

Closed Joint-Stock Company
BANK NRB
Financial statements
31 December 2006

These financial statements contain 45 pages

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Closed Joint-Stock Company BANK NRB
Financial statements
Balance sheet as at 31 December 2006

	<i>Note</i>	2006	2005 (restated)
<i>(in thousands of Ukrainian hryvnias)</i>			
Assets			
Cash		14,662	18,200
Balances with the National Bank of Ukraine	5	42,984	42,130
Due from banks	6	282,749	209,321
Securities available-for-sale	7	67,922	38,535
Amounts receivable under reverse repurchase agreements		6,101	19,759
Loans and advances	8	782,099	563,271
Property, equipment and intangible assets	9	14,438	3,131
Accrued interest income		7,647	7,763
Other assets	10	977	2,189
		<hr/>	<hr/>
Total assets		1,219,579	904,299
		<hr/> <hr/>	<hr/> <hr/>
Liabilities			
Due to banks	11	298,684	262,222
Current accounts	12	225,906	175,528
Deposits	13	512,331	348,666
Subordinated debt	14	35,350	-
Deferred tax liability	24	3,621	2,358
Accrued interest expenses		10,918	6,454
Other liabilities		1,597	1,979
		<hr/>	<hr/>
Total liabilities		1,088,407	797,207
		<hr/> <hr/>	<hr/> <hr/>
Equity			
Share capital	15	75,573	75,573
Fair value reserve		157	1,416
Retained earnings		55,442	30,103
		<hr/>	<hr/>
Total equity		131,172	107,092
		<hr/> <hr/>	<hr/> <hr/>
Total liabilities and equity		1,219,579	904,299
		<hr/> <hr/>	<hr/> <hr/>
Off-balance sheet commitments and contingent liabilities	16		

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 45.

Closed Joint-Stock Company BANK NRB
Financial statements
Income statement for the year ended 31 December 2006

	<i>Note</i>	2006	2005 (restated)
<i>(in thousands of Ukrainian hryvnias)</i>			
Interest income	<i>17</i>	114,802	92,082
Interest expense	<i>18</i>	(54,395)	(40,728)
Net interest income		60,407	51,354
Fee and commission income	<i>19</i>	9,011	7,827
Fee and commission expense	<i>19</i>	(1,178)	(840)
Net fee and commission income	<i>19</i>	7,833	6,987
Gains less losses on sale of securities available-for-sale		3,243	1,736
Gains less losses arising from dealing in foreign currencies	<i>20</i>	4,992	4,866
Other income		620	1,765
Operating income		77,095	66,708
Salaries and employee benefits	<i>21</i>	(11,374)	(9,350)
General administrative expenses	<i>22</i>	(15,992)	(16,794)
Depreciation and amortization	<i>9</i>	(952)	(589)
Provision for impairment	<i>23</i>	(14,731)	(19,502)
Operating expenses		(43,049)	(46,235)
Profit before tax		34,046	20,473
Income tax expense	<i>24</i>	(8,707)	(5,360)
Net profit		25,339	15,113

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 45.

Closed Joint-Stock Company BANK NRB
Financial statements
Cash flow statement for the year ended 31 December 2006

	2006	2005
<i>(in thousands of Ukrainian hryvnias)</i>		<i>(restated)</i>
Operating activities		
Interest received	113,918	93,415
Interest paid	(49,763)	(38,503)
Fees and commissions received	9,011	7,827
Fees and commissions paid	(1,178)	(840)
Net receipts from trading and other activities	7,175	9,142
Operating expenses paid	(26,364)	(27,435)
	<hr/> 52,799	<hr/> 43,606
Changes in operating assets and liabilities		
Increase in loans and advances	(232,005)	(199,364)
Increase in due from banks	(67,051)	(141,044)
(Increase) decrease in securities available-for-sale	(29,387)	351
Decrease (increase) in amounts receivable under reverse repurchase agreement repurchase agreement	13,658	(15,759)
Decrease in other assets	39	16,369
Increase in deposits	163,665	102,643
Increase in current accounts	50,379	133,425
Increase in due to banks	36,462	74,237
Increase (decrease) in accrued expenses and other liabilities	35	(15,652)
	<hr/> (11,406)	<hr/> (1,188)
Net cash used in operating activities before tax		
Income tax paid	(8,187)	(5,000)
	<hr/> (19,593)	<hr/> (6,188)
Cash flows used in operating activities		
Investing activities		
Acquisition of property, equipment and intangible assets	(12,259)	(1,910)
Proceeds from sale of investment in associate	-	2,898
	<hr/> (12,259)	<hr/> 988
Cash flows (used in) from investing activities		
Financing activities		
Proceeds from subordinated debt	35,350	-
	<hr/> 35,350	<hr/> -
Cash flows from financing activities		
Net increase (decrease) in cash and cash equivalents	3,498	(5,200)
Cash and cash equivalents as at 1 January	67,455	70,110
Effect of exchange rate fluctuations on cash and cash equivalents	195	2,545
	<hr/> 71,148	<hr/> 67,455
Cash and cash equivalents as at 31 December		

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 45.

Closed Joint-Stock Company BANK NRB
Financial statements
Cash flow statement for the year ended 31 December 2006
(continued)

Cash and cash equivalents as at 31 December as shown in the cash flow statement is composed of the following items:

	2006	2005
<i>(in thousands of Ukrainian hryvnias)</i>		
Cash	14,662	18,200
Balances with the NBU	42,984	42,130
Current accounts due from banks	13,502	7,125
	<hr/>	<hr/>
Total	71,148	67,455
	<hr/> <hr/>	<hr/> <hr/>

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 45.

