BM BANK
LIMITED LIABILITY COMPANY

Financial Statements
for the year ended December 31, 2006

With Independent Auditors' Report

Contents

BDO

BDO Balance-Audit

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INDEPENDENT AUDITOR'S REPORT

To Shareholders and Management
BM Bank LLC

We have audited the accompanying financial statements of Limited Liability Company BM Bank (the Bank) consisting of the balance sheet as at 31 December 2006, income statement, statement of changes in equity and cash flow statement for the year then ended, significant accounting policies and other explanatory notes.

Management's responsibility

Management is responsible for preparation and fair presentation of the accompanying financial statements in accordance with International Financial Reporting Standards (IFRS). Management's responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material aspects, the financial position of the Bank as at 31 December 2006, and its financial results and cash flows for the year then ended in accordance with IFRS.

Kyiv, February 19, 2007.

BDO Balance-Audit

Товариство з обмеженою відповідальністю Аудиторська фірма "БДО Баланс-Аудит" м. Дніпропетровськ
BDO
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(UAH thousands)

	Notes	Year 2006
ASSETS		
Cash and cash equivalents	5	**81,351**
Cash in other banks	6	**57,966**
Loans issued to customers	7	**211,809**
Financial assets available for sale	8	**19,312**
Other assets	9	**1,524**
Tax assets	19	**13**
Fixed assets and intangible assets	10	**1,847**
Total assets		**373,822**
LIABILITIES		
Cash from other banks	11	**113,872**
Customer funds	12	**170,384**
Other liabilities	13	**26,292**
Tax liabilities	19	**302**
Total liabilities		**310,850**
EQUITY		
Authorized capital	14	**62,908**
Financial assets revaluation fund		**(28)**
Retained earnings		**92**
Total equity		**62,972**
Total liabilities and equity		**373,822**

Chairman of the Board

Chief Accountant

Україна * Товариство з обмеженою відповідальністю * м. Київ *
«БМ Банк»
Ідентифікаційний код 33881201

(UAH, thousands)

	Notes	Year 2006
Interest revenues	15	**17,962**
Interest expenses	15	**(8,198)**
Net interest revenues		**9,764**
Loan impairment provision	5, 7	**(366)**
Net interest revenues after formation of the loan impairment provision		**9,398**
Revenues less the expenses from foreign currency transactions		**841**
Commission revenues	16	**3,488**
Commission expenses	16	**(2,600)**
Provision for impairment of other assets		**(1)**
Net revenues		**1,728**
General and administrative costs	17	**(7,829)**
Deductions to the deposit insurance fund		**(642)**
Other operating revenues less the expenses	18	**487**
Operating revenues		**(7,984)**
Profit before tax		**3,142**
Profit tax expenses	19	**(757)**
Net profit		**2,385**

Chairman of the Board

Chief Accountant

М.Київ * Україна * Товариство з обмеженою відповідальністю «БМ Банк» Ідентифікаційний код 33881201

(UAH thousands)

	Notes	Year 2006
Cash flow from operating activity		
Interest received		**16,810**
Interest paid		**(4,816)**
Commission received		**3,488**
Commission paid		**(2,600)**
Receipts from transactions with foreign currency and precious metals		**841**
General and administrative costs paid and other net operating revenues received		**(7,664)**
Profit tax paid		**(468)**
Cash flow from operating activity before changes in operating assets and liabilities		**5,591**
Net (growth)/reduction of operating assets		
Cash in other banks		**(57,865)**
Loans issued to customers		**(211,508)**
Financial assets available for sale		**(18,931)**
Other assets		**(1,522)**
Net growth/(reduction) of operating liabilities		
Cash from other banks		**112,904**
Customer funds		**168,774**
Other liabilities		**25,489**
Net cash flow from operating activity		**17,341**
Cash flow from investment activity		
Fixed assets acquisition		**(2,196)**
Net cash flow from investment activity		**(2,196)**
Cash flow from financial activity		
Contributions to the authorized fund		**60,615**
Net cash flow from financial activity		**60,615**
Net change in cash and cash equivalents		**81,351**
Cash and cash equivalents as at the beginning of the year	5	-
Cash and cash equivalents as at the year end	5	**81,351**

Chairman of the Board

Chief Accountant

Україна * м.Київ * Товариство з обмеженою відповідальністю «БМ Банк» Ідентифікаційний код 33881201

(UAH thousands)

	Note	Authorized capital	Financial assets revaluation fund	Retained earnings	Total equity
Balance as at December 31, 2005		-	-	-	-
Negative revaluation of financial assets available for sale		-	**(28)**	-	**(28)**
Contributions to the authorized fund	14	**62,908**	-	**(2,293)**	**60,615**
Net profit for 2006		-	-	**2,385**	**2,385**
Balance as at December 31, 2006		**62,908**	**(28)**	**92**	**62,972**

Chairman of the Board

Chief Accountant

(UAH thousands)

1. Background

BM Bank Limited Liability Company (hereinafter referred to as "the Bank" or "BM Bank") was founded by resolution of the Meeting of Members as of August 15, 2005 and incorporated on December 06, 2005.

The Bank operates as based on License No.223 issued by the National Bank of Ukraine on February 03, 2006.

Principal owner of the Bank is Bank of Moskow OJSC, with its share in the authorized capital of the Bank amounting to 99.5 %. Information on other shareholders of the Bank is disclosed in Note 14.

Registered address of the Bank is 94, Krasnoarmeyskaya St., Kyiv 03150, where the Head Office of the Bank is located.

As at December 31, 2006 the Bank had no other branches in the territory of Ukraine.

2. Operating conditions

Increase of loan issue volume and loyalty of corporate and individual customers towards financial institutions, on the one hand, facilitated more dynamic development of banks and, on the other hand, resulted in severer competition forcing banks to be more flexible and to develop new methods and tools of customer servicing.

Recently a set of reforms have been carried out in Ukraine, with such reforms aimed at formation of a different banking, judicial, tax and legal system; however, the business structure and the legislation are lacking the stability observed in countries with a more developed economy.

The current economic situation in Ukraine still restricts the volume of financial market transactions. Market quotations do not always reflect the value of financial instruments which could be determined in terms of the active market, where the transactions between the stakeholders are performed. Therefore, the management refers to the most accurate data in order to adjust market quotations, if necessary, to reflect the fair value assessment.

The present financial statements reflect the current assessment performed by the Bank's management in relation to the impact of the economic situation in Ukraine upon performance and financial standing of the Bank. Future development of the Ukrainian economy largely depends on the efficiency of measures implemented by the government, as well as on a number of other factors, including the legislation and political affairs beyond reasonable control of the Bank. The management of the bank is unable to predict possible effect of the above factors upon financial standing of the Bank. The financial statements enclosed do not include the adjustments related to this risk.

Currency transactions and control

Foreign currencies, USD in particular, play an important role in defining the economic parameters of most business transactions performed in Ukraine.

