

**PIVDENNYI BANK GROUP**

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

**30 June 2008**

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## REVIEW REPORT

To the Shareholders and Board of Directors of Pivdennyi Bank:

### *Introduction*

- 1 We have reviewed the accompanying condensed consolidated interim balance sheet of Pivdennyi Bank and its subsidiaries (the "Group") as at 30 June 2008 and the related condensed consolidated interim statements of income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

### *Scope of Review*

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

### *Conclusion*

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


LLC AF PricewaterhouseCoopers (Audit)

Kyiv, Ukraine  
25 September 2008

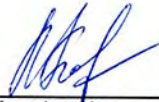
**Pivdennyi Bank Group**  
**Condensed Consolidated Interim Balance Sheet**

	Note	30 June 2008 (unaudited)	31 December 2007
<i>In thousands of Ukrainian hryvnias</i>			
<b>ASSETS</b>			
Cash and cash equivalents and mandatory reserves		842,854	1,011,013
Securities at fair value through profit or loss	7	81,414	113,485
Due from other banks	8	72,786	94,918
Loans and advances to customers	9	8,372,652	6,855,950
Investment securities available-for-sale		16,104	14,222
Current income tax prepayment		-	1,961
Intangible assets		4,375	4,519
Premises, leasehold improvements and equipment		580,204	533,511
Other financial and non-financial assets		43,003	37,593
<b>TOTAL ASSETS</b>		<b>10,013,392</b>	<b>8,667,172</b>
<b>LIABILITIES</b>			
Due to the National Bank of Ukraine	10	239,103	90,000
Due to other banks	11	1,061,465	1,067,171
Customer accounts	12	6,408,294	5,957,828
Eurobonds issued		498,296	518,145
Debt securities in issue	13	257,111	137,078
Other borrowed funds	14	163,665	-
Current income tax liability		406	-
Deferred income tax liability		41,373	38,919
Provisions for liabilities and charges and other liabilities		24,828	23,952
<b>TOTAL LIABILITIES</b>		<b>8,694,541</b>	<b>7,833,093</b>
<b>EQUITY</b>			
Share capital	15	625,446	563,896
Share premium	15	335,564	-
Revaluation reserve for premises		91,024	91,024
Revaluation reserve for investment securities available-for-sale		1,099	1,099
Currency translation reserve		9,511	7,504
Retained earnings		240,949	157,098
<b>Net assets attributable to the Bank's equity holders</b>		<b>1,303,593</b>	<b>820,621</b>
<b>Minority interest</b>		<b>15,258</b>	<b>13,458</b>
<b>TOTAL EQUITY</b>		<b>1,318,851</b>	<b>834,079</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>10,013,392</b>	<b>8,667,172</b>

Approved for issue and signed on behalf of the Board of Directors on 19 September 2008.

  
Vadim V. Morokhovskiy  
Chairman of the Board



  
Ludmila V. Kovalenok  
Chief Accountant

**Pivdennyi Bank Group**  
**Condensed Consolidated Interim Income Statement**

		For the six months ended 30 June	
<i>In thousands of Ukrainian hryvnias</i>	Note	2008 (unaudited)	2007 (unaudited)
Interest income	16	519,547	265,772
Interest expense	16	(303,197)	(152,834)
<b>Net interest income</b>		<b>216,350</b>	<b>112,938</b>
Provision for impairment of loans to customers	9	(37,897)	(19,816)
<b>Net interest income after provision for loan impairment</b>		<b>178,453</b>	<b>93,122</b>
Fee and commission income	17	87,398	54,983
Fee and commission expense	17	(14,180)	(13,260)
Losses less gains from securities at fair value through profit or loss		(119)	438
Gains less losses from trading in foreign currencies		32,856	15,172
Foreign exchange translation losses less gains		(6,521)	678
Impairment of investment securities available-for-sale		-	(1,682)
(Losses less gains)/gains less losses from disposals of investment securities available-for-sale		(773)	299
Recovery of provision for credit related commitments		-	5,857
Other operating income		1,610	643
Administrative and other operating expenses	18	(166,550)	(111,094)
Gains on purchase of additional shares of the subsidiary		-	8,744
<b>Profit before tax</b>		<b>112,174</b>	<b>53,900</b>
Income tax expense		(26,742)	(11,385)
<b>Profit for the period</b>		<b>85,432</b>	<b>42,515</b>
<b>Profit is attributable to</b>			
Equity holders of the Bank		83,851	39,052
Minority interest		1,581	3,463
<b>Profit for the period</b>		<b>85,432</b>	<b>42,515</b>

**Pivdennyi Bank Group**  
**Condensed Consolidated Interim Statement of Changes in Equity**

	Note	Attributable to equity holders of the Bank						Total	Minority interest	Total equity	
		Share capital	Paid, but not registered share capital	Share premium	Revaluation reserve for premises	Revaluation reserve for investment securities available-for-sale	Currency translation reserve				Retained earnings
<i>In thousands of Ukrainian hryvnias</i>											
<b>Balance at 1 January 2007</b>		<b>362,396</b>	-	-	<b>48,117</b>	-	-	<b>58,501</b>	<b>469,014</b>	<b>52,737</b>	<b>521,751</b>
Available-for-sale investments:											
- Fair value gains less losses		-	-	-	-	1,764	-	-	1,764	-	<b>1,764</b>
- Disposals		-	-	-	-	(299)	-	-	(299)	-	<b>(299)</b>
Currency translation differences		-	-	-	-	-	498	-	498	1,351	<b>1,849</b>
Income tax recorded in equity		-	-	-	-	(366)	-	-	(366)	-	<b>(366)</b>
Net income recognised directly in equity		-	-	-	-	1,099	498	-	1,597	1,351	<b>2,948</b>
Profit for the period (unaudited)		-	-	-	-	-	-	39,052	39,052	3,463	<b>42,515</b>
Total recognised income for six months ended 30 June 2007		-	-	-	-	1,099	498	39,052	40,649	4,814	<b>45,463</b>
Share issue	15	110,000	60,000	-	-	-	-	-	170,000	-	<b>170,000</b>
Purchase of additional shares in the subsidiary		-	-	-	-	-	-	-	-	(32,842)	<b>(32,842)</b>
<b>Balance at 30 June 2007 (unaudited)</b>		<b>472,396</b>	<b>60,000</b>	-	<b>48,117</b>	<b>1,099</b>	<b>498</b>	<b>97,553</b>	<b>679,663</b>	<b>24,709</b>	<b>704,372</b>
<b>Balance at 31 December 2007</b>		<b>563,896</b>	-	-	<b>91,024</b>	<b>1,099</b>	<b>7,504</b>	<b>157,098</b>	<b>820,621</b>	<b>13,458</b>	<b>834,079</b>
Available-for-sale investments:											
- Fair value gains less losses		-	-	-	-	773	-	-	773	-	<b>773</b>
- Disposals		-	-	-	-	(773)	-	-	(773)	-	<b>(773)</b>
Currency translation differences		-	-	-	-	-	2,007	-	2,007	219	<b>2,226</b>
Net income recognised directly in equity		-	-	-	-	-	2,007	-	2,007	219	<b>2,226</b>
Profit for the period (unaudited)		-	-	-	-	-	-	83,851	83,851	1,581	<b>85,432</b>
Total recognised income for six months ended 30 June 2008		-	-	-	-	-	2,007	83,851	85,858	1,800	<b>87,658</b>
Share issue	15	61,550	-	335,564	-	-	-	-	397,114	-	<b>397,114</b>
<b>Balance at 30 June 2008 (unaudited)</b>		<b>625,446</b>	-	<b>335,564</b>	<b>91,024</b>	<b>1,099</b>	<b>9,511</b>	<b>240,949</b>	<b>1,303,593</b>	<b>15,258</b>	<b>1,318,851</b>