Closed Joint-Stock Company BANK NRB
Financial statements
Statement of changes in equity for the year ended
31 December 2006

	Share capital	Fair value reserve	Retained earnings	Total
<i>(in thousands of Ukrainian hryvnias)</i>				
Balances as at 31 December 2004 as previously reported	75,573	-	19,886	96,295
Change in accounting policy (note 3 (a))	-	836	(836)	-
Correction of prior period error (note 4):	-	-	(4,060)	(4,060)
	<hr/>	<hr/>	<hr/>	<hr/>
Balances as at 31 December 2004 as restated	75,573	836	14,990	91,399
Net change in fair value of available- for-sale securities	-	1,453	-	1,453
Net amount transferred to profit or loss	-	(873)	-	(873)
	<hr/>	<hr/>	<hr/>	<hr/>
Net income recognized directly in equity	-	580	-	580
Net profit as restated	-	-	15,113	15,113
	<hr/>	<hr/>	<hr/>	<hr/>
Total recognised income and expense for the period	-	580	15,113	15,693
	<hr/>	<hr/>	<hr/>	<hr/>
Balances as at 31 December 2005 as restated	75,573	1,416	30,103	107,092
Net change in fair value of available- for-sale securities	-	560	-	560
Net amount transferred to profit or loss	-	(1,819)	-	(1,819)
	<hr/>	<hr/>	<hr/>	<hr/>
Net income recognized directly in equity	-	(1,259)	-	(1,259)
	<hr/>	<hr/>	<hr/>	<hr/>
Net profit	-	-	25,339	25,339
	<hr/>	<hr/>	<hr/>	<hr/>
Total recognised income and expense for the period	-	(1,259)	25,339	24,080
	<hr/>	<hr/>	<hr/>	<hr/>
Balances as at 31 December 2006	75,573	157	55,442	131,172
	<hr/>	<hr/>	<hr/>	<hr/>

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 45.

1 Background

(a) Organization and operations

Closed Joint-Stock Company BANK NRB (the Bank) was established as a closed joint-stock company Commercial Bank NRB-Ukraine according to Ukrainian legislation and was registered by the National Bank of Ukraine (NBU) on 15 June 2001. The Bank started operations on 5 September 2001. In October 2005 the Bank changed its name to CJSC BANK NRB.

The Bank specializes in providing banking services to companies operating in various industries and individuals. These services include taking deposits and granting loans and advances, investing in securities, transferring payments in Ukraine and abroad, exchanging of currencies and other services.

The head office of the Bank is located at 46 Volodymyrska Str., Kyiv, Ukraine. As at 31 December 2006 the Bank has eight branches throughout Ukraine (31 December 2005: five). The Bank operates in an industry not subject to significant seasonal or cyclical variations in operations.

(b) Ukrainian business environment

Ukraine is experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in Ukraine involve risks that do not typically exist in other markets. These financial statements reflect management's current assessment of the possible impact of the Ukrainian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except for securities available-for-sale, which are stated at fair value.

(c) Functional and presentation currency

The national currency of Ukraine is the Ukrainian hryvnia (UAH). Consequently, the functional and presentation currency for the purposes of these financial statements is the Ukrainian hryvnia.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

In particular, information about significant areas of estimation uncertainty in applying accounting policies is as follows:

(i) Key sources of estimation uncertainty

Impairment of loans and advances. Management estimates impairment by assessing the likelihood of repayment of loans and advances based on analysis of individual accounts for individually significant loans, and collectively for loans with similar terms and risk characteristics. Factors taken into consideration when assessing individual loans include collection history, current financial condition of the borrower, timeliness of repayments and collateral, if any. Factors taken into consideration when assessing the likelihood of collection of loans assessed collectively include historical loss experience, portfolio delinquency rates and overall economic conditions. To determine the amount of impairment, management estimates the amounts and timing of future payments of principal and interest and proceeds from the disposal of collateral, if any. These cash flows are then discounted using the loan's original interest rate. Actual principal and interest payments depend on the borrowers' ability to generate cash flows from operations or obtain alternative financing, and could differ from management's estimates.

Should actual repayments be less than management estimates, the Bank would be required to record additional impairment expense.

Fair value of financial assets. The fair value of financial instruments represents the price at which a transaction would occur at the balance sheet date in that instrument in the most advantageous active market to which the Bank has immediate access. In estimating the fair value for financial assets, management uses quoted bid prices from an active market. If a financial asset is not quoted in an active market, management uses discounted cash flow

techniques. When using discounting cash flow techniques management applies discount rates applicable to similar instruments and to borrowers with similar credit risk.

3 Significant accounting policies

(a) Changes in policies

Certain new IFRSs became effective on 1 January 2006. Listed below are those new or amended standards that are relevant to the Bank's operations. The changes in accounting policies are applied retroactively unless otherwise stated.

- International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* amends *The Fair Value Option* concept, and is effective for annual periods beginning on or after 1 January 2006. The amendment to this standard restricts the designation of financial instruments as "at fair value through profit or loss".

Financial instruments that were designated at fair value through profit or loss as at 31 December 2005 did not comply with the requirements of the amendment and are reclassified to securities available-for-sale. This change in classification is applied retrospectively.

Opening retained earnings as at 1 January 2005 are reduced by UAH 836 thousand and fair value reserve is increased by the same amount, which is the amount of the adjustment relating to periods prior to 2005.

The effect of this retrospective application on financial statement line items is as follows:

	2006	2005
Balance sheet		
Increase in fair value reserve	157	1,416
Decrease in retained earnings	(157)	(1,416)
Income statement		
Increase (decrease) in gains less losses on sale of securities available-for sale	1,679	(774)
Decrease (increase) in income tax expense	(420)	194

- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 4 *Insurance Contracts – Financial Guarantee Contracts* is effective for annual periods beginning on or after 1 January 2006. The amendment requires guarantees that are not insurance contracts to be measured at fair value upon initial recognition. Management chose to treat its guarantee contracts as insurance arrangements (refer to note 3(k)). There was no impact on opening retained earnings arising from the adoption of this amendment.

(b) Foreign currency translation

Transactions in foreign currencies are translated to hryvnias at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to hryvnias at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities denominated in foreign currencies are translated to hryvnias at the foreign exchange rate ruling at the date of the transaction.

The principal UAH exchange rates used in the preparation of the financial statements are as follows:

Currency	31 December 2006	31 December 2005
US dollar	5.05	5.05
Russian rouble	0.19	0.18
EURO	6.65	5.97

As at the date of this report, 5 April 2007, the exchange rate is UAH 5.05 to USD 1.00.

(c) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss include financial assets or liabilities held for trading, financial instruments designated at fair value through profit or loss at initial recognition, and derivative financial assets or liabilities.

A financial instrument is classified as held for trading if it is acquired principally for the purpose of selling it in the near term, or it is part of a portfolio for which there is evidence of a recent actual pattern of short-term profit taking.

Management designates financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed and evaluated on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise, or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Financial assets and liabilities at fair value through profit or loss are not reclassified subsequent to initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include due from banks, including central banks, loans and advances.

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that management has the intent and ability to hold to maturity, other than those that:

- management upon initial recognition designates as at fair value through profit or loss
- management designates as available-for-sale, or
- meet the definition of loans and receivables.

Available-for-sale assets are non-derivative financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. Available-for-sale financial assets may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial instruments with another entity under conditions that are potentially unfavorable.

