

Alfa-Bank

**Condensed Interim Financial Information and
Review Report**

31 March 2008

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REVIEW REPORT

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REVIEW REPORT

To the Shareholders and Management Board of Alfa-Bank

Introduction

- 1 We have reviewed the accompanying condensed interim balance sheet of Alfa-Bank (the "Bank") as at 31 March 2008 and the related condensed interim statements of income, changes in equity and cash flows for the three-month period then ended. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review

- 2 We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

- 3 Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".


LLC AF PricewaterhouseCoopers (Audit)


Kyiv, Ukraine
7 July 2008

Alfa-Bank
Condensed Interim Balance Sheet (unaudited)

<i>In thousands of USD (as presentation currency, Note 3)</i>	Note	31 March 2008 (unaudited)	31 December 2007
ASSETS			
Cash and cash equivalents	7	220,170	202,753
Due from other banks		2,372	25,592
Loans and advances to customers	8	2,853,820	2,260,715
Investment securities available-for-sale	9	78,161	49,348
Intangible assets		1,590	1,582
Premises, leasehold improvements and equipment		55,550	53,253
Other financial assets		2,153	2,292
Other assets		4,749	2,779
TOTAL ASSETS		3,218,565	2,598,314
LIABILITIES			
Due to other banks	10	606,009	508,296
Customer accounts	11	1,343,322	842,751
Debt securities in issue	12	198,732	196,241
Loan participation notes	13	556,536	552,648
Current income tax liability		2,958	1,002
Deferred income tax liability		304	42
Other financial liabilities		5,086	4,924
Other liabilities		14,554	10,546
Subordinated debt	14	69,828	69,223
Prepaid non-registered share capital		-	100,000
TOTAL LIABILITIES		2,797,329	2,285,673
EQUITY			
Share capital	15	372,599	272,599
Additional paid-in capital		3,798	3,798
Retained earnings		23,951	15,040
Other reserves		20,888	21,204
TOTAL EQUITY		421,236	312,641
TOTAL LIABILITIES AND EQUITY		3,218,565	2,598,314

Approved for issue and signed on behalf of the Management Board on 7 July 2008.


 A. Volkov
 Chairman of the Management Board


 O. Malynska
 Chief Financial Officer

Alfa-Bank
Condensed Interim Income Statement (unaudited)

<i>In thousands of USD (as presentation currency, Note 3)</i>	Note	Three months ended 31 March 2008 (unaudited)	Three months ended 31 March 2007 (unaudited)
Interest income	16	107,430	37,428
Interest expense	16	(50,713)	(21,778)
Net interest income		56,717	15,650
Provision for impairment of loans and advances to customers	8	(15,191)	(6,296)
Net interest income after provision for loan impairment		41,526	9,354
Fee and commission income	17	6,881	4,801
Fee and commission expense	17	(899)	(309)
Gain less losses from financial derivatives		172	3
Foreign exchange gains less losses		870	1,482
Foreign exchange translation gains less losses		2,198	299
Losses less gains on initial recognition of loans and receivables at rates below market measured at amortized cost		(834)	(1,083)
Losses on loan purchased from related party	21	(4,013)	-
Gain on change of expected maturity of liabilities at rates below market	14	1,034	-
Gains less losses/(losses less gains) on initial recognition of financial liabilities measured at amortised cost at rates below/above market		35	(91)
Gains less losses/ (losses less gains) from disposal of investment securities available-for-sale		100	(4)
Other operating income		710	91
Administrative and other operating expenses	18	(35,410)	(12,787)
Profit before tax		12,370	1,756
Income tax expense		(3,557)	(506)
Profit for the period		8,813	1,250

Alfa-Bank
Condensed Interim Statement of Changes in Equity (unaudited)

<i>In thousands of USD (as presentation currency, Note 3)</i>	Note	Share capital	Additional paid-in capital	Other Reserves	Retained Earnings	Total equity
Balance at 31 December 2006		72,599	3,466	19,359	2,835	98,259
Available-for-sale investments:						
- Fair value losses less gains		-	-	(68)	-	(68)
- Income tax recorded in equity		-	-	17	-	17
Land and buildings:						
- Depreciation transfer		-	-	(90)	90	-
Net loss recognised directly in equity		-	-	(141)	90	(51)
Profit for the period (unaudited)		-	-	-	1,250	1,250
Total recognised income for the period (unaudited)		-	-	(141)	1,340	1,199
Additional paid-in capital - difference between proceeds and amount at initial recognition of liabilities at rates below market	14	-	310	-	-	310
Income tax recorded in equity		-	(78)	-	-	(78)
Balance at 31 March 2007 (unaudited)		72,599	3,698	19,218	4,175	99,690
Available-for-sale investments:						
- Fair value gains less losses		-	-	73	-	73
- Income tax recorded in equity		-	-	(18)	-	(18)
Land and buildings:						
- Revaluation of premises and land		-	-	2,934	-	2,934
- Depreciation transfer		-	-	(269)	269	-
- Income tax recorded in equity		-	-	(734)	-	(734)
Net income recognised directly in equity		-	-	1,986	269	2,255
Profit for the period (unaudited)		-	-	-	10,596	10,596
Total recognised income for the period (unaudited)		-	-	1,986	10,865	12,851
Share issue	15	200,000	-	-	-	200,000
Additional paid-in capital - difference between proceeds and amount at initial recognition of liabilities at rates below market	14	-	133	-	-	133
Income tax recorded in equity		-	(33)	-	-	(33)
Balance at 31 December 2007		272,599	3,798	21,204	15,040	312,641
Available-for-sale investments:						
- Fair value losses less gains		-	-	(291)	-	(291)
- Income tax recorded in equity		-	-	73	-	73
Land and buildings:						
- Depreciation transfer		-	-	(98)	98	-
Net loss recognised directly in equity		-	-	(316)	98	(218)
Profit for the period (unaudited)		-	-	-	8,813	8,813
Total recognised income for the period (unaudited)		-	-	(316)	8,911	8,595
Share issue	15	100,000	-	-	-	100,000
Balance at 31 March 2008 (unaudited)		372,599	3,798	20,888	23,951	421,236

