2007 ПУМБ Annual Report

ПУМБ

Comfortable Bank.

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General information on the Bank

- First Ukrainian International Bank (FUIB, the Bank) was founded on November 20, 1991 in accordance with the General Shareholders' Meeting decision. The Bank was registered with the National bank of Ukraine (NBU) on December 23, 1991 and in April 1992 it started to perform banking operations.
- The Bank is organized as a closed joint-stock company. As at the end of 2007, the Bank's shareholders were: SCM Finance Ltd – 99.8% and private shareholders – 0.2%. SCM Finance, Ltd is a subsidiary of "System Capital Management "(SCM) which is responsible for efficient management of SCM financial institutions.
- The Bank is registered in Donetsk. The Head Office functions are performed by the offices both in Donetsk and Kyiv. As at the end of 2007, the Bank had 11 branches located in Dnipropetrovsk, Donetsk, Zaporizhia, Kyiv, Lugansk, Lviv, Mariupol, Mykolaiv, Odesa, Sevastopol, Kharkiv. The FUIB sub-branch network comprised 106 sub-branches. FUIB clients can access banking and information services via ATMs, POS-terminals, "Client-Bank" system, Internet Banking and GSM Banking.
- FUIB renders a wide range of banking services to both corporate and private clients. The number of corporate clients as at the end of 2007, was 10,218, that of private clients – 618,310. The Bank keeps nostro accounts with 34 banks. 62 banks opened loro accounts with FUIB. As at the end of 2007, FUIB was the 13th among the Ukrainian banks ranked by the total assets. The FUIB staff number was 2829.
- The Bank is one of the leading operators at the Ukrainian foreign exchange and interbank credit resource market as well as at the debt securities market. In 2007 the Bank issued securiries for the total amount of UAH 300 million and participated in 6 bonds' issue allocation for the total amount of UAH 350 million.
- Since 1996 the Bank has been actively cooperating with international financial institutions. At the beginning of 2007 the Bank launched a debut issue of Eurobonds in the total amount of USD 275 mln. The Issue was arranged by Standard Bank Plc and HSBC Bank Plc. During 2007, the syndicated loan agreements organized by UniCredit Group, ING Bank N.V., Standard Banc Plc, BayemLB and Fortisbank were concluded.
- FUIB was the first Ukrainian bank to implement an operating system recognized by the world banking community – Midas software, product of Misys IBS Ltd. (UK). Midas has been functioning in FUIB since 1995. Foreign currency payments are performed via S.W.I.F.T.; payments in UAH are processed via the System of Electronic Payments of NBU. Since 2004 the FUIB Back-up Centre has been functioning.
- By the end of 2007 FUIB had issued more than 530 thousand Visa and MasterCard payment cards. FUIB Card-Processing Centre, based on technologies of Arkansas Systems Inc. (USA), cooperates with other Ukrainian banks in the field of payment card technologies. In 2006 the Bank introduced new brand "Radius" which, by the end of 2007, had united the ATM network of the Bank and its 30 banks-partners. As at 2007 end, the FUIB Card-Processing Centre serviced 1.8 mln. payment cards, 1569 ATMs, 3711 POS-terminals.
- In 1992 FUIB became the first Ukrainian company to start making up its financial statements in accordance with International Accounting Standards (IAS) (since 2002 – International Financial Reporting Standards (IFRS)) and to have them audited by leading international auditing firms. UAH is the measurement currency of FUIB financial statements made up in accordance with the IFRS and USD is the presentation currency.
- Since 1998 FUIB has been rated by international rating agencies. Current ratings of the Bank given in September 2007 by Fitch Ratings were the following: Individual – D, Support – 5, Short-term – B, Long-term – B, Outlook – "Stable". At the beginning of 2008 Moody's Investors Service Agency assigned the Bank the following ratings: financial stability – E +, deposit rating in the national currency – B1/NP, long-term national scale rating Aa2.ua, foreign currency debt rating – B1, foreign currency deposit rating – B2/NP. Foreign currency deposit rating outlook – "positive", outlook for other ratings – "stable".
- FUIB is a member of Association of Ukrainian Banks, Ukrainian Interbank Payment Systems Member Association "EMA", "Ukrainian Credit-Banking Union" Association, First Stock Trading System, Ukrainian Interbank Foreign Exchange and the Interregional Stock Exchange Union, First Ukrainian Bureau of Credit Histories.

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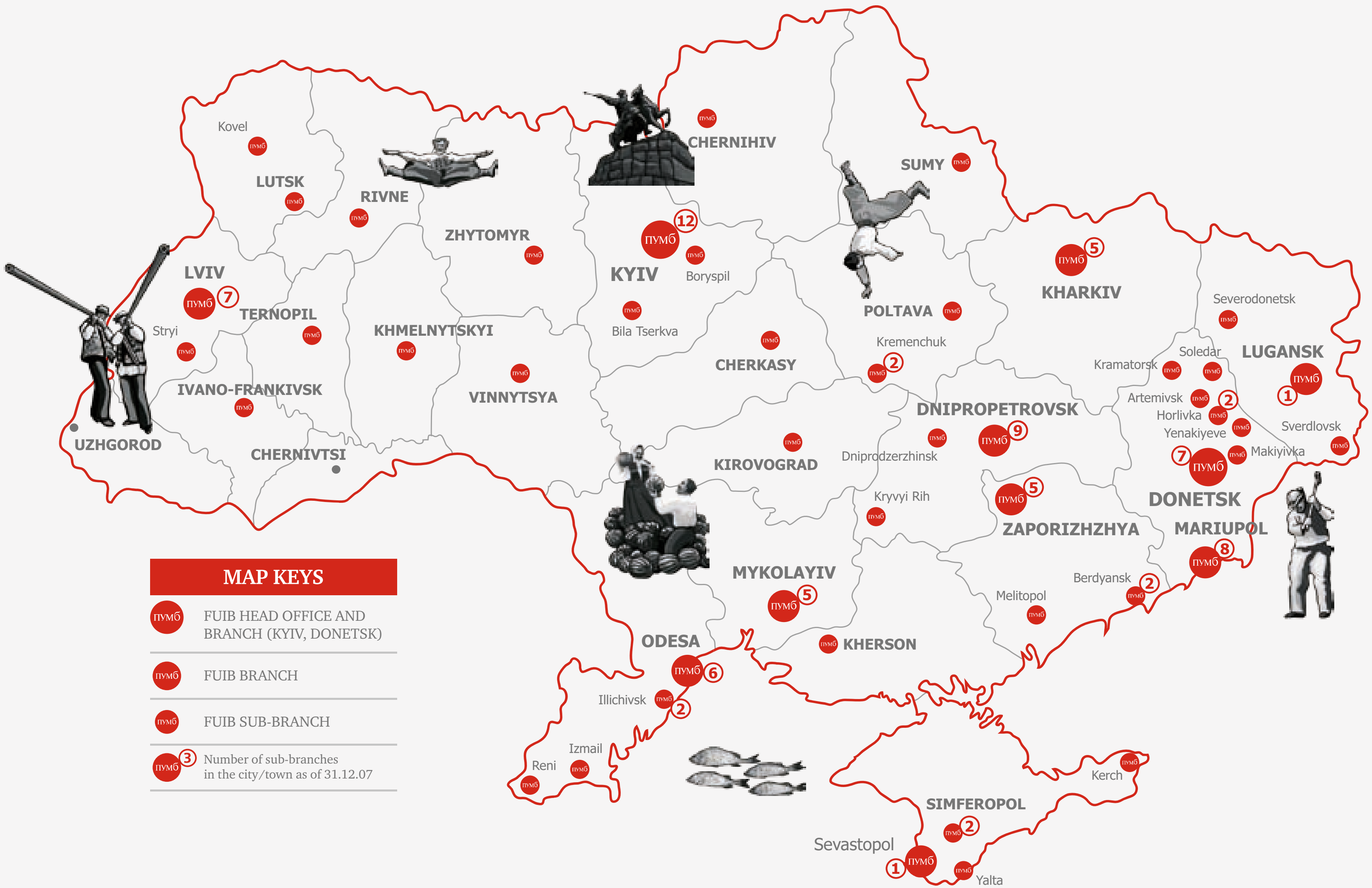
Map of FUIB branches and sub-branches



MAP KEYS

пумб	FUIB HEAD OFFICE AND BRANCH (KYIV, DONETSK)
пумб	FUIB BRANCH
пумб	FUIB SUB-BRANCH
пумб 3	Number of sub-branches in the city/town as of 31.12.07

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Statement of the Chairman of the Supervisory Board

The Ukrainian economy grew by 7.3% in 2007 - well above the average growth rates of western European countries. This provided the banking sector with opportunities for growth. Within this highly competitive growth environment First Ukrainian International Bank continued its successful path of sustainable growth towards becoming a true nationwide leader in universal banking in the Ukraine. The Bank more than doubled its balance sheet in 2007 – well ahead of the growth of the rest of the industry. First Ukrainian International Bank successfully improved its ranking amongst the top banks of the country, moving up from number 16 to 13 during 2007. It was a year of rapid growth, success in new markets and regions, as well as a year of turning significant challenges and opportunities into success.

First Ukrainian International Bank continues to grow above market and will continue to be amongst the fastest growing banks in the Ukraine. The Bank focuses on sustainable, profitable growth by taking advantage of the market opportunities and our competitive advantages which we were able to build in the past. Our focus on the quality of our banking services provided, our product innovation, our internal and external performance orientation, our world class systems and processes, the innovative design of our branches, our performance oriented working culture, and our focus on customer satisfaction will continue to allow us to be one of the leading banks in the Ukraine.

We grew our balance sheet from just over $1bn to more than $2.2bn by the end of 2007. At the same time we substantially and over proportionally increased our profit while keeping our risk cost at very low levels. The bank continued to be successful in the corporate and retail business as well as in the securities market. Our loan book to corporate clients more than doubled to just above $1.3bn while retail customer loan book is more than four times as large as it was a year ago and presently accounts for almost a quarter of our total loan portfolio – up from 13% last year.

In corporate banking the bank continued to expand into the segment of small and medium sized companies as well as broadening our relationships with existing large corporations by offering new banking products and services. Our well developed risk management systems not only allowed us to grow at an above market rate without negative effects to our risk cost but as well allowed us to respond quickly to changes in market conditions and make decisions quickly and efficiently.

The year 2007 also saw wide and successful increase of the Bank's activities in the securities market. First Ukrainian International Bank is one of the leaders in the Ukraine by the number and volume of issues as well as initial offerings of corporate bonds, the volume of T-bills traded, and the volume of corporate bonds trades at the First Stock Exchange Trade System.

In retail banking the Bank was very successful in acquiring new customers and extending our banking services to existing customers. As mentioned above, our retail loan portfolio now accounts for almost a quarter of our total loan portfolio. This is a great success for our retail banking team. With almost half a million retail customers we continue to build our basis to become a very strong player in the retail banking market of the Ukraine. New lending products, strong focus on customer service and satisfaction, new branches and more recently a focus on attracting retail deposits have helped us with our success in the retail market. While we will continue to build our retail business as a business in its own right and its own profitability – the success in retail banking increasingly provides the bank with an independent funding base. With more than half of its funding now provided by retail customers the Bank was able to reduce its dependency on international funding, especially important in times where access to international funding might become more difficult due to reasons beyond the control of the Bank. We believe in the future of the Ukraine retail banking market and are confident that the Bank will continue to be successful in this segment.

The Bank has continued to expand its network. In 2007 the Bank opened 53 new branches/sub-branches, meaning we opened one new branch every week. By the end of 2007 we had a total of 117 branches/sub-branches in 23 regions across the country – another successful step towards becoming a real nationwide universal bank.

This market success was supported by continuous improvement of the internal systems of the Bank. Beyond having one of the most advanced IT systems in the Ukraine, our risk management systems were further improved ensuring future growth of our loan portfolio without increasing our risk cost. The Bank has increased the number of employees by almost 50% to about three thousand by the end of 2007. Attracting and retaining the best talent and highly motivated employees will be key for the success in the future. We are continuously working on improving our internal human resource systems and strive to become the employer of choice in the Ukrainian banking market.

Outside the Ukraine the Bank's success has helped us to raise funds through our first Eurobond issue. Due to its strong balance sheet the Bank was able to raise $150m in February and additional $125m in May 2007 at very favorable conditions. The strength and solidity of the Bank was recognized by the improved ratings by Moody's from B2 to B1 stable (local currency and long term obligation) and Fitch from B- stable to B stable (long term issuer) in 2007. Although present market conditions are not favorable to raise funding from global credit markets, we are confident that the Bank will continue to be able to access international funding. Initial progress is promising and reconfirms that our strong balance sheet and the focus on profitable low risk growth has allowed the Bank to build a strong reputation.

Going forward First Ukrainian International Bank will continue to implement its strategy to become the leading universal bank in the Ukraine. The focus on quality of our business, quality of our loan portfolio, quality and innovation of our products and services for our customers, the quality of our people and systems will continue to allow us to be ahead of the competition. As in 2007 the shareholders will continue to provide the Bank with the necessary capital to finance its growth.

None of this success would have been possible without the continuous support and effort of management and all employees of the bank. We know that 2007 has not been an easy year. Looking forward 2008 will be challenging again, but with the commitment of everyone I am confident that we all will make 2008 another successful year for the First Ukrainian International Bank.

On behalf of the Supervisory Board I would like to thank all our customers for having chosen our bank as their bank of choice and our investors for their confidence in the future of First Ukrainian International Bank. I would like to congratulate the members of the management and all our employees to the success of the Bank. Without their commitment to the Bank as well as their willingness to go the extra mile for our customers the success of the Bank would not be possible.

As we all know past success is no guarantee for success in the future. I am confident that with our strong management team and employees we will continue to provide opportunities for everyone to grow and be part of the success of one of the best banks in the Ukraine

Dr. Horst Beck
Chairman of the Supervisory Board

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Supervisory Board

Dr. Horst Beck
Chairman of the Supervisory Board

Oleg Popov
Member of the Supervisory Board

Ilya Arkhipov
Member of the Supervisory Board

* as of 01.04.08

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Management Board

Olexandra Voropayeva
Temporary Acting Chairman of the Management Board

Gennadii Molodchinnyi
Deputy Chairman of the Management Board

Dmytro Yurgens
Deputy Chairman of the Management Board

Rostislav Matiash
Member of the Management Board, Head of the Legal Division

* as of 01.04.08


LUGANSK
Kramatorsk
Soledar
Artemivsk
Horlivka
Yenakiyeve
Sverdlovsk
Makiyivka
DNIPROPETROVSK
DONETSK
ZAPORIZHZHYA
MARIUPOL
Berdyansk
Melitopol
SIMFEROPOL

Report of Management Board

Business Environment

In 2007 the economy growth indicators were higher than those in 2005-2006 in spite of rather complicated political situation in the country due to the pre-term elections to the Verkhovna Rada of Ukraine, process of formation of governing coalition and yet another gas price rise. GDP grew by 7.3 % in comparison with the previous year (in 2006 – 7.1 %).
The upward dynamics of the economy development in 2007 was characterized by the growing demand at the domestic market due to the high growth rate of the real income of population and investments in fixed assets as well as better conditions at the foreign markets. Growth of the gross added value was observed in trade, processing industry, construction, transport and communication.
2007 saw speeding up of inflation processes: consumer price index (Inflation index) was 116.6 % as opposed to 111.6 % in 2006. The

CHART 1. GDP Dynamics in Ukraine

	2002	2003	2004	2005	2006	2007
GDP, UAH bln.	226	267	345	442	538	577
% growth	5.2	9.6	12.1	2.7	7.1	7.3

