral performed as outlined in the previous two tables, the Bank calculates the amount of net risk subject to provisioning according to the rates specified in the table below.

Risk category of the credit operation	Provisioning rate	Provisioning rate (for transaction in foreign currency, where the borrower does not have proceeds in the respective foreign currency)
Standard	1%	2%
Watch	5%	7%
Sub-standard	20%	25%
Doubtful	50%	60%
Bad	100%	100%

The Bank's internal credit rating system is based upon the existing NBU requirements and the IFRS standards. The Bank has also established an internal credit rating system for assessing each loan, which is based on its expert assessment of the expected level of losses that the Bank may incur based on its evaluation of risks and its historical loss experience. The Bank's internal credit risk rating system forms the basis of the calculation of the provision for loan impairment.

The following table sets out information on the percentage of the value of unconditional guarantees used when calculating necessary loan loss provision(s), depending on the type of guarantor:

Landing operation classification	Cabinet of Ministers of Ukraine	Government of category "A" country	IBRD, EBRD	Bank with credit rating of at least investment grade backed by a guarantee from a Ukrainian bank
Standard	100%	100%	100%	100%
Watch	100%	100%	100%	100%
Sub-standard	50%	100%	100%	100%
Doubtful	20%	20%	20%	20%
Bad	0%	0%	0%	0%

Assessment of Provision for Loan Impairment for IFRS Reporting Purposes

Under IFRS, credit risk provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect the amounts due according to original contractual terms. The amount of the provision is the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the instrument's original effective interest rate.

A loan impairment estimation exercise follows certain steps and procedures, as described below:

1. Identification of loans that are individually significant, i.e. those loans which if fully impaired would have a material impact on the expected average level of operating profit of the Bank.

2. Determination of whether an individually significant loan shows objective evidence of impairment or not. Special emphasis is placed on the timing of the contractual cash flows from interest payments and principal repayments. If the Bank expects to collect all interest and principal due in full, but it is probable that those cash flows will be received later than the date agreed in the original contract, an impairment calculation is performed. Other impairment indicators include but are not limited to: any significant financial difficulty of the borrower; an actual breach of the loan contract; a high probability of bankruptcy or other financial reorganisation of the borrower, recognition of an impairment loss on that asset in a prior financial reporting period; or a historical pattern of collections of loans that indicates that the entire principal and interest amount of a loan portfolio will not be collected.

3. Review for impairment of individually significant loans that show objective evidence of impairment. An impairment review requires an estimate of the expected amounts of cash flows from interest and principal repayments and other cash flows, including amounts recoverable from guarantees and collateral, and discounting them at the loan's original effective interest rate. In cases where the Bank's management feel unable to make a reliable evaluation of an expected cash flow, an expert evaluation is used. The loan is impaired if its carrying amount exceeds the estimated recoverable amount as defined above. A separate impairment loss on an impaired individually significant loan is recorded.

4. All remaining loans that have not been identified as individually significant should be assessed on a portfolio basis if there are signs that impairment is present in those portfolios. For the purpose of such a review, the portfolio of loans should be grouped in pools, based on similar credit risks characteristics. Such pools should be further assessed for impairment as if they were a single asset. An expert evaluation is used in regard to such pools, as the Ukrainian market does not contain adequate statistics for loss probability.

The Bank monitors the quality of its loan portfolio and reviews its risk assessment results on a monthly basis. Such assessments are performed for each of the Bank's loans. The existence of an impairment loss for a loan is based on the credit risk assigned to an individual borrower or group of similar borrowers and the relevant historical loss experience. The Bank also analyses any risk mitigating factors, such as guarantees received and the fair value and quality of collateral.

The Bank's provision for loan impairment on its loan portfolio was U.S.$21.6 million as at 30 September 2006. The provision for loan impairment on the Bank's loan portfolio as at 31 December 2005 and 2004 was U.S.$13.9 million and U.S.$10.7 million respectively, an increase of 29.9 per cent, corresponding with growth of the Bank's net loan portfolio of 96.3 per cent. for the year ended 31 December 2005.

Problem Loan Recovery

The Bank's has internal procedures relating to problem loan recovery developed on the basis of requirements of Ukrainian legislation and detailed in a series of internal regulations of the Bank. These internal regulations contain a comprehensive set of procedures, intended to enable the Bank to obtain repayment on non-performing loans (**"NPLs"**).

The Bank has established the Problem Loan Division (**"PLD"**) which is a specific unit within the Bank's structure responsible for taking economic and legal measures in respect of defaulting borrowers necessary to ensure repayment of NPLs. The PLD is authorised to engage representatives of any of the Bank's units and divisions (including those of branches and smaller outlets) in order to efficiently perform its functions. The PLD is based in, and managed from, the Bank's head office in Kyiv.

Loans are designated as NPLs by the Bank's Credit Committee upon submission for consideration by any unit or division of the Bank. Each case of a NPL is considered by the Credit Committee separately based on an individual approach, and the specific circumstances relating to each loan, and opinion of the PLD is taken into consideration before confirming the NPL. As soon as any loan is confirmed by the Credit Committee to be a non-performing it is referred to the PLD.

Upon referral of a problem loan to the PLD, the latter carries out a comprehensive economic and legal analysis of the problem indebtedness and determines the cause of late payments or failure to pay. Based on the results of such analysis the PLD issues a report in which it specifies measures to be taken to ensure maximum possible repayment under the NPL. The main actions which may be taken by the PLD for debt collection include contractual set-off of funds held by the Bank, initiating and handling enforcement proceedings and measures for sales of property of the debtor and/or the guarantor, initiating bankruptcy proceedings, working with debtors and/or guarantors to identify additional property, receivables and other resources which can be used for the debt repayment and cooperating with law enforcement agencies and other governmental authorities aimed at efficient satisfaction of the Bank's claims under problem loans. The PLD also conducts negotiations with the borrower over a problem loan either concurrently or prior to initiating any judicial proceedings in court. Negotiations with the borrower are usually aimed at debt restructuring and include obtaining additional security, guarantees by shareholders, increased interest rates and revised repayment schedules, all subject to approval by the Credit Committee.

If actions on overdue debt collection by enforcement against the borrower or its guarantors or enforcement of collateral have not resulted in repayment, and it is confirmed that the borrower has no financial means or property to settle the arrears and there are legal grounds to consider such debt as a bad debt, the Credit Committee submits an application to the Management Board for taking the decision to write such debt off against the Bank's provision for impairment. The procedure for writing off bad debts is regulated by the NBU and internal procedures of the Bank.

Selected Statistical Data and Other Information

Average Balance Sheet and Interest Rate Data

The table below presents the simple average balances for interest-earning assets and interest-bearing liabilities together with the related income and expense amounts, resulting in the presentation of the average yields and rates for the eight nine month period ended 30 September 2006 and the years ended 31 December 2005 and 2004. Average balances are based on the Bank's balances as at the beginning and at the end of the respective reporting periods.

	Nine months ended 30 September			Year ended 31 December					
	2006			2005			2004		
	Average Balance (unaudited) (US$ in thousands)	Interest (unaudited) (US$ in thousands)	Average yield rate (%)[1]	Average Balance (unaudited) (US$ in thousands)	Interest (unaudited) (US$ in thousands)	Average yield rate (%)	Average Balance (unaudited) (US$ in thousands)	Interest (unaudited) (US$ in thousands)	Average yield rate (%)
Assets									
Interest-bearing Assets									
Due from other banks	209,617	6,826	4.3	159,254	6,488	4.1	76,251	3,911	5.1
Loans to customers	466,282	47,453	13.6	271,857	34,397	12.7	153,666	22,258	14.5
Securities[2]	25,581	4,054	21.1	18,790	2,142	11.4	23,342	4,129	17.7
Total average interest-bearing assets	701,480	58,333	11.1	449,900	43,027	9.6	253,259	30,298	12.0
Non-interest-earning assets									
Cash on hand and in transit	15,967	N/A	N/A	17,835	N/A	N/A	15,738	N/A	N/A
Balances with the NBU	34,283	N/A	N/A	25,795	N/A	N/A	8,398	N/A	N/A
Other assets	5,417	N/A	N/A	2,667	N/A	N/A	1,894	N/A	N/A
Fixed assets	62,390	N/A	N/A	47,737	N/A	N/A	50,956	N/A	N/A
Investment property	2,586	N/A	N/A	2,377	N/A	N/A	N/A	N/A	N/A
Intangible assets	3,017	N/A	N/A	3,483	N/A	N/A	N/A	N/A	N/A
Non-current assets held for sale	363	N/A	N/A	363	N/A	N/A	N/A	N/A	N/A
Total average non-interest-earning assets	124,023	N/A	N/A	100,257	N/A	N/A	76,986	N/A	N/A
Total average assets	825,502	N/A	N/A	550,155	N/A	N/A	330,243	N/A	N/A

(1) Ratios are annualised.

(2) Securities include Securities at fair value through profit or loss, investment securities available for sale and investment securities held to maturity and trading securities.

	Nine months ended 30 September 2006			Year ended 31 December 2005			2004		
	Average Balance (unaudited) (US$ in thousands)	Interest (unaudited) (US$ in thousands)	Average yield rate (%)[1]	Average Balance (unaudited) (US$ in thousands)	Interest (unaudited) (US$ in thousands)	Average yield rate (%)	Average Balance (unaudited) (US$ in thousands)	Interest (unaudited) (US$ in thousands)	Average yield rate (%)
Liabilities and equity									
Interest-bearing liabilities									
Due to banks[2]	81,719	3,460	5.6	88,665	3,365	3.8	49,401	2,394	4.8
Customer accounts	423,047	15,039	4.7	286,198	12,462	4.4	167,978	6,574	3.9
Certificates of deposit issued	2,259	218	12.9	1,927	646	33.5	699	75	10.7
Other borrowed funds	168,758	10,242	8.1	75,041	2,453	3.3	25,436	1,609	6.3
Total average interest-bearing liabilities	675,783	28,959	5.7	451,831	18,926	4.2	243,514	10,652	4.4
Non-interest-bearing liabilities and equity									
Current income tax liability	1,301	N/A	N/A	422	N/A	N/A	N/A	N/A	N/A
Other liabilities	4,532	N/A	N/A	4,070	N/A	N/A	3,684	N/A	N/A
Deferred tax liability	6,685	N/A	N/A	4,559	N/A	N/A	4,419	N/A	N/A
Total equity	137,203	N/A	N/A	89,275	N/A	N/A	78,628	N/A	N/A
Total non-interest-bearing liabilities and equity	149,721	N/A	N/A	98,326	N/A	N/A	86,731	N/A	N/A
Total average liabilities and equity	825,502	N/A	N/A	550,155	N/A	N/A	330,243	N/A	N/A

(1) Ratios are annualised.

(2) Due to banks includes due to the National Bank of Ukraine and due to other banks.

	Nine months ended 30 September 2006	Year ended 31 December 2005	Year ended 31 December 2004
Bank performance ratios, %			
Net interest margin[1]	5.6	5.4	7.8
Net non interest income to income before operating expenses[2]	40.6	48.1	44.9
Cost to income ratio[3]	63.3	70.6	71.0
Return on average assets[4]	1.4	1.5	2.0
Return on average equity[5]	8.2	9.4	8.6
Balance sheet ratios			
Customer loans to customer accounts[6]	122.9	94.7	95.6
Customer loans to total assets[7]	60.5	51.1	46.5
Equity to total assets[8]	19.0	13.4	21.2
Capital adequacy ratio[9]	23.0	19.0	26.0
NBU total capital adequacy ratio[10]	13.0	13.0	19.0
Asset quality ratios			
Provision for impairment of loan portfolio to total customer loans[11]	3.6	3.7	5.5
Provision charge to total customer loans[12]	1.5	1.5	1.6

(1) Net interest margin was calculated as net interest income before impairment of interest earning assets divided by the simple average of interest earning assets after allowance for provision as at the beginning and the end of the period (i.e. due from other banks, loans to customers and securities). The ratios are annualised if necessary.

(2) Net non interest income to income before operating expenses was calculated as net non-interest income (operating income, excluding net interest income) divided by operating income.

(3) Cost to income ratio was calculated as operating expenses divided by operating income.

(4) Return on average assets was calculated as net profit for the period divided by the simple average of total assets at the beginning and end of the period. The ratios are annualised if necessary.

(5) Return on average equity was calculated as net profit for the period divided by the simple average of total equity at the beginning and end of the period. The ratios are annualised if necessary.

(6 Loans to customers to customer accounts was calculated as loans to customers after provision for impairment as at the end of the period divided by customer accounts at the end of the period.

(7) Loans to customers to total assets was calculated as loans to customers after provision for impairment as at the end of the period divided by total assets as at the end of the period.

(8) Equity to total assets was calculated as total equity as at the end of the period divided by total assets as at the end of the period.

(9) Capital adequacy was calculated based on the requirements and methodology defined in the 1988 Basel Accord.

(10) Capital adequacy was calculated based on the requirements and methodology defined by the National Bank of Ukraine.

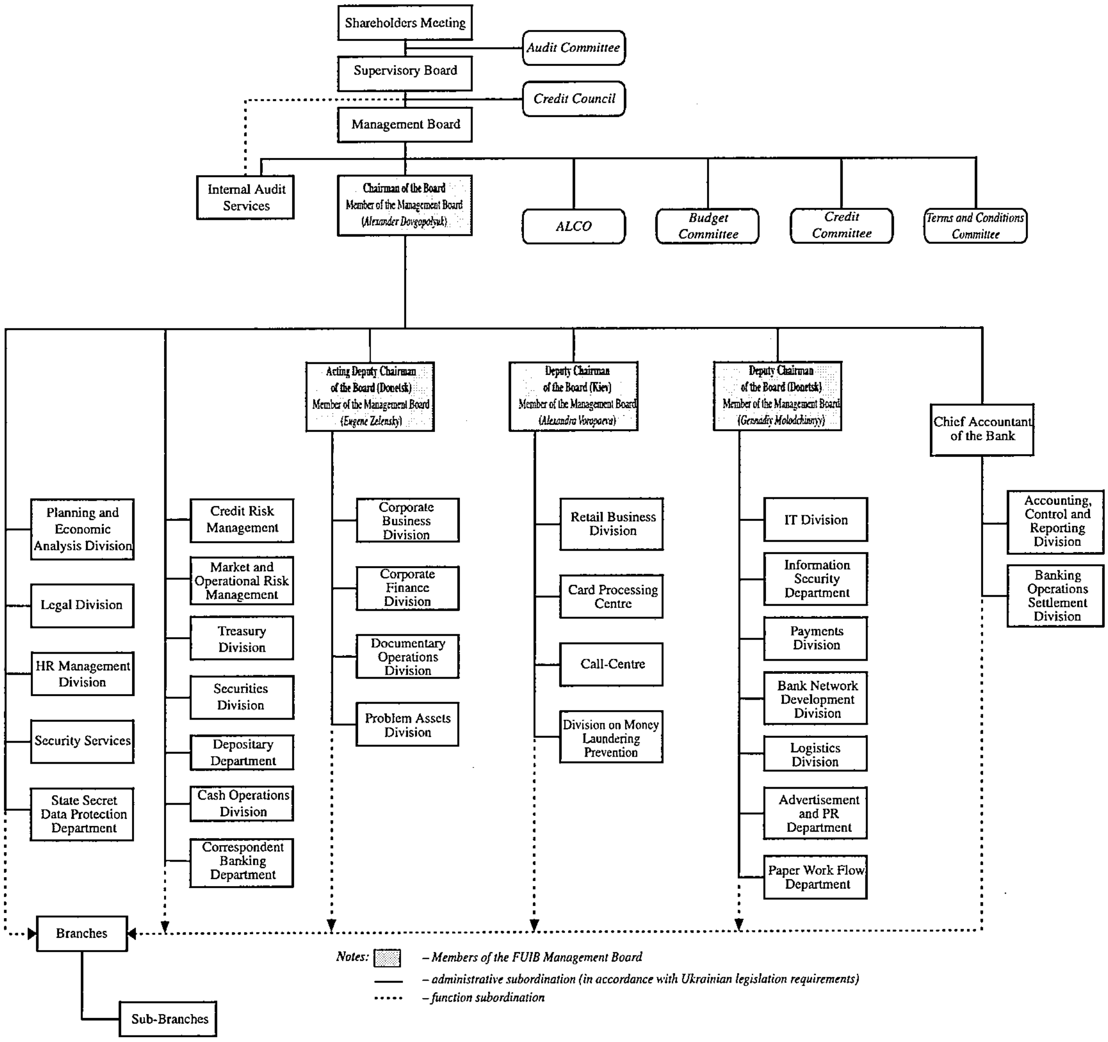
(11) Provision for impairment of loan portfolio to total loans to customers was calculated as provision for impairment of total loans to customers as at the end of the period by total loans to customers before allowance for impairment as at the end of the period.

(12) Provision charge to total loans to customers was calculated as impairment charge for total loans to customers for the period divided by total loans to customers before allowance for impairment as at the end of the period.

Management

The Bank's current Charter was approved by the General Meeting of Shareholders of the Bank on 15 August 2006 and registered with the NBU on 14 September 2006. The Bank's governing bodies are the General Meeting of Shareholders, the Supervisory Board, and the Management Board. The Bank's controlling bodies are Auditing Committee and Internal Auditing Service.

The following diagram sets out the organisational structure and reporting lines of the Bank:



General Meeting of Shareholders

The General Meeting of Shareholders is the supreme governing body of the Bank. The authority of the General Meeting of Shareholders includes, amongst others, the following:

- determining the main areas of operations for the Bank and approving reports on implementation thereof;
- approving amendments to the Bank's Charter;
- approving changes to the share capital of the Bank;
- appointing and dismissing the Chairman and the members of the Supervisory Board and the Auditing Committee;

- approving annual results of the Bank's activities (including any subsidiaries) and approving reports and conclusions made by the Audit Committee and external auditors;
- approving profit distribution;
- terminating the business operations of the Bank;
- taking decisions on the issuance, distribution and sale of shares and convertible securities of the Bank;
- purchasing shares issued by the Bank; and
- approving the Bank's readjustment procedure.

The first seven powers listed above lie within the exclusive scope of authority of the General Meeting of Shareholders and may not be delegated to the other governing bodies of the Bank. Being the supreme body of the Bank, the General Meeting of Shareholders is also authorised to make any other decisions concerning the Bank's activity. The General Meeting of Shareholders may decide to delegate certain other functions, other than first seven listed above, to the Supervisory Board or the Management Board of the Bank. Decisions to (i) approve amendments to the Bank's charter and (ii) terminate the Bank's business operations require a qualified majority of 75 per cent. of voting shares. Other matters are decided by a simple majority vote.

As majority shareholder of the Bank, SCM Finance has the ability to determine the outcome of the General Meeting of Shareholders. SCM Finance is also the majority shareholder of Dongorbank. See "Risk Factors – Risks Related to the Bank – The Bank has common ownership and common Supervisory Board membership with Dongorbank"

Supervisory Board

The Supervisory Board is not directly involved in the day-to-day management of the Bank but plays a significant role in overseeing and monitoring the business activities of the Bank. The Supervisory Board represents the interests of the Bank's shareholders between the meetings of the General Meeting of Shareholders and exercises control over the activities of the Management Board. Members of the Supervisory Board are elected by the General Meeting of Shareholders from among the Bank's shareholders or their representatives for a three-year term. Members of the Supervisory Board may be re-elected. The General Meeting of Shareholders sets the number of members of the Supervisory Board. The Supervisory Board meets regularly according to a schedule of meetings approved by it. Any member of the Supervisory Board or the Management Board may convene an extraordinary meeting. The Supervisory Board is accountable to the General Meeting of Shareholders.

The responsibilities of the Supervisory Board include the following:

- appointing and dismissing the Chairman and members of the Management Board;
- determining the terms and conditions of remuneration for the Chairman and members of the Management Board;
- exercising control over the activities of the Management Board;
- approving Regulations on the Management Board;
- appointing the Bank's external auditor;
- managing the activity and appointing the Head of the Internal Audit Department;
- establishing, re-organising and liquidating subsidiaries, branches and representative offices of the Bank, and approving their charters and regulations;
- approving the composition of the Credit Council of the Bank and the Regulations thereon;
- deciding upon the general organisational structure of the Bank;

- approving the strategic plan and the annual economic and financial plans and operating budgets as well as any amendments thereto;
- examining the Bank's financial statements and the reports of the Management Board;
- making decisions on the application to the National Bank of Ukraine with regard to alterations in the banking license;
- deciding upon the purchase or sale by the Bank of shares in other enterprises;
- prior to the decision of the General Meeting of Shareholders, deciding on increase or decrease of the authorised capital of the Bank, and deciding on issue, distribution or sale of shares and convertible securities of the Bank;
- making decisions on the approval of any agreement for amounts in excess of 20 per cent. of the value of the Bank's equity capital.

The name, position, qualifications and certain other information relating to each member of the Supervisory Board are set out below:

Name	Age	Position in the Supervisory Board
Dr. Horst Beck	54	Chairman of the Supervisory Board
Dr. Lajos Farkas	32	Deputy Chairman of the Supervisory Board
Mr. Dmitriy Yurgens	32	Member of the Supervisory board
Mr. Sergey Chernenko	33	Member of the Supervisory Board

Dr. Horst Beck (age 54) has been the Chairman of the Supervisory Board since February 2005. Dr. Beck graduated from Johannes Gutenberg University of Mainz (Germany). He holds a diploma in Macroeconomics and a PhD in Political Science. Prior to joining the Bank, Dr. Beck was employed by McKinsey & Company Inc. ("**McKinsey**") for 18 years, and was responsible for approximately 30 per cent. of McKinsey's worldwide activities with financial institutions. In 2001 Dr. Beck retired as active director of McKinsey to become a consultant to leading financial institutions in Europe, Australia and the U.S. Dr. Beck is an independent member of the Supervisory Board and is not connected with the SCM Group. Dr. Beck remains a member of McKinsey's advisory board.

Dr. Lajos Farkas (age 32) has been the Deputy Chairman of the Supervisory Board since February 2005. Dr. Farkas is also the General Manager of "SCM FINANCE" LTD. Dr. Farkas graduated from Technical University of Braunschweig (Germany). He holds a Diploma in Economics and Engineering and PhD in Economics. Dr. Farkas has worked with the SCM Group since January 2005 as Senior Manager responsible for all financial institutions of the group. Prior to joining the SCM Group, Dr. Farkas worked for 7 years with McKinsey, specialising in financial services industries. Dr. Farkas is also the Chairman of the Supervisory Board of CJSC Dongorbank.

Mr. Dmitriy Yurgens (age 32) has been a Member of the Supervisory Board since October 2003. He is also Deputy General Manager of "SCM FINANCE" LTD. Mr. Yurgens graduated from Central European University (Hungary) and holds a MSc degree in Political Economy and Finance. He also holds a MSc degree in Financial Management and Accounting/Financial Institutions from National University of Economics (Ukraine). He has been employed with the SCM Group since January 2003. Prior to joining the SCM Group, Mr.Yurgens had been employed for 3 years as Business Development Manager/Sales and Marketing Leader by Marsh Ukraine (Marsh and McLennan Companies) and for 3 years as Back Office Department and Operations Manager by Bank Sociëté Generale, Ukraine. Mr. Yurgens is also Deputy Chairman of the Supervisory Board of CJSC Dongorbank.

Mr. Sergey Chernenko (age 33) has been a Member of the Supervisory Board since February 2006. He is a Deputy General Manager of "SCM FINANCE" LTD. Mr. Chernenko graduated from Donetsk State Technical University. He holds a professional degree in International Economic Relations / Management of international economic activity of enterprises. Mr. Chernenko also holds qualifications in Financial Risks Management from the International Financial Training Academy (Switzerland) and in System Economic Risk Analysis from the Banking Association for Central and Eastern Europe (Hungary). Mr. Chernenko has been employed by the Bank since February 1997. Mr. Cherneko is also a member of the Supervisory Board of CJSC Dongorbank.

The business address of the members of the Supervisory Board is First Ukrainian International Bank, 2a Universytetska Str., Donets'k 83000, Ukraine.

Three members of the Bank's Supervisory Board are also members of Dongorbank's Supervisory Board. See "Risk Factors – Risks Related to the Bank – The Bank has common ownership and common Supervisory Board membership with Dongorbank".

Management Board

The Management Board (the "**Board**") is an executive body of the Bank and is responsible for the day-to-day management of the Bank. The Board acts on behalf of the Bank within the scope of its authority and is accountable to the General Meeting of Shareholders and to the Supervisory Board of the Bank. The Board organises and manages the operations of the Bank, which includes monitoring the implementation of resolutions approved by the General Meeting of Shareholders and the Supervisory Board. The composition of the Board and the terms of office of its members are determined by the Supervisory Board. Meetings of the Board are held at least once a month.

The powers of the Board include, inter alia, the following:

- taking preliminary decisions upon all issues which should be further submitted for approval by the General Meeting of Shareholders and the Supervisory Board, and preparing the documents and drafts of resolutions on the respective issues;
- preparing proposals on the further development of the Bank, opening of subsidiaries, branches and representative offices and organising implementation of the plans, approved by the Supervisory Board;
- developing the organisational structure of the Bank, its branches, representative offices, outlets and units, deciding on issues of general management of outlets and preparing regulations thereon;
- organising drafting, revising and preliminarily approving the financial and marketing plans, credit policy, and annual reports of the Bank;
- deciding on activities of the Bank;
- monitoring operations of the Bank's committees;
- deciding on general issues of the Bank's operations, on business accounting, and entering into inter-bank transactions;
- setting general conditions and terms of taking liabilities by the Bank;
- deciding on general issues of human resources management;
- taking decisions on write-off of non-performing loans.

The Chairman of the Board manages the work of the Board and current activities of the Bank and is entitled, within the scope of his/her authorities, to represent the Bank in relations with state authorities, to enter into and sign agreements on behalf of the Bank, and to issue powers of attorney.

The name, position, qualifications and certain other information relating to each member of the Management Board are set out below:

Name	Age	Position
Mr. Alexander Dovgopolyuk	45	Chairman of the Board
Mr. Gennady Molodchinny	51	Deputy Chairman of the Board
Mr. Eugene Zelensky	45	Acting Deputy Chairman of the Board
Ms Alexandra Voropayeva	35	Deputy Chairwoman of the Board

Mr. Alexander Dovgopolyuk (age 45) has served as Chairman of the Board since November 2005. Previously, Mr. Dovgopolyuk occupied positions of the Acting Chairman and Deputy Chairman of the Board. Before joining the Bank in 1994 he had worked for 16 years in various industries. Mr. Dovgopolyuk holds a degree in Finance and Credit from Donetsk State University (Ukraine). Mr. Dovgopolyuk also graduated from Military Engineering Institute (Russia) with qualification in radio-engineering.

Mr. Gennady Molodchinny (age 51) has served as Deputy Chairman of the Board since November 1999. He has 30 years of commercial experience including Head of International Business Department, Deputy Director General and subsequently as Director General of joint Ukrainian-English enterprise "Don" Association from 1991 to 1997. Mr. Molodchinny holds degrees in Law and Applied Mathematics from Donetsk National University (Ukraine).

Mr. Eugene Zelensky (age 45) has served as Acting Deputy Chairman of the Board since February 2006. He had 21 years of work experience in various industries prior to joining the Bank in 2004. He holds a degree in Mechanical Engineering from Donetsk State University of Economics and Trade (Ukraine) and a degree in Marketing from Zhdanov Metallurgical Institute (Ukraine).

Ms Alexandra Voropayeva (age 35) has served as Deputy Chairwoman of the Board since September 2006. Ms Voropayeva had 15 years of work experience in various industries prior to joining the Bank as Acting Deputy Chairwoman of the Board in March 2006. She holds MBA degree from International Management Institute (Ukraine) and a degree in Mechanics and Applied Mathematics from Moscow State University (Russia).

The business address of the members of the Management Board is First Ukrainian International Bank, 2a Universytetska Str., Donetsk 83000, Ukraine.

Employees

As at 31 December 2006, the Bank had 1,937 employees 526 of whom were located at its head offices in Donetsk and Kyiv), as compared to 1,478 employees at 31 December 2005 and 1,377 employees at 31 December 2004. The Bank's employees are bound by a collective bargaining agreement (the "**Collective Bargaining Agreement**") entered into for 2005-2007 that sets forth salary terms and other benefits. The Collective Bargaining Agreement expires in 2007, although the Bank expects it to be renewed on the same terms. The Bank contributes to a statutory pension fund on behalf of its employees, in accordance with applicable legislation. The Bank does not provide any other pension benefits and therefore has no pension liabilities.

Employees are trained at existing branches and smaller outlets. The Bank is focused on providing standardised training to its staff in order to provide excellent customer service throughout its entire distribution network. The Bank requires that its employees have high qualifications and substantial knowledge of the banking industry. In order to recruit qualified and experienced employees and to increase employee retention, the Bank is establishing a number of programmes with leading Ukrainian educational institutions and attempts to provide an attractive salary package which is also in compliance with Ukrainian legislation. The Bank also engages the leading operators of the training market to provide training to its personnel. The Bank cooperates with the following training companies: National Centre of Bank Employees Training of Ukraine, "SalesMaster" training company, the consulting companies "Business Guaranty", "Adam Smith Institute" and others.

The Bank spent approximately U.S.$214,000 for employee recruitment and training during 2006, as compared to U.S.$179,000 and U.S.$220,900 for the years ended 31 December 2005 and 31 December 2004, respectively. Expenditure on employee recruitment and training was approximately U.S.$123,200 during the nine months ended 30 September 2006 compared to approximately U.S.$112,100 for the same period of 2005.

Salaries are paid to the Bank's employees according to standards and safeguards stipulated by Ukrainian employment legislation and the regulation on employees remuneration of the Collective Bargaining Agreement. The Bank is also implementing recommendations of the Hay Group (a global management consultancy), with respect to certain human resources issues. Ascertainment of basic pay is carried out with the help of Hay Group technology as provided by the Bank's strategic plan. Cooperation with Hay Group was initiated by Fortis Bank to establish and improve the Bank's systems of evaluation and motivation of personnel.

In addition, the Bank has an incentives programme for employees which provides for personal bonuses (payable quarterly to non-managerial staff depending on their individual performance) and premium (payable annually to managerial staff depending on the overall annual performance of the Bank). The Bank plans to launch a medical insurance scheme for its senior management in 2007, and further intends to expand the project to cover all its personnel following evaluation of the management scheme.

In common with other Ukrainian banks, the Bank faces certain difficulties in attracting qualified management personnel in regions of Ukraine away from Kiev. The Bank seeks to mitigate against this lack of qualified personnel by offering attractive remuneration packages, and by focusing on training and employee development in order to fill these roles.

The Bank has developed a staff loan programme as part of its motivation program. The staff loan program includes the provision of secured mortgage loans, car purchase loans, consumer loans and overdrafts, depending on the employee's position and length of service in the Bank.

No material disputes have occurred with employees to date.

Related Party Transactions

As at 30 September 2006, the amount of loans outstanding to related parties was U.S.$9.0 million, or 1.5 per cent. of the Bank's gross loan portfolio. As at 30 September 2006, U.S.$140.6 million, or 30.2 per cent. of the Bank's deposits were due to related parties of the Bank. Both these concentrations were reduced during the last three months of 2006. The Bank has an internal limit for related parties exposures of 30 per cent. of equity (which equated to approximately U.S.$59.8 million at 30 September 2006).

It is the Bank's policy that transactions with related parties are priced predominently at market rates and are subject to the same approval procedures and limits as are applied by the Bank to transactions with unrelated parties. Going forward, the Bank will comply with the provisions of the Loan Agreement with respect to affiliate transactions.

In the normal course of business the Bank enters into transactions with its direct and indirect significant shareholders and companies with which the Bank has direct and indirect significant shareholders in common. These transactions include loans, deposits, trade finance and foreign currency transactions. The outstanding balances as at 30 September 2006 and 31 December 2005 and income and expenses for the periods then ended are as follows:

	30 September 2006 (unaudited)			
	Parent company	Entities under common control of the Parent Company	Management	Other Related parties
		(U.S.$ thousands)		
Assets				
Loans to customers (interest rate, %)	–	8,906 (11.0)	85 (5.49)	53 (3.0)
Provision for loan impairment	–	252	2	11
Other assets	–	8	–	–
Liabilities				
Due to other banks (interest rate, %)	–	1,340 (0.38)	–	–
Customer accounts (interest rate, %)	2 (0.5)	139,184 (6.51)	268 (8.6)	1,165 (4.86)
Other liabilities	–	77	–	–
Credit related commitments				
Guarantees	–	976	–	–
Letters of credit	–	793	–	–
Provision for credit related commitments	–	19	–	–
For the nine months ended 30 September 2006 (unaudited):				
Income/expense				
Interest income	–	944	5	1
Interest expense	37	3,603	14	42
Fee and commission income	–	1,257	–	5
Provision for loan impairment	–	12	–	9
Provision for loses on credit related commitments	–	154	–	–
Lease expenses	–	127	–	–
Insurance expenses	–	338	–	–

	31 December 2005			
	Parent company	Entities under common control of the Parent Company	Management	Other Related parties
		(U.S.$ thousands)		
Assets				
Loans to customers (interest rate, %)	–	10,521 (12.5)	182 (3.8)	–
Provision for loan impairment	–	234	4	–
Liabilities				
Due to other banks (interest rate, %)	–	1,762 (0.5)	–	–
Customer accounts (interest rate, %)	4 (0)	87,789 (6.1)	207 (8.72)	661 (5.6)
Credit related commitments				
Guarantees	–	1,665	–	–
Letters of credit	–	2,650	–	–
Provision for credit related commitments	–	158	–	–
For the nine months ended 30 September 2005 (unaudited):				
Income/expense				
Interest income	–	568	5	–
Interest expense	–	839	10	4
Fee and commission income	2	1,180	–	–
Fee and commission expense	–	174	–	–
Provision for loan impairment	–	91	–	–
Provision for loses on credit related commitments	–	13	–	–
Other income	–	1	–	–
Lease expenses	–	130	–	–
Insurance expenses	–	229	–	–

During the nine months ended 30 September 2006 movements on related parties' loan accounts were as follows:

	Parent company	Entities under common control of the Parent Company	Management	Other Related parties
		(U.S.$ thousands)		
Loans granted to related parties during the period	0	44,569	–	1
Amounts repaid by related parties during the period	–	45,703	18	7

During the year ended 31 December 2005 movements on related parties' loan accounts were as follows:

	Parent company	Entities under common control of the Parent Company	Management	Other Related parties
		(U.S.$ thousands)		
Loans granted to related parties during the period	–	93,269	41	–
Amounts repaid by related parties during the period	–	89,296	51	–

For the nine months ended 30 September 2006, the remuneration of members of the Management Board comprised salaries of U.S.$0.4 million and benefits in kind of U.S.$0.1 million, including contributions to the State pension fund in the amount of U.S.$14 thousand. For the nine months ended 30 September 2005, the remuneration of the Management Board comprised salaries of U.S.$0.4 million and benefits in kind of U.S.$8 thousand, including contributions to the State pension fund in the amount of U.S.$13 thousand)

Share Capital and Principal Shareholders

SHARE CAPITAL

Increasing Share Capital

According to Ukrainian legislation, a bank may increase its share capital through additional cash subscriptions, upon all previously issued and subscribed shares having been paid in full by their holders. The general meeting of shareholders of a bank has the exclusive power to take decisions to increase a bank's share capital. This includes announcements of the subscription for new share capital setting out the main terms of an issuance, and upon completion of the subscription, decisions on making appropriate amendments to such bank's charter. Decisions on amendments to the charter (including the registration of increased share capital), are subject to registration by the NBU prior to becoming effective. The additional share issuance is to be registered with the SSMSC of Ukraine.

Any shareholder of a bank shall have a pre-emptive right to buy any additional shares to be issued by such bank. If, as a result of the acquisition of additional shares in a bank, a shareholder's aggregate direct and indirect holdings would increase over one or more thresholds at 10, 25, 50 or 75 per cent. of the Bank's total share capital, such shareholder must obtain prior written consent of the NBU for such acquisition.

Dividends

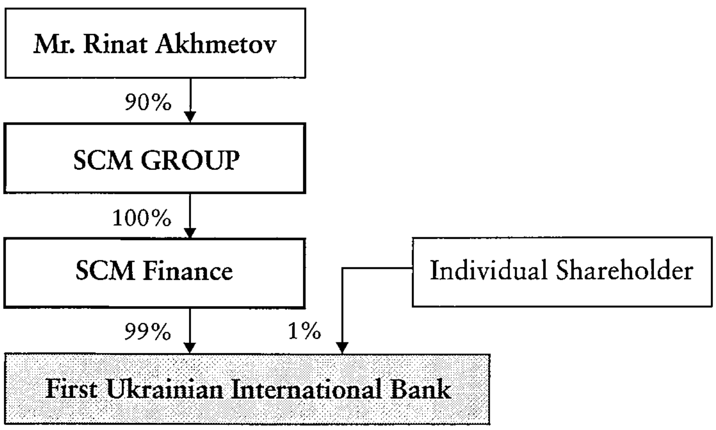
According to the provisions of the Bank's Charter and Ukrainian law, dividends may be distributed and paid once a year from the Bank's statutory annual net profit, subject to the decision of the General Meeting of Shareholders.

The Bank generally pursues a policy of capitalizing its profit and not declaring dividends. Generally, all the profits from the Bank's business have been retained by the Bank. However, in 2002 the shareholders declared dividends for 2001 in the amount of U.S.$1 million (21.5 per cent. of the Bank's net profit for 2001) in connection with the Bank's 10th anniversary.

PRINCIPAL SHAREHOLDERS

As at 1 November 2006, the Bank's authorised, issued and fully paid share capital was UAH 326,002,000 comprised of 1,417,400 ordinary shares with a nominal value of UAH 230 each.

The following chart shows the Bank's shareholding structure as at 1 December 2006:



The following table sets out the Bank's share capital structure as at 30 September 2006:

	Number of shares	Per cent.	Nominal value, UAH
Shareholder			
SCM Finance, Limited Liability Company	1,403,226	99.00	322,741,980
Individual shareholder	14,174	1.00	3,260,020
Total	1,417,400	100.00	326,002,000

The majority of shares in the Bank are beneficially owned by SCM Group (through its wholly-owned finance subsidiary SCM Finance, LLC), one of privately owned large industrial and financial conglomerates in Ukraine with its core activities in the areas of metals and mining, finance, energy generation and telecommunications.

In 2005 the SCM Group elected to simplify its holding structure in order to more efficiently manage the assets of the group and established four wholly-owned sub-holding companies (including SCM Finance, LLC managing the group's financial institutions) to manage the core businesses of the group. At the beginning of 2005, the Bank was 49 per cent. beneficially owned by the SCM Group (through its subsidiary Joint Stock Company "Trade House Azovstal"). In March 2005 SCM Finance, LLC acquired 50 per cent of the Bank's shares from Fortis Bank (20 per cent.), EBRD, IFC and DEG (each 10 per cent.), giving SCM Group indirect control over 99 per cent. of the Bank's shares. In May 2006 the 49 per cent. of the shares held by JSC "Trade House Azovstal" were transferred to SCM Finance, LLC, which became the registered holder of 99 per cent. of the Bank's shares.

The other major holding of SCM Finance, LLC is an interest comprising approximately 90 per cent. of Dongorbank, another Ukrainian bank, which has most of its business in the Donetsk region. See "Risk Factors – Risks Relating to the Bank – The Bank has common ownership and common Supervisory Board membership with Dongorbank".

As of the date of this Prospectus, Mr. Rinat Akhmetov beneficially holds a majority stake of 90 per cent. of the SCM Group. Mr. Akhmetov is not involved in the day-to-day management of the Bank or Dongorbank. The Bank's Supervisory Board is responsible for the strategic management and the Management Board for daily management of the Bank. See "Management".

Recent Developments and Outlook

Save as disclosed in this Prospectus, there has been no significant change in the Bank or the Bank's business since 30 September 2006.

The Bank expects that the current trends in the Bank's business will remain strong and continue to develop for the remainder of 2007.

The Issuer

The Issuer was incorporated as a private limited company in England and Wales under the Companies Act 1985 on 11 May 1987 with registered number 2130447. On 1 June 2005, the Issuer became a public limited company and changed its name from Standard Bank London Limited to Standard Bank Plc. The Issuer's registered office and principal place of business is at Cannon Bridge House, 25 Dowgate Hill, London EC4R 2SB. The Issuer is a bank and is authorised and regulated by the UK Financial Services Authority.

Neither the Issuer nor any of its affiliates is an affiliate of the Bank. The Issuer is a wholly-owned subsidiary of Standard Bank London Holdings Plc.

The authorised share capital of the Issuer is £300,000,000, comprising 299,999,999 ordinary shares of £1.00 par value and 1 "A" ordinary share of £1.00 par value and U.S.$700,000,001, comprising 700,000,000 ordinary shares and 1 "A" ordinary share of US.$1.00 par value each. The issued and fully paid share capital of the Issuer is U.S.$503,541,078, comprising 503,541,077 ordinary shares of U.S.$1.00 par value each and 1 "A" ordinary share of U.S.$1.00 par value, and £50,000, comprising 50,000 ordinary shares of £1.00 par value each.

The members of the Board of Directors of the Issuer are:

Chairman	J.H. Maree
Deputy Chairman	B.J. Kruger
Chief Executive........................	D. Duffy
Executive Director	R.A.G Leith
Executive Director	T.G. Wheeler
Non-Executive Directors	M.E. Austen, D.P.H Burgess, D.E. Cooper, C.J. Sheridan, T.R. Smeeton, M.E. Staunton and B.A. Ursell

The Issuer's auditors are KPMG Audit Plc. The financial year of the Issuer is the calendar year.

Since the Issuer's sole obligation in respect of the Notes is to make certain payments as and when payments on the Loan are received by the Issuer from the Bank pursuant to the Loan Agreement, financial information relating to the Issuer is not included in this Prospectus.

Loan Agreement

THIS AGREEMENT is made on 8 February 2007

BETWEEN:

(1) **CLOSE JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**, a close joint-stock company incorporated under the laws of Ukraine whose registered office is at 2A Universitetskaya Street, Donetsk, 83000, Ukraine, as borrower (the "**Borrower**"); and

(2) **STANDARD BANK PLC**, as lender (the "**Lender**"), a public limited company incorporated under the laws of England, whose registered office is at Cannon Bridge House, 25 Dowgate Hill, London, EC4R 2SB, United Kingdom.

