Alfa-Bank Group

Condensed Interim Consolidated Financial Information and Review Report

30 September 2008

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REVIEW REPORT

To the Shareholders and Board of Directors of Alfa-Bank

Introduction

1 We have reviewed the accompanying condensed interim consolidated balance sheet of Alfa-Bank Group (the "Group") as at 30 September 2008 and the related condensed interim consolidated statements of income for the three and nine-month periods then ended and of changes in equity and cash flows for the nine-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 AF PricewaterhouseCoopers (Audit)

Kyiv, Ukraine
30 December 2008

In thousands of USD (as presentation currency, Note 3)	Note	30 September 2008 (unaudited)	31 December 2007
ASSETS			
Cash and cash equivalents	7	397,479	202,753
Due from other banks		13,183	25,592
Loans and advances to customers	8	3,704,482	2,260,715
Investment securities	9	125,154	49,348
Intangible assets		1,948	1,582
Premises, leasehold improvements and equipment		65,134	53,253
Other financial assets		4,208	2,292
Other assets		6,783	2,779
TOTAL ASSETS		**4,318,371**	**2,598,314**
LIABILITIES			
Due to other banks	10	599,690	508,296
Customer accounts	11	1,740,720	842,751
Debt securities in issue	12	161,335	196,241
Loan participation notes	13	1,159,532	552,648
Current income tax liability		974	1,002
Deferred income tax liability		1,708	42
Other financial liabilities		8,240	4,924
Other liabilities		19,689	10,546
Subordinated debt	14	73,110	69,223
Prepaid non-registered share capital		-	100,000
TOTAL LIABILITIES		**3,764,998**	**2,285,673**
EQUITY			
Share capital	15	472,599	272,599
Additional paid-in capital		3,798	3,798
Retained earnings		40,463	15,040
Other reserves	16	36,513	21,204
TOTAL EQUITY		**553,373**	**312,641**
TOTAL LIABILITIES AND EQUITY		**4,318,371**	**2,598,314**

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

S. Polovko
Acting Chairman of the Management Board

O. Malynska
Chief Financial Officer

In thousands of USD (as presentation currency, Note 3)	**Note**	**Nine months ended 30 September 2008 (unaudited)**	**Three months ended 30 September 2008 (unaudited)**	**Nine months ended 30 September 2007 (unaudited)**	**Three months ended 30 September 2007 (unaudited)**
Interest income	17	431,256	179,671	158,975	71,975
Interest expense	14, 17	(205,085)	(87,548)	(84,418)	(35,481)
Net interest income		**226,171**	**92,123**	**74,557**	**36,494**
Provision for impairment of loans and advances to customers	8	(82,315)	(37,207)	(25,235)	(12,668)
Net interest income after provision for loan impairment		**143,856**	**54,916**	**49,322**	**23,826**
Fee and commission income	18	25,128	11,041	12,887	4,570
Fee and commission expense	18	(6,526)	(3,954)	(1,115)	(529)
Losses less gains from financial derivatives		(1,977)	(308)	-	-
Foreign exchange gains less losses		15,906	4,754	7,450	5,136
Foreign exchange translation (losses less gains)/gains less losses		(6,511)	2,630	(2,231)	(2,661)
Losses less gains on initial recognition of loans and receivables at rates below/above market measured at amortized cost		(3,640)	(3,551)	(1,255)	-
Losses on loan purchased from related party	22	(4,013)	-	-	-
Gains on initial recognition of financial liabilities measured at amortised cost at rates below market		946	696	165	-
Losses less gains from disposal of investment securities		(145)	(140)	(210)	(56)
Provision for impairment of investment securities	9	(268)	(278)	-	-
Other operating income		2,232	681	361	176
Administrative and other operating expenses	19	(129,726)	(51,079)	(57,721)	(25,308)
Profit before tax		**35,262**	**15,408**	**7,653**	**5,154**
Income tax expense		(10,133)	(4,423)	(2,369)	(1,608)
Profit for the period		**25,129**	**10,985**	**5,284**	**3,546**

In thousands of USD (as presentation currency, Note 3)	**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		-	-	(141)	-	(141)
- Disposals		-	-	210	-	210
- Income tax recorded in equity		-	-	(17)	-	(17)
Land and buildings:						
- Depreciation transfer		-	-	(360)	360	-
- Income tax recorded in equity		-	-	90	(90)	-
Net loss recognised directly in equity		-	-	**(218)**	**270**	**52**
Profit for the period (unaudited)		-	-	-	5,284	5,284
Total recognised income for the period (unaudited)		-	-	**(218)**	**5,554**	**5,336**
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	-	443	-	-	443
Income tax recorded in equity		-	(111)	-	-	(111)
Balance at 30 September 2007 (unaudited)		**272,599**	**3,798**	**19,141**	**8,389**	**303,927**
Available-for-sale investments:						
- Fair value gains less losses		-	-	36	-	36
- Disposals		-	-	(100)	-	(100)
- Income tax recorded in equity		-	-	16	-	16
Land and buildings:						
- Revaluation of premises and land		-	-	2,934	-	2,934
- Depreciation transfer		-	-	(119)	119	-
- Income tax recorded in equity		-	-	(704)	(30)	(734)
Net income recognised directly in equity		**-**	**-**	**2,063**	**89**	**2,152**
Profit for the period (unaudited)		-	-	-	6,562	6,562
Total recognised income for the period (unaudited)		**-**	**-**	**2,063**	**6,651**	**8,714**
Balance at 31 December 2007		**272,599**	**3,798**	**21,204**	**15,040**	**312,641**
Available-for-sale investments:						
- Fair value losses less gains		-	-	(949)	-	(949)
- Disposals		-	-	145	-	145
- Income tax recorded in equity		-	-	201	-	201
Land and buildings:						
- Depreciation transfer		-	-	(392)	392	-
- Income tax recorded in equity		-	-	98	(98)	-
Effect of translation to presentation currency		-	-	16,206	-	16,206
Net income recognised directly in equity		**-**	**-**	**15,309**	**294**	**15,603**
Profit for the period (unaudited)		-	-	-	25,129	25,129
Total recognised income for the period (unaudited)		**-**	**-**	**15,309**	**25,423**	**40,732**
Share issue	15	200,000	-	-	-	200,000
Balance at 30 September 2008 (unaudited)		**472,599**	**3,798**	**36,513**	**40,463**	**553,373**