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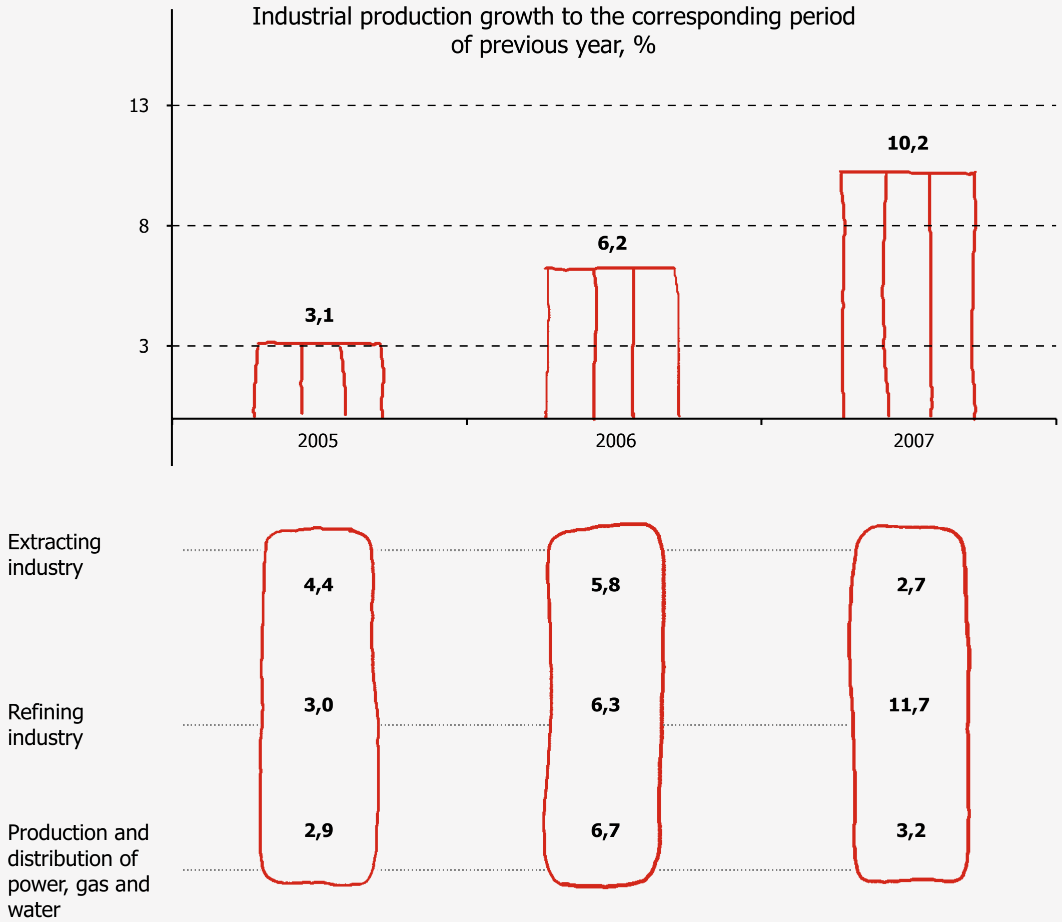
most considerable was the rise of prices for food – 24.7%.
The nominal income of population in 2007 increased by 30.6% as compared with 2006, the real income which can be used for purchasing good and services increased by 27.3%, and actual real income calculated with the account of the price factor increased by 12.8%. This factor contributed to the growth of the volume of private clients' loans and the volume of consumer goods import.
In 2007 the official exchange rate of UAH against USD stayed steady at the level of UAH 5.5 per USD 1 whereas the average exchange rate specified by the Principal Measures of the Money-Credit Policy was within UAH 4.95-5.25 per USD 1. Dynamics of the official exchange rate of UAH against Euro and RUR reflected the changes in the foreign currency exchange rate at foreign markets.
The inflow of direct foreign investments in Ukraine in 2007 amounted to USD 8 bln., which is 51% higher than in 2006.
It should be noted that the banking sphere continues to be the most attractive for investors. In 2007 the number of banks with foreign capital was growing. As at 2007 end, 47 banks with foreign capital were registered in Ukraine, 17 of which are in 100% foreign ownership. The portion of the foreign capital in the total registered

CHART 2

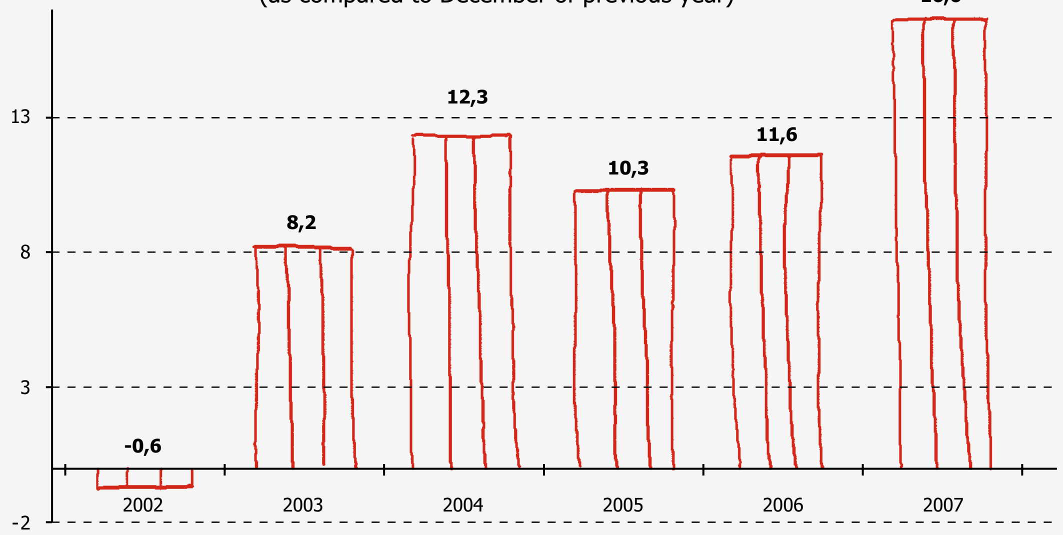


share capital of Ukrainian banks increased from 27.6%, as at the year beginning, to 35%, as at the year end.
The possibility to attract long-term and cheap resources, the growth of real income of population resulted in the increase in the total net assets of 175 banks acting in Ukraine by UAH 259 bln. (76%) during 2007 and amounted to UAH 599.4 bln.
As at 1 January 2008 the banks' liabilities on loans granted to corporate and private clients amounted to UAH 430 bln., the yearly growth being 75%. The volume of loans granted to private clients became almost twice as big amounting to UAH 154 bln. This was due to the considerable growth of mortgage loans and further development of consumer loans. However, more than the half of the banks' liabilities increase was constituted by the banks' liabilities on loans granted to corporate clients. The volume of loans granted to corporate clients increased from UAH 168 bln., as at the year beginning, to UAH 276 bln., as at the year end.
Growth of the population income, desire of people to make provisions for their stable future, gradual growth of trust in the Ukrainian banking system resulted in 53% increase of the volume of deposits amounting to UAH 280 bln. In the structure of deposit liabilities the biggest portion was the private clients' deposits (59%). As at 1 January 2008, the volume of these deposits amounted to UAH 164.5 bln. (54% increase).
The adequate liquidity level of the banking sector was maintained thanks to considerable investments in the share capital (63% increase in 2007) and attraction of foreign loans at international borrowings markets. During 2007 the foreign debt of Ukrainian banks became twice as big.

CHART 3

	2002	2003	2004	2005	2006	2007
Index of consumer price growth for December (as compared with December of previous year)	-0.6	8.2	12.3	10.3	11.6	16.6

Index of consumer price growth for December
(as compared to December of previous year)



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According to the Ukrainian reporting standards, in 2007 the net profit of the Ukrainian banks after tax deduction increased by UAH 2.5 bln. as compared with 2006 and amounted to UAH 6.6 bln.

Performance results

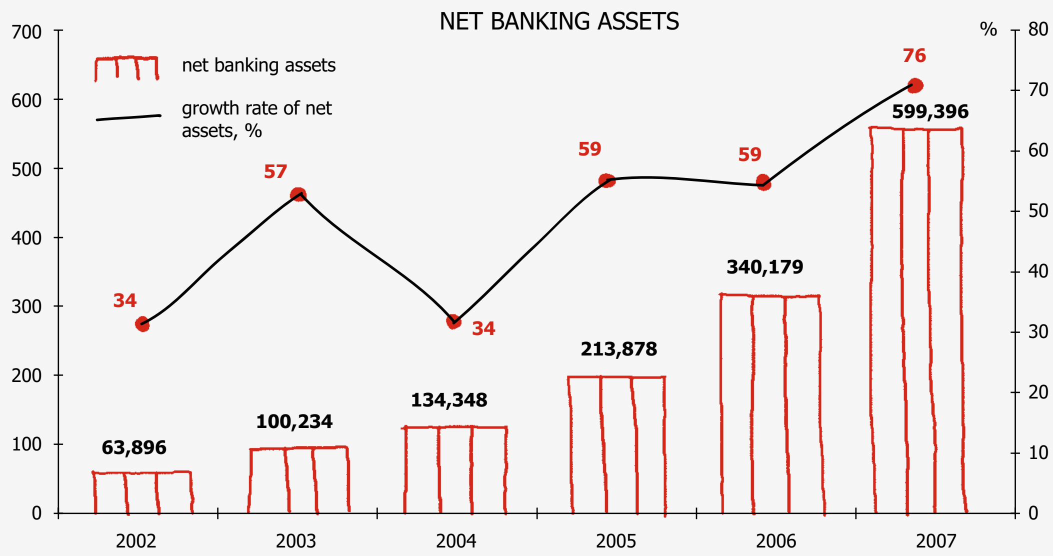
2007 was a year of dynamic growth of FUIB. The bank's growth rate was higher than that at the Ukrainian banking market. Thus FUIB strengthened its leading positions at the Ukrainian banking market. The bank's assets increased almost twice: from USD 1045 mln. to USD 2208 mln. Implementing the adopted strategy in 2007 the bank considerably expanded its geographical presence throughout Ukraine: 53 new sub-branches were opened and by the end of 2007 the bank's network comprised 11 branches and 106 sub-branches. So now the bank is present in 23 regions of Ukraine.

Financing of the bank's dynamic growth was provided by several sources. The bank expanded its network, gained considerable experience, it rendered a wide range of various banking services and constantly improved the deposit products. All these factors contributed to a record increase in the balance of corporate and private clients' accounts. During the year the corporate account balances grew from USD 299 mln. to USD 420 mln., the private clients' deposit base became more than twice as big amounting to USD 412 mln.

The bank's operations at international borrowings' markets were also a significant contributor to the FUIB development. During 2007 the volume of attracted funds increased in 2.6 times and amounted to USD 758 mln. An important achievement of the bank was the first attraction of a three-year-term loan in the total amount of USD 275 mln. secured by the issue of Eurobonds (lead-managers of the allocation – Standard Bank Plc and HSBC Bank Plc). A high level

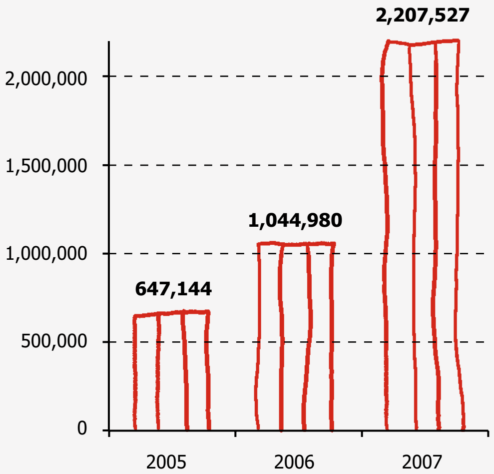
CHART 4

	2002	2003	2004	2005	2006	2007
net banking assets	63,896	100,234	134,348	213,878	340,179	599,396
growth rate of net assets, %	34%	57%	34%	59%	59%	76%



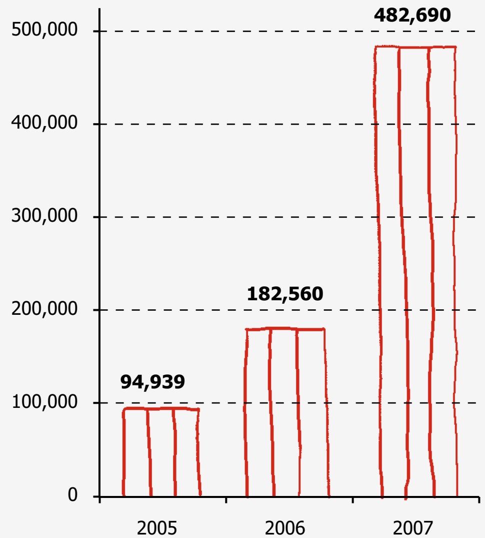
of trust of international financial institutions in the bank allowed it to attract syndicated loans in the total amount of USD 240 mln. The lending was arranged by leading banking institutions UniCredit Group, ING Bank N.V., Standard Bank Plc, BayernLB and Fortisbank. The successful cooperation with Cargill Financial Services resulted in increased volume of funds attracted from this company: during 2007 it grew to USD 157 mln. In July 2007 the bank launched a debut issue of bonds at the Ukrainian market in the amount of USD 300 mln.
During the year the bank's equity rose from USD 183 mln. to USD 483 mln. or in 2.6 times. It was, first of all, due to the fact that the bank's

Assets
in thousands of USD



shareholders increased the bank's share capital by USD 235 mln. Important factors contributing to the equity increase were also: net profit amounting to USD 28 mln. and revaluation of the bank's buildings and premises performed by DTZ Zadelhoff Tie Leung which added USD 36 mln. to the bank's equity.
Making use of a rapid growth of the lending market and having a considerable increase in the volume of attracted funds combined with profound understanding of the clients' needs and rendering complex banking services the bank managed to increase the volume of loans granted to corporate clients in 2.1 times up to USD 1.282 bln. and the volume of loans granted to private clients in 4.4 times up to USD 403 mln. An impressive growth of the loan portfolio is the evidence of high-quality and competitive lending terms and conditions offered by the bank, constant improvement of its services and internal business-processes and introduction of new products. The credit risk ratios stayed at the same level: as at the year end, the ratio of provision against credit risks to the total amount of the loan portfolio was 2.4%; the portion of the loans the terms and conditions of which are not fulfilled in the total amount of loans granted to the clients was 0.6%. The concentration of the loans is gradually reduced: the portion of the 20 biggest borrowers in the bank's loan portfolio decreased from 38% to 29% during the year. The investments made by the bank's shareholders to increase the bank's share capital allowed the banks to increase its loan portfolio in compliance with the requirements of Basel Committee on Banking Supervision on the capital adequacy level. The bank's prudent policy and a wide choice of liquidity management instruments provided the bank's growth without violation of the set regulations. As at 2007 end, the up-to-one month gap ratio between assets and liabilities was 0.97 (0.73 as at the year beginning), the up-to-three- month gap was 1.0 (0.74 as at the year beginning).

Equity
in thousands of USD



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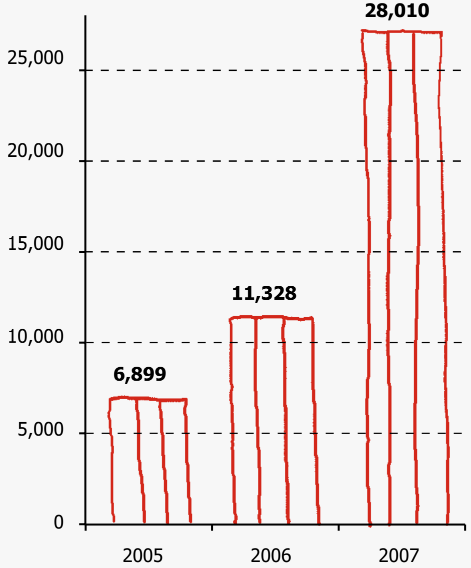
Net income
in thousands of USD



The market trend of a gradual decrease in the interest spread affected the bank's activity – during 2007 there was a decrease in the return on interest-earning assets and increase in the cost of interest-paying liabilities. But the measures taken by the bank to provide the lending volume growth resulted in gaining 68% net interest income increase: from USD 43 mln. in 2006 to USD 72 mln. in 2007.

The strengthening of the bank's positions at the corporate and private lending markets, higher volume of operations with payment cards, flexible tariff policy led to 58% increase in the net fee and commission income: up to USD 27 mln. The net commission income from payment cards operations increased by USD 2.3 mln., the commission income from loan servicing increased by USD 3.3 mln., the commission income from foreign exchange operations increased by USD 2.1 mln., the net commission income from documentary operations increased by USD 2 mln.

Expansion of the bank's network, development of the bank's employees motivation programs, more active advertising policy led to 55% operational expenses increase: from USD 34 mln. in 2006 to USD 52 mln. in 2007


ZHYTOMYR
LVIV
TERNOPIL
Stryi
KHMELNYTSKYI
IVANO-FRANKIVSK
VINNYTSYA
UZHGOROD
CHERNIVTS

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Main KPIs of FUIB

USD thous.

	2007	2006
Balance sheet		
Total assets	2,207,527	1,044,980
Total equity	482,690	182,560
Due from other banks	110,370	90,670
Securities	122,791	67,715
Loans to clients	1,644,359	676,121
Due to other banks	37,980	53,541
Corporate clients' funds	420,379	298,814
Retail clients' funds	411,739	202,808
Other attracted funds	817,188	290,838
Profit and Loss Account		
Net interest income	71,939	42,926
Deductions to the credit risk provision	-14,824	-13,102
Net fee and commission income	27,115	17,112
Trade and other income	5,983	3,437
Operational income	**90,213**	**50,373**
Operational expenses	-52,040	-33,525
Net income before tax	**38,173**	**16,848**
Profit tax	-10,163	-5,520
Net income before tax	**28,010**	**11,328**
Capital Adequacy (according to Basel Committee requirements)		
Risk-weighted assets and off-balance sheet liabilities and market risk	2,330,121	934,077
Tier-1 and Tier-2 Capital	504,006	195,958
Tier-1 and Tier-2 Capital / risk-weighted assets and balance sheet liabilities	22%	21%

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	2007	2006
Liquidity		
Assets with maturity up to 1 month Liabilities with maturity up to 1 month	0.97	0.73
Assets with maturity up to 3 month Liabilities with maturity up to 3 month	1.00	0.74
Cost/income ratio		
Operating expenses/Operational income (before provisions)	49%	52%
Net interest spread		
Return on interest-earning liabilities: Interest income / Average annual interest-earning assets	11.0%	11.3%
Cost of funds: Interest expenses / Average annual interest-payable liabilities	6.9%	5.9%
Net interest spread	4.1%	5.4%
Profitability		
Return on assets: Net income / Total assets as at the year end	1.3%	1.1%
Return on equity : Net income / Total equity as at the year end	5.8%	6.2%
Credit risk		
Credit risk provision / Total loans to clients	2.4%	3.7%
Non-performing loans / Total loans to clients	0.6%	1.3%

However, the ratio of operating expenses to operating income (before provisions) continued to improve: it was 49 % in 2007 (52 % in 2006). During the year the policy of formation of credit risk provision was updated. New principles and methodology were introduced to determine provisions. Deduction to credit risks provisions amounted to USD 14.8 mln. Income tax expenses increased by 84 % as compared with 2006 and amounted to USD 10.2 mln. The net profit of the Bank in 2007 was USD 28 mln., which is 2.5 times bigger than the previous year figure. The return on assets increased from 1.1 % to 1.3 %.