WHEREAS:

The Lender has, at the request of the Borrower, agreed to make available to the Borrower a credit facility in the amount of U.S.$150,000,000 on the terms and subject to the conditions of this Agreement, it is agreed as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement the following terms have the meanings given to them in this Clause 1.1 (*Definitions*):

"**Account**" means the account with the account number 5737638400 in the name of the Lender with The Bank of New York;

"**Additional Amounts**" has the meaning set forth in Clause 8.1 (*Additional Amounts*);

"**Affiliate**" of any specified Person means (a) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person, (b) any other Person who is a director or officer of such specified Person, of any Subsidiary of such specified Person or of any Person described in Clause (a) above;

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body;

"**Auditors**" means LLC audit firm "PricewaterhouseCoopers (Audit)" or any internationally recognised firm of independent accountants approved in writing by the Lender, such approval not to be unreasonably withheld it being understood that it shall be reasonable for the Lender to withhold such approval if the Trustee does not approve of such firm in accordance with the relevant provisions of the Funding Documents;

"**Authorised Signatory**" means, in the case of the Borrower, any of the persons referred to in the certificate listed as item 3 in Schedule 1 (*Conditions Precedent Documents*) hereto and, in the case of the Lender, a Person who is a duly authorised officer of the Lender, at the relevant time;

"**Banking Business**" means, in relation to the Borrower or any of its Subsidiaries, any type of banking business (including, without limitation, any inter-bank operations, factoring, consumer credit and lending, commercial and residential property finance and mortgage lending, issuance of bank guarantees, letters of credit (and related cash cover provision), bills of exchange and promissory notes and making payments under such guarantees, letters of credit, bills and promissory notes, trading of securities, fund management and professional securities market participation) which it conducts or may conduct pursuant to its licence issued by the appropriate authorities, accepted market practice and any applicable law;

"**Borrowing Date**" means 14 February 2007 or such later date as may be agreed by the parties to this Agreement;

"**Capital Adequacy Requirements**" means a request or requirement relating to the maintenance of capital, including one which makes any change to, or is based on any alteration in, the interpretation of the International Convergence of Capital Measurement and Capital Standards (a paper prepared by the Basle Committee on Banking Regulations and Supervision dated July 1988, and amended in November 1991) or which implements any of the matters set out in the third consultative paper entitled "The New Basel Capital Accord" produced by the Basel Committee on Banking Supervision dated April 2003 (or the first consultative paper entitled "A New Capital Adequacy Framework" dated June 1999 or the second consultative paper dated January 2001) or which increases the amounts of capital required thereunder (other than a request or requirement made by way of implementation of the International Convergence of Capital Measurement and Capital Standards in the manner in which it is being implemented at the date hereof);

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, participations, rights to purchase, warrants, options or any other equivalent of any of the foregoing (however designated) in relation to the share capital of a company and any and all equivalent ownership interests in a Person other than a company, in each case whether now outstanding or hereafter issued;

"**Change of Control**" shall be deemed to have occurred if either of Mr. Rinat Akhmetov or Close Joint-Stock Company "System Capital Management" cease (on an aggregate basis whether by one or a series of transactions) to beneficially own directly or indirectly more than 50 per cent. of the voting rights attaching to Capital Stock of the Borrower conferring a right to appoint the general director or members of the management board, supervisory council or any other management body of the Borrower;

"**Change of Law**" means any of the enactment or introduction of any new law; the variation, amendment or repeal of an existing or new law; any ruling on or interpretation or application by a competent authority of any existing or new law; and the decision or ruling on, the interpretation or application of, or a change in the interpretation or application of, any law by any court of law, tribunal, central bank, monetary authority or agency or any Taxing Authority or fiscal or other competent authority or agency; which, in each case, occurs after the date hereof. For this purpose the term "law" means all or any of the following whether in existence at the date hereof or introduced hereafter and with which it is obligatory or customary for banks, other financial institutions or, as the case may be, companies in the relevant jurisdiction to comply:

(a) any statute, treaty, order, decree, instruction, letter, directive, instrument, regulation, ordinance or similar legislative or executive action by any national or international or local government or authority or by any ministry or department thereof and other agencies of state power and administration (including, but not limited to, taxation departments and authorities); and

(b) any letter, regulation, decree, instruction, request, notice, guideline, directive, statement of policy or practice statement given by, or required of, any central bank or other monetary authority, or by or of any Taxing Authority or fiscal or other authority or agency (whether or not having the force of law);

"**Double Tax Treaty**" means the Convention of 10 February 1993 between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Ukraine for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital Gains;

"**Event of Default**" means any circumstances described as such in Clause 14 (*Events of Default*);

"**Fees Letter**" means any letter agreement between, *inter alios*, the Borrower and the Lender setting out the fees, expenses and certain other amounts payable by the Borrower in connection with this Agreement;

"**First Interest Payment Date**" means 16 August 2007;

"**First Interest Period**" means the period beginning on (and including) the Borrowing Date and ending on (but excluding) the First Interest Payment Date;

"**Funding Documents**" means the Fees Letter, the subscription agreement, the trust deed or the agency agreement entered into in connection with the issue of the Funding Instruments and the Funding Instruments themselves;

"**Funding Instruments**" means the U.S.$150,000,000 9.750 per cent. Loan Participation Notes due 2010 proposed to be issued by the Lender pursuant to the Funding Documents on or about 14 February 2007 for the purpose of funding the Loan;

"**Group**" means the Borrower and its Subsidiaries from time to time taken as a whole;

"**Guarantee**" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(a) any obligation to purchase such Indebtedness;

(b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(c) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(d) any other agreement to be responsible for such Indebtedness;

"**IFRS**" means International Financial Reporting Standards, including International Accounting Standards and Interpretations, issued by the International Accounting Standards Board, as amended, supplemented or re-issued from time to time;

"**IFRS Fiscal Period**" means any fiscal period for which the Borrower has produced financial statements in accordance with IFRS which have either been audited or reviewed by the Auditors;

"**incur**" means issue, assume, guarantee, incur or otherwise become liable for; *provided that*, any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Subsidiary of another Person (whether by merger, consolidation, acquisition or otherwise) or is merged into a Subsidiary of another Person will be deemed to be incurred or issued by the other Person or such Subsidiary (as the case may be) at the time such Person becomes a Subsidiary of such other Person or is so merged into such Subsidiary;

"**Indebtedness**" means any indebtedness for, or in respect of, moneys borrowed or raised including, without limitation, any amount raised by acceptance under any acceptance credit facility; any amount raised pursuant to any note purchase facility or the issue of bonds, Funding Instruments, debentures, loan stock or any similar instrument; any amount raised pursuant to any issue of Capital Stock which is expressed to be redeemable; any amount raised under any other transaction having the economic effect of a borrowing (including any forward sale or purchase agreement) *provided that*, for the avoidance of doubt, such term shall not include any indebtedness owed to the State budget, any local budget or any non-budgetary fund of or in Ukraine for or on account of Taxes which are not overdue;

"**Indemnity Amounts**" has the meaning set out in Clause 8.3 (*Indemnity Amounts*);

"**Independent Appraiser**" means an investment banking firm or third party appraiser of international standing selected by the Borrower; *provided that* such firm or third party appraiser is not an Affiliate of the Borrower;

"**Interest Payment Date**" means 16 February and 16 August in each year in which the Loan remains outstanding with the last Interest Payment Date falling on the Repayment Date;

"**Interest Period**" means any of those periods mentioned in Clause 4 (*Interest Periods*);

"**Lead Managers**" means Standard Bank Plc and HSBC Bank Plc;

"**Loan**" means the loan made (or to be made) by the Lender hereunder in an amount of U.S.$150,000,000 or, as the context may require, the amount thereof from time to time outstanding;

"**Managers**" means the Lead Managers and the other managers referred to in the Funding Documents;

"**Material Adverse Effect**" means a material adverse change in, or material adverse effect on, the business, operations or financial condition of the Borrower or of the Group taken as a whole;

"**Material Subsidiary**" means, at any given time, any Subsidiary of the Borrower (a) whose total assets or gross revenues (or, where the Subsidiary in question prepares consolidated accounts, whose total consolidated assets or gross consolidated revenues, as the case may be) represent at least 10 per cent. of the total assets or, as the case may be, total revenues of the Borrower and its Subsidiaries and for these purposes (i) the total assets and gross revenues of such Subsidiary shall be determined by reference to its then most recent audited financial statements (or, if none, its then most recent management accounts) and (ii) the total assets and gross revenues of the Borrower shall be determined by reference to the Borrower's then most recent audited financial statements (or, if none, its then most recent management accounts), in each case prepared in accordance with IFRS, or (b) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Borrower which immediately before the transfer is a Material Subsidiary of the Borrower. A certificate by any two members of the board of the Borrower that, in their opinion, a Subsidiary of the Borrower is or is not a Material Subsidiary, accompanied by a report by the Auditors addressed to the board of the Borrower as to proper extraction of the figures used by the members of the board of the Borrower in determining the Material Subsidiaries of the Borrower and mathematical accuracy of the calculations shall, in the absence of manifest error, be conclusive and binding on all parties, provided that if the Borrower requests and uses reasonable efforts to obtain such a report of the Auditors and the Auditors will not provide the report, the certificate of two members of the Board alone shall, in the absence of manifest error, be conclusive and binding on all parties;

"**NBU**" means the National Bank of Ukraine;

"**Officers' Certificate**" means a certificate signed on behalf of the Borrower by two members of the board of the Borrower at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower;

"**Permitted Security Interests**" means:

(a) Security Interests arising in the ordinary course of Banking Business including, without limitation:

   (i) Security Interests arising pursuant to any agreement (or other applicable terms and conditions) which are standard or customary in the relevant market in connection with (x) contracts entered into substantially simultaneously for sales and purchases at market prices of precious metals and/or securities and (y) the establishment of margin deposits and similar securities in connection with interest rate and foreign currency hedging operations and trading in securities; and

   (ii) Security Interests upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any Repo;

(b) Security Interests granted by third parties in assets or rights of such third parties and which Security Interests are granted to the Borrower or any of its Subsidiaries;

(c) Security Interests on property acquired (or deemed to be acquired) under a financial lease, or claims arising from the use or loss of or damage to such property; *provided that* any such Security Interest secures only Indebtedness under such lease;

(d) Security Interests securing Indebtedness of a Person existing at the time that such Person is merged into or consolidated with the Borrower or becomes a Subsidiary of the Borrower; *provided that* such Security Interests were not created in contemplation of such merger or consolidation or event and do not extend to any assets or property of the Borrower already existing or any Subsidiary of the Borrower other than those of the Person, which is merged into or consolidated with the Borrower and the Subsidiaries of such Person or the Person acquired and its Subsidiaries;

(e) Security Interests already existing on assets or property acquired or to be acquired by the Borrower or a Subsidiary of the Borrower; *provided that* such Security Interests were not created in contemplation of such acquisition and do not extend to any other assets or property (other than proceeds of such acquired assets or property);

(f) Security Interests granted upon or with regard to any property hereafter acquired by any member of the Group to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition (other than a Security Interest created in contemplation of such acquisition); *provided that* the maximum amount of Indebtedness thereafter secured by such Security Interest does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property;

(g) any Security Interest upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any securitisation, asset-backed financing or similar financing structure whereby all payment obligations secured by such Security Interest or having the benefit of such Security Interest are to be discharged primarily from such assets or revenues; *provided that* the Indebtedness or Guarantee so secured pursuant to this paragraph (g) at any one time shall not exceed an amount in any currency or currencies equivalent to 15 per cent. of the Borrower's loans to customers before allowances for impairment (calculated by reference to the Borrower's consolidated balance sheet as at the end of its most recent IFRS Fiscal Period) and subject as provided in Clause 13.6 (*Disposals*);

(h) any Security Interests arising by operation of law;

(i) Security Interests incurred, or pledges and deposits in connection with workers' compensation, unemployment insurance and other social security benefits, and leases, appeal bonds and other obligations of like nature in the ordinary course of business, but specifically excluding any such Security Interest arising as a result of past due or delinquent obligations of the Borrower or a Subsidiary;

(j) Security Interests for *ad valorum*, income or property taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which the Borrower has set aside in its books of account reserves to the extent required by IFRS, as consistently applied;

(k) easements, rights of way, restrictions (including zoning restrictions), reservations, permits, servitudes, minor defects or irregularities in title and other similar charges or encumbrances in each case not interfering in any material respect with the business of the Borrower or any of its Subsidiaries and existing, arising or incurred in the ordinary course of business;

(l) any Security Interests not otherwise permitted by the preceding paragraphs (a) through (k), *provided that* the aggregate principal amount of the Indebtedness secured by such Security Interests does not at any time exceed 15 per cent. of the Group's assets, determined by reference to the Borrower's consolidated balance sheet as at the end of its most recent IFRS Fiscal Period; and

(m) any Security Interest arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by a Security Interest permitted by any of the above exceptions, *provided that* the Indebtedness thereafter secured by such Security Interest does not exceed the amount of the original Indebtedness and such Security Interest is not extended to cover any property not previously subject to such Security Interest;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, trust, institution, organisation, state or Agency or any other entity, whether or not having separate legal personality;

"**Potential Event of Default**" means any event which may become (with the passage of time, the giving of notice and/or the making of a determination and/or the fulfilment of any other requirement) under this Agreement, an Event of Default;

"**Principal Paying Agent**" means the party designated from time to time as principal paying agent under the Funding Documents;

"**Prospectus**" means the prospectus, dated on or about the date of this Agreement, relating to the issuance of the Funding Instruments by the Lender;

"**Put Event**" means the announcement or (in the absence of such announcement) the occurrence of a Change of Control which results in a Rating Decline;

"**Put Event Payment Date**" means, in respect of a Put Event, the date specified by or on behalf of the Lender in the Put Redemption Notice on which any part of the Loan is to be prepaid in accordance with Clause 7.3 (*Prepayment upon a Put Event*), which date shall be the fifteenth Business Day immediately following the last day of the Put Period;

"**Put Period**" means the period of 30 calendar days after notice is given by the Trustee to the holders of the Funding Instruments in accordance with Condition 5(c) (*Redemption upon a Put Event*) of the Funding Instruments of the occurrence of a Put Event;

"**Put Redemption Notice**" means, in respect of a Put Event, a notice given by or on behalf of the Lender or the Trustee (after receipt by the Lender and the Trustee of written confirmation from the Principal Paying Agent of the Put Redemption Amount) to the Borrower specifying (i) the outstanding principal amount of the Loan to be prepaid (the "**Put Redemption Amount**") as a result of the relevant Put Event; and (ii) the Put Event Payment Date;

"**Qualifying Jurisdiction**" means any jurisdiction which has a double taxation treaty with Ukraine under which the payment of interest by Ukrainian borrowers to lenders established in such jurisdiction is generally able to be made (upon completion of any necessary formalities required in relation thereto) without deduction or withholding of Ukrainian income tax;

"**Rate of Interest**" means 9.750 per cent. per annum;

"**Rated Securities**" means the Funding Instruments so long as they shall have a rating from any Rating Agency and any debt of the Borrower having an initial maturity of one year or more which is rated by any Rating Agency;

"**Rating Agency**" means Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc. ("**S&P**"), Moody's Investors Service Limited ("**Moody's**"), Fitch Ratings or any of their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Borrower, from time to time with the prior written approval of the Lender and the Trustee;

"**Rating Categories**" means (i) with respect to S&P, any of the following categories (any of which may or may not include a "+" or "-"): AAA, AA, A, BBB, BB, B, CCC, CC, C and D (or equivalent successor categories); (ii) with respect to Moody's, any of the following categories (any of which may or may not include a "1", "2" or "3"): Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C and D (or equivalent successor categories); and (iii) the equivalent of any such categories of S&P or Moody's used by another rating agency (including, without limitation, Fitch Ratings), if applicable, and each such category is referred to herein as a "full" Rating Category;

"**Rating Decline**" shall be deemed to have occurred if, during the period commencing upon the announcement or (in the absence of such announcement) the occurrence of a Change of Control, and ending on the date which is six months after the date of such announcement or occurrence, as the case may be, of the relevant Change of Control, any Rated Securities or any corporate rating of the Borrower assigned by any Rating Agency is:

(a) placed on "credit watch" or formal review (or equivalent) with negative implications or a negative outlook; or

(b) downgraded or withdrawn;

by reason of such Change of Control, on the date such Rated Securities or corporate rating of the Borrower is so placed, downgraded or withdrawn, as the case may be;

"**Relevant Event**" has the meaning given thereto in the Funding Instruments;

"**Repayment Date**" means 16 February 2010;

"**Repo**" means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities borrowing agreement or any agreement relating to securities which is similar in effect to any of the foregoing and, for purposes of this definition, the term "securities" means any Capital Stock, debenture or other debt or equity instrument, or any derivative thereof, whether issued by any private or public company, any Agency or any supranational, international or multilateral organisation;

"**Reserved Rights**" has the meaning given thereto in the Funding Documents;

"**Same-Day Funds**" means U.S. dollar funds settled through the New York Clearing House Interbank Payments System or such other funds for payment in U.S. dollars as the Lender may at any time reasonably determine to be customary for the settlement of international transactions in New York City of the type contemplated hereby;

"**Security Interest**" means any mortgage, pledge, encumbrance, lien, charge or other security interest (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction);

"**Subsidiary**" of a Person means another Person:

(a) which is controlled, directly or indirectly, by that first-named Person; or

(b) more than half the issued share capital of which is beneficially owned, directly or indirectly, by that first-named Person;

"**Taxes**" means any taxes, levies, duties, imposts or other charges or withholding of a similar nature no matter where arising (including interest and penalties thereon and additions thereto);

"**Taxing Authority**" has the meaning set out in Clause 8.1 (*Additional Amounts*);

"**Trustee**" means the party designated from time to time as trustee under the Funding Documents;

"**Ukraine**" means Ukraine and any province or political sub-division thereof or therein; and

"**United Kingdom**" means the United Kingdom of Great Britain and Northern Ireland and any political sub-division or agency thereof or therein.

1.2 **Interpretation**

Any reference in this Agreement to:

the "**Borrower**" or the "**Lender**" includes its and any subsequent successors, assignees and chargees in accordance with their respective interests;

a "**Business Day**" means a day (other than a Saturday or Sunday) on which banks generally are open for business in New York, London and Kyiv;

"**control**" when used with respect to any Person means the power to direct the management and policies of such Person or to control the composition of such Person's board or board of directors, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise and the terms "controlling" and "controlled" have meanings correlative to the foregoing;

the "**equivalent**" on any given date in one currency (the "**first currency**") of an amount denominated in another currency (the "**second currency**") is a reference to the amount of the first currency which could be purchased with the amount of the second currency at the spot rate of exchange quoted on the relevant Reuters page or, where the first currency is hryvnia and the second currency is U.S. dollars (or vice versa), by the NBU, at or about 10.00 a.m. (New York City time) or, as the case may be, between 1.00 p.m. and 4.00 p.m. (Kyiv time) on such date for the purchase of the first currency with the second currency;

a "**month**" means a period starting on one day in a calendar month and ending on the numerically corresponding day in the next succeeding calendar month; *provided that*, where any such period would otherwise end on a day which is not a Business Day, it shall end on the next succeeding Business Day, unless that day falls in the next calendar month, in which case it shall end on the immediately preceding Business Day and if a period starts on the last Business Day in a calendar month or if there is no numerically corresponding day in the month in which that period ends, that period shall end on the last Business Day in that later month (and references to "months" shall be construed accordingly);

"**repay**" (or any derivative form thereof), subject to any contrary indication, includes prepay (or, as the case may be, the corresponding derivative form thereof);

the "**rights**" of the Lender in this Agreement shall be read as references to rights of the Trustee pursuant to the charge and assignment referred to in Clause 19.3 (*Assignments by the Lender*) except as in relation to the Reserved Rights as specified in the Funding Documents; and

"**VAT**" means value added tax, including any similar tax which may be imposed in place thereof from time to time.

1.3 **Currency References**

"**U.S.$**" and "**U.S. dollars**" denote the lawful currency of the United States of America and "**hryvnia**" denotes the lawful currency of Ukraine.

1.4 **Statutes**

Any reference in this Agreement to a statute shall be construed as a reference to such statute as the same may have been, or may from time to time be, amended or re-enacted.

1.5 **Headings**

Clause and Schedule headings are for ease of reference only.

1.6 **Amended Documents**

Save where the contrary is indicated, any reference in this Agreement to any Funding Document or any other agreement or document shall be construed as a reference to such Funding Document or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, varied, novated or supplemented.

2. THE LOAN

2.1 **Grant of the Credit Facility**

The Lender grants to the Borrower, upon the terms and subject to the conditions hereof, a single disbursement term credit facility in the amount of U.S.$150,000,000 and the Borrower hereby agrees to borrow such amount from the Lender on the Borrowing Date, subject as provided herein.

2.2 **Purpose and Application**

The Loan is intended to be used by the Borrower for general corporate purposes, including, but not limited to, to fund loans to its customers and to repay certain short term indebtedness and, without affecting the obligations of the Borrower in any way, the Lender shall not be obliged to concern itself with such application.

3. AVAILABILITY OF THE LOAN

3.1 **Draw-down**

Subject to the terms and conditions set out herein, the Loan will be available by way of a single advance which will be made by the Lender to the Borrower on the Borrowing Date by payment of the proceeds of the Loan to the Borrower's account with Deutsche Bank Trust Company Americas, 280 Park Avenue, New York, 10017 NY, swift code BKTRUS33, account number 04-182-366, if:

(a) the Lender has confirmed to the Borrower that it has received all of the documents listed in Schedule 1 hereto (*Conditions Precedent Documents)* and that each is in form and substance satisfactory to the Lender, save as the Lender may otherwise agree;

(b) the Managers have funded the Lender in accordance with the Funding Documents; and

(c) (i) no event has occurred or circumstance has arisen which would constitute an Event of Default or a Potential Event of Default and (ii) the representations and warranties set out in Clause 11 (*Representations and Warranties of the Borrower*) are true on the Borrowing Date with respect to the facts and circumstances then subsisting.

3.2 **Fees**

The Borrower hereby agrees that it shall pay to the Lender, in Same-Day Funds, all amounts required to be paid by the Borrower to the Lender pursuant to and in accordance with the Fees Letter by 4.30 p.m. (London time) on the Business Day preceding the Borrowing Date.

4. INTEREST PERIODS

The Borrower will pay interest to the Lender semi-annually in U.S. dollars on the outstanding principal amount of the Loan from time to time at the Rate of Interest, calculated in accordance with the provisions of this Agreement (including, without limitation, Clause 5.2 (*Calculation of*

Interest)). Interest shall accrue on the Loan from and including the Borrowing Date. Each period beginning on (and including) the Borrowing Date or any Interest Payment Date and ending on (and excluding) the next Interest Payment Date or the Repayment Date is herein called an "**Interest Period**". Subject as provided in Clause 5.2 (*Calculation of Interest*), interest on the Loan will cease to accrue on the due date for repayment thereof unless payment of principal is improperly withheld or refused, in which event interest will continue to accrue (before and after any judgment) at the Rate of Interest to but excluding the date on which payment in full of the outstanding principal amount of the Loan is made.

5. PAYMENT AND CALCULATION OF INTEREST

5.1 Payments of Interest

The Borrower shall pay to the Account accrued interest on the outstanding principal amount of the Loan semi-annually in arrear in respect of each Interest Period (including the First Interest Period) calculated in accordance with Clause 5.2 (*Calculation of Interest*) not later than 11.00 a.m. (New York City time) on the Business Day falling two Business Days prior to the Interest Payment Date on which such Interest Period ends which, in the case of the First Interest Period, is the First Interest Payment Date.

5.2 Calculation of Interest

The Borrower shall calculate the amount of interest accrued on the Loan on a monthly basis. The amount of interest payable in respect of the Loan for any Interest Period (other than the First Interest Period) shall be calculated by applying the Rate of Interest to the outstanding principal amount of the Loan, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). The amount of interest payable in respect of the Loan for any other period (including the First Interest Period) shall be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed. The Borrower's calculations of the amount of interest accrued on the Loan shall be subject always to Clause 20.1 (*Evidence of Debt*).

5.3 Assumption when Calculating Interest

Whenever under this Agreement interest is to be calculated to the last day of an Interest Period (including the First Interest Period) and the calculation is required to be made before such last day, the parties shall assume that the amount of the Loan outstanding on the last day of the relevant Interest Period (including the First Interest Period) is the same as the amount of the Loan outstanding on the day of the calculation.

6. REPAYMENT

Except as otherwise provided herein, the Borrower shall, not later than 11.00 a.m. (New York City time) two Business Days prior to the Repayment Date, repay in full the outstanding principal amount of the Loan together with, to the extent not already paid in accordance with Clause 5.1 (*Payments of Interest*), all interest payable in respect of the last Interest Period (calculated to the Repayment Date) and all other amounts payable hereunder (calculated as aforesaid).

7. PREPAYMENT

7.1 Prepayment for Tax Reasons and Change in Circumstances

If,

(a) as a result of the application of, or any amendment to, or a change in or official interpretation of (i) the Double Tax Treaty (or in the double taxation treaty between Ukraine and any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) or (ii) the laws or regulations of the United Kingdom or Ukraine (or any Qualifying Jurisdiction where the Lender is resident for tax purposes) or of any political sub-division thereof or any authority therein having power to tax or any Agency therein, the Borrower would thereby be required to pay any Additional Amounts in respect of Taxes as provided in Clause 8.1 (*Additional Amounts*) or Indemnity Amounts as provided in Clause 8.3 (*Indemnity Amounts*); or

(b) the Lender ceases to be resident for tax purposes in a Qualifying Jurisdiction, or has a permanent establishment in Ukraine for the purposes of the Double Tax Treaty, and as a result the Borrower would be required to withhold or deduct an amount on account of tax from any payment to be made under this Agreement; or

(c) (for whatever reason) the Borrower would have to or has been required to pay additional amounts pursuant to Clause 10 (*Changes in Circumstances*); or

(d) after a Relevant Event, the Borrower is or would be required to increase the payment of principal or interest or any other payment due hereunder as provided in Clause 8.1 (*Additional Amounts*) as a result of such payments being made to any person other than the Lender to whom the benefit of the Double Tax Treaty is unavailable,

and, in any such case, such obligation cannot be avoided by the Borrower taking reasonable measures available to it, then the Borrower may at any time, upon not less than 30 days' written notice to the Lender and to the Trustee specifying the date of payment and including an Officers' Certificate to the effect that the Borrower would be required in the case of (a), (c) and (d) above to pay such Additional Amounts, Indemnity Amounts or additional amounts, and in the case of (b) above to withhold or deduct such amounts and such obligation cannot be avoided by the Borrower taking reasonable measures, supported (where the certification relates to tax matters) by an opinion of an independent tax adviser of recognised standing in the relevant tax jurisdiction, prepay the Loan in whole (but not in part) together with all accrued and unpaid interest, any Additional Amounts then payable under Clause 8.1 (*Additional Amounts*), Indemnity Amounts payable under Clause 8.3 (*Indemnity Amounts*), additional amounts payable pursuant to Clause 10 (*Changes in Circumstances*) and accrued interest. Any such notice of prepayment given by the Borrower shall be irrevocable and shall oblige the Borrower to make such prepayment on such date. No such notice shall be given earlier than 90 calendar days prior to the earliest date on which the Borrower would be obliged to pay such Additional Amounts, Indemnity Amounts or additional amounts, or deduct or withhold such amounts, as the case may be.

7.2 **Prepayment for Illegality**

If, at any time, it is or would be unlawful or contrary to any applicable law or regulation or regulatory requirement or directive of any Agency of any state or otherwise for the Lender to make, fund or allow all or part of the Funding Instruments or the Loan to remain outstanding or for the Lender to maintain or give effect to any of its obligations or rights in connection with this Agreement and/or to charge or receive or to be paid interest at the rate applicable in relation to the Loan (an "**Illegality**"), then the Lender shall deliver to the Borrower a written notice (with a copy to the Trustee) (setting out in reasonable detail the nature and extent of the relevant circumstances) to that effect and:

(a) if the Loan has not been made, the Lender shall not thereafter be obliged to make the Loan; and

(b) if the Loan is then outstanding and the Lender so requires, the Borrower shall, on the latest date permitted by the relevant law or on such earlier day as the Borrower elects (as notified to the Lender not less than 30 days prior to the date of repayment), repay the whole (but not part only) of the outstanding principal amount of the Loan together with accrued interest (up to but excluding the date of such payment) thereon and all other amounts owing to the Lender hereunder.

7.3 **Prepayment upon a Put Event**

Promptly, and in any event within five calendar days after a Put Event, the Borrower shall deliver to the Lender, the Principal Paying Agent and the Trustee a written notice substantially in the form of Schedule 4 (the "**Put Event Notice**") hereto signed on behalf of the Borrower by two officers of the Borrower, which notice shall be irrevocable, stating:

(a) that a Put Event has occurred; and

(b) the circumstances and relevant facts giving rise to such Put Event.

Whether or not a Put Event Notice has been given by the Borrower as contemplated above, the Borrower shall, on the Put Event Payment Date, prepay the Loan, together with accrued interest on the aggregate principal amount thereof and additional amounts (if any) to the extent and in an amount that the Lender is required to pay the holders of the Funding Instruments as a result of the relevant Put Event. The Put Redemption Amount, and the amount of accrued interest thereon and additional amounts (if any), shall be set out in the Put Redemption Notice from the Lender or the Trustee to the Borrower.

7.4 **Costs of Prepayment**

The Borrower shall, not later than 11.00 a.m. (New York City time) two Business Days prior to the date of a prepayment made in accordance with this Clause 7 (*Prepayment*), pay all accrued interest (calculated to (but excluding) the date of prepayment) and all other amounts owing or payable to the Lender hereunder. The Borrower shall indemnify the Lender on written demand against any administrative costs and legal expenses reasonably incurred and properly documented by the Lender on account of any prepayment made in accordance with this Clause 7 (*Prepayment*).

7.5 **No Other Repayments and No Reborrowing**

The Borrower shall not repay the whole or any part of the outstanding principal amount of the Loan except at the times and in the manner expressly provided for in this Agreement. No amount prepaid under this Agreement may be reborrowed.

7.6 **Purchase of Funding Instruments**

The Borrower or any Subsidiary of the Borrower may from time to time, in accordance with the Conditions, purchase Funding Instruments in the open market or by tender or by a private agreement at any price. Any Funding Instruments purchased by the Borrower or any Subsidiary of the Borrower shall be delivered by the Borrower to the Principal Paying Agent for cancellation (provided that, the aggregate principal amount of such Funding Instruments delivered for cancellation is not less than U.S.$1,000,000). In the event that an amount of Funding Instruments has been so cancelled, the Loan shall be deemed to have been prepaid by the Borrower in an amount corresponding to the aggregate principal amount of the Funding Instruments surrendered to the Principal Paying Agent for cancellation, together with accrued interest (if any) thereon and no further payment shall be made or required to be made by the Borrower in respect of such amounts.

8. TAXES

8.1 **Additional Amounts**

(a) All payments to be made by the Borrower under this Agreement shall be made in full without set-off or counterclaim, free and clear of and without withholding or deduction for or on account of any present or future Taxes imposed by any taxing authority of or in, or having authority to tax in, Ukraine, the United Kingdom or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes or any political sub-division or authority thereof or therein having the power to tax (each a "**Taxing Authority**"), unless the

Borrower is required by applicable law to make such payment subject to the deduction or withholding of such Taxes. In the event that the Borrower is required to make any such payment subject to deduction or withholding of any such Tax the Borrower shall, on the due date for such payment, pay such additional amounts ("**Additional Amounts**") as may be necessary to ensure that the Lender or the Trustee, as the case may be, receives a net amount in U.S. dollars which, following any such deduction or withholding on account of Taxes, shall be not less than the full amount which it would have received had the payment been made without such deduction or withholding and shall deliver to the Lender (or the Trustee, as the case may be) without undue delay, evidence satisfactory to the Lender (or the Trustee, as the case may be) of such deduction or withholding and of the accounting therefor to the relevant authority. For the avoidance of doubt, this Clause 8.1 (*Additional Amounts*) shall not apply to any Taxes assessed on the Lender in the United Kingdom (or any Qualifying Jurisdiction) by reference to its overall net income.

(b) At least 30 calendar days prior to each date on which any payment under or with respect to the Loan is due and payable, if the Borrower will be obliged to pay Additional Amounts with respect to such payment, the Borrower will deliver to the Lender (and to the Trustee) an Officers' Certificate stating that such Additional Amounts will be payable and the amounts so payable.

(c) Whenever this Agreement mentions, in any context, the payment of amounts based upon the principal or premium, if any, interest or of any other amount payable under or with respect to the Loan, this includes, without duplication, payment of any Additional Amounts and Indemnity Amounts that may be applicable.

The foregoing provisions shall apply, modified as necessary, to any Taxes imposed or levied by any Taxing Authority in any jurisdiction in which any successor obligor to the Borrower is organised.

8.2 **Double Tax Treaty Relief**

(a) The Lender shall, at the request of the Borrower, use its reasonable efforts to furnish the Borrower, within one month of such request, with a United Kingdom tax residence certificate in respect of the relevant year *provided that*, without prejudice to its representation in Clause 8.6 (*Tax Position of the Lender*), the Lender shall have no liability to the Borrower, provided that such representation is correct and that the Lender has appropriately applied for the relevant certificate in accordance with this Agreement, if the United Kingdom Tax Authority fails to issue a United Kingdom tax residence certificate in respect of any calendar year or only does so after the relevant Interest Payment Date. Subject to receipt by the Borrower of a tax residence certificate which is valid in respect of the relevant payment, the Borrower shall claim relief from deducting withholding tax or a reduction in the withholding tax rate to the maximum extent possible in accordance with the Double Tax Treaty in respect of payments to be made by the Borrower under this Agreement.

(b) Each of the Lender and the Borrower shall make reasonable and timely efforts to co-operate and assist each other in obtaining relief from withholding of Ukrainian income tax pursuant to the Double Tax Treaty. In particular, the Borrower and the Lender will inform each other, in a reasonable and timely manner, on the status of the procedures and the steps necessary to be taken in this regard. The Lender makes no representation as to the application or interpretation of the Double Tax Treaty.

(c) If the Lender becomes resident for tax purposes in another Qualifying Jurisdiction, references in paragraphs (a) and (b) to United Kingdom Tax Authority, United Kingdom tax residence certificate and Double Tax Treaty shall be read, respectively, as including references to the Tax Authority of such Qualifying Jurisdiction, a tax residence certificate of such Qualifying Jurisdiction and the double tax treaty between Ukraine and such Qualifying Jurisdiction.

8.3 **Indemnity Amounts**

Without prejudice to or duplication of the provisions of Clause 8.1 (*Additional Amounts*), if the Lender notifies the Borrower that:

(a) the Lender is obliged to make any deduction or withholding for or on account of any Taxes (other than Taxes assessed on the Lender by reference to its net income) from any payment which the Lender (as issuer of the Funding Instruments) is obliged to make under or in respect of the Funding Instruments or any Funding Documents and the Lender (as issuer of the Funding Instruments) is required under the terms and conditions of the Funding Instruments or such Funding Documents to pay additional amounts to the holders of the Funding Instruments in connection therewith, the Borrower shall pay to the Lender within 30 days of such notice (and otherwise in accordance with the terms of this Agreement) such additional amounts as are equal to the additional payments which the Lender (as issuer of the Funding Instruments) would be required to make under the terms and conditions of the Funding Instruments or such Funding Documents, assuming in each case that an equivalent amount had been received from the Borrower, in order that the net amount received by each holder of Funding Instruments or other party to the relevant Funding Documents is equal to the amount which such holder or party would have received had no such withholding or deduction been required to be made; and/or

(b) it is liable to pay any Taxes imposed by a Taxing Authority (other than Taxes assessed on the Lender by reference to its overall net income) in relation to this Agreement, the Funding Instruments or any Funding Documents, the Borrower shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, a written demand made by the Lender, indemnify the Lender in relation to such properly documented payment or liability.

Any payments required to be made by the Borrower under this Clause 8.3 (*Indemnity Amounts*) are collectively referred to as "**Indemnity Amounts**". For the avoidance of doubt, the provisions of this Clause 8.3 (*Indemnity Amounts*) shall not apply to any withholding or deductions of Taxes with respect to the Loan which are subject to payment of Additional Amounts under Clause 8.1 (*Additional Amounts*).

8.4 **Tax Claims**

If the Lender intends to make a claim pursuant to Clause 8.3 (*Indemnity Amounts*), it shall notify the Borrower thereof as soon as reasonably practicable after the Lender becomes aware of any obligation to make the relevant withholding, deduction or payment; *provided that* nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its affairs.

8.5 **Tax Credits and Tax Refunds**

(a) If a payment is made under Clause 8.1 (*Additional Amounts*) or Clause 8.3 (*Indemnity Amounts*) by the Borrower for the benefit of the Lender and the Lender determines in its absolute discretion (acting in good faith) that it has received or been granted a credit against, a relief or remission for or a repayment of, any Taxes, then, if and to the extent that the Lender, in its absolute discretion (acting in good faith), determines that such credit, relief, remission or repayment is in respect of or calculated by reference to the corresponding deduction, withholding or payment giving rise to such payment by the Borrower, the Lender shall, to the extent that it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, reimburse to the Borrower such amount as the Lender shall, in its absolute discretion (acting in good faith), have concluded to be attributable to such deduction, withholding, liability, expense, loss or payment; *provided that* the Lender shall not be obliged to make any payment under this Clause 8.5 (*Tax Credits and Tax Refunds*) in respect of any such credit, relief, remission or repayment until the Lender is, in its absolute discretion (acting in good faith), satisfied that its Tax affairs for its Tax year in respect of which such credit, relief, remission or repayment was obtained have been finally settled and *further provided that* the Lender shall not be obliged to make any such payment if and to the extent that the Lender determines in its absolute discretion (acting in good faith) that to do so would leave it (after the payment) in a worse after-Tax position than it would have been in had the payment not been required under Clause 8.1 (*Additional Amounts*) or 8.3 (*Indemnity Amounts*). Without prejudice to the Lender's obligations under Clause 8.2 (*Double Tax Treaty Relief*), nothing contained in this Clause 8.5 (*Tax Credits and Tax Refunds*) or Clause 8.7 (*Delivery of Forms and Other Instruments*) shall interfere with the right of the Lender to arrange its tax affairs in whatever manner it thinks fit nor oblige the Lender to disclose confidential information or any information relating to its Tax affairs generally or any computations in respect thereof.

(b) If as a result of a failure to obtain relief from deduction or withholding of any Tax imposed by any Taxing Authority, in particular in accordance with the Double Tax Treaty, such Tax is deducted or withheld by the Borrower pursuant to Clause 8.1 (*Additional Amounts*) and an Additional Amount is paid by the Borrower to the Lender in respect of such deduction or withholding, the Borrower may apply, under the supervision and on behalf of the Lender, to the relevant Taxing Authority for a Tax refund. If and to the extent that any Tax refund is credited by such Taxing Authority to a bank account of the Lender, the Lender shall as soon as reasonably possible notify the Borrower of the receipt of such Tax refund and promptly transfer the entire amount of the Tax refund to an account specified by the Borrower if and to the extent that the Lender determines in its absolute discretion (acting in good faith) that to do so will leave it (after the payment and after deduction of costs and expenses incurred in relation to such Tax refund for which the Borrower is liable) in no worse an after-Tax position than it would have been in had there been no failure to obtain relief from such withholding or deduction.

8.6 **Tax Position of the Lender**

The Lender represents that:

(a) it is a bank which at the date hereof is a resident of the United Kingdom for purposes of Article 4 of the Double Tax Treaty as it is subject to:

  (i) taxation in the United Kingdom on the basis of its registration as a legal entity, location of its management body or another similar criterion; and

  (ii) unlimited United Kingdom tax liability for corporate income tax for purposes of the Double Tax Treaty,

and that it is not subject to taxation in the United Kingdom merely on income from sources in the United Kingdom or connected with property located in the United Kingdom, and that it should be able to receive certification from the United Kingdom Taxing Authority confirming that the Lender is resident in the United Kingdom for tax purposes;

(b) it does not have a permanent establishment in Ukraine for purposes of the Double Tax Treaty;

(c) it does not have any current intentions to effect, during the term of the Loan, any corporate action or reorganisation or change of taxing jurisdiction that would result in the Lender ceasing to be a resident of the United Kingdom in the sense of Article 4 of the Double Tax Treaty; and

(d) interest received from the Borrower under this Agreement will be taken into account in computing the Lender's profits subject to tax in the United Kingdom.

The Lender agrees promptly, upon becoming aware of such, to notify the Borrower if it ceases to be resident in the United Kingdom or other Qualifying Jurisdiction.

8.7 **Delivery of Forms and Other Instruments**

(a) The Lender shall use its reasonable efforts as provided in Clause 8.2(a) (*Double Tax Treaty Relief*) (to the extent it is able to do so under applicable law) and shall deliver to the Borrower such duly completed certificate issued by the competent Taxing Authority in the United Kingdom or other Qualifying Jurisdiction confirming that the Lender is a tax resident in the United Kingdom or other Qualifying Jurisdiction to enable the Borrower to apply to obtain relief from deduction or withholding of Tax in Ukraine, the United Kingdom or any other Qualifying Jurisdiction or, as the case may be, to apply to obtain a Tax refund if a relief from deduction or withholding of Tax in Ukraine, the United Kingdom or any other Qualifying Jurisdiction has not been obtained. The certificate shall be stamped or otherwise approved by the competent tax authority in the United Kingdom or other Qualifying Jurisdiction, and apostilled or otherwise legalised if requested by the Borrower. If a relief from deduction or withholding of tax or a tax refund under this Clause 8.7 (*Delivery of Forms and Other Instruments*) has not been obtained and further to an application of the Borrower to the relevant Ukrainian tax authorities the latter requests the Lender's hryvnia bank account details, the Lender shall (subject to it being satisfied that that action is not adverse to its interests) at the request of the Borrower (i) use reasonable efforts to procure that such hryvnia bank account of the Lender is duly opened and maintained, and (ii) thereafter furnish the Borrower with the details of such hryvnia bank account. The Borrower shall pay for all costs associated, if any, with opening and maintaining such hryvnia bank account.

(b) The Lender shall also use its reasonable efforts to execute such acknowledgements of payment and other similar instruments as may be reasonably required by the Borrower.

9. TAX RECEIPTS

9.1 **Notification of Requirement to Deduct Tax**

If, at any time, the Borrower is required by law to make any deduction or withholding from any sum payable by it hereunder (or if thereafter there is any change in the rates at which or the manner in which such deductions or withholdings are calculated), the Borrower shall promptly notify the Lender.

9.2 **Evidence of Payment of Tax**

(a) The Borrower will use its reasonable endeavours to provide the Lender with Tax receipts from each Tax Authority imposing any Taxes deducted or withheld by it evidencing the payment of such Taxes or, if such receipts are not obtainable, other evidence of such payments by the Borrower reasonably acceptable to the Lender. The Borrower will also provide English translations of such receipts.

(b) The Lender will use its reasonable endeavours to provide the Borrower with Tax receipts from each Tax Authority imposing evidencing the payment of any Taxes deducted or withheld by it evidencing the payment of such Taxes or, if such receipts are not obtainable, other evidence of such payments by the Lender reasonably acceptable to the Borrower

10. CHANGES IN CIRCUMSTANCES

10.1 **Increased Costs**

If, by reason of (i) any Change of Law, other than a Change of Law which relates to the basis of computation of, or rate of, Tax on, the net income of the Lender, and/or (ii) any compliance by the Lender with any Capital Adequacy Requirement, reserve or deposit requirement or any other request from or requirement of any central bank or other fiscal, monetary or other authority which has effect in the United Kingdom (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes):

(a) the Lender incurs an additional cost as a result of the Lender entering into or performing its obligations (including its obligation to make the Loan) under this Agreement (excluding Taxes payable by the Lender on its overall net income); or

(b) the Lender becomes liable to make any additional payment on account of Taxes or otherwise (not being Taxes imposed on its net income or the amounts due pursuant to the Fees Letter) on or calculated by reference to the amount of the Loan and/or to any sum received or receivable by it hereunder except where compensated under Clause 8.1 (*Additional Amounts*) or under Clause 8.3 (*Indemnity Amounts*),

then the Borrower shall, within 15 days of written demand, pay to the Lender amounts sufficient to hold harmless and indemnify it from and against, as the case may be, such properly documented cost or liability, *provided that* the Lender will not be entitled to indemnification where such additional cost or liability arises as a result of the gross negligence, fraud or wilful default of the Lender and *provided, further, that* the amount of such increased cost or liability shall be deemed not to exceed an amount equal to the proportion of any cost or liability which is directly attributable to this Agreement.

10.2 Increased Costs Claims

If the Lender intends to make a claim pursuant to Clause 10.1 (*Increased Costs*), it shall promptly notify the Borrower thereof and provide (to the extent reasonably practicable) a description in writing in reasonable detail of the relevant reason (as described in Clause 10.1 (*Increased Costs*) above) including a description of the relevant affected jurisdiction or country and the date on which the change in circumstances took effect. This written description shall (to the extent reasonably practicable) demonstrate the connection between the change in circumstance and the increased costs and shall be accompanied by relevant supporting documents evidencing the matters described therein, *provided that* nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its or any other Person's affairs.

10.3 Mitigation

If circumstances arise which would result in any payment being required to be made by the Borrower pursuant to Clause 8.1 (*Additional Amounts*) or Clause 8.3 (*Indemnity Amounts*) or this Clause 10 (*Changes in Circumstances*), then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or the Borrower's obligations under any of the above mentioned provisions, the Lender shall as soon as reasonably practicable upon becoming aware of the same notify the Borrower thereof and, in consultation with the Borrower and to the extent it can lawfully do so and without prejudice to its own position, take reasonable steps to avoid or mitigate the effects of such circumstances including (without limitation) by the change of its lending office or transfer of its rights or obligations under this Agreement to another bank; *provided that* the Lender shall be under no obligation to take any such action if, in its sole opinion, to do so might have any adverse effect upon its business, operations or financial condition or might be in breach of any provisions of any Funding Document or any arrangements which it may have made in connection with the Funding Documents. The Borrower agrees to reimburse the Lender for all properly incurred costs and expenses (including but not limited to legal fees) incurred by the Lender in connection with this Clause 10.3 (*Mitigation*).

11. REPRESENTATIONS AND WARRANTIES OF THE BORROWER

The Borrower makes the representations and warranties set out in Clause 11.1 (*Status*) to Clause 11.18 (*Subsidiaries*) (inclusive) and acknowledges that the Lender has entered into this Agreement in reliance on those representations and warranties.

11.1 **Status**

It is duly incorporated and validly existing under Ukrainian law, has full power and authority to own, lease and operate its properties and conduct its business as currently conducted and is able lawfully to execute and perform its obligations under this Agreement.

11.2 **Governmental Approvals**

Save as provided in Clause 13.1 (*Maintenance of Legal Validity*) and save for the registration contemplated in Clause 25 (*NBU Registration Requirement*), which the Borrower undertakes to complete before the Borrowing Date, all actions or things required to be taken, fulfilled or done by the laws and regulations of Ukraine (including, without limitation the obtaining of any authorisation, order, licence or qualification of or with any court or governmental agency) and all registrations, filings or notarisations required by the laws and regulations of Ukraine in order to ensure (i) that the Borrower is able to own its assets and carry on its business as currently conducted and (ii) the due execution, delivery, validity and performance by the Borrower of this Agreement have been obtained, fulfilled or done and are in full force and effect.

11.3 **Corporate Approvals**

The Borrower has taken all necessary corporate action required to authorise the borrowing of the Loan on the terms and subject to the conditions of this Agreement and to authorise the execution and delivery of this Agreement and the Funding Documents and all other documents to be executed and delivered by it in connection with this Agreement, and the performance of this Agreement in accordance with its terms.

11.4 ***Pari Passu* Obligations**

Under the laws of Ukraine in force at the date of this Agreement, the claims of the Lender against the Borrower under this Agreement will rank at least *pari passu* in right of payment with the claims of all its other unsecured creditors, save those whose claims are preferred by any bankruptcy, insolvency, liquidation, moratorium or similar laws of general application.