(ii) Recognition

Financial assets and liabilities are recognized in the balance sheet when the Bank becomes a party to the contractual provisions of instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be on sale or other disposal, except for:

- loans and receivables that are measured at amortized cost using the effective interest method
- held-to-maturity investments that are measured at amortized cost using the effective interest method, and

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost less impairment losses.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

(iv) *Fair value measurement principles*

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates using a discount rate representing a market rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

(v) *Gains and losses on subsequent measurement*

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in the income statement
- a gain or loss on an available-for-sale financial asset is recognized directly in equity (except for impairment losses and foreign exchange gain and losses) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in the income statement. Interest in relation to an available-for-sale financial asset is recognized as earned in the income statement and is calculated using the effective interest rate method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in the income statement when the financial asset or liability is derecognized or impaired, and through the amortization process.

(vi) *Interest bearing borrowings*

Interest bearing borrowings are recognized initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, interest bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognized immediately in the income statement.

(vii) *Derecognition*

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. A financial liability is derecognized when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

(d) *Impairment*

Assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

(i) *Calculation of recoverable amount*

Loans and advances

Management reviews the loan portfolio to assess impairment on a regular basis. A loan (or a group of loans) is impaired and impairment losses are recorded 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 loan and that event (or events) has an impact on the estimated future cash flows of the loan (or the group of loans) that can be reliably estimated.

Management first assesses whether objective evidence of impairment exists individually for loans and advances that are individually significant, and individually or collectively for loans and advances that are not individually significant. If management determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan has been incurred, the amount of the loss is measured as the difference between the loan carrying amount and the present

value of estimated future cash flows including amounts recoverable from guarantees and collateral (excluding future losses that have not been incurred) discounted at the loan's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. In such cases, management uses its experience and judgment to estimate the amount of any impairment loss.

The 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.

Available-for-sale assets

The recoverable amount of available-for-sale assets is their fair value.

Other assets

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversal of impairment

An impairment loss in respect of a held-to-maturity asset and a loan or a receivable carried at amortized cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized. An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in income statement, then the impairment loss is reversed, with the amount of the reversal recognized in income statement.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(e) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase are retained within the Bank's portfolio and accounted for accordingly. Liability accounts are used to record the obligation to repurchase. The difference between the sale and repurchase price represents interest expense and is recognized in the income statement over the term of the repurchase agreement using the effective interest rate method.

Securities purchased under reverse repurchase agreements are recorded as receivables. The difference between the purchase and sale price represents interest income and is recognized in the income statement over the term of the reverse repurchase agreement using the effective interest rate method. The receivables due under reverse repurchase agreements are recorded net of provisions for impairment.

(f) Property, equipment and intangible assets

(i) *Property, equipment and intangible assets*

Property, equipment and intangible assets are carried at cost less accumulated depreciation and amortization and impairment losses.

(ii) *Depreciation and amortization*

Depreciation and amortization is computed by the straight-line method over the estimated useful lives of the assets. Depreciation and amortization commences from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use.

The estimated useful lives are as follows:

Furniture and equipment	5 -10 years
Computers and software	3 - 5 years
Intangible assets	3 - 5 years

Expenditures made for leasehold improvements are recognized as assets and charged to the income statement on a straight-line basis over the shorter of the applicable lease or the economic life of the leasehold improvement.

(g) Leases

Payments for operating leases, where the Bank does not assume substantially all the risks and rewards of ownership, are classified as expenses when incurred.

(h) Provisions

A provision is recognized in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(i) Dividends

Dividends in relation to ordinary shares are reflected as a reduction to retained earnings as and when declared.

(j) Off balance sheet commitments and contingent liabilities

The Bank enters into commitments and assumes contingent liabilities in the normal course of business to meet the financing needs of its customers. These commitments and contingencies include credit instruments, which represent varying degrees of risk exposure. The contractual or notional amount of these instruments indicates the level of activity associated with a particular class of financial instruments and is not a reflection of the level of expected losses.

When the Bank enters into contracts to guarantee the indebtedness of its customers, management believes these to be insurance arrangements, and accounts for them as such. In this respect, the Bank treats the guarantee contract as a contingent liability until such time as it becomes probable that the Bank will be required to make a payment under the guarantee.

Guarantee fees are recognized on a straight line basis over the guarantee period.

(k) Income and expense recognition

Interest and similar income and expense are recognized in the income statement on an accrual basis, taking into account the effective yield/rate of the asset/liability or an applicable floating rate. Interest and similar income and expense include the amortization of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Commission income and expense are recognized on an accrual basis.

Fees received in connection with loan originations are netted against the direct costs incurred to grant the loan, and are amortized over the life of the loan as an adjustment to interest income.

(l) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(m) Employee benefits

Pensions are provided by the State. Mandatory contributions are made by the Bank and employees based on the earnings of the employees. The cost for these contributions is recognized in the income statement when contributions are due and is included in salaries and employee benefits.

(n) Statement of cash flows

Cash and cash equivalents include cash in hand, balances with the National Bank of Ukraine and current accounts due from banks.

(o) Offsetting

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

(p) New Standards and Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective and have not been applied in preparing these IFRS financial statements. Of these pronouncements, the following will potentially have an impact on the financial statements:

- IFRS 7 *Financial Instruments: Disclosures* is effective for annual periods beginning on or after 1 January 2007. IFRS 7 will require increased disclosure in respect of financial instruments and replaces IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*.
- Amendment to International Financial Reporting Standard IAS 1 *Presentation of Financial Statements – Capital Disclosures* is effective for annual periods beginning on or after 1 January 2007. This amendment will require increased disclosure regarding capital and how it is measured.

Management is currently studying what effect these new statements and amendments may have of financial position and results of operations.

4 Correction of prior period amounts

During 2006 it was determined that prepaid insurance fees were overstated by UAH 5,414 thousand as at 31 December 2004 and by UAH 3,938 thousand as at 31 December 2005. As at 31 December 2006 it was determined that this amount was material to the financial statements and accordingly, this error was corrected retrospectively. The effect of the restatement on the 2005 income statement is summarised below. Opening retained earnings as at 1 January 2005 are reduced by UAH 4,060 thousand, which is the amount of the adjustment relating to periods prior to 2005.