Corporate banking

2007 was the most successful year for corporate business in the whole period of FUIB existence. Considerable achievements in the corporate business were due to availability of a solid corporate business management centre, effective sales line, high quality of documentary operations (considerable limits opened by foreign banks for confirmation of the bank's letters of credit and warranties). We should also mention high capital adequacy which allowed the bank to grant its clients amount of funds and an individual approach, i.e. making optimal decisions to meet the specific needs of the bank's corporate clients.

In 2007 FUIB attracted the following leading Ukrainian companies as its corporate customers: Trade House "Continuum-Galichina Ltd.", "Roveks Ltd", CJSC "Holding "T and C", CJSC "KMZ", "Jey Zars", "Trade House "Eco-coal Ukraine Ltd", "Lustdorf Ltd", CJSC "Radmir-Centre", Subsidiary of «ICT Vishneve", «Scientific-Industrial Company «Glopin pig raising complex", «Parallel-M, Ltd", "Technotorg-Don" Ltd, «Alfa Development Group Ltd.","Khlib", "METAN-KP", "Zenit-Nika Ltd", Subsidiary of "Kharkiv Champagne Plant", "Globin meat processing plant Ltd", OJSC "Dniproshina".

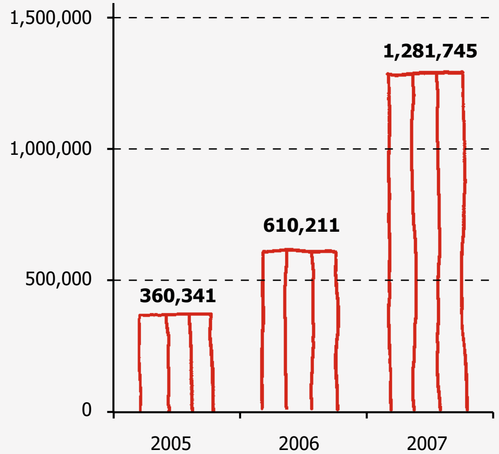
During 2007 the number of active clients in the bank's corporate database increased in 1.7 times or by 74% (by 1033) and amounted to 2430 customers (big corporate clients – 437, medium corporate clients – 712, small and medium-sized businesses – 1281). The number of new clients attracted by the bank in 2007 was twice as big as in the previous year (102.5%). Within the year, the number of borrowers increased by 368, or by 66.4 % to the high growth rate in the segment of medium corporate clients.

In 2007 the gross revenue of FUIB corporate business increased by USD 55 mln. or by 75%, and amounted to about USD 128.5 mln. (in 2006 it was about USD 73.5 mln.).

In 2007 FUIB efficiently used big opportunities of documentary operations (there is trust in FUIB on the part of foreign banks, which resulted in setting up good contacts and opening the limits with these banks; active penetration into the market is going on, which is partially due to delivering master-classes for the bank's clients). As a result, over the last 12 months the number of active users increased to 56, and the total income gained from the documentary operations amounted to USD 6.6 mln.

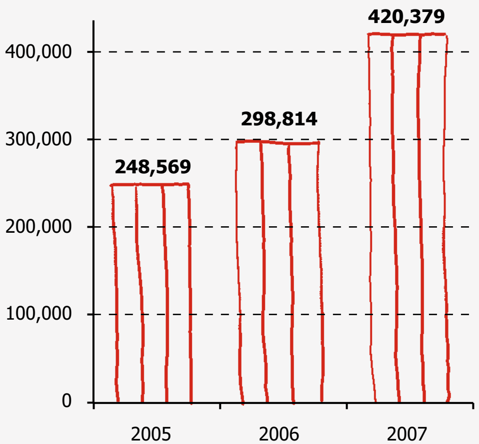
The bank occupied the leading position at the investment market, particularly at the corporate bonds' market – 6 of 23 corporate bonds issues, or $^{1}/_{4}$, were made by FUIB. The bank is also one of the leaders as to the corporate bonds trade volume and rates the second position among

Corporate loans
in thousands of USD

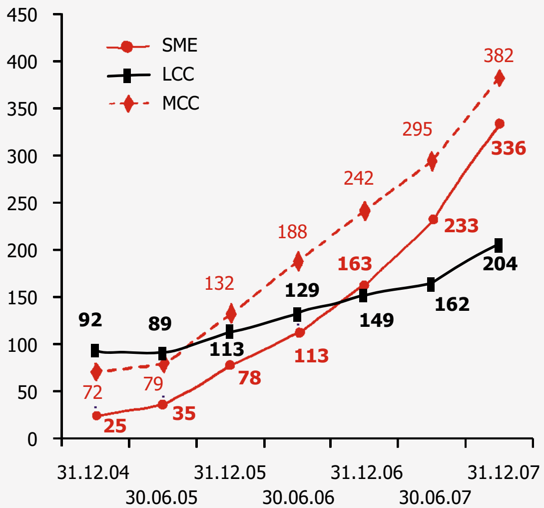


the participants of the stock exchange "First Stock Trade System".
The upgoing dynamics of the loan portfolio is the evidence of the competative and high quality lending terms - the growth rate of corporate loans granted by the bank is 1.9 as big as the market growth rate, which resulted in 0.56% increase of the bank's market share.
The number of new borrowers attracted by the bank also went up – its increase in 1.8 times (or by 84%) exceeded the previous year's figure.
As at 31 December 2007 the volume of corporate loans and bills of exchange portfolio exceeded USD 1300 mln., the yearly increase was 113%, a record for the bank amount USD 691 mln. i.e, from USD 611 mln. to USD 1302 mln. (in 2006 the increase was about USD 243 mln).
It should be mentioned that the portion of Medium Corporate Clients and Small and Medium-size Enterprises in the bank's loan portfolio increased by 7% and their aggregate portion in the average annual portfolio was about 26%.
Due to the growth of diversification and volume of the term corporate funds' portfolio, the average annual volume of deposits increased in 1.8 times (by 76%), the number of depositors increased in about 1.4 times, from 165 to 239. The growth rate of the portfolio of the term corporate funds was 1.42 times higher than that at the Ukrainian corporate deposit market, which resulted in 0.25% increase of the bank's market share.
To achieve the target growth dynamics, the following measures were taken up in 2007: the centralized business-line management system was set up which clearly defines the authorities, responsibilities and subordination of all structural units, the system of interaction among the corporate business structural units was established within which each structural unit supports and enhances the activities of other structural units in a consolidated business-process.
In 2007 the bank directed considerable efforts at servicing the customers of small and medium-size enterprises. To this end, within the Corporate Business Division a special direction was set up for business development in SME segment and a department coordinating the work with this segment was formed, "Pilot Project" was implemented which delegated wider authorities to the branches in the framework of which the limits of standard lending products were increased to USD 1 mln. in branches and USD 500 thousand in sub-branches. As a result, the decision-making as to the granting loans became quicker. Consequently the volume of corporate loan portfolios of the structural units engaged in this project grew, on the average, in 5 times.

Corporate clients' funds
in thousands of USD



The borrowers' structure dynamics



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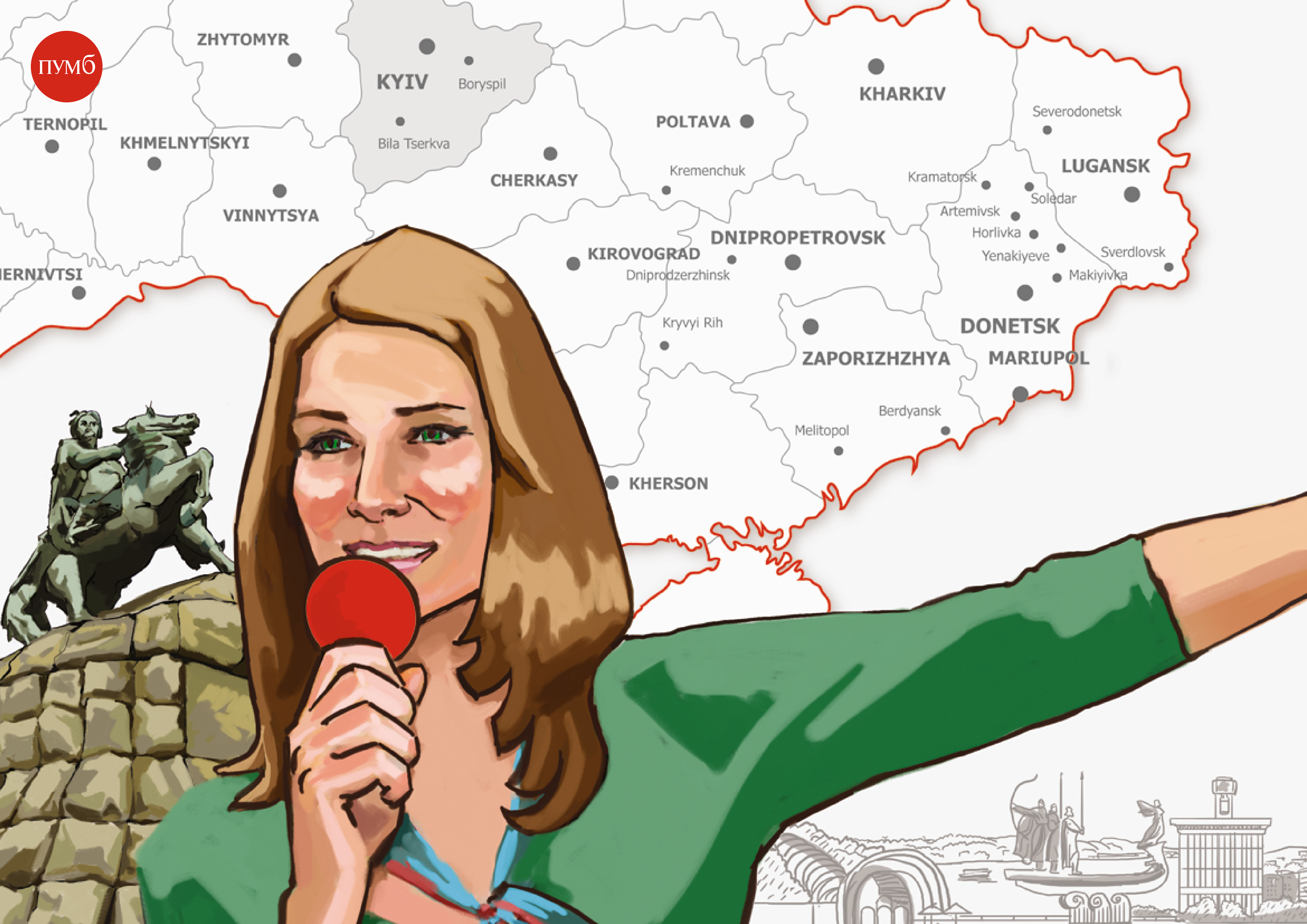
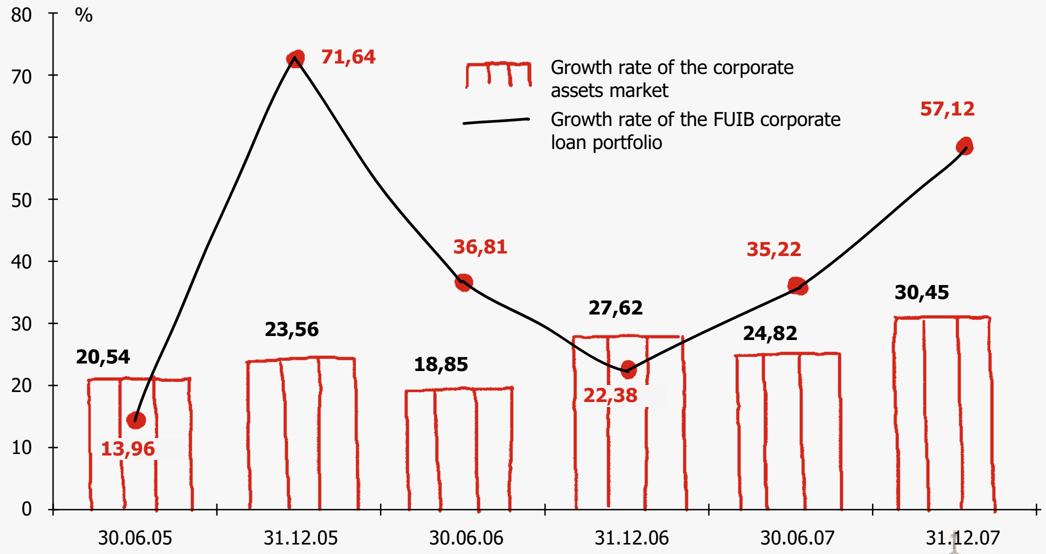

ПУМБ
ZHYTOMYR
KYIV
Boryspil
Bila Tserkva
TERNOPIL
KHMELNYTSKYI
VINNYTSYA
CHERKASY
POLTAVA
KHARKIV
Kremenchuk
Severodonetsk
LUGANSK
Kramatorsk
Soledar
Artemivsk
Horlivka
Yenakiyeve
Sverdlovsk
Makiyivka
DNIPROPETROVSK
KIROVOGRAD
Dniprodzerzhinsk
ERNIVTSI
Kryvyi Rih
ZAPORIZHZHYA
DONETSK
MARIUPOL
Berdyansk
Melitopol
KHERSON

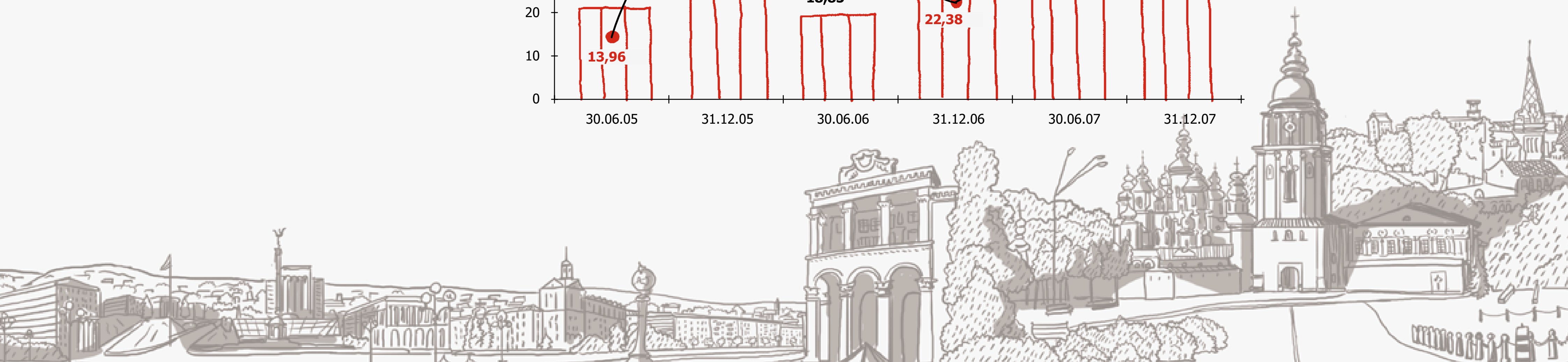
During 2007 the bank opened 53 new sales outlets in 23 regions of Ukraine. In 20 regions the bank is represented by big sub-branches which render banking services to corporate clients which allowed the bank to diversify significantly the clients base and penetrate more dynamically and aggressively into the market in new business-territories.

To provide the corporate clients with the widest range of banking products in 2007 the bank introduced new products, in particular lending products for SME – loans for purchasing the equipment and project "Easy interest rates for SME". One of the advantages of these products is quick decision-making as to the loan granting thanks to the application of scoring technique of assessment of the borrower's financial state.

The bank continued to actively use marketing measures to increase its market share. Thus it hosted 6 master-classes and 7 round tables where representatives of 124 large enterprises

Dynamics of the FUIB market share on corporate assets





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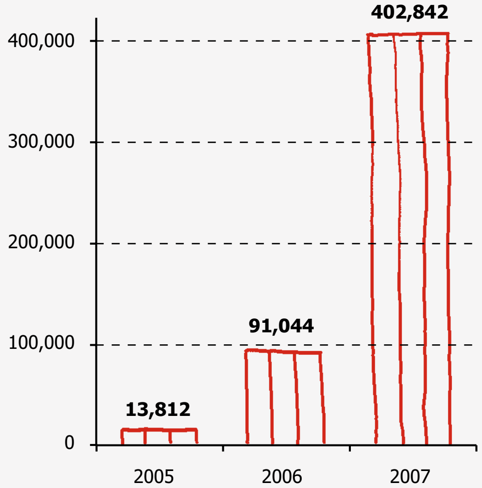
of Ukraine took part. As a result, 17 companies joined the number of the bank's clients. Consequently, the loan portfolio volume increased by USD 3.2 mln., direct income grew by USD 132.7 thousand The new high quality level of work directed at attraction and retaining of corporate clients, optimization of business-processes of corporate products sale were achieved thanks to perfection of the sales system reorganization.

Banking for Private Clients

2007 was a year of productive activity and new achievements in FUIB retail business. Judging by the rapid growth and fulfillment of the business-plan figures we can state with assurance that the bank has gained the trust of its clients. Now FUIB is among the Ukrainian three most rapidly growing banks in the retail segment. The number of the bank's active clients increased by 49.5 thousand and as at the year end amounted to USD 481 thousand.
Thanks to the transparent and attractive terms, the efficient sales system in the branches and sub-branches the private clients' loan portfolio increased in 4.4 times and as at 31 December 2007 amounted to USD 402.8 mln. The private clients' funds attracted grew more than twice and as at 31 December 2007 amounted to USD 411.7 mln. Thus, the retail business growth rate achieved in FUIB was considerably higher than the average market figure.

