

**OPEN JOINT STOCK COMPANY  
VSEUKRAINSKY AKSIONERNY  
BANK (JSC VABANK)**

№ 7

**Independent Accountants' Review Report**

**Interim Financial Statements**

For the six months

ended 30 June 2006 (unaudited)

# OPEN JOINT STOCK COMPANY VSEUKRAINSKY AKSIONERNY BANK (JSC VABANK)

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**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION  
AND APPROVAL OF THE INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2006**

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The following statement, which should be read in conjunction with the independent accountants' responsibilities stated in the independent accountants' review report set out on page 1, is made with a view to distinguish the respective responsibilities of management and those of the independent accountants in relation to the interim financial statements of Open Joint Stock Company Vseukrainsky Aktsionerny Bank (JSC VABank or the "Bank").

Management is responsible for the preparation of the interim financial statements that present fairly the financial position of the Bank as at 30 June 2006, the results of its operations, cash flows and changes in equity for the six month periods ended on 30 June 2006 and 30 June 2005, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the interim financial statements, management is responsible for:

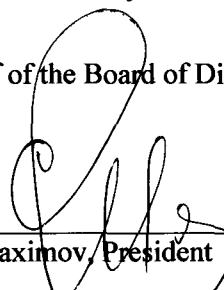
- Selecting suitable accounting principles and applying them consistently;
- Making judgements and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the interim financial statements; and
- Preparing the interim financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the interim financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of Ukraine;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Detecting and preventing fraud and other irregularities.

The interim financial statements for the six months ended 30 June 2006 were authorised for issue on 1 October 2006 by the Board of Directors.

On behalf of the Board of Directors:

  
\_\_\_\_\_  
Sergey Maximov, President

  
\_\_\_\_\_  
Andrey Snegirev, Chairman of the Board

1 October 2006  
Kyiv

1 October 2006  
Kyiv

## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Shareholders of Open Joint Stock Company Vseukrainsky Aksionerny Bank (JSC VABank):

We have reviewed the accompanying interim balance sheet of Open Joint Stock Company Vseukrainsky Aksionerny Bank (JSC VABank or the "Bank") as at 30 June 2006 and the related interim statements of income, cash flows, and changes in equity (the "interim financial statements") for the six month periods ended on 30 June 2006 and 30 June 2005. These interim financial statements are the responsibility of the Bank's management. Our responsibility is to issue a report on these interim financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the interim financial statements are free of material misstatement. A review is limited primarily to inquiries of the Bank's personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements are not presented fairly in all material respects in accordance with International Financial Reporting Standards.

*Deloitte & Touche*

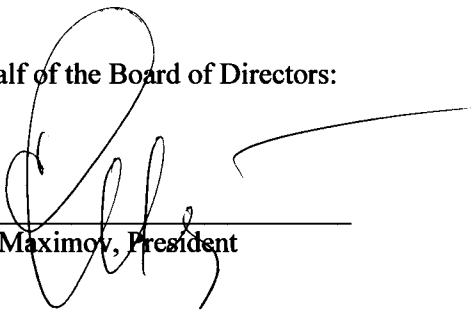
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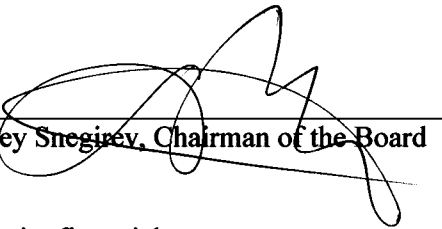
**OPEN JOINT STOCK COMPANY VSEUKRAINSKY AKSIONERNY BANK  
(JSC VABANK)**

**INTERIM INCOME STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2006  
(in thousands of US Dollars)**

	Notes	Six months ended 30 June 2006 (unaudited)	Six months ended 30 June 2005 (unaudited)
Interest income	4, 24	23,824	13,405
Interest expense	4, 24	(14,748)	(9,022)
<b>NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS</b>		<b>9,076</b>	<b>4,383</b>
Provision for impairment losses on interest bearing assets	5, 24	(2,673)	(1,568)
<b>NET INTEREST INCOME</b>		<b>6,403</b>	<b>2,815</b>
Fee and commission income	6	4,422	3,188
Fee and commission expense	6	(598)	(305)
Net gain/(loss) on disposal of investments available for sale		178	(4)
Net gain on foreign exchange operations	7	2,254	537
Other income		239	265
<b>NET NON-INTEREST INCOME</b>		<b>6,495</b>	<b>3,681</b>
<b>OPERATING INCOME</b>		<b>12,898</b>	<b>6,496</b>
<b>OPERATING EXPENSES</b>	8, 24	<b>(12,356)</b>	<b>(6,598)</b>
<b>PROFIT/(LOSS) BEFORE OTHER PROVISIONS AND INCOME TAX</b>		<b>542</b>	<b>(102)</b>
(Provision)/Recovery of provision for impairment losses on other transactions	5	(59)	316
<b>PROFIT BEFORE INCOME TAX</b>		<b>483</b>	<b>214</b>
Income tax expense	9	(454)	(36)
<b>NET PROFIT</b>		<b>29</b>	<b>178</b>

On behalf of the Board of Directors:

  
Sergey Maximov, President

  
Andrey Snegirev, Chairman of the Board

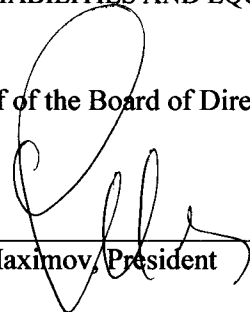
The notes on pages 6-39 form an integral part of these interim financial statements.  
The Independent Accountants' Review Report is on page 1.

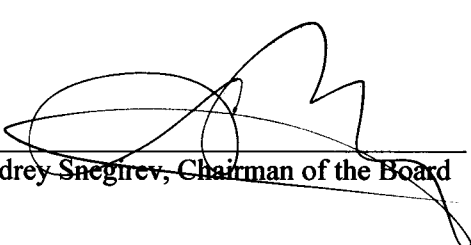
**OPEN JOINT STOCK COMPANY VSEUKRAINSKY AKSIONERNY BANK  
(JSC VABANK)**

**INTERIM BALANCE SHEET AS AT 30 JUNE 2006**  
*(in thousands of US Dollars)*

	Notes	30 June 2006 (unaudited)	31 December 2005
<b>ASSETS:</b>			
Cash and balances with the National Bank of Ukraine	10	30,840	56,423
Loans and advances to banks, less allowance for impairment losses	11	135,474	114,231
Loans to customers, less allowance for impairment losses	12, 24	360,748	236,791
Investments available for sale, less allowance for impairment losses	13, 29, 24	28,544	25,066
Tangible and intangible assets, less accumulated depreciation and amortization	14	21,776	15,115
Other assets, less allowance for impairment losses	15	4,218	5,685
<b>TOTAL ASSETS</b>		<u>581,600</u>	<u>453,311</u>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES:</b>			
Loans and advances from banks	16	165,624	97,201
Customer accounts	17, 24	302,878	265,587
Debt securities issued	18	2,545	12,032
Other liabilities	19	1,011	815
		<u>472,058</u>	<u>375,635</u>
Subordinated debt	20	9,429	24,174
<b>Total liabilities</b>		<u>481,487</u>	<u>399,809</u>
<b>EQUITY:</b>			
Share capital	21	52,361	34,305
Share premium		56,757	28,231
Accumulated deficit		(8,228)	(8,257)
Cumulative translation adjustment		(777)	(777)
<b>Total equity</b>		<u>100,113</u>	<u>53,502</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>581,600</u>	<u>453,311</u>

On behalf of the Board of Directors:

  
Sergey Maximov, President

  
Andrey Snegirev, Chairman of the Board

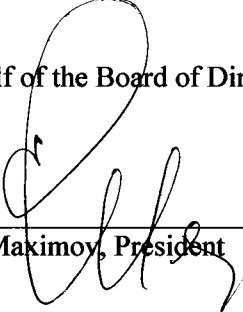
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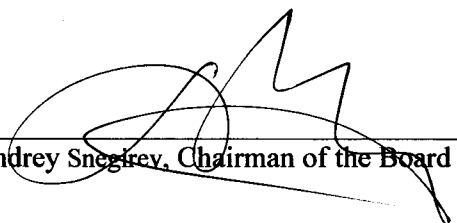
**OPEN JOINT STOCK COMPANY VSEUKRAINSKY AKSIONERNY BANK  
(JSC VABANK)**

**INTERIM STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30 JUNE 2006  
(in thousands of US Dollars)**

	Notes	Share capital	Share premium	Accumulated deficit	Cumulative translation adjustment	Total
<b>31 December 2004</b>		<b>21,727</b>	<b>1,561</b>	<b>(11,005)</b>	<b>(249)</b>	<b>12,034</b>
Share capital increase (unaudited)		5,441	7,515	-	-	12,956
Net profit (unaudited)		-	-	178	-	178
Translation differences (unaudited)		1,077	78	-	(553)	602
<b>30 June 2005 (unaudited)</b>		<b>28,245</b>	<b>9,154</b>	<b>(10,827)</b>	<b>(802)</b>	<b>25,770</b>
<b>31 December 2005</b>		<b>34,305</b>	<b>28,231</b>	<b>(8,257)</b>	<b>(777)</b>	<b>53,502</b>
Share capital increase (unaudited)	21	18,056	28,526	-	-	46,582
Net profit (unaudited)		-	-	29	-	29
<b>30 June 2006 (unaudited)</b>		<b>52,361</b>	<b>56,757</b>	<b>(8,228)</b>	<b>(777)</b>	<b>100,113</b>

On behalf of the Board of Directors:

  
Sergey Maximov, President

  
Andrey Snegirev, Chairman of the Board

The notes on pages 6-39 form an integral part of these interim financial statements.  
The Independent Accountants' Review Report is on page 1.