	Effect on 2005 (restated)
<i>(in thousands of Ukrainian hryvnias)</i>	
Decrease in insurance expenses	1,476
Increase in income tax expense	(369)
Increase in net profit	1,107

5 Balances with the National Bank of Ukraine

The Bank is required by the NBU to maintain an obligatory reserve balance calculated as an average of certain customer funds over a period of one month. The average obligatory reserve amounts to UAH 20,428 thousand for the one month period ended 31 December 2006 (31 December 2005: UAH 34,969 thousand). The Bank meets the NBU reserve requirements as at 31 December 2006 and 2005.

6 Due from banks

Balances due from banks as at 31 December are as follows:

	2006	2005
<i>(in thousands of Ukrainian hryvnias)</i>		
Current accounts:		
Domestic	1,438	1,581
Non-OECD countries	2,368	75
OECD countries	9,696	5,469
	13,502	7,125
Loans and advances to domestic banks	269,247	202,196
Total	282,749	209,321

As at 31 December 2006 loans and advances to domestic banks amounting to UAH 114,227 thousand are effectively secured by deposits in another currency received from the same banks (31 December 2005: UAH 107,704 thousand) (note 11).

7 Securities available-for-sale

Securities available-for-sale as at 31 December are as follows:

	2006	2005
<i>(in thousands of Ukrainian hryvnias)</i>		
Corporate bonds:		
OJSC KrVZ	20,059	-
LLC YUWS	12,136	12,101
CJSC Tas-Invest Bank	10,215	-
LLC Trade House Bakhmachkonservmoloko	8,994	8,895
LLC Citycom	5,169	-
OJSC UBDP	5,132	-
CJSC Ukragro NPK	2,065	-
LLC Ukrainian-cyprus JV MTI	1,529	-
OJSC Concern Khibprom	1,020	-
JV Metalen Ltd.	-	15,213
LLC Bears Capital Management	-	1,578
LLC Tekhnomarket-Aladin	-	640
Other	69	108
Promissory notes:		
LLC YUWS	396	-
Investment certificates:		
LLC MG-Capital	1,138	-
Total	67,922	38,535

Corporate bonds of JV Metalen Ltd. amounting to UAH 15,213 thousand are pledged as collateral for a deposit from one domestic bank amounting to UAH 15,037 thousand as at 31 December 2005 (31 December 2006: nil).

8 Loans and advances

Loans and advances as at 31 December are as follows:

	2006	2005
<i>(in thousands of Ukrainian hryvnias)</i>		
Commercial	534,620	501,016
Retail	309,732	113,910
Overdrafts	4,518	1,990
	848,870	616,916
Provision for impairment (note 23)	(66,771)	(53,645)
Total	782,099	563,271

Management reviewed individually significant loans in its current loan portfolio and identified loans amounting to UAH 145,324 thousand that display indications of impairment, and created an impairment provision of UAH 54,719 thousand on these loans as at 31 December 2006 (31 December 2005 UAH 56,084 thousand and UAH 46,047 thousand, respectively). For all other loans management estimates loan impairment based on past historical loss experience. The Bank provided a 1.71% provision rate for impairment on these loans as at 31 December 2006 (31 December 2005: 1.35%).

Changes in collection estimates can affect the impairment losses recognized. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment as at 31 December 2006 would be approximately UAH 78,210 thousand higher/lower (31 December 2005: UAH 56,327 thousand)

Loans and advances granted to the five largest borrowers amount to UAH 151,925 thousand, or 17.9% of the gross exposure, as at 31 December 2006 (31 December 2005: UAH 105,630 thousand, or 17.1%).

Loans and advances as at 31 December are as follows:

	2006	2005
<i>(in thousands of Ukrainian hryvnias)</i>		
Current	800,515	601,884
Overdue	48,355	15,032
	848,870	616,916

The amount of overdue loans includes the total principal of the overdue loans.

Loans and advances by economic sector as at 31 December are as follows:

	2006	2005
<i>(in thousands of Ukrainian hryvnias)</i>		
Retail	309,732	113,910
Trade	274,466	212,409
Food and agriculture	88,434	79,913
Production of mineral materials	47,527	30,156
Light industry	29,889	18,093
Printing and related businesses	28,152	28,093
Services	28,032	82,623
Construction	24,988	33,743
Energy producing	12,278	17,069
Other	5,372	907
Total	848,870	616,916

Loans and advances by type of security as at 31 December are as follows:

	2006	2005
<i>(in thousands of Ukrainian hryvnias)</i>		
Pledged assets	570,197	525,915
Guaranteed by others	216,282	32,706
Deposits with the Bank	33,089	13,374
Unsecured	29,302	44,921
Total	848,870	616,916

This table summarizes the amount of loans secured by type of collateral, rather than the fair value of the collateral itself.

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 continued growth and development of the Ukrainian economy.

9 Property, equipment and intangible assets

A summary of activity in property, equipment and intangible assets for the year ended 31 December 2006 is as follows:

	Leasehold improvements	Furniture and equipment	Computers and software	Construction in progress	Intangible assets	Total
1 January 2006	345	1,313	1,627	663	568	4,516
Additions	450	1,232	872	9,705	-	12,259
31 December 2006	795	2,545	2,499	10,368	568	16,775
1 January 2006	66	502	473	-	344	1,385
Depreciation and amortization	55	316	451	-	130	952
31 December 2006	121	818	924	-	474	2,337
Net book value as at 31 December 2006	674	1,727	1,575	10,368	94	14,438

A summary of activity in property, equipment and intangible assets for the year ended 31 December 2005 is as follows:

	Leasehold improvements	Furniture and equipment	Computers and software	Construction in progress	Intangible assets	Total
1 January 2005	303	839	751	167	563	2,623
Additions	42	480	887	496	5	1,910
Disposals	-	(6)	(11)	-	-	(17)
31 December 2005	345	1,313	1,627	663	568	4,516
1 January 2005	39	287	263	-	210	799
Depreciation and amortization	27	217	211	-	134	589
Disposals	-	(2)	(1)	-	-	(3)
31 December 2005	66	502	473	-	344	1,385
Net book value as at 31 December 2005	279	811	1,154	663	224	3,131

10 Other assets

Other assets as at 31 December are as follows:

	2006	2005
<i>(in thousands of Ukrainian hryvnias)</i>		
Accounts receivable from customers	426	523
Prepayments	339	357
Prepaid insurance fees	243	1,416
Other	223	147
	<hr/>	<hr/>
Provision for impairment (note 23)	(254)	(254)
	<hr/>	<hr/>
Total	977	2,189
	<hr/>	<hr/>

11 Due to banks

Balances due to banks as at 31 December are as follows:

	2006	2005
<i>(in thousands of Ukrainian hryvnias)</i>		
Current accounts:		
Domestic	1	-
Non-OECD countries	38	7
Deposits:		
Domestic	172,395	135,965
Non-OECD countries	126,250	126,250
Total	298,684	262,222

Deposits due to banks in non-OECD countries amounting to UAH 75,750 thousand, or 60.0% of deposits due to banks in non-OECD countries, are due to one Russian bank as at 31 December 2006 (31 December 2005: UAH 75,750 thousand, or 60.0%).