Alfa-Bank
Condensed Interim Statement of Cash Flows (unaudited)

<i>In thousands of USD (as presentation currency, Note 3)</i>	Note	Three months ended 31 March 2008 (unaudited)	Three months ended 31 March 2007 (unaudited)
Cash flows from operating activities			
Interest received		85,595	38,304
Interest paid		(42,151)	(14,905)
Fees and commissions received		20,935	6,690
Fees and commissions paid		(855)	(404)
Income received from trading in foreign currencies		1,925	1,550
Other operating income received		1,087	87
Staff costs paid		(17,734)	(7,136)
Administrative and other operating expenses paid		(12,281)	(4,346)
Income tax paid		(1,340)	(507)
Cash flows from operating activities before changes in operating assets and liabilities		35,181	19,333
Changes in operating assets and liabilities			
Net decrease in due from other banks		23,130	63,165
Net increase in loans and advances to customers		(605,461)	(238,706)
Net (increase)/decrease in other financial assets and other assets		(1,404)	633
Net increase/(decrease) in due to other banks		97,360	(208,092)
Net increase in customer accounts		498,577	933
Net increase in other financial liabilities and other liabilities		741	192
Net cash from/(used in) operating activities		48,124	(362,542)
Cash flows from investing activities			
Acquisition of investment securities available-for-sale		(146,246)	(22,719)
Proceeds from disposal of investment securities available-for-sale		117,361	21,593
Acquisition of premises, leasehold improvements and equipment		(3,886)	(2,916)
Proceeds from disposal of premises, leasehold improvements and equipment		1	-
Acquisition of intangible assets		(84)	(139)
Net cash used in investing activities		(32,854)	(4,181)
Cash flows from financing activities			
Repayment of debt securities in issue		(62,334)	(8,181)
Proceeds from debt securities in issue		63,339	48,388
Proceeds from loan participation notes		-	188,700
Proceeds from subordinated debt		-	24,980
Paid-in share capital		-	100,000
Net cash from financing activities		1,005	353,887
Effect of exchange rate changes on cash and cash equivalents		1,142	231
Net increase/(decrease) in cash and cash equivalents		17,417	(12,605)
Cash and cash equivalents at the beginning of the period		202,753	158,409
Cash and cash equivalents at the end of the period	7	220,170	145,804

1 Introduction

This condensed interim financial information has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as at 31 March 2008 and for the three months then ended for CJSC Alfa-Bank (the “Bank”).

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

Principal activity. The Bank was registered by the National Bank of Ukraine (“NBU”) in January 2001, and is the legal successor of commercial bank “Kyiv investment bank”, which was registered in July 1997, and, in its turn, was the legal successor of commercial bank “Vito” registered by the NBU in March 1993.

The Bank’s principal business activity is commercial and retail banking operations within Ukraine. These services include taking deposits and granting loans and advances, investing in securities, transferring payments in Ukraine and abroad and exchanging currencies.

The Bank has more than 180 branches and mini-branches, and more than 1,000 retail outlets, which provide loans and other services to individuals throughout Ukraine.

The Bank’s immediate parent is ABH Ukraine Limited (31 December 2007: ABH Ukraine Limited). The Bank is ultimately controlled by three Russian citizens Mr. Fridman, Mr. Khan and Mr. Kuzmichev. None of them individually controls or owns a 50% or more interest. They have entered into an agreement to vote as if they were a single shareholder and to vote consistently in relation to all matters. The next most senior parent that produces financial information available for public use is ABH Holding Corp.

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

4/6 Desyatynna str.
Kiev, 01025,
Ukraine

Presentation currency. This financial information is presented in thousands of United States Dollars (“USD”).

This condensed interim financial information has been authorised for issue by the Chairman of the Management Board on 7 July 2008.

2 Operating Environment of the Bank

Ukraine. Ukraine displays certain characteristics of an emerging market, including relatively high inflation and strong economic growth. The banking sector in Ukraine is sensitive to adverse fluctuations in confidence and economic conditions and may occasionally experience reductions in liquidity. Management is unable to predict all developments which could have an impact on the banking sector and consequently what effect, if any, they could have on the financial position of the Bank.

The tax, currency and customs legislation within Ukraine is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by banks currently operating in Ukraine. 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.

Recent volatility in financial markets. Over the last year the financial markets have seen a sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond the US housing market as global investors were forced to re-evaluate the risks they were taking which resulted in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. The tighter credit markets may affect the ability of the Bank to refinance its borrowings, deposits from customers or other liabilities and affect the value of its loan portfolio. Under IFRS, a decline in the fair value of a financial asset below its amortised cost that results from an increase in the base interest rate is generally not evidence of impairment. Management is unable to estimate the effects on the Bank’s financial position of any further possible deterioration in the financial markets’ liquidity and increased volatility

3 Basis of Preparation and Significant Accounting Policies

Basis of Preparation. This condensed interim financial information has been prepared in accordance with the International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”). The condensed interim financial information should be read in conjunction with the Bank’s annual financial statements as at 31 December 2007.

