

**Alfa-Bank Group**

**Condensed Interim Consolidated Financial  
Information and Review Report**

**30 June 2008**

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## REVIEW REPORT

To the Shareholders and Management Board of Alfa-Bank

### *Introduction*

- 1 We have reviewed the accompanying condensed interim consolidated balance sheet of Alfa-Bank Group (the "Group") as at 30 June 2008 and the related condensed interim consolidated statements of income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this condensed interim consolidated financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed interim consolidated 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 consolidated financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

LLC PricewaterhouseCoopers Audit

Kyiv, Ukraine  
18 September 2008

**Alfa-Bank Group**  
**Condensed Interim Consolidated Balance Sheet (unaudited)**

<i>In thousands of USD (as presentation currency, Note 3)</i>	Note	30 June 2008 (unaudited)	31 December 2007
<b>ASSETS</b>			
Cash and cash equivalents	7	304,682	202,753
Due from other banks		14,453	25,592
Loans and advances to customers	8	3,228,250	2,260,715
Investment securities available-for-sale	9	114,865	49,348
Intangible assets		1,813	1,582
Premises, leasehold improvements and equipment		62,118	53,253
Deferred income tax assets		418	-
Other financial assets		1,883	2,292
Other assets		8,741	2,779
<b>TOTAL ASSETS</b>		<b>3,737,223</b>	<b>2,598,314</b>
<b>LIABILITIES</b>			
Due to other banks	10	553,111	508,296
Customer accounts	11	1,443,204	842,751
Debt securities in issue	12	199,339	196,241
Loan participation notes	13	898,050	552,648
Current income tax liability		1,047	1,002
Deferred income tax liability		-	42
Other financial liabilities		7,680	4,924
Other liabilities		19,687	10,546
Subordinated debt	14	71,380	69,223
Prepaid non-registered share capital		-	100,000
<b>TOTAL LIABILITIES</b>		<b>3,193,498</b>	<b>2,285,673</b>
<b>EQUITY</b>			
Share capital	15	372,599	272,599
Contributions received for new shares issued but not registered	15	100,000	-
Additional paid-in capital		3,798	3,798
Retained earnings		29,380	15,040
Other reserves	16	37,948	21,204
<b>TOTAL EQUITY</b>		<b>543,725</b>	<b>312,641</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>3,737,223</b>	<b>2,598,314</b>

Approved for issue and signed on behalf of the Management Board on 18 September 2008.

  
 A. Volkov  
 Chairman of the Management Board

  
 O. Malynska  
 Chief Financial Officer

**Alfa-Bank Group**  
**Condensed Interim Consolidated Income Statement (unaudited)**

<i>In thousands of USD (as presentation currency, Note 3)</i>	<b>Note</b>	<b>Six months ended 30 June 2008 (unaudited)</b>	<b>Six months ended 30 June 2007 (unaudited)</b>
Interest income	17	251,585	87,000
Interest expense	14, 17	(117,537)	(48,937)
<b>Net interest income</b>		<b>134,048</b>	<b>38,063</b>
Provision for impairment of loans and advances to customers	8	(45,108)	(12,567)
<b>Net interest income after provision for loan impairment</b>		<b>88,940</b>	<b>25,496</b>
Fee and commission income	18	14,087	8,317
Fee and commission expense	18	(2,572)	(586)
Losses less gains from financial derivatives		(1,669)	-
Foreign exchange gains less losses		11,152	2,314
Foreign exchange translation (losses less gains)/gains less losses		(9,141)	430
Losses less gains on initial recognition of loans and receivables at rates below/above market measured at amortized cost	8	(89)	(1,255)
Losses on loan purchased from related party	23	(4,013)	-
Gains on initial recognition of financial liabilities measured at amortised cost at rates below market		250	165
Gains less losses/ (losses less gains) from disposal of investment securities available-for-sale		5	(154)
Other operating income	19	1,551	185
Administrative and other operating expenses	20	(78,647)	(32,413)
<b>Profit before tax</b>		<b>19,854</b>	<b>2,499</b>
Income tax expense		(5,710)	(761)
<b>Profit for the period</b>		<b>14,144</b>	<b>1,738</b>

