



U.S.\$50,000,000 9.3750 per cent. Loan Participation Notes due 2017

issued by

DCM Global Finance plc

on a limited recourse basis

for the sole purpose of funding a U.S.\$50,000,000 subordinated loan to

Open Joint Stock Commercial Bank Nadra

(incorporated in Ukraine)

The outstanding long-term debt of Open Joint Stock Commercial Bank Nadra (“**Bank Nadra**” or the “**Bank**” or the “**Borrower**”) is rated Ba3 by Moody’s Investors Service Inc. (“**Moody’s**”) and B- by Fitch Ratings Ltd. (“**Fitch**”). A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

- Issuer:** DCM Global Finance plc, 35 Great St. Helen’s, London EC3A 6AP (the “**Issuer**” or “**Lender**”, as the case may be).
- Bank:** Open Joint Stock Commercial Bank Nadra, 15 Artema Street, Kyiv 04053, Ukraine.
- Issue Price:** 100 per cent.
- Interest Rate:** 9.3750 per cent.
- Issue Date:** 5 December 2007
- Redemption Amount:** 100 per cent.
- Form and Delivery:** The Notes will be represented by interests in a global note certificate (the “**Global Note Certificate**”) in fully registered form (for details see Condition 1 (*Form, Denomination and Status*)) which will be exchangeable for individual note certificates (“**Individual Note Certificates**”) in the limited circumstances specified in the Global Note Certificate. The Global Note Certificate will be deposited with Citibank, N.A. as common depositary Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”).
- Denomination:** The Notes will be in denominations of U.S.\$100,000 each and integral multiples of U.S.\$1,000 in excess thereof.
- Offering Period:** None
- Interest Payment Dates:** 5 June and 5 December in each year
- Maturity Date:** 5 December 2017
- Early Redemption:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, upon giving notice to the holders of the Notes (the

“**Noteholders**”) at the principal amount thereof together with accrued and unpaid interest to the date of redemption and any additional amounts in respect thereof, upon receiving notice that the Bank has prepaid the Subordinated Loan (as defined below) for tax reasons or in the event that it becomes unlawful for the Issuer to fund the advance or allow to remain outstanding the subordinated loan under the subordinated loan agreement dated 3 December 2007 between the Lender and the Bank (as amended, restated or supplemented from time to time, the “**Subordinated Loan Agreement**”) or if the Bank has failed to obtain a Permit (as defined in the Subordinated Loan Agreement) or such Permit is withdrawn or, subject to certain NBU (as defined below) requirements, on 7 December 2009 or on 5 December 2012 as more fully described in Clause 6 of the Subordinated Loan Agreement. See also Condition 5 (*Redemption and Purchase*) of the Notes.

Reopening:

The Issuer reserves the right to reopen this series of Notes (for details see Condition 13 (*Further Issues*) of the Notes).

Status:

The obligations of the Issuer to make payments under the Notes constitute direct and general obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. The Notes will constitute the obligations of the Issuer to apply an amount equal to the gross proceeds of the issue of the Notes solely for the purpose of financing a subordinated loan (the “**Subordinated Loan**”) to the Bank pursuant to the terms of the Subordinated Loan Agreement. The Issuer will account to the Noteholders solely for amounts equivalent to those (if any) received from the Bank under the Subordinated Loan Agreement less amounts in respect of certain Reserved Rights (as defined in the terms and conditions of the Notes (the “**Conditions**”)). The Subordinated Loan will constitute a direct, unconditional and unsecured obligation of the Bank.

Limited Recourse to the Issuer:

The Notes are limited recourse obligations of the Issuer. In each case where amounts are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts are due in respect of the Notes, for all amounts (if any) actually received by or for the account of the Issuer pursuant to the Subordinated Loan Agreement (disregarding any amounts in respect of Reserved Rights). The Issuer will have no other financial obligation under the Notes. Accordingly, Noteholders are deemed to have (i) agreed that they will rely solely and exclusively on the covenants, credit and financial standing of the Bank in respect of the payment obligations of the Issuer of the Notes, and (ii) acknowledged and agreed that the Issuer is under no legal obligation to repurchase Notes or fund repayment of the Notes out of its own funds (except to the extent of amounts of principal and interest received under the Subordinated Loan Agreement), or support any losses suffered by the Noteholders.

Listing:

Application will be made for the listing of the Notes on the SWX Swiss

Stock Exchange (the “SWX”).

Selling Restrictions: United States of America, United Kingdom, Ukraine and Russian Federation (for details see “*Selling Restrictions*”).

Law and Jurisdiction: The Notes and all related contractual documentation will be governed by, and construed in accordance with, the laws of England. The place of jurisdiction will be the courts of England. See “*English Law Statement*”.

Risk Factors: **For a discussion of certain risks that should be considered by prospective purchasers of the Notes, see “*Risk Factors*”.**

ISIN: XS0334534699

Swiss Security Number: 3603417

Common Code: 0334534469

The date of this Offering Memorandum is 3 December 2007

THIS OFFERING MEMORANDUM HAS BEEN PREPARED IN RELIANCE UPON THE EXCEPTION CONTAINED IN ARTICLE 3.2(D) OF DIRECTIVE 2003/71/EC OF THE EUROPEAN PARLIAMENT (THE “PROSPECTUS DIRECTIVE”) TO PUBLISH A “PROSPECTUS” WITHIN THE MEANING OF THE PROSPECTUS DIRECTIVE, AND DOES NOT, AND IS NOT INTENDED TO, CONSTITUTE A “PROSPECTUS” WITHIN THE MEANING OF THE PROSPECTUS DIRECTIVE.

SELLING RESTRICTIONS

United States of America

The Notes have not been and will not be registered under the U.S. Securities Act of 1933 (the “**Securities Act**”) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S (“**Regulation S**”) under the Securities Act.

The Notes may not be offered or sold until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and the Issuer will send to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meaning given to them by Regulation S.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by a dealer may violate the registration requirements of the Securities Act.

United Kingdom

Each prospective investor is required to acknowledge that:

- (a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “**FSMA**”)) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Ukraine

The Notes shall not be offered for circulation, distribution, placement, sale, purchase or other transfer in the territory of Ukraine. Accordingly, nothing in this Offering Memorandum or any other documents, information or communications related to the Notes shall be interpreted as containing any offer or invitation to, or solicitation of, any such circulation, distribution, placement, sale, purchase or other transfer in the territory of Ukraine.

Russian Federation

The Notes have not been offered or sold or otherwise transferred and will not be offered or sold or otherwise transferred as part of their initial distribution or at any time thereafter to or for the benefit of any person (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation, unless to the extent otherwise permitted by Russian laws or regulations.

General

No action has been or will be taken in any jurisdiction by the Issuer, the Bank or any placement agent that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Memorandum or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Memorandum comes are required by the Issuer, the Bank and any placement agent to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Offering Memorandum or any other offering material relating to the Notes, in all cases at their own expense.

FORWARD LOOKING STATEMENTS

Some statements in this Offering Memorandum may be deemed to be “forward looking statements”. Forward looking statements include statements concerning the Bank’s plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward looking statements. When used in this Offering Memorandum, the words “anticipates”, “estimates”, “expects”, “believes”, “intends”, “plans”, “aims”, “seeks”, “may”, “will”, “should” and any similar expressions generally identify forward looking statements. These forward looking statements are contained in “*Summary*”, “*Risk Factors*”, “*Financial Review*”, “*Business*”, “*Risk Management*” and other sections of this Offering Memorandum. The Bank has based these forward looking statements on the current views of the Bank’s management with respect to future events and financial performance. These views reflect the best judgment of the Bank’s management but involve uncertainties and are subject to certain risks, the materialisation of which could cause actual results to differ materially from those predicted in the Bank’s forward looking statements and from past results, performance or achievements. Factors that might affect forward looking statements include, but are not limited to, overall political, economic and business conditions in Ukraine, the demand for the Bank’s services, changes in laws and government regulation, changes in tax requirements, results of litigation or arbitration, interest rate fluctuations and other market conditions and economic and political conditions in international markets, including governmental changes and restrictions on the ability to transfer capital across borders. Although the Bank believes that the expectations, estimates and projections reflected in the Bank’s forward looking statements are reasonable, if one or more of the risks or uncertainties materialise, including those which the Bank has identified in this Offering Memorandum, or if any of the Bank’s underlying assumptions prove to be incomplete or inaccurate, the Bank’s actual results of operations may vary from those expected, estimated or projected.

These forward looking statements speak only as of the date of this Offering Memorandum. Without prejudice to any requirements under applicable laws and regulations, the Bank expressly disclaims any obligation or undertaking to disseminate after the date of this Offering Memorandum any updates or revisions to any forward looking statements contained herein to reflect any change in their expectations with regard thereto or any change in events, conditions or circumstances on which any such forward looking statement is based. All subsequent written or oral forward-looking statements attributable to the Bank, or persons acting on the Bank’s behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Offering Memorandum. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward-looking statements.

ENFORCEABILITY OF JUDGMENTS

Courts in Ukraine will not recognise and/or enforce any judgment obtained in a court established in a country other than Ukraine unless such recognition and/or enforcement is provided for in an international treaty to which Ukraine is a party or by an “ad hoc” arrangement providing for the enforcement of judgments on a reciprocal basis that is in effect between such country and Ukraine, and then only in accordance with the terms of such treaty or arrangement. There is no such treaty in effect between Ukraine and the United Kingdom.

Ukraine is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “**New York Convention**”) with a reservation to the effect that, in respect of awards rendered in a state which is not a party to the New York Convention, Ukraine will only apply the New York Convention on a reciprocal basis. Consequently, a foreign arbitral award obtained in a state which is party to the New York Convention should be recognised and enforced by a Ukrainian court (under the terms of the New York Convention). The Subordinated Loan Agreement contains a provision allowing for arbitration of disputes with London, England, designated as the seat of arbitration. Since the United Kingdom is a party to the New York Convention, arbitral awards may be enforced in Ukraine under provisions of the New York Convention.

English Law Statement

The following is a brief summary of the position of the Noteholders under the laws of England with respect to the legal representation of investors before the courts of England. This summary is for information purposes only and shall not constitute legal advice as to the matters described therein.

The Notes will be represented by a Global Note Certificate. So long as the Notes are represented by interests in a Global Note Certificate, individual Noteholders have no direct right to commence proceedings in respect of any breach by the Issuer or the Bank. The right of enforcement lies with The Law Debenture Trust Corporation p.l.c. (the “**Trustee**”) on behalf of the Noteholders pursuant to the covenant to pay in a trust deed between the Trustee and the Issuer (the “**Trust Deed**”). No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing. In addition, as provided for in the Global Note Certificate, Noteholders could seek to exchange the Global Note Certificate for Individual Note Certificates if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) the Issuer fails to pay an amount in respect of the Notes within five days of the date on which such amount became due and payable under the Conditions; or (c) the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) which would not be suffered were the Notes evidenced by Individual Note Certificates and a certificate to such effect signed by two authorised signatories of the Issuer is delivered to the Trustee (see “*Summary of Provisions Relating to the Notes in Global Form*”).

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GENERAL INFORMATION

Incorporation of Financial Statements

The Bank's audited consolidated balance sheets and statements of income, cash flows and changes in equity as at and for the years ended 31 December 2006 and 31 December 2005 and the unaudited consolidated balance sheet and statements of income, cash flows and changes in equity for the six months ended 30 June 2007 together with notes (the "**Financial Statements**") are attached hereto and form an integral part of this Offering Memorandum. The Financial Statements, to the extent that they have been audited, have been audited by Ernst & Young Audit Services LLC, who have expressed an opinion on those statements, as stated in their report appearing herein.

Use of Proceeds

The proceeds from the offering of the Notes, being U.S.\$50,000,000, will be used by the Issuer for the sole purpose of funding the Subordinated Loan to the Bank. The Bank will receive the gross proceeds of the Subordinated Loan in the amount of U.S.\$50,000,000 and will separately pay commissions and fees in connection with the offering of the Notes and certain expenses. The Bank intends to use the proceeds of the Subordinated Loan to fund the volume increase of loans granted to its corporate and retail customers.

Availability of Documents

Copies (and English translations where the documents in question are not in English) of the following documents may be inspected at and are available from the specified offices of the paying agent (as defined in the Agency Agreement (as defined in the Conditions)) during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) so long as any of the Notes is listed on the SWX:

- (a) the agency agreement dated 5 December 2007 (the "**Agency Agreement**");
- (b) the Trust Deed, which includes the forms of the Global Note Certificate and the Individual Note Certificate;
- (c) the audited consolidated financial statements of the Bank in respect of each of the financial years ended 31 December 2006 and 31 December 2005 and the unaudited consolidated financial statements for the six months ended 30 June 2007. The Bank currently prepares audited consolidated accounts on an annual basis;
- (d) copies of the authorisations listed below; and
- (e) the Subordinated Loan Agreement.

Authorisations

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue of the Notes. The execution of the Subordinated Loan Agreement by the Bank was approved by a resolution of its management board (the "**Management Board**") dated 21 November 2007. The Bank has obtained all other necessary consents, approvals and authorisations in Ukraine in connection with the Subordinated Loan, other than the registration with the National Bank of Ukraine (the "**NBU**") to be performed following the execution of the Subordinated Loan Agreement and prior to the Borrowing Date (as defined in the Subordinated Loan Agreement).

No consents, approvals, authorisations or orders of any regulatory authorities are required by the Issuer under the laws of the United Kingdom for the maintaining of the Subordinated Loan or for the issue and performance of the Notes.

No Material Change

Save as disclosed in this Offering Memorandum, since 30 June 2007 there has been no material adverse change or any development involving a prospective material adverse change in the condition (financial or otherwise), general affairs or prospects of the Bank and its subsidiaries that is material in the context of the issue of the Notes.

Representative

In accordance with Article 50 of the listing rules of the SWX, the Issuer has appointed Walder Wyss & Partners as representative to lodge the listing application with the admission board of the SWX.

Litigation

There is no litigation or other legal or administrative or arbitration proceedings against or affecting the Bank or its subsidiaries, current or pending or, to the best of the knowledge and belief of the Bank, threatened before any court, tribunal, arbitration panel or agency which have or have had in the 12 months preceding the date of this document, a significant effect on the financial position of the Bank and its subsidiaries and which might be material in the context of the issue of the Notes.

Offering Memorandum

Copies of this Offering Memorandum are available free of charge from the Paying Agent.

RESPONSIBILITY STATEMENT

The Bank, having made all reasonable enquiries, confirms that this Offering Memorandum contains all information which is material in the context of the issuance and offering of the Notes, that the information contained in this Offering Memorandum is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Memorandum are honestly held and that there are no other facts the omission of which would make this Offering Memorandum or any of such information or the expression of any such opinions or intentions misleading. Except as provided in the next sentence, the Bank accepts responsibility accordingly. The Issuer accepts responsibility in respect of information about itself only as set out in the sections of this Offering Memorandum relating to the Issuer and the Bank accepts no responsibility for such information.

The statistical information and other data contained in Appendix A to this Offering Memorandum entitled "*Ukraine: The Banking Sector*" has been extracted from publicly available data (such as information contained on official websites and in publications of governmental agencies of Ukraine, including the NBU, and from other Government or mass media sources) and the Bank accepts responsibility for accurately extracting and reproducing such data but accepts no further responsibility in respect of such information.

No person is authorised to provide any information or to make any representation not contained in this document. Any such representation or information should not be relied upon as having been authorised by the Bank, the Issuer or the Trustee.

Neither the delivery of this document nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve an adverse change, in the condition (financial or otherwise) of the Bank since the date of this document.

PRESENTATION OF FINANCIAL INFORMATION

Financial Information

The financial information of the Bank set forth herein, has, unless otherwise indicated, been derived from its Financial Statements. The Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

Auditors

The Financial Statements (other than 2007 numbers) have been audited by the Bank’s independent auditors, Ernst & Young Audit Services LLC, located at 19A Khreschatyk Street, Kyiv 01001, Ukraine, in accordance with International Standards on Auditing (“ISA”).

Currency

In this Offering Memorandum, all references to “hryvnia” and “UAH” are to the lawful currency of Ukraine, all references to “U.S. dollars” and “U.S.\$” are to the lawful currency of the United States of America and all references to “euros”, “EUR” or “€” are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

Translations of amounts from hryvnia to U.S. dollars are solely for the convenience of the reader and are made at exchange rates established by the NBU and effective as at the dates of the respective financial information presented elsewhere in this Offering Memorandum in respect of balance sheet items. No representation is made that the hryvnia or U.S. dollar amounts referred to herein could have been converted into U.S. dollars or hryvnia, as the case may be, at any particular exchange rate or at all. The NBU’s hryvnia/U.S. dollar exchange rate as reported on 31 December 2005 was UAH 5.05 to the U.S. dollar and on 31 December 2006 was UAH 5.05 to the U.S. dollar and on 30 June 2007 was UAH 5.05 to the U.S. dollar. These are the rates used for the respective conversions of balance sheet items whereas average hryvnia/U.S. dollar exchange rates of UAH 5.05 and UAH 5.05 and UAH 5.12 to the U.S. dollar for the periods ended 30 June 2007 and 31 December 2006 and 31 December 2005, respectively, are used in the conversion of income statement items in “*Summary Financial Information and Statistical Data*”. The NBU’s hryvnia/U.S. dollar exchange rate as reported on 30 September 2007 was UAH 5.05 to the U.S. dollar.

Rounding

Some, numerical figures included in this Offering Memorandum have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them.

PRESENTATION OF STATISTICAL INFORMATION

Unless otherwise indicated, all statistical information set forth herein has been extracted from statistical data published by the Ukrainian Banking Association and the NBU.

SUMMARY

This summary may not contain all of the information that may be important to prospective purchasers of the Notes. This entire Offering Memorandum, including the more detailed information regarding the Bank's business and the Financial Statements included elsewhere in this Offering Memorandum, should be read. Investing in the Notes involves risks. The information set forth under "Risk Factors" should be carefully considered. Certain statements in this Offering Memorandum are forward-looking statements that also involve risks and uncertainties as described under "Forward Looking Statements".

The Bank

The Bank is a privately owned bank whose head office is located in Kyiv, Ukraine. The Bank is a full-service commercial bank, providing its customers with a 24-hour call-centre service, internet banking and has over 646 branches and outlets throughout Ukraine, as at 30 September 2007. As at the same date, the Bank operated Ukraine's sixth largest network of automated teller machines ("ATMs") (853 ATMs in the Ukraine) and the country's third largest network of POS terminals (6,072) according to the Ukrainian Interbank Payment Systems Member Association ("EMA") statistics. It was also ranked third in Ukraine in terms of the number of Visa and MasterCard credit cards issued. According to the Association of Ukrainian Banks ("AUB") statistics calculated under Ukrainian Accounting Standards, as at 1 October 2007, the Bank was ranked sixth largest in Ukraine in terms of total assets, fifth in terms of the aggregate volume of retail loans outstanding, fifth in terms of the aggregate value of retail deposits outstanding and seventh in terms of equity.

Overview

The Bank's principal business activities are:

- (i) retail banking, including deposit taking, account and cards services and retail lending (mortgages, car loans, instalment loans and credit cards);
- (ii) small and medium enterprise ("SME") banking, including SME lending, on-call and time deposits and plastic cards;
- (iii) corporate banking, including trade and project finance and other lending, deposits, cash settlement, currency exchange operations and securities market services; and
- (iv) financial investments, including investments in non-life insurance, leasing and consumer finance companies.

As at 31 December 2006, the Bank had total assets of U.S.\$2,107.2 million, net customer loans of U.S.\$1,405.1 million, total customer deposits of U.S.\$1,087.1 million and equity of U.S.\$311.3 million. For the year ended 31 December 2006, the Bank generated total net interest income of U.S.\$99.6 million and profit for the year of U.S.\$50.0 million.

Competitive Strengths

The Bank's management (the "**Management**") believes the following key strengths enhance the Bank's competitive position:

Strong management team

The Bank believes it has a strong management team with extensive experience in the Ukrainian banking sector. When the current management team was appointed, following the change of ownership of the Bank in early 1997, the Bank was a medium sized business with less than 20 branches, and relied heavily on a small group of corporate customers in the coal industry. Since then, the management team has successfully transformed the Bank into one of the largest commercial banks in Ukraine with a diverse business and customer mix, a large nationwide branch network and leading positions in the fast growing sectors of retail and SME banking.

Building on its position in the market as a medium sized business in 1997, by 30 September 2007 the Bank had, among other things:

- created a nationwide network of over 646 branches and outlets (becoming the sixth largest branch network in Ukraine according to the Bank's market research);
- issued over 5.95 million debit and credit cards (holding the third largest share (12.8 per cent.) of this sector in Ukraine according to EMA statistics);
- created its own network of 853 ATMs (ranking sixth in Ukraine) and 6,072 POS terminals (ranking third in Ukraine according to EMA statistics);
- increased the Bank's retail loan portfolio to approximately UAH 6.6 billion (approximately U.S.\$ 1,310.2 million) (the fifth largest in Ukraine according to AUB statistics as at 1 October 2007); and
- built the Bank's SME lending portfolio to approximately UAH 1.62 billion (approximately U.S.\$320.4 million) (currently among the top five in Ukraine according to the Bank's market research).

Extensive nationwide branch network

According to the NBU official statistics as at 30 September 2007, the Bank operated Ukraine's sixth largest banking network with 646 branches and outlets located throughout the country. The Bank's nationwide network is relatively new, and the Bank believes that as a result it does not suffer from the legacy issues that affect the networks of some of the older banks. Management believes that it is likely to be difficult and costly for any newcomer to establish a banking network of the same size and with the same characteristics as that of the Bank.

The Management believes that its large and expanding branch network puts it in a strong position among Ukrainian banks to efficiently capture the significant growth of demand for banking products in Ukraine, particularly in the retail and SME sectors.

Leading positions in retail banking

As at 1 October 2007, the Bank was Ukraine's sixth largest bank in terms of the aggregate value of retail deposits and fifth largest in terms of the aggregate value of its retail loans according to the AUB statistics. In addition, it occupies leading positions in a number of fast-growing retail sectors; the Bank is Ukraine's third largest issuer of Visa and MasterCard debit and credit cards according to EMA statistics, one of the largest credit card lenders in the country and has the fifth largest portfolio of consumer instalment loans and auto loans in Ukraine according to the Bank's market research. The Bank has approximately 3.9 million retail customers and the Management believes that the Bank has one of the most recognizable retail banking brands in the country.

The Bank believes that its market-leading retail banking expertise, large scale network and strong brand recognition enable it to: (i) better attract and retain retail customers (with a particular focus on attracting retail deposits); (ii) successfully introduce new products and penetrate new geographic areas; and (iii) make prudent credit decisions.

Strong expertise in SME lending

The Bank was one of the first Ukrainian banks to offer lending products to SMEs as a result of its participation in the Small and Medium Enterprise Support Programme of the European Bank for Reconstruction and Development (the "EBRD"). Of the five Ukrainian banks that actively participated in the programme the Bank's portion of all outstanding EBRD financed loans to SMEs in Ukraine amounted at various times to 50 per cent. Further to the experience the Bank gained as a result of its participation in the SME Support Programme of EBRD, the Bank was one of the first banks in Ukraine to focus specifically on SMEs as a separate business sector.

The Bank believes that its expertise in lending to SME customers, particularly at the micro-loan level, as well as its strategy of targeting SME customers as a separate business sector, is uncommon in Ukraine and places it in a strong position to be one of the primary beneficiaries of the increase in the SME business that the Bank expects in the near future.

Strategy

The Bank's strategy is to become one of the top five commercial banks in Ukraine in terms of assets, to hold leading positions across the various products that it offers to retail and SME customers and to have a focused product range to offer to large corporate customers. The Bank aims to achieve these objectives by:

Increasing market share in retail banking

The Management believes that the retail sector will provide one of the greatest opportunities for growth in the banking industry in Ukraine over the next few years. The Bank aims to increase its market share in the Ukrainian retail banking sector by, among other things, expanding its distribution network, enhancing its technology, further improving the quality and motivation of its workforce, increasing the cross-selling of its products and services and developing new products and services.

Distribution

By the end of 2008, the Bank expects to increase its number of branches and outlets to reach a total network size in excess of 700 branches and outlets. The Management believes that a network of this size will provide the Bank with almost complete geographic coverage of the country. The Bank will continue to modernise its existing branches and continue to develop the sales functionality of its 24-hour call-centre and internet banking, including offering customers the ability to apply for loans over the telephone and the internet.

Technology

The Bank will continue to make significant investments in its systems and processes, including its information technology ("IT") infrastructure, in order to attract more retail customers, improve the sales efficiency of the Bank's front office personnel and increase the convenience of banking for its customers. In particular, the Bank has already centralised its credit scoring system to provide customers with a faster turn-around time for making credit decisions, and is increasingly utilising its large and growing customer database to better market its retail products.

Personnel

An integral part of the Bank's strategy is to develop the professional skills and potential of its staff by implementing targeted training programmes which the Management believes will continue to enhance the quality and level of services the Bank provides to its customers. The Bank will also improve existing, and develop new, incentive schemes to encourage its employees to perform better in their sales functions in order to maximise retail sales.

Cross-selling

The Bank believes that it can utilise its market leading position in products such as credit and debit cards to cross-sell other retail products, such as mortgages and car loans, to its large and growing retail customer base. The Bank plans to appoint dedicated relationship managers across its network to focus on the cross-selling of products. Additionally, the Bank plans to increasingly link the compensation of its sales employees to their cross-selling performance. The Bank will also continue to invest in IT software and systems to enable it to identify cross-selling opportunities more effectively.

New product development

The Bank plans to expand its existing, and develop new, products and services including loans for home renovations, student loans, grace period credit cards, complex (term, savings and current) accounts for individuals and self-servicing payments conducted through the Bank's ATMs network. It is expected that such services will enable the Bank to attract new customers and increase the cross-selling of its products to existing customers.

Expanding its market position in SME banking

The Bank believes that as a result of the experience that Management gained through its participation in the EBRD's SME lending programme, it has become one of the market leaders in SME lending. Management intends to build on this experience, and the wide retail and corporate banking expertise it has acquired, in order to develop and introduce new lending, cash management and other products and services for SMEs, as well as improve existing products and services. The Bank plans to utilise its national distribution network to expand its SME customer base and improve its market position in SME banking. The Bank will also increase the use of specialised SME-related training programmes for its employees in order to improve the quality of service offered to SMEs throughout its network.

Maintaining the Bank's strong market positions in selected segments of the corporate market

The Bank will continue to pursue a focused strategy in the corporate banking sector by concentrating its efforts on the segments of the market where the Bank already has strong positions and which Management believes offer good prospects for profitable growth. These segments include trade and structured finance, project finance and leasing. The Bank will primarily target mid-market, high-growth corporate customers. It will also seek to increase the proportion of non-interest income it receives from its corporate customers and will aim to cross-sell a range of products and services, including retail banking services, to employees of its corporate customers. While its core focus will remain on banking activities, the Bank intends to continue making financial investments, particularly in the non-bank financial services and real estate industries, that management believes can provide exceptional returns, as well as complementary business opportunities.

Credit Ratings

Currently the Bank is rated by two rating agencies, Moody's and Fitch, which have issued the following credit ratings:

Moody's		Fitch	
Foreign currency long-term deposit rating	B2	Foreign currency long-term rating	B-
Foreign currency short-term deposit rating	NP	Foreign currency short-term rating	B
Outlook	Positive	Outlook	Stable
Financial Strength	E+	Individual	D/E
Senior Unsecured Debt	Ba3	Support	5

SUMMARY OF THE OFFERING

The following is a summary of certain information contained elsewhere in this Offering Memorandum. Reference is made to, and this summary is qualified in its entirety by, the more detailed information contained elsewhere in this Offering Memorandum. Terms defined in "Terms and Conditions of the Notes" and "The Subordinated Loan Agreement" have the same meanings in this section.

Issuer:	DCM Global Finance plc.
Borrower:	Open Joint Stock Commercial Bank Nadra .
Issue Amount:	U.S.\$50,000,000.
Issue price:	100 per cent. of the principal amount of the Notes .
Maturity Date:	5 December 2017.
Trustee:	The Law Debenture Trust Corporation p.l.c.
Registrar:	Citigroup Global Markets Deutschland AG & Co. KGaA.
Paying Agent:	Citibank, N.A.
Swiss Paying Agent:	UBS AG
Corporate Services Provider:	Structured Finance Management Limited.
Interest:	The Notes will bear interest from 5 December 2007 at a rate of 9.3750 per cent. per annum payable semi-annually in arrears on 5 June and 5 December in each year commencing on 5 June 2008 and ending on 5 December 2017. Provided that the Issuer shall account to Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Subordinated Loan Agreement.
Status:	The Notes will constitute the obligations of the Issuer to apply an amount equal to the principal amount of the Notes solely for the purpose of financing the Subordinated Loan to the Bank pursuant to the terms of the Subordinated Loan Agreement. The Issuer will account to the Noteholders solely for amounts equivalent to those (if any) received from the Bank under the Subordinated Loan Agreement disregarding any amounts in respect of Reserved Rights (as defined in the Conditions). Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer.
Limited Recourse:	The obligations of the Issuer to make payments under the Notes shall constitute an obligation only to pay to the Noteholders on such date upon which a payment is due in respect of the Notes, to the extent of sums of principal, interest, Additional Amounts, Tax Indemnity Amounts or other amounts, if any, actually received by or for the account of the Issuer pursuant to, or in or towards satisfaction of sums due under, the Subordinated Loan Agreement (including payments in

respect thereof received from the Trustee following a Bankruptcy Event (as defined in the Subordinated Loan Agreement) or an Issuer Event (as defined in the Trust Deed) (disregarding any amounts in respect of the Reserved Rights)).

Security:

The Notes will be limited recourse secured obligations of the Issuer, secured by a first fixed charge to the Trustee of the Issuer's (i) present and future principal, interest and other amounts payable to it by the Borrower under the Subordinated Loan Agreement, (ii) right to receive all sums which may be or become payable by the Borrower under any claim, award or judgment relating to the Subordinated Loan Agreement, and (iii) rights, title and interest in and to all sums of money now or in the future deposited in the Collection Account (as defined in the Trust Deed) and the debts represented thereby (including interest), provided, however, that the Issuer shall remain the legal and beneficial owner of such rights, benefits and interests and that Reserved Rights shall be excluded. The Issuer will also assign certain rights under the Subordinated Loan Agreement to the Trustee, each as more fully described in the Trust Deed.

Form:

The Notes will be issued in registered form. The Notes will be in the denominations of U.S.\$100,000 each and integral multiples of U.S.\$1,000 in excess thereof and will be represented by a Global Note Certificate which will be exchangeable for Individual Note Certificates in the limited circumstances specified in the Global Note Certificate.

Early Redemption:

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, upon giving notice to the Noteholders, at the principal amount thereof together with accrued and unpaid interest to the date fixed for prepayment and any additional amounts in respect thereof, upon receiving notice that the Bank has prepaid the Subordinated Loan for tax reasons or in the event that it becomes unlawful for the Issuer to fund the advance or allow to remain outstanding the Subordinated Loan under the Subordinated Loan Agreement or if the Bank has failed to obtain a Permit (as defined in the Subordinated Loan Agreement) or such Permit is withdrawn or, subject to certain NBU requirements, on 7 December 2009 or on 5 December 2012 as more fully described in Clause 6 (*Repayment and Prepayment*) of the Subordinated Loan Agreement. See also Condition 5 (*Redemption and Purchase*) in "*Terms and Conditions of the Notes*".

Issuer's Covenant:

As long as any of the Notes remains outstanding, the Issuer will not, without the prior written consent of the Trustee, agree to any amendments to or any modification or waiver of, or authorise any breach or

proposed breach of, the terms of the Subordinated Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Subordinated Loan Agreement.

Borrower's Covenants:.....

The Subordinated Loan Agreement contains covenants restricting, *inter alios*, mergers and disposals by the Bank, transactions between the Bank and its Affiliates (as defined in the Subordinated Loan Agreement) and payments of dividends by the Bank's subsidiaries. The Subordinated Loan Agreement also contains a covenant by the Bank to comply with the capital adequacy requirements of the NBU.

Events of Default:.....

In the case of a Bankruptcy Event or an Issuer Event, the Trustee may, subject as provided in the Trust Deed, take such action and institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes and under the Subordinated Loan Agreement. No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing. Subject to the repayment of the Subordinated Loan following a Bankruptcy Event, the Notes will be redeemed or repaid at the principal amount thereof, together with interest accrued to the date fixed for redemption and any additional amounts due, and thereupon shall cease to be outstanding.

Withholding Tax:.....

All payments of principal and interest in respect of the Notes will be made free and clear of and without deduction or withholding for or on account of any taxes, duties, assessments, fees or other governmental charges of the United Kingdom, Ukraine or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes, save as required by law. If any such withholding or deduction is so required, the Issuer shall (subject to certain exceptions) pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required. The sum payable by the Bank under the Subordinated Loan Agreement will be required (subject to certain exceptions) to be increased to the extent necessary to ensure that the Issuer receives a net sum sufficient to enable it to pay such additional amounts. The sole obligation of the Issuer in this respect will be to pay to the Noteholders sums equivalent to the sums received from the Bank. See Condition 7 (*Taxation*) in "*Terms and Conditions of the Notes*".

Listing:

Application will be made to list the Notes on the SWX.

Selling Restrictions:

The Notes have not been and will not be registered under the Securities Act and, subject to certain

exceptions, may not be offered or sold within the United States. The Notes may be sold in the United Kingdom and the Russian Federation only in compliance with applicable laws. The Notes have not been registered in Ukraine and may not be offered or sold within Ukraine. The offer and sale of the Notes may also be restricted in other jurisdictions. See “*Selling Restrictions*”.

Governing Law: The Notes, the Subordinated Loan Agreement and the Trust Deed will be governed by English law.

Risk Factors:..... For a discussion of certain issues that should be considered by prospective purchasers of the Notes. See “*Risk Factors*”.

SUMMARY FINANCIAL INFORMATION AND STATISTICAL DATA

The summary financial information and statistical data for the Bank set forth below should be read in conjunction with the Financial Statements included elsewhere in this Offering Memorandum. The Financial Statements have been prepared in accordance with IFRS.

The summary financial information set forth below as at and for six months ended 30 June 2006 and 2007 and the years ended 31 December 2006 and 2005 has been extracted from the Financial Statements. The information should be read in conjunction with, and is qualified in its entirety by reference to, such Financial Statements.

The U.S. dollar has been selected as the presentation currency for the Financial Statements.

	Six months ended 30 June		Year ended 31 December	
	2007	2006	2006	2005
	<i>(unaudited)</i>		<i>(audited)</i>	
	<i>(U.S.\$ thousands)</i>			
Interest income	154,479	86,585	205,411	115,752
Interest expense	(80,439)	(47,903)	(105,790)	(64,670)
Net interest income	74,040	38,682	99,621	51,082
Charge for impairment of interest earning assets.....	(13,654)	(6,926)	(18,065)	(8,127)
Net interest income after impairment of interest earning assets	60,386	31,756	81,556	42,955
Fee and commission income.....	17,600	11,140	24,271	17,146
Fee and commission expense.....	(2,530)	(1,866)	(3,063)	(3,551)
Net fee and commissions income	15,070	9,274	21,208	13,595
Gains less losses from foreign currencies and precious metals.....	2,524	3,196	6,478	3,373
Gains less losses from investment securities	18,312	12,716	40,424	27,867
Share of income in associate.....	—	—	—	492
Other income	3,379	1,960	3,117	456
Non interest income	24,215	17,872	50,019	32,188
Salaries and benefits	(27,765)	(15,554)	(41,989)	(23,076)
Other administrative and operating expenses	(24,829)	(17,825)	(37,523)	(25,045)
Depreciation and amortisation.....	(7,307)	(4,240)	(7,677)	(5,465)
Allowance for other assets and provisions.....	—	1,029	1,179	1,013
Non interest expense	(59,901)	(36,590)	(86,010)	(52,573)
Profit before income tax expense	39,770	22,312	66,773	36,165
Income tax expense.....	(9,982)	(5,589)	(16,763)	(9,059)
Profit for the period	29,788	16,723	50,010	27,106
Attributable to shareholders of the Bank	29,788	16,723	50,010	27,106

	As at 30 June		As at 31 December	
	2007	2006	2006	2005
	(unaudited)			(audited)
	(U.S.\$ thousands)			
Assets				
Cash and cash equivalents	327,091	163,832	170,023	120,202
Precious metals	3,616	4,102	3,191	1,455
Amounts due from credit institutions.....	437,916	237,935	251,996	106,515
Loans to customers	1,947,725	1,002,926	1,405,110	814,354
Assets held for sale	1,426	-	2,943	1,509
Investment securities:				
— designated at fair value through profit or loss.....	170,213	106,391	142,965	90,494
— available-for-sale	1,412	1,255	9,305	1,078
Securities pledged under repurchase agreements.....	6,978	511	—	3,865
Property and equipment.....	135,302	61,060	106,244	55,138
Intangible assets.....	2,212	286	1,175	677
Other assets.....	14,800	16,164	14,217	9,065
Total assets	3,048,691	1,594,463	2,107,169	1,204,352
Liabilities				
Amounts due to the NBU and Government	12,949	21,253	19,409	26,451
Amounts due to credit institutions	983,174	482,036	511,382	249,906
Amounts due to customers.....	1,335,579	776,136	1,087,137	659,856
Eurobonds issued.....	273,659	100,025	100,212	99,518
Other debt securities issued	51,946	22,464	40,526	3,873
Current tax liabilities	8,678	1,473	980	133
Deferred tax liabilities	28,033	16,582	28,033	13,750
Other liabilities	14,327	6,506	8,160	5,129
Subordinated loans.....	—	17,700	—	17,700
Total liabilities.....	2,708,345	1,426,475	1,795,839	1,076,316
Equity				
Share capital	83,646	57,994	83,646	56,474
Additional paid-in capital	123,582	41,105	123,582	36,621
Property revaluation reserve	20,838	1,459	21,045	1,498
Retained earnings.....	112,280	49,730	83,057	33,443
Total equity attributable to shareholders of the Bank...	340,346	150,288	311,330	128,036
Total liabilities and equity.....	3,048,691	1,576,763	2,107,169	1,204,352

	Six months ended 30 June		Year ended 31 December	
	2007	2006	2006	2005
STATISTICAL DATA				
Bank Performance Ratios				
Net interest margin ⁽¹⁾	6.09%	5.85%	6.83%	5.92%
Net non-interest income to income before operating expenses ⁽²⁾	34.67%	41.24%	41.69%	47.26%
Cost to income ratio ⁽³⁾	52.86%	55.58%	50.34%	54.27%
Return on average assets ⁽⁴⁾	2.31%	2.39%	3.02%	2.80%
Return on average equity ⁽⁵⁾	18.28%	24.03%	22.76%	27.87%
Balance Sheet Ratios⁽⁶⁾				
Customer loans to customer deposits ⁽⁷⁾	145.83%	129.22%	129.25%	123.41%
Customer loans to total assets	63.89%	62.90%	66.68%	67.62%
Equity to total assets	11.16%	9.43%	14.77%	10.63%
Total capital adequacy ratio	13.20%	12.50%	19.20%	12.80%
Asset Quality Ratios				
Overdue customer loans (gross) to total loans (gross) ⁽⁸⁾	4.87%	5.33%	4.20%	4.45%
Allowance for impairment of loan portfolio to total customer loans (gross)	3.30%	4.10%	3.64%	4.20%
Allowance for impairment of loan portfolio to overdue loans (gross).....	67.64%	76.84%	86.47%	94.36%
Allowance for impairment charge for customer loans to total customer loans (gross) ⁽⁹⁾	0.68%	0.68%	1.25%	1.00%

- (1) Net interest margin was calculated as net interest income before the impairment charge for interest earning assets divided by the simple average of interest-earning assets (i.e. loans to customers, investment securities excluding investment certificates held, amounts due to credit institutions and cash and cash equivalents) as at the beginning and the end of the period. The ratios were annualised if necessary.
- (2) Net non-interest income to income before operating expense was calculated as net non-interest income (i.e., net fee and commission income and other non-interest income) divided by income before operating expenses before provision (i.e., net non-interest income as defined above plus net interest income before impairment charge for interest earning assets).
- (3) Cost to income ratio was calculated as other non-interest expenses divided by income before operating expenses before the impairment charge for interest earning assets (as defined above).
- (4) Return on average assets was calculated as profit for the period divided by the simple average of total assets at the beginning and at the end of the period. The ratios were annualised if necessary.
- (5) Return on average equity was calculated as profit for the period divided by the simple average of equity attributable to shareholders of the Bank at the beginning and at the end of the period. The ratios were annualised if necessary.
- (6) At period end.
- (7) Customer loans and deposits include related accrued interest income.
- (8) Overdue loans comprise loans which were not repaid by borrowers at maturity.
- (9) Allowance for impairment charge to total customer loans (gross) was calculated as the charge for impairment of loans to customers for the period divided by gross customer loans at the end of the period.

DESCRIPTION OF THE TRANSACTION

The following summary contains basic information about the Notes and the Subordinated Loan and should be read in conjunction with, and is qualified in its entirety by, the information set forth under "The Subordinated Loan Agreement" and "Terms and Conditions of the Notes" appearing elsewhere in this Offering Memorandum.

The transaction will be structured as a subordinated loan to the Bank by the Issuer.

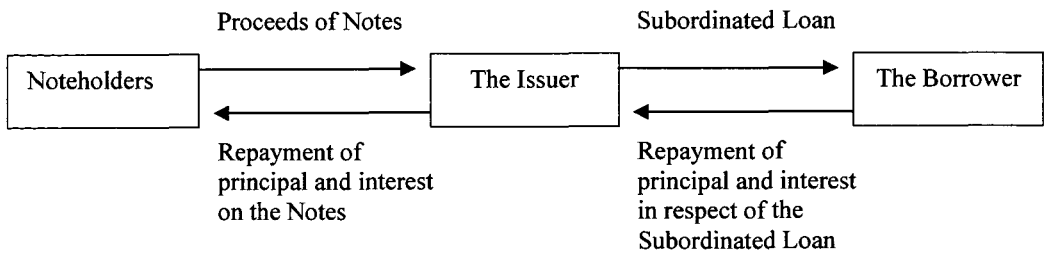
The Notes are secured limited recourse loan participation notes to be issued by the Issuer for the sole purpose of funding the Subordinated Loan. The Notes will have the benefit of, and be constituted by, the Trust Deed. As provided in the Trust Deed, the Issuer shall not pledge, charge, assign or otherwise transfer (except as expressly provided in the Trust Deed) or deal with the Subordinated Loan or the Underlying Assets (as defined in the Trust Deed) or any right arising under the Subordinated Loan Agreement or the Collection Account (as defined in the Trust Deed). The Issuer will also secure by a first fixed charge to the Trustee its (a) present and future principal, interest and other amounts payable to it by the Borrower under the Subordinated Loan Agreement, (b) right to receive all sums which may be or become payable by the Borrower under any claim, award or judgment relating to the Subordinated Loan Agreement, and (b) rights, title and interest in and to all sums of money now or in the future deposited in the Collection Account (as defined in the Trust Deed) and the debts represented thereby (including interest), provided, however, that the Issuer shall remain the legal and beneficial owner of such rights, benefits and interests and that Reserved Rights shall be excluded. The Issuer will also assign certain rights under the Subordinated Loan Agreement to the Trustee, as more fully described in the Trust Deed. Formal notice of the security interests created by the Trust Deed will be given to the Borrower and the Paying Agent who will be required to acknowledge the same.

There are no proprietary interests in the Issuer's rights under the Subordinated Loan Agreement, the Account, the Subordinated Loan or the Underlying Assets that exists for the benefit of the Noteholders. The Bank will be obliged to make payments under the Subordinated Loan Agreement to the Issuer in accordance with the terms of the Subordinated Loan Agreement to the Collection Account. The Issuer will agree in the Trust Deed not to make any amendment or any modification or waiver of or authorise any breach of or proposed breach of, the terms of the Subordinated Loan Agreement unless the Trustee has given its prior written consent or except as otherwise expressly provided in the Trust Deed and the Subordinated Loan Agreement. Following a Bankruptcy Event (as defined in the Subordinated Loan Agreement) or an Issuer Event (as defined in the Trust Deed), the Issuer will agree to act at all times in accordance with any instruction of the Trustee with respect to the Subordinated Loan Agreement, save as otherwise provided in the Trust Deed. Any amendments, modifications, waivers or authorisations made with the Trustee's consent shall be notified to the Noteholders in accordance with Condition 14 (*Notices*) and shall be binding on the Noteholders.

The Trustee will assume certain rights and obligations towards the Noteholders as more fully set out in the Trust Deed.

The Notes are limited recourse obligations of the Issuer and the Issuer will not have any obligation to the Noteholders other than the obligation to account to the Noteholders for payments of principal and interest received by it (if any) under the Subordinated Loan disregarding any amounts in respect of Reserved Rights (as defined in the Trust Deed) which the Issuer is entitled to retain from any amounts actually received.

Set out below is a diagram which represents the structure following the issue of the Notes:



RISK FACTORS

Investment in the Notes involves a high degree of risk. Potential investors should carefully review this entire Offering Memorandum and in particular should consider all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. The materialisation of these risks, individually or together, could have a material adverse effect on the Bank's business, operations and financial condition and, as a result, its ability to service its payment obligations under the Subordinated Loan Agreement and/or the trading price of the Notes.

Risks Relating to the Bank's Business and the Banking Sector

Failure to manage its growth properly

Among other things, the Bank plans to increase its market share in retail and SME banking and further expand and optimise its distribution network. Such plans may entail significant investment, as well as increased operating costs. There is no guarantee that the Bank will be able to achieve a positive return on the investment it makes in the general expansion of its business. Moreover, overall growth in the Bank's business will require greater allocation of management resources away from daily operations, continued development of the Bank's financial and information management control systems, continued training of management and other personnel and adequate supervision and maintenance of consistency in the provision of client services. If the Bank fails to adequately manage its growth, this failure may have a material adverse effect on the its business, results of operations and financial condition.

Increased competition in the Ukrainian market for financial and banking services, including competition from foreign banks

The Ukrainian market for financial and banking services is highly competitive. The Bank principally competes with a number of national and regional banks, some of which have a broader geographic reach and greater capital resources than the Bank. According to the NBU, as at 1 October 2007, there were a total of 196 commercial banks registered in Ukraine, of which 174 banks have been granted licences by the NBU to perform banking transactions. Additionally, competition between Ukrainian banks and foreign banks in Ukraine is increasing. In particular, recent acquisitions and planned acquisitions of controlling stakes in Ukrainian banks by foreign banks include the acquisitions and planned acquisitions of Bank Aval by Raiffeisen International Bank-Holding AG, UkrSibbank by BNP Paribas, IndexBank by Crédit Agricole S.A., Raiffeisenbank Ukraine by OTP Bank, Mriya Bank by Vneshtorgbank, TAS-Kommerzbank by Swedbank AB, Prestige Bank by Erste Bank, Bank Forum by Commerzbank AG and Ukrsotsbank by Bank Austria Creditanstalt AG. Furthermore, the deregulation of the Ukrainian banking market and abolition of restrictions on the opening of branch offices by foreign banks, which may take place in connection with Ukraine's expected accession to the World Trade Organisation (the "WTO"), may contribute to an increase in the number of foreign banks operating in Ukraine. As at 1 October 2007, 44 banks with foreign ownership, including 16 banks that are 100 per cent. foreign-owned, were operating in Ukraine. Access to low-cost funding and their parents' existing business in the international markets give foreign-owned banks some competitive advantages over domestically-owned banks and may result in a decrease in interest rate margins and adversely affect the profitability and financial condition of domestically-owned banks, including the Bank. See also "*Business – Competition*".

The inability of the Bank to assess credit risk accurately

Due to unpredictable economic conditions in Ukraine, it is difficult for the Bank to make an accurate assessment of default risk on loans and other instruments. The financial statements of many of the Bank's corporate clients are not prepared or audited in accordance with generally accepted accounting or auditing standards. Although the Bank requires regular disclosure of clients' financial information, such financial data may not always present a complete and comparable picture of each such client's financial condition. As at 31 December 2006, the ratio of overdue customer loans to total gross loans was 4.20 per cent. (the ratio decreased from 4.45 per cent. as at 31 December 2005). There can be no

assurance that the Bank's historic level of loan recovery will be maintained in the future. Furthermore, few of the Bank's customers have long-term credit histories and credit bureaux have only been permitted in Ukraine since 29 January 2006 and operating effectively since January 2007. The Bank may be unable to evaluate adequately the current financial condition of its existing and prospective customers or their prospects correctly which may result in the Bank facing credit delinquencies in its portfolio and, ultimately, a material adverse effect on the Bank's business, results of operations and financial condition.

A substantial percentage of the Bank's customer base is concentrated in a limited number of industry sectors and customers which, individually or collectively, may materially adversely affect the Bank's business, results of operations and financial condition

Customers in trading enterprises and oil and related industries each accounted for 14.1 per cent. and 5.7 per cent. of the Bank's total gross loans to customers at 31 December 2006 and 25.4 per cent. and 13.0 per cent., respectively, at 31 December 2005. Seasonal and cyclical trends, increases in product costs and a host of other external factors, individually and collectively, could, among other things, have a significant impact on the ability of borrowers in such industries to service their obligations to the Bank or impair the value of collateral securing those obligations which, in turn, may have a material adverse effect on the Bank's business, results of operations and financial condition.

In addition, as at 31 December 2006 and 2005, the Bank's ten largest risk exposures comprised 11.4 per cent. and 15.4 per cent., respectively, of the Bank's gross loan portfolio. There can be no assurance that the Bank's business, results of operations and financial condition will not be adversely affected by a default by one or more of the Bank's largest borrowers. In addition, this concentration of the Bank's loan portfolio means that the success of the Bank's business and health of its financial condition is, in part, dependent on the continuation and increase of the Bank's business with these large customers. If some or all of these customers prepay their loans or refinance their loans with financing provided by or otherwise move their banking business to the Bank's competitors, it could have a material adverse effect on the Bank's business, results of operations and financial condition.

The Bank could suffer losses as a consequence of a decline in the fair value of its portfolio of investment certificates.

As at 31 December 2006, the Bank's portfolio of investment certificates designated at fair value through profit and loss totalled U.S.\$119.8 million. During 2006, the Bank recognised a gain on change in the fair value of investment certificates of U.S.\$36.6 million, representing approximately 73.1 per cent. of its other non-interest income in 2006.

The investment certificates held by the Bank are issued by investment funds which are independently owned and managed by Ukrainian asset management companies over which the Bank exercises no control. The Bank does not have any direct or indirect ownership in the respective asset management companies, the investment funds (other than investment certificates) and the companies, whose shares were acquired by the investment funds for their investment portfolios. Taking into consideration the specifics of the above mentioned Ukrainian legislation, the Bank also considers that it neither exercises nor is in a position to exercise control over any of the above entities in any way.

Furthermore, there is no liquid, quoted market for either the investment certificates or the securities of the companies underlying the investment certificates. The fair value of the investment certificates was estimated on the basis of the fair values of the assets in the investment portfolios of each investment. The valuation of the assets of the investment funds is performed by independent appraisers at least annually.

The fair value of one of the companies and its subsidiary, which are owned by one of the investment funds assumes that the Bank will continue its commercial arrangements with those entities on at least the same volumes and similar terms and conditions; the Bank is currently the sole customer of those entities. Failing which, it is assumed that the Bank's custom will be replaced by a similar amount of business with new customers.

There can be no assurance that the fair value of the investment certificates in the Bank's portfolio of investment securities will continue to rise, or that circumstances affecting the asset management companies or the investee companies underlying the investment certificates will not result in a decline in the fair value of the investment certificates. This risk is accentuated by the Bank's lack of control over the asset management companies and the investee companies underlying the investment certificates. In addition, the lack of a liquid market for the investment certificates may make it difficult for the Bank to dispose of its interest in the investment certificates at a fair price, or at all. Any decline in the value of the investment certificates, or loss recognised on a sale of the investment certificates, could have a material adverse affect on the Bank's results of operations and financial condition.

Exposure to market risks, including interest rate risks

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of financial instruments or the future cash flows from financial instruments. In particular, the Bank is exposed to risks resulting from mismatches between its short-term interest earning assets and its longer term interest bearing liabilities. The shorter term of the loan portfolio makes it more susceptible to variations in interest rates. If interest rates were to decline, the Bank would earn less interest income in the short-term while its interest expense, based on existing long-term indebtedness, would remain unchanged. If interest rates were to increase, the Bank may be unable to pass on any increase to customers. Moreover, in the long term, the Bank would be affected by such increases in interest rates when it refinances its long-term indebtedness. With increased interest expense and static or decreased interest income, the Bank's profitability would be adversely affected. Therefore, while the Bank monitors interest rates with respect to its interest-earning assets and its interest-bearing liabilities, and includes a standard clause in its loan agreements providing it with the option to change the rates at its own discretion, interest rate movements may adversely affect the Bank's results of operations and financial condition.

Exposure to currency risk may increase as the Bank continues to access international capital markets

Many of the Bank's assets and liabilities are denominated in foreign currencies, in particular U.S. dollars and euro, and although the Bank endeavours to reduce currency risk, fluctuations in exchange rates may adversely affect the Bank's business, results of operations and financial condition.

The Bank plans to continue to access the international capital markets, which subjects it to risks inherent in currency fluctuations. Although the Bank seeks to minimise such risks, there is no guarantee that these measures will be effectively implemented or that, even if implemented, they will minimise the impact of currency volatility on the Bank or that they will be available at all. If the Bank's risk management procedures are not successful in this regard, its business, results of operations and financial condition may be adversely affected.

Exposure to liquidity risks, and failure to mitigate these risks

In common with other banks in Ukraine, the Bank has historically relied almost exclusively on corporate and retail depositors to meet its funding needs because access to other funding sources has been limited up to now. However, Ukrainian companies usually withdraw their deposits on a frequent basis and are not typically in a position to place significant funds with the Bank on a long-term basis. In addition, due to the generally low liquidity of the Ukrainian market, there are limited opportunities for the Bank to sell any of its assets other than those that are highly liquid, such as State securities. Therefore, there can be no assurance that decreases in corporate client deposits and/or unexpected withdrawals of retail deposits will not result in liquidity gaps that the Bank cannot cover.

Further, the relative immaturity of the Ukrainian banking industry, the limited capacity of the Ukrainian Fund for Guaranteeing the Deposits of Individuals as well as the absence of a corporate deposit guarantee fund contribute to a lack of confidence in the banking sector and potential volatility in the sector's deposit base. As a consequence, political or economic instability can result in

substantial withdrawals of deposits, both corporate and retail. Thus, banks in Ukraine faced substantial withdrawal of deposits in the period of uncertainty surrounding the 2004 presidential elections and a number of the Ukrainian banks, including the Bank, were provided with short term loans from the NBU to alleviate their liquidity problems See “*Business — History*”. Any future political or economic instability in Ukraine could result in similar withdrawals of deposits and expose the Bank to a major liquidity gap.

Although the Bank is currently trying to diversify its funding sources by entering into syndicated facilities and issuing capital market instruments (such as the Bank’s U.S.\$100 million note offering in November 2005), the ability of the Bank to attract such funds could be affected by a number of factors, including Ukrainian economic and political conditions, the state of the Ukrainian financial markets and general international economic conditions.

The Bank’s business is highly dependent on its information technology system, and disruptions of service and/or an inability to scale up to demand may adversely affect the Bank’s business, results of operations and financial condition

The Bank’s financial performance and its ability to meet its strategic objectives and to manage the further growth of its branch network and operations will continue to depend, to a significant extent, upon the efficient functioning of its IT systems and its ability to increase the capacity of those systems. There can be no assurance that a disruption (even short-term) in the Bank’s IT systems or delays or other problems in increasing the capacity of those systems, or increased costs associated with them, will not have a material adverse effect on the Bank’s business, results of operations and financial condition.

In line with the Bank’s strategy to expand its business, the Bank is in the process of upgrading its IT systems, which it expects to complete within the next two years. If the Bank is unable to successfully complete its IT systems upgrade, the implementation of that strategy may be impaired. Further, without support from upgraded IT systems, the Bank may be unable to compete effectively with other banks which are expanding their operations in the Ukrainian regions and enhancing the efficiency of their branches and the quality of their products and services.

The Bank’s business entails operational risk

The Bank is exposed to many types of operational risk, including the risk of fraud by employees or outsiders, unauthorised transactions by employees or operational errors, including clerical or record keeping errors or errors resulting from faulty computer or telecommunications systems.

In addition, the Bank’s ability to operate its business depends on its ability to protect its computer systems, networks and databases from intrusion by third parties through the internet or otherwise. Although the Bank believes that its computer systems, networks and databases are well protected from unauthorised intrusion by a range of both physical and programming measures, no assurance can be given that it will be able to protect effectively its computer systems, networks and databases from intrusion in the future.

The Bank maintains a system of controls designed to keep this operational risk at appropriate levels. However, there can be no assurance that it will not suffer losses if these controls fail to detect or contain operational risk in the future. See “*Risk Management — Operational Risk*”.

Failure by the Bank to comply with applicable Ukrainian legislation and regulations of the NBU, including with respect to capital adequacy or other ratios, may result in the revocation of the Bank’s licence

The Basel Committee on Banking Supervision (the “**Basel Committee**”) has set international standards for capital adequacy for banks, which the Bank chooses to adhere to in order to participate in the international financial markets. The NBU has also established minimum capital adequacy ratios that are mandatory for Ukrainian banks. Such ratios are defined based on a methodology which is generally consistent with the applicable standards of the Basel Committee (although there are

certain discrepancies, e.g., under the NBU methodology, certain assets are assigned higher risks compared to the applicable standards of the Basel Committee). In addition, the NBU's Board Resolution No. 368, dated 28 August 2001, which authorised the Directive on Ukrainian Banking Activity Regulation (the "**Banking Regulation Directive**"), set forth capital adequacy ratios and the rules upon which the calculations of the capital adequacy ratio are based. With effect from 1 March 2004, the NBU's mandatory minimum regulatory (Tier I and Tier II) capital adequacy ratio was increased from 8 per cent to 10 per cent. The Bank's capital adequacy ratio calculated in accordance with the NBU methodology, as at 31 December 2006, was 13.35 per cent. If the Bank's capital adequacy ratio were to fall below the threshold, the Bank would be in violation of the NBU mandatory ratio and the NBU could impose various administrative fines or, if such ratio were equal to or less than one third of the statutory minimum capital adequacy ratio, revoke the NBU's banking licence.

In addition, the Banking Regulation Directive provides general rules regarding the submission by banks of statistical information to the NBU and calculation of ratios based on the Bank's financial statements. Although the NBU, in cooperation with the International Bank for Reconstruction and Development ("**IBRD**") and the International Monetary Fund (the "**IMF**"), is working on improving Ukrainian banking regulation to be in compliance with international standards, regulatory standards applicable to banks in Ukraine and the oversight and enforcement thereof by Ukrainian regulators may differ from those applicable to banking operations in more highly developed regulatory regimes. If the Bank fails to comply with applicable Ukrainian legislation and regulations of the NBU and such failure results in the loss of significant assets or revenues and the insolvency of the Bank, the NBU may revoke the Bank's banking licence, which would result in the Bank ceasing to carry out its activities.

The Bank may be unable to recruit or retain sufficient experienced and/or qualified personnel

The Bank is dependent on members of its Management Board for the implementation of its strategy. In addition, the Bank's future success will depend, in part, on its ability to continue to retain, motivate and attract qualified and experienced banking and management personnel. Competition in the Ukrainian banking industry for personnel is considerable. In order to recruit qualified and experienced employees and to minimise the likelihood of their departure to other banks, the Bank attempts to provide an attractive salary package that is in compliance with standards and safeguards stipulated by Ukrainian employment legislation. The Bank's failure to recruit, train and/or retain necessary personnel could have a material adverse effect on its business, financial condition, and results of operations and prospects. See "*Management*".

The Bank's independent auditors have identified a material weakness in the Bank's internal controls over the closing process relating to the preparation of the Bank's IFRS annual and interim financial statements

In common with other banks in Ukraine and other CIS countries, the Bank's current system of internal control over financial reporting is not designed for the preparation of IFRS financial statements which may lead to potential inaccuracies in the production of financial statements under IFRS.

This is largely driven by a shortage of qualified IFRS accounting personnel, which is a result of a severe lack of qualified IFRS personnel in Ukraine and other CIS countries, and the limitations of the Bank's accounting system used to collect and produce information ready for use by the Bank in connection with the preparation of its IFRS annual and interim financial statements. Under International Standard Auditing No. 315, a material weakness in internal control is one that could have a material effect on the consolidated IFRS annual or interim statements.

Management believes that it has compensated for this material weakness in internal control over financial reporting by having established a group of specialists dedicated to the preparation of its IFRS financial statements, by hiring additional IFRS qualified personnel, by increasing IFRS related training for its personnel, by implementing additional information system capabilities to support the

IFRS reporting requirements and by attempting to harmonise those requirements of statutory reporting, Ukraine regulatory reporting, tax reporting and financial reporting under IFRS that conflict.

The Bank's independent auditors considered this material weakness in determining the nature, timing and extent of the procedures it performed in its audit of the Bank's annual financial statements, and it did not affect their audit report on the annual financial statements contained herein.

While the Bank is taking steps to address this material weakness, it may not be successful in remedying the material weakness in sufficient time to prevent the above stated deficiencies in the Bank's internal control over financial reporting in the future. In addition, the Bank's rapid growth will place additional strain on its accounting personnel and management information and financial reporting systems, and may make it more difficult for the Bank to remedy this material weakness. Although the Bank believes that the foregoing weakness is not expected to prevent the Bank from being able to produce its IFRS annual or interim financial statements in a timely fashion under its applicable legal and contractual periodic reporting obligations, if the Bank is unable to remedy these material weaknesses or prevent future weaknesses, it may not be able to prevent or detect a material misstatement in such financial statements. Any such misstatement in its financial statements or the perceived weaknesses in its accounting personnel, management information and/or its financial reporting systems may have a material adverse effect on, among other things, its ability to pursue its strategies, maintain its competitive strengths or raise debt or equity financing in the future, which could have a material adverse effect on its business, financial condition, results of operations or prospects. Notwithstanding the above, the Bank believes that its financial systems are sufficient to ensure compliance with the requirements of the SWX Swiss Exchange.

