PRIVATBANK GROUP

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor’s Report

31 December 2007

CONTENTS

PRICEWATERHOUSECOOPERS

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management Board of PrivatBank:

1 We have audited the accompanying consolidated financial statements of PrivatBank (the "Bank") and its subsidiaries (the "Group") which comprise the consolidated balance sheet as of 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

LLC AF Pricewaterhousecoopers (Audit)

Kyiv, Ukraine
30 June 2008

In millions of Ukrainian hryvnias	Note	31 December 2007	31 December 2006
ASSETS			
Cash and cash equivalents and mandatory reserve balances	7	7,952	3,865
Trading securities		16	21
Other financial assets at fair value through profit or loss		16	18
Due from other banks	8	1,328	613
Loans and advances to customers	9	43,070	26,967
Investment securities available-for-sale	10	4	484
Investment securities held to maturity	11	1,160	-
Current income tax prepayment		1	10
Deferred income tax asset	26	34	-
Goodwill	12	35	30
Intangible assets	13	1	-
Premises, leasehold improvements and equipment	13	2,245	1,733
Other financial assets	14	229	107
Other assets	15	179	181
TOTAL ASSETS		**56,270**	**34,029**
LIABILITIES			
Due to other banks and other financing institutions	16	6,240	4,266
Customer accounts	17	36,003	23,711
Debt securities in issue	18	6,359	925
Current income tax liability		295	3
Deferred income tax liability	26	646	570
Provisions for liabilities and charges, other financial and non-financial liabilities	19	384	380
Subordinated debt	20	937	926
TOTAL LIABILITIES		**50,864**	**30,781**
EQUITY			
Share capital	21	2,967	2,335
Additional capital	22	462	82
Revaluation reserve for premises	22	361	356
Revaluation reserve for securities available-for-sale	22	-	6
Currency translation reserve	22	33	5
Retained earnings		1,484	381
Net assets attributable to the equity holders of the Bank		**5,307**	**3,165**
Minority interest		**99**	**83**
TOTAL EQUITY		**5,406**	**3,248**
TOTAL LIABILITIES AND EQUITY		**56,270**	**34,029**

Approved for issue and signed on behalf of the Management Board on 30 June 2008.

Olexander V. Dubilet
Chairman of the Board

Lubov I. Korotina
Chief Accountant

In millions of Ukrainian hryvnias	**Note**	**2007**	**2006**
Interest income	23	7,034	4,186
Interest expense	23	(3,021)	(1,812)
Net interest income		**4,013**	**2,374**
Provision for impairment of loans and advances to customers	9	(666)	(497)
Net interest income after provision for impairment of loans and advances to customers		**3,347**	**1,877**
Fee and commission income	24	1,473	1,043
Fee and commission expense	24	(161)	(91)
Gains less losses from trading securities		-	2
(Losses less gains)/gains less losses from financial derivatives	31	(13)	47
Gains less losses from other financial assets at fair value through profit or loss		-	30
Gains less losses from trading in foreign currencies		351	252
Foreign exchange translation gains less losses		15	30
Gains on initial recognition of liabilities at rates below market		-	12
Impairment of investment securities available-for-sale	10	(607)	(551)
Gains less losses from disposals of investment securities available-for-sale	10	145	305
Release of provision/(provision charge) for credit related commitments	30, 19	48	(17)
Other operating income		87	83
Gains arising from early retirement of debt		5	-
Administrative and other operating expenses	25	(3,236)	(2,165)
Excess of interest in the fair value of the net assets of the subsidiary acquired over the cost of investment	36	60	-
Profit before tax		**1,514**	**857**
Income tax	26	(392)	(241)
Profit for the year		**1,122**	**616**
Profit is attributable to			
Equity holders of the Bank		1,101	608
Minority interest		21	8
Profit for the year		**1,122**	**616**

PrivatBank Group
Consolidated Statement of Changes in Equity

In millions of Ukrainian hryvnias	**Note**	**Attributable to equity holders of the Bank**							**Minority Interest**	**Total equity**
		Share capital	**Additional capital**	**Revaluation reserve for premises**	**Revaluation reserve for securities available-for-sale**	**Currency translation reserve**	**Retained earnings**	**Total**		
Balance at 1 January 2006		**1,383**	**82**	**157**	**-**	**(13)**	**221**	**1,830**	**56**	**1,886**
Securities available-for-sale:										
- Fair value gains less losses	10	-	-	-	313	-	-	313	-	313
- Disposals	10	-	-	-	(305)	-	-	(305)	-	(305)
Premises:										
- Revaluation	13	-	-	270	-	-	-	270	23	293
- Realised revaluation reserve	13	-	-	(5)	-	-	5	-	-	-
Income tax recorded in equity	26	-	-	(66)	(2)	-	(1)	(69)	(6)	(75)
Currency translation differences	22	-	-	-	-	18	-	18	2	20
Net income recognised directly in equity		-	-	199	6	18	4	227	19	246
Profit for the year		-	-	-	-	-	608	608	8	616
Total recognised income for the year		-	-	199	6	18	612	835	27	862
Paid-in share capital		500	-	-	-	-	-	500	-	500
Capitalization of dividends		452	-	-	-	-	(452)	-	-	-
Distribution to equity holders of the Bank		-	-	-	-	-	(9)	(9)	(9)	(18)
Contribution by equity holders of the Bank		-	-	-	-	-	9	9	9	18
Balance at 31 December 2006		**2,335**	**82**	**356**	**6**	**5**	**381**	**3,165**	**83**	**3,248**

PrivatBank Group
Consolidated Statement of Changes in Equity

In millions of Ukrainian hryvnias	Note	Attributable to equity holders of the Bank							Minority Interest	Total equity
		Share capital	Additional capital	Revaluation reserve for premises	Revaluation reserve for securities available-for-sale	Currency translation reserve	Retained earnings	Total		
Balance at 31 December 2006		**2,335**	**82**	**356**	**6**	**5**	**381**	**3,165**	**83**	**3,248**
Securities available-for-sale:										
- Disposals	10	-	-	-	(8)	-	-	(8)	-	(8)
Premises:										
- Revaluation	12	-	-	9	-	-	-	9	3	12
- Realised revaluation reserve	12	-	-	(3)	-	-	3	-	-	-
Income tax recorded in equity	26	-	-	(1)	2	-	(1)	-	(1)	(1)
Currency translation differences	22	-	-	-	-	28	-	28	12	40
Net income recognised directly in equity		-	-	5	(6)	28	2	29	14	43
Profit for the year		-	-	-	-	-	1,101	1,101	21	1,122
Total recognised income for the year		-	-	5	(6)	28	1,103	1,130	35	1,165
Paid-in share capital	21	632	-	-	-	-	-	632	-	632
Additional capital										
- Cash contribution	22	-	506	-	-	-	-	506	-	506
- Income tax liability	22	-	(126)	-	-	-	-	(126)	-	(126)
Funds contributed by minority into share capital of subsidiaries		-	-	-	-	-	-	-	3	3
Purchase of minority	36	-	-	-	-	-	-	-	(62)	(62)
Business combinations	35	-	-	-	-	-	-	-	40	40
Balance at 31 December 2007		**2,967**	**462**	**361**	**-**	**33**	**1,484**	**5,307**	**99**	**5,406**

In millions of Ukrainian hryvnias	Note	2007	2006
Cash flows from operating activities			
Interest received		6,349	3,932
Interest paid		(2,599)	(1,684)
Fees and commissions received		1,405	1,056
Fees and commissions paid		(161)	(108)
Income received from trading in trading securities		-	8
Income received from financial derivatives		(10)	-
Income received from trading in foreign currencies		357	252
Other operating income received		91	92
Staff costs paid		(1,556)	(997)
Administrative and other operating expenses paid		(1,447)	(900)
Income tax paid		(174)	(87)
Cash flows from operating activities before changes in operating assets and liabilities		**2,255**	**1,564**
Changes in operating assets and liabilities			
Net (increase)/decrease in mandatory reserve balances		(416)	737
Net decrease in trading securities		7	25
Net decrease in other financial assets at fair value through profit or loss		4	84
Net (increase)/decrease in due from other banks		(701)	605
Net increase in loans and advances to customers		(16,457)	(11,534)
Net decrease/(increase) in other financial assets		14	(46)
Net decrease in other assets		(71)	(89)
Net increase in due to other banks		1,846	1,442
Net increase in customer accounts		12,318	5,281
Net increase in provisions for liabilities and charges, other financial and non-financial liabilities		98	51
Net cash used in operating activities		**(1,103)**	**(1,880)**
Cash flows from investing activities			
Acquisition of investment securities available-for-sale		(539)	(1,049)
Proceeds from disposal of investment securities available-for-sale		596	1,043
Acquisition of investment securities held to maturity	11	(1,160)	-
Acquisition of premises, leasehold improvements and equipment		(737)	(440)
Proceeds from disposal of premises, leasehold improvements and equipment		3	6
Acquisition of subsidiaries, net of cash acquired	35	(38)	-
Proceeds from disposal of subsidiary, net of cash disposed		-	24
Net cash used in investing activities		**(1,875)**	**(416)**
Cash flows from financing activities			
Proceeds from subordinated debt	20	-	749
Repayment of subordinated debt	20	(1)	-
Issue of ordinary shares	21	632	500
Proceeds from debt securities issued		5,331	576
Repayment of debt securities issued		(17)	(506)
Borrowings from other financing institutions		-	1,159
Contributions from shareholders	22	506	-
Funds contributed by minority into share capital of subsidiaries		1	-
Net cash from financing activities		**6,452**	**2,478**
Effect of exchange rate changes on cash and cash equivalents		**186**	**108**
Net increase in cash and cash equivalents		**3,660**	**290**
Cash and cash equivalents at the beginning of the year		3,408	3,118
Cash and cash equivalents at the end of the year	7	**7,068**	**3,408**

Investing and financing transactions that did not require the use of cash and cash equivalents were excluded from the cash flow statement and disclosed in Note 7.

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2007 for PrivatBank (the "Bank") and its subsidiaries (together referred to as the "Group" or "PrivatBank Group").

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

Principal activity. The Bank was initially registered as a commercial entity with limited liability and re-organised into a closed joint stock entity in 2000. The Bank has operated under a banking license issued by the Central Bank of Ukraine – the National Bank of Ukraine (the "NBU") since March 1992. The Bank's principal business activity is commercial and retail banking operations within Ukraine. As at 31 December 2007 the shareholders of the Bank are two individuals who own 43.44% of the outstanding shares each, two Ukrainian companies which own 5.16% and 4.34% of the outstanding shares, respectively, and Management of the Bank who own 3.62% of the outstanding shares (31 December 2006: two individuals owned 41.46% of the outstanding shares each, two Ukrainian companies owned 6.72% and 5.66% of the outstanding shares, respectively, and Management of the Bank owned 4.70% of the outstanding shares). The ultimate major shareholders of the Bank are 2 Ukrainian citizens, Mr I.V. Kolomoyski and Mr G.B. Bogolyubov, neither of which individually controls the Bank.

The Bank has 39 branches and 2,808 outlets within Ukraine and a branch in Cyprus (2006: 41 branches, 2,325 outlets in Ukraine and branch in Cyprus). Additionally, the Bank has subsidiary banks in the Russian Federation, Latvia, Georgia and representative offices in Kyiv (Ukraine), Moscow (Russia), Almaty (Kazakhstan), London (United Kingdom) and Beijing (China) (2006: Kyiv (Ukraine) and Almaty (Kazakhstan)) and two special purpose entities in the United Kingdom.

Registered address and place of business. The Bank's registered address and place of business is:

50, Naberezhna Peremohy Str.,
49094, Dnipropetrovsk
Ukraine

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

2 Operating Environment of the Group

Whilst there have been improvements in economic trends in the country, Ukraine continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of Ukraine, restrictive currency controls, and inflation of 16.6 % for year ended 31 December 2007 (year ended 31 December 2006: 11.6%). The tax, currency and customs legislation within Ukraine is subject to varying interpretations and changes, which can occur frequently. Management is unable to predict all developments which could have an impact on the banking sector and consequently what effect, if any, they could have on the financial position of the Group.

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

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

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

2 Operating Environment of the Group (Continued)

Recent volatility in global financial markets. Since the second half of 2007 there has been a sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond the US housing market as global investors have re-evaluated their exposure to risks, resulting in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. The volume of Eurobond issues and similar wholesale financing by Ukrainian banks has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and refinance its existing borrowings at terms and conditions that applied to similar transactions in recent periods. Borrowers of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their amounts owed. Management is unable to reliably estimate the effects on the Group's financial position of any further possible deterioration in the liquidity of the financial markets and their increased volatility.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of premises, available-for-sale financial assets, derivative financial instruments and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 6 Adoption of New or Revised Standards and Interpretations).

Amendments of the financial statements after issue. The Bank's shareholders and management have the power to amend the financial statements after issue.

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

The Group holds 50% of voting rights in a fully consolidated subsidiary LLC PrivatOffice. The Group has the power to govern the financial and operating policies of this subsidiary through contractual arrangements with another shareholder of the subsidiary, which also holds 50% of voting rights.

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

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

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

3 Summary of Significant Accounting Policies (Continued)

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

Purchases and sales of minority interests. The Group applies the economic entity model to account for transactions with minority shareholders. Any difference between the purchase consideration and the carrying amount of minority interest acquired is recorded as goodwill or negative goodwill. The Group recognises the difference between sales consideration and carrying amount of minority interest sold as a gain or loss in the income statement.

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

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

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

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments. Refer to Note 10.

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. All interbank placements, beyond overnight placements are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory reserve balances. Mandatory reserve balances are carried at amortised cost and represent non-interest bearing mandatory reserve assets. In those cases where the Central Bank regulations require the Group to keep at the beginning of each business day certain amount as mandatory reserve deposit and hence the mandatory reserve balances are not available to finance the Group's day to day operations, they are not considered as part of cash and cash equivalents for the purposes of the consolidated cash flow statement.

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

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated income statement as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise.

3 Summary of Significant Accounting Policies (Continued)

Other securities at fair value through profit or loss. Other securities at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel.

Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

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

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

When impaired financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of Management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently. Past experience is the basis for the estimation of the loss identification period, in particular the time lag between the actual loss event and identification of the loss event by the Group. This approach ensures the impact of that losses which have not yet been specifically identified, is included in the estimation of loan loss impairment.

3 Summary of Significant Accounting Policies (Continued)

If the terms of a financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

Credit related commitments. The Group enters into credit related commitments, including letters of credit and 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 and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each balance sheet date, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date.

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer’s share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. Goodwill is carried at cost less accumulated impairment losses, if any.

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

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

Premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset. At the date of revaluation accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

3 Summary of Significant Accounting Policies (Continued)

Construction in progress is carried at cost less provision for impairment where required. Construction in progress is not depreciated until the asset is available for use.

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

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

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

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

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

Premises	50 years
Computers	4 years
Furniture and equipment	4-10 years
Motor vehicles	6 years
Other	3-5 years

Leasehold improvements are depreciated over the term of the underlying lease.

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

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

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 5 years.

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

Uncertain tax positions. The Group's uncertain tax positions are reassessed by Management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by Management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known Court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on Management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

Recognition of deferred day one profit and loss. The Group has entered into transactions, where fair value is determined using valuation models for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as “day one profit and loss”, is not recognised immediately in profit and loss.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument’s fair value can be determined using market observable inputs, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the income statement without reversal of deferred day one profits and losses.

Foreign currency translation. The functional currency of each of the Group’s consolidated entities is the currency of the primary economic environment in which the entity operates. The Bank’s functional currency and the Group’s presentation currency is the national currency of Ukraine, Ukrainian hryvnia (“UAH”).