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

	Note	Share capital	Contributions received for new shares issued but not registered	Additional paid-in capital	Other reserves	Retained earnings	Total equity
<i>In thousands of USD</i> <i>(as presentation currency, Note 3)</i>							
<b>Balance at 31 December 2006</b>		<b>72,599</b>	-	<b>3,466</b>	<b>19,359</b>	<b>2,835</b>	<b>98,259</b>
Available-for-sale investments:							
- Fair value losses less gains		-	-	-	(169)	-	(169)
- Disposals		-	-	-	154	-	154
- Income tax recorded in equity		-	-	-	4	-	4
Land and buildings:							
- Depreciation transfer		-	-	-	(240)	240	-
- Income tax recorded in equity		-	-	-	60	(60)	-
<b>Net loss recognised directly in equity</b>		-	-	-	<b>(191)</b>	<b>180</b>	<b>(11)</b>
Profit for the period (unaudited)		-	-	-	-	1,738	1,738
<b>Total recognised income for the period (unaudited)</b>		-	-	-	<b>(191)</b>	<b>1,918</b>	<b>1,727</b>
Share issue	15	100,000	-	-	-	-	100,000
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)
<b>Balance at 30 June 2007 (unaudited)</b>		<b>172,599</b>		<b>3,698</b>	<b>19,168</b>	<b>4,753</b>	<b>200,218</b>
Available-for-sale investments:							
- Fair value losses less gains		-	-	-	64	-	64
- Disposals		-	-	-	(44)	-	(44)
- Income tax recorded in equity		-	-	-	(5)	-	(5)
Land and buildings:							
- Revaluation of premises and land		-	-	-	2,934	-	2,934
- Depreciation transfer		-	-	-	(239)	239	-
- Income tax recorded in equity		-	-	-	(674)	(60)	(734)
<b>Net income recognised directly in equity</b>		-	-	-	<b>2,036</b>	<b>179</b>	<b>2,215</b>
Profit for the period (unaudited)		-	-	-	-	10,108	10,108
<b>Total recognised income for the period (unaudited)</b>		-	-	-	<b>2,036</b>	<b>10,287</b>	<b>12,323</b>
Share issue	15	100,000	-	-	-	-	100,000
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)
<b>Balance at 31 December 2007</b>		<b>272,599</b>	-	<b>3,798</b>	<b>21,204</b>	<b>15,040</b>	<b>312,641</b>
Available-for-sale investments:							
- Fair value losses less gains		-	-	-	(867)	-	(867)
- Disposals		-	-	-	(5)	-	(5)
- Income tax recorded in equity		-	-	-	218	-	218
Land and buildings:							
- Depreciation transfer		-	-	-	(261)	261	-
- Income tax recorded in equity		-	-	-	65	(65)	-
Effect of translation to presentation currency		-	-	-	17,594	-	17,594
<b>Net income recognised directly in equity</b>		-	-	-	<b>16,744</b>	<b>196</b>	<b>16,940</b>
Profit for the period (unaudited)		-	-	-	-	14,144	14,144
<b>Total recognised income for the period (unaudited)</b>		-	-	-	<b>16,744</b>	<b>14,340</b>	<b>31,084</b>
Share issue	15	100,000	-	-	-	-	100,000
Contributions received for new shares issued but not registered	15	-	100,000	-	-	-	100,000
<b>Balance at 30 June 2008 (unaudited)</b>		<b>372,599</b>	<b>100,000</b>	<b>3,798</b>	<b>37,948</b>	<b>29,380</b>	<b>543,725</b>

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

<i>In thousands of USD (as presentation currency, Note 3)</i>	<b>Note</b>	<b>Six months ended 30 June 2008 (unaudited)</b>	<b>Six months ended 30 June 2007 (unaudited)</b>
<b>Cash flows from operating activities</b>			
Interest received		234,184	90,640
Interest paid		(103,994)	(44,273)
Fees and commissions received		14,200	8,317
Fees and commissions paid		(2,184)	(816)
Income received from trading in foreign currencies		11,256	2,314
Other operating income received		1,547	166
Staff costs paid		(42,589)	(16,424)
Administrative and other operating expenses paid		(26,807)	(9,859)
Income tax paid		(6,169)	(462)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>79,444</b>	<b>29,603</b>
<b>Changes in operating assets and liabilities</b>			
Net decrease in due from other banks		7,596	67,931
Net increase in loans and advances to customers		(977,479)	(770,205)
Net (increase)/decrease in other financial assets and other assets		(2,543)	873
Net increase in due to other banks		29,366	144,330
Net increase in customer accounts		581,558	107,815
Net increase/(decrease) in other financial liabilities and other liabilities		6,273	(34)
<b>Net cash used in operating activities</b>		<b>(275,785)</b>	<b>(419,687)</b>
<b>Cash flows from investing activities</b>			
Acquisition of investment securities available-for-sale		(250,874)	(67,022)
Proceeds from disposal of investment securities available-for-sale		186,499	62,545
Acquisition of premises, leasehold improvements and equipment		(10,315)	(6,116)
Proceeds from disposal of premises, leasehold improvements and equipment		2	20
Acquisition of intangible assets		(350)	(389)
<b>Net cash used in investing activities</b>		<b>(75,038)</b>	<b>(10,962)</b>
<b>Cash flows from financing activities</b>			
Purchase and redemption of debt securities in issue		(66,716)	-
Proceeds from issue and sale of debt securities in issue		65,066	99,797
Proceeds from loan participation notes	13	343,750	188,700
Proceeds from subordinated debt		-	24,980
Paid-in share capital	15	100,000	100,000
<b>Net cash from financing activities</b>		<b>442,100</b>	<b>413,477</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>10,652</b>	<b>360</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>101,929</b>	<b>(16,812)</b>
Cash and cash equivalents at the beginning of the period		202,753	158,409
<b>Cash and cash equivalents at the end of the period</b>	<b>7</b>	<b>304,682</b>	<b>141,597</b>

## **1 Introduction**

This condensed interim consolidated financial information has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as at 30 June 2008 and for the six months then ended for CJSC Alfa-Bank (the “Bank”) and its special purposes entities (together referred to as the “Group”).

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 (the “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 220 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 condensed interim consolidated financial information is presented in United States Dollars (“USD”).

This condensed interim consolidated financial information has been authorised for issue by the Chairman of the Management Board on 18 September 2008.

## **2 Operating Environment of the Group**

**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 Group.

During the last few months there has been a significant shortfall of liquidity on Ukrainian market connected with the lack of UAH resources as a result of anti-inflationary measures taken by the NBU and the Government. As such, Ukrainian banks significantly reduced the volumes of lending both in local and foreign currencies and increased interest rates on loans, which resulted in overall slow down of the growth of Ukrainian banking system.

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 Group 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 Group’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 consolidated financial information has been prepared in accordance with the International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”). The condensed interim consolidated financial information should be read in conjunction with the Bank’s annual financial statements as at 31 December 2007. This condensed interim financial information was prepared as consolidated financial information for the Bank and the special purpose entities that it controls. Refer to Note 4.

This condensed interim consolidated financial information of the Group includes a condensed interim consolidated balance sheet as at 30 June 2008 and balance sheet as at 31 December 2007, condensed interim consolidated statements of income, changes in equity and cash flows for the six month periods ended 30 June 2008 and 30 June 2007 and selected explanatory notes.