In thousands of USD (as presentation currency, Note 3)	**Note**	**Nine months ended 30 September 2008 (unaudited)**	**Nine months ended 30 September 2007 (unaudited)**
Cash flows from operating activities			
Interest received		410,057	170,725
Interest paid		(186,379)	(73,040)
Fees and commissions received		24,007	12,882
Fees and commissions paid		(5,088)	(1,337)
Income received from trading in foreign currencies		14,045	7,440
Other operating income received		2,029	300
Staff costs paid		(68,590)	(29,594)
Administrative and other operating expenses paid		(47,952)	(16,264)
Income tax paid		(8,531)	(2,900)
Cash flows from operating activities before changes in operating assets and liabilities		**133,598**	**68,212**
Changes in operating assets and liabilities			
Net decrease in due from other banks		6,516	66,169
Net increase in loans and advances to customers		(1,487,796)	(1,206,152)
Net decrease/(increase) in other financial assets and other assets		1,144	(6,097)
Net increase in due to other banks		93,053	109,593
Net increase in customer accounts		886,796	346,454
Net increase in other financial liabilities and other liabilities		2,751	30
Net cash used in operating activities		**(363,938)**	**(621,791)**
Cash flows from investing activities			
Acquisition of investment securities		(327,865)	(122,644)
Proceeds from disposal of investment securities		246,512	97,267
Acquisition of premises, leasehold improvements and equipment		(15,612)	(10,735)
Proceeds from disposal of premises, leasehold improvements and equipment		2	1
Acquisition of intangible assets		(618)	(460)
Net cash used in investing activities		**(97,581)**	**(36,571)**
Cash flows from financing activities			
Purchase and redemption of debt securities in issue		(126,716)	-
Proceeds from issue and sale of debt securities in issue		85,286	104,394
Proceeds from loan participation notes	13	584,986	388,875
Proceeds from subordinated debt		-	54,980
Paid-in share capital	15	100,000	200,000
Net cash from financing activities		**643,556**	**748,249**
Effect of exchange rate changes on cash and cash equivalents		12,689	812
Net increase in cash and cash equivalents		**194,726**	**90,699**
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**	**397,479**	**249,108**

1 Introduction

This condensed interim consolidated financial information has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as at 30 September 2008 and for the three and nine 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.

As at 30 September 2008, the Bank had 67 branches, 242 mini-branches, and more than 1000 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 Desyatinna 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 Acting Chairman of the Management Board on 30 December 2008.

2 Operating Environment of the Group

Ukraine. Ukraine displays certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of Ukraine, restrictive currency controls, and high inflation. 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.

Since early 2008 there has been a significant shortfall of liquidity on the 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 an overall slow down of the growth of the Ukrainian banking system.

Market quotations in generally illiquid markets may not be reflective of the values for financial instruments, which would be determined in an efficient, active market involving many willing buyers and willing sellers.

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 global and Ukrainian financial markets. The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower and at times, non-existent, liquidity levels across the Ukrainian banking sector, as well as very high volatility in local and international stock markets. The uncertainty in the global financial market has also led to bank failures and bank rescues in the United States of America, Western Europe and in Ukraine. The interbank lending market has suffered from a concern of counterparty risk due to

2 Operating Environment of the Group (Continued)

recent international and Ukrainian bank failures and where such lending exists, the lending rates have increased considerably.

The current circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. The borrowers of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their outstanding loans. Deteriorating operating conditions for borrowers may also have an impact on Management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, Management has reflected revised estimates of expected future cash flows in their impairment assessments, nevertheless estimated results of any further possible deterioration in the financial markets' liquidity and increased volatility, could differ from actual conditions.

Management believes it is taking all the necessary measures to support the sustainability of the Group's business in the current circumstances.

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 September 2008 and balance sheet as at 31 December 2007, condensed interim consolidated statements of income for the nine month and three month periods ended 30 September 2008 and 30 September 2007, condensed interim consolidated statements of changes in equity and cash flows for the nine month periods ended 30 September 2008 and 30 September 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.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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.

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:

Currency	**30 September 2008, UAH**	**31 December 2007, UAH**
EURO	6.975049	7.41946
US dollar	4.861000	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.

Change in presentation. As described in Notes 5 and 9 below, the Group reclassified its debt investment securities from "available for sale" to "loans and receivables" measurement category, however all securities are continued to be presented as a separate balance sheet item. Accordingly, the name of the balance sheet item "Investment securities available for sale" was changed to "Investment securities" as it now contains financial assets from different measurement categories.