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

As the characteristics of the economic environment of Ukraine indicate that hyperinflation has ceased, effective from 1 January 2001 the Bank no longer applies the provisions of IAS 29. Accounting for the effects of hyperinflation prior to 1 January 2001 is detailed further below. The results and financial position of each group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

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

3 Summary of Significant Accounting Policies (Continued)

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

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

	31 December 2007, UAH	31 December 2006, UAH
1 USD	5.050000	5.050000
1 EUR	7.419460	6.650850
1 RUB	0.205790	0.191790
1 LVL	10.644849	9.539372
1 GEL	3.172908	2.947184

Fiduciary assets. Assets and liabilities held by the Group in its own name, but on the account of third parties, are not reported on the consolidated balance sheet. The extent of such balances and transactions is indicated in Note 30. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

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

Accounting for the effects of hyperinflation. Prior to 2001 Ukraine experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 “Financial Reporting in Hyperinflationary Economies” (“IAS 29”). In accordance with IAS 29, when an economy ceases to be hyperinflationary and an enterprise is not required to prepare and present financial statements in accordance with IAS 29, it should treat the amounts expressed in the measuring unit current at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements. Those non-monetary items that arose in the periods of hyperinflation or earlier periods need to be restated in terms of the purchasing power of Ukrainian hryvnia at the end of the reporting period preceding the period in which hyperinflation ceased.

This restatement was prepared by indexing the historical balances by changes in the general price index up to 31 December 2000.

Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at the period end. Non-monetary assets and liabilities (items which are not expressed in terms of the monetary unit current at the period end) are restated by applying the relevant conversion factor. The effect of inflation on the Group’s net monetary position in 2000 and prior years is included in retained earnings.

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

Segment reporting. A segment is a distinguishable component of the Group 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 Group have been reported separately within these consolidated financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

3 Summary of Significant Accounting Policies (Continued)

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts. The Bank decided to separate loans and advances to customers issued to small and medium enterprises from corporate and individual clients. The effect of reclassifications is as follows:

In millions of Ukrainian hryvnias (as presentation currency, Note 3)	**2006**
Increase in	
Loans to small and medium enterprises (SME), gross	2,043
Decrease in	
Corporate loans, gross	(193)
Loans to individuals, gross	(1,850)

Any further changes to these financial statements require approval of the Bank's Management who authorised these financial statements for issue.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Impairment of available-for-sale equity investments. The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price.

During 2006 and 2007 the Group increased its exposure to market risk in relation to its investment portfolio. Prior to 2006 this portfolio mainly consisted of actively traded shares of Ukrainian companies, the market value of which Management believed to be reflective of their inherent value. In 2006 the Bank decided to change its investment policy and started to invest in more risky securities which the Management believes have a greater risk/return profile.

As at 31 December 2007 the Group's portfolio of equity investments were carried at cost less impairment. The cost of these equity investments was UAH 623 million and the carrying value was UAH 4 million (2006: cost UAH 672 million and carrying value UAH 84 million). For these equity securities, fair value cannot be reliably determined as there was no active market for these shares, the recent trades were effected at prices which vary significantly within the same day or recent trade prices were not publicly available. For the purposes of assessment of impairment of those equity securities for which fair value cannot be reliably determined, the Group has considered financial data of the investees, where available, and cash flows from subsequent sale of securities discounted at market interest rate.

In 2007 the Group sold or exchanged for others equity investments, shares with the carrying value of UAH 83 million (2006: UAH 606 million) at the date of sale, whose fair value could not be reliably determined as at 31 December 2006. A gain of UAH 139 million (2006: UAH 22 million) was recognised in the consolidated income statement in respect of this sale.

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

In 2007 the Group recognised impairment losses on investment securities available-for-sale of UAH 607 million (2006: UAH 551 million). Had the Management adopted different assumptions and used different valuation judgements when determining whether or not the available-for-sale investment securities were impaired, the carrying amount of the available-for-sale equity investments could have been significantly increased. Management based its estimate of the carrying amount on available information. Had more information regarding equity securities been available, Management's estimate of the carrying amount and appropriateness of impairment charges may have changed.

Tax legislation. Ukrainian and Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 30.

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the assessed delay in repayment of principal on 5% of the total loans and advances to customers differs by +/- one month, the provision would be approximately UAH 25 million (2006: UAH 17 million) higher or UAH 21 million (2006: UAH 17 million) lower.

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require Management to make estimates. Changes in assumptions about these factors could affect reported fair values.

As at 31 December 2007 the Group had loans to customers totalling UAH 10,339 million (2006: UAH 7,251 million) issued in UAH with the condition of compensation to be received by the Group in the event that the official exchange rate of UAH depreciates against USD. The contract to receive compensation was accounted for by the Group as financial derivative with insignificant fair value as at 31 December 2007 (2006: UAH 44 million) estimated using a valuation technique. This valuation technique takes into account expected movements in exchange rates and probabilities of these movements with the highest probability estimated for exchange rate of UAH 5.05 per USD 1. Changing the assumptions about probabilities of movements in the exchange rates may result in a different profit. If the highest probability is assigned to an exchange rate of UAH 5.10 (2006: UAH 5.15) to USD 1, the fair value of the derivative and the respective income statement movement would increase by UAH 85 million (2006: UAH 71 million).

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

As at 31 December 2007 the Group had loans totalling UAH 137 million issued to construction companies in USD at 12% nominal interest rate per annum with the condition of compensation to be received by the Group on sale of real estate, for construction of which money were borrowed. Compensation is calculated as 50% of sale proceeds less cost of sales, which is a fixed amount and less cost of borrowings. The contract to receive compensation was accounted for by the Group as a financial derivative with the fair value of UAH 41 million estimated using a valuation technique. This valuation technique takes into account expected prices for real estate property at the time of sale of real estate property. Changing the assumptions about probabilities of movements in the prices for real estate property, not supported by observable market data to a reasonably possible alternative, may result in a different profit. If prices for real estate increase/decreased by 5% above the estimated prices, the fair value of derivative and respective income statement movement would increase/decrease by UAH 7 million. The fair value of the derivative at inception and as at 31 December 2006 was insignificant.

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

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

Goodwill. Recoverable amount of goodwill was estimated based on value in use calculation. Refer to Note 12.

Fair value of premises. As stated in Note 13, premises of the Group 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 sales comparison approach, which is further confirmed by income capitalisation approach. When performing revaluation certain judgements and estimates are applied by the valuers in order to determine which comparable premises should be used in the sales comparison approach, what should be the useful lives of the assets revalued and what capitalisation rates should be applied for the income capitalisation approach. Changes in assumptions about these factors could affect reported fair values.

Judgement is required to determine frequency of revaluation based on changes in the fair value of premises subject to revaluation. The Management regularly analyses whether the fair value of premises differs materially from its carrying amount, to conclude if further revaluation is required. Based on the analysis of the fair value of premises as at 31 December 2007, the Management concluded that no further revaluation is required as fair value of premises is not materially different from the carrying amount.

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

Initial recognition of loans received from other financing institutions. The Group has long-term loans received under credit-lines from other financing institutions. These resources are received under the inter-state project financing aimed to serve the public interest that is often provided at advantageous rates. As the transactions are with unrelated parties, Management's judgement is that this lending should be considered as an instrument of a special purpose market and no initial recognition gains should arise.

Derecognition of financial assets. Management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards. During the year ended 31 December 2007 the Group sold a portfolio of loans with carrying value of UAH 617 million to another Ukrainian bank. However, these loans have not been derecognised as in the Management's judgement the derecognition criteria were not met

5 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Group from 1 January 2007. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings at 1 January 2006, unless otherwise described below.

IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). The IFRS introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaced IAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and some of the requirements in IAS 32, *Financial Instruments: Disclosure and Presentation*. The Amendment to IAS 1 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these consolidated financial statements.

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

- IFRIC 7, *Applying the Restatement Approach under IAS 29* (effective for periods beginning on or after 1 March 2006);
- IFRIC 8, *Scope of IFRS 2* (effective for periods beginning on or after 1 May 2006);
- IFRIC 9, *Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after 1 November 2006).

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

Effect of Adoption of New or Revised Standards. No significant changes to consolidated financial information were made as a result of adoption of new or revised standards and interpretations.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the Group has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management is currently assessing what impact the standard will have on segment disclosures in the Group's financial statements.

Puttable financial instruments and obligations arising on liquidation—IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group does not expect the amendment to affect its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group does not expect the amendment to affect its consolidated financial statements.

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

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

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group does not expect the amendment to affect its consolidated financial statements.

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

6 New Accounting Pronouncements (Continued)

IFRS 1 amendments to First-time adoption of international financial reporting standards and IAS 27 Consolidated and separate financial statements - Cost of an investment in a subsidiary, jointly controlled entity or associate (effective for annual periods beginning on or after 1 January 2009).

Improvements to IFRSs (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non urgent, amendments to International Financial Reporting Standards. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and corrections to terminology in various standards. The Company does not expect any material impact on its financial statements from these amendments when they become effective on 1 January 2009 or later.

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

- IFRIC 11, *IFRS 2 - Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 13, *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008);
- IFRIC 14, *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2008).

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

7 Cash and Cash Equivalents and Mandatory Reserve Balances

In millions of Ukrainian hryvnias	**2007**	**2006**
Cash on hand	3,104	1,944
Cash balances with the NBU (other than mandatory reserve deposits)	114	205
Mandatory cash balances with the NBU	828	419
Cash balances with the Central Bank of Russian Federation	198	86
Cash balances with the Central Bank of Latvia	124	153
Cash balances with the Central Bank of Cyprus	60	45
Cash balances with the Central Bank of Georgia	16	-
Correspondent accounts and overnight placements with other banks		
- Ukraine	1	120
- Other countries	3,507	893
Total cash and cash equivalents and mandatory reserve balances	**7,952**	**3,865**

As at 31 December 2007 mandatory reserve balance with the National Bank of Ukraine is calculated on the basis of a simple average over a monthly period (2006: monthly period) and should be maintained at the level of 0.5 to 5 per cent (2006: 0.5 to 5 per cent) of certain obligations of the Bank. As such, mandatory reserve balance with the National Bank of Ukraine can vary from day-to-day. For December 2007 the Bank's mandatory reserve balance was UAH 828 million (2006: UAH 419 million). The Bank may satisfy its mandatory reserve requirement with its balance on correspondent account with the National Bank of Ukraine (31 December 2006: balance on correspondent account with the National Bank of Ukraine). Mandatory reserve balances carry zero interest rate.

As at 31 December 2007, in accordance with the NBU regulations the Bank was required to maintain the daily balance on correspondent account with the NBU at the level not less than 100% of the mandatory reserves balance for the preceding month (2006: not less than 100% of the mandatory reserve balance for the preceding month).

As at 31 December 2007 the mandatory reserve balances of the Bank's subsidiaries in Russia, Latvia, Georgia were UAH 55 million (2006: in Russia and Latvia UAH 106 million).

As the respective liquid assets are not available to finance the Group's day-to-day operations, except for the mandatory reserves with the Bank of Latvia and the Central Bank of Cyprus for the purposes of the consolidated cash flow statement, the mandatory reserve balance is excluded from cash and cash equivalents. As at 31 December 2007 the Group's cash and cash equivalents for the purposes of consolidated cash flow statement were as follows:

In millions of Ukrainian hryvnias	**2007**	**2006**
Total cash and cash equivalents and mandatory reserves balances	7,952	3,865
Less mandatory reserves balances	(884)	(457)
Cash and cash equivalents for the purposes of the consolidated cash flow statement	**7,068**	**3,408**

7 Cash and Cash Equivalents and Mandatory Reserve Balances (Continued)

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

In millions of Ukrainian hryvnias	**Cash on hand**	**Cash balances with the Central Bank**	**Correspondent accounts and overnight placements with other banks**	**Total**
Current and not impaired				
Cash on hand	3,104	-	-	3,104
Cash balances with Central Banks (other than mandatory reserve deposits)	-	328	-	328
Mandatory cash balances with the Central Banks	-	1,012	-	1,012
Large OECD banks	-	-	3,266	3,266
Other OECD banks	-	-	194	194
Non-OECD banks	-	-	46	46
Other Ukrainian banks	-	-	2	2
Total cash and cash equivalents and mandatory reserve balances	**3,104**	**1,340**	**3,508**	**7,952**

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

In millions of Ukrainian hryvnias	**Cash on hand**	**Cash balances with the Central Bank**	**Correspondent accounts and overnight placements with other banks**	**Total**
Current and not impaired				
Cash on hand	1,944	-	-	1,944
Cash balances with Central Banks (other than mandatory reserve deposits)	-	383	-	383
Mandatory cash balances with the Central Banks	-	525	-	525
Largest 20 Ukrainian banks	-	-	5	5
Large OECD banks	-	-	734	734
Other OECD banks	-	-	101	101
Non-OECD banks	-	-	58	58
Other Ukrainian banks	-	-	115	115
Total cash and cash equivalents and mandatory reserve balances	**1,944**	**908**	**1,013**	**3,865**

7 Cash and Cash Equivalents and Mandatory Reserve Balances (Continued)

Investing transactions that did not require the use of cash and cash equivalents were excluded from the consolidated cash flow statement are as follows:

In millions of Ukrainian hryvnias	2007	2006
Non-cash investing activities		
Acquisition of investment securities available-for-sale in exchange for other investment securities available-for-sale	(615)	(949)
Proceeds from disposal of investment securities available-for-sale in exchange for other investment securities available-for-sale	604	949
Acquisition of premises	-	(99)
Liability for finance lease	-	99
Capitalisation of dividends	-	452
Share capital	-	(452)
Non-cash investing activities	**(11)**	**-**

Geographical, currency, maturity and interest rate analysis of cash and cash equivalents and mandatory reserve balances is disclosed in Note 28. Information on related party balances is disclosed in Note 34.

8 Due from Other Banks

In millions of Ukrainian hryvnias	2007	2006
Term placements with other banks	1,205	405
Guarantee deposits with other banks	123	205
Overdue placements with other banks	-	3
Total due from other banks	**1,328**	**613**

Guarantee deposits represent balances placed with other banks as cover for letters of credit and for international payments. These are effectively restricted deposits, which are required to be maintained to complete the related trade finance activity. Refer to Note 30.

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

In millions of Ukrainian hryvnias	Term placements with other banks	Guarantee deposits with other banks	Total
Current and not impaired			
- Top 20 Ukrainian banks	10	-	10
- Other Ukrainian banks	7	-	7
- Large OECD banks	83	117	200
- Other OECD banks	1,097	-	1,097
- Non-OECD banks	8	6	14
Total due from other banks	**1,205**	**123**	**1,328**

8 Due from Other Banks (Continued)

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

In millions of Ukrainian hryvnias	**Term placements with other banks**	**Guarantee deposits with other banks**	**Overdue placements with other banks**	**Total**
Current and not impaired				
- Top 20 Ukrainian banks	-	-	3	3
- Other Ukrainian banks	71	20	-	91
- Large OECD banks	204	84	-	288
- Other OECD banks	78	27	-	105
- Non-OECD banks	52	74	-	126
Total due from other banks	**405**	**205**	**3**	**613**

As at 31 December 2007 the total aggregate amount of one counterpart of the Group amounted to UAH 1,032 million (2006: UAH 202 million) or 78% of the gross due from other banks (2006: 33%).

Carrying value of each class of amounts due from other banks approximates fair value at 31 December 2007 and 31 December 2006. At 31 December 2007 the estimated fair value of due from other banks was UAH 1,328 million (2006: UAH 613 million). Refer to Note 32.

Geographical, currency, maturity and interest rate analysis of due from other banks is disclosed in Note 28. Information on related party balances is disclosed in Note 34.

9 Loans and Advances to Customers

In millions of Ukrainian hryvnias	**2007**	**2006**
Corporate loans	23,957	16,266
Loans to individuals - card	5,542	3,441
Loans to individuals - mortgage	5,075	2,789
Loans to individuals - auto	3,655	1,997
Loans to individuals - consumer	2,297	1,858
Loans to individuals - other	1,362	736
Loans to small and medium enterprises (SME)	3,924	2,043
Reverse sale and repurchase agreements - corporate	68	4
Less: Provision for loan impairment	(2,810)	(2,167)
Total loans and advances to customers	**43,070**	**26,967**

As at 31 December 2007 interest income of UAH 329 million (2006: UAH 130 million) was accrued on loans and advances to customers impaired at the year end.