11.5 **No Deduction**

Without prejudice to the provisions of Clause 8.1 (*Additional Amounts*), under the laws of Ukraine in force at the date of this Agreement, in accordance with the terms of the Double Tax Treaty and subject to the due satisfaction by the Lender of certain conditions set forth therein and of certain requirements of applicable Ukrainian legislation, payments of interest by the Borrower to the Lender under this Agreement may be made without deduction on account of the generally applicable withholding tax (at a rate of 15 per cent.) established by applicable Ukrainian legislation.

11.6 **Governing Law**

Under the laws of Ukraine in force at the date of this Agreement, in any proceedings taken in Ukraine in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitral award with respect to this Agreement obtained in the United Kingdom will be recognised and enforced in Ukraine after compliance with the applicable procedural rules in Ukraine.

11.7 **Validity and Admissibility in Evidence**

Save as set out in Clause 22.4 (*Language of Agreement*), all acts, conditions and things required to be done, fulfilled and performed (other than by the Lender) to make this Agreement admissible in evidence in Ukraine (whether in arbitration proceedings or otherwise) have been done, fulfilled and performed.

11.8 **Valid and Binding Obligations**

Upon registration of this Agreement with the NBU, the obligations expressed to be assumed by the Borrower in this Agreement will be legal, valid and binding, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganisation moratorium and similar laws relating to or affecting creditors' rights generally and to general principles of equity, enforceable against it in accordance with its terms.

11.9 **No Stamp Taxes**

Under the laws of Ukraine in force at the date of this Agreement, the execution and delivery of any Funding Document to which it is a party is not subject to any registration tax, stamp duty or similar levy imposed by any Taxing Authority of or in, or having authority to tax in, Ukraine.

11.10 **No Default**

No event has occurred or circumstance has arisen which would constitute an Event of Default or a Potential Event of Default.

11.11 **No Material Proceedings**

There are no legal or administrative or arbitration proceedings current or pending or, to the best of the knowledge and belief of the Borrower, threatened before any court, tribunal, arbitration panel or agency which might have a Material Adverse Effect.

11.12 **No Bankruptcy or Winding-up Proceedings**

The Borrower has not taken any corporate action nor, to the best of the knowledge and belief of the Borrower, have any other steps been taken or proceedings started or threatened in writing against the Borrower for its bankruptcy, winding-up, dissolution, temporary administration or re-organisation (whether by voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a receiver, temporary administrator, administrative receiver, conservator, custodian, trustee or similar officer of it or of any or all of its or their assets or revenues.

11.13 **No Material Adverse Change**

Save as disclosed in the Prospectus, since 31 December 2005 there has been no material adverse change, or any development involving a prospective material adverse change of which the Borrower is or might reasonably be expected to be aware, in the business, financial condition or results of operations of the Borrower.

11.14 **Financial Statements**

The Borrower's audited financial statements as at and for the two financial years ended 31 December 2004 and 2005 were prepared in accordance with IFRS and its unaudited interim condensed financial statements as at and for the nine months ended 30 September 2006 were prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") and present in accordance with IFRS and IAS 34, respectively, the financial condition of the Bank as at the dates as of which they were prepared and the results of the operations of the Bank during the periods then ended.

11.15 **Execution of Agreements**

Its execution and delivery of this Agreement and its exercise of its rights and performance of its obligations hereunder do not and will not:

(a) conflict with or result in a breach of any of the terms of, or constitute a default under, any material instrument, agreement or order to which the Borrower is a party or by which it or its properties is bound;

(b) conflict with the provisions of the constitutional documents of the Borrower or any resolution of its shareholders; or

(c) give rise to any event of default or moratorium in respect of any of the obligations of the Borrower or the creation of any lien, encumbrance or other Security Interest in respect of any of the assets of the Borrower, which, in any case, could reasonably be expected to have a material adverse effect on the Borrower's ability to perform its obligations under this Agreement.

11.16 Compliance with Laws

The Borrower is in compliance with, in all material respects, all applicable laws and regulations.

11.17 Employment

There are no material strikes or other employment disputes against the Borrower which have been started or are pending or, to its knowledge, threatened.

11.18 Subsidiaries

The Borrower has no Subsidiaries.

11.19 Repetition

Each of the representations and warranties contained in this Clause 11 (*Representations and Warranties of the Borrower*) shall be deemed to be repeated by the Borrower on the Borrowing Date.

12. REPRESENTATIONS AND WARRANTIES OF THE LENDER

The Lender makes the representations and warranties set out in Clause 8.6 (*Tax Position of the Lender*) and this Clause 12 (*Representations and Warranties of the Lender*) and acknowledges that the Borrower has entered into this Agreement in reliance on those representations and warranties.

12.1 Status

The Lender is duly incorporated under the laws of England and is resident for United Kingdom taxation purposes in the United Kingdom and has full corporate power and authority to enter into this Agreement and each Funding Document and to undertake and perform the obligations expressed to be assumed by it herein and therein.

12.2 Authorisation

Each of this Agreement and each Funding Document has been duly authorised, executed and delivered by the Lender and is a legal, valid and binding obligation of the Lender, enforceable against the Lender in accordance with its terms, except that the enforcement thereof may be subject to bankruptcy, insolvency, fraudulent conveyance, reorganisation, moratorium and other similar laws relating to or affecting creditors' rights generally and to general principles of equity.

12.3 Consents and Approvals

All authorisations, consents and approvals required by the Lender for or in connection with the execution of this Agreement and each Funding Document and the performance by the Lender of the obligations expressed to be undertaken in such agreements have been obtained and are in full force and effect.

12.4 **No Conflicts**

The execution of this Agreement and each Funding Document and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of the United Kingdom.

13. COVENANTS

The covenants in this Clause 13 (*Covenants*) remain in force from the date of this Agreement for so long as the Loan or any part of it is or may be outstanding.

13.1 **Maintenance of Legal Validity**

The Borrower shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents and make or cause to be made all registrations, recordings and filings required in or by the laws and regulations of Ukraine to enable it lawfully to enter into and perform its obligations under this Agreement to which it is a party and to ensure the legality, validity, enforceability or admissibility in evidence in Ukraine of this Agreement.

13.2 **Notification of Default**

The Borrower shall, promptly on becoming aware thereof, inform the Lender and the Trustee of the occurrence of any Event of Default or Potential Event of Default and, upon receipt of a written request to that effect from the Lender or the Trustee, confirm to the Lender and the Trustee that, save as previously notified to the Lender or as notified in such confirmation, no Event of Default or Potential Event of Default has occurred.

13.3 **Claims Pari Passu**

The Borrower shall ensure that at all times the claims of the Lender and the Trustee against it under this Agreement rank at least *pari passu* in right of payment with the claims of all other unsubordinated creditors of the Borrower, save for those claims that are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application.

13.4 **Negative Pledge**

So long as the Loan or any part of it is outstanding, the Borrower shall not and shall not permit any of its Material Subsidiaries, directly or indirectly, to create, incur or suffer to exist any Security Interests, other than Permitted Security Interests, on any of its or their assets, now owned or hereafter acquired, securing any Indebtedness or any Guarantee of any Indebtedness, unless the Loan is secured equally and rateably with such other Indebtedness or Guarantee or otherwise as approved by the Lender and the Trustee.

13.5 **Mergers**

The Borrower shall not, and shall ensure that none of its Material Subsidiaries will, without the prior written consent of the Lender and the Trustee, enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation, as these terms are construed under applicable Ukrainian legislation), or participate in any other type of corporate reconstruction, if any such reorganisation or other type of corporate reconstruction would result in a Material Adverse Effect.

13.6 **Disposals**

(a) Without prejudice to the provisions of Clause 13.7 (*Transactions with Affiliates)*, the Borrower shall not, and shall ensure that none of its Subsidiaries will, within a 12 month period, sell, lease, transfer or otherwise dispose of, to a Person other than the Borrower or a Subsidiary of the Borrower, as the case may be, by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or its assets which together constitute more than 5 per cent. of the gross assets of the Group unless such transaction(s) is/are on an arm's-length basis and would not have a Material Adverse Effect.

(b) This Clause 13.6 (*Disposals*) shall not apply to (i) any sale, lease, transfer or other disposition of any assets of the Borrower or property pledged as collateral by or to the Borrower or any of its Subsidiaries in the ordinary course of the Borrower's or, as the case may be, the relevant Subsidiary's business, (ii) any revenues or assets (or any part thereof) the subject of any securitisation of receivables, asset-backed financing or similar financing structure whereby all payment obligations are to be discharged primarily from such assets or revenues *provided that* principal amount raised pursuant to any financing referred to in this sub-Clause (ii) when aggregated with the principal amount of any previous and then outstanding such financing and the then outstanding principal amount of any Indebtedness or Guarantee referred to in the proviso to paragraph (g) of the definition of Permitted Security Interest does not exceed an amount equal to 15 per cent. of the Borrower's loans to customers before allowances for impairment (calculated by reference to the Borrower's consolidated balance sheet as at the end of its most recent IFRS Fiscal Period) or (iii) any compensation or employee benefit arrangements with any officer or director of the Borrower or any of its Subsidiaries arising as a result of their employment contract.

13.7 **Transactions with Affiliates**

(a) The Borrower shall not, and shall ensure that none of its Subsidiaries, directly or indirectly, conduct any business, enter into or permit to exist any transaction or series of related transactions (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an "**Affiliate Transaction**"), including intercompany loans, unless the terms of such Affiliate Transaction are (taking into account the standing and credit rating of the relevant Affiliate) no less favourable to the Borrower or such Subsidiary, as the case may be, than those that could be obtained in a comparable arm's-length transaction with a Person that is not an Affiliate of the Borrower or any of its Subsidiaries.

(b) With respect to an Affiliate Transaction involving aggregate payments or value in excess of 15 per cent. of the Borrower's equity, determined by reference to the Borrower's financial statements as at the end of its most recent IFRS Fiscal Period, the terms of the Affiliate Transaction shall be set forth in writing and a majority of the members of the supervisory board of the Borrower disinterested with respect to such Affiliate Transaction shall have determined in good faith that the criteria set forth above are satisfied and have approved the relevant Affiliate Transaction and, with respect to any Affiliate Transaction with a term of more than 180 days, the Borrower shall deliver to the Lender and the Trustee a written opinion from an Independent Appraiser to the effect that such Affiliate Transaction is fair, from a financial point of view, to the Borrower, *provided that* in no event shall the aggregate amount of all Affiliate Transactions exceed 20 per cent. of the Group's assets, determined by reference to the Borrower's financial statements as at the end of its most recent IFRS Fiscal Period.

(c) This Clause 13.7 (*Transactions with Affiliates*) shall not apply to (i) any Affiliate Transaction made pursuant to a contract existing on the date hereof and advised in writing to the Lender (excluding any amendments or modifications thereof made after the date hereof) or (ii) transactions between or among all or any of the Borrower and/or its Subsidiaries.

13.8 **Payment of Taxes and Other Claims**

The Borrower shall, and shall ensure that its Subsidiaries will, pay or discharge or cause to be paid or discharged, before the same shall become overdue all Taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of the Borrower and its Subsidiaries; *provided that*, none of the Borrower nor any Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (i) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS or other appropriate provision has been made or (ii) whose amount, together with all such other unpaid or undischarged Taxes, assessments, charges and claims, does not in the aggregate exceed U.S.$1,000,000 (or its equivalent in another currency).

13.9 **Financial Information**

(a) The Borrower hereby undertakes that it will deliver to the Lender and the Trustee within 120 days after the end of each of its financial years, copies of the Borrower's audited financial statements (consolidated, as the case may be) for such financial year, prepared in accordance with IFRS and together with the report of the Auditors thereon.

(b) The Borrower hereby undertakes that it will deliver to the Lender and the Trustee within 90 days after the end of the second quarter of each of its financial years, copies of the Borrower's unaudited financial statements (consolidated, as the case may be) as of and for the six months ending at the end of the second quarter, prepared in accordance with IFRS. To the extent that the Borrower produces quarterly unaudited financial statements ("**Quarterly Statements**"), prepared in accordance with IFRS, the Borrower further undertakes to provide copies of Quarterly Statements (consolidated, as the case may be) within three months after the end of each quarter.

(c) The Borrower hereby undertakes that it will deliver to the Lender and the Trustee, without undue delay, such additional information regarding the financial position or the business of the Borrower as the Lender or the Trustee may reasonably request.

(d) The Borrower shall supply or procure to be supplied to the SWX Swiss Stock Exchange all such information as the SWX Swiss Stock Exchange (or any other or further stock exchange or stock exchanges or any other relevant authority or authorities on which the Funding Instruments may, from time to time, be listed or admitted to trading) may require in connection with the listing or admittance to trading of the Funding Instruments.

(e) The Borrower shall, as soon as the same become available, but in any event within 30 days after the end of each second quarter and the end of each of its financial years and after each reasonable request by the Lender from time to time, deliver to the Lender a written report in the form of an Officers' Certificate stating whether, as at the last day of such relevant financial quarter, the Borrower and each Subsidiary which carries on a Banking Business have complied with the capital adequacy ratios referred to in Clause 13.10 (*Maintenance of Capital Adequacy*) calculated in accordance with IFRS, including details of such calculations, with a copy to the Trustee.

13.10 **Maintenance of Capital Adequacy**

The Borrower shall not, and shall ensure that each Subsidiary which carries on a Banking Business shall not, permit its capital adequacy ratio to fall below the minimum total capital adequacy ratio required by the NBU and, in the case of a Subsidiary which carries on a Banking Business outside Ukraine, the relevant banking authority responsible for setting and/or supervising capital adequacy for financial institutions in the relevant jurisdiction in which such Subsidiary carries on its Banking Business. The Borrower shall not and shall ensure that each Subsidiary which carries on a Banking Business shall not, permit its ratio of capital to risk weighted assets to fall below 10 per cent., as calculated in accordance with the guidelines on capital adequacy standards for international banks contained in the July 1998 text of the Basel Capital Accord, published by the Basel Committee on Banking Supervision.

13.11 **Restricted Payments**

(a) Subject to sub-Clause 13.11(b), the Borrower shall not, and shall not permit any of its Subsidiaries to, directly or indirectly:

(i) declare or pay dividends, in cash or otherwise, or make any other distributions (whether by way of redemption, acquisition or otherwise) in respect of its share capital; or

(ii) voluntarily purchase, redeem or otherwise retire for value any Capital Stock or subordinated debt,

any such action being referred to herein as a "**Restricted Payment**".

(b) The Borrower and any of its Subsidiaries may make a Restricted Payment if at the time of such payment no Potential Event of Default or Event of Default has occurred or would result therefrom and the aggregate amount of all Restricted Payments in any fiscal year does not exceed 50 per cent. of the Group's consolidated net profit (calculated in accordance with IFRS) for such fiscal year.

13.12 **Limitation on restrictions on distributions from Subsidiaries**

The Borrower shall not, and shall not permit any of its Subsidiaries to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Subsidiary:

(a) to pay dividends or make any other distributions on its share capital;

(b) to make any loans or advances or pay any Indebtedness owed to the Borrower; or

(c) to transfer any of its property or assets to the Borrower,

other than encumbrances or restrictions existing under applicable law, any Funding Document or any other agreement in effect prior to the date hereof and advised in writing to the Lender.

13.13 **Compliance Certificates**

On each Interest Payment Date, the Borrower shall deliver to the Lender and the Trustee written notice in the form of an Officers' Certificate in the form set out at Schedule 2 hereof, stating whether any Potential Event of Default or Event of Default has occurred and, if it has occurred and shall be continuing, the action the Borrower is taking or proposes to take with respect thereto.

14. EVENTS OF DEFAULT

Each of the Clauses from Clause 14.1 (*Failure to Pay*) to Clause 14.12 (*Analogous Events*) describes the circumstances which constitute an Event of Default for the purposes of this Agreement. If one or more Events of Default shall occur, the Lender (or the Trustee, as applicable) shall be entitled to the remedies set forth in Clause 14.13 (*Acceleration*).

14.1 **Failure to Pay**

The Borrower fails to pay any sum due from it hereunder at the time, in the currency and in the manner specified herein, and such failure is not remedied within 5 Business Days of the due date for payment.

14.2 **Obligations**

The Borrower fails duly to perform or comply with, or is otherwise in breach of any other of its obligations (other than set out in Clause 14.1 (*Failure to Pay*)) expressed to be assumed by it in this Agreement and such failure or breach is not remedied within 15 Business Days after the Lender (and, following a Relevant Event, the Trustee) has given notice of it to the Borrower requiring the same to be remedied.

14.3 **Cross Default**

Any Indebtedness of the Borrower or any of its Subsidiaries becomes due and payable or becomes capable of being declared due and payable prior to the stated maturity thereof (other than at the option of the debtor) or the Borrower or any of its Subsidiaries shall fail to make any payment of principal in respect of any Indebtedness of the Borrower or any of its Subsidiaries or to make any payment under any Guarantee of any Indebtedness on the date on which such payment is due and payable or at the expiration of any grace period originally applicable thereto, unless the aggregate amount of Indebtedness relating to all the above events is less than U.S.$10 million (or its equivalent in any other currency).

14.4 **Validity and Illegality**

The validity of this Agreement is contested by the Borrower or the Borrower shall deny any of its obligations under this Agreement or (save as provided in Clause 13.1 (*Maintenance of Legal Validity*)) it is, or will become, unlawful for the Borrower to perform or comply with any of its obligations under this Agreement or any of such obligations shall become unenforceable or cease to be legal, valid and binding in a manner which has a material adverse effect on the rights or claims of the Lender or, following a Relevant Event, the Trustee under this Agreement.

14.5 **Authorisations**

Any regulation, decree, consent, approval, licence or other authority necessary to enable the Borrower to enter into or (save as provided in Clause 13.1 (*Maintenance of Legal Validity*)) perform its obligations under this Agreement or for the validity or enforceability thereof shall expire or be withheld, revoked or terminated or otherwise cease to remain in full force and effect or shall be modified in a manner which adversely affects any rights or claims of the Lender or, following a Relevant Event, the Trustee under this Agreement.

14.6 **Revocation of Licence; Insolvency**

(a) The occurrence of any of the following events: (i) revocation of the general banking licence of the Borrower or, if applicable, of any of its Subsidiaries; (ii) any of the Borrower or any of its Material Subsidiaries seeking, consenting or acquiescing in the introduction of proceedings for its liquidation or bankruptcy or the appointment of a liquidation commission or a similar officer of any of the Borrower or any of its Material Subsidiaries, as the case may be; (iii) the presentation or filing of a petition in respect of any of the Borrower or any of its Material Subsidiaries in any court, arbitration court or before any agency alleging or for the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceeding) of any of the Borrower or any of its Material Subsidiaries; (iv) the institution of the supervision, temporary administration, bankruptcy management of any of the Borrower or any of its Material Subsidiaries; (v) the convening or announcement of an intention to convene a meeting of creditors of any of the Borrower or any of its Material Subsidiaries for the purposes of considering an amicable settlement and/or (vi) any extra judicial liquidation or analogous act in respect of any of the Borrower or any of its Material Subsidiaries by any Agency in or of Ukraine.

(b) The Borrower or any of its Material Subsidiaries (i) fails or is unable to pay its debts generally as they become due, or (ii) consents by answer or otherwise to the commencement against it of an involuntary case in bankruptcy or any other such action or proceeding or to the appointment of a custodian of it or for any substantial part of its property or (iii) a court of competent jurisdiction enters an order for relief or a decree in an involuntary case in bankruptcy or any other such action or proceeding or for the appointment of a custodian in respect of the Borrower or any of its Material Subsidiaries or any part of their property and such order or decree remains unstayed and in effect for 60 days.

(c) The shareholders of the Borrower shall have approved any plan of liquidation or dissolution of the Borrower.

14.7 **Nationalisation**

Any government, agency or court takes any action that has a Material Adverse Effect on the Borrower or any of its Subsidiaries, including, without prejudice to the foregoing: (i) the management of any member of the Group is wholly or partially displaced or the authority of any member of the Group in the conduct of its business is wholly or partially curtailed; or (ii) all or a majority of the issued shares of any member of the Group or the whole or any part (the value of which is, in the opinion of the Lender, 5 per cent. or more of the value (or, in the case of its assets, the book value) of the whole) of its revenues or assets is seized, nationalised, expropriated or compulsorily acquired.

14.8 **Judgments**

The aggregate amount of unsatisfied judgments, decrees or orders of courts or other appropriate law-enforcement bodies (from which no further appeal or judicial review is permissible under applicable law) for the payment of money against the Borrower and/or any Subsidiaries of the Borrower exceeds U.S.$ 5 million or the equivalent thereof in any other currency or currencies and there is a period of 60 days following the entry thereof (or, if later, the date therein specified for payment) during which all such judgments, decrees or orders are not discharged, waived or the execution thereof stayed and such default continues for five days.

14.9 **Amendment to Charter**

The charter of the Borrower is amended in a way which would contravene or result in the contravention of any material provision of this Agreement.

14.10 **Business**

The Borrower ceases to carry on the principal business it carried on at the date hereof.

14.11 **Repudiation**

The Borrower repudiates this Agreement or the subscription agreement or the agency agreement entered into in connection with the issue of the Funding Instruments or evidences an intention to repudiate this Agreement or the subscription agreement or the agency agreement entered into in connection with the issue of the Funding Instruments.

14.12 **Analogous Events**

Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in Clauses 14.4 (*Validity and Illegality*) to 14.11 (*Repudiation*).

14.13 **Acceleration**

If an Event of Default has occurred and is continuing, the Lender and/or the Trustee may by written notice to the Borrower declare the outstanding principal amount of the Loan to be immediately due and payable (whereupon the same shall become immediately due and payable together with accrued interest thereon and any other sums then owed by the Borrower hereunder) or declare the outstanding principal amount of the Loan to be due and payable on demand of the Lender and/or the Trustee.

14.14 **Amounts Due on Demand**

If, pursuant to Clause 14.13 (*Acceleration*), the Lender or the Trustee declares the outstanding principal amount of the Loan to be due and payable on demand of the Lender or the Trustee, then, and at any time thereafter, the Lender or the Trustee may by written notice to the Borrower require repayment of the outstanding principal amount of the Loan on such date as it may specify in such notice (whereupon the same shall become due and payable on such date together with accrued interest thereon and any other sums then owed by the Borrower hereunder) or withdraw its declaration with effect from such date as it may specify in such notice.

15. INDEMNITY

15.1 **The Borrower's Indemnity**

(a) The Borrower undertakes to the Lender, that if the Lender, any of its affiliates, or each director, officer, employee, or agent of the Lender or such affiliate or the Trustee (each an "**indemnified party**") reasonably incurs any loss, liability, cost, claim, charge or expense (including without limitation taxes, legal fees, costs and expenses), together with in each case any VAT thereon) (a "**Loss**") as a result of or in connection with any Event of Default or Potential Event of Default, the Borrower shall pay to the Lender or the Trustee, on demand, an amount equal to such Loss and all costs, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, charges and expenses are incurred.

(b) The indemnity in paragraph (a) above shall not apply to a Loss:

(i) which is caused by an indemnified party's gross negligence or wilful default or misconduct;

(ii) which is recovered under Clause 8.1 (*Additional Amounts*); or

(iii) where an indemnity is sought already under Clauses 8.3 (*Indemnity Amounts*), 10 (*Changes in Circumstances*) or 18 (*Costs and Expenses*).

(c) The Lender shall not have any duty or obligation, whether as fiduciary or trustee for any indemnified party or otherwise, to recover any such payment or to account for any other Person for any amounts paid to it under this Clause 15.1 (*The Borrower's Indemnity*).

15.2 **Independent Obligation**

Clause 15.1 (*The Borrower's Indemnity*) constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with this Agreement or any other obligations of the Borrower in connection with the issue of the Funding Instruments and shall not affect, or be construed to affect, any other provisions of this Agreement or any such other obligations.

15.3 **Survival**

The obligations of the Borrower pursuant to Clauses 8.1 (*Additional Amounts*), 8.2 (*Double Tax Treaty Relief*), 15.1 (*The Borrower's Indemnity*) and 17.3 (*No Set-off*) shall survive the execution and delivery of this Agreement, the borrowing and the repayment of the Loan, in each case by the Borrower.

16. CURRENCY OF ACCOUNT AND PAYMENT

16.1 Currency of Account

The U.S. dollar is the currency of account and payment for each and every sum at any time due from the Borrower hereunder.

16.2 Currency Indemnity

If any sum due from the Borrower under this Agreement or any order or judgment given or made in relation hereto has to be converted from the currency (the "**first currency**") in which the same is payable hereunder or under such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Borrower, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation hereto, the Borrower shall indemnify and hold harmless the Lender (and the Trustee) from and against any loss suffered or reasonably incurred as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which the Lender (and the Trustee) may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

17. PAYMENTS

17.1 Payments to the Lender

On each date on which this Agreement requires an amount denominated in U.S. dollars to be paid by the Borrower, the Borrower shall make the same available to the Lender by payment in U.S. dollars and in Same-Day Funds (or in such other funds as may for the time being be customary for the settlement of international banking transactions in U.S. dollars) not later than 11.00 a.m. (New York City time) on such date to the Account other than amounts payable (i) in respect of Reserved Rights, (ii) under the Fees Letter or (iii) in relation to Clause 15.1 (*The Borrower's Indemnity*) which the Borrower shall pay to such account or accounts as the Lender and/or the Trustee shall notify to the Borrower; *provided that* if at any time the Trustee notifies the Borrower that a Relevant Event has occurred, the Borrower shall make all subsequent payments, which would otherwise be made to the Account, to such other account as shall be notified by the Trustee to the Borrower. Without prejudice to its obligations under Clause 5.1 (*Payments of Interest*), the Borrower shall procure that, before 10.00 a.m. (New York City time) on the Banking Day before the due date of each payment made by it under this Clause 17.1 (*Payments to the Lender*), the bank effecting payment on its behalf confirms to the Lender or to such person as the Lender may direct by tested telex or authenticated SWIFT message the payment instructions relating to such payment. For these purposes, "**Banking Day**" means a day on which banks are open for general business in New York, London and Kyiv.

17.2 Alternative Payment Arrangements

If, at any time, it shall become impracticable (by reason of any action of any governmental authority or any change of law, exchange control regulations or any similar event) for the Borrower to make any payments under this Agreement in the manner specified in Clause 17.1 (*Payments to the Lender*), then the Borrower may agree with the Lender (and the Trustee) alternative arrangements for the payment to the Lender (or, as the case may be, the Trustee) of amounts due (prior to the delivery of any notice referred to in Clause 17.1 (*Payments to the Lender*)) under this Agreement *provided that*, in the absence of any such agreement with the Lender (or, as the case may be, the Trustee), the Borrower shall be obliged to make all payments due to the Lender in the manner specified above.

17.3 No Set-off

All payments required to be made by the Borrower hereunder shall be calculated without reference to any set-off or counterclaim and shall be made free and clear of and without any deduction for or on account of any set-off or counterclaim.

18. COSTS AND EXPENSES

18.1 **Transaction Expenses and Fees**

The Borrower agrees that it shall pay the fees and expenses of the Lender as specified in the Fees Letter.

18.2 **Preservation and Enforcement of Rights**

The Borrower shall, from time to time on written demand of the Lender (or the Trustee) reimburse the Lender (or, as the case may be, the Trustee) for all reasonably incurred costs and expenses (including legal fees and expenses) together with any VAT thereon properly incurred in or in connection with the preservation and/or enforcement of any of its rights under this Agreement (except where the relevant claim is successfully defended by the Borrower).

18.3 **Stamp Taxes**

The Borrower shall pay all stamp, registration and other similar duties or taxes (including any interest or penalties thereon or in connection therewith) to which the Funding Documents or any judgment given against the Borrower in connection therewith is or at any time may be subject and shall, from time to time on written demand of the Lender (or the Trustee), indemnify the Lender (or, as the case may be, the Trustee) against any properly documented liabilities, losses, costs, expenses (including, without limitation, legal fees and any applicable VAT) and claims, actions or demand resulting from any failure to pay or any delay in paying any such duty or tax.

18.4 **Costs Relating to Amendments and Waivers**

The Borrower shall, from time to time on written demand of the Lender (or the Trustee) (and without prejudice to the provisions of Clause 15.1 (*The Borrower's Indemnity*) and Clause 18.2 (*Preservation and Enforcement of Rights*)) compensate the Lender (and, as the case may be, the Trustee) at such daily and/or hourly rates as the Lender (or, as the case may be, the Trustee) shall from time to time reasonably determine for all time expended by the Lender (or, as the case may be, the Trustee), their respective directors, officers and employees, and for all properly documented costs and expenses (including telephone, fax, copying and travel costs) they may incur, in connection with the Lender (and, as the case may be, the Trustee) taking such action as it may consider appropriate in connection with:

(a) any notices to be given to the holders of the Funding Instruments and any notices, documents, forms or certificates to be supplied to the SWX Swiss Exchange (or any other exchange upon which the Funding Instrument may be listed;

(b) any meeting of holders of the Funding Instruments or the granting or proposed granting of any waiver or consent requested under this Agreement by the Borrower;

(c) any actual or potential breach by the Borrower of any of its obligations under this Agreement;

(d) the occurrence of any event which is an Event of Default or a Potential Event of Default; or

(e) any amendment or proposed amendment to this Agreement or any Funding Document requested by the Borrower.

In that regard, the Lender shall, promptly upon request by the Borrower, convene a meeting of holders of Funding Instruments in accordance with the terms and conditions of the Funding Instruments and the provisions of the Funding Documents.

19. ASSIGNMENTS AND TRANSFERS

19.1 Binding Agreement

This Agreement shall be binding upon and enure to the benefit of each party hereto and its or any subsequent successors and assigns.

19.2 No Assignments and Transfers by the Borrower

The Borrower shall not be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder.

19.3 Assignments by the Lender

The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement except for the charge by way of first fixed charge granted by the Lender in favour of the Trustee of the Lender's rights and benefits under this Agreement and the absolute assignment by way of security by the Lender to the Trustee of certain rights, interest and benefits under this Agreement and to the Account, in each case pursuant to the Funding Documents.

20. CALCULATIONS AND EVIDENCE OF DEBT

20.1 Evidence of Debt

The entries made in the Account shall constitute *prima facie* evidence of the existence and amounts of the Borrower's obligations recorded therein.

20.2 Change of Circumstance Certificates

A certificate signed by two Authorised Signatories of the Lender describing in reasonable detail the amount by which a sum payable to it hereunder is to be increased under Clause 8.1 (*Additional Amounts*) or the amount for the time being required to indemnify it against any such cost, payment or liability as is mentioned in Clause 8.3 (*Indemnity Amounts*) or Clause 10.1 (*Increased Costs*) or Clause 15.1 (*The Borrower's Indemnity*) shall, in the absence of manifest error, be conclusive evidence of the existence and amounts of the specified obligations of the Borrower.

21. REMEDIES AND WAIVERS, PARTIAL INVALIDITY

21.1 Remedies and Waivers

No failure by the Lender or the Trustee to exercise, nor any delay by the Lender or the Trustee in exercising, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law.

21.2 Partial Invalidity

If, at any time, any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

22. NOTICES; LANGUAGE

22.1 Written Notice

All notices, requests, demands or other communication to be made under this Agreement shall be in writing and, unless otherwise stated, shall be delivered by fax or post.

22.2 Giving of Notice

(a) Any communication or document to be delivered by one person to another pursuant to this Agreement shall (unless that other person has by 15 days' written notice specified another address) be made or delivered to that other person, addressed as follows:

(i) If to the Borrower:
Close Joint-Stock Company "First Ukrainian International bank"
4 Andriyivska Street
Kyiv, 04070, Ukraine

Attention: International Borrowing Department, Treasury Division
Fax: +38 044 231 7040

(ii) If to the Lender:
Standard Bank Plc
Cannon Bridge House
25 Dowgate Hill
London EC4R 2SB

Attention: Head of Operations
Fax: +44 207 815 3099

(iii) If to the Trustee:
BNY Corporate Trustee Services Limited
One Canada Square
London E14 5AL, UK

Attention: Manager, Trustee Administration
Fax: +44 207 964 6399

(b) Each communication and document to be made or delivered by one party to another pursuant to this Agreement shall, unless that other party has by 15 calendar days' written notice to the same specified another address or fax number, be made or delivered to that other party at the address or fax number specified in this Clause 22.2 (*Giving of Notice*) and shall be effective upon receipt by the addressee on a business day in the city of the recipient; *provided that*, (i) any such communication or document which would otherwise take effect after 4:00 p.m. on any particular day shall not take effect until 10:00 a.m. on the immediately succeeding business day in the city of the addressee and (ii) any communication or document to be made or delivered by one party to the other party shall be effective only when received by such other party and then only if the same is expressly marked for the attention of the department or officer identified with such other party's signature below, or such other department or officer as such other party shall from time to time specify for this purpose. The parties acknowledge that for security purposes parties may wish to confirm payment instructions that are received by fax by alternative means, such as telephone, e-mail, SWIFT and/or physical delivery and parties agree to use commercially reasonably efforts to use such alternative means to confirm such instructions upon request.

22.3 English Language

Each communication and document delivered by one party to another pursuant to this Agreement shall be in the English language or accompanied by a translation into English certified (by an officer of the person delivering the same) as being a true and accurate translation. In the event of any discrepancies between the English and Ukrainian versions of such communication or document, or any dispute regarding the interpretation of any provision in the English or Ukrainian versions of such communication or document, the English version of such communication or document shall prevail, unless the document is a statutory or other official document.

22.4 Language of Agreement

This Agreement has been executed in both the English language and the Ukrainian language. In the event of any discrepancies between the English and Ukrainian versions of this Agreement, or any dispute regarding the interpretation of any provision in the English or Ukrainian versions of this Agreement, the English version of this Agreement shall prevail and any question of interpretation shall be addressed solely in the English language.

23. LAW AND JURISDICTION

23.1 English Law

This Agreement is governed by, and shall be construed in accordance with, English law.

23.2 English Courts

Subject to Clause 23.6 (*Arbitration*), the Borrower agrees for the benefit of the Lender that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which arise out of or in connection with this Agreement ("**Proceedings**") and, for such purposes, irrevocably submits to the jurisdiction of such courts.

23.3 Appropriate Forum

The Borrower irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes (as defined below), and agrees not to claim that any such court is not a convenient or appropriate forum.

23.4 Service of Process

The Borrower agrees that the service of process relating to any Proceedings in England or Wales may be by delivery to Law Debenture Corporate Services Limited at 100 Wood Street, London EC2V 7ES, United Kingdom, or its other principal address in England for the time being. If such person is not or ceases to be effectively appointed to accept service of process, the Borrower shall immediately appoint a further person in England or Wales to accept service of process on its behalf and, failing such appointment within 15 days, the Lender shall be entitled to appoint such a person by written notice to the Borrower. Nothing in this Clause 23.4 (*Service of Process*) shall affect the right of the Lender to serve process in any other manner permitted by law.

23.5 Non-exclusivity

The submission by the Borrower to the jurisdiction of the English courts shall not (and shall not be construed so as to) limit the right of the Lender to bring Proceedings in any other court of competent jurisdiction.

23.6 Arbitration

Notwithstanding the provisions of Clauses 23.2 (*English Courts*) to 23.5 (*Non-exclusivity*) above, at the sole option of the Lender and the Trustee, any dispute arising out of or in connection with this Agreement, including any dispute regarding its existence, validity or termination (a "**Dispute**") shall be referred to and finally settled by arbitration in accordance with the Rules of the London Court of International Arbitration (the "**LCIA**"), which Rules are deemed to be incorporated by reference to this Clause 23.6 (*Arbitration*). The place of the arbitration shall be London, England and the language of the arbitration shall be English. The number of arbitrators shall be three. Each party shall nominate an arbitrator, and the two party-nominated arbitrators shall jointly nominate a third, who shall act as Chairman of the Tribunal. If a Dispute shall involve more than two parties, the parties thereto shall attempt to align themselves in two sides (i.e., claimant and respondent) each of which shall nominate an arbitrator as if there were only two sides to such Dispute. If such alignment and nomination shall not have occurred within twenty (20) calendar days after the initiating party serves the Request for Arbitration (as defined in the Rules), or if a Chairman has not been selected within thirty (30) calendar days of the selection of the second arbitrator, the LCIA Court shall appoint three arbitrators or the Chairman, as the case may be. The parties may nominate and the LCIA Court may appoint arbitrators from among the nationals of any country, whether or not a party is a national of that country. Sections 45 and 69 of the Arbitration Act 1996 will not apply.

23.7 **Waiver of Immunity**

To the extent that the Borrower may in any jurisdiction claim for itself, its assets or revenue, immunity from suit, execution, attachment (whether in aid of execution, before making a judgment, aware or otherwise) or other legal proceedings, including in relation to an enforcement of an arbitral award, and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Borrower, its assets or revenue, the Borrower agrees not to claim and irrevocably waives such immunity to the fullest extent permitted by the law of such jurisdiction.

24. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

A person who is not a party to this Agreement has no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement, other than the Trustee in relation to Clause 13 (*Covenants*), Clause 14 (*Events of Default*), Clause 15 (*Indemnity*), Clause 16.2 (*Currency Indemnity*), Clause 18.2 (*Preservation and Enforcement of Rights*), Clause 18.3 (*Stamp Taxes*), Clause 18.4 (*Costs Relating to Amendments and Waivers*) and Clause 23 (*Law and Jurisdiction*), but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

25. NBU REGISTRATION REQUIREMENT

This Agreement shall become effective on the date of its registration with the NBU which shall be evidenced by the Borrower's loan registration notice bearing the registration notation and the stamp of the NBU.

AS WITNESS the hands of the duly authorised representatives of the parties hereto the day and year first before written.

Terms and Conditions of the Notes

The following is the text of the Terms and Conditions of the Notes which contain summaries of certain provisions of the Trust Deed, and which will be attached to the individual note certificates, if any, and (subject to the provisions thereof) apply to the Global Notes.

The U.S.$150,000,000 9.750 per cent. Loan Participation Notes due 2010 (the "Notes", which expression includes any further notes issued pursuant to Condition 13 (*Further Issues*) and forming a single series therewith) of Standard Bank Plc (the "Issuer") are constituted by, are subject to, and have the benefit of, a trust deed dated 14 February 2007 (as may be amended or supplemented from time to time, the "Trust Deed") between the Issuer and BNY Corporate Trustee Services Limited as trustee (the "Trustee", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed). The Notes are the subject of an agency agreement dated 14 February 2007 (as may be amended or supplemented from time to time, the "Agency Agreement") between the Issuer, The Bank of New York (Luxembourg) S.A., as registrar (the "**Registrar**"), which expression includes any successor registrar appointed from time to time in connection with the Notes), The Bank of New York, as principal paying agent (the "Principal Paying Agent", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), the transfer agents named therein (the "Transfer Agents", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes), the paying agents named therein (together with the Principal Paying Agent, the "Paying Agents", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the Trustee. References herein to the "Agents" are to the Principal Paying Agent and the Paying Agents and any reference to an "Agent" is to any one of them. Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and subject to their detailed provisions. The Noteholders (as defined below) are entitled to the benefit of, bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them.

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the specified office for the time being of the Trustee, being at the date hereof One Canada Square, London E14 5AL, United Kingdom and at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

The Issuer has authorised the creation, issue and sale of the Notes to be used for the sole purpose of financing the U.S.$150,000,000 loan (the proceeds of which are, the "Loan") to Close Joint-Stock Company "First Ukrainian International bank" (the "Borrower") whose terms and conditions are recorded in a loan agreement (as may be amended or supplemented from time to time, the "Loan Agreement") dated 8 February 2007 between the Borrower and the Issuer, as lender (the "Lender").

In each case where amounts of principal, interest and additional amounts, if any, due pursuant to Condition 6 (*Payments*) and Condition 7 (*Taxation*) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to pay to the Noteholders (as defined in Condition 2(a)), on each date upon which such amounts of principal, interest and additional amounts, if any, are due in respect of the Notes, to the extent of the sums of principal, interest, Additional Amounts and Indemnity Amounts (each as defined in the Loan Agreement), if any, actually received by or for the account of the Lender pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights (as defined below). Noteholders must therefore rely solely and exclusively upon the covenant to pay under the Loan Agreement and the credit and financial standing of the Borrower. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer.

None of the Noteholders, the Trustee or the other creditors (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, winding up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors or the Trustee for so long as the Notes are outstanding, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

The Issuer (as lender) has:

(a) charged by way of security to the Trustee all of the Issuer's rights, interests and benefits in and to (i) principal, interest and other amounts now or hereafter paid and payable by the Borrower to the Issuer as lender under the Loan Agreement and (ii) all amounts now or hereafter paid or payable by the Borrower to the Issuer under or in respect of any claim, award or judgment relating to the Loan Agreement (in each case other than its right to amounts in respect of any rights, interests and benefits of the Lender under the following clauses of the Loan Agreement: Clause 3.2 (*Fees*), Clause 7.4 second sentence thereof (*Costs of Prepayment*); Clause 8.2 (*Double Tax Treaty Relief*); Clause 8.3 (*Indemnity Amounts*); Clause 8.7 (*Delivery of Forms and Other Instruments*); Clause 10 (*Changes in Circumstances*); Clause 11 (*Representations and Warranties of the Borrower*); Clause 15 (*Indemnity*); Clause 18 (*Costs and Expenses*) (to the extent that the Issuer's claim is in respect of one of the aforementioned clauses of the Loan Agreement); Clause 16.2 (*Currency Indemnity*), Clause 17.3 (*No Set-off*) and Clause 18.4 (*Costs Relating to Amendments and Waivers*) (such rights are referred to herein as the "Reserved Rights"));

(b) charged by way of security to the Trustee all of the Issuer's rights, interest and benefits in and to all sums held on deposit from time to time, in the Account (as defined in the Loan Agreement) with the Principal Paying Agent (as defined below), together with the debt represented thereby (except to the extent such debt relates to Reserved Rights) pursuant to the Trust Deed (this sub-clause (b), together with sub-clause (a) other than the Reserved Rights, the "Charged Property"); and

(c) assigned absolutely by way of security to the Trustee all of the Issuer's rights, interests and benefits whatsoever, both present and future, whether proprietary, contractual or otherwise under or arising out of or evidenced by the Loan Agreement (including, without limitation, the right to declare the Loan immediately due and payable and to take proceedings to enforce the obligations of the Borrower thereunder) other than the Charged Property and the Reserved Rights and amounts payable by the Borrower in relation to the Charged Property and the Reserved Rights (the "Transferred Rights"),

together, the "Note Security".

In certain circumstances, the Trustee can (subject to it being indemnified and/or secured to its satisfaction) be required by Noteholders holding at least one-quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising in connection with the Note Security). However, it may not be possible for the Trustee to take certain actions in relation to the Notes and, accordingly, in such circumstances the Trustee will be unable to take such actions, notwithstanding the provision of an indemnity to it, and it will thus be for the Noteholders to take such actions directly.

1. Form, Denomination and Status

(a) Form and denomination

The Notes are in registered form without interest coupons attached, in denominations of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof (each, an "**Authorised Holding**").

(b) Status

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the obligation of the Issuer to apply an amount equal to the principal amount of the Notes solely for financing the Loan and to account to the Noteholders for principal, interest and additional amounts (if any) payable in respect of the Notes for an amount equivalent to sums of principal, interest, Additional Amounts and Indemnity Amounts, if any, actually received by or for the account of the Issuer pursuant to the Loan Agreement (less any amounts in respect of Reserved Rights), the right to receive which is, inter alia, being charged by way of security to the Trustee by virtue of the Note Security as security for the Issuer's payment obligations under the Trust Deed and in respect of the Notes.

If the Issuer receives any amount (a "relevant amount") under the Loan Agreement in a currency other than U.S. dollars, the Issuer's obligation to make any corresponding payment under these Conditions or the Trust Deed shall be fully satisfied by paying such sum as the Issuer receives having converted the relevant amount into U.S. dollars (after deducting any costs of exchange) at the rate or rates of exchange at which the Issuer may in the ordinary course of business purchase U.S. dollars with the currency so received.

Payments in respect of the Notes to the extent of the sums actually received by or for the account of the Issuer by way of principal, interest, Additional Amounts or Indemnity Amounts, if any, pursuant to the Loan Agreement (less any amounts in respect of the Reserved Rights) will be made *pro rata* among all Noteholders (subject to Condition 7 (*Taxation*)), on the dates on which such payments are due in respect of the Notes subject to the conditions attaching to, and in the currency of, such payments under the Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. The Issuer shall be under no obligation to exercise in favour of the Noteholders any rights of set-off or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and the Borrower.