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 nine months period ended 30 September 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 nine month period ended 30 September 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 1,662 thousand (31 December 2007: USD 919 thousand) higher or USD 1,662 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 22.

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 the transaction. As disclosed in Note 22, 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 nine months period ended 30 September 2008 (nine months ended 30 September 2007: increase in net profit for the period by USD 232 thousand).

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 1,675 thousand (31 December 2007: Nil) and decrease in results by USD 1,675 thousand (nine months ended 30 September 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.

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).
- *Reclassification of Financial Assets (Amendment to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures - issued in October 2008)*. In accordance with this amendment the Group reclassified investment securities with the fair value of USD 110,841 thousand from the category "available for sale" to the category "loans and receivables" retrospectively from 1 September 2008. Had these securities not been reclassified, the carrying value of investment securities would have been higher by USD 510 thousand, revaluation reserve for investment securities available-for-sale would have been higher by USD 175 thousand, deferred tax liability would have been higher by USD 127 thousand, provision for impairment of investment securities would have been lower by USD 277 thousand, and income tax expense would have been higher by USD 69 thousand.

5 Adoption of New or Revised Standards and Interpretations (Continued)

Effect of Adoption of New or Revised Standards. The impact of above new or revised standards and interpretations, except for the effect of reclassification of investment securities available for sale to loans and receivables in accordance with the amendment of IAS 39 (Note 9), on the Bank's financial position at 30 September 2008 and 31 December 2007 and on the results of its operations for the three months and nine months ended 30 September 2008 and 30 September 2007 was not significant.

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.

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.

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 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.

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.

6 New Accounting Pronouncements (Continued)

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

In thousands of USD (as presentation currency, Note 3)	**30 September 2008 (unaudited)**	**31 December 2007**
Cash on hand	22,102	16,584
Cash balances with the NBU (other than mandatory reserve deposits)	42,644	94
Mandatory cash balances with the NBU	148,173	59,606
Correspondent accounts and overnight placements with other banks		
- Ukraine	64,383	1,054
- Other countries	65,215	33,451
Placements with other banks with original maturities of less than three months	54,962	91,964
Total cash and cash equivalents	**397,479**	**202,753**

The information on related party balances is disclosed in Note 22.

8 Loans and Advances to Customers

In thousands of USD (as presentation currency, Note 3)	**30 September 2008 (unaudited)**	**31 December 2007**
Corporate loans	2,447,692	1,611,908
Loans to individuals - mortgage and car loans	500,514	274,439
Loans to individuals - consumer loans	446,699	240,782
Small and medium enterprises	269,418	86,668
Loans to individuals - other loans	119,643	74,099
Reverse sale and repurchase agreements	13,700	8,045
Less: Provision for impairment	(93,184)	(35,226)
Total loans and advances to customers	**3,704,482**	**2,260,715**

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

In thousands of USD (as presentation currency, Note 3)	**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	19,094	55,880	6,502	839	**82,315**
Amounts written off during the period as uncollectible	-	(22,884)	(3,602)	-	**(26,486)**
Translation differences	863	1,180	54	32	**2,129**
Provision for impairment at 30 September 2008 (unaudited)	**37,138**	**50,784**	**3,874**	**1,388**	**93,184**

8 Loans and Advances to Customers (Continued)

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

In thousands of USD (as presentation currency, Note 3)	**Corporate loans**	**Loans to individuals - consumer loans**	**Loans to individuals - mortgage and car loans**	**Small and medium enterprises**	**Total**
Provision for impairment at 1 July 2008 (unaudited)	**27,873**	**38,384**	**1,933**	**1,008**	**69,198**
Provision for impairment during the period	9,362	22,995	4,467	383	**37,207**
Amounts written off during the period as uncollectible	-	(10,260)	(2,500)	-	**(12,760)**
Translation differences	(97)	(335)	(26)	(3)	**(461)**
Provision for impairment at 30 September 2008 (unaudited)	**37,138**	**50,784**	**3,874**	**1,388**	**93,184**

Movements in the provision for loan impairment during nine months ended 30 September 2007 are as follows:

In thousands of USD (as presentation currency, Note 3)	**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	5,040	19,119	911	165	**25,235**
Amounts written off during the period as uncollectible	-	(12,661)	(106)	-	**(12,767)**
Provision for impairment at 30 September 2007 (unaudited)	**13,201**	**16,565**	**805**	**165**	**30,736**

Movements in the provision for loan impairment during three months ended 30 September 2007 are as follows:

In thousands of USD (as presentation currency, Note 3)	**Corporate loans**	**Loans to individuals - consumer loans**	**Loans to individuals - mortgage and car loans**	**Small and medium enterprises**	**Total**
Provision for impairment at 1 July 2007 (unaudited)	**11,422**	**10,044**	**18**	**49**	**21,533**
Provision for impairment during the period	1,779	9,880	893	116	**12,668**
Amounts written off during the period as uncollectible	-	(3,359)	(106)	-	**(3,465)**
Provision for impairment at 30 September 2007 (unaudited)	**13,201**	**16,565**	**805**	**165**	**30,736**

8 Loans and Advances to Customers (Continued)

At 30 September 2008 the Group had 10 borrowers (31 December 2007: 10 borrowers) with aggregated loan balances above USD 43,151 thousand (31 December 2007: USD 31,700 thousand). The total aggregate amount of these loans was USD 720,848 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:

