UKRSIBBANK

BNP PARIBAS Group

U.S.$500,000,000
7.75 per cent. Loan Participation Notes due 2011 to be issued by HSBC Bank plc on a limited recourse basis for the sole purpose of funding a U.S.$500,000,000 loan to

JOINT-STOCK COMMERCIAL INNOVATION BANK "UKRSIBBANK"

(*established and registered in Ukraine*)

Issue Price: 100 per cent.

HSBC Bank plc (the "**Issuer**") is issuing the U.S.$500,000,000 7.75 per cent. Loan Participation Notes due 2011 (the "**Notes**") for the sole purpose of financing a loan (the "**Loan**") to Joint-Stock Commercial Innovation Bank "UkrSibbank" ("**UkrSibbank**" or the "**Bank**") pursuant to a loan agreement dated 14 December 2006 (the "**Loan Agreement**") between the Issuer as lender and UkrSibbank as borrower. The Notes will be issued on or about 21 December 2006 and constituted by a trust deed to be dated on or about 21 December 2006 (the "**Trust Deed**") between the Issuer and The Law Debenture Trust Corporation p.l.c. as trustee (the "**Trustee**"). The Notes will have the terms and conditions set out in "*Terms and Conditions of the Notes*" (the "**Conditions**") and each reference in this Prospectus to a numbered Condition is to the correspondingly numbered provision thereof.

The Notes are limited recourse obligations of the Issuer. In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the holders of the Notes (the "**Noteholders**"), on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, including payments received from the Trustee following an assignment of the Relevant Loan Rights (as defined in the Conditions) (less any amounts in respect of Reserved Rights (as defined in the Conditions)). The Issuer will have no other financial obligation under the Notes. Accordingly, Noteholders are deemed to have accepted and agreed that they will rely solely and exclusively on the covenants, credit and financial standing of the Bank in respect of the financial servicing of the Notes. **Noteholders will also be deemed to have acknowledged and agreed that the Issuer is under no legal obligation to repurchase Notes or fund repayment of the Notes out of its own funds (except to the extent of amounts of principal, interest and additional amounts, if any, received under the Loan Agreement) or support any losses suffered by Noteholders.** See Condition 1 (*Form, Denomination and Status*).

No proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions in the Loan Agreement or have direct recourse to the Bank.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "*RISK FACTORS*".

This Prospectus constitutes a prospectus for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**") and has been approved by the Luxembourg *Commission de Surveillance du Secteur Financier* (the "**CSSF**"), which is the competent authority in Luxembourg for the purpose of the Prospectus Directive. Application has been made for the Notes to be admitted to listing on the official list and trading on the Luxembourg Stock Exchange's regulated market. In this Prospectus, references to "regulated market" shall mean a regulated market for the purposes of European Parliament and Council Directive 2004/39/EC.

The Notes will be in bearer form and in the denominations of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof up to, and including, U.S.$199,000. Notes will not be issued in definitive form in denominations above U.S.$199,000. The Notes will initially be in the form of a temporary global note (the "**Temporary Global Note**"), without interest coupons, which will be deposited on or around 21 December 2006 (the "**Closing Date**") with a depositary common to Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). The Temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent global note (the "**Permanent Global Note**", and together with the Temporary Global Note, each a "**Global Note**"), without interest coupons, not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive form in principal amounts equal to U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof up to, and including, U.S.$199,000 and with interest coupons attached. See "*Summary of Provisions Relating to the Notes in Global Form*".

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and are subject to U.S. tax law requirements. The Notes are being offered outside the United States in offshore transactions in reliance on Regulation S under the Securities Act and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Joint Bookrunners and Joint Lead Managers

BNP PARIBAS **HSBC** **UBS Investment Bank**

The date of this Prospectus is 14 December 2006

The Bank accepts responsibility for the information contained in this Prospectus, other than as provided herein, and declares that, having taking all reasonable care to ensure that such is the case, the information contained in this Prospectus to the best of its knowledge is in accordance with the facts and contains no omission likely to affect its import. The Issuer accepts responsibility for information in respect of itself contained in the section "*The Issuer*" only.

The Bank has confirmed to the Managers named under "*Subscription and Sale*" below (the "**Managers**") and the Issuer that the information for which the Bank is responsible is true and accurate in all material respects and is not misleading in any material respect; the opinions, predictions and intentions expressed in this Prospectus are honestly held; and this Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions not misleading in any material respect.

The statistical information and other data contained in "*The Ukrainian Banking Sector*", "*Business of the Bank – Market Position and Competition*" and market share data contained in "*Business of the Bank*" has been extracted from publicly available data (such as information contained on official websites and in publications of governmental agencies of Ukraine, including the National Bank of Ukraine (the "**NBU**"), and from other government, banking industry or mass media sources) and the Bank accepts responsibility for accurately extracting and reproducing such data but accepts no further responsibility in respect of such information.

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

Neither the delivery of this document nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve an adverse change, in the condition (financial or otherwise) of the Bank and its Subsidiaries (as defined in "*Business of the Bank – Subsidiaries and Special Purpose Entities*") or the Issuer since the date of this document.

This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.

The distribution of this document and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this document and other offering material relating to the Notes, see "*Subscription and Sale*".

In connection with the issue of the Notes, BNP Paribas (the "Stabilising Manager") (or persons acting on behalf of the Stabilising Manager) may over allot Notes (provided that the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the Notes) or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes.

FORWARD LOOKING STATEMENTS

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

These forward-looking statements speak only as of the date of this Prospectus. Without prejudice to any requirements under applicable laws and regulations, each of the Bank and the Issuer expressly disclaims any obligation or undertaking to disseminate after the date of this Prospectus any updates or revisions to any forward-looking statements contained herein to reflect any change in their expectations with regard thereto or any change in events, conditions or circumstances on which any such forward-looking statement is based.

ENFORCEABILITY OF JUDGMENTS

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

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

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PRESENTATION OF FINANCIAL INFORMATION

Financial Information

The financial information of the Bank set forth herein, has, unless otherwise indicated, been derived from its audited consolidated balance sheets and statements of income, cash flows and changes in equity as of and for the years ended 31 December 2005 and 2004 (the "**Annual Financial Statements**") prepared in accordance with International Financial Reporting Standards ("**IFRS**") and from its unaudited reviewed interim condensed consolidated balance sheet, income statement, statement of changes in equity and cashflow statement as of and for the six months ended 30 June 2006 prepared in accordance with International Accounting Standard 34 "*Interim Financial Reporting*" (the "**Interim Financial Information**" and, together with the Annual Financial Statements, the "**Financial Statements**"). The Annual Financial Statements have been audited and the Interim Financial Information has been reviewed by the Bank's independent auditors, LLC audit firm "*PricewaterhouseCoopers (Audit)*" ("**PricewaterhouseCoopers**"), registered audit firm, located at 4-5th Floor, 38 Turgenevska Str., 01054, Kyiv-54, Ukraine, in accordance with International Standards on Auditing ("**ISA**") and International Standards on Review Engagements ("**ISRE**"), respectively. PricewaterhouseCoopers is registered as an auditing entity with the Audit Chamber of Ukraine. The Annual Financial Statements and the Interim Financial Information, including the respective audit opinions and review report of PricewaterhouseCoopers, are set forth elsewhere in this Prospectus. The Bank does not prepare non-consolidated financial statements under IFRS.

The Ukrainian hryvnia is the functional currency of the Bank and has been selected as the presentation currency for the Financial Statements.

Restatement of Previously Reported Balances

During the six month period ended 30 June 2006 the Bank has determined that the amount of provision raised in respect of unused vacations as of 31 December 2005 was significantly lower than the amount of existing liability. As a result of this error, other liabilities as of 31 December 2005 were understated by UAH 8,959 thousand, deferred tax liability was overstated by UAH 2,240 thousand and accumulated deficit as of 31 December 2005 was understated by UAH 6,719 thousand. The accumulated deficit as of 31 December 2005 has been restated to reflect the correction of this error in accordance with International Accounting Standard 8 "*Accounting Policies, Changes in Accounting Estimates and Errors*" ("**IAS 8**"). The staff costs in the interim consolidated statement of income for the six month period ended 30 June 2005 have been increased by UAH 6,851 thousand, income tax expense has been decreased by UAH 1,713 thousand and earnings per share have been decreased by UAH 0.0004 per share.

In addition, during the six month period ended 30 June 2006, the Bank has determined that it did not recognise the purchase of a minority share in its Russian subsidiary, Commercial Bank "UkrSibbank" LLC, after entering into an agreement with minority shareholders in March 2005 (see "*Business of the Bank – History*"). As a result, other liabilities as of 31 December 2005 were understated by UAH 15,211 thousand, currency translation reserve was overstated by UAH 1,244 thousand, minority interest was overstated by UAH 14,725 thousand and accumulated deficit as of 31 December 2005 was overstated by UAH 758 thousand. The comparative figures as of 31 December 2005 have been restated to reflect this revision in accordance with IAS 8. The following adjustments have been recorded in the interim consolidated statement of income for the six month period ended 30 June 2005: the interest expense has been increased by UAH 503 thousand, foreign exchange translations gain has been increased by UAH 1,067 thousand, the Bank recognised a gain on acquisition of minority interest of UAH 2,065 thousand and earnings per share have been increased by UAH 0.0001 per share. See Note 3 to the Interim Financial Information.

The restatements described above have been reflected in the interim condensed consolidated financial information of the Bank for the six months ended 30 June 2006. The audited consolidated financial statements for the year ended 31 December 2005 included in this Prospectus have not been restated and therefore amounts of other liabilities, deferred income tax liability, currency translation reserve, accumulated deficit and minority interest as at 31 December 2005 and amounts of interest expense, foreign exchange translation losses net of gains, staff costs, profit before tax and income tax expense for the year ended 31 December 2005 presented in the Prospectus under "*Summary*", "*Summary Financial Information and Statistical Data*", "*Business of the Bank*" and "*Selected Statistical and Other Information*" do not include the effect of the restatements described above.

Changes in IFRS

Effective from 1 January 2005, certain new or amended International Financial Reporting Standards and International Financial Reporting Interpretations Committee ("**IFRIC**") interpretations have been applied by the Bank. Certain new or amended accounting standards and IFRIC interpretations became effective from 1 January 2006. In addition, certain new or amended accounting standards and IFRIC interpretations have been issued but are not effective for 2006 and have not been adopted in advance of their effective date by the Bank. The amended and new standards and interpretations and their impact on the Bank's financial statements are described in Note 5 to the Bank's Annual Financial Statements for the year ended 31 December 2005 and Notes 5 and 6 to the Bank's Interim Financial Information.

Currency

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

Translations of amounts from hryvnia to dollars are solely for the convenience of the reader and are made at various exchange rates. No representation is made that the hryvnia or dollar amounts referred to herein could have been converted into dollars or hryvnia, as the case may be, at any particular exchange rate or at all. The NBU's hryvnia/dollar exchange rate as reported on 30 June 2006 was UAH 5.05 to the dollar. The NBU's hryvnia/dollar exchange rate as reported on 12 December 2006 was UAH 5.05 to the dollar.

Rounding

Some numerical figures included in this Prospectus have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them.

SUMMARY

This summary may not contain all of the information that may be important to prospective purchasers of the Notes. This entire Prospectus, including the more detailed information regarding the Bank's business and the Financial Statements included elsewhere in this Prospectus, should be read. Investing in the Notes involves risks. The information set forth under "Risk Factors" should be carefully considered. Certain statements in this Prospectus are forward-looking statements that also involve risks and uncertainties as described under "Forward Looking Statements".

The Bank

Overview

The Bank divides its services into three main business segments: corporate banking, retail banking and investment banking. Corporate banking includes, *inter alia*, corporate customer current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency exchange and trade finance products. Retail banking includes, *inter alia*, private banking services, private customer current accounts, savings, deposits, credit and debit cards, consumer loans and mortgage lending. Investment banking services are mainly provided to corporate customers and include debt capital markets activities, securities and other financial instruments, foreign exchange and banknote trading as well as corporate finance activities. The Bank, through its subsidiaries, also offers certain non-banking services, such as insurance, leasing and asset management services.

Corporate banking is the Bank's largest business segment with the segment's assets and liabilities constituting 50 per cent. and 36 per cent., respectively, of the Bank's total assets and liabilities as of 30 June 2006. The Bank's external revenue from corporate banking for the six month period ended 30 June 2006 was UAH 417.6 million, which represented 47 per cent. of its total external revenue for that period. Retail banking is the Bank's second largest (and fastest-growing) business segment, with the segment's assets and liabilities constituting 36 per cent. and 24 per cent., respectively, of the Bank's total assets and liabilities as of 30 June 2006. The Bank's external revenue from retail banking for the six month period ended 30 June 2006 was UAH 316.9 million, which represented 35 per cent. of its total external revenue for that period. Investment banking is the Bank's third largest business segment, with the segment's assets and liabilities constituting 12 per cent. and 40 per cent., respectively, of the Bank's total assets and liabilities as of 30 June 2006. Since 2001, the Bank has participated in 45 domestic bond offerings by major Ukrainian companies and five Ukrainian municipalities as either lead manager or as a co-manager. Investment banking accounted for 12 per cent. of the Bank's total external revenue for the six month period ended 30 June 2006.

The Bank's total assets increased from UAH 3.69 billion as of 31 December 2003 and UAH 5.38 billion as of 31 December 2004 to UAH 10.93 billion as of 31 December 2005 and UAH 14.29 billion as of 30 June 2006, representing an increase of 31 per cent. during the first six months of 2006. Equity attributable to the Bank's equity holders increased from UAH 280.6 million as of 31 December 2003 and UAH 758.1 million as of 31 December 2004 to UAH 956.9 million as of 31 December 2005 and UAH 1,467.2 million as of 30 June 2006, representing an increase of 53 per cent. during the first six months of 2006. The Bank's operating income increased by 62 per cent. from UAH 242.6 million for the year ended 31 December 2003 to UAH 392.4 million for the year ended 31 December 2004 and by 54 per cent. from UAH 392.4 million for the year ended 31 December 2004 to UAH 603.4 million for the year ended 31 December 2005. The Bank's profit for the year increased by 79 per cent. from UAH 41.3 million for the year ended 31 December 2003 to UAH 73.7 million for the year ended 31 December 2004 and decreased by 28 per cent. from UAH 73.7 million for the year ended 31 December 2004 to UAH 52.8 million for the year ended 31 December 2005. For the six months ended 30 June 2006, the Bank generated operating income of UAH 349.6 million compared with UAH 230.6 million for the six months ended 30 June 2005 (representing an increase of 52 per cent.) and its profit for the six months ended 30 June 2006 was UAH 16.05 million compared with UAH 17.63 million for the six months ended 30 June 2005 (representing a decrease of 9 per cent.). The Bank's profits increased in 2004 compared with 2003 primarily as a result of the expansion of its loan and deposit portfolios and a corresponding increase in interest income and fees and commissions charged to customers and decreased in 2005 compared with 2004 and in the first six months of 2006 compared with the same period of 2005 primarily as a result of costs associated with the expansion of the Bank's network and the costs of adapting to BNP Paribas Group (as defined below) standards. See also "*Risk Factors – Risks Relating to the Bank – Management of Growth and Convergence with BNP Paribas Standards*".

In April 2006, BNP Paribas acquired 51 per cent. of the Bank's share capital following the granting of the requisite approvals by the Antimonopoly Committee of Ukraine (the "**AMC**") and the NBU. As a result, BNP Paribas is now the parent company of the Bank, with substantially all of the remaining 49 per cent. of the Bank's share capital (apart from 0.003 per cent. in the hands of minority shareholders) being controlled by two Ukrainian individuals, Mr Oleksandr Yaroslavskyy and Mr Ernest Galiyev (the "**Ukrainian Shareholders**") (see "*Shareholding*"). BNP Paribas together with its subsidiaries and affiliates is referred to herein as "**BNP Paribas**" or the "**BNP Paribas Group**".

The Bank is a principal member of VISA and MasterCard and an agent of Thomas Cook, American Express and Western Union.

Strategy

The Bank's ultimate strategic goals are to become a leading universal bank offering a wide range of financial services to individuals, small and medium size enterprises ("**SMEs**") and large corporate clients; to expand its strong retail banking business and consolidate and expand its strong market position in the investment banking and corporate banking sectors in Ukraine; and to develop its retail banking network with a view to having 1,000 outlets throughout Ukraine by the end of 2006, as well as through alternative sales channels.

The Bank's strategic objectives for the years 2007-2009 are:

- *intensification* of spending per product and the number of products utilised by each customer;
- *acquisition* of new customers; and
- *enhancing network performance* by-
    - increasing the use of its salary payment cards through better ATM coverage and new distribution channels;
    - increasing the number of points of sale ("**POS**"), with a view to attracting more customers to the Bank;
    - enhancing systems for monitoring the performance of the Bank's outlets and improving underperforming outlets; and
    - recruiting and retaining key personnel and management of the highest calibre.

Credit Ratings

Currently, the Bank is rated by two rating agencies: Fitch Ratings Ltd. ("**Fitch**") and Moody's Investors Service, Inc. ("**Moody's**"), which have issued the following credit ratings:

Fitch		**Moody's**	
Issuer default rating	BB-	Foreign currency long-term bank deposits rating	B2
Foreign currency short term rating	B	Foreign currency short-term rating	NP
Outlook	Positive	Outlook	Positive
Individual	D/E	Financial strength	E+
Support	3	Senior unsecured debt rating	Ba2
Senior unsecured debt rating	BB-		

The Notes, on issue, will be assigned a BB- senior unsecured debt rating with positive outlook by Fitch and a Ba2 senior unsecured debt rating with positive outlook by Moody's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

Recent Developments

Restructuring Following BNP Paribas Acquisition

Following BNP Paribas's acquisition of its 51 per cent. majority interest in April 2006, the Bank began a large-scale restructuring process which is aimed at conforming its operations, policies and procedures to the BNP Paribas Group's best practice. See "*Business of the Bank – BNP Paribas*".

Increase in Share Capital

On 8 September 2006, the Bank's shareholders adopted a decision to issue 10 billion additional shares totalling UAH 500 million. The placement of shares commenced on 15 October 2006 and was completed on 7 November 2006. On 30 November 2006 the NBU registered the Bank's amended and restated Charter reflecting the increase in the Bank's share capital. (See "*Shareholding*".) In early 2007, the Bank's shareholders plan to issue an additional 7.5 billion shares totalling UAH 375 million.

Funding from BNP Paribas

The Bank has an uncommitted credit facility of approximately U.S.$1.1 billion from BNP Paribas for up to five years for the purposes of trade financing, corporate lending, working capital and money market operations. In June 2006, as part of this credit facility, the Bank received loans totalling U.S.$82 million and maturing in June 2007. In the period from August to September 2006, as part of this credit facility, the Bank received working capital financing totalling CHF 150 million maturing in the period from August to September 2009 at an interest rate of between 4.79 and 4.81 per cent. per annum, payable annually. In September 2006, also as part of this credit facility, the Bank received various trade finance and working capital facilities totalling U.S.$160.5 million maturing in the period from August to October 2007 at an interest rate of between 6.79 and 7.05 per cent. payable at maturity.

In August 2006, the Bank received a subordinated loan from BNP Paribas in the amount of U.S.$47.7 million at an interest rate of 8.75 per cent. per annum maturing in August 2016.

Bilateral Loan from BNP Paribas Finance p.l.c.

In July 2006, the Bank received a loan from BNP Paribas Finance p.l.c. in the amount of U.S.$80 million maturing on 16 July 2007 with interest payable on a quarterly basis.

SUMMARY OF THE OFFERING

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

Issuer:	HSBC Bank plc
Borrower:	Joint-Stock Commercial Innovation Bank "UkrSibbank"
Joint Bookrunners and Joint Lead Managers:	BNP Paribas, HSBC Bank plc and UBS Limited
Issued Amount:	U.S.$500,000,000
Issue price:	100 per cent. of the principal amount of the Notes
Maturity Date:	21 December 2011
Trustee:	The Law Debenture Trust Corporation p.l.c.
Principal Paying Agent:	HSBC Bank plc
Paying Agent and Listing Agent:	Dexia Banque Internationale à Luxembourg, société anonyme
Interest:	The Notes will bear interest from 21 December 2006 at a rate of 7.75 per cent. per annum payable semi-annually in arrear on 21 June and 21 December in each year commencing on 21 June 2007.
Status:	The Notes will constitute debt obligations of the Issuer and oblige the Issuer to apply an amount equal to the gross proceeds of the issue of the Notes solely for the purpose of financing the Loan to the Bank pursuant to the terms of the Loan Agreement. The Issuer will only make payments to the holders of the Notes to the extent of amounts equivalent to those (if any) actually received from the Bank by or for the account of the Issuer under the Loan Agreement (including payments received from the Trustee following an assignment of the Relevant Loan Rights (as defined in the Conditions)) less amounts in respect of the Reserved Rights (as defined in the Conditions). The Loan will constitute a direct, unconditional and unsecured obligation of the Bank.
Form:	The Notes will be issued in bearer form in the denominations of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof up to, and including, U.S.$199,000. Notes will not be issued in definitive form in denominations above U.S.$199,000. The Notes will initially be in the form of the Temporary Global Note, without interest coupons, which will be deposited on or around the Closing Date with a common depositary for Euroclear and Clearstream, Luxembourg. The Temporary Global Note will be exchangeable, in whole or in part, for interests in the Permanent Global Note, without interest coupons, not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Definitive Notes will only be available in the limited circumstances set out in the Permanent Global Note in principal amounts equal to U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof up to, and including, U.S.$199,000.
Early Redemption:	The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, upon giving notice to the Noteholders, at the principal amount thereof together with accrued and unpaid interest to the date of redemption and any additional amounts in respect thereof, upon receiving notice that the Bank has prepaid the Loan for tax reasons or in the event that it becomes unlawful for the Lender to fund the advance or allow to remain

outstanding the Loan under the Loan Agreement as more fully described in Clause 10 of the Loan Agreement. See also Condition 4 (*Redemption and Purchase*).

Issuer's Covenant:	As long as any of the Notes remains outstanding, the Issuer will not, without the prior written consent of the Trustee, agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement.
Negative Pledge and Other Covenants:	The Loan Agreement contains a negative pledge in relation to the creation of Security Interests (other than Permitted Security Interests) (each as defined in the Loan Agreement) over the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or Guarantee of Relevant Indebtedness of the Bank and its Material Subsidiaries (each as defined in the Loan Agreement) as set out in the Loan Agreement. The Loan Agreement also contains covenants restricting mergers and disposals by the Bank and transactions between the Bank and its Affiliates (as defined in the Loan Agreement). The Loan Agreement also contains a covenant by the Bank to comply with the NBU's minimum capital adequacy requirements.
Change of Control:	Upon a Change of Control (as defined in the Loan Agreement) the Issuer will make an offer to purchase all or any part of the Notes at a price per Note equal to 100 per cent. of the principal amount thereof, plus accrued and unpaid interest thereon and additional amounts, if any, up to the date of repurchase. In such case, the Bank is required to prepay the Loan in an amount sufficient to provide the funds to enable the Issuer to repurchase the Notes.
Events of Default:	At any time following the occurrence of an Event of Default, the Issuer may, and shall, if so instructed by the Trustee, assign to the Trustee the benefit of the Relevant Loan Rights (as defined in the Conditions) (in whole but not in part) to be held on trust by it for the benefit of the Issuer. Upon repayment of the Loan in full following an Event of Default and the payment of all amounts so recovered to the Issuer, the Notes will be redeemed or repaid at the principal amount thereof, together with interest accrued to the date fixed for redemption and any additional amounts due in respect thereof pursuant to Condition 6 (*Taxation*) and any other outstanding amounts, and thereupon shall cease to be outstanding, or if, following an Event of Default, a lesser amount than that equivalent to the principal amount is repaid by the Borrower, then the Notes shall be redeemed *pro tanto* and the remainder of the Notes shall continue to be outstanding until such time as sufficient payments have been received by the Trustee that it may certify that no further amounts are recoverable under the Loan Agreement and the Notes shall thereupon cease to be outstanding, or if, following an Event of Default, the Borrower's obligations under the Loan Agreement are discharged otherwise than by payment in full of the principal of and interest on the Loan, together with any such additional amounts, the Notes shall thereupon cease to be outstanding. See also Condition 11 (*Enforcement*).
Withholding Tax:	All payments of principal and interest in respect of the Notes will be made free and clear of and without deduction or withholding for or on account of any taxes, duties, assessments, fees or other governmental charges of the United Kingdom or Ukraine save as required by law. If any such withholding or deduction is so required, the Issuer shall (subject to certain exceptions) pay such additional amounts, subject to prior receipt thereof from the Bank, as will result in the receipt by the Noteholders of such amounts as would have been received by them had no such

	withholding or deduction been required. The sum payable by the Bank under the Loan Agreement will be required (subject to certain exceptions) to be increased to the extent necessary to ensure that the Issuer receives a net sum of sufficient amount to enable it to pay such additional amounts. The Issuer shall only be obliged to pay to the Noteholders in this respect to the extent of the sums actually received by or for the account of the Issuer from the Bank. See Condition 6 (*Taxation*).
Listing and Trading:	Applications have been made for the Notes to be admitted to listing on the official list and trading on the Luxembourg Stock Exchange's regulated market.
Selling Restrictions:	The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered, sold or delivered within the United States. The Notes may be sold in the United Kingdom, the Russian Federation and the Republic of Italy only in compliance with all applicable laws. The Notes have not been registered in Ukraine and may not be offered or sold within Ukraine. The offer and sale of the Notes may also be restricted in other jurisdictions. See "*Subscription and Sale*".
Governing Law:	The Trust Deed, the Loan Agreement and the Notes will be governed by English law.
Risk Factors:	For a discussion of certain issues that should be considered by prospective purchasers of the Notes, see "*Risk Factors*".

SUMMARY FINANCIAL INFORMATION AND STATISTICAL DATA

The summary financial information and statistical data for the Bank set forth below should be read in conjunction with the Financial Statements included elsewhere in this Prospectus. The Financial Statements have been prepared in accordance with IFRS.

The summary financial information set forth below as of and for the six months ended 30 June 2006 and 2005 and as of and for the years ended 31 December 2005 and 2004 has been extracted without material adjustment from the Interim Financial Information and from the Annual Financial Statements of the Bank which are included elsewhere in this Prospectus. The information should be read in conjunction with, and is qualified in its entirety by reference to, such Financial Statements. The Ukrainian hryvnia has been selected as the presentation currency for the Financial Statements.

	Six months ended 30 June			Year ended 31 December		
	2006[1]	2006	2005	2005[1]	2005	2004
	(U.S.$'000)	(UAH'000)	(UAH'000)	(U.S.$'000)	(UAH'000)	(UAH'000)
	(unaudited)	(unaudited)	(unaudited)	(unaudited)		
INCOME STATEMENT DATA						
Interest income	136,011	686,858	344,752	166,582	841,239	660,643
Interest expense	(85,102)	(429,765)	(225,566)	(106,988)	(540,290)	(357,585)
Net interest income	**50,910**	**257,093**	**119,186**	**59,594**	**300,949**	**303,058**
Provision for loan impairment	(11,930)	(60,248)	12,006	(2,256)	(11,392)	(83,533)
Net interest income after provision for loan impairment	**38,979**	**196,845**	**131,192**	**57,338**	**289,557**	**219,525**
(Losses net of gains)/ gains less losses from trading securities	(1,825)	(9,218)	18,192	6,664	33,651	20,706
Gains less losses from derecognition of investment securities available-for-sale	1,247	6,295	—	10,483	52,939	5,352
Gains less losses from trading in foreign currencies	2,322	11,728	38,999	24,384	123,141	61,374
Foreign exchange translation gains less losses / (losses net of gains) ..	6,640	33,531	(13,461)	(8,044)	(40,620)	2,692
Fee and commission income	22,505	113,649	51,571	25,016	126,331	99,574
Fee and commission expense	(2,877)	(14,529)	(5,920)	(2,890)	(14,593)	(8,169)
Losses on initial recognition of assets at rates below market	—	—	—	—	—	(435)
Loss on change in terms of subordinated debt	—	—	—	—	—	(8,589)
Losses on initial recognition of investment securities available-for-sale	(3,558)	(17,970)	—	—	—	—
Impairment of investment securities available-for-sale	(886)	(4,475)	(4,592)	—	—	(10,384)
Reversal of provision / (provision) for losses on credit related commitments	437	2,209	2,553	431	2,175	(3,062)
Income from insurance operations ..	8,969	45,292	15,942	4,720	23,836	7,951
Insurance claims expense	(3,089)	(15,597)	(4,270)	—	—	
Expenses from reinsurance contracts . .	(1,413)	(7,134)	(3,489)	—	—	
Other operating income	1,767	8,925	3,901	1,375	6,942	5,858
Operating income	69,218	349,551	230,618	119,477	603,359	392,393
Staff costs	(32,324)	(163,237)	(108,770)	(47,537)	(240,060)	(123,333)
Administrative and other operating expenses	(32,428)	(163,759)	(103,163)	(56,199)	(283,804)	(162,293)
Excess of the Bank's interest in the net fair value of subsidiary's identifiable assets, liabilities and contingent liabilities over cost	—	—	160	27	137	—
Gain on purchase of minority	—	—	2,065	—	—	—
Loss on disposal of subsidiaries ..	—	—	(706)	(140)	(706)	—
Profit before tax	4,466	22,555	20,204	15,629	78,926	106,767
Income tax expense	(1,288)	(6,505)	(2,570)	(5,173)	(26,122)	(33,062)
Profit for the period	3,178	16,050	17,634	10,456	52,804	73,705
Profit is attributable to						
Equity holders of the Company ..	3,193	16,126	15,235	10,582	53,438	73,055
Minority interest	(15)	(76)	2,399	(126)	(634)	650
Profit for the period	3,178	16,050	17,634	10,456	52,804	73,705

1 Convenience translation. See "*Presentation of Financial Information – Currency*" above.

	As of 30 June		As of 31 December		
	2006[1]	2006	2005[1]	2005[2]	2004
	(U.S.$'000)	(UAH'000)	(U.S.$'000)	(UAH'000)	(UAH'000)
	(unaudited)	(unaudited)	(unaudited)		
BALANCE SHEET DATA					
Assets					
Cash and cash equivalents and mandatory reserves	224,590	1,134,181	196,426	991,950	618,213
Trading securities	127,240	642,560	148,461	749,726	275,943
Due from other banks	123,141	621,862	67,203	339,373	93,095
Loans and advances to customers	2,119,483	10,703,387	1,536,417	7,758,906	3,532,473
Investment securities available-for-sale	12,829	64,787	15,684	79,205	192,644
Investment securities held to maturity	998	5,039	3,771	19,045	47,908
Guarantee deposits with the National Bank of Ukraine	—	—	—	—	115,668
Current income tax prepayment	178	901	—	—	648
Intangible assets	9,005	45,476	9,126	46,087	18,869
Premises, leasehold improvements and equipment	187,517	946,962	168,945	853,172	402,013
Deferred income tax asset	681	3,437	—	—	—
Other assets	23,964	121,018	17,467	88,207	78,837
Total assets	2,829,626	14,289,610	2,163,499	10,925,671	5,376,311
Liabilities					
Due to other banks	471,111	2,379,111	222,183	1,122,024	176,697
Customer accounts	1,309,113	6,611,020	1,055,793	5,331,756	3,290,231
Due to the National Bank of Ukraine	19,500	98,476	3,373	17,033	390,052
Domestic debt securities in issue	170,738	862,226	167,888	847,835	32,973
Eurobonds issued	231,874	1,170,962	230,820	1,165,641	537,766
Other borrowed funds	198,982	1,004,859	201,814	1,019,162	—
Subordinated debt	95,658	483,074	54,831	276,895	73,433
Current income tax liability	1,860	9,394	349	1,762	—
Deferred income tax liability	8,088	40,844	9,896	49,977	42,838
Other liabilities	31,533	159,244	23,496	118,657	64,818
Total liabilities	2,538,457	12,819,210	1,970,444	9,950,742	4,608,808
EQUITY					
Share capital	434,393	2,193,684	335,383	1,693,684	1,543,684
Share premium	1,081	5,461	408	2,060	2,060
Additional capital	1,381	6,974	1,381	6,974	6,974
Revaluation reserve for investment securities available-for-sale	42	213	909	4,591	8,231
Revaluation reserve for equipment	—	—	—	—	3,958
Currency translation reserve	15	74	(196)	(992)	—
Accumulated deficit	(146,381)	(739,225)	(148,394)	(749,390)	(806,786)
Net assets attributable to the Company's equity holders	290,531	1,467,181	189,490	956,927	758,121
Minority interest	637	3,219	3,565	18,002	9,382
Total equity	291,168	1,470,400	193,055	974,929	767,503
Total liabilities and equity	2,829,626	14,289,610	2,163,499	10,925,671	5,376,311

1 Convenience translation. See "*Presentation of Financial Information – Currency*" above.

2 During the six month period ended 30 June 2006 the Bank determined that the amount of provision raised in respect of unused vacations as of 31 December 2005 was significantly lower than the amount of existing liability. As a result of this error, other liabilities as of 31 December 2005 were understated by UAH 8,959 thousand, deferred tax liability was overstated by UAH 2,240 thousand and accumulated deficit as of 31 December 2005 was understated by UAH 6,719 thousand. In addition, during the six month period ended 30 June 2006 the Bank determined that it did not recognise the purchase of a minority share in its Russian subsidiary, Commercial Bank "UkrSibbank" LLC, after entering into an agreement with minority shareholders in March 2005. As a result, other liabilities as of 31 December 2005 were understated by UAH 15,211 thousand, currency translation reserve was overstated by UAH 1,244 thousand, minority interest was overstated by UAH 14,725 thousand and accumulated deficit as of 31 December 2005 was overstated by UAH 758 thousand. See "*Presentation of Financial Information – Restatement of Previously Reported Balances*".

	Six months ended 30 June[1]		Year ended 31 December	
	2006	2005	2005	2004
STATISTICAL DATA				
Bank Performance Ratios				
Net interest margin[2]	4.7%	4.6%	4.4%	7.9%
Net non-interest income to operating income[3] ..	37.3%	45.5%	51.0%	36.3%
Cost to income ratio[4]	79.8%	96.9%	85.2%	60.0%
Return on average assets[5]	0.3%	0.5%	0.7%[14]	1.6%
Return on average equity[6]	2.7%	3.9%	6.2%[15]	14.1%
Balance Sheet Ratios[7]				
Customer loans to customer deposits[8]	161.9%	115.4%	145.5%	107.4%
Customer loans to total assets[9]	74.9%	66.2%	71.0%	65.7%
Equity attributable to the Bank's equity holders to total assets	10.3%	10.8%	8.8%	14.1%
Tier 1 capital adequacy ratio	10.6%	11.9%	9.0%	14.7%
Total capital adequacy ratio	13.9%	14.5%	11.6%	16.5%
Asset Quality				
Overdue customer loans to total loans (gross)[10] ..	0.6%	1.6%	0.8%	2.4%
Provisions to total customer loans (gross)[11] ..	3.0%	5.0%	3.4%	7.0%
Provisions to overdue loans[12]	504.8%	317.0%	430.7%	292.0%
Provision charge to total customer loans (gross)[13]	0.5%	(0.2)%	0.2%	2.2%

1 Ratios for six months ended 30 June 2006 and 2005 are annualised where necessary.

2 Net interest margin was calculated as net interest income before provision for loan impairment divided by average interest earning assets.

3 Net non-interest income to operating income was calculated as net non-interest income (being net fee and commission income, gains less losses/(losses net of gains) arising from trading securities, gains less losses arising from de-recognition of investment securities available-for-sale, impairment of investment securities available-for-sale, gains less losses arising from trading in foreign currencies, foreign exchange translation gains less losses/(losses net of gains), gains less losses on initial recognition of financial instruments, loss on change in terms of subordinated debt, reversal of provision/(provision) for losses on credit related commitments, net income from insurance operations and other operating income) divided by operating income before provision for loan impairment.

4 Cost to income ratio was calculated as operating expenses divided by operating income before provision for loan impairment.

5 Return on average assets was calculated as net profit for the period attributable to the Bank's equity holders divided by the simple average of total assets at the beginning and at the end of the period.

6 Return on average equity was calculated as net profit for the period attributable to the Bank's equity holders divided by the simple average of equity attributable to the Bank's equity holders at the beginning and at the end of the period.

7 At the period end.

8 Customer loans to customer deposits was calculated as total loans and advances to customers net of provision for loan impairment divided by total customer accounts.

9 Customer loans to total assets was calculated as total loans and advances to customers net of provision for loan impairment divided by total assets.

10 Overdue loans include outstanding loans that matured before the respective period end and loan instalments due but not paid on that date.

11 Provisions to total customer loans was calculated as the provision for loan impairment at the period end divided by total loans and advances to customers before provision for loan impairment.

12 Provisions to overdue loans was calculated as the provision for loan impairment at the period end divided by the amount of overdue loans at the period end.

13 Provision charge to total customer loans was calculated as provision charge for the period divided by gross customer loans at the period end.

14 Return on average assets for the year ended 31 December 2005 would have been 0.6% if calculated based on restated balance sheet data as of such date. See "*Presentation of Financial Information – Restatement of Previously Reported Balances*".

15 Return on average equity for the year ended 31 December 2005 would have been 5.6% if calculated based on restated balance sheet data as of such date. See "*Presentation of Financial Information – Restatement of Previously Reported Balances*".

DESCRIPTION OF THE TRANSACTION

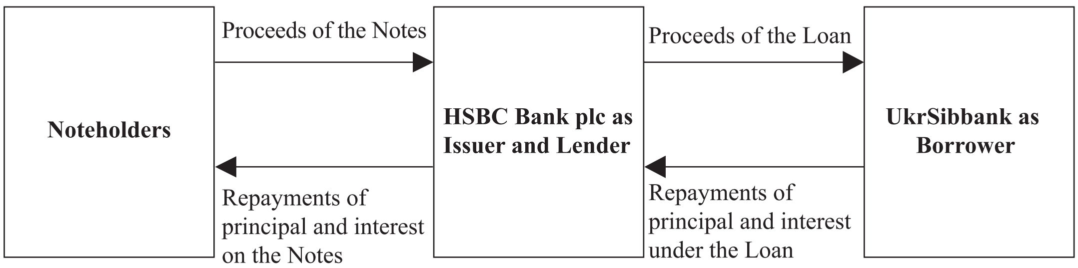
The following summary contains basic information about the Notes and the Loan and should be read in conjunction with, and is qualified in its entirety by, the information set forth under "Terms and Conditions of the Notes" and "The Loan Agreement" appearing elsewhere in this Prospectus.

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

The Notes are limited recourse loan participation notes to be issued by the Issuer for the sole purpose of funding the Loan to the Bank. The Notes will have the benefit of, and be constituted by, the Trust Deed. There will be no security interest over the Loan in favour of the Trustee. However, at any time following the occurrence of an Event of Default, the Issuer may, and shall, if so instructed by the Trustee, assign to the Trustee the benefit of certain of its rights under the Loan Agreement comprising the Relevant Loan Rights (as defined in the Trust Deed) to be held on trust by it for the Issuer and, in the case of Indemnification Rights (as defined in the Trust Deed) only, for the Issuer and the Trustee. The Bank will be obliged to make payments under the Loan to the Issuer (or, in certain circumstances, the Trustee) in accordance with the terms of the Loan Agreement. The Issuer will make payments of corresponding equivalent amounts to the Noteholders in accordance with the Conditions. The Issuer will agree in the Trust Deed not to make any amendment to, or any modification or waiver of or authorise any breach of or proposed breach of the terms of, the Loan Agreement unless the Trustee has given its prior written consent or except as otherwise expressly provided in the Trust Deed and the Loan Agreement. Any amendments, modifications, waivers or authorisations made with the Trustee's consent shall be notified to the Noteholders in accordance with Condition 13 (*Notices*) and shall be binding on the Noteholders.

The Notes are limited recourse obligations and the Issuer will not have any obligation to the Noteholders other than the obligation to account to the Noteholders for an amount equal to all amounts of principal, interest and additional amounts (if any) actually received by it under the Loan Agreement less any amounts in respect of the Reserved Rights which the Issuer is entitled to retain for its own account.

Set out below is a diagrammatic representation of the structure:



RISK FACTORS

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

Risks Relating to Ukraine

General

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

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

Risks Associated with Emerging Markets

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

Official Statistics

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

Political Considerations

Historically, a lack of political consensus in the *Verkhovna Rada* (Parliament) of Ukraine has made it consistently difficult for the Ukrainian government to secure the Parliament's support necessary to implement a series of policies intended to foster liberalisation, privatisation and financial stability. Since independence in 1991, governmental instability has been a feature of the Ukrainian political scene, and, as a result, Ukraine has experienced fifteen changes in Prime Minister during this period. The Ukrainian government's policies and the political leaders who formulate and implement them, are subject to rapid change.

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

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

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

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

The majority coalition in the Parliament is currently composed of the parliamentary factions of the Party of Regions, the Socialist Party of Ukraine and the Communist Party of Ukraine, and was established on 18 July 2006.

On 3 August 2006, President Yuschenko and the leaders of the political powers represented in the Parliament (with the exception of Yuliya Tymoshenko's Bloc) signed the so-called National Unity Accord, setting forth their agreement on major policy issues, including a closer integration with Europe and market reforms. On 4 August 2006, the Parliament appointed Mr Viktor Yanukovych as Prime Minister and endorsed a new coalition government.

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

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

Relationships with Western Governments and Institutions

Ukraine continues to pursue the objectives of a closer relationship with the North Atlantic Treaty Organisation, and joining the World Trade Organisation (the "**WTO**"). With effect from 30 December 2005, Ukraine was given market economy status by the EU, and it is expected that the negotiations on an agreement providing for, *inter alia*, a free trade area between the EU and Ukraine will be launched in early 2007.

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

After the visit of President Yuschenko to Washington, D.C. in April 2005, the U.S. Senate allocated an additional U.S.$60 million of financial assistance to Ukraine, which was subsequently approved by the U.S. House of

Representatives. Moreover, on 17 February 2006, the United States announced its decision to grant Ukraine market economy status with effect from 1 February 2006 and on 23 March 2006, the Jackson-Vanik amendment that restricted Ukrainian exports was repealed.

As of December 2006, Ukraine has concluded bilateral negotiations on market access issues with 49 member-states of the WTO (including the United States). Negotiations are still underway with Kyrgyzstan. As of the date of this Prospectus, all of the twenty bills earmarked by the government as being an essential precondition for joining the WTO have been adopted by the Parliament. Fifteen of the bills have been signed by the President, while the remaining five are now awaiting the President's signature in order to become law.

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

Regional Relationships

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

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

Since 2005, Russia has repeatedly increased its oil export duty. For example, Russian oil export duty rose from U.S.$101.00 per tonne as of 1 December 2004 to U.S.$237.60 per tonne as of 1 October 2006. However, since 1 December 2006, Russia has decreased its oil export duty to U.S.$180.7. In addition, gas prices in Ukraine have risen as a result of recent disagreements between the Russian gas monopolist, Open Joint Stock Company "Gazprom" ("**Gazprom**") and its Ukrainian counterparty, National Joint Stock Company "Naftogas of Ukraine" ("**Naftogas**"). In late 2005, Gazprom started negotiations with Naftogas with a view to increasing prices for natural gas supplied by Gazprom to Ukraine to levels at which natural gas was sold to its customers in Western Europe. On 1 January 2006, Gazprom temporarily stopped selling natural gas to Naftogas in connection with a dispute over an increase in prices.

On 4 January 2006, Gazprom and Naftogas entered into a series of new agreements with an intermediary entity, Swiss-based company RosUkrEnergo AG, for the supply of natural gas by RosUkrEnergo AG at an increased price of U.S.$95.00 per 1,000 cubic metres (compared to the previous price of U.S.$50.00 per 1,000 cubic metres) and supplies resumed. The parties also agreed upon a new transit fee for Russian natural gas through the territory of Ukraine of U.S.$1.60 per 1,000 cubic metres for each 100 km (compared to the previous fee of U.S.$1.09 per 1,000 cubic metres for each 100 km). The parties established the price of U.S.$95.00 for the first six months of 2006 and the transit fee of U.S.$1.60 for the period until 1 January 2011. The parties also agreed that the transit fee and the natural gas prices may be changed only upon the parties' mutual agreement. Natural gas is currently sold to industrial customers in Ukraine directly by Closed Joint Stock Company "Ukrgas-Energo", a 50/50 joint venture of RosUkrEnergo AG and Naftogas ("**Ukrgas-Energo**"), which receives natural gas under a contract with RosUkrEnergo AG. Although natural gas prices are expected to remain at the same level for the remainder of 2006, it is expected that in 2007, RosUkrEnergo AG will supply natural gas to Ukrgas-Energo at a price of U.S.$130.00 per 1,000 cubic meters.

Relations between Ukraine and Russia have also been affected, from time to time, by controversy over the stationing of the Russian *Chernomorskiy Flot* (Black Sea Fleet) in Ukraine, including the amount payable to Ukraine for such stationing, the return of certain navigational facilities to Ukraine and compliance with Ukrainian environmental legislation by the Black Sea Fleet. Further, in January 2006, Russia banned imports of Ukrainian livestock and dairy products on the basis of the alleged violation of veterinary and sanitary standards by

Ukrainian producers. Following inspections of Ukrainian exporters of such products by the Russian authorities, the ban was lifted in relation to a number of Ukrainian companies. The final settlement of the matter is expected after the adoption of the new rules for the import of livestock and dairy products by the Russian authorities.

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

Although the relationship between Ukraine and Russia has generally improved since the Parliament appointed Mr Viktor Yanukovych as Prime Minister and endorsed a new coalition government in August 2006, and the perceived risk of politically motivated disputes in the energy sector has been reduced as a result of the policies of the new Ukrainian government, any major changes in Ukraine's relations with Russia, in particular any such changes adversely affecting supplies of energy resources from Russia to Ukraine and/or Ukraine's revenues derived from transit charges for Russian oil and gas, may also have negative effects on the economy and thus on the business of the Bank.

External Debt

In 2000, Ukraine undertook a comprehensive debt restructuring exercise to alleviate its rising external debt resulting from the accumulation of large payments on external debt due in 2000 and 2001. Since the conclusion of this debt restructuring exercise, the ratio of external debt servicing (including principal, interest and fees but excluding debt owed to the International Monetary Fund (the "**IMF**")) to gross domestic product ("**GDP**") has risen from approximately 1.9 per cent. as of 31 December 2001 to approximately 2.3 per cent. as of 31 December 2002 and approximately 2.9 per cent. as of 31 December 2003, although it has fallen to approximately 2.1 per cent. as of 31 December 2004 and to approximately 1.8 per cent. as of 31 December 2005, based on official government sources. Total government external debt servicing (excluding payments to the IMF) was approximately U.S.$1.4 billion in 2003, U.S.$1.4 billion in 2004 and U.S.$1.5 billion in 2005, based on official government sources.

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

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

Economic Considerations

In recent years, the Ukrainian economy has been characterised by a number of features which contribute to economic instability, including: a relatively weak banking system, providing limited liquidity to Ukrainian enterprises; tax evasion; significant capital flight; and rising but still low wages for a large portion of the Ukrainian population.

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

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

In September 2005, the Cabinet of Ministers of Ukraine forecast that in 2006, Ukraine's GDP growth would be approximately 7.0 per cent., which is higher than 2.6 per cent. recorded in 2005 but lower than 12.1 per cent. recorded in 2004, according to the adjusted figures of the State Statistics Committee of Ukraine. Real GDP growth in the nine months ended 30 September 2006 amounted to 6.2 per cent., compared to real GDP growth of 3.0 per cent. in the nine months ended 30 September 2005. In addition, industrial output grew by 3.1 per cent. in 2005 compared to 12.5 per cent. in 2004. Industrial output growth in the nine months ended 30 September 2006 amounted to 5.5 per cent., compared to industrial output growth of 3.1 per cent. in the nine months ended 30 September 2005.

According to the State Statistics Committee of Ukraine, the rate of inflation for 2005 was 10.3 per cent., which is lower than 12.3 per cent. recorded in 2004, but higher than 8.2 per cent. and (0.6) per cent. recorded in 2003 and 2002, respectively. The rate of inflation in the nine months ended 30 September 2006 was 5.9 per cent., compared to 7.1 per cent. for the same period in 2005. An economic downturn may have an adverse effect on the Bank's business and its results of operations and financial condition.

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

On 21 April 2005, the NBU revalued the hryvnia in an attempt to address the growing imbalance between the hryvnia and U.S. dollar caused by continuing foreign currency inflows into Ukraine and reduce inflationary pressure in the Ukrainian economy. As a result, the hryvnia appreciated against the U.S. dollar from UAH 5.19 to U.S.$1.00 as of 20 April 2005 to UAH 5.05 to U.S.$1.00 as of 21 April 2005. The total cumulative appreciation from the end of 2004 to 21 April 2005 was approximately 5 per cent. While the hryvnia – U.S. dollar exchange rate has remained relatively stable since April 2005, any appreciation of the hryvnia may result in Ukrainian products becoming less competitive on foreign markets.

Fluctuations in the Global Economy

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

Lack of Continued Access to Foreign Trade and Investment

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

Corruption and Money Laundering Issues

External analysts have identified corruption and money laundering as problems in Ukraine and the local and international press have alleged high levels of official corruption in Ukraine. In accordance with Ukrainian anti-money laundering legislation which came into force in June 2003, the NBU, other state authorities, as well as various entities carrying out financial services, are required to monitor certain financial transactions for evidence of money laundering. As a result of the adoption of this legislation, the Financial Action Task Force on Money

Laundering ("**FATF**") removed Ukraine from its list of Non-Co-operative Countries and Territories in February 2004 and in January 2006, the FATF ended its formal monitoring of Ukraine. Any future allegations of corruption in Ukraine or evidence of money laundering could have a negative effect on the ability of Ukraine to attract foreign investment and thus have a negative effect on the economy of Ukraine and thus on the business of the Bank.

Ukraine's business environment and the lack of liquidity

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

Social instability in Ukraine

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

Ukraine's Physical Infrastructure

Ukraine's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained over the past fifteen years, in particular power generation and transmission, communication systems and building stock. Road conditions throughout Ukraine are relatively poor by comparison with more developed countries. The Ukrainian government has been implementing plans to develop the nation's rail, electricity and telephone systems. Any such development may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The deterioration of Ukraine's physical infrastructure harms the national economy, disrupts the transportation of goods and supplies, adds costs to doing business in Ukraine and can interrupt business operations. Further deterioration in the physical infrastructure could have a material adverse effect on the Bank's business and could materially adversely affect the market price of the Notes.

Developing Legal System

Risks associated with the Ukrainian legal system include:

- inconsistencies between and among the Constitution of Ukraine, laws, presidential decrees, and Ukrainian governmental, ministerial and local orders, decisions, resolutions and other acts;
- provisions in the laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted;
- a lack of judicial and administrative guidance on the interpretation of Ukrainian legislation, including the complicated mechanism of exercising constitutional jurisdiction by the Constitutional Court of Ukraine;
- general inconsistency in the judicial interpretation of Ukrainian legislation in the same or similar cases; and
- corruption within the judiciary.

Furthermore, several fundamental Ukrainian laws either have only relatively recently become effective or are still pending hearing or adoption by the Parliament. For example, with effect from 2004 and 2005, Ukraine adopted a new civil code, a new civil procedural code, a new economic code, a new code on administrative procedure, new mortgage finance laws, a new law on personal income tax, a new law on state registration of proprietary rights to immovable property and a new law on international private law.

In June 2005, Ukraine adopted a new law on credit histories and credit bureaux which entered into force in January 2006. With effect from 2006, new laws on securities and the stock market, holding companies and mortgage bonds were adopted and the laws on mortgage and real estate construction financing schemes were significantly amended. In January 2006, Ukraine ratified the UNIDROIT Convention on International Financial Leasing and the UNIDROIT Convention on International Factoring. The recent origin of much of Ukrainian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Ukrainian legal system in ways that may not always coincide with market developments place the enforceability and underlying constitutionality of laws in doubt, and result in ambiguities, inconsistencies and anomalies.

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

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

Uncertainties Relating to the Judicial System

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

The court system is understaffed and under-funded. Judicial precedents under Ukrainian law generally have no binding effect on subsequent decisions. Moreover, courts themselves are not bound by earlier decisions taken under the same or similar circumstances, which results in the inconsistent application of Ukrainian legislation to resolve the same or similar disputes. Not all Ukrainian legislation is readily available to the public or organised in a manner that facilitates understanding. Only a limited number of judicial decisions are publicly available and, therefore, the role of judicial decisions as guidelines in interpreting applicable Ukrainian legislation to the public at large is limited.

The Ukrainian judicial system became more complicated and hierarchic as a result of the recently introduced judicial reforms. The generally perceived result of the judicial reforms is that the Ukrainian judicial system will become even slower than before. All of these factors make judicial decisions in Ukraine difficult to predict and effective redress uncertain. In addition, court claims are often used in furtherance of political aims. The Bank may be subject to such claims and may not be able to receive a fair hearing.

Enforcement of court orders and judgments can in practice be very difficult in Ukraine. The State Execution Service, a body independent of the Ukrainian courts, is responsible for the enforcement of court orders and judgments in Ukraine. Often, enforcement procedures are very time-consuming and may fail for a variety of reasons, including the defendant lacking sufficient bank account funds, the complexity of auction procedures for the sale of the defendant's property or the defendant undergoing bankruptcy proceedings. In addition, the State Execution Service has limited authority to enforce court orders and judgments quickly and effectively. Ukrainian enforcement agencies are bound by the method of execution envisaged by the relevant court order or judgment and may not independently change such method even if it proves to be inefficient or unrealisable. Furthermore, notwithstanding successful execution of a court order or a judgment, a higher court could reverse the court order or judgment and require that the relevant funds or property be restored to the defendant. Moreover, in practice the procedures employed by the State Execution Service do not always comply with applicable legal requirements, resulting in delays to or failures in enforcement of court orders and judgments.

Any uncertainties relating to the judicial system could have a negative effect on the economy and thus on the business of the Bank.

Uncertain Implications of the Tax System

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

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

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

Disclosure and Reporting Requirements and Fiduciary Duties

Disclosure and reporting requirements have only recently been enacted in Ukraine. Anti-fraud legislation has only recently been adapted to the requirements of a market economy and remains largely untested. Most Ukrainian companies do not have corporate governance procedures that are in line with European or U.S. standards, including the standards set forth in the U.S. Sarbanes-Oxley Act of 2002. Ukrainian banking laws have introduced the concept of fiduciary duties owed by a bank's management to the bank and its clients. However, the concept of fiduciary duties of management or members of the board to their companies or shareholders remains undeveloped in Ukraine. Violations of disclosure and reporting requirements or breaches of fiduciary duties by the Bank's directors or to the Bank's shareholders could significantly affect the receipt of material information or result in inappropriate management decisions, materially adversely affecting the value of an investment in the Notes.

Risks Relating to the Bank

Increasing Competition

The Ukrainian market for financial services is highly competitive. The Bank principally competes with a number of other national and regional banks, some of which have a broader geographic reach and greater capital resources than the Bank. As of 1 October 2006, there were a total of 190 commercial banks registered in Ukraine, out of which 166 banks have been granted licences by the NBU to perform banking transactions. The Bank's most significant competitors include Privatbank and Raiffeisen Bank Aval.

The Bank expects increased competition in both deposit-taking and lending activities, which could narrow spreads between deposit and loan rates, which in turn could have an adverse impact on the Bank's profitability. In addition, the Bank expects increased competition from foreign banks, particularly for large corporate customers. In particular, the recent acquisitions and planned acquisitions within the banking sector of Ukraine, including the acquisitions and planned acquisitions of controlling stakes in Bank Aval by Raiffeisen International Bank-Holding AG, Ukrsotsbank by Banca Intesa, IndexBank by Crédit Agricole S.A., Raiffeisenbank Ukraine by OTP Bank, Mriya Bank by Vneshtorgbank and Prestige Bank by Erste Bank, may further increase competition among Ukrainian banks. If the Bank is unable to continue to compete successfully in the Ukrainian banking sector or to execute its strategy for expansion in the retail and investment banking sectors, this could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects. See "*Business of the Bank – Market Position and Competition*".

Management of Growth and Convergence with BNP Paribas Standards

The Bank's total assets have grown rapidly in recent years from UAH 3.69 billion as of 31 December 2003 and UAH 5.38 billion as of 31 December 2004 to UAH 10.93 billion as of 31 December 2005 and UAH 14.29 billion as of 30 June 2006. The rapid growth in the Bank's total assets will require continued monitoring by the Bank's

Management Board, Credit Committee, Asset and Liability Management Committee and Risk Management Department for risk management and compliance with NBU requirements. The size of the Bank's gross corporate loan portfolio increased from UAH 2.41 billion as of 31 December 2003 to UAH 2.84 billion as of 31 December 2004, UAH 4.85 billion as of 31 December 2005 and UAH 6.57 billion as of 30 June 2006. The size of the Bank's retail loan portfolio, including micro-financing loans, increased from UAH 399 million as of 31 December 2003 to UAH 954 million as of 31 December 2004, UAH 3,187 million as of 31 December 2005 and UAH 4,469 million as of 30 June 2006. This significant increase in credit exposure will require continued emphasis by the Bank on credit quality and the adequacy of its provisioning levels and continued development of financial and management control.

Moreover, the Bank intends to continue to expand its branch network (which consisted of 16 full-scale branches and 953 banking units as of 31 October 2006) with a view to having 1,000 banking units by the end of 2006 and, while it expects that the current branch network expansion phase will be largely complete by 2007, it may need to expand its branch network further in the future. Growth rates such as those recently experienced by the Bank and the expansion of its network also require the Bank to attract and retain qualified personnel. See "*– Dependence on Key Management and Qualified Personnel*". Failure to do so may adversely affect the Bank's ability to maintain adequate levels of financial and management control as its business and operations and its branch network expand.

In addition, following BNP Paribas's acquisition of its 51 per cent. majority interest in the Bank, the Bank began a large-scale restructuring process which is aimed at conforming its operations, policies and procedures to the BNP Paribas Group's best practice, with particular emphasis on improving its management and IT systems, standardising products and operational procedures to meet the BNP Paribas Group's standards, implementing customer relationship management policies and enhancing internal and external communications strategies, which will require significant capital expenditure. See "*Business of the Bank – BNP Paribas*". The Bank expects to complete such restructuring process by the end of 2007 but it is subject to a variety of potential problems and uncertainties including delays in completion and cost overruns. If any such problem occurs the Bank may not be able to complete the restructuring as planned or on schedule, and the expected benefits of the restructuring may not be fully realised. In addition, while the Bank expects to fund such restructuring process from funds generated from its business, such increased expenditure may negatively affect the Bank's results of operations and financial condition.

Lack of Information and Risk Assessments

In June 2005, the Parliament adopted a Law "On the Organisation of Filing and Circulation of Credit Histories", which entered into force in January 2006 and which allows the establishment of credit bureaux in order to make available to banks information which may assist them in evaluating the credit risk of prospective borrowers. However, due to lack of implementing regulations, none of the credit bureaux already established in Ukraine has, so far, been able to obtain a license required under the law for collecting, processing, storing and utilisation of credit information. There is also a credit rating agency which operates in Ukraine that provides information regarding participants of the Ukrainian securities market. The information provided by this agency is publicly available. In addition, in 2004, the World Bank launched a project called "Development of the State Statistics System for Monitoring the Social and Economic Transformation Project in Ukraine", which is intended to bring the Ukrainian state statistical system in line with international statistical standards. However, notwithstanding these developments, Ukraine's system for gathering and publishing statistical information relating to the Ukrainian economy generally or specific economic sectors within it or corporate or financial information relating to companies and other economic enterprises is not as comprehensive as those of many countries with established market economies.

In addition, an accurate assessment of default risk on loans and other instruments is difficult for the Bank due to the unpredictability of economic conditions in Ukraine and abroad. The often insufficient statistical, corporate and financial information, including audited financial statements, available to the Bank relating to its prospective corporate borrowers or other clients makes the assessment of credit risk, including the valuation of collateral, more difficult. For example, financial statements of most of the Bank's corporate clients are not prepared in accordance with U.S. GAAP or IFRS and are not audited in accordance with U.S. Generally Accepted Auditing Standards or International Standards on Auditing and accordingly, they may not present a complete and comparable picture of each such client's financial condition.

Furthermore, not all Ukrainian borrowers have identifiable credit histories. While Management considers that it has adequate risk determination procedures in place, including an in-house Security Department which performs background checks in order to assess the credit risk of retail and corporate loan applicants, in spite of such procedures the Bank may be unable to evaluate correctly the current economic condition of each prospective borrower and to determine the long-term economic outlook for each such borrower. Although the Bank ordinarily estimates the net realisable value of collateral in determining applicable provisioning and collateralisation requirements, the absence of additional statistical, corporate and financial information and accepted market risk management techniques such as value-at-risk (VAR) may decrease the accuracy of the Bank's assessments of credit risk, thereby increasing the risk of borrower default and decreasing the likelihood that the Bank would be able to enforce any security in respect of the corresponding loan or that the relevant collateral will have a value commensurate to the loan secured on it. If the Bank fails to assess correctly the credit risk of potential borrowers, this may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects. See "*Risk Management – Credit Risk*".

Regulation of the Banking Industry

The NBU's Board Resolution No. 368, dated 28 August 2001, as amended, which authorised the Directive on Ukrainian Banking Activity Regulation (the "**Banking Regulation Directive**"), set forth capital adequacy ratios and a number of other mandatory ratios, including, among others, ratios on exposure to related parties, single borrowers and groups of borrowers, liquidity, investment in corporate securities and open currency position, and established the rules upon which the calculation of such ratios is based. The Banking Regulation Directive also provides general rules regarding the submission by banks of statistical information to the NBU. Notwithstanding the Banking Regulation Directive, regulatory standards applicable to banks in Ukraine, and the oversight and enforcement thereof by Ukrainian regulators, may differ from those applicable to banking operations in more highly developed regulatory regimes. There can be no assurance that the NBU will not implement regulations or policies, including policies or regulations or legal interpretations of existing banking or other regulations, relating to or affecting taxation, interest rates, exchange controls, or otherwise take action that could have a material adverse effect on the Bank's business, financial condition, results of operations or prospects or that could adversely affect the market price and liquidity of the Notes. If the Bank fails to comply with applicable Ukrainian legislation and regulations of the NBU and this results in the loss of significant assets and insolvency of the Bank, the NBU may revoke the Bank's banking licence, which would result in the Bank ceasing to carry on its business.

Dependence on Key Management and Qualified Personnel

The Bank is dependent on members of its Management Board for the implementation of its strategy. In addition, the personal connections and business relationships of members of its Management Board are important to the conduct of its business. While the Bank has entered into employment contracts with members of its Management Board, no assurance can be given that the current members of the Bank's Management Board will continue to make their services available to the Bank on a long-term basis.

In addition, the Bank's success will depend, in part, on its ability to continue to attract, retain and motivate qualified and experienced banking and management personnel. Competition in the Ukrainian banking industry for personnel with relevant expertise is intense, due to the disproportionately low number of available qualified and/or experienced individuals compared to the demand. Moreover, the Bank's need for qualified staff will increase as it expands its branch network and business. In order to recruit qualified and experienced employees and to minimise the possibility of their departure for other banks, the Bank attempts to provide attractive compensation packages in a manner consistent with BNP Paribas's policies and the evolving standards of the Ukrainian labour market. The Bank also provides training to its employees through a variety of in-house and external training programmes. While the Bank believes that it has effective staff recruitment, training and incentive programmes in place, the Bank is not insured against damage that may be incurred in the event of the loss or dismissal of its key personnel. The Bank's failure to recruit, train and/or retain necessary personnel could have a material adverse effect on its business, financial condition, results of operations and prospects. See "*Employees*".

Impact of the Ukrainian Corporate Securities Market on the Bank's Investment Banking Activities

The Bank maintains a securities portfolio and engages in securities trading on its own account. Due in part to the limited liquidity of the Ukrainian corporate securities market and the relative lack of effective securities market regulation in comparison to more developed markets such as the United Kingdom, the prices of Ukrainian corporate securities may be significantly affected by a relatively small amount of trading activity or favourable or unfavourable press coverage. Moreover, regulation of market making and insider trading is not fully developed. As a result, the prices of Ukrainian corporate securities may be affected by practices not permitted in more developed securities markets. This may have a negative impact on the Bank's investment banking activities.

Controlling Shareholder

As of the date of this Prospectus, 51 per cent. of the shares of the Bank are held by BNP Paribas with substantially all of the remaining 49 per cent. (apart from 0.003 per cent. in the hands of minority shareholders) being controlled by the Ukrainian Shareholders. By virtue of its controlling shareholding, subject to the limitations imposed by a shareholders' agreement among BNP Paribas and the Ukrainian Shareholders (the "**Shareholders' Deed**") which is described in more detail in "*Shareholding*" and statutory restrictions on shareholders' powers under Ukrainian company law, BNP Paribas has the ability to influence the Bank's business significantly through its ability to control actions which require shareholder approval. Furthermore, through its majority representation on the Supervisory Council (of whom five out of nine members are BNP Paribas representatives), BNP Paribas has effective control over the Bank's business. For example, BNP Paribas has the ability to change the Bank's management, approve plans for its development and exercise control over the Bank's pursuit of acquisitions, divestitures, financings or other transactions which could enhance the value of its equity investment without necessarily benefiting the interests of the Noteholders. In addition, Ukrainian law currently requires the attendance of shareholders holding more than 60 per cent. of a company's share capital for a quorum to be present at a general meeting of shareholders (although a draft law which would reduce such quorum to 50 per cent. plus one vote is currently before the Ukrainian parliament). Therefore, any shareholder or combination of shareholders representing 40 per cent. or more of the Bank's share capital has the ability to block certain corporate actions by refusing to attend the general meeting of shareholders. Under the Shareholders' Deed, BNP Paribas has a call option over a further 10.5 per cent. of the shares held by one of the Ukrainian Shareholders in the event of a deadlock due to the lack of a quorum at the Supervisory Council or general meeting of shareholders. This call option will expire if and when the abovementioned change in Ukrainian company law comes into effect and the quorum requirement is reduced to 50 per cent. If circumstances were to arise where the interests of BNP Paribas were to conflict with the interests of the Noteholders, Noteholders could be disadvantaged by any such conflict, as the controlling shareholder could take actions contrary to the Noteholders' interests. See "*Shareholding*".

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

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

The Issuer will only be obliged to make payments under the Notes to Noteholders to the extent of the amount of principal, interest, Additional Amounts (as defined in the Loan Agreement), if any, and Tax Indemnity Amounts (as defined in the Loan Agreement), if any, actually received by or for the account of the Issuer under the Loan Agreement, less any amount in respect of Reserved Rights. The Issuer will have no other financial obligation under the Notes. Consequently, if the Bank fails to fully meet its obligations under the Loan Agreement, Noteholders will, on the relevant due date, receive less than the scheduled amount of principal, interest and/or additional amounts (if any) due and payable under the Notes.

The Bank may be unable to repay the Loan at maturity

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

The Bank may not have the ability to raise the funds necessary to finance the Change of Control offer required by the Terms and Conditions of the Notes and the Loan Agreement

Upon the occurrence of certain change of control events relating to the Bank, the Issuer will be required to offer to repurchase all of the outstanding Notes. However, it is possible that the Bank will not have sufficient funds at the time of a Change of Control (as this term is defined in the Loan Agreement) to make the required repayment of the Loan to enable the Issuer to repurchase the Notes. In general terms, a Change of Control will occur if BNP Paribas and/or any of its subsidiaries ceases to own in excess of 50 per cent. in aggregate of the issued and allotted ordinary share capital carrying voting rights of the Bank, where such event results in a rating decline of the Bank. See "*Loan Agreement*" and "*– Ukrainian currency control regulations could impact the Bank's ability to make payments to the Issuer or Trustee under the Loan Agreement*" below.

Noteholders have no direct recourse to the Bank

No proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. There will be no security interest over the Loan in favour of Noteholders or the Trustee and Noteholders must rely not only upon the covenant of the Bank to make payments under the Loan Agreement and the credit and financial standing of the Bank but also upon the financial standing of the Issuer. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the Loan Agreement or have direct recourse to the Bank.

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

Ukrainian bankruptcy law differs from bankruptcy laws of England and the United States, and is subject to varying interpretations. There is not enough precedent to be able to predict how claims of the Issuer, the Trustee or the Noteholders against the Bank would be resolved in the event of the Bank's bankruptcy. In the event of the Bank's bankruptcy, its obligations to the Issuer, the Trustee or the Noteholders would be subordinated to the following obligations:

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

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

Claims against the Bank may be incapable of enforcement upon the introduction by the NBU of temporary administration for the financial rehabilitation of the Bank. If the NBU determines that a significant threat exists of the Bank becoming insolvent, the NBU must impose temporary administration of the Bank to improve its financial situation. The NBU also may impose temporary administration in certain other circumstances. The temporary administrator appointed by the NBU would replace all of the Bank's governing bodies for the entire term of the temporary administration (being a period of up to one year with possible extension for another year if the Bank's liabilities are equal to or exceed 10 per cent. of the aggregate liabilities of the Ukrainian banking system at that time), and would be authorised to carry out any acts aimed at the financial rehabilitation of the Bank, including but not limited to (i) suspending any ongoing operation (including the discharge of any outstanding obligation) of the Bank (without terminating or invalidating the relevant agreement itself), and (ii) terminating, in accordance with Ukrainian legislation, any agreement of the Bank which, in the opinion of the temporary administrator, is loss-making or "unnecessary" for the Bank. This may apply only to an agreement which contains outstanding obligations of any party. The temporary administrator would have a broad discretion in determining whether a particular agreement is loss-making or "unnecessary", given that Ukrainian legislation provides no criteria for such determination. During the term of operation of the temporary administration, but not longer than for a six-month period during such term, the NBU may, in its discretion, order a moratorium on the satisfaction of claims of creditors of the Bank which have become payable before the appointment of the temporary administration. During the term of such moratorium, the Bank may be unable to make payments to the Issuer and the Trustee, and the Issuer's and/or the Trustee's claims against the Bank would not be enforceable. The Bank may not be held liable for the non-performance of its obligations to the Issuer and/or the Trustee resulting from the imposition of the moratorium. Upon the termination of the moratorium (other than as a result of the Bank entering bankruptcy proceedings), the Issuer and/or the Trustee would be entitled to make, and to enforce, claims against the Bank in the amounts existing as of the date when the moratorium was imposed.

Further, Article 81 of the Law of Ukraine "On Banks and Banking Activity" dated 7 December 2000, as amended, permits a temporary administrator of a bank appointed pursuant to any such temporary administration to request a Ukrainian court to declare invalid, among other agreements to which the bank may be party, an agreement between the bank and a third party, if there has been "any operation" (meaning a payment or other transaction) under such agreement: (i) within a six month period before the appointment of such temporary administrator, if the purpose of the operation was to grant a preference to such third party compared to the bank's other creditors; (ii) within one year before the appointment of such temporary administrator between the bank and a related party, if the operation contravened the requirements of Ukrainian legislation or "threatened the interests of depositors and creditors" of the bank; (iii) within three years before the appointment of such temporary administrator, with the purpose of alienating any of the bank's assets free of charge or purchasing assets or services by the bank at a price significantly higher than the value of the assets or services; or (iv) within three years before the appointment of such temporary administrator, with the purpose of concealing assets from the bank's creditors or otherwise violating the rights of such creditors; or (v) at any time if such operation has been based on forged documents or if it was of fraudulent nature. In addition, a court may annul an agreement which has not been executed in full or in part, at the request of a liquidator, if it determines that: (i) the bank would incur losses as a result of performing its obligations under the agreement; or (ii) the agreement was entered into for a period of more than one year and would only yield "*long term*" benefits to the bank. If the Loan Agreement were to be declared invalid on such basis, the Bank would be required to repay to the Issuer all funds received from the Issuer pursuant to the Loan Agreement, and the Issuer would be required to repay to the Bank all funds received from the Bank pursuant to the Loan Agreement. There is also a lack of certainty as to whether, in such event, the court might apply any other consequences of the invalidation of the Loan Agreement (this would depend on the facts of the relevant case). Ukrainian counsel have advised that they believe there is no basis for challenging the validity of the Loan Agreement or any transaction contemplated thereunder as contravening the requirements of Ukrainian legislation. However, in view of the risks associated with the Ukrainian legal system as disclosed under "*– Risks Relating to Ukraine – Developing Legal System*", no assurance can be given that the courts in Ukraine would interpret this in the same manner.

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

NBU regulations are subject to substantial change and varying interpretations which complicate the process of determining whether a licence is needed to make certain payments as well as the process of obtaining such licence.

There is also some uncertainty as to whether or not a licence would be required following an event of default under the Loan Agreement, depending on who would be the recipient of payments under the Loan Agreement at that time (see "*– Ukrainian currency control regulations could impact the Bank's ability to make payments to the Issuer or Trustee under the Loan Agreement*"). If the NBU determines in the future that a licence is required for payments by the Bank under the Loan Agreement, the Bank will need to apply for a licence. The Bank cannot assure investors that it will receive such a licence in such case. If the Bank does not receive such a licence, no assurance can be given that it will be able to make payments on the Loan in such case.

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

The NBU is empowered to define the policies for, and regulate currency operations in Ukraine, as well as to establish any restrictions on currency operations, cross-border payments and repatriation of profits.

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

While the Loan Agreement is registered with the NBU, payments under the Loan Agreement to any entity other than the Issuer would require registration with the NBU of the resulting change in the loan transaction or an individual licence from the NBU. The Bank believes that the NBU would be in a position to register the change in the loan transaction which would occur upon the assignment of certain rights and benefits to the Trustee. The registration of such a change would be effected by the NBU upon examination of the terms of the respective documents related to the assignment. However, the NBU has a broad discretion in evaluating and approving the registration of such a change, and could refuse to register it. Should the NBU refuse to register such change, the Bank would not be permitted to make payments under the Loan Agreement to any entity other than the Issuer unless it were to obtain an individual licence of the NBU permitting such payments. There can be no assurance that the Bank would receive a licence if one were to be required or that the Trustee would be able to meet any requirements of the NBU in connection with any such registration or licence. If the necessary registration or licence, as the case may be, were to be refused, there can be no assurance that the Bank would be able to make payments under the Loan Agreement.

The board of the NBU has passed a resolution prohibiting Ukrainian borrowers from making, in connection with loans granted by foreign lenders, any payments (other than principal) which, in aggregate per annum, exceed an amount determined by applying the applicable maximum interest rate established by the NBU (the "**MIR**") to the principal amount of the loan. This resolution came into force on 15 August 2004. As of the date of this Prospectus, the MIR applicable to loans in major foreign convertible currencies the maturities of which are up to one year is 9.8 per cent. per annum, while the MIR applicable to such loans the maturities of which are up to three years is 10 per cent. per annum, and 11 per cent. per annum for loans the maturities of which exceed three years.

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

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

In the event of any prepayment of such a loan, the NBU would not permit the aggregate amount of interest, fees, default interest, penalties, additional amounts and other charges payable in connection with the loan to exceed in aggregate per annum, an amount determined by applying the relevant MIR to the principal amount of the loan. While the NBU's regulations on the MIR have not been tested in this regard, there is a risk that the NBU would require the application of the MIR based on the period for which the loan has been outstanding as of the date of prepayment rather than the contractual maturity, which might result in the application of a lower MIR to the amounts payable. Further, since the NBU has the authority to review and modify such MIR from time to time, reduction in the MIR could further limit the ability of Noteholders to collect interest, default interest or other charges payable in connection with a prepayment of the Notes.

In addition, there is an NBU regulation pursuant to which the State Information and Analytical Centre for Monitoring External Commodity Markets (the "**SIAC**") is required to review the fees for services rendered by a non-resident to a resident under an agreement for services (or a series of agreements for similar services purchased within one calendar year from the same payee) with a value in excess of EUR100,000 (or an equivalent value in another currency), excluding payments made by banks in favour of non-residents for rendering financial services, as well as payments made according to the registration certificate issued for the registration of a loan from a non-resident. Unless a cross-border transaction relating to the non-resident's services is licensed by the NBU, or is otherwise subject to an exemption, any such payment can only be made if the SIAC determines that the value of the services set forth in the agreement (or in the series of agreements) is in line with market conditions. If the SIAC for any reason refuses to make that determination, any such payment can be made only on the basis of a specific permission from the NBU. If the SIAC determines that the fees are excessive, or refuses to make that determination and the NBU does not grant the permission, the payment of fees cannot be made (unless such decision of the SIAC or the NBU has been overruled by a court order). The Bank's payments of fees under the Loan Agreement are exempt from this requirement to the extent they constitute fees for financial services under Ukrainian law, which the Bank believes to be the case. However, a risk exists that such exemption would not apply if the Bank were required to make any payment of such fees to a non-resident that is not authorised to render financial services under the laws of its jurisdiction, or if such services were not regarded as financial services for purposes of the applicable regulations of the NBU.

Interest payments on the Loan from the Bank to the Issuer and interest payments on the Notes from the Issuer to the Noteholders may be subject to Ukrainian and United Kingdom withholding tax, which would reduce the amounts received under the Notes if the Bank does not "gross up" the Bank's payments to the Issuer

In general, payments of interest on borrowed funds by a Ukrainian entity to a non-resident person are subject to Ukrainian withholding tax at a rate of 15 per cent., absent reduction or elimination pursuant to the terms of an applicable tax treaty. Based on professional advice that the Bank has received, the Bank believes that, under the terms of the Convention between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Ukraine for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital Gains of 10 February 1993 (the "**Taxation Treaty**") as it is currently applied, payments of interest on the Loan will not be subject to withholding tax, provided that certain conditions set forth in the Taxation Treaty and under applicable Ukrainian legislation are duly satisfied. However, there can be no assurance that such exemption from withholding tax under the Taxation Treaty is or will continue to be available in the future.

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

In addition, Article 11(7) of the Taxation Treaty contains a "main purpose" anti-avoidance provision. While there is no established practice of the Ukrainian tax authorities with respect to the application of this provision, if the Ukrainian tax authorities take a position that one of the main purposes of creation of the debt claim under the Loan Agreement, in respect of which the interest is paid, was to avail the Issuer of the tax benefits provided under the Taxation Treaty, the Ukrainian tax authorities may invoke the anti-avoidance provision of Article 11(7). In such circumstances, there is a risk that payments of interest by the Bank under the Loan Agreement would cease to have the benefit of the Taxation Treaty.

To the extent that payments under the Loan Agreement are subject to any withholding tax, the Issuer will reduce payments under the Notes in the amount of the withholding tax. If this occurs, the Bank is obliged in certain circumstances to pay such Additional Amounts (as defined in the Loan Agreement) as may be necessary so that the net payments received by the Issuer will not be less than the amount it would have received in the absence of such withholding tax.

In addition, in certain cases, interest payments on the Notes by the Issuer may be subject to United Kingdom withholding tax, which would reduce the amounts received by Noteholders under the Notes. In these cases, the Issuer will not pay any additional amounts unless it has received such funds from the Bank. Based on professional advice the Bank has received, the Bank believes that payments in respect of the Notes will only be subject to deduction or withholding for or on account of United Kingdom or Ukrainian taxes as described in "*Taxation – United Kingdom Tax Considerations*" and "*Taxation – Ukrainian Tax Considerations*".

While there is doubt as to whether the "gross-up" clauses in the Loan Agreement are enforceable under Ukrainian law, a failure by the Bank to pay Additional Amounts and/or Tax Indemnity Amounts, where applicable, would constitute an event of default under the Loan Agreement.

The Notes may be redeemed early

In the event that the Bank is required to increase the amounts payable under the Loan Agreement (by way of Additional Amounts and/or Tax Indemnity Amounts (each as defined in the Loan Agreement)), including as a result of the application of or any amendment to or change in the Taxation Treaty or the laws or regulations of Ukraine or the United Kingdom, the Bank may prepay the Loan at any time together with accrued and unpaid interest, any Additional Amounts and any Tax Indemnity Amounts, and the outstanding Notes would be redeemed early.

If the Issuer were to cease to be resident in a qualifying jurisdiction, or if the Taxation Treaty does not apply for any other reason, payments of interest under the Loan Agreement will be subject to Ukrainian withholding tax

Payments of interest under the Loan Agreement will be subject to Ukrainian withholding tax at the rate of 15 per cent. if the Issuer, or any successor or assign of the Issuer, ceases to be resident in a jurisdiction that has a double taxation treaty with Ukraine that is similar to the Taxation Treaty, or if the Issuer, or any successor or assign of the Issuer, takes any action that would render the Taxation Treaty inapplicable. Where this is the case, the Bank will only be required to gross up payments in the event that the Issuer, or any successor or assign of the Issuer, ceases to be resident in a qualifying jurisdiction by reason of a Change of Law (as defined in the Loan Agreement) or the Taxation Treaty being amended or repudiated after the date of the Loan Agreement. Consequently, should the Issuer, or any successor or assign of the Issuer, cease to be resident in a qualifying jurisdiction in any other circumstances, the Bank has no obligation to gross up and no right to prepay the Loan. As a result, Noteholders will receive payments under the Notes net of such withholding and will have no right to require that the Notes be redeemed early.

Withholding tax risk following an Event of Default

Following an Event of Default, the Trustee will be entitled to require that certain rights under the Loan Agreement are assigned to it, including the right to receive payments of principal and interest under the Loan Agreement. If the Trustee exercises this right to have such rights under the Loan Agreement assigned to it, payments under the Loan Agreement may then cease to have the benefit of the Taxation Treaty and, consequently, may become subject to Ukrainian withholding tax, unless the Trustee meets all the criteria for the exemption under the Taxation Treaty. In such circumstances, the Bank would not be obliged to pay additional amounts on account of Ukrainian taxes withheld and, as a result, the Trustee would only be entitled to receive an amount net of such taxes.

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

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

Foreign judgments may not be enforceable against the Bank

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

Since Ukraine is a party to the New York Convention, a foreign arbitral award obtained in a state which is also a party to the New York Convention, such as the United Kingdom, should be recognised and enforced by a Ukrainian court (under the terms of the New York Convention).

There is no active trading market for the Notes

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Bank. Although application has been made for the Notes to be admitted to listing on the official list and trading on the regulated market of the Luxembourg Stock Exchange, there can be no assurance that a liquid market will develop for the Notes, that holders of the Notes will be able to sell their Notes, or that such holders will be able to sell their Notes for a price that reflects their value.