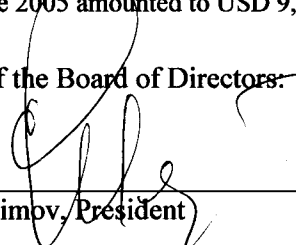
**OPEN JOINT STOCK COMPANY VSEUKRAINSKY AKSIONERNY BANK  
(JSC VABANK)**

**INTERIM STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 30 JUNE 2006  
(in thousands of US Dollars)**

	Notes	Six months ended 30 June 2006 (unaudited)	Six months ended 30 June 2005 (unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Profit before income tax		483	214
Adjustments for:			
Provision for impairment losses on interest bearing assets		2,673	1,568
Provision for impairment losses on other transactions		59	(316)
Depreciation and amortization expense		1,216	725
Loss/(gain) on disposal of tangible fixed assets		166	(31)
(Gain)/loss on disposal of investments available for sale		(178)	4
Net change in interest accruals		(1,855)	335
Cash flow from operating activities before changes in operating assets and liabilities		2,564	2,499
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Restricted cash and balances with the National Bank of Ukraine		631	477
Loans and advances to banks		(33,552)	(12,685)
Loans and advances to customers		(124,683)	(56,954)
Other assets		(629)	(379)
Increase in operating liabilities:			
Deposits and loans from banks		68,355	18,749
Customer accounts		37,571	20,664
Other liabilities		31	8,412
Cash outflow from operating activities before income tax		(49,712)	(19,217)
Income tax paid		(369)	(151)
Net cash outflow from operating activities		(50,081)	(19,368)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of tangible and intangible assets		(8,792)	(2,560)
Proceeds on sale of tangible and intangible assets		198	330
Purchase of securities		(3,881)	(5,981)
Proceeds from sale and redemption of investment securities		3,161	1,083
Net cash outflow from investing activities		(9,314)	(7,128)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Increase in share capital		18,056	2,379
Share premium received		28,526	7,515
Proceeds from debt securities issued		110	1,952
Repayment of debt securities issued		(9,482)	(298)
Proceeds from subordinated debt		-	2,708
Repayment of subordinated debt		(15,040)	-
Net cash inflow from financing activities		22,170	14,256
NET DECREASE IN CASH AND CASH EQUIVALENTS		(37,225)	(12,240)
Effect of changes in exchange rates on cash and cash equivalent		-	645
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	10	55,220	44,259
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	10	17,995	32,664

Interest paid and received by the Bank in cash during the six months ended 30 June 2006 amounted to USD 14,990 thousand and USD 22,421 thousand, respectively. Interest paid and received by the Bank in cash during six months ended 30 June 2005 amounted to USD 9,564 thousand and USD 15,107 thousand, respectively.

On behalf of the Board of Directors:

  
Sergey Maximov, President

  
Andrey Snegirev, Chairman of the Board

The notes on pages 6-39 form an integral part of these interim financial statements.  
The Independent Accountants' Review Report is on page 1.

# OPEN JOINT STOCK COMPANY VSEUKRAINSKY AKSIONERNY BANK (JSC VABANK)

## NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006 (in thousands of US Dollars)

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### 1. ORGANISATION

Open Joint Stock Company Vseukrainsky Akzionerny Bank VABank (JSC VABank or the "Bank") was formed on 2 July 1992 as an open joint stock company under the laws of Ukraine. The Bank possesses a general banking license issued by the National Bank of Ukraine ("NBU") and a currency license, granted on 10 December 1993. These were combined under the new license #35 issued on 3 December 2001.

The Bank's activities, the majority of its assets, liabilities, revenues and net income are concentrated or derived from operations in or related to Ukraine.

The Bank's main activities comprise lending, attraction of customer accounts, investments in Ukrainian equity and debt securities, foreign currency and bank metals trading.

The Bank's registered office is located in Kyiv, Zoologichna St., 5. As at 30 June 2006 the Bank had 15 branches throughout Ukraine: Kyiv, Dnipropetrovsk, Donetsk, Ivano-Frankivsk, Lviv, Mykolayiv, Odesa, Sumy, Kharkiv, Cherkasy, Zaporizhyya, Uzhgorod, Poltava, Crimea (2005 – eleven branches); 69 divisions in various regions of Ukraine (as at 31 December 2005 – 53 divisions) and 1 representative office.

As at 30 June 2006 and 31 December 2005, the following shareholders owned the issued shares of the Bank:

Shareholder	30 June 2006, %	31 December 2005, %
TBIF Financial Services BV	48.65	9.49
Bauman Trade Ltd.	10.38	18.88
Wensin Ltd.	9.98	8.7
Hewpack Ltd.	9.98	8.12
Carlsbad Enterprises Ltd.	3.97	7.23
CJSC IC Lider	3.97	7.22
Fondoviy Center Ltd.	2.61	4.75
K.S. Kamerton JSC	2.59	4.71
SNP Investment Ltd.	2.53	4.66
CJSC Biolik	-	7.22
OJSC Budshliakhmash	-	3.4
Other	5.34	15.62
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

As at 30 June 2006, the ultimate owners of the Bank were:

Shareholder	%
Kardan N.V. (Netherlands) via TBIF Financial Services B.V.	48.65
Mr. Sergey Maximov	36.83
Mr. Petr Baron	6.50
Mrs. Ludmila Maximova	5.32
Other	2.70
<b>Total</b>	<b>100.00</b>

As at 31 December 2005 the ultimate controlling parties of the Bank were Mr. Sergey Maximov, Mrs. Ludmila Maximova, Mr. Petr Baron, and Kardan N.V. (Netherlands).

These interim financial statements were authorized for issue by the Board of Directors on 1 October 2006.

## 2. BASIS OF PRESENTATION

### Accounting basis

These interim financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (the "IFRS").

These interim financial statements have been prepared on an accrual basis and under the historical cost convention, except for the fair value measurement of investments.

In accordance with International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies" (the "IAS 29") the economy of Ukraine was considered to be hyperinflationary during 2000 and earlier years. As at 1 January 2001, the Ukrainian economy is no longer considered to be hyperinflationary and the values of the Bank's non-monetary assets, liabilities and equity components as stated in measuring unit current as at 31 December 2000, have formed the basis for the amounts carried forward.

Operating results for the six months ended 30 June 2006 are not necessarily indicative of the results that may be expected for the year ending 31 December 2006. The Bank maintains its accounting records in accordance with Ukrainian laws. These financial statements are based on those accounting books and records, as adjusted and reclassified to comply with IFRS.

### Use of estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the allowances for impairment losses and the fair value of financial instruments.

## Key assumptions

Key assumptions concerning the future and other key sources of estimation of uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period include:

	30 June 2006	31 December 2005
Loans to customers, less allowance for impairment losses	360,748	236,791
Investments available for sale, less allowance for impairment losses	28,544	25,066

Loans to customers are measured at amortised cost, less allowance for impairment losses. The estimation of allowance for impairment losses involves an exercise of judgement. It is impracticable to assess the extent of the possible effects of key assumptions or other sources of uncertainty on these balances at the balance sheet date.

## Functional and presentation currency

For the purpose of these interim financial statements the Bank separately identifies functional and presentation currency in accordance with the requirements of IAS 21 “The Effect of Changes in Foreign Exchange Rates”.

Following the requirements of IAS 21, the Bank has determined that based on the economic substance of the underlying events and circumstances relevant to the Bank, the functional currency for its operations is the Ukrainian Hryvnia (“UAH”). This means that transactions in currencies other than the Ukrainian Hryvnia are treated as transactions in foreign currencies.

The presentation currency of these interim financial statements is US Dollar (“USD”). Assets and liabilities, for each balance sheet presented, which have been measured in Ukrainian Hryvnia, are translated to USD at the closing exchange rate at the date of the relevant balance sheet (at 30 June 2006 and 31 December 2005 – 5.05 UAH/USD) and transactions reported in the income statement are translated at the average exchange rates for the relevant periods (for the six months period ended 30 June 2006 – 5.05 UAH/USD, for the six months period ended 30 June 2005 – 5.1986 UAH/USD). All resulting differences are reported directly in equity as translation adjustment.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Recognition and measurement of financial instruments

The Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting. For regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date is accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank of Ukraine with original maturity within 90 days, short-term loans and advances to banks in countries included in the Organization for Economic Co-operation and Development (“OECD”), except for margin deposits for operations with plastic cards, which may be converted to cash within a short period of time. For purposes of determining cash flows, the minimum reserve deposit required by the National Bank of Ukraine is not included as a cash equivalent due to restrictions on its availability.