In thousands of USD	**30 September 2008 (unaudited)**		**31 December 2007**	
(as presentation currency, Note 3)	**Amount**	**%**	**Amount**	**%**
Retail and SME loans	1,336,274	35%	675,988	29%
Investment and lease companies	394,192	10%	144,868	6%
Wholesale trade	335,976	9%	142,347	6%
Retail trade	214,214	6%	221,594	10%
Construction and real estate	212,208	6%	100,106	4%
Food industry	186,385	5%	131,576	6%
Agriculture	179,744	5%	33,726	2%
Chemical and petrochemical industry	141,375	4%	61,779	3%
Railways	111,886	3%	145,931	6%
Power industry	107,561	3%	73,664	3%
Motor-car industry	94,874	2%	36,749	2%
Metallurgy	70,469	2%	42,390	2%
Mechanical engineering and metal-working industry	55,422	1%	40,005	2%
Military organizations and aircraft constructions	51,915	1%	47,234	2%
Transport	33,426	1%	47,958	2%
Natural gas industry	11,551	0%	113,093	5%
Coal-mining industry	10,156	0%	53,465	2%
Other	250,038	7%	183,468	8%
Total loans and advances to customers (before impairment)	**3,797,666**	**100%**	**2,295,941**	**100%**

The information on related party balances is disclosed in Note 22.

9 Investment Securities

In thousands of USD (as presentation currency, Note 3)	**30 September 2008 (unaudited)**	**31 December 2007**
Corporate bonds – quoted	63,973	31,400
Corporate bonds – unquoted	40,979	6,085
Municipal and state bonds – quoted	-	11,863
Municipal and state bonds – unquoted	20,475	-
Total debt securities	125,427	49,348
Corporate shares – unquoted	4	10
Less: Provision for impairment	(277)	(10)
Total investment securities	**125,154**	**49,348**

The Group has retrospectively (since 1 September 2008) reclassified investment securities with the fair value of USD 110,841 thousand into “loans and receivables” measurement category in accordance with amendments to IAS 39, approved by the IASB in October 2008.

The Group’s management analyzed the fluctuations on the Ukrainian Stock Market for the reporting period. During the period July-August 2008 index PFTS (Ukrainian stock trading system) was decreasing significantly. By the end of the August 2008 the volume of transactions on the debt security’s market collapsed. Management treated such conditions as a “rare event” in accordance with the provisions of the new guidance on reclassifications of financial instruments (see Note 5). The decision was also made in order to better reflect the Group’s revised intention regarding its portfolio of securities.

At 30 September 2008 all debt investment securities held by the Group are classified as “loans and receivables” (31 December 2007: all investment securities were classified as “assets available for sale”).

Movements in the provision for investment securities impairment during nine months ended 30 September 2008 are as follows:

In thousands of USD (as presentation currency, Note 3)	**Investment securities**	**Total**
Provision for impairment at 1 January 2008	**10**	**10**
Provision for impairment during the period	268	**268**
Translation differences	(1)	**(1)**
Provision for impairment at 30 September 2008 (unaudited)	**277**	**277**

Movements in the provision for investment securities impairment during three months ended 30 September 2008 are as follows:

In thousands of USD (as presentation currency, Note 3)	**Investment securities**	**Total**
Provision for impairment at 1 July 2008	**-**	**-**
Provision for impairment during the period	278	**278**
Translation differences	(1)	**(1)**
Provision for impairment at 30 September 2008 (unaudited)	**277**	**277**

10 Due to Other Banks

In thousands of USD (as presentation currency, Note 3)	**30 September 2008 (unaudited)**	**31 December 2007**
Current accounts		
Domestic	55,746	3,483
Non-OECD countries	151	11,298
Deposits and loans		
Domestic	89,765	21,381
OECD countries	314,201	455,546
Non-OECD countries	139,827	16,588
Total due to other banks	**599,690**	**508,296**

The information on related party balances is disclosed in Note 22.

11 Customer Accounts

In thousands of USD (as presentation currency, Note 3)	**30 September 2008 (unaudited)**	**31 December 2007**
State and public organisations		
- Current/settlement accounts	28,013	19,925
- Term deposits	7,208	15,943
Other legal entities		
- Current/settlement accounts	478,907	373,052
- Term deposits	931,955	339,132
Individuals		
- Current/demand accounts	78,010	27,449
- Term deposits	216,627	67,250
Total customer accounts	**1,740,720**	**842,751**

Economic sector concentrations within customer accounts are as follows:

In thousands of USD	**30 September 2008 (unaudited)**		**31 December 2007**	
(as presentation currency, Note 3)	**Amount**	**%**	**Amount**	**%**
Investment and lease companies	575,224	33%	100,265	12%
Communication	304,233	18%	171,876	20%
Individuals	294,637	17%	94,699	11%
Natural gas industry	154,998	9%	44,237	5%
Wholesale trade	81,119	5%	56,614	7%
Food industry	72,010	4%	4,785	1%
Insurance	42,796	3%	29,392	3%
Military-industrial establishment and aircraft construction	38,673	2%	53,339	6%
Power industry	25,576	1%	8,312	2%
Metallurgy	23,957	1%	53,532	6%
Chemical and petrochemical industry	16,407	1%	62,904	7%
Transport	15,286	1%	5,225	1%
Construction and real estate	10,895	1%	1,537	-
Retail trade	5,164	0%	2,667	-
Coal-mining industry	2,330	0%	102,177	12%
Mechanical engineering and metal-working industry	1,203	0%	12,635	2%
Other	76,212	4%	38,555	5%
Total customer accounts	**1,740,720**	**100%**	**842,751**	**100%**

11 Customer Accounts (Continued)

At 30 September 2008 the Group 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 1,123,638 thousand (31 December 2007: USD 560,185 thousand) or 65% (31 December 2007: 66%) of total customer accounts.