As at 31 December 2006 deposits due to banks amounting to UAH 114,227 thousand serve as collateral for loans granted to the same banks in another currency (31 December 2005: UAH 107,704 thousand) (note 6).

12 Current accounts

Current accounts as at 31 December are as follows:

	2006	2005
<i>(in thousands of Ukrainian hryvnias)</i>		
Commercial	214,764	147,359
Retail	11,142	28,169
Total	225,906	175,528

Current accounts of UAH 146,582 thousand, or 64.9% of total current accounts, are due to the five largest customers as at 31 December 2006 (2005: UAH 111,635 thousand, or 63.6%).

13 Deposits

Deposits as at 31 December are as follows:

	2006	2005
<i>(in thousands of Ukrainian hryvnias)</i>		
Companies	247,724	119,125
Individuals	264,607	229,541
Total	512,331	348,666

Deposits amounting to UAH 55,755 thousand, or 10.9% of the total deposits, are placed with the Bank by one major customer as at 31 December 2006 (2005: UAH 66,158 thousand, or 19.0%).

14 Subordinated debt

Subordinated debt represents a USD denominated loan received from the Bank's related party, which matures on 17 June 2013 and bears interest at LIBOR+3% per annum. The interest rate is 8.33% per annum as at 31 December 2006.

15 Share capital

The share capital as at 31 December is as follows:

	2006		2005	
	Number of shares	Amount	Number of shares	Amount
<i>(in thousands of Ukrainian hryvnias)</i>				
Shares authorised, issued and fully paid				
- ordinary	75,573,200	75,573	75,573,200	75,573

The nominal value of ordinary shares is UAH 1 as at 31 December 2006 and 2005.

The ownership structure of the share capital as at 31 December is as follows:

	2006		2005	
	Amount	Percentage	Amount	Percentage
<i>(in thousands of Ukrainian hryvnias)</i>				
Joint venture R&S Ukraine	36,962	49	36,962	49
Proekt-Invest Ltd.	25,628	34	25,628	34
Joint venture Zumservice Ukraine	12,983	17	12,983	17
Total	75,573	100	75,573	100

All ordinary shares have equal voting, dividend and capital repayment rights. In 2006 and 2005 no dividends were declared.

16 Off-balance sheet commitments and contingent liabilities

(a) Guarantees

The Bank issued guarantees amounting to UAH 3,841 thousand as at 31 December 2006 (31 December 2005: UAH 2,867 thousand).

(b) Letters of credit

Commitments under letters of credit amount to UAH 24,300 thousand as at 31 December 2006 (31 December 2005: nil).

Letters of credit are collateralized with deposits amounting to UAH 4,041 thousand as at 31 December 2006 (31 December 2005: nil).

(c) Commitments to extend credit

The amount of irrevocable commitments to extend credit is UAH 41,253 thousand as at 31 December 2006 (31 December 2005: UAH 41,229 thousand). The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without cash outflow.

(d) Commitments on purchases of securities

As at 31 December 2005 the Bank entered into an agreement to purchase corporate bonds of a Ukrainian entity for UAH 855 thousand on 17 February 2006. No such commitments exist as at 31 December 2006.

(e) Operating lease commitments

The Bank leases operational space, property and equipment in its normal course of business. Future minimum lease payments as at 31 December are as follows:

	2006	2005
<i>(in thousands of Ukrainian hryvnias)</i>		
Within one year	8,991	6,383
From one to five years	5,203	30
After five years	338	-
Total	14,532	6,413

(f) Insurance

The insurance industry in Ukraine is in a developing stage and many forms of insurance protection common in other countries are not yet generally available. The Bank does not have full coverage for its equipment, business interruption, or third party liability in respect of property arising from accidents on Bank property or relating to operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the operations and financial position.

(g) Tax contingency

During the year ended 31 December 2006 the Bank recorded a provision for impairment with respect to off-balance sheet commitments amounting to UAH 3,163 thousand as tax deductible expenses.

Due to the uncertainty of the Ukrainian tax legislation there is a risk that the tax authorities may challenge the tax deductibility of this provision and may assess an additional corporate profit tax liability and related penalties of approximately UAH 830 thousand. No provision for these potential taxes has been recorded in the financial statements because the risk is not probable.

The Ukrainian tax system can be characterized by numerous taxes and frequently changing legislation. Tax regulations are often unclear, open to wide interpretation, and in some instances are conflicting. Instances of inconsistent opinions between local, regional and national tax authorities and between the National Bank of Ukraine and the Ministry of Finance are not unusual. Tax declarations are subject to review and investigation by a

number of authorities that are enacted by law to impose significant penalties and interest charges. These facts create tax risks in Ukraine substantially more significant than typically found in countries with more developed tax systems.

Management believes it has complied with all existing tax legislation. However, there can be no assurance that the tax authorities will not have a different interpretation of the Bank's compliance with existing legislation and assess fines and penalties.

(h) Litigation

The Bank is involved in various legal proceedings in the ordinary course of business. Some of these proceedings involve claims against the Bank. Management does not believe the result of any such actions will have a material effect on financial position or results of operations.

17 Interest income

Interest income for the year ended 31 December is as follows:

	2006	2005
<i>(in thousands of Ukrainian hryvnias)</i>		
Loans and advances	95,464	75,847
Due from banks	12,186	6,769
Other	7,152	9,466
	114,802	92,082
Total	114,802	92,082

18 Interest expense

Interest expense for the year ended 31 December is as follows:

	2006	2005
<i>(in thousands of Ukrainian hryvnias)</i>		
Deposits	35,116	26,536
Due to banks	16,147	12,817
Current accounts	1,755	1,375
Subordinated debt	1,377	-
	54,395	40,728
Total	54,395	40,728

19 Net fee and commission income

Net fee and commission income for the year ended 31 December is as follows:

	2006	2005
<i>(in thousands of Ukrainian hryvnias)</i>		
Net fee and commission income:		
Payments and cash withdrawals	5,865	3,915
Currency exchange	1,828	1,948
Credit fees	238	1,214
Other	1,080	750
	<hr/>	<hr/>
Total fee and commission income	9,011	7,827
	<hr/>	<hr/>
Net fee and commission expense:		
Payments and cash withdrawals	(897)	(680)
Other	(281)	(160)
	<hr/>	<hr/>
Total fee and commission expense	(1,178)	(840)
	<hr/>	<hr/>
Total	7,833	6,987
	<hr/> <hr/>	<hr/> <hr/>

20 Gains less losses from dealing in foreign currencies

Gains less losses from dealing in foreign currencies relate to the valuation of currency positions and spreads earned on foreign currency exchange activities.