This condensed interim financial information of the Bank includes a condensed interim balance sheet as at 31 March 2008 and balance sheet as at 31 December 2007, condensed interim statements of income, changes in equity and cash flows for the three month periods ended 31 March 2008 and 31 March 2007 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 and methods of computation applied in the preparation of this condensed interim financial information are consistent with those disclosed in the annual financial statements of the Bank for the year ended 31 December 2007 except for adoption of new standards and interpretations as described in Note 5.

Foreign currency translation. The Bank’s functional currency is the national currency of Ukraine, Ukrainian hryvnias (“UAH”).

Monetary assets and liabilities are translated into the functional currency at the official exchange rate of the NBU at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the functional currency at period-end official exchange rates of the NBU 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.

The Bank uses the US dollar (“USD”) as a currency in which it presents its financial statements. USD has been selected as the presentation currency for convenience and the benefit of the shareholders of the Bank. USD is the currency in which Management of the Bank monitors business risks and exposures, and measures the performance of its business and reports to the shareholders.

The results and financial position of the Bank are translated from the functional currency (UAH) into the presentation currency (USD) as follows:

- (i) assets and liabilities items other than the net profit or loss for the period that is included in the balance of retained earnings for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for 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 within other reserves.

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

Currency	31 March 2008, UAH	31 December 2007, UAH
EURO	7.97698	7.41946
US dollar	5.05000	5.05000

Interim period measurement. Income tax expense is recognised in this condensed interim financial information based on Management best estimate of the weighted average effective annual income tax rate expected for the full financial year. Cost that occur unevenly during the financial year are anticipated or deferred in the interim report only if it would also be appropriate to anticipate or defer such costs at the end of the financial year.

4 Critical Accounting Estimates, and Judgments 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 judgments 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 judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized 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:

Change of the counterpart. Judgement is required to determine whether the change of the counterpart, whilst retaining other terms of an agreement, is an extinguishment of a financial liability. In December 2007 all claims to the Bank for subordinated debts were irrevocably assigned from Westlaw Inc, an entity under common control, to Overstand Limited, another entity under common control (Refer to Note 14). The Bank did not account for derecognition of the initial subordinated debts provided by Westlaw Inc, as according to the assignment agreements, the Bank was not legally released from its obligations. If the Bank applied an alternative accounting treatment as at the date of change of the counterpart it would have recognised a gain on extinguishment amounting to USD 1,604 thousand immediately in the income statement.

Timing of recognizing the effect of change in estimates. Management applies judgement to determine when the carrying amounts of the financial asset or financial liability should be adjusted to reflect changes in the estimates of related cash payments or receipts. The basis for judgment is the timing when supporting evidence for reliable revised estimates become available. During the three months period ended 31 March 2008 the Bank recognized a gain of USD 1,034 thousand, representing the effect of the change in the estimate of expected maturity of subordinated debts received in the year ended 31 December 2007. Were the Bank to recognise this gain during the year ended 31 December 2007, the opening equity as at 1 January 2008 would increase by USD 775 thousand and the net profit for the three month period ended 31 March 2008 would decrease by the same amount.

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 judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the assessed delay in repayment of principal on 5% of the total loans and advances to customers differs by +/- one month, the provision would be approximately USD 1,169 thousand (31 December 2007: USD 919 thousand) higher or USD 1,169 thousand (31 December 2007: USD 919 thousand) lower.

Initial recognition of 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. Judgment 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 judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Fair value of land and buildings. Land and building of the Bank are subject to revaluation on a regular basis. Such revaluations are based on the results of work of independent valuers. The basis for the valuation is the sales comparison approach. When performing revaluation certain judgements and estimates are applied by the valuers in order to determine which comparable premises should be used in the sales comparison approach.

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

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

Classification of gains and losses on transactions with entities under common control.

Management applies judgement to determine whether gains and losses arising from transactions with entities under common control should be recognised in the statement of changes in equity as transactions with shareholders in respect of capital contributions and distributions or in the income statement as results from operations. The basis for judgment is economic substance of transaction. As disclosed in Note 21, in February 2008 the Bank purchased a corporate loan from an entity under common control for USD 6,013 thousand. The fair value of this loan as at the date of purchase was USD 2,000 thousand. As a result of this transaction, the Bank recorded a loss on the purchase of USD 4,013 thousand. The Bank introduced the borrower to the related party. Following the loan's impairment, the Bank decided to bear the loss and purchased the loan. This loss was recognised in the income statement to reflect its operational nature. Were the Bank to recognise all such gains and losses in the income statement, there would be no effect on the net profit for the three month period ended 31 March 2008 (3 months ended 31 March 2007: increase in net profit for the period by USD 232 thousand).

5 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Bank from 1 January 2008. 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 2007, unless otherwise described below.

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

Effect of Adoption of New or Revised Standards. The above interpretations had no effect on the Bank's financial position at 31 March 2008 and 31 December 2007 and on the results of its operations for the three months ended 31 March 2008 and 31 March 2007.

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 2008 or later periods and which the Bank has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009).

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

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

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

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

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

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

6 New Accounting Pronouncements (Continued)

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

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate - IFRS 1 and IAS 27 Amendment (revised May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous generally accepted accounting principles carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments are not expected to have an impact on the Bank's financial statements.