The table below presents the exchange rates of UAH to USD and EUR:

Year ended:	USD exchange rate	EUR exchange rate
December 31, 2006	5.050	6.651
December 31, 2005	5.050	5.972

3. Basis for presentation

General principles

Financial statements of the Bank were prepared in compliance with the International Financial Reporting Standards (IFRS), including all the previously applicable standards and interpretations of the IFRS Committee. The Bank maintains its accounting records in accordance with the active Ukrainian legislation. The present financial statements were prepared as based on such accounting records, with the adjustments required to ensure compliance with all the material aspects of the IFRS.

Completion of financial statements implies use of evaluations and assumptions, made by the management, which influence the reported assets and liabilities and disclosure of contingent assets and liabilities as at the date of financial statements, as well as the amount of revenues and expenses of the reporting period. Such evaluations and assumptions are grounded on the information available as at the date of the financial statements. The actual results may differ from the said evaluation and assumptions.

The most material are the evaluations used to define the amount of provision for financial assets impairment, as well as to determine useful life of the fixed assets and the amount of off-balance risks and contingent liabilities.

Applicable standards

In 2006 the Bank used the active International Financial Reporting Standards, including all the previously applicable standards and interpretations of the SIC and IFRIC.

Functional and presentation currency

Most of the Bank’s transactions are performed in Ukrainian hryvnias (UAH). Ukrainian hryvnia is the national currency of Ukraine; it is used for all accounting records and reporting, in compliance with the National Accounting Standards. For this reason, UAH was chosen as the functional and presentation currency. All amounts in the present financial statements are reported in UAH thous. (unless indicated otherwise).

Reporting period

The Bank was registered on December 06, 2005. Thus, its reporting period exceeds on year, from December 06, 2005 till December 31, 2006. Subsequent reporting period will match the period of one calendar year. Since this is the first reporting period of the Bank, the financial statements do not include any comparative data. All the information disclosed herein, as at December 31, 2005 or January 01, 2006, is reported in compliance with the indicators observed as at December 06, 2005.

4. Accounting policy principles

Cash and cash equivalents

Cash and cash equivalents represent cash in hand, precious metals, balances on correspondent accounts with NBU, as well as those on correspondent accounts with other banks. All short-term inter-bank deposits, including the overnight ones, are reported as cash with other banks.

In order to sustain the minimum liquidity level to ensure fulfillment of liabilities to its customers, the Bank maintains a fixed current balance on its correspondent NBU account, which guarantees observance of the required reserve standard.

Within the reporting period the Bank did not perform any transactions with gold or other precious metals.

Financial assets

Financial assets of the Bank fall into the following categories: financial assets assessed at fair value through profit or loss; loans issued to customers; financial assets held to maturity; financial assets available for sale. The management classifies financial assets at the moment of initial recognition.

As at the balance sheet date, the Bank accounts no financial assets assessed at fair value through profit or loss or those held to maturity. The Bank performs no transactions with derivative financial instruments for hedging purposes.

Loans issued to customers, provision for impairment of loans issued to customers

This category includes non-derivative financial assets with fixed or defined payments, unquoted in the active market, except for:

- assets intended for sale in the immediate or foreseeable future, and which should be classified as intended for sale, and assessed at fair value through profit or loss upon initial recognition;
- assets defined upon initial recognition as available for sale;
- assets, in relation to which the owner will not be able to cover all the material amount of the initial investment due to reasons other than impaired credit solvency, and which should be classified as available for sale.

Initially, loans issued to customers are accounted at historical cost, which represents fair value of the facility granted. Further on, loans issued to customers are accounted at depreciated cost less the provision for impairment of loans issued to customers. The depreciated cost is based on fair value of the issued loan, calculated with respect to market interest rate on similar loans active as at the date of the loan issue.

Loans issued to customers are reported starting from the moment the facility is granted to the borrower.

Loans issued to customers at interest rates different from the current market practice, are assessed as at the date of the loan issue at fair value, which represents future interest payments and the principal debt amount, discounted as based on the market interest rates for similar loans. The difference between the fair value and nominal value of the loans is reported in the income statements as profit from issue of loans at interest rates exceeding the current market practice or as expenditure from issue of loans at rates below the current market practice. Subsequently, the carrying amount of such loans is adjusted as based on depreciation of profit/loss from the issued facility, with the corresponding profit reported in the income statement using the effective yield method.

The provision for impairment of loans issued to customers is formed as based on the objective evidence, testifying to the fact that the Bank will not be able to recover the amount due in compliance with the initial terns of the loan agreement. The amount of the loan impairment provision is defined as the difference between the carrying amount and the estimated recoverable value of the loan, calculated as the current value of the estimated cash flows, including the amounts reimbursed under guarantees and collateral, discounted using the initial effective interest rate on the given loan.

The loans which cannot be recovered are written off on account of the corresponding provision for impairment of loans issued to customers. The write-off is performed exclusively upon completion of all the required procedures and definition of the amount of loss. Recoverability of the written-off amounts is reported in the credit of the “Loan impairment provision” item of the income statement.

Reduction of the provision for loan impairment is reported in the credit of the “Loan impairment provision” item of the income statement.

Accrual of interest on the loans issued is ceased, once the possibility of complete recovery of the principal debt or interest is recognized doubtful (loans with the principal debt and interest overdue for over than 90 days). Upon resolution to cease accrual of interests on the loans issued, interest yield envisaged by the corresponding loan agreement is not reported in the income statement. Accrual of interest on the loan may be renewed when sufficient probability of timely and full loan repayment of the debt and interest stipulated by the loan agreement is restored.

Cash in other banks

The Bank accepts the accounting policy applicable to the loans issued to customers and the provision for loan impairment as applicable to funds of the Bank deposited in other banks.

Other loan-related liabilities

In the course of its current activity the Bank undertakes a number of loan-related liabilities, including letters of credit and guarantees. The Bank reports its special-purpose provisions for other loan-related liabilities when there is a high probability of loss arising from such undertakings.

Bills acquired

Bills acquired are reported as financial assets assessed at fair value through profit or loss, financial assets available for sale, cash with other banks or loans issued to customers, depending on their economic essence and are subsequently revaluated and accounted in compliance with the accounting policy applicable to the given category of assets.

Financial assets available for sale

This category of financial assets includes investment securities, which the management intends to retain within an unlimited period of time, which could be sold depending on the liquidity requirements or change in the interest rates, exchange rates or prices for securities. The Bank's management attributes investment securities to the relevant category at the moment of acquisition.

Initially, financial assets available for sale are accounted at acquisition cost (which includes the expenses arising from the transaction); they are subsequently revaluated at fair value as based on the purchase quotations. Some financial assets available for sale, which are not assigned any quotations by independent external sources, can be assessed by the Bank's management at fair value as based on the results of the recent sale of similar financial assets to non-related third parties, as well as on the analysis of other data, such as discounted cash flows and financial information on the investment object or as based on other assessment methods, such as the evaluation performed by an independent valuator.