**Pivdennyi Bank Group**  
**Condensed Consolidated Interim Statement of Cash Flows**

<i>In thousands of Ukrainian hryvnias</i>	Note	For the six months ended 30 June	
		2008 (unaudited)	2007 (unaudited)
<b>Cash flows from operating activities</b>			
Interest received		511,498	267,379
Interest paid		(291,485)	(135,150)
Fees and commissions received		84,076	51,016
Fees and commissions paid		(14,180)	(13,275)
Income received from trading in securities		(119)	438
Income received from trading in foreign currencies		32,856	15,172
Other operating income received		1,537	607
Staff costs paid		(90,740)	(57,547)
Administrative and other operating expenses paid		(58,758)	(37,910)
Income tax paid		(21,807)	(14,395)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>152,878</b>	<b>76,335</b>
<b>Changes in operating assets and liabilities</b>			
Net increase in mandatory reserve balances		(77,345)	(29,429)
Net decrease in securities at fair value through profit or loss		32,905	19,069
Net decrease/(increase) in due from other banks		21,450	(420,666)
Net increase in loans and advances to customers		(1,537,377)	(865,626)
Net increase in other assets		(6,203)	(26,392)
Net increase/(decrease) in due to the National Bank of Ukraine		149,000	(82,000)
Net (decrease)/increase in due to other banks		(23,224)	560,117
Net increase in customer accounts		429,040	838,436
Net (decrease)/increase in provisions for liabilities and charges and other liabilities		(6,567)	26,555
<b>Net cash (used in)/from operating activities</b>		<b>(865,443)</b>	<b>96,399</b>
<b>Cash flows from investing activities</b>			
Acquisition of investment securities available-for-sale		(2,875)	(19,161)
Proceeds from disposal of investment securities available-for-sale		992	22,767
Acquisition of premises, leasehold improvements and equipment and intangible assets		(58,463)	(42,155)
Proceeds from disposal of premises and equipment		-	-
Purchase of additional shares of the subsidiary		-	(24,098)
<b>Net cash used in investing activities</b>		<b>(60,346)</b>	<b>(62,647)</b>
<b>Cash flows from financing activities</b>			
Proceeds from other borrowed funds		163,665	145
Repayment of subordinated debt		-	(8,107)
Proceeds from long-term debt securities in issue		123,864	-
Repayment of long-term debt securities in issue		(9,419)	(11,292)
Issue of ordinary shares	15	397,114	170,000
<b>Net cash from financing activities</b>		<b>675,224</b>	<b>150,746</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>5,059</b>	<b>5,872</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(245,506)</b>	<b>190,370</b>
Cash and cash equivalents at the beginning of the period		863,319	490,113
<b>Cash and cash equivalents at the end of the period</b>		<b>617,813</b>	<b>680,483</b>

## **1 Introduction**

This condensed consolidated interim financial information including the selected explanatory notes has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") for the six months ended 30 June 2008 for Pivdennyi Bank (the "Bank") and its subsidiaries (together referred to as the "Group" or "Pivdennyi Bank Group").

**Principal activity.** Pivdennyi Bank (the "Bank") was founded in 1993 as a closed-type joint stock entity. The Bank is registered in Ukraine to carry out banking and foreign exchange activities and operates under a banking license issued by the National Bank of Ukraine (the "NBU"). The Bank's principal business activity is commercial and retail banking operations within Ukraine. As at 30 June 2008 the major shareholders of the Bank are six Ukrainian and one foreign companies and ten individuals which collectively own over 38% and over 61% of the outstanding shares, respectively (31 December 2007: six Ukrainian companies and nine individuals owned over 31% and 67% of the outstanding shares, respectively). As at 30 June 2008 and 31 December 2007 the main ultimate shareholders of the Bank were 2 Ukrainian nationals, Mr Y.O. Rodin and Mr M.I. Bekker, neither of which individually controlled the Bank.

The Bank has 17 (31 December 2007: 16) branches within Ukraine.

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

6/1, Krasnova str.  
65059, Odessa  
Ukraine

**Presentation currency.** These financial statements are presented in Ukrainian hryvnias ("UAH").

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

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

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 and 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.

During the last few months there has been a significant shortfall of UAH liquidity on the Ukrainian market 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 in foreign currencies) and increased interest rates on loans, which resulted in an overall slowdown of the growth of the Ukrainian banking system.

**Recent volatility in global financial markets.** While the Group does not have any exposure to the US sub-prime market, the ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market financing opportunities, a significant decline in the Ukrainian stock market and higher interbank lending rates, making financing more difficult and more expensive to obtain. Such circumstances may affect the ability of the Group to obtain new borrowings and refinance its existing borrowings at terms and conditions that 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 the outstanding loans.

## **2 Operating Environment of the Group (Continued)**

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. Management is unable to reliably estimate the effects on the Group's financial position of any further possible deterioration in the liquidity of the financial markets and their increased volatility. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

## **3 Summary of Significant Accounting Policies**

**Basis of Preparation.** This condensed consolidated interim financial information has been prepared in accordance with IAS 34 "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2007.

The accounting policies and methods of computation adopted in the preparation of the condensed consolidated interim financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2007, except for the new standards and interpretations as described in Note 5, and income taxes and useful lives of premises, as described below.

**Income taxes.** Income tax expense is recognised in each interim period based on the best estimate of the weighted average effective annual income tax rate expected for the full financial year. Amounts accrued for income tax expense in one interim period may have to be adjusted in a subsequent interim period of that financial year if the estimate of the weighted average effective annual income tax rate changes. Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate is applied to the pre-tax income of the interim period. Average annual effective income tax rate is estimated separately for each individual consolidated company and separately applied to the interim period pre-tax profit of each individual consolidated company.

**Change in the useful lives of premises.** During 2008 the Group reconsidered the period of useful lives of the premises and increased them from 20 to 50 years. New useful lives were applied by the Bank prospectively. Depreciation expenses for six months ended 30 June 2008 would have been higher by UAH 6,665 thousand had the Bank continued to apply previous useful lives.

**Change in the presentation of previously reported amounts.** During 2008 the Group amended the presentation of the credit quality analysis of the loans to customers as at 31 December 2006. As a result loans individually determined to be impaired for the amount of UAH 296,547 thousand were reclassified to loans impaired on a portfolio basis. Such re-classification did not result in the change of provision for loan impairment. Refer to Note 9.

In addition the Bank amended the presentation of economic sector risk concentrations disclosure of loans and advances to customers and customer accounts as at 31 December 2007 as follows:

<i>In thousands of Ukrainian hryvnias</i>	<b>2007</b>
<b>Loans and advances to customers:</b>	
Decrease in manufacturing	(597,002)
Increase in building and real estate	597,002
Decrease in other	(116,028)
Increase in tourism, hotel services and restaurant business	116,028
<hr/>	
<b>Total loans and advances to customers (before impairment)</b>	<b>-</b>

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### **3 Summary of Significant Accounting Policies (Continued)**

#### **Customer accounts:**

Increase in local state authorities	28,860
Increase in building and real estate	8,464
Increase in agriculture and food industry	69,844
Decrease in other	(107,168)

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#### **Total customer accounts**

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Any further changes to this condensed consolidated interim financial information require approval of the Board of Directors who authorised this condensed consolidated interim financial information for issue.

### **4 Critical Accounting Estimates, and Judgements 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 judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

**Impairment of available-for-sale equity investments.** The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows.

**Impairment losses on loans and advances.** The 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 judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the 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 UAH 4,374 thousand (31 December 2007: UAH 3,669 thousand) higher or UAH 4,374 thousand (31 December 2007: UAH 3,669 thousand) lower.

**Fair value of premises.** Premises of the Bank are subject to revaluation on a regular basis. Such revaluations are based on the results of work of independent valuers. The basis for their work is a sales comparison approach. When performing a revaluation, certain judgements and estimates are applied by the valuers in determination of the comparison of premises to be used in a sales comparison approach. Changes in assumptions about these factors could affect reported fair values. The valuation was based on a comparative sales of premises with the price per square meter varying from UAH 4,919 to UAH 34,224, depending upon the location of premises. To the extent that the price per square meter differs by +/-5 percent, the fair value of premises would be UAH 21,855 thousand higher or UAH 21,855 thousand lower.

#### **4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)**

**Tax legislation.** Ukrainian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 20.

**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. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

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

Certain new or amended standards or interpretations 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. The application of new accounting pronouncements did not have a significant impact on this condensed consolidated interim financial information.