IFRIC 13, Customer Loyalty Programmes (issued in June 2007; effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is currently not relevant to the Bank's operations.

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

IFRIC 15, Agreements for the Construction of Real Estate (issued in July 2008, effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The Bank does not expect any material impact on its financial statements from this interpretation when it becomes effective on 1 January 2009.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (issued in July 2008, effective for annual periods beginning on or after 1 October 2008). This interpretation applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39. The interpretation clarifies that hedge accounting may be applied only to the foreign exchange difference arising between the functional currency of the foreign operation and the parent entity's functional currency. The Bank does not expect any material impact on its financial statements from this interpretation when it becomes effective on 1 October 2008.

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

7 Cash and Cash Equivalents

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 March 2008 (unaudited)	31 December 2007
Cash on hand	16,847	16,584
Cash balances with the NBU (other than mandatory reserve deposits)	1,475	94
Mandatory cash balances with the NBU	72,944	59,606
Correspondent accounts and overnight placements with other banks		
- Ukraine	890	1,054
- Other countries	40,767	33,451
Placements with other banks with original maturities of less than three months	87,247	91,964
Total cash and cash equivalents	220,170	202,753

The information on related party balances is disclosed in Note 21.

8 Loans and Advances to Customers

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 March 2008 (unaudited)	31 December 2007
Corporate loans	2,007,253	1,611,908
Loans to individuals - consumer loans	299,552	240,782
Loans to individuals - mortgage and car loans	343,245	274,439
Loans to individuals - other loans	104,399	74,099
Small and medium enterprises	139,501	86,668
Reverse sale and repurchase agreements	4,505	8,045
Less: Provision for impairment	(44,635)	(35,226)
Total loans and advances to customers	2,853,820	2,260,715

Movements in the provision for loan impairment during three months ended 31 March 2008 are as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Corporate loans	Loans to individuals - consumer loans	Loans to individuals - mortgage and car loans	Small and medium enterprises	Total
Provision for impairment at 1 January 2008	17,181	16,608	920	517	35,226
Provision for impairment during the period	1,053	13,255	729	154	15,191
Amounts written off during the period as uncollectible	-	(5,322)	(460)	-	(5,782)
Provision for impairment at 31 March 2008 (unaudited)	18,234	24,541	1,189	671	44,635

8 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during three months ended 31 March 2007 are as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Corporate loans	Loans to individuals - consumer loans	Loans to individuals - mortgage and car loans	Small and medium enterprises	Total
Provision for impairment at 1 January 2007	8,161	10,107	-	-	18,268
Provision for impairment during the period	1,312	4,738	246	-	6,296
Amounts written off during the period as uncollectible	-	(5,361)	-	-	(5,361)
Provision for impairment at 31 March 2007 (unaudited)	9,473	9,484	246	-	19,203

At 31 March 2008 the Bank had 10 borrowers (31 December 2007: 10 borrowers) with aggregated loan balances above USD 44,000 thousand (31 December 2007: USD 31,700 thousand). The total aggregate amount of these loans was USD 555,264 thousand (31 December 2007: USD 508,430 thousand) or 19% of the gross loan portfolio (31 December 2007: 22%).

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

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 March 2008 (unaudited)		31 December 2007	
	Amount	%	Amount	%
Retail and SME loans	886,697	31%	675,988	29%
Railways	273,488	9%	145,931	6%
Retail trade	266,912	9%	221,594	10%
Wholesale trade	239,487	8%	142,347	6%
Food industry	177,086	6%	131,576	6%
Power industry	116,858	4%	73,664	3%
Construction and real estate	105,026	4%	100,106	4%
Chemical and petrochemical industry	96,976	3%	61,779	3%
Motor-car industry	89,678	3%	36,749	2%
Mechanical engineering and metal- working industry	88,149	3%	40,005	2%
Investment and lease companies	85,992	3%	144,868	6%
Military organisations and aircraft constructions	67,017	2%	47,234	2%
Agriculture	50,775	2%	33,726	2%
Coal-mining industry	50,163	2%	53,465	2%
Transport	43,926	2%	47,958	2%
Metallurgy	34,642	1%	42,390	2%
Natural gas industry	21,522	1%	113,093	5%
Other	204,061	7%	183,468	8%
Total loans and advances to customers (before impairment)	2,898,455	100%	2,295,941	100%

The information on related party balances is disclosed in Note 21.

9 Investment Securities Available-for-Sale

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 March 2008 (unaudited)	31 December 2007
Corporate bonds - quoted	43,765	31,400
Corporate bonds - unquoted	29,616	6,085
Municipal and state bonds - quoted	2,791	11,863
Municipal and state bonds - unquoted	1,985	-
Total debt securities	78,157	49,348
Corporate shares – unquoted	4	10
Loss: Provision for impairment	-	(10)
Total investment securities available-for-sale	78,161	49,348

10 Due to Other Banks

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 March 2008 (unaudited)	31 December 2007
Current accounts		
Domestic	41,272	3,483
OECD countries	106	-
Non-OECD countries	17,990	11,298
Deposits and loans		
Domestic	9,484	21,381
OECD countries	312,457	455,546
Non-OECD countries	224,700	16,588
Total due to other banks	606,009	508,296

The information on related party balances is disclosed in Note 21.