9 Loans and Advances to Customers (Continued)

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

In millions of Ukrainian hryvnias	Corporate loans	Loans to individuals: Card	Mortgage	Auto	Consumer	Other	SME	Reverse sale and repurchase	Total
Provision for loan impairment at 1 January 2007	**1,591**	**197**	**98**	**69**	**79**	**29**	**104**	**-**	**2,167**
(Recovery of)/provision for impairment during the year	(7)	444	(8)	(4)	251	46	(57)	1	666
Amounts written off during the year as uncollectible	(19)	-	(3)	-	(13)	-	-	-	(35)
Recovery of amounts previously written off as uncollectible	-	-	-	-	3	-	-	-	3
Acquisition of subsidiaries	-	-	-	-	1	-	1	-	2
Currency translation differences	1	3	1	-	2	-	-	-	7
Provision for loan impairment at 31 December 2007	**1,566**	**644**	**88**	**65**	**323**	**75**	**48**	**1**	**2,810**

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

In millions of Ukrainian hryvnias	Corporate loans	Loans to individuals: Card	Mortgage	Auto	Consumer	Other	SME	Total
Provision for loan impairment at 1 January 2006	**1,322**	**152**	**82**	**59**	**73**	**24**	**87**	**1,799**
Provision for impairment during the year	238	45	85	60	47	5	17	497
Amounts written off during the year as uncollectible	-	-	(69)	(50)	(41)	-	-	(160)
Recovery of amounts previously written off as uncollectible	29	-	-	-	-	-	-	29
Currency translation differences	2	-	-	-	-	-	-	2
Provision for loan impairment at 31 December 2006	**1,591**	**197**	**98**	**69**	**79**	**29**	**104**	**2,167**

9 Loans and Advances to Customers (Continued)

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

	2007		2006	
In millions of Ukrainian hryvnias	**Amount**	**%**	**Amount**	**%**
Loans to individuals	17,931	39	10,821	37
Commerce and finance	7,038	15	4,559	15
Small and medium enterprises (SME)	3,924	9	2,043	7
Agriculture, forestry and food industry	3,838	8	2,756	9
Oil trading	3,117	7	3,089	11
Metallurgy and mining	2,735	6	2,279	8
Manufacturing	1,758	4	880	3
Securities trading	1,126	3	158	1
Transport, storage and communication	812	2	369	1
Tourism	666	1	515	2
Other	2,935	6	1,665	6
Total loans and advances to customers (before impairment)	**45,880**	**100**	**29,134**	**100**

As at 31 December 2007 the total aggregate amount of loans to the top 10 borrowers of the Group amounted to UAH 4,871 million (2006: UAH 3,973 million) or 11% of the gross loan portfolio (2006: 14%).

As at 31 December 2007 the Group had 2 borrowers (2006: 9 borrowers) with aggregate loan balances in excess of 10% or the net assets of UAH 541 million (2006: UAH 325 million). The total aggregate amount of these loans was UAH 1,430 million (2006: UAH 4,979 million)

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

As at 31 December 2007 loans and advances to customers in the amount of UAH 946 million (2006: UAH 152 million) have been pledged as collateral with respect to the mortgage bonds issued. Please refer to Notes 18 and 30.

9 Loans and Advances to Customers (Continued)

Breakdown of loans and advances to customers by type of collateral taken as at 31 December 2007 is as follows:

In millions of Ukrainian hryvnias	Corporate loans	Loans to individuals: Card	Mortgage	Auto	Consumer	Other	SME	Reverse sale and repurchase	Total
Unsecured exposures	11,648	5,512	366	35	206	539	1,010	-	19,316
Loans collateralised by:									
- cash deposits	312	-	627	34	16	223	20	-	1,232
- residential real estate	478	-	3,801	199	30	60	741	-	5,309
- other real estate	1,380	-	173	31	31	170	716	-	2,501
- tradable securities	1,923	26	27	1	39	-	32	68	2,116
- equipment	1,949	-	-	2	101	9	206	-	2,267
- guarantees	937	4	21	4	166	28	211	-	1,371
- transport vehicles	960	-	4	130	74	13	534	-	1,715
- auto (cars)	463	-	55	3,217	98	39	429	-	4,301
- other assets	3,907	-	1	2	1,536	281	25	-	5,752
Total loans and advances to customers (before impairment)	**23,957**	**5,542**	**5,075**	**3,655**	**2,297**	**1,362**	**3,924**	**68**	**45,880**

Breakdown of loans and advances to customers by type of collateral taken as at 31 December 2006 is as follows:

In millions of Ukrainian hryvnias	Corporate loans	Loans to individuals: Card	Mortgage	Auto	Consumer	Other	SME	Reverse sale and repurchase	Total
Unsecured exposures	9,632	3,289	86	17	79	246	369	4	13,722
Loans collateralised by:									
- cash deposits	351	-	7	-	-	51	28	-	437
- residential real estate	123	-	2,595	-	15	54	410	-	3,197
- other real estate	1,226	101	87	-	8	102	427	-	1,951
- tradable securities	249	-	-	-	-	51	-	-	300
- equipment	1,325	-	-	-	119	9	198	-	1,651
- guarantees	718	2	12	-	92	48	116	-	988
- transport vehicles	291	-	-	99	24	11	252	-	677
- auto (cars)	372	49	2	1,881	65	11	239	-	2,619
- other assets	1,979	-	-	-	1,456	153	4	-	3,592
Total loans and advances to customers (before impairment)	**16,266**	**3,441**	**2,789**	**1,997**	**1,858**	**736**	**2,043**	**4**	**29,134**

Other assets held as collateral include gas, oil and other assets. Included in unsecured loans to corporate clients are mainly loans and advances to customers secured with property right for future cash proceeds from the sales contracts.

This disclosure represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on the liquidity of the assets taken as collateral.

9 Loans and Advances to Customers (Continued)

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

In millions of Ukrainian hryvnias	Corporate loans	Loans to individuals: Card	Loans to individuals: Mortgage	Loans to individuals: Auto	Loans to individuals: Consumer	Loans to individuals: Other	SME	Reverse sale and repurchase	Total
Current and not impaired									
- Large borrowers with credit history with the Group over two years	4,153	-	-	-	-	-	-	-	4,153
- Large new borrowers with credit history with the Group less than 2 years	5,322	-	-	-	-	-	-	-	5,322
- Loans to medium size entities	7,069	19	1,002	25	59	497	301	40	9,012
- Loans to small entities	759	4,581	3,576	3,243	1,684	707	3,436	28	18,014
- Loans renegotiated in 2007	818	28	6	-	-	69	18	-	939
Total current and not impaired	**18,121**	**4,628**	**4,584**	**3,268**	**1,743**	**1,273**	**3,755**	**68**	**37,440**
Past due but not impaired									
- less than 30 days overdue	30	91	237	169	70	27	85	-	709
- 30 to 90 days overdue	44	-	145	117	-	20	31	-	357
Total past due but not impaired	**74**	**91**	**382**	**286**	**70**	**47**	**116**	**-**	**1,066**
Loans individually determined to be impaired (gross)									
- Not overdue	5,407	-	-	-	-	-	-	-	5,407
- less than 30 days overdue	2	-	-	-	-	-	-	-	2
- 30 to 90 days overdue	-	320	-	-	89	-	-	-	409
- 90 to 180 days overdue	83	171	56	53	95	18	18	-	494
- 180 to 360 days overdue	24	156	48	41	193	22	21	-	505
- over 360 days overdue	246	176	5	7	107	2	14	-	557
Total individually impaired loans (gross)	**5,762**	**823**	**109**	**101**	**484**	**42**	**53**	**-**	**7,374**
Less impairment provisions	(1,566)	(644)	(88)	(65)	(323)	(75)	(48)	(1)	(2,810)
Total loans and advances to customers	**22,391**	**4,898**	**4,987**	**3,590**	**1,974**	**1,287**	**3,876**	**67**	**43,070**

9 Loans and Advances to Customers (Continued)

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

In millions of Ukrainian hryvnias	Corporate loans	Loans to individuals: Card	Loans to individuals: Mortgage	Loans to individuals: Auto	Loans to individuals: Consumer	Loans to individuals: Other	SME	Reverse sale and repurchase	Total
Current and not impaired									
- Large borrowers with credit history with the Group over two years	1,393	-	13	-	-	-	-	-	1,406
- Large new borrowers with credit history with the Group less than 2 years	3,990	-	-	-	-	-	-	-	3,990
- Loans to medium size entities	4,482	-	530	37	6	233	82	-	5,370
- Loans to small entities	1,105	2,854	2,132	1,931	1,681	269	1,920	4	11,896
- Loans renegotiated in 2006	523	-	-	-	-	50	1	-	574
Total current and not impaired	**11,493**	**2,854**	**2,675**	**1,968**	**1,687**	**552**	**2,003**	**4**	**23,236**
Past due but not impaired									
- less than 30 days overdue	36	298	46	11	7	36	10	-	444
- 30 to 90 days overdue	40	-	15	5	-	5	4	-	69
Total past due but not impaired	**76**	**298**	**61**	**16**	**7**	**41**	**14**	**-**	**513**
Loans individually determined to be impaired (gross)									
- Not overdue	4,409	-	-	-	-	-	-	-	4,409
- less than 30 days overdue	17	-	-	-	-	-	-	-	17
- 30 to 90 days overdue	2	137	1	-	20	-	-	-	160
- 90 to 180 days overdue	22	67	5	4	5	52	4	-	159
- 180 to 360 days overdue	29	63	37	3	11	3	5	-	151
- over 360 days overdue	218	22	10	6	128	88	17	-	489
Total individually impaired loans (gross)	**4,697**	**289**	**53**	**13**	**164**	**143**	**26**	**-**	**5,385**
Less impairment provisions	(1,591)	(197)	(98)	(69)	(79)	(29)	(104)	-	(2,167)
Total loans and advances to customers	**14,675**	**3,244**	**2,691**	**1,928**	**1,779**	**707**	**1,939**	**4**	**26,967**

The Group applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the balance sheet date. The Group's policy is to classify each loan as 'current and not impaired' until specific objective evidence of impairment of the loan is identified.

9 Loans and Advances to Customers (Continued)

The primary factors that the Group considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

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

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

In millions of Ukrainian hryvnias	Corpo-rate loans	Loans to individuals					SME	Total
		Card	Mortgage	Auto	Consumer	Other		
Fair value of collateral - loan past due but not impaired								
- cash deposits	3	-	-	1	13	13	-	30
- residential real estate	4	-	655	24	22	12	78	795
- other real estate	26	-	6	19	4	22	108	185
- tradable securities	2	8	-	-	1	-	2	13
- equipment	10	1	-	1	4	3	27	46
- guarantees	12	3	86	57	19	14	175	366
- transport vehicles	2	-	1	19	3	6	54	85
- auto (cars)	2	-	5	293	16	5	30	351
- other assets	100	-	-	1	253	30	19	403
Total fair value of collateral - loan past due but not impaired	**161**	**12**	**753**	**415**	**335**	**105**	**493**	**2,274**
Fair value of collateral - individually impaired loans								
- cash deposits	1	-	-	-	-	-	-	1
- residential real estate	18	-	125	2	11	-	11	167
- other real estate	255	-	-	1	1	-	14	271
- tradable securities	61	-	-	-	-	-	-	61
- equipment	703	-	-	-	9	-	20	732
- guarantees	140	-	20	16	54	-	51	281
- transport vehicles	79	-	-	5	1	-	9	94
- auto (cars)	12	-	3	88	10	-	10	123
- other assets	255	-	-	-	276	-	7	538
Total fair value of collateral - individually impaired loans	**1,524**	**-**	**148**	**112**	**362**	**-**	**122**	**2,268**

9 Loans and Advances to Customers (Continued)

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

In millions of Ukrainian hryvnias	Corporate loans	Loans to individuals: Card	Mortgage	Auto	Consumer	Other	SME	Total
Fair value of collateral - loan past due but not impaired								
- cash deposits	1	-	-	-	8	-	-	9
- residential real estate	7	-	104	-	-	-	2	113
- other real estate	10	-	-	-	-	-	2	12
- equipment	7	-	-	-	2	-	3	12
- guarantees	8	-	-	1	9	-	8	26
- transport vehicles	4	-	-	1	-	-	1	6
- auto (cars)	2	-	-	10	1	-	2	15
- other assets	1	-	-	-	27	2	2	32
Total fair value of collateral - loan past due but not impaired	**40**	**-**	**104**	**12**	**47**	**2**	**20**	**225**
Fair value of collateral - individually impaired loans								
- cash deposits	1	-	-	-	7	5	-	13
- residential real estate	77	-	91	-	-	9	10	187
- other real estate	226	-	5	-	-	13	12	256
- tradable securities	39	-	-	-	-	-	-	39
- equipment	109	1	-	-	2	8	9	129
- guarantees	125	2	3	1	5	11	25	172
- transport vehicles	40	-	-	1	-	4	6	51
- auto (cars)	16	3	-	34	-	3	5	61
- other assets	59	1	-	-	248	66	5	379
Total fair value of collateral - individually impaired loans	**692**	**7**	**99**	**36**	**262**	**119**	**72**	**1,287**

Fair value of residential real estate at the balance sheet date was estimated by indexing the values determined by the Group's internal credit department staff at the time of loan inception for the average increases in residential real estate prices by city and region. Fair value of other real estate and other assets was determined by the Group's credit department using the Group's internal guidelines.

The estimated fair value of loans and advances to customers by class of financial asset as at 31 December 2007 is disclosed in the Note 32.

Geographical, currency, maturity and interest rate analysis of loans and advances to customers is disclosed in Note 28. Information on related party balances is disclosed in Note 34.

10 Investment Securities Available-for-Sale

In millions of Ukrainian hryvnias	2007	2006
Promissory notes	-	32
Total debt securities	-	32
Corporate shares – at fair value	-	368
Corporate shares – at cost	623	672
Less: Provision for impairment	(619)	(588)
Total investment securities available-for-sale	**4**	**484**

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

In millions of Ukrainian hryvnias	Note	2007	2006
Carrying amount at 1 January		**484**	**720**
Gains less losses from disposals	22	145	305
Purchases		1,154	1,693
Disposals of investment securities available-for-sale		(1,200)	(1,686)
Acquisitions of subsidiaries	35	28	-
Fair value gain recognised in equity		-	8
Provision for impairment during the year		(607)	(551)
Reclassification to loans and advances to customers		-	(5)
Carrying amount at 31 December		**4**	**484**

Geographical, currency, maturity and interest rate analysis of investment securities available-for-sale is disclosed in Note 28. Information on related party debt investment securities available-for-sale is disclosed in Note 34.

11 Investment Securities Held to Maturity

In millions of Ukrainian hryvnias	2007
Deposit certificates of the NBU	1,160
Total investment securities held to maturity	**1,160**

Deposit certificates are short-term debt securities issued by the NBU with the initial maturity of 6-8 days and annual interest rate of 1%-2%.

Carrying value of investment securities held to maturity approximates fair value at 31 December 2007. At 31 December 2007 the estimated fair value of investment securities held to maturity was UAH 1,160 million. Refer to Note 32.

Geographical, currency, maturity and interest rate analysis of investment securities held to maturity is disclosed in Note 28. Information on related party investment securities held to maturity is disclosed in Note 34.

12 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

In millions of Ukrainian hryvnias	Note	2007	2006
Carrying amount at 1 January		**30**	**27**
Acquisition of subsidiary	35	2	-
Effect of translation to presentation currency		3	3
Carrying amount at 31 December		**35**	**30**

Goodwill arising on the acquisition of 99.85% of total ordinary shares of Closed Joint-Stock Company “Cobos” and 95.07% of total ordinary shares of AS Paritate Banka (Latvia) and 75% of total ordinary shares of JSC TaoPrivatBank for which the agreement dates were after 31 March 2004, is carried at cost less accumulated impairment and not amortised but assessed annually for impairment.

Goodwill Impairment Test

Goodwill is allocated to cash-generating units (CGUs) which represent the lowest level within the Group at which the goodwill is monitored by Management and which are not larger than a segment as follows:

In millions of Ukrainian hryvnias	2007	2006
PrivatBank AS	32	29
CJSC Cobos	1	1
JSC TaoPrivatBank	2	-
Total carrying amount of goodwill	**35**	**30**

The recoverable amount of each CGU (including goodwill) was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates. Management determined budgeted gross margin based on past performance and its market expectations.

Geographical analyses of goodwill is disclosed in Note 28.