The information on related party balances is disclosed in Note 22.

12 Debt Securities in Issue

In thousands of USD (as presentation currency, Note 3)	**30 September 2008 (unaudited)**	**31 December 2007**
Bonds issued on domestic market	161,335	196,241
Total debt securities in issue	**161,335**	**196,241**

At 30 September 2008 the Group has debt securities in issue with carrying value of USD 161,335 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	10,252	13%	12%	08 December 2010	10 December 2008
D	39,087	13%	13%	20 December 2011	23 December 2008
E	61,716	12%	11%	24 April 2009	-
F	6,172	16%	19%	9 September 2012	14 September 2009
G	144	15%	16%	9 September 2012	16 March 2009
H	40,115	14%	14%	14 March 2013	17 March 2009
Total debt securities in issue	**157,486**				

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

In thousands of USD (as presentation currency, Note 3)	**30 September 2008 (unaudited)**	**31 December 2007**
Loan participation notes	1,159,532	552,648
Total loan participation notes	**1,159,532**	**552,648**

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 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.

In August 2008, the Group issued loan participation notes through Ukraine Issuance Plc with par value of USD 250,000 thousand, with nominal interest rate 12% p.a. and due date on 11 August 2011. In accordance with conditions of the loan agreement, interest will be paid by the Group on 11 February and 11 August in each year in which the Notes remain outstanding. The Notes were issued with discount of USD 8,764 thousand.

The loan agreements, signed between Ukraine Issuance Plc and the Bank include 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, respectively, 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, respectively, 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 nine months period ended 30 September 2008.

Included in subordinated debt as at 30 September 2008 is accrued interest in the amount of USD 8,670 thousand (31 December 2007: USD 4,829 thousand).

The information on related party balances is disclosed in Note 22.

15 Share Capital

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

In thousands of USD (as presentation currency, Note 3), except for number of shares	**Number of outstanding shares**	**Nominal amount, excluding share premium**	**Adjusted amount, including share premium**
At 1 January 2007	**360,000,000**	**71,287**	**72,599**
New shares issued	1,010,000,000	200,000	200,000
At 30 September 2007 (unaudited)	**1,370,000,000**	**271,287**	**272,599**
At 31 December 2007	**1,370,000,000**	**271,287**	**272,599**
New shares issued	879,710,000	178,231	178,231
Share premium paid	-	-	21,769
Translation differences	-	13,290	-
At 30 September 2008 (unaudited)	**2,249,710,000**	**462,808**	**472,599**

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. 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).

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).

All ordinary shares have a nominal value of UAH 1 (USD equivalent as at 30 September 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 September 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	2,249,675,491	99.9985%	462,801
Others	34,509	0.0015%	7
Total	**2,249,710,000**	**100.00%**	**462,808**

16 Other Reserves

In thousands of USD (as presentation currency, Note 3)	**30 September 2008 (unaudited)**	**31 December 2007**
Revaluation reserve for land and building, net of tax	18,772	19,066
Effect of translation to presentation currency	18,426	2,220
Revaluation reserve for available-for-sale securities, net of tax	(685)	(82)
Total other reserves	**36,513**	**21,204**

Revaluation reserve for available-for-sale securities is transferred to profit or loss when realised through sale or impairment. In addition, revaluation reserve in respect of securities reclassified to 'loans and receivables" measurement category (refer to Notes 5 and 9) is amortised over the remaining life of the security using the effective interest method, similar to the amortisation of the respective premium or discount

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

In thousands of USD (as presentation currency, Note 3)	**Nine months ended 30 September 2008 (unaudited)**	**Three months ended 30 September 2008 (unaudited)**	**Nine months ended 30 September 2007 (unaudited)**	**Three months ended 30 September 2007 (unaudited)**
Interest income				
Loans and advances to customers	411,529	172,171	149,445	67,299
Debt investment securities	8,734	4,001	2,198	941
Cash and cash equivalents	6,191	1,950	2,204	871
Due from other banks	4,802	1,549	5,128	2,864
Total interest income	**431,256**	**179,671**	**158,975**	**71,975**
Interest expense				
Term deposits of legal entities	66,806	30,456	21,302	7,398
Loan participation notes	57,218	27,041	25,223	11,347
Term placements of other banks	34,633	13,173	20,407	9,069
Debt securities in issue	18,285	6,009	7,476	3,454
Term deposits of individuals	12,242	6,538	3,109	1,238
Customer current/settlement accounts	7,957	1,985	2,882	1,342
Subordinated debt	3,971	1,725	2,891	1,300
Current/settlement accounts of other banks	3,868	611	1,117	328
Other borrowed funds	75	-	-	-
Other	30	10	11	5
Total interest expense	**205,085**	**87,548**	**84,418**	**35,481**
Net interest income	**226,171**	**92,123**	**74,557**	**36,494**

Information on interest income and expense from transactions with related parties is disclosed in Note 22.