### **Loans and advances to banks**

In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Amounts due from credit institutions are carried net of any allowance for impairment losses.

### **Loans to customers**

Loans originated by the Bank are financial assets that are created by the Bank by providing money directly to a borrower or by participating in a loan facility.

Loans granted by the Bank with fixed maturities are initially recognized in accordance with the policy stated above. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the income statement as losses on origination of assets. Subsequently, the carrying amount of such loans is adjusted for amortization of these losses and the related income is recorded as interest income within the income statement using the effective interest method. Loans to customers that do not have fixed maturities accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

### **Write off of loans and advances**

Loans and advances are written off against allowance for impairment losses in case of uncollectibility, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral.

### **Allowance for impairment losses**

The Bank establishes an allowance for impairment losses on financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The allowance for impairment losses is measured as the difference between carrying amount and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset’s original effective interest rate, for financial assets which are carried at amortized cost. 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, the previously recognised impairment loss is reversed by adjusting the allowance amount. For financial assets carried at cost the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of the allowance for impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of loss for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in the allowance for impairment losses is charged to the income statement and the total of the allowance for impairment losses is deducted in arriving at assets as shown in the balance sheet. Factors that the Bank considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain losses, which are substantial relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets, at the balance sheet date.

#### **Investments available for sale**

Investments available for sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at fair value. If fair value can not be determined reliably at initial recognition of equity investments available for sale, they are initially measured at cost. Subsequently the securities are measured at fair value, with such re-measurement recognized directly in equity until sold, when gain/loss previously recorded in equity recycles through the income statement, except for foreign exchange gains or losses and interest income accrued using the effective interest method, which are recognized directly in the income statement. The Bank uses quoted market prices to determine the fair value for the Bank's investments available for sale. If such quotes do not exist, management estimation is used. Dividends received are included in the income statement.

Non-marketable debt and equity securities are stated at amortized cost and cost, respectively, less impairment losses, unless fair value can be reliably measured.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in the income statement for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognized in the income statement for the period. Reversals of such impairment losses on equity instruments are not recognized in the income statement.

#### **Precious metals**

Assets and liabilities denominated in precious metals are measured at fair value which is determined at the current rate computed based on the second fixing of the London Bullion Market rates using the UAH/USD exchange rate effective at the date. Changes in the bid prices are recorded in the income statement.

## **Tangible and intangible assets**

Tangible and intangible assets, acquired after 1 January 2001 are carried at historical cost less accumulated depreciation and amortization and any recognised impairment loss. Tangible and intangible assets, acquired before 1 January 2001 are carried at historical cost restated for inflation less accumulated depreciation and amortization and any recognised impairment loss. Depreciation and amortization on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation and amortization of tangible and intangible assets is charged on the carrying value of tangible and intangible assets and is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual rates:

Buildings	5%
Office equipment and intangibles	20%
Motor vehicles	25%
Fixtures and fittings	10%
Leasehold improvements	Over lease term

The carrying amounts of tangible and intangible assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation and amortization charge for tangible and intangible assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over their remaining useful life.

## **Taxation**

Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the interim financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to be applied in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Ukraine also has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the income statement.

### **Deposits from banks and customers**

Customer and bank deposits are initially recognized at fair value, which amounts to the issue proceeds less transaction costs incurred. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

### **Debt securities issued**

Debt securities are accounted for according to the same principles used for customer and bank deposits.

### **Provisions**

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

### **Financial guarantee contracts issued and letters of credit**

Financial guarantee contracts and letters of credit issued by the Bank are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

### **Share capital and share premium**

Contributions to share capital made before 1 January 2001, are recognized at their nominal value restated for inflation. Contributions to share capital made after 1 January 2001 are recognized at cost. Share premium represents the excess of fair value of contributions over the nominal value of the shares issued. Gains and losses on sale of treasury stock are charged or credited to share premium account.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends, that are declared after the balance sheet date, are treated as a subsequent event under International Accounting Standard 10 "Events after the Balance Sheet Date" ("IAS 10") and disclosed accordingly.

### **Retirement and other benefit obligations**

In accordance with the requirements of the Ukrainian legislation, the Bank withholds amounts of pension contributions from employee salaries and pays them to the state pension fund. In addition such pension system provides for calculation of current payments by the employer as a percentage of current total disbursements to staff. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by pension funds. The Bank has no post-retirement benefits or other significant compensating benefits requiring accrual.

## Recognition of income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. Interest income also includes income earned on investments in securities. Fee and commission income includes loan origination fees, loan commitment fees and loan servicing fees. Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan in interest income. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan in interest income. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit and loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit and loss on expiry. Loan servicing fees are recognized as revenue as services are provided. Other income is credited to the consolidated and combined income statement when the related transactions are completed. Commission income for the guarantees issued is deferred and recognised as revenue on a time proportion basis over the period of guarantees. Commission expense for guarantees received is deferred and recognised as expense on a time proportion basis over the period of guarantees. All other commissions are recognized when services are provided.

## Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into UAH at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

## Rates of exchange

The exchange rates at year-end used by the Bank in the preparation of the interim financial statements are as follows:

	30 June 2006	31 December 2005	30 June 2005
UAH/1 US Dollar	5.05	5.05	5.06
UAH/1 Euro	6.33	5.97	6.09

Certain exchange regulations exist relating to converting Ukrainian Hryvnia into other currencies. At present, Ukrainian Hryvnia is not freely convertible currency outside Ukraine.

## Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten per cent or more of all the segments are reported separately.

## **Adoption of new and revised International Financial Reporting Standards**

During the six months period ended 30 June 2006 the following interpretations and amendments applicable to the Bank became effective:

- IFRIC 4 “Determining Whether an Arrangement Contains a Lease” (effective 1 January 2006)
- IFRIC 5 “Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds” (effective 1 January 2006)
- IFRIC 7 “Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies” (effective 1 March 2006)
- IFRIC 8 “Scope of IFRS 2” (effective 1 May 2006)
- IFRIC 9 “Reassessment of Embedded Derivatives” (effective 1 June 2006)
- Amendment to IAS 39 regarding the financial guarantee contracts (effective 1 January 2006)
- Amendment to IAS 39 regarding the fair value option (effective 1 January 2006).

The effect of these changes on the financial statements of the Bank is not significant.

At the date of authorisation of these interim financial statements, the following Standards and Interpretations applicable to the Bank were issued but not yet effective:

- IFRS 7 “Financial Instruments: Disclosures” (effective 1 January 2007)
- IFRIC 10 “Interim Financial Reporting and Impairment” (effective 1 November 2006)
- Amendments to IAS 1 regarding disclosure on the Bank’s objectives, policies and processes for managing capital (effective 1 January 2007).

The management is currently assessing the impact of the adoption of these new and revised Standards and Interpretations in future periods.

## **Reclassifications**

Certain reclassifications have been made to the comparative figures as at 31 December 2005 to conform to the form of presentation as at 30 June 2006 and for the six months period then ended, because they result in the interim financial statements providing more relevant information:

- The Bank has combined the precious metals in the amount of USD 605 thousand with other assets in the balance sheet.

#### 4. NET INTEREST INCOME

	Six months ended 30 June 2006 (unaudited)	Six months ended 30 June 2006 (unaudited)
<b>Interest income</b>		
Interest on loans to customers	21,425	12,078
Interest on loans and advances to banks	1,935	727
Interest income on investments available for sale	822	711
Fair value adjustment on recognition/derecognition of financial instruments issued at other than market terms	<u>(358)</u>	<u>(111)</u>
Total interest income	<u>23,824</u>	<u>13,405</u>
<b>Interest expense</b>		
Interest on customer accounts	(11,007)	(6,937)
Interest on deposits from banks	(2,696)	(984)
Interest on debt securities issued	(306)	(183)
Interest on subordinated debt	(652)	(500)
Fair value adjustment on recognition/derecognition of financial instruments issued at other than market terms	<u>(87)</u>	<u>(418)</u>
Total interest expense	<u>(14,748)</u>	<u>(9,022)</u>
<b>Interest income, less interest expense</b>	<u><u>9,076</u></u>	<u><u>4,383</u></u>

#### 5. PROVISION FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

The movements in allowance for impairment losses on interest bearing assets were as follows:

	Loans and advances to banks	Loans to customers	Total
<b>31 December 2004</b>	<b>(206)</b>	<b>(4,454)</b>	<b>(4,660)</b>
Provision	(29)	(1,539)	(1,568)
Translation and exchange rate differences	<u>20</u>	<u>23</u>	<u>43</u>
<b>30 June 2005 (unaudited)</b>	<b><u>(215)</u></b>	<b><u>(5,970)</u></b>	<b><u>(6,185)</u></b>
<b>31 December 2005</b>	<b>(40)</b>	<b>(6,889)</b>	<b>(6,929)</b>
Provision	(7)	(2,666)	(2,673)
Translation and exchange rate differences	<u>5</u>	<u>(5)</u>	<u>-</u>
<b>30 June 2006 (unaudited)</b>	<b><u>(42)</u></b>	<b><u>(9,560)</u></b>	<b><u>(9,602)</u></b>

The movements in allowances for impairment losses on other transactions were as follows:

	Investments available for sale	Other assets	Guarantees and other commitments	Total
<b>31 December 2004</b>	(259)	(75)	-	(334)
Provision	258	64	(6)	316
Translation and exchange rate	1	1	-	2
<b>30 June 2005 (unaudited)</b>	<u>-</u>	<u>(10)</u>	<u>(6)</u>	<u>(16)</u>
<b>31 December 2005</b>	-	(56)	(307)	(363)
(Provision)/Recovery	(83)	27	(3)	(59)
Translation and exchange rate	-	-	-	-
<b>30 June 2006 (unaudited)</b>	<u>(83)</u>	<u>(29)</u>	<u>(310)</u>	<u>(422)</u>

Allowances for impairment losses on assets are deducted from related assets. Provisions for guarantees and other commitments are recorded in liabilities.