If the Bank fails to maintain the NBU permit, to the extent such Permit is required to conduct its operations, or if the Permit is revoked with respect to any of the Bank's operations, the Bank's business may be adversely affected

In addition to a general banking licence, certain banking operations in Ukraine require a permit from the NBU. The Bank has obtained this permit with respect to all banking operations it performs for which such permit is required, including applicable banking operations involving foreign currencies. Although the Bank has been successful in extending the NBU permit to all the banking operations it currently carries out, there is no assurance that it will be able to maintain such permit in connection with all such operations or extend it to other applicable operations in the future. In the event that the Bank's permit is revoked in respect of certain operations, applying for a new permit is a burdensome and time-consuming process. The NBU may, in its discretion, deny any request by the Bank for such permit, which could adversely affect its business, results of operations and financial condition. The revocation of the NBU permit in respect of any of the Bank's operations, a breach of its terms by the Bank or its failure to extend such permit to all of its operations in the future could result in the Bank being unable to continue some or all of its banking activities and in penalties, such as fines being imposed on the Bank by the NBU. Any such failure could, in turn, affect the Bank's ability to fulfil payment obligations and could have a material adverse effect on the Bank's business, results of operations and financial condition.

The Bank's inability to recover on security, guarantees and other assurance arrangements may lead to losses

The Bank generally enters into security arrangements (which includes pledges, mortgages and sureties) for its loans. Under Ukrainian law, security is considered a secondary obligation which automatically terminates if the secured obligation terminates or is declared invalid. Furthermore, foreclosure under Ukrainian law generally requires a court order and a public sale of the collateral, thereby making it a complex and time-consuming process. A mortgage under Ukrainian law is a pledge over real property, such as land and buildings. Pledges and mortgages require state registration to have priority over any unregistered or subsequently registered pledge or mortgage on the same property. Therefore, the Bank may have difficulty foreclosing on collateral or enforcing other security when clients default on their loans.

Even if the Bank is successful in foreclosing on collateral, it may be difficult to find buyers for such collateral, and it may be sold for significantly less than its appraised value. Failure to recover the expected value of collateral may expose the Bank to losses which may adversely affect the Bank's business, financial position and results of operations.

A decline in the value of or illiquidity of the collateral securing the Bank's loans may adversely affect the Bank's loan portfolio

A substantial proportion of the Bank's loans to legal entities and individuals is secured by collateral. A downturn in the relevant market or a general deterioration of economic conditions in Ukraine may result in a decline in the value of collateral securing a loan to a level lower than the amount of the outstanding principal and accrued interest on such loan. If collateral values decline, they may not be sufficient to cover uncollectible amounts on the Bank's secured loans. The Bank's loan agreements with legal entities usually provide for a right to request additional collateral if the value of the existing collateral declines. The Bank has conservative collateral requirements, and the usual collateral to loan ratio is 1.5.

Nevertheless, a decline in the value of collateral securing the Bank's loans or its inability to obtain additional collateral may, in some cases, require the Bank to reclassify the relevant loans, establish additional allowances for loan impairment and increase reserve requirements which, in turn, may adversely affect the Bank's loan portfolio.

The Bank's planned expansion of its retail banking operations may lead to the assumption of increased credit risk

The Bank plans to increase the number of loans extended to individuals. Increased lending to individual customers may increase the credit risk exposure in the Bank's loan portfolio. Individual customers, typically, have less financial strength, and negative developments in the Ukrainian economy could affect these borrowers more significantly than companies. In addition, credit bureaux are not fully developed in Ukraine and it is, therefore, difficult to assess accurately the credit risk of individuals in particular. As a result, lending to individuals represents a relatively higher degree of risk compared to lending to other borrowers, which may result in higher levels of non-performing loans. This, in turn, could result in higher levels of provisions for loan impairment. Although Ukrainian bankruptcy laws contain certain provisions relating to the bankruptcy of individuals, there are no procedures in place for the initiation of bankruptcy proceedings with respect to individuals. Thus, despite the Bank's general policy of requiring collateral to secure loans, it may be unable to recover defaulted loans advanced to individuals, which would have a material adverse effect on the Bank's results of operations and financial condition.

Insurance coverage may not adequately cover the Bank's assets or those pledged to it by borrowers

Ukrainian banking or other legislation does not require a bank to maintain insurance in respect of its material assets or liabilities (other than the mandatory insurance of individual deposits). Although the Bank maintains voluntary insurance on its material assets and additionally requires that certain collateral posted by its borrowers be insured, not all of the Bank's assets and liabilities are covered by such insurance. Furthermore, the Ukrainian insurance industry is not well developed and many forms of insurance offered in developed countries are unavailable to the Bank on terms common in developed countries. The Bank may become subject to uninsured losses and to claims not covered or inadequately covered by insurance or to uninsured losses in relation to collateral. Any such uninsured losses or claims could have a material adverse effect on the Bank's business, results of operations and financial condition.

Regulation of the banking industry is subject to change

The Banking Regulation Directive set forth capital adequacy and other ratios and limits, including concentration, liquidity ratios, open currency position limits and the rules upon which the calculations of the capital adequacy and other ratios and limits are based. The Banking Regulation Directive also

provides general rules for submitting statistical information to the NBU. In addition, the NBU established and services from time to time mandatory levels of provisioning for different groups of assets classified according to NBU regulations.

From 31 December 2002, all banks with subsidiaries under their control are required to file consolidated financial statements with the NBU. See “*Appendix A — Ukraine: The Banking Sector*”. The Bank does not presently have any subsidiaries.

Notwithstanding the Banking Regulation Directive, regulatory standards applicable to banks in Ukraine and the oversight and enforcement thereof by Ukrainian regulators may differ from those applicable to banking operations in more highly developed regulatory regimes. There can be no assurance that the NBU will not implement regulations or policies, including policies or regulations or legal interpretations of existing banking or other regulations, relating to or affecting taxation, interest rates, inflation, exchange controls, or otherwise take action that could have a material adverse effect on the Bank’s business, financial condition or results of operations or that could adversely affect the market price and liquidity of the Notes. Although the Bank has historically strictly adhered to NBU regulations and requirements, if the Bank were to fail to comply with applicable Ukrainian legislation and regulations of the NBU and this results in the loss of significant assets and insolvency of the Bank, the NBU could revoke the Bank’s banking licence, which would result in the Bank ceasing to carry out its activities.

Risks Relating to Ukraine

General

Since independence in 1991, Ukraine has undergone a substantial political transformation from a constituent republic of the former Soviet Union to an independent sovereign democratic state. Concurrently with this transformation, Ukraine has been progressively changing to a market economy, and its achievements in this respect have recently been recognised by the European Union, which gave Ukraine market economy status at the end of 2005, followed by the United States, which also granted Ukraine such status in February 2006. Although some progress has been made since independence in reforming Ukraine’s economy and its political and judicial systems, to a large extent Ukraine still lacks the necessary legal infrastructure and regulatory framework that is essential to support market institutions, the effective transition to a market economy and broad-based social and economic reforms. Set forth below is a brief description of some of the risks incurred by investing in Ukraine, although the list is not an exhaustive one.

Emerging markets such as Ukraine are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt the Bank’s business, results of operations and financial condition

Investors in emerging markets such as Ukraine should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging economies such as Ukraine’s are subject to rapid change and that the information set out in this Offering Memorandum may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable only for sophisticated investors who fully appreciate the significance of the risks involved. Investors are urged to consult with their own legal and financial advisers before making an investment in the Notes.

The disruptions recently experienced in the international capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Companies located in countries in the emerging markets may be particularly susceptible to these disruptions and reductions in the availability of credit or increases in financing costs, which could result in them experiencing financial difficulty.

In addition, the availability of credit to entities operating within the emerging markets is significantly influenced by levels of investor confidence in such markets as a whole and so any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention in one market) could affect the price or availability of funding for entities within any of these markets.

Thus, even if the Ukrainian economy remains relatively stable, financial turmoil in any emerging market country could seriously disrupt the Bank's business, which would have a material adverse effect on its business, results of operations and financial condition.

Official statistics and other data in this document may not be reliable

Official statistics and other data published by Ukrainian state authorities may not be as complete or reliable as those of more developed countries. Official statistics and other data may also be produced on bases different from those used in more developed countries. The Bank has not independently verified such official statistics and other data and any discussion of matters relating to Ukraine in this Offering Memorandum is, therefore, subject to uncertainty due to questions regarding the completeness or reliability of such information.

Specifically, investors should be aware that certain statistical information and other data contained in this Offering Memorandum has been extracted from official governmental sources in Ukraine and were not prepared in connection with the preparation of this Offering Memorandum. The Bank only accepts responsibility for the correct extraction and reproduction of such information.

Ukraine may experience political instability or uncertainty

Historically, a lack of political consensus in the *Verkhovna Rada* (Parliament) of Ukraine has made it consistently difficult for the government to sustain a stable coalition of parliamentarians to secure the support necessary to implement a series of policies intended to foster liberalisation, privatisation and financial stability. Since independence in 1991, governmental instability has been a feature of the Ukrainian political scene, with Ukraine having experienced 15 changes in prime minister and various actions and decisions being taken based primarily on political considerations. The government's policies and the political leaders who formulate and implement them, are subject to rapid change.

Following the second round of presidential elections in November 2004, mass demonstrations and strikes took place throughout Ukraine to protest against the election process and results which resulted in a revote of the presidential runoff on 26 December 2004 resulting in the victory of Mr. Viktor Yushenko.

On 1 January 2006, a constitutional reform limiting the powers of the President and transferring certain powers of the President to the Parliament and the Prime Minister was partially implemented. Other aspects of the constitutional reform came into force when the new Parliament held its first session on 25 May 2006. The reform introduced, in particular, the requirement to create a majority coalition in Parliament, the right of such coalition to submit nominations for the roles of the Prime Minister and other members of the Cabinet of Ministers, new rights of the President to dissolve Parliament, and the extension, from four years to five years, of the length of terms of both the Parliament and local councils. The reform was intended to provide a greater degree of stability and ensure more responsible government policies, although there can be no assurance that it will achieve these results.

On 2 April 2007, President Yushenko signed a decree dissolving the Parliament of Ukraine. The President claimed that the process of forming a majority coalition in the Parliament that had evolved during the recent months had breached the procedure set out in the Constitution of Ukraine. On 27 May 2007 to hold early parliamentary elections on 30 September 2007.

On 15 October 2007, the Central Election Commission (the "CEC") adopted the resolution on the results of the parliamentary election. According to the CEC resolution, out of 20 political parties and election blocks participating in the elections only five were able to collect three per cent. or more of the national vote required to gain seats in the Parliament. In particular, *Partiya Regioniv* (the Party of

Regions) led by Viktor Yanukovych, President Yushchenko's main opponent at the 2004 presidential elections formed the largest faction with 175 seats out of 450 total seats, former Prime-Minister Yuliya Tymoshenko's Bloc obtained 156 seats, the pro-presidential *Blok Nasha Ukrayina – Narodna Samooborona* (Our Ukraine – People's Self-Defence Bloc) obtained 72 seats, the Communist Party of Ukraine obtained 27 seats and the moderate centrist bloc headed by the former Parliament Speaker Volodymyr Lytvyn obtained 20 seats.

On 17 October 2007, a number of political parties having participated in the parliamentary elections, including the Communist Party of Ukraine and the Socialist Party of Ukraine, filed a suit to the Higher Administrative Court of Ukraine claiming certain actions of the CEC to be in violation of the applicable Ukrainian legislation and requesting the Court to order vote recount. Furthermore, upon the request of the Communist Party of Ukraine, the Court has suspended official promulgation of the elections results pending the decision on merits of the case, thereby preventing the newly elected members of the Parliament from taking offices which may not be carried out prior to such promulgation. On 25 October 2007, the Court dismissed the claim of the political parties and on 27 October the results of 2007 parliamentary elections were officially promulgated.

On 23 November 2007, the newly elected Parliament gathered for its first session. In accordance with the Constitution of Ukraine, the government resigned on the first session of the Parliament, but will act until the new government is formed. On 29 November 2007, a majority coalition was formed in Parliament comprising Yuliya Tymoshenko's Bloc and Our Ukraine – People's Self-Defence Bloc. However, there can be no assurance that the forming of such a coalition will result in improvements of the political situation in Parliament or that such coalition will be maintained.

President Yushchenko and the government face a number of challenges which include the appeasement of divergent factions within the eastern and western regions of Ukraine, the improvement of relations with Russia, the implementation of unpopular economic reforms, and the establishment of a political consensus. The long-term effects of the 2007 political events are not yet known, and it is possible that reform and economic growth may be hindered as a result of such instability. Any changes affecting the government or involving a rejection or reversal of reform policies favouring privatisation, industrial restructuring and administrative reform may have a material adverse effect on the economy and, thus, on the business, results of operations and financial condition of the Bank.

Changes in Ukraine's relationships with Western governments and institutions may affect the economy of Ukraine

Ukraine continues to pursue the objectives of a closer relationship with the North Atlantic Treaty Organisation, joining the WTO in the near future and negotiating an association agreement with the European Union (the "EU"). With effect from 30 December 2005, Ukraine was given market economy status by the EU.

In recent years, Ukraine strengthened its relationship with the United States by being part of the coalition that sent troops to Iraq in support of the US backed military campaign there. After President Yushchenko's visit to Washington, D.C. in early 2005, an additional U.S.\$60 million of financial assistance was allocated by the United States to Ukraine, and in August 2005, the US administration lifted tariff sanctions that had been in place since 2002 on certain Ukrainian exports to the United States. Furthermore, as of February 2006, the United States recognised Ukraine as a market-based economy, an initial step in promoting investment and trade between the US and Ukraine and, in March 2006, Ukraine and the United States entered into a bilateral agreement on market access as part of Ukraine's WTO accession negotiations, which agreement will help Ukraine complete its WTO accession negotiations. As at 21 November 2007, Ukraine had concluded bilateral negotiations on market access issues with all 51 members of the WTO Working Party on Ukraine's accession to the WTO (including Vietnam, which has recently joined the WTO Working Party on Ukraine's accession, and the United States). Ukraine has also adopted a number of laws drafted in preparation for the WTO accession. In the course of the examination of the adopted laws, the WTO Working Party on Ukraine's accession put forward certain additional requirements relating to the legislation of Ukraine.

On 31 May 2007, the Parliament adopted a number of laws addressing such requirements, and these laws were signed by the President on 11 June 2007. Ukraine expects that the report of the WTO Working Party on Ukraine's accession will be approved by the end of 2007.

While Ukraine's relations with the United States and other Western nations appear to be improving, any major changes in such relations, in particular, any changes adversely affecting the ability of Ukrainian manufacturers to access world export markets, may have negative effects on the Ukrainian economy and, thus, may adversely affect the Bank's business, results of operations and financial condition.

Relationships with Russia and other regional governments upon which Ukraine depends for its economic growth may deteriorate and affect the Bank's business

Ukraine generally maintains positive relations with its neighbours. Taking into account its geographical position and history, Ukraine's closest relationships are with the Russian Federation and Poland. Significant relations have also been developed with other countries of the EU (including Germany, Hungary, Romania and Slovakia), the Commonwealth of Independent States (the "CIS") countries (including Belarus and Georgia), as well as Turkey. As an energy-dependent country, Ukraine relies to a significant extent on supplies of energy resources from, or deliveries of such resources through, Russia. As a consequence, it has often happened in recent years that any major advances or declines in the relationship between the two countries were reflected by the quality of their relations in the energy sphere. At the beginning of August 2004, the *Gosudarstvennaya Duma* (Parliament) of the Russian Federation adopted a law amending certain provisions of Russia's Tax Code. As a result of these amendments, exports of oil and gas from Russia to Ukraine since 1 January 2005 have been subject to a zero per cent. value added tax ("VAT") rate instead of the previously effective 18 per cent. VAT rate, which was generally perceived as an incentive offered to Ukraine to develop a closer economic integration with Russia. However, the 2004 Ukrainian presidential elections have, to a certain extent, negatively affected relations between Ukraine and Russia.

Since 2005, Russia has repeatedly increased its oil export duty. For example, Russian oil export duty rose from U.S.\$101.00 per tonne as of 1 December 2004 to U.S.\$237.60 per tonne as of 1 October 2006. Following the decreases in world oil prices, Russian oil export duty was decreased to U.S.\$180.70 per tonne from 1 December 2006, and to U.S.\$156.40 from 1 April 2007, in line with the general decrease in export duties for various oil products. However, the Russian oil export duty was increased to U.S.\$250.30 per tonne from 1 October 2007 and is expected to further increase to U.S.\$275.40 per tonne from 1 December 2007.

In addition, gas prices in Ukraine have risen as a result of recent disagreements between National Joint-Stock Company "Naftogas of Ukraine" ("Naftogas"), which is the Ukrainian monopoly state-owned gas company, and Open Joint-Stock Company "Gazprom" ("Gazprom"), which is the Russian gas monopoly, over the prices and methods of payment for gas delivered by Gazprom to, or for transportation through, Ukraine. Until December 2005, Ukraine was receiving natural gas from Russia at a price of U.S.\$50.00 per 1,000 cubic metres. However, on 1 January 2006, Gazprom temporarily halted supplies of natural gas to Naftogas in connection with a dispute over an increase in prices. On 4 January 2006, Gazprom, Naftogas and RosUkrEnergo AG, a gas trading company incorporated in Switzerland, entered into a series of new agreements for the supply of natural gas to Ukraine and supplies resumed. The parties agreed upon an increased price for natural gas at U.S.\$95.00 per 1,000 cubic metres for the first half of 2006 (and later confirmed such price for the remainder of the year) and on the transit fee for Russian natural gas through the territory of Ukraine at a rate of U.S.\$1.60 per 1,000 cubic metres for each 100 km for the period until 1 January 2011. The parties agreed that the price and the transit fee may be changed only upon the parties' mutual agreement. In addition, on 2 February 2006, Naftogas and RosUkrEnergo AG established a 50-50 joint venture, Closed Joint-Stock Company "Ukrغاز-Energo" ("Ukrغاز-Energo"), to purchase natural gas supplied by RosUkrEnergo AG to supply the domestic demand for gas in Ukraine. During 2007, RosUkrEnergo AG is expected to be supplying natural gas to Ukrغاز-Energo at a price of

US\$130 per 1,000 cubic metres. The total volume of gas to be supplied by RosUkrEnergo AG to Ukraine for domestic consumption in 2007 has been agreed at no less than 55 billion cubic metres. The negotiations on the price for and volume of natural gas to be supplied to Ukraine in 2008 are currently underway.

On 1 October 2007, Russia threatened to cut off the supply of gas to Ukraine in order to apply pressure to Naftogas and Ukgaz-Energo to settle outstanding debts owed by Naftogas to Ukgaz-Energo, which, as at 5 October 2007 amounted to approximately U.S.\$700 million, as well as outstanding debts owed by Ukgaz-Energo to RosUkrEnergo AG. On 9 October 2007, Naftogas, Ukgaz-Energo, RosUkrEnergo AG and Gazprom reached a settlement agreement on the outstanding debts for the natural gas providing for the agreement of the parties to complete repayment of relevant debts by 1 November 2007. Naftogas used a prepayment of transit fees for services to be provided by Naftogas from October to December 2007, from Gazprom and RosUkrEnergo AG, as well as payments from other sources, to settle its debt to Ukgaz-Energo; and Ukgaz-Energo intended to use the funds received from Naftogas to settle its debt to RosUkrEnergo AG. By 1 November 2007, the U.S.\$700 million owed by Naftogas to Ukgaz-Energo had been repaid in full.

Since January 2006, Ukraine and Russia have also had certain disagreements in connection with the stationing of the Russian *Chernomorskiy Flot* (Black Sea Navy) in Ukrainian territory, as well as in connection with Russia's ban on all imports of livestock and milk products from Ukraine. Moreover, more than 25 per cent. of Ukrainian exports of goods are currently made to Russia, while much of Russia's energy exports are delivered to the EU via Ukraine. The considerable dependence of the Ukrainian economy on the Ukrainian export of energy resources, accompanied by a possible increase in the prices for oil and gas by Russia, may adversely affect the pace of economic growth in Ukraine, and consequently, the operations of the Bank. Further, the gas price increases have increased pressure for reforms in the energy sector and modernisation of major energy-consuming industries of Ukraine through the implementation of energy-efficient technologies and modernisation of production facilities. However, there can be no assurance that this will take place.

Any major changes in Ukraine's relations with Russia, in particular any such changes adversely affecting supplies of energy resources from Russia to Ukraine and/or Ukraine's revenues derived from transit charges for Russian oil and gas, may also have negative effects on the economy and thus on the business of the Bank.

Economic considerations

While Ukraine has made significant gains in increasing its gross domestic product ("GDP"), decreasing inflation, stabilising its currency, increasing real wages, and improving its trade balance, the political instability in the fourth quarter of 2004 negatively impacted the main economic indicators at that time. However, Ukraine's economy has in the main survived the 2004 political upheaval. According to the State Statistics Committee of Ukraine, the rate of inflation for the ten months ended 30 October 2007 was 11.7 per cent. (compared to 8.7 per cent. for the same period in 2006). The rate of inflation for 2006 was 11.6 per cent, which is higher than the inflation rate of 10.3 per cent recorded in 2005, but lower than the inflation rate of 12.3 per cent recorded in 2004. According to the forecasts of the Cabinet of Ministers of Ukraine, the rate of inflation is expected to be 6.8 per cent in 2008.

According to the State Statistics Committee of Ukraine, Ukraine's GDP growth rate amounted to 7.3 per cent. for the ten months ended 30 October 2007 (compared to 6.5 per cent. for the same period in 2006). The GDP growth rate was 7.1 per cent for 2006, compared to the GDP growth of 2.7 per cent recorded in 2005. Ukraine's GDP growth rate was 12.1 per cent and 9.6 per cent, in 2004 and 2003, respectively. According to the forecasts of the Cabinet of Ministers of Ukraine, the GDP growth rate is forecasted for 2008 at the level of 7.2 per cent. An economic downturn may have an adverse effect on the business of the Bank and its results of operations and financial condition.

On 21 April 2005, the NBU set the UAH/USD exchange rate at UAH 5.05 to U.S.\$1.00 compared to UAH 5.28 to U.S.\$1.00 at the beginning of April 2005 which has negatively impacted the Ukrainian

exports and the economy in general. Pursuant to the NBU's guiding monetary policy principles for 2007, it is expected that the NBU will maintain the UAH/USD exchange rate at between UAH 4.95 and 5.25 to U.S.\$1.00 to address the goal of reducing inflation. Any future currency revaluations by the NBU may have further adverse effects, which may in turn have an adverse effect on the business of the Bank.

In recent years, the Ukrainian economy has continued to experience a number of factors which could lead to economic instability, including:

- a relatively weak banking system, providing limited liquidity to Ukrainian enterprises;
- high-levels of loss-making enterprises that continue to operate due to the lack of effective bankruptcy proceedings;
- widespread tax evasion and sizeable black and grey-market economy;
- significant capital flight;
- high monopolisation and poor competitive environment;
- high level of corruption; and
- low wages for a large portion of the Ukrainian population.

Although the government has generally been committed to economic reform, the implementation of reform has consistently been impeded by lack of political consensus, controversies over privatisation and renationalisation (including privatisation of land in the agricultural sector and privatisation of large industrial enterprises), the restructuring of the energy sector, the removal of exemptions and privileges for certain state-owned enterprises or for certain industry sectors, and the limited extent of cooperation with international financial institutions.

Whereas the Ukrainian economy has improved in a number of areas since 1999, currently there is no clear consensus between the government and the Parliament as to the scope, pace and content of economic and political reform. No assurance can be given that current policies favouring privatisation, industrial restructuring, administrative and tax reform will continue to be implemented and, even if implemented, that these policies will be successful, or that the economy in Ukraine will continue to improve.

The Ukrainian economy is sensitive to fluctuations in the global economy

Ukraine's economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In addition, because Ukraine is a major producer and exporter of metal and agricultural products, the Ukrainian economy is especially vulnerable to world commodity prices and/or the imposition of import tariffs by the United States, the EU or its other major export markets. Any such developments may have negative effects on the economy of Ukraine which, in turn, may adversely affect the Bank's business, results of operations and financial condition.

Ukraine's failure to access international capital markets may adversely affect the economy

In 2000, Ukraine undertook a comprehensive debt restructuring exercise to alleviate its rising external debt resulting from the accumulation of large payments on external debt due in 2000 and 2001. Since the conclusion of this debt restructuring exercise, the ratio of external debt servicing (including principal, fees and interest but excluding debt owed to the IMF) to GDP has risen from approximately 1.9 per cent, as at 31 December 2001 to approximately 2.3 per cent, as at 31 December 2002 and approximately 2.7 per cent, as at 31 December 2003, and has fallen to approximately 2.1 per cent, as at 31 December 2004 and to approximately 1.7 per cent, as at 31 December 2005, and to approximately 1.4 per cent in 2006 and is expected to be approximately 1.0 per cent in 2007, based on official Government sources. In 2005, the World Bank and Ukraine entered into five facility agreements for the implementation of systemic and investment projects, the aggregate amount of

which totalled approximately U.S.\$716 million. Further, in June 2006, the World Bank approved a U.S.\$150 million loan for the Access to Financial Services Project for Ukraine (aimed to increase access to financial services in rural areas) and in July 2006, the World Bank approved another U.S.\$154.5 million loan for the Second Export Development Project for Ukraine (which is aimed to support export and real sector growth in Ukraine by providing working capital and investment finance to Ukrainian private exporting enterprises and to develop financial intermediation in the Ukrainian banking sector). In August 2007, the World Bank approved two loans to Ukraine in the amounts of US\$200 million and US\$140 million aimed at improvement of power supply and urban infrastructure in Ukraine.

Ukraine has been able to access the international capital markets raising new financing in the years 2003 through 2007 and its long-term credit rating was upgraded from B1 to Ba3 by Moody's in May 2006, from B+ to BB- by Standard & Poor's Rating Service, a division of the McGraw Hill Companies, Inc. ("S&P") in May 2005 and from B+ to BB- by Fitch in January 2005 (with its long-term credit rating outlook improved by Fitch and Moody's from "stable" to "positive" in October and November 2006, respectively, while revised from "stable" to "negative" by S&P on 5 April 2007). However, the absence of a deep and liquid market for domestic treasury bonds means that Ukraine remains vulnerable, should access to international capital markets not be possible for any reason in the future. Under such circumstances, any failure of Ukraine to receive support from sovereign or private creditors or international financial institutions (such as the IMF and the World Bank) or any problems in the administration of Ukraine's external debt could adversely affect the financing of the budget deficit, the level of inflation and/or the value of the hryvnia, which, in turn, could harm the business, results of operations and financial condition of the Bank.

Corruption and money laundering may have an adverse effect on the Ukrainian economy

External analysts have identified corruption and money laundering as problems in Ukraine. Anti-money laundering legislation came into force in June 2003 in Ukraine that requires the NBU and other state authorities, as well as various entities carrying out financial transactions to monitor more closely certain financial transactions for evidence of money laundering. As a result of the passage of this legislation, the Financial Action Task Force on Money Laundering (the "FATF") recommended lifting sanctions against Ukraine for these efforts to address money laundering. In addition, Ukraine was removed from the FATF's list of Non-Cooperative Countries and Territories in February 2004 and the FATF's formal monitoring of Ukraine was discontinued in January 2006.

The Ukrainian President has made combating corruption a priority and the government has initiated several campaigns to combat corruption, in particular, in the State Customs Service, the Ministry of Internal Affairs and in the State Tax Administration of Ukraine. While corruption in Ukraine stems from a lack of institutional traditions of transparent decision making, it is largely fuelled by the low standards of living of public officials.

Any future allegations of corruption in Ukraine or evidence of money laundering could have a negative effect on the ability of Ukraine to attract foreign investment and thus have a negative effect on the economy of Ukraine and on the business of the Bank.

Ukraine may not be able to maintain access to foreign trade and investment

Notwithstanding improvements in the Ukrainian economy in recent years, cumulative foreign direct investment remains low for a country the size of Ukraine. As has happened in the past, an increase in the perceived risks associated with investing in Ukraine could dampen foreign direct investment and adversely affect the Ukrainian economy. No assurance can be given that Ukraine will remain receptive to foreign trade and investment. Further, although the government has repeatedly emphasised that the plans announced in early 2005 to review the privatisation of a number of major companies are no longer under consideration, any future attempts to re-privatise or nationalise private enterprises could lead to a deterioration in the climate for foreign direct investment in Ukraine, and this could in turn have a material adverse effect on the economy and thus on the business of the Bank.

Ukraine's Business Environment and the Lack of Liquidity

Ukrainian enterprises have a limited history of operating in free-market conditions and have had limited experience (compared with companies in more developed jurisdictions) of entering into and performing contractual obligations. Ukrainian enterprises, when compared to businesses operating in more developed jurisdictions, are often characterised by management that lacks experience in responding to changing market conditions and limited capital resources with which to develop their operations. In addition, Ukraine has a limited infrastructure to support a market system, with communications, banks and other financial infrastructure being less well developed and less well regulated than their counterparts in more developed jurisdictions, Ukrainian enterprises face significant liquidity problems due to a limited supply of domestic savings, few foreign sources of funds, high taxes, limited lending by the banking sector to the industrial sector and other factors. Many Ukrainian enterprises cannot make timely payments for goods or services and owe large amounts in taxes, as well as wages to employees. A deterioration in the business environment in Ukraine could have a material adverse effect on the Bank's business and on the market price of the Notes.

Social Instability in Ukraine

The failure of certain Ukrainian government and private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest. Labour and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism, with restrictions on foreign ownership in the economy of Ukraine, and violence. Any of these events could restrict the Bank's operations and lead to the loss of revenue, thereby materially adversely affecting both the Bank's ability to conduct its business effectively and the market price of the Notes.

Developing legal system

Since independence in 1991, as Ukraine has been transforming from a planned to a market-based economy, the Ukrainian legal system has also been developing to support this market-based economy. Ukraine's legal system is, however, in transition and is therefore subject to greater risks and uncertainties than a more mature legal system. In particular, risks associated with the Ukrainian legal system include, but are not limited to:

- provisions in laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted;
- inconsistencies between and among the Constitution of Ukraine, laws, presidential decrees, and Ukrainian governmental, ministerial and local orders, decisions, resolutions and other acts;
- the lack of judicial and administrative guidance on the interpretation of Ukrainian legislation, including the complicated mechanism of exercising constitutional jurisdiction by the Constitutional Court of Ukraine;
- a general inconsistency in the judicial interpretation of Ukrainian legislation;
- corruption within the judiciary; and
- a high degree of discretion on the part of governmental authorities, which could result in arbitrary actions.

Furthermore, several fundamental Ukrainian laws either have only recently become effective or are still pending hearing or adoption by the Ukrainian Parliament. For example, with effect from 2004 and 2005, Ukraine adopted a new civil code, a new commercial code, a new mortgage finance law, a new law on personal income tax, new codes of civil and administrative procedure, a new law on state

registration of proprietary rights to immovable property and a new law on international private law. A new edition of the law on securities and the stock market of Ukraine was enacted by Parliament on 23 February 2006 and, subject to certain exceptions, came into force on 12 May 2006. The revised law has updated the Ukrainian legal and regulatory framework governing the issuance and circulation of securities, and codified in one document various stock market rules. In March 2006, Ukraine also enacted a new law on holding companies in Ukraine governing the creation, operation (including decision-making processes, mandatory information disclosure and liability) and liquidation of holding companies in Ukraine. The recent origin of much of Ukrainian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Ukrainian legal system in ways that may not always coincide with market developments place the enforceability and underlying constitutionality of laws in doubt, and result in ambiguities, inconsistencies and anomalies. In addition, Ukrainian legislation often contemplates implementing regulations. Often such implementing regulations have either not yet been promulgated, leaving substantial gaps in the regulatory infrastructure, or have been promulgated with substantial deviation from the principal rules and conditions imposed by the respective legislation, which results in a lack of clarity and growing conflicts with regulatory authorities.

These weaknesses in the Ukrainian legal system could make it difficult for the Bank to implement its policies or could lead to conflicts between the NBU and the Bank, which could in turn have a negative effect on the business of the Bank.

Uncertainties relating to the judicial system

The independence of the judicial system and its immunity from economic and political influences in Ukraine remain questionable, notwithstanding the decision of the Supreme Court of Ukraine to declare the results of the disputed first run-off of the presidential election in November 2004 invalid. Although the Constitutional Court of Ukraine is the only body authorised to exercise constitutional jurisdiction and has mostly proven its impartiality of judgment, the system of constitutional jurisdiction itself remains too complicated to ensure the smooth and effective removal of discrepancies between the Constitution of Ukraine and the applicable Ukrainian legislation, on the one hand, and among various laws of Ukraine, on the other hand.

The court system of is understaffed and underfunded. Judges and courts are generally inexperienced in the area of business and corporate law and many are corrupt. Court decisions generally have no binding effect on subsequent decisions. Moreover, courts themselves are generally not bound by earlier decisions taken under the same or similar circumstances, which results in the inconsistent application of Ukrainian legislation to resolve the same or similar disputes. Not all Ukrainian legislation is readily available to the public or organised in a manner that facilitates understanding. Only a limited number of judicial decisions are publicly available and, therefore, the role of judicial decisions as guidelines in interpreting applicable Ukrainian legislation to the public at large is limited. However, according to a new law "On Access to Court Decisions" which became effective on 1 June 2006, decisions of courts of general jurisdiction in civil, economic, administrative and criminal matters are becoming available to the public. The law provides for the establishment of a Unified State Register of Court Decisions, accessible on the official website of the judiciary, which makes court decisions available through the Register.

The Ukrainian judicial system became more complicated and hierarchical as a result of the recent judicial reforms. The perceived result of the judicial reform is that the Ukrainian judicial system has become even slower than before.

Enforcement of court orders and judgments can, in practice, be very difficult in Ukraine. The State Execution Service, a body independent of the Ukrainian courts, is responsible for the enforcement of court orders and judgments in Ukraine. Often enforcement procedures are very time-consuming and may fail for a variety of reasons, including the defendant lacking sufficient bank account funds, the complexity of auction procedures for the sale of the defendant's property or the defendant undergoing bankruptcy proceedings. In addition, the State Execution Service has limited authority to enforce

court orders and judgments quickly and effectively. Ukrainian enforcement agencies are bound by the method of execution envisaged by the relevant court order or judgment and may not independently change such method even if it proves to be inefficient or unrealisable. Furthermore, notwithstanding the successful execution of a court order or a judgment, a higher court may reverse the court order or judgment and require that the relevant funds or property be restored to the defendant. Moreover, in practice the procedures employed by the State Execution Service do not always comply with the applicable legal requirements, resulting in delays to or failures in enforcement of court orders and judgments.

All of these factors make judicial decisions in Ukraine difficult to predict and effective redress uncertain. In addition, court claims are often used in the furtherance of political aims. The Bank may be subject to such claims and may not be able to receive a fair hearing. Such uncertainties relating to the judicial system could therefore have a negative effect on the business of the Bank.

Foreign judgments may not be enforceable against the Bank

Courts in Ukraine will not recognise and/or enforce any judgment obtained in a court established in a country other than Ukraine unless such enforcement is envisaged by an international treaty to which Ukraine is a party or by an “ad hoc” arrangement providing for the enforcement of judgments on a reciprocal basis that is in effect between such country and Ukraine, and then only in accordance with the terms of such treaty or arrangement. There is no such treaty or arrangement in effect between Ukraine and the United Kingdom.

Since Ukraine is a party to the New York Convention, a foreign arbitral award obtained in a state which is also a party to the New York Convention, such as the United Kingdom, should be recognised and enforced by a Ukrainian court (under the terms of the New York Convention).

Uncertainties relating to the tax system

The tax legislation in Ukraine is not always clearly written or explained and is subject to the interpretation of the tax authorities and other government bodies. Ukrainian tax laws have not been applied for a significant period of time as compared to more developed market economies, often resulting in unclear or non-existent implementing regulations. Differences of interpretation often exist both among and within governmental ministries and organisations, including tax authorities, creating uncertainties and areas of conflict in relation to taxation.

Tax declarations/returns, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are authorised by law to impose fines, penalties and interest charges. These circumstances create tax risks in Ukraine substantially more significant than typically found in countries with more developed tax systems.

Generally, the Ukrainian tax authorities may re-assess tax liabilities of taxpayers only within a three year period of time after the filing of the respective tax declarations. However, this term may not be observed or may be extended in certain circumstances. Moreover, the fact that a period has been reviewed does not exempt that period, or any tax declaration/return applicable to that period, from further review. While the Bank believes that it is currently in compliance with the tax laws affecting its operations, it is possible that relevant authorities could take differing positions with regard to interpretative issues, which may result in a material adverse effect on the business of the Bank and on its results of operations and financial condition.

Disclosure and reporting requirements and fiduciary duties

Disclosure and reporting requirements have only recently been enacted in Ukraine. The anti-fraud legislation has only recently been adapted to the requirements of the free market economy and remains largely untested. Most Ukrainian companies do not have corporate governance procedures that are in line with European standards. Ukrainian banking laws introduced the concept of fiduciary duty owed by a bank’s management to the bank and its clients, which concept was further elaborated

in the Methodical Recommendations for the Improvement of Corporate Governance in Ukrainian Banks, adopted by the NBU on 28 March 2007. However, the concept of fiduciary duties of management or members of the board to their companies or shareholders remains underdeveloped in Ukraine. Violations of disclosure and reporting requirements or breaches of fiduciary duties by the Bank's directors or to the Bank's shareholders could significantly affect the receipt of material information or result in inappropriate management decisions, materially adversely affecting the value of an investment in the Notes.

Risks Relating to the Offering, the Notes and the Trading Market

Noteholders' rights to receive payment on the Notes will be limited to payments received from the Bank under the Subordinated Loan Agreement

The Issuer is obliged to make payments under the Notes to Noteholders only to the extent of the amount of principal, interest, Additional Amounts, if any, and Indemnity Amounts (as defined in the Subordinated Loan Agreement), if any, actually received by or for the account of the Issuer under the Subordinated Loan Agreement, disregarding any amounts in respect of Reserved Rights. Consequently, if the Bank fails to fully meet its obligations under the Subordinated Loan Agreement, Noteholders will, on the relevant due date, receive less than the scheduled amount of principal, interest and/or additional amounts (if any) due and payable under the Notes.

The Bank's payment obligations under the Subordinated Loan Agreement are subordinated to the claims of its unsubordinated creditors

The Bank's obligation to repay the Subordinated Loan is subordinated in right of payment to the claims of all other creditors preferred by virtue of Article 96 of the Law of Ukraine "On Banks and Banking Activity" dated 7 December 2000 (the "Banking Law"). As a result, in the event of a Bankruptcy Event which is continuing, the Bank's assets will be available to satisfy obligations in respect of the Subordinated Loan only after the claims of all creditors preferred by virtue of Article 96 of the Banking Law have been satisfied in full. Such remaining assets may not be sufficient to satisfy the Bank's obligations in relation to the Subordinated Loan.

Current regulations of the NBU may be interpreted as also requiring subordination of all claims arising in connection with the Subordinated Loan Agreement. Therefore, in the event of the Bank's bankruptcy or liquidation, there is a possibility that the NBU could interpret its regulations in a way such that all claims of the Lender under the Subordinated Loan Agreement would be subordinated to the claims of creditors preferred by virtue of Article 96.

The Notes may be redeemed prior to their scheduled maturity due to uncertainties surrounding Ukrainian regulatory capital regulations and in certain other circumstances as provided in the Subordinated Loan Agreement

Under applicable NBU regulations, in order to be able to include funds received under the Subordinated Loan Agreement as part of its Tier 2 capital, the Bank is required to obtain a permit from the NBU (the "Permit"). In order to obtain the permit, the Bank is required, among other things, to submit to the NBU a copy of the executed Subordinated Loan Agreement. An approval does not have the effect of law, and as such it may, at any time, be revised, revoked and/or disapplied in certain circumstances. As at the date of this Offering Memorandum, the executed Subordinated Loan Agreement (as set out in the section entitled "The Subordinated Loan Agreement" elsewhere in this Offering Memorandum) has not been reviewed by the NBU, while the draft of the Subordinated Loan Agreement has been reviewed by the NBU.

The Bank expects the NBU to issue the Permit within 30 days after the signing of the Subordinated Loan Agreement. However, the NBU has a broad discretion in evaluating the documentation provided to it and approving the issuance of the Permit, and could refuse to issue it if it is not satisfied with any of the submitted documentation. If the NBU does not grant the Permit within 60 calendar days after the date of the Subordinated Loan Agreement, the Bank will have the right under the Subordinated

Loan Agreement to prepay the Subordinated Loan, which would result in the early repayment of the Notes.

There is a risk either that the interpretation of such capital treatment could change or that the regulatory capital rules could subsequently be amended or clarified. As a result the NBU may revoke the Permit and the Bank could lose the regulatory capital treatment granted to the Subordinated Loan Agreement. In such circumstances the Bank may exercise the right to prepay the Subordinated Loan, which would result in the early repayment of the Notes.

The Bank may also prepay the Subordinated Loan, subject to the limitations and requirements established by the NBU, if and to the extent applicable at the time of prepayment, under certain other circumstances, including where the Bank would be obliged to increase the amounts payable under the Subordinated Loan Agreement due to any withholding or deduction for or on account of any present or future taxes, levies, duties, imposts or other charges or withholding of a similar nature imposed by any taxing authority of or in, or having authority to tax in, Ukraine, the United Kingdom. In such case the Issuer will redeem the outstanding Notes in accordance with the Conditions.

In addition, the Notes may be redeemed in whole, but not in part, upon giving notice to the Noteholders, at any time at their outstanding principal amount together with accrued and unpaid interest to the date of redemption and any additional amounts in respect thereof, (i) if the Bank elects to prepay the Subordinated Loan for other tax reasons (in addition to the circumstances described above) or by reasons of increased costs; (ii) if the Reference Rate is higher than the Regulatory Rate as determined on the relevant Step-Up Interest Determination Date (each term as defined in the Subordinated Loan Agreement); or (iii) in the event that it becomes unlawful for the Lender to make, fund or allow all or part of the Notes or the Subordinated Loan to remain outstanding, in each case subject to the limitations and requirements established by the NBU, if and to the extent applicable at the time of prepayment, all as more fully described in Clause 6 (*Repayment and Prepayment*) of the Subordinated Loan Agreement. See "*The Subordinated Loan Agreement*". See also Condition 5 (*Redemption and Purchase*) of the Notes.

The Bank may be unable to repay the Subordinated Loan at maturity

At maturity, the Bank may not have the funds to fulfil its obligations under the Subordinated Loan Agreement and it may not be able to arrange for additional financing. If the maturity date of the Subordinated Loan occurs at a time when other arrangements prohibit the Bank from repaying the Subordinated Loan, the Bank would try to obtain waivers of such prohibitions from the lenders under those other arrangements, or it could attempt to refinance the borrowings that contain the restrictions. If the Bank cannot obtain the waivers or refinance these borrowings, it may be unable to repay the Subordinated Loan.

Noteholders have no direct recourse to the Bank

Except as otherwise disclosed in the Terms and Conditions of the Notes and in the Trust Deed, no proprietary or other direct interest in the Lender's rights under or in respect of the Subordinated Loan Agreement or the Subordinated Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the Subordinated Loan Agreement or have direct recourse to the Bank, except through action by the Trustee under the Trust Deed. The Trustee may take such action and institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes and under the Subordinated Loan Agreement but is not bound to do so unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

The claims of Noteholders may be limited in the event that the Bank is declared bankrupt

Ukrainian bankruptcy law is subject to varying interpretations. Accordingly, there are insufficient precedents to predict how any claims against the Bank would be resolved in the event of the Bank's bankruptcy. In the event of the Bank's bankruptcy, its obligations under the Subordinated Loan Agreement would be subordinated to the following obligations:

- obligations secured by pledges of the Bank's assets;
- expenditures associated with the conduct of the bankruptcy proceedings, including severance pay;
- obligations arising as a result of inflicting harm to the life or health of individuals;
- payment of wages to the Bank's employees due as of the commencement of the bankruptcy procedure;
- obligations to individual depositors in an amount exceeding that established by the system of guaranteeing the deposits of individuals (currently UAH 50,000) or the equivalent in other currencies;
- obligations to the Fund for the Guaranteeing of Deposits of Individuals; and
- obligations to individuals (with the exception of registered entrepreneurs) with blocked accounts.

Repayments of principal would be further subordinated to the claims of all other unsecured and unsubordinated creditors.

In the event of the Bank's bankruptcy, Ukrainian bankruptcy law may materially adversely affect its ability to make payments to the Lender or the Trustee

Claims against the Bank may be incapable of enforcement upon the introduction by the NBU of temporary administration for the financial rehabilitation of the Bank. If the NBU determines that a significant threat exists of the Bank becoming insolvent, the NBU is required to impose a temporary administration of the Bank to improve its financial situation. The NBU is entitled to impose a temporary administration of the Bank under certain other circumstances as well. The temporary administrator appointed by the NBU would substitute all governing bodies of the Bank for the whole period of the temporary administration (up to one year with a possible extension for another year if the Bank's liabilities are equal to or exceed 10 per cent. of the aggregate liabilities of the Ukrainian banking system at that time), and would be authorised to carry out any acts aimed at the financial rehabilitation of the bank, including but not limited to (i) suspending any ongoing operation (e.g. the discharge of any outstanding obligation) of the Bank (without terminating or invalidating the relevant agreement itself), and (ii) terminating, in accordance with Ukrainian legislation, any agreement of the Bank which, in the opinion of the temporary administrator, is loss-making or "unnecessary" for the Bank. This applies only to agreements where any party to the agreement has outstanding obligations that still need to be performed. The temporary administrator would have broad discretion in determining whether a particular agreement is loss-making or "unnecessary", given that Ukrainian legislation provides no criteria for such determination. During the term of operation of the temporary administration, but not longer than for a six-month period during such term, the NBU may, in its discretion, order a moratorium on the satisfaction of claims of creditors of the Bank which have become payable before the appointment of the temporary administration. During the term of such moratorium, the Bank may be unable to make payments to the Lender and the Trustee, and the Lender's and/or the Trustee's claims against the Bank would not be enforceable. The Bank may not be held liable for the non-performance of its obligations to the Lender and/or the Trustee resulting from the imposition of the moratorium. Upon the termination of the moratorium (other than as a result of the Bank entering bankruptcy proceedings), the Lender and/or the Trustee would be entitled

to make, and to enforce, claims against the Bank in the amounts existing as of the date when the moratorium was imposed.

In addition, applicable Ukrainian legislation permits a temporary administrator of a bank appointed pursuant to any such temporary administration to request a Ukrainian court to declare invalid, among other agreements to which the bank may be party, an agreement between the bank and a third party if there had been, under such agreement, “any operation” (meaning a payment or other transaction): (i) within a six month period before the appointment of such temporary administrator, and the purpose of the operation was to grant a preference to such third party compared to the bank’s other creditors; (ii) within one year before the appointment of such temporary administrator between the bank and a related party, and the operation contravened the requirements of Ukrainian legislation or “threatened the interests of depositors and creditors” of the bank; (iii) within three years before the appointment of such temporary administrator, and the operation involved any of the bank’s assets and was conducted on free of charge basis, or the operation was conducted with the purpose of purchasing assets or services by the bank at a price significantly higher than the value of such assets or services; (iv) within three years before the appointment of such temporary administrator, with the purpose of concealing assets from the bank’s creditors or otherwise violating the rights of such creditors; or (v) at any time, if such operation has been based on forged documents or if it was of fraudulent nature. If the Subordinated Loan Agreement were to be declared invalid on such basis, and the court decides to apply the Ukrainian law, the Bank would be required to repay to the Lender all funds received from the Lender pursuant to the Subordinated Loan Agreement, and the Lender would be required to repay to the Bank all funds received from the Bank pursuant to the Subordinated Loan Agreement. There is also a lack of certainty as to whether, in such event, the court might apply any other consequences of the invalidation of the Subordinated Loan Agreement (this would depend on the facts of the relevant case).

Exchange rate risks and exchange controls generally

Principal and interest on the Notes will be paid in U.S. dollars. This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the “**Investor’s Currency**”) other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollars or revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Investor’s Currency may impose or modify exchange controls. An appreciation in the value of the Investor’s Currency relative to U.S. dollars would decrease (1) the Investor’s Currency equivalent yield on the Notes, (2) the Investor’s Currency equivalent value of the principal payable on the Notes and (3) the Investor’s Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The Subordinated Loan Agreement could be challenged on the grounds that the Lender is not a non-banking financial institution

Although the Bank believes it very unlikely to succeed, the Subordinated Loan Agreement could be challenged on the grounds that the Lender is not a financial institution.

Under NBU regulations, the Bank may only borrow foreign currency loans from entities that have the status of a bank or non-banking financial institution under the legislation of the jurisdiction of their incorporation.

The Lender is incorporated in and subject to the jurisdiction of England and Wales. Recent English case law sets out criteria that should be satisfied to meet the definition of “financial institutions”. Certain of those criteria are met by the Lender, although the case law was determined in a different context. In addition, whilst there is no universal English statutory definition of financial institutions, the Lender’s principal activity is to make loans and participate in securities issues and related

services. As such, it meets the definition of “financial institution” set out in specific legislation promulgated by the European Parliament and implemented into English legislation for a particular (albeit unrelated) purpose.

If an interested party seeks to challenge the validity of the Subordinated Loan Agreement, in certain circumstances the Bank may be required to prepay the Subordinated Loan (see Clause 6.5 (Prepayment for Illegality) of the Subordinated Loan Agreement). In such circumstances the Issuer would redeem the Notes.

Ukrainian currency control regulations could impact the Bank’s ability to make payments to the Lender or Trustee under the Subordinated Loan Agreement

The NBU is empowered to define policies for, and regulate currency operations in Ukraine, and has the power to establish restrictions on currency operations, cross-border payments and repatriation of profits.

Ukrainian currency control regulations and practice may be subject to continual change, with the NBU exercising considerable autonomy in interpretation and application. While at present the Subordinated Loan Agreement is subject only to registration with the NBU and no licence is required to be obtained from the NBU in order to make payments under the Subordinated Loan Agreement, there can be no guarantee that such law and practice will remain unchanged during the term of the Subordinated Loan.

While the Subordinated Loan Agreement will be registered with the NBU, payments under the Subordinated Loan Agreement to any entity other than the Lender (e.g. to the Trustee after a Bankruptcy Event or an Issuer Event) would require registration with the NBU of the resulting change in the Subordinated Loan transaction or an individual licence from the NBU. The Bank believes that the NBU would be inclined to register the change in the Subordinated Loan transaction which would occur upon a Bankruptcy Event or an Issuer Event. The registration of such a change would be effected by the NBU upon examination of the terms of the respective documents related to the assignment of the Relevant Subordinated Loan Rights. However, the NBU has a broad discretion in evaluating and approving the registration of such a change, and could refuse to register it. Should the NBU refuse to register such change, the Bank will not be permitted to make payments of principal and interest to any other entity unless it obtains an individual licence of the NBU permitting such payments. The Bank cannot assure investors that it will receive such a licence in such case and there can be no assurance that the Trustee will be able to meet any requirements of the NBU in connection with any such registration or licence. If the necessary registration or licence were to be refused, no assurance can be given that the Bank will be able to make payments of principal and interest under the Subordinated Loan Agreement and any proceeds to be realised by the Trustee pursuant to the assignment of the Relevant Subordinated Loan Rights to the Trustee will be significantly affected.

The board of the NBU has passed a resolution prohibiting Ukrainian borrowers from making, in connection with loans granted by foreign lenders, payments of interest, fees, default interest, penalties, additional amounts and other charges which, in aggregate per annum, exceed an amount determined by applying the applicable maximum interest rate established by the NBU (the “MIR”) to the principal amount of the loan. As at the date of this Offering Memorandum, the MIR applicable to fixed interest rate loans in major foreign convertible currencies (including U.S. dollars) the maturities of which are less than one year is 9.8 per cent. per annum; the MIR applicable to loans the maturities of which are from one year to three years is 10.0 per cent. per annum; and the MIR applicable to loans the maturities of which are in excess of three years is 11.0 per cent. per annum.

Further, the NBU has the authority to review and modify the MIR from time to time and may refuse to register a change in the loan transaction (e.g. due to assignment to the Trustee) if the effective interest rate (including additional amounts, fees, default interest, penalties and other charges) on the Loan exceeds the then applicable MIR.

At the current MIR, Noteholders should receive payment of the full amount of accrued interest in respect of the Notes since the interest rate on the Subordinated Loan, and the interest rate applicable to the Notes, are lower than the currently effective MIR. However, any additional amounts, penalties or other charges, if any, payable to Noteholders in connection with the Subordinated Loan could be limited by the MIR.

In the event of any prepayment of the Subordinated Loan, the NBU would not permit the amount of interest, fees, default interest, penalties, additional amounts and other charges payable in connection with the Subordinated Loan to exceed, in the aggregate per annum, an amount determined by applying the relevant MIR to the principal amount of the Subordinated Loan. While the NBU's regulations on the MIR have not been tested in this regard, the NBU may require the application of the MIR based on the period for which the Subordinated Loan has been outstanding as at the date of prepayment rather than the contractual maturity, which would result in the application of a lower MIR (e.g. the MIR applicable to fixed interest rate loans the maturities of which are less than one year instead of the MIR applicable to fixed interest rate loans the maturities of which are in excess of three years). Further, since the NBU has the authority to review and modify the MIR from time to time, a reduction in the MIR could further limit the ability of Noteholders to collect interest, default interest or other charges payable to them in connection with a prepayment of the Subordinated Loan.

In addition, any prepayment of the Subordinated Loan will require a prior approval of the NBU.

NBU may refuse to issue to the Bank the Permit approving the Bank's accounting of the Subordinated Loan as part of the Bank's Tier 2 Capital if the interest rate under the Subordinated Loan Agreement (including the additional amounts that may be payable in respect of interest payments) exceeds the maximum interest rate established by the NBU for subordinated loans in foreign currency (the "MIRSL"). As at the date of this Prospectus, the MIRSL for USD loans is LIBOR for 12 months USD interbank deposits plus 5 per cent. per annum.

There is also an NBU regulation that requires a review by the State Information and Analytical Centre for Monitoring External Commodity Markets (the "SIAC") of the fees for services rendered by a non-resident to a resident under an agreement for services (or a series of agreements for similar services purchased within one calendar year from the same payee) with a value in excess of EUR 100,000 (or an equivalent in another currency), excluding payments made by banks in favour of non-residents for rendering financial services.

Unless a cross-border transaction relating to the non-resident's services is licensed by the NBU or is otherwise subject to an exemption, any such payment can be made only if the SIAC determines that the value of the services set forth in the agreement (or in the series of agreements) is in line with market conditions. If the SIAC for any reason refuses to make that determination, any such payment can be made only on the basis of specific permission from the NBU. If the SIAC determines that the fees are excessive, or refuses to make that determination and the NBU does not grant the permission, the payment of fees cannot be made (unless such decision of the SIAC or the NBU has been overruled by a court order). The Bank believes that its payments of fees under the Subordinated Loan Agreement are exempt from this requirement as constituting fees for financial services. However, a risk exists that such exemption would not apply if the Bank were required to make any payment of such fees to a non-resident that is not authorised to render financial services under the laws of its jurisdiction, or if such services were not regarded as financial services for purposes of the applicable regulations of the NBU.

Nevertheless, the Bank believes that if the amount of fees is in compliance with the value of such services in the global market, there is a minimal risk that the SIAC would make a negative determination or refuse to make a determination.

If the NBU requires the Bank to obtain a licence in order to make certain payments under the Subordinated Loan Agreement, the Bank will need to apply for such a licence, and without a licence it may be restricted in its ability to make certain payments to the Lender or the Trustee under the Subordinated Loan Agreement

The NBU regulations are subject to substantial change and varying interpretations which complicate the process of determining whether a licence is needed to make certain payments under the Subordinated Loan Agreement as well as the process of obtaining such a licence. There is also some uncertainty as to whether or not a licence would be required following a bankruptcy event under the Subordinated Loan Agreement, depending on who would be the recipient of payments under the Subordinated Loan Agreement at that time (see “— *Ukrainian currency control regulations could impact the Bank’s ability to make payments to the Lender or the Trustee under the Subordinated Loan Agreement*”).

If the NBU determines in the future that a licence is required for payments by the Bank under the Subordinated Loan Agreement, the Bank will need to apply for a licence. The Bank cannot assure investors that it will receive such a licence in such case. If the Bank does not receive such a licence, no assurance can be given that it will be able to make payments under the Subordinated Loan Agreement.

Interest payments on the Subordinated Loan and on the Notes may be subject to Ukrainian and UK withholding tax, which would reduce the amounts received under the Notes if the Bank does not “gross-up” its payments to the Lender

In general, any payments of interest on borrowed funds by a Ukrainian resident entity to a non-resident legal entity, are subject to Ukrainian withholding tax at the rate of 15 per cent provided that the interest is not effectively connected with a permanent establishment of the non-resident entity situated in Ukraine, in which case the interest income shall be subject to standard corporate tax rate (25 per cent) in Ukraine.

Non-resident entities receiving interest income from Ukrainian sources may be entitled to the reduction in the rate of Ukrainian withholding tax or full relief from it under provisions of applicable double tax treaties of Ukraine. Based on professional advice it has received, the Bank believes that, under the terms of the Convention between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Ukraine for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion on Income and Capital of 10 February 1993 (the “**Double Tax Treaty**”), as it is currently applied, payments of interest on the Subordinated Loan will not, under current law, be subject to withholding tax, provided that certain conditions set forth in the Double Tax Treaty and under applicable Ukrainian law are duly satisfied. However, there can be no assurance that the exemption from withholding tax under the Double Tax Treaty is, or will continue to be, available.

Specifically, in order for the exemption from withholding under the Double Tax Treaty to be applicable, the Lender must be a resident of the United Kingdom for the purposes of the Double Tax Treaty, must be the beneficial owner of the Subordinated Loan interest payments and be subject to tax in respect of such interest payments in the United Kingdom. The exemption will not be available under the Double Tax Treaty if the Lender carries on business through a permanent establishment located in Ukraine, and the debt-claim in respect of which the interest is paid to the Lender is effectively connected with such permanent establishment.

While the Bank believes the Lender will be treated as the beneficial owner of the income in question, the notion of beneficial ownership and its application in the context of double tax treaties of Ukraine is not well developed in Ukrainian tax law. Moreover, it is not clear how the test of taxation of interest payments in the United Kingdom will be interpreted and applied by the Ukrainian tax authorities in practice. As a consequence, different interpretations are possible and the position could be taken that the Lender should not be viewed as the beneficial owner of the Subordinated Loan interest payments being received in the United Kingdom. However, the Bank believes that it is unlikely that the Ukrainian tax authorities will adopt this view.

In addition, Article 11(7) of the Double Tax Treaty contains a “**main purpose**” anti-avoidance provision. While there is no established practice of the Ukrainian tax authorities with respect to the application of this provision, if the Ukrainian tax authorities take a position that one of the main purposes of any person concerned with the creation or assignment of the debt claim under the Subordinated Loan Agreement was to avail the Lender of the tax benefits provided under the Double Tax Treaty, the Ukrainian tax authorities may invoke the anti-avoidance provision of Article 11(7) of the Double Tax Treaty. In such circumstances, there is a risk that payments of interest by the Bank under the Subordinated Loan would cease to have the benefit of the Double Tax Treaty.

If the Trustee enforces the obligations under the Subordinated Loan Agreement in response to a Bankruptcy Event or an Issuer Event, payments under the Subordinated Loan Agreement may no longer have the benefit of the Double Tax Treaty, in which case payments of principal and interest would be subject to withholding tax

Following a Bankruptcy Event (as defined in the Subordinated Loan Agreement) or an Issuer Event (as defined in the Trust Deed), the Trustee will be entitled to payments of principal and interest under the Subordinated Loan Agreement. Consequently, payments under the Subordinated Loan Agreement may then cease to have the benefit of the Double Tax Treaty and consequently may become subject to Ukrainian withholding tax.

The Bank will be required to gross-up payments if the Lender ceases to be incorporated in a qualifying jurisdiction by reason of a change of law or if the Double Tax Treaty is amended or repudiated

Payments of interest under the Subordinated Loan Agreement will be subject to Ukrainian withholding tax at the rate of 15 per cent. if the Lender, or any successor or assignee of the Lender, ceases to be resident in a jurisdiction that has a double taxation treaty with Ukraine that is similar to the Double Tax Treaty or if the Lender, or any successor or assignee of the Lender, takes any action that would render the Double Tax Treaty inapplicable. The Bank will be required to gross-up payments only in the event that the Lender, or any successor or assignee of the Lender, ceases to be resident in a qualifying jurisdiction by reason of a change of law or if the Double Tax Treaty is amended or repudiated after the date of the Subordinated Loan Agreement. Consequently, should the Lender, or any successor or assignee of the Lender, cease to be resident in a qualifying jurisdiction in any other circumstances, the Bank has no obligation to gross-up and no right to prepay the Subordinated Loan. As a result, Noteholders will receive payments under the Notes net of such withholding and will have no right to require that the Notes be redeemed early.

Consequences of Ukrainian Withholding tax on payments under the Subordinated Loan

If any payments (including payments of interest) under the Subordinated Loan Agreement are subject to any withholding tax (as a result of which the Lender would reduce payments under the Notes), the Bank may, in certain circumstances specified in the Subordinated Loan Agreement, become obliged to pay such additional amounts as may be necessary so that the net payments received by the Lender will not be less than the amount the Lender would have received in the absence of such withholding.