18 Fee and Commission Income and Expense

In thousands of USD (as presentation currency, Note 3)	**Nine months ended 30 September 2008 (unaudited)**	**Three months ended 30 September 2008 (unaudited)**	**Nine months ended 30 September 2007 (unaudited)**	**Three months ended 30 September 2007 (unaudited)**
Fee and commission income				
Fee and commission income in respect of financial instruments not at fair value through profit or loss:				
- Documentary operations	10,021	5,149	416	213
- Cash and settlement transactions	8,541	4,283	3,055	845
- Currency exchange	6,067	1,453	9,090	3,267
- Transactions with securities	229	108	61	39
- Fiduciary activities	102	34	93	34
- Other	168	14	172	172
Total fee and commission income	**25,128**	**11,041**	**12,887**	**4,570**
Fee and commission expense				
Fee and commission expense in respect of financial instruments not at fair value through profit or loss				
- Cash and settlement transactions	6,200	3,823	776	361
- Other	326	131	339	168
Total fee and commission expense	**6,526**	**3,954**	**1,115**	**529**
Net fee and commission income	**18,602**	**7,087**	**11,772**	**4,041**

Information on fee and commission income from transactions with related parties is disclosed in Note 22.

19 Administrative and Other Operating Expenses

In thousands of USD (as presentation currency, Note 3)	**Nine months ended 30 September 2008 (unaudited)**	**Three months ended 30 September 2008 (unaudited)**	**Nine months ended 30 September 2007 (unaudited)**	**Three months ended 30 September 2007 (unaudited)**
Salaries and employee benefits	73,842	26,539	37,623	16,962
Rent	16,036	6,414	5,349	2,363
Call centre services	9,268	4,483	2,218	1,254
Depreciation and amortization	5,969	2,245	3,182	1,222
Communication and IT	4,290	1,890	1,971	548
Marketing and advertising	2,788	1,791	370	183
Other administrative expenses	2,521	1,014	1,089	412
Administration and office maintenance	2,181	922	989	482
Professional services	2,034	1,067	894	364
Travelling	1,957	1,218	823	266
Security	1,418	575	386	205
Utilities	1,392	501	653	232
Entertainment expenses	632	151	434	35
Provision for impairment of other assets	372	224	108	108
Other	5,026	2,045	1,632	672
Total administrative and other operating expenses	**129,726**	**51,079**	**57,721**	**25,308**

19 Administrative and Other Operating Expenses (Continued)

Included in staff costs are statutory social security and pension contribution of USD 12,132 thousand for nine month ended 30 September 2008 (nine months ended 30 September 2007: USD 5,183 thousand), and USD 4,558 thousand for three months ended 30 September 2008 (three months ended 30 September 2007: USD 644 thousand).

Information on administrative and other operating expenses from transactions with related parties is disclosed in Note 22.

20 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.

20 Segment Analysis (Continued)

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

In thousands of USD (as presentation currency, Note 3)	**Corporate**	**Retail**	**Central treasury**	**Total**
Segment assets	2,726,823	976,123	615,425	4,318,371
Deferred tax assets				-
Total assets				**4,318,371**
Segment liabilities	1,641,242	178,683	1,922,824	3,742,749
Current income tax liability				974
Deferred tax liability				1,708
Other unallocated liabilities				19,567
Total liabilities				**3,764,998**
Other segment items				
Capital expenditure incurred during nine months ended 30 September 2008	6,088	8,118	1,406	**15,612**

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

In thousands of USD (as presentation currency, Note 3)	**Corporate**	**Retail**	**Central treasury**	**Interest charges to other segments**	**Total**
Nine months ended 30 September 2008					
External revenues	288,116	145,750	24,750	-	458,616
Revenues from other segments	116,062	3,500	160,254	(279,816)	-
Total revenues	**404,178**	**149,250**	**185,004**	**(279,816)**	**458,616**
Total revenues comprise:					
- Interest income	381,583	145,347	184,142	(279,816)	431,256
- Fee and commission income	21,077	3,754	297		25,128
- Other operating income	1,518	149	565		2,232
Total revenues	**404,178**	**149,250**	**185,004**	**(279,816)**	**458,616**
Segment result	**43,308**	**(63,561)**	**56,773**	**-**	**36,520**
Unallocated costs					**(1,258)**
Profit before tax					**35,262**
Income tax expense					(10,133)
Profit					**25,129**

20 Segment Analysis (Continued)

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

In thousands of USD (as presentation currency, Note 3)	Corporate	Retail	Central treasury	Interest charges to other segments	Total
Three months ended 30 September 2008					
External revenues	124,763	58,658	7,972	-	191,393
Revenues from other segments	55,407	2,047	61,379	(118,833)	-
Total revenues	**180,170**	**60,705**	**69,351**	**(118,833)**	**191,393**
Total revenues comprise:					
- Interest income	170,233	59,185	69,086	(118,833)	179,671
- Fee and commission income	8,974	1,975	92	-	11,041
- Other operating income	963	(455)	173	-	681
Total revenues	**180,170**	**60,705**	**69,351**	**(118,833)**	**191,393**
Segment result	**27,844**	**(29,854)**	**18,432**	-	**16,422**
Unallocated costs					**(1,014)**
Profit before tax					**15,408**
Income tax expense					(4,423)
Profit					**10,985**

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

In thousands of USD (as presentation currency, Note 3)	Corporate	Retail	Central treasury	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 nine months ended 30 September 2007	4,187	5,582	966	**10,735**