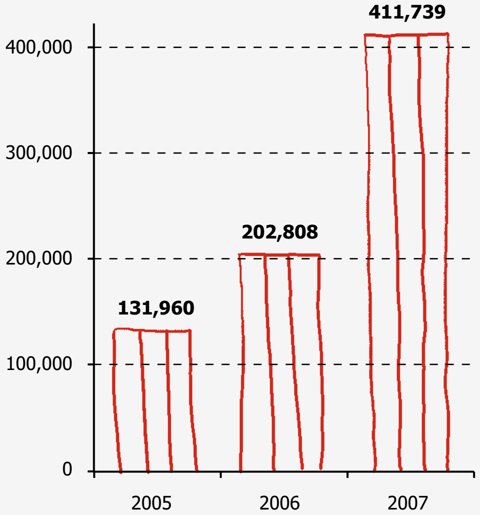
The subject of FUIB's constant care is the comfort of its clients. During 2007 over 50 new sales outlets were opened almost in all regions of Ukraine. At present there are over 2400 ATMs, including "Radius" network, where FUIB clients can get cash and perform other transactions free of charge.
The bank constantly pays its attention to creation of attractive terms and conditions to meet the requirements of the most demanding clients. In 2007 FUIB greatly increased the financial opportunities for its clients. It introduced new lending products: "6-time salary loan", "Loan for purchasing land" "Loan for purchasing accommodation with the zero first installment", "Loan for refinancing". It is for the product "Loan for refinancing" that FUIB won the nomination "MasterCard: Banking product – 2007". Thanks to this product the clients who took loans in other banks can not only considerably reduce the loan cost but also change the loan currency, increase the loan sum in order to use the money for refurbishing, purchase of furniture, household equipment, etc.
Alongside with the introduction of new products the bank constantly improves the existing ones. The loan term for the product "Loan for private needs" was extended from 10 to 15 years, and its functionality was broadened. Now the money granted to the borrower can be also used for commercial purposes: business development, purchase of commercial real property, replenishment of current assets, etc.
The bank also introduced innovations in money saving services granted to its private clients. For the clients' convenience the bank introduced deposit "Saving account" which allows the client to put non-limited amount of money into and out of their accounts without loss of interest. During the year the bank ran various deposit actions – "Spring voyage", "Make holiday and save money", "Coin for good luck" which offered the clients attractive interest rates, various prizes and presents to each depositor.

Retail loans
in thousands of USD



To promote and sell the salary projects the bank ran the campaign "Comfortable advantages" thanks to which over 40 new companies started paying salaries to their employees via FUIB payment cards. The employees of the companies-participants of the salary projects were offered the action "Modern way of life, Modern way of purchase" within which the customers who paid by salary cards were given an opportunity to get presents. The action "Dreams come true in your bank" gives the bank's employees the discounts on loans and bonuses on deposits.

Retail clients' funds
in thousands of USD



Card-Processing Centre

In 2007 FUIB continued rendering card-processing services to Ukrainian banks and acted as a bank-warrantor to payment systems when financial institutions get the status of Affiliate member and Associate member in international payment systems Visa International and MasterCard Worldwide, In 2007 FUIB the Card-Processing Centre started servicing four Ukrainian banks (Finbank, AvtoZAZbank, National Standard and Business Standard).
At present 32 partner banks use the services of FUIB Card-Processing Centre. By the end of 2007 FUIB and its partner banks had issued 1 753 944 payment cards of IPS Visa International and MasterCard Worldwide and installed 1569 ATMs. During 2007 the network of sales POS-terminals belonging to the bank and its partner banks increased to 2231 and cash-giving POS-terminals to 1480.
The bank constantly enlarges the range of payment card services granted to its clients. Thus in January 2007 the bank and International SOS company made an agreement on giving the card-holders of premium class Visa and MasterCard medical, legal and information services by 24-hour phone support.
The FUIB Card-Processing Centre work is based on permanent interaction with IPS Visa International and MasterCard Worldwide. In the framework of this interaction in 2007 the bank successfully completed the project of getting certification on EMV-technologies in these payment systems and carried out the pilot project of chip card issue. Based on product Visa Classic Unembossed FUIB carried out a joint co-branding program with Metallurgical Plant "Azovstal".
At the end of 2007 the bank started external auditing aimed at confirming the level of protection of data of payment-card-holders in compliance with Data Protection Standard in Payment Card Industry (PCI DSS).
In order to enlarge the terminal equipment model line for the acquiring network of FUIB and its partner banks the Card-Processing Centre successfully carried out certification of new models of POS-terminals VeriFone and Ingenico.

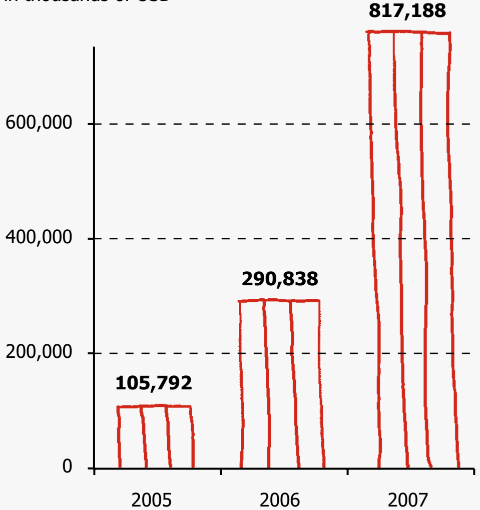
Operations at capital markets

Operations at capital markets performed by FUIB are supported by Treasury Division, International Borrowings Division and Securities Division.
Operative management of consolidated currency position of the bank and operative liquidity management are the main duties of Treasury Division.
Purchase and sale of foreign currency for Hryvnia or other currencies at the Ukrainian and foreign exchange markets by the order of the bank's clients and at the bank's own expense

as well as performance of arbitrage foreign exchange operations are performed to obtain trade and commission income.

Activity on the money market of Ukraine on attraction and placement of money is aimed at obtaining the interest income from placement

Funds borrowed in the financial markets
in thousands of USD

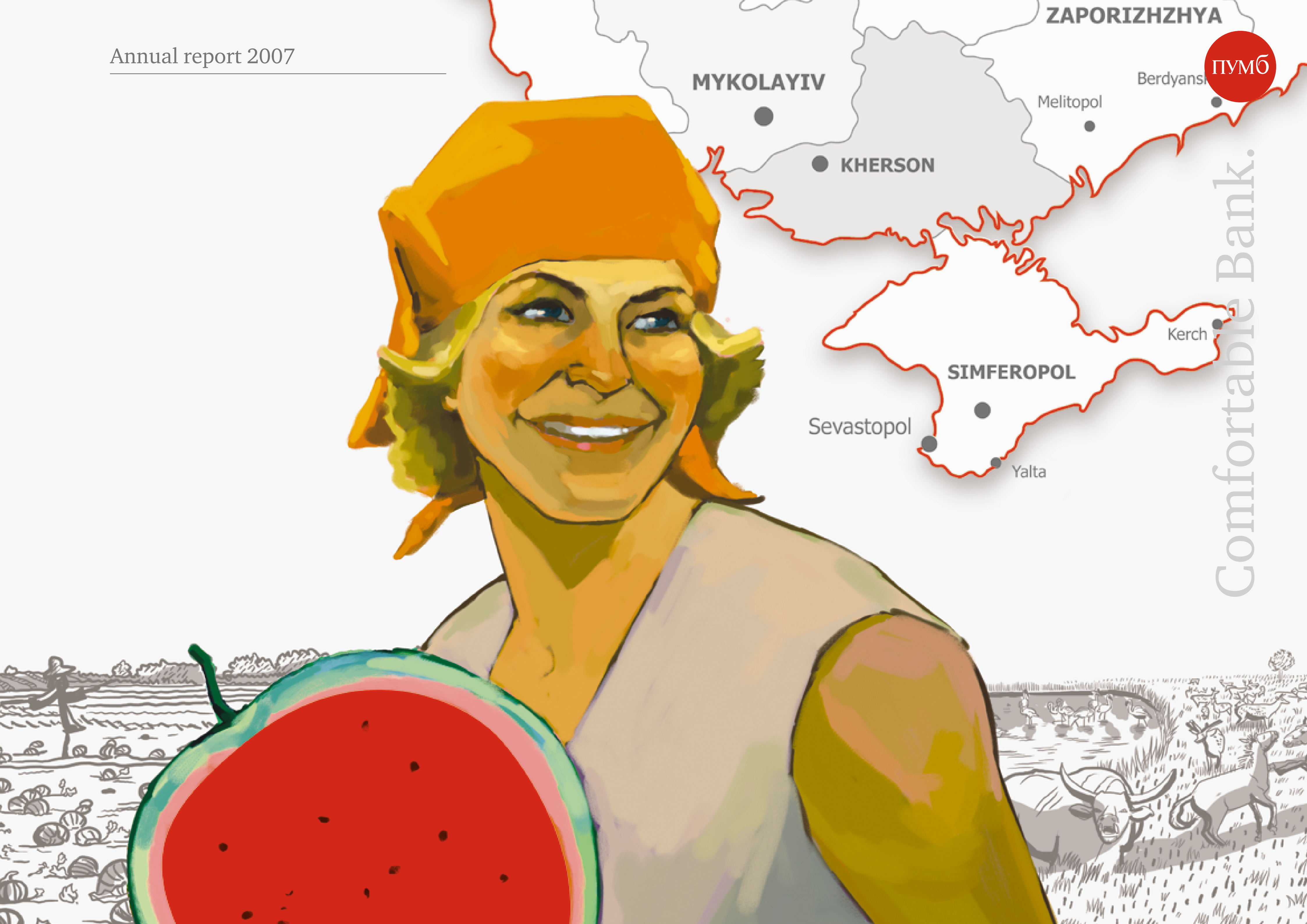


of Hryvnia and foreign currency resources, performance of arbitrage operations as well as fulfillment of the NBU regulations on forming reserves. Counter-partners in these operations are the Ukrainian banks for which Market and Operational Risks Management Division set certain limits or the banks which are able to secure credit risks by placement of the foreign currency funds with CJSC FUIB ("swap" operations). Also to obtain the interest income from the placement of the excessive foreign currency funds and provision for other operations (in case of necessity) the Division performs placement of foreign currency funds. The main partners of the bank are big Ukrainian banks and first-class banks of Western Europe and the USA. In 2007, FUIB issued securities in the amount of UAH 300 million in the domestic market.

As to the foreign borrowings of the bank, it should be noted that as at the end of 2007 the total amount of FUIB foreign borrowings amounted to USD 758 mln. as compared with USD 291 mln. as at the end of 2006.

An important achievement of the bank was the first very successful attraction of a three-year-term international loan secured by the issue of Eurobonds in the total amount of USD 275 mln. at 9.75% p.a. in the first half of 2007 (initial placement in the amount of USD 150 mln. in February 2007 and additional placement in the amount of USD 125 mln. in May 2007). Lead-managers of these placements were leading banking institutions Standard Bank Plc and HSBC Bank Plc. The volume of applications for participation in the loan at the initial placement was four times as big as the issue volume, which confirmed the high interest of foreign investors in the bank and allowed the bank to reduce the cost of attraction of long-term funds.

One of the main means of attraction of funds for financing the trading operations of the bank's clients is the attraction of syndicated loans. The bank has been successfully attracting syndicated loans since 2004. The total portfolio of syndicated loans as at the end of 2007 was USD 240 mln. All funds attracted as



Comfortable Bank.

syndicated loans were directed at financing the trade operations of the FUIB clients.
In addition to attraction of funds at the international markets performed by International Borrowings Division, the attraction of funds on behalf of the bank is carried out by Documentary Operations Division. The instruments of the DOD are letters of credit, pre-export and post-export financing, etc. In 2007 the DOD attracted about USD 250 mln. They included the attracted funds from Cargill and a number of foreign banks such as Bank of New York, ABN Amro Bank, as well as by the programs Stand by Facility, American Express, Credit Swiss, Nordea Bank, Bank of Tokyo Mitsubishi.
During 2007 the bank continued its close cooperation with international financial institutions in the sphere of international borrowings.
The bank constantly increases the amount of the international borrowings, reduces their cost and increases their terms. Special attention is paid to diversification of the international borrowings portfolio and growth of the number of partners.
In 2008 the bank is planning to considerably increase the total volume of international borrowings.
Taking into consideration the growing volume of borrowings and importance of this direction for the bank in 2007 FUIB set up a special structural unit responsible for the development of this activity.

Information technologies

FUIB is an innovative and highly technological bank which constantly introduces advanced information technologies providing a qualitatively new level of banking services.
In 2007 the bank continued building up a powerful information-communication infrastructure to support opening up over 50 new branches. Based on the advanced technologies the bank introduced a unified register in the information systems in all structural units of the bank and orientation at carrying over the computations on the servers using thin clients, thus it managed to achieve higher administration centralization without an increase in the IT-units staff.
In the framework of the project "Introduction of chip technologies EMV" which is being implemented within the development program of the bank's Card-Processing Centre, migration of the software of the card-processing to the new version ITM v.2.2 (ArkSys) was carried out, servicing and issue of VISA and MasterCArd chip cards were certified and supported. Also in the framework of this project the bank implemented the support of the new cards in the system of reporting on card accounts, banking payment card and transactions performed by these cards for partner banks in Sheeva system; the bank introduced new monitoring system for FUIB acquiring network Ozone.

To provide an adequate productivity level of banking operations, in 2007 migration to "broad" (1-2 Mb) communication channels between Donetsk Head Office and the branches was started. To the same end, IBM equipment iSeries (AS/400) for enlargement of computation abilities of the bank's central servers was put into operation.
The corporate DataWareHouse was migrated to a new hardware platform and operational system Windows Server/x64. Simultaneously the corporate DataWareHouse was transferred to IQ Multiplex.
To meet the SWIFT regulations the data and software were migrated to platform SWIFTNet/phase 2, and SWIFTAlliance Access 6.0 and SWIFTNet 6.0 were introduced.
For the information system protection FUIB makes use of advanced technologies. The bank was the first in Ukraine and CIS to introduce the system of electronic mail context analysis IQ.Suite of Group Technologies, which allows the on-line blocking of dangerous information penetrating into the bank's network. The systems of this class are used by Deutsche Bank, ABN Amro, Ernst & Young, Honda, Mercedes-Benz, Miele and others.

Risk management

Risk management in FUIB is carried out by two separate structural units – Market and Opera-

tional Risk Management Division and Credit Risk Management Division.
Assets and Liabilities Management Committee of the bank performs tactical management of assets and liabilities, provides harmonization of market risks and profitability of financial instruments. The committee meetings are held once a month. They discuss the liquidity management, foreign currency risks, interest rate risks and approve decisions on interest rates on loans and deposits, contents and volume of assets and liabilities. To manage the liquidity risks prospective estimate and scenario stress-testing of the liquidity position are used. This enables bank to carry out a comprehensive analysis of the cash flow and thus to perform an early diagnostics of the crisis effects on the bank's liquidity. To manage foreign currency risk the quantitative assessment of the foreign currency risks by Value at Risk-technique and scenario stress-testing is used. To manage interest rate risks the use is made of the system of simulation of the net interest income subject to risk which allows making a prospective estimation of the net interest income changes due to the market interest rate changes. Preparation of materials for Assets and Liabilities Management Committee meetings is the responsibility of the Market and Operational Risk Management Division.
Standardization and control over the access rights to internal information resources, implementation of insurance programs, re-engineering of business-processes are also the duties of the Market and Operational Risk Management Division. Guided by the requirements of Basel Committee on Banking Supervision and recommendations of NBU, FUIB uses the system of reporting and diagnostics of key figures of all types of operational risks, the system of response to and prevention of operational risks in future. The bank has concluded the Agreement of Bankers' Blanket Bond (BBB) which acts as a component of the operational risks management.
In 2007 the Credit Risk Management Division was re-structured to include a separate department of risk management for small and medium enterprises.
To optimize the corporate lending business-process, the Credit Committee was given larger authorities as to the credit risk limits, terms of financing and possibility to make changes in the lending terms and conditions, thanks to which the time of loan application consideration was reduced.
To this end, the Division worked out and approved the following key documents: "CJSC FUIB Policy of formation of the corporate bonds portfolio for 2007", "CJSC FUIB Lending policy for retail business 2007", which set up the institute of underwriters in the bank constituted by the employees of Head Offices, branches and sub-branches, and "CJSC FUIB Lending policy for corporate business for 2007", "CJSC FUIB policy of formation of credit risk provision according to IAS", which brought the bank's approaches to the provisions formation as close as possible to the requirements of IFRS 37 and 39.
In 2007 the bank also altered the system of credit risk management for SME along the retail and corporate business reporting lines.
The improvement in the system of internal reporting of the retail business risk management is also worth mentioning. Thus for the loan portfolio analysis the bank started to use:
- vintage analysis which calculates the level of overdue loan groups formed depending on the date the operation appeared in the bank's balance-sheet;
- reporting on overdue loans migration (roll rate report) which shows the probability of migration of an overdue loan from one category to another with a longer overdue period.