Noteholders are deemed to have accepted that:

(i) neither the Issuer nor the Trustee makes any representation or warranty in respect of, and shall at no time have any responsibility for, or (save as otherwise expressly provided in the Trust Deed and paragraph (vi) below) liability, or obligation in respect of the performance and observance by the Borrower of its obligations under the Loan Agreement or the recoverability of any sum of principal, interest, Additional Amounts or Indemnity Amounts or other amounts, if any, due or to become due from the Borrower under the Loan Agreement;

(ii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial, operational or otherwise), creditworthiness, affairs, status, nature or prospects of the Borrower;

(iii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, any misrepresentation or breach of warranty or any act, default or omission of the Borrower under or in respect of the Loan Agreement;

(iv) neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Registrar, the Principal Paying Agent, any Transfer Agent or any Paying Agent of their respective obligations under the Agency Agreement;

(v) the financial servicing and performance of the terms of the Notes depend solely and exclusively upon performance by the Borrower of its obligations under the Loan Agreement, its covenant to pay under the Loan Agreement and its credit and financial standing. The Borrower has represented and warranted to the Issuer in the Loan Agreement that the Loan Agreement constitutes legal, valid and binding obligations of the Borrower. The representations and warranties given by the Borrower in Clause 11 (*Representations and Warranties of the Borrower*) of the Loan Agreement are given by the Borrower to the Issuer for the sole benefit of the Issuer and neither the Trustee nor any Noteholder shall have any remedies or rights against the Borrower that the Issuer may have with respect to such representations or warranties, other than any right the Trustee may have pursuant to the assignment of the Transferred Rights;

(vi) the Issuer (and, pursuant to the assignment of the Transferred Rights, the Trustee) will rely on self-certification by the Borrower and certification by third parties as a means of monitoring whether the Borrower is complying with its obligations under the Loan Agreement and shall not otherwise be responsible for investigating any aspect of the Borrower's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Note Security and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the secured property represented by the Note Security whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry and whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Note Security whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee will have no responsibility for the value of such security; and

(vii) if the Borrower is required by law to make any withholding or deduction for or on account of tax from any payment under the Loan Agreement or if the Issuer is required by law to make any withholding or deduction for or on account of tax from any payment in respect of the Notes, the sole obligation of the Issuer to make payment of principal, interest or additional amounts (if any) on the Notes will be to pay to the Noteholders sums equivalent to the sums actually received by or for the account of the Issuer from the Borrower pursuant to the Loan Agreement in respect of such payment, including, if applicable, Additional Amounts or Indemnity Amounts in respect of the tax required to be so withheld or deducted; the Issuer shall not be obliged to take any actions or measures as regards such deductions or withholdings other than those set out in Clause 8 (*Taxes*) and Clause 10.3 (*Mitigation*) of the Loan Agreement.

(viii) the Issuer shall at no time be required to expend or risk its own funds or otherwise incur any financial liability in the performance of its obligations or duties or the exercise of any right, power, authority or discretion pursuant to these Conditions until it has received the funds from the Borrower that are necessary to cover the costs and expenses in connection with such performance or exercise.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions in the Loan Agreement or have direct recourse to the Borrower except through action by the Trustee under the Note Security. Neither the Issuer nor the Trustee pursuant to the Transferred Rights shall be required to take proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

As provided in the Trust Deed, the obligations of the Issuer are solely to make payments of amounts in aggregate equal to principal, interest, Additional Amounts, Indemnity Amounts or other amounts, if any, actually received by or for the account of the Issuer pursuant to the Loan Agreement (less any amounts in respect of Reserved Rights), the right to which is being charged by way of security to the Trustee as aforesaid. Noteholders must therefore rely solely and exclusively upon the covenant to pay under the Loan Agreement and the credit and financial standing of the Borrower.

The obligations of the Issuer to make payments as stated in the previous paragraph constitute direct and general obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Payments made by the Borrower under the Loan Agreement to, or to the order of, the Trustee or (before such time that the Issuer has been required by the Trustee, pursuant to the terms of the Trust Deed, to pay to or to the order of the Trustee) the Principal Paying Agent will satisfy *pro tanto* the obligations of the Issuer in respect of the Notes.

Notwithstanding any other provisions of these Conditions and the provisions in the Trust Deed, the Trustee and the Noteholders shall have recourse only to the property subject to the Security Interests in accordance with the provisions of the Trust Deed. After realisation of the entirety of the Security Interests that have become enforceable, the obligations of the Issuer with respect to the Trustee and the Noteholders in respect of the Notes shall be satisfied and none of the foregoing parties may take any further steps against the Issuer to recover any further sums in respect thereof and the right to receive any such sums shall be extinguished. In particular, neither the Trustee nor any Noteholder shall petition or take any other step for the winding up of the Issuer.

Noteholders are deemed to have accepted and agreed that they will be relying solely and exclusively on the performance by the Borrower of its obligations under the Loan Agreement which depends on the credit and financial standing of the Borrower in respect of the financial servicing of the Notes.

2. Register, Title and Transfers

(a) *Register*: The Registrar will maintain outside the United Kingdom a register (the "Register") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "Holder" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "Noteholder" shall be construed accordingly. A certificate (each, a "Note Certificate") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(b) *Title*: The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder.

(c) *Transfers*: Subject to Condition 2(f) (*Closed periods*) and Condition 2(g) (*Regulations concerning transfers and registration*), a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed (including any certificates as to compliance with restrictions on transfer included therein), at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Holdings. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

(d) *Registration and delivery of Note Certificates*: Within five business days of the surrender of a Note Certificate in accordance with Condition 2(c) (*Transfers*), the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "business day" means a day on which commercial Issuers are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(e) *No charge*: The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) *Closed periods*: Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(g) *Regulations concerning transfers and registration*: All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee, the Registrar and the Borrower. A copy of the current regulations will be mailed (free of charge) by the Registrar and/or any Transfer Agent to any Noteholder who requests in writing a copy of such regulations. So long as any of the Notes are listed on the main segment of the SWX Swiss Exchange, a copy of the current regulations will be publicly available at the Specified Offices of the Transfer Agent and the Paying Agent in Switzerland.

(h) *Third Party Rights*: No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

3. Issuer's Covenant

As provided in the Trust Deed, so long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution or Written Resolution (as defined in the Trust Deed), agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed and the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*).

4. Interest

(a) Subject to and in accordance with Condition 6 (*Payments*), on each Interest Payment Date the Issuer shall pay to the Noteholders an amount equal to and in the same currency as the amount of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement, which interest under the Loan is equal to 9.750 per cent. per annum (the "Rate of Interest"). Interest shall accrue on the Loan from day to day from (and including) the Borrowing Date to (but excluding) the due date for repayment thereof unless payment of principal is improperly withheld or refused, in which event interest will continue to accrue (before or after any judgment) at the Rate of Interest to but excluding the date on which payment in full of the outstanding principal amount of the Loan is made.

(b) The amount of interest payable in respect of the Loan for any Interest Period (other than the First Interest Period) shall be calculated by applying the Rate of Interest to the principal amount of the Loan, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest on the Loan is required to be calculated for any other period (including the First Interest Period), it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

(c) As used in this Condition 4 (*Interest*), "Borrowing Date", "First Interest Period", "First Interest Payment Date", "Interest Payment Date", "Interest Period" and "Issue Date" shall have the meanings given to them in the Loan Agreement. In the Loan Agreement, "Interest Payment Date" is defined as 16 February and 16 August in each year. Under the Loan Agreement, the Borrower is required, two Business Days prior to each Interest Payment Date, to pay to the Issuer an amount equal to and in the same currency as the full amount of interest accruing during the Interest Period ending on such Interest Payment Date.

5. Redemption and Purchase

(a) *Scheduled redemption*: Unless previously prepaid pursuant to Clause 7 (*Prepayment*) of the Loan Agreement, the Borrower will be required to repay the Loan on its due date as provided in the Loan Agreement and, subject to such repayment, all the Notes will be redeemed at their principal amount on 16 February 2010 subject as provided in Condition 6 (*Payments*).

(b) *Redemption by the Issuer*: The Notes shall be redeemed by the Issuer in whole, but not in part, at any time, on giving not less than 30 days' nor more than 90 days' notice to the Noteholders (which notice shall be irrevocable and shall specify a date for redemption, being the same date as that set forth in the notice of prepayment referred to in Condition 5(b)(i) or (ii) below) in accordance with Condition 14 (*Notices*) at the principal amount thereof, together with interest accrued and unpaid to the date fixed for redemption and any additional amounts in respect thereof pursuant to Condition 7 (*Taxation*), if, immediately before giving such notice, the Issuer satisfies the Trustee that:

(i) the Issuer has received a notice of prepayment from the Borrower pursuant to Clause 7.1 (*Prepayment for Tax Reasons and Change in Circumstances*) of the Loan Agreement, which includes, inter alia, the Borrower's right to give notice that it has decided to prepay the Loan in the event that the Issuer is, subject to receipt of corresponding amounts from the Borrower, required to pay additional amounts in respect of United Kingdom Taxes as provided in Condition 7 (*Taxation*); or

(ii) the Issuer has delivered a notice to the Borrower, the contents of which require the Borrower to repay the Loan, in accordance with the provisions of Clause 7.2 (*Prepayment for Illegality*) of the Loan Agreement. The Issuer shall deliver to the Trustee a certificate signed by two officers of the Issuer stating that the Issuer is entitled to effect such redemption in accordance with this Condition 5(b). A copy of the Borrower's notice of prepayment or details of the circumstances contemplated by Clause 7.2 (*Prepayment for Illegality*) of the Loan Agreement and the date fixed for redemption shall be set forth in the notice.

The Trustee shall be entitled to accept any notice or certificate delivered by the Issuer in accordance with this Condition 5(b) as sufficient evidence of the satisfaction of the applicable circumstances in which event they shall be conclusive and binding on the Noteholders. Upon the expiry of any such notice given by the Issuer to the Noteholders as is referred to in this Condition 5(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 5, subject as provided in Condition 6 (*Payments*).

(c) *Redemption upon a Put Event*: Under Clause 7.3 (*Prepayment upon a Put Event*) of the Loan Agreement, upon the occurrence of a Put Event (as defined below) the Borrower is obliged to notify the Issuer, the Principal Paying Agent and the Trustee thereof.

Upon the Issuer being notified by the Borrower in accordance with the Loan Agreement that a Put Event has occurred, it shall give notice (a "Put Event Noteholders Notice") to the Noteholders in accordance with Condition 14 (*Notices*) specifying the nature of the Put Event and the procedure for exercising the option contained in this Condition 5(c) (*Redemption upon a Put Event*), and, if the Issuer fails to give the Put Event Noteholders Notice to the Noteholders or if so requested by the holders of at least one-quarter in principal amount of the Notes then outstanding, the Trustee shall (in each case, subject to it being indemnified and/or secured to its satisfaction) give the Put Event Noteholders Notice, subject to the Trustee being first indemnified and/or secured to its satisfaction.

To exercise the right to require the redemption of a Note under this Condition 5(c) (*Redemption upon a Put Event*), a Noteholder must deliver, on any Put Business Day (as defined below) falling within the period of 30 days after the Put Event Noteholders Notice is given by the Issuer or the Trustee (the "Put Period"), to the Specified Office of any Paying Agent, such Note together with a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the Specified

Office of any Paying Agent (a "Put Option Exercise Notice") (unless, prior to the delivery of the Put Option Exercise Notice, a notice of redemption is given to the Noteholders under Condition 5(b) (*Redemption by the Issuer*) above or the Loan becomes due and payable pursuant to Clause 14 (*Events of Default*) of the Loan Agreement).

The Paying Agent, to whom such Note and Put Option Exercise Notice is delivered, will issue to the Noteholder concerned a non-transferable receipt and give notice to the Trustee, the Issuer and the Principal Paying Agent that the Noteholder concerned wishes to redeem the Note which is the subject of such Put Option Exercise Notice.

A Put Option Exercise Notice, once given, shall be irrevocable.

At the end of the Put Period, the Issuer or the Trustee shall deliver or cause to be delivered a Put Redemption Notice to the Borrower as contemplated by Clause 7.3 (*Prepayment upon a Put Event*) of the Loan Agreement.

Any Note which is the subject of a Put Option Exercise Notice and which has been delivered to the Principal Paying Agent or other Paying Agent prior to the expiry of the Put Period, shall be, subject to receipt of the relevant monies from the Borrower, redeemed by the Issuer on the date which is the fifteenth Put Business Day (as defined below) immediately following the last day of the Put Period (the "Put Settlement Date").

Redemption by the Issuer shall be subject to receipt of the relevant monies from the Borrower under the Loan Agreement. To the extent that such payment is received by the Issuer under the Loan Agreement, the Issuer shall be required to redeem each Note held by the relevant Noteholder on the Put Settlement Date at its principal amount together with accrued interest (if any) to (but excluding) the Put Settlement Date.

Neither the Issuer nor the Trustee shall be required to take any steps to ascertain whether a Put Event or any event which could lead to the occurrence of a Put Event has occurred and neither the Trustee nor the Issuer shall be responsible or liable to Noteholders for any loss arising from any failure by it to do so. Each of the Issuer and the Trustee may assume until notified otherwise pursuant to this Condition 5(c) (*Redemption upon a Put Event*) or the terms of the Loan Agreement that no Put Event has occurred and shall have no liability to any person for so doing.

In this Condition 5(c) (*Redemption upon a Put Event*):

"Agency" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body;

"Capital Stock" means, with respect to any Person, any and all shares, interests, participations, rights to purchase, warrants, options or any other equivalent of any of the foregoing (however designated) in relation to the share capital of a company and any and all equivalent ownership interests in a Person other than a company, in each case whether now outstanding or hereafter issued;

"Change of Control" shall be deemed to have occurred if either of Mr. Rinat Akhmetov or Close Joint-Stock Company "System Capital Management" cease (on an aggregate basis whether by one or a series of transactions) to beneficially own directly or indirectly more than 50 per cent. of the voting rights attaching to Capital Stock of the Borrower conferring a right to appoint the general director or members of the management board, supervisory council or any other management body of the Borrower;

"Person" means any individual, company, corporation, firm, partnership, joint venture, association, trust, institution, organisation, state or Agency or any other entity, whether or not having separate legal personality;

"Put Business Day" means a day on which banks are open for general business (including dealings in foreign currencies) in New York City, London and the place of presentation;

"Put Event" means the announcement or (in the absence of such announcement) the occurrence of a Change of Control which results in a Rating Decline;

"Rated Securities" means the Notes so long as they shall have a rating from any Rating Agency and any debt of the Borrower having an initial maturity of one year or more which is rated by any Rating Agency;

"Rating Agency" means Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc. ("S&P"), Moody's Investors Service Limited ("Moody's"), Fitch Ratings or any of their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Borrower, from time to time with the prior written approval of the Lender and the Trustee; and

"Rating Decline" shall be deemed to have occurred if, during the period commencing upon the announcement or (in the absence of such announcement) the occurrence of a Change of Control, and ending on the date which is six months after the date of such announcement or occurrence, as the case may be, of the relevant Change of Control, any Rated Securities or any corporate rating of the Borrower assigned by any Rating Agency is:

(i) placed on "credit watch" or formal review (or equivalent) with negative implications or a negative outlook; or

(ii) downgraded or withdrawn;

by reason of such Change of Control, on the date such Rated Securities or corporate rating of the Borrower is so placed, downgraded or withdrawn, as the case may be.

(d) *No other redemption*: Except where the Loan is accelerated pursuant to Clause 14.6(c) (*Revocation of Licence; Insolvency*) of the Loan Agreement, the Issuer shall not be entitled to redeem the Notes prior to that due date otherwise than as provided in Conditions 5(b) (*Redemption by the Issuer*) and 5(c) (*Redemption upon a Put Event*).

(e) *Purchase*: The Borrower and the Issuer may, at any time, purchase Notes in the open market or otherwise and at any price. Such Notes may be held, reissued, resold or surrendered by or through the Issuer to the Principal Paying Agent for cancellation. Notes held by the Issuer and its subsidiaries and Notes held by the Borrower or any of its subsidiaries will cease to carry such rights and will not be taken into account, inter alia, for the purposes of Conditions 11 (*Meetings of Noteholders; Modification and Waiver; Substitution*) and 12 (*Enforcement*).

(f) *Cancellation*: All Notes so redeemed by the Issuer shall be cancelled and all Notes purchased by the Borrower or any of its subsidiaries and surrendered to the Principal Paying Agent pursuant to Clause 7.6 (*Purchase of Funding Instruments*) of the Loan Agreement, together with an authorisation addressed to the Principal Paying Agent, shall be cancelled.

6. Payments

(a) *Principal*: Payments of principal shall be made by U.S. dollar cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and shall only be made upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) *Interest*: Payments of interest shall be made by U.S. dollar cheque drawn on, or upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City, and (in the case of interest payable on redemption) shall only be made upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent..

(c) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *Payment on a business day*: Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by U.S. dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 6 (Payments) arriving after the due date for payment or being lost in the mail. In this paragraph, "business day" means any day on which banks are open for general business (including dealings in foreign currencies) in New York City, London and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

(e) *Partial payment*: If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) *Record date*: Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "Record Date"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

(g) *Payment to the Account*: Save as the Trustee may otherwise direct at any time after the security created pursuant to the Trust Deed becomes enforceable, the Issuer will pursuant to the provisions of Clause 7 (Payments to the Principal Paying Agent) of the Agency Agreement, require the Borrower to make all payments of principal, interest, Additional Amounts, Indemnity Amounts or other amounts, if any, to be made pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights, to the Account.

(h) *Payment obligations limited*: Notwithstanding any other provisions to the contrary, the obligations of the Issuer to make payments under Conditions 5 (*Redemption and Purchase*) and 6 (*Payments*) shall constitute an obligation only to pay to the Noteholders on such date upon which a payment is due in respect of the Notes, to the extent of sums of principal, interest, Additional Amounts, Indemnity Amounts or other amounts, if any, actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of the Reserved Rights.

7. Taxation

All payments by the Issuer in respect of the Notes shall be made in full without set-off or counterclaim, free and clear of and without deduction for or on account of any present or future taxes, levies, duties, imposts or other charges or withholding of a similar nature no matter where arising (including interest and penalties thereon and additions thereto) no matter how they are levied or determined ("Taxes") imposed by any taxing authority of or in, or having authority to tax in the United Kingdom, unless such deduction or withholding of Taxes is required by law. In that event, the Issuer shall, subject as provided below, pay such additional amounts ("additional amounts") as will result in the receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them if no such withholding or deduction had been made or required to be made. The foregoing obligation to pay additional amounts, however, will not apply to any:

(a) Taxes that would not have been imposed but for the existence of any present or former connection between such Noteholder and the United Kingdom other than the mere receipt of such payment or the ownership or holding of such Note;

(b) Taxes that would not have been imposed but for the presentation of the Note by the Noteholder for payment on a date more than 30 days after the Relevant Date (as defined below);

(c) Taxes required to be deducted or withheld by any Paying Agent from a payment on a Note, if such payment could have been made without deduction or withholding by any other Paying Agent in a Member State of the European Union; and

(d) Taxes imposed on a payment to an individual which are required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments or any law implementing or complying with, or introduced in order to conform to, such Directive.

The Issuer shall only make payments of additional amounts to the Noteholders pursuant to this Condition 7 (*Taxation*) to the extent and at such time as it shall have actually received an equivalent amount for such purposes from the Borrower under the Loan Agreement by way of Additional Amounts or Indemnity Amounts or otherwise.

To the extent that the Issuer receives a lesser sum from the Borrower under the Loan Agreement, the Issuer shall account to each Noteholder entitled to receive such additional amount pursuant to this Condition 7 (*Taxation*) for an additional amount equivalent to a pro rata portion of such sum (if any) as is actually received by, or for the account of, the Issuer pursuant to the provisions of the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to such payment to the Issuer.

In these Conditions, "Relevant Date" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in London by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include, without duplication, any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 7 (*Taxation*) pursuant to the Trust Deed or the Loan Agreement.

8. Prescription

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years and claims for interest other than on redemption shall become void unless made within five years of the appropriate Relevant Date.

9. Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar and the Transfer Agent having its Specified Office in Switzerland, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes Certificates must be surrendered before replacements will be issued.

10. Trustee and Agents

The Trust Deed provides that the Trustee may be replaced by an Extraordinary Resolution of the Noteholders or if the United Kingdom ceases to be the jurisdiction in which the Trustee is resident and acting through for taxation purposes.

Under separate agreement between the Borrower and the Trustee, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and, under the Trust Deed, to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, the Borrower and any entity relating to the Issuer or the Borrower without accounting for any profit.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 7 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 7 (*Taxation*) pursuant to the Trust Deed.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders. Under separate agreement between the Borrower and the Agents, the Agents are entitled to be indemnified and relieved from certain responsibilities in certain circumstances.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent or registrar and additional or successor paying agents and transfer agents; provided, however, that the Issuer shall at all times maintain (a) a principal paying agent and a registrar, (b) a paying agent and a transfer agent in Switzerland, and (c) a paying agent with a specified office in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26 to 27 November 2000 or any law implementing or complying with, or introduced to conform to, such Directive.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 14 (*Notices*).

11. Meetings of Noteholders; Modification and Waiver; Substitution

(a) *Meetings of Noteholders*: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including to propose the modification of any provision of the Loan Agreement or any provision of these Conditions or the Trust Deed. Such a meeting may be convened on no less than 14 days' notice by the Trustee or the Issuer or by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, one or more persons holding or representing whatever the principal amount of the outstanding Notes held or represented, unless the business of such meeting includes consideration of proposals inter alia, (i) to change any date fixed for payment of principal or interest in respect of the Notes, (ii) to reduce the amount of principal or interest payable on any date in respect of the Notes, (iii) to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, (iv) to change the currency of payments under the Notes, (v) to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution, (vi) to alter the governing law of the Conditions, the Trust Deed or the Loan Agreement, (vii) to change any date fixed for payment of principal or interest under the Loan Agreement, (viii) to alter the method of calculating the amount of any payment under the Loan Agreement or (ix) to change the currency of payment or, without prejudice to the rights under Condition 11(b) (*Modification and Waiver*) below, change the definition of "Event of Default" under the Loan Agreement (each, a "Reserved Matter"), in which case the necessary quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification and waiver*: The Trustee may, without the consent of the Noteholders, agree to any modification of these Conditions or the Trust Deed or, pursuant to the Transferred Rights, the Loan Agreement (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed by the Issuer or, pursuant to the Transferred Rights, the Loan Agreement by the Borrower, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter and in accordance with Condition 14 (*Notices*).

(c) *Substitution*: The Trust Deed contains provisions under which the Issuer may, without the consent of the Noteholders, transfer the obligations of the Issuer as principal debtor under the Trust Deed and the Notes to a third party provided that certain conditions specified in the Trust Deed are fulfilled. So long as any of the Notes are listed on the main segment of the SWX Swiss Exchange, in the event of such substitution, the SWX Swiss Exchange will be informed of such substitution, a supplemental Prospectus will be produced and will be made publicly available at the Specified Offices of the Transfer Agent and the Paying Agent in Switzerland and such substitution shall be notified to the Noteholders as soon as practicable thereafter and in accordance with Condition 14 (*Notices*).

12. Enforcement

At any time after an Event of Default (as defined in the Loan Agreement) or a Relevant Event (as defined below) shall have occurred and be continuing, the Trustee may, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

(a) it has been so requested in writing by the Holders of at least one-quarter in principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(b) it has been indemnified and/or provided with security to its satisfaction.

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing. The Trust Deed also provides that, in the case of an Event of Default or a Relevant Event, the Trustee may, and shall if requested to do so by Noteholders of at least one-quarter in principal amount of the Notes outstanding or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction, (1) require the Issuer to declare all amounts payable under the Loan Agreement by the

Borrower to be due and payable (where an Event of Default has occurred and is continuing), or (2) enforce the security created in the Trust Deed in favour of the Noteholders (in the case of a Relevant Event). Upon repayment of the Loan following an Event of Default, the Notes will be redeemed or repaid at the principal amount thereof together with interest accrued to the date fixed for redemption together with any additional amounts due in respect thereof pursuant to Condition 7 (*Taxation*) and thereupon shall cease to be outstanding.

For the purposes of these Conditions, "Relevant Event" means the earlier of (i) the failure by the Issuer to make any payment of principal or interest on the Notes when due to the extent it is obligated to do so pursuant to these Conditions; (ii) the filing of an application for the institution for bankruptcy, insolvency or composition proceedings over the assets of the Issuer in the United Kingdom; and (iii) the taking of any action in furtherance of the dissolution of the Issuer. For the avoidance of doubt, no additional amounts shall be payable if and to the extent that such withholding or deduction is required following and on account of a Relevant Event.

13. Further Issues

The Issuer may from time to time, with the consent of the Borrower and without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the Issue Date and/or first payment of interest and/or the issue price) so as to form a single series with the Notes. Such further Notes shall be issued under a deed supplemental to the Trust Deed. In relation to such further issue, the Issuer will enter into a loan agreement supplemental to the Loan Agreement with the Borrower on the same terms as the original Loan Agreement (or on the same terms except for the first payment of interest) subject to any modifications which, in the sole opinion of the Trustee, would not materially prejudice the interests of the Noteholders. The Issuer will provide a further fixed charge and absolute assignment in favour of the Trustee of its rights under such supplemental loan agreement equivalent to the rights charged and assigned as Note Security in relation to the Issuer's rights under the original Loan Agreement which will, together with the Note Security referred to in the Conditions, secure both the Notes and such further Notes.

14. Notices

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, so long as Notes are listed on the main segment of the SWX Swiss Exchange and the rules of that Exchange so require, notices to Noteholders will be published by means of electronic publication on the internet website of the SWX Swiss Exchange (www.swx.com) on the date of such mailing.

15. Governing Law and Jurisdiction

(a) *Governing law:* The Notes and the Trust Deed and all matters arising from or connected with the Notes and the Trust Deed are governed by, and shall be construed in accordance with, English law.

(b) *Jurisdiction:* The Issuer has in the Trust Deed (i) agreed for the benefit of the Trustee and the Noteholders that the courts of England shall have exclusive jurisdiction to settle any dispute (a "Dispute") arising from or connected with the Notes; and (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient. The Trust Deed also states that nothing contained in the Trust Deed prevents the Trustee or any of the Noteholders from taking proceedings relating to a Dispute ("Proceedings") in any other courts with jurisdiction and that, to the extent allowed by law, the Trustee or any of the Noteholders may take concurrent Proceedings in any number of jurisdictions.

Summary of Provisions Relating to the Notes in Global Form

The following is a summary of certain provisions to be contained in the Global Note Certificate which will apply to the Notes:

The Notes will be represented by a Global Note Certificate which will be registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for, and deposited with, a common depositary for Euroclear and Clearstream, Luxembourg.

The Global Note Certificate will become exchangeable in whole, but not in part, for Individual Note Certificates if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) the Issuer fails to pay an amount of interest, principal or additional amount (if any) due and payable in respect of the Notes within five days of the date on which such amount became due and payable under the Conditions; or (c) the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) which would not be suffered were the Notes evidenced by Individual Note Certificates and a certificate to such effect signed by two authorised signatories of the Issuer is delivered to the Trustee. Thereupon (in the case of (a) and (b) above) the Holder may give notice to the Issuer, and (in the case of (c) above) the Issuer may give notice to the Trustee and the Noteholders of its intention to exchange the Global Note Certificate for Individual Note Certificates. The holders of the Notes do not have the right to require the printing and delivery of Individual Note Certificates.

Whenever the Global Note Certificate is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered Holder of the Global Note Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Holder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

Payments

To the extent that the Issuer has actually received the relevant funds from the Bank, payments in respect of Notes represented by a Global Note Certificate will be made against presentation for endorsement and, if no further payment of principal or interest is to be made in respect of the Notes, against presentation and surrender of such Global Note Certificate to or to the order of the Registrar. Upon payment of any principal, the amount so paid shall be endorsed by or on behalf of the Registrar on behalf of the Issuer on the schedule to the Global Note Certificate. Payment while Notes are represented by a Global Note Certificate will be made in accordance with the procedures of Euroclear and Clearstream, Luxembourg or any alternative clearing system as appropriate.

Notices

Notwithstanding Condition 14 (*Notices*) (and without prejudice to the requirements in such Condition to publish notices in accordance with the rules and regulations of such stock exchange(s) on which the Notes are listed), Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg; provided, however, that, so long as the Notes are listed on the main segment of the SWX Swiss Exchange and its rules so require, notices will also be published by means of electronic publication on the internet website of the SWX Swiss Exchange (www.swx.com).

Meetings

The holder of the Global Note Certificate will be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, as having one vote in respect of each U.S.$1,000 principal amount of Notes for which the Global Note Certificate (as the case may be) so held may be exchanged.

Exercise of Redemption Upon a Put Event

For so long as all of the Notes are represented by the Global Note Certificate and such Global Note Certificate is held on behalf of a common depositary for, Euroclear and/or Clearstream, Luxembourg, the exercise of the option of the Noteholders provided for in Condition 5(c) (*Redemption upon a Put Event*) will be subject to the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg.

Subscription

Standard Bank Plc and HSBC Bank plc (the "Managers") have, in a subscription agreement dated 8 February 2007 (the "Subscription Agreement") and made between the Issuer, the Bank and the Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe and pay for the Notes at their issue price of 100 per cent. of their principal amount. Subject to receipt of the corresponding amount from the Bank, the Issuer (in its capacity as Lender under the Loan Agreement) will pay to the Managers an underwriting commission of approximately 0.7667 per cent. of the principal amount of the Notes. The Bank has also agreed to pay to the Issuer (in its capacity as Lender under the Loan Agreement) a fee to cover certain expenses incurred in connection with the Loan Agreement, including (but not limited to) the expenses of the Managers incurred in connection with the management of the issue of the Notes. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

The Managers and their respective affiliates have performed and expect to perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange non-public market financing for, and enter into derivative transactions with, the Bank and its Affiliates.

Taxation

The following is a general description of certain Ukrainian and United Kingdom tax considerations relating to the Notes and the Loan. It does not purport to be a complete analysis of all tax considerations relating to the Notes and the Loan, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries.

This summary is based upon the law as in effect as of the date of this Prospectus and is subject to any change in law that may take effect after such date.

Ukrainian Tax Considerations

General

The following summary is included for general information only. Potential investors in and holders of the Notes should consult their own tax advisers as to the tax consequences under the laws of Ukraine of the acquisition, ownership and disposition of the Notes. This summary is based upon the Ukrainian tax laws and regulations as in effect on the date of this Prospectus. Such laws and regulations are subject to change or varying interpretations. As with other areas of Ukrainian legislation, tax law and practice in Ukraine is not as clearly established as that of more developed jurisdictions. It is possible, therefore, that the current interpretation of the law or practice of its application may change or that the law may be amended. Accordingly, it is possible that payments to be made to the holders of the Notes could become subject to taxation in Ukraine or that rates currently in effect with respect to such payments could be increased in ways that cannot be anticipated as of the date of this Prospectus.

Tax on Interest Payments under the Loan

The Law of Ukraine "On Taxation of Profits of Enterprises" dated 28 December 1994 as amended and restated (the "Profits Tax Law") establishes that interest income received by non-resident entities from Ukrainian sources shall be subject to withholding taxation in Ukraine at 15 per cent. of the gross amount of such interest income.

At the same time, paragraph 13.2 of Article 13 of the Profits Tax Law states that if an applicable double tax treaty, ratified by Ukraine, provides for reduction in or relief from Ukrainian taxation of any income from sources in Ukraine, the treaty provisions shall prevail over provisions of the Profits Tax Law. The United Kingdom and Ukraine have entered into such a treaty signed on 10 February 1993 effective since 11 August 1993 (the "Double Tax Treaty"). Under provisions of the Double Tax Treaty (Article 13), interest arising in Ukraine and paid to a resident of the United Kingdom shall be taxable only in the United Kingdom if such resident is the beneficial owner of the interest and is subject to tax in respect of such interest in the United Kingdom.

Based on professional advice it has received, the Bank believes that, under the Double Tax Treaty, as currently applied, payments of interest on the Loan will not be subject to withholding tax, provided that certain conditions set forth in the Double Tax Treaty and under applicable Ukrainian legislation are duly satisfied. However, there can be no assurance that the exemption from withholding tax under the Double Tax Treaty is or will continue to be available.

Specifically, in order for the exemption from withholding tax under the Double Tax Treaty to be applicable, the Lender must be a resident of the United Kingdom for purposes of the Double Tax Treaty, must be the beneficial owner of the interest payments being received in the United Kingdom and must be subject to tax in respect of such interest payments in the United Kingdom. The exemption will not be available under the Double Tax Treaty if the Lender carries on business through a permanent establishment situated in Ukraine, and the debt-claim in respect of which the interest is paid is effectively connected with such permanent establishment. Moreover, it is unclear how the test for taxation of interest payments in the United Kingdom will be interpreted and applied by the Ukrainian tax authorities. In addition, the notion of beneficial ownership is not well defined in Ukrainian tax law. As a consequence, different interpretations are possible and the position could be taken that the Lender should not be viewed as the beneficial owner of the interest payments being received in the United Kingdom. However, the Bank believes that it is unlikely that the Ukrainian tax authorities will adopt this view.

In addition. Article 11(7) of the Double Tax Treaty contains a "main purpose" anti avoidance provision. While there is no established practice of the Ukrainian tax authorities with respect to the application of this provision, if the Ukrainian tax authorities take a position that, one of the main purposes of selection the United Kingdom, the Lender's jurisdiction of residence, for this financing transaction was to take advantage of the tax benefits (i.e. exemption of the interest payments from withholding taxation in Ukraine) under the Double Tax Treaty, the Ukrainian tax authorities may use Article 11(7) of the Double Tax Treaty to deny treaty benefits.

Applicable Ukrainian legislation allows upfront relief from withholding taxation in Ukraine under the Double Tax Treaty if the United Kingdom recipient of income from source in Ukraine provides the payer with a confirmation that the recipient is a resident in the United Kingdom for the purposes of the Double Tax Treaty. A new tax residence confirmation must be obtained for each calendar year. Should the tax residency confirmation for the relevant calendar year not be available as at the date of interest payments to the Lender, it would be acceptable that the Bank applies upfront relief under the Double Tax Treaty provided that the Lender has furnished to the Bank its tax residency confirmation for the previous calendar year and the tax residency confirmation for the calendar year in which the payment is made is provided prior to expiration of that calendar year. The obtaining of treaty relief does not require the payee or payer to apply for and/or obtain any transaction specific prior clearance from the Ukrainian tax authorities. Instead, the Ukrainian payer directly applies the rate under the Double Tax Treaty, provided that the current tax residence confirmation is available on or prior to the date of payment of the Ukrainian source income.

Tax on Issue and Interest Payments under the Notes

No Ukrainian withholding tax should apply to the issue of the Notes or interest payments under the Notes because the Notes will not be issued and interest payments on the Notes will not be made by the Bank or from Ukraine.

Tax on Payment of Instalments of Principal and On Redemption of the Notes

The amount received by the Lender as repayment or prepayment of principal amount of the Loan is not treated as income. Therefore, it shall not be subject to any income taxation in Ukraine either by withholding or otherwise.

The amounts received by non-resident Noteholders on Notes redemption should not be subject to taxation in Ukraine.

Gross Up Provision

If payments under the Loan Agreement (including payments of interest) become subject to any withholding (as a result of which the Issuer would reduce payments under the Notes in the amount of such withholding), then, the Bank may, subject to certain exceptions specified in the Loan Agreement, become obliged to pay such additional amounts as may be necessary so that the net payments received by the Lender were not less than the amount it would have received in the absence of such withholding. In such circumstances, the Bank would have the right to prepay the Loan as fully set out in the Loan Agreement. Notwithstanding the foregoing, the Profits Tax Law prohibits contractual provisions under which residents undertake to pay for non-residents taxes on their income received from sources in Ukraine. If interpreted widely, such restriction would also apply to the gross up provisions of the Loan Agreement and obligations of the Bank to pay additional amounts. As a result, the gross up provision could be found null and void and, therefore, unenforceable in Ukraine.

If the Trustee were to enforce the security under the Trust Deed, the Trustee shall be receiving payments of principal and interest under the Loan Agreement in the name of the Lender or in its own name. As a result, benefits under the Double Tax Treaty may cease to be applicable to payments under the Loan Agreement and they may become subject to withholding taxation in Ukraine unless the Trustee meets all the criteria for the exemption under the Double Tax Treaty. However, if this were to occur, the Bank would be obliged to pay additional amounts on account of Ukrainian taxes withheld.

The Issuer is obliged to make payments under the Notes to Noteholders only to the extent of the amount of principal, interest and any Additional Amounts or Indemnity Amounts (both as defined in the Conditions), if any, actually received by or for the account of the Lender under the Loan Agreement, less any amount in respect of Reserved Rights (as defined in the Conditions). See also "Risk Factors — Risks Relating to the Offering, the Notes and the Trading Market".

Transfer of Notes to Ukrainian Investors

If Notes are held by a non-resident entity, any gains derived by the non-resident entity from the sale or other disposition of Notes to the benefit of a Ukrainian resident entity will be subject to withholding taxation in Ukraine at the rate of 15 per cent. If Notes are held by a non-resident individual, any gains derived by the individual from the sale or other disposition of Notes to a Ukrainian resident entity are generally subject to withholding taxation in Ukraine at the rate of 30 per cent. The gains derived by the non-resident entity or individual from the sale or other disposition of Notes, otherwise subject to income taxation in Ukraine, may be exempt from taxation in Ukraine under provisions of applicable double tax treaties.

Tax Implications for Residents of Ukraine

A Noteholder who is an individual or legal entity resident in Ukraine for tax purposes (including a permanent establishment of a non-resident legal entity) is subject to taxation in Ukraine on net basis on its worldwide income (income attributable to permanent establishment in Ukraine). Interest from holding debt securities is included into the taxable income of a resident taxpayer, while the principal amount generally is not treated as income.

United Kingdom Taxation

United Kingdom Taxation — Summary

The following is a summary of the United Kingdom withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Notes. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of Notes and United Kingdom stamp duties. The comments relate only to the position of persons who are absolute beneficial owners of the Notes. The following is a general guide and should be treated with appropriate caution. Noteholders who are in any doubt as to their tax position should consult their professional advisers. Noteholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Notes are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Notes. In particular, Noteholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

UK Withholding Tax On United Kingdom Source Interest

Exemptions from Withholding Obligation

Where the Issuer remains a "bank", as defined in section 840A of the Income and Corporation Taxes Act 1988 ("Taxes Act"), and interest paid by the Issuer is paid "in the ordinary course of its business", for the purposes of section 349(3)(b) of the Taxes Act, interest may be paid without withholding or deduction for or on account of United Kingdom income tax. In accordance with the published practice of HM Revenue and Customs, such payments will be accepted as being made by a bank in the ordinary course of its business unless: (a) the borrowing in question conforms to any of the definitions of tier 1, 2 or 3 capital adopted by the FSA whether or not it actually counts towards tier 1, 2 or 3 capital for regulatory purposes; or (b) the characteristics of the transaction giving rise to the interest are primarily attributable to an intention to avoid United Kingdom tax.

The Notes issued by the Issuer which carry a right to interest will constitute "quoted Eurobonds" provided they are and continue to be listed on a "recognised stock exchange", within the meaning of section 841 of the Taxes Act. On the basis of HM Revenue and Customs published interpretation of the relevant legislation, securities which are to be listed on the main segment of the SWX Swiss Exchange should satisfy this requirement. Whilst the Notes are and continue to be "quoted Eurobonds", payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

In all cases falling outside the two exemptions described above, interest on the Notes may fall to be paid under deduction of United Kingdom income tax at the lower rate (currently 20 per cent.) subject to such relief as may be available under the provisions of any applicable double tax treaty or to any other exemption that may apply.

Provision of Information

Noteholders should note that where any interest on Notes is paid to them (or to any person acting on their behalf) by the Issuer or any person in the United Kingdom acting on behalf of the Issuer (a "paying agent"), or is received by any person in the United Kingdom acting on behalf of the relevant Noteholder (other than solely by clearing or arranging the clearing of a cheque) (a "collecting agent"), then the Issuer, the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to HM Revenue and Customs details of the payment and certain details relating to the Noteholder (including the Noteholder's name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or nor the Noteholder is resident in HM Revenue and Customs taxation purposes. Where the Noteholder is not so resident, the details provided to HM Revenue and Customs may, in certain cases, be passed by HM Revenue and Customs to the tax authorities of the jurisdiction in which the Noteholder is resident for taxation purposes.

Reference is made to the "EU Directive on the Taxation of Savings Income" at the end of this section. The United Kingdom does provide to the tax authorities of other Member States (and certain non-EU countries and territories referred to in that directive) the details of payments of interest or similar income paid by a person within the United Kingdom to an individual (and certain other non-corporate entities) resident in that country or territory.

Other Rules Relating to United Kingdom Withholding Tax

Where interest has been paid under deduction of United Kingdom income tax, Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to "interest" above mean "interest" as understood under United Kingdom tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the Conditions or any related documentation.

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer pursuant to Condition 11(c) of the Notes and does not consider the tax consequences of any such substitution.

United Kingdom Stamp Duty And Stamp Duty Reserve Tax

No stamp duty or stamp duty reserve tax should be payable upon a transfer of the Notes within the clearing systems. Transfers of, or agreements to transfer, Notes held outside the clearing system will not properly be subject to stamp duty and/or stamp duty reserve tax.

EU Directive On The Taxation Of Savings Income

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, including Switzerland, and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one of those territories.

On 26 October 2004, the European Community and Switzerland entered into an agreement on the taxation of savings income by way of a withholding tax system and voluntary declaration in the case of transactions between parties in the EU member states and Switzerland.

On the basis of such agreement, Switzerland has introduced a withholding tax on interest payments or other similar income paid by a paying agent within Switzerland to EU resident individuals as of 1 July 2005. The withholding tax is at a rate of 15 per cent. for the first three years of the transitional period, 20 per cent. for the subsequent three years and 35 per cent. thereafter. The beneficial owner of the interest payments may be entitled to a tax credit or refund of the withholding if certain conditions are met.

Prospective purchasers of these Notes should consult their advisors concerning the impact of the EU Savings Tax Directive. Notwithstanding the above, for the avoidance of doubt, should the Issuer, the Principal Paying Agent or any institution where the Notes are deposited be required to withhold any amount as a direct or indirect consequence of the EU Savings Tax Directive, then, there is no requirement for the Issuer to pay any additional amounts relating to such withholding.

Appendix A — Ukraine: The Banking Sector

The statistical information and other data contained in this Appendix has been extracted from publicly available data (such as information contained on official websites and in publications of governmental agencies of Ukraine, including the NBU and other governmental or mass media sources), and the Bank accepts responsibility for accurately extracting such data but accepts no further responsibility in respect of such information. See "Risk Factors — Risks Relating to Ukraine — Official Statistics".

The Ukrainian Banking Sector

The Ukrainian banking sector is a two-tier structure made up of the National Bank of Ukraine and commercial banks of various types and forms of ownership, including the state-owned Joint Stock Company "The State Export-Import Bank of Ukraine" (Ukreximbank) and Joint Stock Company "State Savings Bank of Ukraine" (Oschadbank). Ukrainian banks act in accordance with the Law of Ukraine "On the National Bank of Ukraine" of 20 May 1999 (the "National Bank Law"), the Law of Ukraine "On Banks and Banking Activity" of 7 December 2000 (the "Banking Law"), Ukrainian legislation on joint-stock companies and other business entities, as well as the NBU regulations and their respective charters.

Role of the NBU

The NBU is the central bank of Ukraine. Established in 1991 and governed by the Constitution of Ukraine and the National Bank Law, the NBU is a specialised state institution with the principal objective of ensuring the external and internal stability of the national currency and possessing broad regulatory and supervisory functions in the banking sector. The NBU is empowered to develop and conduct monetary policy, register Ukrainian banks and grant banking licences thereto, organise banking settlements and the foreign exchange system, ensure stability of the monetary, financial and banking systems of Ukraine, and protect the interests of commercial bank depositors. The principal governing bodies of the NBU are the Council and the Board. The Council, the highest governing body of the NBU, consists of 15 members, seven of whom are appointed by the Parliament and seven of whom are appointed by the President. The Governor of the NBU (nominated by the President and appointed by Parliament for a five year term) acts ex officio as the fifteenth member of the Council. The Council is charged, in particular, with developing the principles of Ukraine's monetary policy and has the right to veto the Board's decisions if they contravene such principles. The Board, which is comprised of the Governor, his or her deputies and other members of the Board, is responsible for implementing Ukraine's monetary and other policies in the banking sector and generally managing the activity of the NBU.

Monetary Policy

The NBU is charged with implementing monetary policy. Currently, the NBU implements monetary policy through instruments such as mandatory reserve requirements for banks, interest rates, refinancing of commercial banks, deposit operations, and reverse repo operations. The main channel for the release of funds into circulation is the foreign currency market. With signs of the economy beginning to stabilise after the financial crisis in 1998 and the ensuing economic instability in the region, the NBU reduced the discount rate from 45.0 per cent. at the beginning of 2000 to 12.5 per cent. by the end of 2001, and 7.0 per cent. in December 2002. Since then, the NBU has gradually increased the discount rate to 9.5 per cent. (effective 10 August 2005) and then decreased it to 8.5 per cent. (effective 10 June 2006). Since 1 March 2004, the NBU has been separately determining interest rates on overnight unsecured loans (10.5 per cent. as of 15 January 2007) and overnight loans secured by state securities (9.5 per cent. as of 15 January 2007), and setting separate interest rates on deposits from banks placed with the NBU for various terms. Starting from 17 November 2006, the NBU has been setting separate interest rates for overnight deposit certificates on a daily basis (0.1 per cent. as at 15 January 2007) and for deposit certificates issued by the NBU for various terms on a weekly basis. For example, as of 11 January 2007, the interest rates for 14 day deposit certificates was 1.5 per cent.