20 Segment Analysis (Continued)

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

In thousands of USD (as presentation currency, Note 3)	Corporate	Retail	Central treasury	Interest charges to other segments	Total
Nine months ended 30 September 2007					
External revenues	124,395	37,729	10,099	-	172,223
Revenues from other segments	35,788	1,355	68,061	(105,204)	0
Total revenues	**160,183**	**39,084**	**78,160**	**(105,204)**	**172,223**
Total revenues comprise:					
- Interest income	148,106	38,174	77,899	(105,204)	158,975
- Fee and commission income	12,011	716	160		12,887
- Other operating income	110	150	101		361
Total revenues	**160,227**	**39,040**	**78,160**	**(105,204)**	**172,223**
Segment result	**17,713**	**(33,887)**	**25,805**	**-**	**9,631**
Unallocated costs					**(1,978)**
Profit before tax					**7,653**
Income tax expense					(2,369)
Profit					**5,284**

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

In thousands of USD (as presentation currency, Note 3)	Corporate	Retail	Central treasury	Interest charges to other segments	Total
Three months ended 30 September 2007					
External revenues	53,527	18,088	5,106	-	76,721
Revenues from other segments	13,709	499	31,296	(45,504)	-
Total revenues	**67,236**	**18,587**	**36,402**	**(45,504)**	**76,721**
Total revenues comprise:					
- Interest income	62,967	18,186	36,326	(45,504)	71,975
- Fee and commission income	4,298	219	53		4,570
- Other operating income	15	138	23		176
Total revenues	**67,280**	**18,543**	**36,402**	**(45,504)**	**76,721**
Segment result	**8,667**	**(17,797)**	**14,968**	**-**	**5,838**
Unallocated costs					**(684)**
Profit before tax					**5,154**
Income tax expense					(1,608)
Profit					**3,546**

21 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 September 2008 the Group has contractual capital expenditure commitments in respect of premises, leasehold improvements and equipment totalling USD 4,810 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:

In thousands of USD (as presentation currency, Note 3)	**30 September 2008 (unaudited)**	**31 December 2007**
Not later than 1 year	19,048	13,266
Later than 1 year and not later than 5 years	36,592	20,107
Later than 5 years	2,690	56
Total operating lease commitments	**58,330**	**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 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.

21 Contingencies and Commitments (Continued)

Outstanding credit related commitments are as follows:

In thousands of USD (as presentation currency, Note 3)	**30 September 2008 (unaudited)**	**31 December 2007**
Letters of credit	353,568	48,869
Guarantees issued	117,064	60,951
Undrawn credit lines	41,266	102,427
Avals issued	4,090	2,013
Total credit related commitments	**515,988**	**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 30 September 2008 the Group has the following assets pledged as collateral:

	30 September 2008 (unaudited)		**31 December 2007**	
In thousands of USD (as presentation currency, Note 3)	**Asset pledged**	**Related liability**	**Asset pledged**	**Related liability**
Investment securities	34,648	34,996	4,201	4,201
Gross receivables under swap agreements	359,115	363,928	406,482	408,857
Total	**393,763**	**398,924**	**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 8,064 thousand (31 December 2007: USD 4,780 thousand) have been pledged as cover for letters of credit and international payments.

22 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 September 2008 and as at 31 December 2007 and for the nine month period ended 30 September 2008 and 30 September 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 9,198 thousand during nine months ended 30 September 2008 (nine months ended 30 September 2007: USD 3,522 thousand), and USD 6,032 thousand during three months ended 30 September 2008 (three months ended 30 September 2007: USD 2,186 thousand).

Included in staff costs is an amount accrued for bonuses for the nine months period ended 30 September 2008 of USD 10,500 thousand (nine months ended 30 September 2007: USD 6,598 thousand), and for the three months period ended 30 September 2008 of USD 3,500 thousand (three months ended 30 September 2007: USD 3,218 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 September 2008 and 31 December 2007, the outstanding balances with related parties were as follows:

	30 September 2008 (unaudited)		31 December 2007	
In thousands of USD (as presentation currency, Note 3)	**Entities under common control**	**Key manage-ment personnel**	**Entities under common control**	**Key manage-ment personnel**
Assets				
Cash and cash equivalents	11,327	-	11,333	-
Gross loans and advances to customers (contractual interest rate from 11% to 25%; 31 December 2007: from 9% to 16%)	500,183	970	247,218	519
Less: provision for loan impairment of loans and advances to customers	853	-	(188)	-
Other assets	29	4	6	-
Liabilities				
Due to other banks (contractual interest rate from 0% to 13%, 31 December 2007: from 0% to 17%)	81,788	-	185,070	-
Customer accounts (contractual interest rate from 9% to 19%, 31 December 2007: from 0% to 14%)	689,606	31,007	258,410	854
Subordinated debt (contractual interest rate from 3% to 9%, 31 December 2007: from 4% to 9%)	73,110	-	69,223	-
Credit related commitments				
Letters of credit	12,872	-	2,864	-
Guarantees issued	613	-	140	-
Undrawn credit lines	2,055	10	-	-

22 Related Party Transactions (Continued)

The income and expense items with related parties for nine months ended 30 September 2008 and 30 September 2007 were as follows:

	Nine months ended 30 September 2008 (unaudited)		Nine months ended 30 September 2007 (unaudited)	
In thousands of USD (as presentation currency, Note 3)	**Entities under common control**	**Key management personnel**	**Entities under common control**	**Key management personnel**
Interest income	28,849	53	6,941	50
Fee and commission income	3,008	18	146	-
Foreign exchange translation (losses less gains)/gains less losses	(113)	-	46	-
Interest expense	(31,018)	(940)	(21,192)	-
Impairment charge	(719)	-	(115)	-
Gain on origination of subordinated debt recognised directly in equity	-	-	442	-
Gains on initial recognition of financial liabilities measured at amortised cost at rates below market	946	-	165	-
Losses on loan purchased from related parties	(4,013)	-	-	-
Other income	1,283	-	13	-