Unrealized gain and expenditure arising as the result of change in the fair value of the financial assets available for sale are reported in the statement on changes in equity. In the event of disposal of financial assets available for sale, the corresponding accumulated unrealized gain and expenditure are reported in the income statement, namely in the item titled "Revenues less the expenses on transactions with financial assets available for sale". Impairment and restoration of the previously impaired value of financial assets available for sale are reported in the income statement.

Interest yield on financial assets available for sale is reported in the income statement as interest revenue.

A financial asset available for sale is impaired and the impairment loss is accounted only when there is objective evidence of the impairment as a result of one or several events following the initial recognition of the given asset, and when such event produces such impact upon the estimated future cash flows from the financial asset or a group of financial assets, which could be accurately measured. Objective evidence of impairment of a financial asset or a group of assets includes information established by the Bank in relation to one or several of the following events:

- material financial difficulties incurred by the issuer or the borrower;
- breach of the agreement, such as refusal or evasion in relation to payment of the principal debt or interest;
- special lending terms granted by the Lender due to certain economic or legal reasons related to financial difficulties encountered by the Borrower, which the former would not have granted otherwise;
- probable bankruptcy or financial rearrangement of the Borrower;
- collapse of the active market for such financial assets due to financial difficulties;
- availability of information testifying to a certain reduction in the estimated future cash flows from financial assets from the moment of initial recognition.

Provided standard conditions for settlement, acquisition and sale of financial assets available for sale are reported as at the date of transaction, when the Bank undertakes the liability to purchase or sell the given asset. All other acquisitions and sales are reported as forward transactions until the corresponding settlements are effected.

Software

The software purchased and the relevant licenses are capitalized taking into account the costs incurred by the Bank prior to its installment and use. Further on, such costs are depreciated as based on the useful life of the asset.

The costs related to use of the software are reported as expenses when incurred. The costs directly attributed to the identifiable and unique software which is controlled by the Bank and which will most likely bring economic benefits within the period of more than one year in the amount exceeding such costs, are recognized intangible assets.

The costs related to improvement or extension of the software parameters as compared to the initial specification, are recognized capital expenses and are added to the historical cost of the software. The costs related to the software development are depreciated using the straight-line method throughout the period of useful life, which does not exceed 3 years.

Fixed assets

Fixed assets are reported at cost, less the accumulated depreciation and impairment provision (when necessary). If the carrying amount of the fixed asset exceeds its estimated recoverable value, the carrying amount of the fixed asset is reduced to its recoverable value, with the difference reported in the consolidated income statement. The estimated recoverable value is the higher of the net realizable value of the fixed asset and its useful value.

Capital investments are accounted at cost, less the impairment provision. Upon completion of the construction, the assets are transferred to fixed assets and are reported at carrying amount as at the moment of such transfer. Capital investments are depreciated until commissioning of the asset.

Revenues and losses arising from disposal of fixed assets are calculated as based on the carrying amount of such assets. Repair and maintenance costs are reported in the income statement when incurred.

Depreciation

Depreciation is charged using the straight-line method throughout the following terms of useful life:

Category of fixed assets	**Useful life**
Equipment	3 -5 years
Tools and furniture	5 years
Other	3-4 years
Intangible assets	3 years

Operating lease

When the Bank acts as the tenant, the amount of payments under the operating lease agreement is reported by the tenant in the income statement using the straight-line method throughout the lease period.

If operating lease is terminated prior to expiration of the lease period, any penalties due to the lessor are reported as expenses for the period when such lease was terminated.

Borrowed funds (cash from other banks and customer funds)

Initially, borrowed funds are reported at actual cost, representing the amount of the funds obtained (fair value of the property acquired) less the relevant transaction expenses. Further on, borrowed funds are accounted at depreciated cost, with the difference between the amount of the funds obtained and the repayment costs reported in the income statement throughout the borrowing period using the effective yield method.

Borrowed funds with interest rates different from the current market practice are assessed when obtained at fair value, which includes future interest payments and the principle debt amount, discounted as based on the market rates for similar borrowings. The difference between the fair value and the nominal value of the borrowed funds at the moment of receipt is reported in the income statement as income from attraction of borrowed funds at rates below the market practice or as the expenditure from attraction of borrowed funds at rates exceeding the market practices. Further on, the carrying amount of borrowed funds is adjusted as based on depreciation of the initial income/expenditure from borrowed funds, with the corresponding costs reported as interest expenses in the income statement using the effective yield method.

Profit tax

Current profit tax is calculated in compliance with the requirements of the active Ukrainian legislation as based on the taxable profit for the year using the rate of profit tax in force as at the balance sheet date. Profit tax expenses reported in the income statement include current taxation and changes in the deferred taxation. Tax expenses, other than profit tax, are accounted as general and administrative costs.

Deferred profit tax is calculated using the balance-sheet assets and liabilities method in relation to all temporary differences between the tax base of assets and liabilities and their carrying amount in compliance with the financial statements. Deferred tax assets and liabilities are calculated using the tax rate which is expected to be applicable for the period when such assets will be sold and the liabilities will be settled, on the basis of tax rates set forth for the given period or actually in force as at the reporting date. Deferred tax assets are reported according to the probability of earning taxable profit against which the temporary differences may be used.

Deferred taxation arising upon revaluation of financial assets available for sale at fair value, with such revaluation attributed to reduction or growth of equity, is also accounted directly in equity. Upon sale of such financial assets, the corresponding amounts of deferred taxation are reported in the income statement.

Reporting revenues and expenses

Interest revenues and expenses are reported in the income statement for all interest instruments on accrual basis using the effective yield method, as based on the actual purchase price. Interest yield includes coupon yield from fixed-income securities, accumulated discount and premium on bills and other discount instruments. If there are any doubts as to timely repayment of the loans issued, such loans are revaluated down to the recoverable value with subsequent accounting of the interest yield as based on the interest rate applied to discount future cash flows in order to assess the recoverable value.

Commission fees and other earnings are attributed to revenues upon completion of the corresponding transactions. Commission earnings from arrangement of transactions for third parties, such as acquisition of loans, shares and other securities, and acquisition or sale of companies, are reported in the income statement upon completion of the transaction. Commission earnings from management of the investment portfolio or other managerial and consulting services are reported in compliance with the corresponding servicing contract. Non-interest revenues are reported at the moment the material values or services are received. Accumulated interest revenues and expenses including the accumulated coupon yield and accumulated discount are accounted in the carrying amount of the corresponding assets and liabilities.

Foreign currency revaluation

Foreign currency transactions are reported at the official NBU exchange rate in force as at the date of transaction. Exchange difference arising from settlements in foreign currency is reported in the income statement at the exchange rate active as at the date of transaction.

Cash assets and liabilities in foreign currency are translated into UAH at the official NBU exchange rate in force as at the balance sheet date. Exchange differences related to debt securities and other financial cash assets reported at fair value, are accounted as revenues and expenses from foreign currency revaluation.

As at December 31, 2006, the official exchange rates used to revaluate the balances on foreign currency accounts were set as follows:

- UAH 5.050 for USD;
- UAH 6.651 for EUR;
- UAH 1.918 for RUR 10.