Human Resources Management

Business results achieved by First Ukrainian International Bank over the last few years would have been impossible without coordinated work of its personnel, its result-oriented activity and prudent corporate culture.
The priority task of the human resources policy pursued in CJSC FUIB is building up the close-

knit professional team, creation of conditions for the efficient use and development of the personnel potential, constant improvement of the personnel qualification aimed at fulfillment of the bank's targets.
The growth of the business volume, opening of new branches throughout Ukraine required a large-scale recruitment of new employees. In 2007 the staff number increased from 1937 to 2829 people, the increase being 892 people (46.1%).
For the timely and qualitative search of qualified staff the bank uses all possible channels: mass media, Internet, direct search, etc. The bank closely cooperates with the leading educational institutions, arranges training for the best students and their further employment. FUIB also participates in Career Days held by High Schools and local authorities.
Each employee is offered the induction program which gives the general information on the bank, its internal procedures and regulations, and is trained in his/her particular sphere.
FUIB has "Corporate code" which includes all the information on the bank's strategy, the system of values, behaviour standards, regulations on communication with colleagues, clients and partners, dress code, etc.
The FUIB personnel motivation system is being constantly developed and improved. The complex motivation system has 35 items of monetary and non-monetary remuneration and benefits granted to the bank's employees.
In 2007 FUIB carried out work rate setting for the most "numerous" banking jobs – tellers and transfer handling specialists aimed at effective staff number management.
To provide the professional development of the staff FUIB introduces new programs and forms of professional training both on the basis of its "Training Centre" and by means of participation in open training programs, seminars and conferences. Due to the increasing number of employees and broader geography of the bank's presence the bank actively uses on-line remote training.
To develop internal communications, for over a year the bank has been issuing corporate magazine "Capital" which gives coverage of the activity of the bank and its structural units, cultural life, etc.

Participation in the life of Ukrainian Society

One of the most important aspects of FUIB's strategy is social responsibility of business. It is a corporate value both of the bank's management and its employees. The bank has been supporting cultural, medical and educational institutions since the moment it was founded. For over 14 years the bank has been the partner of International Festival "World Ballet Stars" organized by worldwide famous ballet master Vadim Pisarev. FUIB helped to expand the Festival geography: last year "World Ballet Stars" performed in Donetsk, Lviv, Kramotorsk and Lugansk.
The bank has been constantly supporting "Choreography school by Vadim Pisarev" the only institution of this type in the region. For 15 years – from the very foundation of this school – FUIB has been taking care of little dancers. The bank helped to open the school's branches in Donetsk region: The school branch has already started acting in Gorlovka and another one is to be opened in the nearest future in Mariupol.


ODESA
Illichivsk
SIMFEROPOL
Kerch
Sevastopol
Yalta
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Since 1997 the bank has been rendering help to Donetsk children's oncohematological centre "Nadia". It provides the Centre with equipment, updates its hardware and software and gives money for medical supplies. For over 10 years FUIB has been supporting Council of Veterans, pensioners, desolate and disabled people.
FUIB directs its social and charity activity to permanent and harmonious development of the society.

Outlook for 2008

According to the set priorities, in 2008 FUIB is going to concentrate its efforts on increasing the efficiency of the bank's commercial policy and implementation of the projects on internal perfection of the bank. The main priority of the bank's activity is its clients and bank-client effective interaction. The bank's clients can always count on the bank's individual approach to solution of their financial needs, deep understanding of their problems and obtaining complex high quality banking services.
In 2008 we are planning to offer our clients a wider range of deposit and lending products. High quality services rendered by the bank in the sphere of international operations and international contacts established by the bank will allow us to support exporters and importers with documentary operations, trade and pre-export financing as well as advisory services in foreign financial and trade operations. The strategically important task for FUIB is financing its clients via issue and allocation of corporate bonds. To increase its share on the small and medium enterprises market the bank is introducing a number of services adapted for the needs of this segment.
We are satisfied with our results at the retail market and are going to enlarge the range of lending and deposit products and services to provide our further penetration into it. The bank is going to focus its attention at studying the clients' needs, rendering various services, perfection of internal business-processes and creation of the most comfortable conditions capable of meeting the requirements of the bank's most demanding clients. Based on the plan of further development of the operations with private clients the attention will be paid to provide a closer approach of the bank to its clients, so the branch network is going to be further expanded.
The bank is intending to maintain its leading position at the debt securities market.
All this will allow the bank to increase the number of income sources and reduce the loan portfolio concentration. At the same time, the search of potential borrowers meeting the bank's requirements as to formation of the high quality assets is an important task of FUIB credit policy.
The growth of assets will be supported by the bank's shareholders – to ensure the high capital adequacy level an additional issue of shares is planned.
The further growth of the long-term loan portfolio will be provided by attraction of additional funds from foreign banks and financial institutions. Using our good reputation gained at the international borrowings market we are planning to open long-term credit lines from foreign financial institutions.
To conclude, on behalf of the Management Board I express my thanks to all employees of the bank for their productive work over the last year. Your high professionalism and efforts to perform your work as good as possible are the main components contributing to achievement of the goals set by the bank's shareholders. I'd like to assure our shareholders that the bank's team will do their best to properly fulfill the set tasks. Our special thanks to our clients for their effective co-operation. FUIB will always aim at rendering you banking services of the highest quality. I am sure that working together we are able to implement a lot of interesting joint projects for the prosperity of the Ukrainian society.

Olexandra Voropayeva
Temporary Acting Chairman
of Management Board
Donetsk-Kyiv, April 2008

Financial Statements for 2007 and Auditor`s Report

ПУМБ

Comfortable Bank.

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Independent Auditor's Report

To the Shareholders and the Board of Closed Joint Stock Company First Ukrainian International Bank:

We have audited the accompanying financial statements of Closed Joint Stock Company First Ukrainian International Bank (the "Bank"), which comprise the balance sheet as at 31 December 2007, and the statement of income, statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Audit Services LLC

24 March 2008

(in thousands of US dollars — Note 3)

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Balance Sheet

	Notes	2007	2006
Assets			
Cash on hand and in transit	6	57,223	27,188
Balance with the National Bank of Ukraine	7	54,856	78,183
Due from other banks	8	110,370	90,670
Loans to customers	9	1,664,359	676,121
Investment securities available for sale	10	122,791	67,715
Other assets		19,722	12,076
Fixed assets	11	171,063	87,375
Investment property	11	4,406	2,861
Intangible assets	11	2,737	2,791
Total assets		**2,207,527**	**1,044,980**
Liabilities			
Due to other banks	12	37,980	53,541
Customer accounts	13	832,118	501,622
Eurobonds issued	14	282,896	-
Bonds issued	15	59,586	-
Other borrowed funds	16	474,706	290,838
Current income tax liability		2,205	932
Other liabilities	17	11,263	7,368
Deferred tax liability	24	24,083	8,119
Total liabilities		**1,724,837**	**862,420**

The notes set out on pages 40 to 96 form an integral part of these financial statements

(in thousands of US dollars — Note 3)

Balance Sheet (Continued)

	Notes	2007	2006
Equity			
Share capital	18	325,868	90,864
Share premium		11,247	11,247
Revaluation reserve for premises	11	67,556	31,269
Retained earnings		77,987	49,223
Revaluation reserve for investment securities available for sale		32	(43)
Total equity		**482,690**	**182,560**
Total liabilities and equity		**2,207,527**	**1,044,980**

Signed on behalf of the Management Board on March 24, 2008.

O.G. Voropayeva
(Temporary Acting Chairman
of the Management Board)

O.M. Moshkalova
(Chief Accountant)

The notes set out on pages 40 to 96 form an integral part of these financial statements

(in thousands of US dollars — Note 3)

Comfortable Bank.

Statement of Income

	Notes	2007	2006
Interest income	20	168,007	84,463
Interest expense	20	(96,068)	(41,537)
Net interest income	**20**	**71,939**	**42,926**
Allowance for loan impairment	8, 9	(14,824)	(13,102)
Net interest income after allowance for loan impairment		**57,115**	**29,824**
Fee and commission income	21	37,436	23,257
Fee and commission expense	21	(10,321)	(6,145)
Net fee and commission income	**21**	**27,115**	**17,112**
Gain less losses arising from dealing in foreign currencies		3,997	3,094
Foreign exchange translation result		824	(40)
Change in fair value of securities through profit or loss		-	(10)
Gain/ (loss) from disposal of securities available for sale		327	(24)
Provision for credit related commitments	26	(1,343)	(587)
Loss on disposal of non-current assets held for sale		-	(225)
Other income, net	22	2,178	1,229
Operating income		**90,213**	**50,373**
Operating expenses	23	(52,040)	(33,525)
Profit before income tax expense		**38,173**	**16,848**
Income tax expense	24	(10,163)	(5,520)
Net profit for the year		**28,010**	**11,328**

The notes set out on pages 40 to 96 form an integral part of these financial statements

(in thousands of US dollars — Note 3)

Statement of Cash Flows

	2007	2006
Cash flows from operating activities		
Interest income received	163,252	83,500
Interest expense paid	(77,762)	(34,120)
Fee and commission income received	37,333	23,257
Fee and commission expense paid	(10,321)	(6,145)
Gain/ (loss) from trading in securities	327	(10)
Income received from trading in foreign currencies	3,896	3,094
Other income received	2,077	679
Operating expenses paid	(42,196)	(26,165)
Income tax paid	(6,810)	(6,567)
Cash flows from operating activities before changes in operating assets and liabilities	**69,796**	**37,523**
Changes in operating assets and liabilities:		
Net decrease/(increase) in mandatory reserve balance with the National Bank of Ukraine	(15,337)	13,995
Net decrease in securities at fair value through profit or loss	-	15,782
Net decrease in due from other banks	10,327	63,583
Net increase in loans to customers	(996,815)	(329,053)
Net increase in other assets	(5,280)	(8,906)
Net increase /(decrease) in due to other banks	(16,567)	303
Net increase in customer accounts	321,817	116,145
Net increase in other liabilities	1,169	1,748
Net cash used in operating activities	**(630,890)**	**(88,880)**

The notes set out on pages 40 to 96 form an integral part of these financial statements

(in thousands of US dollars — Note 3)

Statement of Cash Flows (Continued)

	2007	2006
Cash flows from investing activities		
Purchase of fixed assets and intangible assets	(44,684)	(22,322)
Proceeds from sale of fixed assets	283	232
Acquisition of investment securities available for sale	(2,013,241)	(172,377)
Proceeds from disposal of investment securities available for sale	1,965,441	107,225
Proceeds from redemption of investment securities held to maturity	-	549
Proceeds from disposal of non-current assets held for sale	-	500
Net cash used in investing activities	**(92,201)**	**(86,193)**
Cash flows from financing activities		
Decrease in due to the National Bank of Ukraine	-	(547)
Proceeds from Eurobonds issued	271,657	-
Proceeds form bonds issued	59,887	-
Proceeds from other borrowed funds	464,239	348,585
Repayments of other borrowed funds	(286,661)	(169,610)
Share issue	235,004	60,000
Net cash from financing activities	**744,126**	**238,428**
Effect of exchange rate changes on cash and cash equivalents	480	116
Net increase in cash and cash equivalents	**21,515**	**63,471**
Cash and cash equivalents at the beginning of the year	145,645	82,174
Cash and cash equivalents at the end of the year (Note 6)	**167,160**	**145,645**

The notes set out on pages 40 to 96 form an integral part of these financial statements

(in thousands of US dollars — Note 3)

Statement of Changes in Equity

	Share capital	Share premium	Revaluation reserve for investment securities available for sale	Revaluation reserve for premises	Retained earnings	Total equity
Balance at 1 January 2006	**30,864**	**11,247**	**-**	**15,511**	**37,317**	**94,939**
Revaluation of premises	-	-	-	21,589	-	21,589
Depreciation transfer on revalued premises	-	-	-	(578)	578	-
Revaluation of investment securities available for sale	-	-	(57)	-	-	(57)
Tax effect recorded directly in equity	-	-	14	(5,253)	-	(5,239)
Net income recognised directly in equity	-	-	(43)	15,758	578	16,293
Net profit for the year	-	-	-	-	11,328	11,328
Total recognised income	-	-	(43)	15,758	11,906	27,621
Share issue (Note 18)	**60,000**	**-**	**-**	**-**	**-**	**60,000**
Balance at 31 December 2006	**90,864**	**11,247**	**(43)**	**31,269**	**49,223**	**182,560**
Revaluation of premises	-	-	-	49,389	-	49,389
Depreciation transfer on revalued premises	-	-	-	(754)	754	-
Revaluation of investment securities available for sale	-	-	83	-	-	83
Tax effect recorded directly in equity	-	-	(8)	(12,348)	-	(12,356)
Net income recognised directly in equity	-	-	75	36,287	754	37,116
Net profit for the year	-	-	-	-	28,010	28,010
Total recognised income	-	-	75	36,287	28,764	65,126
Share issue (Note 18)	**235,004**	**-**	**-**	**-**	**-**	**235,004**
Balance at 31 December 2007	**325,868**	**11,247**	**32**	**67,556**	**77,987**	**482,690**

The notes set out on pages 40 to 96 form an integral part of these financial statements

Notes to the Financial Statements

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: 2-a Universytetska Street, Donetsk, Ukraine. As at 31 December 2007 it had 11 branches throughout Ukraine. The Bank had 2,829 employees as at 31 December 2007 (2006 – 1,937 employees).

The Bank's shareholders as at 31 December 2007 are «SCM FINANCE» (99.8% of share capital) and a private shareholder (0.2% of share capital) (31 December 2006: «SCM FINANCE» – 99% 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 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 monetary 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 Preparation

General

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

3. Basis of Preparation (Continued)

The financial statements are prepared under the historical cost convention except as disclosed in the accounting policies below. For example, available for sale investments and premises have been measured at fair value.
The financial statements are presented in thousands of US dollars («USD») unless otherwise indicated.

Inflation accounting

The Ukrainian economy was regarded as being hyperinflationary for the ten-year period ended 31 December 2000. As such, the Bank has applied IAS 29 «Financial accounting in hyperinflationary economies». The effect of applying IAS 29 is that non-monetary items were restated using the Consumer Price Index to measuring units current at 31 December 2000, and these restated values were used as a basis for accounting in subsequent accounting periods.

Changes in accounting policies

During the year, the Bank has adopted the following new and amended IFRS. Adoption of these standards did not have any effect on the financial performance or position of the Bank. The principal effects of these changes are as follows:

IFRS 7 «Financial Instruments: Disclosures»

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

Amendment to IAS 1 «Presentation of Financial Statements»

This amendment requires the Bank to make new disclosures to enable users of the financial statements to evaluate the Bank's objectives, policies and processes for managing capital. These new disclosures are shown in Note 30.

4. Summary of Significant Accounting Policies

Financial assets

Initial recognition

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

4. Summary of Significant Accounting Policies (Continued)

Date of recognition

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets or loans and receivables. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of income. Interest calculated using the effective interest method is recognised in the statement of income.

Determination of fair value

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

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

Offsetting

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

4. Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents

Cash and cash equivalents are items which can be converted into cash within a day and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include balances on correspondent accounts and overnight deposits due from other banks, cash on hand and balance with the NBU, excluding mandatory reserve balance.

Mandatory reserve balance

The mandatory reserve balance is carried at amortised cost and represents funds, 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.

Sale and repurchase agreements

Sale and repurchase agreements («repo agreements») are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the balance sheet. 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») are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the balance sheet. Securities borrowed are not recorded in the balance sheet, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the statement of income. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

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

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.

4. Summary of Significant Accounting Policies (Continued)

Impairment of financial assets

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

Due from other banks and loans to customers

For due from other banks and loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence 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. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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

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

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

4. Summary of Significant Accounting Policies (Continued)

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

Available-for-sale nancial investments

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

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

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

Renegotiated loans

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

4. Summary of Significant Accounting Policies (Continued)

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

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 a loss is considered probable, provisions are recorded against other credit related commitments.

Derecognition of financial assets and liabilities

Financial assets

The Bank derecognises financial assets (or, where applicable, a part of a financial asset or part of a group of similar financial assets) when (i) the rights to cash flows from the assets have expired or (ii) the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement or (iii) the Bank has either (a) has transferred substantially all the risks and rewards of the asset, or (b) neither transferred nor retained substantially all risks and rewards of ownership but has not retained control of the asset.

Financial liabilities

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

Fixed assets

Fixed assets, other than premises, acquired after 31 December 2000 are stated at cost, less accumulated depreciation and any accumulated impairment, where required. Fixed assets, other than premises, 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 any accumulated impairment, where required.

4. Summary of Significant Accounting Policies (Continued)

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

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

The revaluation reserve 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.

Construction in progress is carried at cost, less provision for any impairment in value. Upon completion, assets are transferred to premises or leasehold improvements at their carrying value. Construction in progress is not depreciated until the asset is available for use.

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets using the following annual rates:

Premises	2%	
Leasehold improvements	20%	or over the term of lease if shorter than 5 years
Computers and other equipment	20-33%	

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

Intangible assets

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

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software and licences are amortised on a straight line basis over expected useful lives of 3 to 10 years.

4. Summary of Significant Accounting Policies (Continued)

Investment property

Investment property is property, which is held by and not occupied by the Bank, to earn rental income or for capital appreciation.
Investment property is initially recognised at cost, including transaction costs, and subsequently measured at fair value, which reflects market conditions at the balance sheet date. Gains and losses resulting from changes in the fair value of investment property are recorded in the statement of income in 'Other income' in the year in which they arise.

Borrowings

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

Share capital

Ordinary shares are classified as equity. Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses arising on the sale of treasury shares are shown as adjustments to share premium.

Foreign currency translation

The Ukrainian hryvnia is utilised as the functional currency as the majority of the transactions are denominated, measured, or funded in Ukrainian hryvnia. Transactions in other currencies are treated as transactions in foreign currencies. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of income as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.
The Bank uses the US dollar as the currency in which it presents its financial statements, which means that balance sheet items are translated into US dollars at the exchange rate ruling at the respective 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 ruling 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.