The Group has adopted the following interpretations which became effective from 1 January 2008:

- IFRIC 11, IFRS 2 - *Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007). This interpretation is not relevant for the Group;
- IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008). This interpretation is not relevant for the Group;
- 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). This interpretation is not relevant for the Group.

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 2008). 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. Management does not believe that the amendment will have any material impact on the condensed consolidated interim financial information of the Group.

Judgements made by management in the process of applying the accounting policies were consistent with the judgements disclosed in the condensed consolidated interim financial information for the six months ended 30 June 2008.

## **6 New Accounting Pronouncements**

Certain new standards and interpretations have been published that are not effective for 2008 and have not been early adopted:

**Improvements to International Financial Reporting Standards** (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 IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in 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 the amendments to have any material effect on its condensed consolidated interim financial information.

**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 on the same basis as US GAAP (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. Management does not expect that the revised Standard will have any material impact on the condensed consolidated interim financial information of the Group.

**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 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 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 (balance sheet) 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 affect the presentation of its condensed consolidated interim financial information but to have no impact on the recognition or measurement of specific transactions and balances.

**6 New Accounting Pronouncements (Continued)**

**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 is currently assessing the impact of the amended Standard on its condensed consolidated interim financial information.

**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. Management does not believe that the revised Standard will have any material impact on the condensed consolidated interim financial information of the Group.

**IFRIC 13, Customer Loyalty Programmes** (effective for annual periods beginning on or after 1 July 2008) IFRIC 13 clarifies that where goods and 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 customer is allocated between the components of the arrangement using fair values. The Group is currently assessing the impact of the Interpretation on its condensed consolidated interim financial information.

**IFRIC 15, Agreements for the Construction of Real Estate** (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 is currently assessing the impact of the interpretation on its condensed consolidated interim financial information.

**IFRIC 16, Hedges of a Net Investment in a Foreign Operation** (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 does not have an impact on this condensed consolidated interim financial information as the Group does not apply hedge accounting.

**7 Securities at Fair Value Through Profit or Loss**

<i>In thousands of Ukrainian hryvnias</i>	<b>30 June 2008 (unaudited)</b>	<b>31 December 2007</b>
Corporate debt securities:		
- Ukrainian corporate debt securities	24,777	46,056
- Latvian corporate debt securities	18,763	11,444
- Other non-OECD corporate debt securities	11,640	25,769
Latvian government debt securities	24,937	24,305
Ukrainian municipal bonds	-	5,276
<b>Total debt securities</b>	<b>80,117</b>	<b>112,850</b>
Ukrainian unquoted corporate shares	1,297	635
<b>Total securities at fair value through profit or loss</b>	<b>81,414</b>	<b>113,485</b>

The Group irrevocably designated the above securities, which are not part of its trading book, as at fair value through profit or loss.

Ukrainian corporate bonds are traded on Ukrainian trading system (PFTS). The bonds mature from December 2008 to June 2010, have coupon rate of 16.5%, and yield to maturity of 16.5%.

Latvian government debt securities and Latvian corporate debt securities are listed on Riga stock exchange and have coupon rate varying from 3.38 to 9.25%. Other non-OECD region corporate debt securities are represented by securities of companies domiciled in Russia and Kazakhstan and are listed on the respective region stock exchanges and have coupon rate varying from 7.75 to 10.25%.

At 30 June 2008 included in securities at fair value through profit or loss are Latvian government T-bonds, Latvian corporate debt securities and other non-OECD corporate debt securities pledged under sale and repurchase agreements whose fair value is UAH 37,890 thousand (31 December 2007: UAH 21,829 thousand). Refer to Notes 11 and 20.

**8 Due from Other Banks**

<i>In thousands of Ukrainian hryvnias</i>	<b>Note</b>	<b>30 June 2008 (unaudited)</b>	<b>31 December 2007</b>
Short-term placements with other banks		34,000	83,121
Guarantee deposits with other banks	20	38,786	11,797
<b>Total due from other banks</b>		<b>72,786</b>	<b>94,918</b>

**9 Loans and Advances to Customers**

<i>In thousands of Ukrainian hryvnias</i>	<b>30 June 2008 (unaudited)</b>	<b>31 December 2007</b>
Corporate loans	7,631,065	6,221,096
Mortgage loans	592,199	479,876
Loans to individuals other than mortgage	350,422	278,136
Loans to individuals - entrepreneurs	10,159	50,296
Reverse sale and repurchase agreements	3,790	4,000
	8,587,635	7,033,404
Less: Provision for loan impairment	(214,983)	(177,454)
<b>Total loans and advances to customers</b>	<b>8,372,652</b>	<b>6,855,950</b>

During six months ended 30 June 2008 a loss on initial recognition of loans at rates below market in the amount of UAH 3,560 thousand (30 June 2007: UAH 1,848 thousand) has been recorded in the consolidated income statement as part of staff costs as these loans were issued to employees of the Group.

At 30 June 2008 loans and advances to customers in the amount of UAH 3,790 thousand (31 December 2007: UAH 4,000 thousand) were collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of UAH 3,790 thousand (31 December 2007: UAH 4,000 thousand), of which the Group has a right to sell or repledge securities with a fair value of UAH 3,790 thousand (31 December 2007: UAH 4,000 thousand).

At 30 June 2008 included in loans and advances to customers were balances in the amount of UAH 1,384,885 thousand (31 December 2007: UAH 1,615,678 thousand) collateralised by customer deposits in the amount of UAH 1,423,948 thousand (31 December 2007: UAH 1,698,410 thousand). Refer to Note 12.

At 30 June 2008 loans and advances to customers in the amount of UAH 510,176 thousand (31 December 2007: UAH 343,161 thousand) were pledged as a collateral for short-term placements of other banks and loans obtained from the NBU in the amount of UAH 345,316 thousand (31 December 2007: UAH 143,263 thousand). Refer to Notes 10, 11 and 20.

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

<i>In thousands of Ukrainian hryvnias (unaudited)</i>	<b>Corporate loans</b>	<b>Mortgage loans</b>	<b>Loans to individuals other than mortgage</b>	<b>Loans to individuals -entrepre- neurs</b>	<b>Reverse sale and repur- chase agree- ments</b>	<b>Total</b>
<b>Provision for loan impairment at 1 January 2008</b>	<b>146,637</b>	<b>15,344</b>	<b>15,350</b>	<b>123</b>	<b>-</b>	<b>177,454</b>
Provision/(recovery of provision) for impairment during the year	40,214	(2,015)	(264)	(38)	-	37,897
Amounts written off during the period as uncollectible	(368)	-	-	-	-	(368)
<b>Provision for loan impairment at 30 June 2008</b>	<b>186,483</b>	<b>13,329</b>	<b>15,086</b>	<b>85</b>	<b>-</b>	<b>214,983</b>

**9 Loans and Advances to Customers (Continued)**

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

	Corpora-te loans	Mortga- ge loans	Loans to individuals other than mortgage	Loans to individuals -entrepre- neurs	Reverse sale and repur- chase agree- ments	Total
<i>In thousands of Ukrainian hryvnias (unaudited)</i>						
<b>Provision for loan impairment at 1 January 2007</b>	<b>106,154</b>	<b>7,720</b>	<b>13,600</b>	<b>369</b>	<b>-</b>	<b>127,843</b>
Fair valuation adjustment (through equity)	5,982	-	-	-	-	5,982
<b>Adjusted provision for loan impairment at 1 January 2007</b>	<b>112,136</b>	<b>7,720</b>	<b>13,600</b>	<b>369</b>	<b>-</b>	<b>133,825</b>
Provision/(recovery of provision) for impairment during the year	25,554	(1,953)	(3,701)	(84)	-	19,816
Amounts written off during the period as uncollectible	(5)	-	(13)	-	-	(18)
<b>Provision for loan impairment at 30 June 2007</b>	<b>137,685</b>	<b>5,767</b>	<b>9,886</b>	<b>285</b>	<b>-</b>	<b>153,623</b>

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

<i>In thousands of Ukrainian hryvnias</i>	<b>30 June 2008 (unaudited)</b>		<b>31 December 2007</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Trade and commerce	4,140,226	48	3,695,188	53
Individuals	942,621	11	758,012	11
Agricultural and food industry	929,056	11	743,685	11
Building and real-estate	991,270	12	597,002	8
Transport and communication	435,352	5	262,986	4
Manufacturing	341,996	4	325,346	4
Tourism, hotel services and restaurant business	112,125	1	116,028	2
Other	694,989	8	535,157	7
<b>Total loans and advances to customers (before impairment)</b>	<b>8,587,635</b>	<b>100</b>	<b>7,033,404</b>	<b>100</b>

At 30 June 2008 the Group had the largest 10 borrowers (31 December 2007: 10 borrowers) with total aggregate amount of UAH 2,144,914 thousand (31 December 2007: UAH 2,128,334 thousand) or 25% of the gross loan portfolio (31 December 2007: 30%). As at 30 June 2008 loans and advances to the largest 10 borrowers (31 December 2007: 10 borrowers) were collateralised by customer deposits in the amount of UAH 632,584 thousand (31 December 2007: UAH 868,585 thousand).