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

The Notes will be represented by the Global Notes except in certain limited circumstances described in the Permanent Global Note. The Global Notes will be deposited with a common depositary for Euroclear and

Clearstream, Luxembourg. Except in certain limited circumstances described in the Permanent Global Note, investors will not be entitled to receive definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg. The Issuer will discharge its payment obligations under the Notes by making payments to the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their accountholders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. Neither the Bank nor the Issuer has any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes. Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

The market price of the Notes may be volatile

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

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

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

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

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

Denominations

It is possible that the Notes may be traded in amounts in excess of U.S.$100,000 that are not integral multiples of U.S.$100,000. In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount other than U.S.$100,000 may need to purchase a principal amount of Notes such that, its holding is in the denomination of U.S.$100,000 and higher integral multiples of U.S.$1,000 up to and including U.S.$199,000. If Definitive Notes are issued, Noteholders should be aware that Definitive Notes which have a denomination that is not U.S.$100,000 may be illiquid and difficult to trade.

Issuer Credit Risk

Because the Issuer has not granted security to the Trustee over its rights under the Loan Agreement and the Issuer's obligations are solely to make payments of amounts in aggregate equal to principal, interest, and Additional Amounts and Tax Indemnity Amounts (as defined in the Loan Agreement), if any, actually received by or for the account of the Issuer pursuant to the Loan Agreement, Noteholders must rely not only upon the covenant of the Bank to make payments under the Loan Agreement and the credit and financial standing of the Bank but also upon the financial standing of the Issuer. Noteholders will have no recourse, directly or indirectly, to any assets of the Issuer in relation to the Notes and are therefore unsecured creditors of the Issuer. Although the Trustee has the right to require the assignment to it of certain of the Issuer's rights under the Loan Agreement upon the occurrence of an Event of Default, if the Issuer becomes subject to insolvency proceedings of any nature, the Issuer's obligation to make that assignment may be compromised, whether or not an Event of Default has occurred; and if it does not make that assignment or if the assignment is subsequently successfully challenged by an administrator or receiver, Noteholders would continue to be unsecured creditors of the Issuer, without any direct recourse to payments by the Bank under the Loan Agreement. Prospective Noteholders should therefore take into account the legal and financial status of the Issuer before acquiring any Notes.

DOCUMENTS INCORPORATED BY REFERENCE

The Issuer's audited consolidated financial statements (including the auditor's report thereon) for the years ended 31 December 2005 and 31 December 2004 shall be deemed to be incorporated in, and to form part of, this Prospectus, except that any statement in such financial statements shall be deemed to be modified or superseded for the purposes of this Prospectus to the extent that any statement contained in this Prospectus modifies or supersedes such earlier statement (whether expressly, by implication or otherwise).

The documents incorporated by reference are for information purposes only and may be viewed on the HSBC Group's website at http://www.hsbc.com and on the website of the Luxembourg Stock Exchange (currently http://www.bourse.lu).

USE OF PROCEEDS

The proceeds from the offering of the Notes, being U.S.$500,000,000, will be used by the Issuer for the purpose of financing the Loan to the Bank. The Bank will receive the gross proceeds of the Loan in the amount of U.S.$500,000,000 and will separately pay commissions, fees and expenses in connection with the offering of approximately U.S.$1.7 million. As a result, the net proceeds of the Loan available to the Bank, after payment of such commissions, fees and expenses incurred in connection with the offering, will be approximately U.S.$498.3 million. The Bank intends to use the net proceeds from the Loan to prepay existing obligations, fund loans to corporate and/or individual customers and for general corporate purposes.

EXCHANGE RATES

The following table sets forth, for the periods indicated, the average and period-end official rates set by the NBU, in each case for the purchase of Ukrainian hryvnia, all expressed in Ukrainian hyrvnia per U.S. dollar. The Bank has translated some financial data from Ukrainian hryvnia into U.S. dollars at the rates of UAH 5.3054, UAH 5.0550, UAH 5.0500 and UAH 5.0500 to U.S.$1.00, being the official rates set by the NBU on 31 December 2004, 30 June 2005, 31 December 2005 and 30 June 2006, respectively. These translations should not be construed as representations that Ukrainian hryvnia amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated as of any at the dates mentioned in this Prospectus or at all.

	High	**Low**	**Average**	**Period End**
	(Ukrainian hryvnia per U.S. dollar)			
2000	5.60	5.22	5.44	5.43
2001	5.43	5.27	5.37	5.30
2002	5.33	5.30	5.33	5.33
2003	5.33	5.33	5.33	5.33
2004	5.33	5.31	5.32	5.31
2005	5.31	5.05	5.12	5.05
2006 (up to 30 November, inclusive)	5.05	5.05	5.05	5.05

The NBU's hryvnia/dollar exchange rate as reported on 12 December 2006 was UAH 5.05 to the dollar.

BUSINESS OF THE BANK

History

The Bank was established on 4 May 1990 as Commercial Innovation Bank "Kharkovincombank" and registered by the State Bank of the USSR on 18 June 1990. It was reorganised into a closed joint stock company and re-registered by the NBU on 28 October 1991 under registration number 57. In 1992, it was renamed Joint-Stock Commercial Innovation Bank "UkrSibbank". In 1993, it was reorganised into an open joint stock company.

Initially, the Bank operated as a local Kharkiv-based bank serving a limited number of related party corporate customers. In 1992, the Bank received its NBU licence to operate with foreign currency and opened its first correspondent account in foreign currency. In 1996, the Bank opened branches in Cherkasy, Severodonetsk and Zhytomyr. In 1997, it opened a branch in Kyiv and began operating as a distributor for American Express credit cards.

In 1998, the Bank underwent a change of ownership and management when the Ukrainian Shareholders, who currently control 48.997 per cent. of the Bank's share capital, acquired a majority interest in the Bank (see "*Shareholding*"). Following this acquisition, the Bank began the process of development into a commercial and investment bank offering a full range of banking products and services through a national network of branches. The Bank also began offering custodial services in 1998, and in 1999, it opened branches in Poltava, Sevastopol, Odessa and Krivoy Rog.

From 2000, the Bank began to extend and diversify its range of products and services and customer base. In particular, it began offering a full range of banking services to corporate and retail customers and entered the investment banking area, primarily as a manager and underwriter of domestic bond offerings. Also in 2000, it opened additional branches in Nikolaev, Dnepropetrovsk and Donetsk. In 2002, the Bank opened branches in Sumy, Zaporozhie, Kirovograd, Vinnitsya, Kherson and Rovno. From 2000 to 2003, the Bank's corporate banking business expanded and it became one of the leading investment banks in Ukraine.

In 2003, the Bank moved its head office from Kharkiv to Kyiv. Beginning in 2003, the Bank started its current phase of strategic development, which is focused on the further expansion of its branch network and of its retail and investment banking businesses. In 2004, the Bank expanded its branch network by opening 305 banking units (see "*– Branch Network*" below for a description of the Bank's branches and banking units). The Bank also established an asset management subsidiary, a closed non-diversified corporate investment fund and two unincorporated investment funds in that year (see "*– Non-Banking Services – Asset Management*").

In February 2005, the Bank acquired 40 per cent. of the capital of Commercial Bank "National Financial Traditions" LLC, a bank established in the Russian Federation. In March 2005, the Bank entered into an agreement to purchase the remainder of the capital from the other participants, subject to the receipt of the necessary regulatory approvals. In April 2006, the Bank completed the purchase of the remaining interest from the other shareholders and Commercial Bank "National Financial Traditions" LLC (now known as Commercial Bank "UkrSibbank" LLC) became a wholly-owned subsidiary of the Bank (see "*– Subsidiaries and Special Purpose Entities*" below).

In April 2006, BNP Paribas acquired 51 per cent. of the share capital of the Bank following the granting of the requisite approvals by the AMC and the NBU. As a result, BNP Paribas is now the parent company of the Bank, with substantially all of the remaining 49 per cent. of the Bank's share capital (apart from 0.003 per cent. in the hands of minority shareholders) being controlled by the Ukrainian Shareholders (see "*Shareholding*").

As of 1 October 2006, the Bank was the third largest bank in Ukraine in terms of assets according to the NBU, and one of the leading Ukrainian banks in terms of loan portfolio, deposits, capitalisation and number of branches (see "*– Market Position and Competition*" below).

Overview

Head Office and Branches

The Bank's registered address is 60 Moscovsky Avenue, Kharkiv, Ukraine 61050, and its head office is currently located at 2/12 Andriyivska Street, Kyiv, Ukraine 04070 (telephone +380 44 5375009/+380 44 2304890). As of 31 October 2006, the Bank had 16 full-scale branches and 953 banking units in 185 towns and cities in Ukraine. See "*– Branch Network*" below for a description of the Bank's branches and banking units.

Licences

The Bank, in common with all other Ukrainian banks, is regulated and supervised by the NBU. It holds banking licence No. 75 issued by the NBU on 24 December 2001 and written permit No. 75-2 issued by the NBU on 19 November 2002. The Bank also holds additional licences as required under applicable Ukrainian laws and regulations authorising it to perform the full range of banking activities, including, but not limited to, lending, receiving and holding deposits from legal entities and individuals, cash operations, the provision of settlement and money transfer services, maintaining pension deposit accounts, acting as a depository of securities, acting as a depository of investment funds and investment companies and the execution of operations related to the issuance and circulation of securities and foreign currency transactions.

Corporate Objectives

The Bank's main objective, as described in article 2.3 of its charter, is to generate profits from the use of its own and borrowed funds in order to provide a return to its shareholders and to develop its banking business. The Bank was established in order to provide a full range of domestic and international banking services, including commercial and investment banking services and custodial activities, and any other activities permitted by applicable Ukrainian legislation.

Business Segments

The Bank divides its services into three main business segments: corporate banking, retail banking and investment banking. Corporate banking includes, *inter alia*, corporate customer current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency exchange and trade finance products. Retail banking includes, *inter alia*, private banking services, private customer current accounts, savings, deposits, credit and debit cards, consumer loans and mortgage lending. Investment banking services are mainly provided to corporate customers and include debt capital markets activities, securities and other financial instruments, foreign exchange and banknote trading as well as corporate finance activities. The Bank, through its subsidiaries, also offers certain non-banking services, such as insurance, leasing and asset management services.

Corporate banking is the Bank's largest business segment with the segment's assets and liabilities constituting 50 per cent. and 36 per cent., respectively, of the Bank's total assets and liabilities as of 30 June 2006 compared with 50 per cent. and 30 per cent., respectively as of 31 December 2005. The Bank's external revenue from corporate banking (excluding revenue from other business segments – see below) for the year ended 31 December 2005 was UAH 636.5 million, which represented 55 per cent. of its total external revenue for that period. The Bank's external revenue from corporate banking for the six month period ended 30 June 2006 was UAH 417.6 million, which represented 47 per cent. of its total external revenue for that period, compared with UAH 271.7 million and 59 per cent., respectively for the same period of 2005.

Retail banking is the Bank's second largest business segment, with the segment's assets and liabilities constituting 36 per cent. and 24 per cent., respectively, of the Bank's total assets and liabilities as of 30 June 2006, compared with 35 per cent. and 27 per cent., respectively as of 31 December 2005. The Bank's external revenue from retail banking for the year ended 31 December 2005 was UAH 321.9 million, which represented 28 per cent. of the Bank's total external revenue for that period. The Bank's external revenue from retail banking for the six month period ended 30 June 2006 was UAH 316.9 million, which represented 35 per cent. of its total external revenue for that period, compared with UAH 114.0 million and 25 per cent., respectively for the same period of 2005. Retail banking, and in particular retail lending, is the Bank's fastest-growing business segment (see "*– Banking Services – Retail Banking*" below).

Investment banking is the Bank's third largest business segment, with the segment's assets and liabilities constituting 12 per cent. and 40 per cent., respectively, of the Bank's total assets and liabilities as of 30 June 2006, compared with 13 per cent. and 42 per cent., respectively as of 31 December 2005. Since 2001, the Bank has participated in 45 domestic bond offerings by major Ukrainian companies and five Ukrainian municipalities as either lead manager or as a co-manager. Investment banking accounted for 12 per cent. of the Bank's total external revenue for the six month period ended 30 June 2006 compared with 11 per cent. for the same period in 2005.

See note 13 to the Interim Financial Information set out elsewhere in this Prospectus for further information on the Bank's main business segments and the relationship between "external revenue" and revenue for the six months ended 30 June 2006 and 2005.

Total Assets, Equity, Income and Profits

The Bank's total assets increased from UAH 3.69 billion as of 31 December 2003 and UAH 5.38 billion as of 31 December 2004 to UAH 10.93 billion as of 31 December 2005 and UAH 14.29 billion as of 30 June 2006, representing an increase of 31 per cent. during the first six months of 2006. Equity attributable to the Bank's equity holders increased from UAH 280.6 million as of 31 December 2003 and UAH 758.1 million as of 31 December 2004 to UAH 956.9 million as of 31 December 2005 and UAH 1,467.2 million as of 30 June 2006, representing an increase of 53 per cent. during the first six months of 2006. The Bank's operating income increased by 62 per cent. from UAH 242.6 million for the year ended 31 December 2003 to UAH 392.4 million for the year ended 31 December 2004 and by 54 per cent. from UAH 392.4 million for the year ended 31 December 2004 to UAH 603.4 million for the year ended 31 December 2005. The Bank's profit for the year increased by 79 per cent. from UAH 41.3 million for the year ended 31 December 2003 to UAH 73.7 million for the year ended 31 December 2004 and decreased by 28 per cent. from UAH 73.7 million for the year ended 31 December 2004 to UAH 52.8 million for the year ended 31 December 2005. For the six months ended 30 June 2006, the Bank generated operating income of UAH 349.6 million compared with UAH 230.6 million for the six months ended 30 June 2005 (representing an increase of 52 per cent.) and its profit for the six months ended 30 June 2006 was UAH 16.05 million compared with UAH 17.63 million for the six months ended 30 June 2005 (representing a decrease of 9 per cent.). The Bank's profits increased in 2004 compared with 2003 primarily as a result of the expansion of its loan and deposit portfolios and a corresponding increase in interest income and fees and commissions charged to customers and decreased in 2005 compared with 2004 and in the first six months of 2006 compared with the same period of 2005 primarily as a result of costs associated with the expansion of the Bank's network and the costs of adapting to BNP Group standards. See also *"Risk Factors – Risks Relating to the Bank – Management of Growth and Convergence with BNP Paribas Standards*".

Memberships

The Bank is a principal member of VISA and Mastercard, and an agent of American Express, Thomas Cook and Western Union. The Bank has been a member of SWIFT since 20 January 1995. In addition, the Bank is one of the founding members of the Ukrainian Interbank Currency Exchange ("**UICE**"), the Crimean Interbank Currency Exchange ("**CICE**") and Interregional Stock Union ("**ISU**"). The Bank is member of REUTERS international network, the Ukrainian First Stock Trading System ("**PFTS**"), the Association of Ukrainian Banks ("**AUB**"), the Kharkiv Banking Union ("**KhBU**"), the Kyiv Banking Union ("**KBU**"), the Crimean Banking Union ("**CBU**"), the European Business Association ("**EBA**"), the Association of Ukrainian Taxpayers ("**AUTP**"), the Ukrainian Interbank Payment Systems Member Association 'EMA' ("**EMA**"), the Ukrainian National Mortgage Association ("**UNMA**"), the Household Deposit Guarantee Fund ("**HDGF**"), the Kyiv Chamber of Commerce and Industry ("**KCCI**") and the American Chamber of Commerce in Ukraine ("**ACC**"). The Bank is authorised to execute operations related to the circulation of Ukrainian Pension Fund bills.

BNP Paribas

In April 2006, BNP Paribas acquired 51 per cent. of the Bank's share capital following the granting of the requisite approvals by the AMC and the NBU. As a result, BNP Paribas is now the parent company of the Bank, with substantially all of the remaining 49 per cent. of the Bank's share capital (apart from 0.003 per cent. in the hands of minority shareholders) being controlled by the Ukrainian Shareholders (see "*Shareholding*").

The Supervisory Council includes five representatives of BNP Paribas out of a total nine members, the remaining four members being representatives of the Ukrainian Shareholders. The BNP Paribas Group has agreed to provide both temporary and permanent staff to contribute towards further development of the Bank. Permanent staff will comprise a number of representatives at operational and management levels (including senior management), who will contribute BNP Paribas's expertise in tactical and strategic planning to the development of the Bank's business and help fill gaps in the Bank's needs for qualified staff. It is expected that such staff will be seconded to the Bank for periods of between two and five years. As of the date of this Prospectus, the Bank's management team includes BNP Paribas representatives holding the positions of Chairman of the Supervisory Council, Deputy Chairman of the Management Board/Head of the Risk Management Department, Deputy Chairman of the Management Board responsible for Information Technology, Head of the Consumer Financing Department (Cetelem) and Head of the Marketing Department (see "*Management*"). The Bank believes that the presence of BNP Paribas's representatives on its management team will assist the Bank in implementing its plans to develop its product range and improve the quality of its services.

Following BNP Paribas's acquisition of its 51 per cent. majority interest, the Bank began a large-scale restructuring process which is aimed at conforming its operations, policies and procedures to the BNP Paribas Group's best practice, with particular emphasis on the following:

- improving its management systems;
- streamlining and improving IT-based systems and adopting BNP Paribas standards;
- standardising products and operational procedures in retail, corporate and investment banking to meet BNP Paribas Group standards;
- implementing customer relationship management policies in corporate banking and retail banking;
- enhancing internal and external communications strategies, including the adoption of the BNP Paribas Group's image, brand and logos; and
- optimising processes and procedures within the Bank's business support divisions, including its back office, marketing, accounting and administrative departments.

For more information regarding BNP Paribas, see "*BNP Paribas Group*".

Strategy

The Bank's ultimate strategic goals are to become a leading universal bank offering a wide range of financial services to individuals, SMEs and large corporate clients; to expand its strong retail banking business and consolidate and expand its strong market position in the investment banking and corporate banking sectors in Ukraine; and to develop its retail banking network with a view to having 1,000 outlets throughout Ukraine by the end of 2006, as well as through alternative sales channels.

The Bank's strategic objectives for the years 2007-2009 are:

- *intensification of spending per product and the number of products utilised by each customer*. The Bank believes that this will generate greater customer loyalty, enable the Bank to exploit new opportunities by cross-selling its products and help the Bank to develop a more personalised relationship with its customers;
- *acquisition of new customers*. While the Bank's customer base has grown significantly in recent years and the overall trend in Ukraine is towards expansion of the banking sector as a whole, the Bank intends to increase the number of its customers in excess of projected growth for the sector as a whole, which will entail developing and offering its customers new solutions, products and services; and
- *enhancing network performance by–*
    - increasing the use of its salary payment cards through better ATM coverage and new distribution channels. The Bank plans to expand the geographical coverage of its ATM network and upgrade its ATMs with a view to achieving the third largest ATM network in Ukraine in order to increase the use of salary payment cards, which are debit cards issued to employees of its corporate customers. The Bank currently has the sixth largest ATM network in Ukraine;
    - increasing the number of POS, with a view to attracting more customers to the Bank;
    - enhancing systems for monitoring the performance of the Bank's outlets and improving underperforming outlets; and
    - recruiting and retaining key personnel and management of the highest calibre. The Bank intends to increase its headcount, especially in the Bank's outlets and the Head Office. The Bank will maintain its strong commitment to train and develop its current employees and to guide them in the advancement of their careers within the Bank.

The Bank considers that its capacity to achieve its stated strategic objectives will be enhanced through its access to BNP Paribas's expertise and experience. In particular, the Bank intends to take advantage of BNP Paribas's product expertise, know-how (including in particular its cross-selling know-how) and international client base and apply this to its extensive network in, and knowledge of, the Ukrainian market to further develop its activities, particularly its retail, consumer finance and corporate and investment banking businesses. The Bank also believes that BNP Paribas's experience of operating in the international financial markets and its use of advanced technologies will assist the Bank in training its staff and enhancing the level and quality of customer service and enable the Bank to optimise its product range.

In order to achieve its stated objectives, the Bank is pursuing the following specific strategies:

Expanding its Branch Network and Alternative Sales Outlets

The Bank intends to widen its network and create new outlets for its products and services, with a view to having 1,000 outlets throughout Ukraine by the end of 2006. The Bank provides its retail and corporate banking services through a number of distribution channels, primarily through its network of branches and banking units and also through alternative sales channels such as Internet banking and telephone banking. In 2002, the Bank began to expand its branch network in those regions of Ukraine which account for a relatively high share of Ukraine's gross national product ("**GNP**") or have high concentrations of businesses or population. As of 31 October 2006, the Bank had 16 full-scale branches and 953 banking units throughout Ukraine. The Bank intends to continue to expand its branch network by opening approximately 100 additional branches and banking units by the end of 2006, primarily in major cities and in regions of Ukraine that are experiencing strong economic growth. The Bank expects that the current branch network expansion phase will be largely complete by 2007. Decisions on whether to open new branches and banking units in the future will be made depending on the Bank's assessment of its customers' needs.

In addition, the Bank plans to increase the volume of retail sales through Internet banking and telephone banking by promotional activities and through improvements in its internal operating systems (see "*– Improving Internal Operating Systems and Utilising New Technologies*" below).

Developing its Retail and Investment Banking Businesses

Management believes that the retail and investment banking sectors will provide the greatest opportunities for growth in Ukraine over the next few years. Accordingly, in addition to expanding its branch network and alternative sales channels, the Bank plans to expand its retail banking business and, in particular, its mortgage lending, automobile loans and micro-financing services. In retail lending, the Bank has established 26 mortgage centres and consumer lending centres located in Kyiv and 16 other major regional cities, which are specialised banking units offering home buyers insurance and ancillary services (such as notary services) in addition to mortgages and consumer lending (see "*– Branch Network*" below). The Bank plans to open six additional mortgage centres and consumer lending centres by the end of 2006. In investment banking, the Bank intends to maintain and improve its reputation as the leading underwriter in the domestic bond market and develop its business in the areas of structured financing, advising on mergers and acquisitions, initial public offerings, privatisation of state assets and advising Ukrainian companies on external borrowing. The Bank has a team of qualified staff who are in the process of developing new investment banking products. It is also marketing its investment banking products to targeted customers. See also "*– Developing its Consumer Finance Service Business Based on BNP Paribas's Cetelem Branded Service*" below.

Developing its Consumer Finance Service Business Based on BNP Paribas's Cetelem Branded Service

In July 2006, the Bank created a new Consumer Finance Department under the "Cetelem" brand, to carry out its consumer goods lending operations. Cetelem is a BNP Paribas branded consumer finance service department which will be staffed by managers with broad international expertise provided by BNP Paribas, and locally trained Ukrainian managers with an in-depth knowledge of the local market. The new department was formed primarily to enable the Bank to enter the new market of consumer loans provided in retail stores and to offer additional retail loan products. The Bank believes that the experience and capabilities of BNP Paribas's Cetelem branded service combined with the Bank's ability to promote retail loan products to customers in Ukraine will enable the Bank to significantly develop its consumer lending business in Ukraine.

Cetelem is the leading supplier of consumer credit in France and in continental Europe (in accordance with the BNP Paribas Group's calculation of the market share of market participants based on their outstanding loans as indicated in their published annual reports for the year 2005) when compared with the entire European consumer credit market (according to the European Credit Research Institute), with €47.3 billion in outstanding loans as of 31 December 2005, of which 57 per cent. was in France and 43 per cent. or €20.6 billion was outside France. Cetelem has more than 18,000 staff throughout the world (of whom 60 per cent. are based outside France), and currently operates in 25 countries, including 17 European countries. For more than fifty years, Cetelem has contributed to making consumer credit a modern and pragmatic solution to help consumers manage their household budgets. Cetelem has 300,000 affiliated retailers, more than 30 million customers worldwide and 42 large scale partnerships with retailers, utilities, banks and insurance companies.

The Bank expects that Cetelem will contribute through its Consumer Finance Department to the Bank's ability to develop key areas of its consumer finance business in Ukraine – building strong relations and partnerships with retailers, risk-management, operational and after-sales support, marketing and sales – and assist the Bank in its endeavours to achieve a leading position in the consumer finance market within the next few years.

Improving its Internal Operating Systems and Utilising New Technologies

The Bank plans to continue to invest in technology and make improvements to its organisational structure to increase market penetration and make its banking services more convenient for its customers. In order to improve efficiency and reduce personnel costs as its branch network expands, the Bank is taking steps to standardise technology in use at its branches and units, standardise procedures for opening new branches, unify trading technology and centralise management, control and operations capacities in its Head Office. In particular, the Bank is implementing the modern banking system SAP for Banking, and most retail transactions (including cash payments) are now processed using this system. The implementation of SAP software has enhanced the Bank's scoring, lending decision-making, front-office, back-office and day-to-day reporting functions. The Bank has already begun to implement some of BNP Paribas's IT solutions and intends to take draw upon BNP Paribas's expertise and experience in further developing and improving its IT infrastructure so as to meet BNP Paribas standards.

Diversifying its Loan Portfolio and Funding Base

The Bank intends to continue to diversify its loan portfolio and deposit base. In particular, by the end of 2007 the Bank intends to increase the share of retail loans in its total loan portfolio, to increase the amount of small loans (under U.S.$100,000) in its loan portfolio and to increase the share of retail deposits as a proportion of total deposits, with the aim of reducing overall credit risk and increasing the stability of its deposit base. Beginning in mid-2005, the Bank began to expand and diversify its retail lending activities by offering loans to SMEs. Retail lending to SMEs increased significantly during 2005 and the first half of 2006 having grown from 18 per cent. of the Bank's loan portfolio as of 31 December 2005 to 20 per cent. as of 30 June 2006 (according to the Bank's management accounts prepared in accordance with Ukrainian Accounting Standards).

Improving the Quality and Range of its Corporate Banking Services

While the Bank focuses on expanding its retail and SME customer base, as it expects that there will be greater potential for growth in these banking segments, it also plans to increase its share of the corporate banking market in Ukraine by continuing to improve the quality, and by expanding the range, of services that it provides to corporations. The Bank seeks to improve the quality of its services in various ways, such as reducing cut-off periods for clearing with correspondent banks and increasing the ratio of staff assigned to individual corporate customers. The Bank markets itself to potential corporate customers as a bank that is able to provide a full range of banking services. The Bank also studies the industry and the regions in which its customers operate and tailors its services to the requirements of the particular industry and/or region. The Bank believes that by building a reputation for providing high-quality banking products and services to strategic clients it will be able to expand its services to their affiliates and counter-parties.

The Bank believes that BNP Paribas's capabilities and brand name will greatly assist it in increasing its market share in the corporate banking market, by enabling the Bank to attract new clients, including, in particular, large international corporates operating in Ukraine and Ukrainian companies operating in Western markets.

Developing Non-Banking Services

The Bank plans to expand its existing and develop new non-banking products and services including insurance, finance leasing and asset management and to establish further mortgage centres and consumer lending centres (in addition to its 26 existing mortgage centres and consumer lending centres located in Kyiv and 16 other major regional cities) offering home buyers insurance and ancillary services (such as notary services) in addition to mortgages, as described in "*– Developing its Retail and Investment Banking Business*" above. It is expected that such non-banking services will generate additional revenues and provide the Bank with cross-selling opportunities.

Developing its Employees' Professional Skills and Qualifications Through Training

Part of the Bank's strategy is to develop the professional skills and potential of its staff through a mixture of training programmes and by stimulating their individual skills so as to encourage the continuous growth of their professionalism and a creative approach to problem-solving, which will enable it to continue to enhance the quality of its services. For example, the Bank has established its own study centres in several regions of Ukraine, which train staff in skills such as negotiation, planning and customer relations through a mixture of classroom and practical sessions, home study, video courses and online training. The Bank also intends to draw upon BNP Paribas's extensive human resources expertise and experience by adopting certain of its personnel development programmes and seconding employees to BNP Paribas for training and skill sharing. The Bank plans to hire additional staff as its branch network expands and all new staff will be required to undergo training. See "*Employees*".

Market Position and Competition

As of 1 October 2006, there were a total of 190 commercial banks registered in Ukraine, 166 of which have been granted licenses by the NBU to perform banking transactions, compared to 185 registered banks and 163 banks with NBU licenses as of 1 October 2005. Commercial banks operating in Ukraine are divided by the NBU into four groups according to size of assets. As of 1 October 2006, the first group comprises twelve major banks with total assets of more than UAH 5.3 billion, including Privatbank, Raiffeisen Bank Aval, UkrSibbank, Prominvest, State Export-Import Bank of Ukraine (Ukreximbank), UkrSotsbank, Raiffeisenbank Ukraina, Oschadny (Savings) Bank, Nadra and Bank Finance and Credit. The second group comprises 15 banks with total assets ranging from UAH 2.5 billion to UAH 5.7 billion. The third group comprises 28 banks with total assets ranging from UAH 0.6 billion to UAH 2.6 billion. The fourth group comprises 111 banks with total assets ranging from UAH 0.04 billion to UAH 2.3 billion.

As of 1 January 2006, the minimum regulatory capital requirements were €7.0 million, €4.5 million and €1.4 million for national banks, regional banks and cooperative banks, respectively. Two out of the twelve largest banks in Ukraine, Ukreximbank and OschadBank, are state owned. As of 1 September 2006, thirty banks in Ukraine have some foreign capital and eleven of those banks are fully foreign owned. According to information published by the NBU, as of 1 July 2006, the total assets of banks in Ukraine were approximately UAH 255 billion (U.S.$50 billion), with the twelve largest banks accounting for approximately 57 per cent. of such total assets.

According to NBU data calculated under Ukrainian Accounting Regulations, as of 1 October 2006, UkrSibbank was the third largest bank in Ukraine by assets and shareholders' equity and fourth by loan portfolio. According to the AUB, as of 1 October 2006, the Bank was the second largest Ukrainian bank in terms of term deposits from corporates and the sixth in terms of term deposits from individuals. According to EMA data, as of 1 October 2006, the Bank was the fifth largest bank in Ukraine by number of issued bank cards and sixth by number of ATMs. According to the Ukrainian National Mortgage Association, as of the 1 July 2006, it was the third largest bank in terms of outstanding mortgage loans.

The Bank faces competition from a number of existing participants in the banking sector in Ukraine, particularly Privatbank, Raiffeisenbank Bank Aval, Ukrsotsbank and Raiffeisenbank Ukraina. Set out below is a brief description of the Bank's principal competitors.

Privatbank. Headquartered in Dnipropetrovsk, with a branch in Cyprus and representative offices in Russia, Kazakhstan and Moldova, Privatbank is the largest bank in terms of assets, customer deposits and loans, based on statistics from the NBU. As of 1 October 2006, it had total assets of UAH 29.5 billion according to the NBU. It is the largest issuer of cards in Ukraine and has the second largest network of branches. It also has an extensive network of ATMs and 56 per cent. of the market for merchant services (POS-terminals installed at retailers) according to the EMA.

Raiffeisen Bank Aval. Headquartered in Kyiv, it is the second largest bank in terms of total assets in Ukraine based on statistics from the NBU. As of 1 October 2006, it had total assets of UAH 25.2 billion according to the NBU. According to the Ukrainian National Mortgage Association, as of 1 July 2006, it was the first bank by outstanding mortgage loans. It is one of the largest issuers of cards in Ukraine and has a significant network of branches and ATMs to service its customers. The Bank considers Raiffeisen Bank Aval to be UkrSibbank's main competitor in corporate and retail banking.

Ukrsotsbank. Ukrsotsbank is the sixth largest bank in Ukraine in terms of assets, based on statistics from the NBU, and has an extensive network of branches throughout Ukraine. As of 1 October 2006, it had total assets of

UAH 14.2 billion according to the NBU. According to the Ukrainian National Mortgage Association, as of 1 July 2006 it ranked second by outstanding mortgage loans.

Other banks. The extensive branch network of Oschadny (Savings) Bank makes it one of the Bank's main competitors with respect to retail banking, although the Bank does not consider it be a strong competitor. Management considers that Prominvestbank is one of its major competitors in corporate banking services. Among foreign banks, major competitors in corporate banking are Citibank and HVB Bank Ukraine. Niche competitors in the SME banking segment are ProCredit Bank and Kreditprombank.

In the niche sector of personal and POS loans, UkrSibbank's major competitors are Privatbank (operating under the New Credit brand), Nadra (under the Eurocredyt brand), PPF group (under the Prostocredit brand), Alfa-Bank (under the Momentary Credit brand), Pravex-bank and two new players – Uni Credit (Italy) and Russian Standard (Russia).

Management considers that the Bank's competitive strengths include the speed with which it makes lending decisions, its individual approach to its corporate and individual customers, the range of its banking and non-banking services, its extensive network of branches, its strategic relationship with BNP Paribas and its ability to access funding from its majority shareholder and from the international capital markets at cheaper rates than those available in Ukraine.

Banking Services

The Bank primarily provides corporate, retail and investment banking services, as well as certain non-banking services.

Corporate Banking

Corporate banking is the Bank's principal banking segment. In addition to providing standard corporate banking services, the Bank aims to assist corporate customers in their business development by providing advice and consultancy services, especially with respect to key strategic clients (being those customers for whom the Bank provides a range of banking products such as lending, deposit taking and cash settlement services), and aims to provide banking services to their affiliates and counterparties. In 2002, the Bank was the first Ukrainian bank to begin offering combined packages of products and services aimed at corporate customers, which enable such customers to reduce their banking costs by increasing efficiency while at the same time generating increased sales for the Bank. Banking services currently marketed to potential strategic and other corporate customers include term deposit and current accounts, loans and cash settlement transactions.

The Bank's corporate banking customers receive service packages tailored to their business and industry needs and have access to dedicated managers at the Bank who are familiar with their operations and markets. These managers work with up to five key and strategic clients that, for the most part, operate in the same industry. The Bank provides to key and strategic customers certain complementary services in addition to its core corporate banking services, which are viewed by the Bank as important in building and maintaining client relationships.

The Bank has more than 63,000 individual corporate customers, including approximately 3,000 corporations, 30,000 SMEs and 30,000 private entrepreneurs in Ukraine. The Bank's corporate banking customers include large corporations, including a number of companies with an established reputation in Ukraine and abroad, and represent a range of industries, predominantly commerce and finance, agriculture and food, chemical industry, motor vehicle trading, property construction, manufacture and machinery building. Other corporate banking customers include regional governments and municipalities. In addition, the Bank enters into commercial banking transactions in the ordinary course of business with significant shareholders, directors, companies with which the Bank has significant shareholders in common and other related parties (see "*Related Party Transactions*").

The Bank is the fourth largest Ukrainian bank in terms of corporate deposits, the second largest Ukrainian bank in terms of term deposits from corporate customers and the fourth largest Ukrainian bank in terms of corporate loans as of 1 October 2006, according to the AUB. The Bank's deposits from and loans to corporations have increased overall since 1 January 2005. Corporate current accounts increased by 98 per cent. from UAH 636.5 million as of 31 December 2004 to UAH 1,257.9 million as of 31 December 2005 and by a further 57 per cent. to UAH 1,973.7 million as of 30 June 2006, while corporate term and guarantee deposits increased by 17 per cent. from UAH 1.20 billion as of 31 December 2004 to UAH 1.40 billion as of 31 December 2005 and by a further 17 per cent. to UAH 1.64 billion as of 30 June 2006. Corporate deposits accounted for 27 per cent. of the Bank's total liabilities as of 31 December 2005 and 28 per cent. as of 30 June 2006. The size of the Bank's gross corporate loan portfolio increased from UAH 2.41 billion as of 31 December 2003 to UAH 2.84 billion and UAH 4.85 billion as of 31 December 2004 and 2005, respectively, and to UAH 6.57 billion as of 30 June 2006. The expansion in the Bank's corporate lending business is due principally to the growth of the Ukrainian economy in recent years and increased demand for banking services by Ukrainian companies.

Corporate Banking Services

The Bank's corporate banking services include deposit taking, corporate lending, trade finance, cash settlement transactions and other corporate banking services.

Deposit taking. The Bank was the fourth largest Ukrainian bank in terms of corporate deposits and the second largest Ukrainian bank in terms of term deposits from corporate customers as of 1 October 2006, according to the AUB. Total corporate deposits of the Bank were UAH 2.66 billion as of 31 December 2005 and UAH 3.63 billion as of 30 June 2006. The Bank offers a range of corporate deposit products, including deposit lines (interest-bearing accounts which allow customers to make deposits or withdrawals at any time), advance deposits (which pay interest for the entire term of the deposit in advance) and term deposit accounts (which pay interest each month or at other periods agreed with the customer).

Corporate lending. The Bank was the fourth largest Ukrainian bank in terms of corporate loans as of 1 October 2006, according to the AUB. The Bank's corporate lending activities include hryvnia and foreign currency denominated loans and credit-related products, including overdraft facilities, revolving lines of credit, bank guarantees and letters of credit. The Bank also offers project finance and investment loans through its dedicated Project Finance Centre. From its inception, the Bank traditionally focused on lending to major manufacturing and trading companies. The share of loans to the Bank's twenty largest borrowers decreased from 36 per cent. of its total loan portfolio as of 31 December 2003 to 28 per cent. as of 31 December 2004, 22 per cent. as of 31 December 2005 and 22 per cent. as of 30 June 2006. The Bank provides short-term and medium-term loans to corporate customers. As of 30 June 2006, no less than 90 per cent. of such loans were fully secured. The Bank's corporate loan portfolio grew by 71 per cent. from 31 December 2004 to 31 December 2005 and by 35 per cent. from 31 December 2005 to 30 June 2006.

Trade Centre

The Bank undertakes its trade financing activities through its Kiev Trade Centre, a division of the Bank responsible for the sale, processing and monitoring of the Bank's trade finance products. The Kiev Trade Centre operates under the BNP Paribas "trade centre" brand and was officially established in July 2006 as the eightieth such trade centre in BNP Paribas's trade service group. BNP Paribas's branded trade centres are located in more than 50 countries throughout the Americas, Europe, Asia, the Middle East, Africa and Australia. All such trade centres are connected via a single database and work in close co-operation with each other, offering their clients high quality services at competitive prices.

The clients of the Kiev Trade Centre are Ukrainian companies involved in international trading with different types of products, goods and materials. At present, the Kiev Trade Centre offers its customers the following range of services:

- letters of credit secured by various forms of collateral, including pledges of goods, equipment, real estate, and production facilities;
- confirmation of export letters of credit;
- international bank guarantees issued by the Bank and re-issuance of guarantees by BNP Paribas worldwide;
- financing of clients' export-import operations, mainly secured by pledges of the goods being financed;
- assistance in identifying prospective trade partners throughout more than 50 countries worldwide; and
- advising on foreign trade law and the reliability of potential trade partners.

After three months' activity, the Kiev Trade Centre's documentary credit portfolio (consisting of documentary off-balance sheet operations, including letters of credit, warranties and similar instruments) totalled approximately €18 million (or approximately U.S.$23 million), while its loan portfolio exceeded U.S.$38 million (which is within the established customer credit limit of U.S.$55 million) and the aggregate value of documentary instruments under preparation for launch prior to the end of 2006 was approximately €30 million (or approximately U.S.$38 million).

Cash settlement transactions. The Bank earns significant fees and commissions from corporate customers by providing cash management and transfer services utilising advanced information technology, including payroll services for more than 4,900 public and private sector employers as of 1 October 2006, whereby salaries are directly deposited by the employer with the Bank and can be withdrawn by employees using MasterCard or Visa credit cards issued by the Bank

Other corporate banking services. In addition to the core corporate banking services described above, the Bank also offers corporate customers services such as foreign exchange operations.

Retail Banking

Retail banking is the Bank's second largest and its fastest growing business segment. The Ukrainian retail banking market overall has been experiencing high growth rates since the beginning of 2005. According to the NBU, the total value of loans to individuals in Ukraine as of 1 January 2006 was UAH 33.2 billion compared to UAH 14.6 billion as of 1 January 2005, representing an increase of 127 per cent. By 1 October 2006, the market volume of retail loans in Ukraine had reached UAH 61.8 billion.

The Bank offers a full range of retail banking services and was among the six leading banks in Ukraine in terms of retail deposits and the third largest Ukrainian bank in terms of retail loans as of 1 October 2006, according to the AUB. The Bank's deposits from and loans to retail customers have increased significantly since 1 January 2005. Retail deposits increased by 84 per cent. from UAH 1.45 billion as of 31 December 2004 to UAH 2.68 billion as of 31 December 2005 and by a further 11 per cent. to UAH 2.98 billion as of 30 June 2006. Retail deposits comprised 27 per cent. of the Bank's total liabilities as of 31 December 2005 and 23 per cent. as of 30 June 2006. The size of the Bank's retail loan portfolio, including micro-financing loans, increased from UAH 399 million as of 31 December 2003 to UAH 954 million as of 31 December 2004, UAH 3,187 million as of 31 December 2005 and UAH 4,469 million as of 30 June 2006, respectively. The expansion in the Bank's retail lending business is due principally to the growth of the Ukrainian economy in recent years, increased public confidence in the banking system and increased demand for banking services by Ukrainian retail customers.

Retail Banking Services

Retail banking services offered by the Bank include deposit taking, retail lending (including, among others, mortgage lending and automobile loans), cash settlement transactions and bank card products and services. The Bank provides retail loans to customers throughout Ukraine.

Deposit taking from private individuals. Retail deposits principally include current accounts, savings accounts which pay interest per month or quarter and fixed term savings accounts which pay interest on maturity. Deposit accounts are available in hryvnia and foreign currency. The Bank had retail deposits as of 30 June 2006 totalling UAH 2,979 million (compared with UAH 2,675 million as of 31 December 2005).

Retail lending. The Bank has significantly increased its retail loan portfolio from UAH 954 million as of 31 December 2004 to UAH 3,187 million as of 31 December 2005, which represents an increase of 234 per cent. over such period. The Bank's retail loan portfolio further increased to UAH 4,469 million as of 30 June 2006. Beginning in mid-2005, the Bank began to expand and diversify its retail lending activities to include SMEs. Retail lending to small- and medium-sized businesses increased significantly during 2005 and the first six months of 2006, which has allowed the Bank to diversify its loan portfolio. The Bank concentrates retail lending in four primary areas:

- *Mortgage loans*. As of 30 June 2006, mortgage loans accounted for approximately 47 per cent. of the Bank's total loans to retail customers (compared with 44 per cent. as of 31 December 2005). The Bank has established 26 mortgage centres and consumer lending centres located in Kyiv and 16 other major regional cities, which offer home buyers insurance and ancillary services (such as notary services) in addition to mortgages and consumer lending and plans to open six additional mortgage centres and consumer lending centres by the end of 2006. The provision of mortgage loans is concentrated in Kyiv and other major regional cities;

- *Automobile loans*. As of 30 June 2006, automobile loans accounted for approximately 23 per cent. of the Bank's total loans to retail customers (compared with 25 per cent. as of 31 December 2005). The provision of automobile loans is concentrated in Kyiv and other major regional cities;

- *Micro-financing for private entrepreneurs*. As of 30 June 2006, Management estimates that micro-financing accounted for approximately 18 per cent. of the Bank's total loans to retail customers (compared with 17 per cent. as of 31 December 2005). The Bank introduced micro-financing in 2002, whereby the Bank extends loans to small- and medium-sized businesses (including individual entrepreneurs and companies) on favourable terms and conditions for the purpose of enhancing and developing or diversifying their businesses; and

- *Consumer goods loans*. As of 30 June 2006, consumer goods loans accounted for approximately 12 per cent. of the Bank's retail loans (compared with 14 per cent. as of 31 December 2005). In July 2006 the Bank created a new Consumer Finance Department, Cetelem, to carry out its consumer goods loans operations. See "*Strategy – Developing its Consumer Finance Service Business Based on BNP Paribas's Cetelem Branded Service*".

Cash settlement transactions. The Bank provides cash management and payroll services to retail customers, including direct payment of salaries to public and private sector employees, social security payments, benefits and State pensions. The Bank also conducts cash transfers via Western Union and other cash transfer systems, cashing cheques, cash withdrawals over the counter or via ATMs and currency exchange.

Bank card products and services. The Bank is a principal member of MasterCard and Visa and has entered into an agency agreement with American Express. As of 1 October 2006, the Bank had issued more than 1,770,000 payment cards (which is twice the number in issue as of 1 October 2005), including more than 770,000 credit cards.

In line with the Bank's general strategy of targeting customers at various income levels, the Bank offers a range of international debit cards which are designed for different categories of customers: Maestro and Visa Classic *Econom* (for new users, students and pensioners), MasterCard Mass and Visa Classic (for middle-income customers), MasterCard Gold and Visa Gold or Visa Platinum (for high-income customers), Visa Infinite for private-banking customers, MasterCard Business and Visa Business (for corporate customers).

During 2005 and 2006 the Bank has actively marketed Visa, MasterCard and American Express credit cards to retail customers of all income levels as well as corporate customers. The Bank offers overdraft facilities and a variety of additional services to bank card holders, including direct deposit, ATM services, GSM-banking (whereby customers receive information via mobile telephone), telephone banking and Internet-banking.

Investment Banking

The Bank provides a range of investment banking services primarily to corporate customers and certain high net worth individuals.

Investment Banking Services

Investment banking services primarily include debt capital markets activities, brokerage services and proprietary trading, foreign exchange spot and money market activities, repo transactions, corporate finance and research.

Debt capital market activities. The Bank provides advisory and consulting services and underwrites domestic bond offerings. The Bank also undertakes the origination of syndicated loans and commercial paper transactions. In the period from 2001 to the third quarter of 2006 (inclusive), the Bank acted as lead manager or as a co-manager in 45 domestic bond offerings of major Ukrainian companies, such as the mobile telephone company CJSC Kyivstar GSM, the State international airport Borispil, a subsidiary of the national gas transport company National JSC Naftogas Ukrainy Ukrtransgas, Sarmat Breweries, AVK and Konti Confectionary, Azot Chemicals, ProCredit Bank (Ukraine) and Druzhba narodiv Nova (Mironovsky Khliboproduct) Poultry, and municipal domestic bond offerings by the cities of Kyiv, Zaporizhya, Kharkiv, Odessa and Donetsk.

Brokerage services and proprietary trading. The Bank engages in brokerage activities on behalf of its corporate customers and high net worth private clients, primarily in the PFTS, the Ukrainian Inter-bank Currency Exchange and in over-the-counter markets, including trading in domestic corporate bonds and stocks, money market products, foreign currencies and promissory notes. The Bank also maintains a securities portfolio and engages in securities trading on its own account. According to the PFTS, the Bank was the leading corporate and municipal bond broker by volume of trades in the PFTS in 2004 and 2005.

Foreign exchange spot and money market activities. The Bank's foreign exchange spot and money market activities consist of inter-bank lending and foreign exchange spot, forward and derivatives transactions on behalf of its customers and for its own account. The Bank's derivative transactions are limited as a mature derivatives market does not yet exist in Ukraine

REPO transactions. The Bank engages in repo and reverse repo transactions secured by corporate, municipal and local government bonds.

Corporate finance. The Bank's corporate finance services include advising on and financing mergers and acquisitions and initial public offerings, consulting services in connection with structured finance and advising on financial strategy and the privatisation of state assets.

Research. The Bank's research services consist of weekly reports covering various segments of domestic capital markets, including the Ukrainian corporate and municipal bond market, the Ukrainian government bond market and the money market. Weekly reports also include a brief description and analysis of new issuers. According to Cbonds.ru (a Russian financial information agency), the Bank's research team was the best in the local bond market in 2005.

Non-Banking Services

Insurance and Leasing

The Bank offers products which combine banking products and non-banking financial services, such as loans combined with insurance on the property used to secure the loan, the preparation of lease agreements and other combined products. In order to enable it to offer its customers a one-stop-shop service (comprising banking products combined with non-banking financial services), the Bank has two subsidiaries, CJISC "Ukrainian Insurance Alliance" and LLC "Ukrainian Leasing Company", which provide insurance and leasing services, respectively (see "*– Subsidiaries and Special Purpose Entities*"). The Bank is considering selling a 50 per cent. stake in its insurance arm to an insurance group and establishing a joint venture.

Asset Management

In order to extend the range of its corporate finance services, the Bank established its subsidiary JSC Asset Management Company UkrSib Asset Management for the purpose of providing asset management services. In 2004, JSC "Asset Management Company 'UkrSib Asset Management'" established OJSC "Closed Non-diversified Corporate Investment Fund 'UkrSib Stabilny Dohod'" and two unincorporated investment funds, venture capital investment fund "Venture Capital" and investment fund "UkrSib Stabilny Investitsii'". In 2006, OJSC "Closed Non-diversified Corporate Investment Fund 'UkrSib Strategichnie investitsii" was established. As of 1 October 2006, the total volume of assets managed by JSC "Asset Management Company 'UkrSib Asset Management'" amounted UAH 134.8 million. Asset management services do not currently account for a material part of the Bank's revenues.

Branch Network

As of 31 October 2006, the Bank had 16 full-scale branches and 953 banking units in 185 towns and cities in Ukraine. Branches are regional departments of the Bank that have their own credit committee, internal audit function and lending limits. The Bank's 953 banking units consist of 26 mortgage centres and consumer lending centres, 827 universal banking units (divided into categories according to size) and 100 dedicated service centres, which provide the following services:

Mortgage centres and centres of consumer lending. The Bank has established 26 mortgage centres and consumer lending centres located in Kyiv and 16 other major regional cities, which offer home buyers insurance and ancillary services (such as notary services) in addition to mortgages and consumer lending.

Universal banking units. Universal banking units provide a full range of banking products and services. Universal banking units are divided by size into categories "A" (with twelve or more staff), "B" (with from seven to twelve staff) and "C" (with up to seven staff). As of 31 October 2006, the Bank had 337 category "A", 321 category "B" and 169 category "C" banking units.

Service centres. Service centres are dedicated banking units which provide banking services to particular corporate clients or groups and are often located at clients' premises.

The Bank is currently finalising the migration of its branches to its consolidated accounting system, which the Bank expects will result in staffing efficiencies and improvements in liquidity, risk and cost management.

Funding

The main sources of the Bank's funding are deposits from corporate and retail customers, debt securities in issue and international borrowings. The Bank relies on the interbank market primarily to manage its liquidity position. During 2005, customer deposits increased by 62 per cent. while the Bank's total assets base increased by 103 per cent. During 2004, customer deposits increased by 22 per cent. while the Bank's total assets base increased by 46 per cent. During the six-month period ended 30 June 2006, customer deposits increased by 24 per cent. while the Bank's total assets base increased by 31 per cent. During the six-month period ended 30 June 2005, customer deposits increased by 26 per cent. while the Bank's total assets base increased by 35 per cent. Customer deposits accounted for 52 per cent. of the Bank's liabilities as of 30 June 2006, compared with 54 per cent. as of 31 December 2005 and 71 per cent. as of 31 December 2004.

The following table sets out the composition of the Bank's customer accounts portfolio as of 30 June 2006 and 31 December 2005, 2004 and 2003.

	30 June 2006 (Unaudited)	31 December 2005	2004	2003
	(UAH'000)			
Legal entities				
Current accounts	1,981,362	1,257,932	636,481	459,971
Term and guarantee deposits	1,650,256	1,398,748	1,200,547	1,360,385
Individuals				
Current accounts	379,220	295,189	101,999	87,722
Term deposits	2,600,182	2,379,887	1,351,204	799,878
Total customer accounts	6,611,020	5,331,756	3,290,231	2,707,956

The following table sets out concentrations within customer accounts by economic sector as of 30 June 2006 and 31 December 2005, 2004 and 2003.

	30 June 2006 (Unaudited)		31 December 2005		2004		2003	
	(UAH'000)	%	(UAH'000)	%	(UAH'000)	%	(UAH'000)	%
Individuals	2,979,402	45	2,675,077	50	1,453,203	44	887,600	33
Manufacturing	717,223	11	701,509	13	382,255	12	271,860	10
Transport and communication	1,369,835	21	651,746	12	232,247	7	207,431	8
Commerce and trade	1,200,844	18	808,683	15	839,821	26	1,040,211	38
Financial services	241,974	4	303,673	6	69,757	2	81,626	3
Cultural and educational services	2,497	—	15,830	1	38,119	1	72,801	3
Other	99,245	1	175,238	3	274,829	8	146,427	5
Total customer accounts	6,611,020	100	5,331,756	100	3,290,231	100	2,707,956	100

The Bank has also raised funds through Eurobond offerings and through syndicated and bilateral credit facilities. In April 2004, Dresdner Bank Aktiengesellschaft issued U.S.$100 million 10.50 per cent. loan participation notes due 2007, on a limited recourse basis, for the sole purpose of financing a U.S.$100 million loan to the Bank bearing interest at a fixed rate of 10.50 per cent. per annum. The bonds are scheduled to mature on 5 April 2007. In June 2005, Bayerische Hypo- und Vereinsbank AG issued U.S.$125 million 8.95 per cent. loan participation notes due 2008, on a limited recourse basis, for the sole purpose of financing a U.S.$125 million loan to the Bank bearing interest at a fixed rate of 8.95 per cent. per annum. The bonds are scheduled to mature on 14 July 2008.

In November 2005, the Bank received a syndicated loan of U.S.$115 million. The loan matured on 20 November 2006 and was arranged by Citibank N.A. London Branch, Deutsche Bank AG, London Branch, Raiffeisen Zentralbank Österreich Aktiengesellschaft and JSC Vneshtorgbank.

In January 2006, the Bank received a trade finance facility of CHF 49.95 million from a non-banking financial institution for the purposes of financing the purchase of imported equipment and materials by the Bank's customers. The facility is repayable in December 2006.

During the period from June to September 2006, the Bank repaid U.S.$48.23 million of another trade finance facility received from a non-banking financial institution in 2005.

In July 2006 the Bank received a loan from BNP Paribas Finance p.l.c. in the amount of U.S.$80 million maturing on 16 July 2007 with interest payable on a quarterly basis.

In addition, the Bank has an uncommitted credit facility of approximately U.S.$1.1 billion from BNP Paribas for up to five years for the purposes of trade financing, corporate lending, working capital and money market operations. In June 2006, as part of this credit facility, the Bank received loans from its parent company, BNP Paribas, totalling U.S.$82 million and maturing in June 2007. In the period from August to September 2006, as part of this credit facility, the Bank received working capital financing totalling CHF 150 million maturing in the period from August to September 2009 at an interest rate of between 4.79 and 4.81 per cent. per annum, payable annually. In September 2006, also as part of this credit facility, the Bank received various trade finance and working capital facilities totalling U.S.$160.5 million maturing in the period from August to October 2007 at an interest rate of between 6.79 and 7.05 per cent. payable at maturity.

The Bank also raises funds in the inter-bank market in order to improve its short-term funding base. As of 31 December 2005, inter-bank funding amounted to 11 per cent. of the Bank's total liabilities, compared to 4 per cent and 12 per cent. as of 31 December 2004 and 2003 respectively.

In addition to borrowing in the inter-bank market, the Bank raises funding by selling securities under repo transactions. The Bank's main repo counterparties include ING Bank Ukraine, First Ukrainian International Bank and other Ukrainian banks and finance companies. Local government, municipal and corporate bonds are the primary assets used in repo transactions.

Capital Adequacy

The Bank complies with the NBU's mandatory minimum capital adequacy ratios for Ukrainian banks (which require Ukrainian banks to maintain sufficient capital to cover risk weighted assets, as described in more detail below). Set forth below are the Bank's capital and capital adequacy ratios calculated in accordance with the international framework for capital measurement and capital standards of banking institutions (the "**Basle Capital Accord**") set by the Basle Committee on Banking Regulation and Supervisory Practices (the "**Basle Committee**") in 1988 with the amendment to the Basle Capital Accord to incorporate market risks adopted in January 1996.

	30 June 2006 (Unaudited)	31 December 2005	2004	2003
		(UAH'000)		
Tier 1 capital				
Share capital	2,193,684	1,693,684	1,543,684	1,146,124
Share premium	5,461	2,060	2,060	2,060
Retained earnings/(Accumulated deficit)	(739,225)	(749,390)	(806,786)	(878,508)
Total Tier 1 capital	1,459,920	946,354	738,958	269,676
Tier 2 capital				
Revaluation reserve for investments available for sale	213	4,591	8,231	—
Revaluation reserve for equipment . .	—	—	3,958	3,958
Additional capital	6,974	6,974	6,974	3,394
Currency translation reserve	74	(992)	—	—
Subordinated debt	444,905	256,540	71,623	131,444
Total Tier 2 capital	452,166	267,113	90,786	138,796
Total capital	1,912,086	1,213,467	829,744	408,472
Banking book	12,794,613	9,683,482	4,553,044	3,092,101
Trading book	975,846	820,532	462,624	—
Risk weighted assets	13,770,459	10,504,014	5,015,668	3,092,101
Capital adequacy ratio	13.89%	11.55%	16.54%	13.21%

The nominal value of the Bank's shares issued and fully paid as of 30 June 2006 was UAH 1,250 million. The Bank's statutory capital as of such date consisted of issued and placed common stock in the amount of 25 billion shares with a nominal value of UAH 0.05 per share. On 27 March 2006, the shareholders of the Bank resolved to issue 10 billion shares totalling UAH 500 million. The placement of shares commenced on 1 May 2006 and was completed on 17 May 2006. All shares were fully paid by the end of May 2006. On 7 July 2006, the NBU registered the respective changes in the Bank's Charter. See below for details of a further increase in the Bank's capital since 30 June 2006.

The Basle Committee has set international standards for capital adequacy for banks. The NBU has established mandatory minimum capital adequacy ratios which are mandatory for Ukrainian banks and has also adopted norms based on the Basle Committee's standards. The NBU's mandatory minimum capital adequacy ratio is currently 10 per cent. The Bank's capital adequacy ratio calculated in accordance with the NBU regulations (being the ratio of capital to total risk weighted assets) was 10.6 per cent. as of 1 October 2006, which is in compliance with the mandatory minimum capital adequacy ratio currently set by the NBU. On 31 December 2005, the Bank's capital adequacy ratio was 10.9 per cent., as calculated in accordance with the NBU's requirements based on statutory Ukrainian accounting data (or 11.55 per cent., as calculated in accordance with the Basle Capital Accord, as shown in the table above).

The level of the Bank's net loans to customers has increased significantly over the last few years from UAH 2,615 million as of 31 December 2003 to UAH 3,532 million as of 31 December 2004 and UAH 7,759 million as of 31 December 2005. This growth in loans to customers and consequent growth in the Bank's risk weighted assets generally had a significant impact on the Bank's capital adequacy ratio in 2005. The Bank's total capital adequacy ratio increased from 13.21 per cent. as of 31 December 2003 to 16.54 per cent. as of 31 December 2004 and decreased to 11.55 per cent. as of 31 December 2005. The Bank's Tier 1 capital adequacy ratio increased from 8.72 per cent. as of 31 December 2003 to 14.73 per cent. as of 31 December 2004 and subsequently decreased to 9.01 per cent. as of 31 December 2005. As of 30 June 2006, the Bank's capital adequacy ratio and Tier 1 capital adequacy ratio were 13.89 per cent. and 10.60 per cent., respectively.

The Bank must maintain sufficient capital to cover increased risk weighted assets in order to maintain the capital adequacy ratios set by the Basle Committee and the NBU. In order to increase its level of capitalisation, on 8 September 2006, the Bank's shareholders adopted a decision to issue 10 billion additional shares totalling

UAH 500 million. The placement of shares commenced on 15 October 2006 and was completed on 7 November 2006. On 30 November 2006 the NBU registered the Bank's amended and restated Charter reflecting the increase in the Bank's share capital. (See "*Shareholding*".) In early 2007, the Bank's shareholders plan to issue an additional 7.5 billion shares totalling UAH 375 million.

In addition, the Bank has incurred subordinated debt in the form of subordinated loans from international financial institutions. As of 30 June 2006, the value of the Bank's subordinated debt amounted to UAH 483 million (compared with UAH 277 million as of 31 December 2005). The amount of subordinated debt included in the Bank's capital for the purpose of calculating its capital adequacy ratio is UAH 445 million or 23 per cent. of the Bank's total capital (compared with UAH 257 million or 21 per cent. of the Bank's total capital as of 31 December 2005). In August 2006, the Bank received a subordinated loan from its parent company, BNP Paribas, in the amount of U.S.$47,685,000 at an interest rate of 8.75 per cent. per annum maturing in August 2016.

Subsidiaries and Special Purpose Entities

The Bank conducts its operations itself and also provides certain services through its subsidiaries, LLC "Ukrainian Leasing Company", CJSC "Asset Management Company 'UkrSib Asset Management' ", CJSIC "Ukrainian Insurance Alliance" and Commercial Bank "UkrSibbank" LLC (formerly Commercial Bank "National Financial Traditions" LLC) (the "**Subsidiaries**") and through two special purpose entities, LLC "UkrSib-Finance" and LLC "Universal Leasing Company".

In February 2005, the Bank acquired 40 per cent. of the capital of Commercial Bank "National Financial Traditions" LLC, a bank established in the Russian Federation. This bank was renamed Commercial Bank "UkrSibbank" LLC ("**CBU**") later in 2005. As of the date of acquisition, the total assets of CBU amounted to RUR 283.7 million (equivalent to UAH 54.1 million at the exchange rate prevailing as of the date of the acquisition). In March 2005, the Bank entered into an agreement to purchase the remainder of the capital from the other participants, subject to the receipt of the necessary regulatory approvals. In July 2005, following the investment of an additional RUR 90 million, the Bank's share in the statutory capital of CBU increased to 62.5 per cent. In April 2006, following the granting of the requisite approvals by the NBU, the Central Bank of the Russian Federation and the Antimonopoly Committee of the Russian Federation, the acquisition of the remaining outstanding capital was completed and CBU became a wholly-owned subsidiary of the Bank.

None of the Bank's subsidiaries or special purpose entities accounts for a material part of the Bank's net assets or its revenue.

Property

The Bank owns or leases premises where its head office, branches and banking units are located. The Bank generally purchases premises in major cities, where it considers that the value of real estate is likely to increase; otherwise it leases premises. As of 30 June 2006, the total net book value of the Bank's premises was UAH 402.7 million (compared with UAH 286 million as of 31 December 2005).

Legal Proceedings

From time to time and in the normal course of business, the Bank is party to certain legal proceedings (including proceedings against delinquent borrowers). There are no legal proceedings pending or, to the Bank's knowledge, threatened, which could, individually or in the aggregate, have a material adverse effect on the Bank.

Information Technology

The Bank considers information technology to be an integral part of its business as it continues to seek to provide solutions for its clients' increasingly complex business needs and to maintain the transparency and efficiency of its operations. Accordingly, the Bank continues to invest significantly in this area to ensure that it is able to continue to provide the support necessary to maintain the quality of its services and sustain the growth of its operations. To this end, the Bank is implementing the modern SAP for Banking system.

Currently, most retail transactions are processed through the Bank's SAP system, which has the capacity to accommodate a broad range of retail transactions including processing payments and cash servicing. The SAP system is integrated with the Ukrainian national electronic payment system and SWIFT, and also allows the Bank to process clients' payment orders received through different channels – including the Internet and the Bank's Client-Bank system – and to provide transaction support to its clients 24 hours a day, seven days a week. The implementation of SAP software has enhanced the Bank's scoring, credit decision making, front-office, back-office and day-to-day reporting functions. The Bank anticipates that following the transfer of all of the Bank's loan portfolio to this system, the Bank's lending volumes will increase as a consequence of the improvement in the quality of recording of operational and reporting data. The Bank believes that the implementation of this Western style banking system on such a scale is unique not only for Ukraine, but also in Russia and other countries in the CIS and that use of the SAP software system will assist in the Bank to develop its business and enhance its competitiveness in the market (see "*Strategy – Improving its Internal Operating Systems and Utilising New Technologies*").

In addition, the Bank operates other software programs which facilitate the processing of debit card transactions, transactions made by private depositors, securities depositary operations, employee record keeping and document exchange between the Bank and its clients.

The Bank's capital expenditure on IT was U.S.$2 million, U.S.$10 million and U.S.$16 million in each of 2003, 2004 and 2005 and its planned IT budgets for 2006 and 2007 (including expenses related to network development, hardware and software) are U.S.$13 million and U.S.$14 million, respectively.

The Bank outsources some IT functions to leading international and domestic IT specialists. This enables it to reduce costs related to its IT infrastructure and to increase the quality of its services.

The Bank has already commenced various projects related to the implementation of best practice in IT solutions according to BNP Paribas standards and intends to draw on the significant experience of BNP Paribas to help it further develop and improve its IT infrastructure in order to meet BNP Paribas standards.

BNP PARIBAS GROUP

Business Overview

The BNP Paribas Group (of which BNP Paribas is the parent company) is a European leader in banking and financial services. It has around 140,000 employees, 110,000 of whom are based in Europe. The BNP Paribas Group occupies leading positions in three significant fields of activity: Corporate and Investment Banking, Asset Management and Services and Retail Banking. It is present in 85 countries and has a strong presence in all the key financial centres. Present throughout Europe, in all its business lines, France and Italy are its two domestic markets in retail banking. BNP Paribas enjoys a significant and growing presence in the United States and leading positions in Asia and in emerging markets.

As of June 30, 2006, the BNP Paribas Group had consolidated assets of €1,428.5 billion (compared to €1,258.1 billion as of 31 December 2005), consolidated loans and receivables due from customers of €377.1 billion (compared to €301.2 billion as of 31 December 2005), consolidated items due to customers of €295.8 billion (compared to €247.5 billion as of 31 December 2005) and shareholders' equity (including income for 2005) of €45.6 billion (compared to €40.7 billion as of 31 December 2005). Pre-tax net income for the first half-year ended 30 June 2006 was €5.8 billion (compared to €4.5 billion for the first half-year ended 30 June 2005). Net income for the first half-year ended 30 June 2006 was €3.9 billion (compared to €3.2 billion for the first half-year ended 30 June 2005).

The BNP Paribas Group currently has long-term senior debt ratings of 'Aa2' with stable outlook from Moody's, "AA" with stable outlook from S&P and 'AA' with stable outlook from Fitch. Moody's has also assigned BNP Paribas a Bank Financial Strength rating of 'B+' and Fitch has assigned BNP Paribas an individual rating of 'A/B'.

RISK MANAGEMENT

Overview

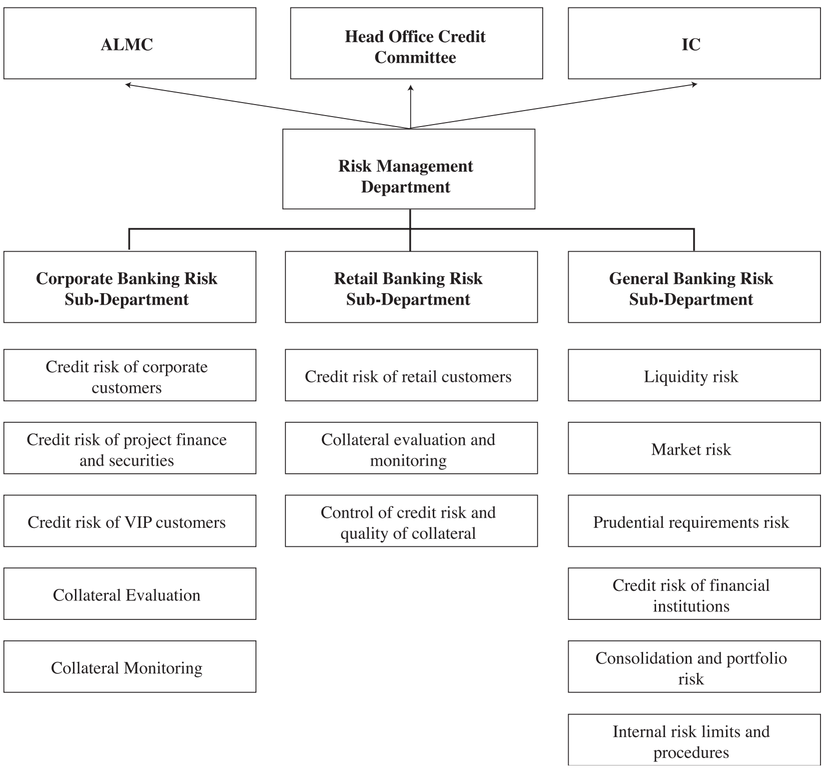
The Bank carries out risk management in respect of financial, operational and legal risks. Financial risks include credit risk, exchange risk, liquidity risk and interest rate risk. Operational and legal risk management involves ensuring that the Bank's internal procedures and policies are complied with so as to minimise exposure to such risks. The Bank's risk management systems are based on recommendations of the Basle Committee, although Ukrainian legislation does not yet impose obligatory compliance with such standards. The Bank's risk management policies and systems are continuously modified and enhanced to reflect changes in markets and products. The primary objective of the Bank's asset and liability management is to limit its exposure to liquidity and market risks while maximising profitability. The Bank's policy is to maintain a structure of assets and liabilities that optimises both long-term and short-term financial income while maintaining constant levels of income within the constraints of general market conditions.

The basic principles of the Bank's risk management policy are to centralise risk management (i.e., risk analysis and calculation is centralised and appropriate limits are set for the Bank's business divisions); maintain a balance between the level of risk and profitability; and ensure risks are continually monitored.

The Bank is currently working towards conforming its risk management policies and internal procedures to established BNP Paribas standards and is aiming to complete this exercise by the end of 2008.

Risk Management Bodies

Risk management policy, monitoring and control are conducted by a number of specialised divisions and units within the Risk Management Department ("**RMD**") under the supervision of the Asset and Liability Management Committee ("**ALMC**"), the Head Office Credit Committee and the Investment Committee ("**IC**"). The organisational structure and reporting lines of the Bank's risk management bodies are set out in the diagram below.



Asset and Liability Management Committee (ALMC)

The ALMC consists of nine of the Bank's senior managers and is chaired by the Chairman of the Bank's Management Board. The ALMC meets at least once every month. The ALMC is responsible for the control and management of the Bank's asset and liability structure. It also sets interest rates and maturities, compares the

Bank's performance ratios with its competitors and analyses its market share. In addition, the ALMC is responsible for managing risks and monitoring compliance with the limits it has set, reviewing reports on liquidity, interest and foreign exchange risk, establishing the methodology for carrying out risk calculation and setting limits and standards with the aim of balancing the level of risks and profitability.

Head Office Credit Committee and Branch Credit Committees

The Bank's Credit Committees comprise the Head Office Credit Committee, Credit Committee First Level and the Branch Credit Committees. The Head Office Credit Committee is chaired by the Chairman of the Management Board and also comprises the heads of the Corporate Banking, Legal, Security, Risks and Corporate Risks Departments. The Credit Committee First Level is chaired by the Deputy Chairman of the Board and has a similar structure to the Head Office Credit Committee. Each Branch Credit Committee has a similar structure to the Head Office Credit Committee. The authority of Branch Credit Committees to grant loans (in terms of the amount and terms of loans which they are authorised to grant to corporate and retail customers) is set by the Head Office Credit Committee. The authority of Head Office Credit Committee is determined by the Management Board.

The Credit Committees are responsible for approving loans, implementing the Bank's lending strategy, coordinating the activities of the Bank's departments and sub-committees and forming a balanced and diversified loan portfolio. Credit Committee approval is required to grant loans, make provisions and recover debt (including signing loan agreements and bringing claims or legal proceedings). The Head Office Credit Committee meets twice per week, while the Branch Credit Committees meet on an ad-hoc basis. Branch Credit Committees report directly to the Head Office Credit Committee.

Investment Committee (IC)

The IC of the Bank is chaired by the Chairman of the Management Board. The IC consists of seven of the Bank's senior managers including heads of the Risks, Investment Banking, Legal and Security Departments. The IC meets on an ad-hoc basis.

The IC is responsible for making all decisions which relate to the Bank's investment operations, including the approving of acceptable objects for investment, the establishment of limits for investments in debt and equity securities, the establishment of underwriting limits and the approval of real estate investments.

The IC is also responsible for the formulation of the investment policies of the Bank and for the analysis of the Bank's investment portfolio.

Risk Management Department (RMD)

The RMD assists the ALMC, Credit Committees and the IC in discharging their functions. Its functions include evaluating and analysing financial risks, monitoring compliance with limits, and making recommendations with regard to balancing risk and profitability, based on overall levels of risk and risks associated with particular business areas and banking products.

The RMD evaluates financial risks using information on the quality of assets and liabilities (including interest rates, amounts and maturities) from the Bank's business divisions, information on exposure limits, procedures and methodologies from the ALMC and details of planned levels of assets and liabilities and investments from the Financial Analysis and Planning Department. It then provides the ALMC with the results of its risk analysis and monitoring and its recommendations on setting or changing limits, and informs the Bank's business divisions, back office and Financial Analysis and Planning Department of the normative risk levels.

The RMD submits to the Credit Committees credit risk quality ratings required for particular loan transactions and recommendations for setting and changing lending decision-making authority, and monitors the quality of all ongoing loan transactions.

Based on information concerning loan applications from the Corporate Banking Department and the Investment Business Department (see "*Management – Management Structure*" and "*– Credit Risk – Credit Risk Related to Investment Business*" below) and information concerning customers' reliability, reputation and past payment record from the Legal Department, Security Department and back office, respectively, the RMD determines customers' creditworthiness and provides its conclusions to the Credit Committees, together with the results of its monitoring of loans, recommendations as to setting or changing limits and recommendations as to changing the Bank's internal procedures. It also determines the appropriate level of provisions.

The principal categories of market risk to which the Bank is exposed through its operations, and the way the Bank manages these risks, are described below.

Credit Risk

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

The Bank manages its credit risk by establishing internal policies aimed at maximizing risk-adjusted income by maintaining credit risk exposure within accepted limits, by setting, monitoring and reviewing credit ratings, by setting and authorising lending limits and by constantly monitoring the creditworthiness of its customers.

The RMD determines levels of overall risk by reference to customers and products. Specialised units within the RMD's Corporate Banking Risk Sub-Department and Retail Banking Risk Sub-Department regularly evaluate customers' creditworthiness and business activities.

The Bank has developed an internal credit rating system whereby each loan transaction is assigned four ratings respectively corresponding to (i) the structure of the transaction, (ii) the borrower's financial position, (iii) the borrower's credit history and (iv) the quality of the collateral. The Corporate Banking Risk Sub-Department or the Retail Banking Risk Sub-Department, as appropriate, assigns a final rating for the transaction, which is subject to approval by the Credit Committee. When assigning credit ratings to a particular loan transaction, the Corporate Banking Risk Sub-Department or the Retail Banking Risk Sub-Department takes into account the importance of the transaction to the Bank and the prevailing market terms for similar transactions offered by other banks. In making its credit decisions with regard to loans to banks, the Bank uses a rating scale based on the approach of international rating and audit firms, allocating prospective borrowers to various credit rating groups, as adapted to the Ukrainian financial and economic situation. The Bank evaluates the borrower's financial statements, credit history, economic position and cash flows in order to determine the expected risk of default for such borrower and also monitors the weighted average credit risk of potential borrowers on a portfolio basis and by industry sector.

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

Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees. See "*– Lending Policies and Procedures – Collateral*" below.

Credit Risk Related to Retail and Corporate Lending

The Bank structures the levels of credit risk that it undertakes by placing separate limits on the amount of risk accepted in relation to each borrower and each category of borrowers within a particular industry or geographical region. Such risks are monitored and reviewed regularly. Lending limits for individual borrowers and any changes to those limits are set by the Credit Committee on the basis of collective decisions. Credit limits include limits on the amount and repayment schedule for each loan agreement and restrictions on the purpose of the loan and are updated on each loan approval. The Bank monitors operations with its customers on a regular basis and notifies the Credit Committee periodically, or in the event of any change in a customer's circumstances. The Bank either confirms existing limits or contacts the customer if it is necessary to review the terms of the loan.

When structuring loans to corporate customers, the Bank follows certain basic principles. It sets out repayment schedules and adapts them so as to take into account any seasonality in the borrower's business and, where applicable, also obtains guarantees from affiliates of the borrower, enters into collateral agreements to secure related loans, prescribes the borrower's own equity contribution at all levels of the project being financed and requires cash flows from the financed project or the borrower's counter-parties to be transferred to the Bank.

In the case of loans to retail customers, the Bank typically takes collateral in the form a mortgage or pledge over property, depending on the type of loan.

The Bank imposes limits on the amounts which individual branches are authorised to lend without Head Office approval. Limits are set with respect to the amount of individual loans, the total amount of loans that can be granted by a branch and the maximum permitted maturity of loans. The procedure for setting such limits is contained in the Bank's internal regulations. Once each month, the Head Office Credit Committee approves credit limits for all branches. Branches themselves and certain Head Office departments (namely the Corporate Banking Department, Risk Management Department, Legal Department and Security Department) may apply for a review of the limits on a branch's lending authority.

As the Bank's lending policy is to give priority to the quality of the borrower over the quality of the collateral available, lending decisions are always based on risk assessment rather than on the quality of the collateral. When taking security, the Bank gives preference to the most liquid form of collateral with the highest re-sale value. It also takes into account regional variations in property prices when determining the value of collateral. See "*– Lending Policies and Procedures – Collateral*" below.

The Bank also follows a policy of diversifying its loan portfolio in order to reduce risk. For example, the Bank is increasing retail lending because it considers that this involves lower risk than lending to corporate customers and reduces loan portfolio concentration.

Credit Risk Related to Inter-Bank Operations

Credit risk of inter-bank operations mainly arises as a result of exposures being unsecured, albeit such exposures typically have relatively short-term maturities (which generally range from several hours up to two months). Inter-bank exposure comprises a relatively small proportion (between approximately five and ten per cent.) of the Bank's total assets. The Bank sets separate limits for counter-party banks based on its evaluation of the bank's financial condition and on any available non-financial information (such as the bank's shareholders, customers, quality of management, market position, concentration of activity and growth rate). The Head Office Credit Committee is responsible for approving and changing the limits for each category of counter-party banks on a monthly basis. If the RMD determines that the financial performance of a counter-party bank has deteriorated or is likely to deteriorate, the RMD suspends the credit limit and notifies the Bank's management accordingly.

Credit Risk Related to Investment Business

Applications for investments by the Bank in corporate securities are analysed and reviewed in the same manner as loan applications. The Bank monitors the financial performance of issuers and the market for their debt and equity securities. The Bank's Investment Business Department is responsible for the Bank's investment decisions and implementing transactions, including relevant assessments of credit risk. As of 30 June 2006, the value of the Bank's securities portfolio was UAH 712 million, comprising UAH 643 million in trading securities, UAH 65 million in investments available for sale and UAH 5 million in investments held to maturity.

Monitoring Credit Risk

The Bank monitors borrowers' performance of the terms of their loan agreements, primarily repayment of principal and interest. It also monitors borrowers' financial condition on the basis of information provided by the relevant borrower on a monthly and quarterly basis; whether the loan is being used for its prescribed purposes; whether a corporate borrower is meeting the targets set out in its business plan; collateral; and non-financial information, such as any available information on actual or pending legal proceedings involving the borrower and the borrower's reputation.

Constant monitoring of the Bank's loan portfolio enables the Bank to react to changes in the quality of particular loans and determine whether changes to their terms and conditions are necessary. The Credit Committee is notified of the results of such monitoring on a regular basis and in the event of any warning signals. Based on its analysis, the Bank either confirms the terms and conditions of outstanding loans or where necessary negotiates amendments with the borrower.

Off-Balance Sheet and Related Party Credit Risk

The Bank applies the same credit policies and procedures for evaluating and monitoring credit risk for off balance sheet and contingent liabilities. Furthermore, the Bank applies the same approach to transactions with related parties as to arm's length transactions. If the level of risk does not fall within the parameters set by the Bank (as described in "*– Lending Policies and Procedures – Lending Decisions*" below), it either declines the loan application or requires the transaction to be secured by cash.

Liquidity Risk

Liquidity risk arises from mismatches between the maturity of assets and liabilities, which may result in the Bank being unable to meet its obligations in a timely manner. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. An unmatched position potentially enhances a bank's profitability but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

The Bank's process of managing liquidity risk is continuous. The RMD carries out day-to-day monitoring of the Bank's short-term exposure to liquidity risk. Senior management receives weekly reports and the ALMC performs a monthly review of liquidity risk management.

The Bank assesses liquidity risk based on gap analysis, i.e. an analysis of the difference between assets and liabilities with the same maturity. The amounts of such unmatched positions in assets and liabilities having the same maturity are used to calculate cumulative gap, which is subject to certain limits. These limits are determined by the Bank's ability to source funds on the money markets. Such limits may be reviewed, depending on changes in the Bank's capacity to source funds. The RMD is responsible for making recommendations with respect to changing limits, which are subject to approval by the ALMC. In addition, the Bank has developed procedures which apply in the event these limits are exceeded, as well as contingency plans for unforeseen situations.

The risks associated with the Bank's concentration of loans and deposits require continuous monitoring. Management acknowledges the risks associated with high concentrations of assets and liabilities and seeks to match maturities of high-value corporate loans and deposits, which Management views as a means of managing liquidity and interest rate risk. Due to the Bank's expansion and, in particular, its increasing activity on the money markets, the number of instruments it uses for asset and liability management has increased. These instruments include medium-term loans and deposits on the money market and trading securities. The use of a combination of instruments to manage liquidity risks enables the Bank to use its lending resources and maintain liquidity levels more effectively.

The liquidity position of the Bank as of 31 December 2005 is set out below (in UAH thousands).