4. Summary of Significant Accounting Policies (Continued)

The US dollar («USD») has been selected as the presentation currency for the Bank for the following reasons:

- A significant portion of the transactions of the Bank are denominated in USD;
- The USD is the currency in which the Management of the Bank manages business risks and exposures, and measures the performance of its business.

As at 31 December 2007, the exchange rate of the Ukrainian hryvnia as established by the NBU was UAH 5.05 to 1 US dollar (2006: UAH 5.05) and UAH 7.41946 to 1 euro (2006: UAH 6.65085). The average exchange rate of the Ukrainian hryvnia for 2007 was UAH 5.05 to 1 US dollar (2006: UAH 5.05). The rates as at the date of issue of these financial statements were UAH 5.05 to one US dollar and UAH 7.788615 to one euro.

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 statement of income 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 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.

Recognition of income and expenses

Interest and similar income and expense

Interest income and expense are recorded in the statement of income for all financial instruments measured at amortised cost and interest bearing securities classified as available-for-sale at the effective interest method. 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.

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

4. Summary of Significant Accounting Policies (Continued)

Fee and commission income

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.

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.

Retirement and other employee benefit obligations

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. In addition, the Bank has no post-retirement benefits.

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 the statement of income on a straight-line basis over the period of the lease.

Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Bank have been reported separately within these financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

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4. Summary of Significant Accounting Policies (Continued)

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IAS 23 «Borrowing Costs»

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

IFRIC 12 «Service Concession Arrangements»

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

IFRIC 13 «Customer Loyalty Programmes»

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

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

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

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5. 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:

Allowance for impairment of loans and advances

The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the statement of income, 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.

Fair value of premises

As stated in Note 3, the premises of the Bank are subject to revaluation on a regular basis. Such revaluations are based on the results of work of independent valuers. The basis for their work is the sales comparison approach which is further confirmed by the income capitalisation approach. When performing the revaluation certain judgements and estimates are applied by the valuers in determination of the comparison of premises to be used in the sales comparison approach, the useful life of the assets revalued, the capitalisation rate to be applied for the income capitalisation approach. Capitalisation rates applied by the Bank varied from 10.5% to 16%, depending upon the location of the premises. Changes in assumptions about these factors could affect reported fair values. The valuation is based on comparative sales of premises with the a price per square metre varying from USD 796 to USD 9,952 (2006: from USD 590 to USD 6,120), depending upon the location of the premises. To the extent that the price per square metre differs by plus or minus 5 percent, the fair value of premises would be USD 7,272 thousand higher or USD 7,272 thousand lower (2006: USD 3,751 thousand higher or USD 3,751 thousand lower).

Related party transactions

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

6. Cash and Cash Equivalents

For the purpose of the cash flow statement cash and cash equivalents comprised the following:

	2007	2006
Current accounts and overnight deposits with other banks	81,307	51,163
Cash on hand and in transit	57,223	27,188
Current account with the National Bank of Ukraine (other than mandatory reserve balance, Note 7)	28,630	67,294
Total cash and cash equivalents	**167,160**	**145,645**

7. Balance with the National Bank of Ukraine

As at 31 December 2007, the balance on the current account with the National Bank of Ukraine equalled USD 54,856 thousand (2006: USD 78,183 thousand). In 2007, the mandatory reserve balance is calculated on the basis of a simple average over a monthly period (2006: a simple average over a monthly period) and as at 31 December 2007 should be maintained at the level of 0.5 to 5 per cent (31 December 2006: 6 to 8 percent) of certain obligations of the Bank. As such, the balance can vary from day-to-day. For December 2007, the Bank's mandatory reserve requirement was USD 26,226 thousand (for December 2006: USD 10,889 thousand).

As at 31 December 2007, in accordance with the NBU regulations the Bank was required to maintain the balance on account with the NBU at the level not less than 100% of the mandatory reserve balance for the preceding month (31 December 2006: not less than 90% of the mandatory reserve balance for the preceding month). The Bank met the NBU obligatory reserve requirements as at 31 December 2007 and 2006.

(in thousands of US dollars — Note 3)

8. Due from Other Banks

	2007	2006
Current accounts and overnight deposits with other banks		
- OECD countries	74,829	45,302
- Non-OECD countries	6,199	5,815
- Domestic	438	139
	81,466	**51,256**
Term deposits with other banks		
- Domestic	13,885	2,882
- OECD countries	6,681	19,140
	20,566	**22,022**
Reverse sale and repurchase agreements with other banks		
- Domestic	**8,338**	**17,392**
Total due from other banks	**110,370**	**90,670**

Current accounts and overnight deposits with other banks included accrued interest income of USD 159 thousand (2006: USD 93 thousand).
During 2007, the Bank placed with and received short-term funds from Ukrainian banks in various currencies. As at 31 December 2007, the Bank placed an equivalent of USD 610,099 thousand as deposits with Ukrainian banks and received an equivalent of USD 610,148 thousand from the same Ukrainian banks in different currencies (31 December 2006: placed an equivalent of USD 142,043 thousand and received an equivalent of USD 142,021 thousand). These deposits were treated as currency swaps for the purpose of these financial statements and were reported on a net basis at USD 49 thousand in other liabilities (2006: USD 22 thousand in other assets).
As at 31 December 2007, term deposits placed with other banks in OECD and non-OECD countries totalling USD 6,681 thousand (2006: USD 4,648 thousand) represented security deposits against import letters of credit and guarantees issued by the Bank in favour of its clients.
As at 31 December 2007, amounts due from other banks of USD 8,338 thousand (2006: USD 17,392 thousand) were effectively collateralised by securities purchased under reverse sale and repurchase agreements with a fair value of USD 8,342 thousand (2006: USD 17,467 thousand).
During 2006, the allowance for impairment against amounts due from other banks of USD 12 thousand was released.

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9. Loans to Customers

	2007	2006
Corporate loans	1,281,745	610,211
Loans to individuals	402,842	91,044
Discounted bills	20,584	765
	1,705,171	**702,020**
Allowance for loan impairment	(40,812)	(25,899)
Total loans to customers	**1,664,359**	**676,121**

As at 31 December 2007, the total gross amount of non-performing loans was USD 13,978 thousand (2006: USD 9,701 thousand). Non-performing loans include overdue loans with a delinquency term of over 60 days.

Included in gross loans to customers as at 31 December 2007 were loans of USD 1,548,168 thousand (2006: USD 664,277 thousand) with fixed interest rates and loans of USD 157,003 thousand (2006: USD 37,743 thousand) with floating interest rates.

Allowance for impairment of loans to customers

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

	Corporate loans	Loans to individuals	Discounted bills	Total
Balance at 1 January 2007	**22,155**	**3,725**	**19**	**25,899**
Charge for the year	10,390	4,169	265	14,824
Loans written off during the year as uncollectable	-	(10)	-	(10)
Exchange rate impact	94	5	-	99
Balance at 31 December 2007	**32,639**	**7,889**	**284**	**40,812**
Individual impairment	16,260	2,953	-	19,213
Collective impairment	16,379	4,936	284	21,599
	32,639	**7,889**	**284**	**40,812**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	35,313	15,976	-	51,289

(in thousands of US dollars — Note 3)

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9. Loans to Customers (Continued)

	Corporate loans	Loans to individuals	Discounted bills	Total
Balance at 1 January 2006	**13,364**	**576**	**-**	**13,940**
Charge for the year	9,937	3,158	19	13,114
Loans written off during the year as uncollectable	(1,196)	(9)	-	(1,205)
Exchange rate impact	49	1	-	50
Balance at 31 December 2006	**22,154**	**3,726**	**19**	**25,899**
Individual impairment	3,059	261	-	3,320
Collective impairment	19,095	3,465	19	22,579
	22,154	**3,726**	**19**	**25,899**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	9,595	1,335	-	10,930

Individually impaired loans

As at 31 December 2007, interest income accrued on impaired loans amounted to USD 160 thousand (2006: USD 82 thousand).
The fair value of collateral that the Bank holds relating to loans individually determined to be impaired as at 31 December 2007 amounts to USD 64,415 thousand (2006: USD 51,406 thousand). In accordance with Ukrainian legislation, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

Collateral and other credit enhancements

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

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

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

9. Loans to Customers (Continued)

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.
As at 31 December 2007, loans collateralised by customer deposits with the Bank amounted to USD 60,747 thousand (2006: USD 7,852 thousand) (Note 13).

Concentration of loans to customers

As at 31 December 2007, the Bank's 20 largest borrowers, with aggregate loan amounts of USD 498,461 thousand, represented 29% of the gross loan portfolio (2006: 20 largest borrowers, with aggregate loan amounts of USD 266,318 thousand, represented 38% of the gross loan portfolio).
The loan portfolio of the Bank by economic sector is as follows:

	2007	2006
Trade and agency services	609,228	211,215
Individuals	402,842	91,044
Food industry and agriculture	324,918	184,164
Metallurgy	136,508	38,939
Machine building	69,937	55,243
Chemical	28,667	37,888
Transport, communication and infrastructure	23,326	12,026
Mining	20,626	21,742
Other	89,119	49,759
Total loans to customers (gross amount)	**1,705,171**	**702,020**

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.
During year ended 31 December 2007, a loss on initial recognition of loans at rates below market of USD 427 thousand (2006: USD 677 thousand) has been recorded in the statement of income.

(in thousands of US dollars — Note 3)

10. Investment Securities Available for Sale

	2007	2006
Corporate bonds	116,764	67,715
Ukrainian Government debt securities	5,016	-
Municipal bonds	1,011	-
Total investment securities available for sale	**122,791**	**67,715**

11. Fixed Assets, Investment Property and Intangible Assets

	Premises	Leasehold improve-ments	Computers and other equipment	Capital investments in fixed assets	Total fixed assets	Invest-ment property	Intangible assets	Total
Cost or valuation								
1 January 2007	85,121	2,133	30,361	858	118,473	2,861	7,753	**129,087**
Additions	17,145	-	7,019	17,315	41,479	-	1,072	**42,551**
Disposals / write-offs	(7)	(570)	(1,356)	-	(1,933)	-	(1,526)	**(3,459)**
Transfers	5,777	2,548	6,405	(14,730)	-	-	-	**-**
Revaluation	56,685	-	-	-	56,685	1,545	-	**58,230**
Impairment loss	(243)	-	-	-	(243)	-	-	**(243)**
As at 31 December 2007	**164,478**	**4,111**	**42,429**	**3,443**	**214,461**	**4,406**	**7,299**	**226,166**
Depreciation and amortisation								
1 January 2007	10,100	1,646	19,352		31,098		4,962	**36,060**
Charge for the year (Note 23)	1,736	321	4,827		6,884		945	**7,829**
Disposals / write-offs	(15)	(548)	(1,314)		(1,877)		(1,345)	**(3,222)**
Transfers	(69)	(199)	268		-		-	**-**
Revaluation	7,296	-	-		7,296		-	**7,296**
Impairment loss	(3)	-	-		(3)		-	**(3)**
As at 31 December 2007	**19,045**	**1,220**	**23,133**		**43,398**		**4,562**	**47,960**
Net book value as at 31 December 2007	**145,433**	**2,891**	**19,296**	**3,443**	**171,063**	**4,406**	**2,737**	**178,206**

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11. Fixed Assets, Investment Property and Intangible Assets (Continued)

	Premises	Leasehold improve-ments	Computers and other equipment	Capital investments in fixed assets	Total fixed assets	Invest-ment 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	12,024	-	7,026	2,770	21,820	-	502	22,322
Disposals / write-offs	(31)	(602)	(1,308)	-	(1,941)	-	(6)	(1,947)
Transfers	1,495	417	-	(1,912)	-	-	-	-
Revaluation	24,216	-	-	-	24,216	550	-	24,766
As at 31 December 2006	**85,121**	**2,133**	**30,361**	**858**	**118,473**	**2,861**	**7,753**	**129,087**
Depreciation and amortisation								
1 January 2006	6,414	1,957	17,004		25,375		4,067	29,442
Charge for the year (Note 23)	1,059	233	3,527		4,819		901	5,720
Disposals / write-offs	-	(544)	(1,179)		(1,723)		(6)	(1,729)
Revaluation	2,627	-	-		2,627		-	2,627
As at 31 December 2006	**10,100**	**1,646**	**19,352**		**31,098**		**4,962**	**36,060**
Net book value as at 31 December 2006	**75,021**	**487**	**11,009**	**858**	**87,375**	**2,861**	**2,791**	**93,027**

As at 31 December 2007, the cost of fully depreciated assets still in use by the Bank amounted to USD 19,899 thousand (2006: USD 16,570 thousand).
As at 31 December 2007, the Bank's main office, furniture, equipment and ATMs, with a net book value of USD 174,709 thousand (2006: USD 76,194 thousand), were insured against risks of natural disasters, robbery, fire and unlawful acts of third parties.
The rental income received in respect of investment property for the year ended 31 December 2007 amounted to USD 464 thousand (2006: USD 423 thousand) (Note 22). The operating and maintenance expenses related to investment property for the year ended 31 December 2007 were USD 31 thousand (2006: USD 29 thousand).

(in thousands of US dollars — Note 3)

11. Fixed Assets, Investment Property and Intangible Assets (Continued)

The Bank's premises and investment property were independently valued in December 2007 for the purposes of these financial statements. The valuation was carried out by independent appraisers. The basis used for the appraisal was the sales comparison approach. This approach was confirmed by the income capitalisation approach.

As at 31 December 2007, the carrying amount of premises would have been USD 55,165 thousand (2006: USD 33,476 thousand) and the carrying amount of investment property would have been USD 1,080 thousand (2006: USD 1,080 thousand) had these assets been measured using the cost model.

The impairment of premises of USD 240 thousand (2006: none) and fair value gain on investment property of USD 1,545 thousand (2006: USD 550 thousand) was recorded in the statement of income (Note 22).

12. Due to Other Banks

	2007	2006
Current accounts of other banks		
- Domestic	27,160	20,145
- OECD countries	3,902	5,632
- Non-OECD countries	200	247
	31,262	**26,024**
Term deposits of other banks		
- Domestic	6,007	27,517
- Non-OECD countries	711	-
	6,718	**27,517**
Total due to other banks	**37,980**	**53,541**

As at 31 December 2007, included in term deposits of other banks were USD 66 thousand (2006: USD 66 thousand) held as collateral for commitments under import letters of credit and guarantees (Note 28).

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13. Customer Accounts

	2007	2006
Legal entities		
- Current accounts	176,610	160,113
- Term deposits	243,769	138,701
Individuals		
- Current accounts	104,809	72,278
- Term deposits	306,930	130,530
Total customer accounts	**832,118**	**501,622**

As at 31 December 2007, the Bank's 10 largest customers, with an aggregate amount of deposits of USD 205,035 thousand, represented 25% of customer accounts (2006: largest 10 customers, with an aggregate amount of deposits of USD 162,180 thousand, represented 32% of customer accounts).

As at 31 December 2007, included in customer accounts were deposits of USD 90,093 thousand (2006: USD 21,943 thousand) held as collateral for loans to customers of USD 60,747 thousand (2006: USD 7,852 thousand) (Note 9) and loan commitments of USD 13,390 thousand (2006: USD 6,666 thousand). In addition, USD 15,743 thousand (2006: USD 8,592 thousand) is held as collateral for commitments under import letters of credit, guarantees and promissory notes endorsements (Note 28).

In accordance with Ukrainian legislation, the Bank is obliged to repay time deposits of individuals upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

(in thousands of US dollars — Note 3)

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13. Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

	2007	2006
Individuals	411,739	202,808
Trade and agency services	107,295	73,627
Machine-building	75,373	17,185
Mining and energy	68,027	74,285
Transport and infrastructure	22,550	17,963
Non-banking financial institutions	20,227	43,757
Metallurgy	14,331	29,123
Chemical	12,231	14,911
Agriculture and food	11,717	5,142
Non-commercial institutions	3,830	1,509
Other	84,798	21,312
Total customer accounts	**832,118**	**501,622**

14. Eurobonds Issued

In 2007, the Bank obtained a loan amounting to USD 275,000 thousand from Standard Bank Plc (carrying value of USD 282,896 thousand as at 31 December 2007). This loan was funded by 9.75% loan participation notes («Eurobonds») issued by, but without recourse to, Standard Bank Plc, for the sole purpose of funding the loan to the Bank. The loan matures in February 2010. The interest rate on the loan is 9.75% p.a. Interest payments are made semi-annually in arrears on 14 February and 16 August of each year, commencing 16 August 2007.

15. Bonds Issued

In June 2007, the Bank issued hryvnia denominated bonds for the total nominal amount of USD 59,406 thousand (UAH 300,000 thousand) (carrying value of USD 59,586 thousand as at 31 December 2007). These bonds bear interest at 12.0% p.a. and mature in June 2010.

16. Other Borrowed Funds

	2007	2006
Standard Bank London Limited	242,344	105,813
Cargill Financial Services International, Inc.	159,591	89,850
Black Sea Trade and Development Bank	18,328	10,157
Fortis Bank (Nederland) N.V.	11,640	-
LB INTERFINANZ AG	8,946	9,888
Bank Austria Creditanstalt AG	-	55,060
Other facilities	33,857	20,070
Total other borrowed funds	**474,706**	**290,838**

Loans from Standard Bank London Limited were denominated in US dollars and bear interest of Libor + 1.9% p.a. on the outstanding amount with maturity from 20 August 2008 to 27 November 2008.