**9 Loans and Advances to Customers (Continued)**

Information about collateral at 30 June 2008 is as follows:

	Note	Corporate loans	Mortgage loans	Loans to individuals other than mortgage	Loans to individuals -entrepreneurs	Reverse sale and repurchase agreements	Total
<i>In thousands of Ukrainian hryvnias (unaudited)</i>							
Unsecured loans		885,646	13,396	24,409	1,221	-	924,672
Loans collateralised by:							
- residential real estate		226,428	147,939	109,619	203	-	484,189
- other real estate		3,674,060	415,260	152,931	1,948	-	4,244,199
- tradable securities		47,766	-	7,515	-	3,790	59,071
- cash deposits	12	1,340,753	500	37,832	5,800	-	1,384,885
- other assets		1,456,412	15,104	18,116	987	-	1,490,619
<b>Total loans and advances to customers (before impairment)</b>		<b>7,631,065</b>	<b>592,199</b>	<b>350,422</b>	<b>10,159</b>	<b>3,790</b>	<b>8,587,635</b>

Information about collateral at 31 December 2007 is as follows:

	Note	Corporate loans	Mortgage loans	Loans to individuals other than mortgage	Loans to individuals -entrepreneurs	Reverse sale and repurchase agreements	Total
<i>In thousands of Ukrainian hryvnias</i>							
Unsecured loans		349,242	9,842	17,924	1,367	-	378,375
Loans collateralised by:							
- residential real estate		125,671	139,080	67,229	12,099	-	344,079
- other real estate		2,799,049	293,950	96,977	29,218	-	3,219,194
- tradable securities		110,773	-	7,653	720	-	119,146
- cash deposits	12	1,522,202	12,087	76,949	4,440	-	1,615,678
- other assets		1,314,159	24,917	11,404	2,452	4,000	1,356,932
<b>Total loans and advances to customers (before impairment)</b>		<b>6,221,096</b>	<b>479,876</b>	<b>278,136</b>	<b>50,296</b>	<b>4,000</b>	<b>7,033,404</b>

**9 Loans and Advances to Customers (Continued)**

Analysis by credit quality of loans outstanding at 30 June 2008 is as follows:

<i>In thousands of Ukrainian hryvnias (unaudited)</i>	<b>Corporate loans</b>	<b>Mortgage loans</b>	<b>Loans to individuals other than mortgage</b>	<b>Loans to individuals -entrepreneurs</b>	<b>Reverse sale and repurchase agreements</b>	<b>Total</b>
<i>Current and not impaired</i>						
- Large borrowers with credit history over two years	1,492,532	-	-	-	-	1,492,532
- Large new borrowers	509,806	-	-	-	-	509,806
- Loans to medium size entities	3,138,433	-	-	-	-	3,138,433
- Loans to small entities	2,273,683	-	-	10,135	3,790	2,287,608
- Loans to individuals	-	579,687	307,953	-	-	887,640
<b>Total current and not impaired</b>	<b>7,414,454</b>	<b>579,687</b>	<b>307,953</b>	<b>10,135</b>	<b>3,790</b>	<b>8,316,019</b>
<i>Loans individually determined to be impaired (gross)</i>						
- not yet due	179,945	7,877	28,275	13	-	216,110
- less than 30 days overdue	20	1,062	86	-	-	1,168
- 31 to 90 days overdue	2,887	3,573	4,072	-	-	10,532
- 91 to 180 days overdue	14,344	-	666	-	-	15,010
- 181 to 360 days overdue	1,957	-	8,366	-	-	10,323
- over 360 days overdue	17,458	-	1,004	11	-	18,473
<b>Total individually impaired loans (gross)</b>	<b>216,611</b>	<b>12,512</b>	<b>42,469</b>	<b>24</b>	<b>-</b>	<b>271,616</b>
<b>Total loans and advances to customers (before impairment)</b>	<b>7,631,065</b>	<b>592,199</b>	<b>350,422</b>	<b>10,159</b>	<b>3,790</b>	<b>8,587,635</b>
<b>Less impairment provisions</b>	<b>(186,483)</b>	<b>(13,329)</b>	<b>(15,086)</b>	<b>(85)</b>	<b>-</b>	<b>(214,983)</b>
<b>Total loans and advances to customers</b>	<b>7,444,582</b>	<b>578,870</b>	<b>335,336</b>	<b>10,074</b>	<b>3,790</b>	<b>8,372,652</b>

The Bank has no past due but not impaired loans as at 30 June 2008. As at 31 December 2007 past due but not impaired loans included UAH 10,454 thousand of overdue instalments. Remaining part of past due but not impaired exposure is current.

Past due and individually impaired loans included the whole amount of overdue exposures. Overdue instalments on individually impaired loans as at 30 June 2008 amounted to UAH 14,473 thousand (31 December 2007: UAH 15,487 thousand).

**9 Loans and Advances to Customers (Continued)**

Analysis by credit quality of loans outstanding at 31 December 2007 is as follows:

<i>In thousands of Ukrainian hryvnias</i>	<b>Corporate loans</b>	<b>Mortgage loans</b>	<b>Loans to individuals other than mortgage</b>	<b>Loans to individuals -entrepreneurs</b>	<b>Reverse sale and repurchase agreements</b>	<b>Total</b>
<i>Current and not impaired</i>						
- Large borrowers with credit history over two years	1,346,482	-	-	-	-	1,346,482
- Large new borrowers	1,001,145	-	-	-	-	1,001,145
- Loans to medium size entities	1,873,662	-	-	-	-	1,873,662
- Loans to small entities	1,703,246	-	-	50,251	4,000	1,757,497
- Loans to individuals	-	463,014	241,706	-	-	704,720
<b>Total current and not impaired</b>	<b>5,924,535</b>	<b>463,014</b>	<b>241,706</b>	<b>50,251</b>	<b>4,000</b>	<b>6,683,506</b>
<i>Past due but not impaired</i>						
- less than 30 days overdue	51,446	-	-	-	-	51,446
<b>Total past due but not impaired</b>	<b>51,446</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>51,446</b>
<i>Loans individually determined to be impaired (gross)</i>						
- not yet due	219,022	5,131	23,456	-	-	247,609
- less than 30 days overdue	4,475	4,065	550	33	-	9,123
- 31 to 90 days overdue	2,762	7,588	10,868	-	-	21,218
- 91 to 180 days overdue	-	78	80	12	-	170
- 181 to 360 days overdue	6,898	-	1,320	-	-	8,218
- over 360 days overdue	11,958	-	156	-	-	12,114
<b>Total individually impaired loans (gross)</b>	<b>245,115</b>	<b>16,862</b>	<b>36,430</b>	<b>45</b>	<b>-</b>	<b>298,452</b>
<b>Total loans and advances to customers (before impairment)</b>	<b>6,221,096</b>	<b>479,876</b>	<b>278,136</b>	<b>50,296</b>	<b>4,000</b>	<b>7,033,404</b>
<b>Less impairment provisions</b>	<b>(146,637)</b>	<b>(15,344)</b>	<b>(15,350)</b>	<b>(123)</b>	<b>-</b>	<b>(177,454)</b>
<b>Total loans and advances to customers</b>	<b>6,074,459</b>	<b>464,532</b>	<b>262,786</b>	<b>50,173</b>	<b>4,000</b>	<b>6,855,950</b>