The Group 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 consolidated financial information are consistent with those disclosed in the annual financial statements of the Bank for the year ended 31 December 2007 except for (a) interim period measurement of income tax expense as described further in this note and (b) adoption of new standards and interpretations as described in Note 5. In addition, these financial statements were prepared by consolidating the Group’s special purpose entities. Refer to Note 4 and the below accounting policy for consolidation.

**Consolidated financial statements.** Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are 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 Bank and all of its subsidiaries use uniform accounting policies consistent with the Group’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 Bank. Minority interest forms a separate component of the Group’s equity.

**3 Basis of Preparation and Significant Accounting Policies (Continued)**

**Foreign currency translation.** The functional currency of each of the Groups consolidated entities is the currency of the primary economic environment in which the entity operates. 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 Group 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 Group. USD is the currency in which Management of the Group monitors business risks and exposures, and measures the performance of its business and reports to the shareholders.

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

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet; equity items are translated at historical foreign exchange rates which prevailed when the equity items were initially recognized;
- (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 condensed interim consolidated financial information are as follows:

<b>Currency</b>	<b>30 June 2008, UAH</b>	<b>31 December 2007, UAH</b>
EURO	7.627805	7.41946
US dollar	4.848900	5.05000

**Interim period measurement.** Income tax expense is recognised in this condensed interim consolidated financial information based on Management best estimate of the weighted average effective annual income tax rate expected for the full financial year. Costs 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 Group 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 interim consolidated financial information 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 Group 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 Group did not account for derecognition of the initial subordinated debts provided by Westlaw Inc, as according to the assignment agreements, the Group was not legally released from its obligations. If the Group 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 judgment 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 becomes available. During the six months period ended 30 June 2008 the Group 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 Group 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 six month period ended 30 June 2008 would decrease by the same amount.

**Impairment losses on loans and advances.** The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Group makes 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 1,372 thousand (31 December 2007: USD 919 thousand) higher or USD 1,372 thousand (31 December 2007: USD 919 thousand) lower.

**Initial recognition of related party transactions.** In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. 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. The amounts and interest rates of transactions with related parties and gains and losses resulting from initial recognition of assets and liabilities with related parties at rates above and below market, are disclosed in Note 23.

**Fair value of land and buildings.** Land and buildings of the Group are subject to revaluation on a regular basis. Such revaluations are based on the results of work of independent valuers. The basis for 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 judgment 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 judgment 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 23, in February 2008 the Group 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 Group recorded a loss on the purchase of USD 4,013 thousand. The Group introduced the borrower to the related party. Following the loan's impairment, the Group decided to bear the loss and purchased the loan. This loss was recognised in the income statement to reflect its operational nature. Were the Group to recognise all such gains and losses in the income statement, there would be no effect on the net profit for the six months period ended 30 June 2008 (six months ended 30 June 2007: increase in net profit for the period by USD 232 thousand).

***Classification of amounts received from shareholders as equity.*** As disclosed in Note 15, amounts received from the Bank's existing shareholders of USD 100,000 thousand as payment for new shares issued net of foreign exchange loss of USD 4,031 thousand recorded as share premium, were classified as equity in this condensed interim consolidated financial information as at 30 June 2008. Major factors taken into account by management in making judgment on classification of these amounts as equity rather than liability, are as follows:

- the contingent settlement (return of cash received) is considered as an event extremely rare, highly abnormal and very unlikely to occur;
- return of contributed cash to any shareholder who would like to withdraw from the capital increase is subject to an approval by a general meeting of shareholders. After approval of the results of new share issue and changes to the Bank's Charter by the general meeting of shareholders, if cancellation would be enforced by shareholders, Ukrainian legislation would require an approval by the general meeting of shareholders of a capital decrease. The entity, as represented by the general meeting of shareholders, would therefore be able to avoid settlement and a liability should not be recognised until approval by the general meeting of shareholders of any repayments, similarly as the entity does not recognise liabilities for dividends until they are declared by the general meeting of shareholders; and
- as disclosed in Note 15, prior to approval of this condensed interim consolidated financial information for issue, the registration process has been completed.

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

The Group does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the Group does control an SPE, Management makes judgments 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 Group 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 USD 1,338 thousand (31 December 2007: Nil) and decrease in results by USD 1,338 thousand (six months ended 30 June 2007: Nil).

***Gains and losses on initial recognition of financial instruments.*** Management applies judgment to determine whether gains and losses should be recorded at initial recognition of financial assets and liabilities in a transaction where the counterparty is not a related party of the Group. The basis for judgment is the level of prevailing market interest rates for transactions with similar terms, effective interest rate analysis, credit risk of the counterparty and specific terms of particular transaction. As disclosed in Note 8, during the six month period ended 30 June 2008 the Group recorded gains on initial recognition of loans and receivables at rates above market of USD 1,719 thousand (six months to 30 June 2007: USD 298 thousand) and losses on initial recognition of loans and receivables at rates below market of USD 1,808 thousand (six months to 30 June 2007: USD 1,553 thousand).

## **5 Adoption of New or Revised Standards and Interpretations**

Certain new IFRSs became effective for the Group 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 Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings at 1 January 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); and
- 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 Group's financial position at 30 June 2008 and 31 December 2007 and on the results of its operations for the six months ended 30 June 2008 and 30 June 2007.

## **6 New Accounting Pronouncements**

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted:

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

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

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

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

***IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009).*** The 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 Group expects the revised IAS 1 to impact the presentation of its consolidated financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

## 6 New Accounting Pronouncements (Continued)

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

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

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

**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 Group’s consolidated 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 Group’s operations.

**6 New Accounting Pronouncements (Continued)**

**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 substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental; classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect any material impact on its consolidated 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 Group does not expect any material impact on its consolidated 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).** The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 is not expected to have an impact on the consolidated financial statements as the Group does not apply hedge accounting.

**Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009, with earlier application permitted).** The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have an impact on the Group's consolidated financial statements.