Ukrainian tax law contains restrictions that, if construed broadly, may affect the validity and enforceability of the gross-up provisions in the Subordinated Loan Agreement. Notwithstanding this, a failure by the Bank to pay additional amounts due under the Subordinated Loan Agreement would constitute a default under the Subordinated Loan Agreement. Also, in the event that the Bank would become obliged to pay additional amounts, the Bank may (subject to compliance by the Bank with the limitations and requirements of the NBU if and to the extent applicable at the time of prepayment) prepay the Subordinated Loan at its principal amount, together with accrued interest, and thereupon (subject to receipt of the relevant funds from the Bank) all outstanding Notes will be prepaid by the Issuer.

There is no existing trading market for the Notes

There is no existing market for the Notes. Application has been made to list the Notes on the the SWX. However, there can be no assurance that a liquid market will develop for the Notes, that holders of the Notes will be able to sell their Notes or that holders will be able to sell their Notes for a price that reflects their value.

The market price of the Notes may be volatile

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Bank's own and the Bank's competitors' operating results, adverse business developments, changes in the regulatory environment in which the Bank operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors, including the trading market for securities issued by or on behalf of Ukraine as a sovereign borrower. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Bank's results of operations, prospects or financial condition.

Financial turmoil in emerging markets could cause the price of the Notes to suffer

The market price of the Notes will be influenced by economic and market conditions in Ukraine and, to a varying degree, economic and market conditions in other CIS, Eastern European and emerging markets generally. Financial turmoil in Ukraine and other emerging markets in 1997 and 1998 adversely affected market prices in the world's securities markets for securities issued by companies that operate in those developing economies. Even if the Ukrainian economy remains relatively stable, financial turmoil in these countries could materially adversely affect the market price of the Notes.

Any negative change in the Bank's credit rating could adversely affect the market price of the Notes

The Bank has received credit ratings from Moody's as set out in "Summary — Credit Ratings". Any negative change in the Bank's credit rating could materially adversely affect the market price of the Notes.

Risk Factors relating to the Issuer

There are tax risks associated with accounts prepared in accordance with IFRS that are subject to the UK Special Regime for the Taxation of Securitisation Companies Regulations

For the purposes of the listing of the Notes, the Issuer's accounts must comply with IFRS or with new UK Financial Reporting Standards reflecting IFRS ("new UK GAAP"). There is a concern that, in certain circumstances, companies such as the Issuer might, under either IFRS or new UK GAAP, suffer timing differences that could result in their having profits or losses for accounting purposes which bear little or no relationship to their cash position. If the UK corporation tax treatment of such companies were to follow, to a significant extent, their accounting treatment, this could result in profits or losses being recognised for tax purposes which also bear little or no relationship to their cash position. However, Section 84 of the Finance Act 2005 conferred powers on HM Treasury to make regulations setting out a special regime for the corporation tax treatment of "securitisation companies". The Taxation of Securitisation Companies Regulations (the "Regulations") were made under Section 84 on 11 December 2006 to deal with the corporation tax position of such companies with effect for their periods of account beginning on or after 1 January 2007.

If the Regulations apply to a company, then, broadly, it will be subject to corporation tax on its "retained profit" for each accounting period in accordance with the transaction documents rather than by reference to its accounts. In order for a company to qualify as a "securitisation company" which is taxed under the Regulations, it is necessary for it to satisfy a number of conditions intended to ensure,

in very broad terms, that its activities are limited to those relating to its participation in an appropriate debt funding structure, and that its assets constitute predominantly debts, cash receivables, derivatives and other financial assets. Based on advice received, the Issuer anticipates that it should fall to be taxed under the special taxation regime for which provision is made by the Regulations.

Investors should note that, if this were not to be the case, or the Issuer ceases to fall within the Regulations, then the Issuer's profits or losses for tax purposes might be different to its cash position which could have tax effects not contemplated in the cash flows for the transaction and as such might adversely affect the Issuer and consequently its ability to make payments to the Noteholders, and that the Regulations have only recently been made and may be the subject of further amendment.

EXCHANGE RATES

The following table sets forth, for the periods indicated, the end of year and average official rates set by the NBU, in each case for the purchase of Ukrainian hryvnia, all expressed in Ukrainian hryvnia per U.S. dollar.

	High	Low	Average	Period
		<i>(Ukrainian hryvnia per U.S. dollar)</i>		
1998	3.43	1.90	2.46	3.43
1999	5.30	3.43	4.14	5.22
2000	5.60	5.22	5.44	5.43
2001	5.43	5.27	5.37	5.30
2002	5.33	5.30	5.33	5.33
2003	5.33	5.33	5.33	5.33
2004	5.33	5.31	5.32	5.31
2005	5.31	5.05	5.13	5.05
2006	5.05	5.05	5.05	5.05
2007 (through 30 June)	5.05	5.05	5.05	5.05

The Bank has translated financial data from Ukrainian hryvnia into U.S. dollars in the balance sheets of the Financial Statements at the end of period rates of UAH 5.05 and UAH 5.05 to U.S.\$1.00, the official rates set by the NBU, and in the income statements of the Financial Statements at the average rates of UAH 5.05 and UAH 5.13 to U.S.\$1.00 for the periods ended, 31 December 2006 and 31 December 2005, and UAH 5.05 and UAH 5.05 to U.S.\$1.00 for the period ended 30 June 2007 and 30 June 2006 respectively. These translations should not be construed as representations that Ukrainian hryvnia amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated as at the dates mentioned in this Offering Memorandum or at all. The NBU's hryvnia/U.S. dollar exchange rate as reported on 8 June 2007 was UAH 5.05 to the U.S. dollar.

CAPITALISATION

The following table sets forth the Bank's capitalisation and indebtedness at 30 June 2007 as adjusted to reflect the Bank's borrowing under the Subordinated Loan Agreement (as if such borrowing had occurred at 30 June 2007). This information should be read in conjunction with "Financial Review" and the Financial Statements included elsewhere in this Offering Memorandum.

	As at 30 June 2007			
	Actual		As adjusted	
	<i>(UAH thousands)⁽¹⁾</i>	<i>(US\$ thousands)</i>	<i>(UAH thousands)</i>	<i>(US\$ thousands)</i>
Subordinated long-term liabilities	0	0	252,500	50,000
Equity				
Share capital ⁽²⁾	422,412	83,646	422,412	83,646
Share premium	624,089	123,582	624,089	123,582
Revaluation reserve	105,232	20,838	105,232	20,838
Accumulated deficit (retained earnings).....	567,014	112,280	567,014	112,280
Total equity	<u>1,718,747</u>	<u>340,346</u>	<u>1,718,747</u>	<u>340,346</u>
Total capitalization	<u>1,718,747</u>	<u>340,346</u>	<u>1,971,247</u>	<u>390,346</u>

(1) Converted at UAH 5.0500=U.S.\$, the UAH/U.S.\$ exchange rate set by the NBU as at 30 June 2007

(2) As at 30 June 2007, the Bank's authorized, issued and paid-up share capital comprised 39,035,785 ordinary and 481 preferred shares with a nominal value of UAH 10 each. As at 30 June 2007, 50,000 shares with a total nominal value of UAH 500 thousands were issued but not paid yet.

Save as disclosed above, there has been no material change in the Bank's capitalisation since 30 June 2007.

FINANCIAL REVIEW

The following discussion should be read in conjunction with the Financial Statements included elsewhere in this Offering Memorandum. Unless otherwise specified, the financial data set forth below has been extracted from the Financial Statements which have been prepared in accordance with International Financial Reporting Standards.

This discussion includes forward-looking statements that involve risks and uncertainties. See “*Forward-Looking Statements*” included elsewhere in this Offering Memorandum. Actual results could differ materially from those anticipated in such forward-looking statements as a result of a variety of factors, including the risks discussed in “*Risk Factors*” included elsewhere in this Offering Memorandum.

Overview

The Bank’s principal business activities are:

- (i) retail banking, including retail lending (mortgages, car loans, instalment loans and credit cards), deposit taking, account services and debit and credit cards;
- (ii) SME banking, including SME lending, on-call and time deposits and debit and credit cards;
- (iii) corporate banking, including trade and project finance and other lending, deposits, cash settlement, currency exchange operations and securities market services; and
- (iv) financial investments, including investments in non-life insurance, leasing and consumer finance companies.

As at 31 December 2006, the Bank had total assets of U.S.\$2,107.2 million, net customer loans of U.S.\$1,405.1 million, total customer deposits (amounts due to customers) of U.S.\$1,087.1 million and equity of U.S.\$311.3 million, as compared to total assets of U.S.\$1,204.4 million, net customer loans of U.S.\$814.4 million, total customer deposits (amounts due to customers) of U.S.\$659.9 million and equity of U.S.\$128 million as at 31 December 2005.

Results of Operations

The following table sets forth the Bank's results of operations and the principal components thereof for the years ended 31 December 2006 and 2005.

	Year ended 31 December		Variation
	2006	2005	2006/2005
	<i>(U.S.\$ thousands)</i>		<i>(per cent.)</i>
Interest income	205,411	115,752	77.5
Interest expense	(105,790)	(64,670)	63.6
Net interest income	99,621	51,082	95.0
Impairment charge for interest earning assets	(18,065)	(8,127)	122.3
Net interest income after impairment of interest earning assets	81,556	42,955	89.9
Fee and commission income	24,271	17,146	41.6
Fee and commission expense	(3,063)	(3,551)	(13.7)
Net fee and commission income	21,208	13,595	56.0
Gains less losses from foreign currencies and precious metals	6,478	3,373	92.1
Gains less losses from investment securities	40,424	27,867	45.1
Share of income in associate	—	492	(100.0)
Other income	3,117	456	583.6
Other non interest income	50,019	32,188	55.4
Salaries and benefits	(41,989)	(23,076)	82.0
Other administrative and operating expenses	(37,523)	(25,045)	49.8
Depreciation and amortisation	(7,677)	(5,465)	40.5
Allowance for other assets and provisions	1,179	1,013	16.4
Other non interest expense	(86,010)	(52,573)	63.6
Profit before income tax expense	66,773	36,165	84.6
Income tax expense	(16,763)	(9,059)	85.0
Profit for the year	50,010	27,106	84.5
Attributable to shareholders of the Bank	50,010	27,106	84.5

Interest Income

The following table sets forth the Bank's interest income and the principal sources thereof for the years ended 31 December 2006 and 2005.

	Year ended 31 December		Variation
	2006	2005	2006/2005
	<i>(U.S.\$ thousands)</i>		<i>(per cent.)</i>
Interest income			
Loans to customers	191,659	108,760	76.2
Securities	4,066	3,188	27.5
Due from credit institutions	9,686	3,804	154.6
Total interest income	205,411	115,752	77.5

	Year ended 31 December						Variation
	2006			2005			2006/2005
	Average ⁽¹⁾ Balance	Interest Income	Average Yields/ Rate	Average Balance	Interest Income	Average Yields/ Rate	<i>(per cent.)</i>
Average interest-earning assets							
Due from credit institutions ⁽²⁾	232,597	9,686	4.2	147,221	3,804	2.6	58.0
Investment securities ⁽³⁾	25,535	4,066	15.9	16,050	3,188	19.9	59.1
Loans to customers	1,109,732	191,659	17.3	628,271	108,760	17.3	76.6

(1) Average balance is calculated as a simple average of respective asset at the beginning and at the end of the period.

(2) Includes current accounts with credit institutions and term deposits with original maturity of less 90 days recorded under "Cash and cash equivalents".

(3) Excludes non-interest bearing investment certificates.

In 2006, interest income increased by U.S.\$89.7 million as compared to 2005, an increase of 77.5 per cent. This increase was due primarily to increases in interest income from loans to customers, as well as an increase in interest income due from credit institutions. Interest income from loans to customers increased by U.S.\$82.9 million, an increase of 76.2 per cent. as compared to 2005. This increase was due primarily to a growth in retail loans and loans to SMEs as a result of the expansion of the Bank's branch network and marketing efforts to these customers. Interest income from investment securities increased by approximately U.S.\$0.9 million, an increase of 27.5 per cent. as compared to 2005. The increase was due to the growth of volume of operations of the Bank with investment securities. Interest income from amounts due from credit institutions increased by U.S.\$5.9 million as compared to 2005, an increase of 154.6 per cent. The increase was due to the overall growth of volume of the Bank's lending operations with credit institutions and certain increase in margin.

Interest Expense

The following table sets forth the Bank's interest expense and the principal components thereof for the years ended 31 December 2006 and 2005.

	Year ended 31 December		Variation
	2006	2005	2006/2005
	<i>(U.S.\$ thousands)</i>		<i>(per cent.)</i>
Interest expense			
Due to customers	69,695	51,367	35.7
Due to credit institutions.....	20,160	8,288	143.2
Eurobonds issued.....	10,481	1,472	612.0
Bonds issued.....	2,691	31	8,580.6
Subordinated loans.....	1,631	1,680	(2.9)
Due to the NBU	1,132	1,832	(38.2)
Total interest expense	105,790	64,670	63.6

	Year ended 31 December						Variation
	2006			2005			2006/2005
	Average ⁽¹⁾ Balance	Interest Expense	Average Yields/ Rate	Average Balance	Interest Expense	Average Yields/ Rate	<i>(per cent.)</i>
Average interest bearing liabilities							
Due to customers.....	873,497	69,695	8.0	524,568	51,367	9.8	66.5
Due to credit institutions.....	380,644	20,160	5.3	215,281	8,288	3.8	76.8
Eurobonds issued.....	99,865	10,481	10.5	49,759	1,472	3.0	100.7
Other debt securities issued.....	22,200	2,691	12.1	1,937	31	1.6	1,046.4
Subordinated loans.....	8,850	1,631	18.4	17,843	1,680	9.4	(50.4)
Due to the NBU and Government.....	22,930	1,132	4.9	44,442	1,832	4.1	(48.4)

(1) Average balance is calculated as a simple average of respective asset at the beginning and at the end of the period.

In 2006, interest expense increased by U.S.\$41.1 million an increase of 63.6 per cent. as compared to 2005, resulting principally from an increase in interest expense on amounts due to customers, credit institutions, and Eurobonds issued despite a decrease in interest expense on subordinated loans. Interest expense on amounts due to customers increased by U.S.\$18.3 million an increase of 35.7 per cent. as compared to 2005, principally due to increases in balances due to customers as a result of an increased number of customer accounts opened during the period due to the Bank's continued expansion, as well as an increase in the average interest rate on balances due to customers. Interest expense on amounts due to credit institutions increased by U.S.\$11.9 million, an increase of 143.2 per cent. as compared to 2005, primarily due to an increase in average balances due to credit institutions, as well as a small increase in average interest rates. The average balances due to the NBU and the Ukrainian government decreased because the programme of medium-term loans from the EBRD and the International Bank for Reconstruction and Development IBRD described below decreased during the period. In addition, interest expense on Eurobonds increased by

U.S.\$9.0 million an increase of 612 per cent. as compared with 2005 due to Eurobond issuance in November 2005.

Net Interest Income and Net Interest Margin

In 2006, net interest income was U.S.\$99.6 million an increase of 95 per cent. or U.S.\$51.1 million, as compared to 2005. This increase reflected the growth in the Bank's retail loan portfolio, reflecting the higher net interest margin realised by the Bank in 2006. The Bank's net interest margin (see "Summary Financial Information and Statistical Data — Statistical Data") in 2006 was 6.83 per cent., compared with 5.92 per cent. in 2005.

Fee and Commission Income

The following table sets forth the principal components of the Bank's fee and commission income for each of the years ended 31 December 2006 and 2005.

	Year ended 31 December		Variation
	2006	2005	2006/2005
	<i>(U.S.\$ thousands)</i>		<i>(per cent.)</i>
Cash and settlement operations.....	18,075	12,573	43.8
Currency conversion.....	846	2,342	(63.9)
Securities dealing fees.....	646	303	113.2
Documentary operations.....	4,051	781	418.7
Other.....	653	1,147	(43.1)
Total fee and commission income.....	24,271	17,146	41.6

For 2006, fee and commission income was U.S.\$24.3 million an increase of U.S.\$7.1 million or 41.6 per cent., as compared to 2005. Fee and commission income increased principally as a result of an increase in fees from cash and settlement operations and documentary operations, partially offset by a decrease in other fee and commission incomes and fee and commission income from currency conversion. Fees from cash and settlement operations comprise fees charged for making electronic payments and transfers, credit card fees and wire transfer fees, as well as account opening fees. Fees from cash and settlement operations increased due to the increased availability and uptake of these services. Documentary operations fees represented U.S.\$0.8 million for the year ended 31 December 2005 and U.S.\$4.1 million for the year ended 31 December 2006. The increase of documentary operations volumes during 2006 led to an increase in documentary operations fees.

Fee and Commission Expense

The following table sets forth the principal components of the Bank's fee and commission expense for each of the years ended 31 December 2006 and 2005.

	Year ended 31 December		Variation
	2006	2005	2006/2005
	<i>(U.S.\$ thousands)</i>		<i>(per cent.)</i>
Cash and settlement operations.....	1,650	2,263	(27.1)
Credit fees.....	202	276	(26.8)
Currency conversion.....	47	209	(77.5)
Other.....	1,164	803	45.0
Total fee and commission expense.....	3,063	3,551	(13.7)

For 2006, fee and commission expense was U.S.\$3.1 million, a decrease of U.S.\$0.5 million, or 13.7 per cent., as compared to 2005. Although other fee and commission expenses increased by 45 per cent. during 2006 as compared to 2005, the Bank's cash and settlement operation fees, credit fees and currency conversion fees decreased. This is due to volume discounts that were available to the Bank, which resulted in a decrease in fees that the Bank paid as the volume of transactions increased.

Other Non-Interest Income

The following table sets forth the principal components of the Bank's other non-interest income for each of the years ended 31 December 2006 and 2005.

	Year ended 31 December		Variation
	2006	2005	2006/2005
	<i>(U.S.\$ thousands)</i>		<i>(per cent.)</i>
Gains less losses from foreign currencies and precious metals...	6,478	3,373	92.1
Gains less losses from investment securities.....	40,424	27,867	45.1
Share of income in associate.....	—	492	(100.0)
Other income	3,117	456	583.6
Total other non-interest income.....	50,019	32,188	55.4

Other non-interest income in 2006 was U.S.\$50 million, an increase of U.S.\$17.8 million or 55.4 per cent. as compared with 2005. This substantial increase was primarily driven by an increase in gains less losses from investment securities.

The combined gain that the Bank recognised as a result of the sale and subsequent change in fair value of the investment securities as at 31 December 2006 amounted to U.S.\$40.4 million. Included in this amount is U.S.\$36.6 million of change in fair value of the investment certificates issued by the three investment funds, "Spag", "Kruf" and "Afin".

As at 31 December 2006 and 2005, the assets of the investment fund "Afin" comprised shares of three Ukrainian companies engaged in the financial sector, including a consumer loan processing company (100 per cent interest), an insurance company (98 per cent interest) and a leasing company (100 per cent interest).

During 2006, the investment fund "Spag" sold stakes in five Ukrainian companies engaged in the realisation and development of projects in different industries, including lamp production, hospitality and construction of residential property, to the investment fund "Kruf". The interest of the investment fund "Spag" in the capital of these companies ranged from 35 per cent to 100 per cent. As at 31 December 2006, the assets of the investment fund "Spag" comprised mostly funds, received from the investment fund "Kruf", which in turn were obtained by "Kruf" as proceeds from the disposal of shares in various companies.

As at 31 December 2006, the assets of the investment fund "Kruf" comprised shares and stakes in fourteen Ukrainian companies engaged in the realisation and development of projects in real estate and construction of commercial property in Kyiv and other major cities in Ukraine, with interest in the capital ranging from 9.8 per cent to 100 per cent (2005 — 100 per cent interest in eleven Ukrainian companies).

The investment funds are established by asset management companies under Ukrainian legislation. The asset management companies obtain licences and report to the State Commission for Securities and Stock Market. All investments funds are closed non-diversified with private placement venture funds. There are no regulatory restrictions on the type of securities and composition of portfolios of assets for such type of funds. The asset management companies do not have an obligation to repurchase the investment certificates before the maturity of the respective investment fund. The Bank does not have any restrictions on the disposal of the investment certificates to third parties.

Other Non-Interest Expense

The following table sets forth the components of the Bank's other non-interest expense for each of the years ended 31 December 2006 and 2005.

	Year ended 31 December		Variation
	2006	2005	2006/2005
	<i>(U.S.\$ thousands)</i>		<i>(per cent.)</i>
Salaries and benefits	41,989	23,076	82.0
Office maintenance	7,799	5,259	48.3
Occupancy and rent	9,123	5,543	64.6
Marketing and advertising	3,808	2,558	48.9
Communications	2,705	2,130	27.0
Taxes, duties and charges	901	1,531	(41.1)
Security	1,854	1,546	19.9
Expenses related to deposit insurance fund	2,760	1,711	61.3
Legal and consultancy	1,520	825	84.2
Data processing and information systems maintenance	2,063	1,423	45.0
Business travel and related expenses	1,389	758	83.2
Sponsorship and charity	190	174	9.2
Credit files storage and correspondence services	1,221	—	—
Depreciation and amortization	7,677	5,465	40.5
Other	2,190	1,587	38.0
Allowance for other assets and provisions	(1,179)	(1,013)	16.4
Total non interest expense	86,010	52,573	63.6

Other non-interest expense in 2006 grew to U.S.\$86.1 million an increase of U.S.\$33.4 million or 63.6 per cent. as compared to 2005. The increase was primarily due to the expansion of the Bank's network and related growth of personnel and office maintenance expense.

Salaries and Employee Benefits

Salaries and employee benefits increased to U.S.\$42.0 million during 2006 from U.S.\$23.1 million during 2005, an increase of U.S.\$18.9 million or 82.0 per cent. This increase was due to an increase in the number of the Bank's employees and salary level increases. Salaries increased during 2006 as a result of an increase in the general level of salaries in Ukraine during the period, as well as the need to compensate employees for extra work as a result of the reorganisation and expansion of the Bank's network during the period. At 31 December 2006, the Bank employed 6,311 persons, compared to 5,131 employees as at 31 December 2005.

The aggregate remuneration and other benefits paid to key management personnel for 2006 was U.S.\$683 thousand (U.S.\$362 thousand for 2005).

Office Maintenance

Office maintenance increased to U.S.\$7.8 million during 2006 from U.S.\$5.3 million during 2005, an increase of U.S.\$2.5 million or 48.3 per cent. This increase was due to an expansion of the Bank's network during the period.

Occupancy and Rent

Occupancy and rent increased to U.S.\$9.1 million during 2006 from U.S.\$5.5 million during 2005, an increase of U.S.\$3.6 million or 64.6 per cent. This increase was also due to an expansion of the Bank's network during the period.

Communications

Communications increased to U.S.\$2.7 million during 2006 from U.S.\$2.1 million during 2005, an increase of U.S.\$0.6 million or 27.0 per cent. This increase was also due to an expansion of the Bank's network during the period.

Expenses Related to Deposit Insurance Fund

Expenses related to deposit insurance fund increased to U.S.\$2.8 million during 2006 from U.S.\$1.7 million during 2005, an increase of U.S.\$1.0 million or 61.3 per cent. This increase was due to the increase in the retail deposit portfolio.

Analysis of Financial Condition as at 31 December 2006 and 2005

The following table sets forth the Bank's balance sheet and the principal components thereof as at 31 December 2006 and 2005.

	Year ended 31 December		Variation
	2006	2005	2006/2005
	<i>(U.S.\$ thousands)</i>		<i>(per cent.)</i>
Assets			
Cash and cash equivalents	170,023	120,202	41.4
Precious metals	3,191	1,455	119.3
Amounts due from credit institutions.....	251,996	106,515	136.6
Investment securities.....	152,270	91,572	66.3
Loans to customers	1,405,110	814,354	72.5
Assets held for sale	2,943	1,509	95.0
Securities pledged under repurchase agreements.....	—	3,865	(100.0)
Property and equipment.....	106,244	55,138	92.7
Intangible assets.....	1,175	677	73.6
Other assets.....	14,217	9,065	56.8
Total assets	2,107,169	1,204,352	75.0
Liabilities			
Amounts due to the NBU and Government.....	19,049	26,541	(26.6)
Amounts due to credit institutions	511,382	249,906	104.6
Amounts due to customers.....	1,087,137	659,856	64.8
Eurobonds issued.....	100,212	99,518	0.7
Other debt securities issued	40,526	3,873	946.4
Current tax liabilities	980	133	636.8
Deferred tax liabilities	28,038	13,750	103.9
Other liabilities	8,160	5,129	59.1
Subordinated Loans	—	17,700	(100.0)
Total liabilities	1,795,839	1,076,316	66.8
Equity			
Share capital	83,646	56,474	48.1
Share premium.....	123,582	36,621	237.5
Revaluation reserve	21,045	1,498	1,304.9
Retained earnings.....	83,057	33,443	148.4
Equity attributable to shareholders of the Bank	311,330	128,036	143.2
Total liabilities and equity	2,107,169	1,204,352	75.0

Total Assets

As at 31 December 2006, the Bank had total assets of U.S.\$2,107.2 million, or a 75.0 per cent. increase over 2005, when the total assets amounted to U.S.\$1,204.4 million. The increase was mainly due to a growth in the loans to customers and amounts due from credit institutions, as well as an increase in cash and cash equivalents and investment securities.

Cash and Cash Equivalents

As at 31 December 2006, cash and cash equivalents (comprising cash on hand, current account with the NBU, current accounts with other credit institutions and time deposits with credit institutions up to 90 days) totalled U.S.\$170 million an increase of 41.4 per cent. from U.S.\$120.2 million at 31 December 2005. The increase was a result of the growth in the Bank's customer deposits and current accounts.

As at 31 December 2006, the Bank had cash on hand of U.S.\$53.4 million, an increase of 26.7 per cent. from U.S.\$42.2 million at 31 December 2004. As at 31 December 2006, the Bank also

had time deposits with credit institutions up to 90 days of U.S.\$51.2 million, an increase of 137.9 per cent. from U.S.\$21.5 million at 31 December 2004.

Current accounts with other credit institutions increased 112.3 per cent., from U.S.\$10.9 million as at 31 December 2005 to U.S.\$23.1 million as at 31 December 2006. This reflects an increase in the amount that the Bank placed on current accounts with four OECD banks who are the main counterparties of the Bank in performing international currency and bank metals settlements.

The balances held with the NBU as at 31 December each year do not accurately reflect minimum reserve requirements, as the Bank is required to maintain an average reserve calculated on a daily basis over a monthly period. The average reserve requirement during December 2006 calculated on a daily basis was equal to U.S.\$22.4 million as compared to U.S.\$35.6 million in December 2005. The Bank complied with the NBU obligatory reserve requirements as at 31 December 2006 and 2005.

Amounts due from Credit Institutions

As at 31 December 2006, amounts due from credit institutions totalled U.S.\$252 million, an increase of 136.6 per cent. from U.S.\$106.5 million as at 31 December 2005. The increase in 2006 was a result of an increased amount of interbank loans entered into by the Bank.

Investment Securities

As at 31 December 2006, investment securities represented a balance of U.S.\$152.3 million an increase of U.S.\$60.7 million, or an increase of 66.3 per cent. from U.S.\$91.6 million as at 31 December 2005. The increase was primarily the result of the revaluation of investment certificates in Dogmat which the Bank received in exchange for the sale of its 41 per cent. share in Dogmat.

Loans to Customers (Excluding Credit Institutions)

As at 31 December 2006, loans to customers amounted to U.S.\$1,405.1 million an increase of 72.5 per cent. from U.S.\$814.4 million as at 31 December 2005 due primarily to an increase in loans to retail and SME customers, as a result of focusing on and marketing to those customers.

Property and Equipment

As at 31 December 2006, the Bank's property and equipment (i.e. buildings, leasehold-improvements, computers and office equipment, fixtures and fittings and motor vehicles) aggregated U.S.\$106.2 million in carrying value, an increase of 92.7 per cent. from U.S.\$55.1 million at 31 December 2005. Property and equipment increased primarily due to the expansion of the Bank's network and as a result of revaluation of the Bank's buildings as at 31 December 2006.

Total Liabilities

As at 31 December 2006, the Bank's total liabilities were U.S.\$1,795.8 million an increase of 66.9 per cent. from U.S.\$1,076.3 million at 31 December 2005. The increase was primarily due to increases in amounts due to credit institutions and amounts due to customers. At the same time, there was a full repayment of a subordinated loan as well as a decrease in amounts due to the NBU and the Ukrainian Government.

Amounts due to Credit Institutions

Amounts due to credit institutions were U.S.\$511.4 million at 31 December 2006, an increase of 104.6 per cent. from U.S.\$249.9 million at 31 December 2005. Amounts due to credit institutions increased principally due to an increase in amounts borrowed from other credit institutions in various currencies in connection with the Bank's treasury activities, as well as long-term deposits from internationally recognised foreign banks in order to finance the import-export transactions of the Bank's clients. At the same time, there was a decrease in the sale of treasury bills under repurchase agreements with other Ukrainian banks.

Amounts due to the NBU and Government

Amounts due to the NBU and Government were U.S.\$19.4 million at 31 December 2006, a decrease of 26.6 per cent. from U.S.\$26.5 million at 31 December 2005. Amounts due to the NBU and Government decreased due to the decrease of the programme of medium-term loans from the EBRD and the IBRD during the period.

Amounts due to Customers (Excluding Credit Institutions)

As at 31 December 2006, the Bank had total balances in customer current accounts and term deposits amounted to U.S.\$1,087.1 million an increase of 64.8 per cent. from U.S.\$659.9 million at 31 December 2005. The increase in amounts due to customers can be primarily attributed to an increase in customer deposits with the Bank, as well as current account deposits and credit balances on credit and debit cards.

Other Debt Securities Issued

Debt securities issued (bonds issued and promissory notes issued) amounted to U.S.\$40.5 million as at 31 December 2006, as compared with U.S.\$3.9 million as at 31 December 2005. This increase is due to the issue by the Bank in February 2006 of 12.5 per cent domestic bonds due February 2008.

Tax Liabilities

Deferred tax liabilities of the Bank as at 31 December 2006 were U.S.\$28.0 million, an increase of 103.9 per cent. from U.S.\$13.8 million at 31 December 2005. Tax liabilities increased primarily due to the fact that, taxation of positive differences in the value of investment securities, which appeared in the Bank's portfolio in 2006, occurs only at the time of their sale. The property and equipment revaluation also led to the tax liability increase of U.S.\$6.5 million.

Other Liabilities

As at 31 December 2006, the Bank had other liabilities totalling U.S.\$8.2 million, an increase of 59.1 per cent. from U.S.\$5.1 million as at 31 December 2005 mainly due to an increase in accounts payable for services provided.

Subordinated Loans

The Bank has no subordinated Loans as at 31 December 2006, a decrease from U.S.\$17.7 million at 31 December 2005. The reason for this was the substantial increase of share capital and share premium, and the subsequent full prepayment of the outstanding Subordinated Loan.

Liquidity and Capital Resources

The majority of the Bank's funding needs to date have been satisfied by customer deposits and the interbank market. Amounts due to credit institutions and amounts due to customers represented 89.0 per cent. of total liabilities and equity as at 31 December 2006 compared to 84.5 per cent. as at 31 December 2005.

The Bank supplements these funding sources with financing attracted from international and domestic capital markets, including through Eurobonds and domestic bonds. As part of its future strategy, the Bank expects to meet its funding needs through a combination of increasing customer deposits and long-term borrowings from international banking institutions. See "*Business — Funding*".

Recent Developments

The Bank's operations grew substantially in the first half of 2007 as compared to the end of 2006. As at 30 June 2007, total assets amounted to US\$ 3,048.7 million, an increase of approximately 44.68 per cent. from U.S.\$ 2,107.2 million as at 31 December 2006. The percentage of increase of

total assets as at 30 June 2006 (US\$ 1,594.5 million) to the total assets as at 31 December 2006 (US\$1,204.6 million) was 32.39.

Asset growth for 1H 2007 as compared to the end of year is attributable to an increase in loans to customers by 38.62 per cent. Particularly, retail lending increased by 40.14 per cent., commercial loans to corporate customers increased by 35.70 per cent. and overdraft of corporate and individuals increased by 46.72 per cent. reflecting the Bank's retail and corporate business development strategy. The Bank's net interest margin increased to 6.09 per cent. as at 30 June 2007 from 5.85 per cent. as at 30 June 2006 due to the growth of retail loan portfolio being the most profitable assets in interest earning assets.

Capital adequacy ratio was determined at 13.20 per cent level as at 30 June 2007 and 12.50 per cent. level as at 30 June 2006, which exceeds the minimum ratio of 8 per cent. recommended by the Basle Accord and 10 per cent. required by NBU.

In the first half of 2007, as compared to the end of 2006, the Bank has also improved its position in the retail deposit market. Deposits of individuals increased by 26.88 per cent. As a part of the Bank's strategy focusing on diversification of sources of funding, the Bank reduced balances due to the NBU and Government by 33.28 per cent. from US\$19.4 million as at 31 December 2006 to US\$ 12.9 million as at 30 June 2007.

The Bank also continued to attract funding from various international lenders and therefore the balances due to other credit institutions increased by 92.26 per cent. to US\$ 983.1 million as at 30 June 2007. This trend is in line with the Bank's strategy to diversify its funding sources, e.g. customers' deposits which, however, are more expensive than loans from inter-bank market.

On 21 June 2007 Nadra Bank signed a Facility Agreement in respect of a Syndicated Term Loan Facility from foreign banks in the amount of US\$ 85 million. This is Nadra Bank's first syndicated Loan structured in two tranches: Tranche A – 1 year, and Tranche B - 2 years. The Mandated Lead Arrangers of the syndication are among the largest western financial institutions: BayernLB, Raiffeisen Zentralbank Oesterreich AG, and Standard Bank Plc. It is significant that the Facility, originally launched at US\$60 million, has been increased to US\$85 million due to considerable interest from international lenders. The margin applied was 150 bps and 210 bps for Tranches A and Tranche B, respectively.

On 28 June 2007, the Bank successfully placed \$175 million three-year eurobonds. HSBC Bank plc and UBS Limited were appointed as the lead managers of the issue. The Bank's issue was rated Ba3 with a Positive Outlook by Moody's and B- with a Stable Outlook by Fitch. The transaction was priced at a yield of 9.25 per cent. Management believes, that eurobonds placement shall diversify the sources of funding and improve the Bank's credit history in international capital markets.

Customer loans to customer deposits ratio amounts to 145.83 per cent. as at 30 June 2007 as compared with 129.22 per cent. as at 30 June 2006. The level of ratio was affected by receipt of the proceeds from US\$ 85 million Syndicated Loan and US\$ 175 million Eurobonds transaction at the late June 2007 that caused appropriate higher increase in customer loans with simultaneous standard increase in customer deposits.

As the network of branches and outlets has matured and the rate of network growth has slow down the cost to income ration decreased from 55.58 per cent. as at 30 June 2006 to 52.86 per cent. as at 30 June 2007. The Management believes that income generated till the end of 2007 from already matured outlets and branches will further reduce this ratio.

BUSINESS

History

The Bank was founded under the laws of Ukraine as a limited liability company on 3 November 1992 and registered as an open joint stock company commercial bank by the NBU on 26 October 1993, with registration number 205.

Until 1997, the Bank was a small operation focused on providing banking services primarily to companies in the coal mining industry, with a total of 16 branches in three regions of Ukraine. However, following a change of ownership and management, the Bank changed its strategic direction, significantly expanded its client base and product offering, changed its focus from being product-focused to customer-focused, and successfully implemented advanced technologies. The bank has significantly grown in presence, having 646 branches and outlets nationwide as at 30 September 2007, and Management believes the Bank is well-positioned to take advantage of the significant growth potential in the Ukrainian banking sector.

Overview

The Bank is a privately owned bank whose head office is located in Kyiv, Ukraine. The Bank is a full-service commercial bank, providing its customers with a 24-hour call-centre service, internet banking and has over 646 branches and outlets throughout Ukraine, as at 30 September 2007. As at the same date, the Bank operated Ukraine's sixth largest network of ATMs (853 ATMs in the Ukraine) and the country's third largest network of POS terminals (6,072) according to EMA statistics. It was also ranked in Ukraine in terms of the number of Visa and MasterCard credit cards issued. According to the AUB statistics calculated under Ukrainian Accounting Standards as at 1 October 2007, the Bank was ranked sixth largest in Ukraine in terms of total assets, fifth in terms of the aggregate volume of retail loans outstanding, sixth in terms of the aggregate value of retail deposits outstanding and seventh in terms of equity. As at 30 September 2007, the Bank had 7,839 employees.

The Bank's principal business activities are: (i) retail banking, including retail lending (mortgages, car loans, instalment loans and credit cards), deposit taking, account services and plastic cards; (ii) SME banking, including SME lending, on-call and time deposits and plastic cards; (iii) corporate banking, including trade and project finance and other lending, deposits, cash settlement, currency exchange operations and securities market services; and (iv) financial investments, including investments in non-life insurance, leasing and consumer finance companies.

The Bank provides retail banking services to more than 3.8 million individuals and has approximately more than 82,435 SMEs and 4,788 corporate clients. The Bank believes that the number of customers to which it will provide banking services, particularly in the retail and SME sectors, will continue to increase.

As at 31 December 2006, the Bank had total assets of U.S.\$2,107.2 million, gross customer loans of U.S.\$1,405.1 million, total customer deposits of U.S.\$1,087.1 million and equity of U.S.\$311.3 million. For the year ended 31 December 2006, the Bank generated total net interest income of U.S.\$99.6 million and profit for the year of U.S.\$50.0 million.

On 9 October 2006, the Bank formally launched a comprehensive re-branding campaign following two years of preparatory work. As part of the re-branding campaign, the Bank intends to carry out a complete reorganisation of the Bank's internal structure to improve corporate culture and marketing policy, rather than merely change the logo and style of the Bank's points of sale. Management views the re-branding exercise as the final phase of the Bank's move from a product-oriented bank to a client-oriented bank. The entire re-branding process is expected to be completed by mid-2008. According to tracking research held by Ipsos in April-May 2007 the brand 'Nadra Bank' is the fourth of the most recognizable brands among the Ukrainian banks.

The Bank has been assigned a foreign currency long-term bank deposit rating of B2 by Moody's and a long-term foreign currency rating of B- by Fitch.

Competitive Strengths

The Management believes the following key strengths enhance the Bank's competitive position:

Strong management team

The Bank believes it has a strong management team with extensive experience in the Ukrainian banking sector. When the current management team was appointed, following the change of ownership in early 1997, the Bank was a medium-sized business with less than 20 branches, and relied heavily on a small group of corporate customers in the coal industry. Since then, the management team has successfully transformed the Bank into one of the largest commercial banks in Ukraine with a diverse business and customer mix, a large nationwide branch network and leading positions in the fast growing sectors of retail and SME banking.

Building on its position in the market as a medium-sized business in 1997, by 30 September 2007 the Bank has, among other things:

- created a nationwide network of over 646 branches and outlets (becoming the sixth largest branch network in Ukraine according to Bank's market research);
- issued over 5.95 million debit and credit cards (holding the third largest share (12.8 per cent.) of this sector in Ukraine according to EMA statistics);
- created its own network of 853 ATMs (ranking sixth in Ukraine) and 6,072 POS terminals (ranking third in Ukraine according to EMA statistics);
- increased the Bank's retail loan portfolio to approximately UAH 6.6 billion (approximately U.S.\$1,310.2 million) (the fifth largest in Ukraine according to AUB statistics as at 1 October 2007); and
- built the Bank's SME lending portfolio to approximately UAH 1.62 billion (approximately U.S.\$320.4 million) (currently among the top five in Ukraine according to the Bank's market research).

The Bank believes that the ability of its loyal and motivated management team to consistently achieve market share gains in the targeted market segments distinguishes it from its competitors.

Extensive nationwide branch network

As at 30 September 2007, the Bank operated Ukraine's sixth largest banking network with 646 branches and outlets located throughout the country according to the Bank's market research. The Bank's nationwide network is relatively new, and the Bank believes that as a result it does not suffer from the legacy issues that affect the networks of some of the older banks. Management believes that it is likely to be difficult and costly for any newcomer to establish a banking network of the same size and with the same characteristics as that of the Bank.

Management believes that its large and expanding branch network puts it in a strong position among Ukrainian banks to efficiently capture the significant growth of demand for banking products in Ukraine, particularly in the retail and SME sectors.

Leading positions in retail banking

As at 1 October 2007, the Bank was Ukraine's fifth largest bank in terms of the aggregate value of retail deposits and fifth largest in terms of the aggregate value of its retail loans according to the AUB statistics. In addition, it occupies leading positions in a number of fast-growing retail sectors; the Bank is Ukraine's third largest issuer of Visa and MasterCard debit and credit cards according to

EMA statistics, one of the largest credit card lenders in the country and has the second largest portfolio of consumer instalment loans in Ukraine according to the Bank's market research. The Bank has over 3.8 million retail customers and Management believes that the Bank has one of the most recognised retail banking brands in the country. According to tracking research held by Ipsos in April-May 2007 the brand 'Nadra Bank' of the fourth the most recognizable brand among the Ukrainian banks.

The Bank believes that its market-leading retail banking expertise, large scale network and strong brand recognition enable it to: (i) better attract and retain retail customers (with a particular focus on attracting retail deposits); (ii) successfully introduce new products and penetrate new geographic areas; and (iii) make prudent credit decisions.

Strong expertise in SME lending

The Bank was one of the first Ukrainian banks to offer lending products to SMEs as a result of its participation in the Small and Medium Enterprises Support Programme of the EBRD. Of the five Ukrainian banks that actively participated in the programme, the Bank's portion of all outstanding EBRD financed loans to SMEs in Ukraine amounted at various times to 50 per cent. Further to the experience the Bank gained as a result of its participation in the SME Support Programme of the EBRD, the Bank was one of the first banks in Ukraine to focus specifically on SMEs as a separate business sector.

The Bank believes that its expertise in lending to SME customers, particularly at the micro-loan level, as well as its strategy of targeting SME customers as a separate business sector, is uncommon in Ukraine and places it in a strong position to be one of the primary beneficiaries of the increase in SME business that the Bank expects in the near future.

Strategy

The Bank's strategy is to become one of the top five commercial banks in Ukraine in terms of assets, to hold leading positions across the various products that it offers to retail and SME customers and to have a focused product range to offer to large corporate customers. The Bank aims to achieve these objectives by:

Increasing market share in retail banking

Management believes that the retail sector will provide one of the greatest opportunities for growth in the banking industry in Ukraine over the next few years. The Bank aims to increase its market share in the Ukrainian retail banking sector by, among other things, expanding its distribution network, enhancing its technology, further improving the quality and motivation of its workforce, increasing the cross-selling of its products and services and developing new products and services.

Distribution

By the end of 2008, the Bank expects to increase its number of branches and outlets to reach a total network size in excess of 700 branches and outlets. Management believes that a network of this size will provide the Bank with almost complete geographic coverage of the country. The Bank will continue to modernise its existing branches and continue to develop the sales functionality of its 24-hour call-centre and internet banking, including offering customers the ability to apply for loans over the telephone and the internet.

Technology

The Bank will continue to make significant investments in its systems and processes, including its IT infrastructure, in order to attract more retail customers, improve the sales efficiency of the Bank's front office personnel and increase the convenience of banking for its customers. In particular, the Bank has already centralised its credit scoring system to provide customers with a faster turn-around

time for making credit decisions, and is increasingly utilising its large and growing customer database to better market its retail products.

Personnel

An integral part of the Bank's strategy is to develop the professional skills and potential of its staff by implementing targeted training programmes which Management believes will continue to enhance the quality and level of services the Bank provides to its customers. The Bank will also improve existing, and develop new, incentive schemes to encourage its employees to perform better in their sales functions in order to maximise retail sales.

Cross-selling

The Bank believes that it can utilise its market leading position in products such as credit and debit cards to cross-sell other retail products, such as mortgages and car loans, to its large and growing retail customer base. The Bank plans to appoint dedicated relationship managers across its network to focus on the cross-selling of products. Additionally, the Bank plans to increasingly link the compensation of its sales employees to their cross-selling performance. The Bank will also continue to invest in IT software and systems to enable it to identify cross-selling opportunities more effectively.

New product development

The Bank plans to expand its existing, and develop new, products and services including loans for home renovations, student loans, grace period credit cards, complex (term, savings and current) accounts for individuals and self-servicing payments conducted through the Bank's ATMs network. It is expected that such services will enable the Bank to attract new customers and increase the cross-selling of its products to existing customers.

Expanding its market position in SME banking

The Bank believes that as a result of the experience that Management gained through its participation in the EBRD's SME lending programme, it has become one of the market leaders in SME lending. Management intends to build on this experience, and the wide retail and corporate banking expertise it has acquired, in order to develop and introduce new lending, cash management and other products and services for SMEs, as well as improve existing products and services. The Bank plans to utilise its national distribution network to expand its SME customer base and improve its market position in SME banking. The Bank will also increase the use of specialised SME-related training programmes for its employees in order to improve the quality of service offered to SMEs throughout its network.

Maintaining the Bank's strong market positions in selected segments of the corporate market

The Bank will continue to pursue a focused strategy in the corporate banking sector by concentrating its efforts on the segments of the market where the Bank already has strong positions and which Management believes offer good prospects for profitable growth. These segments include trade and structured finance, project finance and leasing. The Bank will primarily target mid-market, high-growth corporate customers. It will also seek to increase the proportion of non-interest income it receives from its corporate customers and will aim to cross-sell a range of products and services, including retail banking services, to employees of its corporate customers. While its core focus will remain on banking activities, the Bank intends to continue making financial investments, particularly in the non-bank financial services and real estate industries, that management believes can provide exceptional returns, as well as complementary business opportunities.

Principal Activities

The Bank provides banking services in the following principal sectors: retail banking, SME banking, corporate banking and financial investments.

Retail Banking

The Bank is focused on making retail banking its principal activity over the course of the next few years. To accomplish this the Bank has restructured itself to be based on a client-focused model rather than a product-focused model. Management considers retail banking to be currently underdeveloped in Ukraine in comparison with more developed markets and that this sector offers considerable opportunities for growth. As the Ukrainian economy continues to grow and public confidence in the banking system improves, the Bank believes that demand for retail banking services will continue to increase. To capture this growing demand, the Bank is seeking to expand its retail operations. See “— Strategy”.

The Bank offers a full range of retail banking services, and as at 30 September 2007 had over 3.8 million individuals as customers, including over 550 individual VIP clients. Clients are categorised as VIP clients by the Bank where the total assets of a client amount to at least U.S.\$100,000 or such client's personal annual income amounts to at least U.S.\$100,000 with the Bank. The Bank also categorises clients whose total assets amount to at least U.S.\$1 million as super-VIP clients. VIP and super-VIP clients are each offered certain additional services by the Bank in order to provide continuous 24-hour banking support for the day-to-day activities of such clients.

As at 30 September 2007, according to AUB, the Bank is among the five leading banks in Ukraine in terms of retail deposits and among the top five leading banks in Ukraine in terms of retail loans.

Retail banking services offered by the Bank include retail lending (consisting of mortgage loans, auto loans, other secured loans, unsecured instalment loans and credit card lending), deposit taking and account services, and plastic cards, among others.

Retail Lending

The Bank has significantly increased its retail loan portfolio in recent years. In 2006, retail loans outstanding doubled from U.S.\$338.4 million as at 31 December 2005 to U.S.\$773.6 million as at 31 December 2006. Retail loans represented 53.05 per cent. of the Bank's entire loan portfolio (before allowance for loan impairment) as at 31 December 2006. The Bank's market share of loans to individuals increased during the same period which can be attributed primarily to the expansion of the Bank's branch network, the improved sales-focused training of its front-office staff, (whose compensation is increasingly linked to reaching market share and profitability targets), and marketing campaigns.

The Bank concentrates on providing its retail lending to individuals in the following areas:

- *Instalment loans.* As at 31 December 2006, Management estimates that instalment loans accounted for 24.84 per cent. of its loans to individuals and 13.18 per cent. of its total loan portfolio, including the Bank's portfolio of Eurokredyt (a trademark employed by Dogmat) instalment loans. The Bank's instalment loans are general purpose loans which are used typically for the purpose of acquiring domestic goods. Instalment loans of this type have terms up to three years (1.5 years on average) and are typically limited to U.S.\$12,000 (U.S.\$400 on average);
- *Mortgage loans.* As at 31 December 2006, Management estimates that mortgage loans accounted for 20.21 per cent. of its total loans to individuals and 10.7 per cent. of its total loan portfolio. Typically, the Bank grants mortgage loans of up to U.S.\$400,000 (U.S.\$20,000 on average) for terms of up to 30 years (five years on average);
- *Automobile loans.* As at 31 December 2006, Management estimates that automobile loans represented 19.49 per cent. of its total loans to individuals and 10.34 per cent. of its total loan portfolio. Generally, the Bank provides car loans for between U.S.\$1,500 to U.S.\$100,000 (U.S.\$10,000 on average) with terms of up to six years (three years on average);

- *Secured personal loans.* As at 31 December 2006, Management estimates that secured personal loans accounted for 27.46 per cent. of its loans to individuals and 14.57 per cent. of its total loan portfolio. These are general purpose loans secured by collateral other than the property or goods purchased with the proceeds of the loan. Secured consumer loans have terms of up to 10 years (three years on average) and are typically capped at U.S.\$400,000 (U.S.\$11,500 on average); and
- *Credit card lending.* As at 31 December 2006, Management estimates that credit balances on credit cards accounted for 8.01 per cent. of its total loans to individuals and 4.25 per cent. of its total loan portfolio. Credit cards issued by the Bank are permanently revolving facilities, with minimum monthly payments for outstanding balances of 3 per cent. to 5 per cent. of the outstanding balance.

Retail deposits and account services

The Bank's individual deposit and current accounts portfolio increased by 49.5 per cent. to U.S.\$755.9 million as at 31 December 2006 from U.S.\$505.7 million as at 31 December 2005. Individual deposits accounted for approximately 58.9 per cent. of the Bank's total amounts due to customers as at 31 December 2006.

Currently, the Bank principally offers two types of deposits: current accounts (or "on-call deposits") and fixed-term deposit accounts (or "time-deposits"). Notwithstanding the fixed term, current Ukrainian legislation allows retail customers to withdraw time deposits at any time. The terms of a typical time deposit agreement allow the Bank to change the interest rates at any time.

The Bank offers its customers current accounts denominated in both hryvnia and in foreign currencies. The Bank also offers a wide range of cash settlement services and the ability for individual clients to receive account information by way of various means, including SMS communication. Current account balances of the Bank's individual customers increased from U.S.\$64.1 million as at 31 December 2005 to U.S.\$115.6 million as at 31 December 2006 and represented 15.3 per cent. of the Bank's total amounts due to individuals; and 10.6 per cent. of its total amounts due to customers as at 31 December 2006. Time deposits of the Bank's individual customers increased from U.S.\$441.6 million as at 31 December 2005 to U.S.\$640.2 million as at 31 December 2006, and as at 31 December 2006 represented 84.7 per cent. of the Bank's total amounts due to individuals and 58.9 per cent. of its total amounts due to customers.

Since 1999, the Bank has been a member of the two largest international payment systems, MasterCard International and Visa International. In 2001, the Bank began to substantially increase its share of the Ukrainian plastic card market and, as at 30 September 2007, had a market share of approximately 12.8 per cent. of the number of Visa and MasterCard cards issued in Ukraine according to EMA.

The Bank issues a wide range of MasterCard International and Visa International electronic cards and distributes American Express cards, including Amex Centurion Green, Gold, Company and Platinum. The Bank was the first bank authorised to distribute Amex Centurion cards in Ukraine. In addition, the Bank has also signed agreements with American Express Company, Diners Club and Union Card payment systems to perform cash servicing of their plastic cards.

By the end of 2006, the Bank had issued more than 4.8 million plastic cards compared to 3.5 million plastic cards by the end of 2005. As at 30 September 2007, the total number of cards issued by the Bank was approximately 5.95 million according to EMA.

The Bank has one of the largest electronic card servicing networks in Ukraine. As at 30 September 2007, the Bank had 853 ATMs (allowing customers to obtain information on their accounts, perform transactions and make payments) and 6,072 POS terminals according to EMA. Most of the Bank's POS terminals and ATMs support PIN transactions and have smart card readers.

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Since 2002, the Bank has been using the TRANSMaster Real Time Processing System by Tieto Enator, which has allowed it to introduce new services in ATMs and to raise the quality of its customer services. For example, in order to minimise the risk of unauthorised access to customers' card accounts, the Bank has implemented a 24-hour online service to monitor its customers' transactions. Management believes the Bank has one of the best card fraud prevention systems in Ukraine.

SME Banking Services

The Bank was one of the first Ukrainian banks to specifically design products and services to target SME customers, based on the expertise it gained through its participation in EBRD-sponsored SME funding programmes. The Bank has successfully transformed its SME micro-credit programmes into a separate and rapidly growing business segment by arranging and designing services and products tailored to the specific needs of SMEs. At present, the Bank is one of the few Ukrainian banks specifically targeting SMEs as a separate market sector and, according to Management's estimates, is one of the top five banking service providers to SME customers in Ukraine. The Bank will continue to implement more advanced technologies and train its personnel to address the needs of its SME customers.

The Bank offers its SME customers a variety of products tailored to businesses of their size, including micro-loans, credit lines, overdrafts, personal and corporate credit and debit cards, current accounts, time deposits and cash management services. The Bank also continues to participate actively in financing programmes sponsored by international financial institutions, including a second EBRD credit line aimed at SMEs and an IBRD credit line for SMEs.

The Bank defines SMEs as companies with gross turnover below UAH 12 million (approximately U.S.\$2.4 million) and with credit exposure to the Bank of below U.S.\$250,000. As at 30 September 2007, the Bank provided services to 82,435 SME clients. SME customers are categorised into micro, small and medium companies:

- Micro companies are customers with credit exposure to the Bank of below U.S.\$5,000 who are offered standardised products on an individual basis.
- Small companies are customers with credit exposure to the Bank of between U.S.\$5,000 and U.S.\$20,000 and annual gross turnover below UAH 500,000 (approximately U.S.\$99,000).
- Medium companies are customers with credit exposure to the Bank of between U.S.\$20,000 and U.S.\$250,000 and annual gross turnover below UAH 12 million (approximately U.S.\$2.4 million).

As at 31 December 2006, loans extended by the Bank to SME clients amounted to U.S.\$170.5 million or 11.7 per cent. of the Bank's total loan portfolio, a 68.3 per cent. increase from the U.S.\$101.3 million SME loans portfolio as at 31 December 2005 (as calculated according to Ukrainian Accounting Standards).

Both micro and small companies can be served in any of the Bank's branches, and the Bank manages its risk exposure to these types of SME customers on a portfolio basis. Medium companies require a level of tailoring of the Bank's products and services such that only about half of the Bank's branches have staff trained to be able to serve such SME customers. The Bank manages its exposure to this type of customer on an individual basis.

The Bank's branches normally have dedicated relationship managers to work with SMEs and focus on increasing the cross-selling of the Bank's products to these customers. The Bank has begun to

develop specialised branches with personnel specifically trained to deal with the concerns of, and to arrange the products and services unique to, SME customers in order to effectively address more complicated SME requests and problems.

Corporate Banking

Though the Bank has been increasingly focused on growing its retail and SME operations, corporate banking remains one of the Bank's principal business segments. Banking services that are currently marketed to potential corporate customers include, corporate lending, deposit taking, credit lines and securities transactions and investments. The majority of the Bank's corporate customers open current accounts with the Bank, utilise the Bank's client banking system and have corporate cards issued by the Bank. Management estimates that more than 80 per cent. of its corporate clients receive financing from the Bank and a significant portion use the Bank's other products and services (such as deposit lines and securities transactions).

Classification of corporate clients

The Bank considers a customer to be a corporate client when (a) the Bank's exposure to it exceeds U.S.\$250,000 and/or it has annual gross turnover in excess of UAH 12 million (approximately U.S.\$2.4 million), (b) the State has more than a 25 per cent. shareholding in the customer or (c) it is a non-banking financial institution. Like SMEs, corporate customers are divided by the Bank into three categories, based on annual gross turnover: standard, regional VIPs and super VIPs.

- Standard corporate clients are typically medium size companies with gross turnover of between UAH 12 million (approximately U.S.\$2.4 million) and UAH 60 million (approximately U.S.\$11.8 million) per annum. Generally, standard corporate clients use the Bank's standard corporate banking products and can be serviced by about half of the Bank's branches.
- Regional VIPs are typically major companies located in the regions with annual gross turnover of between UAH 60 million (approximately U.S.\$11.8 million) and UAH 200 million (approximately U.S.\$39.6 million). They are serviced through the Bank's regional branches by groups of VIP managers and typically require a high level of tailoring of the products and services that are offered to them.
- The Bank's super VIPs have an annual gross turnover in excess of UAH 200 million (approximately U.S.\$39.6 million). Given the varying and particular needs of the super VIPs, the Bank dedicates a team of relationship managers who are equipped with the tools and training to offer each super VIP client specifically designed products.

Once an SME's annual gross return, or the Bank's exposure to the SME has grown such that it can be categorised as a corporate client, the customer will be assigned a relationship manager and will have access to a wider range of banking products.

Corporate banking services offered by the bank include financing (such as trade and structured finance, financing of projects, leasing, working capital and other lending), deposit taking, cash management and account services, corporate cards and securities transactions, among others.

Financing

In providing and arranging financing to its corporate customers, the Bank focuses on highly specialised products that are relatively low risk, such as trade and structured finance, project finance and leasing. Management believes that the Bank has very strong market positions in these product categories and aims to maintain a top three position in Ukraine in each of them.

- *Trade and structured finance.* The Bank provides a wide range of products to assist its corporate customers in financing their export and import operations, including structured loans, guarantees, letters of credit and pre-export financing. Management believes that its

extensive network of relationships with international trade financing institutions (such as the EBRD, World Bank, Export Credit Agencies and major international banks) combined with the considerable amount of expertise that it gained through its participation in the EBRD trade facilitation programme, make it highly attractive to Ukrainian companies engaged in export and import activities. The Bank often acts as a Ukrainian counterparty to international banks arranging trade financing facilities for their global clients, and provides confirmation services to smaller Ukrainian banks.

- *Project Finance.* The Bank provides for the arrangement and provision of finance for projects of the Bank's corporate clients which involve either the development of new businesses or a significant expansion of existing ones. Funding for these projects can have maturities of up to seven years. Such funding is often arranged with the help of Export Credit Agencies and usually involves the provision of guarantees, letters of credit and other documentary services. When arranging project finance, the Bank typically requires a client to obtain at least a third of its financing from other sources. Full or almost full recourse to other client's business cash flows is also normally required by the Bank. Management believes the Bank has gained considerable experience in this product category through its active participation in the EBRD SME financing programmes, which frequently involved setting up new ventures or significant business expansion.
- *Leasing.* The Bank provides financial leasing services to its corporate customers for the acquisition of different types of equipment. While leasing does not offer tax advantages in Ukraine, it can provide the Bank's customers with other advantages such as better financing rates, more flexibility towards collateral (equipment remains the Bank's property) and, in some instances, supplier discounts.

In addition to the Bank's focus on the above products, the Bank also provides a range of other corporate lending products, including working capital loans, general purpose loans and other credit facilities and credit related products denominated both in hryvnia and foreign currencies, principally U.S. dollars and Euros.

The Bank is currently building upon its international recognition by being involved with the World Bank in two new programmes ("Access to Financial Services Project" and "Export Development Project II") which are expected to attract additional funds of up to U.S.\$46 million and U.S.\$30 million, respectively, to facilitate the Bank's lending to corporate customers in Ukraine. Under the terms of the "Access to Financial Services Project", which will be implemented in cooperation with the Ministry of Finance of Ukraine and will be aimed at supporting SMEs in rural regions in Ukraine, the Bank will be able to extend loans at lower interest rates to corporate customers in Ukrainian cities with populations under 400,000. The "Export Development Project II" programme will be implemented in cooperation with the State Export-Import Bank of Ukraine (Ukreximbank) and will be aimed at supporting export activities of Ukrainian companies.

Deposit taking, cash management and account services

As at 30 September 2007, according to the official statistics of the Association of Ukrainian Banks, the Bank was the tenth largest Ukrainian bank in terms of corporate deposits with total corporate deposits of UAH 3.4 billion (approximately U.S.\$682.1 million). The Bank offers a wide range of corporate deposit products, including current accounts and time deposits, both in hryvnia and foreign currencies.

In 2006, the Bank's corporate deposits and current accounts portfolio increased by approximately 116.4 per cent. to U.S.\$330.4 million as compared to U.S.\$152.7 million in 2005. As at 31 December 2006 corporate deposits and current accounts represented 18.4 per cent. of the Bank's total liabilities. As at the same date, current account balances represented 47.1 per cent. of total amounts due to corporate customers and time deposits represented 52.9 per cent. of total amounts due to corporate customers.

Other products and services

The Bank also provides its corporate customers with security trading facilities, foreign exchange conversion services and corporate cards, among its other products and services.

Principal Investments

The Bank participates in certain non banking businesses, such as consumer finance and insurance and leasing, through its equity holdings in an independently managed investment fund. Management believes that these non-banking businesses can be more effectively managed by independent management teams that are not under the control of the Bank's management. An independent asset management company controls the individual investments and each company is managed by its own independent management team. The Bank cooperates with the companies in non banking sectors owned by the investment fund to:

- service new sectors of the financial services market;
- increase cross-sales of banking and non banking products;
- create a network through which to sell non banking products in all regions of Ukraine; and
- increase the range of non banking products that it offers.