Exchange of UAH for other currencies implies a number of restrictions and foreign currency control measures. At present, UAH is not a freely convertible currency in most foreign countries.

Accounting in terms of hyperinflation

Ukrainian economy was classified as hyperinflationary in compliance with IFRS 29 “Financial Reporting in Hyperinflationary Economies” up to December 31, 2000. Since the Bank was incorporated after that date, its financial statements require no further adjustment to reflect the impact of hyperinflation.

Provisions

Provisions are reported in the financial statements when the Bank incurs liabilities (legal or resulting from the current business practice), originating prior to the reporting date. And there is high probability that to secure such liabilities the Bank will require an outflow of economic resources, with the amount of such liabilities accurately measured. If the amount of the liability is significant, the provisions are calculated by means of discounting the expected cash flows using the discount rate before tax, which reflects the current market value of money and, where applicable, the risks inherent to the given liability.

Employee remuneration

Salary and bonus payments to employees are reported in the financial statements on accrual basis.

Social deductions related to employee remuneration

The Bank effects deductions to various social funds, related to employee remuneration. Such deductions are also reported on accrual basis. They include contributions to the Pension Fund, Temporary Disability Social Insurance Fund, Unemployment Social Insurance Fund and Factory Accident Social Insurance Fund. Such expenses are accounted when incurred and are reported as employee costs. The Bank makes contributions to the Non-Government Pension Fund for its employees. Such contributions are charged and paid on monthly basis.

The Bank has no employee option plans.

Segment reporting

A segment is an identifiable component of the Bank, which is related either to supply of products and services (activity segment), or to supply of products and services in a particular economic environment (geographical segment). A segment is subject to separate disclosure in the financial statements, when the larger portion of its revenues is formed through sale to external buyers, and when its revenues, financial performance or assets make at least 10 per cent of the total revenues, financial performance or assets of all segments.

Banking business of the Bank is subdivided into three main segments: treasury business, corporate business and retail business. Each of the above segments implies supply of its own products and services characterized with risks and revenues different from those of other segments.

The Bank operates exclusively in the territory of Ukraine, that is why presentation of data on geographical segments it not expedient.

5. Cash and cash equivalents

	Year 2006
Cash in hand	965
Balances on NBU accounts	19,673
Correspondent accounts and overnight deposits in banks	
- in Ukraine	30,024
- in the Russian Federation	679
- in other countries	30,024
Less the provision for impairment of cash and cash equivalents	(14)
Total cash and cash equivalents	**81,351**

(UAH thousands)

Pursuant to the NBU requirements, the Bank has maintained the minimum required provision, calculated as the weighted average balance based on daily data for a period of one month. As at December 31, 2006 the amount of the required provision totaled UAH 4.418 thous.

Below is the analysis of changes in the provision for impairment of cash and cash equivalents:

	Year 2006
Provision for impairment of cash and cash equivalents as at January 01	**-**
Formation/(renewal) of the provision for impairment of Cash and cash equivalents during the year	14
Provision for impairment of cash and cash equivalents as at December 31	**14**

6. Cash in other banks

	Year 2006
Current loans and deposits in banks (other than NBU)	57,966
Less the provision for impairment of cash in other banks	-
Total cash in other banks	**57,966**

As at December 31, 2006 the most significant amounts were deposited with three banks. The overall balance on the accounts with such banks made UAH 31.815 thous. or 54.9 % of the total amount of cash with other banks.

7. Loans issued to customers

	Year 2006
Current indebtedness on the loans issued to customers	212,161
Less the provision for impairment of the loans issued to customers	(352)
Total loans issued to customers	**211,809**

Below is the analysis of changes in the provision for impairment of the loans issued to customers:

	Year 2006
Provision for impairment of the loans issued to customers as at January 01	**-**
Formation of the provision for the loans issued to customers	352
Loans issued to customers, which were written off as nonperforming	-
Provision for impairment of the loans issued to customers as at December 01	**352**

Below is the analysis of portfolio of the loans issued to customers by the Borrower's structure:

	Year 2006	
Ownership type	**Amount**	**%**
Loans to non-governmental entities and organizations	188,948	89%
Loans to natural persons	23,213	11%
Total loans issued to customers (total amount)	**212,161**	**100%**

(UAH thousands)

Below is the structure of the Bank's loan portfolio by the economy branch:

	Year 2006	
	Amount	**%**
Manufacture	23,195	11%
Construction	48,987	23%
Financial and other services	1,002	0%
Trade	93,631	44%
Natural persons	23,213	11%
Hotels and restaurants	3,545	2%
Services	7,409	3%
Food industry	7,969	4%
Agriculture and fishery	3,209	2%
Total loans issued to customers (total amount)	**212,161**	**100%**

The Bank issued loans to three borrowers, with the amount of debt of such borrowers equal to or exceeding UAH 13.500 thous. The total amount of such loans makes UAH 41.158 thous. or 19.4% of the Bank's loan portfolio.

8. Financial assets available for sale

	Year 2006
Debt instruments of corporate issuers	19,312
Less the provision for impairment of financial assets available for sale	-
Total financial assets available for sale	**19,312**

9. Other assets

	Year 2006
Deferred expenses	247
Accounts receivable and advance payments	1,270
Other	7
Less the provision for impairment of other assets	-
Total other assets	**1,524**

(UAH thousands)

10. Fixed assets and intangible assets

	Computers and equipment	Tools inventories, furniture	Other	Intangible assets	Capital investments	Total
Cost						
Balance as at December 31, 2005	-	-	-	-	-	-
Additions	506	273	164	592	661	2,196
Disposals	-	-	-	-	-	-
Balance as at December 31, 2006	**506**	**273**	**164**	**592**	**661**	**2,196**
Accumulated depreciation						
Balance as at December 31, 2005	-	-	-	-	-	-
Depreciation charges	(106)	(40)	(118)	(85)		(349)
Balance as at December 31, 2006	**(106)**	**(40)**	**(118)**	**(85)**	**-**	**(349)**
Net book value						
Balance as at December 31, 2005	-	-	-	-	-	-
Balance as at December 31, 2006	**400**	**233**	**46**	**507**	**661**	**1,847**

11. Cash from other banks

	Year 2006
Term deposits and loans from other banks	40,420
Correspondent accounts from other banks	73,260
Other	192
Total cash from other banks	**113,872**

As at December 31, 2006 the Bank attracted short-term loans in USD. The most significant loans were attracted from 3 Ukrainian banks, with the total value of UAH 31.815 thous. or 27.9% of the total cash from other banks.