**9 Loans and Advances to Customers (Continued)**

For the information purposes the Group decided to present the amended analysis by credit quality of loans outstanding at 31 December 2006:

	<b>Corporate loans</b>	<b>Mortgage loans</b>	<b>Loans to individuals other than mortgage</b>	<b>Loans to individuals -entrepreneurs</b>	<b>Reverse sale and repurchase agreements</b>	<b>Total</b>
<i>In thousands of Ukrainian hryvnias ( unaudited, restated Note 3)</i>						
<i>Current and not impaired</i>						
- Large borrowers with credit history over two years	570,889	-	-	6,099	-	576,988
- Large new borrowers	412,978	-	-	600	-	413,578
- Loans to medium size entities	1,279,703	-	-	-	9,719	1,289,422
- Loans to small entities	434,080	-	-	9,031	-	443,111
- Loans to individuals	-	168,869	119,988	-	-	288,857
<b>Total current and not impaired</b>	<b>2,697,650</b>	<b>168,869</b>	<b>119,988</b>	<b>15,730</b>	<b>9,719</b>	<b>3,011,956</b>
<i>Past due but not impaired</i>						
- less than 30 days overdue	255	-	-	-	-	255
- 30 to 90 days overdue	254	-	-	-	-	254
- 91 to 180 days overdue	107	-	-	-	-	107
- 181 to 360 days overdue	-	-	10	-	-	10
<b>Total past due but not impaired</b>	<b>616</b>	<b>-</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>626</b>
<i>Loans individually determined to be impaired (gross)</i>						
- not yet due	249,729	33,352	51,017	287	-	334,385
- less than 30 days overdue	-	-	-	-	-	-
- 30 to 90 days overdue	-	-	-	-	-	-
- 91 to 180 days overdue	6,098	-	25	-	-	6,123
- 181 to 360 days overdue	2,222	-	-	-	-	2,222
- over 360 days overdue	2,576	-	236	-	-	2,812
<b>Total individually impaired loans (gross)</b>	<b>260,625</b>	<b>33,352</b>	<b>51,278</b>	<b>287</b>	<b>-</b>	<b>345,542</b>
<b>Total loans and advances to customers (before impairment)</b>	<b>2,958,891</b>	<b>202,221</b>	<b>171,276</b>	<b>16,017</b>	<b>9,719</b>	<b>3,358,124</b>
<b>Less impairment provisions</b>	<b>(112,136)</b>	<b>(7,720)</b>	<b>(13,600)</b>	<b>(369)</b>	<b>-</b>	<b>(133,825)</b>
<b>Total loans and advances to customers</b>	<b>2,846,755</b>	<b>194,501</b>	<b>157,676</b>	<b>15,648</b>	<b>9,719</b>	<b>3,224,299</b>

Past due and individually impaired loans include the whole amount of overdue exposures. Overdue instalments as at 31 December 2006 amounted to UAH 10,116 thousand.

**9 Loans and Advances to Customers (Continued)**

The primary factors that the Group considers whether a loan is impaired is its overdue status, deterioration of financial position of the borrower and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

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

**10 Due to the National Bank of Ukraine**

<i>In thousands of Ukrainian hryvnias</i>	<b>30 June 2008 (unaudited)</b>	<b>31 December 2007</b>
Overnight loans	59,000	-
Short-term loans	180,103	90,000
<b>Total due to the National Bank of Ukraine</b>	<b>239,103</b>	<b>90,000</b>

Overnight loan from the NBU carried a nominal rate of 16% per annum and was repaid on 1 July 2008.

As at 30 June 2008 short-term loans from the NBU included a loan totalling UAH 180,000 thousand with the maturity date on 3 June 2009 and a nominal rate of 16% per annum. This loan was collateralised by loans and advances to customers with a carrying value of UAH 278,927 thousand as at 30 June 2008. Refer to Notes 9 and 20.

As at 31 December 2007 short-term loans from the NBU included a loan totalling UAH 90,000 thousand carrying a nominal rate of 8.5% per annum. This loan was collateralised by loans and advances to customers with a carrying value of UAH 172,084 thousand as at 31 December 2007. Loan was repaid on 18 June 2008. Refer to Notes 9 and 20.

**11 Due to Other Banks**

<i>In thousands of Ukrainian hryvnias</i>	<b>30 June 2008 (unaudited)</b>	<b>31 December 2007</b>
Correspondent accounts and overnight placements of other banks	384,837	158,805
Term placements of other banks	644,606	888,273
Sale and repurchase agreements with other banks	32,022	20,093
<b>Total due to other banks</b>	<b>1,061,465</b>	<b>1,067,171</b>

At 30 June 2008, included in amounts due to other banks are liabilities of UAH 32,022 thousand (31 December 2007: UAH 20,093 thousand) from sale and repurchase agreements. The carrying value of Latvian government bonds pledged under the agreements is LVL 3,492 thousand or UAH 37,890 thousand (31 December 2007: LVL 2,051 thousand or UAH 21,829 thousand). Refer to Note 7.

At 30 June 2008, included in amounts due to other banks are syndicated loans of UAH 364,883 thousand (31 December 2007: UAH 378,859 thousand). In May 2008 the Bank repaid syndicated loan, previously received from "Standard Bank" (United Kingdom) with the nominal amount of UAH 227,250 thousand (equivalent of USD 45,000 thousand). Later in May 2008 the Bank received a syndicated loan in the amount of UAH 223,049 thousand (equivalent of USD 46,000 thousand) from "ING Bank N.V." (Netherlands) with maturity of May 2009 and interest rate of LIBOR plus 3.25% per annum.

As at 30 June 2008 term placements of other banks included deposits in the amount of UAH 165,316 thousand (31 December 2007: UAH 53,263 thousand) collateralised by loans to customers totalling UAH 231,249 thousand (31 December 2007: UAH 171,077 thousand). Refer to Notes 9 and 20.

## 12 Customer Accounts

<i>In thousands of Ukrainian hryvnias</i>	<b>30 June 2008 (unaudited)</b>	<b>31 December 2007</b>
<b>Legal entities</b>		
- Current/settlement accounts	1,437,376	1,004,616
- Term deposits	2,213,753	2,619,591
<b>Individuals</b>		
- Current/demand accounts	449,235	441,636
- Term deposits	2,307,930	1,891,985
<b>Total customer accounts</b>	<b>6,408,294</b>	<b>5,957,828</b>

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of Ukrainian hryvnias</i>	<b>30 June 2008 (unaudited)</b>		<b>31 December 2007</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Individuals	2,757,165	43	2,333,621	39
Trade and commerce	2,170,498	34	2,657,405	45
Finance and insurance	372,200	6	336,002	6
Transport and communication	363,244	6	188,904	3
Manufacturing	149,687	2	132,628	2
Local state authorities	92,372	1	28,860	1
Building and real estate	47,917	1	8,464	0
Agriculture and food industry	39,693	1	69,844	1
Other	415,518	6	202,100	3
<b>Total customer accounts</b>	<b>6,408,294</b>	<b>100</b>	<b>5,957,828</b>	<b>100</b>

At 30 June 2008 10 largest customers of the Group (31 December 2007: 10 customers) had total aggregate balances of UAH 1,136,512 thousand (31 December 2007: UAH 1,316,771 thousand) or 18% (31 December 2007: 22%) of total customer accounts.

At 31 December 2007 deposit in the amount of UAH 62,273 thousand is held as a collateral for irrevocable commitments under import letters of credit and guarantees.

At 30 June 2008 term deposits included deposits in the amount of UAH 1,423,948 thousand (31 December 2007: UAH 1,698,410 thousand) pledged as a collateral for loans and advances to customers in the amount of UAH 1,384,885 thousand (31 December 2007: UAH 1,615,678 thousand). Refer to Note 9.