## 6. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Six months ended 30 June 2006 (unaudited)	Six months ended 30 June 2005 (unaudited)
<b>Fee and commission income:</b>		
Cash operations	2,547	1,935
Foreign exchange operations	744	585
Documentary operations	644	268
Settlements	79	140
Other	408	260
<b>Total fee and commission income</b>	<u>4,422</u>	<u>3,188</u>
<b>Fee and commission expense:</b>		
Cash operations	(351)	(303)
Agency services	(179)	-
Foreign exchange operations	(37)	-
Documentary operations	(31)	(2)
<b>Total fee and commission expense</b>	<u>(598)</u>	<u>(305)</u>

## 7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Six months ended 30 June 2006 (unaudited)	Six months ended 30 June 2005 (unaudited)
Dealing, net	1,789	678
Translation differences, net	465	(141)
<b>Total net gain on foreign exchange operations</b>	<u>2,254</u>	<u>537</u>

## 8. OPERATING EXPENSES

	Six months ended 30 June 2006 (unaudited)	Six months ended 30 June 2005 (unaudited)
Salary and bonuses	4,546	2,073
Social security costs	1,249	700
Operating lease expense	1,320	434
Depreciation and amortization expense	1,216	725
Repairs and maintenance expense	967	671
Communication expenses	657	501
Taxes, other than income tax	302	164
Payment to the Individuals Deposits Guarantee Funds	294	151
Professional services fees	261	146
General and administrative services	213	211
Security expenses	175	129
Advertising and marketing expenses	155	106
Representative expenses	114	105
Other	887	482
<b>Total operating expenses</b>	<b>12,356</b>	<b>6,598</b>

## 9. INCOME TAXES

The Bank provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of Ukraine.

The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 30 June 2006 and 31 December 2005 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at 30 June 2006 and 31 December 2005 comprise:

	30 June 2006 (unaudited)	31 December 2005
<b>Deductible temporary differences:</b>		
Loans to customers	7,651	4,962
Accrued interest	469	218
Other assets and liabilities	532	175
<b>Total deductible temporary differences</b>	<b>8,652</b>	<b>5,355</b>
<b>Taxable temporary differences:</b>		
Tangible assets	(3,294)	(1,484)
Investments	(3,413)	(3,004)
Loans to banks	(830)	(358)
<b>Total taxable temporary differences</b>	<b>(7,537)</b>	<b>(4,846)</b>
Net deductible temporary differences	1,115	509
Deferred tax asset at the statutory tax rate (25%)	279	127
Less: valuation allowance	(279)	(127)
<b>Net deferred tax asset</b>	<b>-</b>	<b>-</b>

Relationships between tax expenses and accounting profit for the six months ended 30 June 2006 and 2005 are explained as follows:

	Six months ended 30 June 2006 (unaudited)	Six months ended 30 June 2005 (unaudited)
<b>Profit before tax</b>	<b>483</b>	<b>214</b>
Statutory tax rate	25%	25%
Theoretical tax at the statutory tax rate	121	54
Change in valuation allowance	152	64
Tax effect of other permanent differences	181	87
Deferred tax identified relating to the preceding periods	-	(169)
<b>Income tax expense</b>	<b>454</b>	<b>36</b>

The income tax expense consists of the current income tax expenses of USD 454 thousand and USD 36 thousand, respectively for the six months ended 30 June 2006 and 2005.

#### 10. CASH AND BALANCES WITH THE NATIONAL BANK OF UKRAINE

	30 June 2006 (unaudited)	31 December 2005
Cash	13,085	12,287
Balances with the National Bank of Ukraine	17,755	44,136
<b>Total cash and balances with the National Bank of Ukraine</b>	<b>30,840</b>	<b>56,423</b>

The balances with the National Bank of Ukraine (the "NBU") as at 30 June 2006 and 31 December 2005 include USD 14,222 thousand and USD 14,853 thousand, respectively, which represent the minimum reserve deposits required by the NBU. The Bank is required to maintain the reserve balance at the NBU at all times, therefore for the purposes of cash flow statements these amounts have been excluded from cash and cash equivalents.

Cash and cash equivalents for the purposes of the statement of cash flows are comprised of the following:

	30 June 2006 (unaudited)	31 December 2005	30 June 2005 (unaudited)
Cash and balances with the National Bank of Ukraine	30,840	56,423	24,032
Loans and advances to banks in OECD countries	1,377	13,650	19,120
Less minimum reserve deposits with the National Bank of Ukraine	(14,222)	(14,853)	(10,488)
<b>Total cash and cash equivalents</b>	<b>17,995</b>	<b>55,220</b>	<b>32,664</b>

## 11. LOANS AND ADVANCES TO BANKS, LESS ALLOWANCE FOR IMPAIRMENT LOSSES

	30 June 2006 (unaudited)	31 December 2005
Loans to banks	95,045	75,067
Advances to banks placed with foreign and Ukrainian banks as guarantee deposits	2,429	4,906
Other advances to non-OECD banks	36,590	20,538
Other advances to OECD banks	1,377	13,650
Accrued interest income on loans and advances to banks	<u>75</u>	<u>110</u>
<b>Total loans and advances to banks</b>	<b>135,516</b>	<b>114,271</b>
Less allowance for impairment losses	<u>(42)</u>	<u>(40)</u>
<b>Total loans and advances to banks, net</b>	<b><u>135,474</u></b>	<b><u>114,231</u></b>

Movements in allowances for impairment losses on loans and advances to banks for the six months ended 30 June 2006 and 30 June 2005 are disclosed in Note 5.

As at 30 June 2006 and 31 December 2005 the Bank had three and five loans and advances totalling USD 56,793 thousand and USD 37,093 thousand, respectively, which individually exceeded 10% of the Bank's equity.

As at 30 June 2006 and 31 December 2005 the total maximum credit risk exposure on loans and advances to banks amounted to USD 135,516 thousand and USD 114,271 thousand, respectively.

During six months ended 30 June 2006 and 2005 the Bank simultaneously placed with and received short-term funds from Ukrainian and Commonwealth of Independent States (CIS) banks in different currencies. As at 30 June 2006 and 31 December 2005, the Bank placed equivalent of USD 41,174 thousand and USD 65,647 thousand, respectively, as deposits with Ukrainian and CIS banks in UAH, USD, EUR and Russian Roubles, which were secured by deposits in other currencies received from the same banks (Note 16).

## 12. LOANS TO CUSTOMERS, LESS ALLOWANCE FOR IMPAIRMENT LOSSES

Loans to customers, less allowance for impairment losses comprise:

	30 June 2006 (unaudited)	31 December 2005
Loans to customers	367,298	242,610
Accrued interest income on loans to customers	<u>3,010</u>	<u>1,070</u>
	370,308	243,680
Less allowance for impairment losses	<u>(9,560)</u>	<u>(6,889)</u>
<b>Total loans to customers, net</b>	<b><u>360,748</u></b>	<b><u>236,791</u></b>

Movements in allowances for impairment losses for the six months ended 30 June 2006 and 2005 are disclosed in Note 5.

	30 June 2006 (unaudited)	31 December 2005
Loans collateralized by real estate, production equipment and other non-current asset	112,994	84,323
Loans collateralized by guarantee and other collateral	99,532	66,554
Loans collateralized by liens over accounts receivable and future cash receipts	67,391	41,702
Loans collateralized by inventory in turnover	55,321	14,839
Loans collateralized by cash deposits	25,099	29,981
Unsecured loans	6,961	5,211
Accrued interest income on loans to customers	3,010	1,070
	<hr/>	<hr/>
<b>Total originated loans to customers</b>	<b>370,308</b>	<b>243,680</b>
	<hr/> <hr/>	<hr/> <hr/>

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

	30 June 2006 (unaudited)	31 December 2005
<b>Analysis by sector:</b>		
Trading and retail companies	111,416	72,264
Manufacturing	77,442	61,683
Retail loans	49,816	27,601
Services	23,288	4,905
Construction	44,687	40,244
Food	15,961	2,466
Agriculture	9,375	3,437
Transportation and logistics	9,259	5,230
Finance and investment	5,885	2,140
Restaurants and clubs	5,828	4,451
State and state controlled enterprises	2,388	11,656
Oil and gas	562	3,508
Other	11,391	3,025
Accrued interest income on loans to customers	3,010	1,070
	<hr/>	<hr/>
<b>Total originated loans to customers</b>	<b>370,308</b>	<b>243,680</b>
	<hr/> <hr/>	<hr/> <hr/>

As at 30 June 2006 and 31 December 2005 the Bank provided loans to two and four clients in the amount of USD 24,726 thousand and USD 34,240 thousand, respectively, which individually exceeded 10% of the Bank's equity.