(UAH thousands)

12. Customer funds

	Year 2006
Legal persons	
- Current/Settlement accounts	117,118
- Term deposits	41,135
Natural persons	
- Current accounts/Call accounts	120
- Term deposits	12,011
Total customer funds	**170,384**

13. Other liabilities

	Year 2006
Accounts payable	9
Settlements on conversion transactions	217
Unregistered contributions to the authorized fund	25,250
Other	816
Total other liabilities	**26,292**

14. Authorized capital

	Year 2006	
	Share in the authorized fund	**Amount, UAH thous.**
Bank of Moskow OJSC	99,5%	62,593
BM Holding AG.	0,5%	315
Total authorized capital	**100%**	**62,908**

15. Interest revenues and expenses

	Year 2006
Interest revenues	
Loans issued to customers	13,115
Cash in other banks	3,569
Securities	1,278
Total interest revenues	**17,962**
Interest expenses	
Current customer accounts and term deposits	(5,251)
Cash from other banks	(2,947)
Total interest expenses	**(8,198)**
Net interest revenues	**9,764**

(UAH thousands)

16. Commission revenues and expenses

	Year 2006
Commission revenues	
Commission fee for cash settlement transactions	1,949
Commission fee for issue of guarantees	112
Commission fee for loan servicing	828
Commission fee for transactions with securities	5
Commission fee for transactions with foreign currency	515
Other	79
Total commission revenues	**3,488**
Commission expenses	
Commission fee for cash settlement transactions	(1,324)
Commission fee for transactions with foreign currency	(25)
Commission fee for transactions with securities	(1)
Other	(1,250)
Total commission expenses	**(2,600)**
Net commission revenues	**887**

17. General and administrative costs

	Note	Year 2006
Compensation to employees		4,480
Professional services (security, communication etc.)		991
Lease		585
Taxes, other than profit tax		699
Depreciation of fixed and intangible assets	10	349
Administrative and economic expenses		188
Advertising and marketing		666
Expenses related to fixed assets		102
Other		411
Total general and administrative costs		**8,471**

Compensation to employees includes employee remuneration and deductions to the corresponding state pension and insurance funds. Deductions to the non-governmental pension fund made UAH 39 thous. The average annual number of the Bank's employees made 46 persons.

18. Other operating revenues less the expenses

	Year 2006
Fines and penalties received and paid	3
Net revenues from transactions with securities	484
Total other operating revenues less the expenses	**487**

19. Profit tax

	Year 2006
Current profit tax expenses	770
Changes in deferred taxation	(13)
Total profit tax expenses	**757**

In 2006, current profit tax rate applicable to transactions performed by the Bank was fixed as 25%.

(UAH thousands)

Current profit tax expenses borne by the Bank were defined as based on the amount of profit calculated in accordance with the active Ukrainian accounting legislation, and adjusted for the purposes of compliance with the Ukrainian tax legislation.

Below is the comparative analysis of theoretical tax expenses with the actual profit tax expenses.

	Year 2006
Profit under IFRS before tax	3,142
Theoretical tax charges at the rate of 25%	786
Non-taxable revenues and expenses, which do not decrease the taxable basey	(29)
Profit tax expenses	**757**

	Year 2006	**Change**	**Year 2005**
Tax impact of temporary differences, which decrease the tax base			
Provision for impairment of the banks' funds	3	3	-
Other liabilities	202	202	-
Total deferred tax asset	**205**	**205**	**-**
Tax impact of temporary differences, which increase the tax base			
Loans issued to customers	(7)	(7)	-
Securities	(103)	(103)	-
Fixed assets	(12)	(12)	-
Other assets	(70)	(70)	-
Total deferred tax liability	**(192)**	**(192)**	**-**
Total net tax asset	**13**	**13**	**-**

20. Segment analysis

The Bank uses business segments as the primary format of segment analysis. All banking activities of the Bank are carried out in the territory of Ukraine. That is why the Bank considers business segmentation by the geographical principle inexpedient.

The key business segments of the Bank are:

Treasury business: this business segment includes trading transactions with financial instruments, transactions with securities and foreign currency, attraction and issue of loans in the interbank lending market. Besides, this business includes managing short-term assets of the bank, as well as exchange risk (open foreign currency position of the Bank) management.

Corporate business: this business segment includes servicing settlement and current accounts of organizations, attraction of deposits from corporate customers, issue of overdraft credit lines, issue of loans and other types of financing, investment banking services, trade financing of corporate customers.

Retail business: this business segment includes banking services to individual customers (natural persons), in particular opening and management of accounts, attraction of deposits from natural persons, safekeeping of valuables, investment accumulation servicing debit and credit cards, consumer and mortgage loans to natural persons.

Transactions of the Bank which are not attributed to the above business segments are reported separately.

(UAH thousands)

The table below presents the data on assets/liabilities of the business segments of the Bank as at December 31, 2006:

	Treasury business	Corporate business	Retail business	Non-attributable	Total
Assets					
Call assets, assets with the maturity of less than 1 month, and assets with indefinite maturity					
Cash and cash equivalents	80,386	-	-	965	**81,351**
Financial assets available for sale	1,213	-	-	-	**1,213**
Cash in other banks	36,226	-	-	-	**36,226**
Loans issued to customers	-	9,319	226	-	**9,545**
Other assets	-	-	-	759	**759**
Total call assets, assets with the maturity of less than 1 month, and assets with indefinite maturity	**117,825**	**9,319**	**226**	**1,724**	**129,094**
Assets with the maturity of over than 1 month, and assets with indefinite maturity					
Financial assets available for sale	18,099	-	-	-	**18,099**
Cash in other banks	21,740	-	-	-	**21,740**
Loans issued to customers	-	179,380	22,884	-	**202,264**
Tax assets	-	-	-	13	**13**
Fixed assets and intangible assets	-	-	-	1,847	**1,847**
Other assets	-	-	-	765	**765**
Total assets with the maturity of over than 1 month, and assets with indefinite maturity	**39,839**	**179,380**	**22,884**	**2,625**	**244,728**
Total assets	**157,664**	**188,699**	**23,110**	**4,349**	**373,822**

(UAH thousands)

	Treasury business	Corporate business	Retail business	Non-attributable	Total
Liabilities					
Call liabilities, liabilities with the maturity of less than 1 month, and liabilities with indefinite maturity					
Cash from other banks	48,877	-	-	-	**48,877**
Customer funds	-	15,153	659	-	**15,812**
Other liabilities	-	232	-	-	**232**
Total call liabilities, liabilities with the maturity of less than 1 month, and liabilities with indefinite maturity	**48,877**	**15,385**	**659**	**-**	**64,921**
Liabilities with the maturity of over than 1 month, and liabilities with indefinite maturity					
Cash from other banks	64,995	-	-	-	**64,995**
Customer funds	-	143,105	11,467	-	**154,572**
Other liabilities	-	-	-	26,060	**26,060**
Tax liabilities	-	-	-	302	**302**
Total liabilities with the maturity of over than 1 month, and liabilities with indefinite maturity	**64,995**	**143,105**	**11,467**	**26,362**	**245,929**
Total liabilities	**113,872**	**158,490**	**12,126**	**26,362**	**310,850**
Surplus/(deficit) of financing call funds and liabilities with the maturity of less than one month, and liabilities with indefinite maturity	**68,948**	**(6,066)**	**(433)**	**1,724**	**64,173**
Surplus / (deficit) of financing of funds with the maturity of over than 1 month and liabilities with indefinite maturity	**(25,156)**	**36,275**	**11,417**	**(23,737)**	**(1,201)**
Financing on account of equity					**62,972**