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

**7 Cash and Cash Equivalents**

<i>In thousands of USD (as presentation currency, Note 3)</i>	<b>30 June 2008 (unaudited)</b>	<b>31 December 2007</b>
Cash on hand	18,183	16,584
Cash balances with the NBU (other than mandatory reserve deposits)	21,699	94
Mandatory cash balances with the NBU	97,568	59,606
Correspondent accounts and overnight placements with other banks		
- Ukraine	27,655	1,054
- Other countries	105,430	33,451
Placements with other banks with original maturities of less than three months	34,147	91,964
<b>Total cash and cash equivalents</b>	<b>304,682</b>	<b>202,753</b>

The information on related party balances is disclosed in Note 23.

**8 Loans and Advances to Customers**

<i>In thousands of USD (as presentation currency, Note 3)</i>	<b>30 June 2008 (unaudited)</b>	<b>31 December 2007</b>
Corporate loans	2,075,733	1,611,908
Loans to individuals - mortgage and car loans	490,576	274,439
Loans to individuals - consumer loans	384,858	240,782
Small and medium enterprises	225,455	86,668
Loans to individuals - other loans	107,280	74,099
Reverse sale and repurchase agreements	13,546	8,045
Less: Provision for impairment	(69,198)	(35,226)
<b>Total loans and advances to customers</b>	<b>3,228,250</b>	<b>2,260,715</b>

Movements in the provision for loan impairment during six months ended 30 June 2008 are as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	<b>Corporate loans</b>	<b>Loans to individuals - consumer loans</b>	<b>Loans to individuals - mortgage and car loans</b>	<b>Small and medium enterprises</b>	<b>Total</b>
<b>Provision for impairment at 1 January 2008</b>	<b>17,181</b>	<b>16,608</b>	<b>920</b>	<b>517</b>	<b>35,226</b>
Provision for impairment during the period	9,732	32,885	2,035	456	<b>45,108</b>
Amounts written off during the period as uncollectible	-	(12,624)	(1,102)	-	<b>(13,726)</b>
Translation differences	960	1,515	80	35	<b>2,590</b>
<b>Provision for impairment at 30 June 2008 (unaudited)</b>	<b>27,873</b>	<b>38,384</b>	<b>1,933</b>	<b>1,008</b>	<b>69,198</b>

During six months ended 30 June 2008 the Group recorded in the consolidated income statement losses on initial recognition of loans and receivables totalling USD 1,808 thousand (six months to 30 June 2007: USD 1,553 thousand) relating to marketing activities for promotion of new products in the market and gains on initial recognition of loans and receivables at rates above market of USD 1,719 thousand (six months to 30 June 2007: USD 298 thousand) as a result of the Group being able to react quickly to immediate client financing needs, thus being able to charge above market interest rates.

## 8 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during six months ended 30 June 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
<b>Provision for impairment at 1 January 2007</b>	<b>8,161</b>	<b>10,107</b>	-	-	<b>18,268</b>
Provision for impairment during the period	3,261	9,239	18	49	<b>12,567</b>
Amounts written off during the period as uncollectible	-	(9,302)	-	-	<b>(9,302)</b>
<b>Provision for impairment at 30 June 2007 (unaudited)</b>	<b>11,422</b>	<b>10,044</b>	<b>18</b>	<b>49</b>	<b>21,533</b>

At 30 June 2008 the Group had 10 borrowers (31 December 2007: 10 borrowers) with aggregated loan balances above USD 41,800 thousand (31 December 2007: USD 31,700 thousand). The total aggregate amount of these loans was USD 591,354 thousand (31 December 2007: USD 508,430 thousand) or 18% 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>	<b>30 June 2008 (unaudited)</b>		<b>31 December 2007</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Retail and SME loans	1,208,169	37%	675,988	29%
Investment and lease companies	279,457	8%	144,868	6%
Wholesale trade	270,785	8%	142,347	6%
Retail trade	201,996	6%	221,594	10%
Food industry	171,083	5%	131,576	6%
Railways	137,216	4%	145,931	6%
Agriculture	134,148	4%	33,726	2%
Construction and real estate	116,142	4%	100,106	4%
Power industry	100,557	3%	73,664	3%
Chemical and petrochemical industry	97,626	3%	61,779	3%
Motor-car industry	92,277	3%	36,749	2%
Mechanical engineering and metal- working industry	75,523	2%	40,005	2%
Military organisations and aircraft construction	62,001	2%	47,234	2%
Transport	52,658	2%	47,958	2%
Metallurgy	29,816	1%	42,390	2%
Natural gas industry	12,573	-	113,093	5%
Coal-mining industry	6,263	-	53,465	2%
Other	249,158	8%	183,468	8%
<b>Total loans and advances to customers (before impairment)</b>	<b>3,297,448</b>	<b>100%</b>	<b>2,295,941</b>	<b>100%</b>

The information on related party balances is disclosed in Note 23.

**9 Investment Securities Available-for-Sale**

<i>In thousands of USD (as presentation currency, Note 3)</i>	<b>30 June 2008 (unaudited)</b>	<b>31 December 2007</b>
Corporate bonds – quoted	55,857	31,400
Corporate bonds – unquoted	53,979	6,085
Municipal and state bonds – quoted	2,955	11,863
Municipal and state bonds – unquoted	2,070	-
<b>Total debt securities</b>	<b>114,861</b>	<b>49,348</b>
Corporate shares – unquoted	4	10
Loss: Provision for impairment	-	(10)
<b>Total investment securities available-for-sale</b>	<b>114,865</b>	<b>49,348</b>

**10 Due to Other Banks**

<i>In thousands of USD (as presentation currency, Note 3)</i>	<b>30 June 2008 (unaudited)</b>	<b>31 December 2007</b>
Current accounts		
Domestic	22,350	3,483
Non-OECD countries	754	11,298
Deposits and loans		
Domestic	28,956	21,381
OECD countries	262,545	455,546
Non-OECD countries	238,506	16,588
<b>Total due to other banks</b>	<b>553,111</b>	<b>508,296</b>

The information on related party balances is disclosed in Note 23.