Among the main objectives of the NBU's monetary policy in 2007, as declared by the NBU, are to ensure forecasted dynamics of the Ukrainian hryvnia/US Dollar exchange rate, as well as to restrain the inflation rate to approximately 7.5 per cent. using available monetary measures.

Regulation

Banking activities in Ukraine are regulated by several laws and numerous regulations issued by the NBU. The principal legislation in the area are the National Bank Law and the Banking Law (collectively, the "Banking Laws"). The NBU oversees compliance with the Banking Laws, regulations and other legislation and imposes appropriate sanctions for violations of those laws and regulations. The NBU, in accordance with the authority granted under the Banking Laws, adopted the Banking Regulation Directive which establishes capital adequacy, liquidity and other ratios. The NBU also sets accounting, reporting, auditing and other requirements for commercial banks. A Ukrainian commercial bank may carry out so-called "exclusive banking activities" (i.e. taking of deposits, opening and maintaining bank accounts and investment of raised funds) only on the basis of a banking licence issued by the NBU. Banks are permitted to carry out additional banking transactions subject to obtaining a special written permit from the NBU.

Reporting Requirements

Banks are required to submit an annual report that contains audited financial statements or consolidated financial statements if a bank has affiliates under its control, accompanied by an independent auditors' report as well as a general description of a bank's business. Financial statements include a balance sheet, income statement, and shareholders' equity and cash flow statements. The general description section describes the basic features of a bank's activity and its organisation and management. Interim financial statements are submitted by banks on a quarterly basis and consist of a balance sheet, income statement, off-balance sheet liabilities statement, trust management accounts and a cover letter. The purpose of a cover letter is to describe and explain events and operations which are important for a fair presentation of the financial position of a bank and are material. Banks are also required to submit to the NBU statistical data on a daily, weekly and monthly basis that ensures permanent review by the NBU of a bank's performance and financial position.

Securing Deposits of Individuals

The Law of Ukraine "On the Fund for the Guaranteeing of Deposits of Individuals" of 20 September 2001, No. 2740- III (the "Deposit Securing Law"), introduced a system of securing deposits held by individuals with Ukrainian banks modifying the same established in 1998 by the Presidential Decree "On Measures for the Protection of Rights of Individuals – Depositors of Commercial Banks of Ukraine" of 10 September 1998, No. 996/98 (the "Decree"). Pursuant to the Deposit Securing Law, commercial banks in Ukraine are obliged to remit to the Fund for the Guaranteeing of Deposits of Individuals (the "Fund") established under the Decree and functioning according to the Deposit Securing Law, an initial duty in the amount of 1 per cent. of their registered statutory capital (payable once after obtaining a banking license), a regular duty in the amount of 0.25 per cent. of the aggregate amount of deposits, including interest accrued (payable twice a year), and a special duty that the Fund may levy if the income of the Fund would not be sufficient to repay and service loans borrowed by the Fund in order to meet compensation claims following the collapse of a bank in the banking system. The Fund guarantees deposits with commercial banks, including interest, up to a maximum of UAH 15,000 per depositor with each such bank (effective since May 2006). Deposits are recognised as "unavailable" (i.e. eligible for compensation) on the date of appointment of a bank's liquidator. The Deposit Securing Law does not apply to the State Savings Bank (Oschadbank). As of 11 January 2007, the Fund had 164 member banks and 3 temporary member banks. As at 1 January 2007, the total amount of funds accumulated by the Fund was UAH 867 million.

Reserve and Liquidity Requirements

In 2001, the NBU adopted regulations relating to the mandatory reserves of commercial banks which provide that the NBU will impose sanctions for the failure to keep prescribed amounts of mandatory reserves. Such sanctions are payable from a bank's profits. Currently, commercial banks are required to annually transfer to their reserves no less than 5 per cent. of their profits, until and unless such reserves are equal to 25 per cent. of their regulatory capital. The NBU may require commercial banks to increase their mandatory reserve amounts.

The NBU has established mandatory reserve requirements to maintain the liquidity of the banking system and the stability of the Ukrainian hryvnia. Banks are required to maintain certain reserves in current accounts with the NBU. There are no restrictions on the withdrawal of funds from the NBU. However, if the minimum requirements are not met, a bank could be subject to certain penalties. Reserve requirements are computed as a percentage of certain liabilities of a bank. In particular, since 1 October 2006, the reserves should not be less than 1.0 per cent. of call deposits and current accounts of customers in national currency, 5.0 per cent. of call deposits and current accounts of customers in foreign currency, 0.5 per cent. of term deposits of customers in national currency and 4.0 per cent. of term deposits of customers in foreign currency. In 2005, the NBU changed certain reserve requirements by, for example, excluding cash held in vaults from the use by banks to cover mandatory reserves. In addition, with effect from 1 October 2006, the NBU increased the required daily balance of mandatory reserves in correspondence accounts of banks with the NBU up to 100 per cent. of the amount of mandatory reserves formed in the previous reserve reporting period.

The NBU has also established three separate liquidity ratios. A bank must have an instant liquidity ratio of at least 20 per cent. (i.e., the ratio of a bank's correspondent account funds and cash to its current liabilities), a current liquidity ratio of at least 40 per cent. (i.e. the ratio of a bank's primary and secondary liquid assets to liabilities with corresponding due dates) and a short-term liquidity ratio of at least 20 per cent. (i.e. the ratio of liquid assets to short-term liabilities (with maturities under one year)). The NBU has defined liquid assets to include cash funds, bank metals, funds in correspondent accounts, debt securities of state agencies in a bank's trade portfolio, available-for-sale portfolio and held-to-maturity portfolio, and short-term interbank deposits and loans. Short-term liabilities are defined to include demand liabilities, budget funds, short-term loans from the NBU and other banks, short-term interbank and customer deposits, short-term debt instruments issued by a bank and liabilities under all types of guarantees and committed credit lines to banks and customers.

Capital Requirements

The NBU has established requirements for capital adequacy, minimum statutory capital requirements and minimum regulatory capital requirements.

The minimum statutory capital requirements for nationwide, regional and cooperative banks established prior to 4 October 2006 were €5 million, €3 million and €1 million, respectively. With effect from 4 October 2006, the minimum statutory capital requirement for all banks at the time of their registration is €1 million; such requirement applies only to banks which have been established after 4 October 2006.

The regulatory capital (i.e. the sum of principal (core) capital and additional capital) cannot be less than the minimum statutory capital requirement and the minimum regulatory capital requirements established by the NBU. From 1 May 2004, the NBU calculates the minimum regulatory capital requirement in UAH in an amount equivalent to the Euro amounts set forth by the Banking Regulation Directive. For 2007, the minimum regulatory capital requirements for newly established banks (those that have been in existence for less than one year) are UAH 36.1 million (€5.0 million) for nationwide banks, UAH 21.7 million (€3.0 million) for regional banks and UAH 7.2 million (€1.0 million) for cooperative banks while the requirements for banks that existed before January 2002 are UAH 57.7 million (€8.0 million) for national wide banks, UAH 36.1 million (€5.0 million) for regional banks and UAH 10.8 million (€1.5 million) for cooperative banks. These regulatory capital requirements are subject to periodic increases.

The minimum risk-based requirement for regulatory capital set by the NBU is 10 per cent. of risk-weighted assets, of which principal (core) capital should be at least 4 per cent. For banks that have been operating for less than 12 months, regulatory capital ratio is required to be no less than 15 per cent. Risk-weighted assets, or credit risk profile of a bank, are calculated by applying various risk weights to a bank's assets and off-balance-sheet commitments according to the terms set by NBU.

Loan Provisioning

Banks must meet mandatory requirements to cover net loan risks and review those provisions on a monthly basis. Some loan products, such as so-called "budget loans", credit transactions between entities within the system of one bank (for banks 100 per cent. owned by foreign entities – credit transactions with the parent company if such company is assigned an investment-grade credit rating), real-estate backed leasing transactions, subordinated loans, uncommitted off-balance sheet credit lines and funds in foreign currency transferred to the NBU under direct repo transactions, do not require any provisions. Other loans are classified into five major categories to which the following provisioning requirements are applied: standard loans (1 per cent. provisioning requirement, or 2 per cent. for loans in foreign currency to borrowers who have no foreign currency earnings), loans on watch (5 per cent., or 7 per cent. for loans in foreign currency to borrowers who have no foreign currency earnings), substandard loans (20 per cent., or 25 per cent. for loans in foreign currency to borrowers who have no foreign currency earnings), doubtful loans (50 per cent., or 60 per cent. for loans in foreign currency to borrowers who have no foreign currency earnings) and bad loans (100 per cent.).

Recent Developments in the Banking Sector

The Ukrainian banking sector has suffered from a number of significant weaknesses, which have included, among others, undercapitalisation, weak corporate governance and management, poor asset quality and excessive political intervention in some banks. Since 1997, Ukraine has been implementing a series of banking sector reforms under the IMF reform programme with the aim of supporting commercial banks that undertake structural reforms and demonstrate long-term stability of their activities. Since the beginning of 1998, the NBU has required from banks to prepare accounts that are based in many aspects on the International Financial Reporting Standards. As part of the IMF programme on banking sector reform, on 7 December 2000 Parliament adopted the Banking Law. The Banking Law provides a legal basis for strengthening the regulation of the banking system. In addition, in line with the IMF's recommendations, the Banking Law aims at reforming second tier banks and modifying the deposit securing scheme to include provisions that would allow the exclusion of problem banks (including, in particular, any of large banks if they should fail to comply with restructuring agreements), so that any costs of the scheme will first be funded by the scheme itself and then by the government, but not the NBU. Under the terms of the IMF programme on banking sector reform, the NBU undertook to monitor and audit the seven largest banks in Ukraine, including the two state-owned banks. The NBU oversees the activities of commercial banks using both off-site and on-site inspections and through a system of audits.

On 1 January 2004, the Laws of Ukraine "On Mortgage" and "On Mortgage Lending, Transactions with Consolidated Mortgage Debt and Mortgage-Backed Certificates" came into force, which were further supplemented by the Law of Ukraine "On Mortgage Bonds" with effect from 24 January 2006. These laws permit, amongst other things, the issuance of mortgage-backed financial instruments and their trading on securities markets. In March 2004, the regulations came into force that introduced new methods of refinancing (including "swap" operations) and allowed commercial banks to pledge mortgage-backed certificates and Eurobonds issued by Ukraine for refinancing purposes. Commencing June 2006, commercial banks are also allowed to pledge, for refinancing purposes, proprietary rights on deposits placed by them with the NBU. Effective from November 2006, the NBU new resolution on regulation of liquidity of banks liberalised the NBU refinancing requirements, introduced new types of security that banks are allowed to pledge for refinancing purposes and excluded deposit agreements from deposit operations of NBU. Further, other regulations that became effective in May 2004 set forth minimum regulatory capital requirements in hryvnia rather than Euro, allowed banks to issue subordinated debt securities (including notes, bonds and deposit certificates) and granted to the NBU the powers to set the maximum interest rates that banks may pay on their subordinated debt.

In January 2006, a new law on credit histories and credit bureaus became effective, which allows the establishment of so called credit bureaus which collect information on borrowers (both individuals and legal entities) and form credit histories of each borrower. The information gathered by such credit bureaus is expected to assist Ukrainian banks in evaluating and minimising the credit risk associated with prospective borrowers.

On 14 September 2006, the Parliament adopted a law amending the Banking Law, according to which the minimum statutory capital requirement for all banks established after the date when the amendments became effective (4 October 2006) is €10 million. In addition, the amendments provide that banks are to be established only in the form of an open joint stock company or cooperative bank (i.e. it is no longer permitted to establish banks in the form of a closed joint stock company or limited liability company). Furthermore, the amendments also require that all existing banks established in the form of a closed joint stock company or limited liability company be reorganised appropriately within three years from 4 October 2006.

The Ukrainian banking market is expected to become more competitive as a result of the deregulation of the banking industry, permitting foreign banks to operate branch offices in Ukraine and Ukraine's accession to the WTO. Presently, foreign banks can operate only representative offices or Ukrainian subsidiaries. On 16 November 2006, Parliament passed a law permitting foreign banks to operate branch offices in Ukraine upon Ukraine's joining the WTO, subject to access criteria to be established by the NBU.

The NBU is responsible for the reorganisation or closure and liquidation of insolvent banks to strengthen confidence in the banking sector. In 2001, one of Ukraine's large banks, Bank Ukraina, was declared insolvent by the NBU, the representative of which was appointed as liquidator of Bank Ukraina. As of 1 December 2006, 19 banks or 9.9 per cent. of all banks, were under liquidation.

Notwithstanding the improvements noted over the recent past, the financial intermediation work of Ukraine's financial sector remains limited. Despite rising by 37.0 per cent. and 45.0 per cent. in nominal terms in 2004 and 2005, respectively, the total capitalisation of the banking sector is still low (i.e., UAH 38.4 billion in terms of regulatory capital as of 1 December 2006). The average weighted annual lending rate in the banking system as of 16 January 2006 was 15.1 per cent. for loans in hryvnia and 10.7 per cent. for loans in hard currency.

Competition

As of 1 December 2006, 191 commercial banks were registered in Ukraine, out of which 167 banks have been granted licences by the NBU to perform banking transactions. As of 1 December 2006, the total assets of commercial banks having licences to perform banking transactions amounted to UAH 315.3 billion (U.S. $62.4 billion), their credit portfolio amounted to UAH 255.8 billion (U.S.$50.7 billion), corporate deposits and current accounts amounted to UAH 74.8 billion (U.S.$14.8 billion) and retail deposits and current accounts amounted to UAH 98.8 billion (U.S.$19.6 billion).

According to the NBU during eleven months ended 30 November 2006, the charter capital of banks having licences to perform banking transactions increased by 49.9 per cent., amounting to UAH 24.2 billion (U.S.$4.8 billion) as at 1 December 2006 (compared to 38.6 per cent. in 2005), whilst the shareholders equity of such banks increased by 46.5 per cent. during the first eleven months of 2006, amounting to UAH 37.3 billion (U.S.$7.4 billion) as at 1 December 2006 (compared to 38.2 per cent. in 2005). During the eleven months ended 30 November 2006, the total assets and total liabilities of Ukrainian banks having licenses to perform banking transactions increased by 47.4 per cent. and 47.6 per cent., respectively (compared to 59.2 per cent. and 62.5 per cent. in 2005, respectively). The regulatory capital of Ukrainian banks increased by 45.5 per cent. during the first eleven months of 2006 (compared to 45.0 per cent. in 2005) amounting to UAH 38.4 billion (U.S.$7.6 billion) as at of 1 December 2006 (all figures in this and the preceding paragraphs have been converted using the exchange rate of U.S.$1.00 = UAH 5.05).

Commercial banks operating in Ukraine are divided by the NBU into four groups according to size of their assets as of 1 December 2006. 15 major banks with total assets of more than UAH 5.0 billion were classified in the first group, 19 banks with total assets ranging from UAH 2.0 billion to UAH 5.0 billion were classified in the second group, 25 banks with total assets ranging from UAH 700 million to UAH 2.0 billion were classified in the third group and 108 banks with total assets of less than UAH 700 million were classified in the fourth group. Two of the ten largest banks in Ukraine, Ukreximbank and Oschadbank, are state-owned. As at 1 December 2006, 32 banks in Ukraine have some foreign capital and 11 of such banks are fully foreign-owned. As at 1 December 2006, banks with foreign capital comprised 22.9 per cent. of the total charter capital of banks in Ukraine.

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First Ukrainian International Bank
Первый Украинский Международный Банк

Financial Statements and Auditors' Report

31 December 2005

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PRICEWATERHOUSECOOPERS

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AUDITORS' REPORT

To the Management and Supervisory Council of First Ukrainian International Bank:

1 We have audited the accompanying balance sheet of First Ukrainian International Bank (the "Bank") as at 31 December 2005, and the related statements of income, of cash flows and of changes in equity for the year then ended. These financial statements set out on pages 1 to 57 are the responsibility of the Bank's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3 As disclosed in Note 3 to the financial statements, during 2005 the Bank corrected an error which related to prior periods. The impact of the prior period error was reflected in the 2005 financial statements, contrary to International Accounting Standard 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (IAS 8), which requires an entity to correct material prior period errors retrospectively by restating the opening balances of assets, liabilities and equity for the earliest prior period presented. The impact on the financial statements of the non-compliance with IAS 8 is as follows: the revaluation reserve in respect of fixed assets as at 1 January 2004 is understated by USD 4,869 thousand, retained earnings as at 1 January 2004 is overstated by the same amount; the equity statement movement in revaluation reserve for 2004 is overstated by USD 252 thousand and profit for the year ending 31 December 2004 is understated by the same amount; the balance of fixed assets revaluation reserve as at 31 December 2004 is understated by USD 4,617 thousand and retained earnings balance as at 31 December 2004 is overstated by the same amount. There is no impact on the components of equity or net assets as at 31 December 2005, however the Bank posted the deferred tax effect through current year income statement, which resulted in an overstatement of net profit for the year ended 31 December 2005 by USD 1,538 thousand.

4 In our opinion, except for the matter described in paragraph 3 above, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Kyiv, Ukraine
15 March 2006

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

(in thousands of USD as presentation currency - Note 3)

	Notes	2005	2004
Assets			
Cash on hand and in transit	6,7	16,105	19,564
Balances with the National Bank of Ukraine	7	41,555	10,035
Securities at fair value through profit or loss	8	16,102	10,930
Due from other banks	9	211,532	106,976
Loans to customers	10	360,213	183,500
Investment securities available for sale	11	1,028	7,290
Investment securities held to maturity		549	1,680
Other assets		3,245	2,089
Fixed assets	12	49,003	46,470
Investment property	12	2,311	2,442
Intangible assets	12	3,190	3,776
Non-current assets held for sale	13	725	-
Total assets		**705,558**	**394,752**
Liabilities			
Due to the National Bank of Ukraine		547	5,069
Due to other banks	14	111,770	59,944
Customer accounts	15	380,529	191,866
Certificates of deposit issued		3,196	657
Other borrowed funds	16	105,792	44,290
Other liabilities	17	3,982	4,157
Deferred tax liability	23	4,359	4,758
Current income tax liability	17	508	336
Total liabilities		**610,683**	**311,077**
Equity			
Share capital	18	30,864	29,378
Share premium		11,247	10,706
Revaluation reserve for fixed assets		15,511	10,469
Retained earnings		37,253	33,122
Total equity		**94,875**	**83,675**
Total liabilities and equity		**705,558**	**394,752**

Signed on behalf of the Management Board on 15 March 2006.

O.I. Dovgopolyuk (Chairman of the Management Board) O.M. Moshkalova (Chief Accountant)

The notes set out on pages 5 to 57 form an integral part of these financial statements

(in thousands of USD as presentation currency - Note 3)

	Notes	2005	2004
Interest income		43,027	30,298
Interest expense		(18,926)	(10,652)
Net interest income	19	24,101	19,646
Provision for loan impairment	9, 10	(5,763)	(3,044)
Net interest income after provision for loan impairment		**18,338**	**16,602**
Fee and commission income		17,977	14,908
Fee and commission expense		(4,106)	(3,349)
Net fee and commission income	20	**13,871**	**11,559**
Gain less losses arising from dealing in foreign currencies		2,559	2,740
Foreign exchange translation gains less losses/(losses less gains)		509	(31)
Losses less gains arising from securities at fair value through profit or loss		(116)	(61)
Provision for impairment of investment securities available for sale	11	-	(889)
Other income	21	1,105	835
Recovery of/(provision) for losses on credit related commitments	25	192	(650)
Change in fair value of non-current assets held for sale	-	(608)	-
Losses on initial recognition of loans to customers	10	(501)	-
Operating income		**35, 349**	**30,105**
Operating expenses	22	(24,950)	(21,380)
Profit before taxation		**10,399**	**8,725**
Income tax expense	23	(2,026)	(1,981)
Net profit		**8,373**	**6,744**

The notes set out on pages 5 to 57 form an integral part of these financial statements

(in thousands of USD as presentation currency –Note 3)

	2005	2004
Cash flows from operating activities		
Interest income received	41,559	30,106
Interest expense paid	(17,457)	(10,071)
Fee and commission income received	17,977	14,809
Fee and commission expense paid	(3,883)	(3,397)
(Losses)/gains from securities at fair value through profit or loss	(165)	118
Income received from trading in foreign currencies	2,559	2,740
Other income received	960	750
Operating expenses paid	(19,733)	(16,428)
Income tax paid	(3,896)	(2,127)
Cash flows from operating activities before changes in operating assets and liabilities	**17,921**	**16,500**
Changes in operating assets and liabilities:		
Net increase in mandatory reserve balances with the National Bank of Ukraine	(10,014)	(3,450)
Net (increase)/decrease in securities at fair value through profit or loss	(5,092)	3,581
Net increase in due from other banks	(89,788)	(42,413)
Net increase in loans to customers	(179,595)	(62,755)
Net increase in other assets	(1,808)	(406)
Net increase in due to other banks	51,692	33,361
Net increase in customer accounts	188,444	47,616
Net (decrease)/increase in other liabilities	(641)	58
Net cash used in operating activities	**(28,881)**	**(7,908)**
Cash flows from investing activities		
Purchase of fixed assets	(4,809)	(4,053)
Proceeds from sale of fixed assets	425	177
Acquisition of investment securities available for sale	(6,571)	(10,843)
Proceeds from disposal of investment securities available for sale	10,776	7,971
Proceeds from redemption of investment securities held to maturity	1,127	1,470
Proceeds from disposal of investment securities held to maturity	-	3,740
Proceeds from disposal of non-current assets held for sale	1,102	-
Net cash from/(used in) investing activities	**2,050**	**(1,538)**
Cash flows from financing activities		
Decrease in due to the National Bank of Ukraine	(4,522)	(2,230)
Increase/(decrease) in certificates of deposit issued	2,516	(85)
Proceeds from other borrowed funds	117,652	45,662
Repayments of other borrowed funds	(57,238)	(8,267)
Net cash from financing activities	**58,408**	**35,080**
Effect of exchange rate changes on cash and cash equivalents	(825)	580
Net increase in cash and cash equivalents	**30,752**	**26,214**
Cash and cash equivalents at the beginning of the year	51,422	25,208
Cash and cash equivalents at the end of the year (Note 6)	**82,174**	**51,422**

(in thousands of USD as presentation currency – Note 3)

	Share capital	Share premium	Revaluation reserve for fixed assets	Retained earnings	Total shareholders' equity
Balance at 1 January 2004	**29,234**	**10,654**	**7,628**	**26,065**	**73,581**
Revaluation of buildings, net of taxation	-	-	2,968	-	2,968
Depreciation transfer on revalued buildings	-	-	(169)	169	-
Effect on equity items reported in US dollars	144	52	42	144	382
Net income recognised directly in equity	144	52	2,841	313	3,350
Net profit	-	-	-	6,744	6,744
Total recognised income for 2004	144	52	2,841	7,057	10,094
Balance at 31 December 2004	**29,378**	**10,706**	**10,469**	**33,122**	**83,675**
Depreciation transfer on revalued buildings	-	-	(212)	212	-
Correction of prior year balances, net of tax effect (Note 3)	-	-	4,617	(6,155)	(1,538)
Effect on equity items reported in US dollars	1,486	541	637	1,701	4,365
Net income recognised directly in equity	1,486	541	5,042	(4,242)	2,827
Net profit	-	-	-	8,373	8,373
Total recognised income for 2005	1,486	541	5,042	4,131	11,200
Balance at 31 December 2005	**30,864**	**11,247**	**15,511**	**37,253**	**94,875**

1. Principal Activities

Closed joint stock company First Ukrainian International Bank (the "Bank") was established on 20 November 1991 and commenced operations in April 1992. The Bank provides a full range of banking services, including taking deposits and granting loans, investing in securities, transfer of payments in Ukraine and abroad, exchange of currencies and issuance and processing of payment cards.

The registered office of the Bank is located at the following address: 2-a Universytetska Street, Donetsk, Ukraine. It has 10 branches throughout Ukraine. The Bank had 1,478 employees at the end of the year (2004 – 1,377 employees).

In February 2005 «SCM FINANCE» has signed a share purchase agreement with the following shareholders of the Bank: Fortis Bank (Netherlands) N.V. (20% of share capital), EBRD (10% of share capital), DEG (10% of share capital) and International Finance Corporation (10% of share capital).

The Bank's shareholders as at 31 December 2005 are CJSC «Azovstal» Trade House (49% of share capital), «SCM FINANCE» (50% of share capital) and private shareholders (1% of share capital). The ultimate controlling party of the Bank is a Ukrainian citizen, Mr. R.L. Akhmetov.

2. Operating Environment of the Bank

Whilst there have been improvements in recent years in the economic situation in Ukraine, the economy of 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 the country, a low level of liquidity in the public and private debt and equity markets, restrictive currency controls and relatively high inflation.

Additionally, the banking sector in Ukraine is particularly sensitive to adverse currency and interest rates fluctuations, political instability 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.

The future direction of Ukraine is largely dependent upon the effectiveness of economic, financial and monetory measures undertaken by the Government, together with legal, regulatory and political developments, which are beyond the Bank's control.

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

3. Basis of Presentation and Significant Accounting Policies

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of premises and equipment, available for sale financial assets, and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5, Adoption of New or Revised Standards and Interpretations, and New Accounting Pronouncements).

The Bank maintains its accounting records in accordance with Ukrainian banking regulations. These financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with IFRS.

Functional currency of the Bank is the national currency of Ukraine, the Ukrainian Hryvnia ("UAH"), which is the currency of the primary economic environment in which the Bank operates. The Bank uses US dollar as a currency in which it presents its financial statements, which means that balance sheet items are translated into US dollars at exchange rate at the year end. Income statement items are translated at the exchange rate at the date of the transaction. Equity items other than the net profit or loss for the period that is included in the balance of accumulated profit or loss are translated at the closing rate existing at the date of each balance sheet presented. All exchange differences resulting from translation of balance sheet items and income statement items are recognised directly in equity.

The USD has been selected as the presentation currency for the Bank on the basis of the following reasons:

- A significant portion of the transactions of the Bank are denominated in USD;
- USD is the currency in which Management of the Bank manages business risks and exposures, and measures the performance of its business.

The preparation of the financial statements requires the use of estimates and assumptions that effect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

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

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*. *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.

3. Basis of Presentation and Significant Accounting Policies (Continued)

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

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

Valuation techniques such as discounted cash flows models 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.

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, 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 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, derivatives and other financial instruments at fair value through profit or loss 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.

3. Basis of Presentation and Significant Accounting Policies (Continued)

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 instrument. 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, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds which 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 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 cash flow statement.

Securities at fair value through profit or loss. Securities at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category. The Bank did not hold trading securities at 31 December 2005 and 2004.

Securities at fair value through profit or loss are carried at fair value. Interest earned on Securities at fair value through profit or loss calculated using the effective interest method is presented in the 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 Securities at fair value through profit or loss in the period in which they arise.

Sale and repurchase agreements. 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 other borrowed funds.

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

3. Basis of Presentation and Significant Accounting Policies (Continued)

Securities lent to counterparties are retained in the 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 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 securities at fair value through profit or loss. The obligation to return the securities is recorded at fair value in other borrowed funds.

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 to customers. Loans 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 to customers are carried at amortised cost.

Non-performing loans include overdue loans and loans not perfoming in accordance with their contractual terms.

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

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

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

Impairment losses are recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

3. Basis of Presentation and Significant Accounting Policies (Continued)

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.

Uncollectable 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.

Other credit related commitments. In the normal course of business, the Bank enters into other credit related commitments including loan commitments, letters of credit and guarantees. When loss is considered probable, provisions are recorded against other credit related commitments.

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

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 and reassesses that classification at each subsequent balance sheet date.

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

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

3. Basis of Presentation and Significant Accounting Policies (Continued)

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. Investment securities held to maturity are carried at amortised cost. The Bank cannot classify any financial asset as held to maturity if it has, during the current financial year or during two preceding financial years sold or transferred held to maturity investments before maturity.

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

Fixed assets. Fixed assets, other than buildings, acquired after 31 December 2000 are stated at cost, less accumulated depreciation and provision for impairment, where required. Fixed assets, other than buildings, acquired prior to 31 December 2000 are stated at cost, restated to the equivalent purchasing power of the Ukrainian hryvnia at 31 December 2000 less accumulated depreciation and provision for impairment, where required.

Buildings of the Bank are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the buildings being revalued. The revaluation reserve included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Bank; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Buildings have been revalued to market value as at 31 December 2004. The revaluation was performed on the basis of an appraisal performed by a professional, internationally recognised real estate appraisal company which has an office in Ukraine. The basis used for the appraisal was based on sales comparison and income capitalisation approaches.

Construction in progress is carried at cost, less provision for any impairment in value. Upon completion, assets are transferred to buildings at their carrying value. Construction in progress is not depreciated until the asset is available for use.

At each reporting date the Bank assesses whether there is any indication of impairment of fixed assets. If any such indication exists, the Bank estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the statement of income, unless it has previously been revalued, in which case the revaluation surplus is eliminated first and any additional loss is charged in the income statement. 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 assets recoverable amount.

3. Basis of Presentation and Significant Accounting Policies (Continued)

Gains and losses on disposal of fixed assets are determined by comparing proceeds with their carrying amount and are recognised in profit or loss. Repairs and maintenance are charged to the statement of income when the expenditure is incurred.

Depreciation. Depreciation is applied on a straight line basis over the estimated useful lives of the assets using the following rates:

Buildings	2 %	
Leasehold improvements	20%	or over the term of lease if shorter than 5 years
Computers and other equipment	20-33%	
Software	20-33%	

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

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, eg its maintenance, are expensed when incurred. Capitalised computer software and licences are amortised on a straight line basis over expected useful lives of 5 to 10 years.

Investment property. Investment property is property held by the Bank to earn rental income or for capital appreciation and which is not occupied by the Bank.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value based on its market value. Market value of the Bank's investment property is obtained from reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in profit or loss within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss within other income.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Bank and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Non-current assets classified as held for sale. Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the balance sheet as 'Non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction within twelve months after the balance sheet date. Both financial and non-financial assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Bank's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year and (d) it is unlikely that significant

3. Basis of Presentation and Significant Accounting Policies (Continued)

changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's balance sheet are not reclassified or re-presented in the comparative balance sheet to reflect the classification at the end of the current period.

Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale non-current assets are not depreciated or amortised.

Certificates of deposit issued. Certificates of deposit issued are instruments issued by the Bank to its customers which carry a fixed date of repayment. These may be issued against cash deposits or as a payment instrument which the customer can discount in the over-the-counter secondary market. Certificates of deposit are carried at amortised cost.

If the Bank purchases its own certificates of deposits, they are removed from the balance sheet and the difference between the carrying amount of the liabilities and the consideration paid is included in gains arising from retirement of debt.

Borrowings. Borrowings are carried at amortised cost.

Accrued interest income and accrued interest expense. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount, are included in the carrying values of related balance sheet items.

Share premium. Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses arising on sale of treasury shares are shown as adjustments to share premium.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends payable are not accounted until they have been ratified at the Bank`s Shareholders` General Meeting. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Ukrainian legislation identifies the basis of distribution as the retained earnings disclosed in the statutory accounting records.

Foreign currency translation. Monetary assets and liabilities denominated in foreign currencies are translated into Ukrainian hryvnia at the National Bank of Ukraine (NBU) official rate of exchange prevailing at the year end. Currency translation differences on positions are recorded in the statement of income as foreign exchange translation gains less losses. Income and expenses denominated in foreign currencies are translated at the rates prevailing on the transaction date.

During 2005 the Ukrainian hryvnia appreciated against the US dollar by 4.81 % (2004: appreciated by 0.49%). Exchange restrictions and currency controls exist relating to converting UAH into other currencies. At present, the Ukrainian hryvnia is not a freely convertible currency outside Ukraine.

3. Basis of Presentation and Significant Accounting Policies (Continued)

The principal UAH exchange rates used in the preparation of the financial statements at 31 December are as follows:

Currency	2005	2004
US dollar	5.05	5.305400
EURO	5.971625	7.217466

Income taxes. Income taxes have been provided for in the financial statements in accordance with Ukrainian 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 income statement except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax 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 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.

Income and expense recognition. Interest income and expense are recorded in the statement of income for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment option) but does not consider future credit losses. The calculation includes 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. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recorded based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

3. Basis of Presentation and Significant Accounting Policies (Continued)

Fees, commissions and other income and expense items, including fees for issuance of guarantees, 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. Commitment fees for loans or borrowings which are probable of being drawn down, are deferred (together with related direct costs) and recorded as an adjustment to the effective interest on the loan or borrowings. 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, are recorded on completion of the underlying transaction.

Fiduciary activities. Assets and liabilities held by the Bank in its own name, but on the account of third parties, are not reported on the balance sheet. Commissions received from such business are shown in fee and commission income within the statement of income.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the 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. Prior to 2001 Ukraine experienced relatively high levels of inflation and was considered to be a hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" (IAS 29).

In accordance with IAS 29, when an economy ceases to be hyperinflationary and an enterprise is not required to prepare and present financial statements in accordance with IAS 29, it should treat the amounts expressed in the measuring unit current at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements. Those non-monetary items that arise in the periods of hyperinflation need to be restated in terms of the purchasing power of Ukrainian hryvnia at the end of the reporting period.

This restatement was prepared by indexing the historical balances by changes in the consumer price index, which is calculated and published by Ukrainian authorities, up to 31 December 2000.

Monetary assets and liabilities are not restated because they are already expressed in terms of the measuring unit current at the year-end. Non-monetary assets and liabilities (items which are not expressed in terms of the measuring unit current at the year end) are restated by applying the relevant consumer price index. The effect of inflation on the Bank's net monetary position in 2000 and prior years is included in retained earnings as a monetary gain or loss.

Fixed assets purchased prior to 31 December 2000 have been indexed by the change in the consumer price index from the date of purchase. Where indexation is applied, an assessment has been made of the potential impairment and diminution in the carrying value of these assets and, where applicable, such assets have been reduced to their recoverable amounts.

The components of shareholders' equity, except retained earnings and revaluation surplus, were restated by applying a consumer price index from the dates the components were contributed to 31 December 2000. Retained earnings are restated as a consequence of restating of other amounts in the balance sheet.

3. Basis of Presentation and Significant Accounting Policies (Continued)

Provisions for contingencies. Provisions are recognised 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.

Pension costs. The Bank contributes to the Ukrainian State pension scheme, social insurance and employment funds in respect of its employees. The Bank's pension scheme contributions are expensed as incurred. The contributions are included into salary, employee benefits and compulsory contributions to the State funds.

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.

Derivative financial instruments. Derivative financial instruments including forward securities contracts, foreign exchange contracts, currency swaps and other derivative financial instruments are initially recorded at cost and subsequently are remeasured at their fair value being the spot rate at the year end or quoted market prices. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in fair value of foreign currency forward purchase or sale contracts are included in gains less losses arising from trading in foreign currency.

Correction of prior period balances. During 2005 the Bank discovered that revaluation reserve of fixed assets as at 1 January 2005 was understated by USD 4,617 thousand, net of taxation of USD 1,538 thousand, and retained earnings as at 1 January 2005 was overstated by the same amount. The Bank did not determine the effect of the required restatement of revaluation reserve for fixed assets and retained earnings as at 1 January 2004, as well as on the profit for the year ended 31 December 2004. As such in accordance with International Accounting Standard 8 "Accounting Policies, Changes in Accounting Estimates and Errors" revaluation reserve for fixed assets and retained earnings as at 1 January 2004 were not restated. The Bank made this correction through the statement of changes in equity during 2005, whilst the tax effect of such correction of USD 1,538 thousand was posted through the current year income statement.

Where necessary corresponding figures have been adjusted to conform with changes in the presentation of the current year. Provision for impairment of shares available for sale previously disclosed within losses less gains arising from securities, is presented as a separate line item in the income statement of the Bank.

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:

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Bank fails to keep these investments to maturity other than for certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. If the entire class of held-to-maturity investments is tainted, the carrying amount would decrease by USD 105 thousand, with a corresponding entry in the fair value reserve in equity.

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. 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 net present value of estimated cash flows differs by +/-5 percent, the provision would be approximately USD 697 thousand higher or USD 697 thousand lower (2004: USD 535 thousand higher or USD 535 thousand lower).

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques.

Tax legislation. Ukrainian tax legislation is subject to varying interpretations. Refer to Note 25.

Related party transactions. In the normal course of business the Bank enters into transactions with its related parties. These transactions are priced predominantly at market rates. 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.

5. Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements

Certain new IFRSs became effective for the Bank from 1 January 2005. 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 2004, unless otherwise described below.

IAS 16 (revised 2003) Property, Plant and Equipment. The residual value is now defined as the amount that the Bank estimates it would receive currently for the asset if the asset were already of the age and in the condition expected at the end of its useful life. The Bank's policy is now not to cease depreciating assets during temporary periods when the assets are idle. The Bank now derecognises the carrying amount of a component of premises and equipment which has been replaced and capitalises the cost of the replacement. The previous version of IAS 16 did not extend its derecognition principle to components; rather, its recognition principle for subsequent expenditures effectively precluded the cost of a replacement from being capitalised. All changes to accounting policies as a result of the revised IAS 16 were accounted for retrospectively and did not result in a significant effect on the carrying amount of the Bank's assets.

IAS 24 (revised 2003) Related Party Disclosures. The definition of related parties was extended and additional disclosures required by the revised standard were made in these financial statements.

Effect of Adoption of New or Revised Standards. The effect of adoption of the above new or revised standards and interpretations on the Bank's financial position at 31 December 2005 and 31 December 2004 and on the results of its operations for the years then ended was not significant.

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2006 or later periods and which the Bank has not early adopted:

IAS 39 (Amendment) – Financial Guarantee Contracts. Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the expenditure required to settle the guarantee at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting.

IAS 39 (Amendment) – The Fair Value Option (effective from 1 January 2006). IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ('fair value through profit or loss'). The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category. The Bank's policy is not to voluntarily designate assets and liabilities as at fair value through profit or loss, except for those whose fair value is determined by the reference to quoted market prices. The Bank believes that these instruments meet the definition of 'at fair value through profit or loss' category as restricted by the amendment to IAS 39.

(in thousands of USD as presentation currency - Note 3)

5. Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements (Continued)

IFRS 5 (issued 2005) Non-current Assets Held for Sale and Discontinued Operations. The Bank applies IFRS 5 prospectively in accordance with its transitional provisions to non-current assets (or disposal groups) that meet the criteria to be classified as 'held for sale' and operations that meet the criteria to be classified as 'discontinued' after 1 January 2005. The Bank's accounting policies now describe assets 'held for sale' as those that will be recovered principally through a sale transaction rather than through continuing use. Subject to certain exceptions, for example for financial assets, assets or disposal groups that are classified as 'held for sale' are now measured at the lower of carrying amount and fair value less costs to sell. Such assets cease to be depreciated and are presented separately on the face of the balance sheet.

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures. IFRS 7 introduces new disclosures to improve the information about financial instruments. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Bank is currently assessing what impact IFRS 7 and the amendment to IAS 1 will have on disclosures in its financial statements.

Other new standards or interpretations. The Bank has also not early adopted amendments to IAS 19, IAS 21 (Net Investment in a Foreign Operation), IAS 39 (Cash Flow Hedge Accounting of Forecast Intragroup Transactions), new standard IFRS 6 and related corrections to it and IFRS 1 and new IFRIC interpretations 4 to 9. These changes to IFRSs are not expected to have a material effect on the Bank when they will be adopted on 1 January 2006 or later.

6. Cash and Cash Equivalents

For the purpose of the cash flow statement cash and cash equivalents comprise the following:

	2005	2004
Current accounts and overnight placements with other banks	49,398	35,182
Current account with the National Bank of Ukraine (other than mandatory reserve balance, Note 7)	16,671	-
Cash on hand and in transit (other than mandatory reserve balance, Note 7)	16,105	16,240
Total cash and cash equivalents	**82,174**	**51,422**

(in thousands of USD as presentation currency - Note 3)

7. Balances with the National Bank of Ukraine

At 31 December 2005, the balance on the current account with the National Bank of Ukraine equalled USD 41,555 thousand (2004: USD 10,035 thousand). In 2005 the mandatory reserve balance is calculated on the basis of a simple average over a monthly period (2004: a simple average over a monthly period) and should be maintained at the level of 6 to 8 per cent (2004: 6 to 7 percent) of certain obligations of the Bank. As such, the balance can vary from day-to-day. As at 31 December 2005 the Bank's mandatory reserve requirement was USD 24,884 thousand (2004: USD 14,870 thousand).

As at 31 December 2005 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 90% of the mandatory reserves balance for the preceding month (31 December 2004: not less than 60% of the mandatory reserve balance for the preceding month).

As at 31 December 2005 the Bank may satisfy its mandatory reserve requirement exclusively with its balance on account with the NBU. As at 31 December 2004 the Bank was able to satisfy its mandatory reserve requirement with a combination of its balance on account with the NBU and up to 40% of UAH cash on hand. As a result, when calculating cash and cash equivalents in the cash flow statement, the portion of cash on hand earmarked for mandatory reserves, being USD 3,324 thousand, has been deducted from cash and cash equivalents.

At 31 December 2005 the Bank has USD 515 thousand (2004: 490 thousand) on the current account with the National Bank of Ukraine pledged as collateral for due to the National Bank of Ukraine in amount of USD 547 thousand (2004: USD 5,069 thousand) (Note 25).

8. Securities at Fair Value Through Profit or Loss

	2005	**2004**
Corporate loan bonds	16,102	10,930
Total securities at fair value through profit or loss	**16,102**	**10,930**

The Bank irrevocably designated the above securities, that are not part of its trading book, as at fair value through profit or loss.

Corporate loan bonds are interest-bearing securites denominated in Ukrainian hryvnia issued by Ukrainian entities. The portfolio of securities at fair value through profit or loss consists of bonds issued by 11 different companies with maturity dates ranging from 14 April 2006 to 13 December 2006 and coupon rate of approximately 12 to 17% per annum in 2005 and internal yield (effective rate) from 12 to 16 % per annum as at 31 December 2005, depending on the type of bond issue. These bonds are traded on the Ukrainian over-the-counter market.

The currency risk analysis of securities at fair value through profit or loss is disclosed in Note 24. The effective interest rates and maturity structure of securities at fair value through profit or loss is detailed in Note 24.

(in thousands of USD as presentation currency - Note 3)

9. Due from Other Banks

	2005	2004
Current accounts and overnights deposits with other banks		
- OECD countries	41,194	32,480
- Domestic	5,157	46
- Non-OECD countries	3,091	2,673
	49,442	**35,199**
Term deposits with other banks		
- Domestic	94,577	31,114
- OECD countries	29,635	18,148
- Non-OECD countries	129	8,295
Reverse sale and repurchase agreements with other banks		
- Domestic	37,761	14,252
	162,102	**71,809**
Provision for interbank placements	(12)	(32)
Total due from other banks	**211,532**	**106,976**

Current accounts and overnights deposits with other banks include accrued interest income in the amount of USD 44 thousand (2004: USD 17 thousand)

At 31 December 2005, term deposits placed with other banks in OECD and non-OECD countries totalling USD 5,296 thousand (2004: USD 8,147 thousand) represent funds blocked as collateral for import letters of credit and guarantees issued by the Bank in favour of its clients (Note 25).

At 31 December 2005 term deposits with domestic banks in the amount of USD 70,741 thousand (2004: USD 30,305 thousand) are pledged as collateral for term deposits due to other banks and represent currency swap agreements with those banks (Note 14 and 25). As at 31 December 2005 of USD 70,741 thousand pledged term deposits with domestic banks, USD 58,414 thousand (2004: USD 30,305 thousand) are collateralised by term deposits of domestic banks in the amount of USD 58,366 thousand (2004: USD 30,284 thousand) (Note 14).

At 31 December 2005 amounts due from other banks of USD 37,761 thousand (2004: USD 14,252 thousand) are effectively collateralised by securities purchased under reverse sale and repurchase agreements with a fair value of USD 37,624 thousand (2004: USD 13,993 thousand).

(in thousands of USD as presentation currency - Note 3)

9. Due from Other Banks (Continued)

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

	2005	2004
Balance at 1 January	32	-
(Recovery of)/provision for impairment of due from other banks during the year	(20)	32
Provision for impairment of due from other banks at 31 December	**12**	**32**

As at 31 December 2005 and 31 December 2004 the Bank did not have balances due from other Bank with floating interest rates.

At 31 December 2005 the estimated fair value of due from other banks was USD 211,532 thousand (2004: USD 106,746 thousand). Refer to Note 27.

Currency risk analysis of due from other banks is disclosed in Note 24. The effective interest rates and maturity structure of due from other banks is detailed in Note 24. The Bank has several balances with related parties. The information on related party balances is disclosed in Note 26.

(in thousands of USD as presentation currency - Note 3)

10. Loans to Customers

	2005	2004
Current commercial loans	371,435	187,967
Loans to employees	1,489	1,074
Non-performing loans	1,229	5,163
	374,153	**194,204**
Provision for loan impairment	(13,940)	(10,704)
Total loans to customers	**360,213**	**183,500**

Non-performing loans include overdue loans and loans not perfoming in accordance with their contractual terms.