11 Customer Accounts

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 March 2008 (unaudited)	31 December 2007
State and public organisations		
- Current/settlement accounts	27,351	19,925
- Term deposits	10,808	15,943
Other legal entities		
- Current/settlement accounts	504,514	373,052
- Term deposits	688,673	339,132
Individuals		
- Current/demand accounts	29,440	27,449
- Term deposits	82,536	67,250
Total customer accounts	1,343,322	842,751

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 March 2008 (unaudited)		31 December 2007	
	Amount	%	Amount	%
Investment and lease companies	357,397	26%	100,265	12%
Communication	266,114	20%	171,876	20%
Ferrous metallurgy	170,074	13%	53,532	6%
Natural gas industry	124,145	9%	44,237	5%
Individuals	111,976	8%	94,699	11%
Wholesale trade	49,729	4%	56,614	7%
Military-industrial establishment and aircraft construction	43,689	3%	53,339	6%
Food industry	36,607	3%	4,785	1%
Insurance	34,597	3%	29,392	3%
Mechanical engineering and metal-working industry	21,688	2%	12,635	2%
Construction and real estate	18,844	1%	1,537	0%
Retail trade	15,248	1%	2,667	0%
Coal-mining industry	13,786	1%	102,177	12%
Transport	10,256	1%	5,225	1%
Power industry	8,804	1%	8,312	2%
Chemical and petrochemical industry	5,898	0%	62,904	7%
Other	54,470	4%	38,555	5%
Total customer accounts	1,343,322	100%	842,751	100%

At 31 March 2008 the Bank had 10 customers (31 December 2007: 10 customers) with balances above USD 28,900 thousand (31 December 2007: USD 18,200 thousand). The aggregate balance of these customers was USD 967,166 thousand (31 December 2007: USD 560,185 thousand) or 72% (31 December 2007: 66%) of total customer accounts.

The information on related party balances is disclosed in Note 21.

12 Debt Securities in Issue

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 March 2008 (unaudited)	31 December 2007
Bonds issued on domestic market	198,732	196,241
Total debt securities in issue	198,732	196,241

At 31 March 2008 the Bank has debt securities in issue with carrying value of USD 198,732 thousand (31 December 2007: USD 196,241 thousand) denominated in Ukrainian hryvnias. These bonds were issued with following terms and conditions:

In thousands of USD (as presentation currency, Note 3)

Series of bonds	Nominal value	Coupon rate	Yield to maturity	Maturity	Next option on early repayment and interest change
C	10,858	13%	13%	8 December 2010	10 December 2008
D	38,614	13%	13%	20 December 2011	23 December 2008
E	59,406	12%	12%	24 April 2009	-
F	57,426	10%	13%	9 September 2012	15 September 2008
G	3,267	11%	11%	9 September 2012	15 September 2008
H	22,178	14%	14%	14 March 2013	17 March 2009
Total debt securities in issue	191,749				

As at 31 December 2007:

In thousands of USD (as presentation currency, Note 3)

Series of bonds	Nominal value	Coupon rate	Yield to maturity	Maturity	Next option on early repayment and interest change
C	9,868	13%	12%	8 December 2010	10 December 2008
D	35,644	13%	14%	20 December 2011	23 December 2008
E	59,406	12%	12%	24 April 2009	-
F	57,426	10%	13%	9 September 2012	15 September 2008
G	29,010	8%	8%	9 September 2012	17 March 2008
Total debt securities in issue	191,354				

13 Loan Participation Notes

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 March 2008 (unaudited)	31 December 2007
Loan participation notes	556,536	552,648
Total loan participation notes	556,536	552,648

In December 2006, the Bank issued loan participation notes (the “Notes”) through VTB Bank Europe Plc (the “Lender”) with a par value of USD 160,000 thousand, nominal interest rate of 9.75% per annum, and due on 22 December 2009. In accordance with conditions of the loan agreement dated 18 December 2006, interest will be paid by the Bank on 22 June and 22 December in each year in which the Notes remain outstanding.

The loan agreement, signed between Lender and the Bank also includes the following financial covenants:

- limitation of any type of corporate restructuring without written consent of the Lender;
- it states a 12 month period, when the Bank shall not sell, lease, transfer or otherwise dispose of the any part of the Bank’s assets which constitute more than 10% of total assets; and
- the Bank shall not permit its capital adequacy ratio to fall below the minimum capital adequacy ratio required by the NBU.

In March 2007, the Bank issued additional Notes through VTB Bank Europe Plc amounting to USD 188,700 thousand, with par value USD 185,000 thousand, nominal interest rate of 9.56% per annum, and due on 22 December 2009. In accordance with conditions of the loan agreement dated 18 December 2006, interest will be paid by the Bank on 22 June and 22 December in each year in which the Notes remain outstanding.

In July 2007, the Bank issued loan participation notes through Ukraine Issuance Plc amounting to USD 200,175 thousand, with par value USD 200,000 thousand, nominal interest rate of 9.25% per annum, and due on 26 July 2010. In accordance with conditions of the loan agreement dated 23 July 2007, interest will be paid by the Bank on 26 July and 26 January in each year in which the Notes remain outstanding.

The loan agreement, signed between Ukraine Issuance Plc and the Bank also includes the following financial covenants:

- the Bank must at all times ensure that:
 - its Capital expressed as a percentage of its Risk Weighted Assets is not less than (i) that required by the Bank for International Settlements or (ii) twelve per cent (12%), whichever is the higher; and
 - its Tier 1 Capital expressed as a percentage of its Risk Weighted Assets is not less than (i) that required by the Bank for International Settlements or (ii) eight per cent (8 %), whichever is the higher.
- the Bank should comply with all NBU rules and regulations applicable to banks.