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

## 13 Debt Securities in Issue

<i>In thousands of Ukrainian hryvnias</i>	<b>30 June 2008 (unaudited)</b>	<b>31 December 2007</b>
Bonds issued on Ukrainian market	117,031	-
Bonds issued on Latvian market	30,933	30,342
Deposit certificates	109,147	106,736
<b>Total debt securities in issue</b>	<b>257,111</b>	<b>137,078</b>

Bonds issued on Ukrainian market mature in January 2011 and have coupon rate of 12.50%. The bonds are quoted on PFTS. Holders of the bonds have the right to present the bonds for early redemption in January 2009 at par.

Bonds issued on Latvian market mature in October 2008 and have coupon rate of Euribor + 3.25%. The bonds are quoted on Riga Stock Exchange.

**14 Other Borrowed Funds**

In February 2008 the Group received a loan from Cargill Financial Services International Inc. of USD 4,533 thousand (equivalent of UAH 22,892 thousand at the exchange rate at the date of receipt) with interest rate 9.8% per annum and maturity in February 2009.

In May 2008 the Group received a loan from Cargill Financial Services International Inc. of USD 9,141 thousand (equivalent of UAH 44,334 thousand at the exchange rate at the date of receipt) with interest rate 9.8% per annum and maturity in May 2009.

In June 2008 the Group received a loan from Black Sea Trade and Development Bank of USD 20,000 thousand (equivalent of UAH 96,994 thousand at the exchange rate at the date of receipt) with interest rate 6 month LIBOR +3.5% per annum and maturity in June 2013.

As at 30 June 2008 the carrying value of other borrowed funds was UAH 163,665 thousand.

**15 Share Capital**

<i>In thousands of Ukrainian hryvnias except for number of shares</i>	<b>Number of outstanding shares</b>	<b>Nominal amount</b>	<b>Inflation adjusted amount</b>
<b>At 1 January 2007</b>	<b>353,500,000</b>	<b>353,500</b>	<b>362,396</b>
New shares issued, fully paid and registered	110,000,000	110,000	110,000
<b>At 30 June 2007 (unaudited)</b>	<b>463,500,000</b>	<b>463,500</b>	<b>472,396</b>
New shares issued, fully paid and registered	91,500,000	91,500	91,500
<b>At 31 December 2007</b>	<b>555,000,000</b>	<b>555,000</b>	<b>563,896</b>
New shares issued, fully paid and registered	61,550,000	61,550	61,550
<b>At 30 June 2008 (unaudited)</b>	<b>616,550,000</b>	<b>616,550</b>	<b>625,446</b>

At 30 June 2008 and 31 December 2007, all of the Bank's outstanding shares were authorised, issued and fully paid in.

All ordinary shares have a nominal value of UAH 1 per share (31 December 2007: UAH 1 per share) and rank equally. Each share carries one vote.

On 30 January 2007 the shareholders of the Bank took a decision to issue 110 million shares with the nominal value of UAH 110,000 thousand and to make the respective changes to the Bank's Charter. All shares were fully paid by the end of March 2007. On 4 April 2007 the National Bank of Ukraine registered the respective changes to the Bank's Charter.

In February 2008 the Bank issued 61,550 thousand shares with nominal amount of UAH 61,550 thousand. 61,543 thousand shares with the nominal amount of UAH 61,543 thousand, representing 9.98% of the share capital, were purchased by "East Capital Explorer Financial Institutions Fund AB" (Sweden) for UAH 397,107 thousand. As a result of this transaction share premium of UAH 335,564 thousand was recognised in the financial statements of the Bank.

The remaining part of shares was purchased by existing shareholders for their nominal amount of UAH 7 thousand.

**15 Share Capital (Continued)**

***Paid, but not registered share capital.*** On 23 April 2007 the shareholders of the Bank took a decision to issue 60 million shares totalling UAH 60,000 thousand and to make the respective changes to the Bank's Charter. All shares were fully paid by the end of June 2007. On 11 July 2007 the National Bank of Ukraine registered the respective changes to the Bank's Charter.

**16 Interest Income and Expense**

<i>In thousands of Ukrainian hryvnias</i>	<b>Six months ended 30 June</b>	
	<b>2008 (unaudited)</b>	<b>2007 (unaudited)</b>
<b>Interest income</b>		
Loans and advances to legal entities	447,822	227,439
Loans and advances to individuals	57,408	25,273
Due from other banks	10,393	8,228
Debt securities at fair value through profit or loss	3,924	4,832
<b>Total interest income</b>	<b>519,547</b>	<b>265,772</b>
<b>Interest expense</b>		
Term deposits of individuals	110,224	66,185
Term deposits of legal entities	87,637	43,785
Placements of other banks	44,449	21,308
Eurobonds issued	27,335	-
Debt securities in issue	11,926	8,066
Current/settlement accounts	14,997	8,837
Due to the NBU	5,251	3,819
Other borrowed funds	1,378	575
Subordinated debt	-	259
<b>Total interest expense</b>	<b>303,197</b>	<b>152,834</b>
<b>Net interest income</b>	<b>216,350</b>	<b>112,938</b>

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

**17 Fee and Commission Income and Expense**

<i>In thousands of Ukrainian hryvnias</i>	<b>Six months ended 30 June</b>	
	<b>2008 (unaudited)</b>	<b>2007 (unaudited)</b>
<b>Fee and commission income</b>		
- Cash and settlement transactions with customers	50,707	36,930
- Purchase and sale of foreign currency	19,120	9,308
- Guarantees issued	14,183	5,622
- Cash and settlement transactions with other banks	2,149	1,019
- Transactions with securities	110	47
- Fiduciary activities	69	27
- Other	1,060	2,030
<b>Total fee and commission income</b>	<b>87,398</b>	<b>54,983</b>
<b>Fee and commission expense</b>		
- Cash and settlement transactions with other banks	10,925	11,821
- Other	3,255	1,439
<b>Total fee and commission expense</b>	<b>14,180</b>	<b>13,260</b>
<b>Net fee and commission income</b>	<b>73,218</b>	<b>41,723</b>

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

**18 Administrative and Other Operating Expenses**

<i>In thousands of Ukrainian hryvnias</i>	<b>Six months ended 30 June</b>	
	<b>2008 (unaudited)</b>	<b>2007 (unaudited)</b>
Staff costs	98,276	65,056
Depreciation of premises and equipment and amortisation	12,030	9,919
Maintenance of premises and equipment	10,583	4,360
Advertising and marketing services	8,816	4,990
Operating lease expense	6,813	4,196
Mail and telecommunications	4,481	2,904
Taxes other than on income	5,634	3,588
Insurance of premises and credit risks	5,485	3,468
Contributions to Individuals' Deposits Guarantee Fund	5,611	3,442
Professional services	1,809	2,752
Security services	4,106	2,381
Utilities	1,825	956
Other	1,081	3,082
<b>Total administrative and other operating expenses</b>	<b>166,550</b>	<b>111,094</b>

Included in staff costs are statutory social security and pension contributions of UAH 20,138 thousand (six months ended 30 June 2007: UAH 12,650 thousand).

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

## 19 Segment Analysis

The Group's primary format for reporting segment information is business segments and the secondary format is geographical segments.

**Business Segments.** The Group is organised on a basis of four 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 trading;
- Treasury – interbank loans and deposits, structured financing and derivative products;
- Investment banking – representing financial instruments trading, corporate leasing, merger and acquisitions advice.

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 weighted average cost of funds attracted by the Group. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding taxation. Internal charges and transfer pricing adjustments have been reflected in the performance of each business segment.