(UAH thousands)

The table below present the data on business segments of the Bank for the year ended December 31, 2006 by items of the income statement:

	Treasury business	Corporate business	Retail business	Non-attributable	Total
Interest revenues	3,569	12,160	955	-	**16,684**
Interest expenses	(2,947)	(4,659)	(592)	-	**(8,198)**
Revenues less the expenses from transactions with financial assets available for sale	1,278	-	-	-	**1,278**
Revenues less the expenses from foreign currency transactions	752	-	-	89	**841**
Net operating result on banking assets and liabilities	**2,652**	**7,501**	**363**	**89**	**10,605**
Commission revenues	9	2,857	622		**3,488**
Commission expenses	(457)	(2,117)		(26)	**(2,600)**
Loan impairment provision	(14)	(194)	(158)	-	**(366)**
General and administrative costs	-	-	-	(8,471)	**(8,471)**
Provision for impairment of other assets	(1)	-	-	-	**(1)**
Other revenues/(expenses)	487	-	-	-	**487**
Profit before tax	**2,676**	**8,047**	**827**	**(8,408)**	**3,142**
Profit tax				(757)	**(757)**
Net profit	**2,676**	**8,047**	**827**	**(9,165)**	**2,385**

21. Financial risk management

Risk management efforts of the Bank concern financial risks (credit risk, market risk, exchange risk, liquidity risk and interest rate risk), operating and legal risks.

Risk management activities of the Bank are mostly focused on identification, measurement and control of the above risks, as well as on making managerial decisions as to their avoidance or mitigation (hedging, reallocation, diversification etc.).

The Bank implemented a three-level risk control system. At the first level, business units perform preliminary and immediate control of the fixed limits in the course of transactions. At the second level, the back-office ensures current control over observance of the fixed limits by the business units. At the third level, preliminary and subsequent control over the risks is exercised by the duly authorized special-purpose units.

The main task in terms of financial risk management is to define the risk limits and to ensure their subsequent observance. Assessment of the exposure also serves as the basis for efficient capital allocation taking into account the risks, transaction prices formation and performance evaluation. Operating and legal risk management should ensure proper observance of the internal regulations and procedures in order to minimize such risks.

In consistent with the strategic objectives of the Bank, it has developed and implemented a complex system for managing all the significant risks. Further efforts will be aimed at improvement of the existing risk management practices and tools, as well as at the systematization and integration of risk assessment and management methods taking into account the relevant international standards.

Credit risk. Credit risk is the risk of financial losses arising from non-fulfillment of liabilities by the Bank's borrowers or counteragents.

Credit risk is managed through the following procedures.

Assessment of risk for each loan product is performed as based on the intra-bank credit ratings. Risk level assessment in terms of natural persons acting as borrowers is performed using standardization of products and development of borrower solvency evaluation mechanisms. To assess the risks related to loan products issued to legal persons, the Bank uses the tolls mentioned below.

Transaction limits as to issue of loan products. This system includes:

amount limits, restricting risks of concentration by unit, product, region, branch etc.;

amount limits fixed for separate counteragents;

limits per each loan product, calculated as based on the in-house credit risk assessment practices;

The limits are updated on regular basis, in accordance with the current credit risk level, as well as with the macro- and micro-economic situation observed. Control over observance of the fixed limits by the duly authorized persons and managerial bodies is exercised on daily basis.

Monitoring of credit risk in terms of the existent products is performed on regular basis and is aimed at identification of factors, increasing such risk, with the purpose of their elimination and decrease in their concentration.

The Bank developed the policy and procedures for credit risk management, including the requirements as to definition and observance of the loan portfolio concentration limits, and established a Credit Committee which monitors the credit risk to which the Bank is exposed.

Credit risk is managed through regular analysis of the existing and potential borrowers' ability to repay the interest and the principal debt, as well as through change in the credit limits when necessary. Besides, the Bank manages its credit risk by means of receiving additional collateral, in particular, through pledges and guarantees from companies and natural persons.

Credit risk in terms of off-balance financial instruments is defined as the probability of losses from inability of the other participant of the transaction with the given financial instrument to fulfill the contractual terms. The Bank applies the same crediting policy as to the on-balance financial instruments, which is based on the transaction approval procedures, risk-mitigation limits and monitoring of financial state of the counteragent.

Credit risk management policy is reviewed and approved by the Board of the Bank.

Market risks. Market risks appear as the possibility of losses from impairment of portfolios of securities and of other market assets, given unfavorable change in the market parameters (prices, market rates and exchange rates). In this respect, the Bank applies the following risk control and management methods.

Market risk limiting system, similar to the credit risk limiting system.

Monitoring of market risks implies adjustment of all open positions down to the market prices in order to determine the current portfolio value and changes in the assessment of the expected potential losses.

Hedging implies conclusion of additional deals with financial instruments, having similar characteristics, for guaranteed loss minimization.

Market risks can be reduced without a decrease in the estimated profitability through portfolio *diversification*, first of all through diversification by various market instruments and segments.

(UAH thousands)

Market risks are managed by means of increase or decrease of the position within the limits set forth by the Bank's management. These limits restrict possible effect from changes in the financial market indicators upon revenues of the Bank, or upon the value of assets and liabilities, which are sensitive to such changes.

Market risk management methods, as well as the Bank's tariff policy developed by the corresponding Committees, are reviewed and approved by the Board of the Bank.

Interest rate risk is determined by the degree of influence produced by changes in the market interest rates upon the interest margin and net interest yield. Depending on the difference between the structure of interest assets and that of interest liabilities, net interest yield is increased or reduced as a result of changes in the interest rates.

In practice, interest rates are, as a rule, fixed for a short period of time. Besides, interest rates fixed in the relevant contracts may be reviewed on the basis of mutual consent, in accordance with the current market situation.

In the event, when hedging instruments are lacking, the Bank usually strives to match the interest rate positions.

The table below presents the analysis of average effective interest rates by main currencies for main monetary financial instruments. The analysis was performed as based on the weighted average effective interest rates as at the end of 2006.

	UAH	**Foreign currency**
Assets		
Cash with other banks	6.3%	4.0%
Loans issued to customers	18.7%	12.3%
Financial assets available for sale	16.3%	-
Liabilities		
Cash from other banks	3.7%	6.1%
Customer funds	12.4%	4.6%

Exchange risk. The Bank holds assets and liabilities expressed in several foreign currencies. The Bank is exposed to the risk related to influence of exchange rate fluctuations upon its financial standing and cash flows. The Bank exercises daily control over observance of standards and limits set forth by the NBU in relation to exchange risks.

(UAH thousands)

The table below presents analysis of the Bank's position by currency as at December 31, 2006. Assets and liabilities of the Bank are reflected in the table at carrying amount in terms of main currencies.