As at 31 December 2005 interest income accrued on impaired loans amounts to USD 335 thousand (31 December 2004: USD 87 thousand).

At 31 December 2005, the Bank`s 20 largest borrowers, with aggregate loan amounts of USD 191,419 thousand, represent 51% of the loan portfolio (2004: 20 largest borrowers, with aggregate loan amounts of USD 123,097 thousand, represented 63% of the loan portfolio).

Included in gross loans to customers as at 31 December 2005 are loans of USD 356,598 thousand with fixed interest rate and loans of USD 17,555 thousand with floating interest rate. At 31 December 2004 all loans to customers had fixed interest rate.

At 31 December 2005 loans collateralised by customer deposits with the Bank amounted to USD 2,037 thousand (2004: USD 8,626 thousand) (Note 15).

Movements in the provision for loan impairment are as follows:

	2005	2004
Balance at 1 January	10,704	7,677
Charge for provision for loan impairment during the year	5,783	3,012
Loans written off during the year as uncollectable	(2,578)	-
Translation to presentation currency	31	15
Provision for loan impairment at 31 December	**13,940**	**10,704**

(in thousands of USD as presentation currency - Note 3)

10. Loans to Customers (Continued)

Loan portfolio by economic sector at 31 December, is as follows:

	2005	2004
Food industry and agriculture	80,828	40,289
Trade and agency services	68,004	36,524
Machine building	60,301	36,907
Metallurgy	54,555	31,673
Chemical	35,408	4,223
Transport, communication and infrastructure	19,502	15,055
Mining	13,868	11,066
Other	41,687	18,467
Total loans to customers (gross amount)	**374,153**	**194,204**

The Bank's lending activities are conducted in Ukraine. The ability of borrowers to repay their debt is dependent on a number of factors including the overall financial health of the borrower and the Ukrainian economy.

At 31 December 2005 the estimated fair value of loans to customers was USD 359,901 thousand (2004: USD 183,326 thousand). Refer to Note 27.

During 2005 a loss on initial recognition of loans at rates below market of USD 501 thousand (2004: none) has been recorded in the statement of income.

The currency risk analysis of loans to customers is disclosed in Note 24. The effective interest rates and maturity structure of the loan portfolio is detailed in Note 24. The Bank has several loans to related parties. The information on related party loans is disclosed in Note 26.

(in thousands of USD as presentation currency - Note 3)

11. Investment Securities Available for Sale

	2005	2004
Promissory notes	1,028	871
Ukrainian Government debt securities	-	3,895
Corporate shares	-	5,239
Provision for impairment of investment securities available for sale	-	(2,715)
Total investment securities available for sale	**1,028**	**7,290**

As at 31 December 2004 included in investment securities available for sale were Ukrainian Government debt securities with carrying amount of USD 3,895 thousand that had been pledged as collateral under a loan agreement with the National Bank of Ukraine (Note 25).

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

	2005	2004
Carrying amount at 1 January	**7,290**	**5,307**
Acquisition of investment securities available for sale	6,571	10,843
Disposal of investment securities available for sale	(10,776)	(7,971)
Provision for impairment of investment securities available for sale	-	(889)
Transfer to non-current assets held for sale (Note 13)	(2,524)	-
Translation to presentation currency	467	-
Carrying amount at 31 December	**1,028**	**7,290**

The currency risk analysis of investment securities available for sale is disclosed in Note 24. The effective interest rates and maturity structure of investment securities available for sale is detailed in Note 24. Information on investment securities available for sale of related parties is disclosed in Note 26.

(in thousands of USD as presentation currency - Note 3)

12. Fixed Assets, Investment Property and Intangible Assets

	Buildings	Investment property	Leasehold improvements	Computers and other equipment	Intangible Assets	Construction in progress	Total
Cost or valuation							
1 January 2005	44,134	2,442	2,088	21,608	6,610	7	**76,889**
Additions	135	-	-	3,273	256	1,145	**4,809**
Disposals / write-offs	(296)	-	(1)	(1,927)	(2)	-	**(2,226)**
Transfers	1,301	(210)	61	-	-	(1,152)	-
Translation to presentation currency	2,143	79	170	1,689	393	-	**4,474**
31 December 2005	**47,417**	**2,311**	**2,318**	**24,643**	**7,257**	-	**83,946**
Depreciation and amortisation							
1 January 2005	5,051	-	1,586	14,730	2,834	-	**24,201**
Charge for the year (Note 22)	964	-	228	2,898	1,045	-	**5,135**
Disposals / write-offs	(47)	-	(1)	(1,896)	(2)	-	**(1,946)**
Translation to presentation currency	446	-	144	1,272	190	-	**2,052**
31 December 2005	**6,414**	-	**1,957**	**17,004**	**4,067**	-	**29,442**
Net book value at 31 December 2005	**41,003**	**2,311**	**361**	**7,639**	**3,190**	-	**54,504**

(in thousands of USD as presentation currency - Note 3)

12. Fixed Assets, Investment Property and Intangible Assets (Continued)

	Buildings	Investment property	Leasehold improvements	Computers and other equipment	Intangible assets	Construction in progress	Total
Cost or valuation							
1 January 2004	40,061	2,336	2,071	19,971	4,895	7	**69,341**
Additions		-	1	2,140	1,710	300	**4,151**
Disposals / write-offs	(114)	-	(13)	(546)	-	-	**(673)**
Transfers	260	16	24	-	-	(300)	-
Revaluation	3,915	90	-	-	-	-	**4,005**
Translation to presentation currency	12	-	5	43	5		**65**
31 December 2004	**44,134**	**2,442**	**2,088**	**21,608**	**6,610**	7	**76,889**
Depreciation and amortisation							
1 January 2004	4,214	-	1,336	12,559	2,017	-	**20,126**
Charge for the year (Note 22)	848	-	255	2,701	817	-	**4,621**
Disposals / write-offs	(15)	-	(8)	(537)	-	-	**(560)**
Translation to presentation currency	4	-	3	7	-	-	**14**
31 December 2004	**5,051**	-	**1,586**	**14,730**	**2,834**	-	**24,201**
Net book value at 31 December 2004	**39,083**	**2,442**	**502**	**6,878**	**3,776**	7	**52,688**

At 31 December 2005, the cost of fully depreciated assets still in use by the Bank totalled USD 13,824 thousand (2004: USD 12,092 thousand).

At 31 December 2005 the Bank's main office, furniture, equipment and ATMs, with a net book value of USD 50,402 thousand (2004: USD 48,414 thousand), are insured against risks of natural disasters, robbery, fire and unlawful acts of third parties.

12. Fixed Assets, Investment Property and Intangible Assets (Continued)

Construction in progress consists mainly of construction and refurbishment of the premises. Upon completion, assets are transferred to buildings and leasehold improvements.

The rental income received in respect of investment property in 2005 amounted to USD 385 thousand (2004: USD 324 thousand). The operating and maintenance expenses related to investment property in 2005 total USD 27 thousand (2004: USD 26 thousand).

Buildings and investment property were independently valued at 31 December 2004. The valuation was carried out by an international firm of independent valuers, which has a representative office in Ukraine. The basis used for the appraisal was based on the income capitalisation and sales comparison approaches. At 31 December 2005 the carrying amount of buildings would have been USD 21,569 thousand (2004: USD 22,001 thousand) and the carrying amount of investment property would have been USD 1,080 thousand (2004: USD 1,091 thousand) had the assets been carried at cost, restated to the equivalent purchasing power of the Ukrainian hryvnia at 31 December 2000, less accumulated depreciation.

At 31 December 2005 the independent valuation of investment property by independent valuers was not carried out.

13. Non-current Assets Held for Sale

Non-current assets held for sale comprise corporate shares, which represent the Bank's equity stake in a Ukrainian company which was acquired from a debt settlement. The Bank received equity in a newly established entity, which was created from a non-performing borrower of the Bank. All assets of the borrower were transferred to the newly established entity. In order to substantially settle the loan outstanding, the Bank received 80% of the share capital of the newly established entity. Subsequently, the Bank signed an agreement with a Ukrainian company, according to which the latter undertakes to purchase the Bank's stake in the newly established entity by instalments over a two-year period (Note 25).

In the course of 2005 the Bank sold corporate shares with the nominal value of USD 1,165 thousand. As at the year-end the Bank's shareholding amounted to 43% of the share capital in the newly established entity. The newly established entity was not consolidated in the financial statements of the Bank, as shares were obtained and held exclusively with a view to its subsequent disposal in the near future. The carrying value of the corporate shares in the amount of USD 725 thousand represents the present value of the future cash flows, as agreed with the Ukrainian company.

(in thousands of USD as presentation currency - Note 3)

14. Due to Other Banks

	2005	**2004**
Current accounts of other banks		
- Domestic	13,610	16,120
- OECD countries	2,583	270
- Non-OECD countries	38	263
	16,231	**16,653**
Term deposits of other banks		
- Domestic	95,435	35,227
- Non-OECD countries	104	8,064
	95,539	**43,291**
Total due to other banks	**111,770**	**59,944**

As disclosed in Note 9, the Bank has pledged term deposits with domestic banks as collateral for term deposits of domestic banks of USD 70,960 thousand (2004: USD 30,284 thousand), of which USD 58,366 thousand (2004: USD 30,284 thousand) is pledged as collateral for term deposits due from domestic banks.

As at 31 December 2005 included in term deposits of other banks are USD 128 thousand held as collateral for commitments under import letters of credit and guarantees (Note 25).

As at 31 December 2005 and 31 December 2004 the Bank did not have balances due to other banks with floating interest rates.

At 31 December 2005 the estimated fair value of due to other banks was USD 111,770 thousand (2004: USD 59,944 thousand). Refer to Note 27.

The currency risk analysis of due to other banks is disclosed in Note 24. The effective interest rates and maturity structure of due to other banks is detailed in Note 24. The information on related party balances is disclosed in Note 26.

(in thousands of USD as presentation currency - Note 3)

15. Customer Accounts

	2005	2004
Legal entities		
- Current accounts	109,839	54,432
- Term deposits	138,730	59,316
Individuals		
- Current accounts	50,110	27,358
- Term deposits	81,850	50,760
Total customer accounts	**380,529**	**191,866**

At 31 December 2005, the Bank`s largest 10 customers, with the aggregate amount of deposits of USD 169,591 thousand, represent 45% of customer accounts (2004: largest 10 customers, with the aggregate amount of deposits of USD 56,967 thousand, represented 30% of customer accounts).

As at 31 December 2005 included in customer accounts are deposits of USD 3,761 thousand (2004: USD 10,164 thousand) held as collateral for loans to customers in the amount of USD 2,037 thousand (2004: USD 8,626 thousand) (Note 10) and USD 8,072 thousand (2004: USD 13,555 thousand) held as collateral for commitments under import letters of credit and guarantees (Note 25).

Economic sector concentrations within customer accounts at 31 December, are as follows:

	2005	2004
Individuals	131,960	78,118
Metallurgy	56,449	2,611
Trade and agency services	43,598	28,227
Non-banking financial institutions	37,569	27,404
Chemical	37,127	12,225
Machine-building	21,571	16,806
Transport and infrastructure	13,729	10,256
Mining and energy	6,119	3,550
Agriculture and food	5,063	1,552
Non-commercial institutions	1,384	1,093
Other	25,960	10,024
Total customer accounts	**380,529**	**191,866**

15. Customer Accounts (Continued)

As at 31 December 2005 and 31 December 2004 the Bank did not have customer accounts with floating interest rates.

At 31 December 2005 the estimated fair value of customer accounts was USD 380,364 thousand (2004: USD 191,200 thousand). Refer to Note 27.

The currency risk analysis of customer accounts is disclosed in Note 24. The effective interest rates and maturity structure of the customer accounts is detailed in Note 24. The Bank has several customer accounts from related parties. The information on related party customer accounts is disclosed in Note 26.

(in thousands of USD as presentation currency - Note 3)

16. Other Borrowed Funds

	2005	2004
Cargill Financial Services International, Inc.	40,878	-
Standard Bank London Limited	39,676	20,226
Black Sea Trade and Development Bank	10,109	10,106
European Bank for Reconstruction and Development (EBRD)	-	5,795
Other facilities	15,129	8,163
Total other borrowed funds	**105,792**	**44,290**

Loans from Cargill Financial Services International are denominated in USD and bear interest at a weighted average rate 8.1 % per annum on the outstanding amount with maturity from 10 February 2006 to 24 November 2006.

Loans from Standard Bank London Limited are denominated in USD and bear interest of Libor + 3.5 % per annum on the outstanding amount with maturity of 6 December 2006.

Loans from Black Sea Trade and Development Bank are denominated in USD and bear interest of Libor + 4 % per annum on the outstanding amount with maturity of 25 October 2006.

Other facilities represent amounts received from other banks in respect of financing of documentary operations, are denominated in USD, EUR and CHF and bear interest at a weighted average rate of 6.7 % per annum on the outstanding amount with maturity from 19 January 2006 to 29 December 2008.

As at 31 December 2005 included in other borrowed funds are USD 15,127 thousand (2004: USD 8,163 thousand), representing long-term loans received from foreign banks for the purposes of financing purchase of import equipment by the Bank's customers.

At 31 December 2005 the estimated fair value of other borrowed funds was USD 105,792 thousand (2004: USD 43,060 thousand). Refer to Note 27.

The currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 24. The information on related parties balances is disclosed in Note 26.

(in thousands of USD as presentation currency - Note 3)

17. Other Liabilities and Current Income Tax Liability

	2005	2004
Software costs payable under licencing agreements	1,658	2,325
Provision for credit related commitments (Note 25)	617	816
Current income tax liability	508	336
Payable under operations with plastic cards	497	180
Other amounts payable to employees	353	330
Other taxes payable	220	160
Other accruals and deferred income	637	346
Total other liabilities and current income tax liability	**4,490**	**4,493**

The currency and maturity analyses of other liabilities and current income tax liability are disclosed in Note 24.

18. Share Capital

Authorised, issued and fully paid statutory capital comprises 100,000 shares. All ordinary shares have a nominal value of UAH 230 (USD equivalent 45.54 at the year end exchange rate) per share, rank equally and each share carries one vote.

	31 December 2005			31 December 2004		
	Number of shares	**Nominal amount**	**Inflation adjusted amount**	**Number of shares**	**Nominal amount**	**Inflation adjusted amount**
Ordinary shares	100,000	4,554	30,864	100,000	4,335	29,378
Total share capital	**100,000**	**4,554**	**30,864**	**100,000**	**4,335**	**29,378**

(in thousands of USD as presentation currency - Note 3)

19. Interest Income and Expense

	2005	2004
Interest income		
Loans to customers		
- legal entities	33,734	22,157
- individuals	663	101
Securities	2,142	4,129
Due from other banks	6,488	3,911
Total interest income	**43,027**	**30,298**
Interest expense		
Individuals		
- term deposits	(6,084)	(4,459)
- current accounts	(410)	(341)
Legal entities		
- term deposits	(4,522)	(1,282)
- current accounts	(1,446)	(492)
Due to the National Bank of Ukraine and other banks	(3,365)	(2,394)
Other borrowed funds	(2,453)	(1,609)
Certificates of deposit issued	(646)	(75)
Total interest expense	**(18,926)**	**(10,652)**
Net interest income	**24,101**	**19,646**

Information on interest income and expenses from transactions with related parties is disclosed in Note 26.

(in thousands of USD as presentation currency - Note 3)

20. Fee and Commission Income and Expense

	2005	2004
Payment cards	8,477	6,092
Foreign currency exchange	3,518	3,239
Payments	2,409	2,268
Documentary operations	1,525	1,506
Cash deposits and withdrawals	1,157	1,004
Other	891	799
Fee and commission income	**17,977**	**14,908**
Payment cards	(2,951)	(2,178)
Cash collections	(388)	(361)
Reuters	(337)	(333)
Payments	(312)	(290)
Documentary operations	(98)	(167)
Other	(20)	(20)
Fee and commission expense	**(4,106)**	**(3,349)**
Net fee and commission income	**13,871**	**11,559**

Information on fee and commission income and expenses from transactions with related parties is disclosed in Note 26.

(in thousands of USD as presentation currency - Note 3)

21. Other Income

	2005	2004
Rental income	385	324
Income from disposal of fixed assets	145	69
Proceeds from interest and loans previously written off	109	138
Income from revaluation of investment property	-	90
Other	466	214
Total other income	**1,105**	**835**

22. Operating Expenses

	2005	2004
Salary, employee benefits and compulsory contributions to the State funds	10,492	9,041
Depreciation and amortisation (Note 12)	5,135	4,621
Maintenance of premises and equipment	2,953	2,202
State duties and taxes, other than on income	1,009	856
Communication	882	833
Lease of premises	787	640
Advertising, entertainment, representative offices maintenance	770	458
Security services	768	948
Audit, legal, consulting services	693	351
Training	272	311
Charitable contributions	99	135
Other	1,090	984
Total operating expenses	**24,950**	**21,380**

Included in salary, employee benefits and compulsory contributions to State funds are statutory social security and pension contributions of USD 2,397 thousand (2004: USD 1,885 thousand).

Information on operating expenses resulting from transactions with related parties is disclosed in Note 26.

(in thousands of USD as presentation currency - Note 3)

23. Income Taxes

Income tax expense was comprised of the following:

	2005	2004
Current tax charge	4,068	2,250
Deferred taxation movement due to:		
- Origination and reversal of temporary differences	(504)	(269)
Tax effect of restatement of prior year balances (Note 3)	(1,538)	-
Income tax expense for the year	**2,026**	**1,981**

The income tax rate applicable to the Bank's income is 25 percent (2004: 25 percent). A reconciliation between the expected and the actual taxation charge is provided below.

	2005	2004
IFRS profit before taxation	**10,399**	**8,725**
Theoretical tax charge at the applicable statutory rate	2,600	2,181
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income assessable for tax purposes only	61	-
- Income which is exempt from taxation	(6)	(36)
- Non deductible expenses	815	305
- Expenses deductible for tax purposes only	(59)	(112)
- Other non temporary differences	153	(357)
Tax effect of restatement of prior year balances (Note 3)	(1,538)	-
Income tax expense for the year	**2,026**	**1,981**

(in thousands of USD as presentation currency - Note 3)

23. Income Taxes (Continued)

A change in the statutory income tax rate was enacted by Law in January 2003 and become effective starting from 1 January 2004, when the corporate profit tax rate decreased from 30% to 25%.

Differences between IFRS and Ukrainian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is recorded at the rate of 25% (2004: 25%).

	31 Dec 2003	Credited to statement of changes in equity	Credited/ (charged) to statement of income	31 Dec 2004	Charged to statement of changes in equity	Credited/ (charged) to statement of income	31 Dec 2005
Tax effect of deductible and taxable temporary differences							
Provision for loan impairment and credit related commitments	**158**	-	(372)	**(214)**	-	676	**462**
Provision for non-current assets held for sale	**409**	-	270	**679**	-	210	**889**
Fair value of securities	**(288)**	-	198	**(90)**	-	(123)	**(213)**
Fixed assets	**(4,424)**	(947)	161	**(5,210)**	(1,643)	1,151	**(5,702)**
Accrued interest and commission income	**38**	-	402	**440**	-	(94)	**346**
Accrued interest and commission expense	**-**	-	-	**-**	-	93	**93**
Other	**27**	-	(390)	**(363)**	-	129	**(234)**
Net deferred tax liability	**(4,080)**	**(947)**	**269**	**(4,758)**	**(1,643)**	**2,042**	**(4,359)**

Movements in deferred tax balance in respect of fixed assets for 2005 include a charge to equity of USD 1,538 thousand and credit to the statement of income of USD 1,538 thousand, which represents the tax effect on the restatement of prior year balances, as disclosed in Note 3.

24. Financial Risk Management

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

Credit risk. The Bank takes on exposure to credit risk which is the risk, that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and subject to a regular review. Limits on the level of credit risk by borrower are approved regularly by the Credit Council and Credit Committee of the Bank.

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

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

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

(in thousands of USD as presentation currency - Note 3)

24. Financial Risk Management (Continued)

Currency risk and concentrations. The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Asset and 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. Distribution of assets and liabilities by currencies at 31 December 2005 and net currency positions at 31 December 2005 and 31 December 2004 are presented below:

31 December 2005	USD	UAH	EUR	Other	Total
Assets					
Cash on hand and in transit	2,602	12,464	938	101	**16,105**
Balances with the National Bank of Ukraine	-	41,555	-	-	**41,555**
Securities at fair value through profit or loss	-	16,102	-	-	**16,102**
Due from other banks	78,781	80,402	47,446	4,903	**211,532**
Loans to customers	228,657	115,711	15,500	345	**360,213**
Investment securities available for sale	-	1,028	-	-	**1,028**
Investment securities held to maturity	-	549	-	-	**549**
Other assets	501	2,552	7	185	**3,245**
Fixed assets	-	49,003	-	-	**49,003**
Investment property	-	2,311	-	-	**2,311**
Intangible assets	-	3,190	-	-	**3,190**
Non-current assets held for sale	-	725	-	-	**725**
Total assets	**310,541**	**325,592**	**63,891**	**5,534**	**705,558**
Liabilities					
Due to the National Bank of Ukraine	-	547	-	-	**547**
Due to other banks	49,938	47,452	14,380	-	**111,770**
Customer accounts	183,748	174,323	19,136	3,322	**380,529**
Certificates of deposit issued	360	2,090	746	-	**3,196**
Other borrowed funds	98,680	-	6,475	637	**105,792**
Other liabilities	1,248	1,571	42	1,121	**3,982**
Deferred tax liability	-	4,359	-	-	**4,359**
Current income tax liability	-	508	-	-	**508**
Total liabilities	**333,974**	**230,850**	**40,779**	**5,080**	**610,683**
Net balance sheet position at 31 December 2005	**(23,433)**	**94,742**	**23,112**	**454**	**94,875**
Outstanding spot foreign exchange contracts (Note 25)	23,169	-	(23,058)	-	111
Total net position at 31 December 2005	**(264)**	**94,742**	**54**	**454**	**94,986**

(in thousands of USD as presentation currency - Note 3)

24. Financial Risk Management (Continued)

Balance sheet position at 31 December 2005 in other currencies comprise, predominantly, amounts in Russian Roubles.

31 December 2004	USD	UAH	EUR	Other	Total
Assets					
Cash on hand and in transit	7,939	10,469	1,099	57	**19,564**
Balances with the National Bank of Ukraine	-	10,035	-	-	**10,035**
Securities at fair value through profit or loss	-	10,930	-	-	**10,930**
Due from other banks	53,888	26,510	20,731	5,847	**106,976**
Loans to customers	112,919	58,014	11,844	723	**183,500**
Investment securities available for sale	-	7,290	-	-	**7,290**
Investment securities held to maturity	-	1,680	-	-	**1,680**
Other assets	339	1,570	96	84	**2,089**
Fixed assets	-	46,470	-	-	**46,470**
Investment property	-	2,442	-	-	**2,442**
Intangible assets	-	3,776	-	-	**3,776**
Total assets	**175,085**	**179,186**	**33,770**	**6,711**	**394,752**
Liabilities					
Due to the National Bank of Ukraine	-	5,069	-	-	**5,069**
Due to other banks	30,098	20,419	9,427	-	**59,944**
Customer accounts	108,941	63,997	17,964	964	**191,866**
Certificates of deposit issued	250	120	287	-	**657**
Other borrowed funds	41,813	-	1,755	722	**44,290**
Other liabilities	1,541	2,565	47	4	**4,157**
Deferred tax liability	-	4,758	-	-	**4,758**
Current income tax liability	-	336	-	-	**336**
Total liabilities	**182,643**	**97,264**	**29,480**	**1,690**	**311,077**
Net balance sheet position at 31 December 2004	**(7,558)**	**81,922**	**4,290**	**5,021**	**83,675**
Outstanding spot foreign exchange contracts (Note 25)	7,198	-	(4,453)	(2,741)	4
Total net position at 31 December 2004	**(360)**	**81,922**	**(163)**	**2,280**	**83,679**

Balance sheet position at 31 December 2004 in other currencies comprise, predominantly, amounts in Russian Roubles. Outstanding spot foreign exchange contracts comprise amounts in Great Britain Pounds and Japanese Yens (Note 25).

(in thousands of USD as presentation currency - Note 3)

24. Financial Risk Management (Continued)

Gross distribution of off-balance sheet credit related commitments by currencies at 31 December 2005 are presented below (Note 25):

	USD	UAH	EUR	Other currencies	Total
Loan commitments	42,546	22,492	3,300	-	**68,338**
Non-cash covered confirmed export letters of credit	1,200	-	-	-	**1,200**
Non-cash covered import letters of credit	3,704	-	3,791	-	**7,495**
Non-cash covered import guarantees and promissory notes endorsements	18,676	25,819	5,785	3,045	**53,325**
Total off-balance sheet credit related commitments	**66,126**	**48,311**	**12,876**	**3,045**	**130,358**

Gross distribution of off-balance sheet credit related commitments by currencies at 31 December 2004 are presented below (Note 25):

	USD	UAH	EUR	Other currencies	Total
Loan commitments	16,691	2,829	17,463	-	**36,983**
Non-cash covered confirmed export letters of credit	6,089	-	-	-	**6,089**
Non-cash covered import letters of credit	4,241	121	9,881	-	**14,243**
Non-cash covered import guarantees	14,357	8,248	3,222	-	**25,827**
Total off-balance sheet credit related commitments	**41,378**	**11,198**	**30,566**	**-**	**83,142**

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term deposits at fixed interest rates.

(in thousands of USD as presentation currency - Note 3)

24. Financial Risk Management (Continued)

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

31 December 2005	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Non-interest bearing	Total
Assets							
Cash on hand and in transit	16,105	-	-	-	-	-	**16,105**
Balances with the National Bank of Ukraine	41,555	-	-	-	-	-	**41,555**
Securities at fair value through profit or loss	-	-	4,769	11,333	-	-	**16,102**
Due from other banks	182,762	23,645	2,764	1,174	1,187	-	**211,532**
Loans to customers	14,653	30,647	53,592	134,719	126,602	-	**360,213**
Investment securities available for sale	189	113	402	244	80	-	**1,028**
Investment securities held to maturity	103	202	244	-	-	-	**549**
Other assets	-	-	-	-	-	3,245	**3,245**
Fixed assets	-	-	-	-	-	49,003	**49,003**
Investment property	-	-	-	-	-	2,311	**2,311**
Intangible assets	-	-	-	-	-	3,190	**3,190**
Non-current assets held for sale	-	-	-	-	-	725	725
Total assets	**255,367**	**54,607**	**61,771**	**147,470**	**127,869**	**58,474**	**705,558**
Liabilities							
Due to the National Bank of Ukraine	101	202	244	-	-	-	**547**
Due to other banks	105,642	6,071	32	25	-	-	**111,770**
Customer accounts	194,437	85,591	41,136	55,135	4,230	-	**380,529**
Certificates of deposit issued	1,559	1,282	221	134	-	-	**3,196**
Other borrowed funds	1,632	48,181	9,472	46,119	388	-	**105,792**
Other liabilities	-	-	-	-	-	3,982	**3,982**
Deferred tax liability	-	-	-	-	-	4,359	**4,359**
Current income tax liability	-	-	-	-	-	508	**508**
Total liabilities	**303,371**	**141,327**	**51,105**	**101,413**	**4,618**	**8,849**	**610,683**
Repricing gap	**(48,004)**	**(86,720)**	**10,666**	**46,057**	**123,251**	**49,265**	**94,875**
Cumulative gap at 31 December 2005	**(48,004)**	**(134,724)**	**(124,058)**	**(78,001)**	**45,250**	**94,875**	**-**

(in thousands of USD as presentation currency - Note 3)

24. Financial Risk Management (Continued)

31 December 2004	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Non-interest bearing	Total
Assets							
Cash on hand and in transit	19,564	-	-	-	-	-	**19,564**
Balances with the National Bank of Ukraine	10,035	-	-	-	-	-	**10,035**
Securities at fair value through profit or loss	10,930	-	-	-	-	-	**10,930**
Due from other banks	76,945	23,784	2,546	2,334	1,367	-	**106,976**
Loans to customers	6,125	27,558	68,099	57,028	24,690	-	**183,500**
Investment securities available for sale	47	557	4,072	71	20	2,523	**7,290**
Investment securities hed to maturity	103	192	288	577	520	-	**1,680**
Other assets	-	-	-	-	-	2,089	**2,089**
Fixed assets	-	-	-	-	-	46,470	**46,470**
Investment property	-	-	-	-	-	2,442	**2,442**
Intangible assets	-	-	-	-	-	3,776	**3,776**
Total assets	**123,749**	**52,091**	**75,005**	**60,010**	**26,597**	**57,300**	**394,752**
Liabilities							
Due to the National Bank of Ukraine	3,492	192	288	577	520	-	**5,069**
Due to other banks	51,861	8,000	33	50	-	-	**59,944**
Customer accounts	90,877	41,914	26,838	30,142	2,095	-	**191,866**
Certificates of deposit issued	-	183	359	115	-	-	**657**
Other borrowed funds	20,360	7,463	4,267	12,200	-	-	**44,290**
Other liabilities	-	-	-	-	-	4,157	**4,157**
Deferred tax liability	-	-	-	-	-	4,758	**4,758**
Current income tax liability	-	-	-	-	-	336	**336**
Total liabilities	**166,590**	**57,752**	**31,785**	**43,084**	**2,615**	**9,251**	**311,077**
Repricing gap	**(42,841)**	**(5,661)**	**43,220**	**16,926**	**23,982**	**48,049**	**83,675**
Cumulative gap at 31 December 2004	**(42,841)**	**(48,502)**	**(5,282)**	**11,644**	**35,626**	**83,675**	**-**

(in thousands of USD as presentation currency - Note 3)

24. Financial Risk Management (Continued)

The table below summarises effective interest rates, by major currencies and for major interest-earning and interest-bearing financial instruments. The analysis has been prepared based on period-end average-weighted rates used for amortisation of the respective assets/liabilities.

	2005 (%)			2004 (%)		
	USD	**UAH**	**EUR**	**USD**	**UAH**	**EUR**
Balances with the National Bank of Ukraine	-	0	-	-	0	-
Current accounts and overnights deposits with other banks	1.47	-	0.44	1.06	0.98	0.90
Term deposits with other banks	4.54	7.39	2.62	2.51	12.58	2.50
Amount receivable under reverse repurchase agreements	-	11.02	-	-	14.28	-
Securities at fair value through profit or loss	-	14.30	-	-	13.31	-
Promissory notes	-	15.99	-	-	22.53	-
Ukrainian Government debt securities available for sale	-	-	-	-	9.54	-
Loans to customers	11.05	15.46	11.06	11.24	17.55	12.14
Investment securities held to maturity	-	12.00	-	-	12.00	-
Due to the National Bank of Ukraine	-	7.00	-	-	7.67	-
Current accounts of other banks	0.02	0.46	0	0.04	0.13	0
Term deposits from other banks	3.65	5.98	2.02	2.87	9.81	2.21
Current accounts of customers	0.89	1.93	0.42	3.56	2.17	0.53
Term deposits from customers	8.25	10.25	8.03	7.43	12.61	6.19
Certificates of deposit issued	7.44	8.92	8.11	7.70	9.85	8.23
Other borrowed funds	7.97	-	5.94	5.74	-	2.28

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and guarantees. 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 and Liability Committee of the Bank.

(in thousands of USD as presentation currency - Note 3)

24. Financial Risk Management (Continued)

The table below shows assets and liabilities as at 31 December 2005 by their remaining contractual maturity, unless there is evidence that any of these assets are impaired and will be settled after or prior their contractual maturity dates, in which case the expected date of settlement is used.

31 December 2005	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	No maturity	Total
Assets							
Cash on hand and in transit	16,105	-	-	-	-	-	**16,105**
Balances with the National Bank of Ukraine	41,555	-	-	-	-	-	**41,555**
Securities at fair value through profit or loss	-	-	4,769	11,333	-	-	**16,102**
Due from other banks	182,762	23,645	2,764	1,174	1,187	-	**211,532**
Loans to customers	14,653	30,647	53,592	134,719	126,602	-	**360,213**
Investment securities available for sale	189	113	402	244	80	-	**1,028**
Investment securities held to maturity	103	202	244	-	-	-	**549**
Other assets	3,245	-	-	-	-	-	**3,245**
Fixed assets	-	-	-	-	-	49,003	**49,003**
Investment property	-	-	-	-	-	2,311	**2,311**
Intangible assets	-	-	-	-	-	3,190	**3,190**
Non-current assets held for sale	-	-	-	725	-	-	**725**
Total assets	**258,612**	**54,607**	**61,771**	**148,195**	**127,869**	**54,504**	**705,558**
Liabilities							
Due to National Bank of Ukraine	101	202	244	-	-	-	**547**
Due to other banks	105,642	6,071	32	25	-	-	**111,770**
Customer accounts	194,437	85,591	41,136	55,135	4,230	-	**380,529**
Certificates of deposit issued	1,559	1,282	221	134	-	-	**3,196**
Other borrowed funds	1,632	8,181	9,472	86,119	388	-	**105,792**
Other liabilities	-	78	22	22	1,560	2,300	**3,982**
Deferred tax liability	-	-	-	-	-	4,359	**4,359**
Current income tax liability	-	508	-	-	-	-	**508**
Total liabilities	**303,371**	**101,913**	**51,127**	**141,435**	**6,178**	**6,659**	**610,683**
Liquidity gap	**(44,759)**	**(47,306)**	**10,644**	**6,760**	**121,691**	**47,845**	**94,875**
Cumulative liquidity gap at 31 December 2005	**(44,759)**	**(92,065)**	**(81,421)**	**(74,661)**	**47,030**	**94,875**	**-**

(in thousands of USD as presentation currency - Note 3)

24. Financial Risk Management (Continued)

31 December 2004	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	No maturity	Total
Assets							
Cash on hand and in transit	19,361	203	-	-	-	-	**19,564**
Balances with the National Bank of Ukraine	10,035	-	-	-	-	-	**10,035**
Securities at fair value through profit or loss	10,930	-	-	-	-	-	**10,930**
Due from other banks	76,945	23,784	2,546	2,334	1,367	-	**106,976**
Loans to customers	5,903	24,811	68,857	58,311	25,618	-	**183,500**
Investment securities available for sale	47	557	5,232	1,434	20	-	**7,290**
Investment securities held to maturity	103	192	288	577	520	-	**1,680**
Other assets	1,868	-	-	-	-	221	**2,089**
Fixed assets	-	-	-	-	-	46,470	**46,470**
Investment property	-	-	-	-	-	2,442	**2,442**
Intangible assets	-	-	-	-	-	3,776	**3,776**
Total assets	**125,192**	**49,547**	**76,923**	**62,656**	**27,525**	**52,909**	**394,752**
Liabilities							
Due to National Bank of Ukraine	3,492	192	288	577	520	-	**5,069**
Due to other banks	51,861	8,000	33	50	-	-	**59,944**
Customer accounts	90,877	41,914	26,838	30,142	2,095	-	**191,866**
Certificates of deposit issued	-	183	359	115	-	-	**657**
Other borrowed funds	360	3,166	21,904	18,138	722	-	**44,290**
Other liabilities	1,111	30	27	377	2,612	-	**4,157**
Deferred tax liability	-	-	-	-	-	4,758	**4,758**
Current income tax liability	-	336	-	-	-	-	**336**
Total liabilities	**147,701**	**53,821**	**49,449**	**49,399**	**5,949**	**4,758**	**311,077**
Liquidity gap	**(22,509)**	**(4,274)**	**27,474**	**13,257**	**21,576**	**48,151**	**83,675**
Cumulative liquidity gap at 31 December 2004	**(22,509)**	**(26,783)**	**691**	**13,948**	**35,524**	**83,675**	**-**

24. Financial Risk Management (Continued)

As at 31 December 2005 balance with the National Bank of Ukraine is included within "up to 1 month" band as the Bank may operate with this amount within the mandatory reserve control period which was 31 days according to regulations in force at the year end (Note 7). Customer current accounts are due on demand and have been reflected as such.

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

The Bank has a significant cumulative maturity mismatch of the assets and liabilities within maturity bands up to one year. This liquidity mismatch arises due to the fact that the major source of finance for the Bank as at 31 December 2005 were customer accounts maturing in up to one year. Management believes that in spite of a substantial portion of customer accounts with maturity up to one year, the past experience of the Bank indicates that these deposits provide a long-term and stable source of finance for the Bank. However, such an unmatched position may increase the likelihood of future losses.

25. Contingencies, Commitments and Derivative Financial Instruments

Litigation. The Bank is involved in various legal proceedings in the ordinary course of business. On the basis of its own estimates and internal professional advice, the Management does not believe the result of any such actions will have a material adverse effect on the Bank's financial position or results of operations.

Tax legislation. The Ukrainian commercial legislation, and tax legislation in particular, allows more than one interpretation and practice of making arbitrary judgement of tax regulations is developed by the tax authorities. Therefore, the risks are more significant than typically found in countries with more developed tax system.

The tax consequence of transactions for Ukrainian taxation purposes is frequently determined by the form in which transactions are documented and the underlying accounting treatment prescribed by Accounting Rules applied in Ukraine.

If a particular treatment was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest, which can be significant. 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 commitments. At 31 December 2005 the Bank had capital commitments in respect of purchase of equipment in the amount of USD 2,268 thousand (2004: USD 104 thousand). The Bank's Management has already allocated the necessary resources in respect of this commitment. The Bank's Management believes that future net revenues and funding will be sufficient to cover this commitment and any similar commitments.

Credit related commitments. 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 risk of clients defaults or inability to perform the contract with a counterparty. The Bank manages its risk of loss by requiring a significant proportion guarantees to be secured with deposits in the Bank. 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. However, due to its revocable nature the Bank is able to refuse to issue the loans, guarantees or letters of credit to the customer due to deterioration of the customer's solvency.

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.

(in thousands of USD as presentation currency - Note 3)

25. Contingencies, Commitments and Derivative Financial Instruments (Continued)

Letters of credit issued by the Bank at 31 December, are as follows:

	2005	2004
Confirmed export letters of credit	1,271	6,089
Import letters of credit	10,335	18,044
Cash collateral (Note 14, 15)	(2,911)	(3,801)
Provision for import letters of credit	(209)	(208)
Total letters of credit	**8,486**	**20,124**

Guarantees issued at 31 December, are as follows:

	2005	2004
Guarantees and promissory notes endorsements	58,614	35,581
Cash collateral (Note 14, 15)	(5,289)	(9,754)
Provision for guarantees	(408)	(608)
Total guarantees	**52,917**	**25,219**

The amount of undrawn commitments to extend credit issued by the Bank at 31 December 2005 was USD 68,338 thousand (2004: USD 36,983 thousand). As at 31 December 2005 the Bank had irrevocable commitments to extend credit in the amount USD 2,000 thousand (2004: the Bank did not have irrevocable commitments to extend credit).

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

	2005	2004
Provision for losses on credit related commitments as at 1 January	**816**	**166**
(Recovery of)/provision for losses on credit related commitments during the year	(192)	650
Translation to presentation currency	(7)	-
Provision for losses on credit related commitments as at 31 December (Note 17)	**617**	**816**

(in thousands of USD as presentation currency - Note 3)

25. Contingencies, Commitments and Derivative Financial Instruments (Continued)

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

	2005	2004
Not later than 1 year	1,026	836
Later than 1 year and not later than 5 years	730	2,261
Later than 5 years	10,282	8,739
Total operating lease commitments	**12,038**	**11,836**

Derivative financial instruments. As discussed in Note 13, the Bank has signed a sale agreement with a Ukrainian company, according to which the Bank undertakes to sell to this company its stake in a newly established Ukrainian entity which was acquired as part of a debt settlement. At 31 December 2005 the carrying value of the corporate shares, which a Bank committed to sell under the above mentioned agreement, amounted to USD 725 thousand. The value of the shares as stated in the sale agreement is UAH equivalent of USD 3,425 thousand. The carrying value of shares represents expected cash flows, discounted at current market interest rate. The derivative was not fair valued due to absence of reliable market information for valuation of such derivatives. It was recorded at cost.

At 31 December 2005 the Bank had outstanding foreign exchange contracts with banks to purchase EUR 2,500 thousand (equivalent of USD 2,957 thousand) and USD 26,132 thousand (2004: EUR 5,900 thousand and USD 15,222 thousand) and sell EUR 22,000 thousand (equivalent of USD 26,015 thousand) and USD 2,963 thousand (2004: EUR 9,174 thousand, GBP 850 thousand, JPY 115,000 thousand and USD 8,024 thousand). As at year end the contracts have been fair valued and the unrealised gains of USD 111 thousand included in gains less losses arising from dealing in foreign currencies. The Bank had settled the outstanding contracts after the year end.

Fiduciary assets. These assets are not included in the Bank's 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:

	2005 Nominal value	2004 Nominal value
Shares in companies and other securities held in custody	30,675	31,650

At 31 December 2005 and 2004 no insurance cover for fiduciary assets was maintained.

(in thousands of USD as presentation currency - Note 3)

25. Contingencies, Commitments and Derivative Financial Instruments (Continued)

At 31 December 2005 and 2004 the assets pledged and restricted were as follows:

Assets pledged and restricted to use	2005		2004	
	Assets pledged	*Related liability*	*Assets pledged*	*Related liability*
Balance with the National Bank of Ukraine (Note 7)	515		490	
Investment securities held to maturity	549	547	1,680	5,069
Investment securities available for sale (Notes 11)	-		3,895	
Term deposits with domestic banks (Notes 9 and 14)	70,741	70,960	30,305	30,284
Total	71,805	71,507	36,370	35,353

At 31 December 2005 the Bank has investment securities held to maturity with carrying value of USD 549 thousand and USD 515 thousand on the current account with the National Bank of Ukraine (Note 7) pledged as collateral for due to the National Bank of Ukraine in amount of USD 547 thousand (2004: the Bank has investment securities available for sale with carrying value of USD 3,895 thousand, investment securities held to maturity with carrying value of USD 1,680 thousand and USD 490 thousand on the current account with the National Bank of Ukraine pledged as collateral for due to the National Bank of Ukraine in amount of USD 5,069 thousand).

At 31 December 2005, term deposits placed with other banks in OECD and non-OECD countries totalling USD 5,296 thousand (2004: USD 8,147 thousand) represent funds blocked as collateral for import letters of credit and guarantees issued by the Bank in favour of its clients (Note 9).

In addition, mandatory cash balances with the National Bank of Ukraine in the amount of USD 24,884 thousand (2004: USD 10,035 thousand) represent mandatory reserve balances, which are not available to finance the Bank's day to day operations.

(in thousands of USD as presentation currency - Note 3)

26. Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is paid to the substance of the relationship, not merely the legal form.

In the normal course of business the Bank enters into transactions with significant shareholders and companies with which the Bank has significant shareholders in common. These transactions include settlements, loans, deposits, trade finance and foreign currency transactions. These transactions are priced at market rates. The outstanding balances at the year end and income and expense for the year are as follows:

2005	Parent company	Entities under common control of the Parent Company	Other related parties
Assets			
Due from other banks (interest rate, %)	-	-	-
Loans to customers (interest rate, %)	-	9,493 (12.1)	182 (3.8)
Provision for loan impairment	-	234	4
Investment securities available for sale (interest rate, %)	-	1,028 (16.0)	-
Liabilities			
Due to other banks (interest rate, %)	-	1,762 (0.5)	-
Customer accounts (interest rate, %)	4 (0)	87,789 (6.1)	868 (6.3)
Certificates of deposit issued (interest rate, %)	-	-	-
Other borrowed funds (interest rate, %)	-	-	-
Income / expense			
Interest income	-	1,093	7
Interest expense	-	3,619	23
Fee and commission income	3	1,594	-
Fee and commission expense	-	249	-
Provision for loan impairment	-	155	-
Provision for losses on credit related commitments	-	59	-
Lease expenses	-	858	-
Insurance expenses	-	370	-
Credit related commitments			
Guarantees	-	1,665	-
Letters of credit	-	2,650	-
Provision for credit related commitments	-	158	-

(in thousands of USD as presentation currency - Note 3)

26. Related Party Transactions (Continued)

2004	Parent company	Entities under common control of the Parent Company	Other related parties
Assets			
Due from other banks (interest rate, %)	4,242 (1.7)	-	-
Loans to customers (interest rate, %)	-	6,054 (12.5)	112 (3.7)
Provision for loan impairment	-	96	2
Investment securities available for sale (interest rate, %)	-	871 (22.5)	-
Liabilities			
Due to other banks (interest rate, %)	270 (-)	9,010 (0.1)	-
Customer accounts (interest rate, %)	-	28,224 (8.8)	475 (2.9)
Certificates of deposit issued (interest rate, %)	-	195 (9.0)	-
Other borrowed funds (interest rate, %)	5,795 (5.0)	-	-
Income / expense			
Interest income	3	1,781	4
Interest expense	238	861	30
Fee and commission income	31	1,468	-
Fee and commission expense	19	156	-
Provision for loan impairment	-	166	-
Provision for losses on credit related commitments	-	120	-
Lease expenses	-	890	-
Insurance expenses	-	209	-
Credit related commitments			
Guarantees	-	585	-
Letters of credit	-	2,395	-
Provision for credit related commitments	-	120	-

The provision for loan impairment in respect of loans to related parties has been raised on the portfolio basis.