13 Premises, Leasehold Improvements and Equipment and Intangible Assets

In millions of Ukrainian hryvnias	Note	Premises	Leasehold improve-ments	Computers	Motor vehicles	Furniture, equip-ment, intangible assets and other	Total
Cost or valuation at 1 January 2006		541	81	351	57	594	1,624
Accumulated depreciation and amortisation		(7)	(59)	(198)	(18)	(198)	(480)
Carrying amount at 1 January 2006		**534**	**22**	**153**	**39**	**396**	**1,144**
Additions		139	20	80	23	294	556
Disposals		(51)	(1)	-	(1)	(13)	(66)
Transfers		-	(2)	2	-	-	-
Depreciation and amortisation charge	25	(14)	(18)	(49)	(8)	(117)	(206)
Revaluation		293	-	-	-	-	293
Effect of translation to presentation currency		6	-	-	-	6	12
Carrying amount at 31 December 2006		**907**	**21**	**186**	**53**	**566**	**1,733**
Cost or valuation at 31 December 2006		928	83	422	75	871	2,379
Accumulated depreciation and amortisation		(21)	(62)	(236)	(22)	(305)	(646)
Carrying amount at 31 December 2006		**907**	**21**	**186**	**53**	**566**	**1,733**
Acquisitions through business combinations		16	-	3	1	2	22
Additions		225	27	308	23	158	741
Disposals		(8)	-	-	(2)	(1)	(11)
Transfers		-	-	119	-	(119)	-
Depreciation and amortisation charge	25	(22)	(20)	(130)	(11)	(91)	(274)
Revaluation		12	-	-	-	-	12
Effect of translation to presentation currency		10	-	3	1	9	23
Carrying amount at 31 December 2007		**1,140**	**28**	**489**	**65**	**524**	**2,246**
Cost or valuation at 31 December 2007		1,186	106	916	95	827	3,130
Accumulated depreciation and amortisation		(46)	(78)	(427)	(30)	(303)	(884)
Carrying amount at 31 December 2007		**1,140**	**28**	**489**	**65**	**524**	**2,246**

13 Premises, Leasehold Improvements and Equipment and Intangible Assets (Continued)

The basis of valuation of premises was market value and discounted cash flow techniques in cases where market value was not determinable.

Included in the above carrying amount is UAH 512 million (2006: UAH 503 million) representing revaluation surplus relating to premises of the Group. As at 31 December 2007 a cumulative deferred tax liability of UAH 124 million (2006: UAH 125 million) was calculated with respect to this valuation adjustment and has been recorded directly to equity. At 31 December 2007 the carrying amount of premises would have been UAH 493 million (2006: UAH 406 million) had the assets been carried at cost less depreciation.

During 2007 the Group transferred items of property with total carrying value of UAH 119 million from furniture, equipment, intangible assets and other category into computers. Assets transferred mainly consist of ATMs and POS-terminals.

Construction in progress amounts to UAH 432 million (2006: UAH 266 million). Carrying value of items of construction in progress is included into the carrying values of appropriate categories of premises, leasehold improvements and equipment.

As at 31 December 2007 premises with total carrying value of UAH 72 million had been retired from active use and are not classified as held for sale in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” as conditions of this standard are not met.

As at 31 December 2007 the gross carrying amount of fully depreciated property, leasehold improvements and equipment that are still in use was UAH 309 million (2006: UAH 256 million).

Included in premises is an asset held under finance leases at carrying amount of UAH 65 million (2006: UAH 62 million). Included in office and computer equipment are assets held under finance leases at carrying amount of UAH 87 million (2006: UAH 76 million). Refer to Note 19.

14 Other Financial Assets

In millions of Ukrainian hryvnias	**Note**	**2007**	**2006**
Doubtful debts from operations with customers		96	21
Plastic cards receivables		88	48
Financial derivatives	31	41	48
Accrued income receivable		36	21
Other		40	8
Less: Provision for impairment		(72)	(39)
Total other financial assets		**229**	**107**

14 Other Financial Assets (Continued)

Movements in the provision for impairment of other financial assets during 2007 and 2006 are as follows:

In millions of Ukrainian hryvnias	**Doubtful debts from operations with clients**	**Plastic cards receivables**	**Accrued income receivable**	**Other**	**Total**
Provision for impairment at 1 January 2006	**13**	**8**	**4**	**5**	**30**
Provision for impairment during the year	5	(1)	2	3	9
Provision for impairment at 31 December 2006	**18**	**7**	**6**	**8**	**39**
Provision for impairment during the year	38	(7)	(6)	(7)	18
Amounts written off during the year as uncollectible	(5)	-	-	-	(5)
Acquisition of subsidiaries	14	6	- -	-	20
Provision for impairment at 31 December 2007	**65**	**6**	**-**	**1**	**72**

Analysis by credit quality of other financial receivables outstanding at 31 December 2007 is as follows:

In millions of Ukrainian hryvnias	**Doubtful debts from operations with customers**	**Plastic cards receivables**	**Financial derivatives**	**Accrued income receivable**	**Other**	**Total**
Current and not impaired						
- Large customers with credit history over two years	-	-	41	-	36	77
- Medium sized companies	-	-	-	2	-	2
- Small companies	14	-	-	34	1	49
- Large OECD banks	-	6	-	-	1	7
- Non-OECD banks	1	76	-	-	1	78
Total current and not impaired	**15**	**82**	**41**	**36**	**39**	**213**
Receivables individually determined to be impaired (gross)						
- 30 to 90 days overdue	81	6	-	-	1	88
Total receivables individually determined to be impaired	**81**	**6**	**-**	**-**	**1**	**88**
Less impairment provision	(65)	(6)	-	-	(1)	(72)
Total other financial receivables	**31**	**82**	**41**	**36**	**39**	**229**

14 Other Financial Assets (Continued)

Analysis by credit quality of other financial receivables outstanding at 31 December 2006 is as follows:

In millions of Ukrainian hryvnias	**Doubtful debts from operations with customers**	**Plastic cards receivables**	**Financial derivatives**	**Accrued income receivable**	**Other**	**Total**
Current and not impaired						
- Large customers with credit history over two years	-	-	48	-	-	48
- Small companies	-	3	-	-	-	3
- Large OECD banks	-	6	-	-	-	6
- Non-OECD banks	-	39	-	-	-	39
Total current and not impaired	**-**	**48**	**48**	**-**	**-**	**96**
Past due but not impaired						
- 30 to 90 days overdue	-	-	-	21	-	21
Total past due not impaired	**-**	**-**	**-**	**21**	**-**	**21**
Receivables individually determined to be impaired (gross)						
- 90 to 180 days overdue	21	-	-	-	8	29
Total receivables individually determined to be impaired	**21**	**-**	**-**	**-**	**8**	**29**
Less impairment provision	(18)	(7)	-	(6)	(8)	(39)
Total other financial receivables	**3**	**41**	**48**	**15**	**-**	**107**

The primary factors that the Group considers whether a receivable is impaired is its overdue status. As a result, the Group presents above an ageing analysis of receivables that are past due but not impaired and individually determined to be impaired.

Carrying value of each class of other financial assets approximates fair value at 31 December 2007 and 31 December 2006. At 31 December 2007 the estimated fair value of other financial assets was UAH 229 million (2006: UAH 107 million). Refer to Note 32. Information on related party balances is disclosed in Note 34.

15 Other Assets

In millions of Ukrainian hryvnias	2007	2006
Prepaid expenses	46	62
Precious metals held	37	39
Prepayments for premises and equipment	27	29
Inventory and other banking assets	22	43
Prepayments for taxes other than income tax	12	-
Prepayments for securities	-	8
Other	35	-
Total other assets	**179**	**181**

16 Due to Other Banks and Other Financing Institutions

In millions of Ukrainian hryvnias	2007	2006
Term placements of other banks	4,246	2,310
Long-term loans under the credit lines from other financing institutions	1,520	1,203
Correspondent accounts and overnight placements of other banks	469	743
Pledge deposits of other banks	5	10
Total due to other banks and other financing institutions	**6,240**	**4,266**

Long-term loans under the credit lines from other financing institutions as at 31 December 2007 represent credit lines for small and medium enterprises provided by the German-Ukrainian Fund and international financing institutions (2006: German-Ukrainian Fund, State Mortgage Institution and international financing institutions). Loans provided by other international financing institutions are denominated in USD and EUR (2006: USD), have interest rates of 6.7%-8.9% (2006: 6.6%-8.9%) per annum and maturity in January 2008-November 2008 (2006: August 2007-August 2008). The loan provided by German-Ukrainian Fund is denominated in EUR, has interest rate of EURIBOR+2.5% per annum and maturity in April 2008 (2006: interest rate of EURIBOR+1.5% per annum and maturity in April 2008). The loan provided by State Mortgage Institution is denominated in UAH, has interest rate of 12% per annum and maturity in July 2007.

The carrying value of each class of due to other banks approximates fair value at 31 December 2007 and 31 December 2006. At 31 December 2007 the estimated fair value of due to other banks was UAH 6,240 million (2006: UAH 4,266). Refer to Note 32.

Geographical, currency, maturity and interest rate analysis of due to other banks and other financing institutions is disclosed in Note 28. Information on related party balances is disclosed in Note 34.

17 Customer Accounts

In millions of Ukrainian hryvnias	**2007**	**2006**
Individuals		
- Term deposits	18,953	11,881
- Current/demand accounts	5,908	3,770
Legal entities		
- Term deposits	2,624	2,106
- Current/settlement accounts	8,518	5,954
Total customer accounts	**36,003**	**23,711**

Economic sector concentrations within customer accounts are as follows:

	2007		**2006**	
In millions of Ukrainian hryvnias	**Amount**	**%**	**Amount**	**%**
Individuals	24,861	69	15,651	66
Services	5,881	16	1,078	5
Trade	2,157	6	3,276	14
Machinery	574	2	428	2
Manufacturing	492	1	1,391	6
Transport and communication	319	1	297	1
Agriculture	206	1	160	1
Other	1,513	4	1,430	5
Total customer accounts	**36,003**	**100**	**23,711**	**100**

At 31 December 2007 the aggregate balance of the top 10 customers of the Group amounts to UAH 2,720 million (2006: UAH 1,350 million) or 8% of total customer accounts (2006: 6%).

At 31 December 2007 included in customer accounts are deposits of UAH 61 million (2006: UAH 499 million) held as collateral for irrevocable commitments under import letters of credit, financial guarantees and promissory notes endorsements.

As at 31 December 2007 included in customer accounts are deposits of UAH 1,232 million (2006: UAH 437 million) held as collateral for loans and advances to customers, issued by the Group.

Fair value of each class of customer accounts is disclosed in the Note 32.

Geographical, currency, maturity and interest rate analysis of customer accounts is disclosed in Note 28. Information on related party balances is disclosed in Note 34.

18 Debt Securities in Issue

In millions of Ukrainian hryvnias	**2007**	**2006**
Eurobonds	2,595	-
Private placements of bonds	2,977	811
Mortgage bonds	769	80
Promissory notes	18	-
Other debt securities in issue	-	34
Total debt securities in issue	**6,359**	**925**

In February 2007 the Group issued USD denominated Eurobonds with a par value of UAH 2,525 million maturing in February 2012. The bonds carry a coupon rate of 8% per annum, and yield to maturity of 10%. The Eurobonds are listed on the Swiss Stock Exchange.

In February 2007 the Group issued USD denominated Residential Mortgage Backed Floating Rate Notes (referred to as Mortgage bonds) with a par value of UAH 909 million. The notes were issued in three series. The main features of the issues are described in the table below.

Notes	**Principal amount, UAH million**	**Initial interest rate**	**Step-up date**	**Interest rate after step-up date**	**Maturity date**	**Issue price**
Class A	677	LIBOR + 2.1%	April 2014	LIBOR + 4.2%	December 2031	100%
Class B	186	LIBOR + 3.75%	April 2014	LIBOR + 7.5%	December 2031	100%
Class C	46	10%	-	-	December 2031	100%

The class C series bonds were repurchased by the Group according to the terms of issue.

In May 2007 the Latvian subsidiary of the Group issued EUR denominated Mortgage bonds with a par value of UAH 67 million maturing in May 2010. The bonds carry a coupon rate of EURIBOR+1.55%.

Mortgage bonds issued with the carrying value of UAH 769 million (2006: UAH 80 million) are effectively collateralised with loans and advances to customers in the amount of UAH 878 million (2006: UAH 152 million). Refer to Note 30.

The fair value of each class of debt securities in issue is disclosed in Note 32.

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 28. Information on related party balances is disclosed in Note 34.

19 Provisions for Liabilities and Charges, Other Financial and Non-financial Liabilities

Provisions for liabilities and charges, other financial and non-financial liabilities comprise the following:

In millions of Ukrainian hryvnias	31 December 2007	31 December 2006
Other financial liabilities		
Liability for finance lease	96	99
Funds in the course of settlement	39	17
Provision for credit related commitments	21	69
Accounts payable	16	11
Other	31	-
Total other financial liabilities	**203**	**196**
Provisions for liabilities and charges and other liabilities		
Unused vacation reserve	66	65
Accrued salaries and bonuses	52	47
Provision for legal case	21	21
Other	42	51
Total provisions for liabilities and charges and other non-financial liabilities	**181**	**184**
Total provisions for liabilities and charges, other financial and non-financial liabilities	**384**	**380**

Specific provisions were created for losses incurred on financial guarantees and promissory notes endorsement whose financial conditions deteriorated. The balance at 31 December 2007 is expected to be utilised by the end of 2013 (2006: by the end of 2012).

Provisions for legal cases include a provision for certain legal claims brought against the Bank by individuals and entities, who provided money to former employees of branches of the Bank, whilst those employees held senior management positions in these branches. The balance as at 31 December 2007 is expected to be utilised by the end of 2017 (2006: by the end of 2017). In the management opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the accrued amounts. Refer to Note 30.

Carrying value of each class of other financial liabilities approximates fair value at 31 December 2007 and 31 December 2006. At 31 December 2007 the estimated fair value of other financial liabilities was UAH 203 thousand (2006: UAH 196 million). Refer to Note 32.

Geographical, currency, maturity and interest rate analyses of other financial liabilities are disclosed in Note 28. Information on related party balances is disclosed in Note 34.

20 Subordinated Debt

In millions of Ukrainian hryvnias	**2007**	**2006**
Subordinated debt provided by legal entities	899	888
Subordinated debt provided by individuals	38	38
Total subordinated debt	**937**	**926**

Subordinated debt represents long term borrowing agreements, which, in case of the Group's default, would be secondary to the Group's other obligations, including deposits and other debt instruments. In accordance with the Law of Ukraine on Banks and Banking Activities and the NBU regulations, subordinated debt cannot be withdrawn from the Bank for at least five years from the date of receipt.

The debts rank after all other creditors in case of liquidation.

Included in subordinated debt, provided by legal entities, are USD denominated subordinated debts issued in February 2006 in the amount of UAH 758 million at par at 8.75% per annum payable quarterly with contractual maturity in February 2016 and USD denominated subordinated debt issued in March 2005 in the amount of UAH 30 million at par at 10% per annum payable monthly with contractual maturity in March 2010. Under subordinated debt issued in February 2006 the Group has a call option exercisable in February 2011 at par.

The rest of the amount is represented by subordinated debt issued on 31 December 2002 in the amount of UAH 70 million at 7% per annum payable annually with contractual maturity of 31 December 2008. In 2003 the interest rate was decreased to 3% per annum.

Subordinated debt, provided by individuals, represents subordinated debt issued in USD, EUR and UAH during July 2004 – April 2005 with interest rates from 10% to 12% per annum payable monthly and contractual maturity from July 2009 to April 2010.

At 31 December 2007 the fair value of subordinated debt was UAH 931 million (2006: UAH 964 million). Refer to Note 32.

Geographical, currency and maturity and interest rate analysis of subordinated debt is disclosed in Note 28. Information on related party balances is disclosed in Note 34.

21 Share Capital

In millions of UAH except for number of shares	**Number of Outstanding shares, in millions**	**Nominal amount**	**Inflation adjusted amount**
At 1 January 2006	**11.3**	**1,130**	**1,383**
New shares issued	9.5	952	952
At 31 December 2006	**20.8**	**2,082**	**2,335**
New shares issued	6.3	632	632
At 31 December 2007	**27.1**	**2,714**	**2,967**

On 12 May 2007 the shareholders of the Bank took a decision to issue 6.3 million of additional shares totalling UAH 632 million. On 28 August 2007 the NBU registered the increase in the share capital of the Bank in the amount of UAH 632 million.