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 12 months	No stated maturity	Total
Assets						
Cash and cash equivalents and mandatory reserve	991,950	—	—	—	—	991,950
Trading securities	749,726	—	—	—	—	749,726
Due from other banks	267,911	35,207	36,080	175	—	339,373
Loans and advances to customers	332,034	473,224	1,658,186	5,295,462	—	7,758,906
Investment securities available-for-sale	—	—	—	—	79,205	79,205
Investment securities held to maturity	2,602	5,035	11,408	—	—	19,045
Intangible assets	—	—	—	—	46,087	46,087
Premises, leasehold improvements and equipment	—	—	—	—	853,172	853,172
Other assets	45,724	21,993	14,481	107	5,902	88,207
Total assets	2,389,947	535,459	1,720,155	5,295,744	984,366	10,925,671
Liabilities						
Due to other banks	529,787	35,350	420,873	136,014	—	1,122,024
Customer accounts	1,578,249	999,819	922,576	1,831,112	—	5,331,756
Due to the National Bank of Ukraine	2,307	4,501	10,225	—	—	17,033
Domestic debt securities in issue	48	6,790	50,000	790,997	—	847,835
Eurobonds issued	30,821	—	77,841	1,056,979	—	1,165,641
Other borrowed funds	—	4,823	1,014,339	—	—	1,019,162
Subordinated debt	—	6,720	—	270,175	—	276,895
Current income tax liability	—	1,762	—	—	—	1,762
Deferred income tax liability	—	—	—	—	49,977	49,977
Other liabilities	39,735	414	65,869	12,639	—	118,657
Total liabilities	2,180,947	1,060,179	2,561,723	4,097,916	49,977	9,950,742
Net liquidity gap	209,000	(524,720)	(841,568)	1,197,828	934,389	974,929
Cumulative liquidity gap at 31 December 2005	209,000	(315,720)	(1,157,288)	40,540	974,929	
Cumulative liquidity gap at 31 December 2004	(87,305)	9,620	(575,061)	215,686	767,503	

The Bank has a cumulative maturity mismatch of assets and liabilities maturing within 12 months as of 31 December 2005. This liquidity mismatch arises because the Bank's major source of finance as of 31 December 2005 was customer accounts being on demand and maturing in less than 12 months. Management believes that in spite of a substantial portion of customer accounts maturing in less than 12 months, the diversification of these deposits by number and type of depositor and the past experience of the Bank would indicate that these deposits provide a long-term and stable source of funding for the Bank.

In addition, the Bank is subject to liquidity requirements set by the NBU. See "*The Ukrainian Banking Sector*" below. The Bank's risk management system incorporates the NBU's requirements and does not permit limits set by the NBU to be exceeded.

Interest Rate Risk

The Bank is exposed to interest rate risk principally as a result of mismatches in the maturity of its interest-bearing assets and liabilities. The Bank may incur losses in the event of unfavourable movements in interest rates.

The ALMC sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored by the RMD. In the absence of any available hedging instruments, the Bank seeks to match its interest rate positions. The evaluation and analysis of interest rate risk size is performed as of the first day of each month and updated as necessary to reflect market changes, for example, a change in benchmark interest rates, market volatility or similar events. The results of such evaluation and analysis are discussed at regular ALMC meetings. In addition to applying standard calculations, the Bank uses stress-tests. These involve determining the level of interest-rate risk that would apply in the event of unforeseen circumstances or contingencies arising. This approach enables the Bank to evaluate changes in net interest income for future periods and determine the priority areas for interest risk management.

The Bank assesses the level of interest rate risk based on gap analysis, which is the analysis of the imbalance between the amounts of assets and liabilities which mature or reprice over the same period. Limits are set at the level of loss of net interest income which Management considers acceptable in the event of adverse movements in interest rates, taking into account possible movements in interest rates for major types of interest-bearing assets and liabilities, such as corporate and retail loans, inter-bank loans, securities and corporate and retail deposits. Management considers losses of up to three per cent. of average monthly net interest income to be acceptable. Limits are subject to review depending on the volatility of interest rate movements. The RMD is responsible for making recommendations to review such limits, which are subject to approval by the ALMC.

Gap analysis is supplemented by interest rate forecasts over six-month horizons for major types of assets and liabilities. This allows Management to evaluate not only the level of interest rate risk but also the most likely changes in net interest income.

The Bank continually monitors interest rate spread and net interest income and reports on these matters are provided to the Bank's senior management each week. In addition, in order to minimise potential losses from unforeseen movements in interest rates, the Bank provides for interest rate review in light of current market rates when entering into agreements. The Bank also manages interest rate risk by setting minimum interest rates for loans and maximum interest rates for deposits. The Bank sets interest rates for major types of assets and liabilities by maturity and currency.

The table below contains certain information regarding the Bank's interest rate sensitivity as of 31 December 2005 (in UAH thousands, except percentages). Interest rate sensitivity is the relationship between market interest rates and net interest income from the periodic re-pricing of assets and liabilities. A negative gap denotes liability sensitivity and normally means that a decline in interest rates would have a positive effect on interest income. Included in the table are the Bank's interest-bearing assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 12 months	Total
Interest bearing assets					
Cash and cash equivalents and mandatory reserve	991,950	—	—	—	991,950
Trading securities	749,726	—	—	—	749,726
Due from other banks	267,911	35,207	36,080	175	339,373
Loans and advances to customers . .	332,034	473,224	1,658,186	5,295,462	7,758,906
Investment securities held to maturity	2,602	5,035	11,408	—	19,045
Total Interest bearing assets . .	2,344,223	513,466	1,705,674	5,295,637	9,859,000
Interest bearing liabilities					
Due to other banks	529,787	46,516	545,721	—	1,122,024
Customer accounts	1,578,249	999,819	922,576	1,831,112	5,331,756
Due to the National Bank of Ukraine	2,307	4,501	10,225	—	17,033
Domestic debt securities in issue . .	48	6,790	50,000	790,997	847,835
Eurobonds issued	30,821	—	77,841	1,056,979	1,165,641
Other borrowed funds	—	191,086	828,076	—	1,019,162
Subordinated debt	—	6,720	—	270,175	276,895
Other liabilities	136	414	1,164	12,639	14,353
Total Interest bearing liabilities . .	2,141,348	1,255,846	2,435,603	3,961,902	9,794,699
Interest sensitivity gap	202,875	(742,380)	(729,929)	1,333,735	64,301
Cumulative interest sensitivity gap	202,875	(539,505)	(1,269,434)	64,301	
Cumulative interest sensitivity gap as a percentage of total interest bearing assets	2.1%	(5.5%)	(12.9%)	0.7%	

Exchange Rate Risk

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

The Bank evaluates, monitors and sets limits for open positions using the U.S. dollar as its base currency, as it considers the hryvnia to be a less stable currency. The Bank uses U.S. dollars as the presentation currency in its management accounts, as Management considers that such presentation better reflects the value of its assets and liabilities.

The Bank complies with all applicable NBU requirements in addition to using its own methods for evaluating exchange rate risk.

The ALMC sets limits on the level of exposure by currency. Such limits are reviewed subject to volatility in foreign exchange rates. The ALMC may amend limits based on recommendations by the FRD. In recent years, the Bank has, on average, amended limits once or twice per year.

The Bank monitors compliance with such limits daily. Reports on changes in open currency positions are provided to Management on a weekly and a monthly basis.

The following table sets out the Bank's open currency limits, which are within the NBU's limits:

Currency	Long	Short
UAH	U.S.$27,000,000	U.S.$44,000,000
EUR	U.S.$21,450,000	U.S.$ 2,350,000
RUR	U.S.$10,000,000	U.S.$ 2,700,000
Other	U.S.$ 1,100,000	U.S.$ 1,100,000
Total	U.S.$59,550,000	U.S.$50,150,000

The Bank's Treasury Department has the authority to open currency positions on its own account up to the following limits:

Currency	Long	Short
UAH	U.S.$10,000,000	U.S.$5,000,000
EUR	U.S.$1,000,000	U.S.$1,000,000
RUR	U.S.$500,000	U.S.$500,000
Other	U.S.$300,000	U.S.$300,000
Total	U.S.$11,800,000	U.S.$6,800,000

The Bank's Treasury Department is authorised to keep currency positions open on its own account for no more than 30 days in each currency.

The following table sets out the Bank's assets and liabilities by currency as of 31 December 2005 (in UAH thousands):

	UAH	U.S.$	Euro	Other currencies	Non-monetary items	Total
Assets						
Cash and cash equivalents and mandatory reserve	584,499	236,741	132,769	37,941	—	991,950
Trading securities	731,848	—	—	17,878	—	749,726
Due from other banks	155,840	129,697	53,835	1	—	339,373
Loans and advances to customers	2,581,281	4,681,225	317,492	178,908	—	7,758,906
Investment securities available-for-sale	—	—	—	—	79,205	79,205
Investment securities held to maturity	19,045	—	—	—	—	19,045
Intangible assets	—	—	—	—	46,087	46,087
Premises, leasehold improvements and equipment	—	—	—	—	853,172	853,172
Other assets	74,675	2,940	922	3,768	5,902	88,207
Total assets	4,147,188	5,050,603	505,018	238,496	984,366	10,925,671
Liabilities						
Due to other banks	299,289	675,213	97,924	49,598	—	1,122,024
Customer accounts	2,926,268	1,988,714	326,845	89,929	—	5,331,756
Due to the National Bank of Ukraine	17,033	—	—	—	—	17,033
Domestic debt securities in issue	847,830	5	—	—	—	847,835
Eurobonds issued	—	1,165,641	—	—	—	1,165,641
Other borrowed funds	—	1,019,162	—	—	—	1,019,162
Subordinated debt	—	276,895	—	—	—	276,895
Current income tax liability	1,762	—	—	—	—	1,762
Deferred income tax liability	49,853	—	—	124	—	49,977
Other liabilities	107,537	9,290	887	943	—	118,657
Total liabilities	4,249,572	5,134,920	425,656	140,594	—	9,950,742
Less fair value of currency derivatives	2,129	443	—	635	—	3,207
Net balance sheet position, excluding currency derivatives	(104,513)	(84,760)	79,362	97,267	984,366	971,722
Currency derivatives	(36,812)	96,457	—	(56,438)	—	3,207

Operational and Legal Risk

Internal Audit

The Bank's Internal Audit Service ensures that the Bank's policies conform to current legislation and regulation and professional norms and ethics. The system of internal controls for which the Internal Audit Service is responsible includes operations, accounting practices, taxation, regulatory compliance, documentary compliance, risk management and IT systems. The Internal Audit Service regularly inspects the integrity, reliability and legality of the operations conducted by the Bank's departments, analyses and reports on risks connected with the introduction of new services or products, and reviews the reliability of the Bank's IT systems at least once per year. It also monitors the conformity of the Bank's accounting practices to Ukrainian accounting rules, and checks the conformity of aggregate accounting statistics with primary document data. The Internal Audit Service also monitors the Bank's internal controls and reporting procedures.

The Internal Audit Service monitors the observance of policies and procedures aimed at preventing the Bank from being used to conduct money-laundering activities. Policies and procedures established centrally by the Management Board apply universally to the operations of all divisions of the Bank.

The head of the Internal Audit Service, who must be approved by the NBU, reports directly to the Supervisory Council. The Internal Audit Service comprises the Audit Division for Conducting Audits and the Audit Organization and Audit Methods Division for Organising Audits and has a staff of 37 people. In order to avoid any potential conflict of interest, the head of the Internal Audit Service is not authorised to sign any contractual, accounting or other legally binding document on behalf of the Bank or another entity of the Bank. The Internal Audit Service has regional departments based in certain branches of the Bank. Its employees in such branches report directly to the Internal Audit Service and not to the branch where they are based.

The purpose of the Internal Audit Service is to reduce the levels of operational and other risks, audit the Bank's internal control systems, and detect any infringements or errors on the part of the Bank's departments and divisions.

As part of its auditing procedures, the Internal Audit Service is responsible for the following:

- carrying out planned and random inspections of the Bank's branches and subdivisions and auditing its subsidiaries, at least once per year;
- developing internal auditing standards and methodologies;
- analysing the quality of the Bank's products;
- participating in external Ukrainian's audit and inspections by the NBU;
- making recommendations to Management on the basis of external and internal audits to improve internal controls; and
- monitoring the implementation of auditors' recommendations.

Lending Policies and Procedures

Credit Committees

The Bank's Credit Committees are responsible for implementing the Bank's lending strategy, coordinating the activities of the sub-committees and forming a balanced and diversified loan portfolio. Lending decisions are taken by the Head Office Credit Committee and the Branch Credit Committees within the limits of their respective authority.

Lending Decisions

The Bank's lending policies and established credit approval procedures are based on guidelines which are set in accordance with Ukrainian legislation, NBU regulations and the Bank's own internal regulations. For a summary description of the applicable legislation, see "*The Ukrainian Banking Sector*".

Corporate Lending

Loans to corporate customers are granted after the relevant Credit Committee has made a lending decision based on a borrower's solvency and creditworthiness. The terms on which loans are granted to each individual borrower (such as the amount, repayment period and security) are reviewed on each new loan application or when there is a deterioration in the borrower's circumstances, such as a deterioration in the borrower's financial condition or the quality of the security for the loan, or in the event of a risk that the borrower's obligations under the loan agreement will not be met in full or on time. In the latter case, the Bank takes steps to reduce the credit risk and/or increase its coverage, such as requiring additional collateral, reducing the amount of the loan or re-scheduling repayment terms.

In making its lending decisions, the Bank evaluates potential borrowers on the basis of their financial condition as reflected in their financial statements, their credit history with the Bank and other financial institutions and the amount of risk involved in lending to a particular borrower, using a rating scale which reflects certain aspects of the approach of international rating agencies. A lack of credit history with the Bank or lack of credit history in general is not an absolute bar to granting a loan, provided the Bank receives sufficient information to assess the borrower's business and financial condition. However, when the Bank lends to a borrower with no credit history, it sets conditions such as a requirement to transfer a certain part of the customer's banking operations to the Bank for a certain period and charging a higher interest rate, or requiring additional collateral or guarantees from such borrower.

In evaluating the risks associated with a particular borrower, the Bank takes into account the borrower's business and factors such as the quality of its management, its main business activities, its geographic location, suppliers, customers, other indebtedness, financial stability, turnover, likely return on the loan and the liquidity of the proposed collateral and whether it is sufficient in view of the credit risk. The Bank also considers the weighted average credit risk associated with the industry in which the borrower operates. Strategic customers may receive terms which are different to those available to ordinary customers.

The Bank's lending decisions are made in accordance with the procedure described below.

Level A (Initial Review). A credit officer in the Corporate Lending Sub-Department of the Head Office or relevant branch (the "**Level A Credit Officer**") carries out an initial review of the applicant and the proposed project to be financed and forms a preliminary conclusion on whether or not to grant the loan. If the decision is favourable, the Level A Credit Officer then prepares and forwards the credit application and information on the borrower, the collateral and the project to be financed to the appropriate departments for analysis in accordance with their respective functions. These departments are the Corporate Risks Sub-Department (which performs credit risk analysis and writes a credit risk management ("CRM") statement), the Security Department (which checks the applicant's credit history and reputation) and the Legal Department (which reviews the applicant's legal documents, including its authority to enter into the loan agreement). The Level A Credit Officer must also obtain confirmation from the ALMC that the Bank has sufficient resources to grant the loan at the proposed interest rate. If the request is made by a Level A Credit Officer at branch level, the Corporate Banking Department at the Head Office, and not the branch, must provide such information before the loan is granted. The Level A Credit Officer must also obtain confirmation from the RMD that the loan can be granted in compliance with the Bank's economic condition. The ALMC and the RMD provide their conclusions to the Level A Credit Officer within the timeframe necessary in order to complete the analysis of the loan application. These conclusions are included in the loan application file which is required to be reviewed by the Credit Committee.

Level B (Detailed Assessment). Once the initial review has been completed, the RMD's Corporate Banking Risk Sub-Department, the Security Department and the Legal Department assess the borrower's solvency and creditworthiness and the liquidity and sufficiency of the collateral, assess the risks and determine whether a loan should be granted in terms of the level of credit risk and the possibility that it will increase in the future. The Head Office Credit Committee is responsible for authorising loans in an amount equivalent to U.S.$1,000,000 and above. It also authorises loans which exceed the limits set for branches where the amount of the loan does not exceed the equivalent of U.S.$1,000,000. Branch Credit Committees may authorise loans within the limits set for a given branch in terms of the amount, type and maximum term per loan and the total aggregate amount of all loans which the branch may grant. The Head Office Credit Committee is responsible for setting and changing branch lending limits.

Retail Lending

Loans to retail customers are subject to a standardised approval procedure. Credit officers in the relevant branches and banking units are required to obtain information and documentation from the applicant in accordance with specified criteria and parameters. Loans are subject to maximum limits depending on the applicant's financial standing, stability of future income, liquidity and quality of collateral. As part of the loan approval procedure, the credit officer verifies the authenticity of information furnished by the applicant, checks the applicant's credit history with the NBU's credit bureau and requests the Bank's Security Department to perform a credit check on the applicant (see "– *Security Department*" below).

Security Department

The Bank has established its own in-house Security Department, which is responsible for the assessment of the assets, credit history and business reputation or personal history (including checking for any criminal record) of prospective retail and corporate borrowers (or their directors or shareholders, where appropriate) before a loan is granted.

Monitoring of Borrowers and Extensions of Maturity

The Bank monitors the financial condition of each borrower from the time of its loan application until repayment. See "– *Credit Risk – Monitoring Credit Risk*". Decisions on whether to extend the maturity of a loan upon a borrower's request are subject to the same procedure as lending decisions. A request from a borrower for an extension of the maturity of a loan will be rejected if there has been an apparent deterioration in the borrower's financial condition, unless necessary steps are taken to address the credit risk associated with such borrower.

Collateral

The Bank seeks different types of collateral for loans. The most common forms of collateral accepted are property, equipment, vehicles and inventory. Collateral must meet the Bank's requirements as to liquidity and must be of sufficient market value to cover the credit risk. As collateral, the Bank may accept a pledge of moveable property (including equipment, vehicles, stock in trade and other liquid assets), immovable property (including entire property complexes, buildings and facilities) or securities. The Bank gives preference to the most liquid form of collateral with the highest re-sale value. At the commencement of the loan, the value of the collateral must exceed the principal amount of the loan, including interest accrued and other payments due from the borrower (such as commissions). For such purpose, loan cover ratios are set for various categories of collateral which are used in determining the liquidity and sufficiency of assets proposed by borrowers as collateral for loans. For details of the Bank's loan cover ratios, see "*– Loan Classification and Allowances – Provisioning Policy for Statutory Reporting Purposes*" below.

When granting loans, the Bank pays particular attention to the value and quality of collateral. The valuation is carried out by the relevant sub-department of the RMD or this function is outsourced to independent appraisers, who are accredited internally by officers of the RMD's Collateral Evaluation Sub-Department. The Bank uses a net realisable value approach which allows it to accept only liquid collateral which adequately covers the risks of active operations and which is based on the liquidation value of the collateral. The Bank uses a variety of valuation methods, involving both external sources of information and information which is available within the Bank when evaluating collateral (for example, information provided by the Bank's Investment Business Department will be used when determining the liquidity of securities proposed as collateral).

Any assets pledged to the Bank as loan collateral must be insured in favour of the Bank with an insurance company acceptable to the Bank. The Bank may also request that the borrower's obligations are supported by a bank guarantee or a suretyship, or a guarantee from a solvent individual or corporation. For certain types of loans, the Bank requires the risk of non-repayment to be insured.

Two special units within RMD monitor collateral throughout the term of the loan to verify that it is in existence and has not deteriorated in quality. These units are the Collateral Monitoring Unit of the Corporate Banking Risk Sub-Department (with respect to collateral for corporate loans) and the Credit Risk and Quality of Collateral Unit of the Retail Banking Risk Sub-Department (with respect to collateral for retail loans). In the case of a suretyship or guarantee, the relevant collateral unit carries out a financial check on the surety or guarantor on the basis of its financial statements. The frequency with which collateral is monitored varies in accordance with its type. For example, immovable property may be inspected generally on a semi-annual basis, while moveable property may be inspected on a weekly basis.

The Bank's requirements with regard to collateral are established by the Bank's internal regulations, which are based on Ukrainian legislation and NBU regulations and are set out in Bank's Credit Procedures. Collateral is evaluated and analysed in accordance with these Credit Procedures as part of the process of making lending decisions.

As of 30 June 2006, no less than 93 per cent. of all of the Bank's loans were collateralised.

Loan Classification and Allowances

The Bank's internal credit ranking system is based on the statutory NBU rating system. It has also developed its own rating system for evaluating the creditworthiness of borrowers using a more detailed rating scale. In addition, the Bank establishes credit risk provisions for loan impairment in accordance with IFRS for IFRS reporting purposes.

Provisioning Policy for Statutory Reporting Purposes

The Corporate Banking Risk Sub-Department and the Retail Banking Risk Sub-Department evaluate the level of credit risk and sets the amount of provisions for potential losses on, respectively, corporate and retail loans based on the following three risk evaluation factors:

- the borrower's current and future solvency and creditworthiness, having regard to its market position;
- the quality of the borrower's servicing of the current loan and its credit history (including its record with other banks); and
- the level of loan security.

The Bank's internal credit ranking system is based on the existing NBU rating system. However, the Bank has developed its own rating system for evaluating the creditworthiness of borrowers which uses a more detailed rating scale. The classification of the borrower's financial standing and creditworthiness is based on a five-level credit rating system (from A to E in decreasing order). Similar systems are used internationally by leading rating agencies, such as Standard & Poor's and Fitch. Loan servicing is rated in accordance with the length of delays in repaying principal and interest. The credit rating matrix currently in use is based on lowering the credit rating as the borrower descends to a lower financial standing class and the debt servicing index deteriorates.

The table below sets forth certain information relating to the Bank's provisioning policies in terms of risk categories and provisioning percentage rates prescribed by the NBU:

	Quality of Debt Servicing		
Class of borrower	**Good[1]**	**Poor[2]**	**Unsatisfactory[3]**
In terms of financial condition			
A (Best)	Standard (1-2%)	Controlled (5-7%)	Substandard (20-25%)
B	Controlled (5-7%)	Substandard (20-25%)	Substandard (20-25%)
C	Substandard (20-25%)	Substandard (20-25%)	Doubtful (50-60%)
D	Doubtful (50-60%)	Doubtful (50-60%)	Bad (100%)
E (Worst)	Doubtful (50-60%)	Bad (100%)	Bad (100%)

1 Any payment including interest is less than 7 days overdue.

2 Any payment of interest is more than 7 days but less than 30 days overdue or any payment of principal is more than 7 days but less than 90 days overdue.

3 Any payment of interest is more than 30 days overdue or any payment of principal is more than 90 days overdue.

The percentage figures in brackets in the above table show the provisioning rate applicable to loans to a given category of borrower. The provisioning rate is applied to net risk after deducting the value of collateral granted. Higher provisioning rates are applied in the case of loans in foreign currency where the borrower is deemed to have insufficient foreign currency proceeds to service the loan.

The following table sets out information on the percentage of the value of the collateral used when calculating volume of net risk for loan loss provision(s) depending on the security category and the classification of the secured loan.

	Titles to money deposits[1] and registered deposit certificates issued by the creditor bank					Real estate			
Lending operation classification	**in currency similar to the currency of the loan or freely convertible currency**	**in currency not similar to the currency of the loan**	**Precious metals**	**Govt. securities**	**Non-govt. securities**	**loans in UAH**	**loans in foreign currency**	**Movable property, precious metals, rights to future immovable property**	**Property rights**
Standard	100%	90%	80%	100%	50%	70%	50%	50%	30%
Controlled	100%	90%	80%	80%	40%	70%	50%	40%	20%
Substandard	100%	90%	60%	50%	20%	40%	40%	20%	10%
Doubtful	100%	90%	20%	20%	10%	20%	20%	10%	5%
Bad	0%	0%	0%	0%	0%	0%	0%	0%	0%

1 Includes UAH and foreign currency deposits

Assessment of Provision for Loan Impairment for IFRS Reporting Purposes

A provision for loan impairment is established when losses are incurred as a result of one or more events ("**loss events**") that occurred after the initial recognition of the loan and which have an impact on the amount or timing of the estimated future cash flows of the loan or group of loans that can be reliably estimated. The amount of the provision is the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the instrument's original effective interest rate.

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

1 Identification of loans that are individually significant, being those loans which, if fully impaired, would have a material impact on the Bank's financial results.

2 Determination of whether an individually significant loan shows objective evidence of impairment or not. Special emphasis is placed on the timing of the contractual cash flows from interest payments and

principal repayments. If the Bank expects to collect all interest and principal due in full, but it is probable that those cash flows will be received later than the date agreed in the original contract, an impairment calculation is performed. Other impairment indicators include but are not limited to: any significant financial difficulty of the borrower; an actual breach of the loan contract, such as a default or delinquency in interest or principal payments; or a high probability of bankruptcy or other financial reorganisation of the borrower.

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

4 If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. For the purposes of a collective evaluation of impairment, loans 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 loans by being indicative of the borrowers' ability to pay all amounts due according to the contractual terms of the loans being evaluated. Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the loans 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.

Problem Loan Recovery

The Credit Committee has approved a series of internal regulations which set out a systematic approach involving a comprehensive set of procedures intended to enable the Bank 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 the cause of late payments (whether of interest or principal). If the non-performance is due to a circumstance or event which indicates that the borrower may be unable to meet its obligations under the loan agreement, all relevant departments of the Bank are notified and the Bank: (i) checks that it has adequate collateral for the loan; (ii) verifies the sources of repayment of the loan; and (iii) works out a programme of further action to be taken with regard to the borrower, which may include accelerating the loan, where necessary. If all possible steps that can be taken to obtain repayment of the loan fail, the loan is classified as a "problem loan".

The Problem Loan Sub-Department, together with the Security Department, is responsible for recovering all loans issued by the Bank which are classified as "problem loans". The Problem Loan Sub-Department obtains and reviews all documents relating to the borrower, performs an analysis of the borrower and prepares a comprehensive report with a detailed business analysis, legal analysis, action plan and enforcement budget. Several approaches are available to the Problem Loan Sub-Department to enforce problem loans including negotiations, court proceedings or other legal action. In the vast majority of cases where enforcement action is taken, the Bank initiates court proceedings. The Problem Loan Sub-Department will often engage in negotiations with the borrower with the assistance of the Security Department over a problem loan either concurrent with, or prior to, initiating court proceedings. The Security Department assists the Problem Loan Sub-Department, if required, by carrying out further and more detailed background checks on the borrower and/or making personal visits to the borrower. Negotiations with the borrower usually aim at debt restructuring and include obtaining additional security, personal guarantees by shareholders and management, increased interest rates and revised repayment schedules, subject to the Credit Committee's approval of such actions as part of a debt recovery programme.

Other legal actions available to the Bank include bankruptcy proceedings, realisation of the security, co-operation with the criminal investigation authorities and appeals to other state bodies such as the Ministry of Internal Affairs in cases of fraud. The Problem Loan Sub-Department reports daily on the results and current status of problem loans to the Deputy Chairman of the Management Board, Heads of the Security Department and the

Legal Department and to the Credit Committee, which meet to review the status of problem loans. The Credit Committee reviews the status of non-performing loans once per month and following such review decides on further action to be taken to recover such problem loans.

The following table sets out the Bank's outstanding gross loans to customers and the provision created against them at 30 June 2006 and 31 December 2005, 2004 and 2003 in UAH thousands:

	30 June 2006 (Unaudited)	31 December 2005	2004	2003
Current loans	9,981,155	7,411,801	3,457,243	2,388,939
Net investment in finance leases	111,035	80,342	43,313	12,257
Cash-covered loans	879,583	478,534	205,722	386,886
Overdue loans	66,308	64,041	90,520	17,130
Less: Provision for loan impairment	(334,694)	(275,812)	(264,325)	(190,539)
Total loans and advances to customers	10,703,387	7,758,906	3,532,473	2,614,673

The following table sets out details of changes in the provision for loan impairment in UAH thousands:

	Six months ended 30 June 2006 (Unaudited)	Year ended 31 December 2005	2004	2003
Provision for loan impairment at 1 January	275,812	264,325	190,539	117,984
Charge for provision for loan impairment during the period	60,247	12,517	82,408	73,586
Acquisition of a subsidiary	—	842	—	—
Loans and advances to customers written off during the period as uncollectible	(1,365)	(1,872)	(8,622)	(1,031)
Provision for loan impairment at the end of the period	334,694	275,812	264,325	190,539

SELECTED STATISTICAL AND OTHER INFORMATION

The following selected statistical and other financial information is derived, where applicable, from the Interim Financial Information of the Bank as of and for the six months ended 30 June 2006 and the Financial Statements as of and for the years ended 31 December 2005 and 2004, which have been prepared in accordance with IFRS. This information should be read in conjunction with the Financial Statements included elsewhere in this Prospectus.

Average Balance Sheets and Interest Rate Data

The table below presents the average balances for interest-earning assets and interest-bearing liabilities together with the related interest income and expense amounts, resulting in the presentation of the average yields and rates for the six months ended 30 June 2006 and for the years ended 31 December 2005 and 2004 in UAH thousands (except percentages). Average balances are based on the Bank's balances as of the beginning and at the end of respective reporting periods. Interest income in the table below is shown before provision for loan impairment.

	Six months ended 30 June 2006			Year ended 31 December 2005			Year ended 31 December 2004		
	Average Balance	Interest	Average Yield Rate*	Average Balance	Interest	Average Yield Rate	Average Balance	Interest	Average Yield Rate
Interest-Earning Assets									
Due from other banks (including correspondent accounts and overnight deposits with other banks) (gross)	811,207	24,811	6.1%	405,308	24,851	6.1%	228,096	14,375	6.3%
Less provision	(1)			(563)			(563)		
Due from other banks (net)	811,206			404,745			227,534		
Loans and advances to customers (gross)	9,536,400	624,957	13.1%	5,915,758	777,008	13.1%	3,301,005	615,034	18.6%
Less provision	(305,253)			(270,068)			(227,432)		
Loans and advances to customers (net)	9,231,147			5,645,690			3,073,573		
Debt securities (gross)	708,185	37,090	10.5%	555,747	39,380	7.1%	303,387	31,234	10.3%
Total average interest earning assets	11,055,792	686,858	12.8%	6,876,814	841,239	12.2%	3,832,488	660,643	17.2%
Less provision	(305,254)			(270,631)			(227,995)		
Non-interest earning assets	1,857,102			1,544,807			929,883		
Total average assets	12,607,640			8,150,991			4,534,376		
Interest-bearing liabilities									
Due to other banks (including NBU)	1,808,322	61,813	6.8%	852,903	42,223	5.0%	526,315	25,185	4.8%
Customer accounts	5,971,388	205,121	6.9%	4,310,994	353,275	8.2%	2,756,637	267,658	9.7%
Debt securities in issue (including Eurobonds issued)	2,023,331	100,527	9.9%	1,292,107	102,142	7.9%	314,065	53,316	17.0%
Subordinated debt	379,984	19,612	10.3%	175,164	14,703	8.4%	93,985	10,029	10.7%
Other borrowed funds	1,012,011	41,305	8.2%	509,581	26,218	5.1%	—	—	—
Finance leases and other liabilities	21,542	1,387	12.9%	15,118	1,729	11.4%	11,991	1,397	11.7%
Total average interests-bearing liabilities	11,216,578	429,765	7.7%	7,155,867	540,290	7.6%	3,702,992	357,585	9.7%
Other liabilities and minority interest	182,611			137,599			312,020		
Equity attributable to the Bank's equity holders	1,208,451			857,524			519,365		
Non-interest bearing liabilities and equity	**1,391,062**			**995,123**			**831,384**		
Total average liabilities and equity	**12,607,640**			**8,150,990**			**4,534,376**		

* Ratios are annualised where necessary

Average Net Interest Margin and Interest Spread

The following table shows the Bank's average interest-earning assets before provisions, average interest-bearing liabilities and net interest income before provision for loan impairment and illustrates the comparative net interest margin and net interest spread for each of the periods indicated in UAH thousands (except percentages). Net interest margin was calculated as net interest income before provision divided by total average interest-earning assets. Net interest spread was calculated as a difference between average yield rate of total average interest-earning assets and average yield rate of total average interest-bearing liabilities, as derived from the table of average balances and interest rates above.

	Six months ended 30 June 2006	Year ended 31 December 2005	Year ended 31 December 2004
Total average interest-earning assets before provisions . .	11,055,792	6,876,814	3,832,488
Total average interest-bearing liabilities	11,216,578	7,155,867	3,702,992
Interest income before provision for loan impairment . .	686,858	841,239	660,643
Interest expense	429,765	540,290	357,585
Net interest spread*	5,1%	4.7%	7.6%
Net interest margin*	4,7%	4.4%	7.9%

* Ratios are annualised where necessary

Changes in Interest Income and Expense – Volume and Rate Analysis

The following table allocates the changes in the Bank's interest income and expense between changes in average volume and changes in the average rates for the period indicated in UAH thousands. Changes in volume have been calculated as change in volume times old rate and changes in rate have been calculated as change in rate times new volume. Volume variances have been calculated based on movements in average balances over the period and changes in interest rates on average interest-earning assets and average interest-bearing liabilities, as derived from the table of average balances and interest rates above.

	Six month ended 30 June 2006/ Year ended 31 December 2005*			Year ended 31 December 2005/2004		
	Increase/(decrease) due to changes in			Increase/(decrease) due to changes in		
	Volume	Rate	Net change	Volume	Rate	Net change
Interest Income						
Due from other banks (including correspondent accounts and overnight deposits with other banks)	24,887	(116)	24,772	11,168	(692)	10,476
Loans and advances to customers . .	475,555	(2,648)	472,907	487,173	(325,200)	161,974
Debt securities	10,802	23,997	34,799	25,981	(17,834)	8,146
Total interest income	**511,244**	**21,234**	**532,477**	**524,322**	**(343,726)**	**180,596**
Interest expenses						
Due to other banks (including NBU)	47,298	34,105	81,404	15,628	1,410	17,038
Customer accounts	136,065	(79,097)	56,968	150,922	(65,305)	85,617
Debt securities in issue (including Eurobonds)	57,804	41,107	98,911	166,034	(117,208)	48,826
Subordinated debt	17,192	7,330	24,522	8,663	(3,989)	4,674
Other borrowed funds	25,850	30,542	56,392	—	26,218	26,218
Finance leases and other liabilities . .	735	309	1,044	364	(32)	332
Total interest expense	**284,944**	**34,296**	**319,240**	**341,610**	**(158,905)**	**182,705**
Net interest income	**226,300**	**(13,062)**	**213,237**	**182,712**	**(184,822)**	**(2,109)**

* Changes are annualised where necessary

Average Deposits and Interest Rate Data

The following table sets out the average balances and average interest rates for each deposit type (excluding non-interest bearing accounts) for the 6 months ended 30 June 2006 and for the years ended 31 December 2005 and 2004 in UAH thousands, except percentages.

	Six months ended 30 June 2006 (Unaudited)		Year ended 31 December 2005		Year ended 31 December 2004	
	Average balance	Average rate paid*	Average balance	Average rate paid	Average balance	Average rate paid
Due to other banks (including NBU) . .	1,808,322	6.84%	852,903	4.95%	526,315	4.79%
Customer accounts . .	5,971,388	6.87%	4,310,994	8.19%	2,756,637	9.71%

* Ratios are annualised where necessary

Customer Accounts by Maturity

The following table sets out information on customer accounts by maturity as of 31 December 2005 and 31 December 2004 in UAH thousands.

Customer accounts	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total
As of 31 December 2005	1,578,249	999,819	922,576	1,831,112	5,331,756
As of 31 December 2004	1,216,552	455,762	1,410,380	207,537	3,290,231

Returns on Equity and Assets

The following table represents net profit attributable to the Bank's equity holders as a percentage of average total assets and average total equity attributable to the Bank's equity holders for the six months ended 30 June 2006 and for the years ended 31 December 2005 and 2004.

		Year ended 31 December	
	Six months ended 30 June 2006*	2005	2004
Return on average assets	0.3%	0.7%	1.6%
Return on average equity	2.7%	6.2%	14.1%

* Ratios are annualised where necessary

Loan Portfolio

Loans to customers before provision for loan impairment were UAH 11.04 billion, UAH 8.03 billion and UAH 3.80 billion or 77 per cent, 74 per cent. and 71 per cent. of total assets as of 30 June 2006, 31 December 2005 and 31 December 2004, respectively. The Bank's provision for loan impairment for loans to customers totalled UAH 335 million, UAH 276 million and UAH 264 million as of 30 June 2006, 31 December 2005 and 31 December 2004, respectively. The size of the Bank's gross loan portfolio has grown by 191 per cent. from UAH 3.80 billion at 31 December 2004 to UAH 11.04 billion at 30 June 2006.

Maturity Profile of Loan Portfolio

As of 30 June 2006, the "more than one year" category of the Bank's loan portfolio comprised 74 per cent. of total loans and represented loans to a number of the Bank's most creditworthy clients, including key and strategic clients. The Bank expects that as the Ukrainian economy becomes more stable, the "more than one year" category will continue to grow.

The following table presents the maturity distribution of the Bank's loan portfolio as of 31 December 2005 and 31 December 2004 after provision for loan impairment, in UAH thousands (except percentages).

Loans and advances to customers	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total
As of 31 December 2005	332,034	473,224	1,658,186	5,295,462	7,758,906
Share of the loan portfolio	4%	6%	21%	68%	100%
As of 31 December 2004	288,026	538,226	1,108,276	1,597,945	3,532,473
Share of the loan portfolio	8%	15%	31%	45%	100%

Loan Concentrations by Size of Loans

As of 30 June 2006, the Bank's top 20 borrowers comprised UAH 2.43 billion or 22 per cent. of its total loan portfolio compared to UAH 1.73 billion or 22 per cent., respectively, as of 31 December 2005.

The Bank's exposure to a single borrower or group of related borrowers is subject to statutory limits. The Bank's exposure to a single borrower may not exceed 25 per cent. of its regulatory capital (that is, the Bank's capital as calculated for purposes of NBU reporting and capital adequacy purposes) and its exposure to a group of related borrowers may not exceed 800 per cent. of its regulatory capital.

Related Party Lending

Loans to related parties totalled UAH 1,304 million (net of provision for loan impairment), amounting to 12.2 per cent. of the Bank's loan portfolio at 30 June 2006. The Bank conducts its business with related parties predominantly on a commercial, arm's length basis. The Bank may occasionally be able to offer related parties (principally its employees) banking products at rates below prevailing market rates, reflecting the lower risk accorded to such customers as a result of the Bank's ability to assess and monitor their credit history and the availability of collateral, such as pledges over salaries in the case of employees. Each loan request from a related party is subject to the same credit approval procedures as are applied by the Bank to unrelated parties. See "*Risk Management – Lending Policies and Procedures – Lending Decisions*" above and "*Related Party Transactions*" below for further details of the Bank's policy regarding loans to related parties and transactions involving related parties.

Sectoral Analysis

The following table sets forth analysis of the Bank's gross loans to clients by industry sector as of 30 June 2006, 31 December 2005 and 31 December 2004, shown as a percentage of gross loan portfolio.

Sector	30 June 2006 (Unaudited)	31 December 2005	31 December 2004
Individuals	41%	40%	25%
Commerce and finance	21%	23%	25%
Agriculture and food	9%	12%	15%
Chemical industry	6%	7%	8%
Motor vehicles trading	3%	4%	7%
Oil and gas	2%	3%	9%
Property construction	7%	3%	4%
Manufacture and machinery building	5%	2%	3%
Metallurgy and mining	2%	1%	1%
Air and other transport services	1%	1%	1%
Other	3%	4%	2%

While there is no statutory limit on exposure to borrowers in any given industry segment, the Bank aims to maintain a diversified loan portfolio.

Currency Analysis

The following table sets forth the Bank's loan portfolio by currency. Loans in "other currencies" mainly consist of loans in Russian Roubles and Swiss francs.

Loans and advances to customers	UAH	USD	EUR	Other currencies	Total
As of 31 December 2005	2,581,281	4,681,225	317,492	178,908	7,758,906
As of 31 December 2004	1,257,332	2,122,512	148,586	4,043	3,532,473

Loan Portfolio Quality

The following table sets forth information on the aggregate amount of current and overdue loans as of 30 June 2006, 31 December 2005 and 31 December 2004 in UAH thousands (except percentages).

		31 December	
	30 June 2006	2005	2004
	(Unaudited)		
Current loans (including finance lease receivables and cash covered loans)	10,971,773	7,970,677	3,706,278
Overdue loans	66,308	64,041	90,520
Overdue loans/Current loans	0.60%	0.80%	2.44%

The following table sets out details of changes in the Bank's provision for loan impairment for loans to customers in UAH thousands.

	Six months ended	Year ended 31 December	
	30 June 2006	2005	2004
	(Unaudited)		
Provision for loan impairment as of 1 January	**275,812**	**264,325**	**190,539**
Provision for loan impairment during the period	60,247	12,517	82,408
Acquisition of subsidiary	—	842	—
Loans and advances to customers written off during the period as uncollectible	(1,365)	(1,872)	(8,622)
Provision for loan impairment at the end of the period/year	**334,694**	**275,812**	**264,325**

Securities Portfolio

The following table sets forth information on the Bank's securities portfolio as of 30 June 2006, 31 December 2005 and 31 December 2004 in UAH thousands.

		31 December	
	30 June 2006	2005	2004
	(Unaudited)		
Trading securities	642,560	749,726	275,943
Investments available-for-sale	64,787	79,205	192,644
Investments held-to-maturity	5,039	19,045	47,908
Total	**712,386**	**847,976**	**516,495**

Maturity Profile of Securities Portfolio

The following table shows the maturity distribution of securities held by the Bank at 30 June 2006 in UAH thousands. The entire portfolio of trading securities is classified within demand and less than one month as the portfolio is of a trading nature.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	No stated maturity	Total
Trading securities	642,560	—	—	—	—	642,560
Investments available-for-sale	—	—	—	—	64,787	64,787
Investments held-to-maturity . .	—	5,039	—	—	—	5,039
Total	642,560	5,039	—	—	64,787	712,386

The following table shows the maturity distribution of securities held at 31 December 2005 in UAH thousands. The entire portfolio of trading securities is classified within demand and less than one month as the portfolio is of a trading nature.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	No stated maturity	Total
Trading securities	749,726	—	—	—	—	749,726
Investments available-for-sale.	—	—	—	—	79,205	79,205
Investments held-to-maturity . .	2,602	5,035	11,408	—	—	19,045
Total	752,328	5,035	11,408	—	79,205	847,976

Before investing funds in securities, the Bank first analyses the financial position of the issuer, dynamics of its production activity, competitive environment, its prospects and the quality of its management. The Bank's total direct or indirect equity investment in single issuer or company may not exceed 15 per cent. of the Bank's capital and total investments in corporate equity may not exceed 60 per cent. of Bank's capital.

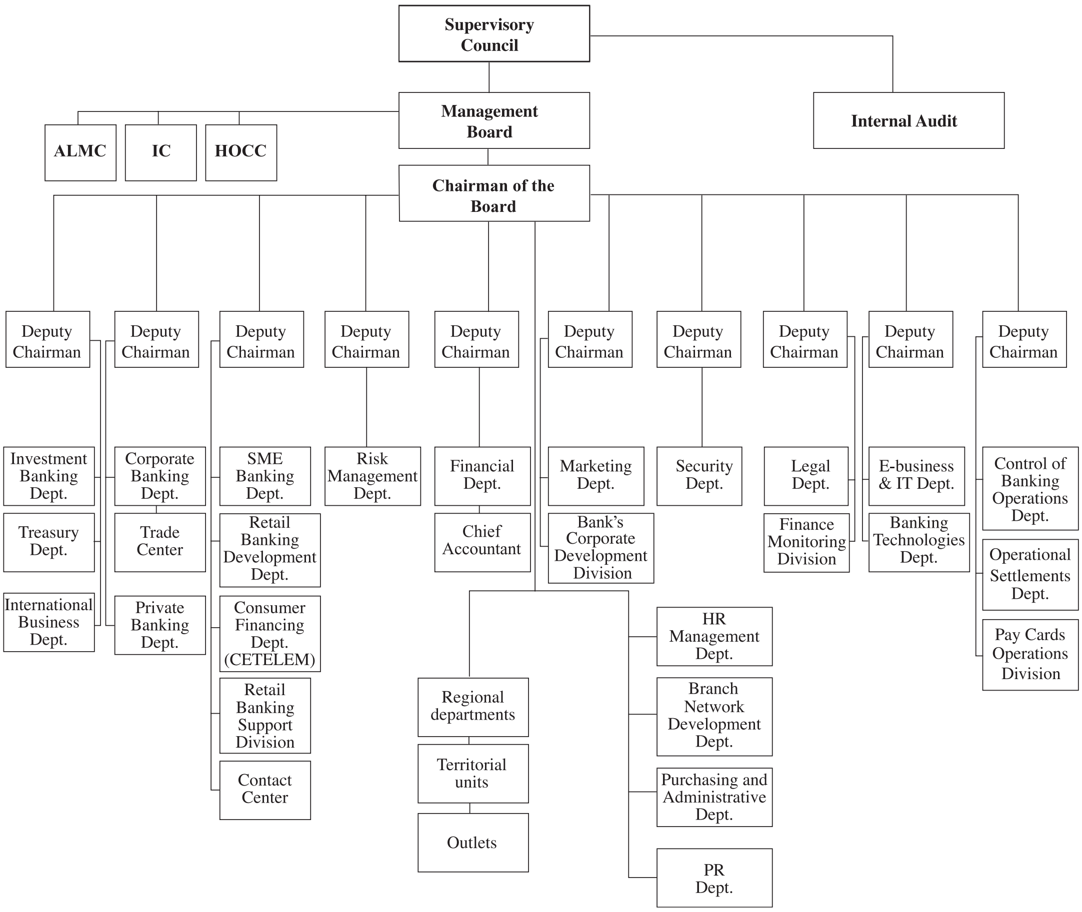
MANAGEMENT

Overview

The Bank's current charter was approved by the General Meeting of Shareholders of the Bank on 8 November 2006 and was registered with the NBU on 30 November 2006 and with the state registrar on 7 December 2006. The Bank's new charter as adopted in 2006 reflected the increase in the Bank's share capital during 2006. The Bank's governing bodies are the General Meeting of Shareholders, the Management Board and the Supervisory Council. The General Meeting of Shareholders elects the members of the Supervisory Council and the Chairman of the Management Board, and the Supervisory Council in turn elects the Management Board (apart from the Chairman). The Management Board is responsible for the day-to-day management of the Bank. The Bank also has an Audit Commission which reports to the General Meeting of Shareholders on compliance matters.

Management Structure

The diagram below sets out the organisational structure of the Bank:



General Meeting of Shareholders

The authority of the General Meeting of Shareholders includes, *inter alia*:

- determining the main areas of operations within the Bank;
- approving amendments to the Bank's charter;
- approving changes to the share capital of the Bank;
- appointing and dismissing the Chairman and the members of the Supervisory Council, the Audit Commission and the Chairman of the Management Board;
- approving annual results of the Bank (including its subsidiaries) and approving reports and conclusions drawn by the Audit Commission and external auditor;
- approving profit distribution and dividends and the covering of losses;

- deciding on matters relating to the imposition of any material liability on members of the Bank's governing bodies; and
- terminating the business operations of the Bank.

The powers listed above lie within the exclusive scope of authority of the General Meeting of Shareholders and may not be delegated to the other governing bodies of the Bank. Decisions on (i) approving amendments to the Bank's charter and (ii) terminating the business operations of the Bank require a qualified majority of 75 per cent. of voting shares. Other matters are decided by a simple majority.

Management Board

The Management Board (the "**Board**") is the executive body of the Bank and is responsible for the day-to-day management of the Bank. It is accountable to the General Meeting of Shareholders and to the Supervisory Council of the Bank. The Board organises and manages the operations of the Bank, which includes implementing resolutions approved by the General Meeting of Shareholders and the Supervisory Council of the Bank.

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

- organising the management of the operations of the Bank, its branches and representative offices;
- approving the utilisation of the Bank's funds (with exception of covering losses);
- approving the Bank's internal documentation;
- approving the opening and closing of the Bank's branches and other business units;
- determining the terms and conditions of staff remuneration for the Bank, its branches and representative offices;
- organising the maintenance of the Bank's accounts and reports;
- approving the agenda of the General Meeting of Shareholders; and
- resolving any other issues relating to the Bank's activity delegated by the Supervisory Council (except those which are within exclusive scope of authority of the Supervisory Council).

The name, age, position, qualifications and certain other information for each member of the Board are set out below. The business address of each member of the Board is c/o UkrSibbank, 2/12 Andriyivska Street, Kyiv, Ukraine 04070.

Name	Age	Position	Other Management Position
Oleksandr Y. Adarich	35	Chairman	—
Irina V. Marianko	40	Deputy Chairman	—
Tetyana A. Vazheievska	44	Deputy Chairman	—
Sergiy M. Panov	35	Deputy Chairman	Head of Legal Department
Valeriy O. Bogushov	46	Deputy Chairman	Head of Security Department
Gilbert Caignan	58	Deputy Chairman	Head of Risk Management Department

Oleksandr Yevgenovych Adarich has been Chairman of the Board of the Bank since November 2002. From February 2002, he served as Deputy Chairman and then, from March 2002, First Deputy Chairman of the Board of the Bank. From 1993, he held various positions at other Ukrainian commercial banks. He graduated from Kharkiv State University in 1999 and the Dnipropetrovsk Mining Institute in 1993.

Irina Vilinovna Marianko has been Deputy Chairman of the Board of the Bank since January 2004. From September 1995, she successively served as Senior Economist, Deputy Head of Unit, Head of Unit, Head of Department, Acting Chief Accountant and Chief Accountant. From 1991, she held various positions at other Ukrainian commercial banks. She graduated from the Kyiv Institute of National Economy in 1987.

Tetyana Anatoliyovna Vazheievska, PhD has been Deputy Chairman of the Bank since 2002. From 2001, she was a Head of Internal Audit Department of the Bank. From 1992, she held the positions of Senior Economist, Head of Unit and Deputy Head of Department in the NBU. From 1983 to 1987, she worked in the State Bank of the USSR. From 1987 to 1990, she undertook post-graduate studies at the Institute of Economics of the Academy of Sciences of the USSR. She graduated from the Kyiv Institute of National Economy in 1983.

Sergiy Mykolayovych Panov has been Deputy Chairman of the Bank since 2002. From 1994, he held positions of Senior Expert, Legal Counsel and Head of Legal Department of the Bank. He graduated from the National Law Academy of Ukraine in 1995.

Valeriy Olexandrovych Bogushov has been Deputy Chairman of the Bank since 2002. He graduated from the Voroshilovgrad Pedagogical Institute in 1986 and from Kyiv Law University in 2005.

Gilbert Caignan has been Deputy Chairman and Head of the Risk Management Department of the Bank since 2006. From 1971, he worked at BNP Paribas and from 1982 he held various managerial positions with BNP Paribas in the USA, Hong Kong, Holland, Russia and France. He graduated from University of Rennes in 1970, from the Centre d'Etudes Supérieures de Banque in 1979 and from the Institute Technique de Banque in 1979.

There are no conflicts of interest between any duties owed by members of the Board to the Bank and their private interests or other duties.

Supervisory Council

The Supervisory Council is not directly involved in the day-to-day management of the Bank but plays a significant oversight role in monitoring the business activities of the Bank. The Supervisory Council represents the interests of the Bank's Shareholders between meetings of the General Meeting of Shareholders, as well as carries on the monitoring and regulation of the Management Board's activity.

The responsibilities of the Supervisory Council include, among others, the following:

- supervising the actions of the Board;
- establishing procedure for the carrying out of audit and monitoring of the financial and economic activities of the Bank;
- establishing, re-organising and liquidating subsidiaries, branches and representative offices of the Bank, and approving their charters/regulations;
- appointing and dismissing the members of the Board;
- preparing suggestions with respect to the matters to be considered by the General Meeting of Shareholders;
- approving agreements with related parties, if the value of such agreement exceeds 20 per cent. of the Bank's own capital;
- approving agreements for the acquisition (other than in the ordinary course of business) of all or a substantial part of the assets of another legal entity, if the value of such agreement exceeds 20 per cent. of the Bank's own capital;
- approving any agreements for the sale, transfer or other disposal of any of the Bank's assets, the net book value of which exceeds 20 per cent. of the Bank's own capital;
- determining the terms and conditions of the Board members' remuneration; and
- appointing the external auditor.

By resolution of the General Meeting of Shareholders, certain powers within the competence of the General Meeting of Shareholders, except those which are within exclusive authority of the General Meeting of Shareholders, may be delegated to the Supervisory Council.

The name, age, position, qualifications and certain other information for each member of the Supervisory Council are set out below. The business address of each member of the Supervisory Council is c/o UkrSibbank, 2/12 Andriyivska Street, Kyiv, Ukraine 04070.

Name	Age	Position	Other Management Position
Jean-Francois Varlet	56	Chairman	Treasurer of UCCIFE (Union des Chambres de Commerce et d'Industrie de France a l'Etranger)
Pierre Mariani	50	Member	Member of the Executive Committee, Head of International Retail and Financial Services at BNP Paribas Group
Jean-Jacques Santini	49	Member	Member of the General Management Group Committee, Head of International Retail Banking Group at BNP Paribas Group
Dominique Menu	51	Member	Head of the Representative Office of BNP Paribas in Ukraine
Laurent Dupuch	37	Member	Head of Eastern Europe in IRFS – Emerging Markets and Overseas Territories of BNP Paribas
Oleksandr Yaroslavskyy	46	Member	—
Ernest Galiyev	34	Member	—
Aleksandr Chornyy	37	Member	—
Oleksiy Kolesnik	35	Member	—

Jean-Francois Varlet has been Chairman of the Supervisory Council since 2006. He joined the BNP Paribas group in 1976, working initially in marketing and sales in New York and subsequently with the large corporates unit. After heading the Group's Luxembourg subsidiary in 1989, he held various managerial positions within the Group. From 1993, he was the head of career management within the corporate human resources department. Prior to joining BNP Paribas Assurance Executive Committee in 2004, Jean-Francois Varlet was in charge of the bank's operations in the United Kingdom and Australia. He graduated from Lycée Albert I, Monaco in 1968 and Ecole des Hautes Etudes Commerciales in 1973.

Pierre Mariani has been a member of the Supervisory Council since 2006. From 2003 he has been a member of the Executive Committee and the Head of International Retail and Financial Services at BNP Paribas Group. From 1999, he was the Head of International Retail Banking of BNP Paribas Group. From 1996, he held various managerial positions in Banexi (Banque pour l'expansion industrielle), the investment bank of BNP (Banque Nationale de Paris). From 1995 he joined as CEO and a member of the board of Société d'investissements immobiliers et de gestion (SEFIMEG), a major French property company. From 1982, he held various positions at the Ministry of Finance of France. He graduated with an MBA from the Ecole des hautes études commerciales, graduated in Law from Paris University and is an alumnus of the National School of Public Administration, France.

Jean-Jacques Santini has been a member of the Supervisory Council since 2006. He is a member of the General Management Group Committee and Head of the International Retail Banking Group at BNP Paribas Group. In 1988 he joined the BNP Paribas Group and from that year he held various managerial positions within the Group. From 1984, he held various managerial positions in the Ministry of Finance and Treasury of France. He graduated from the Institut d'Etudes Politiques de Paris in 1978, graduated in Law from Paris University in 1980 and from the Ecole des Hautes Etudes Commerciales in 1984.

Dominique Menu has been a member of the Supervisory Council since 2006. From 2005, he has been Head of the Representative Office of BNP Paribas in Ukraine. He joined BNP Paribas Group in 1988 and held various managerial positions in Paris, Moscow, Zagreb and Belgrade. Previously, he worked in Project and Asset Finance at other French banks from 1982. He graduated from Yale University, USA, in 1982, from the Institut D'etudes Politiques de Paris in 1980, the Institut National Des Langues Et Civilisations Orientales in 1979 and the Institut Commercial De Nancy, France, in 1978

Laurent Dupuch has been a member of the Supervisory Council since 2006. From March 2006, he has been Head of Eastern Europe in International Retail and Financial Services – Emerging Markets and Overseas Territories at the BNP Paribas Group. In 1993, he joined the BNP Paribas Group and from that year he held various positions within the Group. In 1993, he worked in the SME Department of Ernst & Young. From 1991, he worked at Andersen Consulting (now Accenture). He graduated from the Institut National des Télécommunications, Paris, in 1992 and HEC – French Graduate School of Management in 1993.

Oleksandr Vladilenovich Yaroslavskyy, PhD has been a member of the Supervisory Council since 2006 and Honorary President of the Bank since 2002. From 2003 until 2006, he was a member of the Ukrainian Parliament. From 1998, he was President of the Bank, Director and General Director of the Bank's General Representative Office. From 1986, he held various positions at other Ukrainian companies and state institutions. He graduated from a Kharkiv-based institute in 1983.

Ernest Eduardovich Galiyev, PhD has been a member of the Supervisory Council since 2006. From 2002 until 2006, he was a member of the Ukrainian Parliament. From October 1993, he successively served as Senior Specialist, Head of Unit, Vice President and Deputy Chairman of the Bank. He graduated from Kharkiv Engineering and Economics Institute in 1993.

Aleksandr Vladimirovich Chornyy has been a member of the Supervisory Council since 2006. He graduated in Economics from Kharkiv State Economic University in 1993.

Oleksiy Petrovych Kolesnik has been a member of the Supervisory Council since 2001. From 1998 to 2001, he was the Commercial Director of a Ukrainian public company. From 1992 to 1997, he held the position of leading expert of a real-estate agency. From 1994 to 1997, he undertook post-graduate studies at Kharkiv State Economics University. He graduated from Kharkiv State Economics University in 1994.

The members of the Supervisory Council also serve as representatives of the Bank's shareholders (as is common with all Ukrainian joint stock companies) and two members, Mr Yaroslavskyy and Mr Galiyev, are also shareholders in the Bank. The Bank engages in certain transactions with its shareholders or entities controlled by its shareholders. As a result, potential conflicts of interest could arise between the duties of members of the Supervisory Council to the Bank and their private interests or other duties.

Audit Commission

The Bank's Audit Commission monitors the Bank's compliance with Ukrainian legislation and NBU regulations, reviews reports of internal and external auditors and makes recommendations to the General Meeting of Shareholders or the Supervisory Council regarding the financial security and stability of the Bank and protection of its customers.

SHAREHOLDING

The nominal value of the Bank's shares issued and fully paid as of 30 June 2006 was UAH 1,250 million. The Bank's statutory capital as of such date consisted of issued and placed common stock in the amount of 25 billion shares with a nominal value of UAH 0.05 per share. On 27 March 2006, the shareholders of the Bank resolved to issue an additional 10 billion shares totalling UAH 500 million. The placement of shares commenced on 1 May 2006 and was completed on 17 May 2006. All shares were fully paid by the end of May 2006. On 7 July 2006, the NBU registered the respective changes in the Bank's Charter.

On 8 September 2006, the Bank's shareholders adopted a decision to issue 10 billion additional shares totalling UAH 500 million. The placement of shares commenced on 15 October 2006 and was completed on 7 November 2006. On 30 November 2006 the NBU registered the Bank's amended and restated Charter reflecting the increase in the Bank's share capital. As of the date of this Prospectus, the Bank's paid-in registered statutory capital is UAH 1,750 million and the Bank's share capital comprises 35 billion ordinary shares with a par value of UAH 0.05 each. In early 2007, the Bank's shareholders plan to issue an additional 7.5 billion shares totalling UAH 375 million.

In April 2006, BNP Paribas acquired 51 per cent. of the share capital of the Bank following the granting of requisite approvals by the AMC and the NBU. See "*Business of the Bank – Overview – BNP Paribas" and "BNP Paribas Group*".

As of the date of this Prospectus, BNP Paribas is the parent company of the Bank, with substantially all of the remainder of the Bank's share capital being controlled by two Ukrainian nationals, Mr Oleksandr Yaroslavskyy and Mr Ernest Galiyev. Since it became a shareholder of the Bank in April 2006, BNP Paribas has directly controlled 51.00 per cent. of the Bank's share capital. Mr Yaroslavskyy and Mr Galiyev became shareholders of the Bank in 1998. In aggregate, Mr Yaroslavskyy and Mr Galiyev control 48.997 per cent. of the Bank's share capital, principally through their respective indirect controlling interests in CJSC "Ukrainian Metallurgical Company" (registered in Kharkiv, Ukraine) and "Laax Investments Ltd." (registered in Luxemburg), which are Bank's shareholders of record and which directly own 39.497 per cent. and 9.500 per cent., respectively, of the Bank's ordinary voting shares. (The remaining 0.003 per cent. of the shares are held by a number of Ukrainian corporate and individual shareholders.) Mr Yaroslavskyy and Mr Galiyev are not involved in the day-to-day management of the Bank; however, they are members of the Bank's Supervisory Council (See "*Management*").

Pursuant to the Shareholders' Deed among BNP Paribas and the Ukrainian Shareholders, the Ukrainian Shareholders have power to veto certain decisions by the general meeting of shareholders. Specifically, shareholders controlling 10 per cent. or more of the votes can veto decisions to amend the Bank's charter, liquidate the Bank, or enter into any transactions that are outside the course of its usual banking business or any transactions with related parties whose value exceeds 30 per cent. of the combined capital of the Bank and its subsidiaries. Shareholders controlling 25 per cent. or more of the votes can also veto decisions to increase the Bank's charter capital or issue securities convertible into shares, enter into any transactions that are outside the course of the Bank's usual banking business or any transactions with related parties whose value exceeds 20 per cent. of the combined capital of the Bank and its subsidiaries, or expand the Bank's activities outside Ukraine if this would result in 20 per cent. or more of the gross revenue of the Bank and its subsidiaries being obtained outside Ukraine. In addition, Ukrainian law currently requires the attendance of shareholders holding more than 60 per cent. of a company's share capital for a quorum to be present at a general meeting of shareholders (although a draft law which would reduce such quorum to 50 per cent. plus one vote is currently before the Ukrainian parliament). Therefore, any shareholder or combination of shareholders representing 40 per cent. or more of the Bank's share capital has the ability to block certain corporate actions by refusing to attend the general meeting of shareholders. Under the Shareholders' Deed, BNP Paribas has a call option over a further 10.5 per cent. of the shares held by one of the Ukrainian Shareholders in the event of a deadlock due to the lack of a quorum at the Supervisory Council or general meeting of shareholders. This call option will expire if and when the abovementioned change in Ukrainian company law comes into effect and the quorum requirement is reduced to 50 per cent. See "*Risk Factors – Risks Relating to the Bank – Controlling Shareholder*".

RELATED PARTY TRANSACTIONS

For the purposes of the Bank's consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control with or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each potential related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Banking transactions are entered into in the normal course of business with significant shareholders, directors, companies with which the Bank has significant shareholders in common and other related parties. These transactions include settlements, loans, deposit taking, guarantees, purchases and sales of securities, trade finance and foreign currency transactions.

The following table presents information on the Bank's related party transactions as of 30 June 2006 and 31 December 2005, 2004 and 2003 (in UAH thousands, except percentages).

	30 June 2006 (Unaudited)	31 December		
		2005	2004	2003
Cash and cash equivalents	**118**	—	—	—
Due from other banks				
Term placement in USD at the period/year end (contractual interest rate: 2003: 14%)	—	—	—	20,504
Interest income for the period/year	—	—	98	5,770
Loans and advances to customers				
Loans and advances at the period/year end	1,333,500	386,723	344,483	254,393
Provision for loan impairment at the period/year end	(29,171)	(16,723)	(21,717)	(10,381)
Interest income for the period/year	8,477	24,142	29,791	48,772
Interest rate for UAH denominated loans at the period/year end	6-17%	15-17%	17-23%	19-30%
Interest rate for USD denominated loans at the period/year end	9-14%	10-14%	10-17%	8-16%
Interest rate for EUR denominated loans at the period/year end	7-12%	9-14%	9-14%	14-16%
Interest rate for CHF denominated loans at the period/year end	9-11%	9%	—	—
Interest rate for other currencies denominated loans at the period/year end	14%	—	—	—
Recovery of provision/(provision) for loan impairment	7,003	4,994	(11,336)	—
Trading Securities				
Corporate bonds at the period/year end	—	—	20,056	35,828
Interest income from corporate bonds for the period/year	—	989	1,630	6,671
Gains less losses from trading securities	—	330	1,023	1,630
Investments available-for-sale at the period/ year end	70,378	9,335	31,622	25,267
Gains from derecognition of investment securities available-for-sale	48	16,796	—	—
Loss on initial recognition of investment securities available-for-sale	(17,970)	—	—	—
Other assets				
Receivables on settlements for securities	—	—	5,682	800
Other receivables	141	—	—	225
Due to other banks	566,047			
Interest expense on due to other banks	447			
Customer accounts				
Current accounts at the period/year end	57,965	79,658	58,856	35,379
Term deposits outstanding at the period/year end	972,856	160,399	529,446	639,443
Interest expense for the period/year	27,717	9,535	36,294	36,935

	30 June 2006 (Unaudited)	31 December 2005	2004	2003
Interest rate for UAH denominated term deposits at the period/year end	7-20%	5-20%	10-20%	2-18%
Interest rate for USD denominated term deposits at the period/year end	5-11%	5-13%	3-13%	4-12%
Interest rate for EUR denominated term deposits at the period/year end	9-13%		7-12%	9%
Other liabilities				
Amounts payable for premises	—	—	—	2,675
Amounts payable for securities purchased	—	3,761	2,688	3,735
Provision for vacations	85	67	—	—
Subordinated debt				
Balances outstanding at the period/year end	309,638	103,413	—	58,556
Interest expense for the period/year based on effective rates used for amortisation	11,138	2,413	3,852	5,720
Interest expense for the period/year (based on contractual rates)	11,138	2,413	3,339	5,524
Contractual interest rate	8-10%	10%		
Loss on change in terms of subordinated debt	—	—	(8,589)	—
Debt securities in issue held by related parties				
Balances outstanding at the period/year end	—	—	—	21,279
Interest expense for the period/year	—	—	4,821	5,107
Minority interest	2,994	2,972	9,382	3,020
Credit related commitments				
Commitments to extend credit outstanding at the period/year end	216,167	4,627	28,340	—
Import letters of credit at the period/year end (cash covered)	19,393	844	4,718	1,896
Import letters of credit (uncovered)	92,585	6,836	10,145	—
Guarantees issued (uncovered)	—	345	1,273	—
Commitments to extend credit received from other banks	430,246			
Promissory notes endorsements (uncovered)	7,464	3,714		
Fee and commission income for the period/year	13,077	3,560	4,697	4,260
Income from insurance operations	470			
Other operating income	191			
Other operating expenses	108	94		
Amounts lent to related parties during the period/year	2,372,297	1,625,407	1,187,991	
Amounts repaid by related parties during the period/year	1,842,877	1,448,099	897,821	

While a significant portion of the Bank's assets have historically been due from related parties and a significant portion of the Bank's earnings have been derived from activities and transactions with related parties, transactions with related parties are priced predominantly at market rates and are subject to the same loan approval procedures and limits as are applied by the Bank to transactions with unrelated parties. The Bank may occasionally be able to offer related parties (principally its employees) banking products at rates below prevailing market rates, reflecting the lower risk accorded to such customers as a result of the Bank's ability to assess and monitor their credit history and the availability of collateral, such as pledges over salaries in the case of employees.

EMPLOYEES

As of 30 June 2006, the Bank had 9,235 employees, compared to 10,394, 6,580 and 3,363 employees at 31 December 2005, 2004, and 2003 respectively. As of 30 June 2006, the Bank had 1,152 employees at its head office and 8,083 employees at its branches and banking units, compared to 1,055 and 9,339 employees respectively at 31 December 2005. There was a short-term decrease in the number of the Bank's employees during the first half of 2006 as a result of the planned internal reorganisation of the Bank. As of 1 November 2006, the Bank had 10,247 employees, including 1,272 employees at its head office.

Competition in the Ukrainian banking industry for personnel with relevant expertise is intense, due to the disproportionately low number of available qualified and/or experienced individuals compared to the demand for such personnel. Moreover, the Bank's need for qualified staff will continue to increase as it expands its branch network and operations. The Bank intends to hire approximately 200 additional employees by the end of 2006 as a result of the expansion of its branch network and operations. See "*Risk Factors – Risks Related to the Bank – Dependence on Key Management and Qualified Personnel*" above.

The Bank provides its employees with opportunities to develop their careers and professional qualifications through in-house training programmes, seminars and the opportunity to participate in conferences in Ukraine and abroad. The Bank also intends to draw upon BNP Paribas's extensive human resources expertise and experience by adopting certain of its personnel development programmes and seconding employees to BNP Paribas for training and skill sharing. The Bank has formed a team of internal coaches who train the Bank's staff in skills such as negotiation, planning and customer relations through a mixture of classroom and practical sessions, home study, video courses and online training in order to assist them improve and develop their professional qualifications. The Bank has implemented induction programmes and procedures for new employees and developed unified principles and standards for the training and professional development of its staff.

The Bank seeks to pay competitive salaries and operates a bonus system for its employees who contribute to improving the Bank's financial performance. Management considers that it has good relations with its employees and also considers that employee turnover is average for a Ukrainian bank of its size.

None of the Bank's employees belongs to a trade union. Instead, the Bank's employees belong to an Employees' Council, which is accepted practice for large Ukrainian employers. The Bank has entered into a collective agreement with the Employees' Council which sets out details of working conditions, pay and social benefits.

As of the date of this Prospectus, the Bank's management team includes BNP Paribas representatives holding the positions of Chairman of the Supervisory Council, Deputy Chairman of the Management Board/Head of the Risk Management Department, Deputy Chairman of the Management Board responsible for Information Technology, Head of the Consumer Financing Department (Cetelem) and Head of the Marketing Department (see "*Management*"). The Bank believes that the presence of BNP Paribas's representatives on its management team will assist the Bank in implementing its plans to develop its product range and improve the quality of its services.

THE ISSUER

History and Development of the Issuer

The Issuer is a public limited company registered in England and Wales under registration number 14259. The liability of its members is limited. The Issuer has its registered office and head office at 8 Canada Square, London, E14 5HQ, and the telephone contact number is +44 20 7991 8888. The Issuer was constituted by a Deed of Settlement on 15 August 1836 and registered under the Companies Act 1862 as an unlimited company. It was incorporated under the Companies Acts 1862 to 1879 on 1 July 1880. On 27 November 1923, the Issuer adopted the name of Midland Bank Limited which it held until 1 February 1982 when the Issuer was re-registered under the Companies Acts 1948 to 1980 as a public limited company and changed its name to Midland Bank plc. During the year ended 31 December 1992, Midland Bank plc became a wholly owned subsidiary undertaking of HSBC Holdings plc ("**HSBC Holdings**") and by special resolution on 27 September 1999, changed its name from Midland Bank plc to HSBC Bank plc. For the purposes of advertising, the Issuer uses an abbreviated version of its name, that is, HSBC.

Legislation

The Issuer is subject to primary and secondary legislation relating to financial services and banking regulation in the United Kingdom, including, *inter alia*, the Financial Services and Markets Act 2000, for the purposes of which the Issuer is an authorised person carrying on the business of financial services provision. In addition, as a public limited company, the Issuer is subject to the Companies Acts 1985 and 1989 (as amended).

Principal activities and markets

The Issuer and its subsidiaries form a UK-based group (the "**HSBC Group**") providing a comprehensive range of banking and related financial services.

The Issuer divides its activities into the following business segments: UK Personal Financial Services; UK Commercial Banking; UK Corporate, Investment Banking and Markets; International Banking; HSBC France; Private Banking; and HSBC Trinkaus & Burkhardt.

UK Personal Financial Services provides current accounts, savings, personal loans, mortgages, cards, wealth management and general insurance to UK personal customers through a variety of distribution channels under the HSBC, First Direct, M&S Money and partnership cards brands.

UK Commercial Banking provides products and services to a broad range of commercial organizations from sole proprietors to major companies.

Corporate, Investment Banking and Markets provides tailored financial solutions to major government, corporate and institutional clients worldwide. Products and services offered include Global Markets, Global Transaction Banking, Corporate and Institutional Banking, Global Investment Banking and HSBC Group's Investment Business.

International Banking provides a range of retail financial services, primarily across Europe, to local and expatriate customers and wholesale banking to corporate and institutional clients.

HSBC France offers a wide range of retail, commercial and asset management products to individuals, companies and institutional customers through a network of regional banks in France.

Private Banking offers an array of client services to high net worth customers, including advisory portfolio management, discretionary asset management, tax, trust and estate planning, mutual funds and currency and securities transactions.

HSBC Trinkaus & Burkhardt, based in Düsseldorf, Germany, offers a comprehensive range of services to wealthy private clients, larger companies, institutional investors, public corporations and financial institutions.

As at 31 December 2005, the Issuer had 1,528 branches in the United Kingdom. Outside the United Kingdom, it has branches in Australia, Belgium, Cyprus, the Czech Republic, France, Greece, Guernsey, the Hong Kong Special Administrative Region, Ireland, the Isle of Man, Israel, Italy, Jersey, the Netherlands, Slovakia, South Africa, Spain and Sweden; it has a representative office in Venezuela; and its subsidiaries have offices in Armenia, the Channel Islands, France, Germany, Greece, Israel, Kazakhstan, Luxembourg, Malta, Poland, Russia, South Africa, Switzerland, Turkey and the United Arab Emirates. Through these undertakings, the Issuer provides a comprehensive range of banking and related financial services.

In all the main countries in which the Issuer operates, it competes with the other major domestic banks in those countries. In addition, the Issuer competes with other major global banks in respect of its corporate, investment banking and markets and private banking businesses.

As at 31 December 2005, the Issuer's principal subsidiary undertakings and their country of incorporation or registration were:

Name of Subsidiary	**Location**
HSBC France (99.99% owned)	France
HSBC Asset Finance (UK) Limited	England
HSBC Bank A.S.	Turkey
HSBC Bank International Limited	Jersey
HSBC Bank Malta p.l.c. (68.19% owned)	Malta
HSBC Guyerzeller Bank AG (99.72% owned)	Switzerland
HSBC Invoice Finance (UK) Limited	England
HSBC Life (UK) Limited	England
HSBC Rail (UK) Limited	England
HSBC Private Bank (Guernsey) Limited (99.72% owned)	Guernsey
HSBC Private Bank (Suisse) S.A. (94.29% owned)	Switzerland
HSBC Private Bank (UK) Limited (99.72% owned)	England
HSBC Trinkaus & Burkhardt KGaA (77.89% owned)	Germany
HSBC Trust Company (UK) Limited	England
Marks and Spencer Retail Financial Services Holdings Limited	England

Organisational Structure

HSBC Bank plc is the HSBC Group's principal operating subsidiary undertaking in Europe. The Issuer is a wholly and directly owned subsidiary of HSBC Holdings, the UK holding company of the HSBC Group.

The whole of the issued ordinary and preference share capital of the Issuer is owned by HSBC Holdings.

The HSBC Group is one of the largest (by market capitalisation) banking and financial services organisations in the world, with around 9,500 offices in 76 countries and territories in five geographical regions: Europe; Hong Kong; the rest of Asia-Pacific, including the Middle East and Africa; North America; and South America. Its total assets at 30 June 2006 were £942 billion.

Management

The Directors of the Issuer, each of whose business address is 8 Canada Square, London, E14 5HQ, their functions in relation to HSBC Group and their principal outside activities (if any) of significance to HSBC Group are as follows:

Name	Function	Other principal activities outside the Issuer
S K Green	Chairman	Group Chairman HSBC Holdings
M F Geoghegan, CBE	Deputy Chairman	Group Chief Executive HSBC Holdings
D D J John	Chief Executive	Group Managing Director HSBC Holdings
D C Budd	Chief Operating Officer	Group General Manager HSBC Holdings
C-H Filippi	Director	Chairman and Chief Executive Officer HSBC France Group Managing Director HSBC Holdings
S T Gulliver	Chief Executive, Corporate, Investment Banking and Markets and Group Investment Businesses	Group Managing Director HSBC Holdings Head of the HSBC Group's Corporate, Investment Banking and Markets and Group Investment Businesses
J D Fishburn	Director*	Chairman HFC Bank Limited and Independent non-executive Director of HSBC Finance Corporation
C M S Jones	Director*	—
R E S Martin	Director*	General Counsel and Company Secretary of Reuters Group PLC
A R D Monro-Davies	Director*	—
P M Shawyer	Director*	—
J Singh	Director*	Chairman and Chief Executive Officer Edwardian Group Limited
J F Trueman	Director*	—

* Independent non-executive Director

There are no existing or potential conflicts of interest between any duties owed to the Issuer by its management (as described above) and the private interests and/or other external duties owed by these individuals.

Executive Committee

The Issuer's Executive Committee meets regularly and operates as a general management committee under the direct authority of the Board. The members of the Executive Committee are: D D J John (Chairman), D C Budd, both of whom are executive Directors, and S Assaf, B M Cannon, J D Garner, A M Keir, J Large, C G F Laughton-Scott, M McCombe, A M Mahoney, R K McGregor and M P Smith, all of whom are senior executives.

Major Shareholders

The Issuer is directly and wholly owned by HSBC Holdings.

THE LOAN AGREEMENT

THIS AGREEMENT is made on 14 December 2006

BETWEEN:

(1) **JOINT-STOCK COMMERCIAL INNOVATION BANK "UKRSIBBANK"**, a legal entity under the laws of Ukraine, whose principal office is at 60 Moscovsky Avenue, Kharkiv 61050, Ukraine (the "**Borrower**"); and

(2) **HSBC BANK PLC**, a company established under the laws of England, whose registered office is at 8 Canada Square, London E14 5HQ, United Kingdom (the "**Lender**").

WHEREAS

The Lender has, at the request of the Borrower, agreed to provide financing to the Borrower in the form of a loan facility in the amount of U.S.$500,000,000 subject to and in accordance with the terms and conditions set forth in this Agreement.

IT IS AGREED AS FOLLOWS:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement the following terms have the meanings given to them in this Clause 1.1:

"**Acceleration Notice**" has the meaning set forth in Clause 15.13 (*Rights of Lender upon Occurrence of an Event of Default*).

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

"**Affiliate**" of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person, (ii) any other Person who is a director or officer (A) of such specified Person, (B) of any Subsidiary of such specified Person, or (C) of any Person described in clause (i) above. For the purpose of this definition, "**control**" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise and the terms "**controlling**" and "**controlled**" have meanings correlative to the foregoing.

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

"**Agreed Funding Source**" shall mean any Person to whom the Lender owes any Indebtedness (including securities), which Indebtedness was incurred solely and expressly to fund the Loan (including a designated representative of such Person).

"**Agreed Funding Source Agreements**" means the Trust Deed; the Notes; the subscription agreement dated 14 December 2006 in respect of the Notes between the Lender, the Borrower and the Joint Bookrunners; the agency agreement to be dated 21 December 2006 among the Lender, HSBC Bank plc as principal paying agent, Dexia Banque Internationale à Luxembourg, société anonyme as Luxembourg paying agent and the Trustee; in each case as amended from time to time; and any other agreements entered into in connection with the Notes.

"**Auditors**" means PricewaterhouseCoopers or any internationally recognised firm of independent accountants approved by the Lender or, in the event that the Relevant Loan Rights are assigned to the Trustee, the Trustee, such approval not to be unreasonably withheld in each case.

"**Banking Business**" means, in relation to the Borrower or any of its Material Subsidiaries, any type of banking business (including, without limitation, any short term inter-bank operations with maturities of one year or less, factoring, consumer credit, mortgages, issuance of banking guarantees and letters of credit (and related cash cover provision), bills of exchange and promissory notes and payments under such guarantees, letters of credit and promissory notes, trading of securities, fund management and professional securities market participation business) which it conducts or may conduct pursuant to its licence issued by the appropriate authorities and accepted market practice and any applicable law.

"**BIS Guidelines**" means the guidelines on capital adequacy standards (including the constituents of capital included in the capital base, the risk weights by category for on-balance-sheet assets, the credit conversion factors for off-balance-sheet items, and the target standard ratio) for international banks contained in the July 1998 test of the Basel Capital Accord, published by the Basel Committee on Banking Supervision (as amended, updated or supplemented from time to time), without any amendment or other modification by any other Agency.

"**Business Day**" means any day (other than a Saturday or Sunday) on which banks generally are open for business (including dealings in foreign currencies) in New York City, London and Kyiv.

"**Capital**" means the Borrower's Capital as such term is defined in the BIS Guidelines.

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

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

"**Central Bank**" means the National Bank of Ukraine.

A "**Change of Control**" shall be deemed to have occurred at any time (whether or not approved by the management board of the Borrower) that BNP Paribas and/or any of its Subsidiaries cease to own in excess of 50 per cent. in aggregate of the issued and allotted ordinary share capital carrying voting rights of the Borrower and where such event has resulted in a Rating Decline.

"**Change of Control Payment Date**" means the date specified as such in the notice from the Borrower to the Lender pursuant to Clause 7.2 (*Prepayment in the event of a Change of Control*).

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

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

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

"**Collection Account**" means an account of the Lender with HSBC Bank plc account number 67171234, sort code 40 05 15, SWIFT: MIDLGB22.

"**Disbursement Account**" means an account of the Borrower with BNP Paribas, USA, New York Branch, Account Number 0200-611512-001-38.

"**Dispute**" has the meaning set forth in Clause 25.2 (*English Courts*).

"**Double Tax Treaty**" means the Convention of 10 February 1993 between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Ukraine for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital Gains or, as the case may be, a double taxation treaty between Ukraine and any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes.

"**Drawdown Date**" has the meaning set forth in Clause 3 (*Availability of the Loan*).

"**Event of Default**" has the meaning set forth in Clause 15 (*Circumstances which Constitute Events of Default*).

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

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

(a) any obligation to purchase such Indebtedness;

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

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

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

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

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

"**Indebtedness**" means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(a) amounts raised by acceptance under any acceptance credit facility;

(b) amounts raised under any note purchase facility or through the issue of bonds, debentures, loan stock or any similar instrument;

(c) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;

(d) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and

(e) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

provided that, for the avoidance of doubt, such term shall not include any indebtedness owed to the state budget, local budgets and non-budgetary funds on account of taxes which are not overdue.

"**Indemnification Rights**" means the rights, interests and benefits of the Lender under Clauses 16.1 (*Default Interest Periods*), 16.2 (*Default Interest*), 16.3 (*Payment of Default Interest*), 16.4 (*Borrower's*

Indemnity), 16.5 (*Independent Obligation*), 18.2 (*Currency Indemnity*) and 20.2 (*Costs Relating to Preservation of Rights*) (but excluding any rights, interests and benefits accrued in favour of the Issuer thereunder up to the date of any assignment to the Trustee pursuant to Condition 11 (Enforcement) and the Trust Deed).

"**Interest Payment Date**" means 21 June and 21 December of each year in which the Loan remains outstanding, being the last day of the corresponding Interest Period, or if such day is not a Business Day, the next succeeding Business Day, commencing on 21 June 2007, and the last such date being the Repayment Date.