All loans are granted to companies operating in Ukraine.

As at 30 June 2006 and 31 December 2005 the total maximum credit risk exposure on loans and advances to customers included their gross amounts (USD 370,308 thousand and USD 243,680 thousand, respectively).

### 13. INVESTMENTS AVAILABLE FOR SALE, LESS ALLOWANCE FOR IMPAIRMENT LOSSES

As at 30 June 2006 and 31 December 2005 investments available for sale comprised the following investments:

	30 June 2006 (unaudited)	31 December 2005
<b>Debt investments</b>		
Ukrainian companies' bonds	9,019	11,482
Ukrainian companies' promissory notes	2,431	2,388
State debt securities refinanced by the National Bank of Ukraine	4,873	990
Interest accrued using effective interest rate method	377	196
	<u>16,700</u>	<u>15,056</u>
Allowance for impairment losses	(72)	-
<b>Total debt investments available for sale</b>	<b><u>16,628</u></b>	<b><u>15,056</u></b>
<b>Equity investments</b>		
Corporate shares	4,992	3,398
Shares in a mutual fund (Vseukrainsky Fond Neruhomosty)	6,685	6,612
Other equity investments	250	-
	<u>11,927</u>	<u>10,010</u>
Allowance for impairment losses	(11)	-
<b>Total equity investments available for sale</b>	<b><u>11,916</u></b>	<b><u>10,010</u></b>
<b>Total investments available for sale</b>	<b><u>28,544</u></b>	<b><u>25,066</u></b>

Movements in allowances on impairment for the six months ended 30 June 2006 and 2005 are disclosed in the Note 5.

As at 30 June 2006 and 31 December 2005 the Bank has not classified any financial assets as held to maturity.

#### 14. TANGIBLE AND INTANGIBLE ASSETS, LESS ACCUMULATED DEPRECIATION AND AMORTIZATION

Tangible and intangible assets, less accumulated depreciation and amortization comprise:

	<b>Buildings and leasehold improvements</b>	<b>Office equipment and intangible assets</b>	<b>Motor vehicles</b>	<b>Fixtures and fittings</b>	<b>Construction in progress</b>	<b>Total</b>
<b>At cost</b>						
31 December 2005	9,811	10,084	392	1,780	166	22,233
Additions	1,126	2,388	70	175	4,483	8,242
Disposals	(529)	(40)	-	(6)	(3)	(578)
Transfers	930	169	-	285	(1,384)	-
30 June 2006 (unaudited)	<u>11,338</u>	<u>12,601</u>	<u>462</u>	<u>2,234</u>	<u>3,262</u>	<u>29,897</u>
<b>Accumulated depreciation and amortization</b>						
31 December 2005	1,179	4,665	356	918	-	7,118
Depreciation and amortization expense	244	889	10	73	-	1,216
Eliminated on disposals	(169)	(40)	-	(4)	-	(213)
30 June 2006 (unaudited)	<u>1,254</u>	<u>5,514</u>	<u>366</u>	<u>987</u>	<u>-</u>	<u>8,121</u>
<b>Net book value</b>						
30 June 2006 (unaudited)	<u>10,084</u>	<u>7,087</u>	<u>96</u>	<u>1,247</u>	<u>3,262</u>	<u>21,776</u>
31 December 2005	<u>8,632</u>	<u>5,419</u>	<u>36</u>	<u>862</u>	<u>166</u>	<u>15,115</u>
<b>At cost</b>						
31 December 2004	7,195	7,204	371	1,381	138	16,289
Additions	1,103	994	35	272	99	2,503
Disposals	(310)	(58)	-	(9)	-	(377)
Transfers	-	75	-	59	(134)	-
Translation difference	349	255	2	67	24	697
30 June 2005 (unaudited)	<u>8,337</u>	<u>8,470</u>	<u>408</u>	<u>1,770</u>	<u>127</u>	<u>19,112</u>
<b>Accumulated depreciation and amortization</b>						
31 December 2004	761	3,526	362	790	-	5,439
Depreciation and amortization expense	173	440	4	108	-	725
Eliminated on disposals	(15)	(55)	-	(8)	-	(78)
Translation difference	137	109	1	23	-	270
30 June 2005 (unaudited)	<u>1,056</u>	<u>4,020</u>	<u>367</u>	<u>913</u>	<u>-</u>	<u>6,356</u>
<b>Net book value</b>						
30 June 2005 (unaudited)	<u>7,281</u>	<u>4,450</u>	<u>41</u>	<u>857</u>	<u>127</u>	<u>12,756</u>
31 December 2004	<u>6,434</u>	<u>3,678</u>	<u>9</u>	<u>591</u>	<u>138</u>	<u>10,850</u>

## 15. OTHER ASSETS, LESS ALLOWANCE FOR IMPAIRMENT LOSSES

Other assets, less allowance for impairment losses, consist of:

	30 June 2006 (unaudited)	31 December 2005
Prepayments for tangible assets	2,347	1,796
Precious metals	1,073	605
Materials	133	52
Prepaid expenses on insurance	121	158
Current income tax receivable	97	23
Accrued income on guarantees issued and other operations with clients	70	102
Prepayments for advertising	62	-
Prepayments for transportation	38	-
Taxes receivable, other than income tax	19	34
Collateral received upon borrowers' insolvency	33	33
Prepayments for securities	-	2,746
Other	254	192
<b>Total other assets</b>	<b>4,247</b>	<b>5,741</b>
Less allowance for impairment losses on other assets	(29)	(56)
<b>Total other assets, net</b>	<b>4,218</b>	<b>5,685</b>

Movements in allowances for impairment losses for the six month ended 30 June 2006 and 2005 are disclosed in Note 5.

## 16. LOANS AND ADVANCES FROM BANKS

Loans and advances from banks comprise:

	30 June 2006 (unaudited)	31 December 2005
Time deposits from banks	152,684	90,057
Demand deposits from banks	12,667	6,939
Accrued interest expense on deposits from banks	273	205
<b>Total loans and advances from banks</b>	<b>165,624</b>	<b>97,201</b>

As at 30 June 2006 and 31 December 2005 the Bank has entered into mutual placement agreements with Ukrainian and CIS banks (Note 11).

## 17. CUSTOMER ACCOUNTS

Customer accounts comprise:

	30 June 2006 (unaudited)	31 December 2005
Time deposits	193,389	188,880
Repayable on demand	105,737	72,675
Accrued interest expense on customer accounts	3,752	4,032
<b>Total customer accounts</b>	<b>302,878</b>	<b>265,587</b>

Amounts due to customers include accounts with the following types of customers:

	30 June 2006 (unaudited)	31 December 2005
Corporate customers	158,937	148,123
Individuals	140,189	113,432
Accrued interest expense on customer accounts	<u>3,752</u>	<u>4,032</u>
<b>Total customer accounts</b>	<b><u>302,878</u></b>	<b><u>265,587</u></b>

As at 30 June 2006 and 31 December 2005, customer accounts amounting to USD 47,119 thousand (15.56%) and USD 32,133 thousand (12.10%) were due to 5 customers, respectively, which represents significant concentration.

Customer accounts by industry:

	30 June 2006 (unaudited)	31 December 2005
<b>Analysis by industry:</b>		
Individuals	140,189	113,432
Trade	41,945	37,343
Machinery construction	29,872	26,845
Entertainment	13,977	8,034
Mining and metallurgy	13,575	7,748
Insurance	10,137	8,164
Construction	9,791	18,706
Hypothecary operations	6,294	5,608
Professional services	6,285	6,305
Finance sector	4,178	2,621
Transport and communication	3,876	2,137
Publishing	3,512	2,246
Chemical industry	2,990	3,744
Research and development	2,779	3,047
Food and light industry	1,158	2,817
Hotels	1,132	1,127
Other	7,436	11,631
Accrued interest expense on customer accounts	<u>3,752</u>	<u>4,032</u>
<b>Total customer accounts</b>	<b><u>302,878</u></b>	<b><u>265,587</u></b>

## 18. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	30 June 2006 (unaudited)	31 December 2005
Bonds issued	2,516	11,888
Accrued interest expense on debt securities issued	<u>29</u>	<u>144</u>
<b>Total debt securities issued</b>	<b><u>2,545</u></b>	<b><u>12,032</u></b>

The bonds are interest bearing with 14% pa, payable quarterly.