The Bank conducts all of its business with these independent companies at arm's length. The investments in the investment fund include the following companies:

Consumer Lending — Eurokredyt-Dogmat Ukraina CSC ("Dogmat")

Dogmat is a consumer finance company that provides point-of-sale financing to consumers in a wide range of retail segments, including mobile phones, consumer appliances, consumer electronics, computers, furniture and DIY related products. Dogmat was set up in mid-2002 as a joint venture between the Bank and a team of consumer finance experts. The business concept contemplated that Dogmat would provide mass consumer finance services based on financing provided by the Bank. The team created a unique business with products and services tailored to the current Ukrainian market while securing control over loan portfolio risk and operating through a countrywide, multi-channel distribution network. As a result of the disposal of its 41 per cent. shareholding in Dogmat to investment fund Afin in 2005, the Bank no longer holds any interest in Dogmat. See "*Financial Review — Results of Operations — Other Non-Interest Income*".

Dogmat offers instalment loans to individuals to purchase consumer products. A standard loan assumes that a purchaser will be required to pay a down-payment and a number of instalments which will include fees, interest and the nominal value of the loan. Dogmat, together with select retailers, organizes promotional products aimed at lowering the amount of the instalments paid by the client at the cost of the retailer.

In most cases, for loans not exceeding UAH 5,000 (approximately U.S.\$990), Dogmat is able to grant loans within 15 minutes and Dogmat's systems are currently able to process up to 6,000 applications daily. The average loan value is approximately UAH 2,700 (approximately U.S.\$535) with an average term of approximately 16 months.

Dogmat uses a centralised scoring system (a combination of an automated process with algorithms and a manual process) which was developed in-house, and which has access to various databases. Final decisions are usually confirmed by the field risk personnel and when appropriate, Dogmat requires its customers to make an increased upfront down payment to mitigate risk of non-payment.

Debt collection includes soft procedures (i.e., correspondence, telephone calls), field visits and court procedures. Dogmat operates a modern call-centre integrated with its IT systems. The Bank believes that none of Dogmat's competitors achieves its debt recovery results, which can be attributed to

Dogmat's risk team having over 10 years of experience in Dogmat Inkaso, a Polish company specializing in the provision of debt collection services.

Pricing of the loans includes three elements (fees, insurance and interest) which are added to the loan amounts and amortized over the repayment period. The annual percentage rate ("APR") depends on the duration and amount of the loan and averages between 35 per cent. and 95 per cent.

Dogmat's rapidly growing client database is a platform for repeat business, offering new products and cross-selling opportunities for banking and insurance products. Over its almost five year history, Dogmat has served over 1,250,000 clients.

The total number of points of sale exceeds 1,900 countrywide, and includes points of sale in stores, as well as Dogmat's own branch network. Points of sale in larger retail chains are normally operated by store personnel while those in smaller shops tend to be operated by Dogmat personnel. The Dogmat sales force consists of over 2,700 personnel, 95 per cent. of whom are field sales employees.

Insurance — Investservice

Investservice provides a wide range of non life-insurance products including building and contents insurance, motor insurance, liability insurance and other types of general insurance, primarily focusing on individual customers. Investservice distributes its products through the Bank's branch network as well as through its own network of 300 points of sale.

Car Leasing — Eurofinance

Eurofinance is the most recent investment made by the Bank. Eurofinance began operating in February 2006 and focuses on the provision of car fleet leasing products which are targeted at western companies and SMEs. By 2008, the Company intends to expand its product portfolio and build a country-wide sales network to become one of the largest Ukrainian car fleet leasing providers.

Other Banking Services

The Bank is also engaged in the sale of insurance products, precious metals, banknote trading and treasury transactions. The Bank's trading activities are predominantly client-driven.

Competition

As at 30 September 2007, 196 commercial banks were registered in Ukraine, of which 174 had been granted licences to perform banking operations. In terms of assets, PrivatBank and Raiffeisen Bank Aval are the largest banks in Ukraine, accounting for 9.52 per cent. and 8.13 per cent., respectively, of total banking assets, compared to the Bank's market share of 3.37 per cent., according to the NBU data as at 30 September 2007. Although the Bank believes that it is well positioned in the market, it faces competition from PrivatBank and Raiffeisen Bank Aval across most of the segments where the Bank is active, and from other large Ukrainian banks in specific market niches.

With respect to its retail operations, the Bank considers PrivatBank to be its main competitor in products such as point-of-sale instalment loans and plastic cards, a sector in which the Bank shares the number two position with Raiffeisen Bank Aval. In the auto lending and retail mortgage segments, the Bank also competes with Raiffeisen Bank Aval, UkrSibbank, OTP Bank and Urksotsbank. In the near future, the Bank expects to face direct competition from PrivatBank, UkrSibbank and ProCredit Bank for SME business. In the trade and structured finance sector of corporate banking, the Bank considers The State Export-Import Bank of Ukraine, Raiffeisen Bank Aval and First Ukrainian International bank to be its principal competitors.

In addition, pursuant to the acquisitions and planned acquisitions of several leading Ukrainian banks by Western financial institutions in 2005 (Bank Aval by Raiffeisen International Bank-Holding AG), in 2006 (UkrSibbank by BNP Paribas, Raiffeisenbank Ukraine by Hungarian OTP Bank) and in 2007 (TAS-Kommerzbank by Swedbank AB, Urksotsbank by Bank Austria Cerditanstalt AG (UniCredit

Group), Bank Forum by Commerzbank AG), the Bank expects that competition from foreign banks will increase, aided by their access to relatively large and diverse sources of funds and the latest banking technologies. However, despite this potential increase in competition, the Bank believes that its experienced management team, large distribution network, trained and motivated sales force, use of advanced technologies, as well as growing scale and expertise in the targeted customer and product sectors will enable it to maintain and continue gaining market share in the market sectors on which it focuses.

Head Office and Branches

The head office of the Bank, located in Kyiv, consists of 48 divisions. The Bank is also present in every regional and district centre of Ukraine.

The Bank's branches offer a wide range of banking services including loans, documentary transactions, securities operations, foreign currency transactions, settlement and payment transactions and international electronic card operations.

As part of the Bank's policy to develop its network since 2003, there has been a major expansion of its branches and outlets as indicated below.

Growth in regional presence, number of branches

Year, as at 31 December	Number of Branches
2000	34
2001	98
2002	152
2003	280
2004	366
2005	510
2006	600
2007*	646

* As at 30 September 2007.

The development of the Bank's regional network and range of products required a reorganisation of the local management of the Bank in 2005-2006. Consequently, more power has been delegated to local management from head office, and the Bank has set up five inter-regional offices and two large offices with inter-regional status. The activity of the inter-regional offices is monitored and coordinated by the Retail Network Department, a division of the head office.

The Bank categorises its branches that conduct its front-office operations into types 1, 2, 3 and 3+. The Bank determines each branch type by a branch's size, number of employees, operations and sectors served. For example, a Type 1 (or mini) branch services individuals and is typically quite small whereas Type 3+ branches tend to be large and can service the needs of any of the Bank's customers, including the Bank's VIP customers. The Bank conducts its back-office operations from its regional and inter-regional branches. The regional offices house, among others, the administrative, legal, banking, IT and marketing personnel while the inter-regional branches accommodate, among others, the loan administration, human resource and risk management departments.

Correspondent Banks

The Bank has one of the most extensive networks of foreign correspondent banks among Ukrainian banks and, as at 30 September 2007, had established correspondent relationships with more than 90 banking institutions globally.

The Bank's development of its correspondent network has allowed it to expand its relationships with counterparts in most parts of the world, including Central, Western and Eastern Europe, North

America and Asia. In addition to the Bank's global network of correspondent banks, 59 Ukrainian, CIS and Baltic banks maintain accounts with the Bank.

Memberships

The Bank is a principal member of the MasterCard Europe SA and Visa International payment systems, a member of the Kyiv Bankers Union, the Association of Ukrainian Banks, the Ukrainian Interbank Currency Exchange, the Ukrainian Stock Exchange, the Interregional Securities Union, the Universal Commodity Exchange Kontraktovy Dim UMVB, the First Securities Trading System and the SWIFT system. In addition, the Bank became an American Express Official Dealer and began distributing and performing cash servicing of American Express credit cards. The Bank has also executed agency agreements with the Diners Club and Union Card payment systems to perform cash servicing of their electronic cards.

Licences

As a Ukrainian bank, the Bank is regulated and supervised by the NBU.

The Bank has been registered with the NBU since 1993 and its current banking licence was reissued in 2002 following amendments to Ukrainian banking legislation which required banks to apply for separate permits to conduct certain types of banking activities not covered by the previous licence. Currently, the Bank is entitled to perform all types of banking operations permitted under applicable Ukrainian law and, in particular, may:

- accept deposits from both legal entities and individuals;
- open and operate current accounts for clients and correspondent banks;
- conduct foreign exchange and money market operations;
- sell and purchase securities both for its own account and on behalf of its clients;
- provide guarantees;
- carry out factoring and leasing operations;
- issue and endorse cheques, bills of exchange and other payment instruments;
- issue bank cards;
- provide asset management services; and
- provide custodial services.

The Bank holds three licences issued by the State Securities and Stock Market Commission of Ukraine which, collectively, authorise it to perform specific activities relating to the issuance and trading of securities in the Ukrainian securities market and the provision of registrar and custodial services. These renewable licences will expire on 28 July 2007.

Information Technology Systems/IT Infrastructure

The Bank's IT systems are designed to support major business functions and to provide operational support to the Bank's staff, management and partner banks as well as to its corporate and retail customers. The development of IT systems is based on the principles of data security, integrity, availability and strategic alignment with the Bank's long term objectives.

The Bank operates a centralised IT system that enables it to process and account for all major banking and investment services transactions, including customer service, settlement operations, debit card processing, and managerial support. IT systems are an integral part of the Bank's internal control system.

The Bank is currently implementing an IT development strategy with the assistance of foreign advisers. The strategy consists of a comprehensive upgrade of all of the IT systems of the Bank providing increased IT support to the Bank's various business processes and introducing quality control at each stage of the Bank's services. The Bank expects to complete the implementation of its current IT development strategy within the next three years.

Property

The Bank and its subsidiaries own or lease the premises of its head office, branches and outlets. As at 31 December 2006, the total net book value of the Bank's premises was approximately U.S.\$80.8 million, including U.S.\$76.1 million worth of buildings and U.S.\$4.7 million worth of leasehold improvements.

Legal Proceedings

From time to time and in the normal course of business, the Bank is party to legal proceedings. As of the date of this Offering Memorandum, there are no legal proceedings, pending or threatened, which could, individually or in the aggregate, have a material adverse effect on the Bank.

RISK MANAGEMENT

Overview

The Bank considers risk management to be an essential element of its operations. Recently, the Bank updated its risk management strategy to more effectively evaluate, monitor and control the size and concentration of risks arising from its activities. The principal categories of risk inherent in the Bank's business are (i) credit risk, (ii) market risks (including foreign currency risk, securities portfolio risk and interest rate risk) and liquidity risk, and (iii) operational risk. The Bank's risk management policies and procedures in respect of these risks are designed to identify and analyse such risks, prescribe appropriate limits to various risk areas and monitor the level and incidence of such risks on an on-going basis.

The Bank's risk management systems have been developed according to methodology provided by the NBU and the Basel Committee. The Bank has been implementing the Basel Committee's recommendations for several years and intends to continue to do so in the future. In addition, the Bank expects to continue to review, on a regular basis, its risk analysis procedures in order to adapt them to the growth of its business and the varying nature of the risks it faces in its daily operations.

Risk Management Organisational Structure

Responsibility for the Bank's risk management activities is divided among the following bodies: the Management Board, the Assets and Liabilities Management Committee (the "ALCO"), the Credit Committee, the Operational Committee and the Risk Management Department. The Bank's risk management procedures are approved by the Management Board and set out the Bank's risk management goals and methodologies. The organisational structure and reporting lines of the Bank's risk management bodies are set out in the diagram below.

Management Board

The Management Board has overall responsibility for the Bank's risk management operations, policies and procedures, and delegates individual risk management functions to each of the various decision-making and execution bodies within the Bank's risk management structure.

Assets and Liabilities Management Committee

The ALCO is concerned with market risk (including interest rate risk, securities portfolio risk and foreign currency risk) and liquidity risk and determines the levels of risk that are acceptable in relation to the Bank's objectives, and which levels of risk produce the best combination of financial performance and risk limitation characteristics. The ALCO is responsible for developing policies on asset and liability management, managing liquidity and market risks and pricing bank products and services. In addition, the ALCO authorises interest rates and fees on the Bank's products and services, identifies strategies and instruments for hedging risks, sets criteria for evaluating risks and returns on operations and develops the Bank's limits and standards with the aim of balancing the level of risks and profitability.

Credit Committee

The Credit Committee supervises and manages the Bank's credit risks. In particular, the Credit Committee authorises credit processes, procedures, regulations and lending terms, approves transfers of decision-making authority on credit operations to the Bank's branches and declares debt overdue, dubious or hopeless and decides when hopeless debt should be set-off against the Bank's reserves.

Operational Committee

The Bank's Operational Committee is responsible for the management, prevention and minimisation of operational risks and risks relating to the Bank's information technologies. The Operational Committee, among other things, continuously monitors the status of process automation within certain

divisions of and throughout the Bank to improve the quality of client services, reduce operating risks, provide accurate management information, optimise the use of manpower in the implementation of the Bank's overall strategy and lower overall costs.

Risk Management Department

The Risk Management Department assists the ALCO, the Credit Committee and the Operational Committee in discharging their functions on a day-to-day basis. Its functions include evaluating and analysing risks, monitoring compliance with limits, and making recommendations with regard to balancing risk and profitability based on overall levels of risk and risks associated with particular banking services and products.

The principal categories of market risk to which the Bank, in common with other banks, is exposed through its operations, and the manner in which the Bank manages these risks are described below.

Credit Risk

The Bank is exposed to credit risk, which is the risk that a borrower or counterparty will be unable to pay amounts in full when due. Credit risk arises mainly in the context of the Bank's lending activities. The general principles of the Bank's credit and lending policy are outlined in the Bank's Credit Policy as approved by the Management Board.

The Bank has developed policies and procedures for the management of credit risk, including setting limits on portfolio concentration, and the establishment of a centralised risk management system. The Bank's Credit Committee sets the Bank's credit risk management policy and the Risk Management Department manages it.

All stages of the credit process, from initial project analysis to implementation, are regulated by the Bank using unified credit procedures. Since 1998, the Bank has used modern credit risk evaluation techniques developed in accordance with the recommendations of specialists from the EBRD, the World Bank and consultants from TACIS, an EU programme providing assistance to CIS countries.

Lending Policies and Procedures

The Bank has put in place credit policies throughout its network in order to define standards for the composition of its loan portfolio in terms of exposure to certain industries and with respect to the structure of risk limits and collateral composition. Such policies include, among other things, defining the limits on the loans that the Bank's branches and inter-regional centres are permitted to make without exceeding their authority. Limits are set with respect to the amount of individual loans and the maximum permitted maturity of individual loan products. The procedure for setting such limits is contained in the Bank's internal regulations and the Credit Committee approves credit limits for all branches on a regular and ad hoc basis. The Bank's branches, and certain head office departments, may apply for a review of the credit limits applicable to them.

The limits applicable to credit decisions that branches and inter-regional centres may make without having to refer to the Credit Committee are determined in accordance with the following criteria: the quality of the branch's credit portfolio, the amount of non-performing loans in the branch's credit portfolio, the qualifications of the staff at the branch involved in lending activities, the quality of documentation submitted by the branch to the Credit Committee for consideration, the due diligence procedures of the branch staff, the branch's adherence to the Bank's requirements for conducting credit operations and the average amounts of individual (single) loans in the credit portfolio of that branch.

The Bank's credit decision making bodies are authorised to make credit decisions within the established limits as set out below.

Credit Decision Making Venue	Credit Decision Making Body	Customer Type	Authority
Selected Branches	Small Credit Commission	Small Businesses	U.S.\$25,000
Inter-regional office	Small Credit Commission	SME	Up to U.S.\$257,000 ⁽¹⁾
Inter-regional office	Credit Commission	Corporates	Up to U.S.\$1,000,000
Headquarters	Small Credit Committee	Any SMEs & non-standard retail	Up to U.S.\$297,000 ⁽²⁾
Headquarters	Credit Committee	Corporates & SMEs & retail	Over U.S.\$1,000,000 (Corporates); Over U.S.\$250,000 (non-standard loans)

(1) Authority varies based on criteria set forth above.

(2) Small Credit Committee makes credit decisions when authority of Inter-regional Office Small Credit Commission is exceeded or the credit decision involves a non-standard retail loan.

Loan Approval

The Bank's lending policies and established credit approval procedures are based on guidelines which are set in accordance with Ukrainian legislation and NBU and internal regulations. Under the Bank's lending policy, responsibility for approving loans is assigned to certain certified employees of the branches, inter-regional centres or committees depending on the amount of the loan, the nature of the transaction, the type of borrower, the value of any collateral securing the loan and the professional experience, performance and qualifications of such employees and committees.

A maximum credit limit is set for each individual borrower, including limits on the amount of the loan together with restrictions on the repayment schedule and use of proceeds and is updated prior to each loan approval. The Bank monitors operations with its customers on a regular basis and notifies the Credit Committee both periodically and in the event of any change in a customer's circumstances. Following such a review, the Bank either confirms existing limits or contacts the customer if it is necessary to review the terms of the loan.

The Bank applies different loan approval procedures depending on both the nature of the customer and the amount of the loan in question. Deciding whether or not to extend a loan to a medium SME or a corporate customer depends primarily on the customer's credit quality as reflected by the credit rating assigned to the customer by the Bank and the value of collateral provided, if any. In assigning a rating, the Bank considers factors such as the customer's financial condition, the market in which the customer operates, the competitiveness of the customer's products and the customer's management. If the customer is a private individual or a micro SME, the Bank considers factors such as the customer's income level, amount of assets and liabilities and other personal financial information when assigning it a credit score.

In addition, the Bank has a centralised monitoring system for its retail loans, which monitoring is carried out by the Head Office Operational Department. Communication with customers will be done through the call-centre (which was launched in July 2006 and is considered to be the most up-to-date in Ukraine).

Loan Approval for Retail Customers

The Bank has centralised the decision-making with respect to its loan approval process for its retail lending operations by computerising all information at the Bank's headquarters. To apply for one of the Bank's standard products offered to retail customers, a potential borrower must complete a standard application form which is then tested by the Bank's "Scoring" software, which was internally developed to meet the Bank's loan approval requirements, and, based on the outcome of this testing, is either denied, approved outright or approved subject to specific requirements (for example,

additional collateral or a change of product) within 24 hours of applying. If a potential customer does not fit the requirements for a standardised product, the Small Credit Committee staff at the Bank's headquarters will work with the customer to design a product for which the customer does qualify.

Loan Approval for Mini and Small SME Customers

The Bank divides its lending business within the SME segment into three groups, micro, small and medium SMEs, based upon the annual gross returns and credit exposures of the SMEs. Credit applications for micro SMEs (credit exposure up to U.S.\$5,000) are evaluated in a manner similar to applications submitted by individuals. However, since standardised products are offered to these customers on an individual basis, the decision-making process is not centralised.

Small SME credit applications (credit exposure between U.S.\$5,000 and U.S.\$20,000) are reviewed by Small Credit Commissions within certain of the Bank's branches with credit authority of up to U.S.\$25,000. If the credit authority of a particular branch is exceeded (or there is no Small Credit Commission in the branch), a decision will be made either by the Small Credit Commission at the inter-regional centre or by the Small Credit Committee at the Bank's headquarters, depending on the limit.

Approval for Medium SMEs and Corporate Customers

Loans to medium SMEs and corporate customers are granted after the Small Credit Commission or the Credit Commission at the inter-regional centres or the Small Credit Committee or Credit Committee at the Bank's headquarters, as the case may be, has made a lending decision based on the borrower's solvency and creditworthiness. The terms on which loans are granted to each borrower (such as the amount, repayment period or security) are reviewed on each new loan application or when there is a deterioration in the borrower's circumstances, such as a deterioration in the borrower's financial condition or the quality of the security for the loan, or in the event of a risk that the borrower's obligations under the relevant loan agreement will not be met in full or on time. In the latter case, the Bank takes steps to reduce the credit risk and/or increase its coverage, such as requiring additional collateral, reducing the amount of the loan or re-scheduling repayment terms.

In making its decisions, the Bank evaluates potential borrowers on the basis of their financial condition as reflected in their financial statements, their credit history with the Bank and other financial institutions and the amount of risk involved in lending to a particular borrower. A lack of credit history with the Bank or lack of credit history in general is not an absolute bar to granting a loan, provided that the Bank receives sufficient information to assess the borrower's business and financial condition. However, when the Bank lends to a borrower with no credit history, it sets conditions such as a requirement to transfer a certain portion of the customer's banking operations to the Bank for a certain period and charging higher interest rates, or requiring additional collateral or guarantees from such borrower.

In evaluating the risks associated with a particular borrower, the Bank takes into account the borrower's business and factors such as the quality of its management, its main business activities, its geographic location, other indebtedness, financial stability, likely return on the loan, and the liquidity of the proposed collateral and whether it is sufficient in view of the credit risk.

Credit Risk Relating to Inter-Bank Operations

Credit risk in relation to inter-bank operations arises mainly as a result of loans being unsecured, although such loans typically have relatively short-term maturities and generally range from several hours up to two months. As at 31 December 2006, amounts due from credit institutions (including current accounts with credit institutions and term deposits with original maturity of less 90 days recorded under cash and cash equivalents) amounted to 15.5 per cent. of the Bank's total assets.

The Bank establishes separate limits for bank counterparties based on an evaluation of their financial condition and on any available non-financial information (such as the counterparty's shareholders and customers, the quality of its management, its market position, concentrations on the assets and

liabilities sides of its balance sheet and the rate of its growth). These limits restrict the amounts and terms of these loans.

The limits on the risks assumed in relation to specific counterparties are approved by the Credit Committee on the basis of a detailed analysis of the counterparty's financial position and reputation. The capital adequacy ratios of counterparties, the quality of their assets and their estimated liquidity risk and profitability are all analysed and taken into consideration. In the event of a deterioration in the financial condition or reputation of a counterparty, the applicable limits are decreased or cancelled by the Credit Committee. The monitoring of a counterparty's financial performance is done on the basis of its monthly financial statements and, if necessary, special provisions are created with respect to potential losses. The Credit Committee reviews the list of existing limits on a regular basis and must approve any changes to such limits.

Monitoring Credit Risk

The Bank monitors the performance by borrowers of their obligations under their loan agreements, primarily repayment of principal and interest. It also monitors the financial condition of borrowers on the basis of information provided by borrowers on a monthly and quarterly basis to determine whether loans are being used for the purposes prescribed, whether a corporate borrower is meeting the targets set out in its business plans, collateral values, and to review certain non-financial information such as information on actual or pending legal proceedings involving the borrower, and assessing the reputation of the borrower.

Monitoring of the Bank's loan portfolio enables the Bank to react to changes in the quality of particular loans and determine whether changes to the Bank's terms and conditions are necessary. The Credit Committee is notified of the results of this monitoring on a regular basis or on the occurrence of any warning signs. To provide information management support to credit operations and assist managerial decision-making, the Bank has developed a credit information system. This system accumulates information on each loan and borrower, tracks credit history and generates reports, enabling the Bank to assess the level of both individual and portfolio risks and to act on any warning signs.

Based on its analysis, the Bank either confirms the terms and conditions of outstanding loans or, where necessary, negotiates amendments with the borrower.

Off Balance Sheet and Related Party Credit Risk

Credit risk in relation to off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank applies the same procedures and methodologies, as defined by its credit policy, for evaluating and monitoring off-balance sheet credit related commitments (such as credit lines, letters of credit and guarantees) as it does for on-balance sheet credit obligations (such as loans).

With respect to related party transactions, the Bank uses the same approach to these transactions as it does for arm's length transactions. In accordance with the regulations of the NBU, any related party loan must be approved by the Management Board and/or Supervisory Board. If the level of risk does not fall within the parameters set by the Bank, the Bank either rejects the loan application or requires the transaction to be secured by cash or other collateral. In addition, the Bank sets specific standards for credit risk concentration limits in respect of related parties, including loan exposure limits and limits applicable to guarantees and sureties granted to related parties.

Liquidity Risk

Liquidity risk arises from mismatches between the maturities of assets and liabilities, which may result in the Bank being unable to meet its obligations in a timely manner. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank and management believes it to be a key strength of the Bank. While an

unmatched position potentially enhances a bank's profitability, it can also increase the risk of losses and the ALCO and the Risk Management Department impose closely monitored daily limits on such exposures. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

The Bank's policy in relation to liquidity risk is that liquidity prevails over profitability. Accordingly, the Bank has developed a comprehensive package of procedures and systems to implement its liquidity risk management strategy. Such procedures define the structure of relations between different departments within the Bank for the purposes of risk management and liquidity monitoring and allocate responsibility for monitoring and actioning non-compliance within the established limits. The Bank's liquidity management policy includes detailed descriptions of methods for monitoring assets, liabilities and the balance sheet as a whole, as well as setting out a system for defining limits, modelling and stress testing. Gap analysis is used for liquidity gap management and additional forecasts are obtained from payment schedules. Liquidity risk is measured by absolute gap, aggregate gap and relative gap criteria.

Liquidity management is the responsibility of the ALCO and the Risk Management Department. The ALCO determines the Bank's liquidity management policy and approves procedures for evaluating and managing liquidity risk as well as liquidity requirements. The Risk Management Department carries out the day-to-day monitoring of the Bank's short term exposure to liquidity risk and prepares monthly liquidity forecasts, taking into account the operations of both the head office and branches. Forecasts are made on the basis of accounting and operational information and the expertise of the Risk Management Department. The Risk Management Department also recommends liquidity ratios and submits them to the ALCO for approval.

In addition, the Bank has internal guidelines for maintaining liquidity in the event of an emergency, which set out the relevant actions to be taken by the Bank in order to prevent or overcome a liquidity crisis. Matters covered include a list of pre-emptive measures to be taken to avoid a liquidity crisis, the methods used for the detection and analysis of a potential crisis, a comprehensive package of primary actions to stabilise liquidity risk, ways of managing the return of the Bank to normal operations and an analysis of the actions undertaken.

The following tables set forth the Bank's assets and liabilities as at 31 December 2006 and 31 December 2005 by their remaining contractual maturity, as well as cumulative liquidity gap information as at 31 December 2006 and 31 December 2005.

	As at 31 December 2006							Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	Past due	
Assets:								
Cash and cash equivalents.....	118,851	51,172	—	—	—	—	—	170,023
Precious metals.....	3,191	—	—	—	—	—	—	3,191
Amounts due from credit institutions.....	—	167,688	82,142	—	2,166	—	—	251,996
Loans to customers.....	—	76,879	89,429	364,703	670,007	173,470	30,622	1,405,110
Investment securities:								
- designated at fair value through profit or loss.....	—	—	4,825	—	18,328	119,812	—	142,965
- available-for-sale.....	—	—	—	—	9,042	263	—	9,305
Other monetary assets.....	6,955	52	620	460	381	—	76	8,544
	128,997	295,791	177,016	365,163	699,924	293,545	30,698	1,991,134
Liabilities:								
Amounts due to the NBU and								
Government.....	—	—	—	5,378	14,031	—	—	19,409
Due to credit institutions.....	5,766	189,978	69,172	188,281	49,659	8,526	—	511,382
Due to customers.....	271,520	132,862	180,698	450,908	51,149	—	—	1,087,137
Eurobonds issued.....	—	—	—	1,535	98,677	—	—	100,212
Other debt securities issued.....	1,017	—	1,744	—	37,765	—	—	40,526
Other monetary liabilities.....	1,287	3,586	1,369	3,293	—	116	—	9,651
	279,590	326,426	252,983	649,395	251,281	8,642	—	1,768,317
Net position	(150,593)	(30,635)	(75,967)	(284,232)	448,643	284,903	30,698	222,817
Accumulated gap	(150,593)	(181,228)	(257,195)	(541,427)	(92,784)	192,119	222,817	

	As at 31 December 2005							Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	Past due	
Assets:								
Cash and cash equivalents.....	98,694	21,508	—	—	—	—	—	120,202
Precious metals.....	1,455	—	—	—	—	—	—	1,455
Amounts due from credit institutions.....	—	86,471	18,791	—	1,253	—	—	106,515
Loans to customers.....	—	20,652	96,907	328,452	273,487	65,346	29,510	814,354
Investment securities:								
— designated at fair value through profit or loss.....	—	660	674	4,315	11,885	72,960	—	90,494
— available-for-sale.....	—	—	—	—	—	1,078	—	1,078
Securities pledged under repurchase agreements.....	—	—	—	1,054	2,811	—	—	3,865
Other monetary assets.....	1,211	1,122	958	490	730	—	269	4,780
	101,360	130,413	117,330	334,311	290,166	139,384	29,779	1,142,743
Liabilities:								
Amounts due to the NBU and								
Government.....	—	196	3,373	5,222	17,660	—	—	26,451
Due to credit institutions.....	3,054	109,428	21,307	43,106	63,735	9,276	—	249,906
Due to customers.....	138,023	35,293	85,655	275,285	125,600	—	—	659,856
Eurobonds issued.....	—	—	—	1,562	—	97,956	—	99,518
Other debt securities issued.....	805	56	—	2,613	399	—	—	3,873
Subordinated loan.....	—	—	—	—	17,700	—	—	17,700
Other monetary liabilities.....	1,543	1,990	89	—	54	135	—	3,811
	143,425	146,963	110,424	327,788	225,148	107,367	—	1,061,115
Net position	(42,065)	(16,550)	6,906	6,523	65,018	32,017	29,779	81,628
Accumulated gap	(42,065)	(58,615)	(51,709)	(45,186)	19,832	51,849	81,628	

As at 31 December 2006, 75.1 per cent. of the Bank's customer deposits were term deposits while 24.9 per cent. of the Bank's customer deposits were on-demand deposits. Management believes that, due to the diversification of the Bank's on-demand deposits by number and type, such deposits constitute a stable source of funding for the Bank and, for 2006, completely covered the gap shown above. The Bank's strategy for the management of liquidity risk arising as a result of mismatches of assets and liabilities with maturities from one month to one year includes:

- close monitoring of the Bank's liquidity requirements and daily movements of balances on customers accounts;
- a programme for the promotion of long-term deposits and products for established customers of the Bank;
- maintaining a proportion of highly liquid assets to ensure sufficient liquidity, which would enable the Bank to operate for a period of time in a crisis situation; and
- analysis and monitoring of possible exit strategies for certain long-term assets and investments of the Bank (including the loan portfolio), including the Bank's ability to sell or factor such assets to receive liquidity.

In addition, the Bank is subject to liquidity requirements set by the NBU. See "*Appendix A — Ukraine: The Banking Sector*". The Bank's risk management system incorporates the NBU's requirements and does not permit limits set by the NBU to be exceeded.

Market Risks

The Bank is exposed to market risks arising from currency, interest rate and securities positions, all of which can be products of market volatility. The goal of the Bank's market risk management policy in these areas is to limit and reduce the amount of possible losses that may be incurred by the Bank in the context of its activities due to negative changes in exchange rates, interest rates and the performance of the capital markets.

The ALCO manages market risks by establishing limits on possible losses for each type of operation and the Risk Management Department monitors compliance with such limits.

Currency Risk

Currency risk is the risk of losses resulting from adverse movements in different foreign currency exchange rates. Currency risk results from the Bank having open positions in different currencies, which are calculated as differences between assets and liabilities in the same currency.

The Bank evaluates, monitors and sets limits for open positions using hryvnia as its base currency. The hryvnia has been stable since 2001 (ranging between UAH 5.05-5.43 per U.S.\$1). The NBU sets regulatory requirements for open currency positions, expressed as a percentage of the Bank's capital.

The Bank's methods of currency risk management are based on principles of consolidated currency risk management and include the setting of limits on open currency positions (in terms of absolute exposure and "value at risk" measures) and stop loss limits. Currency risk is centrally controlled at the head office level while a clear segregation of duties between divisions and branches enables the Bank to minimise possible losses caused by currency risk. Accordingly, limits on open currency positions are set for the Bank as a whole, proceeding from capital adequacy requirements. The Risk Management Department monitors compliance with these limits and submits reports to the ALCO for consideration.

In addition, to reduce its currency risk, the Bank enters into foreign currency swaps and arrangements with foreign banks pursuant to which the Bank makes term deposits in foreign currency with foreign banks and accepts term deposits in hryvnia from foreign banks.

The following tables set out the Bank's foreign currency exchange rate risk as at 31 December 2006 and 31 December 2005. Included in the tables are the Bank's interest-bearing assets and liabilities at carrying amounts.

	As at 31 December 2006				
	UAH	USD	Euro	Other	Total
Assets:					
Cash and cash equivalents.....	87,360	56,313	12,847	13,503	170,023
Precious metals.....	—	—	—	3,191	3,191
Amounts due from credit institutions	118,362	117,734	13,727	2,173	251,996
Loans to customers.....	575,680	699,465	110,296	19,669	1,405,110
Investment securities:					
— designated at fair value through profit or loss	138,140	4,825	—	—	142,965
— available-for-sale.....	9,305	—	—	—	9,305
Other monetary assets.....	5,070	2,604	870	—	8,544
	<u>933,917</u>	<u>880,941</u>	<u>137,740</u>	<u>38,536</u>	<u>1,991,134</u>
Liabilities:					
Amounts due to the NBU and Government.....	3,050	12,407	3,952	—	19,409
Due to credit institutions.....	102,217	265,315	143,757	93	511,382
Amounts due to customers.....	608,568	372,772	82,164	23,633	1,087,137
Eurobonds issued.....	—	100,212	—	—	100,212
Other debt securities issued.....	40,526	—	—	—	40,526
Other monetary liabilities.....	8,589	895	162	5	9,651
	<u>762,950</u>	<u>751,601</u>	<u>230,035</u>	<u>23,731</u>	<u>1,768,317</u>
Net balance sheet position.....	<u>170,967</u>	<u>129,340</u>	<u>(92,295)</u>	<u>14,805</u>	<u>222,817</u>
Net off-balance sheet position.....	<u>71,136</u>	<u>126,267</u>	<u>74,427</u>	<u>43,276</u>	<u>315,106</u>

	As at 31 December 2005				
	UAH	USD	Euro	Other	Total
Assets:					
Cash and cash equivalents.....	86,789	24,646	8,123	644	120,202
Precious metals.....	—	—	—	1,455	1,455
Amounts due from credit institutions	20,391	79,680	6,444	—	106,515
Loans to customers.....	351,481	389,039	73,139	695	814,354
Investment securities:					
— designated at fair value through profit or loss	85,462	5,032	—	—	90,494
— available-for-sale.....	1,078	—	—	—	1,078
Securities pledged under repurchase agreements	3,865	—	—	—	3,865
Other monetary assets.....	3,991	707	82	—	4,780
	<u>553,057</u>	<u>499,104</u>	<u>87,788</u>	<u>2,794</u>	<u>1,142,743</u>
Liabilities:					
Amounts due to the NBU and Government.....					
Government.....	1,222	25,229	—	—	26,451
Amounts due to credit institutions.....	64,758	114,073	71,009	66	249,906
Amounts due to customers.....	381,104	213,540	56,730	8,482	659,856
Eurobonds issued.....	—	99,518	—	—	99,518
Other debt securities issued.....	3,873	—	—	—	3,873
Subordinated loans.....	—	17,700	—	—	17,700
Other monetary liabilities.....	2,535	1,189	87	—	3,811
	<u>453,492</u>	<u>471,249</u>	<u>127,826</u>	<u>8,548</u>	<u>1,061,115</u>
Net balance sheet position.....	<u>99,565</u>	<u>27,855</u>	<u>(40,038)</u>	<u>(5,754)</u>	<u>81,628</u>
Net off-balance sheet position.....	<u>29,856</u>	<u>54,493</u>	<u>26,687</u>	<u>969</u>	<u>112,005</u>

The ALCO sets limits for treasury operations on the international markets. Limits are set at the end of each day and for intra-day operations. Stop loss limits are also established by the ALCO.

Interest Rate Risk

Virtually all of the Bank's credit and deposit products for customers include a provision allowing the Bank to change interest rates at its discretion, thus, the Bank is exposed to limited interest rate risk. However, to the extent that the maturities of its interest-bearing assets and liabilities are mis-matched, the Bank is subject to interest rate risk.

The Bank measures interest rate risk in each of the main international currencies separately but its interest rate risk management procedures are the same for all currencies.

The ALCO sets limits on the cumulative interest gap to total assets ratio. Considering the limited number of hedging instruments available in the Ukrainian market to minimise the interest rate risk, the Bank seeks to match its interest rate positions on floating rate instruments and to keep any

mismatches in the maturity of the fixed rate instruments within pre-set limits. Interest rate mismatch levels are monitored by the Risk Management Department. An evaluation and analysis of the size of interest rate risk is performed each month and the results are discussed at ALCO meetings.

The following tables contain certain information regarding the Bank's exposure to interest rate risk as at 31 December 2006 and 31 December 2005. Management believes that, since the Bank generally has the right, at its discretion, to modify interest rates on its credit and deposit products, the gaps set forth below may overstate actual risk to the Bank. Included in the table are the Bank's interest-bearing assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing and maturity dates.

As at 31 December 2006								
	On demand	Less than 1 month	1 to 3 months	3 Months to 1 year	From 1 to 5 years	Over 5 years	Past due	Total
Assets:								
Cash and cash equivalents.....	118,851	51,172	—	—	—	—	—	170,023
Precious metals.....	3,191	—	—	—	—	—	—	3,191
Amounts due from credit institutions	—	167,688	82,142	—	2,166	—	—	251,996
Loans to customers.....	—	76,879	93,381	431,478	607,806	164,944	30,622	1,405,110
Investment securities:								
— designated at fair value through profit or loss.....	—	—	4,825	3,813	14,515	119,812	—	142,965
— available-for-sale.....	—	—	—	—	9,042	263	—	9,305
Other monetary assets.....	6,955	52	620	460	381	—	76	8,544
	<u>128,997</u>	<u>295,791</u>	<u>180,968</u>	<u>435,751</u>	<u>633,910</u>	<u>285,019</u>	<u>30,698</u>	<u>1,991,134</u>
Liabilities:								
Amounts due to the NBU and								
Government	—	—	3,952	15,457	—	—	—	19,409
Due to credit institutions.....	5,766	189,978	69,172	246,418	48	—	—	511,382
Due to customers.....	271,520	132,862	180,698	450,908	51,149	—	—	1,087,137
Eurobonds issued.....	—	—	—	1,535	98,677	—	—	100,212
Other debt securities issued.....	1,017	—	1,744	—	37,765	—	—	40,526
Other monetary liabilities.....	1,287	3,586	1,369	3,293	—	116	—	9,651
	<u>279,590</u>	<u>326,426</u>	<u>256,935</u>	<u>717,611</u>	<u>187,639</u>	<u>116</u>	<u>—</u>	<u>1,768,317</u>
Total interest sensitivity gap.....	<u>(150,593)</u>	<u>(30,635)</u>	<u>(75,967)</u>	<u>(281,860)</u>	<u>446,271</u>	<u>284,903</u>	<u>30,698</u>	<u>222,817</u>

As at 31 December 2005								
	On demand	Less than 1 month	1 to 3 months	3 Months to 1 year	From 1 to 5 years	Over 5 years	Past due	Total
Assets:								
Cash and cash equivalents.....	98,694	21,508	—	—	—	—	—	120,202
Precious metals.....	1,455	—	—	—	—	—	—	1,455
Amounts due from credit institutions	—	86,471	18,791	—	1,253	—	—	106,515
Loans to customers.....	—	20,652	96,907	367,329	242,108	57,848	29,510	814,354
Investment securities:								
— designated at fair value through profit or loss.....	—	660	674	8,341	7,859	72,960	—	90,494
— available-for-sale.....	—	—	—	—	—	1,078	—	1,078
Securities pledged under repurchase agreements.....	—	—	—	1,054	2,811	—	—	3,865
Other monetary assets.....	1,211	1,122	958	490	730	—	269	4,780
	<u>101,360</u>	<u>130,413</u>	<u>117,330</u>	<u>377,214</u>	<u>254,761</u>	<u>131,886</u>	<u>29,779</u>	<u>1,142,743</u>
Liabilities:								
Amounts due to the NBU and								
Government	—	196	3,373	22,882	—	—	—	26,451
Due to credit institutions.....	3,054	109,464	21,307	78,273	37,808	—	—	249,906
Due to customers.....	138,023	35,293	85,655	275,285	125,600	—	—	659,856
Eurobonds issued.....	—	—	—	1,562	—	97,956	—	99,518
Other debt securities issued.....	805	56	—	2,613	399	—	—	3,873
Subordinated loan.....	—	—	—	—	17,700	—	—	17,700
Other monetary liabilities.....	1,543	1,990	89	—	54	135	—	3,811
	<u>143,425</u>	<u>146,999</u>	<u>110,424</u>	<u>380,615</u>	<u>181,561</u>	<u>98,091</u>	<u>—</u>	<u>1,061,115</u>
Total interest rate sensitivity gap.....	<u>(42,065)</u>	<u>(16,586)</u>	<u>6,906</u>	<u>(3,401)</u>	<u>73,200</u>	<u>33,795</u>	<u>29,779</u>	<u>81,628</u>

Securities Portfolio Risk

Although investing in securities is not a substantial part of the Bank's business, the Bank is exposed to the risks associated with the changes in the value of securities as a result of interest rate or market price movements. Decisions as to the types of securities to be purchased by the Bank, trading in securities and setting limits for counterparties are made by the ALCO. The Credit Committee approves the limits established for the Bank's exposure to individual issuers of securities and the Bank's dealers operate within these limits. The Risk Management Department controls the amount of open positions and adherence to established limits.

The Management Board of the Bank makes all decisions relating to direct investments in securities and such investments are strictly limited because, pursuant to the Bank's charter, only the Management Board can decide to invest in shares of other companies. Under applicable NBU regulations, a bank's total exposure relating to equity investments may not exceed 60 per cent. of its capital and any direct or indirect equity investment in a single company may not exceed 15 per cent. of its capital.

Operational Risk

Consistent with the recommendations of the Basel Committee, the Bank defines operational risk as the risk of loss resulting from inadequate or ineffective internal processes, persons and systems or from external events. Examples of events included under the definition of operational risk are losses from fraud, computer system failures, settlement errors, model errors and natural disasters. An effective monitoring process is essential for adequately managing operational risk. Regular monitoring activities can offer the advantage of rapidly detecting and correcting deficiencies in the policies, processes and procedures for managing operational risk. Prompt detection of these risks and immediately addressing them can substantially reduce the potential frequency and/or severity of a loss event. The Bank is focused on regular monitoring of its operational risk profiles and material exposures to operational losses.

The Operational Committee carries out risk-audit activities and assessments of operational risks and prepares recommendations for risk mitigation. The Bank is focused on the implementation of a process to regularly monitor its operational risk profile and material exposure to operational losses. The Bank's policy of regularly reporting information to the Management Board supports the proactive management of operational risk.

In 2004, the Bank updated and strengthened its anti-money laundering controls and "Know Your Customer" policies and procedures in accordance with changes in Ukrainian legislation. The policies and procedures established centrally by the Management Board in this regard apply universally to the operations of all divisions of the Bank. The Bank has made considerable efforts to develop effective anti-money laundering procedures and, to date, to the best of the Bank's knowledge, there have been no occurrences of non-compliance with such procedures.

Collateral

The Bank believes that collateral is an essential means of credit risk minimisation and accepts property belonging to the borrower or to third parties (guarantors) as collateral. In addition, the Bank accepts rights to property, securities and secured guarantees issued by other banks as collateral. Collateral eligibility is determined by the Bank by taking into account the form of ownership of the corporate borrower, its credit history, financial performance, credit rating and the term of the loan being considered. Preferred types of collateral for the Bank are cash, guarantees of top-tier banks, State securities, merchandise in storage, mortgages and fixed assets. Generally, the Bank accepts shifting inventory and property rights as additional security only. The Bank accepts combinations of different types of collateral depending on market conditions and prospects of the borrower, but it does not include the value of the collateral as part of the loan value.

The Risk Management Department has a collateral monitoring team (the “**CM Team**”). The primary task of the CM Team is to reduce risks taken by the Bank while carrying out banking operations. The CM Team evaluates liquidity, adequacy and reliability of property or property rights offered to the Bank as collateral. Property to be pledged as collateral is also subject to independent appraisal, unless otherwise stipulated by applicable Bank products or Ukrainian law. As it is a standard NBU requirement, appraisals for pledged property are undertaken. Following the evaluation of pledged property, a Pledged Property Control Act is drafted and then signed by the relevant parties.

The Bank requires collateral to offset the risk of non-payment of principal and interest. The provision of collateral is mandatory for all types of credit, except for unsecured overdraft, credit cards and “express micro loans” (of amounts not exceeding U.S.\$5,000). The value of the collateral required is determined by the credit rating of the borrower and the type of proposed security. Generally, the Bank requires that the value of the collateral covers a minimum of 150 per cent. of the amount of the loan, including interest.

Assessment of Allowance for Loan Impairment for IFRS Reporting Purposes

Under IFRS, allowance for loan impairment is established if there is objective evidence that a loan or a group of loans is impaired. The amount of the allowance is the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the instrument’s original effective interest rate.

A loan impairment estimation exercise follows certain steps and procedures, as described below:

1. Identification of loans that are individually significant, i.e. those loans which if fully impaired would have a material impact on the expected average level of operating profit of the Bank.
2. Determination of whether an individually significant loan shows objective evidence of impairment or not. Special emphasis is placed on the timing of the contractual cash flows from interest payments and principal repayments. If the Bank expects to collect all interest and principal due in full, but it is probable that those cash flows will be received later than the date agreed in the original contract, an impairment calculation is performed. Other impairment indicators include but are not limited to: any significant financial difficulty of the borrower, an actual breach of the loan contract; a high probability of bankruptcy or other financial reorganisation of the borrower; recognition of an impairment loss on that asset in a prior financial reporting period or a historical pattern of collections of loans that indicates that the entire principal and interest amount of a loan portfolio will not be collected.
3. Review for impairment of individually significant loans that show objective evidence of impairment. An impairment review requires an estimate of the expected amounts of cash flows from interest and principal repayments and other cash flows, including amounts recoverable from guarantees and collateral, and discounting them at the loan’s original effective interest rate. The loan is impaired if its carrying amount exceeds the estimated recoverable amount as defined above. A separate impairment loss on an impaired individually significant loan is recorded.
4. All remaining loans that have not been identified as individually significant are assessed on a portfolio basis if there are signs that impairment is present in those portfolios. For the purpose of such a review, the portfolio of loans should be grouped in pools, based on similar credit risk characteristics. Such pools should be further assessed for impairment as if they were a single asset. Additionally, separate pools of loans may be identified that, for example, by virtue of belonging to a particular industry have a higher chance of being impaired than other categories of loans.

Security Department & Overdue Loans Collection Department

In recent years, several credit bureaus have been established in Ukraine which maintain records of individuals' credit histories. The Bank has also established its own in-house Security Department, which is responsible for verifying the authenticity of the credit history and reputation of each client and its management and founders, and researching information on the financial performance of customers which is not available in their statements prior to credit approval.

In the event that a loan is not repaid when due, the Security Department, through its small regional teams, assists in contacting local authorities, if necessary, and communicating with defaulting borrowers. The Overdue Loans Collection Department is responsible for non performing loan recovery and will, among other things, investigate other means of repayment, handle legal enforcement proceedings and the claims process, cooperate with state authorities on enforcement proceedings and assist with recovery of debts and sales of property.

Problem Loan Recovery

The internal procedures relating to problem loan recovery are described in the Bank's unified credit procedures for consideration and handling of loan projects, which detail a systematic approach involving a comprehensive set of procedures intended to enable the Bank to obtain the highest likelihood of repayment on non-performing loans.

The Commercial Code of Ukraine, the Civil Code of Ukraine and the Law of Ukraine "On Security of Creditors Demands and Registration of Encumbrances", which came into effect on 1 January 2004, as well as the Law of Ukraine "On State Registration of Proprietary Rights to Real Property and Restrictions Thereof", which came into effect on 3 August 2004 (the "**Rights to Real Property Registration Law**"), significantly enhance the rights of creditors in the debt collection process and are expected to speed up the repayment of problem loans. As a result, procedures allowing for enforcement of collateral have improved. The Rights to Real Property Registration Law provides for the creation of a register of real estate charges that will offer lenders information about the property status of borrowers in order to enable lenders to assess such borrowers' credit risk and evaluate collateral. This register will also provide information regarding priority of debt.

To reduce risks of deterioration of performing loans, the Bank regularly monitors legislation and takes appropriate action in the event of changes in investment structure, management or ownership, reporting policy, legislation, the competitive environment, the market environment, failure to fulfil business plans, extraordinarily high economic growth, loss of purchasing markets, sales of assets, frequent changes of auditors, deterioration of financial results, low results compared to those of competitors, deterioration of payment discipline, decreases in cash flows on accounts with the Bank, qualitative and quantitative deterioration of collateral and other actions depending on specific situations.

The main actions taken for debt collection include contractual set off of funds held by the Bank, working together with the borrower to assist repayment (including attempting to find new investors, reorganisation of the borrower's business, working with authorities on repayment of loans granted under specific government decisions), sale of collateral, debt collection in court, declaring the borrower bankrupt and notifying law enforcement authorities in the event of unlawful actions of the borrower, such as sale of collateral without the Bank's consent.

When a problem loan arises, it is referred to the Credit Committee and, if required, the Credit Committee establishes a specific task force including officers from the Bank's head office. The task force will also include officers from the Overdue Loans Collection Department, the Security Department, the Risk Management Department and the Legal Division of the Bank. The task force develops schemes of debt repayments and specific measures to be taken to collect funds under the loan agreement. The task force also develops a detailed action plan on repayment of the problem loan specifying terms of fulfilment and responsible persons. Actions to be taken for loan repayment are considered and approved by the Credit Committee of the Bank. The Credit Committee monitors work

related to doubtful loans and determines the prospects of repayment and reviews such debts on a regular basis (at least once a quarter). If a collection by enforcement action on overdue debt against the borrower or its guarantors has not resulted in repayment, and it is subsequently confirmed that the borrower has no financial means or property to finance the arrears and there are legal grounds to consider a debt as a bad debt, the Bank can write it off against provision for impairment. The final decision of writing off bad debts is made by the Credit Committee. The procedure for writing off bad debts is regulated by the NBU and internal procedures of the Bank. In the case of a default by an individual on a loan, the Bank follows a specially designed two-stage recovery procedure involving restructuring of the indebtedness and, failing that, legal proceedings.

If a borrower breaches its obligations under a loan agreement, the outstanding amount is credited to the overdue accounts. The corresponding decision is made by the Credit Committee. The Overdue Loans Collection Department and the Security Division then undertake actions aimed at compulsory debt recovery.

The Department of Assets coordinates the Bank's problem debt collection. The main functions of the Overdue Loans Collection Department include preparing information relating to debtors/borrowers and providing such information to other divisions and departments within the Bank, implementing measures to initiate and handle enforcement proceedings and measures for sales of property of the debtor and guarantor, bankruptcy proceedings, providing legal support for actions started at the stage of enforcement proceedings, working with debtors aimed at identifying additional property, receivables and other assets and resources which can be used for debt repayment, developing strategy, actions and coordination of work carried out by the Bank's structural units involved in problem Loan collection, and cooperating with law enforcement authorities and other state authorities to assign responsibility of those who infringe legislation. Action and claim work for the collection of problem debt is carried out by the Legal Division.

It should be noted, however, that, as the majority of the Bank's loans are collateralised, the Bank has had to write off very few of its loans. In 2005, the Bank had no write-offs and had write-offs of only U.S.\$794 thousand in 2006 (compared with a total loan portfolio of U.S.\$1,405.1 million).

SELECTED STATISTICAL AND OTHER INFORMATION

Average Balance Sheets and Interest Rate Data

The table below presents the average balances for interest-earning assets and interest-bearing liabilities together with the related interest income and expense amounts, resulting in the presentation of the average yields and rates for the years ended 31 December 2006 and 2005. Average balances are calculated based on the Bank's balances as at the beginning and at the end of respective reporting periods.

	Year ended 31 December					
	2006			2005		
	Average Balance	Interest Income/ Expense	Average Yields/ Rate	Average Balance	Interest Income/ Expense	Average Yields/ Rate
	<i>(U.S.\$ thousands, except percentages)</i>					
Interest-earning assets						
Due from credit institutions ⁽¹⁾	232,597	9,686	4.2%	147,221	3,804	2.6%
Investment securities ⁽²⁾	25,535	4,066	15.9%	16,050	3,188	19.9%
Loans to customers	1,109,732	191,659	17.3%	628,271	108,760	17.3%
Interest-bearing liabilities						
Due to customers	873,497	69,695	8.0%	524,568	51,367	9.8%
Due to credit institutions	380,644	20,160	5.3%	215,281	8,288	3.8%
Eurobonds issued	99,865	10,481	10.5%	49,759	1,472	3.0%
Other debt securities issued	22,200	2,691	12.1%	1,937	31	1.6%
Subordinated loans	8,850	1,631	18.4%	17,843	1,680	9.4%
Due to the NBU and Government	22,930	1,132	4.9%	44,442	1,832	4.1%

(1) Includes current accounts with credit institutions and term deposits with original maturity of less 90 days recorded under "Cash and cash equivalents."

(2) Excludes non-interest bearing investment certificates.

	Year ended 31 December	
	2006	2005
	<i>(U.S.\$ thousands, except percentages)</i>	
Yield ⁽¹⁾	15.02%	14.62%
Margin ⁽²⁾	7.28%	6.45%
Spread ⁽³⁾	7.50%	7.05%

(1) Yield represents interest income as a percentage of average interest-earning assets.

(2) Margin represents net interest income before an impairment charge for interest earning assets as a percentage of average interest-earning assets.

(3) Spread represents the difference between the average rate of interest earned on interest-earning assets and the average rate of interest accrued on interest-bearing liabilities.

Average Deposit Balance

The following table sets out the average balances for each deposit type (excluding current accounts) for each of the years ended 31 December 2006 and 2005.

	Year ended 31 December	
	2006	2005
	<i>(U.S.\$ thousands)</i>	
	Average Balance	
Due to banks (including the NBU and Government)	399,122	235,597
Customer accounts	668,931	423,703

Changes in Interest Income and Expenses — Volume and Rate Analysis

The following table allocates the changes in the Bank's interest income and expense between changes in average volume and changes in the average rates for the period indicated. Changes in volume have been calculated as change in volume times old rate; changes in rate have been calculated as change in

rate times old volume and changes in rate/volume have been calculated as change in rate times change in volume. Volume variations have been calculated based on movements in average balances over the period and changes in interest rates on average interest-earning assets and average interest-bearing liabilities are derived from the table of average balances and interest rates above.

	2006/2005			
	Increase/(decrease) due to change in			
	Volume	Rate	Rate/Volume	Net change
Interest income				
Loans to customers	83,346	(253)	(194)	82,899
Due from credit institutions	2,206	2,327	1,349	5,882
Securities	1,884	(632)	(374)	878
Interest expense				
Due to the NBU and Government.....	(887)	362	(175)	(700)
Due to credit institutions.....	6,366	3,114	2,392	11,872
Due to customers	34,168	(9,512)	(6,327)	18,328
Eurobonds issued.....	1,482	3,750	3,776	9,009
Other debt securities issued	324	204	2,132	2,660
Subordinated loans.....	(847)	1,608	(811)	(49)

Financial commitments and contingencies

As at 31 December 2006 and 2005, the Bank's financial commitments and contingencies were as follows:

	As at 31 December	
	2006	2005
	<i>(U.S.\$ thousands)</i>	
Credit related commitments		
Undrawn loan commitments.....	84,606	40,989
Letters of credit.....	208,663	44,047
Guarantees	27,119	13,810
Promissory notes guarantees.....	3,860	18,872
	<u>324,248</u>	<u>117,718</u>

The amount of letters of credit and guarantees secured by customers' cash deposits was U.S.\$9.1 million as at 31 December 2006 and U.S.\$5.7 million as at 31 December 2005. As at 31 December 2006, no provision was recognised by the Bank against commitments issued, compared to a provision of U.S.\$1.2 million as at 31 December 2005.

Securities Portfolio

The following tables provide details of the fair value of the Bank's portfolio of investment securities designated at fair value through profit or loss and the interest rates on and maturities of such securities held as at 31 December 2006 and 2005.

	As at 31 December	
	2006	2005
	Investment certificates	119,812
Ministry of Finance treasury bills.....	8,638	10,381
Municipal bonds	4,857	3,449
Corporate bonds.....	9,658	3,704
Investment securities designated at fair value through profit or loss	<u>142,965</u>	<u>90,494</u>

Coupons and maturities of these securities are as follows:

	Year ended 31 December			
	2006		2005	
	Interest rate (%)	Maturity	Interest rate (%)	Maturity
Investment certificates	n/a	2014–2030	n/a	2014–2030
Ministry of Finance treasury bills:				
— U.S. dollar	8.5%	2007	8.5%	2007
— hryvnia	10.7–11.3%	2008–2009	11.3%	2008–2009
Municipal bonds	13%	2008	13%	2008
Corporate bonds	10–16%	2008–2011	12–17%	2006–2010

Loan Portfolio

The Bank's loan portfolio comprises commercial loans to customers, loans to retail customers and overdrafts. The Bank's loans to customers net of allowance for loan impairment were U.S.\$1,405.1 million and U.S.\$814.4 million or approximately 66.7 per cent. and 67.6 per cent. of total assets as at 31 December 2006 and 31 December 2005, respectively.

The Bank's allowance for impairment in respect of loans to customers totaled U.S.\$53.0 million and U.S.\$35.7 million as at 31 December 2006 and 2005, respectively.

The following table shows a breakdown of the Bank's gross loan portfolio in respect of loans by type of industry as at 31 December 2006 and 2005.

	Year ended 31 December			
	2006	% of total	2005	% of total
	<i>(U.S.\$ thousands, except percentages)</i>			
Retail customers	773,588	53.1%	338,359	39.8%
Manufacturing enterprises	91,737	6.3%	46,960	5.5%
Trading enterprises	205,386	14.1%	216,336	25.4%
Trading in oil and related products	83,021	5.7%	110,901	13.0%
Agriculture and food processing	114,789	7.9%	65,463	7.7%
Real estate construction	156,277	10.7%	63,631	7.5%
Other	33,317	2.3%	8,432	1.0%
	1,458,115	100%	850,082	100.0%

The following table sets out the distribution by currencies of the loans to customers after allowance for impairment in respect of loans as at 31 December 2006 and 2005:

	2006				
	UAH	USD	Euro	Other	Total
Loans to customers	575,680	699,465	110,296	19,669	1,405,110

	2005				
	UAH	USD	Euro	Other	Total
Loans to customers	351,481	389,039	73,139	695	814,354

Changes in Allowance for Impairment of Interest Earning Assets

The following table sets out details of the changes in the Bank's allowance for impairment of interest earning assets, during 2006 and 2005.

	Loans to customers	Due from credit institutions	Total
	<i>(U.S.\$ thousands, except ratio)</i>		
31 December 2004	25,443	534	25,977
Currency translation difference.....	1,773	18	1,791
Charge/(release).....	8,512	(385)	8,127
31 December 2005	<u>35,728</u>	<u>167</u>	<u>35,895</u>
Currency translation difference.....	(161)	—	(161)
Charge/(release).....	18,232	(167)	18,065
Write-offs	(794)	—	(794)
31 December 2006	<u>53,005</u>	<u>—</u>	<u>53,005</u>

Allowance for Loan Impairment

The following table sets out the Bank's allowance for loan impairment by amount as at 31 December 2006 and 2005. The Bank experienced 13.5 per cent. decrease of percentage of the Bank's allowance for loan impairment to the total loans to customers before impairment charge in respect of loans during 2006.

	2006	2005
Allowance for loan impairment	(53,005)	(35,728)
Percentage to the gross loans to customers	3.6%	4.2%

Returns on Equity and Assets

The following table shows the Bank's net income as a percentage of average total assets and average total equity for the two years ending 31 December 2006 and 2005.

	2006	2005
	<i>(U.S.\$ thousands, except percentages)</i>	
Net profit attributable to shareholders of the Bank	50,010	27,106
Average total assets	1,655,761	968,622
Return on average total assets.....	3.0%	2.8%
Return on average total equity	22.8%	27.9%

Capital Adequacy

Set forth below are the Bank's capital and capital adequacy ratios as at 31 December 2006 calculated in accordance with Basle Accord guidelines issued in 1988, as subsequently amended.

	Year ended 31 December	
	2006	2005
	<i>(U.S.\$ thousands, except ratio)</i>	
Tier 1		
Share capital and share premium	207,228	93,095
Retained earnings.....	83,057	33,443
	<u>230,285</u>	<u>126,538</u>
Tier 2		
Property revaluation reserve	21,045	1,498
Subordinated loans.....	—	14,160
	<u>21,045</u>	<u>15,658</u>
Risk Weighted Assets		
with 20% risk.....	4,180	27,782
with 50% risk.....	—	38,118
with 100% risk.....	1,614,897	1,040,003
	<u>1,619,077</u>	<u>1,105,903</u>
Risk Adjusted Capital Ratio.....	19.2%	12.8%

The NBU requires banks to maintain a capital adequacy ratio computed in accordance with its rules and regulations based on the Bank's statutory financial statements prepared in accordance with Ukrainian Accounting Standards. Since March 2004, the NBU has required banks to maintain a capital adequacy ratio of at least 10 per cent. of risk-weighted assets, computed in accordance with the statutory requirements. The Bank's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines, as at 31 December 2006, was 19.2 per cent., in comparison to 12.8 per cent. as at 31 December 2005, exceeding the minimum ratio of 8 per cent. recommended by the Basel Accord.

MANAGEMENT

The Bank's current charter was approved by the General Meeting of Shareholders of the Bank on 14 May 2007 and registered with the NBU on 27 July 2007. The Bank's governing bodies are the General Meeting of Shareholders, the Supervisory Board and the Management Board.