"**Interest Period**" means, except as otherwise provided herein, any of those periods mentioned in Clause 4 (*Interest Periods*).

"**Interest Rate**" means, except as otherwise provided herein, the interest rate specified in Clause 5.2 (*Calculation of Interest*).

"**Joint Bookrunners**" means BNP Paribas, HSBC Bank plc and UBS Limited in their capacity as joint bookrunners and joint lead managers under the Agreed Funding Source Agreements.

"**law**" means any statute, treaty, order, decree, instruction, letter, directive, instrument, regulation, ordinance or similar legislative or executive action by any national or international or local government or authority or by any ministry or department thereof and other agencies of state power and administration (including, but not limited to, taxation departments and authorities), whether in existence at the date hereof or introduced hereafter.

"**Loan**" has the meaning set forth in Clause 2 (*The Loan*).

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

"**Notes**" means the U.S.$500,000,000 7.75 per cent. Loan Participation Notes due 2011 of the Lender to be issued on 21 December 2006 on a limited recourse basis for the sole purpose of financing the Loan.

"**Officers' Certificate**" means a certificate signed by two duly authorised officers of the Borrower.

"**Permitted Security Interest**" means a Security Interest upon, or with respect to, any present or future assets or revenues of the Borrower or any part thereof which is created pursuant to any securitisation of receivables, asset-backed financing or other like arrangement, whereby the payment obligations secured by such Security Interest are to be discharged primarily from such assets or revenues, *provided that* the principal amount raised pursuant to any such financing, when aggregated with the principal amount raised pursuant to any financing referred to in paragraph (ii) of Clause 14.7 (*Disposals*), does not exceed an amount equal to 30 per cent. of the Group's loans to customers (calculated by reference to the Borrower's consolidated balance sheet as of the end of its most recent IFRS Fiscal Period.

"**Person**" means any individual, corporation, partnership, association, joint venture, joint-stock company, limited liability company, trust, unincorporated organisation or government or any Agency or political subdivision thereof.

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

"**Proceedings**" has the meaning set forth in Clause 25.4 (*Right of Lender to Take Proceedings Outside England*).

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

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

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

"**Rating Categories**" means (1) with respect to S&P, any of the following categories (any of which may or may not include a "+" or "-"): AAA, AA, A, BBB, BB, B, CCC, CC, C and D (or equivalent successor categories); (2) with respect to Moody's, any of the following categories (any of which may or may not include a "1", "2" or "3"): Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C and D (or equivalent successor categories); and (3) the equivalent of any such categories of S&P or Moody's used by another rating agency, if applicable.

"**Rating Decline**" means that at any time within 90 days (which period shall be extended so long as the corporate credit rating of the Borrower or the credit rating in respect of the Notes is under publicly announced consideration for possible downgrade by any Rating Agency) after:

(a) in the case of a Change of Control, the announcement or the occurrence of such Change of Control; or

(b) in the case of a disposal in accordance with Clause 14.7 (*Disposals*), the announcement or occurrence of the relevant transaction or series of transactions,

the corporate rating of the Borrower or the rating of the Notes is decreased or downgraded by a Rating Agency by one or more Rating Categories below the corporate rating of the Borrower or the rating of the Notes as of the date hereof (or if a Rating Agency has not assigned any such rating as of the date hereof, below the first such rating assigned to the Borrower or the Notes by that Rating Agency after the date hereof) as a result of such transaction or series of transactions, as specified by the relevant Rating Agency.

"**Regulatory Capital**" has the meaning set out in Chapter II of Regulation No. 368 of the Central Bank of 28 August 2001.

"**Relevant Indebtedness**" means any Indebtedness in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is for the time being or is intended to be listed, quoted or traded on any stock exchange or any securities market (including, without limitation, any over-the-counter market):

(a) denominated, payable or optionally payable in a currency other than hryvnia; and

(b) not initially distributed primarily to investors inside Ukraine.

"**Relevant Loan Rights**" means the Lender's rights and benefits under this Agreement, including the Indemnification Rights but excluding the Reserved Rights.

"**Repayment Date**" means 21 December 2011, or if such day is not a Business Day, the next succeeding Business Day.

"**Reserved Rights**" means the rights, interests and benefits of the Lender under Clause 7.6 (*Costs of Prepayment*) second sentence thereof; Clause 8.1(e); Clause 8.3(b) (*Tax Indemnity*); Clause 8.8

(*Delivery of Forms and other Instruments*); Clause 10 (*Changes in Circumstances*); Clause 11 (*Representations and Warranties of the Borrower*); Clause 16.4 (*Borrower's Indemnity*); Clause 16.5 (*Independent Obligation*); Clause 16.6 (*Survival*); Clause 18.2 (*Currency Indemnity*); Clause 19.1 (*Payments to the Lender*) (to the extent that such Clause refers to payment of amounts in respect of the Reserved Rights), Clause 19.3 (No Set-off) and Clause 20 (*Fees, Costs and Expenses*).

"**Risk Weighted Assets**" means the aggregate of the Group's consolidated balance sheet assets and off-balance sheet commitments, weighted for credit and market risk in accordance with the BIS Guidelines.

"**Rules**" has the meaning set forth in Clause 25.7 (*Arbitration*).

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

"**Subsidiary**" means a company or corporation (A):

(a) which is controlled, directly or indirectly, by another company or corporation (B); or

(b) more than half the issued share capital of which is beneficially owned, directly or indirectly, by B,

and, for these purposes, A shall be treated as being controlled by B if B is able to direct A's affairs and/or to control the composition of A's board of directors or equivalent body.

"**Tax Certificate**" has the meaning set forth in Clause 8.2 (*Double Tax Treaty Relief*).

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

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

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

"**Trust Deed**" means the trust deed to be dated 21 December 2006 between the Lender and The Law Debenture Trust Corporation p.l.c. as trustee.

"**Trustee**" means The Law Debenture Trust Corporation p.l.c. or any other party designated from time to time as trustee under the Trust Deed.

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

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

"**unpaid sum**" has the meaning set forth in Clause 16.1 (*Default Interest Periods*).

1.2 Other Definitions

the "**Lender**" shall be construed so as to include its and any subsequent successors, assignees and chargees in accordance with their respective interests;

the "**equivalent**" on any given date in one currency (the "first currency") of an amount denominated in another currency (the "second currency") is a reference to the amount of the first currency which could be purchased with the amount of the second currency at the spot rate of exchange quoted on the relevant Reuters page or, where the first currency is (i) hryvnia and the second currency is (ii) U.S. dollars or as the case may be euros (or vice versa), as quoted by the Central Bank at or about noon (London time or Brussels time (as applicable) or, as the case may be, Kyiv time) on such date for the purchase of the first currency with the second currency;

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

"**VAT**" shall be construed as a reference to (a) any tax imposed in compliance with the Sixth Directive of the Council of the European Economic Communities (77/388/EEC) (including in relation to the United Kingdom, value added tax imposed by the Value Added Tax Act 1994 and any legislation supplemental thereto); and (b) any other tax of a similar fiscal nature whether imposed in a member state of the EU in substitution for or in addition to such tax, or imposed elsewhere.

1.3 Interpretation

Unless the context otherwise requires,

(a) a term has the meaning assigned to it;

(b) "or" is not exclusive;

(c) words in the singular include the plural, and in the plural include the singular;

(d) provisions apply to successive events and transactions;

(e) references to "U.S.$" or "U.S. dollars" are to United States dollars and references to "hryvnia" are to Ukrainian hryvnia.

1.4 Statutes

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

1.5 Headings

Clause and Annex headings are for ease of reference only.

1.6 Amended Documents

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

2. THE LOAN

2.1 Grant of the Credit Facility

The Lender grants to the Borrower, upon the terms and subject to the conditions hereof, a single disbursement term loan facility in the amount of U.S.$500,000,000 (the "**Loan**"), funded by the Agreed Funding Source. In connection with the Loan and related transactions, the Borrower shall pay a financing arrangement fee to the Lender in accordance with a fee letter dated on or about the date of this Agreement between the Lender and the Borrower (the "**Fees Letter**").

2.2 Purpose and Application

The Loan is intended to be used by the Borrower to prepay existing obligations, fund loans to corporate and/or individual customers and for general corporate purposes and, without affecting the obligations of the Borrower in any way, the Lender shall not be obliged to concern itself with such application.

3. AVAILABILITY OF THE LOAN

Subject to the terms and conditions set out herein, the Loan will be available by way of a single advance that will be made by the Lender by payment of the proceeds of the issue of the Notes to the Disbursement Account, and the Borrower will draw down the Loan, on 21 December 2006 (the "**Drawdown Date**"), or such later date as may otherwise be agreed by the parties to this Agreement, if:

(a) the Lender and the Joint Bookrunners have confirmed to the Borrower that they have received all of the conditions precedent documents listed in the Agreed Funding Source Agreements (other than those conditions precedent which have been waived in accordance with the provisions of the Agreed Funding Source Agreements) in the form and substance satisfactory to them;

(b) the Lender has received full funding of the Loan from the Agreed Funding Source; and

(c) no event has occurred or circumstance arisen which would, whether or not with the giving of notice and/or the passage of time and/or the fulfilment of any other requirement, constitute an event described under Clause 15 (*Events of Default*) and the representations set out in Clause 11 (*Representations and Warranties of the Borrower*) are true and accurate in all material respects on and as of the proposed date for the making of such Loan.

4. INTEREST PERIODS

The period for which the Loan is outstanding shall be divided into:

(a) a first period commencing on, and including 21 December 2006 and ending on and excluding 21 June 2007 (the "**First Interest Period**"); and

(b) successive semi-annual periods, ending on and excluding 21 December and 21 June, each of which shall start on, and shall include, the last day of the preceding such period (each, together with the First Interest Period an "**Interest Period**").

5. PAYMENT AND CALCULATION OF INTEREST

5.1 Payment of Interest

Not later than noon (New York City time) two Business Days prior to each Interest Payment Date the Borrower shall pay to the Collection Account all accrued and unpaid interest calculated to the last day of each Interest Period on the outstanding principal amount of the Loan.

5.2 Calculation of Interest

The Loan shall bear interest at the rate of 7.75 per cent. per annum (the "**Interest Rate**"). The amount of interest payable on each Interest Payment Date other than the Interest Payment Date corresponding to the First Interest Period shall be calculated by applying the Interest Rate to the amount of the Loan, dividing the product by two and rounding the resulting figure to the nearest cent, half a cent being rounded upwards. When interest is required to be calculated for any period other than an Interest Period, it shall be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each, and, in the case of an incomplete month, the actual number of days elapsed.

5.3 Assumption when Calculating Interest

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

6. REPAYMENT

Except as otherwise provided herein, not later than noon (New York City time) two Business Days prior to the Repayment Date, the Borrower shall repay in full the Loan and, to the extent not already paid in accordance with Clause 5.1 (*Payment of Interest*), all accrued and unpaid interest, any Additional Amounts and any Tax Indemnity Amounts calculated to the last day of the last Interest Period.

7. PREPAYMENT

7.1 Prepayment for Tax Reasons

If, as a result of the application of or any amendment to or change (including a change in interpretation or application thereof) in the Double Tax Treaty or the laws or regulations of Ukraine or the United Kingdom (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) or of any political sub-division thereof or any Agency therein, the Borrower would thereby be required to pay any Additional Amounts in respect of Taxes pursuant to Clause 8.1 (*Additional Amounts*) or Tax Indemnity Amounts pursuant to Clause 8.3 (*Tax Indemnity*), then, *provided that* the Borrower cannot avoid the obligation to pay such Additional Amounts or Tax Indemnity Amounts by taking reasonable measures, the Borrower may (without premium or penalty), upon not less than 30 calendar days' notice to the Lender and the Trustee, including or attaching an Officers' Certificate to the effect that the Borrower would be required to pay such Additional Amounts or Tax Indemnity Amounts, prepay the Loan in whole (but not in part) at any time together with all accrued and unpaid interest, any Additional Amounts and any Tax Indemnity Amounts. No such notice shall be given earlier than 90 calendar days prior to the earliest date on which the Borrower would be obligated to pay such Additional Amounts or Tax Indemnity Amounts, as the case may be.

7.2 Prepayment in the event of Change of Control

Promptly, and in any event within fifteen (15) calendar days after the date of any Change of Control the Borrower shall deliver to the Lender and the Trustee a notice in the form of an Officers' Certificate:

(a) stating that a Change of Control has occurred; and

(b) specifying the Change of Control Payment Date, as the case may be, which date shall be a Business Day falling not less that 30 calendar days nor more than 60 calendar days after the date such notice is delivered.

The Borrower shall, no later than noon (New York City time) on the second Business Day prior to the Change of Control Payment Date, prepay the Loan together with (i) all accrued and unpaid interest and (ii) any other amounts outstanding hereunder, in either case, to the extent and in the amount that the Lender is required to pay the holders of Notes as a result thereof as set forth in a notice by the Lender to the Borrower (with a copy to the Trustee), including computation of such amount, given at least five (5) Business Days prior to the Change of Control Payment Date.

7.3 Prepayment for Illegality

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

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

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

7.4 Notice of Prepayment

Without prejudice to any other requirement in this Agreement, any notice of prepayment given by the Borrower pursuant to Clause 7.1 (*Prepayment for Tax Reasons*) or Clause 7.2 (*Prepayment in the event of Change of Control*) hereof shall be irrevocable (except that, in respect of Clause 7.2(b), such notice may be amended), shall specify the date upon which such prepayment is to be made and shall oblige the Borrower to make such prepayment no later than noon (New York City time) two Business Days prior to such date.

7.5 No Other Prepayments and No Reborrowing

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

7.6 Costs of Prepayment

The Borrower shall, no later than noon (New York City time) two Business Days prior to the date of prepayment, pay all accrued and unpaid interest, any Additional Amounts and any Tax Indemnity Amounts (each only with respect to the amount subject to such prepayment and calculated to, but excluding the date of prepayment), as of such date of prepayment and all other amounts payable to the Lender hereunder in connection with such prepayment. The Borrower shall indemnify the Lender on demand against any administrative and legal costs and expenses reasonably incurred and properly documented by the Lender on account of any prepayment made in accordance with this Clause 7 (*Prepayment*).

7.7 Reduction of Loan upon Cancellation of Notes

The Borrower or any other member of the Group may from time to time purchase Notes in the open market or by tender or by a private agreement at any price. If such Notes are surrendered by the Borrower or any member of the Group to the Lender, as issuer of the Notes, for cancellation (together with an authorisation addressed to the principal paying agent under the Agreed Funding Source Agreements to cancel such Notes), the Loan shall be deemed to have been prepaid in an amount corresponding to the aggregate principal amount of the Notes surrendered for cancellation, together with accrued interest and other amounts (if any) thereon and no further payment shall be made or required to be made by the Borrower in respect of such amounts.

8. TAXES

8.1 Additional Amounts

(a) All payments made by the Borrower in respect of the Loan shall be made in full free and clear of and without deduction or withholding for or on account of any present or future taxes, duties, assessments, fees or other governmental charges (collectively, "**Taxes**") imposed or levied by or on behalf of Ukraine or the United Kingdom (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes), or any political subdivision or authority thereof or therein having power to tax in each of the preceding jurisdictions (each, a "**Taxing Authority**"), unless the Borrower is required to withhold or deduct Taxes by law or by the interpretation or administration thereof.

(b) If at any time the Borrower is required to withhold or deduct any amount for or on account of Taxes imposed or levied by or on behalf of any Taxing Authority within Ukraine or the United Kingdom (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) from any payment made under or with respect to the Loan, the Borrower shall, on the due date for such payment, pay such additional amounts ("**Additional Amounts**") as may be necessary so that the net amount received by the Lender (including Additional Amounts) in U.S. dollars after such withholding or deduction will not be less than the amount the Lender would have received if such Taxes had not been withheld or deducted and free from liability in respect of such withholding or deduction; *provided, however, that* for the avoidance of doubt, such Additional Amounts shall not be payable with respect to any Taxes on overall net income payable by the Lender under the laws of the United Kingdom or, as the case may be, the relevant Qualifying Jurisdiction.

(c) The Borrower will also:

(i) make such withholding or deduction; and

(ii) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law.

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

(e) If the Lender pays any amount in respect of such Taxes or in respect of penalties or interest where such penalties or interest relate to Taxes imposed or levied by or on behalf of Ukraine and do not arise as a result of the Lender's failure to comply with its obligations under this Agreement, the Borrower shall reimburse the Lender in U.S. dollars for such payment on demand.

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

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

8.2 Double Tax Treaty Relief

(a) Within 30 calendar days after the start of each calendar year, the Borrower shall request that the Lender provide it with a Tax Certificate. Following the receipt of such a request, the Lender shall use its best endeavours to furnish the Borrower, as soon as reasonably practicable after the start of each calendar year (or as frequently as may be reasonably required to enable the Borrower to claim relief as provided below) and, in any event, no later than the thirtieth calendar day preceding the first Interest Payment Date in each calendar year in which interest is payable hereunder, with a letter from HM Revenue & Customs ("**HMRC**") on headed notepaper duly signed and stamped or otherwise approved by HMRC and apostilled (a "**Tax Certificate**") certifying that, as at the date of the Tax Certificate, the Lender is resident in the United Kingdom for the purposes of the Double Tax Treaty, *provided that*, without prejudice to its representation in Clause 8.6 (*Tax Position of the Lender*), the Lender shall have no liability to the Borrower, if such representation is correct and the Lender has appropriately applied for a Tax Certificate in a timely fashion in accordance with this Agreement, if the Taxing Authority of the United Kingdom (or a Qualifying Jurisdiction) fails to issue a Tax Certificate in respect of any calendar year or only does so after the relevant Interest Payment Date.

(b) Subject to receipt by the Borrower of a Tax Certificate which is valid in respect of the relevant payment, the Borrower shall claim relief from withholding of Ukrainian income tax or a reduction in the withholding tax rate to the maximum extent possible in respect of Ukrainian income tax in accordance with the Double Tax Treaty in respect of payments to be made by the Borrower under this Agreement.

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

8.3 Tax Indemnity

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

(a) the Lender is obliged to make any deduction or withholding for or on account of any Taxes from any payment which the Lender is obliged to make under or in respect of any Agreed Funding Source Agreements and the Lender is required under the terms and conditions of any Agreed Funding Source Agreement to pay additional amounts in connection therewith, the Borrower shall pay to the Lender within 30 calendar days of such notice (and otherwise in accordance with the provisions of this Agreement) such additional amounts as, after any withholding or deduction required by law to be made from such payment, are equal to the additional payments which the Lender would be required to make under the terms and conditions of any Agreed Funding Source Agreement, assuming in each case that an equivalent amount had been actually received from the Borrower by or for the account of the Lender, in order that the net amount received by each relevant payee is equal to the amount which such party would have received had no such withholding or deduction been required to be made; and/or

(b) the Lender is required to pay any Taxes imposed by a Taxing Authority (other than Taxes assessed on the Lender by reference to its overall net income, *provided that* "net income" for this purpose does not include amounts deemed to be received by the Lender for Tax purposes under this Agreement but which are not actually received) in relation to this Agreement, the Notes or any Agreed Funding Source Agreement or if any liability in respect of any such Taxes is at any time imposed, levied or assessed against the Lender (except where compensated under Clause 8.1 (*Additional Amounts*) or where it would have been but for an exception to that provision applying), the Borrower shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, a demand made by the Lender, indemnify the Lender in relation to such properly documented payment or liability, *provided that* the Borrower shall not be required to indemnify the Lender in respect of any Tax on its overall net income if that Tax results from (a) the Lender being deemed for Tax purposes to receive an amount under this Agreement which it has not actually received; or (b) if the Lender has either or both (i) failed to take full advantage of any credit, relief, remission for, or repayment of, any Tax which is in respect of, or calculated by reference to, such amount or (ii) failed to allocate such credit, relief, remission or repayment to the Loan.

Any payments required to be made by the Borrower under this Clause 8.3 are collectively referred to as "**Tax Indemnity Amounts**".

8.4 Tax Claims

If the Lender intends to make a claim for any Tax Indemnity Amounts pursuant to Clause 8.3 (*Tax Indemnity*), it shall notify the Borrower thereof as soon as reasonably practicable after the Lender becomes aware of any obligation to make the relevant withholding, deduction or payment; *provided that* nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its affairs.

8.5 Tax Credits and Tax Refunds

(a) If any Additional Amounts are paid under Clause 8.1 (*Additional Amounts*) or Tax Indemnity Amounts are paid under Clause 8.3 (*Tax Indemnity*) by the Borrower for the benefit of the Lender and the Lender, in its reasonable opinion, determines that it has received or been granted a credit against, a relief or remission for, or a repayment of, any Tax, then, if and to the extent that the Lender, in its opinion, determines that such credit, relief, remission or repayment is in respect of or calculated by reference to the corresponding deduction, withholding or payment giving rise to such Additional Amounts or, in the case of Tax Indemnity Amounts, with reference to the liability, expense or loss to which the payment giving rise to such Tax Indemnity Amounts relates, the Lender shall, to the extent that it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, pay to the Borrower the amount of such credit, relief, remission or repayment as the Lender shall, in its opinion, have concluded to be attributable to such deduction or withholding or, as the case may be, such liability, expense or loss; *provided that* the Lender shall not be obliged to make any payment under this Clause 8.5 in respect of any such credit, relief, remission or repayment until the Lender is, in its absolute discretion (acting in good faith) satisfied that its Tax affairs for its Tax year in respect of which such credit, relief, remission or repayment was obtained have been finally settled (disregarding for these purposes any extended limitation periods applicable to fraud or negligence) and *further provided that* the Lender shall not be obliged to make any such payment if and to the extent that the Lender determines in its reasonable opinion that to do so would leave it (after the payment) in a worse after-Tax position than it would have been in had the payment not been required under Clause 8.1 (*Additional Amounts*) or 8.3 (*Tax Indemnity*), as appropriate. Without prejudice to the Lender's obligations under Clause 8.2 (*Double Tax Treaty Relief*), nothing contained in this Clause 8.5 or Clause 8.8 (*Delivery of Forms and Other Instruments*) shall interfere with the right of the Lender to arrange its Tax affairs in whatever manner it thinks fit nor oblige the Lender to disclose confidential information or any information relating to its Tax affairs generally or any computations in respect thereof.

(b) If as a result of a failure to obtain relief from deduction or withholding for any Tax imposed by Ukraine or the United Kingdom (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) (i) such Tax is deducted or withheld by the Borrower and pursuant to Clause 8.1 (*Additional Amounts*) an increased amount is paid by the Borrower to the Lender in respect of such deduction or withholding, and (ii) following the deduction or withholding of Tax as referred to above, the Borrower applies on behalf of the Lender to the relevant Ukrainian Taxing Authorities for a tax refund and such tax refund is credited by the Ukrainian Taxing Authorities to the Lender, the Lender shall, as soon as reasonably possible, notify the Borrower of the receipt of such tax refund and promptly transfer the entire amount of the tax refund to a bank account of the Borrower specified for that purpose by the Borrower.

8.6 Tax Position of the Lender

The Lender represents that as at the date of this Agreement and, in respect of (a) and (b) below only, in respect of each date on which payments are to be made to it by the Borrower under this Agreement:

(a) it is a bank which, at the date hereof, is resident in the United Kingdom for United Kingdom corporation tax purposes, provided that the Lender will not be in breach of this representation where it is incorrect as a result of a change in any applicable law or published practice of any relevant Taxing Authority after the date of this Agreement;

(b) interest on the Loan does not relate to, and is not derived or attributable to, any permanent establishment of the Lender in Ukraine for the purposes of the Double Tax Treaty, provided that the Lender will not be in breach of this representation where it is incorrect as a result of a change in any applicable law or published practice of any relevant Taxing Authority after the date of this Agreement; and

(c) based on its understanding of current HMRC practice, it should be able to obtain a Tax Certificate.

8.7 Exceptions

The Lender agrees, reasonably promptly upon becoming aware of such, to notify the Borrower if it ceases to be resident in the United Kingdom or a Qualifying Jurisdiction or if any of the representations set forth in Clause 8.6 (*Tax Position of the Lender*) are no longer true and correct. If the Lender ceases to be resident in the United Kingdom or a Qualifying Jurisdiction, then, except in circumstances where the Lender has ceased to be resident in the United Kingdom or a Qualifying Jurisdiction by reason of any Change of Law (including a change in the Double Tax Treaty or in the interpretation or application of such law or Double Tax Treaty) taking effect after the date of this Agreement, the Borrower shall not be liable to pay to the Lender under Clause 8.1 (*Additional Amounts*) or Clause 8.3 (*Tax Indemnity*) any sum in excess of the sum it would have been obliged to pay if the Lender had not ceased to be resident in the United Kingdom or a Qualifying Jurisdiction.

8.8 Delivery of Forms and Other Instruments

(a) The Lender shall use reasonable endeavours, subject as provided in Clause 8.2(a) (*Double Tax Treaty Relief*), to furnish the Borrower with such other information or forms as may reasonably be required (including pursuant to the relevant procedures in connection with the obtaining of relief from deduction or withholding for or on account of Ukrainian Tax or refunds in respect thereof) to be duly completed and delivered by the Lender with the co-operation and assistance of the Borrower to enable the Borrower to obtain relief from deduction or withholding for or on account of Ukrainian Tax or, as the case may be, to apply to obtain a refund if a relief from deduction or withholding for or on account of Ukrainian Tax has not been obtained or claimed.

(b) The Lender shall, within 30 days of a reasonable request of the Borrower setting forth the basis of that request, to the extent it is able to do so under applicable law including Ukrainian laws, from time to time deliver to the Borrower, at the Borrower's cost, any additional duly completed application forms as need be duly completed and delivered by the Lender to enable the Borrower to apply, with the co-operation and reasonable assistance of the Lender in such circumstances where the Lender considers such application to be reasonable, to obtain a Tax refund if a relief from deduction or withholding for or on account of Ukrainian Tax has not been obtained or claimed.

(c) The Lender shall also use its reasonable endeavours to execute such acknowledgements of payment and other instruments as may reasonably be required by the Borrower to enable it to receive allowable Tax deductions and otherwise comply with applicable Tax law with respect to any payments to be made by the Borrower under this Agreement.

(d) Nothing contained in this Clause 8.8 shall interfere with the right of the Lender to arrange its Tax affairs in whatever manner it thinks fit, oblige the Lender to disclose confidential information or any information relating to its Tax affairs generally or any computation in respect thereof, or oblige the Lender to complete any procedural formalities which are significantly more onerous than using its best endeavours to provide a Tax Certificate (as described in paragraph (a) of Clause 8.2 (*Double Tax Treaty Relief*)).

9. TAX RECEIPTS

9.1 Notifications of Requirement to Deduct Tax

If, at any time, the Borrower is required by law to make any deduction or withholding from any sum payable by it hereunder, or if thereafter there is any change in the rates at which or the manner in which such deductions or withholdings are calculated, the Borrower shall promptly notify the Lender prior to such payment being made.

9.2 Evidence of Payment of Tax

(a) In the event that the Borrower becomes obliged to pay any Additional Amounts to the Lender pursuant to Clause 8.1 (*Additional Amounts*), the Borrower will use its reasonable endeavours to provide the Lender with receipts evidencing the payment by the Borrower of any amounts deducted or withheld for or on account of Tax from each Taxing Authority imposing such Tax. The Borrower will furnish to the Lender (and to the Trustee), as soon as reasonably practicable but, in any event, within 120 calendar days after the date the payment of any amounts so deducted or withheld is due to the relevant Taxing Authority pursuant to applicable law, certified copies of receipts evidencing such payment by the Borrower or, if such receipts are not obtainable, other evidence of such payments by the Borrower reasonably acceptable to the Lender. The Borrower will also provide English translations of such receipts or other evidence.

(b) In the event that the Borrower becomes obliged to pay any Tax Indemnity Amounts to the Lender pursuant to Clause 8.3 (*Tax Indemnity*), the Lender will use its reasonable endeavours to provide the Borrower, at the Borrower's cost, with receipts evidencing the payment by the Lender of any amounts deducted or withheld for or on account of Tax from each Taxing Authority imposing such Tax. The Lender will furnish to the Borrower, as soon as practicable but in any event within 120 calendar days after the date the payment of any amounts so deducted or withheld is due to the relevant Taxing Authority pursuant to applicable law, certified copies of receipts evidencing such payment by the Lender or, if such receipts are not obtainable, other evidence of such payments by the Lender reasonably acceptable to the Borrower.

10. CHANGES IN CIRCUMSTANCES

10.1 Increased Costs

If, by reason of (i) any Change of Law, other than a Change of Law which relates only to the basis or rate of Tax on the net income of the Lender, and/or (ii) compliance with any Capital Adequacy Requirement, reserve or deposit requirement or any other request from or requirement of any central bank or other fiscal, monetary or other authority which has effect in the United Kingdom (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes), the Lender incurs an additional cost as a result of the Lender entering into or performing its obligations, including its obligation to make the Loan, under this Agreement; except where compensated under Clause 8.1 (*Additional Amounts*) or under Clause 8.3 (*Tax Indemnity*), then the Borrower shall, from time to time within 30 calendar days of demand of the Lender, pay to the Lender amounts sufficient to hold harmless and indemnify it from and against, as the case may be, such properly documented cost or liability; *provided that* the Lender will not be entitled to indemnification where such increased cost or liability arises as a result of the gross negligence, fraud or wilful default of the Lender; *and provided that* the amount of such increased cost or liability shall be deemed not to exceed an amount equal to the proportion of any cost or liability which is directly attributable to this Agreement.

10.2 Increased Costs Claims

If the Lender intends to make a claim pursuant to Clause 10.1 (*Increased Costs*), it shall notify the Borrower thereof and provide a description in reasonable detail of the relevant reason (as described in Clause 10.1 (*Increased Costs*), including a description of the relevant affected jurisdiction or country and the date on which the change in circumstances took effect. The description shall demonstrate the connection between the change in circumstance and the increased costs and shall be accompanied by relevant supporting documentation evidencing the matters described therein, *provided that* nothing here shall require the Lender to disclose any confidential information relating to the organisation of its or any other Person's affairs.

10.3 Mitigation

If circumstances arise which would result in any payment being required to be made by the Borrower pursuant to Clause 7.3 (*Prepayment for Illegality*), Clause 8.1 (*Additional Amounts*), Clause 8.3 (*Tax Indemnity*) or this Clause 10, then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or the Borrower's obligations under any of the above mentioned provisions, the Lender shall, as soon as reasonably practicable upon becoming aware of the same, notify the Borrower thereof and, in consultation with the Borrower and to the extent it can lawfully do so and without prejudice to its own position, take reasonable steps to remove such circumstances or mitigate the effects of such circumstances including, without limitation, by the change of its lending office or transfer of its rights or obligations under this Agreement to another bank; *provided that* the Lender shall be under no obligation to take any such action if, in its opinion, to do so might have any adverse effect upon its business, operations or financial condition or might be in breach of any provisions of, or any arrangements which it may have made in connection with, the Agreed Funding Source Agreements or the Notes.

11. REPRESENTATIONS AND WARRANTIES OF THE BORROWER

The Borrower makes the following representations and warranties and acknowledges that the Lender has entered into this Agreement in reliance on those representations and warranties.

11.1 Due Organisation, Capacity and Authorisation

The Borrower is duly organised and validly existing under the laws of Ukraine with full power and capacity and lawful qualification to own or lease its property and assets and to conduct its business as currently conducted; the Borrower has full power and capacity to execute this Agreement and to undertake and perform the obligations expressed to be assumed by it herein, and the Borrower has taken all necessary corporate action to approve and authorise the same.

11.2 Governmental Approvals

All actions or things required to be taken, fulfilled or done by laws or regulations of Ukraine (including, without limitation, the obtaining of any consent, approval (including exchange control approval), authorisation, order, licence or qualification of or with any court or governmental agency), and all registrations, filings or notarisations required by laws or regulations of Ukraine (except for those referred to in Clause 14.1 (*Maintenance of Legal Validity*) below), in order to ensure (i) the due execution, delivery, validity and performance by the Borrower of this Agreement, (ii) the compliance by the Borrower with all the provisions of this Agreement and (iii) the consummation of all the transactions contemplated by this Agreement have been obtained, fulfilled or done and are in full force and effect.

11.3 *Pari Passu* Obligations

Under the laws of Ukraine in force at the date of this Agreement, the claims of the Lender against the Borrower under this Agreement will rank at least *pari passu* in right of payment with the claims of all its other unsecured creditors, save those whose claims are preferred by any bankruptcy, insolvency, liquidation, moratorium or similar laws of general application.

11.4 Validity and Admissibility in Evidence

All acts, conditions and things required to be done, fulfilled and performed (other than by the Lender) to make this Agreement admissible in evidence in Ukraine (whether in arbitration proceedings or otherwise) have been done, fulfilled and performed.

11.5 Valid and Binding Obligations

The obligations expressed to be assumed by the Borrower in this Agreement are legal, valid and binding and, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganisation, moratorium and other similar laws relating to or affecting creditors' rights generally and general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law), enforceable against it.

11.6 No Deduction

Under the laws of Ukraine in force at the date of this Agreement, in accordance with the terms of the Double Tax Treaty and subject to the due satisfaction by the Lender of certain conditions set forth therein and of certain requirements of applicable Ukrainian legislation, payments of principal and/or interest by the Borrower to the Lender under this Agreement may be made without deduction on account of any Ukrainian tax.

11.7 No Stamp Taxes

Under the laws of Ukraine in force at the date hereof, it is not necessary that any stamp, registration or similar Tax be paid on or in relation to the execution and delivery of this Agreement.

11.8 No Events of Default

No event has occurred or circumstance arisen which would constitute an Event of Default or a Potential Event of Default.

11.9 No Material Proceedings

There are no lawsuits, litigation or other legal or administrative or arbitration proceedings current or pending or, to the best of the knowledge and belief of the Borrower, threatened before any court, tribunal, arbitration panel or Agency which might (i) prohibit the execution and delivery of this Agreement or the Borrower's compliance with its obligations hereunder or (ii) adversely affect the right and power of the Borrower to enter into this Agreement or (iii) have a material adverse effect on the business, financial condition or results of business operations of the Group or on the Borrower's ability to perform or comply with its obligations under this Agreement and which, in each case, might affect the investment decision of the Agreed Funding Source.

11.10 No Material Adverse Change

Save as disclosed in the Prospectus, since 31 December 2005, there has been no significant change in the financial or trading position of the Group and no material adverse change in the prospects of the Group.

11.11 Financial Statements

The Borrower's consolidated audited financial statements for its two financial years ended 31 December 2005 were prepared in accordance with IFRS consistently applied and present (in conjunction with the notes thereto) in accordance with IFRS the financial condition of the Group as of the date as of which they were prepared and the result of the operations of the Group during the periods then ended.

11.12 Execution of Agreement

Its execution and delivery of this Agreement and its exercise of its rights and performance of its obligations hereunder do not and will not:

(a) violate or conflict with any existing applicable law, rule, regulation, judgment, order, directive or decree of any government, governmental body or court in Ukraine binding upon the Borrower or any of its Subsidiaries; or

(b) conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, any material indenture, trust deed, mortgage or other material contract, agreement or instrument to which the Borrower or any of its Material Subsidiaries is a party or by which it or any of its Material Subsidiaries, or any of its or its Material Subsidiaries' properties or assets, is bound;

(c) give rise to any event of default or moratorium in respect of any of the obligations of the Borrower or any of its Material Subsidiaries or the creation of any lien, encumbrance or other security interest (howsoever described) in respect of any of the assets of the Borrower or any of its Material Subsidiaries which, in any case, could reasonably be expected to have a material adverse effect on the Borrower's ability to perform or comply with its obligations under this Agreement; or

(d) conflict with the provisions of its constitutive documents, its rules and regulations, or any resolution of its shareholders.

11.13 Compliance with Laws

Each of the Borrower and its Material Subsidiaries is in compliance with, in all material respects, all applicable provisions of the laws and regulations of Ukraine.

11.14 U.S. Securities Laws

With respect to the offer and sale of the Notes pursuant to the Agreed Funding Source Agreements, neither the Borrower nor any of its Affiliates nor any Person acting on its or their behalf has engaged or will engage in any directed selling efforts (as defined in Regulations S under the U.S. Securities Act of 1933).

11.15 No Immunity

Neither the Borrower nor its respective property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to this Agreement.

11.16 Repetition

Each of the representations and warranties contained in Clause 11 (*Representations and Warranties of the Borrower*) shall be deemed to be repeated by the Borrower on the date for the making of the Loan and, in the case of Clauses 11.8 (*No Events of Default*), 11.9 (*No Material Proceedings*) and 11.10 (*No Material Adverse Change*), repeated as of the date thereof on each Interest Payment Date, by reference to the facts and circumstances then existing except that the words "or the passage of time" in Clause 11.8 (*No Events of Default*) shall be deemed deleted in relation to every such repetition.

12. REPRESENTATIONS AND WARRANTIES AND AGREEMENT OF THE LENDER

12.1 Representations and Warranties

In addition to the representations and warranties set forth in Clause 8.6 (*Tax Position of the Lender*), the Lender makes the representations and warranties set out in Clause 12.1(a) (*Status*) to Clause 12.1(d) (*No Conflicts*), inclusive, and acknowledges that the Borrower has entered into this Agreement in reliance on those representations and warranties.

(a) *Status*

The Lender is a bank duly incorporated under the laws of England and is resident for United Kingdom Tax purposes in the United Kingdom and has full corporate power and authority to enter into this Agreement and each Agreed Funding Source Agreement, and to undertake and perform the obligations expressed to be assumed by it herein and therein.

(b) *Authorisation*

Each of this Agreement and each of the Agreed Funding Source Agreements entered into by the Lender has been duly authorised, executed and delivered by the Lender, and is a legal, valid and binding obligation of the Lender, enforceable against the Lender in accordance with its terms, except that the enforcement thereof may be subject to bankruptcy, insolvency, fraudulent conveyance, reorganisation, moratorium and other similar laws relating to or affecting creditors' rights generally and to general principles of equity.

(c) *Consents and Approvals*

All authorisations, consents and approvals required by the Lender for or in connection with the execution of this Agreement and each Agreed Funding Source Agreement and the performance by the Lender of the obligations expressed to be undertaken in such agreements have been obtained and are in full force and effect.

(d) *No Conflicts*

The execution of this Agreement and each Agreed Funding Source Agreements to which the Lender is a party and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of England.

12.2 Noteholder Meetings

The Lender shall, promptly upon request by the Borrower and at the Borrower's cost, convene a meeting of holders of Notes in accordance with the terms and conditions of the Notes and the provisions of the Trust Deed.

13. INFORMATION

The Borrower shall supply or procure to be supplied to the Lender, in sufficient copies as may reasonably be required by the Lender, all such information as the Luxembourg Stock Exchange (or any other or further stock exchange or stock exchanges or any other relevant authority or authorities on which the Notes may, from time to time, be listed or admitted to trading) may require in connection with the listing or admittance to trading on such stock exchange or relevant authority of the Notes.

14. COVENANTS

14.1 Maintenance of Legal Validity

The Borrower shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents and make or cause to be made all registrations, recordings and filings required in or by the laws and regulations of Ukraine to enable it lawfully to enter into and perform its obligations under this Agreement and to ensure the legality, validity, enforceability or admissibility in evidence in Ukraine of this Agreement, including, but not limited to, the registration of this Agreement with the Central Bank.

14.2 Notification of Events of Default

The Borrower shall promptly on becoming aware thereof inform the Lender and the Trustee of the occurrence of any Event of Default or Potential Event of Default and, upon receipt of a request to that effect from the Lender, confirm to the Lender that, save as previously notified to the Lender or as notified in such confirmation, no Event of Default or Potential Event of Default has occurred.

14.3 Claims *Pari Passu*

The Borrower shall ensure that at all times the claims of the Lender against it under this Agreement rank at least *pari passu* with the claims of all the other unsecured and unsubordinated creditors of the Borrower, except as otherwise provided by mandatory provisions of applicable law.

14.4 Negative Pledge

So long as the Loan or any part of it has not been repaid in full, the Borrower shall not, and the Borrower shall procure that none of its Material Subsidiaries will, create or permit to subsist any Security Interest, other than Permitted Security Interests, upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or any Guarantee of Relevant Indebtedness unless, at the same time or prior thereto, the obligations under this Agreement (i) are secured equally and rateably therewith or (ii) have the benefit of such other security or other arrangement which is equivalent in all material respects to such Security Interest and which shall be approved by the Lender.

14.5 Use of Proceeds of the Loan

The Borrower shall use the net proceeds of the Loan to prepay existing obligations, fund loans to corporate and/or individual customers and for general corporate purposes and, without affecting the obligations of the Borrower in any way the Lender shall not be obliged to concern itself with such application.

14.6 Mergers

The Borrower shall not, and shall ensure that none of its Material Subsidiaries will, without the prior consent of the Lender and the Trustee, enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation, as these terms are construed by applicable Ukrainian legislation), or participate in any other type of corporate reconstruction, if any such reorganisation or other type of corporate reconstruction would (i) have a material adverse effect on the business, financial condition or prospects of the Borrower or on the Borrower's ability to perform or comply with its obligations under this Agreement or (ii) result in a Rating Decline.

14.7 Disposals

Without prejudice to the provisions of Clause 14.8 (*Transactions with Affiliates*), the Borrower shall not, and shall ensure that none of its Material Subsidiaries will, sell, lease, transfer or otherwise dispose of, to a Person other than the Borrower or a Subsidiary of the Borrower, as the case may be, by one or more transactions or series of transactions (whether related or not), the whole or any part of its assets which in any 12-month period together constitute more than 10 per cent. of the gross assets of the Group on a consolidated basis determined by reference to the balance sheet for the Borrower's most recent IFRS Fiscal Period unless such transaction(s) (a) is/are on an arm's length basis and on commercially reasonable terms, (b) has/have been approved by a decision adopted by the competent governing body of the Borrower or, as the case may be, Material Subsidiary and (c) would not (i) have a material adverse effect on the business, financial condition or prospects of the Borrower or on the Borrower's ability to perform or comply with its obligations under this Agreement or (ii) result in a Rating Decline.

This Clause 14.7 shall not apply to any sale, lease, transfer or other disposition (i) of inventory, receivables or other current assets in the ordinary course of the Borrower's or, as the case may be, the relevant Material Subsidiary's business or (ii) any revenues or assets (or any part thereof) the subject of any securitisation of receivables, asset-backed financing or other like arrangement whereby the payment obligations are to be discharged primarily from such assets or revenues, *provided that* the principal raised pursuant to any such financing, when aggregated with the principal amount raised pursuant to any financing referred to in the definition of Permitted Security Interest, does not exceed an amount equal to 30 per cent. of the Group's loans to customers (calculated by reference to the Borrower's consolidated balance sheet as of the end of its most recent IFRS Fiscal Period).

14.8 Transactions with Affiliates

The Borrower shall not, and shall ensure that none of its Subsidiaries, directly or indirectly, will, conduct any business, enter into or permit to exist any transaction or series of related transactions (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an "**Affiliate Transaction**") including intercompany loans, unless the terms of such Affiliate Transaction are no less favourable to the Borrower or such Subsidiary, as the case may be, than those that could be obtained in a comparable arm's-length transaction with a Person that is not an Affiliate of the Borrower or any of its Subsidiaries.

14.9 Payment of Taxes

The Borrower shall, and shall ensure that its Subsidiaries will, pay or discharge or cause to be paid or discharged, before the same shall become overdue all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of the Borrower and its Subsidiaries; *provided, however, that* none of the Borrower nor any Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment or charge or claim (a) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS or other appropriate provision has been made or (b) whose amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims, does not in the aggregate exceed U.S.$5,000,000 (or its equivalent in other currencies).

14.10 Financial Information

So long as the Loan or any part of it has not been repaid in full, the Borrower shall deliver to the Lender and the Trustee:

(a) not later than 180 days after the end of each of its financial years, copies of the Borrower's audited consolidated financial statements for such financial year, prepared in accordance with IFRS;

(b) not later than 150 days after the end of the second quarter of each of its financial years, copies of the Borrower's unaudited consolidated financial statements for six months, prepared in accordance with IFRS; and

(c) without undue delay, such additional information regarding the financial position or the business of the Borrower as the Lender or the Trustee may reasonably request including for the purposes of providing certification to the Trustee.

14.11 Maintenance of Capital Adequacy

The Borrower shall not permit its total capital ratio to fall below the minimum total capital adequacy ratio required by the Central Bank.

14.12 Limitations on restrictions on distributions from Material Subsidiaries

The Borrower shall not and shall not permit any of its Material Subsidiaries to create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Material Subsidiary: (a) to pay dividends or make any other distributions on its share capital; (b) to make any loans or advances or pay any Indebtedness owed to the Borrower; or (c) to transfer any of its property or assets to the Borrower, other than encumbrances or restrictions existing under (i) applicable law, (ii) the Notes and/or the Agreed Funding Source Agreements and (iii) any other agreement in effect prior to the Drawdown Date and advised to the Lender and the Trustee.

14.13 Compliance Certificates

On each occasion the Borrower delivers a set of financial statements in accordance with Clause 14.10 (*Financial Information*), the Borrower shall also deliver to the Lender (and the Trustee), notice in the form of an Officer's Certificate stating whether any Potential Event of Default or Event of Default has occurred and, if it has occurred and shall be continuing, what action the Borrower is taking or proposes to take with respect thereto.

15. EVENTS OF DEFAULT

15.1 Circumstances which Constitute Events of Default

Each of Clause 15.2 (*Failure to Pay*) to Clause 15.12 (*Authorisations*) inclusive, constitutes an "**Event of Default**" with respect to the Loan:

15.2 Failure to Pay

The Borrower fails to pay any amount of principal, interest, Additional Amounts or Tax Indemnity Amounts under the Loan, in the currency and in the manner specified herein, when the same becomes due and payable, and such failure is not remedied within 5 Business Days of the due date for payment.

15.3 Obligations

The Borrower defaults in the performance or observance of any of its obligations other than that set out in Clause 15.2 (*Failure to Pay*) under or in respect of this Agreement and such default (if capable of being remedied) is not remedied within 15 days after the Lender has given notice thereof to the Borrower requiring the same to be remedied.

15.4 Cross Default

(a) any Indebtedness of the Borrower or any of its Subsidiaries is not paid when due or (as the case may be) upon the expiration of any originally applicable grace period;

(b) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Borrower or (as the case may be) the relevant Subsidiary or (*provided that* no event of default, howsoever described, has occurred) any person entitled to such Indebtedness; or

(c) the Borrower or any of its Subsidiaries fails to pay when due and called upon any amount payable by it under any Guarantee of any Indebtedness;

provided that the amount of Indebtedness referred to in sub-paragraph (a) and/or sub-paragraph (b) above and/or the amount payable under any Guarantee referred to in sub-paragraph (c) above, individually or in the aggregate, exceeds U.S.$20,000,000 (or its equivalent in any other currency or currencies).

15.5 Unsatisfied Judgment

One or more judgment(s) or order(s) for the payment of an amount in excess of U.S.$20,000,000 (or its equivalent in any other currency or currencies), whether individually or in aggregate, is rendered against the Borrower or any of its Subsidiaries and continue(s) unsatisfied and unstayed for a period of 60 days after the date(s) of the entry into force thereof or, if later, the date therein specified for payment.

15.6 Security Enforced

A secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or (in the opinion of the Trustee) a substantial part of the undertaking and assets of the Borrower or any of its Material Subsidiaries.

15.7 Insolvency, etc.

(i) the Borrower or any of its Material Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Borrower or any of its Material Subsidiaries or the whole or (in the opinion of the Trustee) a substantial part of the undertaking and assets of the Borrower or any of its Material Subsidiaries is appointed (or application for any such appointment is made), (iii) the Borrower or any of its Material Subsidiaries makes a general assignment or a general arrangement or general composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it, (iv) the Borrower ceases or threatens to cease to carry on all or any substantial part (in the opinion of the Trustee) of the principal business it carried on at the date hereof or (v) the general banking licence of the Borrower or, if applicable, any of its Material Subsidiaries is revoked.

15.8 Winding Up, etc.

An order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Borrower or any of its Material Subsidiaries (otherwise than, in the case of a Material Subsidiary of the Borrower, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent).

15.9 Analogous Event

Any event occurs which under the laws of Ukraine has an analogous effect to any of the events referred to in Clauses 15.5 (*Unsatisfied judgment*) to 15.8 (*Winding up, etc.*) above.

15.10 Validity and Illegality

(a) The validity of this Agreement is contested by the Borrower or the Borrower shall deny any of the Borrower's obligations under this Agreement; or

(b) it is, or will become, unlawful for the Borrower to perform or comply with any of its obligations under this Agreement; or

(c) any of such obligations shall become unenforceable or cease to be legal, valid and binding in a manner which has a material adverse effect on the rights or claims of the Lender under this Agreement.

15.11 Government Intervention

(i) All or (in the opinion of the Trustee) a substantial part of the undertaking and assets of the Borrower or any of its Material Subsidiaries is condemned, seized or otherwise appropriated by any person acting under the authority of any Agency, national, regional or local government or (ii) the Borrower or any of its Material Subsidiaries is prevented by any such person from exercising normal control over all or (in the opinion of the Trustee) a substantial part of its undertaking and assets.

15.12 Authorisations

Any regulation, decree, consent, approval, licence or other authority necessary to enable the Borrower to enter into or perform its obligations under this Agreement or for the validity or enforceability thereof shall expire or be withheld, revoked or terminated or otherwise cease to remain in full force and effect or shall be modified in a manner which has a material adverse effect upon the rights or claims of the Lender under this Agreement.

15.13 Rights of Lender upon Occurrence of an Event of Default

If an Event of Default occurs under this Agreement and is continuing, the Lender or, following the assignment to it of the Relevant Loan Rights, the Trustee may, by notice (an "**Acceleration Notice**") to the Borrower:

(a) declare the obligations of the Lender hereunder to be terminated, whereupon such obligations shall terminate; and

(b) declare the principal amount of, premium, if any, and accrued and unpaid interest, Additional Amounts and Tax Indemnity Amounts, if any, on the Loan to be immediately due and payable and the same shall become immediately due and payable pursuant to and in accordance with the terms of the Agreed Funding Source Agreements.

15.14 Other Remedies

If an Event of Default occurs and is continuing, the Lender or, following the assignment to it of the Relevant Loan Rights, the Trustee may pursue any available remedy to collect the payment of principal or interest on the Loan or to enforce the performance of any provision of this Agreement. A delay or omission by the Lender or the Trustee in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default.

16. DEFAULT INTEREST AND INDEMNITY

16.1 Default Interest Periods

If any sum due and payable by the Borrower hereunder is not paid on the due date therefore in accordance with the provisions of Clause 19 (*Payments*) or if any sum due and payable by the Borrower under any judgment of any court in connection herewith is not paid on the date of such judgment, the period beginning on such due date or, as the case may be, the date of such judgment and ending on the date upon which the obligation of the Borrower to pay such sum (the balance thereof for the time being unpaid being herein referred to as an "**unpaid sum**") is discharged shall be divided into successive periods, each of which, other than the first, shall start on the last day of the preceding such period and the duration of each of which shall, except as otherwise provided in this Clause 16 (*Default Interest and Indemnity*), be selected by the Lender, but shall in any event not be longer than one month.

16.2 Default Interest

During each such period relating thereto as is mentioned in Clause 16.1 (*Default Interest Periods*) an unpaid sum shall bear interest at a rate per annum equal to the Interest Rate.

16.3 Payment of Default Interest

Any interest which shall have accrued under Clause 16.2 (*Default Interest*) in respect of an unpaid sum shall be due and payable and shall be paid by the Borrower at the end of the period by reference to which it is calculated or on such other dates as the Lender may specify by notice to the Borrower.

16.4 Borrower's Indemnity

(a) The Borrower undertakes to the Lender that if the Lender or, following the assignment to it of the Relevant Loan Rights, the Trustee (each an "**indemnified party**") reasonably incurs any loss, liability, cost, claim, charge or expense (together with in each case any VAT thereon) (a "**Loss**") as a result of or in connection with any Event of Default or Potential Event of Default, the Borrower shall pay to the Lender or, if applicable, the Trustee, as the case may be, subject to the presentation of properly documented evidence thereof, an amount equal to such Loss and all reasonably incurred costs, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, charges and expenses are incurred.

(b) The indemnity in paragraph (a) above shall not apply to a Loss:

(i) which is caused by an indemnified party's gross negligence or wilful default or misconduct;

(ii) which is recovered under Clause 8.1 (*Additional Amounts*); or

(iii) which is recovered under Clause 8.3 (*Tax Indemnity*), 10 (*Changes in Circumstances*) or 20 (*Fees, Costs and Expenses*).

16.5 Independent Obligation

Clause 16.4 (*Borrower's Indemnity*) constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with this Agreement or any other obligations of the Borrower in connection with the issue of the Notes and shall not affect, or be construed to affect, any other provisions of this Agreement or any such other obligations.

16.6 Survival

The obligations of the Borrower pursuant to Clauses 8.1 (*Additional Amounts*), 8.3 (*Tax Indemnity*), 10 (*Changes in Circumstances*), 16.4 (*Borrower's Indemnity*), 19 (*Alternative Payment Arrangements*) and 19.3 (*No Set-off*) shall survive the execution and delivery of this Agreement and the borrowing and the repayment of the Loan, in each case, by the Borrower.

16.7 Unpaid Sums as Advances

Any unpaid sum shall, for the purposes of this Clause 16 (*Default Interest and Indemnity*) and Clause 10.1 (*Increased Costs*), be treated as an advance and accordingly in this Clause 16 (*Default Interest and Indemnity*) and Clause 10.1 (*Increased Costs*) the term "**Loan**" includes any unpaid sum and the term "**Interest Period**," in relation to an unpaid sum, includes each such period relating thereto as is mentioned in Clause 16.1 (*Default Interest Periods*).

17. AMENDMENTS TO AGREED FUNDING SOURCE AGREEMENTS

Any amendment to, or waivers of any provision of, the Agreed Funding Source Agreements shall be prohibited without the prior express consent of the Borrower, which consent shall not be unreasonably withheld (other than amendments or waivers that are made pursuant to any legal, regulatory or accounting requirements, with respect to which the Lender shall consult with the Borrower to the extent reasonably practicable).

18. CURRENCY OF COLLECTION ACCOUNT AND CURRENCY INDEMNITY

18.1 Currency of Collection Account

The U.S. dollar is the currency of account and payment for each and every sum at any time due from the Borrower hereunder.

18.2 Currency Indemnity

If any sum due from the Borrower under this Agreement or any order or judgment given or made in relation hereto has to be converted from the currency (the "**first currency**") in which the same is payable hereunder or under such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Borrower, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation hereto, the Borrower shall indemnify and hold harmless the Lender from and against any loss suffered or reasonably incurred as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which the Lender may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

19. PAYMENTS

19.1 Payments to the Lender

On each date on which this Agreement requires an amount denominated in U.S. dollars to be paid by the Borrower, the Borrower shall make the same available to the Lender by payment in U.S. dollars and in same day funds on such date, or in such other funds as may for the time being be customary for the settlement of international banking transactions in U.S. dollars to the Collection Account other than amounts payable (i) in respect of Reserved Rights and, where applicable, in respect of any Indemnification Rights, (ii) under the Fees Letter or (iii) in relation to Clause 16.4 (*Borrower's Indemnity*), which the Borrower shall pay to such account or accounts as the Lender and/or, following the assignment to it of the Relevant Loan Rights, the Trustee (as appropriate) shall notify to the Borrower; *provided that* if at any time the Borrower notifies the Lender and/or the Trustee that an Event of Default has occurred and following receipt of such notification from the Borrower, the Lender assigns the Relevant Loan Rights to the Trustee, then, the Lender may, by notice to the Borrower, require it to make all subsequent payments in respect of the Loan directly to or to the order of the Trustee. Without prejudice to its obligations under Clause 5.1 (*Payments of Interest*), the Borrower shall procure that the bank effecting payment on its behalf confirms to the Lender, or to such Person as the Lender may direct, by tested telex or authenticated SWIFT message one Business Day prior to the date that such payment is required to be made under the terms of this Agreement, the payment instructions relating to such payment.

19.2 Alternative Payment Arrangements

If, at any time, it shall become impracticable, by reason of any action of any governmental authority or any Change of Law, exchange control regulations or any similar event, for the Borrower to make any payments hereunder in the manner specified in Clause 19.1 (*Payments to the Lender*), then the Borrower may agree with the Lender (and, following the assignment to it of the Relevant Loan Rights, the Trustee) alternative arrangements for the payment to the Lender (or, as the case may be, the Trustee) of amounts due (prior to the delivery of any notice referred to in Clause 19.1 (*Payments to the Lender*)) under this Agreement; *provided that*, in the absence of any such agreement with the Lender (or, as the case may be, the Trustee), the Borrower shall be obliged to make all payments due to the Lender in the manner specified above.

19.3 No Set-off

All payments required to be made by the Borrower hereunder shall be calculated without reference to any set-off or counterclaim and shall be made free and clear of and without any deduction for or on account of any set-off or counterclaim.

20. FEES, COSTS AND EXPENSES

20.1 Costs relating to Preservation of Rights

The Borrower shall, from time to time on demand of the Lender, reimburse the Lender for all properly documented costs and expenses (including legal fees and expenses), together with any VAT thereon, incurred in or in connection with the preservation or the enforcement of any of the rights of the Lender under this Agreement (except where the relevant claim is successfully defended by the Borrower).

20.2 Stamp Taxes

The Borrower shall pay all stamp, registration and other similar duties or Taxes to which this Agreement or any Agreed Funding Source Agreement or any judgment given in connection therewith is or at any time may be subject and shall, from time to time on demand of the Lender or, following the assignment to it of the Relevant Loan Rights, the Trustee, indemnify the Lender and/or, if applicable, the Trustee against any properly documented liabilities, losses, costs, expenses (including, without limitation, legal fees and any applicable VAT), claims, actions or demands in respect of such duties or taxes resulting from any failure to pay or any delay in paying any such tax.

20.3 Costs relating to Amendments and Waivers

The Borrower shall, from time to time on demand of the Lender (and without prejudice to the provisions of Clause 20.1 (*Costs relating to Preservation of Rights*)) (and the Trustee) compensate the Lender (and, as the case may be, the Trustee) at such daily and/or hourly rates as the Lender (or, as the case may be, the Trustee) shall from time to time reasonably determine for all time expended by the Lender (or, as the case may be, the Trustee), their respective directors, officers and employees, and for all properly documented costs and expenses (including telephone, fax, copying and travel costs) they may incur, in connection with the Lender (and, as the case may be, the Trustee) taking such action as it may consider appropriate or in complying with any request by the Borrower in connection with:

(a) any notices to be given to the holders of the Notes and any notices, documents, forms or certificates to be supplied to the Luxembourg *Commission de Surveillance du Secteur Financier* and/or the Luxembourg Stock Exchange in connection with the approval, listing or admission to trading of the Notes (as applicable);

(b) any meeting of holders of the Notes or the granting or proposed granting of any waiver or consent requested under this Agreement by the Borrower;

(c) any actual or potential breach by the Borrower of any of its obligations under this Agreement;

(d) the occurrence of any event which is an Event of Default or a Potential Event of Default; or

(e) any amendment or proposed amendment to this Agreement or any Agreed Funding Source Agreement requested by the Borrower.

21. ASSIGNMENTS AND TRANSFERS

21.1 Binding Agreement

This Agreement shall be binding upon and inure to the benefit of each party hereto and its or any subsequent successors and permitted assigns.

21.2 No Assignments and Transfers by the Borrower

The Borrower shall not be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder to any other party.

21.3 Assignments by the Lender

The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement except as provided in the Agreed Funding Source Agreements.

22. CALCULATIONS AND EVIDENCE OF DEBT

22.1 Basis of Accrual of Interest

Interest shall accrue from day to day and shall be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

22.2 Evidence of Debt

The Lender shall maintain, in accordance with its usual practice, accounts evidencing the amounts from time to time lent by and owing to it hereunder; in any legal action or proceeding arising out of or in connection with this Agreement, in the absence of manifest error and subject to the provision by the Lender to the Borrower of information describing in reasonable detail the calculation or computation of such amounts together with the relevant supporting documents evidencing the matters described therein, the entries made in such accounts shall be conclusive evidence of the existence and amounts of the obligations of the Borrower therein recorded.

22.3 Change of Circumstance Certificates

A certificate signed by two authorised signatories of the Lender describing in reasonable detail (a) the amount by which a sum payable to it hereunder is to be increased under Clause 8.1 (*Additional Amounts*) or (b) the amount for the time being required to indemnify it against any such cost, payment or liability as is mentioned in Clause 8.3 (*Tax Indemnity*) or Clause 10.1 (*Increased Costs*) or Clause 16.4 (*Borrower's Indemnity*) shall, in the absence of manifest error, be prima facie evidence of the existence and amounts of the specified obligations of the Borrower.

23. REMEDIES AND WAIVERS, PARTIAL INVALIDITY

23.1 Remedies and Waivers

No failure by the Lender or the Trustee to exercise, nor any delay by the Lender or the Trustee in exercising, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law.

23.2 Partial Invalidity

If, at any time, any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

24. NOTICES

24.1 Communications in Writing

All notices, requests, demands or other communications or document to be made or delivered hereunder shall be made in writing and, unless otherwise stated, shall be made by fax, by hand or by courier addressed as follows:

if to the Borrower:

Joint-Stock Commercial Innovation Bank "UkrSibbank"
2/12 Andriyivska Street
Kyiv 04070
Ukraine
Fax number: +380 44 5375059
Attention: Head of International Business

if to the Lender:

HSBC Bank plc
8 Canada Square
London E14 5HQ
United Kingdom
Fax number: +44 20 7992 4973
Attention: Transaction Development

24.2 Delivery

Each communication and document to be made or delivered by one party to another pursuant to this Agreement shall, unless that other party has by 15 calendar days' notice to the same specified another address or fax number, be made or delivered to that other party at the address or fax number specified in Clause 24.1 (*Communications in Writing*) and shall be effective upon receipt by the addressee on a business day in the city of the recipient; *provided, however that* (i) any such communication or document which would otherwise take effect after 4:00 p.m. on any particular day shall not take effect until 10:00 a.m. on the immediately succeeding business day in the city of the addressee and (ii) any communication or document to be made or delivered by one party to the other party shall be effective only when received by such other party and then only if the same is expressly marked for the attention of the department or officer identified with such other party's signature below, or such other department or officer as such other party shall from time to time specify for this purpose.

25. LAW, JURISDICTION AND ARBITRATION

25.1 Governing Law

This Agreement and all matters arising from or connected with it are governed by, and shall be construed in accordance with, English law.

25.2 English Courts

Subject to Clause 25.6 (*Arbitration*), the courts of England shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with this Agreement (including a Dispute regarding the existence, validity or termination of this Agreement or the consequences of its nullity).

25.3 Appropriate Forum

The parties agree that the courts of England are the most appropriate and convenient courts to settle Disputes between them and, accordingly, that they will not argue to the contrary.

25.4 Right of Lender to Take Proceedings Outside England

Clause 25.2 (*English Courts*) is for the benefit of the Lender only. As a result nothing in this Clause 25 (*Law, Jurisdiction and Arbitration*) prevents the Lender from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, the Lender may take concurrent Proceedings in any number of jurisdictions.

25.5 Service of Process (Borrower)

The Borrower agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Law Debenture Corporate Services Limited at its registered office (being, at the date hereof, Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom). If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Borrower, the Borrower shall, on the demand of the Lender addressed to the Borrower and delivered to the Borrower appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Lender shall be entitled to appoint such a person by notice addressed to the Borrower and delivered to the Borrower. Nothing in this paragraph shall affect the right of the Lender to serve process in any other manner permitted by law. This Clause applies to Proceedings in England and to Proceedings elsewhere.

25.6 Arbitration

If any Dispute arises from or in connection with this Agreement, or any supplement, modifications or additions thereto, the Lender may elect, by notice to the Borrower, to settle such claim by arbitration in accordance with the following provisions. The Borrower hereby agrees that (regardless of the nature of the Dispute) any Dispute may be settled by arbitration in accordance with the Rules of Arbitration of the International Chamber of Commerce (the "**Rules**") as of present in force by a panel of three arbitrators (or a sole arbitrator as the parties may agree) appointed in accordance with the Rules. The seat of arbitration shall be London, England. The procedural law of arbitration shall be English law. The language of any arbitral proceedings shall be English.

25.7 Waiver of Immunity

To the extent that the Borrower may in any jurisdiction claim for itself or its assets or revenues immunity from suit, attachment or any other legal or judicial process or remedy, and to the extent that in any such jurisdiction there shall be attributed such an immunity, the Borrower irrevocably waives such immunity to the fullest extent permitted by law.

26. RIGHTS OF THIRD PARTIES

Other than the Trustee, no Person who is not a party to this Agreement has no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

27. NATIONAL BANK OF UKRAINE REGISTRATION REQUIREMENT

This Agreement shall become effective on the date of its registration with the Central Bank.

28. ENGLISH LANGUAGE

28.1 English Language

Each communication and document to be made or delivered by one party to another pursuant to this Agreement shall be in the English language or accompanied by a translation into English certified (by an officer of the person delivering the same) as being a true and accurate translation. In the event of any discrepancies between the English and any Ukrainian versions of such communication or document, or any dispute regarding the interpretation of any provision in the English or any Ukrainian versions of such communication or document, the English version of such communication or document shall prevail, unless the document is a statutory or other official document.

28.2 Language of Agreement

This Agreement has been set forth and signed in both English and Ukrainian, *provided, however, that* in the event of any conflict or inconsistency or in case of doubt as to the proper interpretation or construction of this Agreement, the English text shall prevail.

29. COUNTERPARTS

This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties.

AS WITNESS the hands of the duly authorised representatives of the parties hereto the day and year first before written.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes, which will be endorsed on each Note in definitive form, if any. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global Form" below.

The U.S.$500,000,000 7.75 per cent. Loan Participation Notes due 2011 (the "**Notes**", which expression includes, unless the context requires otherwise, any further notes issued pursuant to Condition 12 (*Further Issues*) and forming a single series with the Notes) of HSBC Bank plc (the "**Issuer**", which expression shall include any successor to the Issuer from time to time) are constituted by, are subject to, and have the benefit of, a trust deed dated 21 December 2006 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and The Law Debenture Trust Corporation p.l.c. as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed and, where the context so permits or requires, the Enforcement Trustee, being the Trustee in its capacity as the assignee of the Loan pursuant to Condition 11 (*Enforcement*)) and are the subject of an agency agreement dated 21 December 2006 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, HSBC Bank plc as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the Trustee. Certain provisions of these terms and conditions (the "**Conditions**") are summaries of the Trust Deed and the Agency Agreement and subject to their detailed provisions. The holders of the Notes ("**Noteholders**") and the holders of related interest coupons (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours (Saturdays, Sundays and public holidays excepted) at the registered office for the time being of the Trustee, being at the date hereof Fifth Floor, 100 Wood Street, London EC2V 7EX and at the Specified Offices (as defined in the Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

The Issuer authorised the creation, issue and sale of the Notes for the sole purpose of financing the U.S.$500,000,000 loan (the "**Loan**") to Joint-Stock Commercial Innovation Bank "UkrSibbank" (the "**Borrower**"). The Issuer and the Borrower have recorded the terms of the Loan in an agreement dated 14 December 2006 between the Issuer, as lender, and the Borrower (as amended, restated or supplemented from time to time, the "**Loan Agreement**").

In each case where amounts of principal, interest and additional amounts, if any, due pursuant to Condition 3 (*Interest*), Condition 4 (*Redemption and Purchase*), Condition 5 (*Payments*) and Condition 6 (*Taxation*) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to pay to the Noteholders and the Couponholders, on each date upon which such amounts of principal, interest and additional amounts, if any, are due in respect of the Notes, to the extent of the sums of principal, interest, Additional Amounts and Tax Indemnity Amounts (each as defined in the Loan Agreement), if any, actually received by or for the account of the Issuer pursuant to, or in or towards satisfaction of sums due under, the Loan Agreement (including payments in respect thereof received from the Trustee following the assignment of certain of the Issuer's rights and benefits under the Loan Agreement to it pursuant to Condition 11 (*Enforcement*) and the Trust Deed), less any amounts in respect of the rights, interests and benefits of the Issuer under the following Clauses of the Loan Agreement: Clause 7.6 (*Costs of Prepayment*) second sentence thereof; Clause 8.1(e); Clause 8.3(b) (*Tax Indemnity*); Clause 8.8 (*Delivery of Forms and other Instruments*); Clause 10 (*Changes in Circumstances*); Clause 11 (*Representations and Warranties of the Borrower*); Clause 16.4 (*Borrower's Indemnity*); Clause 16.5 (*Independent Obligation*); Clause 16.6 (*Survival*); Clause 18.2 (*Currency Indemnity*); Clause 19.1 (*Payments to the Lender*) (to the extent that such Clause refers to payment of amounts in respect of the Reserved Rights), Clause 19.3 (*No Set-off*) and Clause 20 (*Fees, Costs and Expenses*) (such rights are referred to herein as the "Reserved Rights").

Noteholders and Couponholders must therefore rely upon the covenant to pay under the Loan Agreement and the credit and financial standing of the Borrower. None of the Noteholders or the Couponholders shall have any recourse (direct or indirect) to any other assets of the Issuer. References in these Conditions to the "**Underlying Assets**" are to the Issuer's rights and benefits under the Loan Agreement, but excluding the Reserved Rights and references to "**Relevant Loan Rights**" are to the Underlying Assets and the Indemnification Rights. "**Indemnification Rights**" means the rights, interests and benefits of the Issuer under Clauses 16.1 (*Default Interest Periods*), 16.2 (*Default Interest*), 16.3 (*Payment of Default Interest*), 16.4 (*Borrower's Indemnity*), 16.5 (*Independent Obligation*), 18.2 (*Currency Indemnity*) and 20.2 (*Costs Relating to Preservation of Rights*) of the Loan Agreement (but excluding any rights, interests and benefits accrued in favour of the Issuer thereunder up to the date of an assignment to the Trustee pursuant to Condition 11 (*Enforcement*) and the Trust Deed).

In certain circumstances, the Trustee can (subject to it being indemnified and/or secured to its satisfaction) be required by Noteholders holding at least one-quarter of the principal amount of the Notes outstanding (as defined in the Trust Deed) or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed.

1. FORM, DENOMINATION AND STATUS

1.1 Form and denomination

The Notes are in bearer form, serially numbered, in denominations of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof up to, and including, U.S.$199,000 with Coupons attached at the time of issue. Notes will not be issued in definitive form with denominations above U.S.$199,000. Title to the Notes and the Coupons will pass by delivery. The holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and notwithstanding any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights and Third Parties) Act 1999.

1.2 Status

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. Payments in respect of the Notes will only be made to the extent of the sums actually received by or for the account of the Issuer by way of principal, interest, Additional Amounts or Tax Indemnity Amounts, if any, pursuant to, or in or towards satisfaction of sums due under, the Loan Agreement including payments in respect thereof received from the Trustee following the assignment of the Relevant Loan Rights to it pursuant to Condition 11 (*Enforcement*) and the Trust Deed (less any amounts in respect of the Reserved Rights), and will be made *pro rata* among all Noteholders and Couponholders (subject to Condition 6 (*Taxation*)), on the dates on which such payments are due in respect of the Notes subject to the conditions attaching to, and in the currency of, such payments under the Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. The Issuer shall be under no obligation to exercise in favour of the Noteholders or the Couponholders any rights of set-off or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and the Borrower.

Noteholders and Couponholders are deemed to have acknowledged and accepted that:

(i) neither the Issuer nor the Trustee makes any representation or warranty in respect of, and shall at no time have any responsibility for, or (save as otherwise expressly provided in the Trust Deed and paragraph (vii) below) liability, or obligation in respect of, the performance and observance by the Borrower of its obligations under the Loan Agreement or the recoverability of any sum of principal, interest, Additional Amounts or Tax Indemnity Amounts or other amounts, if any, due or to become due from the Borrower under the Loan Agreement;

(ii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial, operational or otherwise), creditworthiness, affairs, status, nature or prospects of the Borrower;

(iii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, any misrepresentation or breach of warranty or any act, default or omission of the Borrower under or in respect of the Loan Agreement;

(iv) the Issuer is and will be under no obligation to repurchase any Notes or to fund repayment of the Notes (except to the extent of sums actually received by or for the account of the Issuer by way of principal, interest, Additional Amounts or Tax Indemnity Amounts, if any, pursuant to, or in or towards satisfaction of sums due under, the Loan Agreement, including payments in respect thereof received from the Trustee following the assignment of the Relevant Loan Rights to it pursuant to Condition 11 (*Enforcement*) and the Trust Deed (less any amounts in respect of the Reserved Rights)) or to support any losses suffered by the Noteholders or the Couponholders;

(v) neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by any Paying Agent of its respective obligations under the Agency Agreement;

(vi) the financial servicing and performance of these Conditions depend solely and exclusively upon the performance by the Borrower of its obligations under the Loan Agreement, its covenant to pay under the Loan Agreement and its credit and financial standing. The Borrower has represented and warranted to the Issuer in the Loan Agreement that the Loan Agreement constitutes legal, valid and binding obligations of the Borrower. The representations and warranties given by the Borrower in Clause 11 (*Representations and Warranties of the Borrower*) of the Loan Agreement are given by the Borrower to the Issuer for the sole benefit of the Issuer and neither the Trustee nor any Noteholder or Couponholder shall have any remedies or rights against the Borrower that the Issuer may have with respect to such representations or warranties, other than any right the Trustee may have following an assignment to it of the Relevant Loan Rights;

(vii) the Issuer and the Trustee will, and are entitled to, rely on self-certification by the Borrower and certification by third parties as a means of monitoring whether the Borrower is complying with its obligations (other than its obligations to make any payment of principal, interest or additional amounts (if any)) under the Loan Agreement and shall not otherwise be responsible for investigating any aspect of the Borrower's performance in relation to the Loan Agreement and, subject as further provided in the Trust Deed, the Trustee shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the Underlying Assets whether or not such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not;

(viii) if the Borrower is required by law to make any withholding or deduction for or on account of tax from any payment under the Loan Agreement or if the Issuer is required by law to make any withholding or deduction for or on account of tax from any payment in respect of the Notes, the Issuer will be obliged to make payments of principal, interest or additional amounts, if any, on the Notes to the Noteholders only to the extent of sums actually received from the Borrower pursuant to the Loan Agreement in respect of such payments, including, if applicable, Additional Amounts or Tax Indemnity Amounts in respect of the tax required to be so withheld or deducted and including payments in respect thereof received from the Trustee following the assignment of the Relevant Loan Rights to it pursuant to Condition 11 (*Enforcement*) and the Trust Deed (less any amounts in respect of the Reserved Rights); the Issuer shall not be obliged to take any actions or measures as regards such deduction or withholding other than those set out in Clause 8 (*Taxes*), Clause 9 (*Tax Receipts*) and Clause 10.4 (*Mitigation*) of the Loan Agreement; and

(ix) at any time following an Event of Default, the Issuer may, and shall if the Trustee so instructs, transfer the Relevant Loan Rights to the Trustee by way of assignment and the Trustee shall hold the Underlying Assets on trust for the Issuer only as provided in Condition 11 (*Enforcement*) and, in respect of the Indemnification Rights, on trust for the Issuer and the Trustee, as applicable.

No proprietary or other direct or security interest in the Issuer's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Trustee, the Noteholders or the Couponholders. No Noteholder or Couponholder will have any entitlement to enforce any of the provisions in the Loan Agreement or have direct recourse to the Borrower, except through action by the Trustee under the Trust Deed. Neither the Issuer nor the Trustee shall be required to take proceedings to enforce payment under the Trust Deed or the Loan Agreement unless it has been indemnified and/or secured by the Noteholders or the Couponholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

Neither the Trustee nor the Noteholders shall be entitled to require the Issuer to take any proceedings or other action to enforce any term of the Loan Agreement (including, without limitation, the giving of any notice of acceleration) and, if the Issuer in its discretion takes any such action, the Issuer may require first to have been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

As provided in the Trust Deed, the Issuer will be obliged to make payments of interest, principal or additional amounts, if any, in respect of the Notes only to the extent of the aggregate amounts of principal, interest, Additional Amounts, Tax Indemnity Amounts or other amounts, if any, actually received by or for the account of the Issuer pursuant to, or in or towards satisfaction of sums due under, the Loan Agreement, including payments received from the Trustee following the assignment of the Relevant Loan Rights to it pursuant to Condition 11 (*Enforcement*) and the Trust Deed (less any amounts in respect of Reserved Rights). Noteholders and Couponholders must therefore rely upon the covenant to pay under the Loan Agreement and the credit and financial standing of the Borrower.

The obligations of the Issuer to make payments as stated in the previous paragraph constitute direct general limited recourse obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Payments made by the Borrower under the Loan Agreement which are directly or subsequently paid to, or to the order of, the Trustee or (before such time that the Issuer has been required by the Trustee, pursuant to the terms of the Trust Deed, to pay to or to the order of the Trustee) the Principal Paying Agent will satisfy *pro tanto* the obligations of the Issuer in respect of the corresponding amount to be paid under the Notes (even where there is a subsequent default by the Trustee or the Principal Paying Agent (as appropriate) in respect of paying such amounts on appropriately), but without prejudice to any further obligation of the Issuer to make payments under the Notes to the extent that it receives corresponding further payments from the Borrower under the Loan Agreement.

2. ISSUER'S COVENANT

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution or Written Resolution (as defined in the Trust Deed), agree to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement and (to the extent reasonably practicable) will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed and the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and Couponholders and any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 13 (*Notices*).

3. INTEREST

3.1 Accrual of Interest

The Notes bear interest from 21 December 2006 (the "**Issue Date**") at the rate of 7.75 per cent. per annum (the "**Rate of Interest**") payable semi-annually in arrear on 21 June and 21 December of each year (each an "**Interest Payment Date**"), subject as provided in Condition 5 (*Payments*). Each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next (or first) Interest Payment Date is herein called an "**Interest Period**".

Each Note will cease to accrue further interest (other than interest already accrued and any amounts due under Condition 3.2 (*Default Interest under the Loan Agreement*) from the due date for redemption.

The amount of interest payable in respect of a Note for any Interest Period shall be calculated by applying the Rate of Interest to the principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). Where interest is required to be calculated in respect of a period other than a full Interest Period, it shall be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

3.2 Default Interest under the Loan Agreement

In the event that, and to the extent that, the Issuer actually receives any amounts in respect of interest on unpaid sums from the Borrower pursuant to Clause 16 (*Default Interest and Indemnity*) of the Loan Agreement (other than amounts so received forming part of the Reserved Rights), the Issuer will be obliged to make payments to the Noteholders and the Couponholders to the extent of amounts in respect of interest on unpaid sums actually so received. Any payments made by the Issuer under this Condition 3.2) will be made on the next following business day (as defined in Condition 5.5 (*Payments on business days*) after the day on which the Issuer receives such amounts from the Borrower and, save as provided in this Condition 3.2, subject as provided in Condition 5 (*Payments*).

4. REDEMPTION AND PURCHASE

4.1 Scheduled redemption

Unless previously prepaid pursuant to Clause 7 (*Prepayment*) of the Loan Agreement, the Borrower will be required to repay the Loan on its due date as provided in the Loan Agreement and, subject to such repayment, all the Notes then outstanding will be redeemed at their outstanding principal amount on 21 December 2011, subject as provided in Condition 5 (*Payments*).

4.2 Redemption by the Issuer

The Notes shall be redeemed by the Issuer in whole, but not in part, at any time, on giving not less than 25 days' nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable and shall specify a date for redemption, being the same date as that set forth in the notice of prepayment referred to in Condition 4.2.1 or 4.2.2 below) in accordance with Condition 13 (*Notices*) at the principal amount thereof, together with interest accrued and unpaid to the date fixed for redemption and any additional amounts in respect thereof pursuant to Condition 6 (*Taxation*), if, immediately before giving such notice, the Issuer satisfies the Trustee that:

4.2.1 the Issuer has received a notice of prepayment from the Borrower pursuant to Clause 7.1 (*Prepayment for Tax Reasons*) of the Loan Agreement; or

4.2.2 the Issuer has delivered a notice to the Borrower, the contents of which require the Borrower to repay the Loan, in accordance with the provisions of Clause 7.3 (*Prepayment for Illegality*) of the Loan Agreement.

The Issuer shall deliver to the Trustee a certificate signed by two authorised officers of the Issuer stating that the Issuer is entitled to effect such redemption in accordance with this Condition 4.2. A copy of the Borrower's notice of prepayment or details of the circumstances contemplated by Clause 7.3 (*Prepayment for Illegality*) of the Loan Agreement and the date fixed for redemption shall be set forth in the notice.

The Trustee shall be entitled to accept any notice or certificate delivered by the Issuer in accordance with this Condition 4.2 as sufficient evidence of the satisfaction of the applicable circumstances in which event they shall be conclusive and binding on the Noteholders and the Couponholders.

Upon the expiry of any such notice given by the Issuer to the Noteholders as is referred to in this Condition 4.2, the Issuer shall be bound to redeem the Notes in accordance with this Condition 4, subject as provided in Condition 5 (*Payments*).