During the year movements on related parties' loan accounts were as follows:

2005	Parent company	Entities under common control of the Parent company	Other related parties
Loans granted to related parties during the period 2005	-	93,269	41
Amounts repaid by related parties during the period 2005	-	89,296	51

(in thousands of USD as presentation currency - Note 3)

26. Related Party Transactions (Continued)

2004	Parent company	Entities under common control of the Parent company	Other related parties
Loans granted to related parties during the period 2004	-	26,713	12
Amounts repaid by related parties during the period 2004	-	34,358	25

In 2005, the remuneration of members of the Management Board comprised salaries of USD 520 thousand, benefits in kind and other of USD 22 thousand (2004: salaries of USD 416 thousand).

27. 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 a quoted market price.

The estimated fair values of financial instruments have been determined by Management 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. As described in more detail in Note 2, Ukraine has shown signs of an emerging market and has experienced a significant decline in the volume of activity in its financial markets. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Financial instruments carried at fair value. Securities at fair value through profit or loss and investment securities available for sale are carried on the balance sheet at their fair value. Fair value of securities at fair value through profit or loss was determined based on quoted bid prices. Fair value for investment securities available for sale is based on quoted market prices. Where this information is not available, fair value has been estimated 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 and application of other valuation methodologies. Refer to Note 11 for the estimated fair value of investment securities available for sale as at 31 December 2005. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Due from other banks. The estimated fair value of interest-earning placements without a quoted market price is based on discounted cash flows using interest rates for new placements with similar remaining maturity. Refer to Note 9 for the estimated fair values of due from other banks as at 31 December 2005 and 2004.

Loans to customers. Loans to customers are net of provisions for impairment. The estimated fair value of loans to customers represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. Refer to Note 10 for the estimated fair value of loans to customers as at 31 December 2005 and 2004.

Investment securities held to maturity. Fair value for investment securities held to maturity is based on quoted market prices.

Due to other banks, Customer accounts and Other borrowed funds. The estimated fair value of liabilities with no stated maturity is the amount repayable on demand. The estimated fair value of interest-bearing liabilities without a quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. Refer to Notes 14, 15 and 16 for the estimated fair values of due to other banks, customer accounts and other borrowed funds as at 31 December 2005 and 2004.

28. Subsequent Events

Subsequent Events. In January 2006 the Bank's General Shareholders Meeting has decided to issue an additional 878 261 ordinary shares with a nominal value of UAH 230 each. The total amount of this issue equals to UAH 202,000 thousand (USD 40,000 thousand). After registration and allocation of this issue the Bank's nominal value of statutory capital will amount to UAH 225,000 thousand (USD 44,554 thousand) and comprise 978 261 ordinary shares with nominal value UAH 230 per share, rank equally and carry one vote.

Signed on behalf of the Management Board on 15 March 2006.

O.I. Dovgopolyuk (Chairman of the Management Board)   O.M. Moshkalova (Chief Accountant)

First Ukrainian International Bank

Interim Financial Statements and Review Report

30 September 2006

Contents

PRICEWATERHOUSECOOPERS

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REVIEW REPORT

To the Management and Supervisory Council of First Ukrainian International Bank:

1 We have reviewed the accompanying interim balance sheet of First Ukrainian International Bank (the "Bank") as at 30 September 2006, and the related interim statements of income, of cash flows and of changes in equity for the nine months then ended. These interim financial statements set out on pages 1 to 70 are the responsibility of the Bank's Management. Our responsibility is to issue a report on these interim financial statements based on our review.

2 We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance about whether the interim financial statements are free of material misstatement. A review is limited primarily to inquiries of Bank's personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

3 Based on our review nothing has come to our attention that causes us to believe that the accompanying interim financial statements do not give a true and fair view of the financial position of the Bank as at 30 September 2006 and of the results of its operations and its cash flows for the nine months then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers

Kyiv, Ukraine
22 December 2006

(in thousands of USD as presentation currency - Note 3)

	Notes	30 September 2006 (unaudited)	31 December 2005 (restated, Note 3)
Assets			
Cash on hand and in transit	6	15,829	16,105
Balances with the National Bank of Ukraine	7	27,011	41,555
Securities at fair value through profit or loss		-	16,102
Due from other banks	8	207,701	153,118
Loans to customers	9	572,351	360,213
Investment securities available for sale	10	33,483	1,028
Investment securities held to maturity		-	549
Other assets		7,588	3,245
Fixed assets	11	75,777	49,003
Investment property	11	2,861	2,311
Intangible assets	11	2,844	3,190
Non-current assets held for sale	12	-	725
Total assets		**945,445**	**647,144**
Liabilities			
Due to the National Bank of Ukraine		-	547
Due to other banks	13	51,121	53,300
Customer accounts	14	465,564	380,529
Certificates of deposit issued		1,321	3,196
Other borrowed funds	15	231,724	105,792
Current income tax liability	16	2,093	508
Other liabilities	16	5,081	3,982
Deferred tax liability	23	9,010	4,351
Total liabilities		**765,914**	**552,205**
Equity			
Share capital	17	90,864	30,864
Share premium		11,247	11,247
Revaluation reserve for fixed assets	11	31,446	15,511
Retained earnings		46,058	37,317
Revaluation reserve for investment securities available for sale		(84)	-
Total equity		**179,531**	**94,939**
Total liabilities and equity		**945,445**	**647,144**

Signed on behalf of the Management Board on 22 December 2006.

O.I. Dovgopolyuk (Chairman of the Management Board) O.M. Moshkalova (Chief Accountant)

The notes set out on pages 6 to 70 form an integral part of these interim financial statements 1

(in thousands of USD as presentation currency - Note 3)

	Notes	Nine months ended 30 September (unaudited) 2006	2005 (restated, Note 3)
Interest income	19	58,333	27,296
Interest expense	19	(28,959)	(11,387)
Net interest income	19	29,374	15,909
Provision for loan impairment	8, 9	(8,826)	(5,233)
Net interest income after provision for loan impairment		**20,548**	**10,676**
Fee and commission income	20	15,934	13,852
Fee and commission expense	20	(4,223)	(3,240)
Net fee and commission income	20	**11,711**	**10,612**
Gain less losses arising from dealing in foreign currencies		2,850	1,510
Foreign exchange translation (losses less gains)/gains less losses		(492)	438
Losses less gains arising from securities at fair value through profit or loss		(10)	(119)
(Provision for)/recovery of provision for losses on credit related commitments	25	(487)	386
Losses on initial recognition of loans to customers	9	(347)	(237)
Loss on disposal of non-current assets held for sale	12	(225)	-
Other income	21	1,034	818
Operating income		**34,582**	**24,084**
Operating expenses	22	(21,901)	(17,033)
Profit before taxation		**12,681**	**7,051**
Income tax expense	23	(4,283)	(2,375)
Net profit		**8,398**	**4,676**

The notes set out on pages 6 to 70 form an integral part of these interim financial statements

(in thousands of USD as presentation currency –Note 3)

	Nine months ended 30 September (unadutied) 2006	2005
Cash flows from operating activities		
Interest income received	57,381	26,692
Interest expense paid	(23,058)	(10,915)
Fee and commission income received	15,934	13,852
Fee and commission expense paid	(4,223)	(3,240)
Losses from securities at fair value through profit or loss	(10)	(119)
Income received from trading in foreign currencies	2,850	1,510
Other income received	484	759
Operating expenses paid	(17,006)	(13,378)
Income tax paid	(3,323)	(1,755)
Cash flows from operating activities before changes in operating assets and liabilities	**29,029**	**13,406**
Changes in operating assets and liabilities:		
Net decrease in mandatory reserve balances with the National Bank of Ukraine	9,330	3,337
Net decrease /(increase) in securities at fair value through profit or loss	15,782	(2,722)
Net decrease /(increase) in due from other banks	68,829	(4,603)
Net increase in loans to customers	(220,603)	(128,304)
Net increase in other assets	(4,410)	(603)
Net (decrease) /increase in due to other banks	(2,132)	47,359
Net increase in customer accounts	84,344	78,114
Net (decrease)/ increase in certificates of deposit issued	(1,886)	1,439
Net increase in other liabilities	1,027	2,635
Net cash (used in)/ from operating activities	**(20,690)**	**10,058**
Cash flows from investing activities		
Purchase of fixed assets	(9,033)	(2,458)
Proceeds from sale of fixed assets	88	390
Acquisition of investment securities available for sale	(33,596)	(5,919)
Proceeds from disposal of investment securities available for sale	1,028	10,078
Proceeds from redemption of investment securities held to maturity	549	824
Proceeds from disposal of non-current assets held for sale	500	1,102
Net cash (used in)/ from investing activities	**(40,464)**	**4,017**
Cash flows from financing activities		
Decrease in due to the National Bank of Ukraine	(547)	(4,217)
Proceeds from other borrowed funds	261,940	40,500
Repayments of other borrowed funds	(141,269)	(38,796)
Share issue	60,000	-
Net cash from/(used in) financing activities	**180,124**	**(2,513)**
Effect of exchange rate changes on cash and cash equivalents	(355)	(1,130)
Net increase in cash and cash equivalents	**118,615**	**10,432**
Cash and cash equivalents at the beginning of the period	82,174	51,422
Cash and cash equivalents at the end of the period (Note 6)	**200,789**	**61,854**

The notes set out on pages 6 to 70 form an integral part of these interim financial statements

First Ukrainian International Bank
Interim Statement of Changes in Equity
(in thousands of USD as presentation currency – Note 3)

	Share capital	Share pre-mium	Revaluation reserve for investment securities available for sale	Reva-luation reserve for fixed assets	Retained earnings	Total equity
Balance at 1 January 2005 (as previously reported)	**29,378**	**10,706**	**-**	**10,469**	**33,122**	**83,675**
Correction of prior year balances, net of tax effect (Note 3)	-	-	-	4,617	(4,617)	-
Balance at 1 January 2005 (restated)	**29,378**	**10,706**	**-**	**15,086**	**28,505**	**83,675**
Depreciation transfer on revalued buildings	-	-	-	(159)	159	-
Translation differences	1,486	541	-	637	1,701	4,365
Net income recognised directly in equity	1,486	541	-	478	1,860	4,365
Net profit for the period (unaudited, restated)	-	-		-	4,676	4,676
Total recognised income for nine months ended 30 September 2005	1,486	541	-	478	6,536	9,041
Balance at 30 September 2005 (unaudited)	**30,864**	**11,247**	**-**	**15,564**	**35,041**	**92,716**
Net profit for the period (unaudited)	-	-	-	-	2,159	2,159
Depreciation transfer on revalued buildings	-	-	-	(53)	53	-
Total recognised income for three months ended 31 December 2005	-	-	-	(53)	2,212	2,159
Balance at 31 December 2005 (as previously reported)	**30,864**	**11,247**	**-**	**15,511**	**37,253**	**94,875**
Effect of restatement, (Note 3)	-	-	-	-	64	64
Balance at 31 December 2005 (restated)	**30,864**	**11,247**	**-**	**15,511**	**37,317**	**94,939**

The notes set out on pages 6 to 70 form an integral part of these interim financial statements

(in thousands of USD as presentation currency – Note 3)

Revaluation of buildings	-	-	-	21,589	-	21,589
Depreciation transfer on revalued buildings	-	-	-	(343)	343	-
Revaluation of investment securities available for sale	-	-	(113)	-	-	(113)
Tax effect recorded directly in equity	-	-	29	(5,311)	-	(5,282)
Net income recognised directly in equity	-	-	(84)	15,935	343	16,194
Net profit for the period (unaudited)	-	-	-	-	8,398	8,398
Total recognised income for nine months ended 30 September 2006	-	-	(84)	15,935	8,741	24,592
Share issue	60,000	-	-	-	-	60,000
Balance at 30 September 2006 (unaudited)	**90,864**	**11,247**	**(84)**	**31,446**	**46,058**	**179,531**

1. Principal Activities

Closed joint stock company First Ukrainian International Bank (the "Bank") was established on 20 November 1991 and commenced operations in April 1992. The Bank provides a full range of banking services, including taking deposits and granting loans, investing in securities, transfer of payments in Ukraine and abroad, exchange of currencies and issuance and processing of payment cards.

The registered office of the Bank is located at the following address: 2-a Universytetska Street, Donetsk, Ukraine. As at 30 September 2006 it had 10 branches throughout Ukraine. The Bank had 1,779 employees as at 30 September 2006 (31 December 2005 – 1,478 employees).

In February 2005 «SCM FINANCE» signed a share purchase agreement with the following shareholders of the Bank: Fortis Bank (Netherlands) N.V. (20% of share capital), EBRD (10% of share capital), DEG (10% of share capital) and International Finance Corporation (10% of share capital). As a result of this transaction "SCM Finance" acquired 50% of the share capital of the Bank.

In August 2006 «SCM FINANCE» acquired 49% of the share capital from other shareholder - CJSC "Azovstal" Trade House.

The Bank's shareholders as at 30 September 2006 are "SCM FINANCE" (99% of share capital) and a private shareholder (1% of share capital) (31 December 2005: "SCM FINANCE" – 50% of share capital, CJSC "Azovstal" Trade House – 49% of share capital and a private shareholder – 1% of share capital). The ultimate controlling party of the Bank is a Ukrainian citizen, Mr. R.L. Akhmetov.

2. Operating Environment of the Bank

Whilst there have been improvements in recent years in the economic situation in Ukraine, the economy of 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 the country, a low level of liquidity in the public and private debt and equity markets, restrictive currency controls and relatively high inflation.

Additionally, the banking sector in Ukraine is particularly sensitive to adverse currency and interest rates fluctuations, political instability 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.

The future direction of Ukraine is largely dependent upon the effectiveness of economic, financial and monetory measures undertaken by the Government, together with legal, regulatory and political developments, which are beyond the Bank's control.

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

3. Basis of Presentation and Significant Accounting Policies

These interim financial statements for the nine months ended 30 September 2006 have been prepared in accordance with IAS 34, "Interim Financial Reporting". The interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

The Bank operates in an industry where significant seasonal or cyclical variations in operating income are not experienced during the financial year.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2005, as described in the annual financial statements for the year ended 31 December 2005, except for adoption of standards, disclosed in Note 5 "Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements".

Functional currency of the Bank is the national currency of Ukraine, the Ukrainian Hryvnia ("UAH"), which is the currency of the primary economic environment in which the Bank operates. The Bank uses US dollar as a currency in which it presents its financial statements, which means that balance sheet items are translated into US dollars at exchange rate at the year end. Income statement items are translated at the exchange rate at the date of the transaction. Equity items other than the net profit or loss for the period that is included in the balance of retained earnings are translated at the closing rate existing at the date of each balance sheet presented. All exchange differences resulting from translation of balance sheet items and income statement items are recognised directly in equity.

The USD has been selected as the presentation currency for the Bank on the basis of the following reasons:

- A significant portion of the transactions of the Bank are denominated in USD;
- USD is the currency in which Management of the Bank manages business risks and exposures, and measures the performance of its business.

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

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

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

3. Basis of Presentation and Significant Accounting Policies (Continued)

Valuation techniques such as discounted cash flows models 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.

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 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, derivatives and other financial instruments at fair value through profit or loss 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.

3. Basis of Presentation and Significant Accounting Policies (Continued)

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Bank commits to deliver a financial instrument. 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, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds which 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 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 cash flow statement.

Securities at fair value through profit or loss. Securities at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Bank's Management Board. The Bank did not hold trading securities as at 30 September 2006 and 31 December 2005.

Securities at fair value through profit or loss are carried at fair value. Interest earned on securities at fair value through profit or loss calculated using the effective interest method is presented in the 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 securities at fair value through profit or loss in the period in which they arise.

Sale and repurchase agreements. 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 other borrowed funds.

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

3. Basis of Presentation and Significant Accounting Policies (Continued)

Securities lent to counterparties are retained in the 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.

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 to customers. Loans 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 to customers are carried at amortised cost.

Non-performing loans include overdue loans and loans not perfoming in accordance with their contractual terms.

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

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

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

Impairment losses are recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

3. Basis of Presentation and Significant Accounting Policies (Continued)

Uncollectable 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.

Financial guarantees. 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 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. At each balance sheet date, the financial guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date.

Other credit related commitments. In the normal course of business, the Bank enters into other credit related commitments including loan commitments and letters of credit. When loss is considered probable, provisions are recorded against other credit related commitments.

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

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

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

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

3. Basis of Presentation and Significant Accounting Policies (Continued)

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. Investment securities held to maturity are carried at amortised cost. The Bank cannot classify any financial asset as held to maturity if it has, during the current financial year or during two preceding financial years sold or transferred held to maturity investments before maturity.

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

Fixed assets. Fixed assets, other than buildings, acquired after 31 December 2000 are stated at cost, less accumulated depreciation and provision for impairment, where required. Fixed assets, other than buildings, acquired prior to 31 December 2000 are stated at cost, restated to the equivalent purchasing power of the Ukrainian hryvnia at 31 December 2000 less accumulated depreciation and provision for impairment, where required.

Buildings of the Bank are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the buildings being revalued. The revaluation reserve included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Bank; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

The revaluation is performed on the basis of an appraisal performed by a professional, internationally recognised real estate appraisal company which has an office in Ukraine. The basis used for the appraisal was based on sales comparison and income capitalisation approaches.

Construction in progress is carried at cost, less provision for any impairment in value. Upon completion, assets are transferred to buildings at their carrying value. Construction in progress is not depreciated until the asset is available for use.

At each reporting date the Bank assesses whether there is any indication of impairment of fixed assets. If any such indication exists, the Bank estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the statement of income, unless it has previously been revalued, in which case the revaluation surplus is eliminated first and any additional loss is charged in the income statement. 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 assets recoverable amount.

3. Basis of Presentation and Significant Accounting Policies (Continued)

Gains and losses on disposal of fixed assets are determined by comparing proceeds with their carrying amount and are recognised in profit or loss. Repairs and maintenance are charged to the statement of income when the expenditure is incurred.

Depreciation. Depreciation is applied on a straight line basis over the estimated useful lives of the assets using the following rates:

Buildings	2 %	
Leasehold improvements	20%	or over the term of lease if shorter than 5 years
Computers and other equipment	20-33%	
Software	20-33%	

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

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, eg its maintenance, are expensed when incurred. Capitalised computer software and licences are amortised on a straight line basis over expected useful lives of 5 to 10 years.

Investment property. Investment property is property held by the Bank to earn rental income or for capital appreciation and which is not occupied by the Bank.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value based on its market value. Market value of the Bank's investment property is obtained from reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category or by Bank on its own. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in profit or loss within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss within other income.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Bank and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

3. Basis of Presentation and Significant Accounting Policies (Continued)

Non-current assets classified as held for sale. Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the balance sheet as 'Non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction within twelve months after the balance sheet date. Both financial and non-financial assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Bank's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year and (d) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's balance sheet are not reclassified or re-presented in the comparative balance sheet to reflect the classification at the end of the current period.

Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale non-current assets are not depreciated or amortised. Reclassified non-current financial instruments, deferred taxes and investment properties held at fair value are not subject to the write down to the lower of their carrying amount and fair value less costs to sell.

Certificates of deposit issued. Certificates of deposit issued are instruments issued by the Bank to its customers which carry a fixed date of repayment. These may be issued against cash deposits or as a payment instrument which the customer can discount in the over-the-counter secondary market. Certificates of deposit are carried at amortised cost.

If the Bank purchases its own certificates of deposits, they are removed from the balance sheet and the difference between the carrying amount of the liabilities and the consideration paid is included in gains arising from retirement of debt.

Borrowings. Borrowings are carried at amortised cost.

Share premium. Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses arising on sale of treasury shares are shown as adjustments to share premium.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends payable are not accounted until they have been ratified at the Bank`s Shareholders` General Meeting. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Ukrainian legislation identifies the basis of distribution as the retained earnings disclosed in the statutory accounting records.

Foreign currency translation. Monetary assets and liabilities denominated in foreign currencies are translated into Ukrainian hryvnia at the National Bank of Ukraine (NBU) official rate of exchange prevailing at the year end. Currency translation differences on positions are recorded in the statement of income as foreign exchange translation gains less losses. Income and expenses denominated in foreign currencies are translated at the rates prevailing on the transaction date.

(in thousands of USD as presentation currency - Note 3)

3. Basis of Presentation and Significant Accounting Policies (Continued)

During 2005 the Ukrainian hryvnia appreciated against the US dollar by 4.81%. During 9 months 2006 UAH exchange rate to USD did not change. Exchange restrictions and currency controls exist relating to converting UAH into other currencies. At present, the Ukrainian hryvnia is not a freely convertible currency outside Ukraine.

The principal UAH exchange rates used in the preparation of the financial statements are as follows:

Currency	30 September 2006	31 December 2005
US dollar	5.05	5.05
EURO	6.420065	5.971625

Income taxes. Income taxes have been provided for in the financial statements in accordance with Ukrainian 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 income statement except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax 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 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.

3. Basis of Presentation and Significant Accounting Policies (Continued)

Income and expense recognition. Interest income and expense are recorded in the statement of income for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment option) but does not consider future credit losses. The calculation includes 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. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recorded based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fees, commissions and other income and expense items, including fees for issuance of guarantees, 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. Commitment fees for loans or borrowings which are probable of being drawn down, are deferred (together with related direct costs) and recorded as an adjustment to the effective interest on the loan or borrowings. 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, are recorded on completion of the underlying transaction.

Fiduciary activities. Assets and liabilities held by the Bank in its own name, but on the account of third parties, are not reported on the balance sheet. Commissions received from such business are shown in fee and commission income within the statement of income.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the 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. Prior to 2001 Ukraine experienced relatively high levels of inflation and was considered to be a hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" (IAS 29).

In accordance with IAS 29, when an economy ceases to be hyperinflationary and an enterprise is not required to prepare and present financial statements in accordance with IAS 29, it should treat the amounts expressed in the measuring unit current at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements. Those non-monetary items that arise in the periods of hyperinflation need to be restated in terms of the purchasing power of Ukrainian hryvnia at the end of the reporting period.

This restatement was prepared by indexing the historical balances by changes in the consumer price index, which is calculated and published by Ukrainian authorities, up to 31 December 2000.

3. Basis of Presentation and Significant Accounting Policies (Continued)

Monetary assets and liabilities are not restated because they are already expressed in terms of the measuring unit current at the year-end. Non-monetary assets and liabilities (items which are not expressed in terms of the measuring unit current at the year end) are restated by applying the relevant consumer price index. The effect of inflation on the Bank's net monetary position in 2000 and prior years is included in retained earnings as a monetary gain or loss.

Fixed assets purchased prior to 31 December 2000 have been indexed by the change in the consumer price index from the date of purchase. Where indexation is applied, an assessment has been made of the potential impairment and diminution in the carrying value of these assets and, where applicable, such assets have been reduced to their recoverable amounts.

The components of shareholders' equity, except retained earnings and revaluation surplus, were restated by applying a consumer price index from the dates the components were contributed to 31 December 2000. Retained earnings are restated as a consequence of restating of other amounts in the balance sheet.

Provisions for contingencies. Provisions are recognised 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.

Pension costs. The Bank contributes to the Ukrainian State pension scheme, social insurance and employment funds in respect of its employees. The Bank's pension scheme contributions are expensed as incurred. The contributions are included into salary, employee benefits and compulsory contributions to the State funds.

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 are charged to profit or loss on a straight-line basis over the period of the lease.

Derivative financial instruments. Derivative financial instruments including forward securities contracts, foreign exchange contracts, currency swaps and other derivative financial instruments are initially recorded at fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in fair value of foreign currency forward purchase or sale contracts are included in gains less losses arising from trading in foreign currency.

3. Basis of Presentation and Significant Accounting Policies (Continued)

Corrections of prior period balances. During 2005 the Bank discovered that revaluation reserve for fixed assets as at 1 January 2005 was understated by USD 4,617 thousand, net of tax effect of USD 1,538 thousand, and retained earnings as at 1 January 2005 were overstated by the same amount. The Bank did not determine the effect of the required restatement of revaluation reserve for fixed assets and retained earnings as at 1 January 2004, as well as on the profit for the year ended 31 December 2004. As such in accordance with International Accounting Standard 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (IAS 8) revaluation reserve for fixed assets and retained earnings as at 1 January 2004 were not restated. In the financial statements as at and for the year ended 31 December 2005 the Bank made this correction through the statement of changes in equity during 2005, whilst the tax effect of such correction of USD 1,538 thousand was posted through the current year income statement, which was not in accordance with IAS 8.

During 9 months to 30 September 2006 the Bank reconsidered the above approach and corrected the balances of revaluation reserve and retained earning as at 1 January 2005. As a result of this correction, the balance of revaluation reserve was increased by USD 4,617 thousand, net of tax effect of USD 1,538 thousand, and retained earnings as at 1 January 2005 were reduced by the same amount; in addition, previously reported profit for 2005 was reduced by USD 1,538 thousand.

The Bank has previously presented currency swap agreements with other banks in the financial statements as at 31 December 2005 on a gross basis as balances due from other banks and due to other banks. After consideration of the specific requirements of International Accounting Standard 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"), current market practice and the nature of these currency swap agreements, the Bank has decided to revise its accounting policy in respect to these types of transactions. The Bank's new accounting policy is to account for these on a net basis as derivatives so as to reflect that in substance these types of transactions represent one instrument. As a result of this revision the corresponding figures as at 31 December 2005 have been amended as follows: balances due from other banks were reduced by USD 58,414 thousand, balances due to other banks were reduced by USD 58,470 thousand, balance of deferred tax liability decreased by USD 8 thousand; the profit for 2005 was increased by USD 64 thousand and the balance of retained earnings was increased by USD 64 thousand.

Where necessary corresponding figures have been adjusted to conform with changes in the presentation of the current year.

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. 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 net present value of estimated cash flows differs by +/-5 percent, the provision as at 30 September 2006 would be approximately USD 545 thousand higher or USD 545 thousand lower (31 December 2005: USD 697 thousand higher or USD 697 thousand lower).

Fair value of buildings. As stated in note 3, buildings of the Bank are subject to the revaluation on a regular basis. Such revaluations are based on the results of work of independent valuers. The basis for their work is sales comparison approach which is further confirmed by income capitalisation approach. When performing revaluation certain judgements and estimates are applied by the valuers in determination of the analogues of buildings to be used in sales comparison approach, the useful life of the assets revalued, capitalisation rate to be applied for the income capitalisation approach. Changes in assumptions about these factors could affect reported fair values.

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

Tax legislation. Ukrainian tax legislation is subject to varying interpretations. Refer to Note 25.

Related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IAS 39 required 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.

5. Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006.

Amendment to IAS 19, 'Actuarial gains and losses, group plans and disclosures', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Bank.

Amendment to IAS 21, 'Net investment in a foreign operation', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Bank.

Amendment to IAS 39, 'Cash flow hedge accounting of forecast intragroup transactions', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Bank.

Amendment to IAS 39 and IFRS 4, 'Financial guarantee contracts', Amendment to IAS 39 and IFRS 4, "Financial guarantee contracts", effective for annual periods beginning on or after 1 January 2006. As a result of this amendment, the Bank measures issued financial guarantees initially at their fair value, which is normally evidenced by the amount of fees received. This amount is then amortised on a straight line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date. This amendment did not have any material impact on the Bank's financial statements.

IFRS 6, 'Exploration for and evaluation of mineral resources', effective for annual periods beginning on or after 1 January 2006. This standard is not relevant for the Bank.

IFRIC 4, 'Determining whether an arrangement contains a lease', effective for annual periods beginning on or after 1 January 2006. The Bank has reviewed its contracts. Those contracts that are required to be accounted for as leases in accordance with IAS 17, 'Leases', are already accounted for by the Bank as leases. As such, this interpretation did not have an impact on the Bank's financial statements.

IFRIC 5, 'Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds', effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant for the Bank.

IFRIC 6, 'Liabilities arising from participating in a specific market – waste electrical and electronic equipment', effective for annual periods beginning on or after 1 December 2005. This interpretation is not relevant for the Bank.

5. Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements (Continued)

IAS 39 (Amendment) – The Fair Value Option. IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ("fair value through profit or loss"). The Fair Value Option Amendment changes the definition of financial instruments "at fair value through profit or loss" and restricts the ability to designate financial instruments as part of this category. The Bank amended its policies and management now designates financial instruments as part of this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Bank's Board of Directors. The Bank applies the amendment retrospectively in accordance with the transitional provisions of the Fair Value Option amendment to IAS 39. This application did not have an impact on the Bank's financial statements.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted by the Bank:

IFRS 7, 'Financial instruments: Disclosures', effective for annual periods beginning on or after 1 January 2007. IAS 1, 'Amendments to capital disclosures', effective for annual periods beginning on or after 1 January 2007. The Bank assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of IAS 1. The Bank will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

IFRS 8, , 'Operating Segments', effective for annual periods beginning on or after 1 January 2009. Management believes that this interpretation should not have a significant impact on the financial statements of the Bank.

IFRIC 7, 'Applying the Restatement Approach under IAS 29', effective for annual periods beginning on or after 1 March 2006. Management do not expect the interpretation to be relevant for the Bank.

IFRIC 8, 'Scope of IFRS 2', effective for annual periods beginning on or after 1 May 2006. Management do not expect the interpretation to be relevant for the Bank.

IFRIC 9, 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1 June 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the Bak already assessed if embedded derivatives should be separated using principles consistent with IFRIC 9.

IFRIC 10, 'Interim Financial Reporting and Impairment', effective for annual periods beginning on or after 1 November 2006. Management believes that this interpretation should not have a significant impact on the financial statements of the Bank.

IFRIC 11, 'IFRS 2 - Group and Treasury Share Transactions', effective for annual periods beginning on or after 1 March 2007. Management believes that this interpretation should not have a significant impact on the financial statements of the Bank.

IFRIC 12, 'Service Concession Arrangements', effective for annual periods beginning on or after 1 January 2008. Management do not expect the interpretation to be relevant for the Bank.

(in thousands of USD as presentation currency - Note 3)

6. Cash and Cash Equivalents

For the purpose of the cash flow statement cash and cash equivalents comprise the following:

	30 September 2006 (unaudited)	31 December 2005
Current accounts and overnight placements with other banks	173,503	49,398
Cash on hand and in transit	15,829	16,105
Current account with the National Bank of Ukraine (other than mandatory reserve balance, Note 7)	11,457	16,671
Total cash and cash equivalents	**200,789**	**82,174**

7. Balances with the National Bank of Ukraine

As at 30 September 2006, the balance on the current account with the National Bank of Ukraine equalled USD 27,011 thousand (31 December 2005: USD 41,555 thousand). In 2006 the mandatory reserve balance is calculated on the basis of a simple average over a monthly period (2005: a simple average over a monthly period) and should be maintained at the level of 2 to 5 per cent (2005: 6 to 8 percent) of certain obligations of the Bank. As such, the balance can vary from day-to-day. As at 30 September 2006 the Bank's mandatory reserve requirement was USD 15,554 thousand (31 December 2005: USD 24,884 thousand).

As at 30 September 2006 the Bank may satisfy its mandatory reserve requirement exclusively with its balance on account with the NBU as well as at 31 December 2005.

As at 31 December 2005 the Bank has USD 515 thousand on the current account with the National Bank of Ukraine pledged as collateral for due to the National Bank of Ukraine in the amount of USD 547 thousand (Note 25).

(in thousands of USD as presentation currency - Note 3)

8. Due from Other Banks

	30September 2006 (unaudited)	31 December 2005 (restated, Note 3)
Current accounts and overnights deposits with other banks		
- OECD countries	159,218	41,194
- Domestic	9,176	5,157
- Non-OECD countries	5,226	3,091
	173,620	**49,442**
Term deposits with other banks		
- Domestic	4,471	36,163
- OECD countries	5,725	29,635
- Non-OECD countries	-	129
Reverse sale and repurchase agreements with other banks		
- Domestic	23,885	37,761
	34,081	**103,688**
Provision for interbank placements	-	(12)
Total due from other banks	**207,701**	**153,118**

Current accounts and overnights deposits with other banks include accrued interest income in the amount of USD 117 thousand (31 December 2005: USD 44 thousand).

As at 30 September 2006, term deposits placed with other banks in OECD and non-OECD countries totalling USD 5,725 thousand (31 December 2005: USD 5,296 thousand) represent funds blocked as collateral for import letters of credit and guarantees issued by the Bank in favour of its clients (Note 25).

As at 30 September 2006 amounts due from other banks of USD 23,885 thousand (31 December 2005: USD 37,761 thousand) are effectively collateralised by securities purchased under reverse sale and repurchase agreements with a fair value of USD 23,635 thousand (31 December 2005: USD 37,624 thousand).

(in thousands of USD as presentation currency - Note 3)

8. Due from Other Banks (Continued)

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

	9 months ended 30 September 2006 (unaudited)	3 months ended 31 December 2005 (unaudited)	9 months ended 30 September 2005 (unaudited)
Balance at beginning of the period	12	57	32
(Recovery of)/provision for impairment of due from other banks during the period	(12)	(45)	25
Provision for impairment of due from other banks at the end of the period	**-**	**12**	**57**

As at 30 September 2006 and 31 December 2005 the Bank did not have balances due from other banks with floating interest rates.

As at 30 September 2006 the estimated fair value of due from other banks was USD 207,701 thousand (31 December 2005: USD 153,118 thousand). Refer to Note 27.

Currency risk analysis of due from other banks is disclosed in Note 24. The effective interest rates and maturity structure of due from other banks is detailed in Note 24.

(in thousands of USD as presentation currency - Note 3)

9. Loans to Customers

	30 September 2006 (unaudited)	31 December 2005
Current commercial loans	591,575	371,435
Loans to employees	1,561	1,489
Non-performing loans	824	1,229
	593,960	**374,153**
Provision for loan impairment	(21,609)	(13,940)
Total loans to customers	**572,351**	**360,213**

Non-performing loans include overdue loans and loans not perfoming in accordance with their contractual terms.

As at 30 September 2006 interest income accrued on impaired loans amounts to USD 236 thousand (31 December 2005: USD 335 thousand).

As at 30 September 2006, the Bank`s 20 largest borrowers, with aggregate loan amounts of USD 236,752 thousand, represent 40% of the loan portfolio (31 December 2005: 20 largest borrowers, with aggregate loan amounts of USD 191,419 thousand, represented 51% of the loan portfolio).

Included in gross loans to customers as at 30 September 2006 are loans of USD 568,459 thousand (31 December 2005: USD 356,598 thousand) with fixed interest rates and loans of USD 25,501 thousand (31 December 2005: USD 17,555 thousand) with floating interest rates.

As at 30 September 2006 loans collateralised by customer deposits with the Bank amounted to USD 16,016 thousand (31 December 2005: USD 2,037 thousand) (Note 14).

(in thousands of USD as presentation currency - Note 3)

9. Loans to Customers (Continued)

Movements in the provision for loan impairment are as follows:

	9 months ended 30 September 2006 (unaudited)	3 months ended 31 December 2005 (unaudited)	9 months ended 30 September 2005 (unaudited)
Provision at beginning of the period	13,940	13,367	10,704
Charge for provision for loan impairment during the period	8,838	575	5,208
Loans written off during the year as uncollectable	(1,196)	-	(2,578)
Exchange rate impact	27	(2)	33
Provision for loan impairment as at the end of the period	**21,609**	**13,940**	**13,367**

Loan portfolio of the Bank by economic sector is as follows:

	30 September 2006 (unaudited)	31 December 2005
Trade and agency services	176,932	68,004
Food industry and agriculture	145,810	80,828
Metallurgy	60,197	54,555
Machine building	55,599	60,301
Individuals	52,801	13,812
Chemical	30,869	35,408
Mining	22,729	13,868
Transport, communication and infrastructure	10,320	19,502
Other	38,703	27,875
Total loans to customers (gross amount)	**593,960**	**374,153**

The Bank's lending activities are conducted in Ukraine. The ability of borrowers to repay their debt is dependent on a number of factors including the overall financial health of the borrower and the Ukrainian economy.

As at 30 September 2006 the estimated fair value of loans to customers was USD 572,351 thousand (31 December 2005: USD 359,901 thousand). Refer to Note 27.

During nine months ended 30 September 2006 a loss on initial recognition of loans at rates below market of USD 347 thousand (nine months ended 30 September 2005: USD 237 thousand) has been recorded in the statement of income.

The currency risk analysis of loans to customers is disclosed in Note 24. The effective interest rates and maturity structure of the loan portfolio is detailed in Note 24. The Bank has several loans to related parties. The information on related party loans is disclosed in Note 26.

(in thousands of USD as presentation currency - Note 3)

10. Investment Securities Available for Sale

	30 September 2006 (unaudited)	31 December 2005
Corporate loan bonds	33,483	-
Promissory notes	-	1,028
Total investment securities available for sale	**33,483**	**1,028**

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

	9 months ended 30 September 2006 (unaudited)	3 months ended 31 December 2005 (unaudited)	9 months ended 30 September 2005 (unaudited)
Carrying amount at beginning of the period	1,028	1,074	7,290
Fair value losses less gains	(113)	-	-
Acquisition of investment securities available for sale	33,596	652	5,919
Disposal of investment securities available for sale	(1,028)	(698)	(10,078)
Transfer to non-current assets held for sale (Note 12)	-	-	(2,524)
Translation to presentation currency	-	-	467
Carrying amount as at the end of the period	**33,483**	**1,028**	**1,074**

The currency risk analysis of investment securities available for sale is disclosed in Note 24. The effective interest rates and maturity structure of investment securities available for sale is detailed in Note 24.

(in thousands of USD as presentation currency - Note 3)

11. Fixed Assets, Investment Property and Intangible Assets

	Buildings	Leasehold improvements	Computers and other equipment	Construction in progress	Total fixed assets	Investment property	Intangible Assets	Total
Cost or valuation								
1 January 2006	47,417	2,318	24,643	-	74,378	2,311	7,257	**83,946**
Additions	3,418	1	4,193	1,088	8,700	-	333	**9,033**
Disposals / write-offs	-	(21)	(556)	-	(577)	-	-	**(577)**
Transfers	135	97	-	(232)	-	-	-	**-**
Revaluation	24,216	-	-	-	24,216	550	-	**24,766**
As at 30 September 2006	**75,186**	**2,395**	**28,280**	**856**	**106,717**	**2,861**	**7,590**	**117,168**
Depreciation and amortisation								
1 January 2006	6,414	1,957	17,004	-	25,375	-	4,067	**29,442**
Charge for the 9 months period (Note 22)	703	173	2,561	-	3,437	-	679	**4,116**
Disposals / write-offs	-	(20)	(479)	-	(499)	-	-	**(499)**
Revaluation	2,627	-	-	-	2,627	-	-	**2,627**
As at 30 September 2006	**9,744**	**2,110**	**19,086**	**-**	**30,940**	**-**	**4,746**	**35,686**
Net book value as at 30 September 2006 (unaudited)	**65,442**	**285**	**9,194**	**856**	**75,777**	**2,861**	**2,844**	**81,482**

(in thousands of USD as presentation currency - Note 3)

11. Fixed Assets, Investment Property and Intangible Assets (Continued)

	Buildings	Leasehold improvements	Computers and other equipment	Construction in progress	Total fixed assets	Investment property	Intangible Assets	Total
Cost or valuation								
1 January 2005	44,134	2,088	21,608	7	67,837	2,442	6,610	**76,889**
Additions	135	-	2,066	5	2,206	-	197	**2,403**
Disposals / write-offs	(4)	(1)	(385)	-	(390)	-	-	**(390)**
Translation to presentation currency	2,143	170	1,689	-	4,002	79	393	**4,474**
30 September 2005	**46,408**	**2,257**	**24,978**	**12**	**73,655**	**2,521**	**7,200**	**83,376**
Depreciation and amortisation								
1 January 2005	5,051	1,586	14,730	-	21,367	-	2,834	**24,201**
Charge for the 9 months period (Note 22)	690	161	2,051	-	2,902	-	756	**3,658**
Disposals / write-offs	(4)	(1)	(362)	-	(367)	-	-	**(367)**
Transfers	-	-	-	-	-	-	-	-
Translation to presentation currency	446	144	1,272	-	1,862	-	190	**2,052**
30 September 2005	**6,183**	**1,890**	**17,691**	**-**	**25,764**	**-**	**3,780**	**29,544**
Net book value at 30 September 2005 (unaudited)	**40,225**	**367**	**7,287**	**12**	**47,891**	**2,521**	**3,420**	**53,832**

(in thousands of USD as presentation currency - Note 3)

11. Fixed Assets, Investment Property and Intangible Assets (Continued)

	Buildings	Leasehold improve-ments	Computers and other equipment	Construc-tion in progress	Total fixed assets	Invest-ment property	Intan-gible Assets	Total
Cost or valuation								
1 October 2005	46,408	2,257	24,978	12	73,655	2,521	7,200	83,376
Additions	-	-	1,207	1,140	2,347	-	59	2,406
Disposals / write-offs	(292)	-	(1,542)	-	(1,834)	-	(2)	(1,836)
Transfers	1,301	61	-	(1,152)	210	(210)	-	-
As at 31 December 2005	**47,417**	**2,318**	**24,643**	**-**	**74,378**	**2,311**	**7,257**	**83,946**
Depreciation and amortisation								
1 October 2005	6,183	1,890	17,691	-	25,764	-	3,780	29,544
Charge for 3 months period	274	67	847	-	1,188	-	289	1,477
Disposals / write-offs	(43)	-	(1,534)	-	(1,577)	-	(2)	(1,579)
As at 31 December 2005	**6,414**	**1,957**	**17,004**	**-**	**25,375**	**-**	**4,067**	**29,442**
Net book value at 31 December 2005	**41,003**	**361**	**7,639**	**-**	**49,003**	**2,311**	**3,190**	**54,504**

As at 30 September 2006, the cost of fully depreciated assets still in use by the Bank totalled USD 15,786 thousand (31 December 2005: USD 13,824 thousand).

As at 30 September 2006 the Bank's main office, furniture, equipment and ATMs, with a net book value of USD 52,206 thousand (31 December 2005: USD 50,402 thousand), are insured against risks of natural disasters, robbery, fire and unlawful acts of third parties.

Construction in progress consists mainly of construction and refurbishment of the premises. Upon completion, assets are transferred to buildings and leasehold improvements.

11. Fixed Assets, Investment Property and Intangible Assets (Continued)

The rental income received in respect of investment property for nine months ended 30 September 2006 amounted to USD 315 thousand (nine months ended 30 September 2005: USD 288 thousand) (Note 21). The operating and maintenance expenses related to investment property for nine months ended 30 September 2006 total USD 21 thousand (nine months ended 30 September 2005: USD 27 thousand).

Buildings and investment property were independently valued in November 2006 as at the date of these financial statements. The valuation was carried out by independent valuers. The basis used for the appraisal was based on sales comparison approach. This approach was confirmed by income capitalisation approach. Included in the above net book value of premises is USD 21,589 thousand representing revaluation surplus relating to buildings and USD 550 thousand of revaluation surplus relating to investment property of the Bank calculated as at 30 September 2006. The deferred tax liability in the amount of USD 5,397 thousand calculated with respect to the revaluation of premises has been recorded directly to equity. As at 30 September 2006 the carrying amount of buildings would have been USD 24,737 thousand (31 December 2005: USD 21,569 thousand) and the carrying amount of investment property would have been USD 1,080 thousand (31 December 2005: USD 1,080 thousand) had the assets been carried at cost, restated to the equivalent purchasing power of the Ukrainian hryvnia at 31 December 2000, less accumulated depreciation.

The resulting fair value gain of investment property in the amount of USD 550 thousand was recorded in the income statement (Note 21).

12. Non-current Assets Held for Sale

As at 31 December 2005 the carrying value of non-current assets held for sale was USD 725 thousand. The stated assets comprised corporate shares, which represent the Bank's equity stake in a Ukrainian company which was acquired from a debt settlement. The Bank received equity in a newly established entity, which was created from a non-performing borrower of the Bank. All assets of the borrower were transferred to the newly established entity. In order to substantially settle the loan outstanding, the Bank received 80% of the share capital of the newly established entity. Subsequently, the Bank signed an agreement with a Ukrainian company, according to which the latter undertakes to purchase the Bank's stake in the newly established entity by installments over a two-year period. For these equity securities fair value cannot be reliably determined, and they are carried at cost less impairment. For the purposes of assessment of impairment of those equity securities for which fair value cannot be reliably determined, the Bank has considered cash flows from the sale of securities discounted at market interest rate.

As at the year-end 2005 the Bank's shareholding amounted to 43% of the share capital in the newly established entity. During 2006 the Bank sold the non-current assets held for sale for USD 500 thousand. As a result of this transaction the Bank recorded a loss of USD 225 thousand.

(in thousands of USD as presentation currency - Note 3)

13. Due to Other Banks

	30 September 2006 (unaudited)	31 December 2005 (restated, Note 3)
Current accounts of other banks		
- Domestic	15,563	13,610
- OECD countries	3,414	2,583
- Non-OECD countries	372	38
	19,349	**16,231**
Term deposits of other banks		
- Domestic	31,772	36,965
- Non-OECD countries	-	104
	31,772	**37,069**
Total due to other banks	**51,121**	**53,300**

As at 30 September 2006 included in term deposits of other banks are USD 66 thousand (31 December 2005: 128 thousand) held as collateral for commitments under import letters of credit and guarantees (Note 25).