## 11 Customer Accounts

<i>In thousands of USD (as presentation currency, Note 3)</i>	<b>30 June 2008 (unaudited)</b>	<b>31 December 2007</b>
<b>State and public organisations</b>		
- Current/settlement accounts	21,284	19,925
- Term deposits	9,632	15,943
<b>Other legal entities</b>		
- Current/settlement accounts	402,415	373,052
- Term deposits	813,879	339,132
<b>Individuals</b>		
- Current/demand accounts	48,996	27,449
- Term deposits	146,998	67,250
<b>Total customer accounts</b>	<b>1,443,204</b>	<b>842,751</b>

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	<b>30 June 2008 (unaudited)</b>		<b>31 December 2007</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Communication	483,782	34%	171,876	20%
Investment and lease companies	302,620	21%	100,265	12%
Individuals	195,994	14%	94,699	11%
Natural gas industry	102,338	7%	44,237	5%
Food industry	52,521	4%	4,785	1%
Wholesale trade	49,621	3%	56,614	7%
Military-industrial establishment and aircraft construction	42,616	3%	53,339	6%
Insurance	35,735	2%	29,392	3%
Transport	20,045	1%	5,225	1%
Power industry	16,047	1%	8,312	2%
Metallurgy	13,371	1%	53,532	6%
Construction and real estate	12,711	1%	1,537	-
Chemical and petrochemical industry	10,552	1%	62,904	7%
Mechanical engineering and metal-working industry	8,371	1%	12,635	2%
Retail trade	5,603	-	2,667	-
Coal-mining industry	3,677	-	102,177	12%
Other	87,600	6%	38,555	5%
<b>Total customer accounts</b>	<b>1,443,204</b>	<b>100%</b>	<b>842,751</b>	<b>100%</b>

At 30 June 2008 the Group had 10 customers (31 December 2007: 10 customers) with balances above USD 22,800 thousand (31 December 2007: USD 18,200 thousand). The aggregate balance of these customers was USD 982,061 thousand (31 December 2007: USD 560,185 thousand) or 68% (31 December 2007: 66%) of total customer accounts.

The information on related party balances is disclosed in Note 23.

## 12 Debt Securities in Issue

<i>In thousands of USD (as presentation currency, Note 3)</i>	<b>30 June 2008 (unaudited)</b>	<b>31 December 2007</b>
Bonds issued on domestic market	199,339	196,241
<b>Total debt securities in issue</b>	<b>199,339</b>	<b>196,241</b>

At 30 June 2008 the Group has debt securities in issue with carrying value of USD 199,339 thousand (31 December 2007: USD 196,241 thousand) denominated in Ukrainian hryvnias. These bonds were issued with the 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	10,278	13%	13%	8 December 2010	10 December 2008
D	39,184	13%	13%	20 December 2011	23 December 2008
E	61,870	12%	12%	24 April 2009	-
F	59,807	10%	15%	9 September 2012	15 September 2008
G	3,403	11%	12%	9 September 2012	15 September 2008
H	23,098	14%	14%	14 March 2013	17 March 2009
<b>Total debt securities in issue</b>	<b>197,640</b>				

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
<b>Total debt securities in issue</b>	<b>191,354</b>				

**13 Loan Participation Notes**

<i>In thousands of USD (as presentation currency, Note 3)</i>	<b>30 June 2008 (unaudited)</b>	<b>31 December 2007</b>
Loan participation notes	898,050	552,648
<b>Total loan participation notes</b>	<b>898,050</b>	<b>552,648</b>

In December 2006, the Group 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 Group on 22 June and 22 December in each year in which the Notes remain outstanding.

The loan agreement, signed between Lender and the Bank 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 Group 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 Group on 22 June and 22 December in each year in which the Notes remain outstanding.

In July 2007, the Group 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 Group on 26 July and 26 January in each year in which the Notes remain outstanding.

In April and May 2008, the Group 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 on 4 May 2009 and in 26 July 2010 respectively. In accordance with conditions of the loan agreement dated 23 April 2008 (related to loan participation notes with par values USD 100,000 thousand), interest will be paid by the Group on 29 October 2008 and 29 April 2009. In accordance with conditions of the loan agreement dated 27 May 2008 (related to loan participation notes with par values USD 250,000 thousand), interest will be paid by the Group on 26 July and 26 January in each year in which the Notes remain outstanding. The Notes with nominal value of USD 250,000 thousand were issued with discount of USD 6,250 thousand.

The loan agreement, signed between Ukraine Issuance Plc and the Bank on 27 May 2008 includes the following financial covenants:

- The Bank shall not permit its capital adequacy ratio to fall below the minimum capital adequacy ratio required by the NBU or the relevant banking authority responsible for setting and supervising capital adequacy requirements for financial institutions in the jurisdiction in which the Bank carries out its banking business outside Ukraine.
- The Bank shall comply with all NBU rules and regulations applicable to banks, including but not limited to, the maximum credit risk per one counterparty and the maximum amount of loans, guarantees and sureties provided to one insider.

**14 Subordinated Debt**

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

In August 2007 the Group 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 Group'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 Group's owners.

Based on the Assignment agreements dated 5 December 2007, all claims to the Group, related to all abovementioned subordinated debts, were irrevocably assigned and given by the primary investor (Westlaw Inc, an entity under common control) to a 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 six months period ended 30 June 2008.

Included in subordinated debt as at 30 June 2008 is accrued interest in the amount of USD 7,377 thousand (31 December 2007: USD 4,829 thousand).