	UAH	RUR	USD	EUR	Total
Assets					
Cash and cash equivalents	49,996	249	28,605	2,501	**81,351**
Cash in other banks	44,964	-	13,002		**57,966**
Loans issued to customers	97,175	-	110,246	4,388	**211,809**
Financial assets available for sale	19,312	-	-	-	**19,312**
Other assets	1,517	-	7	-	**1,524**
Tax assets	13	-	-	-	**13**
Fixed assets and intangible assets	1,847	-	-	-	**1,847**
Total assets	**214,824**	**249**	**151,860**	**6,889**	**373,822**
Liabilities					
Cash from other banks	30,000	192	83,680	-	**113,872**
Customer funds	128,123	8	39,897	2,356	**170,384**
Other liabilities	8	-	26,282	2	**26,292**
Tax liabilities	302	-	-	-	**302**
Total liabilities	**158,433**	**200**	**149,859**	**2,358**	**310,850**
Net position as at December 31, 2006	**56,391**	**49**	**2,001**	**4,531**	**62,972**

Liquidity risk. Liquidity risk arises from the gap in call terms for active transactions and repayment terms for passive transactions. The Bank is exposed to the liquidity risk due to the daily need in using the available cash funds for settlements on customer accounts, upon deposit maturity, for loan issue and for disbursements under guarantees. The Bank does not accumulate cash funds for single bullet settlement of liabilities under all of the above instances, for the level of the required cash funds can be calculated with a sufficient degree of accuracy as based on the practices currently in place.

The Bank has developed a set of mechanisms to manage the liquidity risk to ensure on-going availability of cash funds for timely fulfillment of its liabilities. Liquidity risk management policy of the Bank is developed by the Asset and Liabilities Management Committee, and is reviewed and approved the Board of the Bank. Liquidity is managed as based on the following principles:

grounded assessment and forecast of the liquidity crisis,

beforehand preparation of conditions to prevent/successfully overcome a probable crisis,

efficient methods to manage liquidity,

efficient methods to control over functioning of the liquidity management system and over completion of the internal and external reporting.

To ensure objective reporting on the actual situation, a compulsory distribution of authorities and responsibilities between the bodies within the liquidity management system, namely between those in charge for:

strategic decision-making;

liquidity management;

analysis and control.

To manage instant liquidity the Bank uses the principle of advance receipt of information as to the calendar deals and proceeds from customers/disposals and use of such information to calculate the position as based on the relevant forecast and insider data. Instant liquidity monitoring and management is exercised through automated system of settlements.

To manage current and medium-term liquidity, the Bank uses its payment calendar, which serves as the basis to assess the liquidity and the way it may be influenced by large deals and material measures, taken in order to attain compliance of the estimations with the desired values.

Statistical analysis of instant, current and short-term liquidity is performed by means of economic standards calculation in compliance with the NBU requirements. In case of a material (of over than 20%) change in value of the standards for the last three months, especially for the last month of the reporting period, the Bank analyses the reasons (changes in assets and liabilities), which caused such change in value of the standards.

The Bank has also developed a set of measures to be implemented in case of insufficient liquidity, which cannot be increased through traditional sources. Depending on complexity of the situation and on the overall standing of the financial system, the Bank can resort to:

sale of a part of assets as their liquidity decreases;

conclusion of refinancing deals with the NBU;

restriction of asset growth for certain types of business;

change of rates and tariffs;

efforts targeted at attraction of long-term deposits from principal customers and counteragents.

(UAH thousands)

The below table illustrates distribution of assets and liabilities as at December 31, 2006 by call and maturity terms.

	On call and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Indefinite maturity/ Non-interest	Total
Assets						
Cash and cash equivalents	81,351	-	-	-	-	**81,351**
Cash in other banks	36,226	21,740	-	-		**57,966**
Loans issued to customers	9,545	49,413	76,486	76,717	(352)	**211,809**
Financial assets available for sale	1,213	4,719	13,380	-	-	**19,312**
Other assets	759	517	-	1	247	**1,524**
Tax assets	-	-	-	-	13	**13**
Fixed assets and intangible assets	-	-	-	1,847	-	**1,847**
Total assets	**129,094**	**76,389**	**89,866**	**78,565**	**(92)**	**373,822**
Liabilities						
Cash from other banks	48,877	21,735	43,260	-	-	**113,872**
Customer funds	15,812	23,853	130,444	275	-	**170,384**
Other liabilities	232	25,469	584	-	7	**26,292**
Tax liabilities	-	302	-	-	-	**302**
Total liabilities	**64,921**	**71,359**	**174,288**	**275**	**7**	**310,850**
Net liquidity gap as at December 31, 2006	**64,173**	**5,030**	**(84,422)**	**78,290**	**(99)**	**62,972**
Total liquidity gap as at December 31, 2006	**64,173**	**69,203**	**(15,219)**	**63,071**	**62,972**	

Operating risk. The Bank implemented a set of underlying measures to manage operating risks, with such measures implying scheduled regulation of current transactions and business processes, as well as establishment and functioning of the internal control system. The said measures are complemented with the relevant risk assessment methods based on the world practices. Operating risks are managed with the help of the following approaches and tools:

Technology standardization and development. A clear and specific description of the technology employed to perform current transactions and of the decision-making procedure in terms of the internal regulatory framework, as well as its timely update, is one of the crucial factors of the operating risk mitigation, being the basis for timely identification and efficient management of the risks. Operating risks are also mitigated through implementation of information technologies, which facilitates the reduction in the number of non-automated transactions.

Authority limits. The Bank developed and implemented a multi-level system to limit the authorities of the officials in charge and of the collegial bodies, which outlines the responsibilities and substitutability of employees at each operating level.

Control. The Bank employs a system of procedures aimed at prevention or identification of violation of legal prescriptions, regulations and operating standards, as well as settlement of conflicts of interests and at ensuring the required security level, in accordance with the nature and scope of the transactions performed.

(UAH thousands)

Results of risk analysis, performed on regular basis, serve for preparation of the management accounts submitted to the Bank's governing body, which not only includes assessment of the risk level, but also contains particular measures as to risk limitation and diversification.

22. Contingent liabilities

Insurance. Ukrainian market of insurance services is undergoing development, that is why many forms of insurance protection used in other countries are not available in Ukraine at present. The Bank did not arrange for a full-scale insurance of fixed assets, as well as for insurance against termination of activity or in relation to the liability of third parties to cover the property or environmental loss, arising from failures of banking equipment or from principal activity of the Bank.

Litigation. The Bank's management has no information as to any significant proceedings instituted against the Bank, which are either in action/postponed or which may possibly be instituted. As at December 31, 2006 the Bank did not form any provision to cover possible litigation losses.

Contingent tax liabilities. Tax system of Ukraine is characterized with numerous kinds of taxes and frequently amended regulatory documents, which can work retroactively and often contain vague or even controversial wording open for interpretation. Often, different regulatory bodies give different interpretation of the same regulatory requirements. Correctness of the calculated tax is subject to review and detailed examination by the bodies authorized to impose significant fines and penalties.
The above factors create tax risks in Ukraine, which largely exceed similar risks in other countries. The management believes that tax liabilities of the Bank were disclosed in the given financial statements in full, as based on interpretation of the Ukrainian tax legislation used thereby. Nevertheless, there is a risk that the relevant tax authorities may have a different point of view on the issues subject to open interpretation, and the influence of such risk may be significant.