The following diagram sets out the organisational structure of the Bank.

The highest level of management and the ultimate decision-making body of the Bank is the General Meeting of Shareholders. This is followed by the Supervisory Board which is responsible for the general management of the Bank, including strategy coordination and general supervision. The Supervisory Board, among other things, appoints the members of the Management Board (except for the Chairman of the Management Board who is appointed by the General Meeting of Shareholders) which is the executive body of the Bank. The Chairman of the Management Board, the President of the Bank, presides at meetings of the Management Board and, together with the other members of the Management Board, is responsible for the day-to-day operations of the Bank. A brief description of each of the General Meeting of Shareholders, the Supervisory Board and the Management Board is set forth below.

General Meeting of Shareholders

The authority of the General Meeting of Shareholders includes, *inter alia*:

- determining the main areas of operations of the Bank and establishing the general direction of the Bank's activities;
- approving the Bank's charter and any amendments thereto;
- approving changes to the charter fund and issuance of new shares;
- appointing and dismissing the Chairman and the members of the Supervisory Board;
- appointing and dismissing the Chairman of the Management Board (the President of the Bank);
- affirming annual results and approving profit distribution and dividends; and
- approving decisions on liquidation of the Bank.

The powers listed above lie within the exclusive scope of authority of the General Meeting of Shareholders and may not be delegated to the other governing bodies of the Bank.

Supervisory Board

The Supervisory Board is not directly involved in day-to-day management of the Bank but acts to protect the rights of shareholders and represents the interest of shareholders between General Meeting of Shareholders. Members of the Supervisory Board cannot be members of the Management Board. The responsibilities of the Supervisory Board include, among others, the following:

- monitoring the activities of the Management Board;
- appointing and dismissing the members of the Management Board nominated by the Chairman of the Management Board;
- approving the regulation of the Management Board submitted for consideration by the Chairman of the Management Board;
- preparing proposals for the agenda of General Meeting of Shareholders;

- approving mergers with other banks if such mergers do not require amending the Bank's Charter or other resolutions which fall within the exclusive competence of the General Meeting of Shareholders;
- approving the regulation of the internal audit service of the Bank;
- determining the terms and conditions of staff remuneration for the Chairman of the Management Board, Management Board Members and the Deputy Chairman of the Management Board; and
- appointing the external auditor.

Currently, the Supervisory Board consists of seven persons, including two reputable independent members and an independent Chairman of the Supervisory Board. The role of the independent members is an essential component of the Bank's corporate governance model as these individuals provide independent views on the main strategic issues discussed, protect the rights of minority shareholders and ensure that the corporate governance of the Bank complies with international standards and industry practice. The names, positions and certain other information relating to each member of the Supervisory Board are set out below:

- **Konstantin Ivanovich Masik** – the Chairman of the Supervisory Board and member of the Supervisory Board since 1999.
- **Tatiana Petrovna Nemchenko** - member of the Supervisory Board since 2005.
- **Victoria Yaroslavovna Okovyntaya** – member of the Supervisory Board since 2005.
- **Vadim Naumovich Piatov** - member of the Supervisory Board since 2002.
- **Sergei Nikolaevich Yaryna** - member of the Supervisory Board since 2002.
- **Sergei Nikolaevich Lagur** – member of the Supervisory Board since 2002.
- **De Bruin Villibrordus Johannes** – member of the Supervisory Board since 2006.
- **Jacobs Margo Kar** - member of the Supervisory Board since 2006.
- **Oksana Vladimirovna Rokhmanova** - member of the Supervisory Board since 2006.

The Supervisory Board holds meetings as frequently as necessary but at least on a quarterly basis.

Management Board

The Management Board is the executive body of the Bank responsible for its current business operations and for meeting all requirements and targets set by the General Meeting of Shareholders and the Supervisory Board. The organisation and activities of the Management Board are regulated by special rules approved by Supervisory Board. The Management Board is headed by the Chairman who is also the President of the Bank and is appointed by the General Meeting of Shareholders in accordance with the charter of the Bank. The remaining members of the Management Board are approved and removed by the Supervisory Board upon the nomination of the Chairman of the Management Board. Remuneration of the Management Board is approved by the Supervisory Board. The powers of the Management Board include, *inter alia*:

- resolving the issues of managing the activity of structural units of the central office, branches, representative offices and other separate units of the Bank;
- ensuring compliance of the Bank's activities with legislation and internal requirements;

- resolving the issues of carrying out the Bank's operations, organisation of extension of loans, cash flows, settlements, deposit of the Bank's funds and valuables, accounting and reporting, internal control, entering into interbank agreements and other matters of the Bank's activities;
- approving internal regulations which fall within the scope of its authority;
- approving creation, reorganization and liquidation of the Bank's outlets and approving regulation on the Bank's outlets; and
- approving the Bank's acquisition of participation interest in other companies.

The names, positions, qualifications and certain other information relating to each member of the Management Board are set out below:

- **Igor Gilenko** has served as Chairman of the Board and President of the Bank since he joined the Bank eight years ago. Mr. Gilenko graduated from the Moscow Radio Technical Telecommunications Institute and also attended the Plekhanov Russian Academy of Economics.
- **Olena Logoshnyak** has served as First Vice President since joining the Bank in 2005. Ms. Logoshnyak was employed for six years with Pravex-Bank. She graduated from Kyiv State Culture Institute with a degree in fine arts and also attended Kyiv High Banking School.
- **Alexander Ivakhnenko** has served as Vice President since 2004 and joined the Bank in 2002 as a legal consultant. Mr. Ivakhnenko has five years of banking experience. He holds an advanced degree from Kyiv National Economic University.
- **Oksana Kirienko** has served as Vice President since 2002. Ms. Kirienko has ten years of banking experience, including at JS Bank "Energobank" before joining the Bank in 1997 as Head of Analysis and Planning. She graduated from Kyiv State Economy University and Kyiv National Economic University with a degree in law and economics.
- **Iryna Kolieda** has served as Vice President since 2003. Ms. Kolieda has nine years of banking experience and joined the Bank in 1998 as Deputy Head of Analysis and Planning. She graduated from Kyiv National Economic University with a degree in law and economics.
- **Natalia Nekrasova** has served as Vice President since 2005. Prior to joining the Bank, Ms. Nekrasova was employed at JS Bank "Energobank" and CJSC "ProCredit Bank". She holds a Ph.D. in economics from Kyiv State Trade Economy University.
- **Olexiy Kivak** has served as Head of the Anti-Laundering Department since 2005. He holds an MA in management.
- **Roman Aleksander Maszczyk** has served as the Vice President since September 2007. Prior to joining the Bank, Mr. Maszczyk was employed at National Bank Trust, Moscow, in the capacity of Chief Risk Officer, at PKO-Inwestycje in the capacity of Member of the Supervisory Board, at PKO BP SA Bank in the capacity of Risk Division Managing Director, at Bankowy Fundusz Leasingowy SA in the capacity of Financial Risk Department Director. He was also admitted as the member of Committee of European Banking Supervision, EU; the member of Working Group on Operational Risk (WGOR), Institute of International Finance; the member of Advisory Committee on Regulatory Supervision, Polish Bank Association (ZBP); the member of Professional Risk Managers' Association (PRMIA), Polish Chapter. Mr. Maszczyk obtained PhD in Theoretical Physics from Warsaw University, graduated Warsaw Higher School of Banking and Insurance and attended Investment Analyst Course.

The business address of each member of the Management Board is 15 Artema Street, Kyiv 04053, Ukraine.

The Management Board normally meets weekly.

RELATED PARTY TRANSACTIONS

For the purposes of the Financial Statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Banking transactions are entered into in the normal course of business with significant shareholders, management, companies with which the Bank has significant shareholders in common and other related parties. These transactions include settlements, loans, deposit taking, guarantees, trade finance and foreign currency and other transactions. These transactions are priced predominantly at market rates.

The volumes of related party transactions, outstanding balances at the year-end, and related expense and income for the year are as follows:

	As at 31 December							
	2006			2005				
	Share-holders	Entities under common control	Key management personnel	Share-holders	Entities under common control	Associate	Key management personnel	Other related parties
Loans outstanding at January 1,								
gross.....	—	1,279	922	6,924	—	448	1,889	2,113
Loans issued during the year.....	—	123	1,495	—	9,315	—	—	—
Loan repayments during the year...	—	(1,004)	(1,460)	(6,924)	(8,036)	(448)	(967)	(2,113)
Loans outstanding at 31 December,								
gross.....	—	398	957	—	1,279	—	922	—
Less: allowance for impairment at 31 December.....	—	(327)	—	—	(222)	—	—	—
Loans outstanding at 31 December, net.....	—	71	957	—	1,057	—	637	—
Interest income on loans.....	—	176	59	—	733	—	69	—
Impairment charge for loans.....	—	105	—	—	222	—	—	—
Deposits at 1 January.....	—	485	—	—	—	289	503	16
Deposits received during the year..	—	972	1,009	—	485	—	—	—
Deposits repaid during the year.....	—	(754)	—	—	—	(289)	(503)	(16)
Deposits at 31 December.....	—	703	1,009	—	485	—	—	—
Current accounts at 31 December..	113	173	19	58	—	—	—	—
Interest expense on deposits.....	—	60	54	—	15	—	—	—
Commitments and guarantees issued.....	—	—	10	—	—	—	90	—
Other operating expenses.....	—	—	275	—	—	—	78	—

The total amount of employee benefits paid to key management personnel for 2006 is U.S.\$683 thousand (2005 — U.S.\$362 thousand).

EMPLOYEES

As at 30 September 2007, the Bank had 7,839 employees, 13.8 per cent. of which were located at its head office, compared to 6,311 as at 31 December 2006. It is expected that due to the opening of new branches and outlets in 2007 the number of employees will increase up to 8,000 by the end 2007.

The Bank's employees are remunerated on a fixed wage basis and are in accordance with the standards and safeguards provided for by Ukrainian employment legislation. No material disputes with employees exist as at the date of this Offering Memorandum.

PRINCIPAL SHAREHOLDERS

As at 30 June 2007, the Bank's issued share capital comprised 39,035,785 ordinary shares and 481 privileged shares with a nominal value of UAH 10 per share. As at the same date, the Bank did not hold any of its own shares.

The Bank has held shareholders meetings since 1993.

The following table lists the Bank's shareholders holding 3 per cent. or more of the Bank's outstanding shares as at 30 June 2007.

Shareholders	Number of shares held	% of total share capital
Novartik Trading Limited	23,810,842	60.99
Manmade Enterprises Limited.....	12,000,000	30.74
East Capital Explorer Financial Institutions Fund Cyprus Ltd.....	2,581,578	6.61
Other shareholders	643,846	1.66
TOTAL	39,036,266	100.00

On 22 August 2006, the General Meeting of Shareholders approved the results of the ninth share issue by the Bank resulting in a total share capital increase of 15,036,266 common shares. The new shares were first offered to existing shareholders, followed by a private placement of remaining shares represented by global depositary receipts ("GDRs") among foreign investment funds. The private placement was arranged by HSBC (London, UK) and Dragon Capital (Kyiv, Ukraine). As a result of the issue, international investment funds holds a total stake of 7.6 per cent. The 7.6 per cent. shareholding is held by The Bank of New York as nominee.

As at 30 June 2007, the principal beneficial owners of the Bank's share capital owned an aggregate of approximately 87 per cent. of the Bank's share capital through the shareholding companies listed in the table above. Specifically, Mr. Pyatov held 18.2 per cent. of the Bank's share capital, Mr. Lagur held 33.7 per cent., Mr. Fleiszar held 3.3 per cent., and Mr. Gilenko held 31.4 per cent. None of the aforementioned principal beneficial shareholders (other than Mr. Gilenko as Chairman of the Board and President of the Bank) is involved in the day-to-day management of the Bank although they each have a representative who serves on the Bank's Supervisory Council.

THE ISSUER

The Issuer, DCM Global Finance plc, was incorporated in England and Wales on 23 November 2007 (registered number 6435893), as a public company with limited liability under the Companies Act 1985. The registered office of the Issuer is at 35 Great St. Helen's, London EC3A 6AP. The telephone number for the Issuer is +44 (0)207 398 6300. The Issuer has no subsidiaries.

Purpose and Principal Activity of the Issuer

The principal objects of the Issuer are set out in clause 4.1 of its Memorandum of Association and are, among other things, to acquire, hold and manage financial assets, to lend or advance money and to give credit to any persons (whether individuals or legal entities) for any purpose whatsoever within the United Kingdom or elsewhere, and whether secured (on any such property or otherwise) or unsecured, to carry on business as a financial institution, money lenders, bankers, capitalists, financiers and investors and to undertake all kinds of loans, financial commitments and other operations and to provide any type of financial services including without limitation lending and participation in securities issues and the provision of services related to such issues.

Directors and Secretary

The directors of the Issuer and their respective business addresses and other principal activities are:

Name	Business Address	Principal Activities
SFM Directors Limited	35 Great St. Helen's London EC3A 6AP	Directors of special purpose companies
SFM Directors (No. 2) Limited	35 Great St. Helen's London EC3A 6AP	Directors of special purpose companies

The company secretary of the Issuer is SFM Corporate Services Limited, a company incorporated in England and Wales (registered number 3920255), whose business address is 35 Great St. Helen's, London EC3A 6AP. The directors of SFM Directors Limited (registered number 3920254), SFM Directors (No. 2) Limited (registered number 4017430) and SFM Corporate Services Limited as at the date of the Offering Memorandum are Jonathan Keighley, James Macdonald and Robert Berry (together with their alternate directors Annika Goodwille, Helena Whitaker, Claudia Wallace, J-P Nowacki, Cane Pickersgill and Debra Parsall), whose business addresses are 35 Great St. Helen's, London EC3A 6AP and who perform no other principal activities outside the Issuer which are significant with respect to the Issuer.

Capitalisation and Indebtedness

The capitalisation and indebtedness of the Issuer is as follows:

Share Capital

Authorised Share Capital £	Issued Share Capital £	Value of each Share £	Shares Fully Paid Up	Paid Up Share Capital £
50,000	50,000	1	50,000	50,000

49,999 of the issued shares (being 49,999 shares of £1 each, each of which is fully paid up) in the Issuer are held by SFM Corporate Services Limited (the "Share Trustee") as trustee of the DCM Global Finance Trust pursuant to the Declaration of Trust declared by the Share Trustee on 30 November 2007. The remaining one share in the Issuer (which is fully paid) is held by SFM

Nominees Limited (registered number 4115230) (the “**Nominee Trustee**”) under the terms of a trust for the Share Trustee.

THE SUBORDINATED LOAN AGREEMENT

The following is the text of the Subordinated Loan Agreement which will be entered into between the Bank, acting as Borrower, and the Issuer, acting as Lender.

THIS AGREEMENT is made on 3 December 2007

BETWEEN:

- (1) **OPEN JOINT STOCK COMMERCIAL BANK NADRA**, as borrower, an open joint stock company incorporated under the laws of Ukraine whose registered office is at 15 Artema Street, Kyiv 04053, Ukraine, represented by Ms. Olena Logoshnyak, First Vice-President, acting under a power of attorney dated 25 October 2006 (the "**Borrower**"); and
- (2) **DCM GLOBAL FINANCE PLC**, as lender, a public limited company incorporated under the laws of England and Wales, whose registered office is at 35 Great St. Helen's, London EC3A 6AP, United Kingdom (the "**Lender**").

WHEREAS:

- (A) The Lender has at the request of the Borrower agreed to make available to the Borrower a single disbursement subordinated credit facility in the amount of U.S.\$50,000,000 on the terms and subject to the conditions of this Agreement.
- (B) It is intended by the Borrower that the Subordinated Loan (as defined below) will qualify as part of the Borrower's Tier 2 Capital (as defined below) under applicable regulations of the NBU (as defined below).
- (C) This Agreement will become effective when registered with the NBU.

It is agreed as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement the following terms have the meanings given to them in this Clause 1.1 (*Definitions*):

"**Additional Amounts**" has the meaning set forth in Clause 7.1 (*Additional Amounts*);

"**Affiliate**" of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person or (ii) any other Person who is a director or officer of such specified Person, of any Subsidiary of such specified Person or of any Person described in clause (i) above;

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body;

"**Auditors**" means Ernst & Young Audit Services LLC or any internationally recognised firm of accountants approved by the Lender, such approval not to be unreasonably withheld, it being understood that it shall be reasonable of the Lender to withhold such approval if the Trustee does not approve of such firm as provided in the Funding Documents;

“Authorised Signatory” means, in the case of the Borrower, any of the persons referred to in the certificate listed as item 3 in Schedule 1 (*Conditions Precedent Documents*) hereto and, in the case of the Lender, a Person who is a duly authorised officer of the Lender, at the relevant time;

“Banking Business” means, in relation to the Borrower or any of its Subsidiaries, any type of banking business (including, without limitation, any inter-bank operations, factoring, consumer credit and lending, commercial and residential property finance and mortgage lending, issuance of bank guarantees, letters of credit (and related cash cover provision), bills of exchange and promissory notes and making payments under such guarantees, letters of credit, bills and promissory notes, trading securities, fund management and professional securities market participation) which it conducts or may conduct pursuant to its licence issued by the appropriate authorities, accepted market practice and any applicable law;

“Bankruptcy Event” means any of the following events: (i) a competent court of Ukraine making an order for the liquidation or a declaration of bankruptcy of the Borrower or (ii) the NBU, the Cabinet Ministers of Ukraine or the General Shareholders Assembly of the Borrower, as applicable, resolving to liquidate the Borrower;

“Bankruptcy Proceedings” means any judicial, administrative or corporate proceedings in Ukraine purporting to liquidate or to declare the bankruptcy of the Borrower;

“Benchmark Treasury” means an actively traded U.S. Treasury security maturing on or about the Repayment Date, as selected by the Principal Paying Agent;

“Borrowing Date” means 5 December 2007 or such later date as may be agreed by the parties to this Agreement;

“Business Day” means a day (other than a Saturday or Sunday) on which banks generally are open for business in New York City, London and Kyiv;

“Capital Adequacy Requirements” means a request or requirement relating to the maintenance of capital, including one which makes any change to, or is based on any alteration in, the interpretation of the International Convergence of Capital Measurement and Capital Standards (a paper prepared by the Basel Committee on Banking Regulations and Supervision dated July 1988, and amended in November 1991) or which implements any of the matters set out in the third consultative paper entitled “The New Basel Capital Accord” produced by the Basel Committee on Banking Supervision dated April 2003 (or the first consultative paper entitled “A New Capital Adequacy Framework” dated June 1999 or the second consultative paper dated January 2001) or which increases the amounts of capital required thereunder (other than a request or requirement made by way of implementation of the International Convergence of Capital Measurement and Capital Standards in the manner in which it is being implemented at the date hereof);

“Capital Stock” means, with respect to any Person, any and all shares, interests, participations, rights to purchase, warrants, options or any other equivalent of any of the foregoing (however designated) in relation to the share capital of a company and any and all equivalent ownership interests in a Person other than a company, in each case whether now outstanding or hereafter issued;

“Change of Law” means any of the enactment or introduction of any new law; the variation, amendment or repeal of an existing or new law; any ruling on or interpretation or application by a competent authority of any existing or new law; and the decision or ruling on, the interpretation or application of, or a change in the interpretation or application of, any law by any court of law, tribunal, central bank, monetary authority or Agency or any Taxing

Authority or fiscal or other competent authority or Agency; which, in each case, occurs after the date hereof. For this purpose the term "law" means all or any of the following whether in existence at the date hereof or introduced hereafter and with which it is obligatory or customary for banks, other financial institutions or, as the case may be, companies in the relevant jurisdiction to comply:

- (a) any statute, treaty, order, decree, instruction, letter, directive, instrument, regulation, ordinance or similar legislative or executive action by any national or international or local government or authority or by any ministry or department thereof and other agencies of state power and administration (including, but not limited to, taxation departments and authorities); and
- (b) any letter, regulation, decree, instruction, request, notice, guideline, directive, statement of policy or practice statement given by, or required of, any central bank or other monetary authority, or by or of any Taxing Authority or fiscal or other authority or agency (whether or not having the force of law);

"Collection Account" means an account in the name of the Lender with Citibank, N.A., London Branch (SWIFT: CITIGB2L; Account Number: 11739050);

"Double Tax Treaty" means the Convention of 10 February 1993 between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Ukraine for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital Gains or, as the case may be, a double taxation treaty between Ukraine and any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes;

"Event of Default" means any breach of the terms of this Agreement, whether or not there has been any specified passage of time or notice or the initiation (whether or not subject to any qualification or waiting period) of any Bankruptcy Proceedings;

"Fees Letter" means any letter agreement between, *inter alios*, the Borrower and the Lender setting out the fees, expenses and certain other amounts payable by the Borrower in connection with this Agreement;

"Funding Document" means any of the Fees Letter, the placement agency agreement, the trust deed, the deed of indemnity or the agency agreement entered into in connection with the issue of the Funding Instruments and the Funding Instruments themselves;

"Funding Instruments" means the U.S.\$50,000,000 9.3750 per cent. Loan Participation Notes due 2017 proposed to be issued by the Lender on or about 5 December 2007 for the purpose of funding the Subordinated Loan;

"Group" means the Borrower and its Subsidiaries from time to time taken as a whole;

"IFRS" means International Financial Reporting Standards, including International Accounting Standards and Interpretations, issued by the International Accounting Standards Board, as amended, supplemented or re-issued from time to time;

"IFRS Fiscal Period" means any fiscal period for which the Borrower has produced consolidated financial statements in accordance with IFRS which have either been audited or reviewed by the Auditors;

"incur" means issue, assume, guarantee, incur or otherwise become liable for; *provided that*, any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a

Subsidiary of another Person (whether by merger, consolidation, acquisition or otherwise) or is merged into a Subsidiary of another Person will be deemed to be incurred or issued by the other Person or such Subsidiary (as the case may be) at the time such Person becomes a Subsidiary of such other Person or is so merged into such Subsidiary;

“**Indebtedness**” means any indebtedness for, or in respect of, moneys borrowed or raised including, without limitation, any amount raised by acceptance under any acceptance credit facility; any amount raised pursuant to any note purchase facility or the issue of bonds, Funding Instruments, debentures, loan stock or any similar instrument; any amount raised pursuant to any issue of Capital Stock which is expressed to be redeemable; any amount raised under any other transaction having the economic effect of a borrowing (including any forward sale or purchase agreement) *provided* that, for the avoidance of doubt, such term shall not include any indebtedness owed to the State budget, any local budget or any non-budgetary fund of or in Ukraine for or on account of Taxes which are not overdue;

“**Indemnification Rights**” means the rights, interests and benefits of the Lender under Clauses 15.1 (*Default Interest*), 15.2 (*Borrower’s Indemnity*), 15.3 (*Independent Obligation*), 16.2 (*Currency Indemnity*) and 18.1 (*Preservation and Enforcement of Rights*) (but excluding any rights, interests and benefits accrued in favour of the Lender thereunder up to the date of a Bankruptcy Event);

“**Independent Appraiser**” means an investment banking firm or third party appraiser of international standing selected by the Borrower; *provided* that such firm or third party appraiser is not an Affiliate of the Borrower;

“**Initial Interest Term**” means the period from (and including) the Borrowing Date to (but excluding) the Interest Payment Date falling in 5 December 2012;

“**Interest Payment Date**” means 5 June and 5 December in each year in which the Subordinated Loan remains outstanding or if any such day is not a Business Day, the next succeeding Business Day, commencing on 5 June 2008, with the last Interest Payment Date falling on the Repayment Date;

“**Interest Period**” means any of those periods mentioned in Clause 4 (*Interest Periods*);

“**LIBOR**” means the rate per annum, as determined by the Principal Paying Agent on the applicable Step-Up Interest Determination Date to be the offered rate for 12 month U.S. dollar deposits in the London interbank market which appears on Telerate page 3750 (or such other page as may replace that page on the Dow Jones Telerate Service) at or about 11.00 a.m. (London time) on such date;

“**Material Adverse Effect**” means a material adverse change in, or material adverse effect on, the business, operations or financial condition or prospects of the Borrower or of the Group taken as a whole, or on the Borrower’s ability to perform or comply with its obligations under this Agreement;

“**Material Subsidiary**” means, at any given time, any Subsidiary of the Borrower (a) whose total assets or net interest income after impairment of interest earning assets (or, where the Subsidiary in question prepares consolidated accounts, whose total consolidated assets or net interest income after impairment of interest earning assets, as the case may be) represent at least 5 per cent. of the total consolidated assets or, as the case may be, net interest income after impairment of interest earning assets of the Group and for these purposes (i) the total assets and net interest income after impairment of interest earning assets of such Subsidiary shall be determined by reference to its then most recent audited financial statements (or, if none, its then most recent management accounts) and (ii) the total consolidated assets and net

interest income after impairment of interest earning assets of the Group shall be determined by reference to the Borrower's then most recent consolidated audited financial statements (or, if none, its then most recent consolidated management accounts), in each case prepared in accordance with IFRS, or (b) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Borrower which immediately before the transfer is a Material Subsidiary of the Borrower but only for so long as it thereafter falls within the tests set out herein. A certificate by two members of the board of the Borrower that, in their opinion, a Subsidiary of the Borrower is or is not a Material Subsidiary, accompanied by a report by the Auditors addressed to the board of the Borrower as to proper extraction of the figures used by the members of the board of the Borrower in determining the Material Subsidiaries of the Borrower and mathematical accuracy of the calculations shall, in the absence of manifest error, be conclusive and binding on all parties;

“**NBU**” means the National Bank of Ukraine;

“**Offering Memorandum**” means the offering memorandum, dated on or about the date of this Agreement, relating to the issuance of the Funding Instruments by the Lender;

“**Officers' Certificate**” means a certificate signed on behalf of the Borrower by two members of the board of the Borrower at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower and in the form set out in Schedule 2 (*Form of Officers' Certificate to the Lender and the Trustee*) hereto;

“**Permit**” means a permit or permits of the NBU issued to the Borrower allowing it to include funds borrowed on subordinated terms hereunder (in whole or in part) as part of its Tier 2 Capital until the Repayment Date;

“**Person**” means any individual, company, corporation, firm, partnership, joint venture, association, trust, institution, organisation, state or Agency or any other entity, whether or not having separate legal personality;

“**Principal Paying Agent**” means the party designated from time to time as principal paying agent under the Funding Documents;

“**Qualifying Jurisdiction**” means any jurisdiction which has a double taxation treaty with Ukraine under which the payment of interest by Ukrainian borrowers to lenders established in such jurisdiction is generally able to be made (upon completion of any necessary formalities required in relation thereto) without deduction or withholding of Ukrainian income tax;

“**Rate of Interest**” means the rate of interest applicable to the Subordinated Loan for the relevant Interest Period as provided in Clause 5.2 (*Calculation of Interest*);

“**Reference Rate**” means the rate per annum (as reported in writing to the Lender and the Borrower by the Principal Paying Agent (rounded, if necessary, to the third decimal place (0.0005 being rounded upward)) which is the sum of the Treasury Rate and 8.83 per cent.;

“**Regulatory Rate**” means the sum of LIBOR and 5 per cent.;

“**Repayment Date**” means 5 December 2017 or, if such day is not a Business Day, the next succeeding Business Day;

“**Reserved Rights**” has the meaning given thereto in the Funding Documents;

“**Same-Day Funds**” means U.S. dollar funds settled through the New York Clearing House Interbank Payments System or such other funds for payment in U.S. dollars as the Lender

may at any time reasonably determine to be customary for the settlement of international transactions in New York City of the type contemplated hereby;

“**Security Interest**” means any mortgage, pledge, encumbrance, lien, charge or other security interest (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction);

“**Step-Up Interest Determination Date**” means the second Business Day preceding the first Interest Period of the Step-Up Interest Term, for purposes of calculating the applicable Regulatory Rate, and the business day in New York (being a day (other than a Saturday or Sunday) on which banks and foreign exchange markets in New York are open for business generally), immediately preceding such Interest Period, for purposes of calculating the applicable Reference Rate;

“**Step-Up Interest Rate**” means for any Interest Period ending during the Step-Up Interest Term the lower of the Reference Rate and the Regulatory Rate as determined on the Step-Up Interest Determination Date;

“**Step-Up Interest Term**” means the period from (and including) 5 December 2012 to (but excluding) 5 December 2017;

“**Stock Exchange**” means any stock exchange, quotation system or other trading platform or authority on which the Funding Instruments may from time to time be listed and/or admitted to trading;

“**Subordinated Loan**” means the subordinated loan made (or to be made) by the Lender hereunder in an amount of U.S.\$50,000,000 or, as the context may require, the amount thereof from time to time outstanding;

“**Subsidiary**” of a Person means another Person:

- (i) which is controlled, directly or indirectly, by that first-named Person; or
- (ii) more than half the issued share capital of which is beneficially owned, directly or indirectly, by that first-named Person;

“**Tax Certificate**” has the meaning set forth in Clause 8.2(a) (*Evidence of Payment of Tax*);

“**Taxes**” means any taxes, levies, duties, imposts or other charges or withholding of a similar nature no matter where arising (including interest and penalties thereon and additions thereto), no matter how they are levied or determined, and “**Tax**” shall be construed accordingly;

“**Tax Indemnity Amounts**” has the meaning set out in Clause 7.3 (*Tax Indemnity Amounts*);

“**Taxing Authority**” has the meaning set out in Clause 7.1 (*Additional Amounts*);

“**Tier 2 Capital**” has the meaning ascribed thereto in Article 30 of the Law of Ukraine on Banks and Banking Activity dated 7 December 2000 and in the Instruction on the Regulation of the Activity of Banks in Ukraine, approved by Resolution No. 368 dated 28 August 2001 of the Board of the NBU, each as in effect on the date of this Agreement or as may be amended at any time hereafter;

“**Treasury Rate**” means a rate equal to the yield on the Benchmark Treasury, as published by the Board of Governors of the Federal Reserve System, during the week preceding the applicable Step-Up Interest Determination Date, provided that if there is no such publication

during that week, the Treasury Rate will be calculated on the Step-Up Interest Determination Date by reference to quotations for the Benchmark Treasury from such primary U.S. Treasury securities dealers in New York City as are selected by the Principal Paying Agent;

“**Trust Deed**” means the Funding Document constituting the Funding Instruments;

“**Trustee**” has the meaning given to it in the Funding Documents; and

“**Ukraine**” means Ukraine and any province or political sub-division thereof or therein.

1.2 Interpretation

Any reference in this Agreement to:

- (a) the “**Borrower**” or the “**Lender**” includes its and any subsequent successors, assignees and chargees in accordance with their respective interests;
- (b) “**control**” when used with respect to any Person means the power to direct the management and policies of such Person or to control the composition of such Person’s board or board of directors, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise and the terms “controlling” and “controlled” have meanings correlative to the foregoing;
- (c) the “**equivalent**” on any given date in one currency (the “**first currency**”) of an amount denominated in another currency (the “**second currency**”) is a reference to the amount of the first currency which could be purchased with the amount of the second currency at the spot rate of exchange quoted on the relevant Reuters page at or about 10.00 a.m. (New York City time) or, where the first currency is hryvnia and the second currency is U.S. dollars (or vice versa), the official rate quoted by the NBU, on such date for the purchase of the first currency with the second currency;
- (d) a “**month**” means a period starting on one day in a calendar month and ending on the numerically corresponding day in the next succeeding calendar month; *provided that*, where any such period would otherwise end on a day which is not a Business Day, it shall end on the next succeeding Business Day, unless that day falls in the next calendar month, in which case it shall end on the immediately preceding Business Day and if a period starts on the last Business Day in a calendar month or if there is no numerically corresponding day in the month in which that period ends, that period shall end on the last Business Day in that later month (and references to “months” shall be construed accordingly);
- (e) “**repay**” (or any derivative form thereof), subject to any contrary indication, includes prepay (or, as the case may be, the corresponding derivative form thereof);
- (f) “**rights**” of the Lender in this Agreement shall be read as references to rights of the Trustee pursuant to the assignment referred to in Clause 19.3 (*Assignments by the Lender*) except as in relation to the Reserved Rights as specified in the Funding Documents; and
- (g) “**VAT**” or “**Value Added Tax**” means (a) any tax imposed in compliance with Directive 2006/112/EEC of the Council of the European Economic Communities (including in relation to the United Kingdom, value added tax imposed by the Value Added Tax Act 1994 and any legislation supplemental thereto) and (b) any other tax of a similar fiscal nature whether imposed in a member state of the EU in substitution for or in addition to such tax or imposed elsewhere.

1.3 **Currency References**

References herein to “U.S.\$” and “U.S. dollars” denote the lawful currency of the United States of America and “hryvnia” denotes the lawful currency of Ukraine.

1.4 **Statutes**

Any reference in this Agreement to a statute shall be construed as a reference to such statute as the same may have been, or may from time to time be, amended or re-enacted.

1.5 **Headings**

Clause and Schedule headings are for ease of reference only.

1.6 **Amended Documents**

Save where the contrary is indicated, any reference in this Agreement to any Funding Document or any other agreement or document shall be construed as a reference to such Funding Document or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, varied, novated or supplemented.

2. **THE SUBORDINATED LOAN**

2.1 **Grant of the Subordinated Credit Facility**

The Lender grants to the Borrower, upon the terms and subject to the conditions hereof, a single disbursement subordinated credit facility in the amount of U.S.\$50,000,000, funded by the Funding Instruments, and the Borrower hereby agrees to borrow such amount from the Lender on the Borrowing Date, subject as provided herein.

2.2 **Purpose and Application**

The Subordinated Loan is intended to be counted by the Borrower as part of its Tier 2 Capital and the proceeds of the Subordinated Loan shall be used by the Borrower to fund loans to its corporate and individual customers and, without affecting the obligations of the Borrower in any way, the Lender shall not be obliged to concern itself with such application.

2.3 **Subordination**

On the occurrence of a Bankruptcy Event and so long as such Bankruptcy Event is continuing, the claims of the Lender with respect to the repayment of the Subordinated Loan under this Agreement shall be subordinate in right of payment to the claims of all other creditors preferred by virtue of Article 96 of the Law of Ukraine on Banks and Banking Activity dated 7 December 2000. All other claims of the Lender on the Borrower hereunder shall rank in the order prescribed under applicable Ukrainian legislation.

2.4 **Reclassification**

If the NBU has failed to provide the Borrower with a Permit or Permits in respect of the full amount of the Subordinated Loan within 60 calendar days after the date of this Agreement: (i) the Subordinated Loan shall be treated as senior in priority to any subordinated debt and/or any Capital Stock of the Borrower; and (ii) Clause 2.3 (*Subordination*) shall be disregarded.

3. AVAILABILITY OF THE SUBORDINATED LOAN

3.1 Draw-down

Subject to the terms and conditions set out herein, the Subordinated Loan will be available by way of a single advance which will be made by the Lender to the Borrower on the Borrowing Date by payment of the proceeds of the issue of the Funding Instruments to the Borrower's account with American Express Bank Ltd New York, N.Y., SWIFT code AEIBUS33, account number 007 42 106, if:

- (a) the Lender has confirmed to the Borrower that it has received all of the documents listed in Schedule 1 hereto (*Conditions Precedent Documents*) and that each is in form and substance satisfactory to the Lender, save as the Lender may otherwise agree; and
- (b) as at the Borrowing Date (i) no Bankruptcy Proceedings have commenced and no Bankruptcy Event or Event of Default has occurred; (ii) the representations and warranties of the Borrower set out in Clause 10 (*Representations and Warranties of the Borrower*) are true and accurate with respect to the facts and circumstances then subsisting (iii) the Borrower is in full compliance with all of its obligations under this Agreement and there shall have been no breach of any such obligations and (iv) the Funding Documents have been executed by the relevant parties thereto.

3.2 Fees

The Borrower hereby agrees that it shall pay to the Lender, in Same-Day Funds, all amounts required to be paid by the Borrower to the Lender pursuant to and in accordance with the Fees Letter by 2.30 p.m. (London time) on two Business Days preceding the Borrowing Date. The Lender shall provide a letter confirming its receipt of the amounts paid by the Borrower pursuant to and in accordance with the Fees Letter.

4. INTEREST ACCRUAL

The Borrower will pay interest semi-annually in U.S. dollars to the Lender on the outstanding principal amount of the Subordinated Loan from time to time at the Rate of Interest, calculated in accordance with the provisions of this Agreement (including, without limitation, Clause 5.2 (*Calculation of Interest*)). Interest shall accrue on the Subordinated Loan from and including the Borrowing Date. Each period beginning on (and including) the Borrowing Date or any Interest Payment Date and ending on (and excluding) the next Interest Payment Date or, as the case may be, the Repayment Date is herein called an "**Interest Period**". Subject as provided in Clause 5.2 (*Calculation of Interest*), interest on the Subordinated Loan will cease to accrue on the due date for repayment thereof unless payment of principal is improperly withheld or refused, in which event interest will continue to accrue (before and after any judgment) at the Rate of Interest to but excluding the date on which payment in full of the outstanding principal amount of the Subordinated Loan is made.

5. PAYMENT, CALCULATION AND SUSPENSION OF INTEREST

5.1 Payments of Interest

Not later than noon (New York City time) two Business Days prior to each Interest Payment Date the Borrower shall pay to the Collection Account all accrued and unpaid interest calculated to the last day of each Interest Period on the outstanding principal amount of the Subordinated Loan.

5.2 Calculation of Interest

The Borrower shall compute the amount of interest accrued on the Subordinated Loan on a monthly basis, subject to Clause 20.1 (*Evidence of Debt*) in accordance with its procedures for accounting for interest and fee income and expense. The rate of interest applicable to the Subordinated Loan for any Interest Period commencing during the Initial Interest Term shall be 9.375 per cent. per annum (the “**Initial Interest Rate**”) and the rate of interest applicable to the Subordinated Loan for any Interest Period commencing during the Step-Up Interest Term shall be the Step-Up Interest Rate. Interest at the Initial Interest Rate shall accrue from day to day, starting from (and including) the Borrowing Date to (but excluding) 5 December 2012 and, if the Subordinated Loan has not been prepaid on or before 5 December 2012, interest at the Step-Up Interest Rate shall accrue from day to day, starting from (and including) 5 December 2012 to (but excluding) the Repayment Date. The amount of interest payable in respect of the Subordinated Loan for any Interest Period shall be calculated by applying the applicable Rate of Interest to the outstanding principal amount of the Subordinated Loan, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for any other period, it shall be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed. The prepayment of interest or its capitalisation is not allowed.

5.3 Assumption when Calculating Interest

Whenever under this Agreement interest is to be calculated to the last day of an Interest Period and the calculation is required to be made before such last day, the parties shall assume that the amount of the Subordinated Loan outstanding on the last day of the relevant Interest Period is the same as the amount of the Subordinated Loan outstanding on the day of the calculation.

5.4 Suspension of Interest Payments

To the extent required by rules or regulations of the NBU, the Borrower may elect to suspend payment of interest on the Subordinated Loan, and shall suspend payment of interest on the Subordinated Loan if the NBU so requests, if at the time:

- (a) the Borrower’s financial condition has deteriorated (as evidenced by the Borrower not being in compliance with the NBU’s obligatory reserve, minimum regulatory capital, capital adequacy or liquidity requirements) and “negatively classified assets” (determined as provided in the NBU regulations) after provisions exceed 60 per cent. of the Borrower’s total assets;
- (b) there had been an absence of positive financial results for the Borrower, that is the Borrower had negative net income (determined in accordance with Ukrainian accounting principles) in the accounting quarter immediately preceding the relevant Interest Payment Date; and/or
- (c) the Borrower is subject to any financial recovery programme agreed between the Borrower and the NBU with respect to the Borrower in the circumstances specified in the Law of Ukraine on Banks and Banking Activity,

provided, in each case that all other requirements set forth by the then applicable mandatory provisions of Ukrainian laws and regulations providing grounds for such suspension of payment of interest have been otherwise satisfied and *provided further that*, to the extent required by rules and regulations of the NBU, the Borrower has insufficient net income (as so determined) to enable it to make payments of interest hereunder in the relevant period.

The Borrower shall notify the Lender and the Trustee in writing of any proposed suspension of payment of interest hereunder not later than the eighth Business Day preceding the relevant Interest Payment Date. Interest, the payment of which has been suspended pursuant to this Agreement, shall be payable as provided in Clause 5.5 (*Period of Suspension*).

5.5 **Period of Suspension**

The Borrower shall take all reasonable steps to remedy the conditions giving rise to any suspension pursuant to Clause 5.4 (*Suspension of Interest Payments*) and shall pay the full amount of the interest payment which has been suspended within 30 Business Days after the relevant conditions giving rise to the suspension cease to exist.

6. **REPAYMENT AND PREPAYMENT**

6.1 **Repayment**

Except as otherwise provided in this Agreement:

- (a) as set out in Clause 17.1 (*Payments to the Lender*), the Borrower shall, not later than 11.00 a.m. (New York City time) two Business Days prior to the Repayment Date, repay in full the outstanding principal amount of the Subordinated Loan and, to the extent not already paid in accordance with Clause 5.1 (*Payments of Interest*), Clause 5.4 (*Suspension of Interest Payments*) or Clause 5.5 (*Period of Suspension*), pay all interest accrued in respect of the last Interest Period (calculated to the Repayment Date) and all other amounts payable hereunder (calculated as aforesaid) to the Collection Account;
- (b) the Borrower shall not prepay all or any part of the Subordinated Loan; and
- (c) this Agreement may not be terminated prior to 5 December 2012.

6.2 **Prepayment by the Borrower**

Notwithstanding the provisions of Clause 6.1 (*Repayment*) above, the Borrower shall have the right to prepay the whole (but not part only) of the outstanding principal amount of the Subordinated Loan as provided below in this Clause 6.2, together with accrued interest (up to but excluding the date of such payment) thereon:

- (a) at any time after the date of this Agreement if the NBU fails to provide the Borrower with a Permit or Permits in respect of the full amount of the Subordinated Loan within 60 calendar days after the date of this Agreement; or
- (b) at any time after the issue of any Permit if as a result of any amendment to, clarification of or change in (including a change in interpretation of) applicable Ukrainian law or regulations, the NBU withdraws any Permit or a Permit ceases to apply to the principal amount of the Subordinated Loan in respect of which it was issued; or
- (c) subject to compliance by the Borrower with NBU requirements if and to the extent applicable at the time of prepayment, on 7 December 2009 or on 5 December 2012,

provided that written notice thereof, together, in the case of a prepayment in accordance with Clause 6.2(a) or 6.2(b) only, with an Officers' Certificate confirming the existence of the relevant circumstances permitting such a prepayment, shall be given to the Lender and the Trustee not less than 30 days prior to the date of prepayment and provided further that, in the case of Clause 6.2(a) only, the Borrower shall only have the right to prepay the Subordinated

Loan within 60 days of the expiry of the 60-day period specified in Clause 6.2(a), subject in any such case to compliance with NBU requirements if and to the extent applicable at the time of prepayment.

6.3 Prepayment During Step-Up Interest Term

If the Reference Rate is higher than the Regulatory Rate as determined on the relevant Step-Up Interest Determination Date, the Borrower shall, upon written notice to the Lender and the Trustee to that effect, prepay the whole (but not part only) of the outstanding principal amount of the Subordinated Loan together with accrued interest on the Interest Payment Date relating to the first Interest Period of the Step-Up Interest Term. Any such notice of prepayment given by the Borrower to the Lender (a) shall be accompanied by an Officers' Certificate confirming the existence of the relevant circumstances permitting such a prepayment, (b) shall be irrevocable and (c) shall oblige the Borrower to make such prepayment subject to the limitations and requirements established by the NBU, if and to the extent applicable at the time of prepayment. For the avoidance of doubt, the Borrower hereby expressly agrees to make any such prepayment, and there shall be no requirement for the parties hereto to separately confirm or document such agreement or consent on or immediately before the date, or otherwise in connection with, such prepayment.

6.4 Prepayment for Tax Reasons and Change in Circumstances

If, as a result of the application of or any amendment to or change (including a change in the application or interpretation thereof) in the Double Tax Treaty (or in a double taxation treaty between Ukraine and any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) or the laws or regulations of United Kingdom or Ukraine (or any Qualifying Jurisdiction where the Lender is resident for tax purposes) or of any political sub-division thereof or any authority therein having power to tax or any Agency therein, the Borrower would thereby be required to pay Additional Amounts in respect of Taxes as provided in Clause 7.1 (*Additional Amounts*) or Tax Indemnity Amounts as provided in Clause 7.3 (*Tax Indemnity Amounts*) or if (for whatever reason) the Borrower would have to or has been required to pay additional amounts pursuant to Clause 9 (*Change in Circumstances*) and, in any such case, such obligation cannot be avoided by the Borrower taking reasonable measures available to it, then the Borrower may, upon not less than 30 days' written notice to the Lender and to the Trustee specifying the date of payment and including an Officers' Certificate to the effect that the Borrower would be required to pay such Additional Amounts, Tax Indemnity Amounts or additional amounts, supported (where the certification relates to tax matters) by an opinion of an independent tax adviser of recognised standing in the relevant tax jurisdiction (the cost of such opinion to be borne by the Borrower), prepay the Subordinated Loan in whole (but not in part) of its outstanding principal amount together with any Additional Amounts then payable under Clause 7.1 (*Additional Amounts*), Tax Indemnity Amounts payable under Clause 7.3 (*Tax Indemnity Amounts*), additional amounts payable pursuant to Clause 9 (*Change in Circumstances*) and accrued and unpaid interest. Any such notice of prepayment given by the Borrower shall be irrevocable and shall oblige the Borrower to make such prepayment on the date specified in the notice. No notice of prepayment shall be given earlier than 90 calendar days prior to the earliest date on which the Borrower would be obligated to pay such Additional Amounts, Tax Indemnity Amounts or additional amounts, as the case may be.

Any prepayment of the Subordinated Loan pursuant to this Clause 6.4 is subject to compliance by the Borrower with the limitations and requirements of the NBU if and to the extent applicable at the time of prepayment.

6.5 **Prepayment for Illegality**

If, at any time, it is or would be unlawful or contrary to any applicable law or regulation or regulatory requirement or directive of any agency of any state or otherwise for the Lender to make, fund or allow all or part of the Funding Instruments or the Subordinated Loan to remain outstanding or for the Lender to maintain or give effect to any of its obligations or rights in connection with this Agreement and/or to charge or receive or to be paid interest at the rate applicable in relation to the Subordinated Loan (an “**Illegality**”), then the Lender shall deliver to the Borrower and the Trustee a notice (setting out in reasonable detail the nature and extent of the relevant circumstances) to that effect and:

- (a) if the Subordinated Loan has not been made, the Lender shall not thereafter be obliged to make the Subordinated Loan; and
- (b) if the Subordinated Loan is then outstanding and the Lender so requires, the Borrower shall, on the latest date permitted by the relevant law or on such earlier day as the Borrower elects (as notified to the Lender not less than 30 days prior to the date of repayment), repay the whole (but not part only) of the outstanding principal amount of the Subordinated Loan together with accrued interest (up to but excluding the date of such payment) thereon and all other amounts owing to the Lender hereunder.

The prepayment of the Subordinated Loan pursuant to this Clause 6.5 (*Prepayment for Illegality*) is subject to compliance by the Borrower with the NBU limitations and requirements to the extent applicable at the time of prepayment.

6.6 **Costs of Prepayment**

The Borrower shall, not later than 11.00 a.m. (New York City time) two Business Days prior to the date of a prepayment made in accordance with this Clause 6 (*Repayment and Prepayment*), pay all accrued and unpaid interest (calculated to (but excluding) the date of prepayment) and all other amounts owing or payable to the Lender hereunder. The Borrower shall indemnify the Lender on written demand against any administrative costs and legal expenses, including any VAT thereon, reasonably incurred and properly documented by the Lender on account of any prepayment made in accordance with this Clause 6 (*Repayment and Prepayment*).

6.7 **Limitation on Prepayments: No Other Repayments and No Reborrowing**

- (a) The Lender may not initiate prepayment of the Subordinated Loan.
- (b) The Borrower may not prepay the Subordinated Loan pursuant to this Clause 6.7 (*Limitation on Prepayments: No Other Repayments and No Reborrowing*) if to do so would breach the then applicable regulations of the NBU and unless the Borrower has received a permit of the NBU for the subordinated debt prepayment if obtaining such permit is required by the then applicable regulations of the NBU. The Borrower may not otherwise repay the whole or any part of the outstanding principal amount of the Subordinated Loan except at the times and in the manner expressly provided for in this Agreement. No amount prepaid under this Agreement may be reborrowed.
- (c) The Lender hereby expressly consents to any prepayment pursuant to Clause 6.4 (*Prepayment for Tax Reasons and Change in Circumstances*) and such consent shall qualify as the consent of the Lender required by the NBU’s regulations in case of any prepayment of the Subordinated Loan at the election of the Borrower.

7. TAXES

7.1 Additional Amounts

- (a) All payments to be made by the Borrower under this Agreement shall be made in full without set-off or counterclaim, free and clear of and without deduction or withholding for or on account of any present or future Taxes imposed by any taxing authority of or in, or having authority to tax in, Ukraine, the United Kingdom or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes (each a “**Taxing Authority**”), unless the Borrower is required by applicable law to make such payment subject to the deduction or withholding of Taxes. In the event that the Borrower is required to make any such payment subject to deduction or withholding of any Tax imposed or levied by or on behalf of any Taxing Authority within Ukraine or the United Kingdom (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) the Borrower shall, on the due date for such payment, pay such additional amounts (“**Additional Amounts**”) as may be necessary to ensure that the Lender (and the Trustee) or other relevant Person receives a net amount in U.S. dollars which, following any such deduction or withholding on account of Taxes, shall be not less than the full amount which it would have received had the payment been made free from liability in respect of any such withholding or deduction and shall deliver to the Lender (and the Trustee), without undue delay, evidence satisfactory to the Lender (and the Trustee) of such deduction or withholding and of the accounting therefor to the relevant authority. For the avoidance of doubt, this Clause 7.1 (*Additional Amounts*) shall not apply to any Taxes assessed on the Lender in the United Kingdom (or any Qualifying Jurisdiction) by reference to its overall net income.
- (b) The Borrower will:
- (i) make such withholding or deduction; and
 - (ii) remit the full amount deducted or withheld to the relevant authority, in accordance with applicable law.
- (c) At least 30 calendar days prior to each date on which any payment under or with respect to the Subordinated Loan is due and payable, if the Borrower will be obliged to pay Additional Amounts with respect to such payment, the Borrower will deliver to the Lender (and to the Trustee) an Officers' Certificate stating the fact that such Additional Amounts will be payable and the amounts so payable.
- (d) If the Lender pays any amount in respect of such Taxes or in respect of penalties or interest where such penalties or interest relate to Taxes imposed or levied by or on behalf of Ukraine and do not arise as a result of the Lender's failure to comply with its obligations under this Agreement, the Borrower shall reimburse the Lender in U.S. dollars for such payment on demand.
- (e) Whenever this Agreement mentions, in any context, the payment of amounts based upon the principal or premium, if any, interest or of any other amount payable under this Agreement or otherwise with respect to the Subordinated Loan, this includes, without duplication, payment of any Additional Amounts and Tax Indemnity Amounts that may be applicable.

The foregoing provisions shall apply, modified as necessary, to any Taxes imposed or levied by any Taxing Authority in any jurisdiction to which the Borrower is or becomes subject or in which any successor obligor to the Borrower is organised.

7.2 Double Tax Treaty Relief

- (a) The Lender will use its reasonable endeavours to furnish the Borrower, as soon as reasonably practicable after the start of each calendar year (or as frequently as may be reasonably required to enable the Borrower to claim relief as provided below) and, in any event no later than the tenth Business Day preceding the first Interest Payment Date in each calendar year in which interest is payable hereunder, with a letter from Her Majesty's Revenue and Customs ("HMRC") on headed notepaper duly signed and stamped or otherwise approved by HMRC and apostilled (a "Tax Certificate") certifying that, as at the date of the Tax Certificate, the Lender is resident in the United Kingdom for the purposes of the Double Tax Treaty, *provided* that, without prejudice to its representation in Clause 7.6 (*Tax Position of the Lender*), the Lender shall have no liability to the Borrower, *provided* that such representation is correct and that the Lender has appropriately applied for a Tax Certificate in timely fashion in accordance with this Agreement, if the Taxing Authority of the United Kingdom or a Qualifying Jurisdiction fails to issue a Tax Certificate in respect of any calendar year or only does so after the relevant Interest Payment Date.
- (b) Subject to receipt by the Borrower of a Tax Certificate which is valid in respect of the relevant payment, the Borrower shall claim relief from withholding of Ukrainian Tax or a reduction in the withholding tax rate to the maximum extent possible in respect of Ukrainian Tax in accordance with the Double Tax Treaty in respect of payments to be made by the Borrower under this Agreement.
- (c) The Lender and the Borrower shall make reasonable and timely efforts to co-operate and assist each other in obtaining relief from withholding of Ukrainian Tax pursuant to the Double Tax Treaty. In particular, the Borrower and the Lender will inform each other, in a reasonable and timely manner, of the status of the procedures and the steps necessary to be taken in this regard. The Lender makes no representation as to the application or interpretation of the Double Tax Treaty.
- (d) If the Lender becomes resident for tax purposes in another Qualifying Jurisdiction, references in paragraphs (a), (b) and (c) to Tax Certificate and Double Tax Treaty shall be read, respectively, as including references to a tax certificate of the Qualifying Jurisdiction and the double tax treaty between Ukraine and the Qualifying Jurisdiction.

7.3 Tax Indemnity Amounts

Without prejudice to or duplication of the provisions of Clause 7.1 (*Additional Amounts*), if the Lender notifies the Borrower that:

- (a) the Lender is obliged to make any deduction or withholding for or on account of any Taxes from any payment which the Lender is obliged to make under or in respect of the Funding Instruments or any Funding Document and the Lender is required under the terms and conditions of the Funding Instruments or such Funding Document to pay additional amounts (as defined in the terms and conditions of the Funding Instruments) to the holders of the Funding Instruments in connection therewith, the Borrower shall pay to the Lender within 30 days of such notice (and otherwise in accordance with the terms of this Agreement) such additional amounts as, on an after-Tax basis and after any withholding or deduction required by law to be made from such payment, are equal to the additional payments which the Lender (as issuer under the Funding Instruments) would be required to make under the terms and conditions of the Funding Instruments or such Funding Document, assuming in each case that an equivalent amount had been received from the Borrower, in order that the net amount

received by each holder of Funding Instruments or other party to the relevant Funding Document is equal to the amount which such holder or party would have received had no such withholding or deduction been required to be made; and/or

- (b) the Lender is required to pay any Taxes imposed by a Taxing Authority (other than Taxes assessed on the Lender by reference to its overall net income provided that "net income" for this purpose does not include amounts deemed to be received by the Lender for tax purposes but which are not actually received) in relation to this Agreement, the Funding Instruments or any Funding Document or if any liability in respect of any such Taxes is at any time asserted, imposed, levied or assessed against the Lender, the Borrower shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, a written demand made by the Lender, indemnify the Lender in relation to such properly documented payment or liability, provided that the Borrower shall not be required to indemnify the Lender in respect of any Tax on its overall net income if that Tax results from the gross negligence, wilful default or misconduct of the Lender or any attorney, manager, nominee, agent or other person appointed by the Lender.

Any payments required to be made by the Borrower under this Clause 7.3 (*Tax Indemnity Amounts*) are collectively referred to as "**Tax Indemnity Amounts**". For the avoidance of doubt, the provisions of this Clause 7.3 (*Tax Indemnity Amounts*) shall not apply to any withholding or deductions of Taxes with respect to the Subordinated Loan which are subject to payment of Additional Amounts under Clause 7.1 (*Additional Amounts*).

7.4 **Tax Claims**

If the Lender intends to make a claim pursuant to Clause 7.3 (*Tax Indemnity Amounts*), it shall notify the Borrower thereof as soon as reasonably practicable after the Lender becomes aware of any obligation to make the relevant withholding, deduction or payment; *provided* that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its affairs.

7.5 **Tax Credits and Tax Refunds**

- (a) If a payment is made under Clause 7.1 (*Additional Amounts*) or Clause 7.3 (*Tax Indemnity Amounts*) by the Borrower for the benefit of the Lender and the Lender determines in its reasonable opinion that it has received or been granted a credit against, a relief or remission for or a repayment of, any Taxes, then, if and to the extent that the Lender, in its reasonable opinion, determines that such credit, relief, remission or repayment is in respect of or calculated by reference to the corresponding deduction, withholding, liability, expense, loss or payment giving rise to such Additional Amounts or, in the case of Tax Indemnity Amounts, with reference to liability, expense or loss to which the payment giving rise to such Tax Indemnity Amounts relates, the Lender shall, to the extent that it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, pay to the Borrower such amount as the Lender shall, in its reasonable opinion, have concluded to be attributable to such deduction, withholding, payment, or, as the case may be, such liability, expense or loss; *provided* that the Lender shall not be obliged to make any payment under this Clause 7.5 (*Tax Credits and Tax Refunds*) in respect of any such credit, relief, remission or repayment until the Lender is, in its absolute discretion (acting in good faith), satisfied that its Tax affairs for its Tax year in respect of which such credit, relief, remission or repayment was obtained have been finally settled (disregarding for these purposes any extended limitation periods applicable to circumstances of fraud or negligence) and *further provided* that the Lender shall not be obliged to make any such payment if and to the extent that the

Lender determines in its reasonable opinion that to do so would leave it (after the payment) in a worse after-Tax position than it would have been in had the payment not been required under Clause 7.1 (*Additional Amounts*) or Clause 7.3 (*Tax Indemnity Amounts*). Without prejudice to the Lender's obligations under Clause 7.2 (*Double Tax Treaty Relief*), nothing contained in this Clause 7.5 (*Tax Credits and Tax Refunds*) or Clause 7.8 (*Delivery of Forms and Other Instruments*) shall interfere with the right of the Lender to arrange its tax affairs in whatever manner it thinks fit nor oblige the Lender to disclose confidential information or any information relating to its Tax affairs generally or any computations in respect thereof.

- (b) If as a result of a failure to obtain relief from deduction or withholding of any Tax imposed by any Taxing Authority, in particular in accordance with the Double Tax Treaty, (i) such Tax is deducted or withheld by the Borrower and pursuant to Clause 7.1 (*Additional Amounts*) any Additional Amount is paid by the Borrower to the Lender in respect of such deduction or withholding and (ii) following such deduction or withholding and the payment of any applicable Additional Amounts, the Borrower may apply to the relevant Taxing Authority for a Tax refund with the co-operation and reasonable assistance of the Lender in such circumstances where the Lender considers such application to be commercially reasonable and such Tax refund is credited by such Taxing Authority to a bank account of the Lender, the Lender shall as soon as reasonably possible notify the Borrower of the receipt of such Tax refund and promptly transfer the entire amount of the Tax refund to an account specified by the Borrower if and to the extent that the Lender determines in its reasonable opinion that to do so will leave it (after the payment and after deduction of costs and expenses incurred in relation to the refund) in no worse an after-Tax position than it would have been in had there not been a failure to obtain relief from such withholding or deduction.

7.6 Tax Position of the Lender

The Lender represents that as at the date of this Agreement and, in respect of (a) and (b) below only, in respect of each date on which payments are to be made to it by the Borrower under this Agreement:

- (a) it is resident in the United Kingdom for United Kingdom corporation tax purposes *provided* that the Lender will not be in breach of this representation where it is incorrect as a result of a change in any applicable law or published practice of any relevant Taxing Authority after the date of this Agreement;
- (b) interest on the Subordinated Loan does not relate to, and is not derived or attributable to, any permanent establishment of the Lender in Ukraine for the purposes of the Double Tax Treaty, *provided* that the Lender will not be in breach of this representation where it is incorrect as a result of a change in any applicable law or published practice of any relevant Taxing Authority after the date of this Agreement; and
- (c) based on its understanding of current HMRC published practice, it should be able to obtain a Tax Certificate.

7.7 Exceptions

The Lender agrees, reasonably promptly upon becoming aware of such, to notify the Borrower if it ceases to be resident in the United Kingdom or a Qualifying Jurisdiction or if any of the representations set forth in Clause 7.6 (*Tax Position of the Lender*) are no longer true and correct. If the Lender ceases to be resident in the United Kingdom or a Qualifying

Jurisdiction, then, except in circumstances where the Lender has ceased to be resident in the United Kingdom or a Qualifying Jurisdiction by reason of any Change of Law (including a change in the Double Tax Treaty or in the interpretation or application of such law or Double Tax Treaty) taking effect after the date of this Agreement, the Borrower shall not be liable to pay to the Lender under Clause 7.1 (*Additional Amounts*) or Clause 7.3 (*Tax Indemnity Amounts*) any sum in excess of the sum it would have been obliged to pay if the Lender had not ceased to be resident in the United Kingdom or a Qualifying Jurisdiction.