The information on related party balances is disclosed in Note 23.

**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>	<b>Number of outstanding shares</b>	<b>Nominal amount, excluding share premium</b>	<b>Adjusted amount, including share premium</b>
<b>At 1 January 2007</b>	<b>360,000,000</b>	<b>71,287</b>	<b>72,599</b>
New shares issued	505,000,000	100,000	100,000
<b>At 30 June 2007 (unaudited)</b>	<b>865,000,000</b>	<b>171,287</b>	<b>172,599</b>
New shares issued	505,000,000	100,000	100,000
<b>At 31 December 2007</b>	<b>1,370,000,000</b>	<b>271,287</b>	<b>272,599</b>
New shares issued	374,710,000	74,200	74,200
Share premium paid	-	-	25,800
Translation differences	-	14,329	-
<b>At 30 June 2008 (unaudited)</b>	<b>1,744,710,000</b>	<b>359,816</b>	<b>372,599</b>

The nominal amount of share capital disclosed in the table above represents the amount of registered share capital in UAH, translated at the official exchange rate of the NBU as at respective reporting date.

On 21 November 2007 the shareholders of the Bank took a decision to issue 374,710 thousand additional shares totalling UAH 374,710 thousand (equivalent of USD 74,200 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. The shareholders meeting of 15 January 2008 approved the results of the new share issue and decided to make the respective changes to the Bank's Charter. On 26 March 2008 the NBU registered the increase in the share capital of the Bank in the amount of UAH 374,710 thousand (equivalent of USD 74,200 thousand) and the proceeds from share issue of USD 100,000 thousand were recognized as an increase in equity.

On 21 April 2008 the shareholders of the Bank took a decision to issue 505,000 thousand additional shares totalling UAH 505,000 thousand (equivalent of USD 100,000 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. Upon approval of the results of share issue and changes to the Bank's Charter by the shareholders the Group recognized amounts received from the shareholders of USD 104,031 thousand as payment for new shares issued net of the negative share premium of USD 4,031 thousand, as part of equity. The negative share premium arose due to changes of the official exchange rate of the US dollar to Ukrainian hryvnia from 5.05 hryvnia for 1 US dollar as at 21 April 2008 (the date of the decision of shareholders to issue additional shares) to 4.8543 hryvnia for 1 US dollar as at 16 June 2008 (the date of recognition of amounts received as part of equity).

On 8 August 2008 the NBU registered the increase in the share capital of the Bank in the amount of UAH 505,000 thousand (equivalent of USD 104,231 thousand at the registration date).

All ordinary shares have a nominal value of UAH 1 (USD equivalent as at 30 June 2008 USD 0.206) per share and rank equally. Each share carries one vote.

The shareholders' structure of the Bank was the following as at 30 June 2008:

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

<b>Shareholder</b>	<b>Number of shares issued</b>	<b>%</b>	<b>Nominal value</b>
ABH Ukraine Limited	1,744,676,253	99.9981%	359,809
Others	33,747	0.0019%	7
<b>Total</b>	<b>1,744,710,000</b>	<b>100.00%</b>	<b>359,816</b>

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

**16 Other Reserves**

<i>In thousands of USD (as presentation currency, Note 3)</i>	<b>30 June 2008 (unaudited)</b>	<b>31 December 2007</b>
Revaluation reserve for land and building, net of tax	18,870	19,066
Effect of translation to presentation currency	19,814	2,220
Revaluation reserve for securities available-for-sale, net of tax	(736)	(82)
<b>Total other reserves</b>	<b>37,948</b>	<b>21,204</b>

Revaluation reserve for available-for-sale securities is transferred to profit or loss when realised through sale or impairment. Revaluation reserve for land and buildings is transferred to retained earnings when realised through depreciation, impairment, sale or other disposal.

Currency translation differences included as a separate component of equity, result from translating income and expenses at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate and translating the opening net assets at a closing rate that differs from the previous closing rate.

**17 Interest Income and Expense**

<i>In thousands of USD (as presentation currency, Note 3)</i>	<b>Six months ended 30 June 2008 (unaudited)</b>	<b>Six months ended 30 June 2007 (unaudited)</b>
<b>Interest income</b>		
Loans and advances to customers	239,357	82,146
Due from other banks	3,254	2,264
Debt investment securities available-for-sale	4,733	1,257
Cash and cash equivalents	4,241	1,333
<b>Total interest income</b>	<b>251,585</b>	<b>87,000</b>
<b>Interest expense</b>		
Term deposits of legal entities	36,350	13,904
Loan participation notes	30,177	13,876
Term placements of other banks	21,460	11,338
Debt securities in issue	12,276	4,022
Customer current/settlement accounts	5,972	1,540
Term deposits of individuals	5,704	1,871
Subordinated debt	2,246	1,591
Current/settlement accounts of other banks	3,257	789
Other borrowed funds	75	-
Other	20	6
<b>Total interest expense</b>	<b>117,537</b>	<b>48,937</b>
<b>Net interest income</b>	<b>134,048</b>	<b>38,063</b>

Information on interest income and expense from transactions with related parties is disclosed in Note 23.

**18 Fee and Commission Income and Expense**

<i>In thousands of USD (as presentation currency, Note 3)</i>	<b>Six months ended 30 June 2008 (unaudited)</b>	<b>Six months ended 30 June 2007 (unaudited)</b>
<b>Fee and commission income</b>		
<i>Fee and commission income in respect of financial instruments not at fair value through profit or loss:</i>		
- Documentary operations	4,872	203
- Currency exchange	4,614	5,823
- Cash and settlement transactions	4,258	2,210
- Transactions with securities	121	22
- Fiduciary activities	68	59
- Other	154	-
<b>Total fee and commission income</b>	<b>14,087</b>	<b>8,317</b>
<b>Fee and commission expense</b>		
<i>Fee and commission expense in respect of financial instruments not at fair value through profit or loss</i>		
- Cash and settlement transactions	2,377	415
- Transactions with securities	59	57
- Other	136	114
<b>Total fee and commission expense</b>	<b>2,572</b>	<b>586</b>
<b>Net fee and commission income</b>	<b>11,515</b>	<b>7,731</b>

Information on fee and commission income from transactions with related parties is disclosed in Note 23.