As at 30 September 2006 and 31 December 2005 the Bank did not have balances due to other banks with floating interest rates.

As at 30 September 2006 the estimated fair value of due to other banks was USD 51,121 thousand (31 December 2005: USD 53,300 thousand). Refer to Note 27.

The currency risk analysis of due to other banks is disclosed in Note 24. The effective interest rates and maturity structure of due to other banks is detailed in Note 24. The information on related party balances is disclosed in Note 26.

(in thousands of USD as presentation currency - Note 3)

14. Customer Accounts

	30 September 2006 (unaudited)	31 December 2005
Legal entities		
- Current accounts	191,282	109,839
- Term deposits	99,769	138,730
Individuals		
- Current accounts	66,523	50,110
- Term deposits	107,990	81,850
Total customer accounts	**465,564**	**380,529**

As at 30 September 2006, the Bank`s largest 10 customers, with the aggregate amount of deposits of USD 193,464 thousand, represent 42% of customer accounts (31 December 2005: largest 10 customers, with the aggregate amount of deposits of USD 169,591 thousand, represented 45% of customer accounts).

As at 30 September 2006, included in customer accounts are deposits of USD 35,108 thousand (31 December 2005: USD 10,302 thousand) held as collateral for loans to customers in the amount of USD 16,016 thousand (31 December 2005: USD 2,037 thousand) (Note 9) and loan commitments in the amount of USD 4,805 thousand (31 December 2005: USD 2,266 thousand). In addition, the amount of USD 9,202 thousand (31 December 2005: USD 8,072 thousand) held as collateral for commitments under import letters of credit, guarantees and promissory notes endorsements (Note 25).

Economic sector concentrations within customer accounts are as follows:

	30 September 2006 (unaudited)	31 December 2005
Individuals	174,513	131,960
Metallurgy	70,339	56,449
Mining and energy	54,663	6,119
Chemical	43,860	37,127
Non-banking financial institutions	32,520	37,569
Trade and agency services	30,649	43,598
Transport and infrastructure	12,078	13,729
Machine-building	11,693	21,571
Agriculture and food	5,139	5,063
Non-commercial institutions	1,360	1,384
Other	28,750	25,960
Total customer accounts	**465,564**	**380,529**

14. Customer Accounts (Continued)

As at 30 September 2006 and 31 December 2005 the Bank did not have customer accounts with floating interest rates.

As at 30 September 2006 the estimated fair value of customer accounts was USD 465,564 thousand (31 December 2005: USD 380,364 thousand). Refer to Note 27.

The currency risk analysis of customer accounts is disclosed in Note 24. The effective interest rates and maturity structure of the customer accounts is detailed in Note 24. The Bank has several customer accounts from related parties. The information on related party customer accounts is disclosed in Note 26.

(in thousands of USD as presentation currency - Note 3)

15. Other Borrowed Funds

	30 September 2006 (unaudited)	31 December 2005
Cargill Financial Services International, Inc.	98,648	40,878
Bank Austria Credianstalt AG	54,951	-
Standard Bank London Limited	41,003	39,676
LB INTERFINANZ AG	11,809	5,881
Black Sea Trade and Development Bank	10,800	10,109
Other facilities	14,513	9,248
Total other borrowed funds	**231,724**	**105,792**

Loans from Cargill Financial Services International are denominated in USD and bear interest at a weighted average rate 9 % per annum on the outstanding amount with maturity from 13 November 2006 to 10 September 2007.

Loans from Standard Bank London Limited are denominated in USD and bear interest of Libor + 3.5 % per annum on the outstanding amount with maturity of 6 December 2006.

Loans from Black Sea Trade and Development Bank are denominated in USD and bear interest of Libor + 4 % per annum on the outstanding amount with maturity of 25 October 2006.

Loans from LB INTERFINANZ AG are denominated in EUR and USD and bear interest at a weighted average rate 6.5 % (for EUR) and 8.9 % (for USD) per annum on the outstanding amount with maturity from 29 December 2006 to 01 March 2009. The loans were received for the purpose of financing purchase of import equipment by the Bank's customers.

Loans from Bank Austria Credianstalt AG are denominated in USD and bear interest of Libor + 2.9 % per annum on the outstanding amount with maturity of 24 August 2007.

Included in other facilities there is an amount of USD 11,700 thousand, which represents funds received from other banks in respect of purposes of financing the purchase of import equipment by the Bank's customers. These facilities are denominated in USD, EUR and CHF and bear interest at a weighted average rate of 6.7 % per annum on the outstanding amount with maturity from 19 January 2006 to 29 December 2008.

At 30 September 2006 the estimated fair value of other borrowed funds was USD 231,668 thousand (31 December 2005: USD 105,792 thousand). Refer to Note 27.

The currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 24.

(in thousands of USD as presentation currency - Note 3)

16. Other Liabilities and Current Income Tax Liability

	30 September 2006 (unaudited)	31 December 2005
Current income tax liability	2,093	508
Software costs payable under licencing agreements	1,439	1,658
Provision for credit related commitments (Note 25)	1,107	617
Other amounts payable to employees	794	353
Payable under operations with plastic cards	521	497
Other taxes payable	259	220
Provision for tax liability	117	-
Other accruals and deferred income	844	637
Total other liabilities and current income tax liability	**7,174**	**4,490**

The currency and maturity analyses of other liabilities and current income tax liability are disclosed in Note 24. The information on related party balances is disclosed in Note 26.

17. Share Capital

Authorised, issued and fully paid statutory capital comprises 1,417,400 shares. All ordinary shares have a nominal value of UAH 230 (USD equivalent 45.54 at the year end exchange rate) per share, rank equally and each share carries one vote.

	30 September 2006 (unaudited)			31 December 2005		
	Number of shares	Nominal amount	Inflation adjusted amount	Number of shares	Nominal amount	Inflation adjusted amount
Ordinary shares	1,417,400	64,555	90,864	100,000	4,554	30,864
Total share capital	**1,417,400**	**64,555**	**90,864**	**100,000**	**4,554**	**30,864**

In September 2006, following the increase of the Bank's share capital, the National Bank of Ukraine registered the new version of the Bank's Charter. On 4 October 2006 the new share issue was registered by State Securities and Stock Exchange Commission. During 2006 the Bank issued 1,317,400 shares for the amount of USD 60,000 thousand (equivalent UAH 303,002 thousand).

18. Segment Analysis

The Bank's primary format for reporting segment information is business segments. The Bank is organised on a basis of three main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Investment banking and Treasury– representing financial instruments trading, structured financing, corporate leasing, merger and acquisitions advice.

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 thousands of USD as presentation currency - Note 3)

18. Segment Analysis (Continued)

Segment information for the main reportable business segments of the Bank as at 30 September 2006 is set out below:

(Unaudited)	Retail banking	Corporate banking	Investment banking and Treasury	Unallocated	Total
Assets					
Other segment assets	79,272	590,453	250,546	-	920,271
Other unallocated assets	-	-	-	25,174	25,174
Total assets	**79,272**	**590,453**	**250,546**	**25,174**	**945,445**
Liabilities					
Other segment liabilities	175,138	416,307	160,653	-	752,098
Current and deferred tax liabilities	-	-	-	11,103	11,103
Other unallocated liabilities	-	-	-	2,713	2,713
Total liabilities	**175,138**	**416,307**	**160,653**	**13,816**	**765,914**
Other segment items					
Capital expenditure	3,792	5,177	64	-	9,033
Provision for loan impairment	(1,543)	(7,295)	12	-	(8,826)
Depreciation and amortisation expense	(614)	(2,429)	(71)	(1,002)	(4,116)

(in thousands of USD as presentation currency - Note 3)

18. Segment Analysis (Continued)

Segment information for the main reportable business segments of the Bank for the nine months ended 30 September 2006 is set out below:

(Unaudited)	Retail banking	Corporate banking	Investment banking and Treasury	Unallocated	Eliminations	Total
External revenues	7,722	51,501	12,128	3,950	-	75,301
Revenues from other segments	8,359	-	-	9,613	(17,972)	-
Total revenues	**16,081**	**51,501**	**12,128**	**13,563**	**(17,972)**	**75,301**
Total revenues comprise:						
- Interest income	11,131	44,959	10,602	9,613	(17,972)	58,333
- Fee and commission income	4,884	6,531	1,526	2,993	-	15,934
- Other income	66	11	-	957	-	1,034
Total revenues	**16,081**	**51,501**	**12,128**	**13,563**	**(17,972)**	**75,301**
Segment result	3,239	9,541	1,508	(1,607)	-	12,681
Income tax expense	-	-	-	-	-	(4,283)
Profit	-	-	-	-	-	**8,398**

(in thousands of USD as presentation currency - Note 3)

18. Segment Analysis (Continued)

Segment information for the main reportable business segments of the Bank as at 31 December 2005 is set out below:

	Retail banking	Corporate banking	Investment banking and Treasury	Unallocated	Total
Assets					
Non-current assets (or disposal groups) held for sale	-	-	-	725	**725**
Other segment assets	39,111	405,767	182,272	-	**627,150**
Other unallocated assets	-	-	-	19,269	**19,269**
Total assets	**39,111**	**405,767**	**182,272**	**19,994**	**647,144**
Liabilities					
Other segment liabilities	131,960	307,900	103,503	-	**543,363**
Current and deferred tax liabilities	-	-	-	4,859	**4,859**
Other unallocated liabilities	-	-	-	3,983	**3,983**
Total liabilities	**131,960**	**307,900**	**103,503**	**8,842**	**552,205**
For nine months 2005 (unaudited)					
Other segment items					
Capital expenditure	567	961	418	457	**2,403**
Provision for loan impairment	(297)	(4,911)	(25)	-	**(5,233)**
Depreciation and amortisation expense	(457)	(1,904)	(50)	(1,247)	**(3,658)**

(in thousands of USD as presentation currency - Note 3)

18. Segment Analysis (Continued)

Segment information for the main reportable business segments of the Bank for the nine months ended 30 September 2005 is set out below:

(Unaudited)	Retail banking	Corporate banking	Investment banking and Treasury	Unalloca-ted	Elimina-tions	Total
External revenues	4,049	28,944	6,646	2,327	-	**41,966**
Revenues from other segments	5,406	-	-	5,442	(10,848)	-
Total revenues	**9,455**	**28,944**	**6,646**	**7,769**	**(10,848)**	**41,966**
Total revenues comprise:						
- Interest income	5,746	21,892	5,064	5,442	(10,848)	**27,296**
- Fee and commission income	3,567	6,834	1,582	1,869	-	**13,852**
- Other income	142	218	-	458	-	**818**
Total revenues	**9,455**	**28,944**	**6,646**	**7,769**	**(10,848)**	**41,966**
Segment result	1,492	8,489	650	(3,580)	-	**7,051**
Income tax expense	-	-	-	-	-	**(2,375)**
Profit	-	-	-	-	-	**4,676**

(in thousands of USD as presentation currency - Note 3)

18. Segment Analysis (Continued)

Geographical segments. Segment information for the main geographical segments of the Bank is set out below as at 30 September 2006 and as at 31 December 2005.

	Ukraine	OECD	Non-OECD	Total
2006 (unaudited)				
Other segment assets	774,825	165,394	5,226	945,445
Total segment assets	**774,825**	**165,394**	**5,226**	**945,445**
External revenues	73,228	2,021	52	75,301
Capital expenditure	9,033	-	-	9,033
Credit related commitments	201,921	36	180	202,137
2005				
Non-current assets held for sale	725	-	-	725
Other segment assets	572,370	70,829	3,220	646,419
Total segment assets	**573,095**	**70,829**	**3,220**	**647,144**
Credit related commitments	129,124	734	500	130,358
For nine months 2005 (unaudited)				
External revenues	40,843	1,103	20	41,966
Capital expenditure	2,403	-	-	2,403

External revenues and assets, other than as detailed below, and credit related commitments have generally been allocated based on domicile of the counterparty. Cash on hand and premises and equipment and capital expenditure have been allocated based on the country in which they are physically held.

(in thousands of USD as presentation currency - Note 3)

19. Interest Income and Expense

	Nine months ended 30 September (unaudited)	
	2006	**2005**
Interest income		
Loans to customers		
- legal entities	44,682	21,628
- individuals	2,771	341
Due from other banks	6,826	4,059
Securities	4,054	1,268
Total interest income	**58,333**	**27,296**
Interest expense		
Individuals		
- term deposits	(6,527)	(4,389)
- current accounts	(466)	(292)
Legal entities		
- term deposits	(6,605)	(2,956)
- current accounts	(1,441)	(952)
Due to the National Bank of Ukraine and other banks	(3,460)	(1,226)
Other borrowed funds	(10,242)	(1,393)
Certificates of deposit issued	(218)	(179)
Total interest expense	**(28,959)**	**(11,387)**
Net interest income	**29,374**	**15,909**

Information on interest income and expenses from transactions with related parties is disclosed in Note 26.

(in thousands of USD as presentation currency - Note 3)

20. Fee and Commission Income and Expense

	Nine months ended 30 September (unaudited)	
	2006	**2005**
Payment cards	8,373	6,027
Foreign currency exchange	2,595	2,588
Payments	1,818	1,760
Documentary operations	1,332	1,966
Cash deposits and withdrawals	835	861
Other	981	650
Fee and commission income	**15,934**	**13,852**
Payment cards	(3,190)	(2,075)
Cash collections	(397)	(278)
Reuters	(267)	(253)
Payments	(237)	(232)
Documentary operations	(69)	(389)
Other	(63)	(13)
Fee and commission expense	**(4,223)**	**(3,240)**
Net fee and commission income	**11,711**	**10,612**

Information on fee and commission income and expenses from transactions with related parties is disclosed in Note 26.

(in thousands of USD as presentation currency - Note 3)

21. Other Income

	Nine months ended 30 September (unaudited)	
	2006	**2005**
Rental income (Note 11)	315	288
Income from revaluation of investment property (Note 11)	550	-
Income from disposal of fixed assets	10	59
Other	159	471
Total other income	**1,034**	**818**

22. Operating Expenses

	Nine months ended 30 September (unaudited)	
	2006	**2005**
Salary, employee benefits and compulsory contributions to the State funds	9,724	7,225
Depreciation and amortisation (Note 11)	4,116	3,658
Maintenance of premises and equipment	2,275	1,836
State duties and taxes, other than on income	1,010	694
Lease of premises	886	584
Communication	771	653
Advertising, entertainment, representative offices maintenance	693	406
Audit, legal, consulting services	627	453
Security services	560	718
Training	190	171
Charitable contributions	105	40
Other	944	595
Total operating expenses	**21,901**	**17,033**

Included in salary, employee benefits and compulsory contributions to State funds are statutory social security and pension contributions of USD 2,266 thousand (2005: USD 1,726 thousand). Pension contributions are made into State pension fund which is defined contribution plan.

Information on operating expenses resulting from transactions with related parties is disclosed in Note 26.

(in thousands of USD as presentation currency - Note 3)

23. Income Taxes

Income tax expense was comprised of the following:

	Nine months ended 30 September (unaudited)	
	2006	**2005**
Current tax charge	4,906	2,633
Deferred taxation movement due to:		
- Origination and reversal of temporary differences	(623)	(258)
Income tax expense for the year	**4,283**	**2,375**

The income tax rate applicable to the Bank's income is 25 percent (2005: 25 percent). A reconciliation between the expected and the actual taxation charge is provided below:

	Nine months ended 30 September (unaudited)	
	2006	**2005**
IFRS profit before taxation	**12,681**	**7,051**
Theoretical tax charge at the applicable statutory rate	3,170	1,763
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income assessable for tax purposes only	19	93
- Income which is exempt from taxation	-	(70)
- Non deductible expenses	1,233	448
- Expenses deductible for tax purposes only	(70)	(139)
- Other non temporary differences	(69)	280
Income tax expense for the year	**4,283**	**2,375**

(in thousands of USD as presentation currency - Note 3)

23. Income Taxes (Continued)

Differences between IFRS and Ukrainian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is recorded at the rate of 25% (2005: 25%).

	31 December 2005	Credited to statement of changes in equity	Credited/ (charged) to statement of income	30 September 2006 (unaudited)
Tax effect of deductible and taxable temporary differences				
Provision for loan impairment and credit related commitments	462	-	1,109	1,571
Provision for non-current assets held for sale	889	-	(889)	-
Fair value of securities	(213)	29	213	29
Fixed assets	(5,702)	(5,311)	(360)	(11,373)
Accrued interest and commission income	406	-	24	430
Accrued interest and commission expense	41	-	716	757
Other	(234)	-	(190)	(424)
Net deferred tax liability	(4,351)	(5,282)	623	(9,010)

(in thousands of USD as presentation currency - Note 3)

23. Income Taxes (Continued)

	31 December 2004	Credited to statement of changes in equity	Credited/ (charged) to statement of income	30 September 2005 (unaudited)
Tax effect of deductible and taxable temporary differences				
Provision for loan impairment and credit related commitments	(214)	-	570	356
Provision for non-current assets held for sale	679	-	34	713
Fair value of securities	(90)	-	(39)	(129)
Fixed assets	(5,210)	(118)	(310)	(5,638)
Accrued interest and commission income	440	-	18	458
Accrued interest and commission expense	-	-	(36)	(36)
Other	(363)	-	21	(342)
Net deferred tax liability	(4,758)	(118)	258	(4,618)

(in thousands of USD as presentation currency - Note 3)

23. Income Taxes (Continued)

	30 September 2005 (unaudited)	Credited to statement of changes in equity	Credited/ (charged) to statement of income	31 December 2005
Tax effect of deductible and taxable temporary differences				
Provision for loan impairment and credit related commitments	356	-	106	462
Provision for non-current assets held for sale	713	-	176	889
Fair value of securities	(129)	-	(84)	(213)
Fixed assets	(5,638)	13	(77)	(5,702)
Accrued interest and commission income	458	-	(52)	406
Accrued interest and commission expense	(36)	-	77	41
Other	(342)	-	108	(234)
Net deferred tax liability	(4,618)	13	254	(4,351)

24. Financial Risk Management

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

Credit risk. The Bank takes on exposure to credit risk which is the risk, that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and subject to a regular review. Limits on the level of credit risk by borrower are approved regularly by the Credit Council and Credit Committee of the Bank.

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

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

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

(in thousands of USD as presentation currency - Note 3)

24. Financial Risk Management (Continued)

Currency risk and concentrations. The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Asset and 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. Distribution of assets and liabilities by currencies as at 30 September 2006 and net currency positions as at 30 September 2006 and 31 December 2005 are presented below:

As at 30 September 2006	USD	UAH	EUR	Other	Total
Assets					
Cash on hand and in transit	2,769	11,008	1,867	185	**15,829**
Balances with the National Bank of Ukraine	-	27,011	-	-	**27,011**
Due from other banks	132,751	27,863	23,133	23,954	**207,701**
Loans to customers	318,000	226,095	28,256	-	**572,351**
Investment securities available for sale	-	33,483	-	-	**33,483**
Other assets	1,014	6,134	15	425	**7,588**
Fixed assets	-	75,777	-	-	**75,777**
Investment property	-	2,861	-	-	**2,861**
Intangible assets	-	2,844	-	-	**2,844**
Total assets	**454,534**	**413,076**	**53,271**	**24,564**	**945,445**
Liabilities					
Due to other banks	4,338	46,735	48	-	**51,121**
Customer accounts	275,401	151,383	35,483	3,297	**465,564**
Certificates of deposit issued	790	377	154	-	**1,321**
Other borrowed funds	217,665	-	13,377	682	**231,724**
Current income tax liability	-	2,093	-	-	**2,093**
Other liabilities	1,122	2,254	644	1,061	**5,081**
Deferred tax liability	-	9,010	-	-	**9,010**
Total liabilities	**499,316**	**211,852**	**49,706**	**5,040**	**765,914**
Net balance sheet position as at 30 September 2006	**(44,782)**	**201,224**	**3,565**	**19,524**	**179,531**
Outstanding spot foreign exchange contracts (Note 25)	2,670	-	13,730	(16,397)	**3**
Total net position as at 30 September 2006	**(42,112)**	**201,224**	**17,295**	**3,127**	**179,534**

(in thousands of USD as presentation currency - Note 3)

24. Financial Risk Management (Continued)

Balance sheet position as at 30 September 2006 in other currencies comprise, predominantly, amounts in British Pounds. Outstanding other foreign exchange contracts as at 30 September 2006 in other currencies comprise, predominantly, amounts in British Pounds, Japanese Yen.

31 December 2005	USD	UAH	EUR	Other	Total
Assets					
Cash on hand and in transit	2,602	12,464	938	101	**16,105**
Balances with the National Bank of Ukraine	-	41,555	-	-	**41,555**
Securities at fair value through profit or loss	-	16,102	-	-	**16,102**
Due from other banks	70,703	56,679	20,833	4,903	**153,118**
Loans to customers	228,657	115,711	15,500	345	**360,213**
Investment securities available for sale	-	1,028	-	-	**1,028**
Investment securities held to maturity	-	549	-	-	**549**
Other assets	501	2,552	7	185	**3,245**
Fixed assets	-	49,003	-	-	**49,003**
Investment property	-	2,311	-	-	**2,311**
Intangible assets	-	3,190	-	-	**3,190**
Non-current assets held for sale	-	725	-	-	**725**
Total assets	**302,463**	**301,869**	**37,278**	**5,534**	**647,144**
Liabilities					
Due to the National Bank of Ukraine	-	547	-	-	**547**
Due to other banks	12,307	36,384	4,609	-	**53,300**
Customer accounts	183,748	174,323	19,136	3,322	**380,529**
Certificates of deposit issued	360	2,090	746	-	**3,196**
Other borrowed funds	98,680	-	6,475	637	**105,792**
Current income tax liability	-	508	-	-	**508**
Other liabilities	1,248	1,571	42	1,121	**3,982**
Deferred tax liability	-	4,351	-	-	**4,351**
Total liabilities	**296,343**	**219,774**	**31,008**	**5,080**	**552,205**
Net balance sheet position at 31 December 2005	**6,120**	**82,095**	**6,270**	**454**	**94,939**
Outstanding spot foreign exchange contracts (Note 25)	23,169	-	(23,058)	-	111
Total net position at 31 December 2005	**29,289**	**82,095**	**(16,788)**	**454**	**95,050**

(in thousands of USD as presentation currency - Note 3)

24. Financial Risk Management (Continued)

Balance sheet position at 31 December 2005 in other currencies comprise, predominantly, amounts in Russian Roubles.

Gross distribution of off-balance sheet credit related commitments by currencies as at 30 September 2006 are presented below (Note 25):

	USD	UAH	EUR	Other currencies	Total
Loan commitments	65,522	35,419	2,544	-	**103,485**
Non-cash covered confirmed export letters of credit	180	-	-	-	**180**
Non-cash covered import letters of credit	6,658	-	10,855	404	**17,917**
Non-cash covered import guarantees and promissory note endorsements	30,223	31,664	13,350	5,318	**80,555**
Total off-balance sheet credit related commitments	**102,583**	**67,083**	**26,749**	**5,722**	**202,137**

Gross distribution of off-balance sheet credit related commitments by currencies at 31 December 2005 are presented below (Note 25):

	USD	UAH	EUR	Other currencies	Total
Loan commitments	42,546	22,492	3,300	-	**68,338**
Non-cash covered confirmed export letters of credit	1,200	-	-	-	**1,200**
Non-cash covered import letters of credit	3,704	-	3,791	-	**7,495**
Non-cash covered import guarantees and promissory note endorsements	18,676	25,819	5,785	3,045	**53,325**
Total off-balance sheet credit related commitments	**66,126**	**48,311**	**12,876**	**3,045**	**130,358**

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term deposits at fixed interest rates.

(in thousands of USD as presentation currency - Note 3)

24. Financial Risk Management (Continued)

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

As at 30 September 2006	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Non-interest bearing	Total
Assets							
Cash on hand and in transit	15,829	-	-	-	-	-	**15,829**
Balances with the National Bank of Ukraine	27,011	-	-	-	-	-	**27,011**
Due from other banks	198,973	8,728	-	-	-	-	**207,701**
Loans to customers	44,284	62,221	87,147	148,088	230,611	-	**572,351**
Investment securities available for sale	2,447	5,717	6,075	19,244	-	-	**33,483**
Other assets	-	-	-	-	-	7,588	**7,588**
Fixed assets	-	-	-	-	-	75,777	**75,777**
Investment property	-	-	-	-	-	2,861	**2,861**
Intangible assets	-	-	-	-	-	2,844	**2,844**
Total assets	**288,544**	**76,666**	**93,222**	**167,332**	**230,611**	**89,070**	**945,445**
Liabilities							
Due to other banks	51,084	37	-	-	-	-	**51,121**
Customer accounts	305,889	62,539	35,668	49,708	11,760	-	**465,564**
Certificates of deposit issued	750	90	258	223	-	-	**1,321**
Other borrowed funds	19,919	109,026	67,172	30,210	5,397	-	**231,724**
Current income tax liability	-	-	-	-	-	2,093	**2,093**
Other liabilities	-	-	-	-	-	5,081	**5,081**
Deferred tax liability	-	-	-	-	-	9,010	**9,010**
Total liabilities	**377,642**	**171,692**	**103,098**	**80,141**	**17,157**	**16,184**	**765,914**
Repricing gap	**(89,098)**	**(95,026)**	**(9,876)**	**87,191**	**213,454**	**72,886**	**179,531**
Cumulative gap as at 30 September 2006	**(84,098)**	**(184,124)**	**(194,000)**	**(106,809)**	**106,645**	**179,531**	**-**

(in thousands of USD as presentation currency - Note 3)

24. Financial Risk Management (Continued)

31 December 2005	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Non-interest bearing	Total
Assets							
Cash on hand and in transit	16,105	-	-	-	-	-	**16,105**
Balances with the National Bank of Ukraine	41,555	-	-	-	-	-	**41,555**
Securities at fair value through profit or loss	-	-	4,769	11,333	-	-	**16,102**
Due from other banks	130,528	17,465	2,764	1,174	1,187	-	**153,118**
Loans to customers	14,653	30,647	53,592	134,719	126,602	-	**360,213**
Investment securities available for sale	189	113	402	244	80	-	**1,028**
Investment securities held to maturity	103	202	244	-	-	-	**549**
Other assets	-	-	-	-	-	3,245	**3,245**
Fixed assets	-	-	-	-	-	49,003	**49,003**
Investment property	-	-	-	-	-	2,311	**2,311**
Intangible assets	-	-	-	-	-	3,190	**3,190**
Non-current assets held for sale	-	-	-	-	-	725	**725**
Total assets	**203,133**	**48,427**	**61,771**	**147,470**	**127,869**	**58,474**	**647,144**
Liabilities							
Due to the National Bank of Ukraine	101	202	244	-	-	-	**547**
Due to other banks	53,243	-	32	25	-	-	**53,300**
Customer accounts	194,437	85,591	41,136	55,135	4,230	-	**380,529**
Certificates of deposit issued	1,559	1,282	221	134	-	-	**3,196**
Other borrowed funds	1,632	48,181	9,472	46,119	388	-	**105,792**
Current income tax liability	-	-	-	-	-	508	**508**
Other liabilities	-	-	-	-	-	3,982	**3,982**
Deferred tax liability	-	-	-	-	-	4,351	**4,351**
Total liabilities	**250,972**	**135,256**	**51,105**	**101,413**	**4,618**	**8,841**	**552,205**
Repricing gap	**(47,839)**	**(86,829)**	**10,666**	**46,057**	**123,251**	**49,633**	**94,939**
Cumulative gap at 31 December 2005	**(47,839)**	**(134,668)**	**(124,002)**	**(77,945)**	**45,306**	**94,939**	**-**

(in thousands of USD as presentation currency - Note 3)

24. Financial Risk Management (Continued)

The table below summarises effective interest rates, by major currencies and for major interest-earning and interest-bearing financial instruments. The analysis has been prepared based on period-end average-weighted rates used for amortisation of the respective assets/liabilities.

	As at 30 September 2006 (%) (unaudited)			31 December 2005 (%)		
	USD	UAH	EUR	USD	UAH	EUR
Current accounts and overnights deposits with other banks	0.10	-	0.73	1.47	-	0.44
Term deposits with other banks	5.10	7.90	3.10	4.45	7.66	2.11
Amount receivable under reverse repurchase agreements	-	9.40	-	-	11.02	-
Investment securities available for sale	-	12.33	-	-	14.30	-
Promissory notes	-	-	-	-	15.99	-
Loans to customers	11.23	16.04	10.71	11.05	15.46	11.06
Investment securities held to maturity	-	-	-	-	12.00	-
Due to the National Bank of Ukraine	-	-	-	-	7.00	-
Current accounts of other banks	0.04	0.30	-	0.02	0.46	-
Term deposits from other banks	-	5.71	-	4.00	6.19	2.06
Current accounts of customers	3.20	2.04	0.11	0.89	1.93	0.42
Term deposits from customers	8.57	11.44	7.31	8.25	10.25	8.03
Certificates of deposit issued	8.50	10.85	7.37	7.44	8.92	8.11
Other borrowed funds	8.54	-	6.15	7.97	-	5.94

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and guarantees. 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 and Liability Committee of the Bank.

(in thousands of USD as presentation currency - Note 3)

24. Financial Risk Management (Continued)

The table below shows assets and liabilities as at 30 September 2006 by their remaining contractual maturity, unless there is evidence that any of these assets are impaired and will be settled after or prior their contractual maturity dates, in which case the expected date of settlement is used.

As at 30 September 2006	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	No stated maturity	Total
Assets							
Cash on hand and in transit	15,829	-	-	-	-	-	15,829
Balances with the National Bank of Ukraine	27,011	-	-	-	-	-	27,011
Due from other banks	198,973	8,728	-	-	-	-	207,701
Loans to customers	44,284	62,221	83,970	143,343	238,533	-	572,351
Investment securities available for sale	2,447	5,717	6,075	19,244	-	-	33,483
Other assets	6,962	626	-	-	-	-	7,588
Fixed assets	-	-	-	-	-	75,777	75,777
Investment property	-	-	-	-	-	2,861	2,861
Intangible assets	-	-	-	-	-	2,844	2,844
Total assets	**295,506**	**77,292**	**90,045**	**162,587**	**238,533**	**81,482**	**945,445**
Liabilities							
Due to other banks	51,084	37	-	-	-	-	51,121
Customer accounts	305,889	62,539	35,668	49,708	11,760	-	465,564
Certificates of deposit issued	750	90	258	223	-	-	1,321
Other borrowed funds	19,919	54,026	67,172	82,900	7,707	-	231,724
Current income tax liability	-	2,093	-	-	-	-	2,093
Other liabilities	3,648	-	-	-	1,433	-	5,081
Deferred tax liability	-	-	-	-	-	9,010	9,010
Total liabilities	**381,290**	**118,785**	**103,098**	**132,831**	**20,900**	**9,010**	**765,914**
Liquidity gap	**(85,784)**	**(41,493)**	**(13,053)**	**29,756**	**217,633**	**72,472**	**179,531**
Cumulative gap as at 30 September 2006	**(80,784)**	**(127,277)**	**(140,330)**	**(110,574)**	**107,059**	**179,531**	**-**

(in thousands of USD as presentation currency - Note 3)

24. Financial Risk Management (Continued)

31 December 2005	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	No stated maturity	Total
Assets							
Cash on hand and in transit	16,105	-	-	-	-	-	**16,105**
Balances with the National Bank of Ukraine	41,555	-	-	-	-	-	**41,555**
Securities at fair value through profit or loss	-	-	4,769	11,333	-	-	**16,102**
Due from other banks	130,528	17,465	2,764	1,174	1,187	-	**153,118**
Loans to customers	14,653	30,647	53,592	134,719	126,602	-	**360,213**
Investment securities available for sale	189	113	402	244	80	-	**1,028**
Investment securities held to maturity	103	202	244	-	-	-	**549**
Other assets	3,245	-	-	-	-	-	**3,245**
Fixed assets	-	-	-	-	-	49,003	**49,003**
Investment property	-	-	-	-	-	2,311	**2,311**
Intangible assets	-	-	-	-	-	3,190	**3,190**
Non-current assets held for sale	-	-	-	725	-	-	**725**
Total assets	**206,378**	**48,427**	**61,771**	**148,195**	**127,869**	**54,504**	**647,144**
Liabilities							
Due to National Bank of Ukraine	101	202	244	-	-	-	**547**
Due to other banks	53,243	-	32	25	-	-	**53,300**
Customer accounts	194,437	85,591	41,136	55,135	4,230	-	**380,529**
Certificates of deposit issued	1,559	1,282	221	134	-	-	**3,196**
Other borrowed funds	1,632	8,181	9,472	86,119	388	-	**105,792**
Current income tax liability	-	508	-	-	-	-	**508**
Other liabilities	-	78	22	22	1,560	2,300	**3,982**
Deferred tax liability	-	-	-	-	-	4,351	**4,351**
Total liabilities	**250,972**	**95,842**	**51,127**	**141,435**	**6,178**	**6,651**	**552,205**
Liquidity gap	**(44,594)**	**(47,415)**	**10,644**	**6,760**	**121,691**	**47,853**	**94,939**
Cumulative liquidity gap at 31 December 2005	**(44,594)**	**(92,009)**	**(81,365)**	**(74,605)**	**47,086**	**94,939**	**-**

24. Financial Risk Management (Continued)

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

The Bank has a significant cumulative maturity mismatch of the assets and liabilities within maturity bands up to one year. This liquidity mismatch arises due to the fact that the major source of finance for the Bank as at 30 September 2006 were customer accounts maturing in up to one year. Management believes that in spite of a substantial portion of customer accounts with maturity up to one year, the past experience of the Bank indicates that these deposits provide a long-term and stable source of finance for the Bank. However, such an unmatched position may increase the likelihood of future losses.

25. Contingencies, Commitments and Derivative Financial Instruments

Litigation. The Bank is involved in various legal proceedings in the ordinary course of business. On the basis of its own estimates and internal professional advice, Management does not believe the result of any such actions will have a material adverse effect on the Bank's financial position or results of operations.

Tax legislation. The Ukrainian commercial legislation, and tax legislation in particular, allows more than one interpretation and practice of making arbitrary judgement of tax regulations is developed by the tax authorities. Therefore, the risks are more significant than typically found in countries with more developed tax systems.

The tax consequence of transactions for Ukrainian taxation purposes is frequently determined by the form in which transactions are documented and the underlying accounting treatment prescribed by Accounting Rules applied in Ukraine.

If a particular treatment was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest, which can be significant. 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 commitments. As at 30 September 2006 the Bank had capital commitments in respect of purchase of equipment in the amount of USD 2,779 thousand (31 December 2005: USD 2,268 thousand). The Bank's Management has already allocated the necessary resources in respect of this commitment. The Bank's Management believes that future net revenues and funding will be sufficient to cover this commitment and any similar commitments.

Credit related commitments. 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 risk of clients defaults or inability to perform the contract with a counterparty. The Bank manages its risk of loss by requiring a significant proportion guarantees to be secured with deposits in the Bank. 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. However, due to its revocable nature the Bank is able to refuse to issue the loans, guarantees or letters of credit to the customer due to deterioration of the customer's solvency.

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.

(in thousands of USD as presentation currency - Note 3)

25. Contingencies, Commitments and Derivative Financial Instruments (Continued)

Letters of credit issued by the Bank are as follows:

	30 September2006 (unaudited)	31 December2005
Confirmed export letters of credit	180	1,271
Import letters of credit	22,378	10,335
Cash collateral (Note 13, 14)	(4,461)	(2,911)
Provision for import letters of credit	(221)	(209)
Total letters of credit	**17,876**	**8,486**

Guarantees issued are as follows:

	30 September 2006 (unaudited)	31 December 2005
Guarantees and promissory note endorsements	85,362	58,614
Cash collateral (Note 13, 14)	(4,807)	(5,289)
Provision for guarantees	(886)	(408)
Total guarantees	**79,669**	**52,917**

The amount of undrawn commitments to extend credit issued by the Bank as at 30 September 2006 was USD 103,485 thousand (2005: USD 68,338 thousand). As at 30 September 2006 the Bank did not have irrevocable commitments to extend credit. As at 31 December 2005 the Bank had irrevocable commitments to extend credit in the amount USD 2,000 thousand.

As at 30 September the amount of the Bank's bond underwriting commitments was no more than USD 4,950 thousand (31 December 2005: none).

As disclosed in Note 14 as at 30 September 2006 loan commitments for the amount USD 4,805 thousand (31 December 2005: USD 2,266 thousand) were collateralised by deposits of customers.

(in thousands of USD as presentation currency - Note 3)

25. Contingencies, Commitments and Derivative Financial Instruments (Continued)

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

	9 months ended 30 September 2006 (unaudited)	3 months ended 31 December 2005 (unaudited)	9 months ended 30 September 2005 (unaudited)
Provision for losses on credit related commitments as at beginning of the period	617	425	816
Provision for/ (recovery of provision) for losses on credit related commitments during the period	487	194	(386)
Exchange rate impact	3	(2)	(5)
Provision for losses on credit related commitments as at at the end of the period (Note 16)	**1,107**	**617**	**425**

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

	30 September 2006 (unaudited)	31 December 2005
Not later than 1 year	1,236	1,026
Later than 1 year and not later than 5 years	2,949	730
Later than 5 years	8,516	10,282
Total operating lease commitments	**12,701**	**12,038**

(in thousands of USD as presentation currency - Note 3)

25. Contingencies, Commitments and Derivative Financial Instruments (Continued)

Derivative financial instruments. The Bank had outstanding foreign exchange contracts with banks as at 30 September 2006:

	30 September 2006 (unaudited)			
	Purchase	(Sale)	Positive fair value	(Negative fair value)
Currency forwards	24,979	(24,976)	8	(5)
Currency swaps	103,978	(103,821)	169	(12)
Total	**128,957**	**(128,797)**	**177**	**(17)**

The Bank had outstanding foreign exchange contracts with banks as at 31 December 2005:

	31 December 2005			
	Purchase	(Sale)	Positive fair value	(Negative fair value)
Currency forwards	29,089	(28,978)	113	(2)
Currency swaps	58,470	(58,414)	144	(88)
Total	**87,559**	**(87,392)**	**257**	**(90)**

Resulting net fair value gain was recorded in the gains less losses from dealing with foreign currencies.

As at 30 September 2006 the Bank had commitments to sell bonds in amount of USD 1,026 thousand. Fair value of these bonds was USD 1,020 thousand.

(in thousands of USD as presentation currency - Note 3)

25. Contingencies, Commitments and Derivative Financial Instruments (Continued)

Fiduciary assets. These assets are not included in the Bank's balance sheet as they are not assets of the Bank. Nominal values disclosed below are normally different from the fair values of respective securities.

	30 September 2006 (unaudited) Nominal value	31 December 2005 Nominal value
Shares in companies and other securities held on behalf of customers	16,941	30,675

As at 30 September 2006 and 31 December 2005 no insurance cover for fiduciary assets was maintained.

As at 30 September 2006 and 31 December 2005 the assets pledged and restricted were as follows:

Assets pledged and restricted to use	30 September 2006 (unaudited)		31 December 2005	
	Assets pledged	*Related liability*	*Assets pledged*	*Related liability*
Balance with the National Bank of Ukraine (Note 7)	-	-	515	547
Investment securities held to maturity	-	-	549	-
Term deposits with domestic banks	-	-	12,949	12,989
Total	-	-	**14,013**	**13,536**

As at 30 September 2006, term deposits placed with other banks in OECD and non-OECD countries totalling USD 5,725 thousand (31 December 2005: USD 5,296 thousand) represent funds blocked as collateral for import letters of credit and guarantees issued by the Bank in favour of its clients (Note 8).

In addition, mandatory balances with the National Bank of Ukraine in the amount of USD 15,554 thousand (31 December 2005: USD 24,884 thousand) represent mandatory reserve balances, which are not available to finance the Bank's day to day operations.

(in thousands of USD as presentation currency - Note 3)

26. Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is paid to the substance of the relationship, not merely the legal form.

In the normal course of business the Bank enters into transactions with significant shareholders and companies with which the Bank has significant shareholders in common. These transactions include settlements, loans, deposits, trade finance and foreign currency transactions. The outstanding balances as at 30 September 2006 and as at 31 December 2005 and income and expenses for the periods then ended are as follows:

As at 30 September 2006 (unaudited)	Parent company	Entities under common control of the Parent Company	Management	Other related parties
Assets				
Loans to customers (interest rate, %)	-	8,906 (11.0)	85 (5.49)	53 (3.0)
Provision for loan impairment	-	252	2	11
Other assets	-	8	-	-
Liabilities				
Due to other banks (interest rate, %)	-	1,340 (0.38)	-	-
Customer accounts (interest rate, %)	2 (0.5)	139,184 (6.51)	268 (8.6)	1,165 (4.86)
Other liabilities	-	77	-	-
Credit related commitments				
Guarantees	-	976	-	-
Letters of credit	-	793	-	-
Provision for credit related commitments	-	19	-	-
For nine months 2006				
Income / expense				
Interest income	-	944	5	1
Interest expense	37	3,603	14	42
Fee and commission income	-	1,257	-	5
Provision for loan impairment	-	12	-	9
Provision for losses on credit related commitments	-	154	-	-
Lease expenses	-	127	-	-
Insurance expenses	-	338	-	-

(in thousands of USD as presentation currency - Note 3)

26. Related Party Transactions (Continued)

As at 31 December 2005	Parent company	Entities under common control of the Parent Company	Management	Other related parties
Assets				
Loans to customers (interest rate, %)	-	10,521 (12.5)	182 (3.8)	-
Provision for loan impairment	-	234	4	-
Liabilities				
Due to other banks (interest rate, %)	-	1,762 (0.5)	-	-
Customer accounts (interest rate, %)	4 (0)	87,789 (6.1)	207 (8.72)	661 (5.6)
Credit related commitments				
Guarantees	-	1,665	-	-
Letters of credit	-	2,650	-	-
Provision for credit related commitments	-	158	-	-
For nine months 2005 (unaudited)				
Income / expense				
Interest income	-	568	5	-
Interest expense	-	839	10	4
Fee and commission income	2	1,180	-	-
Fee and commission expense	-	174	-	-
Provision for loan impairment	-	91	-	-
Provision for losses on credit related commitments	-	13	-	-
Other income	-	1	-	-
Lease expenses	-	130	-	-
Insurance expenses	-	229	-	-

The provision for loan impairment in respect of loans to related parties has been raised on the portfolio basis.

(in thousands of USD as presentation currency - Note 3)

26. Related Party Transactions (Continued)

During 9 months ended 30 September 2006 movements on related parties' loan accounts were as follows:

	Parent company	Entities under common control of the Parent company	Management	Other related parties
Loans granted to related parties during the period	-	44,569	-	1
Amounts repaid by related parties during the period	-	45,703	18	7

During 2005 the year movements on related parties' loan accounts were as follows:

	Parent company	Entities under common control of the Parent company	Management	Other related parties
Loans granted to related parties during the period	-	93,269	41	-
Amounts repaid by related parties during the period	-	89,296	51	-

For the 9 months period 2006, the remuneration of members of the Management Board comprised salaries of USD 441 thousand and benefits in kind of USD 61 thousand, including contributions to State pension fund in the amount of USD 14 thousand (as at 30 September 2005: salaries of USD 425 thousand and benefits in kind USD 8 thousand, including contributions to State pension fund in the amount of USD 13 thousand).

27. 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 a quoted market price.

The estimated fair values of financial instruments have been determined by Management 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. As described in more detail in Note 2, Ukraine has shown signs of an emerging market and has experienced a significant decline in the volume of activity in its financial markets. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Financial instruments carried at fair value. Securities at fair value through profit or loss and investment securities available for sale are carried on the balance sheet at their fair value. Fair value of securities at fair value through profit or loss was determined based on quoted bid prices. Fair value for investment securities available for sale is based on quoted market prices. Where this information is not available, fair value has been estimated 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 and application of other valuation methodologies. Refer to Note 10 for the estimated fair value of investment securities available for sale as at 30 September 2006. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Due from other banks. The estimated fair value of interest-earning placements without a quoted market price is based on discounted cash flows using interest rates for new placements with similar remaining maturity. Refer to Note 8 for the estimated fair values of due from other banks as at 30 September 2006 and 31 December 2005.

Loans to customers. Loans to customers are net of provisions for impairment. The estimated fair value of loans to customers represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. Refer to Note 9 for the estimated fair value of loans to customers as at 30 September 2006 and 31 December 2005.

Investment securities held to maturity. Fair value for investment securities held to maturity is based on quoted market prices.

Due to other banks, customer accounts and other borrowed funds. The estimated fair value of liabilities with no stated maturity is the amount repayable on demand. The estimated fair value of interest-bearing liabilities without a quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. Refer to Notes 13, 14 and 15 for the estimated fair values of due to other banks, customer accounts and other borrowed funds as at 30 September 2006 and 31 December 2005.

28. Subsequent Events

Subsequent Events. In October 2006 Bank received loan from Standard Bank PLC in amount of USD 50,000 thousand with maturity 30 April 2007.

Signed on behalf of the Management Board on 22 December 2006.

O.I. Dovgopolyuk (Chairman of the Management Board) O.M. Moshkalova (Chief Accountant)

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