Loans from Cargill Financial Services International are denominated in US dollars and bear interest at a weighted average rate 9.3% p.a. on the outstanding amount with maturity from 11 January 2008 to 22 December 2008.

Loans from Black Sea Trade and Development Bank are denominated in US dollars and bear interest of Libor + 2.5% p.a. on the outstanding amount with maturity from 11 August 2008 to 16 October 2008.

Loans from Fortis Bank (Nederland) N.V. are denominated in euro and US dollars and bear interest at a weighted average rate Euribor + 3.0% (for euro) and Libor + 2.2% (for US dollars) p.a. on the outstanding amount with maturity from 25 March 2008 to 22 February 2009. The loans were received for the purpose of financing the acquisition of import equipment by the Bank's customers.

Loans from LB INTERFINANZ AG are denominated in euro and US dollars and bear interest at a weighted average rate Libor + 6.2% (for euro) and Libor + 5.4% (for US dollars) p.a. on the outstanding amount with maturity from 28 March 2008 to 1 December 2011. The loans were received for the purpose of financing acquisition of import equipment by the Bank's customers.

Included in other facilities is USD 33,857 thousand, which represents funds received from other banks for the purposes of financing the acquisition of import equipment by the Bank's customers. These facilities are denominated in US dollars, euro and Swiss francs and bear interest at a weighted average rate of 7.0% (for euro), 7.1% (for US dollars) and 5.8% (for Swiss francs) p.a. on the outstanding amount with maturity from 17 January 2008 to 14 January 2010.

(in thousands of US dollars — Note 3)

17. Other Liabilities

	2007	2006
Amounts payable to employees	3,298	1,868
Payable under operations with plastic cards	1,127	1,577
Software costs payable under licensing agreements	1,042	1,383
Provision for credit related commitments (Note 28)	2,584	1,213
Other taxes payable	424	280
Other accruals and deferred income	2,788	1,047
Total other liabilities	**11,263**	**7,368**

18. Share Capital

As at 31 December 2007, the Bank's authorised share capital comprises 6,577,280 ordinary shares (31 December 2006: 1,417,400 shares) with a nominal value of UAH 230 (USD 45.54 at 31 December 2007 exchange rate of 5.05 UAH for 1 USD) per share. All shares have equal voting rights.

	31 December 2007			31 December 2006		
	Number of shares	Nominal amount	Inflation adjusted amount	Number of shares	Nominal amount	Inflation adjusted amount
Ordinary shares/ Total share capital	6,577,280	299,559	325,868	1,417,400	64,555	90,864

19. 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 trading in financial instruments, structured financing, corporate leasing, merger and acquisitions advice.

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19. Segment Analysis (Continued)

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.

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

2007	Retail banking	Corporate banking	Investment banking and treasury	Unallocated	Total
Assets					
Segment assets	493,449	1,409,656	258,737	-	**2,161,842**
Unallocated assets	-	-	-	45,685	**45,685**
Total assets	**493,449**	**1,409,656**	**258,737**	**45,685**	**2,207,527**
Liabilities					
Segment liabilities	412,866	689,271	588,983	-	**1,691,120**
Current and deferred tax liabilities	-	-	-	26,288	**26,288**
Other unallocated liabilities	-	-	-	7,429	**7,429**
Total liabilities	**412,866**	**689,271**	**588,983**	**33,717**	**1,724,837**
Other segment items					
Capital expenditure	21,603	19,510	485	953	**42,551**
Allowance for loan impairment	(4,169)	(10,655)	-	-	**(14,824)**
Depreciation and amortisation expense	(1,812)	(4,383)	(113)	(1,521)	**(7,829)**

(in thousands of US dollars — Note 3)

19. Segment Analysis (Continued)

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

2007	Retail banking	Corporate banking	Investment banking and treasury	Unallocated	Eliminations	Total
External revenues	38,338	127,179	32,268	8,122	-	**205,907**
Revenues from other segments	2,457	-	7,753	30,475	(40,685)	**-**
Total revenues	**40,795**	**127,179**	**40,021**	**38,597**	**(40,685)**	**205,907**
Total revenues comprise:						
- Interest income	28,454	112,997	36,765	30,476	(40,685)	**168,007**
- Fee and commission income	12,341	14,182	3,256	7,657	-	**37,436**
- Rental income (Note 22)	-	-	-	464	-	**464**
Total revenues	**40,795**	**127,179**	**40,021**	**38,597**	**(40,685)**	**205,907**
Segment result	1,337	32,861	(3,247)	7,222	-	**38,173**
Income tax expense	-	-	-	-	-	**(10,163)**
Profit	**-**	**-**	**-**	**-**	**-**	**28,010**

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19. Segment Analysis (Continued)

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

2006	Retail banking	Corporate banking	Investment banking and treasury	Unallocated	Total
Assets					
Segment assets	126,408	655,407	229,560	-	**1,011,375**
Unallocated assets	-	-	-	33,605	**33,605**
Total assets	**126,408**	**655,407**	**229,560**	**33,605**	**1,044,980**
Liabilities					
Segment liabilities	204,385	421,835	222,838	-	**849,058**
Current and deferred tax liabilities	-	-	-	9,051	**9,051**
Other unallocated liabilities	-	-	-	4,311	**4,311**
Total liabilities	**204,385**	**421,835**	**222,838**	**13,362**	**862,420**
Other segment items					
Capital expenditure	10,898	9,989	738	697	**22,322**
Allowance for loan impairment	(3,158)	(9,956)	12	-	**(13,102)**
Depreciation and amortisation expense	(1,060)	(3,061)	(98)	(1,501)	**(5,720)**

(in thousands of US dollars — Note 3)

19. Segment Analysis (Continued)

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

2006	Retail banking	Corporate banking	Investment banking and treasury	Unallocated	Eliminations	Total
External revenues	12,185	73,550	17,629	4,779	-	**108,143**
Revenues from other segments	9,272	-	-	12,024	(21,296)	**-**
Total revenues	**21,457**	**73,550**	**17,629**	**16,803**	**(21,296)**	**108,143**
Total revenues comprise:						
- Interest income	14,399	64,135	15,201	12,024	(21,296)	**84,463**
- Fee and commission income	7,058	9,415	2,428	4,356	-	**23,257**
- Rental income (Note 22)	-	-	-	423	-	**423**
Total revenues	**21,457**	**73,550**	**17,629**	**16,803**	**(21,296)**	**108,143**
Segment result	1,282	18,683	1,533	(4,650)	-	**16,848**
Income tax expense	-	-	-	-	-	**(5,520)**
Profit	**-**	**-**	**-**	**-**	**-**	**11,328**

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Comfortable Bank.

19. Segment Analysis (Continued)

Geographical segments. Segment information for the main geographical segments of the Bank is set out below as at 31 December 2007 and as at 31 December 2006 and for the years then ended.

	Ukraine	OECD	Non-OECD	Total
2007				
Segment assets	2,117,979	81,804	7,744	**2,207,527**
Total segment assets	**2,117,979**	**81,804**	**7,744**	**2,207,527**
External revenues	200,395	5,260	252	**205,907**
Capital expenditure	42,551	-	-	**42,551**
Credit related commitments	389,405	1,600	708	**391,713**
2006				
Segment assets	974,465	64,700	5,815	**1,044,980**
Total segment assets	**974,465**	**64,700**	**5,815**	**1,044,980**
External revenues	104,534	3,587	22	**108,143**
Capital expenditure	22,322	-	-	**22,322**
Credit related commitments	252,061	437	45	**252,543**

External revenues and assets, and credit related commitments have been allocated based on the 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.
Balances and revenues with OECD countries includes Austria, Belgium, Canada, Czech Republic, Denmark, Germany, Japan, Netherlands, Poland, Sweden, Switzerland, United Kingdom, USA.

(in thousands of US dollars — Note 3)

20. Interest Income and Expense

	2007	2006
Interest income		
Loans to customers		
- legal entities	112,638	63,753
- individuals	25,997	5,127
Due from other banks	15,068	11,180
Securities	14,304	4,403
Total interest income	**168,007**	**84,463**
Interest expense		
Individuals		
- term deposits	(20,238)	(9,380)
- current accounts	(857)	(635)
Legal entities		
- term deposits	(14,212)	(8,308)
- current accounts	(1,795)	(2,081)
Due to other banks	(7,972)	(4,593)
Eurobonds issued	(21,530)	-
Bonds issued	(3,492)	-
Other borrowed funds	(25,972)	(16,540)
Total interest expense	**(96,068)**	**(41,537)**
Net interest income	**71,939**	**42,926**

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Comfortable Bank.

21. Fee and Commission Income and Expense

	2007	2006
Payment cards	17,072	11,900
Foreign currency exchange	5,932	3,832
Payments	2,946	2,518
Documentary operations	4,167	2,030
Cash deposits and withdrawals	1,873	1,204
Other	5,446	1,773
Fee and commission income	**37,436**	**23,257**
Payment cards	(7,535)	(4,638)
Cash collections	(713)	(553)
Reuters	(349)	(360)
Payments	(403)	(326)
Documentary operations	(246)	(125)
Other	(1,075)	(143)
Fee and commission expense	**(10,321)**	**(6,145)**
Net fee and commission income	**27,115**	**17,112**

22. Other Income, net

	2007	2006
Income from revaluation of investment property (Note 11)	1,545	550
Rental income (Note 11)	464	423
Expenses from revaluation of buildings (Note 11)	(240)	-
(Loss)/ gain on disposal of fixed assets	(17)	14
Other	426	242
Total other income, net	**2,178**	**1,229**

(in thousands of US dollars — Note 3)

23. Operating Expenses

	2007	2006
Salary, employee benefits and compulsory contributions to the State funds	25,037	15,169
Depreciation and amortisation (Note 11)	7,829	5,720
Maintenance of premises and equipment	4,755	3,449
Lease of premises	2,768	1,306
Advertising, entertainment, representative offices maintenance	2,382	1,423
State duties and taxes, other than on income	1,764	1,394
Communication	1,631	1,094
Security services	952	786
Audit, legal, consulting services	742	870
Training	336	309
Charitable contributions	189	121
Other	3,655	1,884
Total operating expenses	**52,040**	**33,525**

Included in salary, employee benefits and compulsory contributions to State funds are statutory social security and pension contributions of USD 6,001 thousand (2006: USD 3,209 thousand). Pension contributions are made into State pension fund which is a defined contribution plan.

24. Income Taxes

Income tax expense was comprised of the following:

	2007	2006
Current tax charge	6,555	6,991
Deferred tax	3,608	(1,471)
Income tax expense for the year	**10,163**	**5,520**

24. Income Taxes (Continued)

The income tax rate applicable to the Bank's income is 25% (2006: 25%). A reconciliation between the expected and the actual income tax expense is provided below:

	2007	2006
Profit before income tax expense	**38,173**	**16,848**
Theoretical tax charge at the applicable statutory rate	9,543	4,212
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income assessable for tax purposes only	95	64
- Income which is exempt from taxation	(147)	(4)
- Non deductible expenses	824	1,400
- Expenses deductible for tax purposes only	-	(2)
- Other non temporary differences	(152)	(150)
Income tax expense for the year	**10,163**	**5,520**

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

	31 December 2006	Credited/ (charged) to statement of changes in equity	Credited/ (charged) to statement of income	31 December 2007
Tax effect of deductible and taxable temporary differences				
Allowance for loan impairment and credit related commitments	**2,036**	-	(4,363)	**(2,327)**
Fair value of securities	**14**	(8)	1,322	**1,328**
Fixed assets and investment property	**(11,862)**	(12,348)	(1,739)	**(25,949)**
Accrued interest and commission income	**722**	-	1,685	**2,407**
Accrued interest and commission expense	**1,099**	-	(670)	**429**
Other	**(128)**	-	157	**29**
Net deferred tax liability	**(8,119)**	**(12,356)**	**(3,608)**	**(24,083)**

(in thousands of US dollars — Note 3)

24. Income Taxes (Continued)

	31 December 2005	Credited/ (charged) to statement of changes in equity	Credited/ (charged) to statement of income	31 December 2006
Tax effect of deductible and taxable temporary differences				
Allowance for loan impairment and credit related commitments	**462**	-	1,574	**2,036**
Non-current assets held for sale	**889**	-	(889)	**-**
Fair value of securities	**(213)**	14	213	**14**
Fixed assets and investment property	**(5,702)**	(5,253)	(907)	**(11,862)**
Accrued interest and commission income	**406**	-	316	**722**
Accrued interest and commission expense	**41**	-	1,058	**1,099**
Other	**(234)**	-	106	**(128)**
Net deferred tax liability	**(4,351)**	**(5,239)**	**1,471**	**(8,119)**

25. Risk Management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk Management Process

Risk management policy, monitoring and control are conducted by a number of specialised bodies and units within the Bank. The bodies most actively involved in such management are: 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.

25. Risk Management (Continued)

Supervisory Board

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 the amounts in excess of 20% of the value of the Banks equity capital.

Board of Directors

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

Assets and Liabilities Committee

Assets and Liabilities Committee is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the interest, currency and liquidity risks of the Bank.

Credit Risk Management Division

Credit Risk Management Department is responsible for implementing and maintaining credit risk related procedures.

Market and Operational Risk Management Division

Market and operational risk management division is responsible for development of risk management methodologies, procedures and reporting, which allows to perform a quantitative assessment of liquidity, interest and currency risks. This department is monitoring the above mentioned risks on a daily basis and controls implementation of Assets and Liabilities Management Committee decisions.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

25. Risk Management (Continued)

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, Assets and Liabilities Management Committee, Credit Council and the head of each respective business division. The report includes the information on aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity and interest rate risks and risk profile changes. On a monthly basis detailed reporting of liquidity, currency and interest rate risks, industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.
The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.
In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

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.

Derivative financial instruments

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

25. Risk Management (Continued)

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

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

	2007	2006
Balance with the National Bank of Ukraine (Note 7)	54,856	78,183
Due from other banks (Note 8)	110,370	90,670
Loans to customers (Note 9)	1,664,359	676,121
Investment securities available for sale (Note 10)	122,791	67,715
Other assets	4,318	564
Financial contingencies and commitments (Note 28)	292,074	138,394
Total credit risk exposure	**2,248,768**	**1,051,647**

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

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

Credit quality of nancial assets

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

(in thousands of US dollars — Note 3)

Comfortable Bank.

25. Risk Management (Continued)

As at 31 December 2007	Note	Neither past due nor impaired			Overdue or individually impaired	Total
		High rating	Standard rating	Below the Standard rating		
Due from other banks	8	98,646	6,492	5,232	-	**110,370**
Loans to customers	9					
- Corporate loans		240,905	674,228	331,299	35,313	**1,281,745**
- Loans to individuals		132,712	248,613	5,541	15,976	**402,842**
- Discounted bills		16,302	-	4,282	-	**20,584**
Investment securities available for sale	10	37,160	69,657	15,974	-	**122,791**
Total		**525,725**	**998,990**	**362,328**	**51,289**	**1,938,332**

As at 31 December 2006	Note	Neither past due nor impaired			Overdue or individually impaired	Total
		High rating	Standard rating	Below the Standard rating		
Due from other banks	8	79,943	8,628	2,099	-	**90,670**
Loans to customers	9					
- Corporate loans		89,667	352,303	155,335	12,906	**610,211**
- Loans to individuals		32,143	56,628	-	2,273	**91,044**
- Discounted bills		-	765	-	-	**765**
Investment securities available for sale	10	10,186	38,112	19,417	-	**67,715**
Total		**211,939**	**456,436**	**176,851**	**15,179**	**860,405**

25. Risk Management (Continued)

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

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

As at 31 December 2007, the Bank did not have past due but not impaired loans.

As at 31 December 2006	Up to 30 days	From 31 to 60 days	From 61 to 90 days	More than 91 days	Total
Loans to customers					
- Corporate loans	3,311	-	-	-	3,311
- Loans to individuals	803	117	13	5	938
Total	**4,114**	**117**	**13**	**5**	**4,249**

Of the total aggregate amount of gross past due but not impaired loans to customers, the fair value of collateral that the Bank held as at 31 December 2006 was UAH 1,255 thousand. See 'Collateral and other credit enhancements' in Note 9 for the details of types of collateral held.
See Note 9 for more detailed information with respect to the allowance for impairment of loans to customers.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 60 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

(in thousands of US dollars — Note 3)

25. Risk Management (Continued)

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated at each reporting date with each portfolio receiving a separate review.
The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet any objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.
Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.
The Bank maintains a portfolio of diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains certain level of funds with the NBU (including mandatory reserve balance) and on correspondent accounts with other banks to meet its own and clients' obligations.
The liquidity position is assessed and managed by the Bank, based on certain liquidity ratios established by the NBU. As at 31 December, these ratios were as follows:

Ratio	2007, %	2006, %
N4 «Instant Liquidity Ratio» (cash and balances on correspondent accounts / liabilities repayable on demand) (minimum required by the NBU – 20%)	57,48	68,09
N5 «Current Liquidity Ratio» (assets receivable or realisable within 31 days / liabilities repayable within 31 days) (minimum required by the NBU – 40%)	77,78	75,03
N6 «Short-term Liquidity Ratio» (certain assets with original maturity up to 1 year / liabilities with original maturity up to 1 year including off-balance sheet commitments) (minimum required by the NBU – 20%)	42,10	32,41

25. Risk Management (Continued)

Analysis of financial liabilities by remaining contractual maturities

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

As at 31 December 2007	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Due to other banks	37,269	450	261	-	-	**37,980**
Customer accounts	334,027	80,327	175,996	178,598	63,170	**832,118**
Eurobonds issued	-	10,386	-	-	275,000	**285,386**
Bonds issued	156	-	-	-	59,406	**59,562**
Other borrowed funds	15,996	7,122	97,626	343,367	12,793	**476,904**
Total undiscounted financial liabilities	**387,448**	**98,285**	**273,883**	**521,965**	**410,369**	**1,691,950**

As at 31 December 2006	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Due to other banks	53,475	-	66	-	-	**53,541**
Customer accounts	267,015	36,331	105,385	79,879	13,012	**501,622**
Other borrowed funds	15,530	55,406	80,991	129,938	9,529	**291,394**
Total undiscounted financial liabilities	**336,020**	**91,737**	**186,442**	**209,817**	**22,541**	**846,557**

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

(in thousands of US dollars — Note 3)

25. Risk Management (Continued)

	Up to 1 month	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
2007	152,340	70,439	71,879	-	**294,658**
2006	77,631	55,142	6,803	31	**139,607**

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

Market risk – Non-trading

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Bank manages exposures to market risk for non-trading portfolios. Non-trading positions are managed and monitored using other sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

Interest rate risk

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

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

	2007		2006	
Interest rate	**Change in interest rate, basis points**	**Effect on profit before income tax expense**	**Change in interest rate, basis points**	**Effect on profit before income tax expense**
Libor	+75	(291)	+50	(406)
Libor	-125	485	-100	812
Euribor	+75	169	+150	573
Euribor	-150	(338)	-50	(191)

25. Risk Management (Continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBU regulations. Positions are monitored on a daily basis.
The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2007 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against hryvnia, with all other variables held constant on the statement of income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of income. A negative amount in the table reflects a potential net reduction in the statement of income or equity, while a positive amount reflects a net potential increase.