21 Salaries and employee benefits

Salaries and employee benefits for the year ended 31 December are as follows:

	2006	2005
<i>(in thousands of Ukrainian hryvnias)</i>		
Salaries and other employee benefits	9,449	8,036
Social security and other salary related charges	1,925	1,314
	<hr/>	<hr/>
Total	11,374	9,350
	<hr/> <hr/>	<hr/> <hr/>

22 General administrative expenses

General administrative expenses for the year ended 31 December are as follows:

	2006	2005
<i>(in thousands of Ukrainian hryvnias)</i>		
Rent	7,757	6,445
Insurance	1,173	2,901
Taxes, duties and charges	1,436	1,922
Office maintenance	1,431	1,219
Communication	1,409	1,289
Professional services	1,140	1,226
Security services	809	366
Business trips	153	166
Marketing and advertising	102	97
Other	582	1,163
	<hr/>	<hr/>
Total	15,992	16,794
	<hr/> <hr/>	<hr/> <hr/>

Insurance fees relate to premiums paid for insuring credit risks on certain loans.

23 Provision for impairment

Movements in the provision for impairment are as follows:

	2006	2005
<i>(in thousands of Ukrainian hryvnias)</i>		
Balance as at 1 January	57,322	37,820
Write-offs	(660)	-
Provision for impairment charged to the income statement	14,731	19,502
	<hr/>	<hr/>
Balance as at 31 December	71,393	57,322
	<hr/> <hr/>	<hr/> <hr/>

Provisions for impairment as at 31 December are as follows:

	2006	2005
<i>(in thousands of Ukrainian hryvnias)</i>		
Loans and advances (note 8)	66,771	53,645
Accrued income	4,368	3,318
Other assets (note 10)	254	254
Off-balance sheet commitments (note 16)	-	105
	<hr/>	<hr/>
Total	71,393	57,322
	<hr/>	<hr/>

24 Income tax expense

The statutory income tax rate is 25% for 2006 and 2005.

The components of income tax expense for the years ended 31 December are as follows:

	2006	2005
<i>(in thousands of Ukrainian hryvnias)</i>		
Current	7,024	6,204
Deferred expense (benefit) recognized in the income statement	1,683	(844)
	<hr/>	<hr/>
Total	8,707	5,360
	<hr/>	<hr/>

The difference between the total expected income tax expense computed by applying the statutory income tax rate to profit before tax and the reported income tax expense is as follows:

	2006	%	2005	%
<i>(in thousands of Ukrainian hryvnias)</i>				
Profit before tax	34,046	100%	20,473	100%
Computed expected income tax expense at statutory rate	8,512	25%	5,118	25%
Non-deductible items	195	1%	242	1%
Effective income tax expense	8,707	26%	5,360	26%

Deferred tax assets and liabilities as at 31 December 2006 are attributable to the items detailed as follows:

	1 January 2006 Asset (liability)	Recognized in income Benefit (charge)	Recognized in equity Benefit (charge)	31 December 2006 Asset (liability)
<i>(in thousands of UAH)</i>				
Due from banks	(904)	(1,857)	-	(2,761)
Loans and advances	(221)	(47)	-	(268)
Property, equipment and intangible assets	(256)	50	-	(206)
Securities available-for-sale	(3,577)	984	420	(2,173)
Accrued income	1,966	(325)	-	1,641
Other assets	396	(472)	-	(76)
Accrued expenses	201	(162)	-	39
Other liabilities	37	146	-	183
Total	(2,358)	(1,683)	420	(3,621)

Deferred tax assets and liabilities as at 31 December 2005 are attributable to the items detailed as follows:

	1 January 2005	Recognized in income	Recognized in equity	31 December 2005
	Asset	Benefit	Benefit	Asset
	(liability)	(charge)	(charge)	(liability)
<i>(in thousands of UAH)</i>				
Due from banks	(3,258)	2,354	-	(904)
Loans and advances	1,971	(2,192)	-	(221)
Property, equipment and intangible assets	(155)	(101)	-	(256)
Securities available-for-sale	(2,895)	(488)	(194)	(3,577)
Accrued income	8	1,958	-	1,966
Other assets	1,098	(702)	-	396
Accrued expenses	115	86	-	201
Other liabilities	108	(71)	-	37
	<hr/>	<hr/>	<hr/>	<hr/>
Total	(3,008)	844	(194)	(2,358)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

25 Foreign currency positions

Foreign currency positions as at 31 December 2006 are as follows:

	USD	EUR	Other
<i>(in thousands of Ukrainian hryvnias)</i>			
Assets			
Cash	3,453	1,011	74
Due from banks	83,929	67,853	1,113
Loans and advances	551,084	10,957	-
Accrued income	4,729	94	-
Other assets	98	69	-
	<hr/>	<hr/>	<hr/>
Total assets	643,293	79,984	1,187
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Liabilities			
Due to banks	214,880	10,309	-
Current accounts	15,297	66,989	279
Deposits	350,251	12,663	-
Subordinated debt	35,350	-	-
Accrued expenses	6,523	3,885	4
	<hr/>	<hr/>	<hr/>
Total liabilities	622,301	93,846	283
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net long (short) position	20,992	(13,862)	904

Other currencies are mainly represented by Russian rubles.

Foreign currency positions as at 31 December 2005 are as follows:

	USD	EUR	Other
<i>(in thousands of Ukrainian hryvnias)</i>			
Assets			
Cash	11,806	708	50
Due from banks	30,575	14,191	1,003
Loans and advances	429,462	4,479	-
Accrued income	5,768	75	3
Other assets	177	93	-
	<hr/>	<hr/>	<hr/>
Total assets	477,788	19,546	1,056
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Liabilities			
Due to banks	220,585	13,496	-
Current accounts	71,496	1,004	57
Deposits	189,450	5,674	-
Other liabilities	2,717	127	-
	<hr/>	<hr/>	<hr/>
Total liabilities	484,248	20,301	57
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net (short) long position	(6,460)	(755)	999
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Other currencies are mainly represented by Russian rubles.