4.3 Redemption at the option of the Noteholders upon a Change of Control

4.3.1 Upon the occurrence of a Change of Control (as defined in the Loan Agreement), in accordance with Condition 13 (*Notices*) the Issuer will, to the extent it has received funds therefore from the Borrower, make an offer to purchase all or any part of the Notes pursuant to the offer described below (the "**Change of Control Offer**") at a price per Note in cash (the "**Change of Control Payment**") equal to the principal amount thereof plus accrued and unpaid interest thereon to the date of repurchase and additional amounts, if any, to the date of repurchase. Pursuant to Clause 7.2 (*Prepayment in the event of Change of Control*) of the Loan Agreement, the Borrower is required to give notice to the Issuer and the Trustee promptly and in any event within 15 calendar days after the date of any Change of Control (the "**Borrower Change of Control Notice**") and thereafter to prepay the Loan to the extent of the aggregate principal amount of the Notes plus accrued and unpaid interest thereon to the date of prepayment and additional amounts, if any, on the Notes to be repurchased in accordance with this Condition 4.3. The Issuer, upon receipt of the Borrower Change of Control Notice, shall give notice thereof to the Noteholders in accordance with Condition 13 (*Notices*) with a copy to the Agents and the Trustee, with the following information: (A) that a Change of Control Offer is being made pursuant to this Condition 4.3 and all Notes properly tendered pursuant to such Change of Control Offer will, subject to the receipt of the relevant funds from the Borrower, be accepted for payment; (B) the purchase price and the purchase date, which will be a Business Day (as defined in the Loan Agreement) falling not less than 30 calendar days nor more than 60 calendar days after the date of delivery to the Issuer of the Borrower Change of Control Notice (the "**Change of Control Payment Date**"); (C) that any Note not properly tendered or not tendered at all will remain outstanding and continue to accrue interest and additional amounts, if any; (D) that unless the Issuer defaults in the payment of the Change of Control Payment, all Notes accepted for payment pursuant to the Change of Control Offer will cease to accrue interest and additional amounts, if any, on the Change of Control Payment Date; (E) that Noteholders electing to have any Notes repurchased pursuant to a Change of Control Offer will be required to surrender the Notes, with the form entitled "Option to Purchase Notice – Change of Control" set out in a schedule to the Agency Agreement completed, to the Paying Agent and at the address specified in the notice prior to the close of business on the eighth Business Day preceding the Change of Control Payment Date; and (F) that Noteholders will be entitled to withdraw their tendered Notes and their election to require the Issuer to repurchase such Notes, *provided that* each Paying Agent receives, prior to the close of business on the seventh Business Day preceding the Change of Control Payment Date, a facsimile transmission or letter setting out the name of the Noteholder, the principal amount of Notes tendered for repurchase, and a statement that such Noteholder is withdrawing his tendered Notes and his election to have such Notes repurchased.

4.3.2 At least five (5) Business Days prior to the Change of Control Payment Date, the Issuer will provide a notice (the "**Issuer Change of Control Notice**") to the Trustee and the Borrower in accordance with Condition 13 (*Notices*) setting out the Change of Control Payment (including the computation thereof) required to be made by the Issuer for such Notes on the Change of Control Payment Date.

4.3.3 No later than noon (New York City time) on the second Business Day prior to the Change of Control Payment Date, the Borrower will, pursuant to Clause 7.2 (*Prepayment in the event of Change of Control*) of the Loan Agreement, prepay the loan (together with all accrued interest and any other amounts outstanding thereunder) in an amount equal to the aggregate Change of Control Payment in respect of all Notes properly tendered and not properly withdrawn as set out in the Issuer Change of Control Notice. On the Change of Control Payment Date, the Issuer will, to the extent permitted by law and subject to such prepayment, (i) accept for payment all Notes properly tendered and not properly withdrawn pursuant to the Change of Control Offer and (ii) deliver, or cause to be delivered, to the Principal Paying Agent for cancellation on behalf of the Issuer the Notes so accepted together with a certificate of two authorised officers of the Issuer stating that such Notes have been tendered to and purchased by the Issuer. In accordance with the instructions of the Noteholder set out in the Option to Purchase Notice – Change of Control, the Paying Agent will promptly pay to the Noteholder the Change of Control Payment for such Notes. The Issuer will publicly announce, and will provide notice to Noteholders in accordance with Condition 13 (*Notices*), the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

4.4 No other redemption

Except where the Loan is accelerated pursuant to Clause 15.13 (*Rights of Lender Upon Occurrence of an Event of Default*) of the Loan Agreement, the Issuer shall not be entitled to redeem the Notes prior to the due date for their redemption otherwise than as provided in Conditions 4.2 (*Redemption by the Issuer*) and 4.3 (*Redemption at the option of the Noteholders upon a Change of Control*) above.

4.5 Purchase

The Issuer or any of its subsidiaries or the Borrower or any of its subsidiaries may at any time purchase Notes in the open market or otherwise and at any price. Such Notes may be held, reissued, resold or surrendered by the purchaser through the Issuer to the Principal Paying Agent for cancellation.

Notes held by the Issuer and its subsidiaries will continue to carry the right to attend and vote at meetings of Noteholders and will be taken into account in determining how many Notes are outstanding for the purposes of these Conditions and the provisions of the Trust Deed. However, Notes held by the Borrower or any of its subsidiaries will cease to carry such rights and will not be taken into account, *inter alia*, for the purposes of Conditions 10 (*Meetings of Noteholders; Modification and Waiver; Substitution*) and 11 (*Enforcement*).

4.6 Cancellation

All Notes so redeemed or purchased and surrendered for cancellation by the Issuer shall be cancelled and all Notes purchased by the Borrower or any of its subsidiaries and surrendered to the Issuer pursuant to Clause 7.7 (*Reduction of Loan upon Cancellation of Notes*) of the Loan Agreement, together with an authorisation addressed to the Principal Paying Agent, shall be cancelled.

5. PAYMENTS

5.1 Payments in respect of Notes

Payments of principal and interest in respect of the Notes will be made by the Issuer against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Note, except that payments of interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of any of the Paying Agents.

5.2 Method of Payment

Payments will be made by credit or transfer to an account in U.S. Dollars maintained by the payee with a bank outside the United States or, upon application by the payee to the specified office of the Principal Paying Agent not later than 15 days prior to the due date for such payment, by a cheque in U.S. Dollars drawn on, or by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City.

5.3 Missing Unmatured Coupons

Each Note should be presented and surrendered (if appropriate) for payment together with all related unmatured Coupons, failing which the full amount of any related missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the related missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 6 (*Taxation*) in respect of the relevant Note (whether or not the Coupon would otherwise have become void pursuant to Condition 7 (*Prescription*) but not thereafter.

5.4 Payments subject to fiscal laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 6 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

5.5 Payments on business days

A holder shall be entitled to present a Note or Coupon for payment only on a Presentation Date and shall not, except as provided in Condition 3 (*Interest*), be entitled to any further interest or other payment in respect of any delay in payment if (A) the due date for a payment is not a business day, (B) the Presentation Date falls after the relevant due date, or (C) a cheque in U.S. Dollars mailed in accordance with Condition 5.2 (*Method of Payment*) arrives after the due date for payment or is lost in the mail.

In this paragraph:

"**Presentation Date**" means a day which (subject to Condition 7 (*Prescription*)):

(a) is or falls after the relevant due date;

(b) is a Business Day in the place of the specified office of the Paying Agent at which the Note or Coupon is presented for payment; and

(c) in the case of payment by credit or transfer to a U.S. Dollar account in New York City as referred to above, is a Business Day in New York City; and

"**business day**" means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place.

5.6 Partial payments

If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

5.7 Payment to the Collection Account

Save as the Trustee may otherwise direct at any time after the Relevant Loan Rights have been assigned to it, the Issuer will, pursuant to the provisions of Clause 7.10 of the Agency Agreement, require the Borrower to make all payments of principal, interest, Additional Amounts, Tax Indemnity Amounts or other amounts, if any, to be made pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights, to the Collection Account.

5.8 Payment obligations limited

Notwithstanding any other provisions to the contrary, the obligations of the Issuer shall only be obliged to make payments under Conditions 3 (*Interest*), 4 (*Redemption and Purchase*), 5 (*Payments*) and 6 (*Taxation*) to the Noteholders and the Couponholders on such date upon which a payment is due in respect of the Notes or the Coupons, to the extent of sums of principal, interest, Additional Amounts, Tax Indemnity Amounts or other amounts, if any, actually received by or for the account of the Issuer pursuant to, or in or towards satisfaction of sums due under, the Loan Agreement, including payments in respect thereof received from the Trustee following the assignment of the Relevant Loan Rights to it pursuant to Condition 11 (*Enforcement*), less any amounts in respect of the Reserved Rights. For the avoidance of doubt, no amounts due and payable under the Notes shall be written off, waived or otherwise cancelled where corresponding amounts have not been paid under the Loan Agreement. The payment of such amounts under the Notes shall simply be deferred until such time as corresponding payments are made under the Loan Agreement.

6. TAXATION

All payments by or on behalf of the Issuer in respect of the Notes and the Coupons shall be made free and clear of and without deduction or withholding for or on account of any present or future taxes, duties, assessments, fees or other governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of United Kingdom, Ukraine, any jurisdiction from or through which a payment is made, or any political subdivision or any authority thereof or therein having power to tax in each of the preceding jurisdictions (each, a "**Taxing Jurisdiction**"), unless such withholding or deduction is required by law. In that event, the Issuer shall, subject as provided below, pay such additional amounts ("**additional amounts**") as will result in the receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them if no such withholding or deduction had been made or required to be made, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:

6.1.1 by or on behalf of a Noteholder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon; or

6.1.2 where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

6.1.3 by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union; or

6.1.4 more than 30 days after the Relevant Date except to the extent that the holder of such Note or Coupon would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days.

Notwithstanding the foregoing provisions, the Issuer is only obliged to make payments of additional amounts to the Noteholders and the Couponholders pursuant to this Condition 6 to the extent and at such time as it shall have actually received an equivalent amount for such purposes from the Borrower under the Loan Agreement (or from the Trustee following the assignment of the Relevant Loan Rights to it pursuant to Condition 11 (*Enforcement*)) by way of Additional Amounts or Tax Indemnity Amounts or otherwise.

To the extent that the Issuer receives a lesser sum from the Borrower under the Loan Agreement, the Issuer will only be obliged to make payments to each Noteholder or Couponholder entitled to receive such additional amount pursuant to this Condition 6 equivalent to a *pro rata* portion of such sum (if any) as is actually received by, or for the account of, the Issuer pursuant to, or in or towards satisfaction of sums due under, the Loan Agreement, including payments in respect thereof received from the Trustee following the assignment of the Relevant Loan Rights to it pursuant to Condition 11 (*Enforcement*), less any amounts in respect of the Reserved Rights, on the date of, in the currency of, and subject to any conditions attaching to such payment to the Issuer.

In these Conditions, "**Relevant Date**" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in London by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include, without duplication, any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 6 or any undertaking given in addition to or in substitution of this Condition 6 pursuant to the Trust Deed or the Loan Agreement.

If the Issuer or the Borrower becomes subject at any time to any taxing jurisdiction other than the United Kingdom or Ukraine, as the case may be, reference in these Conditions to the United Kingdom and/or Ukraine shall be construed as references to the United Kingdom and/or Ukraine and/or such other jurisdiction.

7. PRESCRIPTION

Notes and Coupons will become void unless presented for payment within ten years (in the case of the principal) and five years (in the case of interest) of the appropriate Relevant Date.

8. REPLACEMENT OF NOTES AND COUPONS

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent or the Paying Agent having its Specified Office in Luxembourg, subject to all applicable laws and regulations and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

9. TRUSTEE AND PAYING AGENTS

9.1 Indemnification of Trustee

Under separate agreement between the Borrower and the Trustee, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and, under the Trust Deed, to be paid its costs and expenses in priority to the claims of the Noteholders and the Couponholders.

9.2 Trustee contracting with the Issuer and the Borrower

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (i) to enter into business transactions with the Issuer and/or the Borrower and/or any entity relating to the Issuer and/or the Borrower and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or the Borrower and/or any entity relating to the Issuer and/or the Borrower and (ii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

9.3 Trustee to have regard to interests of Noteholders and Couponholders as one class

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders and Couponholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political subdivision thereof and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, the Borrower, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders, except to the extent already provided for in Condition 6 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 6 (*Taxation*) pursuant to the Trust Deed.

9.4 Paying Agents

In acting under the Agency Agreement and in connection with the Notes, the Paying Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders. Under separate agreement between the Borrower and the Paying Agents, the Paying Agents are entitled to be indemnified and relieved from certain responsibilities in certain circumstances.

9.5 Initial Paying Agents

The initial Paying Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor principal paying agent and additional or successor paying agents; provided, however, that the Issuer shall at all times maintain:

9.5.1 a principal paying agent;

9.5.2 for so long as the Notes are admitted to trading on the Luxembourg Stock Exchange, a paying agent having its Specified Office in Luxembourg: and

9.5.3 a paying agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced to conform to, such Directive.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 13 (*Notices*).

10. MEETINGS OF NOTEHOLDERS; MODIFICATION AND WAIVER; SUBSTITUTION

10.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of the Loan Agreement, these Conditions or the Trust Deed. Such a meeting may be convened on no less than 14 days' notice by the Trustee or the Issuer or by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, one or more persons being or representing Noteholders whatever the principal amount of the outstanding Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to change any date fixed for payment of principal or interest in respect of the Notes, (ii) to reduce the amount of principal or interest payable on any date in respect of the Notes, (iii) to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, (iv) to change the currency of payments under the Notes, (v) to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution, (vi) to alter the governing law of the Conditions, the Trust Deed or the Loan Agreement, (vii) to change any date fixed for payment of principal or interest under the Loan Agreement, (viii) to alter the method of calculating the amount of any payment under the Loan Agreement or (ix) to change the currency of payment or, without prejudice to the rights under Condition 10.2 (*Modification and Waiver*) below, change the definition of "Event of Default" under the Loan Agreement (each, a "**Reserved Matter**"), in which case the necessary quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all Noteholders, whether present or not, and on all Couponholders.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

10.2 Modification and waiver

The Trustee may, without the consent of the Noteholders, agree to any modification of these Conditions or the Trust Deed or, following an assignment of the Relevant Loan Rights, the Loan Agreement (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of these Conditions, the Notes or the Trust Deed by the Issuer or, following an assignment of the Relevant Loan Rights, the Loan Agreement by the Borrower, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver, determination or modification shall be notified to the Noteholders as soon as practicable thereafter and in accordance with Condition 13 (*Notices*).

10.3 Substitution

The Trust Deed contains provisions under which the Issuer may, without the consent of the Noteholders, transfer the obligations of the Issuer as principal debtor under the Trust Deed and the Notes to a third party, provided that certain conditions specified in the Trust Deed are fulfilled. So long as any of the Notes are listed on the Luxembourg Stock Exchange, in the event of such substitution, the Luxembourg Stock Exchange will be informed of such substitution, a supplement to the prospectus in relation to the Notes will be produced and will be made publicly available at the Specified Office of the Paying Agent in Luxembourg and such substitution shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 13 (*Notices*).

11. ENFORCEMENT

At any time after an Event of Default (as defined in the Loan Agreement) shall have occurred and be continuing, the Trustee may, at its discretion and without notice, take such action and institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes and the Coupons and, following the assignment referred to below, under the Loan Agreement, *provided that* it shall not be bound to do so unless:

(i) it has been so requested in writing by the holders of at least one-quarter in principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(ii) it has been indemnified and/or provided with security to its satisfaction.

No Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

The Trust Deed also provides that at any time after the occurrence of an Event of Default, the Issuer may, and shall, if so instructed by the Trustee, assign to the Trustee the benefit of the Relevant Loan Rights (in whole but not in part) to be held on trust by it for the benefit of the Issuer or (in the case of the Indemnification Rights only) for the benefit of the Issuer and the Trustee, as applicable. The Trustee may so instruct the Issuer in its absolute discretion and shall do so, if requested to do so by Noteholders of at least one-quarter in aggregate principal amount of the Notes outstanding or if directed to do so by an Extraordinary Resolution (as defined in the Trust Deed) and, in either case, subject to its being secured and/or indemnified to its satisfaction.

Following the assignment to the Trustee, under such trust, the Issuer shall be entitled to receive from the Trustee the amounts of principal and/or interest or other amounts actually received by the Trustee in relation to the Relevant Loan Rights subject to the deduction by the Trustee of its costs of enforcement and any amounts received or recovered by it in respect of the Indemnification Rights in relation to any cost, loss or expense incurred by the Trustee.

Following the assignment to it of the Relevant Loan Rights, the Trustee shall be entitled to take enforcement action described above without prior consultation or consent of the Issuer.

If the Issuer at any time assigns the Relevant Loan Rights to the Trustee in accordance with this Condition 11 and the Trust Deed, it shall promptly give notice thereof to the Noteholders (with a copy to the Trustee).

Upon repayment of the Loan in full following an Event of Default and the payment of all amounts so recovered by the Issuer, the Notes will be redeemed or repaid at the principal amount thereof together with interest accrued to the date fixed for redemption together with any additional amounts due in respect thereof pursuant to Condition 6 (*Taxation*) and any other outstanding amounts, and thereupon the Notes shall cease to be outstanding, or if, following an Event of Default, a lesser amount than that equivalent to the principal amount is repaid by the Borrower, then the Notes shall be redeemed *pro tanto* and the remainder of the Notes shall continue to be outstanding until such time as sufficient payments have been received by the Trustee that it may certify that no further amounts are recoverable under the Loan Agreement and the Notes shall thereupon cease to be outstanding, or if, following an Event of Default, the Borrower's obligations under the Loan Agreement are discharged otherwise than by payment in full of the principal of and interest on the Loan, together with any such additional amounts, the Notes shall thereupon cease to be outstanding.

Following the assignment of the Relevant Loan Rights to the Trustee under this Condition 11, payments by the Borrower under the Loan Agreement may be subject to deduction or withholding for or on account of Taxes, duties or charges if and to the extent so required by applicable law and under the terms of the Loan Agreement the Borrower may not be required to gross up in respect of such deduction or withholding. In such circumstances, the actual amount received by the Issuer (or the Trustee) under the Loan Agreement may be less than the corresponding amount due on the Notes, and neither the Issuer (nor the Trustee) shall be required to make up any such shortfall.

12. FURTHER ISSUES

The Issuer may from time to time, with the consent of the Borrower and without the consent of the Noteholders or the Couponholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. Such further notes shall be issued under a deed supplemental to the Trust Deed. In relation to such further issue, the Issuer will enter into a loan agreement supplemental to the Loan Agreement with the Borrower on the same terms as the original Loan Agreement (or on the same terms except for the first payment of interest) subject to any modifications which, in the sole opinion of the Trustee, would not materially prejudice the interests of the Noteholders.

13. NOTICES

All notices to the Noteholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe, *provided that*, so long as the Notes are admitted to trading on the Luxembourg Stock Exchange and the rules of such stock exchange so require, a notice is published on the website of the Luxembourg Stock Exchange at http://www.bourse.1u. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or the relevant authority on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve in accordance with the rules of the Luxembourg Stock Exchange and the then prevailing market practice. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition 13.

14. GOVERNING LAW AND JURISDICTION

14.1 Governing law

The Notes and the Trust Deed and all matters arising from or connected with the Notes and the Trust Deed are governed by, and shall be construed in accordance with, English law.

14.2 Jurisdiction

The Issuer has in the Trust Deed (i) agreed for the benefit of the Trustee, the Noteholders and the Couponholders that the courts of England shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the Notes or the Coupons, and (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient. The Trust Deed also states that nothing contained in the Trust Deed prevents the Trustee or any of the Noteholders or the Couponholders from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction and that, to the extent allowed by law, the Trustee or any of the Noteholders or the Couponholders may take concurrent Proceedings in any number of jurisdictions.

There will appear at the foot of the Conditions endorsed on or (as the case may be) attached to each Definitive Note the names and Specified Offices of the Principal Paying Agent and the Paying Agents as set out at the end of this Prospectus.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Notes will initially be in the form of the Temporary Global Note which will be deposited on or around the Closing Date with a common depositary for Euroclear and Clearstream, Luxembourg. The Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

The Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form ("**Definitive Notes**") in the denominations of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof up to, and including, U.S.$199,000 at the request of the bearer of the Permanent Global Note against presentation and surrender of the Permanent Global Note to the Principal Paying Agent if any of the following events (each, an "**Exchange Event**") occurs: (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) the Issuer fails to pay an amount in respect of the Notes within five days of the date on which such amount became due and payable under the Conditions; or (c) the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) which would not be suffered were the Notes evidenced in definitive form and a certificate to such effect signed by two authorised signatories of the Issuer is delivered to the Trustee. Thereupon (in the case of (a) and (b) above) the Holder may give notice to the Issuer, and (in the case of (c) above) the Issuer may give notice to the Trustee and the Noteholders of its intention to exchange the Permanent Global Note for Definitive Notes. No Definitive Notes will be issued in denominations above U.S.$199,000.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Principal Paying Agent within 30 days of the occurrence of the relevant Exchange Event.

In addition, the Temporary Global Note and the Permanent Global Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Temporary Global Note and the Permanent Global Note. The following is a summary of certain of those provisions:

Payment: To the extent that the Issuer has actually received the relevant funds from the Bank or (following the assignment of the Relevant Loan Rights) the Trustee, payments in respect of the Temporary Global Note and the Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Note or (as the case may be) the Permanent Global Note at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Note or (as the case may be) the Permanent Global Note, the Issuer shall procure that the same is noted in a schedule thereto.

Notices: Notwithstanding Condition 13 (*Notices*), while all the Notes are represented by the Permanent Global Note (or by the Permanent Global Note and/or the Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a depositary common to Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 13 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg, *provided that*, so long as the Notes are admitted to trading on the Luxembourg Stock Exchange and the rules of such stock exchange so require, each notice must also be published on the website of the Luxembourg Stock Exchange.

SUBSCRIPTION AND SALE

BNP Paribas, HSBC Bank plc and UBS Limited (each a "**Manager**" and together the "**Managers**") have, in a subscription agreement dated 14 December 2006 (the "**Subscription Agreement**") and made between the Issuer, the Bank and the Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe and pay for the Notes at their issue price of 100 per cent. of their principal amount. The Bank will pay to the Managers a combined management and underwriting commission of 0.25 per cent. of the aggregate principal amount of the issue. The Bank has also agreed to reimburse the Joint Bookrunners for certain of their expenses incurred in connection with the management of the issue of the Notes. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United States of America

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

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

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

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

United Kingdom

Each Manager has further represented, warranted and undertaken that:

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

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

Ukraine

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

Russian Federation

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

Republic of Italy

The offering of the Notes has not been registered pursuant to the Italian securities legislation and, accordingly, each of the Managers has represented and agreed that it has not offered or sold, and will not offer or sell, any Notes in the Republic of Italy in a solicitation to the public, and that sales of the Notes in the Republic of Italy shall be effected in accordance with all Italian securities, tax, exchange control and other applicable laws and regulations.

Each of the Managers has represented and agreed that it will not offer, sell or deliver any Notes or distribute copies of this Prospectus or any other document relating to the Notes in the Republic of Italy except:

(a) to "**Professional Investors**", as defined in Article 31.2 of the Italian Securities Exchange Commission (*Commissione Nazionale per la Società e la Borsa*) ("**CONSOB**") Regulation No. 11522 of 2 July 1998 as amended ("**Regulation No. 11522**"), pursuant to Article 30.2 and 100 of Legislative Decree No. 58 of 24 February 1998 as amended ("**Decree No. 58**"); or

(b) in any other circumstances where an expressed exemption to comply with the solicitation restrictions provided by Decree No. 58 or Regulation No. 11971 of 14 May 1999, as amended, applies

provided, however, that any such offer, sale or delivery of the Notes or distribution of copies of the Prospectus or any other document relating to the Notes in the Republic of Italy must be:

(i) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1 September 1993 as amended ("**Decree No. 385**"), Decree No. 58, CONSOB Regulation No. 11522 and any other applicable laws and regulations;

(i) in compliance with Article 129 of Decree No. 385 and the implementing instructions of the Bank of Italy (*Istruzioni di Vigilanza della Banca d'Italia*), pursuant to which the issue, offer, sale, trading or placement of securities in the Republic of Italy is subject to a prior notification to the Bank of Italy, unless an exemption, depending, *inter alia*, on the aggregate amount and the characteristics of the Notes issued, offered, sold, traded or placed in the Republic of Italy, applies; and

(ii) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

Potential investors should also note that Article 100-bis of Decree No. 58 affects the transferability of the Notes in Italy to the extent that an offer of Securities (or any part of such offer) is made solely to professional investors and such Notes are then transferred in Italy during the period of 12 months from the date of issue of the Notes. Where this occurs, professional investors who sell the Notes to non-professional investors may be liable to such non-professional investors for any amounts due by the Issuer in connection with the Notes, even where the sale by the professional investor took place at the express request of the purchaser. The above provisions will not apply where the professional investor, prior to any such transfer of the Notes, delivered to the purchaser an information document containing all such information as is required by CONSOB. As at the date hereof, CONSOB has not implemented any regulations specifying the content of such information document.

General

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

TAXATION

The following is a general description of certain Ukrainian and United Kingdom tax considerations relating to the Notes and the Loan. It does not purport to be a complete analysis of all tax considerations relating to the Notes and the Loan, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries.

This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Ukrainian Tax Considerations

General

The following summary is included for general information only. Potential investors in and holders of the Notes should consult their own tax advisor as to the tax consequences under the laws of Ukraine of the acquisition, ownership and disposition of the Notes. This summary is based upon the Ukrainian tax laws and regulations as in effect on the date of this Prospectus. Such laws and regulations are subject to change or varying interpretations, possibly with retroactive effect. As with other areas of Ukrainian legislation, tax law and practice in Ukraine is not as clearly established as that of more developed jurisdictions. It is possible, therefore, that the current interpretation of the law or understanding of the practice may change or that the law may be amended with retroactive effect. Accordingly, it is possible that payments to be made to the holders of the Notes could become subject to taxation or that rates currently in effect with respect to such payments could be increased in ways that cannot be anticipated as of the date of this Prospectus.

Withholding Tax on Interest Payments and Principal Repayments under the Loan

The Law of Ukraine "*On Taxation of Profits of Enterprises*", dated 28 December 1994, as amended and restated (the "**Profits Tax Law**") envisages that income of legal entities which are non-residents of Ukraine derived from sources in Ukraine in the form of interest payments is subject to 15 per cent. withholding tax.

At the same time, paragraph 13.2 of Article 13 of the Profits Tax Law provides that this withholding tax may be reduced by the provisions of an applicable tax treaty on the avoidance of double taxation.

The United Kingdom and Ukraine have entered into such a treaty, signed on 10 February 1993, effective on 11 August 1993 ("**the Taxation Treaty**"), pursuant to which interest arising in Ukraine and paid to a person or entity resident in the United Kingdom shall be taxable only in the United Kingdom if such person or entity is the beneficial owner of the interest and is subject to tax in respect of such interest in the United Kingdom.

Specifically, in order for the exemption from withholding under the Taxation Treaty to be applicable, the Issuer must be resident if the United Kingdom for the purposes of the Taxation Treaty, must be the beneficial owner of the interest payable pursuant to the Loan Agreement and must be subject to tax in respect of such interest in the United Kingdom. The exemption will not be available under the Taxation Treaty if the Issuer carries on business through a permanent establishment located in Ukraine, and the debt-claim in respect of which the interest is paid is effectively connected with such permanent establishment. Moreover, it is not clear how the test of taxation of interest payments in the United Kingdom will be interpreted and applied by the Ukrainian tax authorities. While the Bank believes the Issuer will be treated as the beneficial owner of the income in question under Article 11 of the Taxation Treaty, the notion of beneficial ownership is not well-defined in Ukrainian law. As a consequence, different interpretations are possible and the position could be taken that the Issuer should not be viewed as the beneficial owner of the interest payments being received in the United Kingdom. However, the Bank believes that it is unlikely that the Ukrainian authorities will adopt this view.

In addition, Article 11(7) of the Taxation Treaty contains a "main purpose" anti-avoidance provision. If it were the main purpose or one of the main purposes of any person concerned with the creation or assignment of the debt-claim in respect of which the interest is paid to avail the Issuer of the tax benefits under the Taxation Treaty, the Issuer would not be entitled to the benefits under Article 11 of the Taxation Treaty. Accordingly, the tax authorities in Ukraine may use Article 11(7) of the Taxation Treaty to deny treaty benefits.

Applicable Ukrainian legislation allows upfront relief under the Taxation Treaty when the United Kingdom recipient provides the Ukrainian borrower with the tax residence certificate in the prescribed form, confirming the fact that the recipient of interest is resident of the United Kingdom for the purposes of the Taxation Treaty. The obtaining of this upfront relief does not require the payee or payor to apply for and/or obtain any transaction-specific prior clearance from the Ukrainian tax authorities. Instead, the Ukrainian payor directly applies the reduced rate of withholding tax under the Taxation Treaty, provided that it has received the necessary documentation from the recipient on or prior to the date of payment of the Ukrainian source income. Therefore, when making interest payments to the Issuer under the Loan Agreement, the Bank will directly apply the zero per cent. withholding tax rate under the Taxation Treaty, provided that the Bank has received from the Issuer the tax residency certificate, renewable on an annual basis, on or prior to the date of payment, subject to the reservation mentioned above.

The Profits Tax Law does not expressly exempt principal repayments from Ukrainian withholding tax. More specifically, paragraph 13.1 of Article 13 of the Profits Tax Law contains a "*catch-all*" provision, under which "*other income of a non-resident (a permanent establishment of such or other non-resident) from carrying out business activity on the territory of Ukraine*" is subject to a 15 per cent. withholding tax, established by paragraph 13.2 of Article 13 of the Profits Tax Law. Absent a definition of "**income**" in the Profits Tax Law, there is a remote risk that the repayment of principal under the Loan Agreement may be regarded as Ukrainian-source income of the Issuer and, as such, subject to Ukrainian withholding tax at the rate of 15 per cent. Based on the professional advice it has received, the Bank is unaware of any situation in which the Ukrainian tax authorities have ever attempted to levy Ukrainian withholding tax on repayments of principal under a loan or credit transaction.

Consequences of Ukrainian Withholding

If any payments (including payments of interest) under the Loan Agreement are subject to any withholding (as a result of which the Issuer would reduce payments under the Notes in the amount of such withholding), the Bank may, in certain circumstances specified in the Loan Agreement and subject to certain exceptions relating to maintenance by the Issuer of its residence in a qualifying jurisdiction, become obliged to pay such additional amounts as may be necessary so that the net payments received by the Issuer will not be less than the amount the Issuer would have received in the absence of such withholding. Notwithstanding the foregoing, any contractual provision under which residents undertake to pay for non-residents taxes on their income received from sources in Ukraine would be invalid under the Profits Tax Law. If interpreted widely, such restriction would also apply to the gross up provisions of the Loan Agreement and the obligations of the Bank to pay Additional Amounts and Tax Indemnity Amounts (as defined in the Loan Agreement). As a result, such gross up provisions could be found null and void and, therefore, unenforceable in Ukraine.

While there is doubt as to whether the gross-up clause contained in the Loan Agreement is enforceable under Ukrainian law, a failure by the Bank to pay additional amounts due under the Loan Agreement would be a default under the Loan Agreement. Also, in the event that the Bank would become obliged to pay additional amounts, the Bank may prepay the Loan at its principal amount, together with accrued interest, and thereupon (subject to receipt of the relevant funds from the Bank) all outstanding Notes will be prepaid by the Issuer.

Tax on Issue of and Principal and Interest Payments under the Notes

No Ukrainian withholding tax will be applicable to the issue of the Notes or principal or interest payments on the Notes because the Notes will not be issued by the Bank or from Ukraine and principal and interest payments on the Notes will not be made by the Bank or from Ukraine.

Tax on Redemption of Notes

Principal payments on redemption of the Notes will not be subject to Ukrainian withholding tax because such payments will not be made by a Ukrainian borrower, nor will there be any guarantee of any payments under the Notes by a Ukrainian borrower.

Ukrainian Holders

A Ukrainian resident Noteholder, i.e., a qualifying individual or a legal person organised under Ukrainian law, is subject to all applicable Ukrainian taxes.

Transfers of Notes by Non-Ukrainian Investors to Ukrainian Investors

Ukrainian-source profits of non-resident legal persons derived from trading securities are generally subject to 15 per cent. withholding tax (while Ukrainian-source income of non-resident individuals is, subject to certain exceptions, subject to 26 per cent. (30 per cent. from 1 January 2007) withholding tax), as may be reduced by an applicable treaty on the avoidance of double taxation.

Non-resident Noteholders are, therefore, likely to be subject to Ukrainian withholding tax on any gain (or the gross amount of the proceeds if the gain cannot be quantified) on the disposal of Notes where the proceeds of such disposal are received from a source within Ukraine.

Transfer Pricing Rules

Despite the fact that Ukrainian transfer pricing rules are not yet aggressively applied on a consistent basis by the Ukrainian tax authorities, the scope of these rules is broad enough to apply to cross-border transactions, irrespective of whether related parties are involved. For this reason, there is a risk that the Ukrainian tax authorities may attempt to apply transfer pricing rules to the amount of interest accrued and paid under the Loan, as a cross-border transaction, for the purposes of profits tax deductions. Interest is currently allowed as a deduction, subject to certain limitations of interest deductibility in any given tax reporting period, if the amount of interest incurred in respect of a debt obligation does not exceed the market value. The applicable Ukrainian corporate profits tax legislation does not provide any definitive test for determining the market rate of interest nor does it provide any "**safe harbour**" in case of the deviation from such market rate. For this reason, there is a slight risk that the interest rate under the Loan may be challenged by the Ukrainian tax authorities, which may result in the assessment of an additional tax liability to the Bank. If interest is increased due to gross-up provisions, this will increase the transfer pricing risk, as the gross-up can raise the interest rate above the market value.

United Kingdom Tax Considerations

Summary

The following is a summary of the United Kingdom withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Notes. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Notes. The following is a general guide and should be treated with appropriate caution. Noteholders who are in any doubt as to their tax position should consult their professional advisers. Noteholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Notes are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Notes. In particular, Noteholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

UK Withholding Tax on UK Source Interest

Exemptions from Withholding Obligation

Where the Issuer remains a "bank", as defined in section 840A of the Income and Corporation Taxes Act 1988 ("**Taxes Act**"), and interest paid by the Issuer is paid "in the ordinary course of its business", for the purposes of section 349(3)(b) of the Taxes Act, interest may be paid without withholding or deduction for or on account of United Kingdom income tax. In accordance with the published practice of the United Kingdom HM Revenue & Customs ("**HMRC**"), such payments will be accepted as being made by the Issuer in the ordinary course of its business unless either:

(a) the borrowing in question conforms to any of the definitions of tier 1, 2 or 3 capital adopted by the United Kingdom Financial Services Authority, whether or not it actually counts towards tier 1, 2 or 3 capital for regulatory purposes; or

(b) the characteristics of the transaction giving rise to the interest are primarily attributable to an intention to avoid United Kingdom tax.

The Notes issued by the Issuer will constitute "quoted Eurobonds" provided they are and continue to be listed on a "recognised stock exchange", within the meaning of section 841 of the Taxes Act. On the basis of the HMRC's published interpretation, securities which are to be listed on the official list of, and admitted to trading on, the Luxembourg Stock Exchange will satisfy this requirement. Whilst the Notes are and continue to be "quoted Eurobonds", payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

In all cases falling outside the two exemptions described above, interest on the Notes may fall to be paid under deduction of United Kingdom income tax at the lower rate (currently 20 per cent) subject to such relief as may be available under the provisions of any applicable double taxation treaty or to any other exemption which may apply.

Provision of Information

Persons in the United Kingdom (i) paying interest to or receiving interest on behalf of another person, or (ii) paying amounts due on redemption of any Notes which constitute deeply discounted securities as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 to or receiving such amounts on behalf of another person, may be required to provide certain information to HMRC regarding the payment and the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries.

Other Rules Relating to United Kingdom Withholding Tax

Where interest has been paid under deduction of United Kingdom income tax, Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty. The reference to "interest" above means "interest" as understood under United Kingdom tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the Conditions or any related documentation. The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer pursuant to Condition 10.3 (*Substitution*) of the Notes and does not consider the tax consequences of any such substitution.

UK Stamp Duty and Stamp Duty Reserve Tax

No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue or transfer by delivery of the Notes or on their redemption.

EU Savings Tax Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one of those territories.

GENERAL INFORMATION

1. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg with Common Code of 027874371. The International Securities Identification Number (ISIN) for the Notes is XS0278743710.

2. Copies (and English translations where the documents in question are not in English) of the following documents may be inspected at and are available from the specified offices of the Paying Agents during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) so long as any of the Notes is admitted to the official list and to trading on the regulated market of the Luxembourg Stock Exchange:

   (a) the Agency Agreement;

   (b) the Trust Deed, which includes the forms of the Global Notes and the definitive Notes;

   (c) the consolidated audited financial statements of the Bank in respect of the financial years ended 31 December 2005 and 2004 and unaudited interim condensed consolidated financial information for the six months ended 30 June 2006. The Bank currently prepares consolidated IFRS accounts on a semi-annual basis;

   (d) copies of the authorisations listed below; and

   (e) the Loan Agreement.

3. The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue of the Notes.

4. The execution of the Loan Agreement by the Bank was approved and authorised by a resolution of the Management Board dated 30 November 2006 (Protocol No. 33 of the meeting of the Management Board dated 30 November 2006).

5. Save as disclosed in this Prospectus, since 31 December 2005, there has been no material adverse change in the prospects of the Bank and its subsidiaries and, since 30 June 2006, there has been no significant change in the financial or trading position of the Bank and its subsidiaries.

6. The Bank has obtained all necessary consents, approvals and authorisations in Ukraine in connection with the Loan.

7. The Bank's IFRS Audited Consolidated Financial Statements as of and for the years ended 31 December 2005 and 2004 included in this Prospectus have been audited by PricewaterhouseCoopers (Audit) LLC, independent auditors, who have expressed opinions on those statements, as stated in their reports appearing herein. PricewaterhouseCoopers (Audit) LLC, were also the Bank's external auditors in 2003, 2002, 2001 and 2000.

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

9. There are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Bank is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Bank and its subsidiaries.

10. The Trust Deed will provide, *inter alia*, that the Trustee may act and/or rely on the opinion or advice of or a certificate or any information obtained from any lawyer, banker, valuer, surveyor, broker, auctioneer, accountant, auditor or other expert (whether or not addressed to the Trustee), notwithstanding that such opinion, advice certificate or information contains a monetary or other limit on any of the above-mentioned persons in respect thereof.

11. A copy of this Prospectus will be published on the website of the Luxembourg Stock Exchange at http://www.bourse.lu.

12. The yield on the Notes is expected to be 7.75 per cent.

THE UKRAINIAN BANKING SECTOR

The statistical information and other data contained in this section has been extracted from publicly available data (such as information contained on official websites and in publications of governmental agencies of Ukraine, including the NBU and other governmental or mass media sources), and the Bank accepts responsibility for accurately extracting such data but accepts no further responsibility in respect of such information. See "Risk Factors – Risks Relating to Ukraine – Official Statistics".

The Ukrainian Banking Sector

The Ukrainian banking sector is a two-tier structure made up of the NBU and commercial banks of various types and forms of ownership including the Bank. The banks act in accordance with the Constitution of Ukraine, the Law of Ukraine "On the National Bank of Ukraine" of 20 May 1999 (the "**National Bank Law**"), the Law of Ukraine "On Banks and Banking Activity" of 7 December 2000 (the "**Banking Law**"), the Ukrainian legislation on joint stock companies and other business entities, as well as the NBU regulations and their respective Charters.

Role of the NBU

The NBU is the central bank of Ukraine. Established in 1991 and governed by the Constitution of Ukraine and the National Bank Law, the NBU is a specialised state institution with the principal objective of ensuring the external and internal stability of the national currency and possessing broad regulatory and supervisory functions in the banking sector. The NBU is empowered to develop and conduct monetary policy, organise banking settlements and the foreign exchange system, ensure stability of the monetary, financial and banking systems of Ukraine, and protect the interests of commercial bank depositors. The principal governing bodies of the NBU are the Council and the Board. The Council, the highest governing body of the NBU, consists of 15 members, seven of whom are appointed by Parliament and seven of whom are appointed by the President. The Governor of the NBU (nominated by the President and appointed by Parliament for a five year term) acts ex officio as the fifteenth member of the Council. The Council is charged, in particular, with developing the principles of Ukraine's monetary policy and has the right to veto the Board's decisions if they contravene such principles. The Board, which is comprised of the Governor, his or her deputies and other members of the Board, is responsible for implementing Ukraine's monetary and other policies in the banking sector and generally managing the activity of the NBU.

Monetary Policy

The NBU is charged with implementing monetary policy. Currently, the NBU implements monetary policy through instruments such as mandatory reserve requirements for banks, interest rates, refinancing of commercial banks, deposit operations, and reverse repo operations. The main channel for the release of funds into circulation is the foreign currency market. With signs of the economy beginning to stabilise after the financial crisis in 1998 and the ensuing economic instability in the region, the NBU reduced the discount rate from 45 per cent. at the beginning of 2000 to 12.5 per cent. by the end of 2001, and 7.0 per cent. in December 2002. Since then, the NBU has gradually increased the discount rate to 9.5 per cent. (effective 10 August 2005) and then decreased to 8.5 per cent. (effective 10 June 2006). As of 1 December 2006, the discount rate was 8.5 per cent. The Lombard rate, which is the rate established by the NBU for overnight loans that it extends to commercial banks, was decreased from 50 per cent. at the beginning of 2000 to 30 per cent. at the end of 2000, 15 per cent. by the end of 2001 and 8.0 per cent. in December 2002. Since 1 March 2004, the NBU has been separately determining interest rates on overnight unsecured loans (10.5 per cent. as of 1 December 2006) and overnight loans secured by state securities (9.5 per cent. as of 1 December 2006), and setting separate interest rates on deposits from banks placed with the NBU for various terms. In November 2006, the NBU started setting interest rates for overnight deposit certificates (0.1 per cent. as at 1 December 2006) on a daily basis and for deposit certificates issued by the NBU for various terms (e.g. 10.7 per cent. for 177 day deposit certificates as at 23 November 2006) on a weekly basis.

The main goals of the NBU's monetary policy in 2006, as declared by the NBU, is to maintain the stability of the hryvnia as a monetary basis for sustainable social and economic development. In order to achieve this goal the NBU intends to manage the growth of money supply in line with the growth of real GDP and further increase the level of monetisation in the economy (i.e. ratio of money supply to national income).

Regulation

Banking activities in Ukraine are regulated by several laws and numerous regulations issued by the NBU. The principal legislation in the area is the National Bank Law and the Banking Law (collectively, the "**Banking Laws**"). The NBU oversees compliance with the Banking Laws, regulations and other legislation and imposes appropriate sanctions for violations of those laws and regulations. The NBU in accordance with the authority granted under the Banking Laws adopted the Banking Regulation Directive which establishes capital adequacy, liquidity and other ratios. The NBU also sets accounting, reporting, auditing and other requirements for commercial banks. A Ukrainian commercial bank may carry out so-called "exclusive banking activities" (i.e., taking deposits, opening and maintaining of bank accounts and investment of raised funds) only on the basis of a banking licence issued by the NBU. Banks are permitted to carry out additional banking transactions subject to obtaining a special written permit from the NBU.

Reporting Requirements

Banks are required to submit an annual report that contains audited financial statements or consolidated financial statements if a bank has affiliates under its control, as well as a general description of the relevant bank's business. Financial statements are required to include a balance sheet, income statement, and shareholders' equity and cash flow statements. The general description section describes the basic features of a bank's activity and its organisation and management. Interim financial statements are submitted by banks on a quarterly basis and consist of a balance sheet, income statement, off-balance sheet liabilities statement, trust management accounts and a cover letter. The purpose of the cover letter is to describe and explain events and operations, which are important for a fair presentation of the financial position of a bank and are material. Banks are also required to submit to the NBU statistical data on a daily, weekly and monthly basis that ensures permanent review by the NBU of the bank's performance and financial position.

Securing Deposits of Individuals

The Law of Ukraine "On the Fund for the Guaranteeing of Deposits of Individuals" of 20 September 2001 No. 2740- III (the "**Deposits Securing Law**") introduced a system of securing deposits held by individuals with Ukrainian banks modifying the same established in 1998 by the Presidential Decree "On Measures for the Protection of the Rights of Individuals – Depositors of Commercial Banks of Ukraine" of 10 September 1998 No. 996/98 (the "**Decree**"). Pursuant to the Deposits Securing Law, commercial banks in Ukraine are obliged to remit to the Fund for the Guaranteeing of Deposits of Individuals (the "**Fund**") established under the Decree and functioning according to the Deposits Securing Law, an initial duty in the amount of 1 per cent. of their registered statutory capital (payable once after obtaining a banking license), a regular duty in the amount of 0.25 per cent. of the aggregate amount of deposits, including interest accrued, (payable twice a year), and a special duty that the Fund may levy, if the income of the Fund would not be sufficient to repay and service loans borrowed by the Fund in order to meet compensation claims following the collapse of a bank in the banking system. The Fund guarantees deposits with commercial banks, including interest, to a maximum of UAH 15,000 per depositor with each such bank (as of 1 December 2006). Deposits are recognised as "unavailable" i.e. eligible for compensation on the date of appointment of a bank's liquidator. As of 1 November 2006, the Fund had 163 member banks and 2 temporary member banks. As of 1 November 2006, the total accumulated by the Fund amounted to UAH 853.7 million.

Reserve and Liquidity Requirements

In 2001, the NBU adopted regulations relating to the mandatory reserves of commercial banks which provide that the NBU will impose sanctions for the failure to keep prescribed amounts of mandatory reserves. Such sanctions are payable from a bank's profits. Currently, commercial banks are required to annually transfer to their reserves, no less than 5 per cent. of their profits, until and unless such reserves are equal to 25 per cent. of their regulatory capital. The NBU may require commercial banks to increase their mandatory reserve amounts.

The NBU has established a mandatory reserve requirements to maintain the liquidity of the banking system and the stability of the Ukrainian hryvnia. Banks are required to maintain certain reserves in current accounts with the NBU. There are no restrictions on withdrawal of funds from the NBU, however, if minimum average requirements are not met, a bank could be subject to certain penalties. Reserve requirements are computed as a percentage of certain of the bank's liabilities. In particular, since 1 October 2006, the reserve requirements are as follows: not less than 0.5 and 4 per cent. for term deposits of individuals and corporate entities in national and foreign currency, respectively, and not less than 1 and 5 per cent. for call deposits and current accounts of individuals and corporate entities in national and foreign currency, respectively. In 2005, the NBU changed certain reserve requirements by, for example, excluding cash held in vaults from use by banks to cover mandatory reserves and significantly increasing the required daily balance at the banks' correspondent accounts with the NBU.

The NBU has also established three separate liquidity ratios. A bank must have an instant liquidity ratio of at least 20 per cent. (i.e., the ratio of a bank's correspondent account funds and cash to its current liabilities), a current liquidity ratio of at least 40 per cent. (i.e., a bank's primary and secondary liquid assets to liabilities with corresponding due dates) and a short-term liquidity ratio of at least 20 per cent. (i.e., the ratio of liquid assets to short-term liabilities (with maturities under one year)). The NBU has defined liquid assets to include cash funds, bank metals, funds in correspondent accounts, debt securities of the state agencies in the bank's trade portfolio, available-for-sale portfolio and held-to-maturity portfolio, and short-term interbank deposits and loans. Short-term liabilities are defined to include demand liabilities, budget funds, short-term loans from the NBU and other banks, short-term interbank and customer deposits, short-term debt instruments issued by the bank and liabilities under all types of guarantees and committed credit lines to banks and customers.

Capital Requirements

The NBU has established requirements for capital adequacy, minimum statutory capital requirements and minimum regulatory capital requirements. The minimum risk-based requirement for regulatory capital (capital adequacy ratio) set by the NBU is 10 per cent. of risk-weighted assets, of which principal (core) capital should be at least 4 per cent. (Tier 1 capital). For banks that have been operating for less than 12 months, regulatory capital ratio is required to be no less than 15 per cent. Risk-weighted assets, or credit risk profile of a bank, are calculated by applying various risk weights to bank's assets and off-balance-sheet commitments according to the terms set by NBU.

The minimum statutory capital requirements are established as of the date of a bank's registration depending on the type of the bank. The minimum statutory capital requirements for nationwide regional and cooperative banks established prior to 4 October 2006 are €5 million, €3 and €1 million, respectively. With effect from 4 October 2006, the minimum statutory capital requirement for all banks at the time of their registration is €10 million; such requirement applies only to banks which have been established after 4 October 2006.

The regulatory capital (i.e. the sum of principal (core) capital and additional capital) cannot be less than the minimum statutory capital requirement and the minimum regulatory capital requirements established by the NBU. From 1 May 2004, the NBU calculates the minimum regulatory capital requirement in UAH in an amount equivalent to the euro amounts set forth by the Banking Regulation Directive. As of 1 January 2006, the minimum regulatory capital requirements for newly established banks (those that have been in existence for less than one year) are UAH 36.1 million (€5 million) for nationwide banks, UAH 21.7 million (€3 million) for regional banks and UAH 7.2 million (€1 million) for cooperative banks. The requirements for banks existing before January 2002 are UAH 50.5 million (€7 million) for national wide banks, UAH 32.5 million (€4.5 million) for regional banks and UAH 10.1 million (€1.4 million) for cooperative banks. These regulatory capital requirements are subject to periodic increases.

Loan Provisioning

Banks must meet mandatory requirements to cover net loan risks and review those provisions on a monthly basis. Some loan products, such as so-called "budget loans", real-estate backed leasing transactions, subordinated loans, uncommitted off-balance sheet credit lines and funds in foreign currency transferred to the NBU under direct repo transactions, do not require any provisions. Other loans are classified into five major categories to which the following provisioning requirements are applied: standard loans (1 per cent. provisioning requirement, or 2 per cent. for loans in foreign currency to borrowers, who have no foreign currency earnings), loans on watch (5 per cent. or 7 per cent. for loans in foreign currency to borrowers, who have no foreign currency earnings) substandard loans (20 per cent. or 25 per cent. for loans in foreign currency to borrowers, who have no foreign currency earnings), doubtful loans (50 per cent. or 60 per cent. for loans in foreign currency to borrowers, who have no foreign currency earnings) and bad loans (100 per cent.).

Recent Developments in the Banking Sector

The Ukrainian banking sector has suffered from a number of significant weaknesses, which have included, among others, under capitalisation, weak corporate governance and management, poor asset quality and excessive political intervention in some banks. Since 1997, Ukraine has been implementing a series of banking sector reforms under the IMF reform programme with the aim of supporting commercial banks that undertake structural reforms and demonstrate long-term stability of their activities. Since the beginning of 1998, the NBU has required from banks to prepare accounts that are based in many aspects on the International Financial Reporting Standards. As part of the IMF programme on banking sector reform, on 7 December 2000 Parliament adopted the Banking Law. The Banking Law provides a legal basis for strengthening the regulation of the banking system. In addition, in line with the IMF's recommendations, the Banking Law aims at reforming second tier banks and modifying the deposit securing scheme to include provisions that would allow the exclusion of problem banks (including, in particular, any of the large banks if they should fail to comply with restructuring agreements), so that any costs of the scheme will first be funded by the scheme itself and then by the government, but not the

NBU. Under the terms of the IMF programme on banking sector reform, the NBU undertook to monitor and audit the seven largest banks in Ukraine, including the two state-owned banks. The NBU oversees the activities of commercial banks using both off-site and on-site inspections and through a system of audits.

On 1 January 2004, the Laws of Ukraine "On Mortgage" and "On Mortgage Lending, Transactions with Consolidated Mortgage Debt and Mortgage-Backed Certificates" came into force, which were further supplemented by the Law of Ukraine "On Mortgage Bonds" with effect from 24 January 2006. These laws permit, amongst other things, the issuance of mortgage-backed financial instruments and their trading on securities markets. In March 2004, the regulations came into force that introduced new methods of refinancing (including "swap" operations) and allowed commercial banks to pledge mortgage-backed certificates and Eurobonds issued by Ukraine for refinancing purposes. Commencing June 2006, commercial banks are also allowed to pledge, for refinancing purposes, proprietary rights on deposits placed by them with the NBU. In November 2006, a new directive of the NBU on the regulation of liquidity of banks entered into effect, which directive liberalised the requirements for banks applying to the NBU for the support of their liquidity, introduced new types of security that banks are allowed to pledge for refinancing purposes (such as promissory notes avalised by another bank, guarantees issued by resident banks, and mortgage notes), and excluded deposit agreements from the scope of deposit operations of the NBU, limiting them to the issuance of deposit certificates. Further, other regulations that became effective in May 2004 set forth minimum regulatory capital requirements in hryvnia rather than euro, allow banks to issue subordinated debt securities (including notes, bonds and deposit certificates) and granted the NBU the powers to set the maximum interest rates that banks may pay on their subordinated debt.

In June 2005, Ukraine adopted a new law on credit histories and credit bureaus allowing the establishment of so called credit bureaus which collect information on borrowers (both individuals and legal entities) and form credit histories of each borrower. The information gathered by such credit bureaus assists Ukrainian banks in evaluating and minimising the credit risk associated with prospective borrowers.

On 14 September 2006, the Parliament approved a new law amending the Banking Law and setting new minimum statutory capital requirements for banks. Thus, at the moment of its registration, a bank is required to have statutory capital of not less than €10 million. However, this provision applies only to banks that are established after the law became effective on 4 October 2006. In addition, the law provides that banks should be established only in the form of an open joint stock company or cooperative bank (i.e., it will not be permitted to establish banks in the form of a closed joint stock company or limited liability company). Banks established as closed joint stock companies or limited liability companies are obliged to change their organisational form within three years of 4 October 2006.

The Ukrainian banking market is expected to become more competitive as a result of the deregulation of the banking industry, permitting foreign banks to operate branch offices in Ukraine and Ukraine's accession to the WTO. Presently, foreign banks can operate only representative offices or Ukrainian subsidiaries. On 4 March 2004 and 17 November 2005, Parliament rejected amendments to the Law of Ukraine "On Banks and Banking" that would have allowed foreign banks to operate branch offices in Ukraine. On 16 November 2006, the Parliament passed a law permitting foreign banks to operate branch offices in Ukraine subject to access criteria to be established by the NBU. Such law remains to be signed by the President and officially promulgated in order to become effective.

The NBU is responsible for the reorganisation or closure and liquidation of insolvent banks to strengthen confidence in the banking sector. In 2001, one of Ukraine's large banks, Bank Ukraina, was declared insolvent by the NBU, the representative of which was appointed as liquidator of Bank Ukraina. As of 1 October 2006, 20 banks or 10.5 per cent. of all banks in Ukraine, were under liquidation..

Competition

As of 1 October 2006, 190 commercial banks were registered in Ukraine, out of which 166 banks have been granted licences by the NBU to perform banking transactions. As of 1 October 2006, the total net assets of commercial banks in Ukraine with licences to perform banking transactions amounted to UAH 287.5 billion (over U.S.$56.9 billion), their credit portfolio amounted to UAH 209.3 billion (U.S.$41.4 billion), their equity capital amounted to UAH 33.3 billion (U.S.$6.6 billion), corporate deposits and current accounts amounted to UAH 90.1 billion (U.S.$17.8 billion) and retail deposits and current accounts amounted to UAH 93.0 billion (U.S.$18.4 billion).

According to the NBU, during the first nine months ended 30 September 2006, the statutory capital of Ukrainian banks having licences to perform banking transactions increased by 32.9 per cent., amounting to UAH 21.5

billion (U.S.$4.3 billion) as of 1 October 2006 (compared to 38.6 per cent. in 2005), while the equity capital of such banks increased by 30.7 per cent. during such period and amounted to UAH 33.3 billion (U.S.$6.6 billion) as of 1 October 2006 (compared to 38.2 per cent. in 2005). During the nine months ended 30 September 2006, the total assets and total liabilities of Ukrainian banks having licenses to perform banking operations increased by 34.4 per cent. and 34.9 per cent., respectively (compared to 59.2 per cent. and 62.5 per cent., respectively, in 2005). The regulatory capital of Ukrainian banks increased by 31.3 per cent. during the nine months ended 30 September 2006 (compared to 45.0 per cent. in 2005) amounting to UAH 34.6 billion as of 30 September 2006 (all figures in this and the preceding paragraph have been converted using the exchange rate of U.S.$1.00=UAH 5.05).

In 2006, commercial banks operating in Ukraine are divided by the NBU into four groups according to size of assets as of 1 December 2005. In particular, banks with total assets of more than UAH 3.9 billion were classified in the first group, banks with total assets ranging from UAH 1.8 billion to UAH 3.9 billion were classified in the second group, banks with total assets ranging from UAH 0.5 billion to UAH 1.8 billion were classified in the third group and banks with total assets of less than UAH 0.5 billion were classified in the fourth group. As of 1 October 2006, the first group consisted of 12 banks, the second – of 15 banks, the third – of 28 banks, and the fourth – of 111 banks. Two of the largest banks in Ukraine, namely the State Export-Import Bank of Ukraine (Ukreximbank) and the State Savings Bank of Ukraine (Oschadsbank), are state-owned. As of 1 October 2006, 32 banks in Ukraine had some foreign capital of which 11 were fully foreign owned. Banks with foreign capital comprise over 25.4 per cent. of the total statutory capital of banks in Ukraine.

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JSCIB UKRSIBBANK

Interim Condensed Consolidated Financial Information

30 June 2006

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Review report of the auditors

To the Shareholders and Board of Directors of JSCIB Ukrsibbank

1 We have reviewed the accompanying interim condensed consolidated balance sheet of JSCIB Ukrsibbank and its subsidiaries (the “Bank”, as defined in Note 1 to the interim condensed consolidated financial information) as at 30 June 2006 and the related interim condensed consolidated statements of income, changes in equity and cash flows for the six months then ended. This condensed consolidated interim financial information is the responsibility of the Bank's management. Our responsibility is to issue a report on this condensed consolidated interim financial information based on our review.

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

3 Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information has not been properly prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Kyiv, Ukraine

10 November 2006

In thousands of Ukrainian hryvnias	Note	30 June 2006 (unaudited)	31 December 2005 (restated, Note 3)
ASSETS			
Cash and cash equivalents and mandatory reserves		1,134,181	991,950
Trading securities		642,560	749,726
Due from other banks	7	621,862	339,373
Loans and advances to customers	8	10,703,387	7,758,906
Investment securities available-for-sale		64,787	79,205
Investment securities held to maturity		5,039	19,045
Current income tax prepayment		901	-
Intangible assets		45,476	46,087
Premises, leasehold improvements and equipment		946,962	853,172
Deferred income tax asset		3,437	-
Other assets		121,018	88,207
TOTAL ASSETS		**14,289,610**	**10,925,671**
LIABILITIES			
Due to other banks	9	2,379,111	1,122,024
Customer accounts		6,611,020	5,331,756
Due to the National Bank of Ukraine		98,476	17,033
Domestic debt securities in issue		862,226	847,835
Eurobonds issued		1,170,962	1,165,641
Other borrowed funds		1,004,859	1,019,162
Subordinated debt		483,074	276,895
Current income tax liability		9,394	1,762
Deferred income tax liability		40,844	47,737
Other liabilities		159,244	142,827
TOTAL LIABILITIES		**12,819,210**	**9,972,672**
EQUITY			
Share capital	10	2,193,684	1,693,684
Share premium		5,461	2,060
Additional capital		6,974	6,974
Revaluation reserve for investment securities available-for-sale		213	4,591
Currency translation reserve		74	(2,236)
Accumulated deficit		(739,225)	(755,351)
Net assets attributable to the Company's equity holders		**1,467,181**	**949,722**
Minority interest		**3,219**	**3,277**
TOTAL EQUITY		**1,470,400**	**952,999**
TOTAL LIABILITIES AND EQUITY		**14,289,610**	**10,925,671**

Approved for issue and signed on behalf of the Board of Directors on 27 October 2006.

Oleksandr Adarich
Chairman of the Board

Lyudmila Krikun
Acting Chief Accountant

The notes set out on pages 5 to 29 form an integral part of this interim condensed consolidated financial information.

In thousands of Ukrainian hryvnias	Note	For the six months ended 30 June 2006 (unaudited)	2005 (unaudited, restated, Note 3)
Interest income		686,858	344,752
Interest expense		(429,765)	(225,566)
Net interest income		**257,093**	**119,186**
Provision for loan impairment		(60,248)	12,006
Net interest income after provision for loan impairment		**196,845**	**131,192**
(Losses net of gains)/ gains less losses from trading securities		(9,218)	18,192
Gains less losses from derecognition of investment securities available-for-sale		6,295	-
Impairment of investment securities available-for-sale		(4,475)	(4,592)
Losses on initial recognition of investment securities available-for-sale	15	(17,970)	-
Gains less losses from trading in foreign currencies		11,728	38,999
Foreign exchange translation gains less losses /(losses net of gains)		33,531	(13,461)
Fee and commission income		113,649	51,571
Fee and commission expense		(14,529)	(5,920)
Reversal of provision for losses on credit related commitments		2,209	2,553
Income from insurance operations		45,292	15,942
Insurance claims expense		(15,597)	(4,270)
Expenses from reinsurance contracts		(7,134)	(3,489)
Other operating income		8,925	3,901
Operating income		**349,551**	**230,618**
Staff costs		(163,237)	(108,770)
Administrative and other operating expenses		(163,759)	(103,163)
Excess of the Bank's interest in the net fair value of subsidiary's identifiable assets, liabilities and contingent liabilities over cost		-	160
Gain on purchase of minority		-	2,065
Loss on disposal of subsidiaries		-	(706)
Profit before tax		**22,555**	**20,204**
Income tax expense		(6,505)	(2,570)
Profit for the period		**16,050**	**17,634**
Profit is attributable to			
Equity holders of the Company		16,126	15,235
Minority interest		(76)	2,399
Profit for the period		**16,050**	**17,634**
Earnings per share for profit attributable to the equity holders of the Company, basic and diluted (expressed in UAH per share)	11	**0.0009**	**0.0013**

The notes set out on pages 5 to 29 form an integral part of this interim condensed consolidated financial information.

In thousands of Ukrainian hryvnias	**Share capital**	**Share premium**	**Additional capital**	**Revaluation reserve for investment securities available-for-sale**	**Revaluation reserve for equipment**	**Currency translation reserve**	**Accumulated deficit**	**Total**	**Minority interest**	**Total equity**
	Attributable to equity holders of the Company									
Balance at 31 December 2004	**1,543,684**	**2,060**	**6,974**	**8,231**	**3,958**	**-**	**(806,786)**	**758,121**	**9,382**	**767,503**
Available-for-sale investments:										
- Fair value gains less losses	-	-	-	13,361	-	-	-	13,361	-	13,361
Currency translation differences	-	-	-	-	-	(1,965)	-	(1,965)	(127)	(2,092)
Income tax recorded in equity	-	-	-	(3,340)	-	-	-	(3,340)	-	(3,340)
Net income recognised directly in equity	-	-	-	10,021	-	(1,965)	-	8,056	(127)	7,929
Profit for the 6 months ended 30 June 2005 (unaudited, restated, Note 3)	-	-	-	-	-	-	15,235	15,235	2,399	17,634
Total recognised income for the 6 months ended 30 June 2005	-	-	-	10,021	-	(1,965)	15,235	23,291	2,272	25,563
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	17,376	17,376
Purchase of minority	-	-	-	-	-	-	-	-	(16,878)	(16,878)
Disposal of subsidiaries	-	-	-	-	-	-	-	-	(6,793)	(6,793)
Balance at 30 June 2005 (restated, Note 3)	**1,543,684**	**2,060**	**6,974**	**18,252**	**3,958**	**(1,965)**	**(791,551)**	**781,412**	**5,359**	**786,771**
Available-for-sale investments:										
- Derecognition and impairment	-	-	-	(18,214)	-	-	-	(18,214)	-	(18,214)
Premises and equipment:										
- Realised revaluation reserve	-	-	-	-	(5,277)	-	5,277	-	-	-
Currency translation differences	-	-	-	-	-	(271)	-	(271)	(2)	(273)
Income tax recorded in equity	-	-	-	4,553	1,319	-	(1,319)	4,553	-	4,553
Net income recognised directly in equity	-	-	-	(13,661)	(3,958)	(271)	3,958	(13,932)	(2)	(13,934)
Profit for the 6 months ended 31 December 2005 (unaudited, restated, Note 3)	-	-	-	-	-	-	32,242	32,242	(2,124)	30,118
Total recognised income for the 6 months ended 31 December 2005	-	-	-	(13,661)	(3,958)	(271)	36,200	18,310	(2,126)	16,184
Share issue	150,000	-	-	-	-	-	-	150,000	-	- 150,000
Change in share of ownership in subsidiaries	-	-	-	-	-	-	-	-	44	44
Balance at 31 December 2005 (restated, Note 3)	**1,693,684**	**2,060**	**6,974**	**4,591**	**-**	**(2,236)**	**(755,351)**	**949,722**	**3,277**	**952,999**
Available-for-sale investments:										
- Derecognition and impairment	-	-	-	(1,819)	-	-	-	(1,819)	-	(1,819)
- Fair value losses net of gains	-	-	-	(4,018)	-	-	-	(4,018)	-	(4,018)
Currency translation differences	-	-	-	-	-	2,310	-	2,310	18	2,328
Income tax recorded in equity	-	-	-	1,459	-	-	-	1,459	-	1,459
Net income recognised directly in equity	-	-	-	(4,378)	-	2,310	-	(2,068)	18	(2,050)
Profit for the 6 months ended 30 June 2006 (unaudited)	-	-	-	-	-	-	16,126	16,126	(76)	16,050
Total recognised income for the 6 months ended 30 June 2006	-	-	-	(4,378)	-	2,310	16,126	14,058	(58)	14,000
Share issue (Note 10)	500,000	3,401	-	-	-	-	-	503,401	-	503,401
Balance at 30 June 2006	**2,193,684**	**5,461**	**6,974**	**213**	**-**	**74**	**(739,225)**	**1,467,181**	**3,219**	**1,470,400**

The notes set out on pages 5 to 29 form an integral part of this interim condensed consolidated financial information.

In thousands of Ukrainian hryvnias	Note	For the six months ended 30 June 2006 (unaudited)	2005 (unaudited)
Cash flows from operating activities			
Interest received on loans and placements		647,280	315,239
Interest received on securities		36,085	23,528
Interest paid		(423,859)	(206,080)
Income received from trading in trading securities		1,016	26,774
Income received from trading in foreign currencies		11,728	39,001
Fees and commissions received		113,649	59,161
Fees and commissions paid		(14,529)	(14,971)
Insurance income received		36,267	26,408
Other operating income received		8,925	3,889
Staff costs paid		(157,200)	(101,920)
Administrative and other operating expenses paid		(124,406)	(92,685)
Income tax paid		(8,551)	(4,505)
Cash flows from operating activities before changes in operating assets and liabilities		**126,405**	**73,839**
Changes in operating assets and liabilities			
Net decrease/(increase) in mandatory reserve balances		10,754	(47,748)
Net decrease in trading securities		98,081	1,351
Net increase in due from other banks		(279,026)	(186,119)
Net increase in loans and advances to customers		(2,956,192)	(1,375,764)
Net decrease in guarantee deposits with the NBU		-	115,668
Net (increase)/ decrease in other assets		(18,496)	4,363
Net increase in due to other banks		1,244,119	341,050
Net increase in customer accounts		1,259,335	944,262
Net increase /(decrease) in due to the NBU		81,443	(360,270)
Net increase in domestic debt securities in issue		47	44,854
Net increase in other liabilities		13,005	16,346
Net cash used in operating activities		**(420,525)**	**(428,168)**
Cash flows from investing activities			
Acquisition of investment securities available-for-sale		(154,553)	(49,551)
Proceeds from disposal of investment securities available-for-sale		146,888	20,242
Proceeds from redemption of investment securities held to maturity		13,861	14,508
Acquisition of premises, leasehold improvements, equipment and intangible assets		(146,858)	(209,622)
Proceeds from disposal of premises and equipment		6,798	225
Cash of subsidiary acquired, net of consideration paid		-	3,402
Cash of subsidiaries disposed, net of disposal proceeds		-	(204)
Cash paid on acquisition of minority		(16,807)	-
Net cash used in investing activities		**(150,671)**	**(221,000)**
Cash flows from financing activities			
Issue of long-term domestic debt securities		12,392	-
Issue of Eurobonds		-	631,875
Proceeds from other borrowed funds		191,363	233,500
Repayment of other borrowed funds		(224,265)	-
Issue of subordinated debt		202,000	101,100
Issue of ordinary shares	10	503,401	-
Net cash from financing activities		**684,891**	**966,475**
Effect of exchange rate changes on cash and cash equivalents		**39,290**	**(35,925)**
Net increase in cash and cash equivalents		**152,985**	**281,382**
Cash and cash equivalents at the beginning of the period		614,498	399,590
Cash and cash equivalents at the end of the period		**767,483**	**680,972**

The notes set out on pages 5 to 29 form an integral part of this interim condensed consolidated financial information.

1 Corporate Information

This interim condensed consolidated financial information has been prepared for the six months ended 30 June 2006 for Joint-Stock Commercial Innovation Bank UKRSIBBANK ("UkrSibbank" or the "Company") and its subsidiaries and special purpose entities (together referred to as the "Bank").

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

Principal activity. UkrSibbank operates under a banking license issued by the National Bank of Ukraine (the "NBU"). UkrSibbank's principal business activity is commercial and retail banking operations within Ukraine. UkrSibbank was formed in 1990 as Commercial Innovation Bank Kharkovincomebank and registered by Gosbank of USSR. In 1991 UkrSibbank was reorganised as an open-type joint-stock company and registered by the NBU. In 1992 it was renamed as UKRSIBBANK.

As at 30 June 2006 the parent company and ultimate controlling party of the Bank was BNP Paribas (France). As at 31 December 2005 the ultimate shareholders of the Bank were 2 Ukrainian nationals, Mr O.V. Jaroslavskyy and Mr E.E.Galiyev, neither of which individually controlled the Bank. At 31 December 2005, none of the Bank's intermediate or ultimate shareholders individually controlled the Bank.

In December 2005 BNP Paribas SA signed a share purchase agreement for the purchase of 51% of the outstanding shares of UkrSibbank. In January 2006 the Antimonopoly Committee of Ukraine provided permission to BNP Paribas SA for acquisition of 51% of the share capital of the Company. In February and March 2006, shareholders of the Company (3 legal entities and 2 individuals) sold part of their shares to BNP Paribas S.A. In April 2006 the National Bank of Ukraine provided preliminary permission to BNP Paribas SA for acquisition of 51% of the share capital of the Company. In April 2006 51% of the outstanding shares of UkrSibbank were transferred to BNP Paribas SA which became the parent company of UkrSibbank.

As at 30 June 2006 UkrSibbank has 18 branches and 899 outlets in Ukraine (31 December 2005: 20 branches and 796 outlets). Additionally, UkrSibbank has a subsidiary bank in Russia. A list of consolidated subsidiaries and special purpose entities is disclosed in Note 16. The majority of the capital expenditures presented in the interim condensed consolidated statement of cashflows relate to opening of new outlets by the Bank.

Registered address and place of business. UkrSibbank's registered office is located at the following address:

60 Moskovsky Ave.
61005, Kharkiv
Ukraine.

UkrSibbank's principal place of business is located at the following address:

2/12 Andreyevskaya Str.
Kyiv
Ukraine.

Presentation currency. This interim condensed consolidated financial information is presented in thousands of Ukrainian hryvnias ("UAH thousands").

This condensed consolidated interim financial information was approved for issue on 27 October 2006.

2 Operating Environment of the Bank

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 relatively high inflation. The tax, currency and customs legislation within Ukraine is subject to varying interpretations and changes, which can occur frequently.

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.

3 Basis of Preparation and Significant Accounting Policies

Basis of Preparation. This interim condensed consolidated financial information for the six months ended 30 June 2006 has been prepared in accordance with IAS 34, "Interim Financial Reporting". The interim condensed consolidated financial information should be read in conjunction with the Bank's annual financial statements as at 31 December 2005.

This interim condensed consolidated financial information of the Bank includes an interim condensed consolidated balance sheet as at 30 June 2006 and consolidated balance sheet as at 31 December 2005, condensed consolidated interim statements of income, cash flows and changes in equity for the six months period ended 30 June 2006 and the six month period ended 30 June 2005 and selected explanatory notes.

The Bank operates in an industry where significant seasonal or cyclical variations in operating income are not experienced during the financial year.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statement are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2005, except for the adoption of the new standards and interpretations as described in Note 5.

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Bank, 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 Bank controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Bank (acquisition date) and are de-consolidated from the date that control ceases.

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. The difference, if any, between the fair values of the net assets at the dates of exchange and at the date of acquisition is recorded directly in equity.

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 Company and all of its subsidiaries use uniform accounting policies consistent with the Bank's policies.

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 Company. Minority interest forms a separate component of the Bank's equity.

Purchase and sale of minority interest is accounted for under the parent company model. The difference between purchase price and carrying amount of minority interest acquired at the date of acquisition is recognised as goodwill.

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

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees and points 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 and derivatives 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 Bank 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 and derivatives; and recognised in equity for assets classified as available-for-sale.

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash at short notice and which are subject to an insignificant risk of changes in value. All short term interbank placements, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents for the purposes of the cashflow statement. 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 which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the 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 Bank 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 Bank'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. 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.

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

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

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

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.

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

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

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

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognised. The securities are not reclassified in the balance sheet unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or customer accounts.

Securities purchased under agreements to resell ("reverse repo agreements") 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 Bank has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. Investment securities held to maturity are carried at amortised cost.

Promissory notes purchased. Promissory notes purchased are included in trading securities, investment securities available-for-sale 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.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Derecognition of financial assets. The Bank derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (ii) the Bank has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Bank has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

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 is carried at cost less accumulated impairment losses, if any.

The Bank tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the acquirer's 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 Bank 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, less accumulated depreciation and provision for impairment, where required. Cost of premises, leasehold improvements and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Construction in progress is carried at cost, restated to the equivalent purchasing power of the Ukrainian hryvnia at 31 December 2000 for assets acquired prior to 1 January 2001, less provision for impairment where required. Upon completion, assets are transferred to premises and leasehold improvements at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

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 to their residual values over their estimated useful lives as follows:

Premises	30 years
Office and computer equipment	5-15 years
Motor vehicles	5 years
Leasehold improvements	Over the term of the underlying lease

The residual value of an asset is the estimated amount that the Bank 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 Bank 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 Bank'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 Bank are recorded as intangible assets if inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 3 to 7 years.

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

Finance leases. Where the Bank is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

3 Basis of Preparation and Significant Accounting Policies (Continued)

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the consolidated income statement.

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 finance lease receivables. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Where the Bank is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Bank, 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 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 Bank is not reasonably certain that it will obtain ownership by the end of the lease term.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost. If the Bank 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 retirement of debt.

Due to the National Bank of Ukraine. Amounts due to the National Bank of Ukraine are carried at amortised cost.

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

Domestic debt securities in issue. Domestic debt securities in issue include bonds, promissory notes and certificates of deposit issued by the Bank. Domestic debt securities are stated at amortised cost. If the Bank 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 retirement of debt.

Eurobonds issued. Eurobonds issued include debt issued by the Bank in the form of loan participation notes. Eurobonds issued are stated at amortised cost. If the Bank purchases its Eurobonds issued, 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 retirement of debt.

Other borrowed funds. Other borrowed funds include syndicated loans and trade financing received from non-banking financial institutions. Other borrowed funds are carried at amortised cost.

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

Insurance reserves. Insurance reserves include provision for unearned premiums, outstanding claims provision, provision for losses incurred but not yet reported and unexpired risk provision. Provision for unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force as at the balance sheet date, calculated on a time apportionment basis. Outstanding claims provision is recorded in respect of claims reported, but not settled as at the balance sheet date. The estimation is made on the basis of information received by the Bank during investigation of insurance cases after the balance sheet date. Provision for losses incurred but not yet reported includes assumptions based on prior years' claims and claims handling experience. Outstanding claims provision and provision for losses incurred but not yet reported represent the accumulation of estimates for ultimate losses and are estimated on an undiscounted basis due to the relatively quick pattern of claims notification and payment. The methods of determining such estimates and establishing the resulting provisions are continually reviewed and updated. Resulting adjustments are reflected in the consolidated income statement as they arise. Unexpired risk provision is recognised when unearned premiums are insufficient to meet claims and expenses, which may be incurred after the end of the financial year.

To estimate the unexpired risk provision the Bank uses historical experience and forward looking assumptions of ultimate loss ratios (including claims handling expenses) and the level of in-force portfolio maintenance expenses. The expected claims are calculated having regard to events that have occurred prior to the balance sheet date.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Reinsurance contracts held. Contracts entered into by the Bank with reinsurers under which the Bank is compensated for losses on one or more contracts issued by the Bank are classified as reinsurance contracts held. Insurance contracts entered into by the Bank under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts. The benefits to which the Bank is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. The Bank assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Bank reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The Bank gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts and forward securities contracts 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 as gains less losses arising from trading in foreign currency and gains less losses arising from trading securities depending on the related contracts. The Bank does not apply hedge accounting.

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.

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. 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 Bank controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

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

Credit related commitments. The Bank enters into credit related commitments, including commitments to extend credit, underwriting commitments, letters of credit, guarantees and promissory note endorsements. 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. At each balance sheet date, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date.

Share premium. Share premium represents the excess of contributions over the nominal value of the shares issued.

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 Company are the basis for profit distribution and other appropriations. Ukrainian legislation identifies the basis of distribution as retained earnings.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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 Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank 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.

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 Bank retained no part of the loan package for itself or retained a part at the same effective interest rate as 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 custody services that are continuously provided over an extended period of time.

Deferred acquisition costs. Acquisition costs, representing commissions, salaries and certain other underwriting expenses, which vary with and are incurred in connection with the acquisition or renewal of insurance policies, are deferred and amortised over the period in which the related written premiums are earned. Deferred acquisition costs are calculated separately for each line of business and are reviewed by line of business at the time of the policy issue and at the end of each accounting period to ensure they are recoverable.

Insurance income. Upon inception of a contract, premiums are recorded as written and are earned primarily on a pro-rata basis over the term of the related policy coverage.

Claims paid. Claims and claims handling expenses are charged to the consolidated income statement when funds are transferred to the claimants. Insurance reserves are created through profit or loss for incurred unpaid claims.

Foreign currency translation. Functional currency of each of the consolidated entities is the currency of the primary economic environment in which the entity operates. The Company's functional currency and the Bank's presentation currency is the national currency of Ukraine, Ukrainian hryvnias ("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 the 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 (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.

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.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

	30 June 2006, UAH	31 December 2005, UAH
1 US dollar (USD)	5.050000	5.050000
1 euro (EUR)	6.327145	5.971625
1 Russian Rouble (RUR)	0.18649	0.175410

Exchange restrictions and controls exist relating to converting Ukrainian hryvnia into other currencies. At present, Ukrainian hryvnia is not a freely convertible currency outside Ukraine.

Fiduciary activities. Assets and liabilities held by the Bank in its own name, but on the account of third parties, are not reported on the consolidated balance sheet. The extent of such balances and transactions is indicated in Note 14. 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. Ukraine has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 “Financial Reporting in Hyperinflationary Economies” (“IAS 29”). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. It states that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

The characteristics of the economic environment of Ukraine indicate that hyperinflation has ceased effective from 1 January 2001. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current at as 31 December 2000 are the basis for the carrying amounts in these consolidated financial statements. This restatement was prepared by indexing the historical balances by changes in the general price index up to 31 December 2000.

Staff costs and related contributions. Wages, salaries, contributions to the 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 Bank.

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

Restatement of previously reported balances. During the six month period ended 30 June 2006 the Bank has determined that the amount of provision raised in respect of unused vacations as at 31 December 2005 was significantly lower than the amount of existing liability. As a result of this error other liabilities as at 31 December 2005 were understated by UAH 8,959 thousand, deferred tax liability was overstated by UAH 2,240 thousand and accumulated deficit as at 31 December 2005 was understated by UAH 6,719 thousand. The accumulated deficit as at 31 December 2005 has been restated to reflect the correction of this error in accordance with International Accounting Standard 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. The staff costs in the interim consolidated statement of income for the six month period ended 30 June 2005 have been increased by UAH 6,851 thousand, income tax expense has been decreased by UAH 1,713 thousand and earnings per share decreased by UAH 0.0004 per share.

In addition, during the six month period ended 30 June 2006 the Bank has determined that it did not recognise the purchase of a minority share in its Russian subsidiary, Commercial Bank “UkrSibbank” LLC, after entering into agreement with minority shareholders in March 2005. As a result, other liabilities as at 31 December 2005 were understated by UAH 15,211 thousand, currency translation reserve was overstated by UAH 1,244 thousand, minority interest was overstated by UAH 14,725 thousand and accumulated deficit as at 31 December 2005 was overstated by UAH 758 thousand. The comparative figures as at 31 December 2005 have been restated to reflect this revision in accordance with International Accounting Standard 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. The following adjustments have been recorded in the interim consolidated statement of income for the six month period ended 30 June 2005: the interest expense has been increased by UAH 503 thousand, foreign exchange translations gain was increased by UAH 1,067 thousand, the Bank recognised gain on acquisition of minority of UAH 2,065 thousand and earnings per share increased by UAH 0.0001 per share.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current period. Refer to Note 5.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Impairment of available for-sale equity investments. The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows. As at 30 June 2006 the Bank held unquoted shares issued by a related party with the total carrying value of UAH 18,098 thousand. For these equity securities fair value cannot be reliably determined, and they are carried at cost less impairment. On 4 September 2006 the Bank sold unquoted corporate shares with a total carrying value of UAH 18,098 thousand for cash consideration of UAH 18,105 thousand. For the purposes of assessment of impairment of those equity securities for which fair value cannot be reliably determined, the Bank has considered cash flows from the sale of securities discounted at market interest rate.

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the consolidated income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. 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. As significant part of the loan portfolio, in particular retail loans, is long-term and statistics are available only for the last 3 years, these loss statistics are adjusted for duration of loans and benchmarked to experience of other banks providing similar products in countries with more extensive data available.

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. To the extent practical, techniques use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values. Changing the assumptions not supported by observable market data to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities.

Finance leases and derecognition of financial assets. Management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

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

The Bank does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the Bank does control an SPE, Management makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear conclusion. In such cases, the SPE is consolidated.

Were the Bank not to consolidate the assets, liabilities and the results of these consolidated SPEs, the net effect on the balance sheet would be a decrease in net assets by UAH 2,565 thousand (31 December 2005: decrease in net assets by UAH 3,040 thousand) and increase in results by UAH 30 thousand (six months ended 30 June 2005: decrease in results by UAH 1,741 thousand).

Tax legislation. Ukrainian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 14.

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

5 Adoption of New or Revised Standards and Interpretations

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006 and were not early adopted by the Bank.

Amendment to IAS 19, 'Actuarial gains and losses, group plans and disclosures', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Bank.

Amendment to IAS 21, Amendment 'Net investment in a foreign operation', effective for annual periods beginning on or after 1 January 2006. This amendment did not have an impact on the Bank's consolidated financial statements.