Segment information for the main reportable business segments of the Group for the six months ended 30 June 2008 is set out below:

<i>In thousands of Ukrainian hryvnias (unaudited)</i>	<b>Retail banking</b>	<b>Corpo- rate banking</b>	<b>Treasu- ry</b>	<b>Invest- ment banking</b>	<b>Unallo- cated</b>	<b>Elimina- tions</b>	<b>Total</b>
<b>Six months ended 30 June 2008 (unaudited)</b>							
External revenues	85,186	490,181	25,247	5,511	820	-	606,945
Revenues from other segments	99,905	-	72,040	10,412	-	(182,357)	-
<b>Total revenues</b>	<b>185,091</b>	<b>490,181</b>	<b>97,287</b>	<b>15,923</b>	<b>820</b>	<b>(182,357)</b>	<b>606,945</b>
<b>Total revenues comprise:</b>							
- Interest income	157,313	447,822	82,434	14,335	-	(182,357)	519,547
- Fee and commission income	27,778	42,359	14,853	1,588	820	-	87,398
<b>Total revenues</b>	<b>185,091</b>	<b>490,181</b>	<b>97,287</b>	<b>15,923</b>	<b>820</b>	<b>(182,357)</b>	<b>606,945</b>

**19 Segment Analysis (Continued)**

<i>In thousands of Ukrainian hryvnias</i>	<b>Retail banking</b>	<b>Corpo- rate banking</b>	<b>Treasury</b>	<b>Invest- ment banking</b>	<b>Unallo- cated</b>	<b>Elimina- tions</b>	<b>Total</b>
<i>2008 (continued)</i>							
<b>Segment result</b>	<b>9,927</b>	<b>104,703</b>	<b>7,398</b>	<b>1,951</b>	<b>(11,805)</b>	<b>-</b>	<b>112,174</b>
<b>Profit before tax</b>							<b>112,174</b>
Income tax expense							(26,742)
<b>Profit</b>							<b>85,432</b>
Total segment assets	1,170,960	7,994,645	677,113	100,385	70,289	-	10,013,392
<b>Total assets at 30 June 2008 (unaudited)</b>							<b>10,013,392</b>
Total segment liabilities	2,763,461	3,451,273	1,962,661	257,190	218,177	-	8,652,762
Current and deferred tax liabilities							41,779
<b>Total liabilities at 30 June 2008 (unaudited)</b>							<b>8,694,541</b>
<b>Other segment items</b>							
Capital expenditure	23,385	32,152	583	297	2,046	-	58,463
Depreciation and amortisation expense	4,813	6,616	120	60	421	-	12,030
Provision for loan impairment	(3,761)	41,658	-	-	-	-	37,897

**19 Segment Analysis (Continued)**

Segment information for the main reportable business segments of the Group for the six months ended 30 June 2007 and as at 31 December 2007 is set out below:

<i>In thousands of Ukrainian hryvnias</i>	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Treasury</b>	<b>Investment banking</b>	<b>Unallocated</b>	<b>Eliminations</b>	<b>Total</b>
<b>Six months ended 30 June 2007 (unaudited)</b>							
External revenues	50,189	253,056	13,150	4,333	27	-	320,755
Revenues from other segments	69,722	-	16,367	4,951	-	(91,040)	-
<b>Total revenues</b>	<b>119,911</b>	<b>253,056</b>	<b>29,517</b>	<b>9,284</b>	<b>27</b>	<b>(91,040)</b>	<b>320,755</b>
<b>Total revenues comprise:</b>							
- Interest income	97,262	227,438	24,595	7,517	-	(91,040)	265,772
- Fee and commission income	22,649	25,618	4,922	1,767	27	-	54,983
<b>Total revenues</b>	<b>119,911</b>	<b>253,056</b>	<b>29,517</b>	<b>9,284</b>	<b>27</b>	<b>(91,040)</b>	<b>320,755</b>
<b>Segment result</b>	<b>8,612</b>	<b>42,228</b>	<b>4,080</b>	<b>8,558</b>	<b>(9,578)</b>	<b>-</b>	<b>53,900</b>
<b>Profit before tax</b>							<b>53,900</b>
Income tax expense							(11,385)
<b>Profit</b>							<b>42,515</b>
Segment assets	789,582	7,064,367	596,065	145,555	6,038	-	8,601,607
Current and deferred tax assets							1,961
Other unallocated assets							63,604
<b>Total assets at 31 December 2007</b>							<b>8,667,172</b>
Segment liabilities	2,333,621	3,805,846	1,527,241	104,423	23,043	-	7,794,174
Current and deferred tax liabilities							38,919
<b>Total liabilities at 31 December 2007</b>							<b>7,833,093</b>

**19 Segment Analysis (Continued)**

	Retail banking	Corpo- rate banking	Treasury	Invest- ment banking	Other	Elimina- tions	Total
<i>In thousands of Ukrainian hryvnias</i>							
<i>Six months ended 30 June 2007 (unaudited) (continued)</i>							
<b>Other segment items</b>							
Capital expenditure	16,864	23,183	421	212	1,475	-	42,155
Depreciation and amortisation expense	3,967	5,456	99	50	347	-	9,919
Provision for loan impairment	874	18,942	-	-	-	-	19,816

**20 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 these consolidated financial statements.

**Tax legislation.** Ukrainian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Ukrainian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

**Capital expenditure commitments.** At 30 June 2008 the Group has contractual capital expenditure commitments in respect of premises and equipment totalling UAH 1,986 thousand (31 December 2007: UAH 1,111 thousand).

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

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

<i>In thousands of Ukrainian hryvnias</i>	<b>30 June 2008 (unaudited)</b>	<b>31 December 2007</b>
Not later than 1 year	9,959	6,352
Later than 1 year and not later than 5 years	22,158	5,623
Later than 5 years	39,253	718
<b>Total operating lease commitments</b>	<b>71,370</b>	<b>12,693</b>

**Compliance with covenants.** The Group is subject to certain covenants related primarily to due to other banks balances and Eurobonds. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. In particular, the Group is required to maintain certain levels of equity, capital adequacy ratio, and level of aggregate indebtedness. Failure to comply with these requirements could lead to early withdrawal of funds by the creditors upon their discretion. Management believes that the Group is in compliance with these covenants as at 30 June 2008 (31 December 2007: in compliance).

## **20 Contingencies and Commitments (Continued)**

The Group is also subject to compliance with the capital requirements set by the National Bank of Ukraine. Compliance with capital adequacy ratios set by the National Bank of Ukraine is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chairman of the Board and Chief Accountant. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the National Bank of Ukraine banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level of 10%. The Bank was in compliance with the prescribed level of statutory capital ratio (as at 30 June 2008 14%). Regulatory capital is based on the Bank's reports prepared under Ukrainian accounting standards.

The Group is also in compliance with the requirements of the National Bank of Ukraine regarding liquidity ratios. These ratios are:

- Instant liquidity ratio (N4), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand; The ratio was 30,39% at 30 June 2008 (31 December 2007: 76,65%), weighted average ratio for June 2008 was 30,58% (31 December 2007: 38,44%), with the required ratio being not less than 20%;
- Current liquidity ratio (N5), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days; The ratio was 81.22% at 30 June 2008 (31 December 2007: 92.4%), with the required ratio being not less than 40%;
- Short-term liquidity ratio (N6), which is calculated as the ratio of assets maturing in one year to regulatory capital and liabilities maturing in one year; The ratio was 23.22% at 30 June 2008 (31 December 2007: 33.08%), with the required ratio being not less than 20%.

**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.

**20 Contingencies and Commitments (Continued)**

Outstanding credit related commitments are as follows:

<i>In thousands of Ukrainian hryvnias</i>	<b>30 June 2008 (unaudited)</b>	<b>31 December 2007</b>
Undrawn credit lines	90,092	121,437
Import letters of credit	271,451	56,661
Guarantees issued	441,465	339,320
<b>Total credit related commitments</b>	<b>803,008</b>	<b>517,418</b>

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

**Fiduciary assets.** These assets are not included in the Group's consolidated balance sheet as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets fall into the following categories:

<i>In thousands of Ukrainian Hryvnias</i>	<b>2008 Nominal value (unaudited)</b>	<b>2007 Nominal value</b>
Shares in Ukrainian companies held on behalf of the Group's customers	6,906	7,233

The Latvian subsidiary of the Group (Note 22) has the following funds under trust management:

<i>In thousands of Ukrainian Hryvnias</i>	<b>30 June 2008 (unaudited)</b>	<b>31 December 2007</b>
<b>Assets under trust</b>		
Loans	27,467	17,823
<b>Liabilities under trust</b>		
Private individuals	-	6,434
Private companies	27,467	11,389

**Assets pledged and restricted.** The Group has the following assets pledged as collateral:

<i>In thousands of Ukrainian hryvnias</i>	<b>Notes</b>	<b>30 June 2008 (unaudited)</b>		<b>31 December 2007</b>	
		<b>Asset pledged</b>	<b>Related liability</b>	<b>Asset pledged</b>	<b>Related liability</b>
Securities at fair value through profit or loss	7, 11	37,890	32,022	21,829	20,093
Loans and advances to customers	9, 10, 11	510,176	345,316	343,161	143,263
<b>Total</b>		<b>548,066</b>	<b>377,338</b>	<b>364,990</b>	<b>163,356</b>

In addition, mandatory cash balances with the National Banks of Ukraine and Latvia in the amount of UAH 225,040 thousand (31 December 2007: UAH 147,695 thousand) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

Guarantee deposits in the amount of UAH 38,786 thousand (31 December 2007: UAH 11,797 thousand) represent balances placed with other banks as cover for guarantees, import letters of credit and plastic cards transactions. These are effectively restricted deposits, which are required to be maintained to complete the related trade financing activity. Refer to Note 8.