26 Interest rate analysis

(a) Average interest rates

The average effective interest rates of major interest bearing assets and liabilities as at 31 December are as follows:

	2006		2005	
	UAH	USD	UAH	USD
Due from banks	9%	7%	9%	5%
Securities available-for-sale	16%	-	16%	-
Amounts receivable under reverse repurchase agreements	13%	-	14%	-
Loans and advances	17%	13%	21%	14%
Due to banks	6%	8%	8%	7%
Current accounts	-	1%	2%	3%
Deposits	11%	9%	14%	9%
Subordinated debt	-	8%	-	-

(b) Gap analysis

The Bank's operations are subject to the risk of interest risk fluctuation to the extent that interest-earning assets and interest-bearing liabilities mature or re-price at different times or in different amounts.

Substantially all monetary assets and liabilities are short-term or effectively have floating rates, since the Bank has the right to negotiate interest rates on long-term loans. The Assets and Liabilities Committee analyses the loan market and interest rates on loans set by other peer banks on a monthly basis. Based on this analysis, the Assets and Liabilities Committee decides whether to re-set interest rates on both commercial and retail loans.

Deposits are short-term or effectively have rates that approximate average market rates.

27 Maturity analysis

The contractual remaining maturities of assets and liabilities as at 31 December 2006 are as follows:

Description	Maturity periods						Total
	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	No maturity	
<i>(in thousands of Ukrainian hryvnias)</i>							
Assets							
Cash	14,662	-	-	-	-	-	14,662
Balances with the NBU	42,984	-	-	-	-	-	42,984
Due from banks	28,493	243,467	8,585	2,002	202	-	282,749
Securities available-for-sale	396	18	17,269	28,992	21,197	50	67,922
Amounts receivable under reverse repurchase agreements	6,101	-	-	-	-	-	6,101
Loans and advances	15,427	53,708	256,018	372,104	84,842	-	782,099
Property, equipment and intangible assets	-	-	-	-	-	14,438	14,438
Accrued income	7,647	-	-	-	-	-	7,647
Other assets	977	-	-	-	-	-	977
Total assets	116,687	297,193	281,872	403,098	106,241	14,488	1,219,579
Liabilities							
Due to banks	11,369	152,480	84,335	50,500	-	-	298,684
Current accounts	225,906	-	-	-	-	-	225,906
Deposits	57,664	38,488	184,562	229,022	2,595	-	512,331
Subordinated debt	-	-	-	-	35,350	-	35,350
Deferred tax liability	(1,491)	2,396	726	1,075	709	206	3,621
Accrued expenses	1,068	805	3,938	4,584	523	-	10,918
Other liabilities	1,597	-	-	-	-	-	1,597
Total liabilities	296,113	194,169	273,561	285,181	39,177	206	1,088,407
Liquidity gap for the period	(179,426)	103,024	8,311	117,917	67,064	14,282	131,172
Cumulative liquidity gap	(179,426)	(76,402)	(68,091)	49,826	116,890	131,172	-

The contractual remaining maturities of assets and liabilities as at 31 December 2005 are as follows:

Description	Maturity periods						Total
	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	No maturity	
<i>(in thousands of Ukrainian hryvnias)</i>							
Assets							
Cash	18,200	-	-	-	-	-	18,200
Balances with the NBU	42,130	-	-	-	-	-	42,130
Due from banks	156,330	43,289	9,702	-	-	-	209,321
Securities available-for-sale	38,535	-	-	-	-	-	38,535
Amounts receivable under reverse repurchase agreements	19,759	-	-	-	-	-	19,759
Loans and advances	5,127	21,641	146,062	317,947	72,494	-	563,271
Property, equipment and intangible assets	-	-	-	-	-	3,131	3,131
Accrued income	6,035	1,728	-	-	-	-	7,763
Other assets	393	174	206	1,416	-	-	2,189
Total assets	286,509	66,832	155,970	319,363	72,494	3,131	904,299
Liabilities							
Due to banks	92,563	43,409	126,250	-	-	-	262,222
Current accounts	175,528	-	-	-	-	-	175,528
Deposits	53,092	42,458	181,905	71,053	158	-	348,666
Deferred tax liability	1,691	158	99	125	29	256	2,358
Accrued expenses	2,636	705	2,529	583	1	-	6,454
Other liabilities	1,979	-	-	-	-	-	1,979
Total liabilities	327,489	86,730	310,783	71,761	188	256	797,207
Liquidity gap for the period	(40,980)	(19,898)	(154,813)	247,602	72,306	2,875	107,092
Cumulative liquidity gap	(40,980)	(60,878)	(215,691)	31,911	104,217	107,092	-

Current accounts are due on demand and have been reflected as such in both schedules above. However, management estimates that demand on a majority of the accounts will occur in subsequent periods.

28 Balances with related parties

The Bank grants loans and advances, attracts deposits and performs other transactions with related parties in the ordinary course of business. Parties are considered to be related if one party has the ability to control the other party or exercises significant influence over the other party when making financial and operational decisions. Related parties comprise the shareholders of the Bank, companies which are under common control with the Bank, key management personnel and their close family members, companies that are controlled or significantly influenced by shareholders, by key management personnel or by their close family members.

As at 31 December 2006 the Bank is ultimately controlled by Mr. A. Lebedev, Mr. A. Danilitskiy and Mr. Y. Kudimov.

Balances and transactions with related parties as at and for the year ended 31 December are as follows:

	2006	2005
<i>(in thousands of Ukrainian hryvnias)</i>		
Balances and transactions with key management personnel of the Bank		
Balance sheet		
Loans and advances	937	1,206
Current accounts	611	104
Accrued income	9	6
Accrued expenses	1,415	975
Deposits	92,290	54,531
Income statement		
Interest income	197	66
Interest expense	(7,846)	(3,033)
Off-balance sheet commitments		
Commitments to extend credit	707	1,230
Balances and transactions with entities under common control		
Balance sheet		
Due from banks	2,220	10,145
Due to banks	25,287	7
Loans and advances	936	2,500
Amounts receivable under reverse repurchase agreements	-	6,222
Current accounts	7,353	60,623
Accrued income	22	3
Accrued expenses	1,651	844
Deposits	101,646	29,715
Subordinated debt	35,350	-