Amendment to IAS 39, Amendment 'Cash flow hedge accounting of forecast intragroup transactions', effective for annual periods beginning on or after 1 January 2006. This amendment did not have an impact on the Bank's consolidated financial statements as the Bank does not apply hedge accounting.

Amendment to IAS 39 and IFRS 4, Amendment 'Financial guarantee contracts', effective for annual periods beginning on or after 1 January 2006. This amendment did not have any material impact on the Bank's consolidated financial statements.

IAS 39 (Amendment) – The Fair Value Option. IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ("fair value through profit or loss"). The Fair Value Option Amendment changes the definition of financial instruments "at fair value through profit or loss" and restricts the ability to designate financial instruments as part of this category.

The Bank has redesignated available-for-sale financial instruments into the "at fair value through profit or loss" category prior to the issuance of the Fair Value Option Amendment, when the Bank initially applied IAS 39 (as revised in 2003) in its interim consolidated financial statements for the period ended 30 June 2005.

The Fair Value Option Amendment issued in June 2005 was early adopted by the Bank in its 2005 annual consolidated financial statements. The Bank therefore de-designated investments from the "at fair value through profit or loss" category back to the "available-for-sale" category as these investments do not qualify for this designation under the Fair Value Option Amendment. All unrealised fair value gains and losses previously recognised in the consolidated statement of income were transferred to equity because the revised IAS 39 no longer allows their recognition in the income statement. The restatement was applied to all periods presented in this interim financial information. As a result of the restatement opening accumulated deficit as at 1 January 2005 was increased by UAH 8,231 thousand with a respective credit to revaluation reserve for investment securities available-for-sale. A deferred tax liability of UAH 2,744 thousand previously recognised in the consolidated statement of income, was charged to the revaluation reserve for investment securities available-for-sale. The total amount of opening equity at 1 January 2005 has not changed as a result of the restatement. The effect of the restatement on the 30 June 2005 interim consolidated financial statements was as follows:

In thousands of Ukrainian hryvnias	**30 June 2005**
Increase in	
Investment securities available-for-sale	224,405
Revaluation reserve for investment securities available-for-sale	18,252
Fair value gains less losses on investment securities available-for-sale	13,361
Impairment of investment securities available-for-sale	4,592
Income tax recorded in equity	3,340
Decrease in	
Other financial instruments at fair value through profit or loss	(224,405)
Accumulated deficit	(18,252)
Gains less losses arising from other financial instruments at fair value through profit or loss	(8,769)
Income tax expense	(3,340)

IFRS 6, 'Exploration for and evaluation of mineral resources', effective for annual periods beginning on or after 1 January 2006. This standard is not relevant for the Bank.

IFRIC 4, 'Determining whether an arrangement contains a lease', effective for annual periods beginning on or after 1 January 2006. The Bank has reviewed its contracts. Those of them that are required to be accounted for as leases in accordance with IAS 17, 'Leases', are already accounted for by the Bank as leases, as such this interpretation did not have an impact on the Bank's consolidated financial statements.

IFRIC 5, 'Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds', effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant for the Bank.

IFRIC 6, 'Liabilities arising from participating in a specific market – waste electrical and electronic equipment', effective for annual periods beginning on or after 1 December 2005. This interpretation is not relevant for the Bank.

6 New Accounting Pronouncements

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted by the Bank:

IFRIC 7, 'Applying the Restatement Approach under IAS 29', effective for annual periods beginning on or after 1 March 2006. Management do not expect the interpretation to be relevant for the Bank.

IFRIC 8, 'Scope of IFRS 2', effective for annual periods beginning on or after 1 May 2006. Management do not expect the interpretation to be relevant for the Bank.

IFRIC 9, 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1 June 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the Bank already assess if embedded derivative should be separated using principles consistent with IFRIC 9.

IFRIC 10, 'Interim Financial Reporting and Impairment', effective for annual periods beginning on or after 1 November 2006. Management believes that this interpretation should not have a significant impact on the financial statements of the Bank.

IFRS 7, 'Financial instruments: Disclosures', effective for annual periods beginning on or after 1 January 2007. ***IAS 1, 'Amendments to capital disclosures'***, effective for annual periods beginning on or after 1 January 2007. The Bank assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk, credit risk and capital disclosures required by the amendment of IAS 1. The Bank will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

7 Due from Other Banks

In thousands of Ukrainian hryvnias	**30 June 2006 (unaudited)**	**31 December 2005**
Term placements with other banks	565,004	324,494
Reverse sale and repurchase agreements with other banks	32,326	10,336
Guarantee deposits with other banks	24,533	4,543
Less: Provision for impairment of due from other banks	(1)	-
Total due from other banks	**621,862**	**339,373**

As at 30 June 2006 term placements with other banks totalling UAH 477,674 thousand represented EUR, UAH and USD deposits pledged against EUR, UAH, USD deposits received for the same term from the same counterparty banks totalling UAH 477,829 thousand (31 December 2005: term placements with other banks totalling UAH 273,188 thousand represented EUR, UAH and USD deposits pledged against UAH, USD and RUR deposits received for the same term from the same counterparty banks totalling UAH 274,010 thousand). The respective assets and liabilities have not been offset as there is no legal right to offset. Refer to Note 9.

Movements in the provision for impairment of due from other banks are as follows:

In thousands on Ukrainian hryvnias	**6 months to 30 June 2006 (unaudited)**	**6 months to 30 June 2005 (unaudited)**
Provision for impairment of due from other banks at 1 January	**-**	**1,125**
Provision for impairment/ (recovery of) provision for impairment of due from other banks during the period	1	(1,125)
Provision for impairment of due from other banks at end of the period	**1**	**-**

8 Loans and Advances to Customers

In thousands of Ukrainian hryvnias	**30 June 2006 (unaudited)**	**31 December 2005**
Current loans	9,981,155	7,411,801
Net investment in finance leases	111,035	80,342
Cash-covered loans	879,583	478,534
Overdue loans	66,308	64,041
Less: Provision for loan impairment	(334,694)	(275,812)
Total loans and advances to customers	**10,703,387**	**7,758,906**

Overdue loans include outstanding loans that matured before 30 June 2006 and loan instalments due but not paid. Loan instalments not yet due are included in current loans.

Movements in the provision for loan impairment are as follows:

In thousands of Ukrainian hryvnias	**6 months to 30 June 2006 (unaudited)**	**6 months to 30 June 2005 (unaudited)**
Provision for loan impairment at 1 January	**275,812**	**264,325**
Provision for loan impairment during the period	60,247	(10,881)
Acquisition of subsidiary	-	1,080
Loans and advances to customers written off during the period as uncollectible	(1,365)	(334)
Provision for loan impairment at the end of the period	**334,694**	**254,190**

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

In thousands of Ukrainian hryvnias	**30 June 2006 (unaudited)**		**31 December 2005**	
	Amount	**%**	**Amount**	**%**
Individuals	4,469,048	41	3,186,676	40
Commerce and finance	2,333,978	21	1,870,888	23
Agriculture and food	1,039,368	9	991,158	12
Chemical industry	611,447	6	541,945	7
Motor vehicles trading	366,901	3	338,267	4
Oil and gas	228,885	2	234,022	3
Property construction	799,758	7	225,684	3
Manufacture and machinery building	559,230	5	166,721	2
Metallurgy and mining	190,550	2	51,864	1
Air and other transport services	110,942	1	50,675	1
Other	327,974	3	376,818	4
Total loans and advances to customers (before impairment)	**11,038,081**	**100**	**8,034,718**	**100**

At 30 June 2006 total aggregate amount of loans to top 10 borrowers of the Bank was UAH 1,703,233 thousand (31 December 2005: UAH 1,207,942 thousand) or 15% of the gross loan portfolio (31 December 2005: 15%).

9 Due to Other Banks

In thousands of Ukrainian hryvnias	30 June 2006 (unaudited)	31 December 2005
Correspondent accounts and overnight placements of other banks	237,548	34,394
Guarantees deposits of other banks	656	505
Amounts payable under repurchase agreements	11,057	152,263
Loans received from other banks	2,129,850	934,862
Total due to other banks	**2,379,111**	**1,122,024**

As disclosed in Note 7, loans received from other banks as at 30 June 2006 totalling UAH 477,829 thousand represent funds in EUR, USD, UAH placed against EUR, UAH and USD placements totalling UAH 477,674 thousand placed by the Bank for the same term with the same counterparties (31 December 2005: UAH 274,010 thousand of funds in USD, UAH and RUR placed against EUR, UAH and USD placements totalling UAH 273,188 thousand).

10 Share Capital

In thousands of Ukrainian hryvnias	Number of outstanding shares, thousands	Nominal amount	Inflation adjusted amount
Shares issued, fully paid and registered as at 1 January 2005	**12,000,000**	**600,000**	**1,543,684**
Shares issued, fully paid and registered as at 30 June 2005	**12,000,000**	**600,000**	**1,543,684**
New shares issued, fully paid and registered	3,000,000	150,000	150,000
Shares issued, fully paid and registered as at 31 December 2005	**15,000,000**	**750,000**	**1,693,684**
Unregistered share capital - new shares issued and fully paid	10,000,000	500,000	500,000
Shares issued and fully paid as at 30 June 2006	**25,000,000**	**1,250,000**	**2,193,684**

At 30 June 2006, all of the Company's outstanding shares were authorised, issued and fully paid except shares in the amount of UAH 500,000 thousand that were fully paid but not registered as at 30 June 2006 (registered on 7 July 2006).

All ordinary shares have a nominal value of UAH 0.05 per share (31 December 2005: UAH 0.05 per share), rank equally and each share carries one vote.

On 27 March 2006 the shareholders of the Company took a decision to issue 10 billion shares totalling UAH 500,000 thousand. The placement of shares commenced on 1 May 2006 and was completed on 17 May 2006. All shares were fully paid by the end of May 2006. In total UAH 503,401 thousand was paid by the Company's shareholders in respect of the new share issue. The shareholders meeting of 18 May 2006 approved the results of the new share issue and decided to make the respective changes to the Company's Charter. On 7 July 2006 the National Bank of Ukraine registered the respective changes in the Company's Charter.

11 Earnings per Share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

In thousands of Ukrainian hryvnias	**30 June 2006**	**30 June 2005**
Profit attributable to equity holders of the Company	16,126	15,235
Weighted average number of ordinary shares in issue (thousands)	17,642,487	12,000,000
Basic and diluted earnings per share (expressed in UAH per share)	**0.0009**	**0.0013**

12 Cash and Cash Equivalents

The Bank's cash and cash equivalents for the purposes of consolidated cash flow statement were as follows:

In thousands of Ukrainian hryvnias	**30 June 2006 (unaudited)**	**31 December 2005**
Total cash and cash equivalents and mandatory reserves	1,134,181	991,950
Less: mandatory reserves balances	(366,698)	(377,452)
Cash and cash equivalents for the purposes of cash flow statement	**767,483**	**614,498**

As at 30 June 2006 the mandatory reserve balance with the NBU is calculated on the basis of a simple average over a monthly period (31 December 2005: monthly period) and should be maintained at the level of 4 to 6 per cent (31 December 2005: 6 to 8 per cent) of certain obligations of the Bank. As such, the balance can vary from day-to-day. As at 30 June 2006 the Bank may satisfy its mandatory reserve requirement exclusively with its balance on account with the NBU (31 December 2005: exclusively with its balance on account with the NBU). Mandatory reserve carry 0% interest rate. As at 30 June 2006 in accordance with the NBU regulations the Bank was required to maintain the balance on account with the NBU at the level not less than 70% of the mandatory reserves balance for the preceding month (31 December 2005: not less than 90% of the mandatory reserve balance for the preceding month).

As the respective liquid assets are not freely available to finance the Bank's day-to-day operations, for the purposes of the consolidated cash flow statement, the mandatory reserve balance is excluded from cash and cash equivalents.

13 Segment Analysis

The Bank's primary format for reporting segment information is business segments.

Business Segments. The Bank is organised on a basis of three main business segments:

- Corporate banking – representing current accounts of legal entities, deposits, overdrafts, loan and other credit facilities, foreign currency and trading finance products.
- Retail banking – representing private banking services, private customer current accounts, savings, deposits, credit and debit cards, consumer loans and mortgages.
- Investment banking – includes financial instruments trading, debt and equity capital markets, securities, foreign exchange and banknote trading and corporate finance.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Bank's cost of capital. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding taxation. Internal charges and transfer pricing adjustments have been reflected in the performance of each business segment.

13 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Bank for the six months ended 30 June 2006 and 2005 is set out below:

In thousands of Ukrainian hryvnias	Corporate banking	Retail banking	Investment banking	Other	Elimina-tions	Total
6 months ended 30 June 2006 (unaudited)						
External revenues	417,609	316,850	104,388	58,213	-	897,060
Revenues from other segments	-	-	175,472	-	(175,472)	-
Total revenues	**417,609**	**316,850**	**279,860**	**58,213**	**(175,472)**	**897,060**
Total revenues comprise:						
- Interest income	361,212	251,756	237,373	11,989	(175,472)	686,858
- Losses net of gains from trading securities	-	-	(9,218)	-	-	(9,218)
- Gains less losses from derecognition of investment securities available-for-sale	-	-	6,295	-	-	6,295
- Gains less losses from trading in foreign currencies	3,966	7,552	110	100	-	11,728
- Foreign exchange translation gains less losses	-	-	33,341	190	-	33,531
- Fee and commission income	51,259	55,424	6,966	-	-	113,649
- Insurance income	-	-	-	45,292	-	45,292
- Other operating income	1,172	2,118	4,993	642	-	8,925
Total revenues	**417,609**	**316,850**	**279,860**	**58,213**	**(175,472)**	**897,060**
Segment result	**12,986**	**(66,700)**	**59,977**	**16,292**	**-**	**22,555**
Profit before tax						**22,555**
Income tax expense	**-**	**-**	**-**	**-**	**-**	(6,505)
Profit	**-**	**-**	**-**	**-**	**-**	**16,050**
Total segment assets	7,191,015	5,200,947	1,731,309	162,001	-	14,285,272
Current and deferred tax assets						4,338
Total assets						**14,289,610**
Total segment liabilities	4,555,139	3,028,989	5,087,957	96,887	**-**	12,768,972
Current and deferred tax liabilities						50,238
Total liabilities						**12,819,210**
Other segment items						
Capital expenditure	(48,101)	(87,278)	(1,271)	(1,340)	-	(137,990)
Depreciation and amortisation expense	(13,458)	(24,419)	(356)	(936)	-	(39,169)
Provisions for loan impairment and losses on credit related commitments	(10,341)	(46,746)	121	(1,073)	-	(58,039)

13 Segment Analysis (Continued)

In thousands of Ukrainian hryvnias	Corporate banking	Retail banking	Investment banking	Other	Elimina-tions	Total
6 months ended 30 June 2005 (unaudited)						
External revenues	271,652	113,983	49,788	24,473	-	459,896
Revenues from other segments	-	35,065	32,878	4	(67,947)	-
Total revenues	**271,652**	**149,048**	**82,666**	**24,477**	**(67,947)**	**459,896**
Total revenues comprise:						
- Interest income	224,139	120,980	62,394	5,186	(67,947)	344,752
- Net gains from trading securities	-	-	18,192	-	-	18,192
- Gains less losses from trading in foreign currencies	16,758	9,847	10,310	2,084	-	38,999
- Foreign exchange translation losses net of gains	-	-	(13,461)	-	-	(13,461)
- Fee and commission income	28,175	18,221	5,175	-	-	51,571
- Insurance income	-	-	-	15,942	-	15,942
- Other operating income	2,580	-	56	1,265	-	3,901
Total revenues	**271,652**	**149,048**	**82,666**	**24,477**	**(67,947)**	**459,896**
Segment result	**65,541**	**(84,329)**	**28,342**	**9,131**	**-**	**18,685**
Excess of the Bank's interest in the net fair value of subsidiary's identifiable assets, liabilities and contingent liabilities over cost						160
Gain on purchase of minority						2,065
Loss on disposal of subsidiaries						(706)
Profit before tax						**20,204**
Income tax expense						(2,570)
Profit	**-**	**-**	**-**	**-**	**-**	**17,634**
Segment assets	5,485,037	3,862,896	1,456,716	121,022	-	10,925,671
Current and deferred tax assets						-
Total assets						**10,925,671**
Total segment liabilities	2,964,152	2,695,385	4,189,802	73,834	**-**	9,923,173
Current and deferred tax liabilities						49,499
Total liabilities						**9,972,672**
Other segment items						
Capital expenditure	(81,002)	(124,550)	(2,412)	(574)	-	(208,538)
Depreciation and amortisation expense	(7,753)	(11,920)	(231)	(810)	-	(20,714)
Provisions for loan impairment and losses on credit related commitments	12,478	956	1,125	-	-	14,559

14 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank are received. On the basis of its own estimates and internal professional advice the Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these consolidated financial statements.

Tax legislation. Ukrainian 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 Bank may be challenged by the relevant regional and central authorities. The tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. 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.

The tax consequence of transactions for Ukrainian taxation purposes is frequently determined by the form in which transactions are documented and the underlying accounting treatment prescribed by Ukrainian Accounting Rules. Accordingly, the Bank structures certain transactions so as to take advantage of such form driven determinations to reduce the overall effective tax rate of the Bank. The consolidated income statement as presented in this interim condensed consolidated financial information includes reclassifications to reflect the underlying economic substance of those transactions. The effect of these reclassifications does not have an effect on the Bank's profit before taxation or the tax charge recorded in this interim condensed consolidated financial information.

The Bank's Management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax, currency legislation and customs positions will be sustained. Accordingly, at 30 June 2006 no provision for potential tax liabilities had been recorded (31 December 2005: no provision).

Capital expenditure commitments. At 30 June 2006 the Bank has contractual capital expenditure commitments in respect of premises and equipment totalling UAH 30,697 thousand (31 December 2005: UAH 30,282 thousand) and in respect of purchasing and implementing "SAP Banking" operating system of UAH 11,637 thousand (31 December 2005: UAH 10,878 thousand).

The Bank has already allocated the necessary resources in respect of these commitments. The Bank believes that future net income and funding will be sufficient to cover this and any similar such commitments.

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

In thousands of Ukrainian hryvnias	**30 June 2006 (unaudited)**	**31 December 2005**
Not later than 1 year	56,857	47,924
Later than 1 year and not later than 5 years	178,090	148,177
Later than 5 years	86,695	79,255
Total operating lease commitments	**321,642**	**275,356**

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 Bank 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 Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss 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.

Promissory notes endorsements represent guarantees undertaken by the Bank in respect of promissory notes issued by the Bank's clients.

14 Contingencies and Commitments (Continued)

Commitments arising in respect of underwriting activity represent commitments of the Bank arising from the Bank's acting as underwriter from placement of corporate bonds.

The Bank 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 thousands of Ukrainian hryvnias	**30 June 2006 (unaudited)**	**31 December 2005**
Commitments to extend credit	1,235,602	1,000,056
Commitments arising in respect of underwriting activity	25,000	20,000
Import letters of credit (cash covered)	71,023	77,752
Import letters of credit (uncovered)	150,498	51,026
Guarantees issued (cash covered)	41,493	29,303
Guarantees issued (uncovered)	132,451	71,338
Promissory notes endorsements (cash covered)	8,438	13,449
Promissory notes endorsements (uncovered)	39,934	57,791
Less: cash covered credit related commitments	(120,954)	(120,504)
Less: Provision for losses on credit related commitments	(4,081)	(6,290)
Total credit related commitments	**1,579,404**	**1,193,921**

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

In thousands of Ukrainian hryvnias	**6 months ended 30 June 2006 (unaudited)**	**6 months ended 30 June 2005 (unaudited)**
Provision for losses on credit related commitments as at 1 January	**6,290**	**8,465**
Reversal of provision for losses on credit related commitments during the period	(2,209)	(2,553)
Provision for losses on credit related commitments as at the end of the period	**4,081**	**5,912**

Fiduciary assets. These assets are not included in the Bank's consolidated balance sheet as they are not assets of the Bank. Nominal values disclosed below are normally different from the fair values of respective securities. The nominal values of fiduciary assets fall into the following categories:

In thousands of Ukrainian hryvnias	**30 June 2006 (unaudited)**	**31 December 2005**
Shares in domestic companies held in custody	2,999,444	2,809,350
Domestic corporate bonds held in custody	217,550	416,705
Domestic municipal bonds held in custody	22,822	125,009
Domestic treasury bills held in custody	47,487	86,937
Notes of exchange held in custody	9,154	10,715
Investment certificates held in custody	11,928	24,275
Assets managed by the Bank	50,189	34,792

14 Contingencies and Commitments (Continued)

Assets pledged and restricted. At 30 June 2006 the Bank has the following assets pledged as collateral:

In thousands of Ukrainian hryvnias		30 June 2006 (unaudited)		31 December 2005	
	Notes	Asset pledged	Related liability/ commitment	Asset pledged	Related liability/ commitment
Cash and cash equivalents and mandatory reserves		4,700	4,500	7,717	17,033
Investment securities held to maturity		5,039		19,045	
Trading securities		150,813	128,920	208,847	218,618
Investment securities available-for-sale		9,000	9,002	-	-
Due from other banks	7	477,674	477,829	277,731	274,010
Total		**647,226**	**620,251**	**513,340**	**509,661**

In addition, mandatory reserve balances in the amount of UAH 366,698 thousand (31 December 2005: UAH 377,452 thousand) represent mandatory reserve assets which are not available to finance the Bank's day to day operations.

15 Related Party Transactions

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

At 30 June 2006, the outstanding balances with related parties were as follows:

In thousands of Ukrainian hryvnias	Shareholders	Key management personnel	Entities controlled by the Bank's shareholders and other related parties
Cash and cash equivalents	118	-	-
Loans and advances to customers			
Gross amount of loans and advances to customers in UAH (contractual interest rate: 6 - 17%)	1,359	157	69,763
Gross amount of loans and advances to customers in USD (contractual interest rate: 9 - 14%)	-	13,897	909,210
Gross amount of loans and advances to customers in EUR (contractual interest rate: 7 - 12%)	136	134	102,346
Gross amount of loans and advances to customers in CHF (contractual interest rate: 9 - 11%)	-	-	229,635
Gross amount of loans and advances to customers in other currencies (contractual interest rate: 14%)	-	-	6,863
Impairment provisions for loans and advances to customers	(23)	(915)	(28,233)
Investment securities available-for-sale	-	-	70,378
Other assets	-	-	141
Customer accounts			
Current accounts	1,616	525	55,824
Term deposits in UAH (contractual interest rate: 7 - 20%)	540	340	94,309
Term deposits in USD (contractual interest rate: 5 - 11%)	507,362	756	226,548
Term deposits in EUR (contractual interest rate: 9 - 13%)	48,094	-	94,907
Subordinated debt (contractual interest rate: 8 - 10%)	-	-	309,638
Other liabilities	-	85	-
Due to other banks	566,047	-	-
Minority interest		-	2,994

15 Related Party Transactions (Continued)

The income and expense items with related parties for the six months ended 30 June 2006 were as follows:

In thousands of Ukrainian hryvnias	**Shareholders**	**Key management personnel**	**Entities controlled by the Bank's shareholders and other related parties**
Interest income on loans and advances to customers	102	346	8,029
Interest expense on customer accounts	(11,561)	(87)	(16,069)
Interest expense on subordinated debt	-	-	(11,138)
Interest expense on due to other banks	(447)	-	-
Recovery of provision/(provision) for loan impairment	256	(543)	7,290
Gains from derecognition of investment securities available-for-sale	-	34	14
Loss on initial recognition of investment securities available-for-sale	-	-	(17,970)
Fee and commission income	336	1	12,740
Income from insurance operations	-	-	470
Other operating income	-	-	191
Other operating expenses	-	-	(108)

On 28 April 2006 the Bank purchased from related parties 2,858,738 shares of a Ukrainian company which is also a related party of the Bank for the consideration of UAH 45,043 thousand. The fair value of the package as at the date of purchase was UAH 27,073 thousand. The fair value was determined using trade prices on the Ukrainian over-the-counter market (PFTS). At the date of initial recognition of these shares the Bank recorded a loss of UAH 17,970 thousand.

At 30 June 2006, other rights and obligations with related parties were as follows:

In thousands of Ukrainian hryvnias	**Shareholders**	**Key management personnel**	**Entities controlled by the Bank's shareholders and other related parties**
Commitments to extend credit	3,004	1,422	211,741
Commitments to extend credit received from other banks	430,246	-	-
Import letters of credit (cash covered)	-	-	19,393
Import letters of credit (uncovered)	-	-	92,585
Promissory notes endorsements (uncovered)	-	-	7,464

Aggregate amounts lent to and repaid by related parties during six months ended 30 June 2006 were:

In thousands of Ukrainian hryvnias	**Shareholders**	**Key management personnel**	**Entities controlled by the Bank's shareholders and other related parties**
Amounts lent to related parties during the period	1,978	18,472	2,351,847
Amounts repaid by related parties during the period	3,088	9,750	1,830,039

15 Related Party Transactions (Continued)

At 31 December 2005, the outstanding balances with related parties were as follows:

In thousands of Ukrainian hryvnias	Shareholders	Key management personnel	Entities controlled by the Bank's shareholders and other related parties
Loans and advances to customers			
Gross amount of loans and advances to customers in UAH (contractual interest rate: 15 - 17%)	163	-	15,407
Gross amount of loans and advances to customers in USD (contractual interest rate: 10 - 14%)	2,624	5,251	235,715
Gross amount of loans and advances to customers in EUR (contractual interest rate: 9 - 14%)	-	1,309	33,803
Gross amount of loans and advances to customers in CHF (contractual interest rate: 9%)	-	-	92,451
Impairment provisions for loans and advances to customers at 31 December	(279)	(40)	(16,404)
Investment securities available-for-sale			
- Shares	-	-	9,335
Customer accounts			
Current accounts	233	32	79,393
Term deposits in UAH (contractual interest rate: 5 - 20%)	3,277	580	151,355
Term deposits in USD (contractual interest rate: 5 - 13%)	2,013	2,579	595
Subordinated debt (contractual interest rate: 10%)	-	-	103,413
Other liabilities	-	67	3,761
Minority interest	-	33	2,939

The income and expense items with related parties for the six months ended 30 June 2005 were as follows:

In thousands of Ukrainian hryvnias	Shareholders	Key management personnel	Entities controlled by the Bank's shareholders and other related parties
Interest income on debt securities	800	-	-
Interest income on loans and advances to customers	1,030	270	24,200
Interest expense on customer accounts	(290)	(248)	(11,777)
(Provision for loan impairment) /recovery of provision for loan impairment during the period	(4,423)	(70)	3,387
Gains less losses from trading securities	134	-	-
Fee and commission income	598	5	5,344

15 Related Party Transactions (Continued)

At 31 December 2005, other rights and obligations with related parties were as follows:

In thousands Ukrainian hryvnias	**Shareholders**	**Key manage-ment personnel**	**Entities controlled by the Bank's shareholders and other related parties**
Commitments to extend credit	-	-	4,627
Import letters of credit (cash covered)	-	-	844
Import letters of credit (uncovered)	-	-	6,836
Guarantees issued (uncovered)	-	-	345
Promissory notes endorsements (uncovered)	-	-	3,714

Aggregate amounts lent to and repaid by related parties during the six months ended 30 June 2005 were as follows:

In thousands Ukrainian hryvnias	**Shareholders**	**Key manage-ment personnel**	**Entities controlled by the Bank's shareholders and other related parties**
Amounts lent to related parties during the period	18,537	5,070	1,156,240
Amounts repaid by related parties during the period	19,527	3,389	1,018,145

During the six months to 30 June 2006, the remuneration of members of the Board of Directors comprised salaries, discretionary bonuses and other short-term benefits totalling to UAH 1,869 thousands (six months ended 30 June 2005: UAH 920 thousand).

16 Principal Subsidiaries and Special Purpose Entities

As at 30 June 2006 the Bank consolidated the following subsidiaries:

Name	Nature of business	Country of registration	Percentage of legal ownership 30 June 2006	Percentage of legal ownership 31 December 2005
Limited Liability Company “Ukrainian Leasing Company”	Leasing	Ukraine	99.996%	99.996%
Closed Joint-Stock Company “Asset Management Company “Ukrsib Asset Management”	Asset management	Ukraine	99.605%	99.605%
Closed Joint-Stock Insurance Company “Ukrainian Insurance Alliance”	Insurance	Ukraine	98.076%	98.077%
Commercial Bank “UkrSibbank” LLC (formerly Commercial Bank “National Financial Traditions” LLC)	Banking	Russian Federation	99.278%	62.500%

In April 2006 the Bank completed purchase from other shareholders of Commercial Bank “UkrSibbank” LLC (formerly Commercial Bank “National Financial Traditions” LLC) of their shares in the statutory capital of the Russian subsidiary with a total nominal value of RUR 90,000 thousand (UAH 16,807 thousand at the exchange rate at the date of payment).

In June 2006 the shareholders meeting of Commercial Bank “UkrSibbank” LLC took a decision to increase statutory capital through additional contributions to be received from BNP Paribas in the amount of RUR 2,704,740 thousand (UAH 504,407 thousand) and additional contribution to be received from UkrSibbank in the amount of RUR 419,099 thousand (UAH 78,158 thousand). At the date of this interim condensed consolidated financial information the necessary permissions have not yet been received from respective regulatory authorities.

As at 30 June 2006 the Bank’s Management consolidated two special purpose entities (“SPE”) disclosed below. These SPEs were created to serve and constitute an integral part of the Bank’s business. The Bank’s Management has governed the financial and operating policies of the SPEs during the period.

The following special purpose entities have been consolidated in this condensed consolidated interim financial information:

Name	Nature of business	Country of registration	Percentage of ownership directly held by the Bank 30 June 2006	Percentage of ownership directly held by the Bank 31 December 2005
Limited Liability Company “UkrSib-Finance”	Finance	Ukraine	9.90%	9.90%
Limited Liability Company “Universal Leasing Company”	Leasing	Ukraine	8.92%	8.92%

17 Subsequent Events

In February 2006 the Board of the Company took a decision to issue domestic bonds for a total nominal value of UAH 250,000 thousand with maturity in March 2008 and planned coupon rate of 10% p.a. The placement of the bonds commenced on 20 March 2006 and is to be completed on 22 May 2007. In August-September 2006 the Bank placed bonds with the total nominal value UAH 87,940 thousand for cash consideration of UAH 88,130 thousand. At the date of this consolidated financial information the placement has not been completed.

In June 2006 the Bank signed a Facility Letter Agreement with its parent company, BNP Paribas SA, for an uncommitted credit facility to be provided by BNP Paribas SA of up to a maximum of EUR 920,000 thousand or its equivalent in USD for the period of up to 5 years for the purposes of trade financing, corporate lending, working capital and money market operations. In June 2006 as part of this facility, the Bank received loans from its parent company, BNP Paribas SA, totalling USD 82,000 thousand (UAH 414,100 thousand) maturing in June 2007.

In July 2006 the Bank received a loan from BNP Paribas Finance plc in the amount of USD 80,000 thousand (UAH 404,000 thousand) with maturity on 16 July 2007 and interest payable on a quarterly basis.

In August-September 2006 as part of the above facility the Bank received working capital financing totalling CHF 150,000 thousand (UAH 608,037 thousand) with maturity in August - September 2009 and interest of 4.79 - 4.81% per annum payable annually.

In September 2006 the Bank received from BNP Paribas various trade finance and working capital facilities totalling USD 160,500 thousand (UAH 810,525 thousand) with maturity in August - October 2007 and interest of 6.79 - 7.05% payable at maturity.

On 14 August 2006 the Bank received a subordinated loan from its parent company, BNP Paribas SA, in the amount of USD 47,685 thousand (UAH 240,809 thousand) with interest rate of 8.75% per annum and maturity on 14 August 2016.

On 8 September 2006 the shareholders of the Company took a decision to issue 10 billion additional shares totalling UAH 500,000 thousand. The placement of shares commenced on 15 October 2006 and will be completed on 7 November 2006.

JSIB UKRSIBBANK

Consolidated Financial Statements and Auditors’ Report

31 December 2005

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AUDITORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS

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01054, Kyiv-54, Ukraine
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AUDITORS' REPORT

To the Board of Directors of JSIB UkrSibbank:

1 We have audited the accompanying consolidated balance sheet of JSIB UkrSibbank and its subsidiaries (the "Bank") as at 31 December 2005, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements set out on pages 1 to 59 are the responsibility of the Bank's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2 We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as of 31 December 2005 and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Kyiv, Ukraine
14 June 2006

Auditor L. Pakhucha
Audit certificate # 0000025 issued by the National Bank of Ukraine

In thousands of Ukrainian hryvnias	**Note**	**31 December 2005**	**31 December 2004 (restated, Note 5)**
ASSETS			
Cash and cash equivalents and mandatory reserves	7	991,950	618,213
Trading securities	8	749,726	275,943
Due from other banks	9	339,373	93,095
Loans and advances to customers	10	7,758,906	3,532,473
Investment securities available-for-sale	11	79,205	192,644
Investment securities held to maturity	12	19,045	47,908
Guarantee deposits with the National Bank of Ukraine	17	-	115,668
Current income tax prepayment		-	648
Intangible assets	13	46,087	18,869
Premises, leasehold improvements and equipment	13	853,172	402,013
Other assets	14	88,207	78,837
TOTAL ASSETS		**10,925,671**	**5,376,311**
LIABILITIES			
Due to other banks	15	1,122,024	176,697
Customer accounts	16	5,331,756	3,290,231
Due to the National Bank of Ukraine	17	17,033	390,052
Domestic debt securities in issue	18	847,835	32,973
Eurobonds issued	19	1,165,641	537,766
Other borrowed funds	20	1,019,162	-
Subordinated debt	21	276,895	73,433
Current income tax liability		1,762	-
Deferred income tax liability	28	49,977	42,838
Other liabilities	22	118,657	64,818
TOTAL LIABILITIES		**9,950,742**	**4,608,808**
EQUITY			
Share capital	23	1,693,684	1,543,684
Share premium		2,060	2,060
Additional capital	21	6,974	6,974
Revaluation reserve for investment securities available-for-sale		4,591	8,231
Revaluation reserve for equipment	13	-	3,958
Currency translation reserve		(992)	-
Accumulated deficit		(749,390)	(806,786)
Net assets attributable to the Company's equity holders		**956,927**	**758,121**
Minority interest		**18,002**	**9,382**
TOTAL EQUITY		**974,929**	**767,503**
TOTAL LIABILITIES AND EQUITY		**10,925,671**	**5,376,311**

Approved for issue and signed on behalf of the Board of Directors on 14 June 2006.

Oleksandr Adarich
Chairman of the Board

Iryna Maryanko
Chief Accountant

In thousands of Ukrainian hryvnias	Note	2005	2004 (restated, Note 5)
Interest income	24	841,239	660,643
Interest expense	24	(540,290)	(357,585)
Net interest income		**300,949**	**303,058**
Provision for loan impairment	9, 10	(11,392)	(83,533)
Net interest income after provision for loan impairment		**289,557**	**219,525**
Gains less losses from trading securities		33,651	20,706
Gains less losses from derecognition of investment securities available-for-sale		52,939	5,352
Gains less losses from trading in foreign currencies		123,141	61,374
Foreign exchange translation (losses net of gains) / gains less losses	25	(40,620)	2,692
Fee and commission income	26	126,331	99,574
Fee and commission expense	26	(14,593)	(8,169)
Losses on initial recognition of assets at rates below market	10	-	(435)
Loss on change in terms of subordinated debt	21	-	(8,589)
Impairment of investment securities available-for-sale	11	-	(10,384)
Reversal of provision / (provision) for losses on credit related commitments	32	2,175	(3,062)
Income from insurance operations		23,836	7,951
Other operating income		6,942	5,858
Operating income		**603,359**	**392,393**
Staff costs		(240,060)	(123,333)
Administrative and other operating expenses	27	(283,804)	(162,293)
Excess of the Bank's interest in the net fair value of subsidiary's identifiable assets, liabilities and contingent liabilities over cost	37	137	-
Loss on disposal of subsidiaries	37	(706)	-
Profit before tax		**78,926**	**106,767**
Income tax expense	28	(26,122)	(33,062)
Profit for the year		**52,804**	**73,705**
Profit is attributable to			
Equity holders of the Company		53,438	73,055
Minority interest		(634)	650
Profit for the year		**52,804**	**73,705**
Earnings per share for profit attributable to the equity holders of the Company, basic and diluted (expressed in UAH per share)	29	**0.0041**	**0.0081**

The notes set out on pages 5 to 59 form an integral part of these consolidated financial statements.

In thousands of Ukrainian hryvnias	Note	Attributable to equity holders of the Company								Minority interest	Total equity
		Share capital	**Share premium**	**Additional capital**	**Revaluation reserve for investment securities available-for-sale**	**Revaluation reserve for equipment**	**Currency translation reserve**	**Accumulated deficit**	**Total**		
Previously reported balance at 31 December 2003		**1,146,124**	**2,060**	**6,974**	**-**	**3,958**	**-**	**(878,508)**	**280,608**	**3,020**	**283,628**
Revaluation reserve for available-for-sale investments		-	-	-	1,778	-	-	(1,778)	-	-	-
Income tax recorded in equity		-	-	-	(445)	-	-	445	-	-	-
Adjusted at 1 January 2004		**1,146,124**	**2,060**	**6,974**	**1,333**	**3,958**	**-**	**(879,841)**	**280,608**	**3,020**	**283,628**
Available-for-sale investments:											
- Fair value gains less losses	11	-	-	-	9,197	-	-	-	9,197	-	9,197
Income tax recorded in equity	28	-	-	-	(2,299)	-	-	-	(2,299)	-	(2,299)
Net income recognised directly in equity		-	-	-	6,898	-	-	-	6,898	-	6,898
Profit for the year (restated, Note 5)		-	-	-	-	-	-	73,055	73,055	650	73,705
Total recognised income for 2004		-	-	-	6,898	-	-	73,055	79,953	650	80,603
Share issue	23	397,560	-	-	-	-	-	-	397,560	-	397,560
Consolidation of newly established subsidiaries		-	-	-	-	-	-	-	-	5,712	5,712
Balance at 31 December 2004		**1,543,684**	**2,060**	**6,974**	**8,231**	**3,958**	**-**	**(806,786)**	**758,121**	**9,382**	**767,503**
Available-for-sale investments:											
- Fair value losses net of gains	11	-	-	-	(4,853)	-	-	-	(4,853)	-	(4,853)
Premises and equipment:											
- Realised revaluation reserve	13	-	-	-	-	(5,277)	-	5,277	-	-	-
Currency translation differences		-	-	-	-	-	(992)	-	(992)	(1,373)	(2,365)
Income tax recorded in equity	28,13	-	-	-	1,213	1,319	-	(1,319)	1,213	-	1,213
Net income recognised directly in equity		-	-	-	(3,640)	(3,958)	(992)	3,958	(4,632)	(1,373)	(6,005)
Profit for the year		-	-	-	-	-	-	53,438	53,438	(634)	52,804
Total recognised income for 2005		-	-	-	(3,640)	(3,958)	(992)	57,396	48,806	(2,007)	46,799
Share issue	23	150,000	-	-	-	-	-	-	150,000	-	150,000
Acquisition of subsidiaries	37	-	-	-	-	-	-	-	-	17,376	17,376
Disposal of subsidiaries	37	-	-	-	-	-	-	-	-	(6,793)	(6,793)
Change in share of ownership in subsidiaries		-	-	-	-	-	-	-	-	44	44
Balance at 31 December 2005		**1,693,684**	**2,060**	**6,974**	**4,591**	**-**	**(992)**	**(749,390)**	**956,927**	**18,002**	**974,929**

In thousands of Ukrainian hryvnias	Note	2005	2004
Cash flows from operating activities			
Interest received on loans and placements		813,231	634,046
Interest received on securities		39,194	8,378
Interest paid		(465,150)	(323,586)
Income received from trading in trading securities		17,793	15,984
Income received from trading in foreign currencies		119,972	61,374
Fees and commissions received		126,194	99,574
Fees and commissions paid		(14,593)	(13,738)
Insurance income received		58,085	19,271
Other operating income received		6,942	5,858
Staff costs paid		(240,060)	(123,333)
Administrative and other operating expenses paid		(233,502)	(128,841)
Income tax paid		(15,849)	(9,381)
Cash flows from operating activities before changes in operating assets and liabilities		**212,257**	**245,606**
Changes in operating assets and liabilities			
Net increase in mandatory reserve balances		(158,552)	(48,949)
Net increase in trading securities		(457,926)	(84,087)
Net (increase)/decrease in due from other banks		(240,381)	54,440
Net increase in loans and advances to customers		(4,458,232)	(982,107)
Net decrease/(increase) in guarantee deposits with the NBU		115,668	(115,668)
Net decrease/(increase) in other assets		1,871	(18,595)
Net increase/(decrease) in due to other banks		979,218	(256,951)
Net increase in customer accounts		2,127,787	482,313
Net (decrease)/increase in due to the NBU		(373,110)	304,127
Net increase/(decrease) in domestic debt securities in issue		19,342	(22,658)
Net increase in other liabilities		12,162	4,008
Net cash used in operating activities		**(2,219,896)**	**(438,521)**
Cash flows from investing activities			
Acquisition of investment securities available-for-sale		(128,639)	(118,899)
Proceeds from disposal of investment securities available-for-sale		289,546	71,076
Proceeds from redemption of investment securities held to maturity		29,016	29,016
Acquisition of premises, leasehold improvements, equipment and intangible assets		(534,915)	(329,374)
Proceeds from disposal of premises and equipment		6,870	5,384
Cash of subsidiary acquired, net of consideration paid	37	3,379	-
Cash of subsidiaries disposed, net of disposal proceeds	37	(204)	-
Net cash used in investing activities		**(334,947)**	**(342,797)**
Cash flows from financing activities			
Issue of long-term domestic debt securities	18	792,809	-
Issue of Eurobonds	19	631,875	532,930
Proceeds from other borrowed funds	20	1,020,412	-
Issue of subordinated debt	21	202,100	47,964
Issue of ordinary shares	23	150,000	397,560
Net cash from financing activities		**2,797,196**	**978,454**
Effect of exchange rate changes on cash and cash equivalents		**(27,445)**	**10,576**
Net increase in cash and cash equivalents		**214,908**	**207,712**
Cash and cash equivalents at the beginning of the year		399,590	191,878
Cash and cash equivalents at the end of the year	7	**614,498**	**399,590**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005 for Joint-Stock Innovation Bank UKRSIBBANK ("UkrSibbank" or the "Company") and its subsidiaries and special purpose entities (together referred to as the "Bank").

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

Principal activity. UkrSibbank operates under a banking license issued by the National Bank of Ukraine (the "NBU"). UkrSibbank's principal business activity is commercial and retail banking operations within Ukraine. UkrSibbank was formed in 1990 as Commercial Innovation Bank Kharkovincomebank and registered by Gosbank of USSR. In 1991 UkrSibbank was reorganised as an open-type joint-stock company and registered by the NBU. In 1992 it was renamed as UKRSIBBANK.

As at 31 December 2005 major shareholders of UkrSibbank are six Ukrainian companies, one Luxemburg company and two individuals, which together own over 99% of the outstanding registered shares (2004: six Ukrainian companies and two individuals owned over 97% of the outstanding registered shares). In December 2005 BNP Paribas SA signed a share purchase agreement for the purchase of 51% of the outstanding shares of UkrSibbank. Under the agreement the transaction is to be completed in 2006. As disclosed in Note 38, in April 2006 BNP Paribas SA became a parent company of UkrSibbank.

As at 31 December 2005 UkrSibbank has 20 branches and 796 outlets in Ukraine (2004: 22 branches and 502 outlets). Additionally, UkrSibbank has representative offices in Kyiv and Kharkiv (Ukraine) and a subsidiary bank in Russia. A list of consolidated subsidiaries and special purpose entities is disclosed in Note 36.

Registered address and place of business. UkrSibbank's registered office is located at the following address:

60 Moskovsky Ave.
61005, Kharkiv
Ukraine.

UkrSibbank's principal place of business is located at the following address:

2/12 Andreyevskaya Str.
Kyiv
Ukraine.

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

2 Operating Environment of the Bank

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 10.3% for the year ended 31 December 2005 (2004: 12.3%). The tax, currency and customs legislation within Ukraine is subject to varying interpretations and changes, which can occur frequently.

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.

3 Basis of Preparation and 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 equipment, available-for-sale financial assets, and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5, Adoption of New or Revised Standards and Interpretations).

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Bank, 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 Bank controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Bank (acquisition date) and are de-consolidated from the date that control ceases.

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. The difference, if any, between the fair values of the net assets at the dates of exchange and at the date of acquisition is recorded directly in equity.

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 Company and all of its subsidiaries use uniform accounting policies consistent with the Bank's policies.

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 Company. Minority interest forms a separate component of the Bank's equity.

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. *Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees and points 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 and derivatives 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 instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Bank commits to deliver a financial instrument. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading securities and derivatives; and recognised in equity for assets classified as available-for-sale.

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash at short notice and which are subject to an insignificant risk of changes in value. All short term interbank placements, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds 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 which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the 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 Bank 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 Bank'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. 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.

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

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

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

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

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

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.

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

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

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

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognised. The securities are not reclassified in the balance sheet unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or customer accounts.

Securities purchased under agreements to resell ("reverse repo agreements") 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 Bank has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. Investment securities held to maturity are carried at amortised cost.

Promissory notes purchased. Promissory notes purchased are included in trading securities, investment securities available-for-sale 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 Bank derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (ii) the Bank has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Bank has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

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 is carried at cost less accumulated impairment losses, if any.

3 Basis of Preparation and Significant Accounting Policies (Continued)

The Bank tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the acquirer's 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 Bank 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, leasehold improvements and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

The aircraft, included in premises, leasehold improvements and equipment of the Bank, is subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair value of the asset being revalued. The revaluation reserve included in the consolidated statement of equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset.

Construction in progress is carried at cost, restated to the equivalent purchasing power of the Ukrainian hryvnia at 31 December 2000 for assets acquired prior to 1 January 2001, less provision for impairment where required. Upon completion, assets are transferred to premises and leasehold improvements at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

All other items of premises, leasehold improvements 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	30 years
Office and computer equipment	5-15 years
Motor vehicles	8 years
Aircraft	25 years
Leasehold improvements	Over the term of the underlying lease

The residual value of an asset is the estimated amount that the Bank 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 Bank 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 Bank'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 Bank are recorded as intangible assets if inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 3 years.

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

Finance leases. Where the Bank is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

3 Basis of Preparation and Significant Accounting Policies (Continued)

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the consolidated income statement.

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 finance lease receivables. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Where the Bank is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Bank, 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 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 Bank is not reasonably certain that it will obtain ownership by the end of the lease term.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost. If the Bank 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 retirement of debt.

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

Domestic debt securities in issue. Domestic debt securities in issue include bonds, promissory notes and certificates of deposit issued by the Bank. Domestic debt securities are stated at amortised cost. If the Bank 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 retirement of debt.

Eurobonds issued. Eurobonds issued include debt issued by the Bank in the form of loan participation notes. Eurobonds issued are stated at amortised cost. If the Bank purchases its Eurobonds issued, 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 retirement of debt.

Other borrowed funds. Other borrowed funds include syndicated loans and trade financing received from non-banking financial institutions. Other borrowed funds are carried at amortised cost.

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

Insurance reserves. Insurance reserves include provision for unearned premiums, outstanding claims provision, provision for losses incurred but not yet reported and unexpired risk provision. Provision for unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force as at the balance sheet date, calculated on a time apportionment basis. Outstanding claims provision is recorded in respect of claims reported, but not settled as at the balance sheet date. The estimation is made on the basis of information received by the Bank during investigation of insurance cases after the balance sheet date. Provision for losses incurred but not yet reported includes assumptions based on prior years' claims and claims handling experience. Outstanding claims provision and provision for losses incurred but not yet reported represent the accumulation of estimates for ultimate losses and are estimated on an undiscounted basis due to the relatively quick pattern of claims notification and payment. The methods of determining such estimates and establishing the resulting provisions are continually reviewed and updated. Resulting adjustments are reflected in the consolidated income statement as they arise. Unexpired risk provision is recognised when unearned premiums are insufficient to meet claims and expenses, which may be incurred after the end of the financial year. To estimate the unexpired risk provision the Bank uses historical experience and forward looking assumptions of ultimate loss ratios (including claims handling expenses) and the level of in-force portfolio maintenance expenses. The expected claims are calculated having regard to events that have occurred prior to the balance sheet date.

Reinsurance. The Bank cedes reinsurance in the normal course of business. Ceded reinsurance contracts do not relieve the Bank from its obligations to policyholders. Reinsurance assets include balances due from reinsurance companies for paid claims, including claims handling expenses. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts and forward securities contracts 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 as gains less losses arising from trading in foreign currency and gains less losses arising from trading securities depending on the related contracts. The Bank does not apply hedge accounting.

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.

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 Bank. 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 Bank controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

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

Credit related commitments. In the normal course of business, the Bank enters into credit related commitments, including commitments to extend credit, underwriting commitments, letters of credit, guarantees and promissory note endorsements. Specific provisions are recorded against other credit related commitments when losses are considered more likely than not.

Share premium. Share premium represents the excess of contributions over the nominal value of the shares issued.

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 Company are the basis for profit distribution and other appropriations. Ukrainian legislation identifies the basis of distribution as 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 Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank 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.

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 Bank retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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 custody services that are continuously provided over an extended period of time.

Deferred acquisition costs. Acquisition costs, representing commissions, salaries and certain other underwriting expenses, which vary with and are incurred in connection with the acquisition or renewal of insurance policies, are deferred and amortised over the period in which the related written premiums are earned. Deferred acquisition costs are calculated separately for each line of business and are reviewed by line of business at the time of the policy issue and at the end of each accounting period to ensure they are recoverable based on future estimates.

Insurance income. Upon inception of a contract, premiums are recorded as written and are earned primarily on a pro-rata basis over the term of the related policy coverage.

Claims paid. Claims and claims handling expenses are charged to the consolidated income statement when funds are transferred to the claimants.

Foreign currency translation. Functional currency of each of the Bank's consolidated entities is the currency of the primary economic environment in which the entity operates. The Company's functional currency and the Bank's presentation currency is the national currency of Ukraine, Ukrainian hryvnias ("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 the 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 (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.

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 2005, UAH	**31 December 2004, UAH**
1 US dollar (USD)	5.050000	5.305400
1 euro (EUR)	5.971625	7.217466
1 Russian Rouble (RUR)	0.175410	0.191190

Exchange restrictions and controls exist relating to converting Ukrainian hryvnia into other currencies. At present, Ukrainian hryvnia is not a freely convertible currency outside Ukraine.

Fiduciary activities. Assets and liabilities held by the Bank in its own name, but on the account of third parties, are not reported on the consolidated balance sheet. The extent of such balances and transactions is indicated in Note 32. 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.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Accounting for the effects of hyperinflation. Ukraine has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. It states that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

The characteristics of the economic environment of Ukraine indicate that hyperinflation has ceased effective from 1 January 2001. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current at as 31 December 2000 are the basis for the carrying amounts in these consolidated financial statements. This restatement was prepared by indexing the historical balances by changes in the general price index up to 31 December 2000.

Staff costs and related contributions. Wages, salaries, contributions to the 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 Bank.

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

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current year. Current income tax assets and liabilities previously included in other assets and other liabilities respectively, are presented as separate line items in the consolidated balance sheet. Computer software previously included in premises, leasehold improvements and equipment is presented as intangible assets in a separate line item in the consolidated balance sheet. Eurobonds issued by the Bank previously included in debt securities in issue are presented as a separate line item in the consolidated balance sheet. The description of debt securities in issue line item which previously included debt instruments issued both on domestic and on international market, was changed to "Domestic debt securities in issue". Income from insurance operations previously included in other operating income is presented as a separate line item in the consolidated income statement.

The effect of reclassifications is as follows:

In thousands of Ukrainian hryvnias	**2005**	**2004**
Increase in		
Current income tax prepayment	-	648
Intangible assets	46,087	18,869
Eurobonds issued	1,165,641	537,766
Current income tax liability	1,762	-
Income from insurance operations	23,836	7,951
Decrease in		
Other assets	-	(648)
Premises, leasehold improvements and equipment	(46,087)	(18,869)
Debt securities in issue	(1,165,641)	(537,766)
Other liabilities	(1,762)	-
Other operating income	(23,836)	(7,951)

The Bank has not reclassified any financial asset to a category measured at amortised cost rather than fair value during 2005 (2004: nil). These financial statements were approved for issue on 14 June 2006 and further changes require approval of the body that gave that authorisation.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Bank fails to keep these investments to maturity other than for certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. If the entire class of held-to-maturity investments is tainted, the carrying amount would decrease by UAH 52 thousand (2004: increase by UAH 454 thousand), with a corresponding entry in the fair value reserve in equity.

Impairment of available for-sale equity investments. The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows.

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. 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 net present value of estimated cash flows differs by +/-5 percent, the provision would be estimated UAH 6,977 thousand higher or UAH 6,977 thousand lower (2004: UAH 8,137 thousand higher or UAH 8,137 thousand lower).

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. To the extent practical, techniques use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values. Changing the assumptions not supported by observable market data to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities.

Finance leases and derecognition of financial assets. Management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

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

The Bank does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the Bank does control an SPE, Management makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear conclusion. In such cases, the SPE is consolidated.

Were the Bank not to consolidate the assets, liabilities and the results of these consolidated SPEs, the net effect on the balance sheet would be a decrease in net assets by UAH 3,040 thousand (2004: decrease in net assets by UAH 7,985 thousand) and decrease in results by UAH 557 thousand (2004: decrease in results by UAH 935 thousand).

Tax legislation. Ukrainian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 32.

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

Related party transactions. In the normal course of business the Bank enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

5 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Bank from 1 January 2005. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Bank's operations and the nature of their impact on the Bank's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings at 1 January 2004, unless otherwise described below.

IAS 1 (revised 2003), Presentation of Financial Statements. Minority interest is now presented as equity and the Bank discloses on the face of the income statement profit or loss for the period and the allocation of that amount between 'profit or loss attributable to minority interest' and 'profit or loss attributable to equity holders of the Company'. Certain new disclosures and changes in presentation required by the revised standard were made in these consolidated financial statements.

IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors. The Bank now applies all voluntary changes in accounting policies retrospectively. Comparatives are amended in accordance with the new policies. All material errors are now corrected retrospectively in the first set of consolidated financial statements after their discovery. The Bank has not discovered any material errors in its prior period consolidated financial statements.

IAS 16 (revised 2003) Property, Plant and Equipment. The residual value is now defined as the amount that the Bank estimates it would receive currently for the asset if the asset were already of the age and in the condition expected at the end of its useful life. The Bank's policy is now not to cease depreciating assets during temporary periods when the assets are idle. The Bank now derecognises the carrying amount of a component of premises and equipment which has been replaced and capitalises the cost of the replacement. The previous version of IAS 16 did not extend its derecognition principle to components; rather, its recognition principle for subsequent expenditures effectively precluded the cost of a replacement from being capitalised. All changes to accounting policies as a result of the revised IAS 16 were accounted for retrospectively and did not result in a significant effect on the carrying amount of the Bank's assets.

IAS 17 (revised 2003) Leases. Initial direct costs incurred in negotiating a finance lease are now deferred as part of the net investment in the lease. Finance leases are now recognised at commencement based on values measured at inception. Commencement is when the lessee can start using the leased asset. Inception is the earlier of the date of the lease agreement and the date of commitment to the principal provisions of the lease. The revised IAS 17 is applied retrospectively to all leases in accordance with the transitional provisions of the standard.

IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates. The term 'functional currency' replaced 'measurement currency', but has essentially the same meaning. Only one translation method is now applied to all foreign operations - namely that described in the previous version of IAS 21 as applying to foreign entities. Goodwill and fair value adjustments to assets and liabilities that arise on the acquisitions are now treated as part of the assets and liabilities of the acquired entity and translated at the closing rate. Accounting for goodwill and fair value adjustments of foreign operations is applied prospectively from 1 January 2005 in accordance with the transitional provisions of the standard. All other effects of the revised IAS 21 are applied retrospectively.

IAS 24 (revised 2003) Related Party Disclosures. The definition of related parties was extended and additional disclosures required by the revised standard were made in these consolidated financial statements.

IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation. Additional disclosures required by the revised Standard were made in these consolidated financial statements.

IAS 33 (revised 2003) Earnings per Share. IAS 33 was revised to provide additional guidance and illustrative examples on selected complex matters. The Bank did not have to change its accounting policies as a result of the new guidance.

IAS 36 (revised 2004) Impairment of Assets. The Bank now performs impairment tests of goodwill, intangible asset not yet available for use and intangible assets with indefinite useful life at least annually. The clarifications of certain elements of value in use calculations in the revised IAS 36 did not have an impact on these consolidated financial statements. Management now assesses reasonableness of the assumptions on which the Bank's current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows. The revised IAS 36 is applied in accordance with the standard's transitional provisions to goodwill and intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004 and to all other assets prospectively from 1 January 2005.

5 Adoption of New or Revised Standards and Interpretations (Continued)

IAS 38 (revised 2004) Intangible Assets. The revised IAS 38 is applied prospectively in accordance with its transitional provisions. The amended accounting policies apply to intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004 and to all other intangible assets acquired on or after 1 January 2005. Intangible assets now include assets that arise from contractual or other legal rights, regardless of whether those rights are transferable or separable. The probability of inflow of economic benefits recognition criterion is now deemed to be always met for intangibles that are acquired separately or in a business combination. The Bank's policies were amended to introduce the concept of indefinite life intangible assets which exist when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Such intangibles are not amortised but tested for impairment at least annually. The Bank has reassessed the useful lives of its intangible assets in accordance with the transitional provisions of IAS 38. No adjustment resulted from this reassessment.

IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement. The definition of 'originated loans and receivables' was amended to become 'loans and receivables'. This category now comprises originated or purchased loans and receivables that are not quoted in an active market. The Bank amended its policies and may designate any financial instrument on initial recognition as one to be measured at fair value, with changes in fair value recognised in profit or loss. Subsequent reclassifications into or out of the 'at fair value through profit or loss' category are prohibited. The Bank no longer recognises gains and losses on available-for-sale financial assets in profit or loss but in equity.

The Bank amended its policies for derecognition of financial assets. Under the original IAS 39, several concepts governed derecognition. The revised IAS 39 retains the two main concepts of risks and rewards and control, but clarifies that the evaluation of the transfer of risks and rewards precedes the evaluation of the transfer of control. The Bank now applies the guidance added to IAS 39 on how to determine fair values using valuation techniques and how to evaluate impairment in a group of loans, receivables or held-to-maturity investments which cannot yet be identified with any individual asset in the group. In accordance with the standard's transitional provisions the revised accounting policies are applied retrospectively except for the clarified derecognition rules which are applied prospectively from 1 January 2004.

IFRS 3 (issued 2004) Business Combinations. The Bank applies transitional provisions of IFRS 3 and accounts for all business combinations for which the agreement date is on or after 31 March 2004 and which are within the scope of IFRS 3 by applying the purchase method. For these transactions, the Bank amended its policies for the application of the purchase method: (i) the Bank now separately recognises, at the acquisition date, the acquiree's contingent liabilities if their fair values can be measured reliably; and (ii) the identifiable assets, liabilities and contingent liabilities are now measured at their fair values irrespective of the extent of any minority interest. The Bank ceased amortising goodwill on 1 January 2005. Goodwill is now tested for impairment annually, or when there are indications of impairment also at interim balance sheet dates. The excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost ("negative goodwill") is now recognised immediately in profit or loss.

IFRS 4 (issued 2004) Insurance Contracts. IFRS 4 amended the definition of financial derivatives in IAS 39. IFRS 4 prohibits provisions for possible claims under contracts that are not in existence at the reporting date (such as catastrophe and equalisation provisions), requires a test for the adequacy of recognised insurance liabilities and an impairment test for reinsurance assets. It requires an insurer to keep insurance liabilities in its balance sheet until they are discharged or cancelled, or expire, and to present insurance liabilities without offsetting them against related reinsurance assets. An insurer need not change its accounting policies for insurance contracts to eliminate excessive prudence. However, if an insurer already measures its insurance contracts with sufficient prudence, it should not introduce additional prudence. In accordance with IFRS 4 an insurer may change its accounting policies for insurance contracts only if, as a result, its financial statements present information that is more relevant and no less reliable, or more reliable and no less relevant. Adoption of IFRS 4 did not result in a significant change in the accounting policies of the Bank.

Early adoption of standards. The following amendment to IAS 39, Financial Instruments: Recognition and Measurement, has been early adopted by the Bank:

IAS 39 (Amendment) – The Fair Value Option. IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ("fair value through profit or loss"). The Fair Value Option Amendment changes the definition of financial instruments "at fair value through profit or loss" and restricts the ability to designate financial instruments as part of this category.

The Bank has redesignated available-for-sale financial instruments into the "at fair value through profit or loss" category prior to the issuance of the Fair Value Option Amendment, when the Bank initially applied IAS 39 (as revised in 2003) in its interim consolidated financial statements for the period ended 30 June 2005. In the 2004 annual consolidated financial statements all realised and unrealised gains and losses arising from changes in the fair value of investments available-for-sale were included in the consolidated statement of income in the period in which they arose.

5 Adoption of New or Revised Standards and Interpretations (Continued)

The Fair Value Option Amendment issued in June 2005 was early adopted by the Bank in these 2005 annual consolidated financial statements. The Bank therefore de-designated investments from the "at fair value through profit or loss" category back to the "available-for-sale" category as these investments do not qualify for this designation under the Fair Value Option Amendment. All unrealised fair value gains and losses previously recognised in the consolidated statement of income were transferred to equity because the revised IAS 39 no longer allows their recognition in the income statement. The restatement was applied to all periods presented in these consolidated financial statements. As a result of the restatement opening accumulated deficit as at 1 January 2004 was decreased by UAH 1,778 thousand with a respective credit to revaluation reserve for investment securities available-for-sale. A deferred tax liability of UAH 445 thousand previously recognised in the consolidated statement of income, was charged to the revaluation reserve for investment securities available-for-sale. The total amount of opening equity at 1 January 2004 has not changed as a result of the restatement. The effect of the restatement on the 2004 annual consolidated financial statements and the 30 June 2005 interim consolidated financial statements was as follows:

In thousands of Ukrainian hryvnias	**30 June 2005**	**31 December 2004**
Increase in		
Revaluation reserve for investment securities available-for-sale	18,252	8,231
Decrease in		
Accumulated deficit	(18,252)	(8,231)
Profit for the period	(10,885)	(6,898)

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2006 or later periods and which the Bank has not early adopted:

IFRIC 4, Determining whether an Arrangement contains a Lease. IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

IAS 39 (Amendment) - Cash Flow Hedge Accounting of Forecast Intragroup Transactions. The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.

IAS 39 (Amendment) – Financial Guarantee Contracts. Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting.

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures. IFRS 7 introduces new disclosures to improve the information about financial instruments. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Bank is currently assessing what impact IFRS 7 and the amendment to IAS 1 will have on disclosures in its consolidated financial statements.

IAS 19 (Amendment) - Employee Benefits. The amendment to IAS 19 introduces an additional option to recognise actuarial gains and losses arising in post-employment defined benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers.

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

7 Cash and Cash Equivalents and Mandatory Reserves

In thousands of Ukrainian hryvnias	2005	2004
Cash on hand	264,433	173,264
Cash balances with the National Bank of Ukraine	444,248	332,038
Cash balances with the Central Bank of Russian Federation	19,158	-
Correspondent accounts and overnight placements with other banks		
- Ukraine	6,640	1,362
- other countries	257,471	111,549
Total cash and cash equivalents and mandatory reserves	**991,950**	**618,213**

As at 31 December 2005 the mandatory reserve balance with the NBU is calculated on the basis of a simple average over a monthly period (31 December 2004: monthly period) and should be maintained at the level of 6 to 8 per cent (31 December 2004: 6 to 7 per cent) of certain obligations of the Bank. As such, the balance can vary from day-to-day. The Bank's mandatory reserve balance with the NBU for December 2005 was UAH 375,343 thousand (2004: UAH 218,623 thousand). As at 31 December 2005 the Bank may satisfy its mandatory reserve requirement exclusively with its balance on account with the NBU (31 December 2004: with a combination of balance on account with the NBU and up to 40% of UAH cash on hand). Mandatory reserve carry 0% interest rate.

As at 31 December 2005 in accordance with the NBU regulations the Bank was required to maintain the balance on account with the NBU at the level not less than 90% of the mandatory reserves balance for the preceding month (31 December 2004: not less than 60% of the mandatory reserve balance for the preceding month).

As at 31 December 2005 the mandatory reserve balance of the Bank's subsidiary with the Central Bank of Russian Federation (the "CBR") was UAH 2,109 thousand.

As the respective liquid assets are not freely available to finance the Bank's day-to-day operations, for the purposes of the consolidated cash flow statement, the mandatory reserve balance is excluded from cash and cash equivalents.

The Bank's cash and cash equivalents for the purposes of consolidated cash flow statement were as follows:

	2005	2004
Total cash and cash equivalents and mandatory reserves	991,950	618,213
Less: mandatory reserves balances	(377,452)	(218,623)
Cash and cash equivalents for the purposes of cash flow statement	**614,498**	**399,590**

Cash balance with the NBU in the amount of UAH 7,717 thousand (2004: UAH 7,717 thousand) has been pledged as collateral in respect of loans received from the NBU. Refer to Notes 17 and 32.

Geographical, currency and interest rate analyses of cash and cash equivalents and mandatory reserves are disclosed in Note 31.

8 Trading Securities

In thousands of Ukrainian hryvnias	**2005**	**2004**
Corporate bonds	473,540	122,916
Bonds issued by local authorities	138,470	55,508
Government bonds	125,146	92,215
Bank bonds	12,570	5,304
Total trading securities	**749,726**	**275,943**

Corporate bonds are interest bearing securities denominated in UAH and RUR, issued by Ukrainian and Russian companies. Corporate bonds have maturity dates from November 2006 to June 2010, coupon rates from 10% to 18% per annum in 2005 and yield to maturity from 10% to 17% per annum at 31 December 2005 (2004: maturity dates from January 2005 to May 2009, coupon rates from 10% to 18% per annum in 2004 and yields to maturity from 9% to 18% per annum), depending on the credit rating of the issuer and maturity of the bonds. Fair value of these bonds was determined based on quoted bid prices.

Government bonds are interest bearing securities denominated in UAH, issued by Ukrainian Government. Government bonds have maturity dates from December 2008 to December 2009, coupon rates from 11% to 12% per annum in 2005 and yield to maturity from 0% to 11% per annum at 31 December 2005 (2004: maturity dates from December 2008 to July 2009, coupon rates 9% per annum in 2004 and yields to maturity from 11% to 22% per annum), depending on maturity of the bonds. Fair value of these bonds was determined based on quoted bid prices.

Bonds issued by local authorities are interest bearing securities denominated in UAH and RUR, issued by city authorities of Kyiv, Zaporozhye, Odessa, Kharkiv and Moscow and Moscow region authorities. Bonds issued by local authorities have maturity dates from July 2007 to July 2010, coupon rates from 10% to 13% per annum in 2005 and yield to maturity from 7% to 13% per annum at 31 December 2005 (2004: maturity dates from December 2006 to November 2008, coupon rates from 13% to 15% per annum in 2004 and yields to maturity from 13% to 15% per annum), depending on the credit rating of the issuer and maturity of the bonds. Fair value of these bonds was determined based on quoted bid prices.

As at 31 December 2005 trading securities included securities pledged under sale and repurchase agreements whose fair value at 31 December 2005 was UAH 208,847 thousand (2004: none). Refer to Notes 15, 16 and 32.

As at 31 December 2004 trading securities with a fair value of UAH 14,714 thousand have been pledged to third parties as collateral against guarantees issued by the Bank. Refer to Note 32.

The geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 31. The Bank holds trading securities issued by related parties. The information on related party balances is disclosed in Note 35.

9 Due from Other Banks

In thousands of Ukrainian hryvnias	**2005**	**2004**
Term placements with other banks	324,494	84,846
Reverse sale and repurchase agreements with other banks	10,336	-
Guarantee deposits with other banks	4,543	9,374
Less: Provision for impairment of due from other banks	-	(1,125)
Total due from other banks	**339,373**	**93,095**

As at 31 December 2005 term placements with other banks totalling UAH 273,188 thousand represented EUR, UAH and USD deposits pledged against UAH, USD and RUR deposits received for the same term from the same counterparty banks totalling UAH 274,010 thousand (2004: term placements and guarantee deposits with other banks totalling UAH 26,576 thousand represent UAH deposits pledged against USD deposits received for the same term from the same counterparty banks totalling UAH 26,527 thousand). The respective assets and liabilities have not been offset as there is no legal right to offset. Refer to Notes 15 and 32.

9 Due from Other Banks (Continued)

At 31 December 2005 amounts due from other banks of UAH 10,336 thousand (2004: none) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of UAH 10,317 thousand.

Guarantee deposits include balances placed with other banks on behalf of the Bank's customers as cover for letters of credit totalling UAH 1,073 thousand (2004: UAH 4,049 thousand). The Bank does not have the right to use these funds for the purposes of funding its own activities. In addition, guarantee deposits include balances placed with other banks as cover for guarantees issued by the Bank and for international payments in the amount of UAH 3,470 thousand (2004: UAH 5,325 thousand). Refer to Note 32.

Movements in the provision for impairment of due from other banks are as follows:

In thousands of Ukrainian hryvnias	**2005**	**2004**
Provision for impairment of due from other banks at 1 January	**1,125**	**-**
(Recovery of)/provision for impairment of due from other banks during the year	(1,125)	1,125
Provision for impairment of due from other banks at 31 December	**-**	**1,125**

At 31 December 2005 the estimated fair value of due from other banks was UAH 339,373 thousand (2004: UAH 93,095 thousand). Refer to Note 34.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 31.

10 Loans and Advances to Customers

In thousands of Ukrainian hryvnias	**2005**	**2004**
Current loans	7,411,801	3,457,243
Net investment in finance leases	80,342	43,313
Cash-covered loans	478,534	205,722
Overdue loans	64,041	90,520
Less: Provision for loan impairment	(275,812)	(264,325)
Total loans and advances to customers	**7,758,906**	**3,532,473**

Overdue loans include outstanding loans that matured before 31 December 2005 and loan instalments due but not paid. Loan instalments not yet due are included in current loans.

At 31 December 2005 loans and advances to customers of UAH 1,323 thousand (2004: none) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of UAH 1,592 thousand.

During 2004 a loss at initial recognition of loans at rates below market in the amount of UAH 435 thousand has been recorded in the consolidated statement of income.

Movements in the provision for loan impairment are as follows:

In thousands of Ukrainian hryvnias	**2005**	**2004**
Provision for loan impairment at 1 January	**264,325**	**190,539**
Provision for loan impairment during the year	12,517	82,408
Acquisition of subsidiary	842	-
Loans and advances to customers written off during the year as uncollectible	(1,872)	(8,622)
Provision for loan impairment at 31 December	**275,812**	**264,325**

10 Loans and Advances to Customers (Continued)

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

In thousands of Ukrainian hryvnias	2005 Amount	2005 %	2004 Amount	2004 %
Individuals	3,186,676	40	954,115	25
Commerce and finance	1,870,888	23	961,964	25
Agriculture and food	991,158	12	559,251	15
Chemical industry	541,945	7	304,105	8
Motor vehicles trading	338,267	4	260,114	7
Oil and gas	234,022	3	349,496	9
Property construction	225,684	3	160,333	4
Manufacture and machinery building	166,721	2	92,093	3
Metallurgy and mining	51,864	1	22,597	1
Air and other transport services	50,675	1	50,520	1
Other	376,818	4	82,210	2
Total loans and advances to customers (before impairment)	**8,034,718**	**100**	**3,796,798**	**100**

At 31 December 2005 total aggregate amount of loans to top 10 borrowers of the Bank was UAH 1,207,942 thousand (2004: UAH 696,982 thousand) or 15% of the gross loan portfolio (2004: 18%).

At 31 December 2004 loans to customers with carrying value of UAH 382,806 thousand have been pledged as collateral against short-term loans received from the National Bank of Ukraine in the amount of UAH 233,000 thousand. Refer to Notes 17 and 32.

The loans and advances to customers include finance lease receivables, which are analysed as follows:

	2005	2004
Gross investment in finance leases, receivable:		
- Not later than 1 year	39,786	25,883
- Later than 1 year and not later than 5 years	65,905	29,364
- Later than 5 years	-	-
Less: unearned finance income	(25,349)	(11,934)
Net investment in finance leases	**80,342**	**43,313**

Net investment in finance leases are analysed as follows:

	2005	2004
Net investment in finance leases, receivable:		
- Not later than 1 year	30,414	20,266
- Later than 1 year and not later than 5 years	49,928	23,047
- Later than 5 years	-	-
Net investment in finance leases	**80,342**	**43,313**

At 31 December 2005 the estimated fair value of loans and advances to customers was UAH 7,744,055 thousand (2004: UAH 3,534,727 thousand). Refer to Note 34.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 31. The information on related party balances is disclosed in Note 35.

11 Investment Securities Available-for-sale

In thousands of Ukrainian hryvnias	2005	2004
Quoted corporate shares	309	58,841
Unquoted corporate shares	71,106	114,932
Investment certificates	7,790	-
Corporate bonds	-	18,871
Total investment securities available-for-sale	**79,205**	**192,644**

Corporate shares are shares of Ukrainian companies. Quoted shares are reflected at year-end market value, which has been determined by the Management using last trade prices or bid prices obtained from over-the-counter market. External independent market quotations were not available for certain investment securities available-for-sale. The fair value of these assets was determined by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees. Those equity securities for which fair value cannot be reliably determined, are carried at cost less impairment.

On 28 April 2006 the Bank sold unquoted corporate shares with a total carrying value of UAH 59,558 thousand for cash consideration of UAH 59,774 thousand. Most of the shares have been sold to related parties of the Bank. For the purposes of assessment for impairment of those equity securities for which fair value cannot be reliably determined, the Bank has considered cash flows from the sale of securities discounted at market interest rate.

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

In thousands of Ukrainian hryvnias	Note	2005	2004
Carrying amount at 1 January		**192,644**	**123,820**
Change in fair value reserve during the year		(4,853)	9,197
Impairment of investment securities available-for-sale		-	(10,384)
Disposal of subsidiaries	37	(7,297)	-
Purchases of investment securities available-for-sale		134,514	130,402
Disposals of investment securities available-for-sale		(235,803)	(60,391)
Carrying amount at 31 December		**79,205**	**192,644**

Geographical, currency, maturity and interest rate analyses of investment securities available-for-sale are disclosed in Note 31. The information on related party investment securities available-for-sale is disclosed in Note 35.

12 Investment Securities Held to Maturity

Investment securities held to maturity are interest bearing corporate bonds denominated in UAH, issued by two Ukrainian state-owned companies. These bonds are redeemed in instalments and have final maturity dates from May to September 2006, coupon rates of 12% per annum and yield to maturity of 14% per annum at 31 December 2005 (2004: maturity dates from May to September 2006, coupon rates of 12% per annum and yield to maturity of 14% per annum). These investment securities were purchased by the Bank during the year ended 31 December 2003.

At 31 December 2005 held-to-maturity corporate bonds with a carrying value of UAH 19,045 thousand (2004: UAH 47,908 thousand) are pledged as collateral against long-term loans received from the National Bank of Ukraine with carrying value of UAH 17,033 thousand (2004: UAH 42,237 thousand). Refer to Notes 17 and 32.

As at 31 December 2005 the estimated fair value of investment securities held to maturity was UAH 18,993 thousand (2004: UAH 48,362 thousand). Refer to Note 34.

Geographical, currency, maturity and interest rate analyses of investment securities held to maturity are disclosed in Note 31.

13 Premises, Leasehold improvements, Equipment and Intangible Assets

In thousands of Ukrainian hryvnias	Note	Premises	Leasehold improvements	Office and computer equipment	Aircraft and motor vehicles	Computer software licences	Construction in progress	Total
Cost or valuation at 1 January 2004		36,740	15,109	74,263	22,723	12,395	27,803	189,033
Accumulated depreciation		(4,469)	(6,689)	(23,297)	(3,643)	(6,129)	-	(44,227)
Carrying amount at 1 January 2004		**32,271**	**8,420**	**50,966**	**19,080**	**6,266**	**27,803**	**144,806**
Additions		-	35	44,970	9,569	16,292	239,090	309,956
Transfers		71,625	3,743	-	-	-	(75,368)	-
Disposals		(4,877)	(85)	(238)	(670)	(3)	-	(5,873)
Depreciation and amortisation charge	27	(1,947)	(3,065)	(16,448)	(2,861)	(3,686)	-	(28,007)
Carrying amount at 31 December 2004		**97,072**	**9,048**	**79,250**	**25,118**	**18,869**	**191,525**	**420,882**
Cost or valuation at 31 December 2004		103,194	18,789	118,750	30,946	28,641	191,525	491,845
Accumulated depreciation		(6,122)	(9,741)	(39,500)	(5,828)	(9,772)	-	(70,963)
Carrying amount at 31 December 2004		**97,072**	**9,048**	**79,250**	**25,118**	**18,869**	**191,525**	**420,882**
Acquisitions through business combinations	37	-	-	185	1,165	-	-	1,350
Additions		-	-	116,395	13,880	29,747	377,931	537,953
Transfers		195,449	16,360	-	-	-	(211,809)	-
Disposals		(151)	(478)	(751)	(5,965)	-	-	(7,345)
Depreciation and amortisation charge	27	(6,135)	(4,305)	(35,388)	(5,040)	(2,529)	-	(53,397)
Effect of translation to presentation currency		-	(10)	(83)	(91)	-	-	(184)
Carrying amount at 31 December 2005		**286,235**	**20,615**	**159,608**	**29,067**	**46,087**	**357,647**	**899,259**
Cost at 31 December 2005		298,488	33,863	234,073	37,452	58,373	357,647	1,019,896
Accumulated depreciation		(12,253)	(13,248)	(74,465)	(8,385)	(12,286)	-	(120,637)
Carrying amount at 31 December 2005		**286,235**	**20,615**	**159,608**	**29,067**	**46,087**	**357,647**	**899,259**

During the year ended 31 December 2005 the aircraft revalued in 2003 was sold to a related party and the revaluation surplus of UAH 5,277 thousand recorded in respect of this item net of the deferred tax liability in the amount of UAH 1,319 thousand, was transferred directly to retained earnings.

As at 31 December 2004 premises with the total carrying value of UAH 58,735 thousand have been pledged to the NBU as collateral against the stabilisation loan. Refer to Notes 17 and 32.

At 31 December 2005 premises, leasehold improvements and equipment include assets totalling UAH 38,268 thousand at cost, which are fully depreciated (2004: UAH 7,365 thousand). These assets are still used by the Bank.

Construction in progress consists mainly of construction and refurbishment of the new premises for branches.

Included in office and computer equipment are assets held under finance leases at carrying amount of UAH 12,567 thousand (2004: UAH 14,629 thousand). Refer to Note 22.

Included in premises, leasehold improvements and equipment are assets leased to other parties under operating lease agreements with total cost of UAH 5,883 thousand (2004: UAH 6,082 thousand), accumulated depreciation of UAH 736 thousand (2004: UAH 945 thousand) and a depreciation charge for the year of UAH 209 thousand (2004: UAH 310 thousand).

14 Other Assets

In thousands of Ukrainian hryvnias	Note	2005	2004
Prepayments for premises and equipment		34,466	35,472
Prepaid expenses		13,445	9,001
Reinsurance assets		13,439	3,006
Amounts in the course of settlements		8,063	7,397
Inventory		5,902	3,486
Derivative financial instruments	33	3,228	59
Restricted cash		1,216	3,545
Goodwill	37	96	-
Receivables on settlements for securities		-	10,097
Other prepayments, sundry debtors and accruals		13,207	15,908
Less: Provision for impairment of sundry debtors		(4,855)	(9,134)
Total other assets		**88,207**	**78,837**

As disclosed in Note 27, prepaid expenses include UAH 9,260 thousand paid by the Bank in September and December 2005 under contracts with an Ukrainian insurance company.

Restricted cash represents balance on the correspondent account with the NBU in EUR and EUR cash in hand held for the purposes of making payments to Nazi victims under the agency agreement with the Ukrainian National Fund “Vzayemorozuminnia i Prymyrennia”. The Bank does not have the right to use these funds for the purposes of funding its own activities.

Movements in the provision for impairment of sundry debtors are as follows:

In thousands of Ukrainian hryvnias	Note	2005	2004
Provision for impairment of sundry debtors at 1 January		**9,134**	**1,572**
(Recovery of) / provision for impairment of sundry debtors during the year	27	(4,209)	7,637
Sundry debtors written off during the year as uncollectible		(70)	(75)
Provision for impairment of sundry debtors at 31 December		**4,855**	**9,134**

Geographical, currency and maturity analyses of other assets are disclosed in Note 31. The information on related party balances is disclosed in Note 35.

15 Due to Other Banks

In thousands of Ukrainian hryvnias	2005	2004
Correspondent accounts and overnight placements of other banks	34,394	25,902
Guarantees deposits of other banks	505	2,586
Amounts payable under repurchase agreements	152,263	-
Loans received from other banks	934,862	148,209
Total due to other banks	**1,122,024**	**176,697**

As at 31 December 2005 securities sold under sale and repurchase agreements were bonds issued by central and local government with a fair value of UAH 64,171 thousand and corporate bonds with a fair value of UAH 115,322 thousand. As at 31 December 2005 bonds issued by central and local government and corporate bonds were recorded in the consolidated balance sheet within trading securities. Refer to Notes 8 and 32.

As disclosed in Note 9, loans received from other banks as at 31 December 2005 totalling UAH 274,010 thousand represent funds in USD, UAH and RUR placed against EUR, UAH and USD placements totalling UAH 273,188 thousand placed by the Bank for the same term with the same counterparties.

As disclosed in Note 9, loans received from other banks as at 31 December 2004 totalling UAH 26,527 thousand represent funds in USD pledged against UAH placements and guarantee deposits totalling UAH 26,576 thousand placed by the Bank for the same term with the same counterparties. Refer to Note 32.