## 19. OTHER LIABILITIES

Other liabilities comprise:

	30 June 2006 (unaudited)	31 December 2005
Provision on off balance sheet items	310	307
Current income tax payable	267	108
Payables to the Individuals Deposits Guarantee Funds	147	104
Accruals to employees	97	24
Payables under finance lease	87	90
Deferred income	27	70
Taxes payable, other than income tax	3	4
Transportation	-	60
Payables under operating lease	-	14
Other payables and accruals	73	34
<b>Total other liabilities</b>	<b>1,011</b>	<b>815</b>

## 20. SUBORDINATED DEBT

Subordinated debt comprises:

Creditor	Maturity date	Currency	Nominal interest rate	Effective interest rate	30 June 2006 (unaudited)	31 December 2005
Reventox Consulting Ltd.	23-Feb-15	USD	10.00%	10.00%	7,174	7,000
Hewpack Ltd.	9-Dec-14	USD	10.00%	10.00%	1,158	1,158
Hewpack Ltd.	17-Oct-14	USD	10.00%	10.00%	666	666
Hewpack Ltd.	19-Sep-14	USD	10.00%	10.00%	431	431
Vikol N.V.	4-Nov-14	USD	10.00%	10.00%	-	1,000
TBIF Financial Services B.V.	29-Dec-10	USD	9.00%	9.16%	-	13,919
<b>Total subordinated debt</b>					<b>9,429</b>	<b>24,174</b>

During six months ended 30 June 2006 the major part of the loan from TBIF Financial Services B.V. had been converted to share capital of the Bank.

In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to repayment of Bank's liabilities to all other creditors.

## 21. SHARE CAPITAL

As at 30 June 2006 and 31 December 2005 the authorized, issued and fully paid share capital comprised 201,424,499 and 110,643,725 ordinary shares, respectively, with par value of UAH 1 each. All ordinary shares are ranked equally and carry one vote. Share premium represents the excess of fair value contributions received over the nominal value of shares issued.

During the six months ended on 30 June 2006, the Bank announced the nineteenth issue of ordinary shares (90,780,774 shares), which was registered by the State authorities. As at 30 June 2006 and 31 December 2005 18,053 and 421,031 ordinary shares, respectively, with par value of UAH 1 each had not been paid by the Bank's shareholders.

## 22. FINANCIAL COMMITMENTS AND CONTINGENCIES

### Contingent liabilities and credit commitments

In the normal course of business, the Bank becomes a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

As at 30 June 2006 and 31 December 2005, accrued provision for impairment losses on guarantees amounted to USD 310 thousand and USD 307 thousand, respectively.

The risk-weighted amount is obtained by applying credit conversion factor and counterparty risk weightings according to the principles employed by the Basle Committee on Banking Supervision.

As at 30 June 2006 and 31 December 2005, the nominal or contract amounts and risk-weighted amounts were:

	30 June 2006 (unaudited)		31 December 2005	
	Nominal amount	Risk weighted amount	Nominal amount	Risk weighted amount
Guarantees issued and similar commitments	33,232	33,232	43,694	43,694
Letters of credit and other transaction related contingent obligations with initial maturity of less than 1 year	5,659	-	2,875	-
Letters of credit and other transaction related contingent obligations with initial maturity of more than 1 year	9,784	4,892	5,243	2,622
Irrevocable commitments on credits and unused credit lines with an original maturity of over 1 year	391	196	4	2
Other commitments on credits and unused credit lines	70,704	-	57,262	-
<b>Total contingent liabilities and credit commitments</b>	<b>119,770</b>	<b>38,320</b>	<b>109,078</b>	<b>46,318</b>

### Capital commitments

The Bank had no material commitments for capital expenditures outstanding as at 30 June 2006 and 31 December 2005.

### Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

	30 June 2006 (unaudited)	31 December 2005
Not later than 1 year	1,241	725
Later than 1 year and not later than 5 years	2,636	1,290
Later than 5 years	82	486
<b>Total operating lease commitments</b>	<b>3,959</b>	<b>2,501</b>

## **Legal proceedings**

From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these interim financial statements.

## **Taxes**

Due to the presence in Ukrainian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on management's judgment of the Bank's business activities was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest. The Bank believes that it has already made all tax payments, and therefore no additional allowance was made in the interim financial statements. Tax records remain open to review by the tax authorities for three years.

## **Pensions and retirement plans**

Employees receive pension benefits in accordance with the laws and regulations of the respective countries. As at 30 June 2006 and 31 December 2005, the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

## **Operating environment**

The Bank's principal business activities are within Ukraine. Laws and regulations affecting the business environment in Ukraine are subject to rapid changes and the Bank's assets and operations could be at risk due to negative changes in the political and business environment.

## **23. SUBSEQUENT EVENTS**

After the balance sheet date the Bank has created a group of companies (subsidiaries) that will perform investment (LLC "VAB Asset Management") and management (LLC "VAB Group") functions.

## **24. TRANSACTIONS WITH RELATED PARTIES**

Related parties or transactions with related parties, as defined by IAS 24 "Related Party Disclosures", represent:

- (a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Bank that gives them significant influence over the Bank; and that have joint control over the Bank
- (b) Associates – enterprises on which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor
- (c) Joint ventures in which the Bank is a venturer
- (d) Members of key management personnel of the Bank or its parent
- (e) Close members of the family of any individuals referred to in (a) or (d)

- (f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e), or
- (g) Post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party of the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Bank had the following transactions outstanding with related parties:

	30 June 2006 (unaudited)		31 December 2005	
	Related party transactions	Total category as per interim financial statements caption	Related party transactions	Total category as per interim financial statements caption
Loans to customers	17,348	367,298	6,682	242,610
- shareholders of the Bank	2,561		2,158	
- key management personnel	250		90	
- employees of the Bank	794		253	
- other related parties	13,743		4,181	
Allowance for impairment losses	(207)	(9,560)	(197)	(6,889)
- shareholders of the Bank	(49)		(65)	
- key management personnel	(5)		(1)	
- employees of the Bank	(19)		(3)	
- other related parties	(134)		(128)	
Investments available for sale	2,710	28,627	5,637	25,066
- shareholders of the Bank	1,296		1,875	
- other related parties	1,414		3,762	
Other assets				
- shareholders of the Bank	113	4,247	158	5,741
Customer accounts	8,310	299,126	789	261,555
- shareholders of the Bank	398		318	
- key management personnel	-		-	
- employees of the Bank	-		-	
- other related parties	7,912		471	
Subordinated debt				
- shareholders of the Bank	2,255	9,429	16,174	24,174
Guarantees issued and similar commitments				
- shareholders of the Bank	238	33,232	291	43,694

During six months ended 30 June 2006 the Bank repurchased corporate shares in amount of USD 2,154 thousand from related party.

Included in the income statement are the following amounts which arose due to transactions with related parties:

	Six months ended 30 June 2006 (unaudited)		Six months ended 30 June 2005 (unaudited)	
	Related party transaction	Total category as per interim financial statements caption	Related party transaction	Total category as per interim financial statements caption
Interest income on loans to customers	1,023	21,425	516	12,078
- shareholders of the Bank	239		110	
- key management personnel	10		1	
- employees of the Bank	28		20	
- other related parties	746		385	
(Provision)/recovery of provision for impairment losses	(35)	(2,666)	(9)	(1,539)
- shareholders of the Bank	16		(46)	
- key management personnel	(4)		6	
- employees of the Bank	(22)		23	
- other related parties	(25)		8	
Interest expense on customer accounts	(402)	(11,007)	(243)	(6,937)
- shareholders of the Bank	(374)		(236)	
- key management personnel	-		-	
- employees of the Bank	-		-	
- other related parties	(28)		(7)	
Interest expense on subordinated debt	(216)	(652)	(110)	(500)
- shareholders of the Bank	(106)		-	
- other related parties	(110)		(110)	
Fair value adjustment on recognition/derecognition of financial instruments issued on other than market terms				
- other related parties	(87)	(445)	-	(529)
Salary and other short-term benefits for key management personnel	(286)	(5,795)	(240)	(2,773)

## 25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale.

As no readily available published price quotations in an active market exists for a large part of the Bank's financial instruments, judgment is necessary in arriving at fair value using a valuation technique, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts, which the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the balance sheet of the Bank is presented below:

	<u>31 June 2006 (unaudited)</u>		<u>31 December 2005</u>	
	<u>Carrying value</u>	<u>Fair value</u>	<u>Carrying value</u>	<u>Fair value</u>
Cash and balances with National Bank of Ukraine	30,840	30,840	56,423	56,423
Loans and advances to banks, less allowance for impairment losses	135,474	135,474	114,231	114,231
Loans and advances from banks	165,624	165,624	97,201	97,201
Customer accounts	302,878	302,878	265,587	265,587
Subordinated debt	9,429	9,429	24,174	24,174

As at 30 June 2006 and 31 December 2005 loans to customers, less allowance for impairment losses, amounted to USD 360,748 thousand and USD 236,791 thousand, respectively, were measured at amortized cost, less allowance for impairment losses. The fair value of the loan portfolio is based on the credit and interest rate characteristics of the individual loans within each sector of the portfolio. The estimation of the allowance for impairment losses includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation in the economic sector in which each borrower operates, the credit rating of each borrower and collateral and guarantees obtained. Accordingly, the provision for impairment losses is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

As at 30 June 2006 and 31 December 2005 investments available for sale, less allowance for impairment losses, amounted to USD 28,544 thousand and USD 25,066 thousand, respectively, were measured at acquisition cost, less allowance for impairment losses. The fair value of investments available for sale can not be measured reliably as it is not practicable to obtain market information or apply any other valuation techniques to such instruments. The Bank's management tests the amount of allowance for impairment losses on investments available for sale on a regular basis.