	2006	2005
Income statement		
Interest income	230	683
Interest expense	(7,082)	(4,965)
Operating lease expenses	(6,868)	(6,066)
Insurance expense	(5,111)	(4,377)
Off-balance sheet commitments and contingent liabilities		
Guarantees issued to related parties	767	1,077
Other		
Leased fixed assets	17,044	9,213

The foreign currency positions and interest rates of transactions with related parties as at 31 December 2006 are as follows:

	USD	Interest rate	Other	Interest rate
Balances with key management				
personnel of the Bank				
Loans and advances	683	12-14%	-	-
Deposits	56,195	7-14%	3,933	5-9%
Current accounts	16	-	-	-
Balances with entities under common control				
Deposits	45,945	9-10%	-	-
Current accounts	605	3%	205	-
Due from banks	2,220	-	-	-
Due to banks	25,252	10%	-	-
Subordinated debt	35,350	9%	-	-

The foreign currency positions and interest rates of transactions with related parties as at 31 December 2005 are as follows:

	USD	Interest rate	Other	Interest rate
Balances with key management				
personnel of the Bank				
Loans and advances	632	12-14%	-	-
Deposits	29,909	6-10%	594	6-9%
Balances with entities under common control				
Deposits	8,970	5-10%	235	6-7%
Current accounts	21,983	-	29	-
Due from banks	10,101	11%	44	-
Due to banks	2	-	-	-

The contractual remaining maturities of balances with related parties as at 31 December 2006 are as follows:

Description	Maturity periods					Total
	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	
<i>(in thousands of Ukrainian hryvnias)</i>						
Balances with key management personnel of the Bank						
Loans and advances	-	-	5	728	204	937
Accrued income	9	-	-	-	-	9
Accrued expenses	1,415	-	-	-	-	1,415
Current accounts	611	-	-	-	-	611
Deposits	351	5,772	28,171	57,959	37	92,290
Balances with entities under common control						
Due from banks	2,220	-	-	-	-	2,220
Due to banks	37	-	25,250	-	-	25,287
Loans and advances	-	-	-	936	-	936
Accrued income	22	-	-	-	-	22
Accrued expenses	1,651	-	-	-	-	1,651
Current accounts	7,353	-	-	-	-	7,353
Deposits	41,808	2,009	1,975	55,854	-	101,646
Subordinated debt	-	-	-	-	35,350	35,350

The contractual remaining maturities of balances with related parties as at 31 December 2005 are as follows:

Description	Maturity periods					Total
	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	
<i>(in thousands of Ukrainian hryvnias)</i>						
Balances with key management personnel of the Bank						
Loans and advances	33	-	13	436	724	1,206
Current accounts	104	-	-	-	-	104
Accrued income	6	-	-	-	-	6
Accrued expenses	975	-	-	-	-	975
Deposits	8,799	19,915	22,612	3,198	7	54,531
Balances with entities under common control						
Due from banks	10,145	-	-	-	-	10,145
Due to banks	7	-	-	-	-	7
Loans and advances	2,500	-	-	-	-	2,500
Amounts receivable under reverse repurchase agreements	6,222	-	-	-	-	6,222
Current accounts	60,623	-	-	-	-	60,623
Accrued income	3	-	-	-	-	3
Accrued expenses	844	-	-	-	-	844
Deposits	10,521	18,569	120	505	-	29,715

Remuneration of key management personnel for the year ended 31 December 2006 is represented by short-term employee benefits amounting to UAH 4,164 thousand (2005: UAH 3,880 thousand).

Key management personnel are those individuals that have the authority and responsibility for planning, directing and controlling the activities of the Bank directly or indirectly, and include members of the Board of Management.

In December 2005 the Bank sold its shares in an associate for UAH 2,898 thousand to a related party. There was no gain or loss realized in connection with the sale.

29 Estimation of fair value

The estimated fair values of financial assets and liabilities are determined using discounted cash flow and other appropriate valuation methodologies and may not be indicative of the fair value of those instruments at the date these financial statements are distributed. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Fair value estimates are based on judgments regarding future expected cash flows, current economic conditions, risk characteristics of various financial instruments and other factors.

Fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments. In addition, tax ramifications related to the realization of the unrealized gains and losses can have an effect on fair value estimates and have not been considered.

The fair value of the subordinated debt is estimated at UAH 32,896 thousand as at 31 December 2006. This amount was estimated using the discounted cash flow technique.

The fair values of all short-term financial assets and liabilities are assumed to equal their carrying values due to their short-term nature and market interest rates at period end. The fair value of loans with maturities greater than one year approximates its carrying value because for substantially all loans, the Bank has the right, and has exercised the right, to change the interest rate when market interest rates change. The fair values of long-term deposits are assumed to equal their carrying values due to market interest rates at period end.

30 Risk management

Management of risk is fundamental to the business of banking and is an essential element of operations. The major risks faced are those related to credit exposures, liquidity and movements in interest rates and foreign exchange rates. These risks are managed in the following manner:

(a) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank.

Management has policies and procedures for the monitoring and controlling of credit risk, including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The Bank also complies with varying NBU regulations that limit exposure to companies, group of companies and related parties. To manage credit risk, management deals with counterparties of good credit standing and, when appropriate, obtains collateral.

The credit policy is reviewed and approved by the Board. The credit risks on certain loans are insured against borrower default.

The maximum credit risk exposure is generally reflected in the carrying amounts of instruments in the balance sheet.

(b) Interest rate risk

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. To manage interest rate risk, management continually assesses market interest rates for different types of interest bearing assets and liabilities.

Interest rate risk management is performed by the Asset and Liability Management Committee and the Risk Control Department.

(c) Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

Management continually assesses liquidity risk by identifying and monitoring changes in funding required in order to maintain the liquidity of the Bank.

In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

(d) Foreign exchange rate risk

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currencies risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. Management establishes limits and continually monitors foreign currency positions in accordance with the regulations of the NBU and internally developed methodology.

31 Capital adequacy

Capital adequacy has been calculated under the methodology set out by the Bank for International Settlements in the Basle Accord, using the definition of capital adopted by the NBU. Tier I capital is represented by share capital, share premium and retained earnings.

As at 31 December 2006 the capital adequacy ratio calculated in accordance with the Basle Accord was 18% and the Tier I ratio was 18% (31 December 2005: 16% and 16%, respectively).

V.I. Kravets

Chairman of the Board

5 April 2007

N.V. Mykytchenko

Chief Financial Officer

L.A. Amiyants

Chief Accountant

Opinion

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

CJSC KPMG Audit

CJSC KPMG Audit
5 April 2007