**21 Related Party Transactions**

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

At 30 June 2008, the outstanding balances with related parties were as follows:

<i>In thousands of Ukrainian hryvnias (unaudited)</i>	<b>Ultimate shareholders</b>	<b>Other shareholders</b>	<b>Entities under control of ultimate shareholders</b>	<b>Other related parties</b>
Gross amount of loans and advances to customers (contractual interest rate: 5 – 19%)	95	11,849	168,698	1,887
Impairment provisions for loans and advances to customers at 30 June 2008	(2)	(237)	(2,993)	(37)
Investment securities available-for-sale				
- Shares of OJSC "Farmatsiya" (8.06% holding)	-	-	12,216	-
- Shares of OJSC "Kholodmash" (9.55% holding)	-	-	631	-
- Shares of OJSC "Kotovskoe ZPP" (10% holding)	-	-	-	-
Other assets	-	19,393	-	-
Customer accounts (contractual interest rate: 0 – 18%)	65,265	100,550	54,651	18,411

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

<i>In thousands of Ukrainian hryvnias (unaudited)</i>	<b>Ultimate shareholder</b>	<b>Other shareholders</b>	<b>Entities under control of ultimate shareholders</b>	<b>Other related parties</b>
Interest income	2	600	9,705	76
Interest expense	(1,800)	(4,936)	(813)	(398)
Provision for loan impairment	(1)	(235)	(1,220)	(6)
Fee and commission income	1	57	470	5
Losses less gains from securities at fair value through profit or loss	-	(13)	(3)	-
Losses less gains from disposal of investment securities available-for-sale	-	-	(773)	-
Impairment of investment securities available-for-sale	-	-	-	-
Other operating income	-	134	16	-
Administrative and other operating expenses	-	(6,118)	(2,862)	-

**21 Related Party Transactions (Continued)**

At 30 June 2008, other rights and obligations with related parties were as follows:

<i>In thousands of Ukrainian hryvnias (unaudited)</i>	<b>Ultimate shareholders</b>	<b>Other shareholders</b>	<b>Entities under control of ultimate shareholders</b>	<b>Other related parties</b>
Guarantees issued by the Group at the year end	-	-	807	-
Undrawn credit lines	453	169	-	318
Import letters of credit at the year end	-	-	4,958	-

Aggregate amounts lent to and repaid by related parties during six months ended 30 June 2008 were:

<i>In thousands of Ukrainian hryvnias (unaudited)</i>	<b>Ultimate shareholders</b>	<b>Other shareholders</b>	<b>Entities under control of ultimate shareholders</b>	<b>Other related parties</b>
Amounts lent to related parties during the period	73	45	109,377	876
Amounts repaid by related parties during the period	37	16	47,535	470

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

<i>In thousands of Ukrainian hryvnias</i>	<b>Ultimate shareholders</b>	<b>Other shareholders</b>	<b>Entities under control of ultimate shareholders</b>	<b>Other related parties</b>
Gross amount of loans and advances to customers (contractual interest rate: 5 – 18%)	59	13,198	106,830	619
Impairment provisions for loans and advances to customers at 31 December	(1)	(264)	(2,137)	(12)
Investment securities available-for-sale				
- Shares of OJSC "Farmatsiya" (8.06% holding)	-	-	12,216	-
- Shares of OJSC "Kholodmash" (9.55% holding)	-	-	631	-
- Shares of OJSC "Kotovskoe ZPP" (10% holding)	-	-	865	-
Other assets	-	22,043	-	-
Customer accounts (contractual interest rate: 0 – 18%)	50,813	83,039	77,191	3,850

**21 Related Party Transactions (Continued)**

The income and expense items with related parties for six months ended 30 June 2007 were as follows:

<i>In thousands of Ukrainian Hryvnias (unaudited)</i>	<b>Ultimate shareholders</b>	<b>Other share- holders</b>	<b>Entities under control of ultimate shareholders</b>	<b>Other related parties</b>
Interest income	157	645	6,954	11
Interest expense	(6,484)	(2,613)	(2,573)	(129)
(Charge)/reversal of provision for loan impairment	2	973	(227)	1
Fee and commission income	2	24	307	5
Impairment of investment securities available-for-sale	-	-	(1,666)	-
Losses less gains from securities at fair value through profit or loss	-	-	20	-
Other operating income	-	31	5	-
Administrative and other operating expenses	-	(7,696)	(891)	(224)

At 31 December 2007, other rights and obligations with related parties were as follows:

<i>In thousands of Ukrainian hryvnias</i>	<b>Ultimate shareholders</b>	<b>Other shareholders</b>	<b>Entities under control of ultimate shareholders</b>	<b>Other related parties</b>
Guarantees issued by the Group at the year end	-	-	172	-
Import letters of credit at the year end	-	-	5,290	-
Undrawn credit lines	502	253	-	597

Aggregate amounts lent to and repaid by related parties during six months ended 30 June 2007 were:

<i>In thousands of Ukrainian Hryvnias (unaudited)</i>	<b>Ultimate shareholders</b>	<b>Other shareholders</b>	<b>Entities under control of ultimate shareholders</b>	<b>Other related parties</b>
Amounts lent to related parties during the period	190	1,314	106,925	488
Amounts repaid by related parties during the period	11,120	7,536	90,145	388

As at 30 June 2008 and 31 December 2007 the main ultimate shareholders of the Bank were 2 Ukrainian nationals, Mr Y.O. Rodin and Mr M.I. Bekker, neither of which individually controlled the Bank.

## 21 Related Party Transactions (Continued)

Key management compensation is presented below:

	30 June 2008 (unaudited)		2007	
	Expense	Accrued liability	Expense Six months ended 30 June 2007 (unaudited)	Accrued liability 31 December 2007
<i>In thousands of Ukrainian hryvnias</i>				
<i>Short-term benefits:</i>				
- Salaries	4,407	-	3,324	-
- Short-term bonuses	523	47	648	143
<i>Post-employment benefits:</i>				
- State pension and social security costs	592	-	453	36
<b>Total</b>	<b>5,522</b>	<b>47</b>	<b>4,425</b>	<b>179</b>

Short-term bonuses fall due wholly within twelve months after the end of the period in which Management rendered the related services.

## 22 Principal Subsidiaries

As at 30 June 2008 the Bank consolidated the following subsidiaries:

Name	Nature of business	Country of registration	Percentage of ownership	
			30 June 2008 (unaudited)	31 December 2007
Regional Investment Bank (Riga, Latvia)	Banking	Latvia	89%	89%
Pivdennyi Asset Management	Financial services	Ukraine	100%	100%

## 23 Subsequent Events

On 13 August Bank signed an agreement with KfW Entwicklungsbank on opening a credit line for enlargement of small and medium business financing in the amount of USD 22 million.

In March 2008 the Bank's Supervisory Board decided to purchase 6 million shares of RIB as part of additional share issue by the Bank's subsidiary. As a result of this transaction the Bank's share in RIB would increase from 89% to 94%. As at the date of this interim financial information, the share issue was not completed.