As at 31 December 2005 loans received from other banks totalling UAH 33,693 thousand (2004: UAH 24,607 thousand) represent long-term loans received from foreign banks for the purposes of financing purchase of import equipment by the Bank's customers. These loans carry interest rate of 6 month EURIBOR + margin of 1-1.125% per annum. The interest rate is revised twice a year.

As at 31 December 2005 the estimated fair value of due to other banks was UAH 1,122,576 thousand (2004: UAH 176,697 thousand). Refer to Note 34.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 31.

16 Customer Accounts

In thousands of Ukrainian hryvnias	2005	2004
Legal entities		
- Current/settlement accounts	1,257,932	636,481
- Term deposits	1,398,748	1,200,547
Individuals		
- Current/demand accounts	295,189	101,999
- Term deposits	2,379,887	1,351,204
Total customer accounts	**5,331,756**	**3,290,231**

As at 31 December 2005 included in term deposits of legal entities are liabilities of UAH 36,281 thousand (2004: none) from sale and repurchase agreements. As at 31 December 2005 securities sold under sale and repurchase agreements were Government bonds with a fair value of UAH 27,145 thousand and corporate bonds with a fair value of UAH 2,209 thousand. As at 31 December 2005 Government bonds and corporate bonds were recorded in the consolidated balance sheet within trading securities. Refer to Notes 8 and 32.

16 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

	2005		2004	
In thousands of Ukrainian hryvnias	**Amount**	**%**	**Amount**	**%**
Individuals	2,675,077	50	1,453,203	44
Commerce and trade	808,683	15	839,821	26
Manufacturing	701,509	13	382,255	12
Transport and communication	651,746	12	232,247	7
Financial services	303,673	6	69,757	2
Cultural and educational services	15,830	1	38,119	1
Other	175,238	3	274,829	8
Total customer accounts	**5,331,756**	**100**	**3,290,231**	**100**

At 31 December 2005 the aggregate balance on accounts of top 10 customers of the Bank was UAH 1,356,340 thousand (2004: UAH 829,996 thousand) or 25% (2004: 25%) of total customer accounts.

At 31 December 2005 included in customer accounts are balances totalling UAH 691,628 thousand (2004: UAH 347,002 thousand) placed by customers as collateral for loans to customers totalling UAH 471,335 thousand (2004: UAH 205,722 thousand) and commitments under guarantees, promissory note endorsements and letters of credit totalling UAH 120,504 thousand (2004: UAH 54,240 thousand). Refer to Notes 10 and 32.

As at 31 December 2005 the estimated fair value of customer accounts was UAH 5,385,500 thousand (2004: UAH 3,285,915 thousand). Refer to Note 34.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 31. The information on related party balances is disclosed in Note 35.

17 Due to the National Bank of Ukraine

In thousands of Ukrainian hryvnias	**2005**	**2004**
Long-term loans	17,033	42,237
Short-term loans	-	347,815
Total due to the National Bank of Ukraine	**17,033**	**390,052**

Long-term loans from the NBU mature in 3 years after origination and carry a nominal interest rate of 7% per annum. These loans were provided against collateral of corporate bonds with a carrying value of UAH 19,045 thousand as at 31 December 2005 (2004: corporate bonds with a carrying value of UAH 47,908 thousand) included in investment securities held-to-maturity and against cash balances on account with the NBU in the amount of UAH 7,717 thousand (2004: UAH 7,717 thousand) included in cash and cash equivalents and mandatory reserves. Refer to Notes 7, 12 and 32.

As at 31 December 2004 short-term loans from the NBU included a stabilisation loan of UAH 233,000 thousand. The loan was granted by the NBU as part of liquidity support to the banking sector provided by the NBU during the political crisis in November-December 2004. This loan was secured by loans to the Bank's borrowers with a carrying value of UAH 382,806 thousand and the Bank's premises with the carrying value of UAH 58,735 thousand. Refer to Notes 10, 13 and 32. The loan was provided for the period to June 2005. The stabilisation loan was repaid in January 2005.

As at 31 December 2004 other short-term loans from the NBU in the amount of UAH 114,815 thousand were secured by USD and EUR guarantee deposits placed with the NBU totalling UAH 115,668 thousand. Refer to Note 32. Guarantee deposits carried 0% interest rate.

As at 31 December 2005 the estimated fair value of due to the NBU was UAH 17,227 thousand (2004: UAH 390,034 thousand). Refer to Note 34.

Currency, maturity and interest rate analyses of due to the National Bank of Ukraine are disclosed in Note 31.

18 Domestic Debt Securities in Issue

In thousands of Ukrainian hryvnias	**2005**	**2004**
Domestic bonds	847,267	-
Deposit certificates	566	32,971
Promissory notes	2	2
Total domestic debt securities in issue	**847,835**	**32,973**

As at 31 December 2005 domestic bonds include bonds issued by UkrSibbank with the total carrying value of UAH 796,135 thousand and bonds issued by one of the Bank's special purpose entities with a carrying value of UAH 51,132 thousand.

Bonds with the nominal value of UAH 800,000 thousand were issued by UkrSibbank in September-November 2005 for cash of UAH 792,809 thousand. As at 31 December 2005 domestic bonds issued by UkrSibbank have maturity dates from September 2007 to November 2007 and carry fixed coupon interest rate from 9% to 10%.

As at 31 December 2005 bonds issued by one of the Bank's special purpose entities mature in October 2006 and carry coupon rate of 7% per annum subject to changes on a quarterly basis. According to the terms of bonds issue, coupon rate on the bonds should not be lower than 3% per annum.

As at 31 December 2005 the estimated fair value of domestic debt securities in issue was UAH 857,836 thousand (2004: UAH 32,973 thousand). Refer to Note 34.

Geographical, currency, maturity and interest rate analyses of domestic debt securities in issue are disclosed in Note 31.

19 Eurobonds Issued

In April 2004 the Bank issued Eurobonds in the form of loan participation notes with a par value of USD 100,000 thousand (UAH 532,930 thousand at the exchange rate at the time of issue). The bonds carry a fixed coupon rate of 10.5% per annum, effective interest rate of 11.73% per annum and mature in April 2007. The Eurobonds are listed on the Luxembourg Stock Exchange. As at 31 December 2005 the carrying value of these bonds was UAH 513,227 thousand (2004: UAH 537,766 thousand).

In June 2005 the Bank issued Eurobonds in the form of loan participation notes with a par value of USD 125,000 thousand (UAH 631,875 thousand at the exchange rate at the time of issue). The bonds carry a fixed coupon rate of 8.95% per annum, effective interest rate of 9.87% per annum and mature in July 2008. The Eurobonds are listed on the Luxembourg Stock Exchange. As at 31 December 2005 the carrying value of these bonds was UAH 652,414 thousand.

As at 31 December 2005 the estimated fair value of Eurobonds issued was UAH 1,181,359 thousand (2004: UAH 522,081 thousand). Refer to Note 34.

Geographical, currency, maturity and interest rate analyses of Eurobonds issued are disclosed in Note 31.

20 Other Borrowed Funds

In thousands of Ukrainian hryvnias	2005	2004
Syndicated loans	768,279	-
Trade financing received from non-banking financial institution	250,883	-
Total other borrowed funds	**1,019,162**	**-**

In March 2005 the Bank received a syndicated loan of USD 37,000 thousand (UAH 196,048 thousand at the exchange rate at the date of receipt) from 14 banks and financial institutions. The loan is maturing in 2006. The loan carries a floating rate of 6 month LIBOR+3.95% per annum payable twice a year.

In November 2005 the Bank received a syndicated loan of USD 115,000 thousand (UAH 580,750 thousand at the exchange rate at the date of receipt). The loan is maturing in 2006. The loan was arranged by a UK-based bank acting as an agent and carries a floating rate of LIBOR+2.95% per annum payable twice a year.

In June - September 2005 the Bank received a trade finance facility of USD 48,233 thousand (UAH 243,614 thousand at the exchange rate at the date of receipt) from a non-banking financial institution for the purposes of financing the purchase of import equipment and materials by the Bank's customers. The facility is repayable in June - September 2006 and carries interest rates ranging from 5.95% to 8.50% per annum.

As at 31 December 2005 the estimated fair value of other borrowed funds was UAH 1,018,802 thousand (2004: none). Refer to Note 34.

Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 31.

21 Subordinated Debt

Issuer	Currency	Year of issue	Year of maturity	2005	2004
EFG Bank	USD	2003	2009	23,306	48,359
EFG Bank	USD	2004	2009	46,596	25,074
EFG Bank	USD	2005	2011	103,581	-
Tarpal Management Limited	USD	2005	2011	103,412	-
Total subordinated debt				**276,895**	**73,433**

In accordance with the Law of Ukraine on Banks and Banking Activities, subordinated debt cannot be withdrawn from a bank for at least five years from the date of receipt. However, the subordinated debt agreements do have a provision that allows to change the terms of the debt including its maturity based on mutual agreement with the Bank.

The subordinated debt was issued in instalments during 2003, 2004 and 2005.

During 2005 a new subordinated debt deposit in the amount of USD 20,000 thousand (UAH 101,100 thousand at the exchange rate at the date of receipt) was received from EFG Bank and a new subordinated debt deposit in the amount of USD 20,000 thousand (UAH 101,000 thousand at the exchange rate at the date of receipt) was received from Tarpal Management Limited.

During the year ended 31 December 2003 a subordinated debt deposit in the amount of USD 6,300 thousand (UAH 33,591 thousand at the exchange rate at the date of receipt) was received from Burnham Investment Limited. A gain on initial recognition in the amount of UAH 9,299 thousand was made in 2003 in respect of this below market rate subordinated debt. The gain of UAH 6,974 thousand net of taxation of UAH 2,325 thousand, calculated as the difference between the nominal value of subordinated debt and the fair value of consideration received, was credited to equity in the form of additional capital, as in substance the subordinated debt issue was a transaction with shareholders.

21 Subordinated Debt (Continued)

During 2004, after changes in the NBU regulations, the Bank increased the interest rate on this debt from LIBOR+4% to 10% per annum. As this change in the terms of subordinated debt represents a substantial modification of the terms of the existing financial liability, this transaction was accounted for as an extinguishment of the original subordinated debt and recognition of a new debt instrument in accordance with the requirements of IAS 39 “Financial Instruments: Recognition and Measurement”. The loss of UAH 8,589 thousand, arising as a result of this transaction, was charged to the consolidated statement of income in accordance with the requirements of IAS 39.

As at 31 December 2005 the estimated fair value of subordinated debt was UAH 280,134 thousand (2004: UAH 72,856 thousand). Refer to Note 34.

Geographical, currency, maturity and interest rate analyses of subordinated debt are disclosed in Note 31. The information on related party balances is disclosed in Note 35.

22 Other Liabilities

Other liabilities comprise the following:

In thousands of Ukrainian hryvnias	Note	2005	2004
Insurance reserves		58,797	14,115
Present value of minimum finance lease payments	13	14,353	15,884
Payables for purchased premises and equipment		11,295	9,263
Provision for losses on credit related commitments	32	6,290	8,465
Settlements for securities transactions		5,162	9,384
Payables to Individuals Deposits Guarantee Fund		2,733	1,618
Funds in settlements		2,306	56
Taxes payable other than income tax		2,119	1,551
Derivative financial instruments	33	62	60
Other		15,540	4,422
Total other liabilities		**118,657**	**64,818**

Finance lease payables relate to the lease of automatic teller machines by the Bank. As at 31 December 2005 the carrying value of these assets was UAH 12,567 thousand (2004: 14,629 thousand). Refer to Note 13.

Minimum finance lease payments are analysed as follows:

In thousands of Ukrainian hryvnias	2005	2004
Gross minimum finance lease payments:		
- Not later than 1 year	3,261	3,261
- Later than 1 year and not later than 5 years	13,043	13,043
- Later than 5 years	3,751	7,013
Less: future finance charges	(5,702)	(7,433)
Present value of minimum finance lease payments	**14,353**	**15,884**

22 Other Liabilities (Continued)

Present value of minimum finance lease payments is analysed by maturity as follows:

In thousands of Ukrainian hryvnias	**2005**	**2004**
Present value of minimum finance lease payments:		
- Not later than 1 year	1,714	1,530
- Later than 1 year and not later than 5 years	9,175	8,192
- Later than 5 years	3,464	6,162
Present value of minimum finance lease payments	**14,353**	**15,884**

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 31. The information on related party balances is disclosed in Note 35.

23 Share Capital

In thousands of Ukrainian hryvnias	**Number of outstanding shares, thousands**	**Nominal amount**	**Inflation adjusted amount**
At 1 January 2004	**4,200,000**	**210,000**	**1,153,684**
Less shares outstanding but not fully paid	(151,210)	(7,560)	(7,560)
Shares issued and fully paid as at 1 January 2004	**4,048,790**	**202,440**	**1,146,124**
Shares paid	151,210	7,560	7,560
New shares issued and fully paid	7,800,000	390,000	390,000
Shares issued and fully paid as at 31 December 2004	**12,000,000**	**600,000**	**1,543,684**
New shares issued and fully paid	3,000,000	150,000	150,000
Shares issued and fully paid as at 31 December 2005	**15,000,000**	**750,000**	**1,693,684**

At 31 December 2005, all of the Company's outstanding shares were authorised, issued and fully paid in.

All ordinary shares have a nominal value of UAH 0.05 per share (2004: UAH 0.05 per share), rank equally and each share carries one vote.

On 27 May 2005 the shareholders of the Company took a decision to issue 3,000,000 thousand additional shares totalling UAH 150,000 thousand. The placement of shares commenced in July 2005 and was completed in August 2005. In total 3,000,000 thousand shares were placed for a total nominal value of UAH 150,000 thousand. The shareholders meeting of 5 August 2005 approved the results of the new share issue and decided to make the respective changes to the Company's Charter. On 7 September 2005 the NBU registered the increase in the share capital of the Company in the amount of UAH 150,000 thousand.

24 Interest Income and Expense

In thousands of Ukrainian hryvnias	2005	2004
Interest income		
Loans and advances to corporate customers	524,731	509,716
Loans and advances to individuals	242,296	99,230
Debt securities	39,380	31,234
Due from other banks	24,851	14,375
Finance lease receivables	9,981	6,088
Total interest income	**841,239**	**660,643**
Interest expense		
Term deposits of individuals	220,742	133,092
Term deposits of legal entities	110,974	117,757
Eurobonds issued	84,686	43,980
Due to other banks	35,628	13,215
Other borrowed funds	26,218	-
Current/settlement accounts	21,559	16,809
Domestic debt securities in issue	17,456	9,336
Subordinated debt	14,703	10,029
Due to the National Bank of Ukraine	6,595	11,970
Finance leases	1,729	1,397
Total interest expense	**540,290**	**357,585**
Net interest income	**300,949**	**303,058**

Information on interest income and expense from transactions with related parties is disclosed in Note 35.

25 Foreign Exchange Translation (Losses Net of Gains)/Gains less Losses

Foreign exchange losses net of gains for the year ended 31 December 2005 include losses of UAH 45,800 thousand arising from revaluation of the Bank's open position in EUR. These losses represent the unrealised result from foreign currency operations and arise due to the devaluation of the EUR exchange rate to UAH during the year and the increase in the EUR long open position of the Bank. At the beginning of the year the short open position of the Bank in EUR was UAH 13,953 thousand. At the end of the year the EUR long open position was UAH 79,362 thousand. EUR to UAH exchange rate at the beginning of the year was UAH 7.217466 for EUR 1 and at the end of the year UAH 5.971625 for EUR 1.

Foreign exchange translation losses net of gains for 2005 include a gain of UAH 12,953 thousand arising due to purchases of EUR 13,000 thousand in cash from individuals at the end of December 2005 at the exchange rate of UAH 5 for EUR 1. The NBU official exchange rate at the dates of transactions varied from UAH 5.971625 for EUR 1 to UAH 6.01758 for EUR 1.

26 Fee and Commission Income and Expense

In thousands of Ukrainian hryvnias	2005	2004
Fee and commission income		
- Cash and settlement transactions	94,684	68,583
- Foreign exchange transactions	16,455	21,562
- Transactions with securities and trade finance operations	13,033	7,620
- Other fee and commission income	2,159	1,809
Total fee and commission income	**126,331**	**99,574**
Fee and commission expense		
- Settlement transactions	10,750	6,018
- Other	3,843	2,151
Total fee and commission expense	**14,593**	**8,169**
Net fee and commission income	**111,738**	**91,405**

Information on fee and commission income from transactions with related parties is disclosed in Note 35.

27 Administrative and Other Operating Expenses

In thousands of Ukrainian hryvnias	Note	2005	2004
Depreciation and amortisation of premises, leasehold improvements, equipment and intangible assets	13	53,397	28,007
Rent		42,763	22,953
Maintenance of premises and equipment		41,916	11,528
Mail and telecommunication		28,001	16,907
Advertising and marketing services		15,682	12,014
Insurance of financial risks		15,658	-
Security services		12,356	8,034
Insurance of property and equipment		9,444	4,863
Individuals Deposits Guarantee Fund		9,094	5,465
Taxes other than on income		5,717	9,130
Professional services		4,328	3,139
Business trip expenses		4,295	2,918
Charity		844	1,874
(Recovery of provision) / provision for impairment of sundry debtors	14	(4,209)	7,637
Other		44,518	27,824
Total administrative and other operating expenses		**283,804**	**162,293**

During 2005 certain expenses of the Bank significantly increased. In particular, rent expenses increased to UAH 42,763 thousand (2004:: UAH 22,953 thousand), maintenance of premises and equipment increased to UAH 41,916 thousand (2004: UAH 11,528 thousand) and mail and telecommunication expenses increased to UAH 28,001 thousand (2004: UAH 16,907 thousand). The main reasons for such increases were the rapid development of the branch network and volume of operations by the Bank.

Due to the same reasons, expenses for security services increased to UAH 12,356 thousand (2004: UAH 8,034 thousand), contributions into the individuals deposits guarantee fund increased to UAH 9,094 thousand (2004: UAH 5,465 thousand) and expenses for insurance of premises and equipment increased to UAH 9,444 thousand (2004: UAH 4,863 thousand).

27 Administrative and Other Operating Expenses (Continued)

Expenses for insurance of property and equipment include UAH 2,504 thousand out of UAH 11,764 thousand paid by the Company in September and December 2005 in accordance with the insurance contracts with a Ukrainian insurance company. The contracts were to insure property and computer equipment for a one year period. The insurance tariff paid under these contracts was 4.9% of the insured amount. UAH 9,260 thousand paid under these contracts was included in prepaid expenses in the other assets line item in the consolidated balance sheet. Refer to Note 14.

In addition, the Bank incurred expenses for insurance of financial risks. These expenses relate to contracts entered into by the Bank's insurance subsidiary and the Bank's leasing subsidiary in December 2005. The risk insured is a possibility of suffering financial losses from insurance activities due to non-performance of the insurance subsidiary's counterparties of their obligations implied by reinsurance agreements and the risk arising from leasing agreements of the leasing subsidiary. The insurance tariff under these contracts was 4.1% of the insured amount for the insurance subsidiary and 6.3472% of the insured amount for the leasing subsidiary.

Information on administrative and other operating expenses from transactions with related parties is disclosed in Note 35.

28 Income Taxes

Income tax expense comprises the following:

In thousands of Ukrainian hryvnias	**Note**	**2005**	**2004 (restated)**
Current tax charge		17,611	9,381
Deferred taxation movement due to origination and reversal of temporary differences		7,139	25,980
Deferred tax asset recognised on acquisition of subsidiary	37	181	-
Deferred tax movement recognised in currency translation reserve		(22)	-
Deferred tax movement recognised in fair value reserve for investment securities available-for-sale		1,213	(2,299)
Income tax expense for the year		**26,122**	**33,062**

The income tax rate applicable to the majority of the Company's income is 25% (2004: 25%). The income tax rate applicable to the majority of subsidiaries income is 25% (2004: 25%), except for income arising from insurance activities which is taxed at 3% and income of the Bank's subsidiary in Russia which is taxed at 24%. A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Ukrainian hryvnias	**2005**	**2004 (restated)**
IFRS profit before tax	**78,926**	**106,767**
Theoretical tax charge at statutory rate (2005: 25%; 2004: 25%)	19,732	26,692
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible expenses	15,488	12,193
Income taxed at different rates	(9,098)	(5,823)
Income tax expense for the year	**26,122**	**33,062**

As at 31 December 2005 a deferred tax liability of UAH 1,531 thousand (2004: UAH 2,744 thousand) has been recorded directly in equity in respect of the fair valuation of investment securities available-for-sale.

Differences between IFRS and taxation regulations in Ukraine and other countries give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 25% (2004: 25%), except for income from insurance operations which is taxed at 3% and income of the Bank's subsidiary in Russia which is taxed at 24%.

28 Income Taxes (Continued)

In thousands of Ukrainian hryvnias	31 December 2004	Business combina-tions	Currency translation reserve	Credited directly to equity	Charged/ (credited) to profit or loss	31 December 2005
Tax effect of deductible temporary differences						
Remeasurement of financial instruments at amortised cost	242	-	-	-	1,426	1,668
Other liabilities	(1,964)	-	-	-	8,024	6,060
Provision for credit related commitments	(1,855)	-	-	-	2,116	261
Accrued interest expense	-	-	-	-	1,782	1,782
Gross deferred tax asset	**(3,577)**	**-**	**-**	-	**13,348**	**9,771**
Tax effect of taxable temporary differences						
Premises, leasehold improvements and equipment	(3,773)	-	(24)	-	(4,496)	(8,293)
Trading securities, investment securities available-for-sale and investment securities held to maturity	(15,650)	-	(172)	1,213	(15,224)	(29,833)
Finance lease receivable	(623)	-	-	-	623	-
Provision for loan impairment	(13,750)	181	174	-	(3,836)	(17,231)
Accrued interest income	99	-	-	-	(674)	(575)
Other assets	(5,564)	-	-	-	1,748	(3,816)
Gross deferred tax liability	**(39,261)**	**181**	**(22)**	**1,213**	**(21,859)**	**(59,748)**
Recognised net deferred tax liability	**(42,838)**	**181**	**(22)**	**1,213**	**(8,511)**	**(49,977)**

In the context of the Bank's current structure, 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.

28 Income Taxes (Continued)

In thousands of Ukrainian hryvnias	**1 January 2004**	**Charged directly to equity (restated)**	**Charged/ (credited) to profit or loss (restated)**	**31 December 2004**
Tax effect of deductible temporary differences				
Remeasurement of financial instruments at amortised cost	(2,076)	-	2,318	242
Other liabilities	1,949	-	(3,913)	(1,964)
Provision for credit related commitments	(1,127)	-	(728)	(1,855)
Accrued interest expense	365	-	(365)	-
Gross deferred tax asset	**(889)**	**-**	**(2,688)**	**(3,577)**
Tax effect of taxable temporary differences				
Premises, leasehold improvements and equipment	(1,897)	-	(1,876)	(3,773)
Trading securities, investment securities available-for-sale and investment securities held to maturity	(9,990)	(2,299)	(3,361)	(15,650)
Finance lease receivable	(568)	-	(55)	(623)
Provision for loan impairment	(1,791)	-	(11,959)	(13,750)
Accrued interest income	(1,569)	-	1,668	99
Other assets	(154)	-	(5,410)	(5,564)
Gross deferred tax liability	**(15,969)**	**(2,299)**	**(20,993)**	**(39,261)**
Recognised deferred tax liability	**(16,858)**	**(2,299)**	**(23,681)**	**(42,838)**

29 Earnings per Share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

In thousands of Ukrainian hryvnias	**2005**	**2004 (restated)**
Profit attributable to equity holders of the Company	53,438	73,055
Weighted average number of ordinary shares in issue (thousands)	12,945,205	9,014,038
Basic and diluted earnings per share (expressed in UAH per share)	**0.0041**	**0.0081**

30 Segment Analysis

The Bank's primary format for reporting segment information is business segments. For disclosure of geographical concentration of the Bank's assets and liabilities refer to Note 31.

Business Segments. The Bank is organised on a basis of three main business segments:

- Corporate banking – representing current accounts of legal entities, deposits, overdrafts, loan and other credit facilities, foreign currency and trading finance products.

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, credit and debit cards, consumer loans and mortgages.

- Investment banking – includes financial instruments trading, debt and equity capital markets, securities, foreign exchange and banknote trading and corporate finance.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Bank's cost of capital. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding taxation. Internal charges and transfer pricing adjustments have been reflected in the performance of each business segment.

Segment information for the main reportable business segments of the Bank for the years ended 31 December 2005 and 2004 is set out below:

In thousands of Ukrainian hryvnias	**Corporate banking**	**Retail banking**	**Investment banking**	**Other**	**Elimina-tions**	**Total**
2005						
External revenues	636,486	321,944	165,917	43,112	-	1,167,459
Revenues from other segments	-	100,148	140,414	551	(241,113)	-
Total revenues	**636,486**	**422,092**	**306,331**	**43,663**	**(241,113)**	**1,167,459**
Total revenues comprise:						
- Interest income	524,731	342,444	198,468	16,709	(241,113)	841,239
- Net gains from trading securities	-	-	33,651	-	-	33,651
- Gains less losses from derecognition of investment securities available-for-sale	-	-	52,939	-	-	52,939
- Gains less losses from trading in foreign currencies	47,798	28,164	47,179	-	-	123,141
- Foreign exchange translation (losses net of gains) / gains less losses	-	-	(42,551)	1,931	-	(40,620)
- Fee and commission income	58,939	51,484	15,908	-	-	126,331
- Insurance income	-	-	-	23,836	-	23,836
- Other operating income	5,018	-	737	1,187	-	6,942
Total revenues	**636,486**	**422,092**	**306,331**	**43,663**	**(241,113)**	**1,167,459**

30 Segment Analysis (Continued)

In thousands of Ukrainian hryvnias	**Corporate banking**	**Retail banking**	**Investment banking**	**Other**	**Elimina-tions**	**Total**
2005 (continued)						
Segment result	**34,304**	**(96,306)**	**143,665**	**(2,168)**	**-**	**79,495**
Excess of the Bank's interest in the net fair value of subsidiary's identifiable assets, liabilities and contingent liabilities over cost	-	-	-	-	-	137
Loss on disposal of subsidiaries	-	-	-	-	-	(706)
Profit before tax						**78,926**
Income tax expense	-	-	-	-	-	(26,122)
Profit	-	-	-	-	-	**52,804**
Total segment assets	5,485,037	3,862,896	1,456,716	121,022	-	10,925,671
Current and deferred tax assets						-
Total assets						**10,925,671**
Total segment liabilities	2,962,152	2,690,426	4,172,591	73,834	-	9,899,003
Current and deferred tax liabilities						51,739
Total liabilities						**9,950,742**
Other segment items						
Capital expenditure	(188,437)	(341,916)	(4,979)	(2,621)	-	(537,953)
Depreciation and amortisation expense	(17,810)	(32,317)	(471)	(2,799)	-	(53,397)
Provisions for loan impairment and losses on credit related commitments	(41,026)	30,684	1,125	-	-	(9,217)

30 Segment Analysis (Continued)

In thousands of Ukrainian hryvnias	**Corporate banking**	**Retail banking**	**Investment banking**	**Other**	**Elimina-tions**	**Total**
2004						
External revenues	627,733	141,962	76,541	17,914	-	864,150
Revenues from other segments	-	74,704	9,683	-	(84,387)	-
Total revenues	**627,733**	**216,666**	**86,224**	**17,914**	**(84,387)**	**864,150**
Total revenues comprise:						
- Interest income	509,716	173,934	55,292	6,088	(84,387)	660,643
- Net gains from trading securities	-	-	20,706	-	-	20,706
- Gains less losses from derecognition of investment securities available-for-sale	-	-	5,352	-	-	5,352
- Gains less losses from trading in foreign currencies	47,213	16,433	(2,272)		-	61,374
- Foreign exchange translation gains less losses	-	-	1,966	726	-	2,692
- Fee and commission income	68,450	26,299	4,825	-	-	99,574
- Insurance income	-	-	-	7,951	-	7,951
- Other operating income	2,354	-	355	3,149	-	5,858
Total revenues	**627,733**	**216,666**	**86,224**	**17,914**	**(84,387)**	**864,150**
Segment result	**215,193**	**(91,866)**	**(18,974)**	**2,414**	**-**	**106,767**
Profit before tax	**-**	**-**	**-**	**-**	**-**	**106,767**
Income tax expense	-	-	-	-	-	(33,062)
Profit	**-**	**-**	**-**	**-**	**-**	**73,705**
Segment assets	3,152,949	1,277,028	876,702	68,984	-	5,375,663
Current and deferred tax assets						648
Total assets						**5,376,311**
Segment liabilities	1,963,929	1,468,011	1,108,979	25,051	-	4,565,970
Current and deferred tax liabilities						42,838
Total liabilities						**4,608,808**
Other segment items						
Capital expenditure	(117,600)	(170,546)	(21,655)	(155)	-	(309,956)
Depreciation and amortisation expense	(10,006)	(14,511)	(1,843)	(1,647)	-	(28,007)
Provisions for loan impairment and losses on credit related commitments	(73,093)	(12,377)	(1,125)	-	-	(86,595)
Impairment of investment securities available-for-sale	-	-	(10,384)	-	-	(10,384)
Losses on initial recognition of assets at rates below market	(435)	-	-	-	-	(435)
Loss on change in terms of subordinated debt	(8,589)	-	-	-	-	(8,589)

31 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay all amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, borrower and industry sector are approved regularly by the Credit Committee of the Bank.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

The Bank’s maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the consolidated balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Market risk. The Bank 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 Asset/ Liability Committee sets limits on the value of risk that may be accepted. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

31 Financial Risk Management (Continued)

Geographical risk. The geographical concentration of the Bank's assets and liabilities at 31 December 2005 is set out below:

In thousands of Ukrainian hryvnias	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents and mandatory reserves	713,338	240,494	38,118	991,950
Trading securities	731,848	-	17,878	749,726
Due from other banks	322,063	17,309	1	339,373
Loans and advances to customers	7,664,360	-	94,546	7,758,906
Investment securities available-for-sale	79,205	-	-	79,205
Investment securities held to maturity	19,045	-	-	19,045
Intangible assets	46,087	-	-	46,087
Premises, leasehold improvements and equipment	849,261	-	3,911	853,172
Other assets	84,371	68	3,768	88,207
Total assets	**10,509,578**	**257,871**	**158,222**	**10,925,671**
Liabilities				
Due to other banks	573,586	548,216	222	1,122,024
Customer accounts	4,666,543	624	664,589	5,331,756
Due to the National Bank of Ukraine	17,033	-	-	17,033
Domestic debt securities in issue	847,835	-	-	847,835
Eurobonds issued	-	1,165,641	-	1,165,641
Other borrowed funds	-	843,968	175,194	1,019,162
Subordinated debt	-	173,482	103,413	276,895
Current income tax liability	1,762	-	-	1,762
Deferred income tax liability	49,853	-	124	49,977
Other liabilities	118,152	352	153	118,657
Total liabilities	**6,274,764**	**2,732,283**	**943,695**	**9,950,742**
Net balance sheet position	**4,234,814**	**(2,474,412)**	**(785,473)**	**974,929**
Credit related commitments (Note 32)	**1,186,924**	**-**	**6,997**	**1,193,921**

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Cash on hand and premises, leasehold improvements and equipment have been allocated based on the country in which they are physically held.

OECD assets and liabilities mainly include balances with counterparties in USA, Germany, UK, Switzerland and Austria.

Non-OECD concentrations mainly represent balances with counterparties in the Russian Federation and Cyprus.

31 Financial Risk Management (Continued)

The geographical concentration of the Bank's assets and liabilities at 31 December 2004 is set out below:

In thousands of Ukrainian hryvnias	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents and mandatory reserves	506,664	99,881	11,668	618,213
Trading securities	275,943	-	-	275,943
Due from other banks	86,126	6,969	-	93,095
Loans and advances to customers	3,532,473	-	-	3,532,473
Investment securities available-for-sale	192,644	-	-	192,644
Investment securities held to maturity	47,908	-	-	47,908
Guarantee deposits with the National Bank of Ukraine	115,668	-	-	115,668
Current income tax prepayment	648	-	-	648
Intangible assets	18,869	-	-	18,869
Premises, leasehold improvements and equipment	402,013	-	-	402,013
Other assets	78,818	19	-	78,837
Total assets	**5,257,774**	**106,869**	**11,668**	**5,376,311**
Liabilities				
Due to other banks	45,320	107,888	23,489	176,697
Customer accounts	2,854,989	3,042	432,200	3,290,231
Due to the National Bank of Ukraine	390,052	-	-	390,052
Domestic debt securities in issue	32,973	-	-	32,973
Eurobonds issued	-	537,766	-	537,766
Subordinated debt	-	73,433	-	73,433
Deferred income tax liability	42,838	-	-	42,838
Other liabilities	64,786	32	-	64,818
Total liabilities	**3,430,958**	**722,161**	**455,689**	**4,608,808**
Net balance sheet position	**1,826,816**	**(615,292)**	**(444,021)**	**767,503**
Credit related commitments (Note 32)	**433,731**	**-**	**-**	**433,731**

As at 31 December 2004 OECD assets and liabilities mainly include balances with counterparties in Germany, USA and Switzerland.

As at 31 December 2004 non-OECD concentrations mainly represent balances with counterparties in the Russian Federation, Cyprus and the Baltic States.

31 Financial Risk Management (Continued)

Currency risk. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Asset/ Liability Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2005:

In thousands of Ukrainian hryvnias	**UAH**	**USD**	**Euro**	**Other curren-cies**	**Non-mone-tary items**	**Total**
Assets						
Cash and cash equivalents and mandatory reserves	584,499	236,741	132,769	37,941	-	991,950
Trading securities	731,848	-	-	17,878	-	749,726
Due from other banks	155,840	129,697	53,835	1	-	339,373
Loans and advances to customers	2,581,281	4,681,225	317,492	178,908	-	7,758,906
Investment securities available-for-sale	-	-	-	-	79,205	79,205
Investment securities held to maturity	19,045	-	-	-	-	19,045
Intangible assets	-	-	-	-	46,087	46,087
Premises, leasehold improvements and equipment	-	-	-	-	853,172	853,172
Other assets	74,675	2,940	922	3,768	5,902	88,207
Total assets	**4,147,188**	**5,050,603**	**505,018**	**238,496**	**984,366**	**10,925,671**
Liabilities						
Due to other banks	299,289	675,213	97,924	49,598	-	1,122,024
Customer accounts	2,926,268	1,988,714	326,845	89,929	-	5,331,756
Due to the National Bank of Ukraine	17,033	-	-	-	-	17,033
Domestic debt securities in issue	847,830	5	-	-	-	847,835
Eurobonds issued	-	1,165,641	-	-	-	1,165,641
Other borrowed funds	-	1,019,162	-	-	-	1,019,162
Subordinated debt	-	276,895	-	-	-	276,895
Current income tax liability	1,762	-	-	-	-	1,762
Deferred income tax liability	49,853	-	-	124	-	49,977
Other liabilities	107,537	9,290	887	943	-	118,657
Total liabilities	**4,249,572**	**5,134,920**	**425,656**	**140,594**	**-**	**9,950,742**
Less fair value of currency derivatives	2,129	443	-	635	-	3,207
Net balance sheet position, excluding currency derivatives	(104,513)	(84,760)	79,362	97,267	984,366	971,722
Currency derivatives (Note 33)	(36,812)	96,457	-	(56,438)	**-**	3,207
Credit related commitments (Note 32)	**582,730**	**556,543**	**48,075**	**6,573**	**-**	**1,193,921**

Other currencies mainly include the Russian Roubles and Swiss Franks.

The Bank has extended loans and advances denominated in foreign currencies. Movements in foreign exchange rates affect the borrowers' repayment ability and incurrence of loan losses.

31 Financial Risk Management (Continued)

At 31 December 2004, the Bank had the following positions in currencies:

In thousands of Ukrainian hryvnias	UAH	USD	Euro	Other curren-cies	Non-mone-tary items	Total
Assets						
Cash and cash equivalents and mandatory reserves	408,125	160,021	36,775	13,292	-	618,213
Trading securities	275,943	-	-	-	-	275,943
Due from other banks	68,235	23,713	1,147	-	-	93,095
Loans and advances to customers	1,257,332	2,122,512	148,586	4,043	-	3,532,473
Investment securities available-for-sale	18,871	-	-	-	173,773	192,644
Investment securities held to maturity	47,908	-	-	-	-	47,908
Guarantee deposits with the National Bank of Ukraine	-	79,581	36,087	-	-	115,668
Current income tax prepayment	648	-	-	-	-	648
Intangible assets	-	-	-	-	18,869	18,869
Premises, leasehold improvements and equipment	-	-	-	-	402,013	402,013
Other assets	31,997	1,114	3,667	-	42,059	78,837
Total assets	**2,109,059**	**2,386,941**	**226,262**	**17,335**	**636,714**	**5,376,311**
Liabilities						
Due to other banks	3,605	137,701	33,740	1,651	-	176,697
Customer accounts	1,628,346	1,441,324	205,662	14,899	-	3,290,231
Due to the National Bank of Ukraine	390,052	-	-	-	-	390,052
Domestic debt securities in issue	32,968	5	-	-	-	32,973
Eurobonds issued	-	537,766	-	-	-	537,766
Subordinated debt	-	73,433	-	-	-	73,433
Deferred income tax liability	42,838	-	-	-	-	42,838
Other liabilities	57,902	3,311	813	106	2,686	64,818
Total liabilities	**2,155,711**	**2,193,540**	**240,215**	**16,656**	**2,686**	**4,608,808**
Net balance sheet position	**(46,652)**	**193,401**	**(13,953)**	**679**	**634,028**	**767,503**
Credit related commitments (Note 32)	**157,231**	**218,083**	**48,611**	**9,806**	**-**	**433,731**

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and guarantees. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The liquidity risk is managed by the Asset/Liability Committee of the Bank.

The table below shows assets and liabilities at 31 December 2005 by their remaining contractual maturity, unless there is evidence that any of the assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement of the assets is used. Some of the assets and liabilities, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

Overdue liabilities, such as term deposits not withdrawn by the Bank's customers, are classified within the "demand and less than 1 month" column. Overdue assets are allocated based on their expected maturity. The entire portfolio of trading securities is classified within demand and less than one month based on management's assessment of portfolio's realisability and their view that it is a fairer portrayal of the Bank's liquidity position.

31 Financial Risk Management (Continued)

The liquidity position of the Bank at 31 December 2005 is set out below.

In thousands of Ukrainian hryvnias	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 12 months	No stated maturity	Total
Assets						
Cash and cash equivalents and mandatory reserves	991,950	-	-	-	-	991,950
Trading securities	749,726	-	-	-	-	749,726
Due from other banks	267,911	35,207	36,080	175	-	339,373
Loans and advances to customers	332,034	473,224	1,658,186	5,295,462	-	7,758,906
Investment securities available-for-sale	-	-	-	-	79,205	79,205
Investment securities held to maturity	2,602	5,035	11,408	-	-	19,045
Intangible assets	-	-	-	-	46,087	46,087
Premises, leasehold improvements and equipment	-	-	-	-	853,172	853,172
Other assets	45,724	21,993	14,481	107	5,902	88,207
Total assets	**2,389,947**	**535,459**	**1,720,155**	**5,295,744**	**984,366**	**10,925,671**
Liabilities						
Due to other banks	529,787	35,350	420,873	136,014	-	1,122,024
Customer accounts	1,578,249	999,819	922,576	1,831,112	-	5,331,756
Due to the National Bank of Ukraine	2,307	4,501	10,225	-	-	17,033
Domestic debt securities in issue	48	6,790	50,000	790,997	-	847,835
Eurobonds issued	30,821	-	77,841	1,056,979	-	1,165,641
Other borrowed funds	-	4,823	1,014,339	-	-	1,019,162
Subordinated debt	-	6,720	-	270,175	-	276,895
Current income tax liability	-	1,762	-	-	-	1,762
Deferred income tax liability	-	-	-	-	49,977	49,977
Other liabilities	39,735	414	65,869	12,639	-	118,657
Total liabilities	**2,180,947**	**1,060,179**	**2,561,723**	**4,097,916**	**49,977**	**9,950,742**
Net liquidity gap	**209,000**	**(524,720)**	**(841,568)**	**1,197,828**	**934,389**	**974,929**
Cumulative liquidity gap at 31 December 2005	**209,000**	**(315,720)**	**(1,157,288)**	**40,540**	**974,929**	**-**

31 Financial Risk Management (Continued)

The liquidity position of the Bank at 31 December 2004 is set out below.

In thousands of Ukrainian hryvnias	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 12 months	No stated maturity	Total
Assets						
Cash and cash equivalents and mandatory reserves	618,213	-	-	-	-	618,213
Trading securities	275,943	-	-	-	-	275,943
Due from other banks	-	43,501	36,540	13,054	-	93,095
Loans and advances to customers	288,026	538,226	1,108,276	1,597,945	-	3,532,473
Investment securities available-for-sale	-	-	5,069	13,802	173,773	192,644
Investment securities held to maturity	2,754	4,762	21,457	18,935	-	47,908
Guarantee deposits with the National Bank of Ukraine	115,668	-	-	-	-	115,668
Current income tax prepayment	-	648	-	-	-	648
Intangible assets	-	-	-	-	18,869	18,869
Premises, leasehold improvements and equipment	-	-	-	-	402,013	402,013
Other assets	37,300	32,113	4,889	4,535	-	78,837
Total assets	**1,337,904**	**619,250**	**1,176,231**	**1,648,271**	**594,655**	**5,376,311**
Liabilities						
Due to other banks	42,282	59,173	50,779	24,463	-	176,697
Customer accounts	1,216,552	455,762	1,410,380	207,537	-	3,290,231
Due to the National Bank of Ukraine	117,279	4,795	252,895	15,083	-	390,052
Domestic debt securities in issue	43	539	32,386	5	-	32,973
Eurobonds issued	-	-	13,308	524,458	-	537,766
Subordinated debt	-	1,810	-	71,623	-	73,433
Deferred income tax liability	-	-	-	-	42,838	42,838
Other liabilities	49,053	246	1,164	14,355	-	64,818
Total liabilities	**1,425,209**	**522,325**	**1,760,912**	**857,524**	**42,838**	**4,608,808**
Net liquidity gap	**(87,305)**	**96,925**	**(584,681)**	**790,747**	**551,817**	**767,503**
Cumulative liquidity gap at 31 December 2004	**(87,305)**	**9,620**	**(575,061)**	**215,686**	**767,503**	**-**

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. 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 Bank and its exposure to changes in interest and exchange rates.

The Bank has a significant cumulative maturity mismatch of the assets and liabilities maturing within 12 months. This liquidity mismatch arises due to the fact that the major source of finance for the Bank at 31 December 2005 was customer accounts and other borrowed funds being on demand and maturing in less than 12 months. Management believes that in spite of a substantial portion of customer accounts and other borrowed funds maturing in less than 12 months, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these accounts provide a long-term and stable source of funding for the Bank.

31 Financial Risk Management (Continued)

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Ukrainian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank 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.

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The table below summarises the Bank's exposure to interest rate risks at 31 December 2005. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

In thousands of Ukrainian hryvnias	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**Over 12 months**	**Non-interest bearing**	**Total**
Assets						
Cash and cash equivalents and mandatory reserves	991,950	-	-	-	-	991,950
Trading securities	749,726	-	-	-	-	749,726
Due from other banks	267,911	35,207	36,080	175	-	339,373
Loans and advances to customers	332,034	473,224	1,658,186	5,295,462	-	7,758,906
Investment securities available-for-sale	-	-	-	-	79,205	79,205
Investment securities held to maturity	2,602	5,035	11,408	-	-	19,045
Intangible assets	-	-	-	-	46,087	46,087
Premises, leasehold improvements and equipment	-	-	-	-	853,172	853,172
Other assets	-	-	-	-	88,207	88,207
Total assets	**2,344,223**	**513,466**	**1,705,674**	**5,295,637**	**1,066,671**	**10,925,671**
Liabilities						
Due to other banks	529,787	46,516	545,721	-	-	1,122,024
Customer accounts	1,578,249	999,819	922,576	1,831,112	-	5,331,756
Due to the National Bank of Ukraine	2,307	4,501	10,225	-	-	17,033
Domestic debt securities in issue	48	6,790	50,000	790,997	-	847,835
Eurobonds issued	30,821	-	77,841	1,056,979	-	1,165,641
Other borrowed funds	-	191,086	828,076	-	-	1,019,162
Subordinated debt	-	6,720	-	270,175	-	276,895
Current income tax liability	-	-	-	-	1,762	1,762
Deferred income tax liability	-	-	-	-	49,977	49,977
Other liabilities	136	414	1,164	12,639	104,304	118,657
Total liabilities	**2,141,348**	**1,255,846**	**2,435,603**	**3,961,902**	**156,043**	**9,950,742**
Net sensitivity gap	**202,875**	**(742,380)**	**(729,929)**	**1,333,735**	**910,628**	**974,929**
Cumulative sensitivity gap at 31 December 2005	**202,875**	**(539,505)**	**(1,269,434)**	**64,301**	**974,929**	**-**

31 Financial Risk Management (Continued)

The following table summarises the Bank's exposure to interest rate risks at 31 December 2004 by showing assets and liabilities in categories based on the earlier of contractual repricing or maturity dates.

In thousands of Ukrainian hryvnias	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 12 months	Non-interest bearing	Total
Assets						
Cash and cash equivalents and mandatory reserves	618,213	-	-	-	-	618,213
Trading securities	275,943	-	-	-	-	275,943
Due from other banks	-	43,501	36,540	13,054	-	93,095
Loans and advances to customers	287,808	560,172	1,106,308	1,578,185	-	3,532,473
Investment securities available-for-sale	-	-	5,069	13,802	173,773	192,644
Investment securities held to maturity	2,754	4,762	21,457	18,935	-	47,908
Guarantee deposits with the National Bank of Ukraine	115,668	-	-	-	-	115,668
Current income tax prepayment	-	-	-	-	648	648
Intangible assets	-	-	-	-	18,869	18,869
Premises, leasehold improvements and equipment	-	-	-	-	402,013	402,013
Other assets	-	-	-	-	78,837	78,837
Total assets	**1,300,386**	**608,435**	**1,169,374**	**1,623,976**	**674,140**	**5,376,311**
Liabilities						
Due to other banks	42,282	59,173	75,242	-	-	176,697
Customer accounts	1,241,597	446,621	1,394,476	207,537	-	3,290,231
Due to the National Bank of Ukraine	117,279	4,795	252,895	15,083	-	390,052
Domestic debt securities in issue	43	539	32,386	5	-	32,973
Eurobonds issued	-	-	13,308	524,458	-	537,766
Subordinated debt	-	1,810	-	71,623	-	73,433
Deferred income tax liability	-	-	-	-	42,838	42,838
Other liabilities	121	245	1,164	14,354	48,934	64,818
Total liabilities	**1,401,322**	**513,183**	**1,769,471**	**833,060**	**91,772**	**4,608,808**
Net sensitivity gap	**(100,936)**	**95,252**	**(600,097)**	**790,916**	**582,368**	**767,503**
Cumulative sensitivity gap at 31 December 2004	**(100,936)**	**(5,684)**	**(605,781)**	**185,135**	**767,503**	**-**

The Bank is exposed to cash flow interest rate risk, principally through assets and liabilities for which interest rates are reset as market rates change. Such assets and liabilities are primarily presented in the above table as being repriced in the short-term. The Bank is exposed to fair value interest rate risk as a result of assets and liabilities at fixed interest rates; these are primarily presented in the above table as being repriced in the long-term. In practice, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Board of Directors monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions.

31 Financial Risk Management (Continued)

The table below summarises the effective interest rates by major currencies for major debt instruments. The analysis has been prepared based on period-end effective rates used for amortisation of the respective assets/liabilities.

In % p.a.	2005		2004	
	UAH	**USD**	**UAH**	**USD**
Assets				
Overnight deposits with other banks	-	3	-	2
Term placements with other banks	9	5	17	16
Loans and advances to corporate customers	16	13	18	12
Loans and advances to individuals	16	13	19	13
Finance leases	22	-	25	-
Trading securities - bonds	11	-	14	-
Investment securities held to maturity – corporate bonds	14	-	14	-
Liabilities				
Term placements of other banks	9	7	-	8
Term deposits of legal entities	11	6	15	7
Term deposits of individuals	15	10	16	10
Due to the National Bank of Ukraine	13	-	15	-
Domestic bonds issued by the Bank	9	-	-	-
Other borrowed funds	-	8	-	-
Eurobonds issued	-	11	-	11
Certificates of deposit and promissory notes	12	12	16	18
Subordinated debt	-	10	-	10
Finance leases	12	-	12	-

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

32 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank are received. On the basis of its own estimates and internal professional advice the Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these consolidated financial statements.

Tax legislation. Ukrainian 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 Bank may be challenged by the relevant regional and central authorities. The tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. 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.

The tax consequence of transactions for Ukrainian taxation purposes is frequently determined by the form in which transactions are documented and the underlying accounting treatment prescribed by Ukrainian Accounting Rules. Accordingly, the Bank structures certain transactions so as to take advantage of such form driven determinations to reduce the overall effective tax rate of the Bank. The consolidated income statement as presented in these consolidated financial statements includes reclassifications to reflect the underlying economic substance of those transactions. The effect of these reclassifications does not have an effect on the Bank’s profit before taxation or the tax charge recorded in these consolidated financial statements.

The Bank’s Management believes that its interpretation of the relevant legislation is appropriate and the Bank’s tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2005 no provision for potential tax liabilities had been recorded (2004: no provision).

32 Contingencies and Commitments (Continued)

Capital expenditure commitments. At 31 December 2005 the Bank has contractual capital expenditure commitments in respect of premises and equipment totalling UAH 30,282 thousand (2004: UAH 31,323 thousand) and in respect of purchasing and implementing "SAP Banking" operating system of UAH 10,878 thousand (2004: UAH 32,899 thousand).

The Bank has already allocated the necessary resources in respect of these commitments. The Bank believes that future net income and funding will be sufficient to cover this and any similar such commitments.

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

In thousands of Ukrainian hryvnias	**2005**	**2004**
Not later than 1 year	47,924	28,116
Later than 1 year and not later than 5 years	148,177	86,383
Later than 5 years	79,255	53,668
Total operating lease commitments	**275,356**	**168,167**

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 Bank 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 Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss 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.

Promissory notes endorsements represent guarantees undertaken by the Bank in respect of promissory notes issued by the Bank's clients.

Commitments arising in respect of underwriting activity represent commitments of the Bank arising from the Bank's acting as underwriter from placement of corporate bonds.

The Bank 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 thousands of Ukrainian hryvnias	**Note**	**2005**	**2004**
Commitments to extend credit		1,000,056	288,579
Commitments arising in respect of underwriting activity		20,000	5,000
Import letters of credit (cash covered)		77,752	43,117
Import letters of credit (uncovered)		51,026	45,711
Guarantees issued (cash covered)		29,303	10,984
Guarantees issued (uncovered)		71,338	38,650
Promissory notes endorsements (cash covered)		13,449	139
Promissory notes endorsements (uncovered)		57,791	64,256
Less: cash covered credit related commitments	16	(120,504)	(54,240)
Less: Provision for losses on credit related commitments	22	(6,290)	(8,465)
Total credit related commitments		**1,193,921**	**433,731**

32 Contingencies and Commitments (Continued)

As at 31 December 2004 guarantees issued in the amount of UAH 11,861 thousand are collateralised with trading securities pledged to another bank with a fair value of UAH 14,714 thousand). Refer to Note 8.

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

In thousands of Ukrainian hryvnias	Note	2005	2004
Provision for losses on credit related commitments as at 1 January		**8,465**	**5,403**
(Reversal of provision) / provision for losses on credit related commitments during the year		(2,175)	3,062
Provision for losses on credit related commitments as at 31 December	22	**6,290**	**8,465**

The total outstanding contractual amount of commitments to extend credit, underwriting commitments, promissory notes endorsements, 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 6,290 thousand at 31 December 2005 (2004: UAH 8,465 thousand).

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

In thousands of Ukrainian hryvnias	2005 Nominal value	2004 Nominal value
Shares in domestic companies held by the Bank on behalf of its customers	2,809,350	1,728,227
Domestic corporate bonds held by the Bank on behalf of its customers	416,705	34,698
Domestic municipal bonds held by the Bank on behalf of its customers	125,009	-
Domestic treasury bills held by the Bank on behalf of its customers	86,937	23,693
Notes of exchange held by the Bank on behalf of its customers	10,715	1,201
Investment certificates held by the Bank on behalf of its customers	24,275	19,642
Assets managed by the Bank (Note 36)	34,792	11,922

Assets pledged and restricted. At 31 December 2005 the Bank has the following assets pledged as collateral:

		2005		2004	
In thousands of Ukrainian hryvnias	**Notes**	**Asset pledged**	**Related liability/ commitment**	**Asset pledged**	**Related liability/ commitment**
Cash and cash equivalents and mandatory reserves	7,17	7,717	17,033	7,717	42,237
Investment securities held to maturity	12,17	19,045		47,908	
Trading securities	8, 15, 16, 32	208,847	218,618	14,714	11,861
Due from other banks	9, 15, 32	277,731	274,010	35,950	32,280
Guarantee deposits with the NBU	17	-	-	115,668	114,815
Loans and advances to customers	10, 17	-	-	382,806	233,000
Premises	13, 17	-	-	58,735	
Total		**513,340**	**509,661**	**663,498**	**434,193**

In addition, mandatory reserve balances in the amount of UAH 377,452 thousand (2004: UAH 218,623 thousand) represent mandatory reserve assets which are not available to finance the Bank's day to day operations.

33 Derivative Financial Instruments

Foreign exchange and securities-based derivative financial instruments entered into by the Bank 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 and fair values of securities to be sold under securities forward contracts entered into by the Bank. The table reflects gross positions before the netting of any counterparty positions and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term in nature.

	2005			2004		
	Notional amount	**Negative fair value**	**Positive fair value**	**Notional amount**	**Negative fair value**	**Positive fair value**
Deliverable forwards						
Foreign currency						
- sale of CHF for USD	60,157	-	443	-	-	-
- sale of USD for UAH	-	-	-	3,633	-	59
- sale of USD for RUR	2,985	-	173	-	-	-
- purchase of USD for RUR	38,380	-	462	-	-	-
- purchase of USD for UAH	-	-	-	3,647	(60)	-
- purchase of RUR for UAH	36,812	-	2,129	-	-	-
Securities						
- sale of securities	9,616	(62)	21	-	-	-
Total	**147,950**	**(62)**	**3,228**	**7,280**	**(60)**	**59**

In respect of derivatives the Bank has recorded a net gain of UAH 3,207 thousand (2004: net loss of UAH 1 thousand) within gains less losses arising from trading in foreign currency and net loss of UAH 41 thousand (2004: none) within gains less losses arising from trading securities.

34 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 Bank 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, investment securities available-for-sale and financial derivatives are carried on the consolidated balance sheet at their fair value. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Fair values were determined based on quoted market prices except for certain investment securities available-for-sale for which there were no available external independent market price quotations. These securities have been fair valued by the Bank on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and 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.

34 Fair Value of Financial Instruments (Continued)

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 of the loan and credit risk of the counterparty and ranged from 9% to 20% per annum (2004: 13% to 19% per annum). Refer to Notes 9 and 10 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 12 for the estimated fair value of investment securities held to maturity.

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. 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 15, 16, 17, 18, 19, 20 and 21 for the estimated fair values of due to other banks, customer accounts, due to the National Bank of Ukraine, domestic debt securities in issue, Eurobonds issued, other borrowed funds and subordinated debt, respectively.

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. Refer to Notes 14, 22 and 33.

35 Related Party Transactions

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

At 31 December 2005, the outstanding balances with related parties were as follows:

In thousands of Ukrainian hryvnias	**Shareholders**	**Key management personnel**	**Entities under common control and other related parties**
Loans and advances to customers			
Gross amount of loans and advances to customers in UAH (contractual interest rate: 15 - 17%)	163	-	15,407
Gross amount of loans and advances to customers in USD (contractual interest rate: 10 - 14%)	2,624	5,251	235,715
Gross amount of loans and advances to customers in EUR (contractual interest rate: 9 - 14%)	-	1,309	33,803
Gross amount of loans and advances to customers in CHF (contractual interest rate: 9%)	-	-	92,451
Impairment provisions for loans and advances to customers at 31 December	(279)	(40)	(16,404)
Investment securities available-for-sale			
- Shares	-	-	9,335
Customer accounts			
Current accounts	233	32	79,393
Term deposits in UAH (contractual interest rate: 5 - 20%)	3,277	580	151,355
Term deposits in USD (contractual interest rate: 5 - 13%)	2,013	2,579	595
Subordinated debt (contractual interest rate: 10%)	-	-	103,413
Other liabilities	-	-	126
Minority interest	-	33	2,939

35 Related Party Transactions (Continued)

The income and expense items with related parties for the year 2005 were as follows:

In thousands of Ukrainian hryvnias	**Shareholders**	**Key management personnel**	**Entities under common control and other related parties**
Interest income on debt securities	-	-	989
Interest income on loans and advances to customers	316	698	23,128
Interest expense on customer accounts	(350)	(225)	(8,960)
Interest expense on subordinated debt	-	-	(2,413)
Recovery of provision for loan impairment	598	63	4,333
Gains less losses from trading securities	-	-	330
Gains from derecognition of investment securities available-for-sale	-	-	16,796
Fee and commission income	5	5	3,550
Other operating expenses	-	-	(94)

At 31 December 2005, other rights and obligations with related parties were as follows:

In thousands of Ukrainian hryvnias	**Shareholders**	**Key management personnel**	**Entities under common control and other related parties**
Commitments to extend credit	-	-	4,627
Import letters of credit (cash covered)	-	-	844
Import letters of credit (uncovered)	-	-	6,836
Guarantees issued (uncovered)	-	-	345
Promissory notes endorsements (uncovered)	-	-	3,714

Aggregate amounts lent to and repaid by related parties during 2005 were:

In thousands of Ukrainian hryvnias	**Shareholders**	**Key management personnel**	**Entities under common control and other related parties**
Amounts lent to related parties during the period	103,071	10,041	1,512,295
Amounts repaid by related parties during the period	84,673	14,233	1,349,193

35 Related Party Transactions (Continued)

At 31 December 2004, the outstanding balances with related parties were as follows:

In thousands of Ukrainian hryvnias	**Shareholders**	**Key management personnel**	**Entities under common control and other related parties**
Trading securities (corporate bonds)	19,311	-	745
Loans and advances to customers			
Gross amount of loans and advances to customers in UAH (contractual interest rate: 17 - 23%)	105,214	-	74,106
Gross amount of loans and advances to customers in USD (contractual interest rate: 10 – 17%)	21,853	4,955	95,789
Gross amount of loans and advances to customers in EUR (contractual interest rate: 9 - 14%)	-	120	42,446
Impairment provisions for loans and advances to customers at 31 December	(877)	(103)	(20,737)
Investment securities available-for-sale			
- Shares	16,897	-	14,725
Other assets	5,682	-	-
Customer accounts			
Current accounts	9,872	27	48,957
Term deposits in UAH (contractual interest rate: 10 - 20%)	755	273	22,812
Term deposits in USD (contractual interest rate: 3 - 13%)	2,001	2,292	499,673
Term deposits in EUR (contractual interest rate: 7 - 12%)	-	16	1,624
Other liabilities	2,585	-	100
Minority interest	5	33	9,344

The income and expense items with related parties for the year 2004 were as follows:

In thousands of Ukrainian hryvnias	**Shareholders**	**Key management personnel**	**Entities under common control and other related parties**
Interest income on due from other banks	-	-	98
Interest income on debt securities	954	-	676
Interest income on loans and advances to customers	7,261	219	22,310
Interest expense on customer accounts	(2,763)	(83)	(33,448)
Interest expense on domestic debt securities in issue held by related parties	-	-	(4,821)
Interest expense on subordinated debt	-	-	(3,852)
Recovery of provision/ (provision) for loan impairment	1,401	(103)	(12,634)
Gains less losses from trading securities	345	-	678
Fee and commission income	849	4	3,844
Loss on change in terms of subordinated debt (Note 21)	-	-	(8,589)

35 Related Party Transactions (Continued)

At 31 December 2004, other rights and obligations with related parties were as follows:

In thousands of Ukrainian hryvnias	Shareholders	Key management personnel	Entities under common control and other related parties
Commitments to extend credit	78	269	27,993
Import letters of credit (cash covered)	4,718	-	-
Import letters of credit (uncovered)	-	-	10,145
Guarantees issued (uncovered)	-	-	1,273

Aggregate amounts lent to and repaid by related parties during 2004 were:

In thousands of Ukrainian hryvnias	Shareholders	Key management personnel	Entities under common control and other related parties
Amounts lent to related parties during the period	383,699	3,038	801,254
Amounts repaid by related parties during the period	309,520	2,156	586,145

As at 31 December 2005 the ultimate controlling parties of the Bank are 2 Ukrainian nationals, Mr O.V. Jaroslavskyy and Mr E.E.Galiyev, who control UkrSibbank through a number of companies.

In 2005, the remuneration of members of the Board of Directors comprised salaries, discretionary bonuses and other short-term benefits totalling to UAH 2,279 thousand (2004: UAH 1,526 thousand).

36 Principal Subsidiaries and Special Purpose Entities

As at 31 December 2005 the Bank consolidated the following subsidiaries:

Name	Nature of business	Country of registration	Percentage of ownership 2005	2004
Limited Liability Company "Ukrainian Leasing Company"	Leasing	Ukraine	99.996%	99.97%
Closed Joint-Stock Company "Asset Management Company "Ukrsib Asset Management"	Asset management	Ukraine	99.605%	99.74%
Closed Joint-Stock Insurance Company "Ukrainian Insurance Alliance"	Insurance	Ukraine	98.077%	92.23%
Commercial Bank "UkrSibbank" Limited Liability Company (formerly Commercial Bank "National Financial Traditions" LLC)	Banking	Russian Federation	62.50%	-

Although during the period from 28 February 2005 to 30 June 2005 the Bank owned less than 50% of Commercial Bank "National Financial Traditions" LLC, the Bank had the ability to govern the financial and operating policies of this entity as the Board of Directors consisted of representatives from the Bank and the Bank agreed with the other shareholders of the acquiree to an increase in the acquiree's capital bringing the Bank's percentage ownership above 50%. Refer to Note 37.

As at 31 December 2004 the Bank also consolidated Open Joint-Stock Company "Closed Non-diversified Corporate Investment Fund UkrSib Stabilny Dohod". As disclosed in Note 37, during 2005 the Bank lost control over this entity and the investment fund was excluded from consolidation as at 31 December 2005.

As at 31 December 2005 the Bank's Management consolidated two special purpose entities ("SPE") disclosed below. These SPEs were created to serve and constitute an integral part of the Bank's business. The Bank's Management has governed the financial and operating policies of the SPEs during the period.

The following special purpose entities have been consolidated in these financial statements:

Name	Nature of business	Country of registration	Percentage of ownership directly held by the Bank	
Limited Liability Company "UkrSib-Finance"	Finance	Ukraine	9.90%	9.90%
Limited Liability Company "Universal Leasing Company"	Leasing	Ukraine	8.92%	-

In addition, during the year ended 31 December 2004 the Bank established two unincorporated investment funds: non-diversified venture capital investment fund "Venture Capital" and non-diversified investment fund "UkrSib Stabilny Investitsii". As at 31 December 2004 the Bank held 70% of investment certificates of "UkrSib Stabilny Investitsii" and the assets and liabilities of this investment fund were consolidated into the financial statements of the Bank for the year ended 31 December 2004. As disclosed in Note 37, during 2005 the Bank disposed of part of the investment certificates of this fund and the investment fund was excluded from consolidation.

All investment certificates of "Venture Capital" investment fund are held by external parties. Assets of the investment funds managed by the Bank are included in fiduciary assets. Refer to Note 32.

37 Business Combinations

Acquisition. On 28 February 2005 the Bank acquired 40% of the share capital of Commercial Bank National Financial Traditions LLC, Russia. The acquired subsidiary contributed revenue of UAH 20,225 thousand and profit of UAH 1,532 thousand to the Bank for the period from the date of acquisition to 31 December 2005. If the acquisition had occurred on 1 January 2005, the Bank's revenue for 2005 would have been UAH 1,164,281 thousand, and profit for 2005 would have been UAH 48,934 thousand.

On 1 July 2005 the Bank made an additional investment into the statutory capital of Commercial Bank National Financial Traditions LLC. The additional investment amounted to RUR 90,000 thousand (UAH 15,891 thousand at the exchange rate at the date of payment). After this additional investment, the Bank's share in the statutory capital of the Russian subsidiary increased to 63%. The increase in the statutory capital of the Russian subsidiary has been registered by the CBR in September 2005.

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

In thousands of Ukrainian hryvnias	Note	28 February 2005 Fair value	1 July 2005 Fair value
Cash and cash equivalents		14,827	9,139
Mandatory reserve balance with CBR		277	387
Trading securities		4	22,772
Due from other banks		13,928	2,527
Loans and advances to customers		17,989	38,586
Other assets		4,536	5,652
Premises, leasehold improvements and equipment		1,350	3,661
Deferred tax asset		181	457
Due to other banks		(389)	(44,675)
Customer accounts		(23,497)	(12,433)
Other liabilities		(245)	(14)
Fair value of net assets of subsidiary		**28,961**	**26,059**
Less: minority interest		(17,376)	(9,772)
Less: interest acquired previously		-	(10,424)
Fair value of acquired interest in net assets of subsidiary		**11,585**	**5,863**
Fair value of acquired interest in additional cash provided to subsidiary		-	9,932
Excess of the cost of investment over the fair value of acquired interest in net assets of subsidiary	14	-	96
Excess of the fair value of acquired interest in net assets of subsidiary over the cost of investment		(137)	-
Total purchase consideration (in cash)		**11,448**	**15,891**
Less: cash and cash equivalents of subsidiary acquired		(14,827)	
Net inflow of cash and cash equivalents on acquisition		**(3,379)**	

Fair value of assets and liabilities acquired are based on discounted cash flow models.

In March 2005 the Bank entered into an agreement with other shareholders of LLC Commercial Bank "UkrSibbank" (Russia) (formerly "National Financial Traditions" LLC) in respect of the acquisition of their shares with the total nominal value of RUR 90,000 thousand. As disclosed in Note 38, the acquisition was completed in April 2006. After this transaction the Bank's share in the Russian subsidiary became 100%.

37 Business Combinations (Continued)

Disposal. In March 2005 Open Joint-Stock Company "Closed Non-diversified Corporate Investment Fund UkrSib Stabilny Dohod" has issued additional shares for cash to third parties. As a result, the investment fund's net assets have increased from UAH 513 thousand to UAH 4,491 thousand and the Bank's interest in the investment fund has reduced from 97% to 11%. The loss on disposal represents the difference between the Bank's share of consideration received by the former subsidiary and carrying value of the net assets disposed of through dilution of the Bank's ownership.

On 31 March 2005 the Bank disposed of 25% of investment certificates of non-diversified investment fund "UkrSib Stabilny Investitsii". After the disposal the Bank's share decreased from 70% to 45%. Subsequently the investment fund issued additional certificates for cash to third parties. As at 31 December 2005 investment certificates of this fund held by the Bank are included in investment securities available-for-sale (Note 11).

The investment fund "UkrSib Stabilny Investitsii" operated in the investment banking segment and contributed operating profit of UAH 1,057 thousand to the Bank for the period from 1 January 2005 to 31 March 2005.

The details of assets and liabilities disposed and the disposal consideration are as follows:

In thousands of Ukrainian hryvnias	**UkrSib Stabilny Dohod**	**UkrSib Stabilny Investitsii**	**Total**
Cash and cash equivalents	512	4,697	5,209
Investments	-	18,824	18,824
Other liabilities	-	(2)	(2)
Net assets of subsidiary disposed	**512**	**23,519**	**24,031**
Less: minority interest	(13)	(6,780)	(6,793)
Disposed interest in net assets of subsidiary	**499**	**16,739**	**17,238**
Loss on disposal	(12)	(694)	(706)
Consideration received:			
- proceeds from sale discharged by cash	-	5,005	5,005
- fair value of shares remaining in the Bank's ownership after disposal	487	-	487
- fair value of investment certificates remaining in the Bank's ownership	-	11,040	11,040
Total consideration received	**487**	**16,045**	**16,532**
Consideration received in cash	**-**	**5,005**	**5,005**
Less: cash and cash equivalents in subsidiary disposedf	(512)	(4,697)	(5,209)
Net cash (outflow) / inflow on sale	**(512)**	**308**	**(204)**

38 Subsequent Events

In February 2006 the Bank repaid a USD 37,000 thousand (UAH 186,850 thousand at the exchange rate as at 31 December 2005) syndicated loan received in March 2005.

In February and March 2006, shareholders of the Company (3 legal entities and 2 individuals) sold part of their shares to BNP Paribas S.A. In January 2006 the Antimonopoly Committee of Ukraine provided permission to BNP Paribas SA for acquisition of 51% of the share capital of the Company. In April 2006 the National Bank of Ukraine provided preliminary permission to BNP Paribas SA for acquisition of 51% of the share capital of the Company.

On 27 March 2006 the shareholders of the Company took a decision to issue 10 billion additional shares totalling UAH 500,000 thousand. The placement of shares commenced on 1 May 2006 and was completed on 17 May 2006. All shares were fully paid by the end of May 2006. The shareholders meeting of 18 May 2006 approved the results of the new share issue and decided to make the respective changes to the Company's Charter. At the date of these consolidated financial statements the increase in the share capital of the Company has not yet been registered by the NBU.

In February 2006 the Board of the Company took a decision to issue domestic bonds for a total nominal value of UAH 250,000 thousand with maturity in March 2008 and planned coupon rate of 10% p.a. The placement of the bonds commenced on 20 March 2006 and is to be completed on 22 May 2007. At the date of these consolidated financial statements the placement has not been completed.

In April 2006 the Bank purchased from other shareholders of Commercial Bank “UkrSibbank” LLC (formerly Commercial Bank “National Financial Traditions” LLC) their shares in the statutory capital of the Russian subsidiary with the total nominal value of RUR 90,000 thousand (UAH 16,507 thousand at the exchange rate at the date of payment). After this transaction the Bank’s share in the statutory capital of the subsidiary comprises 100%.

In June 2006 the Board of the Company took a decision to invest additional funds into the statutory capital of Commercial Bank “UkrSibbank” LLC in the amount of RUR 419,099 thousand. The respective agreement on additional investment was entered into with the subsidiary bank. The Bank has applied to the National Bank of Ukraine to obtain the required licence. At the date of these consolidated financial statements the licence has not been received.

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JSIB UKRSIBBANK

Consolidated Financial Statements and Auditors' Report 31 December 2004

Contents

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AUDITORS' REPORT

To the Shareholders and Board of Directors of JSIB UkrSibbank:

1 We have audited the accompanying consolidated balance sheet of JSIB UkrSibbank (the "Bank", as defined in Note 1 to the consolidated financial statements) as at 31 December 2004, and the related consolidated statements of income, of cash flows and of changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Bank's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2 We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at 31 December 2004 and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Kyiv, Ukraine
___ April 2005

Auditor L. Pakhucha
Certificate No 0000025 issued by the National Bank of Ukraine

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

	Note	31 December 2004	31 December 2003
Assets			
Cash and cash equivalents and mandatory reserve	5	618,213	361,552
Trading securities	6	275,943	182,365
Due from other banks	7	93,095	148,670
Loans and advances to customers	8	3,532,473	2,614,673
Investments available-for-sale	9	192,644	123,820
Investment securities held-to-maturity	10	47,908	75,696
Guarantee deposits with the National Bank of Ukraine	15	115,668	-
Other assets	11	79,484	40,860
Premises, leasehold improvements and equipment	12	420,882	144,806
Total assets		**5,376,310**	**3,692,442**
Liabilities			
Due to other banks	13	176,697	400,151
Customer accounts	14	3,290,231	2,707,956
Due to the National Bank of Ukraine	15	390,052	85,729
Debt securities in issue	16	570,739	57,390
Subordinated debt	17	73,433	114,537
Other liabilities	18	64,817	26,193
Deferred tax liability	23	42,838	16,858
Total liabilities		**4,608,807**	**3,408,814**
Minority interest		9,382	3,020
Shareholders' equity			
Share capital	19	1,543,684	1,146,124
Share premium		2,060	2,060
Additional capital	17	6,974	6,974
Revaluation reserve	12	3,958	3,958
Accumulated deficit		(798,555)	(878,508)
Total shareholders' equity		**758,121**	**280,608**
Total liabilities, minority interest and shareholders' equity		**5,376,310**	**3,692,442**

Approved for issue by the Board of Directors and signed on its behalf on "___" April 2005.

_____________________________	_____________________________
Oleksandr Adarich	Iryna Maryanko
Chairman of the Board	Chief Accountant

	Note	2004	2003
Interest income	20	660,643	377,693
Interest expense	20	(357,585)	(184,813)
Net interest income		**303,058**	**192,880**
Provision for loan impairment	7, 8	(83,533)	(73,586)
Net interest income after provision for loan impairment		**219,525**	**119,294**
Fee and commission income	21	99,574	83,021
Fee and commission expense	21	(8,169)	(6,787)
Gains less losses arising from trading securities		20,706	710
Gains less losses arising from investments available-for-sale		4,165	10,789
Gains less losses arising from trading in foreign currencies		61,374	38,163
Foreign exchange translation gains less losses/ (losses net of gains)		2,692	(1,359)
Losses net of gains on origination of financial instruments at rates above and below market	8, 10, 15	(435)	(604)
Loss on change in terms of subordinated debt	17	(8,589)	-
Provision for losses on credit related commitments	27	(3,062)	(3,723)
Other operating income		13,809	3,122
Operating income		**401,590**	**242,626**
Staff costs		(123,333)	(81,169)
Other operating expenses	22	(162,293)	(89,691)
Profit before tax		**115,964**	**71,766**
Income tax expense	23	(35,361)	(30,508)
Profit after tax		**80,603**	**41,258**
Minority interest		(650)	-
Net profit		**79,953**	**41,258**
Basic and diluted earnings per share (expressed in UAH per share)	24	**0.0089**	**0.0146**

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

	Note	2004	2003
Cash flows from operating activities			
Interest received on loans and placements		634,046	338,292
Interest received on securities		8,378	17,155
Interest paid		(323,586)	(161,473)
Income received from trading in trading securities		15,984	1,410
Income received from trading in foreign currencies		61,374	38,164
Fees and commissions received		99,574	83,021
Fees and commissions paid		(13,738)	(6,787)
Other operating income received		25,129	2,221
Staff costs paid		(123,333)	(81,169)
Other operating expenses paid		(128,841)	(65,026)
Income tax paid		(9,381)	(7,348)
Cash flows from operating activities before changes in operating assets and liabilities		**245,606**	**158,460**
Changes in operating assets and liabilities			
Net increase in mandatory reserve balances		(48,949)	(82,901)
Net increase in trading securities		(84,087)	(73,224)
Net decrease in due from other banks		54,440	41,189
Net increase in loans and advances to customers		(982,107)	(1,447,752)
Net increase in guarantee deposits with the National Bank of Ukraine		(115,668)	-
Net increase in other assets		(18,595)	(7,181)
Net (decrease)/ increase in due to other banks		(256,951)	153,070
Net increase in customer accounts		482,313	1,354,517
Net increase in due to the National Bank of Ukraine		304,127	80,753
Net (decrease)/ increase in debt securities in issue		(22,658)	30,972
Net increase/ (decrease) in other liabilities		4,008	(10,019)
Net cash (used in) / from operating activities		**(438,521)**	**197,884**
Cash flows from investing activities			
Acquisition of investments available-for-sale		(118,899)	(109,210)
Proceeds from disposal of investments available-for-sale		71,076	52,204
Acquisition of investments held-to-maturity		-	(77,416)
Proceeds from redemption of investments held-to-maturity		29,016	-
Acquisition of premises, leasehold improvements and equipment		(329,374)	(57,120)
Proceeds from disposal of premises and equipment		5,384	6,444
Net cash used in investing activities		**(342,797)**	**(185,098)**
Cash flows from financing activities			
Contributions received for new share issue	19	397,560	62,440
Issue of long-term debt securities	16	532,930	-
Payments to shareholders	19	-	(15,560)
Issue of subordinated debt		47,964	33,591
Net cash from financing activities		**978,454**	**80,471**
Effect of exchange rate changes on cash and cash equivalents		**10,576**	**(1,626)**
Net increase in cash and cash equivalents		**207,712**	**91,631**
Cash and cash equivalents at the beginning of the year		191,878	100,247
Cash and cash equivalents at the end of the year	5	**399,590**	**191,878**

As disclosed in Note 17, during 2004 deposits received under subordinated debt agreements totalling UAH 90,545 thousand were re-arranged as term deposits and included in term deposits of customers and due to other banks. The decrease in the subordinated debt balance and respective increase in customer accounts and due to other banks balances as a result of this transaction were not included in the above statement of cash flows.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

	Note	Share capital	Share premium	Additional Capital	Revaluation reserve	Accumulated deficit	Total shareholders' equity
Balance at 1 January 2003		**1,083,684**	**2,060**	**-**	**4,019**	**(908,874)**	**180,889**
Net profit for the year		-	-	-	-	41,258	41,258
Distributions to shareholders, net of tax effect	19	-	-	-	-	(10,892)	(10,892)
Share issue	19	62,440	-	-	-	-	62,440
Revaluation of the aircraft, net of tax effect		-	-	-	(61)	-	(61)
Gain on origination of subordinated debt, net of tax effect	17	-	-	6,974	-	-	6,974
Balance at 31 December 2003		**1,146,124**	**2,060**	**6,974**	**3,958**	**(878,508)**	**280,608**
Net profit for the year		-	-	-		79,953	79,953
Share issue	19	397,560	-	-		-	397,560
Balance at 31 December 2004		**1,543,684**	**2,060**	**6,974**	**3,958**	**(798,555)**	**758,121**

1 Principal Activities

These consolidated financial statements include the financial statements of Joint-Stock Innovation Bank UkrSibbank, its subsidiaries and special purpose entities. The Bank, its subsidiaries and special purpose entities together are referred to as the "Bank".

Joint-Stock Innovation Bank UkrSibbank (the "Bank") was formed in 1990 as Commercial Innovation Bank Kharkovincomebank and registered by Gosbank of USSR. In 1991 the Bank was reorganised as an open-type joint-stock company and registered by the National Bank of Ukraine (the "NBU"). In 1992 the Bank was renamed as UkrSibbank. As at 31 December 2004 the major shareholders of the Bank are six Ukrainian companies and two individuals, which together own over 97% of the outstanding registered shares (31 December 2003: nine Ukrainian companies owned over 99% of the outstanding registered shares).

The Bank operates under a banking license issued by the National Bank of Ukraine. The Bank's principal business activity is commercial and retail banking operations within Ukraine.

As at 31 December 2004 the Bank has 22 branches and 502 outlets in Ukraine (31 December 2003: 22 branches and 197 outlets). Additionally, the Bank has representative offices in Kyiv and Kharkiv (Ukraine). The Bank's registered office is located at the following address:

60 Moskovsky Ave.
61005, Kharkiv
Ukraine.

The number of the Bank's employees as at 31 December 2004 was 6,580 (as at 31 December 2003: 3,363).

A list of consolidated subsidiaries and special purpose entities is disclosed in Note 30.

2 Operating Environment of the Bank

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 12.3% for the year ended 31 December 2004 (2003: 8.2%). The tax, currency and customs legislation within Ukraine is subject to varying interpretations and changes, which can occur frequently.

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.

3 Basis of Presentation

Basis of Presentation. These consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Bank maintains its accounting records in accordance with Ukrainian banking and accounting regulations. These consolidated financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with IFRS.

These consolidated financial statements have been measured and presented in the national currency of Ukraine, hryvnia ("UAH").

3 Basis of Presentation (Continued)

The preparation of these consolidated financial statements requires the use of estimates and assumptions that effect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current period. Mandatory reserves, due from other banks and customer accounts which were previously classified as non-interest bearing in re-pricing analysis, were reclassified as demand according to their maturity dates.

4 Significant Accounting Policies

Consolidated financial statements. Subsidiary undertakings (including special purpose entities) are those companies and other entities in which the Bank, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to exercise control over financial and operating policies. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Bank controls another entity. Subsidiaries are consolidated from the date on which effective control is transferred to the Bank and are removed from consolidation from the date that control ceases. 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 consideration given in form of assets given up, shares issued or assumed liabilities at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

Minority interest is that part of the net results of operations and of the net assets of a subsidiary or a special purpose entity attributable to interests which are not owned, directly or indirectly, by the Bank. Minority interest in the consolidated balance sheet is recorded separately from liabilities and shareholders' equity. Minority interest related to results of the current period is recorded in the consolidated statement of income.

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash at short notice and which are subject to an insignificant risk of changes in value. All short term interbank placements, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Mandatory reserve balances. Mandatory reserve balances represent mandatory reserve assets which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the 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 Bank 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 initially recorded at cost (which includes transaction costs) and subsequently remeasured at fair value based on their market value or after the application of various valuation methodologies, including assumptions as to the future realisability of these securities. In determining market value, all trading securities are valued at the last trade price if quoted on a market or, if traded over-the-counter, at the last bid price.

All related realised and unrealised gains and losses are recorded within gains less losses arising from trading securities in the consolidated statement of income in the period in which the change in fair value occurs or is realised. Interest earned on trading securities is reflected in the consolidated statement of income as interest income on securities. Dividends received are included in dividend income within other operating income.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at settlement date, which is the date when the ownership right for securities is transferred to/by the Bank.

4 Significant Accounting Policies (Continued)

Sale and repurchase agreements. Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included into trading securities or investments available-for-sale as appropriate. The corresponding liability is presented within due to other banks. Securities purchased under agreements to resell ("reverse repo") are recorded as due from other banks or loans and advances to customers as appropriate. The difference between the sale and repurchase price including the respective coupon interest to be received by the counterparty during the term of a repo agreement is treated as interest and accrued over the life of repo agreements using the effective yield method.

Originated loans and advances and provisions for loan impairment. Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at draw down, other than those that are originated with the intent of being sold immediately or in the short-term which are recorded as trading assets, are categorised as originated loans.