## 26. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (as set forth in the table below) of total (8%) and Tier 1 capital (4%) to risk weighted assets.

The ratio was calculated according to the principles employed by the Basle Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for impairment losses:

<b>Estimate</b>	<b>Description of position</b>
0%	Cash and balances with the National Bank of Ukraine
0%	State debt securities
20%	Loans and advances to banks for up to 1 year
100%	Loans to customers
100%	Guarantees
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Other assets

As at 30 June 2006 the Bank's capital adequacy ratio for Tier I capital and total capital comprised USD 100,113 thousand (21.78%) and USD 109,542 thousand (23.83%), respectively.

As at 31 December 2005 the Bank's capital adequacy ratio for Tier I capital and total capital comprised USD 53,502 thousand (16.6%) and USD 63,757 thousand (19.8%), respectively.

## **27. RISK MANAGEMENT POLICIES**

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Bank's risk management policies in relation to those risks follows.

Currency, liquidity, interest rate and cash flow risks are managed by the Department of Analysis, Evaluation and Control of the Bank's Risks and Treasury Department. The Bank's credit risks are monitored by the Credit Committee. Feasibility studies to support loan applications are evaluated in the Credit Committee based on assessments within the Loan Department.

The Bank manages the following risks:

### **Liquidity risk**

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Risk and Loan Analysis Department controls these types of risks by means of maturity analysis, determining the Bank's strategy for the next financial period. Assets and Liabilities Committee approves the Bank's liquidity methodology. Current liquidity is managed by the Treasury Department, which trades on the currency market for current liquidity support and cash flow optimization.

The following table presents an analysis of interest rate risk and liquidity risk on balance sheet. Interest bearing assets and liabilities generally have relatively short maturities and interest rates are reprised only at maturity.

	30 June 2006 (unaudited)						
	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
<b>ASSETS</b>							
<b>Interest bearing assets:</b>							
Loans and advances to banks, less allowance for impairment losses	115,884	18,134	-	1,456	-	-	135,474
Loans to customers, less allowance for impairment losses	19,786	26,991	98,650	198,293	17,028	-	360,748
Investments available for sale, less allowance for impairment losses	-	-	16,628	-	-	-	16,628
<b>Total interest bearing assets</b>	<b>135,670</b>	<b>45,125</b>	<b>115,278</b>	<b>199,749</b>	<b>17,028</b>	<b>-</b>	<b>512,850</b>
<b>Non-interest bearing assets:</b>							
Cash and balances with the NBU	16,618	-	-	-	-	14,222	30,840
Investments available for sale, less allowance for impairment losses	-	-	-	11,916	-	-	11,916
Tangible and intangible assets, less accumulated depreciation and amortization	-	-	-	-	-	21,776	21,776
Other assets, less allowance for impairment losses	2,671	269	362	35	-	881	4,218
<b>TOTAL ASSETS</b>	<b>154,959</b>	<b>45,394</b>	<b>115,640</b>	<b>211,700</b>	<b>17,028</b>	<b>36,879</b>	<b>581,600</b>
<b>LIABILITIES</b>							
<b>Interest bearing liabilities:</b>							
Loans and advances from banks	111,388	34,741	10,000	9,495	-	-	165,624
Customer accounts	122,743	31,046	140,207	8,882	-	-	302,878
Debt securities issued	29	-	257	2,259	-	-	2,545
Subordinated debt	-	229	-	-	9,200	-	9,429
<b>Total interest bearing liabilities</b>	<b>234,160</b>	<b>66,016</b>	<b>150,464</b>	<b>20,636</b>	<b>9,200</b>	<b>-</b>	<b>480,476</b>
Other liabilities	706	-	258	34	13	-	1,011
<b>TOTAL LIABILITIES</b>	<b>234,866</b>	<b>66,016</b>	<b>150,722</b>	<b>20,670</b>	<b>9,213</b>	<b>-</b>	<b>481,487</b>
Liquidity gap	(79,907)	(20,622)	(35,082)	191,030	7,815		
Interest sensitivity gap	(98,490)	(20,891)	(35,186)	179,113	7,828		
<b>Cumulative interest sensitivity gap</b>	<b>(98,490)</b>	<b>(119,381)</b>	<b>(154,567)</b>	<b>24,546</b>	<b>32,374</b>		
<b>Cumulative interest sensitivity gap as a percentage of total assets</b>	<b>(17%)</b>	<b>(21%)</b>	<b>(27%)</b>	<b>4%</b>	<b>6%</b>		

	31 December 200						Tot
	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	
<b>ASSETS</b>							
<b>Interest bearing assets:</b>							
Loans and advances to banks, less allowance for impairment losses	39,078	75,153	-	-	-	-	114,23
Loans to customers, less allowance for impairment losses	25,363	23,331	64,768	115,535	7,794	-	236,79
Investments available for sale, less allowance for impairment losses	-	-	15,056	-	-	-	15,05
<b>Total interest bearing assets</b>	<b>64,441</b>	<b>98,484</b>	<b>79,824</b>	<b>115,535</b>	<b>7,794</b>	<b>-</b>	<b>366,07</b>
<b>Non-interest bearing assets:</b>							
Cash and balances with the NBU	41,570	-	-	-	-	14,853	56,42
Investments available for sale, less allowance for impairment losses	-	-	-	10,010	-	-	10,01
Tangible and intangible assets, less accumulated depreciation and amortization	-	-	-	-	-	15,115	15,11
Other assets, less allowance for impairment losses	3,251	-	586	-	-	1,848	5,68
<b>TOTAL ASSETS</b>	<b>109,262</b>	<b>98,484</b>	<b>80,410</b>	<b>125,545</b>	<b>7,794</b>	<b>31,816</b>	<b>453,31</b>
<b>LIABILITIES</b>							
<b>Interest bearing liabilities:</b>							
Loans and advances from banks	72,603	13,040	11,558	-	-	-	97,20
Customer accounts	195,895	25,855	25,098	18,739	-	-	265,58
Debt securities issued	144	-	3,408	8,480	-	-	12,03
Subordinated debt	-	-	-	13,919	10,255	-	24,17
<b>Total interest bearing liabilities</b>	<b>268,642</b>	<b>38,895</b>	<b>40,064</b>	<b>41,138</b>	<b>10,255</b>	<b>-</b>	<b>398,99</b>
Other liabilities	725	-	-	90	-	-	81
<b>TOTAL LIABILITIES</b>	<b>269,367</b>	<b>38,895</b>	<b>40,064</b>	<b>41,228</b>	<b>10,255</b>	<b>-</b>	<b>399,80</b>
Liquidity gap	(160,105)	59,589	40,346	84,317	(2,461)		
Interest sensitivity gap	(204,201)	59,589	39,760	74,397	(2,461)		
<b>Cumulative interest sensitivity gap</b>	<b>(204,201)</b>	<b>(144,612)</b>	<b>(104,852)</b>	<b>(30,455)</b>	<b>(32,916)</b>		
<b>Cumulative interest sensitivity gap as a percentage of total assets</b>	<b>(45%)</b>	<b>(32%)</b>	<b>(23%)</b>	<b>(7%)</b>	<b>(7%)</b>		

Asset and liability maturity periods and the ability to replace interest liabilities at an acceptable cost when they mature are crucial in determining the Bank's liquidity and its susceptibility to fluctuation of interest rates and exchange rate.

The maturity of time deposits of individuals is based on contractual terms. However, time deposits can be withdrawn by individuals on demand.

Customer accounts are repayable on demand and on maturity. According to Ukrainian legislation individuals can withdraw their deposits earlier without any restrictions. However, the Bank's previous experience indicates that these accounts are a stable and long-term source of finance for the Bank.

Long-term funding facilities are generally not available in Ukraine, except for programs set up by international financial institutions. However, in the Ukrainian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above.

### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The following table presents an analysis of interest rate risk and thus the potential of the Bank for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Bank.