**19 Other Operating Income**

Other operating income for six months ended 30 June 2008 includes USD 796 thousand of agency fees received from insurance companies, USD 336 thousand of income from cash collection services provided to other banks and USD 314 thousand of income from operating leasing. Information on other income from transactions with related parties is disclosed in Note 23.

**20 Administrative and Other Operating Expenses**

<i>In thousands of USD (as presentation currency, Note 3)</i>	<b>Six months ended 30 June 2008 (unaudited)</b>	<b>Six months ended 30 June 2007 (unaudited)</b>
Salaries and employee benefits	47,303	20,661
Rent	9,622	2,986
Call centre services	4,785	964
Depreciation and amortization	3,724	1,960
Communication and IT	2,400	1,423
Other administrative expenses	1,507	677
Administration and office maintenance	1,259	507
Marketing and advertising	997	187
Professional services	967	530
Utilities	891	421
Security	843	181
Travelling	739	557
Entertainment expenses	481	399
Provision for impairment of other assets	148	-
Other	2,981	960
<b>Total administrative and other operating expenses</b>	<b>78,647</b>	<b>32,413</b>

Included in staff costs are statutory social security and pension contribution of USD 7,574 thousand (six months ended 30 June 2007: USD 4,539 thousand).

Information on administrative and other operating expenses from transactions with related parties is disclosed in Note 23.

## **21 Segment Analysis**

The Group's primary format for reporting segment information is business segments.

**Business Segments.** The Group 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 Group'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 Group's cost of capital. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding taxation. Internal charges and transfer pricing adjustments have been reflected in the performance of each business segment.

**21 Segment Analysis (Continued)**

Segment reporting for the Group's assets and liabilities per business segments as at 30 June 2008 is as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	<b>Corporate</b>	<b>Retail</b>	<b>Central treasury</b>	<b>Eliminations</b>	<b>Total</b>
Segment assets	2,438,180	937,572	361,053	-	3,736,805
Deferred tax assets					418
<b>Total assets</b>					<b>3,737,223</b>
Segment liabilities	1,367,578	73,493	1,747,372	-	3,188,443
Current income tax liability					1,047
Other unallocated liabilities					4,008
<b>Total liabilities</b>					<b>3,193,498</b>
<b>Other segment items</b>					
Capital expenditure incurred during six months ended 30 June 2008	4,130	5,507	954	-	<b>10,591</b>

Segment reporting for the Group's income and expense per business segments for the six months ended as at 30 June 2008 is as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	<b>Corporate</b>	<b>Retail</b>	<b>Central treasury</b>	<b>Eliminations</b>	<b>Total</b>
<b>Six months ended 30 June 2008</b>					
External revenues	163,354	87,091	16,778	-	267,223
Revenues from other segments	60,654	1,454	98,875	(160,983)	-
<b>Total revenues</b>	<b>224,008</b>	<b>88,545</b>	<b>115,653</b>	<b>(160,983)</b>	<b>267,223</b>
<b>Total revenues comprise:</b>					
- Interest income	211,350	86,162	115,056	(160,983)	251,585
- Fee and commission income	12,102	1,779	206	-	14,087
- Other operating income	556	604	391	-	1,551
<b>Total revenues</b>	<b>224,008</b>	<b>88,545</b>	<b>115,653</b>	<b>(160,983)</b>	<b>267,223</b>
<b>Segment result</b>	<b>15,464</b>	<b>(33,707)</b>	<b>38,341</b>	<b>-</b>	<b>20,098</b>
Unallocated costs					(244)
<b>Profit before tax</b>					<b>19,854</b>
Income tax expense					(5,710)
<b>Profit</b>					<b>14,144</b>

**21 Segment Analysis (Continued)**

Segment reporting for the Group'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>	<b>Corporate</b>	<b>Retail</b>	<b>Central treasury</b>	<b>Eliminations</b>	<b>Total</b>
<b>Segment assets</b>	<b>1,781,421</b>	<b>548,396</b>	<b>268,497</b>	-	<b>2,598,314</b>
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
<b>Total liabilities</b>					<b>2,285,673</b>
<b>Other segment items</b>					
Capital expenditure incurred during six months ended 30 June 2007	2,537	3,383	585	-	6,505

Segment reporting for the Group's income and expense per business segments for the six months ended as at 30 June 2007 is as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	<b>Corporate</b>	<b>Retail</b>	<b>Central treasury</b>	<b>Eliminations</b>	<b>Total</b>
<b>30 June 2007</b>					
External revenues	70,868	19,641	4,993	-	95,502
Revenues from other segments	22,079	856	36,765	(59,700)	-
<b>Total revenues</b>	<b>92,947</b>	<b>20,497</b>	<b>41,758</b>	<b>(59,700)</b>	<b>95,502</b>
<b>Total revenues comprise:</b>					
- Interest income	85,139	19,988	41,573	(59,700)	87,000
- Fee and commission income	7,713	497	107	-	8,317
- Other operating income	95	12	78	-	185
<b>Total revenues</b>	<b>92,947</b>	<b>20,497</b>	<b>41,758</b>	<b>(59,700)</b>	<b>95,502</b>
<b>Segment result</b>	<b>9,046</b>	<b>(16,090)</b>	<b>10,837</b>	-	<b>3,793</b>
Unallocated costs					(1,294)
<b>Profit before tax</b>					<b>2,499</b>
Income tax expense					(761)
<b>Profit</b>					<b>1,738</b>

## 22 Contingencies and Commitments

**Legal proceedings.** From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and internal 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 this condensed interim consolidated financial information.