14 Subordinated Debt

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

Included in subordinated debt, provided by a related party, being entity under common control, Westlaw Inc, are USD denominated subordinated debts issued in January 2007 and March 2007 in the amount of USD 20,000 thousand and USD 4,980 thousand respectively, at par at 8.5% per annum with contractual maturity in January 2017. A gain on initial recognition of subordinated debts at rates below market in the amount of USD 260 thousand and USD 50 thousand, accordingly, was recognized in the statement of changes in equity, because it represented a capital contribution from the Bank's owners.

In August 2007 the Bank received subordinated debt amounting to USD 30,000 thousand at par from an entity under common control, Westlaw Inc. The subordinated debt carries the interest rate of 8.5% per annum and matures in August 2017. Subordinated debt was registered by the NBU on 13 September 2007. A gain on initial recognition of subordinated debts at rates below market in the amount of USD 133 thousand was recognized in the statement of changes in equity, because it represented a capital contribution from the Bank's owners.

The rest of the amount is represented by USD denominated subordinated debts, provided by an entity under common control, Westlaw Inc. These subordinated debts were issued in November 2002 in the amount of USD 6,800 thousand at LIBOR per annum payable at maturity with contractual maturity in November 2010 and in June 2005 in the amount of USD 5,200 thousand at LIBOR per annum payable at maturity with contractual maturity in June 2013. A gain on initial recognition of subordinated debts at rates below market in the amount of USD 3,214 thousand and USD 1,407 thousand, accordingly, was recognized in the statement of changes in equity at exchange rates at the dates of initial recognition, because it represented a capital contribution from the Bank's owners.

Based on the Assignment agreements dated 5 December 2007 all claims to the Bank, related to all abovementioned subordinated debts, were irrevocably assigned and given by primary investor (Westlaw Inc, an entity under common control) to new investor (Overstand Limited, an entity under common control). All respective changes were properly authorized by the NBU in February 2008.

Because of the change in management assumptions regarding the maturity date of subordinated debts issued in 2007, from December 2007 to December 2008 a gain of USD 1,034 thousand arising from the change in the present value of estimated future cashflows of these subordinated debts has been recognized in the income statement during the three months period ended 31 March 2008.

Included in subordinated debt as at 31 March 2008 is accrued interest in the amount of USD 6,109 thousand (31 December 2007: USD 4,829 thousand).

The information on related party balances is disclosed in Note 21.

15 Share Capital

Authorized, issued and fully paid capital of the Bank comprises:

<i>In thousands of USD (as presentation currency, Note 3), except for number of shares</i>	Number of outstanding shares	Nominal amount	Adjusted amount
At 1 January 2007	360,000,000	71,287	72,599
New shares issued	-	-	-
At 31 March 2007 (unaudited)	360,000,000	71,287	72,599
New shares issued	1,010,000,000	200,000	200,000
At 31 December 2007	1,370,000,000	271,287	272,599
New shares issued	374,710,000	74,200	74,200
Share premium paid	-	-	25,800
At 31 March 2008 (unaudited)	1,744,710,000	345,487	372,599

On 21 November 2007 the shareholders of the Bank took a decision to issue 374,710 thousand additional shares totalling USD 74,200 thousand (equivalent of UAH 374,710 thousand). In December 2007 ABH Ukraine Limited in compliance with agreements dated 14 December 2007 and 29 December 2007 made a payment of USD 100,000 thousand for shares with the nominal value USD 74,200 thousand. On 26 March 2008 the NBU registered the increase in the share capital of the Bank in the amount of USD 74,200 thousand and the proceeds from share issue of USD 100,000 thousand were recognized as an increase in equity.

All ordinary shares have a nominal value of USD 0.198 per share and rank equally. Each share carries one vote.

The shareholders' structure of the Bank was the following as at 31 March 2008:

In thousands of USD (as presentation currency, Note 3), except for number of shares and percentages

Shareholder	Number of shares issued	%	Nominal value
ABH Ukraine Limited	1,744,676,253	99.9981%	345,480
Others	33,747	0.0019%	7
Total	1,744,710,000	100.000%	345,487

The adjusted amount of the share capital includes USD 25,800 thousand paid by the ABH Ukraine limited as a share premium for the shares with the nominal value USD 74,200 thousand.

16 Interest Income and Expense

<i>In thousands of USD (as presentation currency, Note 3)</i>	3 months ended 31 March 2008 (unaudited)	3 months ended 31 March 2007 (unaudited)
Interest income		
Loans and advances to customers	101,256	35,012
Due from other banks	2,829	823
Debt investment securities available-for-sale	1,773	503
Cash and cash equivalents	1,572	1,090
Total interest income	107,430	37,428
Interest expense		
Loan participation notes	14,121	5,478
Term deposits of legal entities	13,362	6,411
Term placements of other banks	10,336	5,695
Debt securities in issue	6,331	1,196
Term deposits of individuals	2,131	864
Customer current/settlement accounts	1,837	809
Subordinated debt	1,638	682
Current/settlement accounts of other banks	939	640
Other borrowed funds	8	-
Other	10	3
Total interest expense	50,713	21,778
Net interest income	56,717	15,650

Information on interest income and expense from transactions with related parties is disclosed in Note 21.