On 20 November 2007 the shareholders of the Bank took a decision to issue 15.2 million of additional shares totalling UAH 1,515 million. As at 31 December 2007 this share issue was neither registered in the NBU nor paid by the Shareholders.

All ordinary shares have a nominal value of UAH 100 per share, rank equally and each share carries one vote.

22 Other Reserves

In millions of Ukrainian hryvnias	**2007**	**2006**
Additional capital	462	82
Revaluation reserve for premises and equipment	361	356
Revaluation reserve for available-for-sale securities	-	6
Currency translation reserve	33	5
Total other reserves	**856**	**449**

Revaluation reserve for available-for-sale securities is transferred to profit or loss when realised through disposal or impairment. Revaluation reserve for buildings is transferred to retained earnings when realised through depreciation, impairment, sale or other disposal. Currency translation reserve is transferred to profit or loss when realised through disposal of a subsidiary by sale, liquidation, repayment of share capital or abandonment of all, or part of, that subsidiary.

In December 2007 the Bank's major Shareholders made an additional capital contribution in the form of cash amounting to UAH 506 million, in respect of which the Group recognised income tax liability of UAH 126 million as at 31 December 2007. The contribution amounting to UAH 380 million, net of tax was made through related and third parties as a settlement of debts due to the major Shareholders of the Bank.

23 Interest Income and Expense

In millions of Ukrainian hryvnias	2007	2006
Interest income		
Loans and advances to individuals	4,276	2,430
Loans and advances to legal entities	2,575	1,626
Due from other banks	168	114
Other	15	16
Total interest income	**7,034**	**4,186**
Interest expense		
Term deposits of individuals	1,526	1,019
Due to other banks and other financing institutions	580	227
Current/settlement accounts	341	225
Debt securities in issue	273	52
Term deposits of legal entities	196	203
Subordinated debt	85	78
Other	20	8
Total interest expense	**3,021**	**1,812**
Net interest income	**4,013**	**2,374**

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

24 Fee and Commission Income and Expense

In millions of Ukrainian hryvnias	2007	2006
Fee and commission income		
Cash collection and cash transactions	730	479
Settlement transactions	669	482
Guarantees issued (Note 30)	19	14
Foreign exchange	17	9
Transactions with securities	15	10
Other	23	49
Total fee and commission income	**1,473**	**1,043**
Fee and commission expense		
Cash and settlement transactions	153	86
Other	8	5
Total fee and commission expense	**161**	**91**
Net fee and commission income	**1,312**	**952**

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

25 Administrative and Other Operating Expenses

In millions of Ukrainian hryvnias	Note	2007	2006
Staff costs		1,562	1,055
Depreciation and amortisation of premises, leasehold improvements and equipment and intangible assets	13	274	206
Rent		268	138
Mail and telecommunication		168	112
Insurance expences		158	47
Utilities and household expenses		145	132
Maintenance of premises, leasehold improvements and equipment		123	99
Advertising and marketing		98	48
Contributions to Individual Deposits Guarantee fund		85	57
Security		70	54
Transportation		49	40
Taxes other than income		39	38
Other		197	139
Total administrative and other operating expenses		**3,236**	**2,165**

Included in staff costs are statutory social security contributions of UAH 60 mln (2006: UAH 35 mln) and pension contributions of UAH 332 mln (2006: UAH 225 mln).

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

26 Income Taxes

Income tax expense comprises the following:

In millions of Ukrainian hryvnias	2007	2006
Current tax	349	84
Deferred tax	43	157
Income tax expense for the year	**392**	**241**

The income tax rate applicable to the majority of the Group's income is 25% (2006: 25%). The income tax rate applicable to the majority of subsidiaries income ranges from 15% to 30% (2006: from 15% to 25%). A reconciliation between the expected and the actual taxation charge is provided below.

In millions of Ukrainian hryvnias	2007	2006
Profit before tax	**1,514**	**857**
Theoretical tax charge at statutory rate (2007: 25%; 2006: 25%)	379	214
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	-	(1)
- Non-deductible expenses	31	29
- Other	(17)	-
Profits taxed at different rates	(1)	(1)
Income tax expense for the year	**392**	**241**

During the year ended 31 December 2007 a deferred tax liability of UAH 3 million (2006: UAH 73 million) has been recorded directly in equity in respect of the revaluation of the Group's premises. In addition, during the year ended 31 December 2006 a deferred tax asset of UAH 2 million has been recorded directly in equity in respect of the valuation of securities available-for-sale.

26 Income Taxes (Continued)

Differences between IFRS and Ukraine and other countries statutory taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 25% (2006: 25%), except for temporary differences that arise in respect of assets and liabilities of subsidiaries located in other countries.

In millions of Ukrainian hryvnias	**31 December 2006**	**Business combi-nations**	**(Charged)/ credited to profit or loss**	**Charged directly to equity**	**31 December 2007**
Tax effect of deductible temporary differences					
Accrued expenses and other liabilities	34	-	34	-	68
Prepaid expenses and other assets	-	-	6	-	6
Trading securities and investment securities available-for-sale	-	-	28	-	28
Gross deferred tax asset	**34**	**-**	**68**	**-**	**102**
Less offsetting with deferred tax liability	(34)	-	(34)	-	(68)
Recognised deferred tax asset	**-**	**-**	**34**	**-**	**34**
Tax effect of taxable temporary differences					
Trading securities and investment securities available-for-sale	(132)	-	88	2	(42)
Premises, leasehold improvements and equipment	(168)	-	(7)	(1)	(176)
Loan impairment provision	(218)	-	(40)	-	(258)
Accrued income	(62)	-	(113)	-	(175)
Fair value of derivative financial instruments	(11)	-	4	-	(7)
Prepaid expenses and other assets	(8)	-	2	-	(6)
Deferral of transaction costs at initial recognition	(5)	-	(45)	-	(50)
Gross deferred tax liability	**(604)**	**-**	**(111)**	**1**	**(714)**
Less offsetting with deferred tax asset	34	-	34	-	68
Recognised deferred tax liability	**(570)**	**-**	**(77)**	**1**	**(646)**

26 Income Taxes (Continued)

In thousands of Ukrainian hryvnias	31 December 2005	Business combi-nations	(Charged)/ credited to profit or loss	Charged directly to equity	31 December 2006
Tax effect of deductible temporary differences					
Accrued expenses and other liabilities	13	-	21	-	34
Gross deferred tax asset	**13**	**-**	**21**	**-**	**34**
Less offsetting with deferred tax liability	(9)	-	(25)	-	(34)
Recognised deferred tax asset	**4**	**-**	**(4)**	**-**	**-**
Tax effect of taxable temporary differences					
Trading securities and investment securities available-for-sale	(167)	-	37	(2)	(132)
Premises, leasehold improvements and equipment	(81)	2	(17)	(72)	(168)
Loan impairment provision	(51)	-	(167)	-	(218)
Accrued income	(40)	-	(22)	-	(62)
Fair value of derivative financial instruments	-	-	(11)	-	(11)
Prepaid expenses and other assets	(5)	-	(3)	-	(8)
Deferral of transaction costs at initial recognition	(10)	-	5	-	(5)
Gross deferred tax liability	**(354)**	**2**	**(178)**	**(74)**	**(604)**
Less offsetting with deferred tax asset	9	-	25	-	34
Recognised deferred tax liability	**(345)**	**2**	**(153)**	**(74)**	**(570)**

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

27 Segment Analysis

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

Business Segments. The Group is organised on a basis of four 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, monetary transfers and foreign exchange services.

- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

- Investment banking – representing financial instruments trading, structured financing, corporate leasing, merger and acquisitions advice.

- Treasury – representing interbank loans, deposits, foreign currency exchange operations, arrangement of funding in the international markets, asset and liabilities management, issue of senior bonds and assets backed securities, project financing, negotiation of limits for trade financing with financial institutions.

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 Group'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.

27 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Group for the years ended 31 December 2007 and 2006 is set out below:

In millions of Ukrainian hryvnias	Retail banking	Corporate banking	Investment banking	Treasury	Unallo-cated	Elimina-tions	Total
2007							
External revenues	4,543	3,562	56	433	-	-	8,594
Revenues from other segments	359	-	-	833	1,310	(2,502)	-
Total revenues	**4,902**	**3,562**	**56**	**1,266**	**1,310**	**(2,502)**	**8,594**
Total revenues comprise:							
- Interest income	3,972	3,065	10	1,179	1,310	(2,502)	7,034
- Fee and commission income	893	460	38	82	-	-	1,473
- Other operating income	37	37	8	5	-	-	87
Total revenues	**4,902**	**3,562**	**56**	**1,266**	**1,310**	**(2,502)**	**8,594**
Segment result	**952**	**689**	**(556)**	**245**	**184**	**-**	**1,514**
Income tax expense							(392)
Profit							**1,122**
Segment assets	23,023	23,598	103	8,646	865	-	56,235
Current and deferred tax assets							35
Total assets							**56,270**
Segment liabilities	25,227	9,895	343	14,356	102	-	49,923
Current and deferred tax liabilities							941
Total liabilities							**50,864**
Capital expenditure	418	118	4	3	194	-	737
Depreciation and amortisation expense	129	43	1	1	100	-	274
Impairment losses charged to profit or loss	683	(48)	607	-	-	-	1,242

27 Segment Analysis (Continued)

In millions of Ukrainian hryvnias	Retail banking	Corporate banking	Investment banking	Treasury	Unallo-cated	Elimina-tions	Total
2006							
External revenues	2,774	2,331	51	157	-	-	5,313
Revenues from other segments	288	2	-	230	367	(887)	-
Total revenues	**3,062**	**2,333**	**51**	**387**	**367**	**(887)**	**5,313**
Total revenues comprise:							
- Interest income	2,443	1,902	10	351	367	(887)	4,186
- Fee and commission income	613	393	27	10	-	-	1,043
- Other operating income	6	38	14	26	-	-	84
Total revenues	**3,062**	**2,333**	**51**	**387**	**367**	**(887)**	**5,313**
Segment result	**731**	**345**	**(263)**	**108**	**(64)**	**-**	**857**
Income tax expense							(241)
Profit							**616**
Segment assets	12,648	18,764	767	1,399	441	-	34,019
Current and deferred tax assets							10
Total assets							**34,029**
Segment liabilities	15,593	10,038	244	4,283	50	-	30,208
Current and deferred tax liabilities							573
Total liabilities							**30,781**
Capital expenditure	255	154	-	1	146	-	556
Depreciation and amortisation expense	104	52	-	-	50	-	206
Impairment losses charged to profit or loss	290	366	454	(36)	-	-	1,074

27 Segment Analysis (Continued)

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

In millions of Ukrainian hryvnias	Ukraine	OECD	Non-OECD	Total
2007				
Segment assets	42,246	6,156	7,833	56,235
External revenues	7,438	100	1,056	8,594
Capital expenditure	(663)	-	(74)	(737)
Credit related commitments (Note 30)	2,033	-	41	2,074
2006				
Segment assets	29,020	1,567	3,432	34,019
External revenues	4,784	101	428	5,313
Capital expenditure	(526)	-	(30)	(556)
Credit related commitments (Note 30)	1,093	6	288	1,387

External revenues and assets, other than as detailed below, and credit related commitments have generally been allocated based on domicile of the counterparty. Cash on hand, precious metals, premises and equipment and capital expenditure have been allocated based on the country in which they are physically held.

28 Financial Risk Management

The primary goal for the Group's risk management is to achieve an optimal level of risk-return of its operations. The purpose of risk management is to monitor and control the size and concentration of risks arising from the Group's activities. The risk management function within the Group is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The Group's risk management policy is designed to identify and analyse the above mentioned risks, set appropriate limits and continually monitor these risks and limits by means of advanced administrative and information systems. The Group manages risks using principles of checks and balances, continuity, prudence and hedging. Furthermore, the Group's risk management policies and systems are continuously modified and enhanced to reflect changes in markets and products. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Risk Management Bodies
Risk management policy, monitoring and control are conducted by a number of bodies of the Group under the supervision of the credit committee (the "Credit Committee") and the recently created Security Committee. Other bodies responsible for risk management within the Group include the Treasury, the Finance and Risk Division (comprising the Risk Control Department and the Analytical Risk Management Centre) and the Financial Risks Department. The Group also has a system of internal controls which is supervised and monitored by its Internal Audit Department and Financial Monitoring Department.

Credit Committee
The Credit Committee, which is composed of the Chairman of the Bank, its Deputies, the Head of the Dnipropetrovsk regional branch, the Head of the Finance and Risk Division and the Head of the Analytical Risk Management Centre, meets bi-weekly and is responsible for setting credit policy, approving loans over the prescribed lending limits and the limits for counterparty banks, monitoring loan performance and the quality of the Group's loan portfolio and reviewing large loan projects and the lending policies of the Bank's branches. The Credit Committee also monitors the interest rates set for a range of currencies by the Group's main competitors and the overall market situation and determines the Group's pricing policy on the basis on the above. In addition, due to the importance of liquidity risk management, the Credit Committee is also responsible for preparing and formulating management decisions with regard to increasing the Group's funding base.

28 Financial Risk Management (Continued)

Security Committee
The Security Committee is primarily responsible for reducing transaction risk, including assisting management in preventing fraud; enhancing the security of the Group's staff and its information systems, including the implementation of the Group's personnel security policy; and improving the Group's ability to resist internal and external threats to its systems, including threats to the Group's IT security. The Security Committee meets monthly and the members in attendance vary depending on the topic of the meeting.

Treasury
Day-to-day asset and liability management is done by the Treasury. The Treasury is responsible for overseeing the Group's assets and liabilities and liquidity and interest rate sensitivity analysis based on instructions and guidelines from the Financial Risks Department and its own assessments. The Treasury is responsible for the operational aspects of asset and liability management.

Financial Risks Department
The Financial Risks Department calculates and monitors the Bank's compliance with the mandatory ratios set by the NBU, the requirement to maintain mandatory reserves on the Bank's correspondent account with the NBU and its internal liquidity ratios (in accordance with the Bank's internal Methodology for Liquidity Risk Assessment and Control). In carrying out these functions, the Financial Risks Department works with the Treasury, its back office, and depositary and credit service officers of the head office business divisions and the Credit Committee.

In order to monitor and control liquidity within the Bank and its branches and sub-branches, the Financial Risks Department prepares daily reports on the maximum liquidity gap by matching assets and liabilities with different maturities and currencies as well as providing daily forecasts of the Group's balances on its correspondent account with the NBU to ensure the Bank's compliance with the mandatory reserve requirement and with the instant, current and short-term liquidity ratios set by the NBU. The liquidity reports are maintained in an electronic database that is accessible by the Treasury and is used for purposes of liquidity management. In addition, the Financial Risks Department prepares guidelines for head office business divisions seeking to raise long-term funds and/or reviews decisions of the Credit Committee on the implementation of programmes to increase the Bank's funding base in order to ensure that the Group's short- and long-term liquidity requirements are met.

Risk Control Department
The Risk Control Department analyses the creditworthiness of counterparty banks, calculates provisions for the Group's active operations and limits for counterparty banks, monitors problem assets in the loan portfolio under credit programs, monitors compliance with interbank transaction limits, reviews the lending authority limits of branch and sub-branch heads, analyses lending policies of the branches and sub-branches and provides the Credit Committee with suggestions for improving its policies. It also determines the strategy and basic methodological approaches in the Group's risk management system and oversees its compliance with the requirements established by the NBU as well as the Group's internal guidelines (including, among others, transaction limits and balance sheet structural limits for branches and sub-branches).

Analytical Risk Management Centre
The Analytical Risk Management Centre reviews and checks the results of work performed by the divisions of the Group and assists in formulating management decisions on enhancing transactional security and reducing risk based on data derived from this verification process. In particular, the Analytical Risk Management Centre develops methodologies for detecting suspicious and fraudulent transactions and for reducing errors in statistical analysis of data from the Group's accounting software and other sources, and verifies risk assumptions based on the results of such analyses.

Credit risk. The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay all amounts in full when due. The Group 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, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

28 Financial Risk Management (Continued)

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated balance sheet. Refer to Notes 7, 8, 9 and 14. For guarantees, import letters of credit and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to the Note 30.