Operating lease liabilities. Below presented are the minimum amounts of future operating lease charges, which shall not be subject to cancellation, in the event when the Bank acts as the tenant:

	Year 2006
Less than 1 year	361
From 1 to 3 years	-
Over 3 years	2,557
Total operating lease liabilities	**2,918**

Loan-related liabilities. The main purpose of such instruments is to ensure issue of facilities to customers when requested. Guarantees representing irrevocable liabilities of the Bank to make payments in case the customer fails to fulfill its liabilities to third parties are exposed to the same amount of credit risk as loans.

Loan-related liabilities of the Bank can be presented as follows:

	Year 2006
Loan issue liabilities	15,961
Guarantees issued	183
Total loan-related liabilities	**16,144**

Loan issue liabilities represent the unused portion of the loans approved for issue. In relation to the loan issue liabilities the Bank is exposed to risk of losses in the amount equal to the total unused liabilities. Nevertheless, the probable loss amount is less than the total unused liabilities, as the larger share of loan issue liabilities is conditioned by observance of certain solvency standards by the customers. The Bank controls the term remaining until maturity of the loan-related liabilities, since usually long-term liabilities imply a higher level of credit risk.

Total indebtedness under guarantees, letters of credit and unused credit facilities does not necessarily represent future cash claims, due to probability of such events as expiration of the validity period or cancellation of the said liabilities, when no funds are granted to the borrower.

The Bank's management considers the probability of losses from loan-related liabilities insignificant. As at December 31, 2006 the Bank formed no provision for the above liabilities.

23. Fair value of financial instruments

Fair value is the amount for which the financial instrument can be exchanged in the course of the current transaction between two stakeholders, other than forced sale or liquidation. The best confirmation of fair value is the price of the financial instrument quoted in the market.

The estimated fair value of financial instruments was calculated by the Bank as based on the available market information (if any) and applicable assessment methods. To interpret market information for the purpose of defining the fair value in certain instances reasonable judgment was used. The Bank calculates the fair value of financial instruments using the available market information, while this information may not always accurately reflect the value which can be recovered in the current conditions.

Financial instruments reported at fair value. Cash and cash equivalents and some financial assets available for sale are accounted in the balance sheet at fair value (Note 5, 6 and 8). Some securities available for sale lack independent external market quotations. Their fair value was calculated using various assessment methods. When the fair value of assets could be identified, such assets were reported at cost, taking into account probable impairment.

Cash with other banks. Fair value of funds placed at floating interest rates is equal to their carrying amount. Estimated fair value of funds placed at fixed interest rates is based on calculation of the discounted cash flows using interest rates of the money market applicable to instruments with similar credit risk level and maturity. The bank believes that as at December 31, 2006 there is insignificant difference between the fair value of loans issued to customers to banks and their carrying amount (Note 6). This can be explained by the existing practices of interest rates review in order to reflect current market conditions, which leads to calculation of interest on most of the balances at the rates approximately equal to the market interest rates.

Loans issued to customers. Loans issued to customers are reported less the impairment provision. Estimated fair value of loans issued to customers represents the discounted amount of expected future cash flows. In order to calculate the fair value, estimated cash flows are discounted at current market rates. The Bank believes that as at December 31, 2006 there is insignificant difference between the fair value of loans issued to customers and their carrying amount (Note 7). This can be explained by the existing practices of interest rates review in order to reflect current market conditions, which leads to calculation of interest on most of the balances at the rates approximately equal to the market interest rates.

Borrowed funds. Estimated fair value of liabilities with indefinite maturity represents the amount due upon demand of the lender. Estimated fair value of borrowed funds with fixed interest rates and of other borrowed funds without market quotations is defined through calculation of discounted cash flows using interest rates on new debt instruments with similar maturity. The Bank believes that as at December 31, 2006 there is insignificant difference between the fair value of borrowed funds and their carrying amount (Note 11 and 12). This can be explained by the existing practices of interest rates review in order to reflect current market conditions, which leads to calculation of interest on most of the balances at the rates approximately equal to the market interest rates.

24. Transactions with related parties

In the course of its ordinary activity the Bank performs transaction with its principal shareholders, managers and other related parties. These transactions include settlements, issue of loans, attraction of deposits, issue of guarantees, trading transactions financing and financing of transactions with foreign currency. Related party transactions are primarily performed at market rates.

(UAH thousands)

Below are the rates as at the year end, volume of the active transactions performed, and the corresponding revenue items for the year as to transactions with related parties:

	Year 2006
Cash in other banks	
as at January 01	-
placed during the year	679
repaid during the year	-
Cash in other banks as at December 31	679
Provision for impairment of cash in other banks	
Provision for impairment of cash in other banks as at January 01	-
(Renewal of the provision)/Deductions to the provision for impairment of cash in other banks during the year	14
Cash in other banks, written off as non-performing	-
Renewal of cash in other banks, previously written off as non-performing	-
Provision for impairment of cash with other banks as at December 31	**14**
Cash in other banks as at January 01 (less the impairment provision)	**-**
Cash in other banks as at December 31 (less the impairment provision)	**665**
Loans issued to customers	
as at January 01 (total)	-
issued during the year	744
repaid during the year	-
Loans issued to customers as at December 31 (total)	**744**
Loans issued to customers as at January 01 (less the impairment provision)	**-**
Loans issued to customers as at December 31 (less the impairment provision)	**744**
Interest earned from loans issued to customers and from cash with other banks	**49**

Below are the balances as at the year end, volume of passive transactions performed, and the corresponding expense items for the year as to transactions with related parties:

	Year 2006
Cash from other banks	
as at January 01	-
Cash received during the year	42,312
Cash repaid during the year	-
Cash from other banks as at December 31	**42,312**
Customer funds	
Current customer accounts and deposits as at January 01	-
Funds received during the year	346
Funds repaid during the year	-
Customer funds as at December 31	**346**
Interest expenses from cash from other banks and customer funds	**954**
Commission revenues for the year	**4**

(UAH thousands)

Below presented is the data on compensation to the key management of the Bank and their family members:

	Year 2006
Salary and other short-term payments to Members of the Board and their family members	**977**

25. Capital adequacy

As prescribed by the NBU, bank capital adequacy ratio to the amount of assets weighted by risk shall not exceeds 15% during the first operating year, 12 % during the second operating year and 10% during subsequent years of operation.

As at December 31 2006, the ratio of the Bank's capital adequacy, calculated in accordance with the terms of the Basel Agreement as of 1988 exceeded the recommended minimum requirement of 8%:

	Year 2006
Fixed capital (1^{st}-level capital)	62,972
Additional capital (2^{nd}-level capital)	-
Total equity	62,972
Assets weighted by risk	258,241
Equity adequacy	**24%**
Fixed capital adequacy	**24%**
Minimum capital adequacy requirement	8%