	30 June 2006 (unaudited)				31 December 2005			
	UAH	USD	EUR	Other currencies	UAH	USD	EUR	Other currencies
<b>ASSETS</b>								
Loans to banks	8%	5%	4%	4%	8%	5%	5%	8%
Loans to customers	18%	13%	14%	11%	18%	13%	14%	19%
Investments available for sale	13%	-	-	-	17%	-	-	-
<b>LIABILITIES</b>								
Loans and advances from banks	10%	6%	5%	3%	7%	4%	4%	7%
Customer accounts (term deposits)	14%	9%	9%	2%	11%	7%	10%	2%
Customer accounts (demand deposits)	6%	2%	2%	2%	6%	2%	2%	2%
Debt securities issued	14%	-	-	-	14%	-	-	-
Subordinated debt	-	10%	-	-	-	10%	-	-

The Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

### Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currencies (primarily USD), by branches and in total. These limits also comply with the minimum requirements of the National Bank of Ukraine.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	30 June 2006 (unaudited)					
	UAH and non-monetary items	USD	EUR	Gold bullion	Other currencies	Total
<b>ASSETS</b>						
Cash and balances with the NBU	25,415	3,817	1,462	-	146	30,840
Loans and advances to banks, less allowance for impairment losses	34,773	61,225	24,671	3,417	11,388	135,474
Loans to customers, less allowance for impairment losses	169,391	180,531	9,990	165	671	360,748
Investments available for sale, less allowance for impairment losses	28,544	-	-	-	-	28,544
Tangible and intangible assets, less accumulated depreciation and amortization	21,776	-	-	-	-	21,776
Other assets, less allowance for impairment losses	3,145	-	-	1,073	-	4,218
<b>TOTAL ASSETS</b>	<b>283,044</b>	<b>245,573</b>	<b>36,123</b>	<b>4,655</b>	<b>12,205</b>	<b>581,600</b>
<b>LIABILITIES</b>						
Loans and advances from banks	39,452	101,700	22,906	1,532	34	165,624
Customer accounts	169,761	104,249	13,968	3,160	11,740	302,878
Debt securities issued	2,545	-	-	-	-	2,545
Other liabilities	1,011	-	-	-	-	1,011
Subordinated debt	-	9,429	-	-	-	9,429
<b>TOTAL LIABILITIES</b>	<b>212,769</b>	<b>215,378</b>	<b>36,874</b>	<b>4,692</b>	<b>11,774</b>	<b>481,487</b>
<b>TOTAL CURRENCY POSITION</b>	<b>70,275</b>	<b>30,195</b>	<b>(751)</b>	<b>(37)</b>	<b>431</b>	
					31 December 2005	
	UAH and non-monetary items	USD	EUR	Gold bullion	Other currencies	Total
<b>ASSETS</b>						
Cash and balances with the NBU	50,950	4,060	1,324	-	89	56,423
Loans and advances to banks, less allowance for impairment losses	27,563	60,309	20,292	524	5,543	114,231
Loans to customers, less allowance for impairment losses	116,708	108,860	10,424	161	638	236,791
Investments available for sale, less allowance for impairment losses	25,066	-	-	-	-	25,066
Tangible and intangible assets, less accumulated depreciation and amortization	15,115	-	-	-	-	15,115
Other assets, less allowance for impairment losses	5,080	-	-	384	221	5,685
<b>TOTAL ASSETS</b>	<b>240,482</b>	<b>173,229</b>	<b>32,040</b>	<b>1,069</b>	<b>6,491</b>	<b>453,311</b>
<b>LIABILITIES</b>						
Loans and advances from banks	37,293	46,271	12,498	703	436	97,201
Customer accounts	138,203	101,188	15,291	2,098	8,807	265,587
Debt securities issued	12,032	-	-	-	-	12,032
Other liabilities	815	-	-	-	-	815
Subordinated debt	-	24,174	-	-	-	24,174
<b>TOTAL LIABILITIES</b>	<b>188,343</b>	<b>171,633</b>	<b>27,789</b>	<b>2,801</b>	<b>9,243</b>	<b>399,809</b>
<b>TOTAL CURRENCY POSITION</b>	<b>52,139</b>	<b>1,596</b>	<b>4,251</b>	<b>(1,732)</b>	<b>(2,752)</b>	

The Bank's principal cash flows (revenues, operating expenses) are largely generated in Ukrainian Hryvnias. As a result, future movements in the exchange rate between the Ukrainian Hryvnia and US Dollar/Euro may affect the carrying value of the Bank's monetary assets and liabilities. Such changes may also affect the Bank's ability to invest in non-monetary assets as measured in US Dollars in these interim financial statements.

### **Credit risk**

The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Limits on the level of credit risk by borrower, product and by industry sector are approved by the Board of Directors. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee.

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guaranties but certain portion is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to inability of the counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than shorter-term commitments.



## 28. SEGMENT REPORTING

The Bank's primary format for reporting segment information is business segments. Most operations of the Bank are concentrated in the Ukraine.

**Business segments** – The Bank is organised on the basis of three main business segments:

- Retail banking – representing individuals' current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages and private banking
- Corporate banking – representing direct debt facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency
- Interbank placement – representing loans and advances with and from other banks.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding items such as taxation and borrowings. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Segment information about these businesses is presented below.

	30 June 2006 (unaudited)				
	Retail banking	Corporate banking	Interbank placements	Unallocated	Total
External operating (loss)/income	(3,545)	13,778	555	2,110	12,898
Income/(loss) from other segments	3,911	(4,556)	291	354	-
<b>Total operating income</b>	<b>366</b>	<b>9,222</b>	<b>846</b>	<b>2,464</b>	<b>12,898</b>
Operating expenses	(5,109)	(3,428)	(1,872)	(1,947)	(12,356)
<b>Operating profit</b>	<b>(4,743)</b>	<b>5,794</b>	<b>(1,026)</b>	<b>517</b>	<b>542</b>
Other provisions	-	-	-	(59)	(59)
<b>Profit before income tax</b>	<b>(4,743)</b>	<b>5,794</b>	<b>(1,026)</b>	<b>458</b>	<b>483</b>
Income tax expense	-	-	-	(454)	(454)
<b>Net (loss)/profit</b>	<b>(4,743)</b>	<b>5,794</b>	<b>(1,026)</b>	<b>4</b>	<b>29</b>
Segment assets	<b>49,816</b>	<b>310,932</b>	<b>135,474</b>	<b>85,378</b>	<b>581,600</b>
Segment liabilities	<b>140,189</b>	<b>162,689</b>	<b>165,624</b>	<b>12,985</b>	<b>481,487</b>
<b>Other segment items</b>					
Interest income	2,518	18,997	1,896	413	23,824
Interest expense	(6,615)	(4,716)	(2,289)	(1,128)	(14,748)
Provision for impairment losses on interest bearing assets	(356)	(2,310)	(7)	-	(2,673)
Fee and commission income	1,170	1,812	983	457	4,422
Fee and commission expense	(273)	(19)	(237)	(69)	(598)
Other income	11	14	209	5	239
Depreciation and amortization expense	-	-	-	1,216	1,216
Tangible and intangible assets, less accumulated depreciation and amortization	-	-	-	21,776	21,776
<b>Cash flow from:</b>	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Interbank placements</b>	<b>Unallocated</b>	<b>Total</b>
Operating activities	174	(87,286)	34,804	2,227	(50,081)
Investing activities	-	-	-	(9,314)	(9,314)
Financing activities	-	-	-	22,170	22,170

	30 June 2005 (unaudited)				
	Retail banking	Corporate banking	Interbank placements	Unallocated	Total
External operating (loss)/income	(2,345)	7,225	1,090	526	6,496
Income/(loss) from other segments	<u>2,784</u>	<u>(738)</u>	<u>(1,188)</u>	<u>(858)</u>	<u>-</u>
<b>Total operating income</b>	<b><u>439</u></b>	<b><u>6,487</u></b>	<b><u>(98)</u></b>	<b><u>(332)</u></b>	<b><u>6,496</u></b>
Operating expenses	<u>(2,865)</u>	<u>(2,410)</u>	<u>(411)</u>	<u>(912)</u>	<u>(6,598)</u>
<b>Operating (loss)/profit</b>	<b><u>(2,426)</u></b>	<b><u>4,077</u></b>	<b><u>(509)</u></b>	<b><u>(1,244)</u></b>	<b><u>(102)</u></b>
Recovery of other provisions	-	-	-	316	316
<b>(Loss)/profit before income tax</b>	<b>(2,426)</b>	<b>4,077</b>	<b>(509)</b>	<b>(928)</b>	<b>214</b>
Income tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>(36)</u>	<u>(36)</u>
<b>Net (loss)/profit</b>	<b><u>(2,426)</u></b>	<b><u>4,077</u></b>	<b><u>(509)</u></b>	<b><u>(964)</u></b>	<b><u>178</u></b>
Segment assets	<u>16,619</u>	<u>151,187</u>	<u>57,759</u>	<u>77,445</u>	<u>303,010</u>
Segment liabilities	<u>83,174</u>	<u>107,963</u>	<u>45,837</u>	<u>40,267</u>	<u>277,241</u>
<b>Other segment items</b>					
Interest income	1,197	10,706	718	784	13,405
Interest expense	(4,004)	(3,366)	(561)	(1,091)	(9,022)
Provision for impairment losses on interest bearing assets	(155)	(1,384)	(29)	-	(1,568)
Fee and commission income	779	1,225	821	363	3,188
Fee and commission expense	(196)	-	(16)	(93)	(305)
Other income	34	44	157	30	265
Depreciation and amortization expense	-	-	-	725	725
Tangible and intangible assets, less accumulated depreciation and amortization	-	-	-	12,756	12,756
<b>Cash flow from:</b>					
	Retail banking	Corporate banking	Interbank placements	Unallocated	Total
Operating activities	3,351	(39,641)	6,064	10,858	(19,368)
Investing activities	-	-	-	(7,128)	(7,128)
Financing activities	-	-	-	14,256	14,256