The general principles of the Group's credit policy are outlined in the formal Group's Credit Policy. Formal and unified Group's Credit Manual regulates every significant aspect of the lending operations of the Group and outlines procedures for analysing the financial position of borrowers and the valuation of any proposed collateral and specifies the requirements for loan documentation and the procedures for the monitoring of loans.

The Group has collateral policy based on a thorough review and assessment of the value of collateral. The Group's goal is to ensure that there is sufficient collateral to cover a particular loan if the quality of that loan should deteriorate in value. A substantial portion of the Group's loan portfolio generally include acceleration clauses in case of deterioration of the financial position of the borrower. Credit products are, except in very unusual circumstances, only made available to customers that hold accounts with the Group. This policy provides the dual benefits of additional security for the credit products and additional business for the Group in other areas of corporate banking services.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower, or groups of affiliated borrowers, and by close on-going supervision of concentrations in geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal payment obligations and by changing the lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

Basic information on the level of credit risk, including reports on the loan portfolio and the volume of problem assets broken down by credit programme and manager, is posted on the Group's internal website. This information is updated weekly and can be viewed both as at the current date and over a period of time. There are specific sections of the Group's website dedicated to problem assets for both corporate and retail clients and the portfolio of corporate loans.

A review of the lending and deposit-taking policy of each branch is presented to the Credit Committee twice per month. The following information on the Bank's branch loan portfolio is considered by the Credit Committee:

- information on the major risks taken (being the ten largest exposures in the portfolio);
- information on the ten largest problem loans; and
- information on the ten largest problem loans that have been passed to the Group's Security Service.

Loan Approval Procedure
The lending policies and credit approval procedures of the Group are based on strict guidelines in accordance with the NBU regulations. The Group also has detailed regulations for collateral assessment, which is conducted by Group's trained specialists on collateral.

The Bank sets lending authority limits to limit risks to the Group arising from lending activities. Lending authority limits for senior managers of branches (comprising heads of branches, general and first deputy heads) are set twice per year by the Risk Control Department in the head office and approved by an order of the Bank together with proxies authorizing the relevant heads to make lending decisions. The lending authority limit of a branch or sub-branch head depends on the amount of own funds of a branch or sub-branch, overall rating of a branch or sub-branch and its integrated lending activity efficiency rating.

Lending authority limits for junior managers (heads of departments and divisions) are set by the head of the relevant branch or sub-branch and apply to a particular individual.

28 Financial Risk Management (Continued)

If the amount of a proposed loan does not exceed the lending authority limit of a head of a branch or sub-branch, the decision on granting the loan is taken by the credit committee of a branch. If the amount exceeds this limit, lending authority is granted from the head office in accordance with the Bank's credit procedures.

Off-Balance Sheet Policy
Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in respect of conditional obligations as it does for balance sheet financial instruments, which include credit approval procedures, risk control limits and monitoring procedures.

Loan Monitoring
The Group's IT systems allow the Management monitoring of loans' performance on-line.

The Group reassesses the credit risk on each loan on an ongoing basis by (i) monitoring the financial and market position of the borrower and (ii) assessing the sufficiency of collateral for the loan. The financial and market position of the borrower is regularly reviewed and, on the basis of such review, the internal credit rating of the borrower may be revised. The review is based on the flow of funds into the customer's accounts, its most recent financial statements and other business and financial information submitted by the borrower or otherwise obtained by the Group.

The current market value of collateral is monitored regularly to assess its sufficiency with respect to the loan in question. The review of collateral is performed by independent appraisal companies. The frequency of such reviews depends on the security provided and the degree of volatility of the asset's market price.

Problem loans are identified on a daily basis based on signs of debt servicing deterioration. The Group carries out analyses of problem loans by collecting information about such loans, investigating the causes of problems and working out measures for their early redemption. On the basis of the findings of such analyses, a report is submitted to the Bank's Board regarding the problem loans in the Group's loan portfolio and the level of acceptable credit risk. To improve the quality of the loan portfolio, the Group applies a policy of on-line blocking the ability of a sub-branch or manager responsible for a particular lending programme to grant further loans if the percentage of non-performing loans issued by a particular sub-branch or manager exceeds the maximum permitted level of problem assets until this level decreases.

Management maintains individual records of significant number of Ukrainian retail customers, which constitutes the largest credit bureau in Ukraine, allowing the Group to mitigate credit risks by targeting borrowers, who have a good credit history.

Problem Loan Recovery
The Credit Committee has developed a systematic approach involving a comprehensive set of procedures intended to enable the Group to realise the highest possible level of repayment on non-performing loans.

If a borrower does not perform its obligations under a loan agreement, it is the responsibility of the relevant credit officer to take initial actions to determine whether the cause of late payments is administrative or credit-related in nature. At this stage, the officers of the dedicated monitoring unit contact the borrower, request repayment and check the availability of any collateral. The monitoring unit calls borrowers to remind them of their repayment obligation several days before the scheduled repayment date, and after such date to demand repayment (during day-time and night-time). If such measures do not result in the repayment of the loan and the non-performance exceeds 90 days, the loan is classified as a "problem loan". The Risk Control Department, which is able to identify all problem loans in the Group, issues a banking order each month to transfer problem loans from the relevant credit unit's books to a specialised unit within Security Division (the "Security Service").

28 Financial Risk Management (Continued)

The Security Service is responsible for all loans issued by the Group classified as “problem loans”, excluding loans where the total debt amounts to less than UAH 1,000 (which continue to be processed by the monitoring unit). The Security Service obtains and reviews all documentation relating to the borrower, performs an official internal investigation to identify the reasons for the problem, draws up a plan of action for the repayment of the debt and reviews the collateral (which may entail organising protection). In a number of enforcement actions the Group initiates court proceedings. The Security Service will often engage in negotiations with the borrower over a problem loan either concurrently with, or prior to, initiating court proceedings the collateral for sale at auction, to attach the borrower’s account(s) with another bank or to take possession of property under a mortgage or transport facilities. If collateral is available, and upon satisfactory results of an analysis of whether the borrower is undergoing purely temporary business difficulties and of that borrower’s willingness and capacity to repay its debt, negotiations usually aim at debt restructuring and include requirements to obtain additional collateral, personal guarantees by shareholders and management, increased interest rates and revised repayment schedules.

Other legal actions available to the Group include executive proceedings for the enforcement of debt and bankruptcy proceedings. In the event of any criminal action on the part of the borrower, irrespective of the borrower’s readiness to repay its debt, the Group involves the relevant state authorities. The Credit Committee meets monthly to review the status of non-performing loans.

The Group maintains a policy that problem loans are not refinanced without convincing evidence that they will be repaid or reliably secured.

Sector Concentrations
The Credit Committee regularly reviews and adopts sector exposure adjustments in response to submissions of the Risk Control Department and its own sector analyses.

Related Party Lending
The Group conducts its business with related parties on a commercial, arm’s-length basis. The Group competes with other banking institutions for the business of these parties. Each loan request from a related party is subject to the same credit approval procedures as are applied to any other loan applicant.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements

Currency risk. Currency risk is the risk that the value of financial instruments owned by the Group will fluctuate due to changes in foreign exchange rates. The Group’s major currency positions are in Ukrainian hryvnia, U.S. dollars and Euros. In respect of currency risk, Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The Group’s policy in respect of open currency positions is restricted under Ukrainian law to certain thresholds and strictly monitored by the NBU on a daily basis. In order to hedge its currency risk, the Group enters into arrangements with other banks pursuant to which the Group makes term deposits with other banks and accepts term deposits for the same term from the same counterparty banks in a different currency.

The Group also enters into currency options in the Group’s loan agreements with some customers requiring the customers to pay a premium in case of depreciations of the value of the Ukrainian hryvnia relative to the U.S. dollar. Refer to Note 31.

28 Financial Risk Management (Continued)

The table below summarises the Group's exposure to the currency risk at the balance sheet dates:

	At 31 December 2007				At 31 December 2006			
In millions of Ukrainian hryvnias	**Monetary financial assets**	**Monetary financial liabilities**	**Swaps, spots and forwards**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Swaps, spots and forwards**	**Net balance sheet position**
UAH	26,162	23,068	322	3,416	17,582	13,352	(95)	4,135
US Dollars	19,394	18,509	(1,420)	(535)	10,120	12,868	(191)	(2,939)
Euros	5,590	6,462	1,096	224	2,352	2,802	288	(162)
Other	2,618	1,700	(1)	917	1,563	866	-	697
Total	**53,764**	**49,739**	**(3)**	**4,022**	**31,617**	**29,888**	**2**	**1,731**

Derivatives presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Group's gross exposure.

Amounts disclosed in respect of derivatives represent the fair value, at the balance sheet date, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 30. The net total represents the fair value of the currency derivatives.

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

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

	At 31 December 2007		At 31 December 2006	
In millions of Ukrainian hryvnias	**Impact on profit or loss**	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
US Dollar strengthening by 5%	(27)	27	(147)	147
US Dollar weakening by 5%	27	(27)	147	(147)
Euro strengthening by 5%	11	11	(8)	8
Euro weakening by 5%	(11)	(11)	8	(8)
Other strengthening by 5%	46	46	35	35
Other weakening by 5%	(46)	(46)	(35)	(35)

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

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken. The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

28 Financial Risk Management (Continued)

The Group is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Board sets limits on the level of mismatch of interest rates on assets and liabilities sensitive to interest rates, which is monitored regularly. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions.

The Finance and Risk Division and the Credit Committee are both responsible for interest rate risk management. The Finance and Risk Division establishes the principal policies and approaches to interest rate risk management and the Credit Committee conducts weekly monitoring and revision of interest rates for various currencies within certain time limits and product categories. The Group regularly monitors interest rate risk by means of interest rate gap analysis, which is based on ordering assets and liabilities sensitive to interest rates into a number of time bands. Fixed interest rate assets and liabilities are arranged by the time remaining until maturity, while assets and liabilities with a variable interest rate are arranged by the nearest possible term of repricing. The net sensitivity gap between assets and liabilities in a given time band represents the volume sensitive to changes of market interest rates. The product of this difference and the presumed change of interest rates represents the approximate changes of net interest income. A negative net sensitivity gap in a given time band, which means that interest-bearing liabilities exceed interest-earning assets in that time band, represents a risk of a decline in net interest income in the event of increases in market interest rates. A positive net sensitivity gap in a given time band, which means that interest-bearing liabilities, represent a risk of a decline in net interest income in the event of a decline in market interest rates.

In millions of Ukrainian hryvnias	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Non-monetary**	**Total**
31 December 2007						
Total financial assets	10,777	1,805	15,332	25,723	138	53,775
Total financial liabilities	17,139	5,893	20,565	6,145	-	49,742
Net interest sensitivity gap at 31 December 2007	**(6,362)**	**(4,088)**	**(5,233)**	**19,578**	**138**	**4,033**
31 December 2006						
Total financial assets	5,731	2,832	9,438	13,603	471	32,075
Total financial liabilities	9,297	3,546	13,472	3,709	-	30,024
Net interest sensitivity gap at 31 December 2006	**(3,566)**	**(714)**	**(4,034)**	**9,894**	**471**	**2,051**

All of the Group's debt instruments re-price within 24 years (2006: all re-price within 24 years).

At 31 December 2007, if interest rates at that date had been 50 basis points lower with all other variables held constant, profit for the year would have been UAH 9 million (2006: UAH 3 million) higher, mainly as a result of lower interest expense on variable interest liabilities. If interest rates had been 50 basis points higher, with all other variables held constant, profit would have been UAH 9 million (2006: UAH 3 million) lower, mainly as a result of higher interest expense on variable interest liabilities.

Sensitivity analysis is calculated for all interest bearing financial instruments with the floating interest rates, which are carried at amortised cost and are subject to changes in market interest rate. In addition, changes in market interest rates have an impact on fair value of fixed interest instruments classified as available-for-sale. Sensitivity analysis is prepared based on the assumption that all other variables are held constant and changes in the market interest rate would only affect interest bearing financial instruments with the floating interest rate carried at amortised cost and fair value of available-for-sale debt securities.

28 Financial Risk Management (Continued)

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

	2007				2006			
In % p.a.	**USD**	**UAH**	**Euro**	**Other**	**USD**	**UAH**	**Euro**	**Other**
Assets								
Correspondent accounts and overnight deposits with other banks	1	-	3	0	3	12	3	-
Correspondent accounts with NBU, Central Bank of Russian Federation and Central Bank of Latvia, Central Bank of Cyprus and Central Bank of Georgia	-	0	-	0	-	0	-	0
Debt trading securities	-	10	-	-	-	25	-	-
Other debt securities at fair value through profit or loss	-	-	-	8	-	-	-	8
Due from other banks	11	-	3	-	0	3	2	-
Loans and advances to legal entities	12	13	11	17	12	14	12	8
Loans and advances to individuals	15	34	15	24	14	29	13	32
Debt investment securities held to maturity	-	1	-	-	-	-	-	-
Other financial assets	0	0	0	0	0	0	0	0
Liabilities								
Correspondent accounts and overnight deposits of other banks	0	2	0	0	1	6	1	0
Term placements of other banks	8	8	6	6	8	6	5	3
Long-term loans under the credit lines from international financial institutions	8	-	8	-	8	12	EURIBOR +1.5	-
Customer accounts								
- current accounts of customers	0	0	0	0	0	0	0	0
- term deposits of legal entities	6	9	7	6	6	6	7	2
- term deposits of individuals	9	14	7	11	9	14	8	2
Debt securities in issue	8	12	-	10	10	12	EURIBOR +1.6	6
Subordinated debt	9	12	11	7	9	12	10	10
Other financial liabilities	16	0	0	0	0	0	0	0

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

The Group is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to early repay the loans. The Group's current year profit and equity at the current balance sheet date would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers.

28 Financial Risk Management (Continued)

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

In millions of Ukrainian hryvnias	Ukraine	OECD	Non OECD	Total
Assets				
Cash and cash equivalents and mandatory reserve balances	3,593	3,460	899	7,952
Trading securities	16	-	-	16
Other financial assets at fair value through profit or loss	-	-	16	16
Due from other banks	17	1,297	14	1,328
Loans and advances to customers	35,282	1,542	6,246	43,070
Investment securities available-for-sale	4	-	-	4
Investment securities held to maturity	1,160	-	-	1,160
Other financial assets	139	5	85	229
Total financial assets	**40,211**	**6,304**	**7,260**	**53,775**
Non-financial assets	**2,071**	**13**	**411**	**2,495**
Total assets	**42,282**	**6,317**	**7,671**	**56,270**
Liabilities				
Due to other banks	421	5,110	709	6,240
Customer accounts	30,304	1,293	4,406	36,003
Debt securities in issue	250	5,934	175	6,359
Other financial liabilities	70	6	127	203
Subordinated debt	115	777	45	937
Total financial liabilities	**31,160**	**13,120**	**5,462**	**49,742**
Non-financial liabilities	**1,055**	**5**	**62**	**1,122**
Total liabilities	**32,215**	**13,125**	**5,524**	**50,864**
Net balance sheet position	**10,067**	**(6,808)**	**2,147**	**5,406**
Credit related commitments	**2,035**	**-**	**39**	**2,074**

28 Financial Risk Management (Continued)

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

In millions of Ukrainian hryvnias	Ukraine	OECD	Non OECD	Total
Assets				
Cash and cash equivalents and mandatory reserve balances	2,186	835	844	3,865
Trading securities	21	-	-	21
Other securities at fair value through profit or loss	-	-	18	18
Due from other banks	97	470	46	613
Loans and advances to customers	24,595	278	2,094	26,967
Investment securities available-for-sale	484	-	-	484
Other financial assets	62	6	39	107
Total financial assets	**27,445**	**1,589**	**3,041**	**32,075**
Non-financial assets	**1,573**	**-**	**381**	**1,954**
Total assets	**29,018**	**1,589**	**3,422**	**34,029**
Liabilities				
Due to other banks and other financing institutions	462	3,728	76	4,266
Customer accounts	20,323	843	2,545	23,711
Debt securities in issue	499	311	115	925
Subordinated debt	107	776	43	926
Other financial liabilities	58	1	137	196
Total financial liabilities	**21,449**	**5,659**	**2,916**	**30,024**
Non-financial liabilities	**702**	**-**	**55**	**757**
Total liabilities	**22,151**	**5,659**	**2,971**	**30,781**
Net balance sheet position	**6,867**	**(4,070)**	**451**	**3,248**
Credit related commitments	**1,094**	**6**	**287**	**1,387**

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. Refer to Notes 8, 9 and 17.