17 Fee and Commission Income and Expense

<i>In thousands of USD (as presentation currency, Note 3)</i>	3 months ended 31 March 2008 (unaudited)	3 months ended 31 March 2007 (unaudited)
Fee and commission income		
<i>Fee and commission income in respect of financial instruments not at fair value through profit or loss:</i>		
- Currency exchange	3,052	3,413
- Cash and settlement transactions	1,894	1,222
- Documentary operations	1,812	81
- Transactions with securities	84	18
- Fiduciary activities	34	29
- Other	5	38
Total fee and commission income	6,881	4,801
Fee and commission expense		
<i>Fee and commission expense in respect of financial instruments not at fair value through profit or loss</i>		
- Cash and settlement transactions	759	213
- Transactions with securities	50	52
- Other	90	44
Total fee and commission expense	899	309
Net fee and commission income	5,982	4,492

Information on fee and commission income from transactions with related parties is disclosed in Note 21.

18 Administrative and Other Operating Expenses

<i>In thousands of USD (as presentation currency, Note 3)</i>	3 months ended 31 March 2008 (unaudited)	3 months ended 31 March 2007 (unaudited)
Salaries and employee benefits	21,712	7,393
Rent	4,464	1,261
Communication and IT	2,914	1,454
Depreciation and amortization	1,682	809
Administration and office maintenance	624	224
Professional services	253	214
Travelling	295	225
Entertainment expenses	172	91
Utilities	410	168
Provision for impairment of other assets	41	33
Other	2,843	915
Total administrative and other operating expenses	35,410	12,787

Included in staff costs are statutory social security and pension contribution of USD 3,452 thousand (three months ended 31 March 2008: USD 1,342 thousand).

Information on administrative and other operating expenses from transactions with related parties is disclosed in Note 21.

19 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:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Central treasury – undertakes the Bank's funding and centralised risk management activities through borrowings, issues of debt securities and investing in liquid assets such as short-term placements and corporate and government debt securities.

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.

19 Segment Analysis (Continued)

Segment reporting for the Bank's assets and liabilities per business segments as at 31 March 2008 is as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Corporate	Retail	Central treasury	Eliminations	Total
Segment assets	2,248,139	702,818	267,608	-	3,218,565
Segment liabilities	1,157,506	51,937	1,581,696	-	2,791,139
Current income tax liability					2,958
Deferred income tax liability					304
Other unallocated liabilities					2,928
Total liabilities					2,797,329
Other segment items					
Capital expenditure incurred during three months ended 31 March 2008	1,563	2,083	361	-	4,007

Segment reporting for the Bank's income and expense per business segments for the three months ended as at 31 March 2008 is as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Corporate	Retail	Central treasury	Eliminations	Total
31 March 2008					
External revenues	69,761	35,947	9,313	-	115,021
Revenues from other segments	21,183	486	45,391	(67,060)	-
Total revenues	90,944	36,433	54,704	(67,060)	115,021
Total revenues comprise:					
- Interest income	84,838	35,336	54,316	(67,060)	107,430
- Fee and commission income	5,994	761	126	-	6,881
- Other operating income	112	336	262	-	710
Total revenues	90,944	36,433	54,704	(67,060)	115,021
Segment result	6,361	(16,043)	22,791	-	13,109
Unallocated costs					(739)
Profit before tax					12,370
Income tax expense					(3,557)
Profit					8,813

19 Segment Analysis (Continued)

Segment reporting for the Bank's assets and liabilities per business segments as at 31 December 2007 is as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Corporate	Retail	Central treasury	Eliminations	Total
Segment assets	1,781,421	548,396	268,497	-	2,598,314
Segment liabilities	854,868	76,674	1,352,387	-	2,283,929
Current income tax liability					1,002
Deferred income tax liability					42
Other unallocated liabilities					700
Total liabilities					2,285,673
Other segment items					
Capital expenditure incurred during three months ended 31 March 2007	1,192	1,590	275	-	3,057

Segment reporting for the Bank's income and expense per business segments for the three months ended as at 31 March 2007 is as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Corporate	Retail	Central treasury	Eliminations	Total
31 March 2007					
External revenues	32,013	8,360	1,947	-	42,320
Revenues from other segments	10,991	435	14,532	(25,958)	-
Total revenues	43,004	8,795	16,479	(25,958)	42,320
Total revenues comprise:					
- Interest income	38,562	8,416	16,408	(25,958)	37,428
- Fee and commission income	4,442	309	50	-	4,801
- Other operating income	-	70	21	-	91
Total revenues	43,004	8,795	16,479	(25,958)	42,320
Segment result	7,010	(7,760)	4,127	-	3,377
Unallocated costs					(1,621)
Profit before tax					1,756
Income tax expense					(506)
Profit					1,250

20 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and both internal and external professional advice 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 financial statements.

Tax legislation. Ukrainian tax 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 authorities.

The Ukrainian 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.

Capital expenditure commitments. At 31 March 2008 the Bank has contractual capital expenditure commitments in respect of premises, leasehold improvements and equipment totalling USD 6,808 thousand (31 December 2007: USD 2,588 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:

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 March 2008 (unaudited)	31 December 2007
Not later than 1 year	14,367	13,266
Later than 1 year and not later than 5 years	21,116	20,107
Later than 5 years	-	56
Total operating lease commitments	35,483	33,429

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. 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.