Currency	2007		2006	
	Change in currency rate, %	Effect on profit before income tax expense	Change in currency rate, %	Effect on profit before income tax expense
US dollars	+4.0	1,182	+4.0	(95)
US dollars	-2.0	(597)	-2.0	48
Euro	+10.1	493	+10.3	75
Euro	-8.4	(410)	-8.5	(62)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

26. Fair Values of Financial Instruments

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

(in thousands of US dollars — Note 3)

26. Fair Values of Financial Instruments (Continued)

	2007			2006		
	Carrying value	Fair value	Unrecognised income (expense)	Carrying value	Fair value	Unrecognised income (expense)
Financial assets						
Cash on hand	57,223	57,223	-	27,188	27,188	-
Balance with the National Bank of Ukraine	54,856	54,856	-	78,183	78,183	-
Due from other banks	110,370	110,720	350	90,670	89,672	(998)
Loans to customers	1,664,359	1,696,768	32,409	676,121	644,055	(32,066)
Investment securities available for sale	122,791	123,169	378	67,715	67,815	100
Financial liabilities						
Due to other banks	37,980	37,980	-	53,541	53,541	-
Customer accounts	832,118	806,596	(25,522)	501,622	496,699	(4,923)
Eurobonds issued	282,896	257,125	(25,771)	-	-	-
Bonds issued	59,586	59,688	102	-	-	-
Other borrowed funds	474,706	470,589	(4,117)	290,838	286,533	(4,305)
Total unrecognized change in unrealised in fair value	**-**	**-**	**(22,171)**	**-**	**-**	**(42,192)**

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

Assets for which fair value approximates carrying value

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

26. Fair Values of Financial Instruments (Continued)

Fixed rate financial instruments

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

Financial instruments recorded at fair value

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

As at 31 December 2007	Quoted market price	Valuation techniques – market observable inputs	Valuation techniques – non-market observable inputs	Total
Financial assets				
Investment securities available for sale	66,746	14,226	41,819	122,791

As at 31 December 2006	Quoted market price	Valuation techniques – market observable inputs	Valuation techniques – non-market observable inputs	Total
Financial assets				
Investment securities available for sale	62,714	5,001	-	67,715

Certain financial instruments are recorded at fair value using valuation techniques as current market transactions or observable market data are not available. Their fair value is determined using discounted cash flow analysis. The potential effect of using reasonably possible alternative assumptions for valuing financial instruments would reduce the fair value by USD 567 thousand.

(in thousands of US dollars — Note 3)

27. Maturity Analysis of Financial Assets and Liabilities

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

As at 31 December 2007	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Assets						
Cash on hand and in transit	57,223	-	-	-	-	**57,223**
Balances with the National Bank of Ukraine	54,856	-	-	-	-	**54,856**
Due from other banks	103,689	86	1,845	982	3,768	**110,370**
Loans to customers	107,209	96,536	146,066	317,652	996,896	**1,664,359**
Investment securities available for sale	52,855	14,724	21,030	33,984	198	**122,791**
Total assets	**375,832**	**111,346**	**168,941**	**352,618**	**1,000,862**	**2,009,599**
Liabilities						
Due to other banks	37,269	450	261	-	-	**37,980**
Customer accounts	334,027	80,327	175,996	178,598	63,170	**832,118**
Eurobonds issued	-	10,386	-	-	272,510	**282,896**
Bonds issued	180	-	-	-	59,406	**59,586**
Other borrowed funds	15,995	7,123	97,625	341,170	12,793	**474,706**
Total liabilities	**387,471**	**98,286**	**273,882**	**519,768**	**407,879**	**1,687,286**
Net	**(11,639)**	**13,060**	**(104,941)**	**(167,150)**	**592,983**	**322,313**

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27. Maturity Analysis of Financial Assets and Liabilities (Continued)

As at 31 December 2006	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Assets						
Cash on hand and in transit	27,188	-	-	-	-	**27,188**
Balances with the National Bank of Ukraine	78,183	-	-	-	-	**78,183**
Due from other banks	84,706	1,393	3,427	968	176	**90,670**
Loans to customers	47,925	61,630	94,607	156,930	315,029	**676,121**
Investment securities available for sale	8,579	8,057	10,850	40,229	-	**67,715**
Total assets	**246,581**	**71,080**	**108,884**	**198,127**	**315,205**	**939,877**
Liabilities						
Due to other banks	53,476	-	65	-	-	**53,541**
Customer accounts	267,901	36,124	105,254	79,551	12,792	**501,622**
Eurobonds issued	15,706	55,397	80,982	129,391	9,362	**290,838**
Total liabilities	**337,083**	**91,521**	**186,301**	**208,942**	**22,154**	**846,001**
Net	**(90,502)**	**(20,441)**	**(77,417)**	**(10,815)**	**293,051**	**93,876**

The Bank's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. There is a significant deficit in the period less than one year, resulting from a significant concentration of loans received from international financial institutions (Note 16).

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due up to 1 month in the tables above.

Included in amounts due to customers are term deposits of individuals. In accordance with the Ukrainian legislation, the Bank is obliged to repay such deposits upon demand of a depositor (Note 13).

The Bank has access to diversified funding resources. Funds are raised using a broad range of instruments including deposits, certificates of deposits, Eurobonds, local bonds and share capital. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities.

Comfortable Bank.

28. Contingencies, Commitments and Derivative Financial Instruments

Legal

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 and other regulatory compliance

Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Bank has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.
At the same time there is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future, although this risk significantly diminishes with passage of time. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome.

Capital expenditure commitments

As at 31 December 2007, the Bank had capital expenditure commitments in respect of purchase of equipment of USD 9,404 thousand (2006: USD 4,525 thousand). The Bank's Management has already allocated the necessary resources in respect of this commitment. The Bank's Management believes that future income and funding will be sufficient to cover this commitment and any similar commitments.

Compliance with covenants

The Bank is subject to certain covenants related primarily to other borrowed funds. Non-compliance with such covenants may result in negative consequences for the Bank including growth in the cost of borrowings and declaration of default. In particular, the Bank is required to maintain certain level of equity, capital adequacy ratio, liquid assets to total assets ratio, maximum exposure to a single party to capital, maximum exposure to a single party which is a connected party to the Bank to capital, ratio of operating expenses to operating results, ratio of fixed and intangible assets to capital. Failure to comply with these requirements could lead to early withdrawal of funds by the creditors upon their discretion.

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

28. Contingencies, Commitments and Derivative Financial Instruments (Continued)

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.

Letters of credit issued by the Bank are as follows:

	2007	2006
Confirmed export letters of credit	2,112	482
Import letters of credit	104,020	15,594
Cash collateral (Note 12, 13)	(8,131)	(2,013)
Provision for import letters of credit	(1,322)	(203)
Total letters of credit	**96,679**	**13,860**

Guarantees issued are as follows:

	2007	2006
Guarantees and promissory note endorsements	121,336	115,473
Cash collateral (Note 12, 13)	(7,678)	(6,645)
Provision for guarantees	(1,262)	(1,010)
Total guarantees	**112,396**	**107,818**

The amount of undrawn commitments to extend credit issued by the Bank as at 31 December 2007 was USD 180,054 thousand (2006: USD 129,652 thousand). As at 31 December 2007 and 2006 the Bank did not have irrevocable commitments to extend credit.

As at 31 December 2007, the Bank did not have any bond underwriting commitments (2006: USD 990 thousand).

(in thousands of US dollars — Note 3)

28. Contingencies, Commitments and Derivative Financial Instruments (Continued)

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

	2007	2006
Provision for credit related commitments as at 1 January	1,213	617
Charge for provision for credit related commitments during the year	1,343	587
Exchange rate impact	28	9
Provision for credit related commitments as at 31 December (Note 17)	**2,584**	**1,213**

Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under operating leases are as follows:

	2007	2006
Not later than 1 year	3,775	1,559
Later than 1 year and not later than 5 years	8,821	3,007
Later than 5 years	10,662	7,013
Total operating lease commitments	**23,258**	**11,579**

Derivative financial instruments

The Bank had outstanding foreign exchange contracts with banks as at 31 December 2007:

	2007			
	Purchase of foreign currency	(Sale of foreign currency)	Positive fair value	(Negative fair value)
Currency forwards	380,824	(380,966)	910	(1,052)
Currency swaps	610,099	(610,148)	1,502	(1,551)
Total	**990,923**	**(991,114)**	**2,412**	**(2,603)**

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28. Contingencies, Commitments and Derivative Financial Instruments (Continued)

The Bank had outstanding foreign exchange contracts with banks as at 31 December 2006:

	2006			
	Purchase of foreign currency	(Sale of foreign currency)	Positive fair value	(Negative fair value)
Currency forwards	40,829	(40,843)	1	(15)
Currency swaps	142,043	(142,021)	79	(57)
Total	**182,872**	**(182,864)**	**80**	**(72)**

The resulting net fair value gain or loss was recorded in the gains less losses from dealing with foreign currencies.
As at 31 December 2007, the Bank had commitments to sell corporate bonds for USD 67,190 thousand (2006: USD 7,068 thousand). The fair value of these bonds was USD 67,190 thousand (2006: USD 7,025 thousand).

Fiduciary assets

These assets are not included in the Bank's balance sheet as they are not assets of the Bank. The nominal values disclosed below are normally different from the fair values of the respective securities.

	2007 Nominal value	2006 Nominal value
Shares in companies and other securities held on behalf of customers	3,945	15,856

As at 31 December 2007 and 31 December 2006 no insurance cover for fiduciary assets was maintained.

29. Related Party Transactions

For the purposes of these financial statements, parties are generally 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 31 December 2007 and as at 31 December 2006 and income and expenses for the years then ended are as follows:

(in thousands of US dollars — Note 3)

29. Related Party Transactions (Continued)

As at 31 December 2007	Parent company	Entities under common control	Management	Other related parties
Assets				
Investment securities available for sale	-	1,712 (12.8)	-	-
Loans to customers (interest rate, % p.a)	-	22,311 (12.0)	356 (8.8)	831 (11.3)
Allowance for loan impairment	-	(308)	(3)	(8)
Other assets	-	415	-	-
Liabilities				
Due to other banks (interest rate, % p.a)	-	1,687 (0.5)	-	-
Customer accounts (interest rate, % p.a)	14 (0.5)	20,846 (3.4)	526 (10.4)	4,180 (9.0)
Credit related commitments				
Guarantees	-	75	-	-
Provision for credit related commitments	-	(1,209)	-	-
Promissory note endorsements	-	1,140	-	-
Revocable commitments to extend credit	-	14,325	-	-
Non-confirmed letters of credit	-	1,525	-	-
Income / expense				
Interest income	-	1,649	19	24
Interest expense	(36)	(1,049)	(7)	(45)
Fee and commission income	9	2,091	2	3
Fee and commission expense	-	(440)	-	(1)
Trade income	-	(14)	-	-
Other income	6	24	-	-
Allowance for loan impairment	-	(89)	-	-
Recovery of provision for credit related commitments	-	15	-	-
Lease expense	-	(3)	-	-
Insurance expense	-	(248)	-	-

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29. Related Party Transactions (Continued)

As at 31 December 2006	Parent company	Entities under common control	Management	Other elated parties
Assets				
Loans to customers (interest rate, % p.a)	-	8,757 (15.4)	143 (4.5)	51 (3.0)
Allowance for loan impairment	-	(219)	(3)	(10)
Other assets	-	6	-	-
Liabilities				
Due to other banks (interest rate, % p.a)	-	1,673 (0.4)	-	-
Customer accounts (interest rate, % p.a)	2 (0.5)	67,903 (8.9)	287 (9.0)	1,188 (4.3)
Other liabilities	-	100	-	-
Credit related commitments				
Guarantees	-	1,019	-	-
Cash collateral	-	(229)	-	-
Provision for credit related commitments	-	(20)	-	-
Promissory note endorsements	-	4,580	-	-
Revocable commitments to extend credit	-	3,298	-	-
Non-confirmed letters of credit	-	55	-	-
Income / expense				
Interest income	-	1,250	8	3
Interest expense	(37)	(4,910)	(18)	(54)
Fee and commission income	-	2,071	-	-
Fee and commission expense	-	(380)	-	-
Other income	-	1	-	-
(Provision for)/recovery of provision for loan impairment	-	46	1	(9)
Provision for losses on credit related commitments	-	138	-	-
Lease expense	-	(129)	-	-
Insurance expense	-	(186)	-	-

(in thousands of US dollars — Note 3)

29. Related Party Transactions (Continued)

The allowance for loan impairment in respect of loans to related parties has been assessed on a portfolio basis in respect of the majority of loans. During the year movements on related parties' loan accounts were as follows:

	Parent company	Entities under common control	Management	Other related parties
Loans granted to related parties during the year	-	177,282	535	816
Amounts repaid by related parties during the year	-	163,728	322	36

During 2006 the year movements on related parties' loan accounts were as follows:

	Parent company	Entities under common control	Management	Other related parties
Loans granted to related parties during the year	-	67,693	-	1
Amounts repaid by related parties during the year	-	69,212	24	9

In 2007, the remuneration of members of the Management Board comprised salaries of USD 826 thousand (2006: USD 525 thousand), compulsory contributions to the State funds of USD 29 thousand (2006: USD 19 thousand) and other benefits of USD 6 thousand (2006: USD 2 thousand). In 2007, benefits paid to the Supervisory Council were USD 177 thousand (2006: 112 thousand).

30. Capital

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the NBU in supervising the Bank.
During 2007, the Bank had complied in full with all its externally imposed capital requirements.
The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

30. Capital (Continued)

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

NBU capital adequacy ratio

The NBU requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on UAR. As at 31 December 2007 and 2006, the Bank's capital adequacy ratio on this basis was as follows:

	2007	2006
Main capital	348,028	112,153
Additional capital	87,400	53,534
Less: deductions from capital	-	-
Total capital	**435,428**	**165,687**
Risk weighted assets	**2,898,337**	**1,132,901**
Capital adequacy ratio	**15.02%**	**14.63%**

Regulatory capital consists of Tier 1 capital, which comprises paid in registered share capital, share premium, reserves created in accordance with the Ukrainian legislation less net book value of intangible assets, capital investment in intangible assets and losses of current and prior years. The other component of regulatory capital is Tier 2 capital, which includes standard provisions for interbank and customer loans, property revaluation reserve, current year profit decreased for the amount of accrued income overdue for more than 30 days net of provision for doubtful accrued interest, subordinated long-term debt, retained earnings of prior years.

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(in thousands of US dollars — Note 3)

30. Capital (Continued)

Capital adequacy ratio under Basel Capital Accord 1988

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

	2007	2006
Tier 1 capital	415,135	151,292
Tier 2 capital	88,871	44,666
Total capital	**504,006**	**195,958**
Risk weighted assets	**2,330,121**	**934,077**
Tier 1 capital ratio	**17,82%**	**16,20%**
Total capital ratio	**21,63%**	**20,98%**

31. Subsequent Events

In December 2007, the Bank's General Shareholders Meeting approved a decision to increase the Bank's share capital by issuing an additional 4,391,600 ordinary shares with a nominal value of UAH 230 each. The total amount of this issue equals to UAH 1,010,068 thousand (USD 200,013 thousand).
In January 2008, the Bank received a loan from ING BELGIUM SA/NV BRUSSELS in the amount of USD 18,000 thousand. The loan bears interest at 6 months PREVALING INTERBANK MARKET RATE (as defined by ING BELGIUM SA/NV BRUSSELS) + 2.75% and matures in January 2009.
In January 2008, the Bank received a loan from Nordea bank Finland plc of EUR 5,000 thousand. The loan bears interest at 6 months Euribor + 2.25% and matures in August 2008.

Signed on behalf of the Management Board on March 24, 2008.

O.G. Voropayeva
(Temporary Acting Chairman
of the Management Board)

O.M. Moshkalova
(Chief Accountant)

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Ліцензія НБУ № 8 від 02.10.06. Усі види банківських послуг.