7.8 Delivery of Forms and Other Instruments

- (a) The Lender shall use reasonable endeavours, subject as provided in Clause 7.2(a) (*Double Tax Treaty Relief*), to furnish the Borrower with a Tax Certificate (or, to the extent that is able to do so under applicable law, a comparable certificate of the Taxing Authority of any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) to the effect referred to in Clause 7.6 (*Tax Position of the Lender*), in the case of the United Kingdom Taxing Authority, or, in the case of a Qualifying Jurisdiction, confirming that the Lender is a tax resident in such Qualifying Jurisdiction for the purposes of the relevant double taxation treaty and such other information or forms as may reasonably be required (including pursuant to the relevant procedures in connection with the obtaining of relief from deduction or withholding for or on account of Ukrainian Tax or refunds in respect thereof) to be duly completed and delivered by the Lender with the co-operation and assistance of the Borrower to enable the Borrower to obtain relief from deduction or withholding for or on account of Ukrainian Tax or, as the case may be, to apply to obtain a refund if a relief from deduction or withholding for or on account of Ukrainian Tax has not been obtained or claimed.
- (b) The Lender shall, upon a reasonable request of the Borrower setting forth the basis of that request, to the extent it is able to do so under applicable law including Ukrainian laws, from time to time deliver (such delivery not to be unreasonably delayed) to the Borrower at the Borrower's cost any additional duly completed application forms as need be duly completed and delivered by the Lender to enable the Borrower to apply, with the co-operation and reasonable assistance of the Lender in such circumstances where the Lender considers such application to be reasonable to obtain a Tax refund if a relief from deduction or withholding for or on account of Ukrainian Tax has not been obtained or claimed.
- (c) The Tax Certificate and, if required, other forms which have been provided pursuant to this Clause 7.8 (*Delivery of Forms and Other Instruments*) shall, to the extent that the Lender is able to do so under applicable laws, be duly signed by the Lender, if applicable. Where necessary, the Lender will use reasonable endeavours to procure that such forms will be stamped or otherwise approved by the competent Taxing Authority in the United Kingdom (or such Qualifying Jurisdiction) thereof and apostilled and/or legalised as required.
- (d) If a relief from deduction or withholding of Ukrainian Tax under this Clause 7.8 (*Delivery of Forms and Other Instruments*) has not been obtained and further to an application of the Borrower to the relevant Ukrainian Tax Authority the latter makes a Tax refund to the Borrower, then, if and to the extent that the Borrower has failed to make payment of Additional Amounts in relation to the payments under this Agreement from which no such relief as aforesaid was obtained, the Borrower shall promptly transfer to the Lender an amount in U.S. dollars equivalent to such refund. The Borrower shall pay all costs (including, but not limited to, currency conversion costs) associated with such transfer.

- (e) If a relief from deduction or withholding of Ukrainian Tax or a Tax refund under this Clause 7.8 (*Delivery of Forms and Other Instruments*) has not been obtained and further to an application of the Borrower to the relevant Ukrainian Taxing Authority the latter requests the Lender's hryvnia bank account details, the Lender shall (subject to it being satisfied that that action is not adverse to its interests) at the request of the Borrower (i) use reasonable efforts to procure that such hryvnia bank account of the Lender is duly opened and maintained and (ii) thereafter furnish the Borrower with the details of such hryvnia bank account. The Borrower shall pay for all costs associated, if any, with opening and maintaining such hryvnia bank account.
- (f) The Lender shall also use its reasonable endeavours to execute such acknowledgements of payment and other instruments as may reasonably be required by the Borrower to enable it to receive allowable Tax deductions and otherwise comply with applicable Tax law with respect to any payments to be made by the Borrower under this Agreement.
- (g) Nothing contained in this Clause 7.8 (*Delivery of Forms and Other Instruments*) shall interfere with the right of the Lender to arrange its tax affairs in whatever manner it thinks fit, oblige the Lender to disclose confidential information or any information relating to its Tax affairs generally or any computation in respect thereof, or oblige the Lender to complete any procedural formalities which are significantly more onerous than using its reasonable endeavours to provide a Tax Certificate (as described in paragraph 7.2(a) (*Double Tax Treaty Relief*) above).

8. TAX RECEIPTS

8.1 Notification of Requirement to Deduct Tax

If, at any time, the Borrower is required by law to make any deduction or withholding from any sum payable by it hereunder, or if thereafter there is any change in the rates at which, or the manner in which, such deductions or withholdings are calculated, the Borrower shall promptly notify the Lender prior to such payment being made.

8.2 Evidence of Payment of Tax

- (a) In the event that the Borrower becomes obliged to pay any Additional Amounts to the Lender pursuant to Clause 7.1 (*Additional Amounts*), the Borrower will use its reasonable endeavours to provide the Lender with Tax receipts evidencing the payment of any Taxes deducted or withheld by it from each Tax Authority imposing such Taxes. The Borrower will furnish to the Lender (and the Trustee), as soon as practicable but in any event within 120 calendar days after the date the payment of any Taxes so deducted or withheld is due pursuant to applicable law, duly certified copies of Tax receipts evidencing such payment by the Borrower or, if such receipts are not obtainable, other evidence of such payments by the Borrower reasonably acceptable to the Lender. The Borrower will also provide English translations of such receipts.
- (b) In the event that the Borrower becomes obliged to pay any Tax Indemnity Amounts to the Lender pursuant to Clause 7.3 (*Tax Indemnity Amounts*), the Lender will use its reasonable endeavours to provide the Borrower, at the Borrower's cost, with Tax receipts evidencing the payment of any Taxes deducted or withheld by it from each Tax Authority imposing such Taxes. The Lender will furnish to the Borrower, as soon as practicable but in any event within 120 calendar days after the date the payment of any Taxes so deducted or withheld is due pursuant to applicable law, certified copies of Tax receipts evidencing such payment by the Lender or, if such

receipts are not obtainable, other evidence of such payments by the Lender reasonably acceptable to the Borrower.

9. CHANGES IN CIRCUMSTANCES

9.1 Increased Costs

If, by reason of (i) any Change of Law, other than a Change of Law which relates only to the basis or rate of Tax on the net income of the Lender, and/or (ii) compliance by the Lender with any Capital Adequacy Requirement, reserve or deposit requirement or any other request from or requirement of any central bank or other fiscal, monetary or other authority which has effect in the United Kingdom (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes):

- (a) the Lender incurs an additional cost as a result of the Lender entering into or performing its obligations (including its obligation to make the Subordinated Loan) under this Agreement (excluding Taxes payable by the Lender on its overall net income); or
- (b) the Lender becomes liable to make any additional payment on account of Taxes or otherwise (not being Taxes imposed on its net income or the amounts due pursuant to the Fees Letter) on or calculated by reference to the amount of the Subordinated Loan and/or to any sum received or receivable by it hereunder except where compensated under Clause 7.1 (*Additional Amounts*) or under Clause 7.3 (*Tax Indemnity Amounts*),

then the Borrower shall, from time to time within 30 days of written demand of the Lender, pay to the Lender amounts sufficient to hold harmless and indemnify it from and against, as the case may be, such properly documented cost or liability, *provided* that the Lender will not be entitled to indemnification where such increased cost or liability arises as a result of the gross negligence, fraud or wilful default of the Lender and *provided*, further, that the amount of such increased cost or liability shall be deemed not to exceed an amount equal to the proportion of any cost or liability which is directly attributable to this Agreement.

9.2 Increased Costs Claims

If the Lender intends to make a claim pursuant to Clause 9.1 (*Increased Costs*), it shall promptly notify the Borrower thereof and provide a description in writing in reasonable detail of the relevant reason (as described in Clause 9.1 (*Increased Costs*)) including a description of the relevant affected jurisdiction or country and the date on which the change in circumstances took effect. This written description shall demonstrate the connection between the change in circumstance and the increased costs and shall be accompanied by relevant supporting documents evidencing the matters described therein, *provided* that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its or any other Person's affairs.

9.3 Mitigation

If circumstances arise which would result in any payment being required to be made by the Borrower pursuant to Clauses 7.1 (*Additional Amounts*) or Clause 7.3 (*Tax Indemnity Amounts*) or this Clause 9 (*Changes in Circumstances*), then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or the Borrower's obligations under any of the above mentioned provisions, the Lender shall as soon as reasonably practicable upon becoming aware of the same notify the Borrower thereof and, in consultation with the Borrower and to the extent it can lawfully do so and without prejudice to its own position, take reasonable steps to remove such circumstances or mitigate the effects of such

circumstances including (without limitation) by the change of its lending office or transfer of its rights or obligations under this Agreement to another financial institution; *provided* that the Lender shall be under no obligation to take any such action if, in its reasonable opinion, to do so might have any adverse effect upon its business, operations or financial condition or might be in breach of any provisions of, or any arrangements which it may have made in connection with, the Funding Documents.

10. REPRESENTATIONS AND WARRANTIES OF THE BORROWER

The Borrower makes the following representations and warranties set out in this Clause 10 (*Representations and Warranties of the Borrower*) and acknowledges that the Lender has entered into this Agreement in reliance on those representations and warranties.

10.1 Status

The Borrower is an open joint stock company, validly existing under Ukrainian law, has full power and authority to own, lease and operate its properties and conduct its business as currently conducted and is able lawfully to execute and perform its obligations under this Agreement and to borrow the Subordinated Loan.

10.2 Governmental Approvals

All actions or things required to be taken, fulfilled or done by the laws and regulations of Ukraine and of any other jurisdiction to which the Borrower or any of its Subsidiaries is subject (including without limitation, authorisation, order, licence or qualification of or with any court or governmental agency), and all registrations, filings or notarisations required by the laws and regulations of Ukraine and of any other jurisdiction to which the Borrower or any of its Subsidiaries is subject in order to ensure (i) that the Borrower and each of its Subsidiaries is able to own its assets and carry on its business as currently conducted; (ii) the due execution, delivery, validity and performance by the Borrower of this Agreement have been obtained, fulfilled or done and are in full force and effect. For the avoidance of doubt, the Borrower makes no representation or warranty in respect of the availability of any Permit, which will be applied for by the Borrower after the Borrowing Date, and which may be issued or refused by the NBU in accordance with the powers granted to it under applicable Ukrainian legislation.

10.3 *Pari Passu* Obligations

Under the laws of Ukraine in force at the date of this Agreement, the claims of the Lender against the Borrower under this Agreement in relation to repayment of the Subordinated Loan will be subordinate in right of payment to the claims of all other creditors preferred by virtue of Article 96 of the Law of Ukraine on Banks and Banking Activity dated 7 December 2000 in case of liquidation (bankruptcy) of the Borrower and all other claims of the Lender on the Borrower hereunder will rank in the order prescribed by applicable Ukrainian bankruptcy, insolvency, liquidation, moratorium or similar laws of general application.

10.4 No Deduction

Under the laws of Ukraine in force at the date of this Agreement, in accordance with the terms of the Double Tax Treaty and subject to the due satisfaction by the payee of certain conditions set forth therein and of certain requirements of applicable Ukrainian legislation, in particular as provided in Clause 7.8 (*Delivery of Forms and Other Instruments*), payments of interest by the Borrower to the Lender under this Agreement may be made without deduction on account of any applicable Ukrainian legislation.

10.5 Admissibility in Evidence

All acts, conditions and things required to be, fulfilled and performed (other than by the Lender) to make this Agreement admissible in evidence in Ukraine (whether in arbitration proceedings or otherwise) have been done, fulfilled and performed.

10.6 Governing Law

Under the laws of Ukraine in force at the date of this Agreement, in any proceedings (whether arbitration or otherwise) taken in Ukraine in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitral award with respect to this Agreement obtained in the United Kingdom will be recognised and enforced in Ukraine, after compliance with the applicable procedural rules in Ukraine.

10.7 Valid and Binding Obligations

Upon registration of this Agreement with the NBU, the obligations expressed to be assumed by the Borrower in the Funding Documents to which it is a party and in this Agreement are or will be legal, valid and binding, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganisation moratorium and similar laws relating to or affecting creditors' rights generally and to general principles of equity, enforceable against it in accordance with its terms.

10.8 No Taxes

Under the laws of Ukraine in force at the date of this Agreement, the execution and delivery of any Funding Document to which the Borrower is a party is not subject to any registration tax, transfer tax, stamp duty or similar levy in Ukraine and payments hereunder are not subject to Ukrainian withholding tax.

10.9 No Bankruptcy Proceedings or Bankruptcy Event

Neither the Borrower, nor any of its Subsidiaries, is in the process of liquidation, bankruptcy or temporary administration or has taken any corporate action nor, to the best of the knowledge and belief of the Borrower, have any other steps been taken or legal proceedings started or threatened against the Borrower or any of its Subsidiaries for its or their bankruptcy, winding-up, dissolution, external administration or re-organisation (whether by voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of it or any or all of its or their assets or revenues. The Borrower confirms that on the date of this Agreement and on each Interest Payment Date no Bankruptcy Event has occurred. In the case of Bankruptcy Event the Borrower shall deliver to the Lender and the Trustee written notice in the form of an Officers' Certificate stating whether any Bankruptcy Event has occurred and, if it has occurred and shall be continuing, the action the Borrower is taking or proposes to take with respect thereto.

10.10 No Events of Default

No event has occurred or circumstance has arisen which would constitute an Event of Default. The Borrower confirms that on the date of this Agreement and on each Interest Payment Date no Event of Default has occurred. In the case of Event of Default the Borrower shall deliver to the Lender and the Trustee written notice in the form of an Officers' Certificate stating whether any Event of Default has occurred and, if it has occurred and shall be continuing, the action the Borrower is taking or proposes to take with respect thereto.

10.11 No Material Proceedings

There are no legal or administrative or arbitration proceedings current or pending or, to the best of the Borrower's knowledge and belief (having made all reasonable enquiries), threatened before any court, tribunal, arbitration panel or Agency to which the Borrower or any Material Subsidiary is subject which might singly or in the aggregate have (a) a Material Adverse Effect; (b) prohibit the execution and delivery of this Agreement or the Borrower's compliance with its obligations hereunder or (c) adversely affect the right and power of the Borrower to enter into this Agreement.

10.12 No Material Adverse Change

Save as disclosed in the Offering Memorandum, since 30 June 2007 there has been no material adverse change, or any development involving a prospective material adverse change of which the Borrower is or might reasonably be expected to be aware, in the business, financial condition or results of operations of the Group.

10.13 Financial Statements

The Borrower's consolidated audited financial statements for the two IFRS Fiscal Periods ended 31 December 2005 and 31 December 2006 were prepared in accordance with IFRS and present in accordance with IFRS the financial condition of the Group as at the dates as of which they were prepared and the result of the operations of the Group during the periods then ended.

10.14 No Undisclosed Material Assets or Liabilities

Neither the Borrower nor any Subsidiaries had, as at the date as of which the audit report of the Auditors on the financial statements of the Borrower for the year ended 31 December 2006 was prepared, any material assets or liabilities (contingent or otherwise) which were not disclosed (including in the notes thereto) or adequately reserved against in accordance with IFRS nor were there at that date any unrealised or anticipated losses of the Borrower or the Group arising from commitments entered into by it which were not so disclosed or reserved against.

10.15 Execution of Agreements

The Borrower's execution and delivery of this Agreement and its exercise of its rights and performance of its obligations hereunder do not and will not:

- (a) conflict with or result in a breach of any of the terms of, or constitute a default under, any material instrument, agreement or order to which the Borrower or any of its Material Subsidiaries is a party or by which it or its properties is bound; or
- (b) give rise to:
 - (i) any event of default or moratorium in respect of any of the obligations of the Borrower or any of its Material Subsidiaries; or
 - (ii) the creation of any lien, encumbrance or other security interest (howsoever described) in respect of any of the assets of the Borrower or any of its Material Subsidiaries which, in any case, could reasonably be expected to have a material adverse effect on the Borrower's ability to perform or comply with its obligations under this Agreement; or

- (c) conflict with the provisions of its constitutive documents, its rules and regulations, or any resolution of its shareholders.

10.16 **Compliance with Laws**

Neither the entry into nor the performance by the Borrower of its obligations under this Agreement and the Funding Documents to which it is a party will violate any laws or regulations or any directives of governmental authorities therein having the force of law binding upon the Borrower and any of its Material Subsidiaries, and (i) the Borrower is in compliance in all material respects with all applicable provisions of the law and regulations of Ukraine and (ii) no Material Subsidiary is in violation of any applicable provision of the laws and regulations of Ukraine, except for such violations which would not have a material adverse effect on the Borrower's ability to perform its obligations under this Agreement.

10.17 **Repetition**

Each of the representations and warranties contained in this Clause 10 (*Representations and Warranties of the Borrower*) shall be deemed to be repeated by the Borrower on the Borrowing Date.

11. **REPRESENTATIONS AND WARRANTIES OF THE LENDER**

In addition to the representations and warranties set forth in Clause 7.6 (*Tax Position of the Lender*), the Lender makes the representations and warranties set out in Clause 11.1 (*Status*) to Clause 11.6 (*Noteholder Meetings*), inclusive, on the date of this Agreement and acknowledges that the Borrower has entered into this Agreement in reliance on those representations and warranties.

11.1 **Status**

The Lender is a public limited company duly incorporated under the laws of England and Wales and is resident for United Kingdom Tax purposes in the United Kingdom and has full corporate power and authority to enter into this Agreement and each of the Funding Documents and to undertake and perform the obligations expressed to be assumed by it herein and therein.

11.2 **Objects**

Under paragraph 4.1 of the Memorandum of Association of the Issuer, the Issuer's objects are, inter alia, to acquire, hold and manage financial assets, to lend or advance money and to give credit to any persons (whether individuals or legal entities) for any purpose whatsoever within the United Kingdom or elsewhere, and whether secured (on any such property or otherwise) or unsecured, to carry on business as a financial institution, money lenders, bankers, capitalists, financiers and investors and to undertake all kinds of loans, financial commitments and other operations and to provide any type of financial services including without limitation lending and participation in securities issues and the provision of services related to such issues.

11.3 **Authorisation**

Each of this Agreement and each of the Funding Documents entered into by the Lender has been duly authorised, executed and delivered by the Lender and is a legal, valid and binding obligation of the Lender, enforceable against the Lender in accordance with its terms, except that the enforcement thereof may be subject to bankruptcy, insolvency, fraudulent

conveyance, reorganisation, moratorium and other similar laws relating to or affecting creditors' rights generally and to general principles of equity.

11.4 Consents and Approvals

All authorisations, consents and approvals required by the Lender for or in connection with the execution of this Agreement and each of the Funding Documents and the performance by the Lender of the obligations expressed to be undertaken in such agreements have been obtained and are in full force and effect.

11.5 No Conflicts

The execution of this Agreement and each the Funding Documents to which the Lender is a party and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of England and Wales.

11.6 Noteholder Meetings

The Lender shall, promptly but in any case not later than within 60 days upon reasonable request by the Borrower, with a reasonable notice period, and at the Borrower's cost publish on behalf of the Lender a notice convening a meeting of holders of Funding Instruments in accordance with the terms and conditions of the Funding Instruments and the provisions of the Trust Deed once all of the necessary notifications for such meeting have been met.

12. INFORMATION

The Borrower shall supply or procure to be supplied to the Lender (in sufficient copies as may reasonably be required by the Lender) all such information as the Stock Exchange may require in connection with the listing or admittance to trading on such Stock Exchange or relevant authority of the Funding Instruments.

13. COVENANTS

The covenants in this Clause 13 remain in force from the date of this Agreement for so long as the Subordinated Loan or any part of it is or may be outstanding.

13.1 Maintenance of Legal Validity

The Borrower shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents and make or cause to be made all registrations, recordings and filings required in or by the laws and regulations of Ukraine to enable it lawfully to enter into and perform its obligations under this Agreement to which it is a party and to ensure the legality, validity, enforceability or admissibility in evidence in Ukraine of this Agreement.

13.2 Notification of Events of Default

The Borrower shall inform the Lender and the Trustee promptly on becoming aware of the occurrence of any Event of Default and, upon receipt of a written request to that effect from the Lender or the Trustee, confirm to the Lender and the Trustee that, save as previously notified to the Lender or as notified in such confirmation, no Event of Default has occurred.

13.3 **Claims *Pari Passu***

The Borrower shall ensure that at all times to the extent permitted by Ukrainian laws the claims of the Lender and the Trustee against it under this Agreement in relation to repayment rank at least *pari passu* in right of payment with the claims of all other subordinated creditors of the Borrower.

13.4 **Mergers**

The Borrower shall not, and shall ensure that none of its Material Subsidiaries will, without the prior written consent of the Lender and the Trustee, enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation, as these terms are construed under applicable Ukrainian legislation), or participate in any other type of corporate reconstruction, if any such reorganisation or other type of corporate reconstruction would result in a Material Adverse Effect, *provided* that, the Borrower may in a single transaction or a series of related transactions, directly or indirectly, consolidate or merge with or into, or convey, transfer, lease, or otherwise dispose of, all or substantially all of the Borrower's properties or assets (determined on a consolidated basis), to any Subsidiary of the Borrower, where the resulting, surviving or transferee Person (the "**Successor Entity**"), shall be the Borrower or, if not the Borrower, shall be a Person organised and validly existing under the laws of Ukraine and such Successor Entity, if not the Borrower, shall expressly assume, by an agreement supplemental to this Agreement in form and substance satisfactory to the Lender and the Trustee, executed and delivered to the Lender and the Trustee, the due and punctual payment of the principal and interest under this Agreement and the performance and observance of every covenant of the Borrower under this Agreement.

13.5 **Disposals**

- (a) Without prejudice to the provisions of Clauses 13.6 (*Transactions with Affiliates*) and 13.11 (*Limitation of Payment of Dividends*), the Borrower shall not, and shall ensure that none of its Material Subsidiaries will, within a 12 month period, sell, lease, transfer or otherwise dispose of, to a Person other than the Borrower or a Subsidiary of the Borrower, as the case may be, by one or more transactions or series of transactions (whether related or not), the whole or any part of its net interest income after impairment of interest earning assets or its assets which together constitute more than 5 per cent. of the gross assets of the Group unless such transaction(s) (a) is/are on an arm's-length basis or (b) has/have been approved by a decision adopted by the competent governing body of the Borrower.
- (b) This Clause 13.5 (*Disposals*) shall not apply to (i) any sale, lease, transfer or other disposition of any assets of the Borrower or property pledged as collateral by or to the Borrower or any of its Subsidiaries in the ordinary course of the Borrower's or, as the case may be, the relevant Subsidiary's business or (ii) any revenues or assets (or any part thereof) the subject of any securitisation of receivables, asset-backed financing or similar financing structure whereby all payment obligations are to be discharged primarily from such assets or revenues *provided* that when aggregated with the principal amount previously raised pursuant to any financing referred to in this sub-clause (ii) does not exceed an amount equal to 25 per cent. of the Borrower's loans to customers before allowances for impairment (calculated by reference to the Borrower's consolidated balance sheet as at the end of its most recent IFRS Fiscal Period) or (iii) any compensation or employee benefit arrangements with any officer or director of the Borrower or any of its Subsidiaries arising as a result of their employment contract.

13.6 Transactions with Affiliates

- (a) The Borrower shall not, and shall ensure that none of its Subsidiaries, directly or indirectly, conduct any business, enter into or permit to exist any transaction or series of related transactions (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an “**Affiliate Transaction**”), including inter-company loans, unless the terms of such Affiliate Transaction are (taking into account the standing and credit rating of the relevant Affiliate) no less favourable to the Borrower or such Subsidiary, as the case may be, than those that could be obtained in a comparable arm's-length transaction with a Person that is not an Affiliate of the Borrower or any of its Subsidiaries.
- (b) With respect to an Affiliate Transaction involving aggregate payments or value exceeding 20 per cent. of the Group’s shareholders’ equity (calculated by reference to the Borrower’s consolidated balance sheet as at the end of its most recent IFRS Fiscal Period), the Borrower shall deliver to the Lender and the Trustee a written opinion from an Independent Appraiser to the effect that such Affiliate Transaction is fair, from a financial point of view, to the Borrower, *provided* that in no event shall the aggregate amount of all Affiliate Transactions exceed 20 per cent. of the Group’s assets, determined by reference to the Borrower’s consolidated balance sheet as at the end of its most recent IFRS Fiscal Period.
- (c) This Clause 13.6 (*Transactions with Affiliates*) shall not apply to (i) any Affiliate Transaction made pursuant to a contract existing on the date hereof and advised in writing to the Lender (excluding any amendments or modifications thereof made after the date hereof) or (ii) transactions between or among all or any of the Borrower and/or its Subsidiaries.

13.7 Payment of Taxes and Other Claims

The Borrower shall, and shall ensure that its Material Subsidiaries, pay or discharge or cause to be paid or discharged, before the same shall become overdue all Taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of the Borrower and its Material Subsidiaries; *provided* that, none of the Borrower nor any Material Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (i) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS or other appropriate provision has been made or (ii) whose amount, together with all such other unpaid or un-discharged Taxes, assessments, charges and claims, does not in the aggregate exceed U.S.\$1,000,000 (or its equivalent in any other currency).

13.8 Financial Information

- (a) The Borrower hereby undertakes that it will deliver to the Lender and the Trustee within 180 days after the end of each of its financial years, copies of the Borrower's audited consolidated financial statements for such financial year, prepared in accordance with IFRS and together with the report of the Auditors thereon.
- (b) The Borrower hereby undertakes that it will deliver to the Lender and the Trustee within 120 days after the end of the second quarter of each of its financial years, copies of the Borrower's unaudited unconsolidated financial statements for six months, prepared in accordance with Ukrainian Accounting Standards. To the extent that the Borrower produces semi-annual unaudited consolidated financial statements (“**Semi-annual Statements**”) prepared in accordance with IFRS, the Borrower

further undertakes to provide copies of such Semi-annual Statements within 120 days after the end of the second quarter of each of its financial years.

- (c) The Borrower hereby undertakes that it will deliver to the Lender and the Trustee, without undue delay, such additional information regarding the financial position or the business of the Borrower as the Lender or the Trustee may reasonably request, including providing certification to the Trustee pursuant to Clause 17.1.2 (*Certificate of Directors or Authorised Signatories*) of the Trust Deed.
- (d) The Borrower hereby undertakes that it will supply or procure to be supplied to the Lender and the Trustee (in sufficient copies as may reasonably be required by the Lender and the Trustee) all such information as any Stock Exchange may require in connection with the listing or admittance to trading of the Funding Instruments.

13.9 Maintenance of Capital Adequacy

The Borrower shall not, and shall ensure that each Subsidiary which carries on a Banking Business shall not, permit its total capital ratio to fall below the minimum total capital adequacy ratio required by the NBU and, in the case of a Subsidiary which carries on a Banking Business outside Ukraine, the relevant banking authority responsible for setting and/or supervising capital adequacy for financial institutions in the relevant jurisdiction in which such Subsidiary carries on its Banking Business.

13.10 Limitation on Certain Transactions

Neither the Borrower, nor any of its Material Subsidiaries, will, directly or indirectly, enter into or permit to subsist any transaction or series of related transactions (including, without limitation, the sale, purchase, exchange or lease of assets, property or services) involving aggregate consideration equal to or greater than U.S.\$1,000,000 unless such transaction or series of transactions is or are at a Fair Market Value.

For purposes of this Clause 13.10 (*Limitation on Certain Transactions*), the term “**Fair Market Value**” of a transaction means the value that would be obtained in an arm’s length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer. A report of the Auditors of the Fair Market Value of a transaction, shall, in the absence of manifest error, be conclusive and binding on all parties.

13.11 Limitation on Restricted Payments

The Borrower will not make any payments by way of dividends, cash or otherwise, or make any other distributions (whether by way of redemption, acquisition or otherwise) in respect of its share capital: (i) at any time when there exists an Event of Default; (ii) at any time when no such Event of Default exists, more frequently than once during any calendar year. The foregoing limitation shall not apply to distributions of fully paid common shares or preferred shares of the Borrower.

13.12 Limitation on restrictions on distributions from Material Subsidiaries

The Borrower shall not, and shall not permit any of its Material Subsidiaries to, create or otherwise cause or permit to subsist or become effective any consensual encumbrance or consensual restriction on the ability of any Subsidiary:

- (a) to pay dividends or make any other distributions on its share capital; or
- (b) to make any loans or advances or pay any Indebtedness owed to the Borrower; or

(c) to transfer any of its property or assets to the Borrower,

other than encumbrances or restrictions existing under applicable law, any Funding Document or any other agreement in effect prior to the date hereof and advised in writing to the Lender.

13.13 Capital Treatment

To the extent that any part of the Subordinated Loan is to be treated as Tier 2 Capital by the Borrower, the Borrower shall use its best efforts to procure that the NBU issues the Permit and will provide all relevant information and documentation to the NBU as may be necessary for the Permit.

13.14 Compliance with NBU Regulations

The Borrower hereby undertakes that it will comply with all NBU rules and regulations applicable to banks, including but not limited to, NBU's obligatory reserve, minimum regulatory capital, capital adequacy or liquidity requirements and "negatively classified assets" (determined as provided in the NBU regulations) after provisions not exceeding 60 per cent. of the Borrower's total assets.

13.15 Restrictions on Use of Funds

In accordance with the restrictions set out by applicable legislation of Ukraine, the Borrower shall not use any part of the proceeds of the Subordinated Loan as pledged collateral or other security for any obligations of the Borrower under its loan transactions or other transactions with any Persons.

14. LIMITED ACCELERATION RIGHTS

14.1 Bankruptcy Event

Notwithstanding any other provision in this Agreement to the contrary, if any Bankruptcy Event has occurred and is continuing, the Lender or the Trustee may (a) by notice in writing to the Borrower, declare the facility granted hereunder to be cancelled, whereupon the same shall forthwith be cancelled and/or (b) by notice in writing to the Borrower, declare all amounts payable hereunder by the Borrower to be due and payable (subject to the provisions of Clause 2.3 (*Subordination*)) whereupon all such amounts shall become due and payable as provided in that notice; and/or (c) (subject to the provisions of Clause 2.3 (*Subordination*)) prove in any Bankruptcy Proceedings.

14.2 Payment Defaults

Nothing in Clause 14.1 (*Bankruptcy Event*) shall prejudice the right of the Lender or the Trustee to enforce the obligations of the Borrower under this Agreement when they fall due (subject to the provisions of Clause 2.3 (*Subordination*)), but otherwise the Lender shall have no right to accelerate payments under this Agreement in the case of a default in payments of principal, interest or other amounts due under this Agreement.

14.3 Notice of Bankruptcy Events, etc.

The Borrower shall promptly deliver to the Lender and the Trustee, upon it becoming aware thereof, written notice of any event that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, a Bankruptcy Event.

14.4 **Rights Not Exclusive**

The Lender may not accelerate the Subordinated Loan other than pursuant to Clause 14.1 (*Bankruptcy Event*) but, aside from such limited acceleration rights, the rights provided for herein are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

15. **DEFAULT INTEREST AND INDEMNITY**

15.1 **Default Interest**

If any sum due and payable by the Borrower hereunder is not paid on the due date therefor in accordance with the provisions of Clause 17 (*Payments*), including, in the case of interest, if the payment thereof has been suspended as provided herein, the Borrower shall pay default interest on such sum as is not paid on the due date or suspended at a rate per annum equal to the Rate of Interest up to but excluding the date on which it is paid by the Borrower. Default interest payable under this Clause 15.1 (*Default Interest*) shall be payable on demand of the Lender (or, as applicable, the Trustee) or, in relation to suspended interest, at the end of the relevant period of suspension as provided in Clause 5.5 (*Period of Suspension*).

15.2 **Borrower's Indemnity**

- (a) The Borrower undertakes to the Lender, that if the Lender or the Trustee (each an "**indemnified party**") reasonably incurs any loss, liability, cost, claim, charge or expense (together with in each case any VAT thereon) (a "**Loss**") as a result of or in connection with any Bankruptcy Event or Event of Default, the Borrower shall pay to the Lender or the Trustee, as the case may be, subject to the presentation of properly documented evidence thereof, an amount equal to such Loss and all reasonably incurred costs, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, charges and expenses are incurred.
- (b) The indemnity in paragraph (a) above shall not apply to a Loss:
 - (i) which is caused by an indemnified party's gross negligence or wilful default or misconduct; or
 - (ii) which is recovered under Clause 7.1 (*Additional Amounts*); or
 - (iii) where an indemnity is sought already under Clause 7.3 (*Tax Indemnity Amounts*), 9 (*Changes in Circumstances*) or 18 (*Costs and Expenses*).

15.3 **Independent Obligation**

Clause 15.2 (*Borrower's Indemnity*) constitutes an independent obligation of the Borrower separate from its other obligations under or in connection with this Agreement or any other obligations of the Borrower in connection with the issue of the Funding Instruments and shall not affect, or be construed to affect, any other provisions of this Agreement or any such other obligations.

15.4 **Survival**

The obligations of the Borrower pursuant to Clauses 7.1 (*Additional Amounts*), 7.3 (*Tax Indemnity Amounts*), 17 (*Payments*) and 15.2 (*Borrower's Indemnity*) shall survive the execution and delivery of this Agreement, the drawdown of the Subordinated Loan and the repayment of the Subordinated Loan, in each case by the Borrower.

16. CURRENCY OF ACCOUNT AND PAYMENT

16.1 Currency of Account

The U.S. dollar is the currency of account and payment for each and every sum at any time due from the Borrower hereunder.

16.2 Currency Indemnity

If any sum due from the Borrower under this Agreement or any order or judgment given or made in relation hereto has to be converted from the currency (the “**first currency**”) in which the same is payable hereunder or under such order or judgment into another currency (the “**second currency**”) for the purpose of (a) making or filing a claim or proof against the Borrower, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation hereto, the Borrower shall indemnify and hold harmless the Lender (and the Trustee) to whom such sum is due from and against any loss suffered or reasonably incurred as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which the Lender (and the Trustee) may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

17. PAYMENTS

17.1 Payments to the Lender

On each date on which this Agreement requires an amount denominated in U.S. dollars to be paid by the Borrower (other than amounts payable (i) in respect of Reserved Rights and, where applicable, in respect of any Indemnification Rights of the Lender, (ii) under the Fees Letter or (iii) in relation to Clause 15.2 (*Borrower's Indemnity*) which the Borrower shall pay to such account or accounts as the Lender or, as the case may be, the Trustee, shall notify to the Borrower), the Borrower shall make the same available to the Lender by payment in U.S. dollars and in Same-Day Funds (or in such other funds as may for the time being be customary for the settlement of international banking transactions in U.S. dollars) not later than 11.00 a.m. (New York City time) on such date to the Collection Account; *provided that* if at any time the Lender or, as the case may be, the Trustee, notifies the Borrower that a Bankruptcy Event has occurred, the Trustee may, by notice in writing to the Borrower, require it to make all subsequent payments in respect of the Funding Instruments directly to or to the order of the Trustee. Without prejudice to its obligations under Clause 5.1 (*Payments of Interest*), the Borrower shall procure that, before 10.00 a.m. (New York City time) on the Banking Day before the due date of each payment made by it under this Clause 17.1 (*Payments to the Lender*), the bank effecting payment on its behalf confirms to the Lender or to such person as the Lender may direct by tested telex or authenticated SWIFT message the payment instructions relating to such payment. Every payment of an amount corresponding to principal or interest in respect of the Subordinated Loan (other than amounts payable in respect of (i), (ii) or (iii) above) made by the Borrower under this Clause 17.1 (*Payments to the Lender*) to, or to the order of, the Lender, the Trustee or the Principal Paying Agent shall satisfy *pro tanto* its obligations under this Clause 17.1 (*Payments to the Lender*), except to the extent that there is a subsequent failure to make payment of the relevant amount to the holders of the Funding Instruments in accordance with the terms and conditions thereof. For these purposes, “**Banking Day**” means a day on which banks are open for general business in New York City, London and Kyiv.

17.2 Alternative Payment Arrangements

If, at any time, it shall become impracticable (by reason of any action of any governmental authority or any Change of Law, exchange control regulations or any similar event) for the Borrower to make any payments under this Agreement in the manner specified in Clause 17.1 (*Payments to the Lender*), then the Borrower may agree with the Lender (and the Trustee) alternative arrangements for the payment to the Lender (or, as the case may be, the Trustee) of amounts due (prior to the delivery of any notice referred to in Clause 17.1 (*Payments to the Lender*)) under this Agreement *provided* that, in the absence of any such agreement with the Lender (or, as the case may be, the Trustee), the Borrower shall be obliged to make all payments due to the Lender in the manner specified above.

17.3 No Set-off

All payments required to be made by the Borrower hereunder shall be calculated without reference to any set-off or counterclaim and shall be made free and clear of and without any deduction for or on account of any set-off or counterclaim.

17.4 Other Payment Arrangements

Any payment arrangements agreed by the Borrower and the Lender otherwise than as provided by Clause 17.1 (*Payments to the Lender*) shall be in compliance with applicable regulations of the NBU.

18. COSTS AND EXPENSES

18.1 Preservation and Enforcement of Rights

The Borrower shall, from time to time on written demand of the Lender reimburse the Lender for all properly documented and reasonably incurred costs and expenses (including legal fees and expenses) together with any VAT thereon properly incurred in or in connection with the preservation and/or enforcement of any of its rights under this Agreement (except where the relevant claim is successfully defended by the Borrower).

18.2 Stamp Taxes

The Borrower shall pay all stamp, registration and other similar duties or taxes (including any interest or penalties thereon or in connection therewith) to which any Funding Documents or any judgment given against the Borrower in connection therewith is or at any time may be subject and shall, from time to time on written demand of the Lender, indemnify the Lender against any properly documented liabilities, losses, costs, expenses (including, without limitation, legal fees and any applicable value added tax) and claims, actions or demand resulting from any failure to pay or any delay in paying any such duty or tax.

18.3 Costs relating to Amendments and Waivers

The Borrower shall, from time to time on written demand of the Lender (or, as the case may be, the Trustee) (and without prejudice to the provisions of Clause 15.2 (*Borrower's Indemnity*) and Clause 18.1 (*Preservation and Enforcement of Rights*)) compensate the Lender (and, as the case may be, the Trustee) at such daily and/or hourly rates, including VAT thereon, as the Lender (or, as the case may be, the Trustee) shall from time to time reasonably determine for all time expended by the Lender (or, as the case may be, the Trustee), their respective directors, officers and employees, and for all properly documented costs and expenses (including telephone, fax, copying and travel costs), including VAT thereon, they may incur, in connection with the Lender (or, as the case may be, the Trustee) taking such action as it may consider appropriate in connection with:

- (a) any meeting of holders of the Funding Instruments or the granting or proposed granting of any waiver or consent requested under this Agreement by the Borrower; or
- (b) any actual or potential breach by the Borrower of any of its obligations under this Agreement; or
- (c) the occurrence of any event which is a Bankruptcy Event or an Event of Default; or
- (d) any amendment or proposed amendment to this Agreement or any Funding Document requested by the Borrower.

In that regard, the Lender shall, promptly upon request by the Borrower, convene a meeting of holders of Funding Instruments in accordance with the terms and conditions of the Funding Instruments and the provisions of the Funding Documents.

18.4 No Risk to the Lender's Funds

Other than in connection with Clause 11 (*Representations and Warranties of the Lender*), nothing contained in this Agreement shall require the Lender to expend or risk its own funds or otherwise incur any financial liability in the performance of its obligations or duties or the exercise of any right, power, authority or discretion hereunder until it has received from the Borrower the funds that are in the Lender's sole discretion necessary to cover the costs and expenses in connection with such performance or exercise, or has been (in its sole discretion) sufficiently assured that it will receive such funds.

19. ASSIGNMENTS AND TRANSFERS

19.1 Binding Agreement

This Agreement shall be binding upon and enure to the benefit of each party hereto and its or any subsequent successors and permitted assigns.

19.2 No Assignments and Transfers by the Borrower

The Borrower shall not be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder.

19.3 Assignments by the Lender

The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement except for the charge by way of first fixed charge granted by the Lender in favour of the Trustee of the Lender's rights and benefits under this Agreement and the absolute assignment by way of security by the Lender to the Trustee of certain rights, interest and benefits under this Agreement and to the Collection Account, in each case pursuant to the Funding Documents.

If and to the extent required by applicable legislation of Ukraine, the substitution of the Lender (as defined in the applicable NBU regulations) shall be subject to prior approval by the NBU.

20. CALCULATIONS AND EVIDENCE OF DEBT

20.1 Evidence of Debt

The Lender shall maintain in accordance with its usual practice accounts evidencing the amounts from time to time lent by and owing to it hereunder and in any legal action or proceeding arising out of or in connection with this Agreement, in the absence of manifest error and subject to the provision by the Lender to the Borrower of written information describing in reasonable detail the calculation or computation of such amounts together with the relevant supporting documents evidencing the matters described therein, the entries made in such accounts shall be conclusive evidence of the existence and amounts of the obligations of the Borrower therein recorded.

20.2 Change of Circumstance Certificates

A certificate signed by two Authorised Signatories of the Lender describing in reasonable detail the amount by which a sum payable to it hereunder is to be increased under Clause 7.1 (*Additional Amounts*) or the amount for the time being required to indemnify it against any such cost, payment or liability as is mentioned in Clause 7.3 (*Tax Indemnity Amounts*) or Clause 9.1 (*Increased Costs*) or Clause 15.2 (*Borrower's Indemnity*) shall, in the absence of manifest error, be conclusive evidence of the existence and amounts of the specified obligations of the Borrower.

21. REMEDIES AND WAIVERS, PARTIAL INVALIDITY

21.1 Remedies and Waivers

No failure by the Lender or the Trustee to exercise, nor any delay by the Lender or the Trustee in exercising, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law.

21.2 Partial Invalidity

If, at any time, any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

22. NOTICES; LANGUAGE

22.1 Written Notice

All notices, requests, demands or other communication to be made under this Agreement shall be in writing and, unless otherwise stated, shall be delivered by fax or post.

22.2 Giving of Notice

Any communication or document to be delivered by one person to another pursuant to this Agreement shall (unless that other person has by 15 days written notice specified another address) be made or delivered to that other person, addressed as follows:

(i) If to the Borrower:

Open Joint Stock Commercial Bank Nadra
15 Artema Street
Kyiv 04053
Ukraine

Attention: Mr. Mykola Onyshchenko, Vice President
Mr. Ilya Vesely, Head of Funding

Fax: +38 44 288 00 22

(ii) If to the Lender:

DCM Global Finance Plc
35 Great St. Helen's
London EC3A 6AP
United Kingdom

Attention: The Directors
Fax: +44 207 398 6325

(iii) If to the Trustee:

The Law Debenture Trust Corporation p.l.c.
Fifth Floor
100 Wood Street
London EC2V 7EX
United Kingdom

Attention: The Manager, Commercial Trusts
Fax: +44 20760 60643

- (b) Each communication and document to be made or delivered by one party to another pursuant to this Agreement shall, unless that other party has by 15 calendar days' written notice to the same specified another address or fax number, be made or delivered to that other party at the address or fax number specified in this Clause 22.2 (*Giving of Notice*) and shall be effective upon receipt by the addressee on a business day on the city of the recipient; *provided* that, (i) any such communication or document which would otherwise take effect after 4:00 p.m. on any particular day shall not take effect until 10:00 a.m. on the immediately succeeding business day in the city of the addressee and (ii) any communication or document to be made or delivered by one party to the other party shall be effective only when received by such other party and then only if the same is expressly marked for the attention of the department or officer identified with such other party's signature below, or such other department or officer as such other party shall from time to time specify for this purpose.

22.3 English Language

Each communication and document delivered by one party to another pursuant to this Agreement shall be in the English language or accompanied by a translation into English certified (by an officer of the person delivering the same) as being a true and accurate translation. In the event of any discrepancies between the English and Ukrainian versions of such communication or document, or any dispute regarding the interpretation of any provision

in the English or Ukrainian versions of such communication or document, the English version of such communication or document shall prevail, unless the document is a statutory or other official document.

22.4 Language of Agreement

This Agreement has been executed in both the English language and the Ukrainian language. In the event of any discrepancies between the English and Ukrainian versions of this Agreement, or any dispute regarding the interpretation of any provision in the English or Ukrainian versions of this Agreement, the English version of this Agreement shall prevail and any question of interpretation shall be addressed solely in the English language.

23. LAW, JURISDICTION AND ARBITRATION

23.1 English Law

This Agreement is governed by, and shall be construed in accordance with, English law.

23.2 English Courts

Subject to Clause 23.6 (*Arbitration*), the Borrower agrees for the benefit of the Lender that the courts of England shall have exclusive jurisdiction to hear and determine any suit, action or proceedings arising out of or in connection with this Agreement ("**Proceedings**") and, for such purposes, irrevocably submits to the jurisdiction of such courts. Nothing in this paragraph shall (or shall be construed so as to) limit the right of the Lender to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings by the Lender in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

23.3 Appropriate Forum

The Borrower irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and by which agrees not to claim that any such court is not a convenient or appropriate forum.

23.4 Service of Process

The Borrower agrees that the process by which any Proceedings in England or Wales are begun may be served on it by being delivered to Law Debenture Corporate Services Limited at 100 Wood Street, London EC2V 7EX, United Kingdom. If such person is not or ceases to be effectively appointed to accept service of process, the Borrower shall immediately appoint a further person in England or Wales to accept service of process on its behalf and, failing such appointment within 15 days, the Lender shall be entitled to appoint such a person by written notice to the Borrower. Nothing in this Clause 23.4 (*Service of Process*) shall affect the right of the Lender to serve process in any other manner permitted by law.

23.5 Non-exclusivity

The submission by the Borrower to the jurisdiction of the English courts shall not (and shall not be construed so as to) limit the right of the Lender to bring Proceedings in any other court of competent jurisdiction.

23.6 **Arbitration**

Notwithstanding the provisions of Clause 23.2 (*English Courts*), the Borrower agrees that the Lender may elect, by written notice to the Borrower, that any claim, dispute or difference of whatever nature arising under, out of or in connection with this Agreement (including a claim, dispute or difference regarding the existence, termination or validity of this Agreement) (a “**Dispute**”) shall be referred to and finally settled by arbitration in accordance with the LCIA Rules as at present in force and as modified by this paragraph, and the LCIA Rules shall be deemed incorporated in this paragraph. The number of arbitrators shall be three. Each party shall nominate one arbitrator and the two party-nominated arbitrators shall jointly nominate the third, who will act as the chairman. The seat of arbitration shall be London, England and the language of the arbitration shall be English.

23.7 **Waiver of Immunity**

To the extent that the Borrower may in any jurisdiction claim for itself, its assets or revenue, immunity from suit, execution, attachment (whether in aid of execution, before making of a judgment, award or otherwise) or other legal proceedings, including in relation to an enforcement of an arbitral award, and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Borrower, its assets or revenue, the Borrower agrees not to claim and irrevocably waives such immunity to the fullest extent permitted by the law of such jurisdiction.

23.8 **Contracts (Rights of Third Parties) Act 1999**

A person who is not a party to this Agreement (a “**third party**”) shall have no rights to enforce any of its provisions except that:

- (a) a third party shall have those rights it would have had if the Contracts (Rights of Third Parties) Act 1999 had not come into effect; and
- (b) each of Clauses 7.1 (*Additional Amounts*), 15.2 (*Borrower’s Indemnity*), 16.2 (*Currency Indemnity*) and 18.3 (*Costs relating to Amendments and Waivers*) shall be enforceable by the Trustee as if it were a party to this Agreement.

24. **COUNTERPARTS**

This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties.

25. **AMENDMENTS**

25.1 **Amendments to be in Writing**

Except as otherwise provided by its terms, this Agreement may not be varied except by an agreement in writing signed by the parties.

25.2 **Approval of Amendments by the NBU**

If and to the extent required by applicable legislation of Ukraine, any amendment to this Agreement shall be subject to prior approval by the NBU. The Borrower undertakes to make all necessary filings with the NBU for this purpose, and the Lender agrees to cooperate with the Borrower to the extent reasonably practicable to obtain such an approval. Unless

otherwise required by applicable legislation of Ukraine, the Borrower shall submit to the NBU a notarised copy of any such amendment within five Business Days from the date thereof.

25.3 **Amendment on Enforcement of Security**

In case of enforcement of security over the Lender's claims under this Agreement by the Trustee, the Borrower hereby agrees and undertakes to liaise with the NBU and submit to the NBU either (a) an amended notification of this Agreement in order to register any required amendment to this Agreement with the NBU or (b) all necessary information and documents so as to obtain any required licence and/or permit in relation to borrowing of funds on subordinated terms, as applicable, in order to ensure that the Borrower is able to continue to make payments of principal, interest or additional amounts hereunder or to fulfill any other obligation hereunder.

26. **TRANSACTIONS WITH THE LENDER OR ITS RELATED ENTITIES**

- (a) If and to the extent required by the rules and regulations of the NBU and save as described in sub-Clause (b) of this Clause 26 (*Transactions with the Lender or its Related Entities*), during the term of this Agreement the Borrower may not transfer to the Lender (or any of its related entities) funds in any form (including, without limitation, by the transfer of property, the provision of loans to or other placement of funds with the Lender (or any of its related entities) through deposits, investment accounts or cross deposits, through the conduct of transactions with bills of exchange and promissory notes, the provision of factoring services, guarantees not covered by unconditional security or guarantees for creditors of the Borrower).
- (b) For the avoidance of doubt and notwithstanding provisions of sub-Clause (a) of this Clause 26 (*Transactions with the Lender or its Related Entities*):
 - (i) the Borrower may enter into and perform its obligations under settlement and other transactions with the Lender (or any of its related entities) pursuant to agreements providing for receipt of loans or other funds by the Borrower from the Lender (or any of its related entities) and repayment thereof, together with all principal, interest, charges and other payments under the respective loan or other agreements, including, without limitation, this Agreement, and
 - (ii) the correspondent accounts of the Borrower may be debited or credited at the instruction of the Lender regarding its own operations or operations of its clients or correspondents.

27. **PERMIT**

If and for so long as, and to the extent that, any Permit is revoked or cancelled or not extended by the NBU and/or the Subordinated Loan or any part thereof otherwise fails to qualify as Tier 2 Capital of the Borrower, the limitations under this Agreement generally applicable under Ukrainian law to agreements for borrowing funds on subordinated terms shall not apply, to the extent not prohibited by Ukrainian law, to the Subordinated Loan or such part thereof, as the case may be.

28. NATIONAL BANK OF UKRAINE REGISTRATION REQUIREMENT

This Agreement shall become effective on the date of its registration with the NBU which shall be evidenced by the Borrower's loan registration notice bearing the registration notation and the stamp of the NBU.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes, which will be endorsed on each Individual Note Certificate. The terms and conditions applicable to any Global Note Certificate will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global Form" below.

The U.S.\$50,000,000 9.3750 per cent. Loan Participation Notes due 2017 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 13 (*Further Issues*) and forming a single series therewith) of DCM Global Finance PLC (the "**Issuer**", which expression shall include any successor to the Issuer from time to time) are constituted by, are subject to, and have the benefit of, a trust deed dated 5 December 2007 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and The Law Debenture Trust Corporation p.l.c. as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and where the context permits or requires, the enforcement trustee (the "**Enforcement Trustee**" being the Trustee in its capacity as the assignee of the Subordinated Loan pursuant to Condition 12 (*Enforcement*)) and are the subject of an agency agreement dated 5 December 2007 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, Citigroup Global Markets Deutschland AG & Co. KGaA as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), Citibank, N.A. as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes) and as transfer agent (the "**Transfer Agent**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes), the transfer agents named therein (together with the Transfer Agent, the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes), the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the Trustee. References herein to the "**Agents**" are to the Registrar, the Principal Paying Agent, the Paying Agents and the Transfer Agents and any reference to an "**Agent**" is to any one of them. Certain provisions of these terms and conditions (the "**Conditions**") are summaries of the Trust Deed and the Agency Agreement and subject to their detailed provisions. The Noteholders (as defined below) are entitled to the benefit of, bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the specified office for the time being of the Trustee, being at the date hereof Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom and at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a U.S.\$50,000,000 subordinated loan (the "**Subordinated Loan**") to Open Joint Stock Commercial Bank Nadra (the "**Borrower**"). The Issuer and the Borrower have recorded the terms of the Subordinated Loan in an agreement dated 3 December 2007 between the Issuer, as lender and the Borrower (as amended, restated or supplemented from time to time, the "**Subordinated Loan Agreement**").

In each case where amounts of principal, interest and additional amounts, if any, due pursuant to Condition 4 (*Interest*), Condition 5 (*Redemption and Purchase*), Condition 6 (*Payments*) and Condition 7 (*Taxation*) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to pay to the Noteholders (as defined in Condition 2(a) (*Register*)), on each date upon which such amounts of principal, interest and additional amounts, if any, are due in respect of the Notes, to the extent of the sums of principal, interest, Additional Amounts and Tax Indemnity Amounts (each as defined in the Subordinated Loan Agreement), if any, actually received by or for the account of the Issuer pursuant

to, or in or towards satisfaction of sums due under, the Subordinated Loan Agreement (including payments in respect thereof received from the Trustee pursuant to Condition 12 (*Enforcement*)), disregarding any amounts in respect of the Reserved Rights, being its right to amounts in respect of any rights, interests and benefits of the Issuer under the following Clauses of the Subordinated Loan Agreement: Clause 6.6 (*Costs of Prepayment*) second sentence thereof; Clause 7.1(e); Clause 7.3(b); Clause 7.8 (*Delivery of Forms and other Instruments*); Clause 9 (*Changes in Circumstances*); Clause 10 (*Representations and Warranties of the Borrower*); Clause 15.2 (*Borrower's Indemnity*); Clause 15.3 (*Independent Obligation*); Clause 15.4 (*Survival*); Clause 16.2 (*Currency Indemnity*); Clause 17.1 (*Payments to the Lender*) (to the extent that such Clause refers to payment of amounts in respect of the Reserved Rights), Clause 17.3 (*No Set-off*) and Clause 18 (*Costs and Expenses*) (such rights are referred to herein as the **"Reserved Rights"**). Noteholders must therefore rely solely and exclusively upon the covenant to pay under the Subordinated Loan Agreement and the credit and financial standing of the Borrower. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer.

References in these Conditions to the **"Underlying Assets"** are to the Issuer's rights and benefits under the Subordinated Loan Agreement, but excluding the Reserved Rights and references to **"Relevant Subordinated Loan Rights"** means the Underlying Assets and the Indemnification Rights. **"Indemnification Rights"** means the rights, interests and benefits of the Issuer under Clauses 15.1 (*Default Interest*), 15.2 (*Borrower's Indemnity*), 15.3 (*Independent Obligation*), 16.2 (*Currency Indemnity*) and 18.1 (*Preservation and Enforcement of Rights*) of the Subordinated Loan Agreement (but excluding any rights, interests and benefits accrued in favour of the Issuer thereunder up to the time of a Bankruptcy Event (as defined in the Subordinated Loan Agreement) or an Issuer Event (as defined in the Subordinated Loan Agreement)).

In certain circumstances, the Trustee can (subject to it being indemnified and/or secured and/or pre-funded to its satisfaction) be required by Noteholders holding at least one-quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (both as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed.

1. **Form, Denomination and Status**

- (a) *Form and denomination:* The Notes are in registered form, without interest coupons attached, in denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof (each, an **"Authorised Holding"**).
- (b) *Status:* The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Subordinated Loan. The Notes constitute the obligation of the Issuer to apply an amount equal to the principal amount of the Notes solely for financing the Subordinated Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest, Additional Amounts and Tax Indemnity Amounts, if any, actually received by or for the account of the Issuer pursuant to, or in or towards satisfaction of sums due under, the Subordinated Loan Agreement (including payments in respect thereof received from the Trustee pursuant to Condition 12 (*Enforcement*)) (disregarding any amounts in respect of Reserved Rights).

Payments in respect of the Notes will only be made to the extent of the sums actually received by or for the account of the Issuer by way of principal, interest, Additional Amounts or Tax Indemnity Amounts, if any, pursuant to, or in or towards satisfaction of sums due under the Subordinated Loan Agreement (including payments in respect thereof received from the Trustee pursuant to Condition 12 (*Enforcement*)) and will be made *pro rata* among all Noteholders (subject to Condition 7 (*Taxation*)), on the dates on which such payments are due in respect of the Notes subject to the conditions attaching to, and in the currency of, such payments under the Subordinated Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. The Issuer shall be under no obligation to exercise in favour of the Noteholders any

rights of set-off or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and the Borrower.

Noteholders are deemed to have acknowledged and accepted that:

- (i) neither the Issuer nor the Trustee makes any representation or warranty in respect of, and shall at no time have any responsibility for, or liability, or obligation in respect of the performance and observance by the Borrower of its obligations under the Subordinated Loan Agreement or the recoverability of any sum of principal, interest, Additional Amounts or Tax Indemnity Amounts or other amounts, if any, due or to become due from the Borrower under the Subordinated Loan Agreement;
- (ii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial, operational or otherwise), creditworthiness, affairs, status, nature or prospects of the Borrower;
- (iii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, any misrepresentation or breach of warranty or any act, default or omission of the Borrower under or in respect of the Subordinated Loan Agreement;
- (iv) the Issuer is and will be under no obligation to repurchase any Notes or to fund repayment of the Notes out of its own funds (except to the extent of sums actually received by or for the account of the Issuer by way of principal, interest, Additional Amounts or Tax Indemnity Amounts, if any, pursuant to, or in or towards satisfaction of sums due under, the Subordinated Loan Agreement (including payments in respect thereof received from the Trustee pursuant to Condition 12 (*Enforcement*)) or to support any losses suffered by the Noteholders;
- (v) neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Registrar, the Principal Payment Agent, any Paying Agent or any Transfer Agent of their respective obligations under the Agency Agreement;
- (vi) the financial servicing and performance of the terms and conditions of the Notes depend solely and exclusively upon performance by the Borrower of its obligations under the Subordinated Loan Agreement, its covenant to pay under the Subordinated Loan Agreement and its credit and financial standing. The Borrower has represented and warranted to the Issuer in the Subordinated Loan Agreement that the Subordinated Loan Agreement constitutes legal, valid and binding obligations of the Borrower. The representations and warranties given by the Borrower in Clause 10 (*Representations and Warranties of the Borrower*) of the Subordinated Loan Agreement are given by the Borrower to the Issuer for the sole benefit of the Issuer and neither the Trustee nor any Noteholder shall have any remedies or rights against the Borrower that the Issuer may have with respect to such representations or warranties, other than any right the Trustee may have following a Bankruptcy Event or an Issuer Event;
- (vii) the Trustee will rely on self-certification by the Borrower and certification by third parties as a means of monitoring whether the Borrower is complying with its obligations under the Subordinated Loan Agreement and shall not otherwise be responsible for investigating any aspect of the Borrower's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer in respect of the Underlying Assets whether or not such defect or failure was

known to the Trustee or might have been discovered upon examination or enquiry or whether or not capable of remedy;

- (viii) if the Borrower is required by law to make any withholding or deduction for or on account of tax from any payment under the Subordinated Loan Agreement or if the Issuer is required by law to make any withholding or deduction for or on account of tax from any payment in respect of the Notes, the sole obligation of the Issuer will be to pay to the Noteholders sums equivalent to the sums actually received from the Borrower pursuant to the Subordinated Loan Agreement in respect of such payment, including, if applicable, Additional Amounts or Tax Indemnity Amounts in respect of the tax required to be so withheld or deducted and including payments in respect thereof received from the Trustee following enforcement of the security pursuant to Condition 12 (*Enforcement*); the Issuer shall not be obliged to take any actions or measures as regards such deductions or withholdings other than those set out in Clause 7 (*Taxes*), Clause 8 (*Tax Receipts*) and Clause 9.3 (*Mitigation*) of the Subordinated Loan Agreement; and
- (ix) at any time following a Bankruptcy Event or an Issuer Event, the Trustee may enforce the security granted by the Issuer under the Trust Deed and the Trustee shall hold the Underlying Assets on trust for the Issuer only as provided in Condition 12 (*Enforcement*) and, in respect of the Indemnification Rights, on trust for the Issuer and the Trustee, as applicable.

No proprietary or other direct interest in the Issuer's rights under or in respect of the Subordinated Loan Agreement or the Subordinated Loan exists for the benefit of the Noteholders. No Noteholder will have any entitlement to enforce any of the provisions in the Subordinated Loan Agreement or have direct recourse to the Borrower. The Trustee shall not be required to take proceedings to enforce payment under the Trust Deed or the Subordinated Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

As provided in the Trust Deed, the obligations of the Issuer are solely to make payments of amounts in aggregate equal to principal, interest, Additional Amounts, Tax Indemnity Amounts or other amounts, if any, actually received by or for the account of the Issuer pursuant to, or in or towards satisfaction of sums due under, the Subordinated Loan Agreement (including payments in respect thereof received from the Trustee pursuant to Condition 12 (*Enforcement*) (disregarding any amounts in respect of the Reserved Rights)). Noteholders must therefore rely solely and exclusively upon the covenant to pay under the Subordinated Loan Agreement and the credit and financial standing of the Borrower.

The obligations of the Issuer to make payments as stated in the previous paragraph constitute direct and general limited recourse obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Payments made by the Borrower under the Subordinated Loan Agreement to, or to the order of, the Trustee or (before such time that the Issuer has been required by the Trustee, pursuant to the terms of the Trust Deed, to pay to or to the order of the Trustee) the Principal Paying Agent will satisfy *pro tanto* the obligations of the Issuer in respect of the Notes except, in the case of payment to the Principal Paying Agent, to the extent that there is a default in the subsequent payment thereof to the Noteholders in accordance with the Conditions, in which case the Issuer shall have no obligation to make payments to Noteholders, but without prejudice to any further obligation of the Issuer to make payments to the extent that it receives corresponding further payments from the Borrower under the Subordinated Loan Agreement.

2. **Register, Title and Transfers**

- (a) *Register:* The Registrar will maintain outside the United Kingdom a register (the “**Register**”) in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the “**Holder**” of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “**Noteholder**” shall be construed accordingly. A certificate (each, an “**Individual Note Certificate**”) will be issued to each Noteholder in respect of its registered holding. Each Individual Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.
- (b) *Title:* The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Individual Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Individual Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.
- (c) *Transfers:* Subject to Condition 2(f) (*Closed periods*) and Condition 2(g) (*Regulations concerning transfers and registration*), a Note may be transferred upon surrender of the relevant Individual Note Certificate, with the endorsed form of transfer duly completed (including any certificates as to compliance with restrictions on transfer included therein), at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Holdings. Where not all the Notes represented by the surrendered Individual Note Certificate are the subject of the transfer, a new Individual Note Certificate in respect of the balance of the Notes will be issued to the transferor.
- (d) *Registration and delivery of Individual Note Certificates:* Within five business days of the surrender of a Individual Note Certificate in accordance with Condition 2(c) (*Transfers*), the Registrar will register the transfer in question and deliver a new Individual Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, “**business day**” means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.
- (e) *No charge:* The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- (f) *Closed periods:* Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.
- (g) *Regulations concerning transfers and registration:* All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes Scheduled to the Agency Agreement.