20 Contingencies and Commitments (Continued)

Outstanding credit related commitments are as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 March 2008 (unaudited)	31 December 2007
Guarantees issued	56,705	60,951
Undrawn credit lines	24,830	102,427
Letters of credit	82,375	48,869
Avals issued	859	2,013
Acceptance	402	-
Total credit related commitments	165,171	214,260

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Assets pledged and restricted. At 31 March 2008 the Bank has the following assets pledged as collateral:

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 March 2008 (unaudited)		31 December 2007	
	Asset pledged	Related liability	Asset pledged	Related liability
Investment securities available-for-sale	2,024	2,024	4,201	4,201
Gross receivables under swap agreements	232,297	234,295	406,482	408,857
Total	234,321	236,319	410,683	413,058

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

In addition to the above, balances due from other banks totalling USD 692 thousand (31 December 2007: USD 4,780 thousand) have been pledged as cover for letters of credit and international payments.

21 Related Party Transactions

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

There were neither balances nor transactions other than the share issue with the parent, ABH Ukraine Limited as at 31 March 2008 and as at 31 December 2007 and for the three month period ended 31 March 2008 and 31 March 2007 (Note 15).

Key management personnel - President of the Bank (Deputy head of Supervisory Board) and members of the Management Board - received remuneration in the form of short-term employee benefits amounting to USD 1,551 thousand during three months ended 31 March 2008 (three months ended 31 March 2007: USD 680 thousand).

Included in staff costs is an amount accrued for bonuses for the three months period ended 31 March 2008 of USD 3,500 thousand. The decision as to final amount of bonus to be paid and how the bonus accrual will be divided between key management personnel and other employees is subject to the decision of the Compensation Committee of the Bank. As such, the amount of this bonus for key management personnel for 2008 is not included in the amount of management remuneration disclosed above.

At 31 March 2008 and 31 December 2007, the outstanding balances with related parties were as follows:

	31 March 2008 (unaudited)		31 December 2007	
	Entities under common control	Key manage- ment personnel	Entities under common control	Key manage- ment personnel
<i>In thousands of USD (as presentation currency, Note 3)</i>				
Assets				
Cash and cash equivalents	23,960	-	11,333	-
Gross loans and advances to customers (contractual interest rate from 9% to 18%; 31 December 2007: from 9% to 16%)	240,099	456	247,218	519
Less: provision for loan impairment of loans and advances to customers	(715)	-	(188)	-
Other assets	5	25	6	-
Liabilities				
Due to other banks (contractual interest rate from 0% to 10%, 31 December 2007: from 0% to 17%)	150,687	-	185,070	-
Customer accounts (contractual interest rate from 0% to 14%, 31 December 2007: from 0% to 14%)	496,639	1,074	258,410	854
Subordinated debt (contractual interest rate from 4% to 9%, 31 December 2007: from 4% to 9%)	69,828	-	69,223	-
Credit related commitments				
Guarantees issued	610	-	2,864	-
Undrawn credit lines	140	-	140	-

21 Related Party Transactions (Continued)

The income and expense items with related parties for three months ended 31 March 2008 were as follows:

	Three months ended 31 March 2008 (unaudited)		Three months ended 31 March 2007 (unaudited)	
	Entities under common control	Key manage- ment personnel	Entities under common control	Key manage- ment personnel
<i>In thousands of USD (as presentation currency, Note 3)</i>				
Interest income	8,813	14	1,213	11
Fee and commission income	289	2	-	-
Foreign exchange translation gains less losses	6	-	3	-
Interest expense	9,308	19	5,837	-
Impairment charge	527	-	-	-
Gain on origination of subordinated debt recognised directly in equity	-	-	310	-
Gain on change of expected maturity of liabilities at rates below market	1,034	-	-	-
Gains less losses/(losses less gains) on initial recognition of financial liabilities measured at amortised cost at rates below/above market	35	-	(91)	-
Losses on loan purchased from related parties	4,013	-	-	-
Administrative and other operating expenses (excluding key management personnel remuneration)	-	6	2	7

As at 31 March 2008 included in loans and advances to entities under common control are loans of USD 26,086 thousand (31 December 2007: USD 44,586 thousand) collateralised by cash deposits placed with the Bank.

In February 2008 the Bank purchased a corporate loan from an entity under common control for USD 6,013 thousand. The fair value of this loan as at the date of purchase was USD 2,000 thousand. As a result of this transaction, the Bank recorded a loss on the purchase of USD 4,013 thousand. The Bank introduced the borrower to the related party. Following the loan's impairment, the Bank decided to bear the loss and purchased the loan. The Bank is taking steps to recover the loan from the borrower in full.

During the period ended 31 March 2008 entities related by virtue of common control contributed to the development of customer base and expansion of the Bank's business and incurred expenses of USD 6,937 thousand (three months ended 31 March 2007: USD 3,133 thousand). Entities under common control will not require reimbursement of incurred expenses from the Bank.

22 Subsequent Events

In April and May 2008, the Bank issued loan participation notes through Ukraine Issuance Plc with par values of USD 100,000 thousand and USD 250,000 thousand, respectively, both with nominal interest rate 9.25% p.a. and due dates in May 2009 and in July 2010 respectively.

On 21 April 2008 the shareholders of the Bank took a decision to issue 505,000 thousand additional shares totalling USD 100,000 thousand (equivalent of UAH 505,000 thousand). In May-June 2008 ABH Ukraine Limited made a payment of USD 100,000 thousand to the Bank. The shareholders meeting of 16 June 2008 approved the results of the new share issue and decided to make the respective changes to the Bank's Charter. As at the date of issuing this condensed interim financial information the changes have not yet been registered by the relevant authorities.

On 21 May 2008 the National Bank of Ukraine changed the official exchange rate of the US dollar to Ukrainian hryvnia from 5.05 hryvnia for 1 US dollar to 4.85 hryvnia for 1 US dollar.