Originated loans and advances are recorded when cash is advanced to borrowers. Initially, originated loans and advances are recorded at cost, which is the fair value of the consideration given, and subsequently are carried at amortised cost less provision for loan impairment. Amortised cost is the amount at which the financial asset was measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount, and minus any write-down (directly or through the use of an allowance account) for impairment or uncollectability. Amortised cost also includes accrued interest, if any. Third party expenses, such as legal fees incurred in securing a loan, are treated as part of the origination cost and are included in the initial measurement of the financial asset.

Loans originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans. The difference between the fair value and the nominal value at origination is credited or charged to the consolidated statement of income as gains on origination of assets at rates above market or losses on origination of assets at rates below market. Subsequently, the carrying amount of such loans is adjusted for amortisation of the gains/losses on origination and the related income is recorded as interest income within the consolidated statement of income using the effective yield method.

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

The provision for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to the borrowers and reflect the current economic environment in which the borrowers operate.

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the consolidated statement of income.

Reversals of provisions for loan impairment due to events occurring after the writedown are credited to the provision for loan impairment in the consolidated statement of income.

The Bank does not enter into transactions for purchases of loans with third parties.

Other credit related commitments. In the normal course of business, the Bank enters into other credit related commitments including commitments to extend credit, underwriting commitments, letters of credit, guarantees and promissory note endorsements. Specific provisions are recorded against other credit related commitments when losses are considered probable.

Promissory notes purchased. Promissory notes purchased are included in trading securities, investments available-for-sale or in loans and advances to customers, depending on Management intentions and are recognised and subsequently remeasured and accounted in accordance with the accounting policies for these categories of assets.

4 Significant Accounting Policies (Continued)

Investments available-for-sale. This classification includes investments which Management intends to hold for an indefinite period of time, that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Management determines the appropriate classification of its investments at the time of purchase.

Investments available-for-sale are initially recorded at cost (which includes transaction costs) and subsequently remeasured to fair value based on quoted market prices. Certain investments available-for-sale for which there is no available external independent quotation have been fair valued by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies. Realised and unrealised gains and losses arising from changes in the fair value of investments available-for-sale are included in the consolidated statement of income in the period in which they arise. Interest earned on investments available-for-sale is reflected in the consolidated statement of income as interest income on debt securities. Dividends received are included in dividend income within other operating income in the consolidated statement of income.

All regular way purchases and sales of investments available-for-sale are recognised at settlement date, which is the date when the ownership right for securities is transferred to/by the Bank.

Investment securities held to maturity. This classification includes investment securities with fixed maturity which Management has both the intent and the ability to hold to maturity. Management determines the appropriate classification of its investment securities at the time of the purchase.

Investment securities held to maturity are initially recorded at cost (which includes transaction costs) and subsequently are carried at amortised cost using the effective yield method, less any provision for impairment, calculated as the difference between the carrying amount and the present value of expected future cash flows discounted at the instrument's original effective interest rate.

Investment securities held-to-maturity originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar investments. The difference between the fair value and the nominal value at origination is credited or charged to the consolidated statement of income as gains on origination of assets at rates above market or losses on origination of assets at rates below market. Subsequently, the carrying amount of such investment securities held-to-maturity is adjusted for amortisation of the gains/losses on origination and the related income is recorded as interest income within the consolidated statement of income using the effective yield method.

Interest earned whilst holding investment securities held-to-maturity is recorded in the consolidated statement of income as interest income on securities.

All regular way purchases of investment securities held-to-maturity are recognised at settlement date, which is the date when the ownership right for investment securities is transferred to the Bank.

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.

The aircraft, included in premises, leasehold improvements and equipment of the Bank, is subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair value of the asset being revalued. The revaluation reserve included in the consolidated statement of shareholders' equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset.

Construction in progress is carried at cost less provision for impairment, where required. Upon completion, assets available for use are transferred to premises or leasehold improvements at the carrying amount of related construction in progress. Construction in progress is not depreciated.

4 Significant Accounting Policies (Continued)

At each reporting date the Bank assesses whether there is any indication of impairment of premises, leasehold improvements and equipment. If any such indication exists, the Bank estimates the recoverable amount, which is determined as the higher of an asset's net selling price or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the consolidated statement of income. 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 recoverable amount.

Gains and losses on disposal of premises, leasehold improvements and equipment determined as the difference between the disposal proceeds and the carrying amount at the time of disposal are charged to profit or loss. Repairs and maintenance are charged to the consolidated statement of income when the expenditure is incurred.

Depreciation. Depreciation is applied on a straight-line basis over the estimated useful lives of the assets as follows:

Premises	30 years
Office and computer equipment	5-15 years
Motor vehicles	8 years
Aircraft	25 years
Intangible assets	3 years
Leasehold improvements	Over the term of the lease

Operating leases. Where the Bank is the lessee, the total lease payments, including those on expected termination, are charged by the lessee to the consolidated statement of income on a straight-line basis over the period of the lease.

Finance leases. Where the Bank is the lessor, upon inception of a finance lease, the present value of the lease payments ("net investment in leases") is recorded within loans and advances to customers. Lease income is recorded over the term of the lease using the net effective yield method.

The inception of a lease is considered to be the date of the lease agreement, or commitment if earlier. For purposes of this definition, a commitment should be in writing, signed by the parties with an interest in the transaction, and should specifically set forth the principal terms of the transaction. Any advance payments made by the lessee prior to commencement of the lease reduces the net investment in the leases.

Finance income from leases is recorded within interest income in the consolidated statement of income.

When impaired, provisions against net investment in leases are created. A finance lease is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate of the finance lease receivable.

Computer software development costs. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Bank which will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 3 years.

Borrowings. Borrowings are recorded initially at 'cost', being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the consolidated statement of income over the period of the borrowings using the effective yield method.

Borrowings originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar borrowings. The difference between the fair value and the nominal value at origination is credited or charged to the consolidated statement of income as gains on origination of liabilities at rates below market or losses on origination of liabilities at rates above market. Subsequently, the carrying amount of such borrowings is adjusted for amortisation of the gains/losses on origination and the related expense is recorded as interest expense within the consolidated statement of income using the effective yield method.

4 Significant Accounting Policies (Continued)

Debt securities in issue. Debt securities in issue include Eurobonds, domestic bonds, promissory notes and certificates of deposit issued by the Bank. Debt securities in issue are recognised initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, debt securities in issue are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the consolidated statement of income over the period of the security issue using the effective yield method. If the Bank 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 net income.

Subordinated debt. Subordinated debt represents long-term borrowing agreements that, in case of the Bank's default, would be secondary to the Bank's primary debt obligations. Subordinated debt is recognised initially at cost, being the issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, subordinated debt is stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the consolidated statement of income using the effective yield method.

Insurance reserves. Insurance reserves include provision for unearned premiums, outstanding claims provision, provision for losses incurred but not yet reported and unexpired risk provision. Provision for unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force as at the balance sheet date, calculated on a time apportionment basis. Outstanding claims provision is recorded in respect of material claims reported, but not settled as at the balance sheet date. The estimation is made on the basis of information received by the Bank during investigation of insurance cases after the balance sheet date. Provision for losses incurred but not yet reported includes assumptions based on prior years' claims and claims handling experience. Outstanding claims provision and provision for losses incurred but not yet reported represent the accumulation of estimates for ultimate losses and are estimated on an undiscounted basis due to the relatively quick pattern of claims notification and payment. The methods of determining such estimates and establishing the resulting provisions are continually reviewed and updated. Resulting adjustments are reflected in the consolidated statement of income as they arise. Unexpired risk provision is recognised when unearned premiums are insufficient to meet claims and expenses, which may be incurred after the end of the financial year. To estimate the unexpired risk provision the Bank uses historical experience and forward looking assumptions of ultimate loss ratios (including claims handling expenses) and the level of in-force portfolio maintenance expenses. The expected claims are calculated having regard to events that have occurred prior to the balance sheet date.

Accrued interest income and accrued interest expense. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount, are included in the carrying values of related balance sheet items.

Share premium. Share premium represents the excess of capital contributions over the nominal value of the shares issued.

Treasury shares. Where the Bank or its subsidiaries purchase the Bank's equity share capital, the consideration paid including any attributable incremental external costs net of income taxes is deducted from total consolidated shareholders' equity as treasury shares until they are cancelled or disposed of. Where such shares are subsequently disposed or reissued, any consideration received is included in the shareholders' equity in the consolidated balance sheet. The effect of the disposal is presented in the statement of changes in equity.

Distributions to shareholders.. Distributions to shareholders are recorded in equity in the period in which an obligation to transfer cash to shareholders is incurred. Dividends are recorded as a liability and reduction of equity when declared.

Income taxes. Taxation has been provided for in the consolidated financial statements in accordance with Ukrainian legislation currently in force. The income tax charge in the consolidated statement of income for the period comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the period, using the tax rates enacted at the balance sheet date. Taxes, other than on income, are recorded within other operating expenses.

Income tax is recognised in the consolidated statement of income except to the extent that it relates to items recognised directly in equity.

Deferred income tax is provided, using the balance sheet liability method, for temporary differences arising between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes, unless an initial recognition exemption applies. Deferred taxes are not recorded for temporary differences arising on initial recognition of an asset or a liability without affecting accounting and taxable profits in a transaction other than a business combination. Deferred tax assets are recorded to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

4 Significant Accounting Policies (Continued)

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are netted only within individual companies.

Income and expense recognition. Interest income and expense are recorded in the consolidated statement of income for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment option) but does not consider future credit losses. The calculation includes all fees and points paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. When loans become impaired, they are written down to their recoverable amounts and interest income is thereafter recorded based on the original effective interest rate which was used to discount the expected future cash inflows for the purpose of measuring the recoverable amount.

Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recorded as an adjustment to the effective yield on the loan. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recorded on completion of the underlying transaction. Portfolio and other management advisory and service fees are recorded on an accruals basis based on stage of completion of the service in accordance with the applicable service contracts. Asset management fees related to investment funds are recorded proportionately over the period the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

Foreign currency translation. Transactions denominated in foreign currency are recorded at the exchange rate ruling on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the consolidated statement of income using the exchange rate ruling on that date.

Monetary assets and liabilities denominated in foreign currency are translated into Ukrainian hryvnias at the official exchange rate of the NBU at the balance sheet date. Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange translation gains less losses in the statement of income. Translation differences on non-monetary items such as equities held for trading or available-for-sale are recorded as part of the fair value gain or loss.

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

	31 December 2004, UAH	31 December 2003, UAH
1 USD	5.305400	5.331500
1 EUR	7.217466	6.662242

Exchange restrictions and controls exist relating to converting Ukrainian hryvnia into other currencies. At present, Ukrainian hryvnia is not a freely convertible currency outside Ukraine.

Derivative financial instruments. Derivative financial instruments including foreign exchange contracts and forward securities contracts are initially recorded in the consolidated balance sheet at cost (including transaction costs) when the Bank becomes party to the derivative contract and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices or using the spot rate at the year end. 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 gains less losses arising from trading in foreign currency and gains less losses arising from trading securities depending on the nature of the related derivative contracts.

Fiduciary activities. Assets and liabilities held by the Bank in its own name, but for the account of third parties, are not reported on the consolidated balance sheet. Commissions received from such business are shown in fee and commission income within the consolidated statement of 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.

4 Significant Accounting Policies (Continued)

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 Bank's net monetary position in 2000 and prior years is included in accumulated deficit.

Premises, leasehold improvements and equipment purchased prior to 31 December 2000 have been indexed by the change in the general price index from the date of purchase up to 31 December 2000. Where indexation is applied, an assessment has been made of the potential impairment and diminution in the carrying value of these assets and, where applicable, such assets have been reduced to their recoverable amounts.

The components of shareholders' equity, except retained earnings and revaluation surplus, were restated by applying a general price index from the dates the components were contributed to 31 December 2000. Retained earnings are restated as a consequence of restating all other amounts in the balance sheet.

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

Staff costs and related contributions. The Bank's contributions to Ukrainian State pension, social insurance and employment funds in respect of its employees are expensed as incurred and included in the staff costs line item in the consolidated statement of income. The Bank's contributions to Ukrainian State pension fund amount to 32% of employees' gross salaries.

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. The Bank operates in one geographical segment.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

5 Cash and Cash Equivalents and Mandatory Reserve

	31 December 2004	31 December 2003
Cash on hand	173,264	82,797
Cash balances with the NBU	332,038	167,172
Correspondent accounts and overnight placements with other banks		
- Ukraine	1,362	295
- other countries	111,549	111,288
Total cash and cash equivalents and mandatory reserve	**618,213**	**361,552**

As at 31 December 2004 the mandatory reserve balance is calculated on the basis of a simple average over a monthly period (2003: monthly period) and should be maintained at the level of 6 to 7 per cent (31 December 2003: 0 to 12 per cent) of certain obligations of the Bank. As such, the balance can vary from day-to-day. As at 31 December 2004 the Bank's mandatory reserve balance was UAH 218,623 thousand (31 December 2003: UAH 169,674 thousand). As at 31 December 2004 the Bank may satisfy its mandatory reserve requirement with a combination of its balance on account with the NBU and up to 40% of UAH cash on hand (31 December 2003: balance on account with the NBU, up to 40% of UAH cash on hand and up to 20% of foreign currency cash on hand).

As at 31 December 2004, in accordance with the NBU regulations, the Bank was required to maintain a balance on account with the NBU at a level not less than 60% of the mandatory reserve balance for the preceding month.

As the respective liquid assets are not freely available to finance the Bank's day-to-day operations, for the purposes of the cash flow statement, the mandatory reserve balance is excluded from cash and cash equivalents.

The Bank's cash and cash equivalents for the purposes of cash flow statement were as follows:

	31 December 2004	31 December 2003
Total cash and cash equivalents and mandatory reserve	618,213	361,552
Less: mandatory reserve balance	(218,623)	(169,674)
Cash and cash equivalents for the purposes of cash flow statement	**399,590**	**191,878**

Cash balance with the NBU in the amount of UAH 7,717 thousand (31 December 2003: UAH 7,717 thousand) has been pledged as collateral in respect of loans received from the NBU. Refer to Notes 15 and 27.

Geographical and currency analyses of cash and cash equivalents and mandatory reserve are disclosed in Note 26.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

6 Trading Securities

	31 December 2004	31 December 2003
Bonds issued by central and local government	147,723	-
Corporate bonds	122,916	174,862
Bank bonds	5,304	4,580
Promissory notes	-	2,923
Total trading securities	**275,943**	**182,365**

Corporate bonds are interest bearing securities denominated in UAH, issued by Ukrainian companies. Corporate bonds and bonds issued by central and local government have maturity dates from January 2005 to July 2009, coupon rates from 9% to 18% per annum in 2004 and yield to maturity from 9% to 22% per annum at 31 December 2004 (31 December 2003: maturity dates from January 2004 to November 2008, coupon rates from 12% to 17% per annum in 2003 and yields to maturity from 12% to 17% per annum), depending on the credit rating of the issuer and maturity of the bonds. These bonds are traded on the Ukrainian over-the-counter market (PFTS). Fair value of these bonds was determined based on quoted bid prices.

As at 31 December 2003 trading securities included securities pledged under sale and repurchase agreements whose fair value at 31 December 2003 was UAH 44,776 thousand. Refer to Notes 13 and 27.

In addition, as at 31 December 2004 trading securities with a fair value of UAH 14,714 thousand (31 December 2003: UAH 15,044 thousand) have been pledged to third parties as collateral against guarantees issued by the Bank. As at 31 December 2003 trading securities with fair value of UAH 19,911 thousand have been pledged to another bank as collateral against letters of credit. Refer to Note 27.

As at 31 December 2003 trading securities with a fair value of UAH 16,169 thousand were pledged to third parties as collateral with respect to term placements of other banks. Refer to Notes 13 and 27.

The geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 26. The Bank holds trading securities issued by related parties. The relevant information on related party balances is disclosed in Note 29.

7 Due from Other Banks

	31 December 2004	31 December 2003
Term placements with other banks	84,846	79,428
Guarantee deposits with other banks	9,374	20,105
Reverse sale and repurchase agreements with other banks	-	49,137
Less: Provision for impairment	(1,125)	-
Total due from other banks	**93,095**	**148,670**

Due from other banks includes accrued interest income in the amount of UAH 6 thousand (31 December 2003: UAH 598 thousand).

As at 31 December 2004 term placements and guarantee deposits with other banks totalling UAH 26,576 thousand represent UAH deposits pledged against USD deposits received for the same term from the same counterparty banks totalling UAH 26,527 thousand. The respective assets and liabilities have not been offset, as there is no legal right to offset. Refer to Note 13 and 27.

As at 31 December 2003 term placements with other banks totalling UAH 50,067 thousand represent UAH deposits placed against USD deposits received for the same term from the same counterparty banks totalling UAH 50,649 thousand. The respective assets and liabilities have not been offset, as there is no legal right to offset. Refer to Note 13.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

7 Due from Other Banks (Continued)

Guarantee deposits include balances placed with other banks as cover for letters of credit placed on behalf of the Bank's customers totalling UAH 4,049 thousand (31 December 2003: UAH 7,179 thousand). The Bank does not have the right to use these funds for the purposes of funding its own activities. In addition, guarantee deposits include balances placed with other banks as cover for guarantees issued by the Bank and for international payments in the amount of UAH 5,325 thousand (31 December 2003: UAH 12,926 thousand). Refer to Note 27.

Movements in the provision for impairment of due from other banks are as follows:

	2004	2003
Provision for impairment of due from other banks as at 1 January	-	**29**
Provision for impairment of due from other banks during the year	1,125	-
Placements with other banks written off during the year as uncollectable	-	(29)
Provision for impairment of due from other banks as at 31 December	**1,125**	**-**

As at 31 December 2004 the estimated fair value of due from other banks was UAH 93,095 thousand (31 December 2003: UAH 148,670 thousand). Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 26.

8 Loans and Advances to Customers

	31 December 2004	31 December 2003
Current loans	3,457,243	2,388,939
Net investment in finance leases	43,313	12,257
Cash-covered loans	205,722	386,886
Overdue loans	90,520	17,130
Less: Provision for loan impairment	(264,325)	(190,539)
Total loans and advances to customers	**3,532,473**	**2,614,673**

Loans and advances to customers include accrued interest income in the amount of UAH 54,672 thousand (31 December 2003: UAH 51,731 thousand).

Overdue loans include outstanding loans that matured before 31 December 2004 and loan instalments due but not paid. Loan instalments not yet due are included in current loans.

During 2004 a loss on origination of loans at rates below market in the amount of UAH 435 thousand (2003: UAH 3,854 thousand) has been recorded in the consolidated statement of income.

Movements in the provision for loan impairment are as follows:

	2004	2003
Provision for loan impairment as at 1 January	**190,539**	**117,984**
Charge for provision for loan impairment during the year	82,408	73,586
Loans and advances to customers written off during the year as uncollectable	(8,622)	(1,031)
Provision for loan impairment as at 31 December	**264,325**	**190,539**

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

8 Loans and Advances to Customers (Continued)

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

	31 December 2004		31 December 2003	
	Amount	**%**	**Amount**	**%**
Commerce and finance	961,964	25	622,617	22
Individuals	954,115	25	399,167	14
Agriculture and food industry	559,251	15	485,808	17
Oil and gas	349,496	9	716,327	26
Chemical industry	304,105	8	207,684	7
Motor vehicles trading	260,114	7	127,686	5
Property construction	160,333	4	13,936	-
Manufacture and machinery building	92,093	3	61,628	2
Air and other transport services	50,520	1	36,637	1
Metallurgy and mining	22,597	1	101,849	4
Other	82,210	2	31,873	2
Total loans and advances to customers (aggregate amount)	**3,796,798**	**100**	**2,805,212**	**100**

At 31 December 2004 the Bank has 14 borrowers with aggregated loan amounts above UAH 35,000 thousand (31 December 2003: 19 borrowers with aggregated loan amounts above UAH 35,000 thousand). The aggregate amount of these loans is UAH 867,492 thousand or 23% of the gross loan portfolio (31 December 2003: UAH 969,282 thousand or 35% of the gross loan portfolio).

Loans to customers with carrying value of UAH 382,806 thousand (31 December 2003: UAH 62,742 thousand) have been pledged as collateral against short-term loans received from the National Bank of Ukraine in the amount of UAH 233,000 thousand (31 December 2003: UAH 20,003 thousand). Refer to Notes 15 and 27.

The loans and advances to customers include finance lease receivables, which are analysed as follows:

	31 December 2004	31 December 2003
Gross investment in finance leases, receivable:		
- Not later than 1 year	25,883	6,938
- Later than 1 year and not later than 5 years	29,364	8,367
- Later than 5 years	-	-
Less: unearned finance income	(11,934)	(3,048)
Net investment in finance leases	**43,313**	**12,257**

Net investment in finance leases are analysed as follows:

	31 December 2004	31 December 2003
Net investment in finance leases, receivable:		
- Not later than 1 year	20,266	5,096
- Later than 1 year and not later than 5 years	23,047	7,161
- Later than 5 years	-	-
Net investment in finance leases	**43,313**	**12,257**

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

8 Loans and Advances to Customers (Continued)

As at 31 December 2004 the estimated fair value of loans and advances to customers was UAH 3,534,727 thousand (31 December 2003: UAH 2,609,794 thousand). Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 26. The information on related party balances is disclosed in Note 29.

9 Investments Available-for-Sale

	31 December 2004	31 December 2003
Unquoted corporate shares	114,932	59,596
Quoted corporate shares	58,841	58,233
Corporate bonds	18,871	-
Promissory notes	-	5,991
Total investments available-for-sale	**192,644**	**123,820**

The movements in investments available-for-sale are as follows:

	2004	2003
Carrying amount at the beginning of the year	**123,820**	**88,940**
Unrealised losses less gains from changes in fair value of investments available-for-sale during the year	(1,187)	(5,339)
Acquisition of investments available for sale	130,402	99,768
Disposal of investments available for sale	(60,391)	(59,549)
Carrying amount at the end of the year	**192,644**	**123,820**

Corporate shares are shares of Ukrainian companies. Quoted shares are reflected at year-end market value, which has been determined by the Management using last trade prices or bid prices obtained from over-the-counter market. However, the volume of activity on the organised market for most of these shares has been insignificant, and therefore the prices used may not reflect the value of these shares that could be obtained in a transaction between a willing buyer and a willing seller. External independent market quotations were not available for certain investments available-for-sale. The fair value of these assets was determined by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees.

At 31 December 2003 investments available-for-sale included corporate shares with a fair value of UAH 40,147 thousand pledged as collateral under loans received from a local bank in the amount of UAH 21,589 thousand. Refer to Notes 13 and 27.

Geographical, currency, maturity and interest rate analyses of investments available-for-sale are disclosed in Note 26. The information on related party investments available-for-sale is disclosed in Note 29.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

10 Investment Securities Held-to-Maturity

Investment securities held-to-maturity are interest bearing corporate bonds denominated in UAH, issued by two Ukrainian state-owned companies. These bonds have maturity dates from May to September 2006, coupon rates of 12% per annum and yield to maturity of 14% per annum at 31 December 2004 (31 December 2003: maturity dates from May to September 2006, coupon rates of 12% per annum and yield to maturity of 14% per annum). These investment securities were purchased by the Bank during the year ended 31 December 2003.

At 31 December 2004 held-to-maturity corporate bonds with a carrying value of UAH 47,908 thousand (31 December 2003: UAH 75,696 thousand) are pledged as collateral against long-term loans received from the National Bank of Ukraine with carrying value of UAH 42,237 thousand (31 December 2003: UAH 65,726 thousand). Refer to Notes 15 and 27.

During the year ended 31 December 2003 a loss in the amount of UAH 2,297 thousand was recorded with respect of investment securities held-to-maturity originated at rates below market and included in losses net of gains on origination of financial instruments at rates above and below market in the consolidated statement of income.

As at 31 December 2004 the estimated fair value of investment securities held-to-maturity was UAH 48,362 thousand (31 December 2003: UAH 77,500 thousand). Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of investment securities held-to-maturity are disclosed in Note 26.

11 Other Assets

	31 December 2004	31 December 2003
Prepayments for premises and equipment	35,472	3,948
Receivables from sale of securities	10,097	21,600
Prepaid expenses	9,001	1,667
Amounts in the course of settlements	7,397	3,563
Restricted cash	3,545	3,737
Other prepayments, sundry debtors and accruals	23,106	7,917
Less: Provision for impairment of sundry debtors	(9,134)	(1,572)
Total other assets	**79,484**	**40,860**

Restricted cash represents balance on the correspondent account with the NBU in EUR and EUR cash in hand held for the purposes of making payments to Nazi victims under the agency agreement with the Ukrainian National Fund “Vzayemorozuminnia i Prymyrennia”. The Bank does not have the right to use these funds for the purposes of funding its own activities.

Movements in the provision for impairment of sundry debtors are as follows:

	Note	2004	2003
Provision for impairment of sundry debtors as at 1 January		**1,572**	**1,067**
Charge for provision for impairment of sundry debtors during the year	22	7,637	1,124
Sundry debtors written off during the year as uncollectable		(75)	(619)
Provision for impairment of sundry debtors as at 31 December		**9,134**	**1,572**

Geographical, currency and maturity analyses of other assets are disclosed in Note 26. The information on related party balances is disclosed in Note 29.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

12 Premises, Leasehold Improvements and Equipment

	Note	Premises	Leasehold improve-ments	Office and computer equipment	Aircraft and motor vehicles	Intangible assets	Construc-tion in progress	Total
Net book amount at 31 December 2003		**32,271**	**8,420**	**50,966**	**19,080**	**5,450**	**28,619**	**144,806**
Book amount at cost or valuation								
Opening balance		36,740	15,109	74,263	22,723	11,579	28,619	189,033
Additions		-	35	44,970	9,569	1,990	253,392	309,956
Transfers		71,625	3,743	-	-	-	(75,368)	-
Disposals		(5,171)	(98)	(483)	(1,346)	(46)	-	(7,144)
Closing balance		**103,194**	**18,789**	**118,750**	**30,946**	**13,523**	**206,643**	**491,845**
Accumulated depreciation and amortisation								
Opening balance		4,469	6,689	23,297	3,643	6,129	-	44,227
Charge for the year	22	1,947	3,065	16,448	2,861	3,686	-	28,007
Disposals		(294)	(13)	(245)	(676)	(43)	-	(1,271)
Closing balance		**6,122**	**9,741**	**39,500**	**5,828**	**9,772**	**-**	**70,963**
Net book amount at 31 December 2004		**97,072**	**9,048**	**79,250**	**25,118**	**3,751**	**206,643**	**420,882**

The aircraft has been independently valued in 2003. The valuation was performed on the basis of an appraisal carried out by an independent valuer, Universal Commodity Exchange "Ukraina". The basis used for the appraisal was market value. Revaluation surplus recorded in respect of this item totalled UAH 5,277 thousand at 31 December 2004 (31 December 2003: UAH 5,277 thousand). The deferred tax liability in the amount of UAH 1,319 thousand (31 December 2003: UAH 1,319 thousand) calculated in respect of this valuation adjustment has been recorded directly to equity in accordance with the applicable accounting standards. At 31 December 2004 the carrying amount of the aircraft would have been UAH 932 thousand (31 December 2003: UAH 974 thousand) had the asset been carried at cost less depreciation.

As at 31 December 2004 premises with the total carrying value of UAH 58,735 thousand (2003: none) have been pledged to the NBU as collateral against the stabilisation loan. Refer to Notes 15 and 27.

At 31 December 2004 premises, leasehold improvements and equipment include assets totalling UAH 7,365 thousand at cost, which are fully depreciated (31 December 2003: UAH 4,803 thousand). These assets are still used by the Bank.

Construction in progress consists mainly of construction of the Bank's new premises in Kyiv.

Included in premises, leasehold improvements and equipment are assets leased to other parties under operating lease agreements with total cost of UAH 6,082 thousand (31 December 2003: UAH 9,597 thousand), accumulated depreciation of UAH 945 thousand (31 December 2003: UAH 1,004 thousand) and a depreciation charge for the year of UAH 310 thousand (year ended 31 December 2003: UAH 372 thousand).

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

13 Due to Other Banks

	31 December 2004	31 December 2003
Correspondent accounts and overnight placements of other banks	25,902	7,291
Guarantees deposits of other banks	2,586	-
Loans received from other banks	148,209	322,428
Amounts payable under sale and repurchase agreements	-	70,432
Total due to other banks	**176,697**	**400,151**

Due to other banks includes accrued interest expense in the amount of UAH 1,363 thousand (31 December 2003: UAH 1,258 thousand).

As at 31 December 2003 securities sold under sale and repurchase agreements were corporate bonds with a fair value of UAH 44,776 thousand and bonds issued by one of the Bank's special purpose entities with par value of UAH 24,757 thousand. Refer to Notes 6 and 27.

As at 31 December 2003 loans from another local bank totalling UAH 15,995 thousand were secured by corporate bonds with fair value of UAH 16,169 thousand included in trading securities. Refer to Notes 6 and 27.

As at 31 December 2003 loans from another bank in the amount of UAH 21,589 thousand were secured by corporate shares included in investments available-for-sale with a fair value of UAH 40,147 thousand. Refer to Notes 9 and 27.

As at 31 December 2003 included in loans received from other banks was a USD denominated syndicated loan in the amount of UAH 53,315 thousand from a UK-based bank, collateralised by corporate eurobonds provided by one of the Bank's related parties. The loan was originally granted for the period of 6 months and was extended for another 6-month period. The loan was fully repaid in October 2004.

As disclosed in Note 7, loans received from other banks as at 31 December 2004 totalling UAH 26,527 thousand represent funds in USD pledged against UAH placements and guarantee deposits totalling UAH 26,576 thousand placed by the Bank for the same term with the same counterparties. Refer to Note 27.

As at 31 December 2003 term placements of other banks totalling UAH 50,649 thousand represent funds in USD received against UAH placements and guarantee deposits totalling UAH 50,067 thousand placed by the Bank with the same counterparties. Refer to Note 7.

As at 31 December 2004 loans received from other banks totalling UAH 24,607 thousand represent long-term loans received from German banks for the purposes of financing purchase of import equipment by the Bank's customers. These loans carry interest rate of 3% per annum.

As at 31 December 2004 the estimated fair value of due to other banks was UAH 176,697 thousand (31 December 2003: UAH 398,392 thousand). Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 26.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

14 Customer Accounts

	31 December 2004	31 December 2003
Legal entities		
- Current accounts	636,481	459,971
- Term and guarantee deposits	1,200,547	1,360,385
Individuals		
- Current accounts	101,999	87,722
- Term deposits	1,351,204	799,878
Total customer accounts	**3,290,231**	**2,707,956**

Customer accounts includes accrued interest expense in the amount of UAH 63,214 thousand (31 December 2003: UAH 37,870 thousand).

Economic sector concentrations within customer accounts are as follows:

	31 December 2004		31 December 2003	
	Amount	%	Amount	%
Individuals	1,453,203	44	887,600	33
Commerce and trade	839,821	26	1,040,211	38
Manufacturing	382,255	12	271,860	10
Transport and communication	232,247	7	207,431	8
Financial services	69,757	2	81,626	3
Cultural and educational services	38,119	1	72,801	3
Other	274,829	8	146,427	5
Total customer accounts	**3,290,231**	**100**	**2,707,956**	**100**

At 31 December 2004 the Bank has 17 customers (31 December 2003: 13 customers) with balances above UAH 20,000 thousand. The aggregate balances of these customers total UAH 1,027,553 thousand or 31% of total customer accounts (31 December 2003: UAH 1,039,065 thousand or 38% of total customer accounts).

Included in customer accounts are balances totalling UAH 347,002 thousand (31 December 2003: UAH 568,120 thousand) placed by customers as collateral for loans to customers totalling UAH 205,722 thousand (31 December 2003: UAH 386,886 thousand) and commitments under guarantees, promissory note endorsements and letters of credit totalling UAH 54,240 thousand (31 December 2003: UAH 39,851 thousand). Refer to Notes 8 and 27.

As at 31 December 2004 the estimated fair value of customer accounts was UAH 3,285,915 thousand (31 December 2003: UAH 2,703,244 thousand). Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 26. The information on related party balances is disclosed in Note 29.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

15 Due to the National Bank of Ukraine

	31 December 2004	31 December 2003
Short-term loans	347,815	20,003
Long-term loans	42,237	65,726
Total due to the National Bank of Ukraine	**390,052**	**85,729**

Due to the NBU includes accrued interest expense in the amount of UAH 196 thousand (31 December 2003: nil).

As at 31 December 2004 short-term loans from the NBU include a stabilisation loan of UAH 233,000 thousand (31 December 2003: nil). The loan was granted by the NBU as part of liquidity support to the banking sector provided by the NBU during the political crisis in November-December 2004. This loan was secured by loans to the Bank's borrowers with a carrying value of UAH 382,806 thousand and the Bank's premises with the carrying value of UAH 58,735 thousand. Refer to Notes 8, 12 and 27. The loan was provided for the period to June 2005. The stabilisation loan was repaid in January 2005.

Other short-term loans from the NBU in the amount of UAH 114,815 thousand as at 31 December 2004 were secured by USD and EUR guarantee deposits placed with the NBU totalling UAH 115,668 thousand. Refer to Note 27.

As at 31 December 2003 short-term loans from the NBU in the amount of UAH 20,003 were secured by loans to the Bank's borrowers with a carrying value of UAH 62,742 thousand. Refer to Notes 8 and 27.

Long-term loans from the NBU mature in 3 years after origination and carry a nominal interest rate of 7% per annum. These loans were provided against collateral of corporate bonds with a carrying value of UAH 47,908 thousand as at 31 December 2004 (31 December 2003: corporate bonds with a carrying value of UAH 75,696 thousand) included in investment securities held-to-maturity and against cash balances on account with the NBU in the amount of UAH 7,717 thousand (31 December 2003: UAH 7,717 thousand) included in mandatory reserve balances. Refer to Notes 5, 10 and 27.

During the year ended 31 December 2003 a gain totalling UAH 5,547 thousand was recognised in respect of long-term loans originated at non-market interest rates and included in losses net of gains on origination of financial instruments at rates above and below market in the consolidated statement of income.

As at 31 December 2004 the estimated fair value of due to the NBU was UAH 390,034 thousand (31 December 2003: UAH 84,891 thousand). Refer to Note 28.

Currency, maturity and interest rate analyses of due to the National Bank of Ukraine are disclosed in Note 26.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

16 Debt Securities in Issue

	31 December 2004	31 December 2003
Eurobonds	537,766	-
Deposit certificates	32,971	36,109
Domestic bonds	-	21,279
Promissory notes	2	2
Total debt securities in issue	**570,739**	**57,390**

Debt securities in issue includes accrued interest expense in the amount of UAH 16,452 thousand (31 December 2003: UAH 2,903 thousand).

In April 2004 the Bank issued eurobonds with a par value of USD 100,000 thousand (UAH 532,930 thousand at the exchange rate at the time of issue). The bonds carry a fixed coupon rate of 10.5% per annum, effective interest rate of 11.4% per annum and mature in April 2007. The eurobonds are listed on the Luxembourg Stock Exchange.

As at 31 December 2003 domestic bonds issued by the Bank matured in December 2004 and carried fixed coupon interest rate of 16% per annum and yield to maturity of 23% per annum. All domestic bonds were redeemed in December 2004.

As at 31 December 2004 the estimated fair value of debt securities in issue was UAH 555,113 thousand (31 December 2003: UAH 59,256 thousand). Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 26. The information on debt securities in issue held by related parties is disclosed in Note 29.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

17 Subordinated Debt

Issuer	**Currency**	**Year of issue**	**Year of maturity**	**31 December 2004**	**31 December 2003**
EFG Private Bank	USD	2004	2009	48,359	-
EFG Private Bank	USD	2002	2009	25,074	23,992
EFG Private Bank	USD	2000	2006	-	31,989
Burnham Investment Limited	USD	2003	2010	-	24,851
Burnham Investment Limited	UAH	2000	2006	-	14,308
Burnham Investment Limited	USD	2000	2006	-	14,907
Burnham Investment Limited	USD	2000	2006	-	4,490
Total subordinated debt				**73,433**	**114,537**

Included in subordinated debt is accrued interest expense in the amount of UAH 1,810 thousand (31 December 2003: UAH 7,204 thousand).

In accordance with the Law of Ukraine on Banks and Banking Activities, subordinated debt cannot be withdrawn from a bank for at least five years from the date of receipt. However, the subordinated debt agreement does have a provision that allows to change the terms of the debt including its maturity based on mutual agreement with the Bank.

The subordinated debt was issued in instalments during 2000, 2002, 2003 and 2004.

During the year ended 31 December 2003 a subordinated debt deposit in the amount of USD 6,300 thousand (UAH 33,591 thousand at the exchange rate at the date of receipt) was received from Burnham Investment Limited. A gain on origination in the amount of UAH 9,299 thousand was made in respect of this subordinated debt deposit originated in 2003 at a rate below market. The gain of UAH 6,974 thousand net of taxation of UAH 2,325 thousand, calculated as the difference between the nominal value of subordinated debt and the fair value of consideration received, was credited to equity in the form of additional capital, as in substance the subordinated debt issue was a transaction with shareholders.

During the year ended 31 December 2004, after changes in the NBU regulations, the Bank increased the interest rate on this debt from LIBOR+4% to 10% per annum. As this change in the terms of subordinated debt represents a substantial modification of the terms of the existing financial liability, this transaction was accounted for as an extinguishment of the original subordinated debt and recognition of a new debt instrument in accordance with the requirements of IAS 39 “Financial Instruments: Recognition and Measurement”. The loss of UAH 8,589 thousand, arising as a result of this transaction, was charged to the consolidated statement of income in accordance with the requirements of IAS 39. Refer to Note 29.

During the year ended 31 December 2004 subordinated debt deposits received in prior years totalling UAH 90,545 thousand as at 31 December 2003, were re-arranged as term deposits and included in term deposits of legal entities and due to other banks. Upon re-arrangement interest rate on these borrowings remained unchanged but maturities were reduced to 12 months and 6 months from the date of the re-arrangement, respectively.

From April 2004, under the new NBU regulations, the interest rate on UAH denominated subordinated debt should not exceed 12% per annum and the interest rate on USD denominated subordinated debt should not exceed 10% per annum. Previously the interest rate on UAH denominated subordinated debt was limited to the official NBU discount rate and the interest rate on USD denominated subordinated debt was limited to LIBOR +4%.

As at 31 December 2004 the estimated fair value of subordinated debt was UAH 72,856 thousand (31 December 2003: UAH 107,507 thousand). Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of subordinated debt are disclosed in Note 26. The relevant information on related party balances is disclosed in Note 29.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

18 Other Liabilities

	Note	31 December 2004	31 December 2003
Present value of minimum finance lease payments		15,884	8,098
Insurance reserves		14,115	-
Settlements for securities transactions		9,384	4,051
Payables for purchased premises and equipment		9,263	4,943
Provision for losses on credit related commitments	27	8,465	5,403
Taxes payable		1,551	893
Other		6,155	2,805
Total other liabilities		**64,817**	**26,193**

Finance lease payables relate to the lease of automatic teller machines by the Bank. Minimum finance lease payments are analysed as follows:

	31 December 2004	31 December 2003
Gross minimum finance lease payments:		
- Not later than 1 year	3,261	1,600
- Later than 1 year and not later than 5 years	13,043	6,302
- Later than 5 years	7,013	4,304
Less: future finance charges	(7,433)	(4,108)
Present value of minimum finance lease payments	**15,884**	**8,098**

Net minimum finance lease payments are analysed as follows:

	31 December 2004	31 December 2003
Net minimum finance lease payments:		
- Not later than 1 year	1,530	716
- Later than 1 year and not later than 5 years	8,192	3,702
- Later than 5 years	6,162	3,680
Present value of minimum finance lease payments	**15,884**	**8,098**

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 26. The information on related party balances is disclosed in Note 29.

19 Share Capital

Issued and paid share capital of the Bank comprises:

	31 December 2004			31 December 2003		
	Number of shares, thousands	**Nominal amount**	**Inflation adjusted amount**	**Number of shares, thousands**	**Nominal amount**	**Inflation adjusted amount**
Ordinary shares – paid in and registered	12,000,000	600,000	1,543,684	2,800,000	140,000	1,083,684
Contributions for new share issues – paid in but not registered	-	-	-	1,248,790	62,440	62,440
Total share capital	**12,000,000**	**600,000**	**1,543,684**	**4,048,790**	**202,440**	**1,146,124**

All ordinary shares have a nominal value of UAH 0.05 per share, rank equally and carry one vote.

In 2001 Ukraine ceased to be a hyperinflationary economy. Therefore the inflation adjusted share capital balance as at 31 December 2000 is the basis for the carrying amount in subsequent years. Share capital contributions after 31 December 2000 have not been inflated.

During 2003 the Bank issued 1,400 million shares totalling UAH 70,000 thousand. The placement of shares commenced on 10 November 2003 and was completed in December 2003. The shareholders meeting of 26 December 2003 approved the results of the share issue and decided to make the respective changes to the Bank's Charter. On 25 February 2004 the NBU registered an increase in the share capital of the Bank in the amount of UAH 70,000 thousand. As at 31 December 2003 UAH 62,440 thousand were paid in respect of this share issue. The remaining contributions to share capital totalling UAH 7,560 thousand were paid in January and February 2004.

During the year ended 31 December 2004 the shareholders of the Bank took a decision to issue 4,200,000 thousand additional shares totalling UAH 210,000 thousand. The placement of shares commenced in May 2004 and was completed in May 2004. In total 7,800,000 thousand shares were placed for a total nominal value of UAH 390,000 thousand. The shareholders meeting of 27 May 2004 approved the results of the share issue and decided to make the respective changes to the Bank's Charter. On 30 June 2004 the NBU registered the increase in the share capital of the Bank in the amount of UAH 390,000 thousand. As at 31 December 2004 UAH 390,000 thousand were paid in respect of the new share issue.

During the year ended 31 December 2003 the Bank has made distributions to certain shareholders in the amount of UAH 10,892 thousand net of tax effect of UAH 4,668 thousand.

Movements in the number of shares (in thousands) are as follows:

	2004	**2003**
Number of shares outstanding as at 1 January	**4,200,000**	**2,800,000**
Shares issued during the year	7,800,000	1,400,000
Number of shares outstanding as at as at 31 December	**12,000,000**	**4,200,000**
Less number of shares outstanding but not fully paid	-	(151,210)-
Number of shares issued and fully paid as at 31 December	**12,000,000**	**4,048,790**

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

20 Interest Income and Expense

	2004	2003
Interest income		
Loans and advances to customers	615,034	342,190
Debt securities	31,234	18,318
Due from other banks	14,375	17,185
Total interest income	**660,643**	**377,693**
Interest expense		
Term deposits of individuals	133,092	69,343
Term deposits of legal entities	117,757	72,302
Debt securities in issue	53,316	8,350
Current accounts	16,809	9,749
Due to other banks	13,215	14,776
Due to the National Bank of Ukraine	11,970	4,325
Subordinated debt	10,029	5,720
Finance leases	1,397	248
Total interest expense	**357,585**	**184,813**
Net interest income	**303,058**	**192,880**

Information on interest income and expense from transactions with related parties is disclosed in Note 29.

21 Fee and Commission Income and Expense

	2004	2003
Fee and commission income		
Commission on cash and settlement transactions	68,583	47,975
Commission on foreign exchange transactions	21,562	22,045
Commission on transactions with securities and trade finance operations	7,620	6,854
Commission on factoring transactions	-	4,664
Other	1,809	1,483
Total fee and commission income	**99,574**	**83,021**
Fee and commission expense		
Commission on cash and settlement transactions	6,018	4,874
Other	2,151	1,913
Total fee and commission expense	**8,169**	**6,787**
Net fee and commission income	**91,405**	**76,234**

Information on fee and commission income from transactions with related parties is disclosed in Note 29.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

22 Other Operating Expenses

	Note	2004	2003
Depreciation and amortisation	12	28,007	17,546
Rent		22,953	14,770
Mail and telecommunication		16,907	10,003
Advertising and marketing		12,014	6,130
Maintenance of premises and equipment		11,528	7,806
Taxes other than on income		9,130	1,057
Security		8,034	5,476
Provision for impairment of sundry debtors	11	7,637	1,124
Individuals Deposits Guarantee Fund		5,465	2,872
Insurance of property and equipment		4,863	3,759
Professional services		3,139	2,618
Business trip expenses		2,918	1,653
Charity		1,874	2,710
Other		27,824	12,167
Total other operating expenses		**162,293**	**89,691**

23 Income Taxes

Income tax expense comprises the following:

	Note	2004	2003
Current tax charge		9,381	8,214
Deferred taxation movement due to origination and reversal of temporary differences		25,980	22,513
Less: Effect of change in tax rate		-	(2,583)
Add: Tax effect of distributions recognised directly in equity	19	-	4,668
Less: Deferred tax charged directly to equity		-	(2,304)
Income tax expense for the year		**35,361**	**30,508**

In the year ended 31 December 2003 the Bank transferred funds to certain shareholders that are treated as distributions to shareholders for the purposes of these consolidated financial statements. The tax effect of these distributions have been recognised directly in equity as required by IAS 12 “Income Taxes”.

During the year ended 31 December 2004 the income tax rate applicable to the majority of the Bank’s income is 25% (2003: 30%). The income tax rate applicable to the majority of subsidiaries income is 25% (2003: 30%), except for income arising from insurance activities which is taxed at 3%.

A reconciliation between the expected and the actual taxation charge is provided below.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

23 Income Taxes (Continued)

	2004	2003
IFRS profit before taxation	**115,964**	**71,766**
Theoretical tax charge at the applicable statutory rate	28,991	21,530
Effect of change in tax rate	-	(2,583)
Non deductible expenses	12,193	11,561
Income taxed at different rates	(5,823)	-
Income tax expense for the year	**35,361**	**30,508**

Differences between IFRS and Ukrainian statutory taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of the movement in these temporary differences is recorded at the rate of 25% (2003: at the rate of 30% for those differences that reverse prior to 1 January 2004 and at the rate of 25% for those differences that reverse after 1 January 2004), except for income from insurance operations which is taxed at 3%. From 1 January 2004, the corporate tax rate decreased to 25%.

	31 December 2002	Movements recorded directly to equity	Movements recognised in the statement of income	31 December 2003	Movements recorded directly to equity	Movements recognised in the statement of income	31 December 2004
Tax effect of deductible temporary differences							
Accrued interest expense	111	-	254	365	-	(365)	-
Accrued interest income	(1,627)	-	58	(1,569)	-	1,668	99
Gains less losses on origination of financial instruments	-	(2,325)	249	(2,076)	-	2,318	242
Gross deferred tax asset	**(1,516)**	**(2,325)**	**561**	**(3,280)**	**-**	**3,621**	**341**
Tax effect of taxable temporary differences							
Premises, leasehold improvements and equipment	(2,642)	21	724	(1,897)	-	(1,876)	(3,773)
Trading securities, investments available-for-sale and investment securities held-to-maturity	(2,121)	-	(7,869)	(9,990)	-	(5,660)	(15,650)
Provision for credit related commitments	304	-	(1,431)	(1,127)	-	(728)	(1,855)
Finance leases receivable	-	-	(568)	(568)	-	(55)	(623)
Provision for loan impairment	9,662	-	(11,453)	(1,791)	-	(11,959)	(13,750)
Other liabilities	137	-	1,812	1,949	-	(3,913)	(1,964)
Other assets	(752)	-	598	(154)	-	(5,410)	(5,564)
Gross deferred tax liability	**4,588**	**21**	**(18,187)**	**(13,578)**	**-**	**(29,601)**	**(43,179)**
Total net deferred tax (liability)/ asset	**3,072**	**(2,304)**	**(17,626)**	**(16,858)**	**-**	**(25,980)**	**(42,838)**

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

24 Earnings per Share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of shares purchased by the Bank and held as treasury shares.

The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equals basic earnings per share.

	2004	2003
Net profit attributable to shareholders	79,953	41,258
Weighted average number of ordinary shares in issue (thousands)	9,014,038	2,835,403
Basic and diluted earnings per share (expressed in UAH per share)	**0.0089**	**0.0146**

25 Analysis by Segment

The Bank operates in one geographical segment. For disclosure of geographical concentration of the Bank's assets and liabilities refer to Note 26. The Bank's primary format for reporting segment information is business segments. The Bank is organised on a basis of three main business segments:

- Corporate banking – representing legal entities' current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and trading finance products;
- Retail banking – representing private banking services, private customer current accounts, savings, deposits, credit and debit cards, consumer loans and mortgages; and
- Investment banking – includes debt and equity capital markets, securities, foreign exchange and banknote trading and corporate finance.

Transactions between the business segments are on normal commercial terms and conditions. Funds are reallocated between the segments, resulting in funding cost transfers disclosed as the revenues from other segments. Interest charged for these funds is based on the calculation of the Bank's cost of capital. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding items such as taxation. Internal charges and transfer pricing adjustments have been reflected in the performance of each business.

	31 December 2004	31 December 2003
Assets		
Corporate banking	3,152,949	2,473,289
Retail banking	1,277,028	523,054
Investment banking	876,702	665,497
Unallocated assets	69,631	30,602
Total assets	**5,376,310**	**3,692,442**
Liabilities		
Corporate banking	1,963,929	1,975,197
Retail banking	1,468,011	893,945
Investment banking	1,108,979	507,585
Unallocated liabilities	67,888	32,087
Total liabilities	**4,608,807**	**3,408,814**

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

25 Analysis by Segment (Continued)

Segment information for the main reportable business segments of the Bank for the year ended 31 December 2004 is set out below:

Year ended 31 December 2004	Corporate banking	Retail banking	Investment banking	Other	Eliminations	Total
External revenue	627,733	141,962	75,354	17,914	-	862,963
Interest income from other segments	-	74,704	9,683	-	(84,387)	-
Revenue	**627,733**	**216,666**	**85,037**	**17,914**	**(84,387)**	**862,963**
Provisions for loan impairment and losses on credit related commitments	(73,093)	(12,377)	(1,125)	-	-	(86,595)
Interest expense	(142,971)	(140,627)	(72,817)	(1,170)	-	(357,585)
Interest expense from other segments	(84,371)	-	-	(16)	84,387	-
Fee and commission expense	(2,396)	(4,570)	(1,203)	-	-	(8,169)
Losses net of gains on origination of financial instruments	(435)	-	-	-	-	(435)
Loss on change in terms of subordinated debt	(8,589)	-	-	-	-	(8,589)
Operating expenses	(100,685)	(150,958)	(19,669)	(14,314)	-	(285,626)
Segment result	**215,193**	**(91,866)**	**(9,777)**	**2,414**	**-**	**115,964**
Income tax						(35,361)
Net profit						**80,603**
Other segment items						
Capital expenditure	(117,600)	(170,546)	(21,655)	(155)	-	(309,956)
Depreciation expense	(10,006)	(14,511)	(1,843)	(1,647)	-	(28,007)

Segment information for the main reportable business segments for the year ended 31 December 2003:

Year ended 31 December 2003	Corporate banking	Retail banking	Investment banking	Other	Eliminations	Total
External revenue	408,246	36,410	64,310	3,173	-	512,139
Interest income from other segments	-	70,360	-	49	(70,409)	-
Revenue	**408,246**	**106,770**	**64,310**	**3,222**	**(70,409)**	**512,139**
Provisions for loan impairment and losses on credit related commitments	(73,354)	(3,955)	-	-	-	(77,309)
Interest expense	(88,912)	(71,848)	(24,053)	-	-	(184,813)
Interest expense from other segments	(43,165)	-	(27,244)	-	70,409	-
Fee and commission expense	(1,491)	(1,013)	(4,283)	-	-	(6,787)
Losses net of gains on origination of financial instruments	(3,854)	-	3,250	-	-	(604)
Operating expenses	(65,298)	(97,417)	(5,933)	(2,212)	-	(170,860)
Segment result	**132,172**	**(67,463)**	**6,047**	**1,010**	**-**	**71,766**
Income tax						(30,508)
Net profit						**41,258**
Other segment items						
Capital expenditure	(23,080)	(33,462)	(2,081)	(1,543)	-	(60,166)
Depreciation expense	(6,384)	(9,256)	(576)	(1,330)	-	(17,546)

26 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to regular review. Limits on the level of credit risk by product, borrower and industry sector are approved regularly by the Credit Committee of the Bank.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

The Bank's maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the consolidated balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant, except for term placements and guarantee deposits with other banks and from other banks, as disclosed in Notes 7 and 13 and loans to customers covered by deposits placed by customers, as disclosed in Notes 8 and 14.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Market risk. The Bank 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 Asset/ Liability Committee sets limits on the value of risk that may be accepted. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

26 Financial Risk Management (Continued)

Geographical risk. The geographical concentration of the Bank's assets and liabilities as at 31 December 2004 is set out below:

	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents and mandatory reserve	506,664	99,881	11,668	618,213
Trading securities	275,943	-	-	275,943
Due from other banks	86,126	6,969	-	93,095
Loans and advances to customers	3,532,473	-	-	3,532,473
Investments available-for-sale	192,644	-	-	192,644
Investment securities held-to-maturity	47,908	-	-	47,908
Guarantee deposits with the National Bank of Ukraine	115,668	-	-	115,668
Other assets	79,465	19	-	79,484
Premises, leasehold improvements and equipment	420,882	-	-	420,882
Total assets	**5,257,773**	**106,869**	**11,668**	**5,376,310**
Liabilities				
Due to other banks	45,320	107,888	23,489	176,697
Customer accounts	2,854,989	3,042	432,200	3,290,231
Due to the National Bank of Ukraine	390,052	-	-	390,052
Debt securities in issue	32,973	537,766	-	570,739
Subordinated debt	-	73,433	-	73,433
Other liabilities	64,785	32	-	64,817
Deferred tax liability	42,838	-	-	42,838
Total liabilities	**3,430,957**	**722,161**	**455,689**	**4,608,807**
Net balance sheet position	**1,826,816**	**(615,292)**	**(444,021)**	**767,503**
Credit related commitments (Note 27)	**433,731**	**-**	**-**	**433,731**

OECD assets and liabilities mainly include balances with counterparties in Germany, USA and Switzerland.

Non-OECD concentrations mainly represent balances with counterparties in the Russian Federation, Cyprus and the Baltic States.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

26 Financial Risk Management (Continued)

The geographical concentration of the Bank's assets and liabilities as at 31 December 2003 is set out below:

	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents and mandatory reserve	250,264	107,493	3,795	361,552
Trading securities	182,365	-	-	182,365
Due from other banks	141,285	7,385	-	148,670
Loans and advances to customers	2,614,673	-	-	2,614,673
Investments available-for-sale	123,820	-	-	123,820
Investments held-to-maturity	75,696	-	-	75,696
Other assets	40,860	-	-	40,860
Premises, leasehold improvements and equipment	144,806	-	-	144,806
Total assets	**3,573,769**	**114,878**	**3,795**	**3,692,442**
Liabilities				
Due to the National Bank of Ukraine	85,729	-	-	85,729
Due to other banks	257,560	131,895	10,696	400,151
Debt securities in issue	57,390	-	-	57,390
Customer accounts	2,114,798	69,527	523,631	2,707,956
Subordinated debt	-	55,981	58,556	114,537
Other liabilities	23,490	-	2,703	26,193
Deferred tax liability	16,858	-	-	16,858
Total liabilities	**2,555,825**	**257,403**	**595,586**	**3,408,814**
Net balance sheet position	**1,017,944**	**(142,525)**	**(591,791)**	**283,628**
Credit related commitments (Note 27)	**336,006**	**-**	**-**	**336,006**

OECD assets and liabilities mainly include balances with counterparties in Germany, USA and UK.

Non-OECD concentrations mainly represent balances with counterparties in the Russian Federation, Cyprus and the Baltic States.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

26 Financial Risk Management (Continued)

Currency risk. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Asset/ Liability Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2004. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency. At 31 December 2004, the Bank has the following positions in currencies:

	UAH	USD	Euro	Other currencies	Non-monetary items	Total
Assets						
Cash and cash equivalents and mandatory reserve	408,125	160,021	36,775	13,292	-	618,213
Trading securities	275,943	-	-	-	-	275,943
Due from other banks	68,235	23,713	1,147	-	-	93,095
Loans and advances to customers	1,257,332	2,122,512	148,586	4,043	-	3,532,473
Investments available-for-sale	18,871	-	-	-	173,773	192,644
Investment securities held-to-maturity	47,908	-	-	-	-	47,908
Guarantee deposits with the National Bank of Ukraine	-	79,581	36,087	-	-	115,668
Other assets	32,644	1,114	3,667	-	42,059	79,484
Premises, leasehold improvements and equipment	-	-	-	-	420,882	420,882
Total assets	**2,109,058**	**2,386,941**	**226,262**	**17,335**	**636,714**	**5,376,310**
Liabilities						
Due to other banks	3,605	137,701	33,740	1,651	-	176,697
Customer accounts	1,628,346	1,441,324	205,662	14,899	-	3,290,231
Due to the National Bank of Ukraine	390,052	-	-	-	-	390,052
Debt securities in issue	32,968	537,771	-	-	-	570,739
Subordinated debt	-	73,433	-	-	-	73,433
Other liabilities	57,901	3,311	813	106	2,686	64,817
Deferred tax liability	42,838	-	-	-	-	42,838
Total liabilities	**2,155,710**	**2,193,540**	**240,215**	**16,656**	**2,686**	**4,608,807**
Net balance sheet position	**(46,652)**	**193,401**	**(13,953)**	**679**	**634,028**	**767,503**
Credit related commitments (Note 27)	**157,231**	**218,083**	**48,611**	**9,806**	**-**	**433,731**

Included in trading securities in UAH financial position are corporate bonds with fair value of UAH 29,244 thousand (31 December 2003: UAH 68,891 thousand) which are denominated in UAH, but with yield linked to the UAH to USD exchange rate.

Other currencies mainly include the Russian Rouble.

The Bank has extended loans and advances denominated in foreign currencies. Depending on the revenue stream of the borrower, the appreciation of the currencies against Ukrainian hryvnia may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

26 Financial Risk Management (Continued)

At 31 December 2003, the Bank had the following positions in currencies:

	UAH	USD	Euro	Other currencies	Non-monetary items	Total
Assets						
Cash and cash equivalents and mandatory reserve	223,181	114,853	18,942	4,576	-	361,552
Trading securities	182,365	-	-	-	-	182,365
Due from other banks	108,173	35,562	4,935	-	-	148,670
Loans and advances to customers	994,988	1,556,175	56,918	6,592	-	2,614,673
Investments available-for-sale	5,991	-	-	-	117,829	123,820
Investments held-to-maturity	75,696	-	-	-	-	75,696
Other assets	31,053	1,944	3,911	4	3,948	40,860
Premises, leasehold improvements and equipment	-	-	-	-	144,806	144,806
Total assets	**1,621,447**	**1,708,534**	**84,706**	**11,172**	**266,583**	**3,692,442**
Liabilities						
Due to the National Bank of Ukraine	85,729	-	-	-	-	85,729
Due to other banks	144,374	254,882	554	341	-	400,151
Debt securities in issue	56,879	511	-	-	-	57,390
Customer accounts	1,259,311	1,354,907	85,470	8,268	-	2,707,956
Subordinated debt	14,308	100,229	-	-	-	114,537
Other liabilities	23,216	2,824	151	2	-	26,193
Deferred tax liability	16,858	-	-	-	-	16,858
Total liabilities	**1,600,675**	**1,713,353**	**86,175**	**8,611**	**-**	**3,408,814**
Net balance sheet position	**20,772**	**(4,819)**	**(1,469)**	**2,561**	**266,583**	**283,628**
Credit related commitments (Note 27)	**217,767**	**113,039**	**5,200**	**-**	**-**	**336,006**

Liquidity risk. Liquidity risk is defined as the risk that the Bank will not be able to settle liabilities when due because the maturity of assets and liabilities does not match. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns and guarantees. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The liquidity risk is managed by the Asset/Liability Committee of the Bank.

The table below shows assets and liabilities as at 31 December 2004 by their remaining contractual maturity, unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement is used. Some of the assets and liabilities, however, may be of a longer term nature; for example, loans and deposits are frequently renewed and accordingly short term loans and deposits can have a longer term duration.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

26 Financial Risk Management (Continued)

The liquidity position of the Bank as at 31 December 2004 is set out below.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents and mandatory reserve	618,213	-	-	-	-	618,213
Trading securities	275,943	-	-	-	-	275,943
Due from other banks	-	43,501	36,540	13,054	-	93,095
Loans and advances to customers	288,026	538,226	1,108,276	1,597,945	-	3,532,473
Investments available-for-sale	-	-	5,069	13,802	173,773	192,644
Investment securities held-to-maturity	2,754	4,762	21,457	18,935	-	47,908
Guarantee deposits with the National Bank of Ukraine	115,668	-	-	-	-	115,668
Other assets	37,300	32,760	4,889	4,535	-	79,484
Premises, leasehold improvements and equipment	-	-	-	-	420,882	420,882
Total assets	**1,337,904**	**619,249**	**1,176,231**	**1,648,271**	**594,655**	**5,376,310**
Liabilities						
Due to other banks	42,282	59,173	50,779	24,463	-	176,697
Customer accounts	1,216,552	455,762	1,410,380	207,537	-	3,290,231
Due to the National Bank of Ukraine	117,279	4,795	252,895	15,083	-	390,052
Debt securities in issue	43	539	45,694	524,463	-	570,739
Subordinated debt	-	1,810	-	71,623	-	73,433
Other liabilities	49,053	245	1,164	14,355	-	64,817
Deferred tax liability	-	-	-	-	42,838	42,838
Total liabilities	**1,425,209**	**522,324**	**1,760,912**	**857,524**	**42,838**	**4,608,807**
Net liquidity gap	**(87,305)**	**96,925**	**(584,681)**	**790,747**	**551,817**	**767,503**
Cumulative liquidity gap at 31 December 2004	**(87,305)**	**9,620**	**(575,061)**	**215,686**	**767,503**	**-**
Cumulative liquidity gap at 31 December 2003	**(78,770)**	**(3,201)**	**(331,038)**	**37,851**	**283,628**	**-**

The entire portfolio of trading securities is classified within demand and less than one month as the portfolio is of a trading nature and Management believe this is a fairer portrayal of the Bank's liquidity position.

Debt investments available-for-sale are classified according to their contractual maturity irrespectively of the intentions as to their disposal before maturity.

The Bank has a cumulative maturity mismatch of the assets and liabilities maturing within 12 months. This liquidity mismatch arises due to the fact that the major source of finance for the Bank at 31 December 2004 was customer accounts being on demand and maturing in less than 12 months. Management believes that in spite of a substantial portion of customers accounts maturing in less than 12 months, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customers accounts provide a long-term and stable source of funding for the Bank.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank 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.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

26 Financial Risk Management (Continued)

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Bank. 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 Bank and its exposure to changes in interest and exchange rates.

The liquidity position of the Bank as at 31 December 2003 is set out below.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents and mandatory reserve	361,552	-	-	-	-	361,552
Trading securities	182,365	-	-	-	-	182,365
Due from other banks	116,545	7,659	13,090	11,376	-	148,670
Loans and advances to customers	427,170	674,733	821,251	691,519	-	2,614,673
Investments available-for-sale	579	-	4,075	1,337	117,829	123,820
Investments held-to-maturity	2,881	4,629	21,075	47,111	-	75,696
Other assets	37,420	1,786	531	1,123	-	40,860
Premises, leasehold improvements and equipment	-	-	-	-	144,806	144,806
Total assets	**1,128,512**	**688,807**	**860,022**	**752,466**	**262,635**	**3,692,442**
Liabilities						
Due to the National Bank of Ukraine	9,927	3,895	29,894	42,013	-	85,729
Due to other banks	216,635	82,217	93,301	7,998	-	400,151
Debt securities in issue	9	33,202	24,179	-	-	57,390
Customer accounts	965,330	492,917	1,039,875	209,834	-	2,707,956
Subordinated debt	-	590	-	113,947	-	114,537
Other liabilities	15,381	417	610	9,785	-	26,193
Deferred tax liability	-	-	-	-	16,858	16,858
Total liabilities	**1,207,282**	**613,238**	**1,187,859**	**383,577**	**16,858**	**3,408,814**
Net liquidity gap	**(78,770)**	**75,569**	**(327,837)**	**368,889**	**245,777**	**283,628**
Cumulative liquidity gap at 31 December 2003	**(78,770)**	**(3,201)**	**(331,038)**	**37,851**	**283,628**	**-**

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

26 Financial Risk Management (Continued)

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term 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 can be renegotiated to reflect current market conditions, thus mitigating the interest rate risks for the Bank.

The Asset/ Liability Committee sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored on a regular basis. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Non-interest bearing	Total
Assets						
Cash and cash equivalents and mandatory reserve	618,213	-	-	-	-	618,213
Trading securities	275,943	-	-	-	-	275,943
Due from other banks	-	43,501	36,540	13,054	-	93,095
Loans and advances to customers	287,808	560,172	1,106,308	1,578,185	-	3,532,473
Investments available-for-sale	-	-	5,069	13,802	173,773	192,644
Investment securities held-to-maturity	2,754	4,762	21,457	18,935	-	47,908
Guarantee deposits with the National Bank of Ukraine	115,668	-	-	-	-	115,668
Other assets	-	-	-	-	79,484	79,484
Premises, leasehold improvements and equipment	-	-	-	-	420,882	420,882
Total assets	**1,300,386**	**608,435**	**1,169,374**	**1,623,976**	**674,139**	**5,376,310**
Liabilities						
Due to other banks	42,282	59,173	75,242	-	-	176,697
Customer accounts	1,241,597	446,621	1,394,476	207,537	-	3,290,231
Due to the National Bank of Ukraine	117,279	4,795	252,895	15,083	-	390,052
Debt securities in issue	43	539	32,386	537,771	-	570,739
Subordinated debt	-	1,810	-	71,623	-	73,433
Other liabilities	121	245	1,164	14,354	48,933	64,817
Deferred tax liability	-	-	-	-	42,838	42,838
Total liabilities	**1,401,322**	**513,183**	**1,756,163**	**846,368**	**91,771**	**4,608,807**
Net gap	**(100,936)**	**95,252**	**(586,789)**	**777,608**	**582,368**	**767,503**
Cumulative gap at 31 December 2004	**(100,936)**	**(5,684)**	**(592,473)**	**185,135**	**767,503**	**-**
Cumulative gap at 31 December 2003	**(242,160)**	**(138,300)**	**(463,632)**	**15,110**	**283,628**	**-**

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

26 Financial Risk Management (Continued)

Placements and borrowings carrying interest rates which are subject to regular repricing, were classified in the above table within "demand and less than one month" category.

The table below summarises the effective interest rates by major currencies for major monetary financial instruments. The analysis has been prepared using year-end effective rates used for amortisation of the respective assets and liabilities as adjusted for remeasurement of the effect of non market interest rates at origination.

	31 December 2004		31 December 2003	
	UAH	**USD**	**UAH**	**USD**
Assets				
Term placements with other banks	17%	16%	11%	10%
Loans and advances to corporate customers	18%	12%	20%	14%
Loans and advances to individuals	19%	13%	20%	13%
Finance lease	25%	-	21%	-
Trading securities - bonds	14%	-	14%	-
Trading securities – promissory notes	-	-	5%	-
Investments available for sale – promissory notes	-	-	8%	-
Investment securities held-to-maturity – corporate bonds	14%	-	14%	-
Liabilities				
Term placements of other banks	-	8%	13%	6%
Term deposits of legal entities	15%	7%	13%	9%
Term deposits of individuals	16%	10%	15%	9%
Due to the National Bank of Ukraine	15%	-	12%	-
Bonds issued by the Bank	-	11%	23%	-
Certificates of deposit and promissory notes	16%	18%	13%	9%
Subordinated debt	-	10%	7%	7%
Finance leases	12%	-	12%	-

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

27 Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank are received. On the basis of own estimates and internal professional advice the Management is of the opinion that no material losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

At 31 December 2004 the Bank was not engaged in any material litigation proceedings except for proceedings against delinquent borrowers (31 December 2003: no material litigation proceedings). As the outcome of these proceedings is uncertain, no contingent asset has been recognised by the Bank.

Tax legislation. Ukrainian tax 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 Bank 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.

The tax consequence of transactions for Ukrainian taxation purposes is frequently determined by the form in which transactions are documented and the underlying accounting treatment prescribed by statutory accounting rules. Accordingly, the Bank structures certain transactions so as to take advantage of such form driven determinations to reduce the overall effective tax rate of the Bank. The consolidated statement of income as presented in these consolidated financial statements includes reclassifications to reflect the underlying economic substance of those transactions. The effect of these reclassifications does not have an effect on the Bank's profit before taxation or the tax charge recorded in these consolidated financial statements.

The Bank's Management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax position will be sustained. Accordingly, as at 31 December 2004 no provision for potential tax liabilities had been recorded (2003: no provision).

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

27 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Capital commitments. As at 31 December 2004 the Bank has capital commitments in respect of purchasing and implementing "SAP Banking" software totalling UAH 32,899 thousand and in respect of purchasing equipment and construction of premises totalling UAH 31,323 thousand (31 December 2003: UAH 44,149 thousand and UAH 28,451 thousand, respectively). The Bank's Management has already allocated the necessary resources in respect of these commitments. The Bank's Management believes that future net revenues and funding will be sufficient to cover these and any similar such commitments.

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

	31 December 2004	31 December 2003
Not later than 1 year	28,116	15,229
Later than 1 year and not later than 5 years	86,383	45,124
Later than 5 years	53,668	20,328
Total operating lease commitments	**168,167**	**80,681**

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 Bank 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 Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. 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 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.

Promissory notes endorsements represent guarantees undertaken by the Bank in respect of promissory notes issued by the Bank's clients.

Commitments arising in respect of underwriting activity represent commitments of the Bank arising from the Bank's acting as underwriter from placement of corporate bonds.

Outstanding credit related commitments are as follows:

	Note	31 December 2004	31 December 2003
Commitments to extend credit		288,579	188,709
Commitments arising in respect of underwriting activity		5,000	49,990
Import letters of credit (cash covered)		43,117	38,297
Import letters of credit (uncovered)		45,711	3,442
Guarantees issued (cash covered)		10,984	1,280
Guarantees issued (uncovered)		38,650	79,308
Promissory notes endorsements (cash covered)		139	274
Promissory notes endorsements (uncovered)		64,256	19,960
Less: cash covered credit related commitments	14	(54,240)	(39,851)
Less: provision for losses on credit related commitments	18	(8,465)	(5,403)
Total credit related commitments		**433,731**	**336,006**

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

27 Contingencies, Commitments and Derivative Financial Instruments (Continued)

The total outstanding contractual amount of commitments to extend credit, commitments arising in respect of underwriting activities, letters of credit, promissory notes endorsements and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

As at 31 December 2004 guarantees issued in the amount of UAH 11,861 thousand (31 December 2003: UAH 12,534 thousand) are collateralised with trading securities pledged to another bank with a fair value of UAH 14,714 thousand (31 December 2003: UAH 15,044 thousand). In addition, as at 31 December 2003 import letters of credit in the amount of UAH 8,791 thousand were collateralised with trading securities pledged to another bank with a fair value of UAH 19,911 thousand. Refer to Note 6.

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

	Note	2004	2003
Provision for losses on credit related commitments as at 1 January		**5,403**	**1,680**
Provision for losses on credit related commitments during the year		3,062	3,723
Provision for losses on credit related commitments as at 31 December	18	**8,465**	**5,403**

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

	31 December 2004 Nominal value	31 December 2003 Nominal value
Shares in domestic companies held in custody	1,728,227	1,276,986
Domestic corporate bonds held in custody	34,698	69,547
Domestic treasury bills held in custody	23,693	3,041
Notes of exchange held in custody	1,201	-
Investment certificates held in custody	19,642	-
Assets managed by the Bank (Note 30)	11,922	-

Derivatives. Foreign exchange and securities-based derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions.

The principal amounts of certain types of financial instruments provide a basis for comparison with instruments recorded on the consolidated balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market prices or foreign exchange rates relative to their terms. The aggregate contractual or principal amount of derivative financial instruments on hand, the extent to which instruments have favourable or unfavourable conditions and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The principal or agreed amounts and fair values of derivative instruments held are set out in the following table. This table reflects gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2004. Major part of contracts outstanding as at 31 December 2004 were entered into during September-November 2004 and are short term in nature. Contracts for sale of securities outstanding as at 31 December 2003 were entered into in May 2003 and matured in February 2004.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

27 Contingencies, Commitments and Derivative Financial Instruments (Continued)

	Domestic deals at 31 December 2004			Domestic deals at 31 December 2003		
	Principal or agreed amount	Negative fair value	Positive fair value	Principal or agreed amount	Negative fair value	Positive fair value
Deliverable forwards						
Foreign currency						
- sale of foreign currency for UAH	3,633	-	59	-	-	-
- purchase of foreign currency for UAH	3,647	(60)	-	-	-	-
Securities						
- sale of securities	-	-	-	6,766	(104)	-
Total	**7,280**	**(60)**	**59**	**6,766**	**(104)**	**-**

At 31 December 2004 the Bank had outstanding commitments in respect of foreign exchange contracts with banks to purchase EUR 1,200 thousand and sell USD 1,512 thousand. As at year-end the contracts have been fair valued and the unrealised gain of UAH 639 thousand included in gains less losses arising from dealing in foreign currencies. The Bank had settled the outstanding contracts in January 2005.

Assets pledged and restricted. At 31 December 2004 the Bank has the following assets pledged as collateral:

	Notes	31 December 2004		31 December 2003	
		Asset pledged	Related liability/ commitment	Asset pledged	Related liability/ commitment
Cash and cash equivalents and mandatory reserve	5,15	7,717	42,237	7,717	65,726
Investment securities held-to-maturity	10,15	47,908		75,696	
Trading securities	6,13,27	14,714	11,861	95,900	81,930
Due from other banks	7,13	35,950	32,280	20,105	21,430
Investments available-for-sale	9,14	-	-	40,147	21,589
Guarantee deposits with the NBU	15	115,668	114,815	-	-
Loans and advances to customers	8,15	382,806	233,000	62,742	20,003
Premises	12,15	58,735		-	-
Total		**663,498**	**434,193**	**302,307**	**210,678**

In addition, mandatory reserve balances in the amount of UAH 218,623 thousand (31 December 2003: UAH 169,674 thousand) represent mandatory reserve assets which are not available to finance the Bank's day to day operations.

28 Fair Value of Financial Instruments

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

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. As described in more detail in Note 2, Ukraine continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in its financial markets.

Financial instruments carried at fair value. Cash and cash equivalents, trading securities and investments available-for-sale are carried on the consolidated balance sheet at their fair value. As set out in Note 9, external independent market quotations were not available for certain investments available-for-sale. The fair value of these assets were determined by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

28 Fair Value of Financial Instruments (Continued)

Loans originated carried at amortised cost less provision for impairment. The fair value of floating rate instruments is generally approximated by 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. Refer to Notes 7 and 8 for the estimated fair value 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 bid prices on over-the-counter market. Refer to Note 10 for the estimated fair value of investment securities held to maturity.

Liabilities carried at amortised cost. The fair value of instruments with a quoted market price is based on quoted market prices. The estimated fair value of liabilities with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest rate instruments without a quoted market price is based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 13, 14, 15, 16 and 17 for the estimated fair values of due to other banks, customer accounts, due to the National Bank of Ukraine, debt securities in issue and subordinated debt.

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. The fair value of derivative financial instruments is disclosed in Note 27.

29 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Banking transactions are entered into in the normal course of business with significant shareholders, directors, companies with which the Bank has significant shareholders in common and other related parties. These transactions include settlements, loans, deposit taking, guarantees, purchases and sales of securities, trade finance and foreign currency transactions. These transactions are priced predominantly at market rates.

Majority of the related party transactions and balances disclosed below are entered into with the entities controlled by the Bank's majority shareholders.

The outstanding balances at the year end and income and expense items as well as other transactions for the year with related parties are as follows:

	2004	**2003**
Trading securities		
Trading securities (corporate bonds) as at the year end	20,056	35,828
Interest income on trading securities for the year	1,630	6,671
Gains less losses arising from trading securities for-the year	1,023	1,618
Due from other banks		
Term placements in USD at the year end (contractual interest rate: 2003: 14%)	-	20,504
Interest income for the year	98	5,770
Loans and advances to customers		
Loans and advances to related legal entities in UAH at the year end (contractual interest rate: 2004: 17-23%; 2003: 19-30%)	177,996	152,395
Loans and advances to related legal entities in USD at the year end (contractual interest rate: 2004: 13-17%; 2003: 13-16%)	108,813	94,672

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

29 Related Party Transactions (Continued)

	2004	2003
Loans and advances to related legal entities in EUR at the year end (contractual interest rate: 2004: 9-14%; 2003: 14-16%)	42,446	6,171
Loans and advances to related individuals in UAH at the year end (contractual interest rate: 2004: 18%; 2003: none)	1,324	-
Loans and advances to related individuals in USD at the year end (contractual interest rate: 2004: 10-16%; 2003: 8-12%)	13,784	1,155
Loans and advances to related individuals in EUR at the year end (contractual interest rate: 2004: 10%; 2003: none)	120	-
Provision for loan impairment at the year end	(21,717)	(10,381)
Interest income for the year	29,791	48,772
Investments available-for-sale		
Investments available-for-sale (shares and notes of exchange) at the year end	31,622	25,267
Gains less losses arising from investments available-for-sale for the year	3,413	-
Other assets as at the year end		
Receivables on settlements for securities	5,682	800
Other receivables	-	225
Customer accounts		
Current accounts as at the year end	58,856	35,379
Term deposits in UAH outstanding as at the year end (contractual interest rate: 2004: 10-20%; 2003: 2-18%)	23,840	5,651
Term deposits in USD outstanding as at the year end (contractual interest rate: 2004: 3-13%; 2003: 4-12%)	503,966	626,871
Term deposits in EUR outstanding as at the year end (contractual interest rate: 2004: 7%-12%; 2003: 9%)	1,640	6,921
Weighted average interest rate for UAH denominated term deposits of legal entities at the year end	9%	14%
Weighted average interest rate for USD denominated term deposits of legal entities at the year end	8%	9%
Interest expense for the year	36,294	36,935
Debt securities in issue		
Debt securities in issue held by related parties at the year end	-	21,279
Interest expense for the year	4,821	5,107
Subordinated debt		
Subordinated debt outstanding at the year end	-	58,556
Interest expense for the year (based on contractual rates)	3,339	5,524
Interest expense for the year (based on effective rates used for amortisation)	3,852	5,720
Loss on change in terms of subordinated debt (Note 17)	(8,589)	-
Other liabilities		
Amounts payable for premises at the year end	-	2,675
Amounts payable for securities purchased at the year end	2,688	3,735
Minority interest as at the year end	9,382	3,020
Credit related commitments as at the year end		
Commitments to extend credit	28,340	-
Import letters of credit (cash covered)	4,718	1,896
Import letters of credit (uncovered)	10,145	-
Guarantees issued (uncovered)	1273	-
Fee and commission income for the year	4,697	4,260

In 2004 the total remuneration of members of the Board, including pension and social security contributions, amounts to UAH 1,526 thousand (2003: UAH 1,739 thousand).

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

30 Principal Consolidated Subsidiaries and Special Purpose Entities

As at 31 December 2004 the Bank consolidated the following subsidiaries:

Name	Nature of business	Percentage of ownership	Country of registration
Limited Liability Company "Ukrainian Leasing Company"	Leasing	99.97%	Ukraine
Closed Joint-Stock Company "Asset Management Company "Ukrsib Asset Management"	Asset management	99.74%	Ukraine
Closed Joint-Stock Insurance Company "Ukrainian Insurance Alliance"	Insurance	92.23%	Ukraine
Open Joint-Stock Company "Closed Non-diversified Corporate Investment Fund "UKRSIB Stabilny Dohod"	Investment Fund	97.74%	Ukraine

The Bank's Management consolidated two special purpose entities ("SPE") disclosed below. These SPEs were created to serve and constitute an integral part of the Bank's business. The Bank's Management has governed the financial and operating policies of the SPEs during the year.

The following special purpose entities have been consolidated in these financial statements:

Name	Nature of business	Percentage of ownership directly held by the Bank	Country of registration
Limited Liability Company "UkrSib-Finance"	Finance	9.9%	Ukraine
Limited Liability Company "Universal Leasing Company"	Leasing	-	Ukraine

In addition, during the year ended 31 December 2004 the Bank established two unincorporated investment funds: non-diversified venture capital investment fund "Venture Capital" and non-diversified investment fund "Ukrsib Stabilny Investitsii". Investment certificates issued by these investment funds are intended to be sold to external investors. As at 31 December 2004 the Bank held 71% of investment certificates of "Ukrsib Stabilny Investitsii" and the assets and liabilities of this investment fund were consolidated into these financial statements. All investment certificates of "Venture Capital" investment fund were held by external parties. Assets of the investment fund managed by the Bank are included in fiduciary assets. Refer to Note 27.

31 Subsequent Events

In August 2004 the Bank entered into agreement for the purchase of a share in a Russian bank. The respective licence has been received by the Bank from the National Bank of Ukraine in November 2004. Permissions from Federal Antimonopoly Service and from the Central Bank of Russian Federation in respect of the acquisition were obtained by the Bank in December 2004. The deal was completed in February 2005 when the counterparties settled the transaction. The Bank paid RUR 60,000 thousand (UAH 11,424 thousand at the exchange rate at the date of payment) for 40% share in the statutory capital of the Russian bank. At the date of acquisition the total assets of the Russian bank amounted to RUR 283,713 thousand (UAH 54,130 thousand at the exchange rate at the date of acquisition). As at 31 December 2004 the Bank had balances with this Russian bank of UAH 1,612 thousand included in cash and cash equivalents and UAH 9,678 thousand included in due to other banks.

In February 2005 the Bank received syndicated trade finance facility amounting to USD 37,000 thousand at LIBOR+3.95% per annum maturing in February 2006.

As disclosed in Note 15, in January 2005 the Bank repaid the stabilisation loan from the National Bank of Ukraine totalling UAH 233,000 thousand.

On 21 April 2005 the official exchange rate of Ukrainian hryvnia to foreign currencies sharply appreciated. In particular, the exchange rate of Ukrainian hryvnia to USD appreciated from UAH 5.19 per USD 1 as at 20 April 2005 to UAH 5.05 per USD 1 as at 21 April 2005. The total cumulative appreciation since the year-end was approximately 5%.

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