The regulations may be changed by the Issuer with the prior written approval of the Trustee, the Registrar and the Borrower. A copy of the current regulations will be mailed (free of charge) by the Registrar and/or any Transfer Agent to any Noteholder who requests in writing a copy of such regulations. So long as any of the Notes are listed on the main segment of the SWX Swiss Exchange, a copy of the current regulations will be publicly available at the Specified Offices of the Transfer Agent and the Paying Agent in Switzerland.

3. **Issuer's Covenant**

As provided in the Trust Deed, so long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution or Written Resolution (as defined in the Trust Deed), agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Subordinated Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Subordinated Loan Agreement, except as otherwise expressly provided in the Trust Deed and the Subordinated Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*).

4. **Interest**

- (a) *Accrual of Interest:* On each Interest Payment Date the Issuer shall account to the Noteholders for an amount equivalent to and in the same currency as the amount of interest actually received by or for the account of the issuer pursuant to the Subordinated Loan Agreement. Under the Subordinated Loan Agreement, interest is expressed to accrue on the Subordinated Loan from day to day starting from (and including) 5 December 2007 (the "**Issue Date**") at a rate of 9.3750 per cent. per annum (the "**Rate of Interest**"), as set out in Clause 5 (*Payment, Calculation and Suspension of Interest*) of the Subordinated Loan Agreement, and interest payable in respect of each Interest Period (as defined below) subject as provided in Condition 6 (*Payments*).

In this Condition 4 (*Interest*), "**Interest Payment Date**" means 5 June and 5 December in each year, the first Interest Payment date being 5 June 2008 and "**Interest Period**" means each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next (or first) Interest Payment Date.

Each Note will cease to accrue further interest from the due date for redemption other than interest already accrued and any amounts due under Condition 4(b) below (*Default Interest under the Subordinated Loan Agreement*).

Where interest is required to be calculated in respect of a period other than a semi-annual Interest Period, it shall be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

Whenever under these Conditions interest is to be calculated to the last day of an Interest Period and the calculation is required to be made before such last day, it shall be assumed that the amount of the Subordinated Loan outstanding on the day of the calculation is also the amount of the Subordinated Loan outstanding on the last day of the relevant Interest Period.

- (b) *Default Interest under the Subordinated Loan Agreement:* In the event that, and to the extent that, the Issuer actually receives any amounts in respect of interest on unpaid sums from the Borrower pursuant to Clause 15 (*Default Interest and Indemnity*) of the Subordinated Loan Agreement (other than amounts so received forming part of the Reserved Rights), the Issuer shall account to the Noteholders for an amount equivalent to the amounts in respect of interest on unpaid sums actually so received. Any payments made by the Issuer under this Condition

4(b) (*Default Interest under the Subordinated Loan Agreement*) will be made on the next following business day (as defined in Condition 6(d)) after the day on which the Issuer receives such amounts from the Borrower and, save as provided in this Condition 4(b) (*Default Interest under the Subordinated Loan Agreement*), subject as provided in Condition 6 (*Payments*).

5. Redemption and Purchase

(a) *Scheduled redemption*: Unless previously prepaid pursuant to Clause 6 (*Repayment and Prepayment*) of the Subordinated Loan Agreement, the Borrower will be required to repay the Subordinated Loan on its due date as provided in the Subordinated Loan Agreement and, subject to such repayment, all the Notes will be redeemed at their principal amount on 5 December 2017 subject as provided in Condition 6 (*Payments*).

(b) *Redemption by the Issuer*: The Notes shall be redeemed by the Issuer in whole, but not in part, at any time, on giving not less than 30 days' nor more than 90 days' notice to the Noteholders (which notice shall be irrevocable and shall specify a date for redemption, being the Business Day following the date set forth in the notice of prepayment referred to in Condition 5(b)(i) or (ii) below) in accordance with Condition 14 (*Notices*) at the principal amount thereof, together with interest accrued and unpaid to the date fixed for prepayment and any additional amounts in respect thereof pursuant to Condition 7 (*Taxation*), if, immediately before giving such notice, the Issuer satisfies the Trustee that:

- (i) the Issuer has received a notice of prepayment from the Borrower pursuant to Clause 6.4 (*Prepayment for Tax Reasons and Change in Circumstances*) of the Subordinated Loan Agreement;
- (ii) the Issuer has delivered a notice to the Borrower, the contents of which require the Borrower to repay the Subordinated Loan, in accordance with the provisions of Clause 6.5 (*Prepayment for Illegality*) of the Subordinated Loan Agreement; or
- (iii) the Issuer and the Trustee have received a notice of prepayment from the Borrower pursuant to Clause 6.2 (*Prepayment by the Borrower*) of the Subordinated Loan Agreement,

The Issuer shall deliver to the Trustee a certificate signed by two officers of the Issuer stating that the Issuer is entitled to effect such redemption in accordance with this Condition 5(b) (*Redemption by the Issuer*). A copy of the Borrower's notice of prepayment or details of the circumstances contemplated by Clause 6.5 (*Prepayment for Illegality*) of the Subordinated Loan Agreement and the date fixed for redemption shall be attached to such certificate.

The Trustee shall be entitled to accept any notice or certificate delivered by the Issuer in accordance with this Condition 5(b) (*Redemption by the Issuer*) as sufficient evidence of the satisfaction of the applicable circumstances in which event they shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice given by the Issuer to the Noteholders as is referred to in this Condition 5(b) (*Redemption by the Issuer*), the Issuer shall be bound to redeem the Notes in accordance with this Condition 5 (*Redemption and Purchase*), subject as provided in Condition 6 (*Payments*).

(c) *No other redemption*: Except where the Subordinated Loan is accelerated pursuant to Clause 14.1 (*Bankruptcy Event*) of the Subordinated Loan Agreement, the Issuer shall not be entitled to redeem the Notes prior to that due date otherwise than as provided in Condition 5(b) (*Redemption by the Issuer*).

- (d) *Purchase*: The Borrower or the Issuer on its behalf may at any time purchase Notes in the open market or otherwise and at any price. Such Notes may be held, reissued, resold or surrendered by or through the Issuer to the Principal Paying Agent for cancellation.

Notes held by the Issuer will continue to carry the right to attend and vote at meetings of Noteholders and will be taken into account in determining how many Notes are outstanding for the purposes of these Conditions and the provisions of the Trust Deed. However, Notes held by the Borrower or any of its subsidiaries will cease to carry such rights and will not be taken into account, *inter alia*, for the purposes of Conditions 11 (*Meetings of Noteholders; Modification and Waiver; Substitution*) and 12 (*Enforcement*).

- (e) *Cancellation*: All Notes so redeemed or purchased and surrendered for cancellation by the Issuer shall be cancelled and all Notes purchased by the Borrower or any of its subsidiaries and surrendered to the Issuer pursuant to Clause 7.6 (*Purchase of Funding Instruments*) of the Subordinated Loan Agreement, together with an authorisation addressed to the Principal Paying Agent, shall be cancelled.

6. **Payments**

- (a) *Principal*: Payments of principal shall be made by transfer to a U.S. dollar account maintained by the payee with or, upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by a U.S. dollar cheque drawn on, a bank in New York City, and shall only be made upon surrender (or, in the case of part payment only, endorsement) of the relevant Individual Note Certificates at the Specified Office of any Paying Agent.
- (b) *Interest*: Payments of interest shall be made by U.S. dollar cheque drawn on, or upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by U.S. dollar cheque drawn on, a bank in New York City, and (in the case of interest payable on redemption) shall only be made upon surrender (or, in the case of part payment only, endorsement) of the relevant Individual Note Certificates at the Specified Office of any Paying Agent.
- (c) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.
- (d) *Payments on business days*: Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by U.S. dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Individual Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 6 (*Payments*) arriving after the due date for payment or being lost in the mail. In this paragraph, “**business day**” means any day on which banks are open for general business (including dealings in foreign currencies) in New York City, London and, in the case of surrender (or, in the case of part payment only, endorsement) of a Individual Note Certificate, in the place in which the Individual Note Certificate is surrendered (or, as the case may be, endorsed).
- (e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and,

in the case of partial payment upon presentation of a Individual Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Individual Note Certificate.

- (f) *Record date:* Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.
- (g) *Payment to the Collection Account:* Save as the Trustee may otherwise direct, the Issuer may pursuant to the provisions of Clause 7 of the Agency Agreement require the Borrower to make all payments of principal, interest, Additional Amounts, Tax Indemnity Amounts or other amounts, if any, to be made pursuant to the Subordinated Loan Agreement (disregarding any amounts in respect of the Reserved Rights), to the Collection Account (as defined in the Trust Deed).
- (h) *Payment obligations limited:* Notwithstanding any other provisions to the contrary, the obligations of the Issuer to make payments under Conditions 4 (*Interest*), 5 (*Redemption and Purchase*) and 6 (*Payments*) shall constitute an obligation only to pay to the Noteholders on such date upon which a payment is due in respect of the Notes, to the extent of sums of principal, interest, Additional Amounts, Tax Indemnity Amounts or other amounts, if any, actually received by or for the account of the Issuer pursuant to, or in or towards satisfaction of sums due under, the Subordinated Loan Agreement (including payments in respect thereof received from the Trustee pursuant to Condition 12 (*Enforcement*)) (disregarding any amounts in respect of the Reserved Rights).

7. **Taxation**

All payments by or on behalf of the Issuer in respect of the Notes shall be made in full without set-off or counterclaim, free and clear of and without deduction or withholding for or on account of any present or future taxes, levies, duties, imposts or other charges or withholding of a similar nature no matter where arising (including interest and penalties thereon and additions thereto) no matter how they are levied or determined ("**Taxes**") imposed by any Taxing Authority (as defined in the Subordinated Loan Agreement) in which the Issuer or any successor thereto is resident for tax purposes (each, a "**Taxing Jurisdiction**"), unless such deduction or withholding of Taxes is required by law. In that event, the Issuer shall, subject as provided below, pay such additional amounts ("**additional amounts**") as will result in the receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them if no such withholding or deduction had been made or required to be made. The foregoing obligation to pay additional amounts, however, will not apply to any:

- (a) Taxes that would not have been imposed but for the existence of any present or former connection between such Noteholder and the relevant Taxing Jurisdiction other than the mere receipt of such payment or the ownership or holding of such Note;
- (b) Taxes that would not have been imposed but for the presentation by the Noteholder for payment on a date more than 30 days after the Relevant Date (as defined below);
- (c) Taxes required to be deducted or withheld by any Paying Agent from a payment on a Note, if such payment can be made without deduction or withholding by any other Paying Agent in a Member State of the European Union; and
- (d) Taxes imposed on a payment to an individual and is required to be made pursuant to European Union Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

The Issuer shall only make payments of additional amounts to the Noteholders pursuant to this Condition 7 (*Taxation*) to the extent and at such time as it shall have actually received an equivalent amount for such purposes from the Borrower (or from the Trustee pursuant to Condition 12 (*Enforcement*)) under the Subordinated Loan Agreement by way of Additional Amounts or Tax Indemnity Amounts or otherwise.

To the extent that the Issuer receives a lesser sum from the Borrower under the Subordinated Loan Agreement, the Issuer shall account to each Noteholder entitled to receive such additional amount pursuant to this Condition 7 (*Taxation*) for an additional amount equivalent to a *pro rata* portion of such sum (if any) as is actually received by, or for the account of, the Issuer pursuant to, or in or towards satisfaction of sums due under, the provisions of the Subordinated Loan Agreement (including payments in respect thereof received from the Trustee pursuant to Condition 12 (*Enforcement*)), disregarding any amounts in respect of Reserved Rights, on the date of, in the currency of, and subject to any conditions attaching to such payment to the Issuer. In these Conditions, "**Relevant Date**" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in London by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders. Any reference in these Conditions to principal or interest shall be deemed to include, without duplication, any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*) or any undertaking given in addition to or in substitution for this Condition 7 (*Taxation*) pursuant to the Trust Deed or the Subordinated Loan Agreement.

8. Prescription

Claims for principal and interest on redemption shall become void unless the relevant Individual Note Certificates are surrendered for payment within ten years, and claims for interest due other than on redemption shall become void unless made within five years, of the appropriate Relevant Date.

9. Replacement of Individual Note Certificates

If any Individual Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar or the Transfer Agent, subject to all applicable law requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Individual Note Certificates must be surrendered before replacements will be issued.

10. Trustee and Agents

Under a separate agreement between the Borrower and the Trustee, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and, under the Trust Deed, to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, the Borrower and any entity relating to the Issuer or the Borrower without accounting for any profit.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders

except to the extent already provided for in Condition 7 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 7 (*Taxation*) pursuant to the Trust Deed.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders. Under separate agreement between the Borrower and the Agents, the Agents are entitled to be indemnified and relieved from certain responsibilities in certain circumstances. The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent or registrar and additional or successor paying agents and transfer agents; provided, however, that the Issuer shall at all times maintain (a) a principal principal paying agent and a registrar, (b) a paying agent and a transfer agent in Europe, which will be in Switzerland so long as the Notes are listed on the main segment of the SWX Exchange and the rules of the SWX Exchange so require, and (c) a paying agent with a specified office in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced to conform to, such Directive.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 14 (*Notices*).

11. **Meetings of Noteholders; Modification and Waiver; Substitution**

- (a) *Meetings of Noteholders:* The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including to propose the modification of any provision of the Subordinated Loan Agreement or any provision of these Conditions or the Trust Deed. Such a meeting may be convened on no less than 14 days' notice by the Trustee or the Issuer or by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes.

The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, one or more persons holding or representing whatever the principal amount of the outstanding Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to change any date fixed for payment of principal or interest in respect of the Notes, (ii) to reduce the amount of principal or interest payable on any date in respect of the Notes, (iii) to alter the method of calculating the amount of any payment in respect of the Notes on redemption or maturity or the date for any such payment, (iv) to change the amount of principal and interest payable under the Subordinated Loan Agreement, (v) to effect the exchange, conversion or substitution of the Notes for, or the conversion of the Notes into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed (other than as permitted under Condition 11(c) (*Substitution*)), (vi) to change the currency in which amounts due in respect of the Notes and under the Subordinated Loan Agreement are payable, (vii) to change the quorum required at any meeting or the majority required to pass an Extraordinary Resolution, (viii) to alter the governing law of the Conditions, the Trust Deed or the Subordinated Loan Agreement, (ix) to change any date fixed for payment of principal or interest under the Subordinated Loan Agreement, (x) to alter the method of calculating the amount of any payment under the Subordinated Loan Agreement, (xi) to change the currency of payment or, without prejudice to the rights under Condition 11(b) (*Modification and waiver*), (xii) to change the definition of "**Bankruptcy Event**" under the Subordinated Loan Agreement or (xiii) to amend the definition of "**Reserved Matter**" (each, a "**Reserved Matter**"), in which case the necessary quorum will be one or more persons holding or representing not less than two thirds, or at any adjourned

meeting not less than one-third, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) *Modification and waiver:* The Trustee may, without the consent of the Noteholders, agree to any modification of these Conditions or the Trust Deed or, subject to the provisions of the Trust Deed, the Subordinated Loan Agreement (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if such modification will not be materially prejudicial, in the opinion of the Trustee, to the interests of Noteholders and to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed by the Issuer or, subject to the provisions of the Trust Deed, the Subordinated Loan Agreement by the Borrower, or determine that any event which would or might otherwise give rise to a right of acceleration under the Subordinated Loan Agreement shall not be treated as such (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter and in accordance with Condition 14 (*Notices*).

- (c) *Substitution:* The Trust Deed contains provisions under which the Issuer may, without the consent of the Noteholders, transfer its obligations as principal debtor under the Trust Deed and the Notes to a third party provided that certain conditions specified in the Trust Deed are fulfilled. So long as any of the Notes are listed on the main segment of the SWX Swiss Exchange, the SWX Swiss Exchange will be informed of any such substitution, a supplemental offering memorandum will (if the SWX Swiss Exchange so requires) be produced and be made publicly available at the Specified Offices of the Transfer Agent and the Paying Agent in Switzerland and such substitution shall be notified to the Noteholders as soon as practicable thereafter and in accordance with Condition 14 (*Notices*).

12. **Enforcement**

At any time after a Bankruptcy Event (as defined in the Trust Deed) shall have occurred, the Trustee may, at its discretion and without notice, take such action and institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes and under the Subordinated Loan Agreement (which, for the avoidance of doubt shall mean to enforce the security created under the Trust Deed and to declare all amounts payable by the Borrower under the Subordinated Loan Agreement to be due and payable), but it shall not be bound to do so unless:

- (i) it has been so requested in writing by the Holders of at least one-quarter in principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and
- (ii) it has been indemnified and/or provided with security and/or pre-funded to its satisfaction.

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

Upon repayment of the Subordinated Loan in full following a Bankruptcy Event and the payment of all amounts so recovered to the Issuer, the Notes will be redeemed or repaid at the principal amount thereof together with interest accrued to the date fixed for redemption together with any additional amounts due in respect thereof pursuant to Condition 7 (*Taxation*) and thereupon shall cease to be outstanding, or if, following a Bankruptcy Event, a lesser amount than that equivalent to the principal amount repaid by the Borrower, then the Notes shall be redeemed pro tanto and the remainder of the Notes shall continue to be outstanding until such time as sufficient payments have been received by the Trustee that it may certify that no further amounts are recoverable under the Subordinated Loan Agreement and the Notes shall thereupon cease to be outstanding, or if, following a Bankruptcy Event the Borrower's obligations under the Subordinated Loan Agreement are discharged otherwise than by payment in full of the principal of and interest on the Subordinated Loan, together with any such additional amounts, the Notes shall thereupon cease to be outstanding.

13. Further Issues

The Issuer may from time to time, with the consent of the Borrower and without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. Such further Notes shall be issued under a deed supplemental to the Trust Deed. In relation to such further issue, the Issuer will enter into a subordinated loan agreement supplemental to the Subordinated Loan Agreement with the Borrower on the same terms as the original Subordinated Loan Agreement (or on the same terms except for the first payment of interest) subject to any modifications which, in the sole opinion of the Trustee, would not materially prejudice the interests of the Noteholders.

14. Notices

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. In addition, so long as Notes are listed on the main segment of the SWX Swiss Exchange and the rules of that Exchange so require, notices to Noteholders will be published by means of electronic publication on the internet website of the SWX Swiss Exchange (www.swx.com). Any such notice will be deemed to have been given on its date of publication.

15. Governing Law and Jurisdiction

- (a) *Governing law:* The Notes and the Trust Deed and all matters arising from or connected with the Notes and the Trust Deed are governed by, and shall be construed in accordance with, English law.
- (b) *Jurisdiction:* The Issuer has in the Trust Deed (i) agreed for the benefit of the Trustee and the Noteholders that the courts of England shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the Notes; and (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient. The Trust Deed also states that nothing contained in the Trust Deed prevents the Trustee or any of the Noteholders from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction and that, to the extent allowed by law, the Trustee or any of the Noteholders may take concurrent Proceedings in any number of jurisdictions.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Notes will be represented by a Global Note Certificate which will be registered in the name of Citivic Nominees Limited as nominee for, and deposited with, a common depository for Euroclear and Clearstream, Luxembourg.

The Global Note Certificate will become exchangeable in whole, but not in part, for individual note certificates ("**Individual Note Certificates**") if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) the Issuer fails to pay an amount in respect of the Notes within five days of the date on which such amount became due and payable under the Conditions; or (c) the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) which would not be suffered were the Notes evidenced by Individual Note Certificates and a certificate to such effect signed by two authorised signatories of the Issuer is delivered to the Trustee. Thereupon (in the case of (a) and (b) above) the Holder may give notice to the Issuer, and (in the case of (c) above) the Issuer may give notice to the Trustee and the Noteholders of its intention to exchange the Global Note Certificate for Individual Note Certificates.

Whenever the Global Note Certificate is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered Holder of the Global Note Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Holder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

In addition, the Global Note Certificate will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Note Certificate. The following is a summary of certain of those provisions:

Notices: Notwithstanding Condition 14 (Notices), so long as the Global Note Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**"), notices to Holders of Notes represented by the Global Note Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System; *provided, however, that*, so long as the Notes are listed on the SWX and the rules of that Exchange so require, notices to Noteholders will be published by means of electronic publication on the internet website of the SWX.

Payment: To the extent that the Issuer has actually received the relevant funds from the Bank, payments in respect of Notes represented by a Global Note Certificate will be made against presentation for endorsement and, if no further payment of principal or interest is to be made in respect of the Notes, against presentation and surrender of such Global Note Certificate to or to the order of the Registrar. Upon payment of any principal, the amount so paid shall be endorsed by or on behalf of the Registrar on behalf of the Issuer on the schedule to the Global Note Certificate. Payment while Notes are represented by a Global Note Certificate will be made in accordance with the procedures of Euroclear and Clearstream, Luxembourg or an Alternative Clearing System as appropriate.

TAXATION

The following is a general description of certain Ukrainian and United Kingdom tax considerations relating to the Notes and the Subordinated Loan. It does not purport to be a complete analysis of all tax considerations relating to the Notes or the Subordinated Loan, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries.

This summary is based upon the law as in effect as of the date of this Offering Memorandum and is subject to any change in law that may take effect after such date.

Ukrainian Tax Considerations

General

The following summary is included for general information only. Potential investors in and holders of the Notes should consult their own tax advisers as to the tax consequences under the laws of Ukraine of the acquisition, ownership and disposition of the Notes. This summary is based upon the Ukrainian tax laws and regulations as in effect on the date of this Offering Memorandum. Such laws and regulations are subject to change or varying interpretations. As with other areas of Ukrainian legislation, tax law and practice in Ukraine is not as clearly established as that of more developed jurisdictions. It is possible, therefore, that the current interpretation of the law or practice of its application may change or that the law may be amended. Accordingly, it is possible that payments to be made to the holders of the Notes could become subject to taxation in Ukraine or that rates currently in effect with respect to such payments could be increased in ways that cannot be anticipated as of the date of this Offering Memorandum.

Tax on Interest Payments Under The Subordinated Loan

The Law of Ukraine "On Taxation of Company Income" dated 28 December 1994 as amended and restated (the "CIT Law") establishes that interest income received by non-resident legal entities from Ukrainian sources shall be subject to withholding taxation in Ukraine at 15 per cent. of the gross amount of such interest income.

At the same time, paragraph 13.2 of Article 13 of the CIT Law states that if an applicable double tax treaty, ratified by Ukraine, provides for reduction in or relief from Ukrainian taxation of any income from sources in Ukraine, the treaty provisions shall prevail over provisions of the CIT Law. The United Kingdom and Ukraine have entered into such a treaty signed on 10 February 1993 effective since 11 August 1993 (the "Double Tax Treaty"). Under provisions of the Double Tax Treaty, interest arising in Ukraine and paid to a resident of the United Kingdom shall be taxable only in the United Kingdom if such resident is the beneficial owner of the interest and is subject to tax in respect of the interest in the United Kingdom.

Based on professional advice it has received, the Bank believes that, under the Double Tax Treaty, as currently applied, payments of interest on the Subordinated Loan will not be subject to withholding taxation in Ukraine, provided that certain conditions set forth in the Double Tax Treaty and under applicable Ukrainian law are duly satisfied.

Specifically, in order for the exemption from withholding tax under the Double Tax Treaty to be applicable, the Lender must be a resident of the United Kingdom for the purposes of the Double Tax Treaty, must be the beneficial owner of the Subordinated Loan interest payments and be subject to tax in respect of such interest payments in the United Kingdom. The exemption will not be available under the Double Tax Treaty if the Lender carries on business through a permanent establishment located in Ukraine, and the debt-claim in respect of which the interest is paid to the Lender is effectively connected with such permanent establishment.

While the Bank believes the Lender will be treated as the beneficial owner of the income in question, the notion of beneficial ownership and its application in the context of double tax treaties of Ukraine is not well developed in Ukrainian tax law. Moreover, it is not clear how the test of taxation of interest payments in the United Kingdom will be interpreted and applied by the Ukrainian tax authorities in practice. As a consequence, different interpretations are possible and the position could be taken that the Lender should not be viewed as the beneficial owner of the Subordinated Loan interest payments being received in the United Kingdom. However, the Bank believes that it is unlikely that the Ukrainian tax authorities will adopt this view

In addition, Article 11(7) of the Double Tax Treaty contains a “main purpose” anti avoidance provision. While there is no established practice of the Ukrainian tax authorities with respect to the application of this provision, If the Ukrainian tax authorities take a position that one of the main purpose or one of the main purposes of any person concerned with the creation or assignment of the debt claim under the Subordinated Loan Agreement was to avail the Lender of the treaty benefits under the Double Tax Treaty (i.e., exemption of interest income received under the Subordinated Loan Agreement from withholding taxation in Ukraine), the Ukrainian tax authorities may invoke the anti-avoidance provision of Article 11(7) of the Double Tax Treaty. In such circumstances, payments of interest by the Bank under the Subordinated Loan would cease to have the benefit of the Double Tax Treaty.

Applicable Ukrainian legislation allows upfront relief from withholding taxation in Ukraine under the Double Tax Treaty if the UK recipient of income from source in Ukraine provides the payer with a confirmation that the recipient is a resident in the United Kingdom for the purposes of the Double Tax Treaty. A new tax residence confirmation must be obtained for each calendar year. Should the tax residency confirmation not be available as at the date of interest payments to the Lender, it would be acceptable that the Bank apply upfront relief under the Double Tax Treaty provided that the Lender furnishes to the Bank its tax residency confirmation for the previous calendar year and the tax residency confirmation for the calendar year in which the payment is made is provided prior to expiration of that calendar year. The obtaining of treaty relief does not require the payee or payer to apply for and/or obtain any transaction specific prior clearance from the Ukrainian tax authorities. Instead, the Ukrainian payer directly applies the rate under the Double Tax Treaty, provided that the current tax residence confirmation is available on or prior to the date of payment of the Ukrainian source income.

The CIT Law does not expressly exempt principal repayments from Ukrainian withholding tax. More specifically, paragraph 13.1 of Article 13 of the CIT Law contains a catch-all provision, under which other income of a non-resident (a permanent establishment of such or other non-resident) from carrying out business activity on the territory of Ukraine is subject to a 15 per cent. withholding tax, established by paragraph 13.2 of Article 13 of the CIT Law. Absent a definition of income in the CIT Law, there is a remote risk that the repayment of principal under the Subordinated Loan Agreement may be regarded as Ukrainian-source income of the Lender and, as such, subject to Ukrainian withholding tax at the rate of 15 per cent. Based on the professional advice it has received, the Bank is unaware of any situation in which the Ukrainian tax authorities have ever attempted to levy Ukrainian withholding tax on repayments of principal under a loan or credit transaction.

Tax on Issue and Interest Payments under the Notes

No Ukrainian withholding tax should apply to the issue of the Notes or interest payments under the Notes because the Notes will not be issued and interest payments on the Notes will not be made by the Bank or from Ukraine.

Tax on Payment of Instalments of Principal and On Redemption of the Notes

The amount received by the Lender as repayment or prepayment of principal amount of the Subordinated Loan is not treated as income. Therefore, it shall not be subject to any income taxation in Ukraine either by withholding or otherwise.

The amounts received by non-resident Noteholders on Notes redemption should not be subject to taxation in Ukraine, taking into account that payment on redemption of the Notes will not be made by the Bank or from Ukraine.

Gross Up Provision

If payments under the Subordinated Loan Agreement are subject to any withholding (as a result of which the Issuer would reduce payments under the Notes in the amount of such withholding), then, subject to certain exceptions relating to maintenance by the Lender of its incorporation in a qualifying jurisdiction, the Bank would be obliged to pay such additional amounts as may be necessary so that the net payments received by the Lender were not less than the amount it would have received in the absence of such withholding. In such circumstances, the Bank would have the right (subject to compliance by the Bank with the limitations and requirements of the NBU if and to the extent applicable at the time of prepayment) to prepay the Subordinated Loan as fully set out in the Subordinated Loan Agreement. Notwithstanding the foregoing, CIT Law prohibits contractual provisions under which residents undertake to pay for non-residents taxes on their income received from sources in Ukraine. If interpreted widely, such restriction would apply to gross up provisions of the Subordinated Loan Agreement and obligations of the Bank to pay additional amounts. As a result, gross up provision could be found null and void and, therefore, unenforceable in Ukraine.

If the Trustee were to enforce the security under the Trust Deed following a Bankruptcy Event, the Trustee shall be receiving payments of principal and interest under the Subordinated Loan Agreement in the name of the Lender or in its own name. As a result, unless the Trustee meets all the criteria for the exemption under the Double Tax Treaty, benefits under the Double Tax Treaty may cease to be applicable to payments under the Subordinated Loan Agreement and they may become subject to withholding taxation in Ukraine.

The Issuer is obliged to make payments under the Notes to Noteholders only to the extent of the amount of principal, interest and any Additional Amounts or Indemnity Amounts (both as defined in the Conditions), if any, actually received by or for the account of the Lender under the Subordinated Loan Agreement, less any amount in respect of Reserved Rights (as defined in the Conditions). See also “*Risk Factors — Risks Relating to the Offering, the Notes and the Trading Market*”.

Transfer of Notes to Ukrainian Investors

If Notes are held by a non-resident entity, any gains derived by the non-resident entity from the sale or other disposition of Notes to the benefit of a Ukrainian resident entity will be subject to withholding taxation in Ukraine at the rate of 15 per cent. If Notes are held by a non-resident individual, any gains derived by the individual from the sale or other disposition of Notes to a Ukrainian resident entity are generally subject to withholding taxation in Ukraine at the rate of 30 per cent. The gains derived by the non-resident entity or individual from the sale or other disposition of Notes, otherwise subject to income taxation in Ukraine, may be exempt from taxation in Ukraine under provisions of applicable double tax treaties.

Tax Implications for Residents of Ukraine

A Noteholder who is an individual or legal entity resident in Ukraine for tax purposes (including a permanent establishment of a non-resident legal entity) is subject to taxation in Ukraine on net basis on its worldwide income (income attributable to permanent establishment in Ukraine). Interest from holding debt securities is included into the taxable income of a resident taxpayer, while the principal amount generally is not treated as income.

Interest Deductibility Restrictions

Business related interest expense is generally tax deductible in Ukraine. However, interest deductibility is limited for resident borrowers (“**qualified borrowers**”) if 50 per cent. or more of shares or capital therein is owned or controlled by non-residents, tax exempt taxpayers or taxpayers subject to a reduced tax rate. If the Bank is a qualified borrower, the Bank would be entitled to deduct

its business related interest expense only to the extent of Bank's interest income, and in addition to the extent of 50 per cent. of its net taxable income (excluding interest income and interest expenses). Unused interest expense could be carried forward to future tax periods without limitations.

United Kingdom Taxation

United Kingdom Taxation — Summary

The following is a summary of the United Kingdom law relating to the withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Notes, the provision of information, and stamp duties. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Notes. The following is a general guide and should be treated with appropriate caution. Noteholders who are in any doubt as to their tax position should consult their professional advisers. Noteholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Notes are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Notes. In particular, Noteholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

UK Withholding Tax On UK Source Interest

Exemptions from Withholding Obligation

The Notes issued by the Issuer which carry a right to interest will constitute "quoted Eurobonds" provided they are and continue to be "listed on a recognised stock exchange", within the meaning of section 1005 of the Income Tax Act 2007. Provided the Notes are included in the official list and admitted to trading on the main market or segment of the SWX, the Notes should satisfy this requirement. Whilst the Notes are and continue to be "quoted Eurobonds", payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

In all cases falling outside the exemption described above, interest on the Notes may fall to be paid under deduction of United Kingdom income tax at the savings rate (currently 20 per cent.) subject to such relief as may be available under the provisions of any applicable double tax treaty or to any other exemption that may apply.

Other Rules Relating to United Kingdom Withholding Tax

Where interest has been paid under deduction of United Kingdom income tax, Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The reference to "interest" above mean "interest" as understood under United Kingdom tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the Conditions or any related documentation.

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer pursuant to Condition 11(c) of the Notes and does not consider the tax consequences of any such substitution.

Provision of Information

Noteholders should note that where any interest on Notes is paid to them (or to any person acting on their behalf) by the Issuer or any person in the United Kingdom acting on behalf of the Issuer (a “**paying agent**”), or is received by any person in the United Kingdom acting on behalf of the relevant Noteholder (other than solely by clearing or arranging the clearing of a cheque) (a “**collecting agent**”), then the Issuer, the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to HM Revenue and Customs details of the payment and certain details relating to the Noteholder (including the Noteholder’s name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the Noteholder is resident in the United Kingdom for United Kingdom taxation purposes. Where the Noteholder is not so resident, the details provided to the HM Revenue and Customs may, in certain cases, be passed by HM Revenue and Customs to the tax authorities of the jurisdiction in which the Noteholder is resident for taxation purposes.

Reference is made to the “EU Directive on Taxation of Savings Income” at the end of this section. The United Kingdom does provide to the tax authorities of the Member States (and certain non-EU countries and territories referred to in that directive) the details of payments of interest or similar income paid by a person within the United Kingdom to an individual (and certain other non-corporate entities) resident in that country or territory.

UK Stamp Duty And Stamp Duty Reserve Tax

No stamp duty or stamp duty reserve tax should be payable upon a transfer of, or agreement to transfer, Notes within the clearing systems. Transfers of, or agreements to transfer, Notes held outside the clearing system should not be subject to stamp duty and/or stamp duty reserve tax.

EU Directive On The Taxation Of Savings Income

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required, from 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

Also with effect from 1 July 2005, a number of non-EU countries, including Switzerland, and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one of those territories.

On 26 October 2004, the European Community and Switzerland entered into an agreement on the taxation of savings income by way of a withholding tax system and voluntary declaration in the case of transactions between parties in the EU member states and Switzerland.

On the basis of such agreement, Switzerland has introduced a withholding tax on interest payments or other similar income paid by a paying agent within Switzerland to EU resident individuals as of 1 July 2005. The withholding tax is at a rate of 15 per cent. for the first three years of the transitional period, 20 per cent. for the subsequent three years and 35 per cent. thereafter. The beneficial owner of the interest payments may be entitled to a tax credit or refund of the withholding if certain conditions are met.

Prospective purchasers of these Notes should consult their advisors concerning the impact of the EU Savings Tax Directive. Notwithstanding the above, for the avoidance of doubt, should the Issuer, the Paying Agent or any institution where the Notes are deposited be required to withhold any amount as a direct or indirect consequence of the EU Savings Tax Directive, then, there is no requirement for the Issuer to pay any additional amounts relating to such withholding.

APPENDIX A — UKRAINE: THE BANKING SECTOR

The statistical information and other data contained in this Appendix A has been extracted from publicly available data (such as information contained on official websites and in publications of governmental agencies of Ukraine, including the NBU, and from other government or mass media sources) and the Bank accepts responsibility for accurately extracting such data but accepts no further responsibility in respect of such information. See “*Risk Factors — Risks Relating to Ukraine — Official Statistics*”

The Ukrainian Banking System

The current institutional framework of the Ukrainian banking sector consists of the NBU and commercial banks. As at 1 October 2007, there were a total of 196 commercial banks registered in Ukraine, 174 of which have been granted licences by the NBU to perform banking transactions. The Ukrainian banking sector has a high level of concentration of capital. According to the NBU, as at 1 October 2007, approximately 61.3 per cent. of the banking sector’s total assets were held by the fifteen largest Ukrainian banks. As at 1 October 2007, Ukraine’s two state-owned banks (The State Export-Import Bank of Ukraine (“**Ukreximbank**”) and State Savings Bank of Ukraine (“**Oschadbank**”)) had approximately 8.5 per cent. of the Ukrainian banking sector’s total assets, 7.5 per cent. of the total loan portfolio and 9.8 per cent. of total retail deposits in Ukraine. As at 1 October 2007, 44 banks in Ukraine had some foreign capital, of which 16 were fully owned by foreign owners.

According to the NBU, as at 1 October 2007, the total assets of Ukrainian banks licensed to perform banking transactions amounted to UAH 508.6 billion. The total loan portfolio of such banks as at 1 October 2007 constituted UAH 369.8 billion, including UAH 241.9 billion of corporate loans and UAH 128.0 billion of retail loans.

According to the NBU, during the nine months ended 30 September 2007, the statutory capital of Ukrainian banks that were licensed to perform banking transactions increased by 40.1 per cent., amounting to UAH 36.8 billion as at 1 October 2007 (compared to a 62.7 per cent. increase in statutory capital in 2006). During the nine months ended 30 September 2007, the total assets and total liabilities of all licensed Ukrainian banks increased by, respectively, 49.5 per cent. and 51.3 per cent. and amounted to UAH 508.6 billion and UAH 450.4 billion, respectively (compared to increases of 59.1 per cent. and 57.9 per cent., respectively, in 2006). The regulatory capital of Ukrainian banks increased by 48.6 per cent. during the nine months ended 30 September 2007 (compared to a 56.0 per cent. increase in 2006), amounting to UAH 61.1 billion as at 1 October 2007 (the NBU data does not specify whether this figure refers to all banks or only those licensed to perform banking transactions). See “—*Banking Supervision—Mandatory Ratios*” and “—*Banking Supervision—Capital Requirements*” for a discussion of the difference between statutory capital and regulatory capital.

Commercial banks operating in Ukraine are divided by the NBU into four groups according to the size of assets of the banks as at 1 December 2006. As at 1 October 2007, the first group included 15 banks with total assets of more than UAH 5 billion; the second group included 18 banks with total assets ranging from UAH 2 billion to UAH 5 billion; the third group included 25 banks with total assets ranging from UAH 0.7 billion to UAH 2 billion; and the fourth group included 114 banks with total assets of less than UAH 0.7 billion. Although certain banks have exceeded the thresholds for their respective groups as a result of an increase in their total assets during 2007, they usually remain in the groups to which they are allocated by the NBU throughout the year.

Despite the NBU’s rate-cutting policies, the average annual lending rate of Ukrainian commercial banks as at 1 November 2007 was 13.2 per cent. for loans in hryvnia and 10.2 per cent. for loans in foreign currency, according to NBU statistics.

Evolution of the Ukrainian Banking Sector

During the last decade, the banking sector has been one of the fastest growing sectors of the Ukrainian economy. The Ukrainian banking sector is increasingly competitive and there have been a number of

recent acquisitions of Ukrainian banks by foreign banks, which is likely to increase competition further.

Ukraine had 76 registered (commercial) banks in 1991. The total number of banks increased to 230 by 1995 and decreased to 193 by 1 April 2007. Since 1994, Ukreximbank and Oschadbank have been the only two wholly state-owned banks in Ukraine. No single bank currently has a dominant position in any banking business in Ukraine. The level of concentration in the Ukrainian banking industry (measured using the Herfindahl-Hirschman index) is similar to the levels in the United Kingdom, France and Italy.

From 1991 to 1993, the Ukrainian banking industry underwent a period of reorganisation and rapid growth. Soviet-era banks were re-registered by the NBU and a number of the current leading Ukrainian banks were established or re-registered during this period. The total number of banks registered by the NBU almost doubled from 1991 to 1992 and again from 1992 to 1993. In 1994 and 1995, the NBU strengthened banking regulations and sought to bring domestic standards closer to international standards. As a result, twelve banks were liquidated after failing to comply with these more rigorous standards during this period. In response, the NBU introduced a number of mandatory financial ratios for banks. The NBU also implemented a national electronic payment system to facilitate electronic settlements within Ukraine. Further, the NBU tightened its monetary policy in order to address hyperinflation, which had reached 400 per cent. in 1994. This resulted in improved borrowing rates for Ukrainian businesses and consumers.

The period from 1996 to mid-1998 was a period of stabilisation in the Ukrainian banking system. The introduction of the hryvnia in 1996, together with a further tightening of the NBU's monetary and budget deficit policy, led to a further reduction in inflation and interest rate spreads. The banking sector's profit in 1996 was twice that of the previous year. However, the rapid growth of the Ukrainian banking sector was halted by the Russian financial crisis in August 1998, which resulted in the depreciation of the Ukrainian hryvnia (which fell from UAH 2.1 per U.S. dollar to UAH 5.4 per U.S. dollar over a 17 month period). Sixteen banks were liquidated during 1998.

From mid-1998 to mid-2001, the Ukrainian banking system underwent a period of modernisation. In 1998, the NBU promulgated international accounting standards for Ukrainian banks. Banks with foreign capital entered the market and introduced new banking services and products. In 2001, Ukraine was placed on the list of Non-Cooperative Countries and Territories of the FATF as a result of its non-cooperation with the FATF and its failure to enact anti-money laundering legislation that met international standards. Nevertheless, total loans and assets in the banking sector continued to grow. At the beginning of 2004, the FATF removed Ukraine from its list of Non-Cooperative Countries and Territories. In January 2006, it ended formal monitoring of Ukraine. During the period from 2004 to 2007, a number of foreign banks acquired or were in process of acquisition of majority stakes in leading Ukrainian banks, including Bank Aval (Raiffeisen International Bank-Holding AG), UkrSibbank (BNP Paribas), TAS-Kommerzbank (Swedbank AB), Ukrsotsbank (Bank Austria Creditanstalt AG), Bank Forum (Commerzbank AG) and Raiffeisenbank Ukraine (OTP Bank), and smaller banks including Mriya (Vneshtorgbank), HVB Ukraine (Bank Pekao), Index-Bank (Crédit Agricole), International Commerce Bank (Piraeus Bank), Electron Bank (Austrian Volksbanken), and Marine Transport Bank (Marfin Popular Bank).

Legislative Framework for the Ukrainian Banking Sector

The NBU regulates the banking activities of Ukrainian banks in accordance with, among other laws, the Law of Ukraine On the National Bank of Ukraine of 20 May 1999 (the "**National Bank Law**"), the Law of Ukraine On Banks and Banking Activity of 7 December 2000 (the "**Banking Law**"), Ukrainian legislation on joint stock companies and other business entities, as well as various NBU regulations. These laws and regulations set out the list of banking operations and other transactions that may be performed by banks and establish the framework for the registration and licensing of banks and the regulation of banking activities by the NBU.

Banking Operations

Banks provide a wide range of banking services. Banks are permitted to perform the operations specified in their banking licence and the written permit issued to them by the NBU. On the basis of their banking licence, banks may perform the following operations: (i) taking deposits from legal entities and individuals; (ii) opening and servicing current accounts of customers and correspondent banks, including transferring funds from these accounts by means of payment instruments and placing funds on these accounts; (iii) depositing funds on their own behalf, under their own terms and at their own risk; (iv) granting guarantees, bails and similar instruments; (v) factoring; (vi) leasing; (vii) safekeeping and renting safes for storing valuables and documents; (viii) issuing, purchasing, selling and servicing cheques, notes and other negotiable payment instruments; (ix) issuing bank payment cards and performing operations using these cards; and (x) providing consulting and informational services with respect to banking operations. On the basis of their written permit, banks may be authorised to perform the following operations: (i) foreign currency operations; (ii) issuing their own securities; (iii) purchasing and selling securities on behalf of their clients; (iv) operations on the securities market on their own behalf (including underwriting); (v) investing in the statutory capital and shares of other legal entities; (vi) issuing and making payments under state and other monetary lotteries; (vii) transporting cash and valuables; (viii) money market operations, exchange rate and interest rate swaps, and financial futures and options; (ix) trust management of funds and securities; and (x) depository, custodianship and registrar services.

Under the Banking Law, banks may not engage in manufacturing, commodities trading (except for trading in precious metals and coins) or insurance activities (except for insurance brokerage).

Role of the NBU

The NBU is the central bank of Ukraine. Established in 1991 and governed in accordance with the Constitution of Ukraine and the National Bank Law, the NBU is a specialised state institution whose principal objective is to ensure the external and internal stability of the national currency. To carry out its main function, the NBU strives to maintain the stability of the banking system and, within its competence, price stability. The NBU sets the official exchange rate of the national currency against foreign currencies, the discount rate and other interest rates. The NBU is also responsible for the accumulation and custody of the state's gold and currency reserves. In addition, it registers commercial banks, issues licences, supervises the operations of Ukrainian banks and determines the procedures for providing emergency funds to commercial banks.

Monetary Policy

The NBU is responsible for implementing monetary policy. Currently, the NBU implements monetary policy through instruments such as mandatory reserve requirements for banks, setting interest rates, refinancing commercial banks, issuing debt instruments and carrying out reverse repo operations. The NBU reduced the discount rate from 45 per cent. at the beginning of 2000 to 12.5 per cent. by the end of 2001 (after the economy had begun to stabilise following the regional financial crisis of 1998), and to 7.0 per cent. in December 2002. The NBU subsequently increased the discount rate to 9.5 per cent. (effective 10 August 2005) and then decreased it to 8.5 per cent. (effective 10 June 2006). From 1 June 2007, the discount rate was further decreased to 8.0 per cent.

The NBU has stated that the main goal of its monetary policy in 2007 is to maintain the stability of the hryvnia and macroeconomic balance, and to establish the prerequisites for the renewal of stable economic growth and the solution of current and longer-term social and economic problems in Ukraine.

Registration and Licensing

The NBU registers commercial banks and grants licences and written permits for the performance of banking activities. The NBU may suspend or revoke banking licences and written permits. The NBU maintains the State Register of Banks of Ukraine.

Supervision and Control

The NBU oversees banks' compliance with mandatory ratios, limits and reserve requirements, imposes sanctions for violations of such ratios, limits and requirements, establishes reporting requirements and accounting rules and procedures for banks, oversees banks' operations and transactions, appoints temporary administrators to banks undergoing financial difficulties and regulates the direct and indirect acquisition of shareholdings in banks exceeding ten, 25, 50 and 75 per cent. thresholds.

Transactions with Banks

The NBU lends to banks, maintains other banks' correspondent accounts, provides cash and settlement services to banks, issues guarantees to banks, carries out transactions with sovereign debt securities, trades bullion and precious stones, and purchases and sells foreign currency. The NBU may not own capital in other banks and commercial entities, perform real estate transactions (except as necessary for its own operations), or engage in trading, manufacturing, insurance or other activities which do not directly relate to its functions.

Exchange Control

In accordance with Ukrainian foreign currency legislation, the NBU has substantial powers to regulate foreign currency operations. In accordance with the Decree of the Cabinet of Ministers of Ukraine On the System of Currency Regulation and Currency Control of 19 February 1993, the NBU is empowered, among other things, to implement the government's foreign currency policy, to determine the procedures for purchasing and carrying out transactions with foreign currency, to issue and revoke licences for foreign currency operations, to determine the methodology for setting and applying foreign currency exchange rates, and to stipulate uniform accounting and reporting procedures for banks.

Governing Bodies of the NBU

The principal governing bodies of the NBU are the Council and the Board. The Council, being the highest governing body of the NBU, consists of 15 members, seven of whom are appointed by Parliament and seven of whom are appointed by the President of Ukraine. The Governor of the NBU (nominated by the President of Ukraine and appointed by Parliament for a five-year term) acts ex officio as the fifteenth member of the Council. The Council is responsible, in particular, for formulating the principles of Ukraine's monetary policy and has the right to veto the Board's decisions if they contravene such principles. The Board, which is comprised of the Governor, his or her deputies and other members of the Board, is responsible for implementing Ukraine's monetary policy, the development and implementation of other NBU policies and the management of the NBU.

The NBU organisation includes its headquarters in Kyiv, branches (or territorial departments), learning units, the Mint, a banknote paper factory, the State Treasury of Ukraine, the Central Depository, other specialised units, banking educational institutions and operational service units.

According to the National Bank Law, neither the state nor the NBU are liable for the other's obligations, unless either has accepted such liability under an agreement or such liability is imposed by Ukrainian legislation. The NBU is legally and financially independent of the Ukrainian Government. Under the National Bank Law, the NBU is generally not permitted to extend loans to the state budget for the purpose of covering the state budget deficits.

Banking Supervision

Under the National Bank Law and the Banking Law, the NBU is authorised to adopt binding regulations concerning banking and foreign currency operations. The NBU has actively used this power in recent years, creating a detailed and extensive body of regulations. The NBU adopted the Banking Regulation Instruction which establishes capital adequacy, liquidity and other ratios. The NBU also sets auditing and other requirements for commercial banks. Some of the principal features of the supervisory regime governing banks in Ukraine are set out below.

Mandatory Ratios

The NBU is authorised to introduce mandatory ratios for Ukrainian banks. The Banking Regulation Instruction envisages five different types of mandatory ratios/requirements: capital requirements, liquidity requirements, credit risks requirements, investment risk requirements and currency position requirements.

Capital Requirements

The NBU has established requirements for minimum regulatory capital, regulatory capital adequacy and core capital adequacy which are binding on banks in Ukraine.

A bank's regulatory capital (being the sum of its principal (or core) capital, which consist of, among other items, its statutory capital, share premium, retained earnings and certain reserve funds, and additional capital, which consists of, among other items, assets revaluation reserves, general loan loss reserves and subordinated debt) cannot be less than the minimum regulatory capital requirements established by the NBU for each particular year. From 1 May 2004, the NBU calculates the minimum regulatory capital requirement in UAH in an amount equivalent to the Euro amounts set forth in the Banking Regulation Instruction. As at 1 January 2007, the minimum regulatory capital requirements for newly established banks (being those that have been in existence for less than one year) are €5 million for nationwide banks, €3 million for regional banks and €1 million for cooperative banks. The minimum regulatory capital requirements for banks that have been in existence for a period from one to two years are €5.5 million for nationwide banks, €3.5 million for regional banks and €1.1 million for cooperative banks; while the requirements for banks in existence for a period from two to three years are €6 million, €4 million and €1.2 million, respectively; for those in existence for a period from three to four years: €7 million, €4.5 million and €1.35 million, respectively; and for those in existence for more than four years: €8 million, €5 million and €1.5 million, respectively. These regulatory capital requirements are subject to periodic increases.

The minimum regulatory capital adequacy requirement is intended to ensure that Ukrainian banks are able to discharge their liabilities when due and in full. The minimum regulatory capital adequacy requirement set by the NBU is 10 per cent. of a bank's risk-weighted assets (or 15 per cent. in the case of banks that have been operating for less than 12 months, and 12 per cent. for banks that have been operating for between 12 and 24 months). Risk-weighted assets are calculated by applying various risk weightings to the bank's assets and off-balance-sheet commitments according to the terms set by the NBU. The minimum core capital adequacy requirements are intended to ensure that the creditors and depositors of Ukrainian banks are protected from unexpected losses that banks may incur in the course of their operations. The core capital adequacy requirement is calculated as the ratio of the bank's core capital to its total assets and must be at least 4 per cent.

Liquidity Requirements

The NBU has also established three separate liquidity ratios: the instant liquidity ratio, the current liquidity ratio and short-term liquidity ratio. The instant liquidity ratio is set by the NBU in order to ensure that a bank may meet its liabilities from highly liquid assets, and is calculated as the ratio of a bank's correspondent account funds and cash to its current liabilities. According to the Banking Regulation Instruction, a bank must have an instant liquidity ratio of at least 20 per cent.

The current liquidity ratio is set in order to determine a bank's ability to match its liquid assets to liabilities of corresponding maturity. The current liquidity ratio is calculated with respect to the bank's liabilities with maturities of up to 31 days. A bank's current liquidity ratio (being the ratio of the bank's primary and secondary liquid assets, including cash, banking metals, cash held on correspondent accounts with the NBU and other banks and debt securities issued or refinanced by the NBU, to liabilities with maturities of up to 31 days) must be at least 40 per cent.

The short-term liquidity ratio is set in order to determine a bank's ability to meet its short-term liabilities from its liquid assets. A bank's short-term liquidity ratio (being the ratio of liquid assets to

short-term liabilities with maturities of less than one year) must be at least 20 per cent. According to the NBU's definition, liquid assets include cash, banking metals, amounts in correspondent accounts, debt securities of state agencies in the bank's trading portfolio, available-for-sale and held-to-maturity securities, and short term interbank deposits and loans. Short-term liabilities include on-demand liabilities, funds of the state budget of Ukraine, short-term loans from the NBU and other banks, short-term interbank and customer deposits, short-term debt instruments issued by the bank and liabilities under all types of guarantees and committed credit lines to banks and customers.

Credit Risk Requirements

The Banking Regulation Instruction provides for four types of maximum borrowing limits: (a) the maximum credit risk per borrower; (b) the maximum total amount of large credit risks; (c) the maximum total amount of loans, guarantees and sureties per insider; and (d) the maximum total amount of loans, guarantees and sureties granted to all insiders.

The maximum credit risk per borrower (or group of borrowers, if any one borrower owns more than ten per cent. of the shares of the other, or any third party owns more than ten per cent. of the shares of each such borrower, or the borrowers use the loan proceeds jointly or for providing a further loan to a third party which is a customer of the lending bank) is calculated as the ratio of all of the bank's financial claims outstanding with respect to a particular borrower to the bank's regulatory capital, and may not exceed 25 per cent. However, a bank's internal regulations may establish a more stringent limit on loans to a single borrower. Notwithstanding the above borrowing limit, Ukrainian banking regulations permit banks to advance a loan to a borrower which would result in the bank exceeding the maximum credit risk amount per borrower provided the bank fulfils the following conditions: (i) the bank is well capitalised (meaning that the bank complies with the minimum regulatory capital requirement, the bank's regulatory capital adequacy ratio is at least 17 per cent. and the bank's core capital adequacy ratio is not less than 8 per cent) or sufficiently capitalised (meaning that the bank's core capital adequacy ratio is higher than 8 per cent. but less than 17 per cent, and the bank's core capital adequacy ratio is higher than 4 per cent but less than 8 per cent); and (ii) the loan is secured either by a pledge of proprietary rights over the monies deposited with the lender bank or by the pledge of savings/deposit certificates issued by the lender bank for the term of the loan or by an unconditional commitment granted to the bank by the government or central bank of a class A state (which would include most European states, the USA, Canada, Switzerland, Japan and Australia), the International Bank for Reconstruction and Development or the European Bank for Reconstruction and Development, or, for loans with a maturity of up to one year, banks having an investment grade credit rating assigned by one of the major credit rating agencies.

Under the Banking Regulation Instruction, credit risks are considered to be large if the amount of all loans, including off-balance sheet commitments such as guarantees granted to a single borrower or a group of affiliated borrowers, equals or exceeds 10 per cent. of the bank's regulatory capital. The maximum total amount of large credit risks may not exceed 800 per cent. of the bank's regulatory capital. If the maximum total amount of large credit risks is exceeded, the regulatory capital adequacy ratio is required to be doubled, if such excess is less than 50 per cent., and tripled, if such excess is more than 50 per cent.

The maximum total amount of loans, guarantees and sureties per insider is required to be less than five per cent. of the statutory capital of a bank.

Banks must also comply with the maximum total amount of loans, guarantees and sureties granted to all insiders ratio. This ratio is calculated as the ratio of total indebtedness of all of the bank's insiders and aggregate amount of the off-balance commitments granted by the bank to all its insiders to the amount of the bank's statutory capital and may not exceed 30 per cent. The bank's internal regulations may establish a more stringent limit on the maximum total amount of loans, guarantees and sureties granted to insiders.

Investment Risk Ratio

The Banking Regulation Instruction provides for two mandatory ratios related to investment risk: the aggregate investment risk ratio and the single issuer investment risk ratio. The single issuer investment risk ratio limits the risk connected with investments (whether direct or portfolio) in equity of single issuer, is calculated as a ratio of the amount invested in the equity securities and/or the statutory capital of such issuer to the amount of the bank's regulatory capital and may not exceed 15 per cent. The aggregate investment risk ratio limits the risk connected with total equity investments (whether direct or portfolio) of a bank. The aggregate investment risk ratio is calculated as a ratio of the total equity investments to the amount of the bank's regulatory capital and may not exceed 60 per cent.

Open Currency Position Risk

The currency position of Ukrainian banks is determined on a daily basis and in respect of each particular foreign currency. The general open currency position is determined as the sum of such individual positions. The general open position of a bank may not exceed 30 per cent. of the bank's regulatory capital, while the general long open position may not exceed 20 per cent. of the bank's regulatory capital and the general short open position may not exceed 10 per cent. of the bank's regulatory capital. In addition, a bank's long open position in freely convertible currencies may not exceed 15 per cent. of the bank's regulatory capital, the open position in non-convertible currencies and banking metals may not exceed five per cent. of the bank's regulatory capital (at the bank's discretion) and the open currency position under forward contracts may not exceed 10 per cent. of the bank's regulatory capital.

Compulsory Reserve Requirements

Reserve Requirements

In 2001, the NBU adopted regulations relating to the mandatory reserves of commercial banks which provide that the NBU will impose sanctions for the failure to maintain the prescribed amounts of mandatory reserves. Such sanctions are payable from a bank's profits. Currently, commercial banks are required annually to transfer to their reserves not less than five per cent. of their profit, unless and until such reserves are equal to 25 per cent. of their regulatory capital. The NBU may require commercial banks to increase their mandatory reserve amounts.

The NBU established these mandatory reserve requirements in order to maintain the liquidity of the banking system and the stability of the Ukrainian hryvnia. Banks are required to maintain certain reserves in current accounts with the NBU. There are no restrictions on the withdrawal of funds from the NBU. However, if the minimum average reserve requirements are not met, a bank may be subject to penalties. Reserve requirements are calculated as a percentage of certain of the bank's liabilities. In particular, since 1 October 2006, reserves are required to be not less than the sum of one per cent. of the amount of demand deposits and current accounts of customers in hryvnia, five per cent. of demand deposits and current accounts of customers in foreign currency, 0.5 per cent. of term deposits of customers in hryvnia and four per cent. of term deposits of customers in foreign currency.

In accordance with the NBU resolution adopted on 7 November 2007, Ukrainian banks are required to form reserves for funds raised from non-resident banks and financial institutions from 20 November 2007.

Banks are required to file information regarding their reserves with the NBU and its regional units promptly after the end of each reporting period. In the event of non-compliance by a bank with the compulsory reserve requirements, the NBU may impose relevant penalties in accordance with applicable regulations.

Amounts deposited with the NBU in compliance with the compulsory reserve requirements may not be subject to attachment. In the event of the revocation of a bank's banking licence, such amounts are

included in the pool of assets generally available for distribution amongst the bank's creditors in the order established by applicable Ukrainian legislation.

Provisioning and Loss Allowances

Banks must comply with mandatory requirements to cover net loan risks and review those provisions on a monthly basis. Some loan products, such as, among others, real-estate backed leasing transactions, subordinated loans, uncommitted off-balance sheet credit lines (other than commitments extended to banks) and funds in foreign currencies transferred to the NBU, do not require any provisions. With effect from 10 April 2007, Ukrainian legislation sets forth separate provisioning requirements for loans in the national or foreign currencies as well as for certain consumer loans. Each of the above groups of loans is classified into five categories, subject to varying provisioning requirements. The following provisioning requirements are set forth for loans in the national currency: 1 per cent. for standard loans, 5 per cent. for loans on watch, 20 per cent. for substandard loans, 50 per cent. for doubtful loans and 100 per cent. for bad loans. Provisioning requirements applicable to loans in foreign currencies are higher than for loans in the national currency in line with an NBU policy aimed at reducing credit risks, especially for loans in foreign currencies, and are as follows: 2 per cent. for standard loans, 7 per cent. (10 per cent. if a borrower has no foreign currency earnings) for loans on watch, 25 per cent. (40 per cent. if a borrower has no foreign currency earnings) for substandard loans, 60 per cent. (80 per cent. if a borrower has no foreign currency earnings) for doubtful loans, and 100 per cent. for bad loans. Provisioning requirements applicable to consumer loans are tied to the number of days a loan is overdue and non-paid, and are: 2 per cent. for standard loans, 10 per cent. for loans on watch, 40 per cent. for substandard loans, 80 per cent. for doubtful loans and 100 per cent. for bad loans.

Protection of Depositors

The Law of Ukraine On the Fund for Guaranteeing Deposits of Individuals of 20 September 2001 (the Deposits Securing Law) introduced the current system of securing deposits held by individuals in Ukrainian banks. It modified the previously existing arrangements for the protection of depositors that were established in 1998 by the Presidential Decree On Measures for the Protection of the Rights of Individual Depositors of Commercial Banks of Ukraine of 10 September 1998 (the "Decree"). Pursuant to the Deposits Securing Law, Ukrainian commercial banks must be members of the Individual Deposits Guarantee Fund (the "Deposit Guarantee Fund"), established under the Decree and operating according to the Deposits Securing Law, and are obliged to transfer to the Deposit Guarantee Fund an initial contribution in the amount of one per cent. of their registered statutory capital (payable once after obtaining a banking licence). The amount of the regular contribution payable to the Deposit Guarantee Fund by Ukrainian banks is determined twice per year, on 31 December and 30 June, at a rate of 0.25 per cent. of the aggregate amount of deposits, including interest accrued, and is payable quarterly in equal installments. The Deposit Guarantee Fund may also require Ukrainian banks to make a special contribution if the revenues of the Deposit Guarantee Fund are not sufficient to repay and service loans borrowed by the Deposit Guarantee Fund in order to meet compensation claims following the collapse of one or more banks. The Deposit Guarantee Fund guarantees deposits with commercial banks, including interest, to a maximum of UAH 50,000 per depositor with each such bank (since 11 September 2007). Deposits are recognised as unavailable, meaning eligible for compensation from the funds held by the Deposit Guarantee Fund, on the date of appointment of a bank's liquidator. As of 1 November 2007, the Deposit Guarantee Fund had 172 member banks and 2 temporary member banks. As at 1 November 2007, the total amount of funds accumulated by the Deposit Guarantee Fund was equal to UAH 1,327 million.

Reporting Requirements

Banks are required to submit annual reports that contain audited financial statements or consolidated financial statements, if they have affiliates under their control, as well as a general description of the bank's business. Financial statements must include a balance sheet, an income statement, a cash flow statement and a shareholders' equity statement. The general description section describes the basic

features of a bank's business and its organisation and management. Interim financial statements are submitted by banks on a quarterly basis and consist of a balance sheet, an income statement, an off-balance sheet liabilities statement, trust management accounts and a cover letter. The purpose of the cover letter is to describe and explain events and operations that are important for a fair presentation of the financial position of a bank and are material. Banks are also required to submit to the NBU statistical data on a daily, weekly and monthly basis to enable the ongoing review and monitoring by the NBU of their performance and financial position.