28 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is the risk of mismatches between maturities of assets and liabilities, which may result in the Group being unable to meet its obligations in a timely manner. For liquidity risk management, the Treasury maintains a liquidity portfolio designed to provide support to the payment capacity of the Group in the event that assets and liabilities fluctuate away from internal forecasts. The Treasury constantly reviews and improves the methodology for calculating and structuring the liquidity portfolio. The Group manages assets and liabilities fluctuations through adjustments in its liquidity portfolio.

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdown, guarantees and from margin and other calls on cash-settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Group has developed specific approaches to liquidity issues based on medium-term (i.e., three to twelve months), short-term (i.e., two to fifteen weeks) and current (i.e., up to fourteen days) time periods. With respect to medium-term liquidity, the Treasury, in co-ordination with the Financial Risks Department, performs an analysis of the Group's payments calendar over this period and considers contingency options available to the Group in the event that unfavourable developments or crisis situations occur.

Decisions on short-term liquidity management are taken by the Treasury. These decisions are based on an analysis of the volatility of various assets and liabilities. Estimates are made after application of internally developed models as to the volume and likelihood of unexpected withdrawals of funds and the probability that additional funding might be required. In order to minimise unanticipated changes in funding, the Group separately analyses the possible consequences of the withdrawal of a large amount of funds by major customers. Client managers and senior Group management work closely with major customers to coordinate plans with regard to movement of funds.

Decisions with respect to current liquidity management are taken by the head of Treasury. Reports on actions taken are made to the Credit Committee. The Group's payments calendar for each upcoming 14-day period is analysed, and decisions taken on the attraction of short-term interbank deposits, the immediate sale of securities from the Treasury portfolio, and other facilities available to the Group. The Treasury implements decisions on a real-time basis.

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

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

- Instant liquidity ratio (N4), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand; the ratio was 61 % at 31 December 2007 (31 December 2006: 41 %).

- Current liquidity ratio (N5), which is calculated as the ratio of liquid assets to liabilities maturing within 31 calendar days; the ratio was 87 % at 31 December 2007 (31 December 2006: 58 %).

- Short-term liquidity ratio (N6), which is calculated as the ratio of assets maturing in one year to regulatory capital and liabilities maturing in one year; the ratio was 46 % at 31 December 2007 (31 December 2006: 24 %).

28 Financial Risk Management (Continued)

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

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

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

In millions of Ukrainian hryvnias	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities						
Due to other banks and other financing institutions	1,101	498	2,636	2,602	305	7,142
Customer accounts	16,274	4,828	15,005	652	43	36,802
Debt securities in issue	7	446	1,239	5,364	-	7,056
Subordinated debt	8	44	130	339	1,022	1,543
Other financial liabilities	83	6	29	89	102	309
Gross settled SWAPs and forwards	1,598	-	-	-	-	1,598
Total contractual future payments for financial obligations	**19,071**	**5,822**	**19,039**	**9,046**	**1,472**	**54,450**
Credit related commitments, gross (Note 30)	**99**	**-**	**325**	**1,671**	**-**	**2,095**

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

In millions of Ukrainian hryvnias	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities						
Due to other banks and other financing institutions	16	2	3,356	637	-	4,011
Customer accounts	11,861	3,562	10,201	70	-	25,694
Debt securities in issue	-	7	84	922	-	1,013
Subordinated debt	-	34	38	134	1,056	1,262
Other financial liabilities	28	2	-	97	-	127
Gross settled SWAPs and forwards	452	-	-	-	-	452
Total contractual future payments for financial obligations	**12,357**	**3,607**	**13,679**	**1,860**	**1,056**	**32,559**
Credit related commitments, gross (Note 30)	**769**	**15**	**14**	**658**	**-**	**1,456**

Payments in respect of gross settled SWAPs and forwards will be accompanied by related cash inflows comprising UAH 1,595 million (2006: UAH 453 million), which are disclosed at their fair values in Note 31. Net settled SWAPs and forwards give a rise to a liability of UAH 3 million in 2007 (2006: UAH 1 million of asset). Customer accounts are classified in the above analysis based on contractual maturities.

28 Financial Risk Management (Continued)

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

In millions of Ukrainian hryvnias	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**Over 1 year**	**No stated maturity**	**Total**
Assets						
Cash and cash equivalents and mandatory reserve balances	7,952	-	-	-	-	7,952
Trading securities	16	-	-	-	-	16
Other financial assets at fair value through profit or loss	16	-	-	-	-	16
Due from other banks	30	93	1,109	96	-	1,328
Loans and advances to customers	1,197	1,493	13,931	26,449	-	43,070
Investment securities available-for-sale	-	-	-	1	3	4
Investment securities held to maturity	1,160	-	-	-	-	1,160
Other financial assets	186	-	-	43	-	229
Total financial assets	**10,557**	**1,586**	**15,040**	**26,589**	**3**	**53,775**
Liabilities						
Due to other banks and other financing institutions	1,055	486	2,496	2,203	-	6,240
Customer accounts	9,111	8,145	18,546	201	-	36,003
Debt securities in issue	26	413	1,117	4,803	-	6,359
Other financial liabilities	86	6	23	88	-	203
Subordinated debt	-	28	79	830	-	937
Total financial liabilities	**10,278**	**9,078**	**22,261**	**8,125**	**-**	**49,742**
Net liquidity gap at 31 December 2007	**279**	**(7,492)**	**(7,221)**	**18,464**	**3**	**4,033**
Cumulative liquidity gap at 31 December 2007	**279**	**(7,213)**	**(14,434)**	**4,030**	**-**	**-**
Credit related commitments	**98**	**-**	**322**	**1,654**	**-**	**2,074**

The above analysis is based on expected maturities. The entire portfolio of trading securities is therefore classified within demand and less than one month based on Management's assessment of portfolio's realisability.

28 Financial Risk Management (Continued)

The analysis by expected maturities may be summarised as follows at 31 December 2006:

In millions of Ukrainian hryvnias	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents and mandatory reserve balances	3,865	-	-	-	-	3,865
Trading securities	21	-	-	-	-	21
Other financial assets at fair value through profit or loss	-	-	-	12	6	18
Due from other banks	105	227	250	31	-	613
Loans and advances to customers	1,666	2,605	9,188	13,508	-	26,967
Investment securities available-for-sale	33	-	-	-	451	484
Other financial assets	59	-	-	48	-	107
Total financial assets	**5,749**	**2,832**	**9,438**	**13,599**	**457**	**32,075**
Liabilities						
Due to other banks and other financing institutions	493	10	3,176	587	-	4,266
Customer accounts	5,282	5,743	11,378	1,308	-	23,711
Debt securities in issue	6	2	98	819	-	925
Other financial liabilities	90	2	-	104	-	196
Subordinated debt	-	27	-	899	-	926
Total financial liabilities	**5,871**	**5,784**	**14,652**	**3,717**	**-**	**30,024**
Net liquidity gap at 31 December 2006	**(122)**	**(2,952)**	**(5,214)**	**9,882**	**457**	**2,051**
Cumulative liquidity gap at 31 December 2006	**(122)**	**(3,074)**	**(8,288)**	**1,594**	**-**	**-**
Credit related commitments	**706**	**15**	**14**	**652**	**-**	**1,387**

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

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

29 Management of Capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the National Bank of Ukraine, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on Basel Accord of at least 8%. The amount of capital that the Bank manages is UAH 5,184 million (2006: UAH 3,579 million).Compliance with capital adequacy ratios set by the National Bank of Ukraine is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Financial Officer and Chief Accountant.

Under the current capital requirements set by the National Bank of Ukraine banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. Regulatory capital is based on the Bank's daily reports prepared based on the statutory trial balance unadjusted for accruals, provisions and taxes and comprises:

In millions of Ukrainian hryvnias	2007	2006
Net assets unadjusted for accruals, provisions and taxes	4,941	2,868
Plus subordinated debt	807	835
Less investments into subsidiaries	(553)	(119)
Other	(11)	(5)
Total regulatory capital	**5,184**	**3,579**

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

In millions of Ukrainian hryvnias	2007	2006
Tier 1 capital		
Share capital	2,967	2,335
Disclosed reserves	1,582	464
Cumulative translation reserve	34	4
Less: goodwill	(35)	(30)
Total tier 1 capital	**4,548**	**2,773**
Tier 2 capital		
Asset revaluation reserves	361	362
Additional capital	462	87
Subordinated debt	799	872
Total tier 2 capital	**1,622**	**1,321**
Total capital	**6,170**	**4,094**

The Bank and the Group have complied with the capital requirements imposed by the NBU and loan providers (loan covenants) as at 31 December 2007.

30 Contingencies and Commitments

Tax legislation. Tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant local and central authorities. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Ukrainian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. Such tax positions may come under scrutiny. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax position will be sustained. Accordingly, as at 31 December 2007 no provision for potential tax liabilities had been recorded (2006: no provision).

Legal proceedings**.** From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice the Management is of the opinion that no material losses will be incurred in respect of claims, except as described below.

The Group is the subject of suits by individuals and entities who provided money to former employees of branches of the Bank, whilst those employees held senior management positions in these branches. Those former employees are currently the subject of criminal proceedings relating to the embezzlement of money of the Bank and individuals and entities. The individuals and entities are claiming that the Bank is responsible for the criminal actions of the former employees and are seeking amounts totalling approximately UAH 34 million. The Group believes that the two former employees will be found guilty in the criminal cases and that, on the basis of such a finding of criminal liability, the civil suits against the Group will be partly rejected. As such, a provision of UAH 21 million (2006: UAH 21 million) has been made in this respect. Refer to Note 19.

Capital expenditure commitments. At 31 December 2007 the Group has contractual capital expenditure commitments in respect of construction of premises, computers and furniture and equipment totalling UAH 89 million (2006: UAH 38 million). The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

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

In millions of Ukrainian hryvnias	**2007**	**2006**
Not later than 1 year	246	138
Later than 1 year and not later than 5 years	373	264
Later than 5 years	67	214
Total operating lease commitments	**686**	**616**

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group is in compliance with covenants as at 31 December 2007 and 31 December 2006.

30 Contingencies and Commitments (Continued)

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

In millions of Ukrainian hryvnias	Note	2007	2006
Guarantees issued		1,177	1,076
Import letters of credit	17	909	239
Irrevocable commitments to extend credit		9	141
Less: Provision for credit related commitments	19	(21)	(69)
Total credit related commitments		**2,074**	**1,387**

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. Fair value of credit related commitments was UAH 21 million at 31 December 2007 (2006: UAH 69 million). Credit related commitments are denominated in currencies as follows:

In millions of Ukrainian hryvnias	Note	2007	2006
UAH		483	383
US Dollars		926	769
Euro		623	210
Other currencies		42	25
Total		**2,074**	**1,387**

30 Contingencies and Commitments (Continued)

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

In thousands of Ukrainian hryvnias	**2007 Nominal value**	**2006 Nominal value**
Shares of Ukrainian companies	7,020	6,167
Domestic corporate bonds	308	179
Shares of foreign companies	-	29
Investment certificates	69	2

Assets pledged and restricted. At 31 December 2007 the Group has the following assets pledged as collateral:

In millions of Ukrainian hryvnias	**Notes**	**2007** Asset pledged	**2007** Related liability	**2006** Asset pledged	**2006** Related liability
Gross receivables under swap agreements		1,496	1,499	437	435
Loans and advances to customers		946	769	152	80
Total		**2,442**	**2,268**	**589**	**515**

Gross receivables under swap agreements presented above are recognised on a net basis in the balance sheet, giving rise to a derivative financial asset or liability within other assets or other liabilities, respectively.

As disclosed in Note 8, balances due from other banks totalling UAH 123 million (2006: UAH 205 million) have been pledged as cover for letters of credit and international payments.

In addition, mandatory cash balances in the amount of UAH 884 million (2006: UAH 457 million) represent mandatory reserve deposits which are not available to finance the Group's day to day operations as disclosed in Note 7.

31 Derivative Financial Instruments

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

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

	2007		2006	
In millions of Ukrainian hryvnias	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange swaps: fair values, at the balance sheet date, of				
- USD receivable on settlement (+)	86	-	-	-
- USD payable on settlement (-)	(270)	(1,172)	(166)	(42)
- Euros receivable on settlement (+)	261	811	181	137
- Euros payable on settlement (-)	-	(5)	-	(13)
- UAH receivable on settlement (+)	15	358	71	48
- UAH payable on settlement (-)	(51)	-	(83)	(131)
- Other currencies payable on settlement (-)	(36)	-	-	-
Foreign exchange forwards: fair values, at the balance sheet date, of				
- USD payable on settlement (-)	(35)	(29)	-	-
- LTV receivable on settlement (+)	35	-	-	-
- EUR receivable on settlement (-)	-	29	-	-
- USD receivable on settlement (+)	-	-	-	17
- EUR payable on settlement (-)	-	-	-	(17)
Net fair value of foreign exchange forwards and swaps	**5**	**(8)**	**3**	**(1)**

The Group had outstanding obligations from unsettled spot transactions with foreign currencies of UAH 537 million (2006: UAH 31 million). Net fair value of unsettled spot transactions is insignificant.

During the year ended 31 December 2007 the Group recognised a loss of UAH 44 million (2006: a gain of UAH 24 million) in respect of change in fair value of a financial derivative that arises on the issue of UAH denominated loans with the condition of compensation in the case of UAH depreciation against USD. This embedded derivative is represented by a currency option with insignificant fair value at the beginning, maturing in up to 5 years. The strike price was UAH 5.05 per USD 1 (2006: UAH 5.05 per USD 1).

During the year ended 31 December 2007 the Group recognised a gain of UAH 41 million (2006: nil) in respect of change in fair value of a financial derivative that arises on loans issued to construction companies in USD at 12% nominal interest rate per annum with the condition of compensation to be received by the Group on sale of real estate, for construction of which money were borrowed. Compensation is calculated as 50% of sale proceeds less cost of sales, which is fixed amount and less cost of borrowings. The fair value of derivative at inception was insignificant.

32 Fair Value of Financial Instruments

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

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

Financial instruments carried at fair value. Trading securities, other securities at fair value through profit or loss, investment securities available-for-sale and financial derivatives are carried in the consolidated balance sheet at their fair value.

Fair values were determined based on quoted market prices except for certain investment securities available-for-sale (Note 10) for which there were no available external independent market price quotations. These securities have been fair valued by the Group on the basis of discounted cash flows, financial data of the investees and application of other valuation methodologies. Valuation techniques required certain assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities.

Cash and cash equivalents and mandatory reserve balances are carried at amortised cost which approximates current fair value.

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

In millions of Ukrainian hryvnias	**2007**	**2006**
Loans and advances to customers – Note 9		
Corporate loans	10 % to 18 % p.a.	7 % to 17 % p.a.
Loans to individuals - mortgage	9 % to 18 % p.a.	11 % to 14 % p.a.
Loans to individuals - auto	9 % to 18 % p.a.	11 % to 14 % p.a.
Loans to individuals - consumer	10 % to 67 % p.a.	9 % to 81 % p.a.
Loans to individuals - card	10 % to 54 % p.a.	11 % to 67 % p.a.
Loans to individuals - other	10 % to 67 % p.a.	9 % to 81 % p.a.
Loans to small and medium enterprises (SME)	10 % to 47% p.a.	8 % to 53% p.a.
Reverse sale and repurchase agreements - corporate	8 % to 25% p.a.	12% to 16 % p.a.

Refer to Notes 8 and 9 for the estimated fair values of due from other banks and loans and advances to customers, respectively.

Investment securities held to maturity. Fair value for investment securities held to maturity is based on quoted market prices. Refer to Note 11 for the estimated fair value of investment securities held to maturity.

32 Fair Value of Financial Instruments (Continued)

Liabilities carried at amortised cost. The fair value of Eurobonds is based on quoted market prices. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Refer to Notes 16, 17, 18 and 20 for the estimated fair values of due to other banks and other financing institutions, customer accounts, debt securities in issue and subordinated debt, respectively. Discount rates used were consistent with the Group's credit risk and also depend on currency and maturity of the instrument and ranged from 2% p.a. to 16% p.a. (2006: from 1% p.a. to 14% p.a.).