**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 Group 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 30 June 2008 the Group has contractual capital expenditure commitments in respect of premises, leasehold improvements and equipment totalling USD 2,874 thousand (31 December 2007: USD 2,588 thousand).

The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

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

<i>In thousands of USD (as presentation currency, Note 3)</i>	<b>30 June 2008 (unaudited)</b>	<b>31 December 2007</b>
Not later than 1 year	16,184	13,266
Later than 1 year and not later than 5 years	26,106	20,107
Later than 5 years	548	56
<b>Total operating lease commitments</b>	<b>42,838</b>	<b>33,429</b>

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

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

**22 Contingencies and Commitments (Continued)**

Outstanding credit related commitments are as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	<b>30 June 2008 (unaudited)</b>	<b>31 December 2007</b>
Letters of credit	222,714	48,869
Guarantees issued	118,954	60,951
Undrawn credit lines	31,408	102,427
Avals issued	4,122	2,013
Acceptance	402	-
<b>Total credit related commitments</b>	<b>377,600</b>	<b>214,260</b>

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 30 June 2008 the Group has the following assets pledged as collateral:

<i>In thousands of USD (as presentation currency, Note 3)</i>	<b>30 June 2008 (unaudited)</b>		<b>31 December 2007</b>	
	<b>Asset pledged</b>	<b>Related liability</b>	<b>Asset pledged</b>	<b>Related liability</b>
Investment securities available-for-sale	1,046	1,046	4,201	4,201
Gross receivables under swap agreements	173,933	177,986	406,482	408,857
<b>Total</b>	<b>174,979</b>	<b>179,032</b>	<b>410,683</b>	<b>413,058</b>

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 2,843 thousand (31 December 2007: USD 4,780 thousand) have been pledged as cover for letters of credit and international payments.

**23 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 30 June 2008 and as at 31 December 2007 and for the six month period ended 30 June 2008 and 30 June 2007 (Note 15).

Key management personnel - President of the Group (Deputy head of Supervisory Board) and members of the Management Board - received remuneration in the form of short-term employee benefits amounting to USD 3,166 thousand during six months ended 30 June 2008 (six months ended 30 June 2007: USD 1,336 thousand).

Included in staff costs is an amount accrued for bonuses for the six months period ended 30 June 2008 of USD 7,000 thousand (six months ended 30 June 2007: USD 3,380 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 Group. 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 30 June 2008 and 31 December 2007, the outstanding balances with related parties were as follows:

	30 June 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>				
<b>Assets</b>				
Cash and cash equivalents	29,868	-	11,333	-
Gross loans and advances to customers (contractual interest rate from 9% to 22%; 31 December 2007: from 9% to 16%)	257,998	422	247,218	519
Less: provision for loan impairment of loans and advances to customers	(1,008)	-	(188)	-
Other assets	-	-	6	-
<b>Liabilities</b>				
Due to other banks (contractual interest rate from 0% to 14%, 31 December 2007: from 0% to 17% )	136,113	-	185,070	-
Customer accounts (contractual interest rate from 0% to 20%, 31 December 2007: from 0% to 14% )	422,975	2,466	258,410	854
Subordinated debt (contractual interest rate from 3% to 9%, 31 December 2007: from 4% to 9% )	71,380	-	69,223	-
Credit related commitments	12,872	-	-	-
Letters of credit	614	-	2,864	-
Guarantees issued	1,172	30	140	-
Undrawn credit lines	12,872	-	-	-

**23 Related Party Transactions (Continued)**

The income and expense items with related parties for six months ended 30 June 2008 were as follows:

	Six months ended 30 June 2008 (unaudited)		Six months ended 30 June 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	16,053	26	3,131	40
Fee and commission income	551	6	-	-
Foreign exchange translation (losses less gains)/gains less losses	(144)	-	108	-
Interest expense	18,808	50	8,575	-
Impairment charge	872	-	-	-
Gain on origination of subordinated debt recognised directly in equity	-	-	310	-
Gains on initial recognition of financial liabilities measured at amortised cost at rates below market	250	-	165	-
Losses on loan purchased from related parties	(4,013)	-	-	-
Other income	958	-	-	-

As at 30 June 2008 included in loans and advances to entities under common control are loans of USD 25,845 thousand (31 December 2007: USD 44,586 thousand) collateralised by cash deposits placed with the Group.

In February 2008 the Group 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 Group recorded a loss on the purchase of USD 4,013 thousand. The Group introduced the borrower to the related party. Following the loan's impairment, the Group decided to bear the loss and purchased the loan. The Group is taking steps to recover the loan from the borrower in full.

During the period ended 30 June 2008 entities related by virtue of common control contributed to the development of customer base and expansion of the Group's business and incurred expenses of USD 16,826 thousand (six months ended 30 June 2007: USD 6,787 thousand). Entities under common control will not require reimbursement of incurred expenses from the Group.

**24 Subsequent Events**

The Group decided to increase the Loan Participation Note Issuance programme through Ukraine Issuance Plc to USD 2,000,000 thousand. In August 2008, the Group issued loan participation notes through Ukraine Issuance Plc with par value of USD 250,000 thousand, nominal interest rate 12% p.a. and due dates on 11 August 2011.

On 29 August 2008 the shareholders of the Bank took a decision to issue 726,855 thousand additional shares totalling UAH 726,855 thousand (equivalent of USD 150,000 thousand at the date of the decision).

In September 2008, due to the continued decrease in quotes of most of the Ukrainian issuers' securities, there was a significant fall in the PFTS (Ukrainian stock trading system) index. Trading on the PFTS was suspended during 5 September 2008. Although trading resumed during the week starting 8 September 2008, the market continues to be volatile.