The income and expense items with related parties for three months ended 30 September 2008 and 30 September 2007 were as follows:

	Three months ended 30 September 2008 (unaudited)		Three months ended 30 September 2007 (unaudited)	
In thousands of USD (as presentation currency, Note 3)	**Entities under common control**	**Key management personnel**	**Entities under common control**	**Key management personnel**
Interest income	12,796	27	3,810	10
Fee and commission income	2,457	12	146	-
Foreign exchange translation gains less losses/(losses less gains)	31	-	(62)	-
Interest expense	(12,210)	(890)	(12,617)	-
Reversal of impairment/(impairment charge)	153	-	(115)	-
Gain on origination of subordinated debt recognised directly in equity	-	-	132	-
Gains on initial recognition of financial liabilities measured at amortised cost at rates below market	696	-	-	-
Other income	325	-	13	-

As at 30 September 2008 included in loans and advances to entities under common control are loans of USD 315,276 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 September 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 32,632 thousand (nine months ended 30 September 2007: USD 11,446 thousand). Entities under common control will not require reimbursement of incurred expenses from the Group.

23 Capital Adequacy Ratio

The Bank calculated capital adequacy ratio in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Bank's capital calculated in accordance with Basel Accord is as follows:

In thousands of USD (as presentation currency, Note 3)	30 September 2008	31 December 2007
Tier 1 capital		
Share capital	472,599	272,599
Disclosed reserves	40,463	15,040
Total tier 1 capital	**513,062**	**287,639**
Tier 2 capital		
Revaluation reserves	18,772	19,066
Cumulative translation reserve	18,426	2,220
Fair value reserve	(685)	(82)
Subordinated debt	71,749	69,129
Total tier 2 capital	**108,262**	**90,333**
Total capital	**621,324**	**377,972**

The Bank's capital adequacy ratio calculated in accordance with the Basel Accord is 16.3% as at 30 September 2008 (31 December 2007: 16.1%).

24 Derivative Financial Instruments

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

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

	30 September 2008		30 September 2007	
In thousands of USD (as presentation currency, Note 3)	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange swaps: fair values, at the balance sheet date, of				
- USD receivable on settlement (+)	200,210	81,731	153,331	2,005
- USD payable on settlement (-)	(15,006)	(62,647)	(600)	-
- Euros receivable on settlement (+)	-	12,220	-	-
- Euros payable on settlement (-)	(103,333)	-	-	-
- UAH receivable on settlement (+)	15,011	49,944	600	-
- UAH payable on settlement (-)	(96,713)	(86,230)	(153,266)	(2,041)
Foreign exchange forwards: fair values, at the balance sheet date, of				
- USD receivable on settlement (+)	53,446	-	-	-
- USD payable on settlement (-)	-	(13,294)	-	-
- GBP receivable on settlement (+)	-	12,519	-	-
- UAH payable on settlement (-)	(52,865)	-	-	-
Net fair value of foreign exchange forwards	**750**	**(5,757)**	**64**	**(36)**

24 Derivative Financial Instruments (Continued)

The Group had outstanding obligations from unsettled spot transactions with foreign currencies of USD 36,032 thousand (30 September 2007: USD 66,214 thousand). Net fair value of unsettled spot transactions is insignificant.

The Group has outstanding obligations from unsettled non-deliverable forward contracts for sale of USD 50,000 thousand (31 December 2007: none). The Group expects to settle these forward contracts net in cash and therefore recognised them in the balance sheet as a liability at fair value of USD 597 thousand (31 December 2007: none).

25 Subsequent Events

In October 2008 shareholders paid USD 150,000 thousand to the Bank for the new shares issued. The shareholders meeting of 14 October 2008 approved the result of new share issue and took a decision to make the respective changes to the Bank's Charter. On 9 December 2008 the NBU registered the increase in the share capital of the Bank in the amount of UAH 726,855 thousand (equivalent of USD 98,238 thousand at the registration date).

On 15 October 2008 and 21 October 2008 the Bank received refinancing loan from the NBU amounting to UAH 165,000 thousand (USD 33,537 thousand at the receipt date) and UAH 275,000 thousand (USD 55,160 thousand at the receipt date) respectively, bearing nominal interest rate of 17.5% per annum, and due on 2 October 2009.

On 10 December 2008 and 23 December 2008 the Bank redeemed bonds of series C and D in the amount of UAH 44,235 thousand (USD 9,100 thousand at the reporting date) and UAH 129,930 thousand (USD 26,729 thousand at the reporting date) respectively, presented for early repayment.

During the period from October to December 2008 the official exchange rate of Ukrainian hryvnia to USD depreciated by around 60%. At the date of approval of this condensed interim consolidated financial information for issue, UAH/USD exchange rate was 7.70 UAH per 1 USD.

The country ratings by international rating agencies were downgraded in October 2008.

In the light of the current economic turmoil, the IMF has agreed to issue a $16.4 billion loan to Ukraine, if the country complies with certain requirements, in order to stabilize the economy, including determining the shortfall in capital and liquidity existing in the banking sector and taking the necessary steps to address the shortfalls.