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Their fair value of these derivatives was estimated using valuation techniques.

32 Fair Value of Financial Instruments (Continued)

Fair values of financial assets are as follows:

In millions of Ukrainian hryvnias	31 December 2007 Carrying value	31 December 2007 Fair value	31 December 2006 Carrying value	31 December 2006 Fair value
FINANCIAL ASSETS CARRIED AT AMORTISED COST				
Cash and cash equivalents and mandatory reserve balances				
Cash on hand	3,104	3,104	1,944	1,944
Cash balances with Central Banks	1,340	1,340	908	908
Correspondent accounts and overnight placements with other banks	3,508	3,508	1,013	1,013
Due from other banks				
Term placements with other banks	1,205	1,205	405	405
Guarantee deposits with other banks	123	123	205	205
Overdue placements with other banks	-	-	3	3
Loans and advances to customers				
Corporate loans	22,391	22,486	14,675	14,744
Loans to individuals - card	4,898	4,898	3,244	3,244
Loans to individuals - mortgage	4,987	5,120	2,691	2,875
Loans to individuals - auto	3,590	3,674	1,928	1,978
Loans to individuals - consumer	1,974	2,137	1,779	1,778
Loans to individuals - other	1,287	1,287	707	714
Loans to small and medium enterprises (SME)	3,876	3,876	1,939	1,939
Reverse sale and repurchase agreements - corporate	67	67	4	4
Investment securities available-for-sale				
Unquoted shares	4	4	84	84
Investment securities held to maturity				
Government bonds	1,160	1,160	-	-
Other financial assets				
Doubtful debts from operations with customers	31	31	3	3
Plastic cards receivables	82	82	41	41
Accrued income receivable	36	36	15	15
Other	39	39	-	-
FINANCIAL ASSETS CARRIED AT FAIR VALUE				
Trading securities				
Government bonds	16	16	21	21
Other financial assets at fair value through profit or loss				
Government bonds	9	9	18	18
Corporate shares	7	7	-	-
Investment securities available-for-sale				
Quoted shares	-	-	368	368
Promissory notes	-	-	32	32
Other financial assets				
Financial derivatives	41	41	48	48
TOTAL FINANCIAL ASSETS	**53,775**	**54,250**	**32,075**	**32,384**

32 Fair Value of Financial Instruments (Continued)

Fair values of financial liabilities are as follows:

	31 December 2007		31 December 2006	
In millions of Ukrainian hryvnias	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST				
Due to other banks and other financing institutions				
Term placements of other banks	4,246	4,246	2,310	2,310
Correspondent accounts and overnight placements of other banks	469	469	743	743
Long-term loans under the credit lines from other financing institutions	1,520	1,520	1,203	1,203
Pledge deposits of other banks	5	5	10	10
Customer accounts				
Term deposits of individuals	18,953	18,980	11,881	11,388
Current/demand accounts of individuals	5,908	5,908	3,770	3,770
Term deposits of other legal entities	2,624	2,624	2,106	1,217
Current/settlement accounts of other legal entities	8,518	8,518	5,954	5,970
Debt securities in issue				
Eurobonds	2,595	2,397	-	-
Private placements of bonds	2,977	2,960	811	811
Mortgage bonds	769	769	80	80
Promissory notes	18	18	-	-
Other debt securities in issue	-	-	34	34
Other financial liabilities				
Liability for finance lease	96	96	99	99
Funds in the course of settlement	39	39	17	17
Accounts payable	16	16	11	11
Other	28	28	-	-
Subordinated debt				
Subordinated debt	937	931	926	964
FINANCIAL LIABILITIES CARRIED AT FAIR VALUE				
Other financial liabilities				
Provision for credit related commitment	21	21	69	69
Other	3	3	-	-
TOTAL FINANCIAL LIABILITIES	**49,742**	**49,548**	**30,024**	**28,696**

33 Reconciliation of Classes of Financial Instruments with Measurement Categories

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

In millions of Ukrainian hryvnias	**Loans and receiv-ables**	**Availa-ble-for-sale assets**	**Trading assets**	**Assets desig-nated at FVTPL**	**Held to maturity**	**Total**
ASSETS						
Cash and cash equivalents and mandatory reserve balances	7,952	-	-	-	-	7,952
Trading securities	-	-	16	-	-	16
Other financial assets at fair value through profit or loss	-	-	-	16	-	16
Due from other banks		-	-		-	
Term placements with other banks	1,205	-	-	-	-	1,205
Guarantee deposits with other banks	123	-	-	-	-	123
Loans and advances to customers						
Corporate loans	22,391	-	-	-	-	22,391
Loans to individuals - card	4,898	-	-	-	-	4,898
Loans to individuals - mortgage	4,987	-	-	-	-	4,987
Loans to individuals - auto	3,590	-	-	-	-	3,590
Loans to individuals - consumer	1,974	-	-	-	-	1,974
Loans to individuals - other	1,287	-	-	-	-	1,287
Loans to small and medium enterprises (SME)	3,876	-	-	-	-	3,876
Reverse sale and repurchase agreements - corporate	67	-	-	-	-	67
Investment securities available-for-sale	-	4	-	-	-	4
Investment securities held to maturity	-	-	-	-	1,160	1,160
Other financial assets						
Accrued income receivable	36	-	-		-	36
Doubtful debts from operations with customers	31					31
Plastic cards receivables	82	-	-		-	82
Financial derivatives	-	-	41		-	41
Other	39	-			-	39
TOTAL FINANCIAL ASSETS	**52,538**	**4**	**57**	**16**	**1,160**	**53,775**
NON-FINANCIAL ASSETS						**2,495**
TOTAL ASSETS						**56,270**

33 Reconciliation of Classes of Financial Instruments with Measurement Categories (Continued)

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

In millions of Ukrainian hryvnias	Loans and receiv-ables	Availa-ble-for-sale assets	Trading assets	Assets desig-nated at FVTPL	Held to maturity	Total
ASSETS						
Cash and cash equivalents and mandatory reserve balances	3,865	-	-	-	-	3,865
Trading securities	-	-	21	-	-	21
Other financial assets at fair value through profit or loss	-	-	-	18	-	18
Due from other banks and other financing institutions						
Term placements with other banks	405	-	-	-	-	405
Guarantee deposits with other banks	205	-	-	-	-	205
Overdue placements with other banks	3	-	-	-	-	3
Loans and advances to customers						
Corporate loans	14,675	-	-	-	-	14,675
Loans to individuals - card	3,244	-	-	-	-	3,244
Loans to individuals - mortgage	2,691	-	-	-	-	2,691
Loans to individuals - auto	1,928	-	-	-	-	1,928
Loans to individuals - consumer	1,779	-	-	-	-	1,779
Loans to individuals - other	707	-	-	-	-	707
Loans to small and medium enterprises (SME)	1,939	-	-	-	-	1,939
Reverse sale and repurchase agreements - corporate	4	-	-	-	-	4
Investment securities available-for-sale	-	484	-	-	-	484
Other financial assets				-		
Doubtful debts from operations with customers	3	-	-	-	-	3
Plastic cards receivables	41	-	-	-	-	41
Financial derivatives	48	-	-	-	-	48
Accrued income receivable	15	-	-	-	-	15
TOTAL FINANCIAL ASSETS	**31,552**	**484**	**21**	**18**	**-**	**32,075**
NON-FINANCIAL ASSETS						**1,954**
TOTAL ASSETS						**34,029**

34 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2007, the outstanding balances with related parties were as follows:

	2007			2006		
In millions of Ukrainian hryvnias	**Share-holders**	**Manage-ment**	**Companies under control of major shareholders and other related parties**	**Share-holders**	**Manage-ment**	**Companies under control of major shareholders and other related parties**
Correspondent accounts and overnight placements with other banks (2006: UAH - 12%, USD - 3%)	-	-	-	-	-	114
Due from other banks (contractual interest rate: 2006: UAH - 3%)	-	-	-	-	-	3
Gross amount of loans and advances to customers (contractual interest rate: 2007: UAH - 13%, USD - 13%, EUR - 10%, 2006: UAH - 14%, USD - 11%, EUR - 10%)	-	20	2,556	-	12	1,608
Impairment provisions for loans and advances to customers at 31 December	-	-	(337)	-	-	(362)
Investment securities available-for-sale	-	-	-	-	-	1
Other financial assets	-	-	3	-	-	1
Correspondent accounts and overnight placements of other banks (contractual interest rate: 2006: RUB – 18%)	-	-	-	-	-	148
Customer accounts (contractual interest rate: 2007: UAH - 1%, USD - 1%, EUR - 9%, 2006: UAH - 5%, USD - 3%, EUR - 10%)	-	1	855	-	2	399
Debt securities in issue	-	-	-	-	-	11
Other financial liabilities	-	-	6	1	-	4
Provision for losses on credit related commitments	-	-	7	-	-	25
Subordinated debt (contractual interest rate: 2007: UAH - 3%, RUB - 7%, 2006: UAH - 3%, USD - 10%, EUR - 10%, RUB -9%)	-	-	98	-	-	94

34 Related Party Transactions (Continued)

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

	2007			2006		
In millions of Ukrainian hryvnias	**Share-holders**	**Manage-ment**	**Companies under control of major shareholders and other related parties**	**Share-holders**	**Manage-ment**	**Companies under control of major shareholders and other related parties**
Interest income	-	2	291	-	2	158
Interest expense	-	-	(33)	-		(16)
Provision for loan impairment	-	-	(25)	-	-	(219)
Dividend income	-	-	-	-	-	9
Fee and commission income	-	-	30	-	-	14
Gains on initial recognition of liabilities at rates below market	-	-	-	-	-	12
Provision for losses on credit related commitments	-	-	-	-	-	(25)
Other operating income	-	-	4	-	-	1
Administrative and other operating expenses, excluding management remuneration	-	-	(169)	-	(1)	(1)

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

	2007			2006		
In million of Ukrainian hryvnias	**Share-holders**	**Manage-ment**	**Companies under control of major shareholders and other related parties**	**Share-holders**	**Manage-ment**	**Companies under control of major shareholders and other related parties**
Guarantees issued	-	-	55	-	-	105
Irrevocable commitments to extend credit	-	2	-	-	-	-
Import letters of credit	-	-	109	-	-	52

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

	2007			2006		
In million of Ukrainian hryvnias	**Share-holders**	**Manage-ment**	**Companies under control of major shareholders and other related parties**	**Share-holders**	**Manage-ment**	**Companies under control of major shareholders and other related parties**
Amounts lent to related parties during the period	-	21	8,401	-	17	2,646
Amounts repaid by related parties during the period	-	15	9,720	-	15	1,925

The ultimate major shareholders of the Bank are 2 Ukrainian citizens, Mr I.V. Kolomoyski and Mr G.B. Bogolyubov, neither of which individually controls the Bank.

In 2007, the remuneration of 15 members of the Board of Directors comprised salaries, discretionary bonuses, pension contributions and other short-term benefits totalling UAH 6 million (2006: UAH 6 million) including UAH 1 million (2006: UAH 1 million) of contributions into the State pension fund and UAH 0.1 million (2006: UAH 0.1 million) of social security contributions.

The major shareholders of the Group have offered to buy the Management's 3.62% shareholding. Once the terms of this transaction have been settled, a new remuneration and incentive system for key management personnel will be introduced.

35 Business Combinations

On 23 July 2007 the Group acquired 75.00% of the share capital of JSC Tao Bank, Georgia. The acquired subsidiary contributed operating income of UAH 12 million and a loss of UAH 8 million to the Group for the period from the date of acquisition to 31 December 2007. If the acquisition had occurred on 1 January 2007, the contribution to the Group revenue for 2007 would have been UAH 21 million, and the acquired subsidiary would have contributed a loss for the year of UAH 10 million.

The consideration paid by the Group was based on results of an appraisal of the acquiree's business taken as a whole. However, in accordance with IFRS 3 "Business Combinations", the Group must account for acquisitions based on fair values of the identifiable assets acquired and liabilities and contingent liabilities assumed. The purchase price allocation required by IFRS 3 is provisional and may be subject to change. These two different approaches can lead to differences, and, as set out in the table below, recognition of goodwill.

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

In thousands of Ukrainian hryvnias	**Note**	**IFRS carrying amount immediately before business combination**	**Attributed fair value**
Cash and cash equivalents and mandatory reserve balances		120	120
Due from other banks		1	1
Loans and advances to customers		103	103
Current income tax prepayment		1	1
Premises, leasehold improvements, equipment and intangible assets		21	21
Other assets		7	7
Due to other banks		(17)	(17)
Customer accounts		(74)	(74)
Deferred income tax liability		(1)	(1)
Other liabilities		(1)	(1)
Net assets of the subsidiary		**160**	**160**
Fair value of acquired interest in net assets of the subsidiary		**120**	**120**
Goodwill arising from the acquisition	12	2	2
Total purchase consideration		**122**	**122**
Less: Cash and cash equivalents of subsidiary acquired		114	114
Outflow of cash and cash equivalents on acquisition		**8**	**8**

The goodwill is primarily attributable to the profitability of the acquired business, the significant synergies and combined costs savings expected to arise.

The purchase consideration comprises cash and cash equivalents paid of UAH 122 million.

35 Business Combinations (Continued)

On 1 January 2007 the Group acquired 99.71% of the share capital of LLC Ukrainian Bureau of Credit Histories and 50% of the share capital of LLC Privat-Office. On 1 October 2007 the Group acquired 99.99% of the share capital of LLC Privat-Finansist, 99.90% of share capital of LLC Spectrum-Energo and 100% of share capital of LLC Privat-Elektron. The acquired subsidiaries contributed operating loss UAH 70 million and loss of UAH 38 million to the Group for the period from the date of acquisition to 31 December 2007. If the acquisition had occurred on 1 January 2007, contribution to the Group operating loss for 2007 would have been UAH 70 million, and loss for the 2007 would have been UAH 38 million.

The assets and liabilities of LLC Ukrainian Bureau of Credit Histories, LLC Privat-Office, LLC Privat-Finansist, LLC Spectrum-Energo and LLC Privat-Elektron acquired are not material. The aggregated details of the purchase are as follows:

In millions of Ukrainian hryvnias	**IFRS carrying amount immediately before business combination**	**Attributed fair value**
Net assets of subsidiaries	**35**	**35**
Fair value of acquired interest in net assets of subsidiaries	**35**	**35**
Total purchase consideration	**35**	**35**
Less: Cash and cash equivalents of subsidiaries acquired	5	5
Outflow of cash and cash equivalents on acquisition	**30**	**30**

Fair value of assets and liabilities acquired do not materially differ from the carrying value of those assets and liabilities.

36 Acquisition of Minority Interest

On December 2007 the Group increased it's economic interest in Moscomprivatbank, a subsidiary of the Group. The increase was done through purchase in full of additional share issue of subsidiary. As a result of this transaction the controlling share changed from 50% to 86.2%. The excess of the fair value of the net assets acquired amounting to UAH 196 million over the consideration paid of UAH 136 million was credited to the income statement in the amount of UAH 60 million. At the result of this purchase minority share decreased by UAH 62 million.

37 Subsequent Events

In February 2008, the Bank issued an additional 15,150,000 ordinary shares totalling UAH 1,515 million, which were registered by the NBU on 28 March 2008.

In May 2008 the General Meeting of Shareholders approved the capitalisation of dividends in amount of UAH 1,457 million through an increase in nominal value of shares.

In May 2008 the official exchange rate of Ukrainian hryvnia to USD appreciated from UAH 5.05 per USD 1 as at 21 May 2008 to UAH 4.85 per USD 1 as at 22 May 2008. The total cumulative appreciation since the year-end was approximately 4%.

In May 2008 the Group issued USD denominated bonds backed by auto loans issued by the Group. The total value of these bonds is USD 105 million (UAH 507 million), with tranche A amounting to USD 86 million with an initial interest rate of 3 months LIBOR + 5.5% and tranche B amounting to USD 19 million with an initial interest rate of 3 months LIBOR + 7.5%. These bonds mature in November 2018 and have an interest rate step-up date in May 2011.