The NBU may at any time conduct full or selective audits of any bank filings and may inspect any of the banks' books and records.

Accounting Practices

The NBU has established a standard format for the presentation of financial and statistical data and recording of banking transactions. The Banking Law requires the annual balance sheet and other financial statements of banks to be certified by an independent licensed auditor.

Insolvency Regime

The Ukrainian Parliament has not yet adopted any laws specifically regulating insolvency and bankruptcy proceedings in respect of Ukrainian banks. In Ukraine, solvency restoration and bankruptcy proceedings in respect of Ukrainian legal entities are generally governed by the Law of Ukraine On the Restoration of a Debtor's Solvency or Declaration of its Bankruptcy of 14 May 1992 (the "**Insolvency Law**"). However, the application of the Insolvency Law to Ukrainian banks is limited and modified by the provisions of the Banking Law. A Ukrainian bank may be restored to solvency by means of a temporary administration procedure directed and supervised by the NBU.

Restoration of Solvency

Under Ukrainian law, the NBU would be required to impose temporary administration on a Ukrainian bank if the NBU were to determine that there exists a significant threat to the solvency of the bank. In addition, the NBU would have discretion to impose temporary administration on a Ukrainian bank if (i) a bank systematically fails to comply with any legitimate requests or demands of the NBU, (ii) the Ukrainian bank's regulatory capital decreases by 30 per cent. over a six month period and it is in breach of any of the mandatory ratios, (iii) a bank fails to meet ten per cent. or more of its aggregate overdue liabilities and such failure continues for at least 15 business days, (iv) any member of the bank's management is arrested for or convicted of a criminal offence, (v) a bank commits any act aimed at the concealment of any accounts, assets, registers, reports or other documents, (vi) a bank refuses to submit to authorised representatives of the NBU any documents or information specified in the Banking Law without a legitimate reason, (vii) there is a public conflict within the management, or (viii) a bank requests the NBU to institute temporary administration.

The temporary administrator appointed by the NBU would replace all of the bank's governing bodies for the entire term of the temporary administration (being a period of up to one year with a possible extension for another year if the bank's liabilities are equal to or exceed ten per cent. of the total liabilities of all Ukrainian banks at the time of such extension), and would be authorised to carry out any acts aimed at the bank's financial rehabilitation, including but not limited to (i) terminating any ongoing operation (including the discharge of any outstanding obligation) of the bank (without terminating or invalidating the agreement itself), and (ii) terminating, in accordance with Ukrainian legislation, any agreement to which the bank is party and which, in the opinion of the temporary administrator, is either loss-making or unnecessary. The latter applies only to an agreement which contains outstanding obligations of any party. The temporary administrator would have a broad discretion in determining whether a particular agreement is loss-making or unnecessary, given that Ukrainian legislation provides no criteria for making such determination. In each case, a dissatisfied counterparty would be entitled to challenge the temporary administrator's decision in court and, where applicable, to demand compensation by the Ukrainian bank for any damages resulting from such decision.

During the term of operation of the temporary administration of a Ukrainian bank, but not longer than for a period of six months during such term, the NBU may impose a moratorium on the satisfaction of claims of the bank's creditors which became due prior to the appointment of the temporary administrator or the introduction of the moratorium. Applicable legislation exempts the following payments from the moratorium: ongoing operations performed by the temporary administrator; payroll liabilities; alimonies; obligations in respect of personal injuries; copyright liabilities; and liabilities to other creditors incurred in connection with obligations assumed by the bank in the course of temporary administration. During the term of the moratorium, the accrual of any financial sanctions for the non-performance of the bank's payment obligations (including default interest, penalties and fines), as well as any enforcement action for the recovery of debts, would be suspended.

In addition, applicable Ukrainian legislation permits a temporary administrator of a bank appointed pursuant to any such temporary administration to request a Ukrainian court to declare invalid, among other agreements to which the bank may be party, an agreement between the bank and a third party if there had been, under such agreement, "any operation" (meaning a payment or other transaction): (i) within a six month period before the appointment of such temporary administrator, and the purpose of the operation was to grant a preference to such third party compared to the bank's other creditors; (ii) within one year before the appointment of such temporary administrator between the bank and a related party, and the operation contravened the requirements of Ukrainian legislation or "threatened the interests of depositors and creditors" of the bank; (iii) within three years before the appointment of such temporary administrator, and the operation involved any of the bank's assets and was conducted on free of charge basis or the operation was conducted with the purpose of purchasing assets or services by the bank at a price significantly higher than the value of such assets or services; (iv) within three years before the appointment of such temporary administrator, with the purpose of concealing assets from the bank's creditors or otherwise violating the rights of such creditors; or (v) at any time, if such operation has been based on forged documents or if it was of fraudulent nature. If an agreement providing for such transaction is declared invalid by a court, the bank and its counterparty will be required to make full restitution, meaning that each of the bank and its counterparty will be required to repay all amounts and return all assets (or, if such return is not possible, to pay the value of the assets) received from the other party under such agreement.

Insolvency Liquidation Procedure

If the temporary administration procedures imposed by the NBU do not result in the restoration of the bank's solvency, the NBU may revoke the bank's licence and order its liquidation. The NBU is also authorised to revoke the bank's licence and order its liquidation if, in the course of the temporary administration of the bank, the NBU considers that it is impracticable to bring the bank's activity into legal and financial conformity with the provisions of the Banking Law and NBU regulations within a one-year period (except that, for banks whose liabilities constitute ten per cent. or more of the aggregate liabilities of the banking system, such term may be extended up to two years), or if the bank is not in compliance with the provisions of the Banking Law or NBU regulations and such non-compliance has resulted in substantial loss of the bank's assets and there is an indication that the bank is insolvent. The NBU is obliged to institute bankruptcy proceedings against a Ukrainian bank if the bank is not able to discharge its obligations under a court judgment within a six-month period and no work-out agreement has been reached between the bank and its creditor within that period. Following a decision by the NBU to revoke a bank's licence and commence liquidation proceedings, the NBU must apply to a court for approval of the liquidator appointed by the NBU and for confirmation that the liquidation procedure complies with the requirements set out in the Banking Law.

Creditors of a bank intending to initiate bankruptcy proceedings should, before submission of the bankruptcy petition to a Ukrainian court, request the NBU to liquidate the bank upon presentation to the NBU of evidence of the bank's inability to discharge its payment obligations on time and in full. If the NBU fails to respond within one month, the creditors would be entitled to submit a bankruptcy petition to a competent Ukrainian court. Upon receipt of the bankruptcy petition, a Ukrainian court must obtain either an opinion of the NBU on the feasibility and grounds for the liquidation of the bank, and may only proceed with the bankruptcy proceedings if the NBU provides an affirmative

opinion or a resolution of the NBU on the revocation of its banking licence and the appointment of a liquidator. The court must dismiss the creditor's bankruptcy petition if the NBU issues a negative opinion. Bankruptcy proceedings against a Ukrainian bank may not start as long as its banking licence remains effective. Ukrainian law does not permit the financial rehabilitation (*sanation*) of a bank if its banking licence has been revoked. Upon revocation of the banking licence, the authority that instituted bankruptcy proceedings (either the NBU or a Ukrainian court) must appoint a liquidator. The court may reject the liquidator appointed by the NBU if it finds that there is a conflict of interest between such liquidator and the bank. The liquidator would assume his duties immediately upon revocation of the banking licence and would be responsible for, inter alia: (i) preserving the bank's assets; (ii) managing and disposing of the assets; (iii) creating an inventory and appraising the assets; (iv) exercising the powers of the bank's management bodies; (v) chairing the liquidation commission and forming the liquidation estate; and (vi) filing claims against third parties to recover debts owed to the bank.

In addition, a liquidator would be entitled to refuse to perform, and would be entitled unilaterally to terminate, in accordance with applicable law, any agreement entered into by a Ukrainian bank which had not been performed by such time.

Upon the revocation of a bank's banking licence and appointment of a liquidator: (i) all of the bank's payment obligations that existed prior to the revocation of the banking licence will become due and payable in accordance with the procedure and order of priority established by applicable Ukrainian legislation; (ii) no default-related penalties provided for in the agreements entered into with, and payable by, the Ukrainian bank, will further accrue; (iii) the bank will be precluded from making payments to third parties, except for certain limited categories of payments (such as maintenance and utility payments and salaries); and (iv) the bank will be precluded from accepting and making payments for the benefit (and at the instruction) of its clients.

Upon commencement of liquidation proceedings, the liquidator of a Ukrainian bank must publish in the official bulletins of Parliament and the Cabinet of Ministers of Ukraine a notice on the liquidation of the bank. Creditors are entitled to submit their claims against the bank to the liquidator within the one-month period after the date of publication of the notice. Creditors' claims filed after the expiry of the one-month period are deemed to have been settled.

The liquidator must, within three months of the date of publication of the notice of liquidation, consider all claims filed by the bank's creditors, determine their amount and assign them to the respective priority category. Claims for the payment of fees and expenses incurred in connection with the liquidation and claims secured by pledge are satisfied outside of the order of priority established by the applicable legislation. The former are satisfied during the course of the liquidation proceedings and in accordance with the schedule approved by the NBU. Receipts from the sale of collateral are used solely for the satisfaction of claims secured by the collateral. The balance of the creditors' claims are satisfied upon the sale of the bank's assets in the following order of priority: first, liabilities resulting from death or personal injury; second, payroll liabilities incurred prior to the commencement of the liquidation proceedings; third, liabilities to individual depositors to the extent that such liabilities exceed the amount guaranteed by the Deposit Guarantee Fund, but not more than UAH 50,000; fourth, liabilities to individual depositors to the extent that such liabilities exceed UAH 50,000; fifth, liabilities to the Deposit Guarantee Fund; sixth, liabilities to individuals with respect to blocked payments (except liabilities to subjects of entrepreneurial activities); seventh, all other claims.

The liquidation of a bank must be completed within a three-year period from the date of revocation of the banking licence. However, such period may be extended by one or, in the case of banks whose liabilities are equal to or exceed ten per cent. of the aggregate liabilities of all Ukrainian banks, two years.

Anti-Money Laundering

In November 2002, the Ukrainian Parliament adopted the law "On Combating the Legalisation (Laundering) of Income Obtained by Criminal Means" (the "**Anti-Money Laundering Law**"). Banks

are required to comply with the provisions of the Anti-Money Laundering Law relating to, among other things, the development of appropriate internal standards and procedures, client identification, monitoring of client operations and reporting of operations to the State Committee for Monitoring of Ukraine (the **SCFM**). The Anti-Money Laundering Law requires that banks monitor and report any transactions if the amount of a single transaction is equal to or exceeds UAH 80,000 (or its equivalent in foreign currencies) and the transaction has certain characteristics as set forth in the Anti-Money Laundering Law, including one or more of the following: the transaction involves a cash payment; one or more of the parties is resident or has a bank account in a country that does not participate in international efforts to combat money-laundering (which generally corresponds to the list of Non-Cooperative Countries and Territories maintained by FATF); the transaction involves making bank deposits for a third party beneficiary; or the transaction involves the deposit of precious stones, precious metals and other property with a pawnbroker. In addition, banks are required to monitor any transaction involving any individual or organisation that is connected with terrorist activities (according to information provided by the SCFM) and any legal entity controlled by them or their agents. If bank officers suspect that a transaction being conducted in order to legalise any funds received as a result of illegal activity or to finance terrorist activities, they are required to report such operations whether or not they qualify as monitored transactions.

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Report on review of interim condensed consolidated financial statements to the Shareholders and the Board of Joint Stock Commercial Bank Nadra:

Introduction

We have reviewed the accompanying interim condensed consolidated balance sheet of Joint Stock Commercial Bank Nadra (the “**Bank**”) and its subsidiaries (the “**Group**”) as at 30 June 2007, and the related interim condensed consolidated statements of income, cash flows and changes in equity for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, Interim Financial Reporting (“**IAS 34**”). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, Review of Interim Financial Statements Performed by the Independent Auditor of the Entity. A review of interim financial statements 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

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

8 October 2007

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2007

(Thousands of US dollars)

	Notes	30 June 2007 (unaudited)	31 December 2006 (audited)
Assets			
Cash and cash equivalents	3	327,091	170,023
Precious metals		3,616	3,191
Amounts due from credit institutions	4	437,916	251,996
Loans to customers	5	1,947,725	1,405,110
Assets held for sale		1,426	2,943
Investment securities:	6		
- designated at fair value through profit or loss		170,213	142,965
- available-for-sale		1,412	9,305
Securities pledged under repurchase agreements		6,978	—
Property and equipment		135,302	106,244
Intangible assets		2,212	1,175
Other assets		14,800	14,217
Total assets		3,048,691	2,107,169
Liabilities			
Amounts due to the NBU and Government		12,949	19,409
Amounts due to credit institutions	7	983,174	511,382
Amounts due to customers	8	1,335,579	1,087,137
Eurobonds issued	9	273,659	100,212
Other debt securities issued		51,946	40,526
Current tax liabilities		8,678	980
Deferred tax liabilities		28,033	28,033
Other liabilities		14,327	8,160
Total liabilities		2,708,345	1,795,839
Equity			
Share capital	10	83,646	83,646
Additional paid-in capital		123,582	123,582
Property revaluation reserve		20,838	21,045
Retained earnings		112,280	83,057
Total equity attributable to equity holders of the Bank		340,346	311,330
Total liabilities and equity		3,048,691	2,107,169

Signed and authorised for release on behalf of the Board of the Bank

Igor Gilenko

President of the Bank

Irina Koleda

Vice-President of the Bank

8 October 2007

The accompanying notes are an integral part of these interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT
For the six-month period ended 30 June 2007
(Thousands of US dollars)

		For six-month period ended 30 June	
		2007	2006
		<i>(unaudited)</i>	
Interest income		154,479	86,585
Interest expense		(80,439)	(47,903)
Net interest income	12	74,040	38,682
Charge for impairment of interest earning assets.....		(13,654)	(6,926)
Net interest income after impairment of interest earning assets		60,386	31,756
Fee and commission income.....		17,600	11,140
Fee and commission expense		(2,530)	(1,866)
Fees and commissions, net	13	15,070	9,274
Gains less losses from foreign currencies and precious metals		2,524	3,196
Gains less losses from investment securities		18,312	12,716
Other operating income		3,379	1,960
Non-interest income, net		24,215	17,872
Salaries and benefits		(27,765)	(15,554)
Other administrative and operating expenses		(24,829)	(17,825)
Depreciation and amortisation.....		(7,307)	(4,240)
Allowance for other assets and provisions		—	1,029
Non-interest expense		(59,901)	(36,590)
Profit before income tax expense		39,770	22,312
Income tax expense		(9,982)	(5,589)
Profit for the period		29,788	16,723

The accompanying notes are an integral part of these interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended 30 June 2007

(Thousands of US dollars)

	Attributable to equity holders of the Bank				Total
	Share capital	Share premium	Revaluation reserve	Retained earnings	
31 December 2005 (audited).....	56,474	36,621	1,498	33,443	128,036
Depreciation of revaluation reserve, net of tax.....			(39)	39	—
Total income for the period recognised directly in equity			(39)	39	—
Profit for the period				16,723	16,723
Total income			(39)	16,762	16,723
Issue of share capital.....	1,520	4,484			6,004
Dividends paid to shareholders of the Bank.....				(475)	(475)
30 June 2006 (unaudited)	57,994	41,105	1,459	49,730	150,288
31 December 2006 (audited).....	83,646	123,582	21,045	83,057	311,330
Depreciation of revaluation reserve, net of tax.....			(207)	207	—
Total income for the period recognised directly in equity			(207)	207	—
Profit for the period				29,788	29,788
Total income			(207)	29,995	29,788
Dividends paid to shareholders of the Bank.....				(772)	(772)
30 June 2007 (unaudited)	83,646	123,582	20,838	112,280	340,346

The accompanying notes are an integral part of these interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month period ended 30 June 2007

(Thousands of US dollars)

	For six months period ended	
	30 June	
	2007	2006
	<i>(unaudited)</i>	
Cash flows from operating activities		
Interest, fees and commissions received	153,501	91,270
Interest, fees and commissions paid	(75,103)	(46,367)
Gains less losses from dealing in foreign currencies and securities	5,400	1,767
Other operating income received	3,379	1,960
Salaries and benefits	(27,404)	(15,709)
Other operating and administrative expenses paid	(24,831)	(18,196)
Cash inflow from operating activities before changes in operating assets and liabilities	34,492	14,725
<i>(Increase)/decrease in operating assets:</i>		
Precious metals	(426)	(2,647)
Amount due from credit institutions	(184,147)	(41,241)
Investment securities designated at fair value through profit or loss	(17,903)	(103)
Loans to customers	(536,866)	(184,364)
Other assets	1,024	(4,617)
<i>Increase/(decrease) in operating liabilities:</i>		
Amounts due to the National Bank of Ukraine and Government	(2,927)	(5,151)
Amounts due to credit institutions	466,986	228,884
Amounts due to customers	240,805	110,852
Other liabilities	1,392	1,406
Net cash inflow from operating activities before income tax	2,880	117,744
Income tax paid	(2,547)	(1,418)
Net cash inflow from operating activities	333	116,326
Cash flows from financing activities		
Proceeds from bonds issued	14,851	18,868
Proceeds from Eurobonds issued	172,645	—
Repayment of loans from NBU and Government	(3,562)	—
Issue of share capital	—	6,004
Dividends paid	(772)	(475)
Net cash inflow/ (outflow) from financing activities	183,162	24,397
Cash flows from investing activities		
Acquisition of investment securities	7,894	(178)
Purchases of property, equipment and intangible assets	(34,165)	(9,185)
Proceeds from sale of property and equipment	(358)	(613)
Net cash used in investing activities	(26,629)	(9,976)
Effect of exchange rate changes on cash and cash equivalents	201	367
Net change in cash and cash equivalents	157,068	131,114
Cash and cash equivalents at the beginning of the period	170,023	116,053
Cash and cash equivalents at the end of the period (note 3)	327,091	247,167

The accompanying notes are an integral part of these interim condensed consolidated financial statements

1. Principal activities

Open Joint Stock Commercial Bank Nadra (the “**Bank**”) was initially founded as a limited liability company on 3 November 1992 under the laws of Ukraine and registered by the National Bank of Ukraine (the “**NBU**”) on 26 October 1993. On 23 December 1993, the Bank was reorganised into an open joint stock company, which was registered by the NBU on 21 July 1994. Consequent upon the private placement of shares to foreign investors through the issue of global depositary receipts, on 10 November 2006, the Bank was registered by the NBU as a bank with foreign investments.

The Bank’s principal business is corporate and retail banking activities within Ukraine.

These interim condensed consolidated financial statements comprise the Bank and its subsidiaries (together referred to as the “**Group**”).

As at 30 June 2007, the Bank was beneficially owned by four individuals (31 December 2006 – four), including the President of the Bank. They own, directly or indirectly, in aggregate over 87 per cent of the Bank’s share capital (31 December 2006 – over 87 per cent). None of these individuals ultimately owned more than 50% of the Bank’s share capital as at 30 June 2007 and 31 December 2006.

2. Basis of preparation

General

The interim condensed consolidated financial statements for the six-month period ended 30 June 2007 have been prepared in accordance with IAS 34 “Interim Financial Reporting”.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Bank’s annual consolidated financial statements for the year ended 31 December 2006.

These interim condensed consolidated financial statements are presented in thousands of US dollars (“**USD**”) unless otherwise indicated.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Bank’s annual financial statements for the year ended 31 December 2006, except for the adoption of new Standards and Interpretations, noted below. Adoption of these Standards and Interpretations didn’t have any effect on the financial position of the Bank.

IFRIC 9 “Reassessment of Embedded Derivatives”

The Bank adopted IFRIC 9 Interpretation as at 1 January 2007, which states that the date to assess the existence of embedded derivatives is the date that the entity first becomes party to the contract, reassessment only if there is a change to the contract that significantly modifies cash flows.

IFRIC 10 “Interim Financial Reporting and Impairment”

The Bank adopted IFRIC 10 Interpretation as at 1 January 2007, which requires that entity must not reverse an impairment loss recognised in previous interim period in respect of goodwill or investments ether instruments or financial assets carries at cost.

IFRIC 11 “IFRS 2 – Group and Treasury Share Transactions”

The Bank has elected to adopt IFRIC Interpretation 11 as 1 January 2007. This interpretation requires arrangements whereby an employee is granted rights to an entity’s equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another part. Or the shareholders provide the equity instruments needed. The adoption of this Interpretation did not have any affect on the financial position or performance of the Bank.

Consolidated subsidiaries

The interim condensed consolidated financial statements include the following subsidiaries as at 30 June 2007 and 31 December 2006:

<u>Subsidiary</u>	<u>Ownership, %</u>	<u>Voting, %</u>	<u>Country</u>	<u>Date of incorporation</u>	<u>Industry</u>	<u>Date of acquisition</u>
SC Prospect	0%	100%	Ukraine	30 Jun 2000	Leasing	30 Jun 2000
SC Avenue	0%	100%	Ukraine	10 Nov 2000	Leasing	10 Nov 2000
SC Nadra Service	0%	100%	Ukraine	31 Oct 1996	Leasing	31 Oct 1996
SC Nadra Service Leasing	0%	100%	Ukraine	28 Apr 2005	Leasing	28 Apr 2005
TIM Agency Ltd.	0%	100%	Ukraine	17 Jul 2000	Leasing	17 Jul 2000

The Bank does not directly own its consolidated subsidiaries but is able to control 100% of the voting rights and to govern the financial and operating policies of the companies so as to benefit from their activities.

These subsidiaries were established by the Bank primarily for the purpose of leasing property and equipment to the Bank.

3. Cash and cash equivalents

Cash and cash equivalents are comprised of the following:

	<u>30 June 2007 (unaudited)</u>	<u>31 December 2006 (audited)</u>
Cash on hand	53,877	53,414
Current account with the National Bank of Ukraine	68,820	42,323
Current accounts with credit institutions	7,345	23,114
Time deposits with credit institutions up to 90 days	197,049	51,172
	<u>327,091</u>	<u>170,023</u>

4. Amounts due from credit institutions

Amounts due from credit institutions consisted of the following:

	<u>30 June 2007 (unaudited)</u>	<u>31 December 2006 (audited)</u>
Guarantee deposits	2,369	2,166
Inter-bank loans	428,857	249,627
Other amounts due from credit institutions	6,690	203
Amounts due from credit institutions	<u>437,916</u>	<u>251,996</u>

As at 30 June 2007 and 31 December 2006, guarantee deposits are represented by amounts placed in current accounts with two OECD banks as guarantee deposits for card settlements.

As at 30 June 2007, the Bank simultaneously placed and received balances of USD 428,613 thousand (31 December 2006 – USD 249,830 thousand) on current accounts and time deposits with other banks (see Note 7). Such balances were placed and received in different currencies with different maturities and interest rates.

5. Loans to customers

Loans to customers consisted of the following as at 30 June 2007 and 31 December 2006:

	30 June 2007 (unaudited)	31 December 2006 (audited)
Commercial loans to corporate customers	915,883	674,938
Individuals	1,083,354	773,034
Overdrafts of corporate customers and individuals.....	14,882	10,143
	<u>2,014,119</u>	<u>1,458,115</u>
Less – allowance for impairment	(66,394)	(53,005)
Loans to customers	<u>1,947,725</u>	<u>1,405,110</u>

As at 30 June 2007, the Bank had a concentration of loans represented by USD 261,970 thousand due from the ten largest third party borrowers (13.0% of gross loan portfolio) (31 December 2006 – USD 166,597 thousand or 11.4%). An allowance of USD 1,677 thousand (31 December 2006 – USD 885 thousand) was made against these loans.

6. Investments in securities

Investment securities designated at fair value through profit or loss as at 30 June 2007 and 31 December 2006 comprise the following:

	30 June 2007 (unaudited)	31 December 2006 (audited)
Investment certificates	146,578	119,812
Ministry of Finance treasury bills	3,377	8,638
Municipal bonds	4,727	4,857
Corporate bonds.....	23,922	9,658
Investment securities designated at fair value	<u>178,603</u>	<u>142,965</u>

Available-for-sale investment securities as at 30 June 2007 comprise USD 1,412 thousand of corporate shares (31 December 2006 – USD 9,305 thousand).

In the six month period ended 30 June 2007, the Bank has recognised a change in fair value of investment certificates of USD 16,683 thousand (six months ended 30 June 2006 – USD 12,553 thousand), which is included in the consolidated statement of income as gain less losses from investment securities.

7. Amounts due to credit institutions

As at 30 June 2007 and 31 December 2006, amounts due to credit institutions comprise:

	30 June 2007 (unaudited)	31 December 2006 (audited)
Current accounts		
Ukrainian banks	48,821	18,505
CIS and other foreign banks	3,156	1,321
	<u>51,977</u>	<u>19,827</u>
Loans and deposits		
Ukrainian banks	483,099	246,415
OECD countries	434,720	240,645
CIS and other foreign banks	6,552	4,495
	<u>924,371</u>	<u>491,555</u>
Repurchase agreements.....	6,824	—
Amounts due to credit institutions	<u>983,174</u>	<u>511,382</u>

As at 30 June 2007, the Bank simultaneously placed and received balances of USD 428,613 thousand (31 December 2006 – USD 249,830 thousand) on current accounts and time deposits with other banks (see Note 4). Such balances were placed and received in different currencies with different maturities and interest rates.

8. Amounts due to customers

Amounts due to customers comprise:

	30 June 2007 (unaudited)	31 December 2006 (audited)
Current accounts		
— Companies	111,422	155,479
— Individuals	189,768	115,630
	301,190	271,109
Time deposits		
— Companies	264,213	174,899
— Individuals	769,280	640,222
— Certificates of deposits issued	896	907
	1,034,389	816,028
Amounts due to customers	1,335,579	1,087,137

As at 30 June 2007, time deposits from companies include USD 176,313 thousand (67% of total time deposits from companies) due to ten largest third party customers of the Bank (31 December 2006 – USD 110,231 thousand or 63%).

As at 30 June 2007, an equivalent of USD 113,639 thousand (31 December 2006 – USD 65,123 thousand) of time deposits from companies were pledged as security against loans issued to these companies by the Bank.

9. Eurobonds issued

In November 2005, the Bank obtained a loan amounting to USD 100,000 thousand from Dresdner Bank AG (carrying value of USD 100,571 thousand as at 30 June 2007). This loan was funded by 9.5% loan participation notes (“Eurobonds”) issued by, but without recourse to, Dresdner Bank AG, for the sole purpose of funding the loan to the Bank. The loan matures in November 2008. The interest rate on the loan is 9.5% p.a. Interest payments are made semi-annually in arrears on 4 May and 7 November of each year, commencing 4 May 2006.

In June 2007, the Bank obtained a loan amounting to USD 175,000 thousand from HSBC Bank Plc (carrying value of USD 173,087 thousand as at 30 June 2007). This loan was funded by 9.25% loan participation notes (“Eurobonds”) issued by, but without recourse to, HSBC Bank Plc, for the sole purpose of funding the loan to the Bank. The loan matures in June 2010. The interest rate on the loan is 9.25% p.a. Interest payments are made semi-annually in arrears on 28 June and 28 December of each year, commencing 28 December 2007.

10. Share capital

As at 30 June 2007, the Bank’s authorised issued share capital comprised 39,035,785 ordinary and 481 privileged shares (31 December 2006: 39,035,785 and 481 respectively) with a nominal value of UAH 10 per share.

As at 30 June 2007 and 31 December 2006, 50,000 shares with a total nominal value of UAH 500 thousand were issued but not paid yet.

11. Financial commitments and contingencies

Financial commitments and contingencies as at 30 June 2007 and 31 December 2006 comprise:

	30 June 2007 (unaudited)	31 December 2006 (audited)
Letters of credit.....	237,726	208,663
Guarantees	117,091	27,119
Avals on promissory notes.....	11,385	3,860
Undrawn loan commitments	133,596	84,606
	<u>499,798</u>	<u>324,248</u>
Less – Cash held as security against letters of credit, avals and guarantees.....	(74,149)	(9,142)
Financial commitments and contingencies	<u>425,649</u>	<u>315,106</u>

As at 30 June 2007 and 31 December 2006, the Group recognised no provision against unsecured commitments.

12. Net interest income

Net interest income comprises:

	30 June 2007 (unaudited)	30 June 2006 (unaudited)
Interest income		
Loans to customers	144,708	80,904
Due from credit institutions	7,232	3,753
Securities	2,539	1,928
	<u>154,479</u>	<u>86,585</u>
Interest expenses		
Due to customers	(54,553)	(32,055)
Due to credit institutions.....	(17,720)	(8,599)
Eurobonds issued.....	(4,982)	(4,820)
Bonds issued	(2,914)	(773)
Subordinated debt.....	—	(834)
Due to the NBU	(270)	(822)
	<u>(80,439)</u>	<u>(47,903)</u>
Net interest income	<u>74,040</u>	<u>38,682</u>

13. Net fee and commission income

Fees and commissions comprise:

	30 June 2007 (unaudited)	30 June 2006 (unaudited)
Fee and commission income		
Cash and settlement operations.....	11,458	8,104
Currency conversion.....	430	303
Credit fees.....	—	603
Documentary operations.....	5,231	1,696
Other.....	481	434
	<u>17,600</u>	<u>11,140</u>
Fee and commission expenses		
Cash and settlement operations.....	(950)	(1,293)
Credit fees.....	(414)	(59)
Currency conversion.....	(23)	(25)
Other.....	(1,143)	(489)
	<u>(2,530)</u>	<u>(1,866)</u>
Fees and commissions, net.....	<u>15,070</u>	<u>9,274</u>

14. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or 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.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The outstanding balances of related party transactions at 30 June 2007 and 31 December 2006, and related expense and income for the six-month periods ended 30 June 2007 and 2006 are as follows:

	30 June 2007		31 December 2006	
	(unaudited)		(audited)	
	Shareholders	Key management personnel	Shareholders	Key management personnel
Loans to customers	—	369	—	957
Amounts due to customers – current accounts	114	—	113	19
	30 June 2007		31 December 2006	
	(unaudited)		(audited)	
	Shareholders	Key management personnel	Shareholders	Key management personnel
Interest income on loans		10	—	35
Interest expenses on clients' funds	0		1	
Salaries and benefits		91		274

15. Capital adequacy

The Bank's international risk based capital adequacy ratio as at 30 June 2007 was 13.2% (31 December 2006: 19.2%), which exceeds the minimum ratio of 8% recommended by the Basle Accord. Capital adequacy was assessed based on the requirements and methodology defined in the 1988 Basle Accord.

INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Joint Stock Commercial Bank Nadra

We have audited the accompanying financial statements of Joint Stock Commercial Bank Nadra (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated 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 auditor's 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

8 June 2007

CONSOLIDATED BALANCE SHEET

As at 31 December 2006

(Thousands of U.S. dollars)

	Notes	31 December	
		2006	2005
Assets			
Cash and cash equivalents	5	170,023	120,202
Precious metals		3,191	1,455
Amounts due from credit institutions.....	6	251,996	106,515
Loans to customers	7	1,405,110	814,354
Assets held for sale	8	2,943	1,509
Investment securities:	9		
— designated at fair value through profit or loss.....		142,965	90,494
— available-for-sale		9,305	1,078
Securities pledged under repurchase agreements.....		—	3,865
Property and equipment	12	106,244	55,138
Intangible assets.....	13	1,175	677
Other assets.....	14	14,217	9,065
Total assets		2,107,169	1,204,352
Liabilities			
Amounts due to the NBU and Government	15	19,409	26,451
Amounts due to credit institutions	16	511,382	249,906
Amounts due to customers.....	17	1,087,137	659,856
Eurobonds issued	18	100,212	99,518
Other debt securities issued	19	40,526	3,873
Current tax liabilities		980	133
Deferred tax liabilities	10	28,033	13,750
Other liabilities	14	8,160	5,129
Subordinated loans.....		—	17,700
Total liabilities		1,795,839	1,076,316
Equity			
Share capital	20	83,646	56,474
Share premium.....		123,582	36,621
Property revaluation reserve		21,045	1,498
Retained earnings.....		83,057	33,443
Total equity attributable to shareholders of the Bank		311,330	128,036
Total liabilities and equity		2,107,169	1,204,352

Signed and authorised for release on behalf of the Board of the Bank

Igor Gilenko

President of the Bank

Iryna Kolieda

Vice-President of the Bank

8 June 2007

The accompanying notes on pages F-18 to F-49 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2006

(Thousands of U.S. dollars)

	Notes	Year ended 31 December	
		2006	2005
Interest income			
Loans to customers		191,659	108,760
Due from credit institutions		9,686	3,804
Securities		4,066	3,188
		205,411	115,752
Interest expense			
Due to customers		(69,695)	(51,367)
Due to credit institutions		(20,160)	(8,288)
Eurobonds issued		(10,481)	(1,472)
Bonds issued		(2,691)	(31)
Subordinated loans		(1,631)	(1,680)
Due to the NBU		(1,132)	(1,832)
		(105,790)	(64,670)
Net interest income		99,621	51,082
Impairment charge for interest earning assets	11	(18,065)	(8,127)
Net interest income after impairment of interest earning assets		81,556	42,955
Fee and commission income		24,271	17,146
Fee and commission expense		(3,063)	(3,551)
Net fee and commission income	22	21,208	13,595
Gains less losses from foreign currencies and precious metals:			
— dealing		3,835	(2,001)
— translation differences		2,643	5,374
Gains less losses from investment securities	23	40,424	27,867
Share of income in associate		—	492
Other income		3,117	456
Other non interest income		50,019	32,188
Salaries and benefits	24	(41,989)	(23,076)
Other operating expenses	24	(37,523)	(25,045)
Depreciation and amortization	12, 13	(7,677)	(5,465)
Allowance for other assets and provisions	11	1,179	1,013
Other non interest expense		(86,010)	(52,573)
Profit before income tax expense		66,773	36,165
Income tax expense	10	(16,763)	(9,059)
Profit for the year		50,010	27,106
Attributable to:			
— shareholders of the Bank		50,010	27,106

The accompanying notes on pages F-18 to F-49 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

(Thousands of U.S. dollars)

	Attributable to shareholders of the Bank						Total equity
	Share capital	Share premium	Property revaluation reserve	Retained earnings	Total	Minority interest	
31 December 2004	23,956	34,858	1,498	6,094	66,406	48	66,454
Currency translation differences.....	1,687	1,763	76	325	3,851	—	3,851
Depreciation of revaluation reserve, net of tax.....	—	—	(76)	76	—	—	—
Total income and expense recognised directly in equity.....	1,687	1,763	—	401	3,851	—	3,851
Profit for the year.....	—	—	—	27,106	27,106	—	27,106
Total income and expense for the year.....	1,687	1,763	—	27,507	30,957	—	30,957
Issue of share capital (Note 20).....	30,831	—	—	—	30,831	—	30,831
Dividends to shareholders of the Bank (Note 20).....	—	—	—	(158)	(158)	—	(158)
Minority interest on subsidiary sold.....	—	—	—	—	—	(48)	(48)
31 December 2005	56,474	36,621	1,498	33,443	128,036	—	128,036
Depreciation of revaluation reserve, net of tax.....	—	—	(79)	79	—	—	—
Revaluation of property and equipment, net of tax (Note 12).....	—	—	19,626	—	19,626	—	19,626
Total income and expense recognised directly in equity.....	—	—	19,547	79	19,626	—	19,626
Profit for the year.....	—	—	—	50,010	50,010	—	50,010
Total income and expense for the year.....	—	—	19,547	50,089	69,636	—	69,636
Issue of share capital (Note 20).....	27,172	86,961	—	—	114,133	—	114,133
Dividends to shareholders of the Bank (Note 20).....	—	—	—	(475)	(475)	—	(475)
31 December 2006	83,646	123,582	21,045	83,057	311,330	—	311,330

The accompanying notes on pages F-18 to F-49 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2006

(Thousands of U.S. dollars)

	Year ended 31 December	
	2006	2005
Cash flows from operating activities		
Interest received.....	186,437	109,927
Interest paid.....	(94,627)	(56,862)
Fees and commissions received.....	24,535	17,725
Fees and commissions paid.....	(3,062)	(3,439)
Realised gains less losses from dealing in foreign currencies.....	3,835	(2,001)
Gains less losses from investment securities.....	3,868	(79)
Salaries and benefits paid.....	(41,793)	(22,764)
Operating expenses paid.....	(34,440)	(23,229)
Cash flows from operating activities before changes in operating assets and liabilities	44,753	19,278
Net (increase)/decrease in operating assets		
Precious metals.....	(1,061)	(1,434)
Amounts due from credit institutions.....	(143,556)	(20,507)
Investment securities designated at fair value through profit or loss	(12,050)	(47,598)
Loans to customers.....	(578,140)	(367,654)
Other assets.....	(3,991)	13,077
Net increase/(decrease) in operating liabilities		
Amounts due to the NBU.....	412	(21,780)
Amounts due to credit institutions.....	244,154	67,977
Amounts due to customers.....	415,932	260,511
Other liabilities.....	442	(5,163)
Net cash flows used in operating activities before income taxes ...	(33,105)	(103,293)
Corporate income tax paid.....	(7,341)	(3,087)
Net cash flows used in operating activities	(40,446)	(106,380)
Cash flows from investing activities		
Purchase of investment securities.....	(9,008)	(602)
Investment in associate.....	—	426
Purchases of property, equipment and intangible assets.....	(33,731)	(19,599)
Proceeds from sale of property and equipment.....	896	2,418
Net cash flows used in investing activities	(41,843)	(17,357)
Cash flows from financing activities		
Proceeds from issue of share capital.....	116,636	30,831
Proceeds from bonds issued.....	34,653	2,575
Proceeds from Eurobonds issued.....	—	96,885
Redemption of bonds issued.....	(2,613)	—
Repayment of loans from the NBU and Government.....	(7,355)	(15,072)
Proceeds from loans from credit institutions.....	7,140	1,966
Redemption of subordinated debt.....	(17,700)	(293)
Dividends paid to shareholders of the Bank.....	(475)	(158)
Net cash flows from financing activities	130,286	116,734
Effect of exchange rate changes on cash and cash equivalents.....	1,824	4,857
Net change in cash and cash equivalents	49,821	(2,146)
Cash and cash equivalents, beginning	120,202	122,348
Cash and cash equivalents, ending	170,023	120,202

The accompanying notes on pages F-18 to F-49 are an integral part of these consolidated financial statements.

(Thousands of U.S. dollars throughout unless otherwise indicated)

1. Principal activities

Open Joint Stock Commercial Bank Nadra (the “**Bank**”) was initially founded as a limited liability company on 3 November 1992 under the laws of Ukraine and registered by the National Bank of Ukraine (the “**NBU**”) on 26 October 1993. On 23 December 1993, the Bank was reorganised into an open joint stock company, which was registered by the NBU on 21 July 1994. Consequent upon the private placement of shares to foreign investors through the issue of global depositary receipts, on 10 November 2006, the Bank was registered by the NBU as a bank with foreign investments. The Bank operates under a general banking licence #21 issued by the NBU on 23 August 2002, which provides the Bank with the right to conduct banking operations, including currency operations. The Bank also possesses a licence for securities operations and custody services from the State Commission for Securities and Stock Market, which was renewed on 28 July 2004.

The Bank accepts deposits from the public, extends credit, transfers payments in Ukraine and abroad, exchanges currencies and provides banking services to its corporate and retail customers. Historically, the main focus of the Bank’s operations was lending operations to large corporate customers. However, in line with the revised strategy of the Bank’s development, the Bank has been actively changing its focus to retail business in recent years.

These consolidated financial statements comprise the Bank and its subsidiaries (together referred to as the “**Group**”).

The Bank’s head office is in Kyiv and it has 25 branches and 574 operational outlets throughout Ukraine (2005 — 39 branches and 471 operational outlets) and representative offices in Budapest, Hungary and Riga, Latvia. The Bank’s registered legal address and principal place of business is 15, Artema St., Kyiv. The Group had an average of 6,146 employees during 2006 (2005 — 4,913) and 6,311 employees at the end of 2006 (2005 — 5,131).

As at 31 December 2006, the Bank was beneficially owned by four individuals (2005 — four), including the President of the Bank. They own, directly or indirectly, in aggregate over 87 per cent of the Bank’s share capital (2005 — over 97 per cent). None of these individuals ultimately owned more than 50 per cent of the Bank’s share capital in 2006 and 2005.

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”).

The Bank and its subsidiaries are required to maintain their books of account in Ukrainian hryvnia and prepare financial statements for regulatory purposes in accordance with the “Regulations on the Organisation of Accounting and Reporting for Ukrainian Banking Institutions” (“**Ukrainian Accounting Regulation**” or “**UAR**”) issued by the National Bank of Ukraine and in accordance with Ukrainian Accounting Standards. These consolidated financial statements are based on the Bank’s and its subsidiaries’ statutory books and records, as adjusted and reclassified in order to comply with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, financial assets at fair value through profit or loss and available-for-sale, and buildings have been measured at fair value.

These consolidated financial statements are presented in thousands of US dollars (“**USD**”), which is used as the presentation currency as more fully described further in this Note, unless otherwise indicated.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the amendments to IAS 39 “Financial Instruments: Recognition and Measurement” (“**IAS 39**”): Financial Guarantees and Fair Value Option, effective for annual periods beginning on or after 1 January 2006. These amendments address the treatment of financial guarantee contracts by the issuer and the Group’s ability to designate financial assets as financial assets at fair value through profit or loss.

Under the amended IAS 39:

- financial guarantee contracts are recognised initially at fair value and subsequently remeasured at the higher of the amount determined in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 “Revenue”;
- financial assets and financial liabilities can be designated upon initial recognition as at fair value through profit or loss only when this results in more relevant information because either it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise or a group of financial assets, financial liabilities or both is managed or its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

The adoption of the above pronouncement did not have a significant impact on the Group’s consolidated financial statements.

IFRSs and IFRIC interpretations not yet effective

The Group has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

IFRS 7 “Financial Instruments: Disclosures”;

Amendment to IAS 1 “Presentation of financial Statements” — “Capital Disclosures”;

IFRIC 8 “Scope of IFRS 2”;

IFRIC 9 “Reassessment of Embedded Derivatives”;

IFRIC 10 “Interim Financial Reporting and Impairment”

IFRIC 11 “IFRS 2 — Group and Treasury Share Transactions”

IFRIC 12 “Service Concession Arrangements”

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group’s consolidated financial statements in the period of initial application, except for the inclusion of new disclosures in accordance with IFRS 7. These will enable users of the consolidated financial statements to evaluate the significance of the Group’s financial instruments, the nature and extent of risks arising from those financial instruments, and the Group’s objectives, policies and processes for managing capital.

Subsidiaries

The consolidated financial statements include the following subsidiaries:

2006 Subsidiary	Ownership, %	Voting, %	Country	Date of incorporation	Industry	Date of acquisition
SC Prospect	0%	100%	Ukraine	30 Jun 2000	Leasing	30 Jun 2000
SC Avenue	0%	100%	Ukraine	10 Nov 2000	Leasing	10 Nov 2000
SC Nadra Service	0%	100%	Ukraine	31 Oct 1996	Leasing	31 Oct 1996
SC Nadra Service Leasing	0%	100%	Ukraine	28 Apr 2005	Leasing	28 Apr 2005
TIM Agency Ltd.	0%	100%	Ukraine	17 Jul 2000	Leasing	17 Jul 2000

2005 Subsidiary	Ownership, %	Voting, %	Country	Date of incorporation	Industry	Date of acquisition
SC Nadra Plus	0%	100%	Ukraine	16 Jan 1998	Leasing	16 Jan 1998
SC Prospect	0%	100%	Ukraine	30 Jun 2000	Leasing	30 Jun 2000
SC Avenue	0%	100%	Ukraine	10 Nov 2000	Leasing	10 Nov 2000
Kvynta Ltd.	0%	100%	Ukraine	13 Jun 2000	Leasing	13 Jun 2000
Kvinta Ltd.	0%	100%	Ukraine	01 Oct 2001	Leasing	01 Oct 2001
SC Nadra Service	0%	100%	Ukraine	31 Oct 1996	Leasing	31 Oct 1996
SC Nadra Service Leasing	0%	100%	Ukraine	28 Apr 2005	Leasing	28 Apr 2005
TIM Agency Ltd.	0%	100%	Ukraine	17 Jul 2000	Leasing	17 Jul 2000

The Bank does not directly own its consolidated subsidiaries but is able to control 100 per cent of the voting rights and to govern the financial and operating policies of the companies so as to benefit from their activities.

These subsidiaries were established by the Bank primarily for the purpose of leasing property and equipment to the Bank. In 2006, the Bank acquired the property and equipment, which was previously owned and leased to the Bank by Kvynta Ltd., Kvinta Ltd. and SC Nadra Plus.

3. Summary of accounting policies

Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of the acquisition is less than the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired, the difference is recognised directly in the consolidated statement of income.

Minority interest is the interest in subsidiaries not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' share in movements in equity since the acquisition date. Minority interest is presented within equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Group.

Financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets at fair value through profit or loss are recognised in the consolidated statement of income.

Financial assets classified in this category are designated at fair value through profit or loss by management on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis: or
- The assets are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Changes in the fair value of financial assets at fair value through profit and loss are recorded in "Gains less losses from investment securities" in the consolidated statement of income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the preceding categories. After initial recognition

available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income. However, interest calculated using the effective interest method is recognised in the consolidated statement of income.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis. When there are no appropriate and workable methods of reasonably estimating the fair value of non-marketable equity securities, they are stated at cost less allowance for impairment.

Allowances for impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the impairment loss is recognised in the consolidated statement of income.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

When an asset is uncollectible, it is written off against the related allowance for impairment. Such assets are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated statement of income.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBU, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Precious metals

Gold and other precious metals are recorded at the NBU official exchange rate, which is calculated based on the fixing of the London Bullion Market in US dollars and translated into Ukrainian hryvnia at the NBU official USD/UAH exchange rates. Gains and losses from revaluation of precious metals as a result of changes in official exchange rate are recorded as gains and losses from foreign currencies and precious metals in the consolidated statement of income.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements (“**repos**”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated balance sheet and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell (“**reverse repo**”) are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the consolidated balance sheet. Securities borrowed are not recorded in the consolidated balance sheet, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the consolidated statement of income. The obligation to return them is recorded at fair value as a trading liability.

Promissory notes

Promissory notes purchased are included in trading securities, or in amounts due from credit institutions or in loans to customers, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

Borrowings

Borrowings, which include amounts due to the NBU and Government, amounts due to credit institutions, amounts due to customers, other debt securities issued, Eurobonds issued and subordinated loans are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of income when the borrowings are derecognised as well as through the amortisation process.

Operating leases

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; and

- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of income.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Taxation

The current income tax charge is calculated in accordance with Ukrainian taxation regulations.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Ukraine also has various operating taxes, which are assessed on the Group's activities. These taxes are included as a component of other operating expenses in the consolidated statement of income.

Property and equipment

Equipment is carried at cost or restated cost (for assets acquired prior to 31 December 2000), less accumulated depreciation and any accumulated impairment in value.

Buildings are measured at fair values less depreciation and impairment charged subsequent to the date of the revaluation. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the property revaluation reserve which is included in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated statement of income, in which case the increase is recognised in the consolidated statement of income. A revaluation deficit is recognised in the consolidated statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the property revaluation reserve.

An annual transfer from the property revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of an asset begins when it is available for use. Depreciation on assets under construction and those not placed in service commences from the date the assets are placed in service. Depreciation is calculated on a straight-line basis over the following estimated useful lives (in years):

	<u>Years</u>
Buildings.....	50
Furniture and fittings.....	10
Computers and office equipment.....	5
Motor vehicles.....	4

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Leasehold improvements are amortised over the shorter of the life of the related leased asset or term of the respective lease agreement.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalisation.

Intangible assets

Intangible assets include acquired licences for computer software. Intangible assets acquired separately are measured on initial recognition at cost. Subsequently, intangible assets are stated at cost less accumulated amortisation. Amortisation is provided so as to write down the cost of an asset on a straight-line basis over its estimated useful economic life between 4 and 8 years.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

Assets classified as held for sale

The Group classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset (or disposal group) must be available for immediate sale in its

present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

The sale qualifies as highly probable if the Group's management is committed to a plan to sell the non-current asset (or disposal group) and an active programme to locate a buyer and complete the plan must have been initiated. Further, the non-current asset (or disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset (or disposal group) as held for sale.

The Group measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognises an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Group does not have any pension arrangements separate from the State pension system of Ukraine, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to the consolidated statement of income in the period the related salaries are earned. In addition, the Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

Share capital

Share capital

Ordinary shares and preferential shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

Share capital contributions received before 31 December 2000 are recognised at restated cost following the application of IAS 29 "Financial accounting in hyperinflationary economies".

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Contingencies

Contingent liabilities are not recognised in the consolidated balance sheet but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated balance sheet but disclosed when an inflow of economic benefits is probable.

Income and expense recognition

Interest income and expense are recognised on an accrual basis calculated using the effective interest method. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and

other income and expense items are generally recorded on an accrual basis when the service has been provided.

Foreign currency translation

The hryvnia is utilised as the functional currency as the majority of the transactions are denominated, measured, or funded in Ukrainian hryvnia. Transactions in other currencies are treated as transactions in foreign currencies. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of income as gains less losses from foreign currencies — translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

For convenience and the benefit of the users of these consolidated financial statements, the US dollar (“USD”) is used as the presentation currency. Amounts for 2006 and 2005 are translated at the year-end exchange rates with respect to the balance sheets and at average exchange rates with respect to the income statements. All resulting differences are credited or charged directly to equity as translation differences. Cash flows are translated at average exchange rates with resulting differences for cash and cash equivalent items presented as the effect of exchange rate changes in the statement of cash flows.

As at 31 December 2006, the exchange rate of the Ukrainian hryvnia as established by the NBU was UAH 5.05 to 1 US dollar (2005 — UAH 5.05) and UAH 6.65085 to 1 euro (2005 — UAH 5.9716). The average exchange rate of the Ukrainian hryvnia for 2006 was UAH 5.05 to 1 US dollar (2005 — UAH 5.1247). The rates as at the date of issue of these consolidated financial statements were UAH 5.05 to one US dollar and UAH 6.8024 to one euro.

4. Significant accounting judgements and estimates

Judgements

In the process of applying the Group’s accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of securities

Securities owned by the Group comprise Ukrainian state and corporate bonds, investment certificates issued by the investment funds managed by Ukrainian asset management companies, promissory notes issued by Ukrainian companies and equity instruments of Ukrainian companies. It is the Group’s policy to classify at initial recognition all debt and equity investments, except for investments in equity instruments that do not have a quoted market price in an active market and promissory notes, and whose fair value cannot be reliably measured, as financial assets at fair value through profit or loss.

Investments into investment certificates

During 2005, the Bank made significant investments into the investment certificates of investment funds established and managed by Ukrainian asset management companies (see Note 9). The Bank has acquired the majority of the issues of these investment certificates. According to the Ukrainian legislation, which regulates the operations of asset management companies, asset management companies must be independent in their operating activities from the investors in the funds that they establish. The Bank and its management does not have any direct or indirect ownership in the respective asset management companies, the investment funds (other than investment certificates) and the companies, whose shares were acquired by the investment funds for their investment portfolios. Taking into consideration the specifics of the above mentioned Ukrainian legislation, the Bank also considers that it neither exercises nor is in a position to exercise control over any of the above entities

in any way. The Bank has therefore classified these investment certificates as investment securities designated at fair value through profit or loss which is consistent with the Bank's investment strategy in respect of these investments.

As stated in Note 7, the Bank transacts a significant volume of consumer loan related business with a consumer loan processing company and its insurance subsidiary, that is owned by "Afin" (see Note 9), one of the abovementioned investment funds. The valuation of the investment certificates of this fund assumes that the present proportion of business with the Bank continues in perpetuity on similar terms and conditions to those applicable at 31 December 2006.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Allowance for impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the 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 group of loans and receivables. The Group uses its judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Fair value of investment certificates

Investment certificates of the investments funds acquired by the Bank (see Note 9) do not have a quoted market price in an active market. The fair value of the investment certificates was estimated on the basis of the fair values of assets in the investment portfolios of each investment fund by proportional allocation of the fair values of assets owned by the investment funds to the number of certificates issued by those investment funds. Considering that the assets of the investment funds comprise shares and interests in Ukrainian companies, which are engaged in different types of businesses and projects, and those shares and interests do not have a quoted market price in an active market, the asset management companies have performed a valuation to determine the fair value of the assets owned by the funds. The valuation of assets of the investment funds was performed by independent appraisers. Discounted cash flow analysis was used as the valuation technique by those appraisers. Valuations of the assets of the funds are performed by independent appraisers at least annually.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	<u>2006</u>	<u>2005</u>
Cash in hand	53,414	42,165
Current account with the NBU	42,323	45,640
Current accounts with other credit institutions	23,114	10,889
Time deposits with credit institutions up to 90 days	51,172	21,508
Cash and cash equivalents.....	<u>170,023</u>	<u>120,202</u>

The current account with the NBU represents amounts deposited with the NBU relating to daily settlements and other activities. The Bank is also required to maintain, in the form of a non-interest earning cash deposit, certain cash reserves with the NBU (obligatory reserve), which are computed as

a percentage of certain of the Bank's liabilities. There are no restrictions on the withdrawal of funds from the NBU, however, if minimum reserve requirements are not met, the Bank could be subject to certain penalties including the requirement to place the minimum reserve amount in a restricted account with the NBU. The Bank maintained the minimum cumulative average reserve calculated on a daily basis over a monthly period. The average daily requirement for the period from the 1st to 31 December 2006 was USD 22,381 thousand (2005 — USD 35,568 thousand). The Bank met the NBU obligatory reserve requirements as at 31 December 2006 and 2005.

As at 31 December 2006, an equivalent of USD 22,175 thousand (2005 — USD 1,052 thousand) was placed on current accounts with four OECD banks, who are the main counterparties of the Bank in performing international currency and bank metals settlements.

As at 31 December 2006, time deposits with credit institutions up to 90 days include an equivalent of USD 30,598 thousand (2005 — USD 14,548 thousand) placed as overnight deposits with three OECD banks.

Non-cash transactions performed by the Group during 2006 are represented by promissory notes for acquired equipment issued to vendors in the amount of USD 2,925 thousand (2005 — USD 1,023 thousand).

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

Guarantee deposits.....	2,166	1,253
Inter-bank loans.....	249,830	105,429
	<u>251,996</u>	<u>106,682</u>
Less — allowance for impairment (Note 11).....	—	(167)
Amounts due from credit institutions	<u>251,996</u>	<u>106,515</u>

As at 31 December 2006 and 2005, guarantee deposits are represented by amounts placed in current accounts with two OECD banks as guarantee deposits for card settlements.

During 2006, the Bank placed with and received short-term funds from Ukrainian banks in various currencies. As at 31 December 2006, the Bank placed an equivalent of USD 118,362 thousand, an equivalent of USD 13,727 thousand, USD 115,568 thousand and an equivalent of USD 2,173 thousand as deposits in Ukrainian hryvnia, euros, US dollars and Swiss francs, respectively, with forty Ukrainian banks (2005 — an equivalent of USD 20,477 thousand, an equivalent of USD 6,504 thousand and USD 78,179 thousand as deposits in Ukrainian hryvnia, euros and US dollars, respectively, with twenty three Ukrainian banks), which were related to deposits received from the same banks (see Note 16).

7. Loans to customers

Loans to customers comprise:

	<u>2006</u>	<u>2005</u>
Loans to customers.....	1,458,115	850,082
Less — Allowance for loan impairment (Note 11).....	<u>(53,005)</u>	<u>(35,728)</u>
Loans to customers	<u>1,405,110</u>	<u>814,354</u>

As at 31 December 2006, the Bank had a concentration of loans represented by USD 166,597 thousand due from the ten largest third party borrowers (11.4 per cent of gross loan portfolio) (2005 — USD 130,592 thousand or 15.4 per cent). An allowance of USD 885 thousand (2005 — USD 2,070 thousand) was made against these loans.

In 2001-2004, the Bank received loans from the NBU under the Small and Medium Enterprise Support Programme of the European Bank for Reconstruction and Development (“EBRD”) (see Note 15). The Bank bears the credit risk on loans granted to borrowers under this programme and

earns an interest margin of 5 per cent. As at 31 December 2006, loans granted under this programme amounted to USD 5,057 thousand (2005 — USD 11,775 thousand) and were pledged as collateral to secure repayment of loans received from the NBU under this programme.

In 2003, the Bank received a loan from the Ministry of Finance of Ukraine administered by the NBU under the Micro, Small and Medium Enterprise Support Programme of the International Bank for Reconstruction and Development (“IBRD”) (see Note 15). The Bank bears the credit risk on the loans granted to borrowers under this programme and earns an interest margin of no less than 5 per cent. As at 31 December 2006, loans granted under this programme amounted to USD 5,694 thousand (2005 — USD 8,357 thousand) and were pledged as collateral to secure repayment of loans received from the Ministry of Finance of Ukraine under this programme.

In 2004-2005, the Bank received loans from the NBU under the Micro, Small and Medium Enterprise Support Programme of the German Government (see Note 15). The Bank bears the credit risk on the loans granted to borrowers under this programme and earns an interest margin of 8 per cent. As at 31 December 2006, loans granted under this programme amounted to USD 4,012 thousand (2005 — USD 3,594 thousand) and were pledged as collateral to secure repayment of loans received from the NBU under this programme.

In July 2006, the Bank has received a loan from the State Mortgage Institution under the individuals’ mortgage crediting support programme (see Note 16). The Bank bears the credit risk on the loans granted to borrowers under this programme. As at 31 December 2006, mortgage loans granted to individuals under this programme amounted to USD 1,901 thousand (2005 — nil) and were pledged as collateral to secure repayment of loan received from the State Mortgage Institution under this programme.

As at 31 December 2006, loans to individuals included USD 194,173 thousand (2005 — USD 104,836 thousand) of consumer loans granted within a joint project with a consumer loan processing company, which is 100 per cent owned by the investment fund “Afin” (see Note 9). USD 122,184 thousand (2005 — nil) of these loans were insured against credit risk with an insurance company which is 99 per cent owned by an ex-subsiary of the Bank. USD 63,831 thousand (2005 — USD 58,925 thousand) of these loans were insured against credit risk with an insurance company which is 98 per cent owned by the investment fund “Afin”. USD 8,158 thousand (2005 — USD 45,911 thousand) of these loans were collateralised with cash deposits pledged by the consumer loan processing company (3 per cent of loans secured). No allowance was made against these loans.

As at 31 December 2006, loans to legal entities included USD 62,509 thousand of loans granted to borrowers, whose shares are owned by the investment fund “Kruf” (2005 — USD 13,698 thousand and USD 18,172 thousand of loans granted to borrowers, whose shares are owned by the investment funds “Spag” and “Kruf”, respectively). An allowance of USD 302 thousand (2005 — nil) was recognised against these loans.

Loans are made principally within Ukraine to the following industry sectors:

	<u>2006</u>	<u>2005</u>
Individuals	773,588	338,359
Trading enterprises	205,386	216,336
Real estate construction	156,277	63,631
Agriculture and food processing	114,789	65,463
Manufacturing enterprises	91,737	46,960
Trading in oil and related products	83,021	110,901
Other	33,317	8,432
	<u>1,458,115</u>	<u>850,082</u>

8. Assets held for sale

As at 31 December 2006, assets held for sale include non-current assets, representing collateral under loans extended to customers which were taken over by the Bank as a result of its foreclosing on loans. The Bank intends to complete disposal of these assets by the end of 2007.

9. Investment securities

Investment securities designated at fair value through profit or loss comprise:

	<u>2006</u>	<u>2005</u>
Investment certificates	119,812	72,960
Ministry of Finance treasury bills	8,638	10,381
Municipal bonds	4,857	3,449
Corporate bonds.....	9,658	3,704
Investment securities designated at fair value through profit or loss	<u>142,965</u>	<u>90,494</u>

Included in financial assets at fair value through profit or loss (designated at initial recognition) are the investments made by the Group into investment certificates, Ministry of Finance treasury bills, municipal and corporate bonds. This portfolio is risk managed on a fair value basis and its performance is reported on that basis to key management personnel.

As at 31 December 2006, the fair value of the investment securities included in the table above was determined by reference to quoted market prices except for investment certificates.

The fair value of the investment certificates was estimated on the basis of the fair values of assets in the investment portfolios of each investment fund by proportional allocation of the fair values of assets owned by the investment funds to the number of certificates issued by those investment funds. Considering that the assets of the investment funds comprise shares and interests in Ukrainian companies, which are engaged in different types of businesses and projects, and those shares and interests do not have a quoted market price in an active market, the asset management companies have performed a valuation to determine the fair value of the assets owned by the funds. The valuation of assets of the investment funds was performed by independent appraisers. Discounted cash flow analysis was used as the valuation technique by those appraisers. Valuations of the assets of the funds are performed by independent appraisers at least annually.

In 2006, the Bank recognised a gain on change in the fair value of investment certificates of USD 36,556 thousand (2005: USD 27,925 thousand), which is included in the consolidated statement of income as gains less losses from investment securities.

Coupon interest rates and maturities of these securities are as follows:

	<u>2006</u>		<u>2005</u>	
	%	Maturity	%	Maturity
Investment certificates	n/a	2014-2030	n/a	2014-2030
Ministry of Finance treasury bills:				
— US dollar.....	8.5%	2007	8.5%	2007
— hryvnia.....	10.7-11.3%	2008-2009	11.3%	2008-2009
Municipal bonds	13%	2008	13%	2008
Corporate bonds.....	10-16%	2008-2011	12-17%	2006-2010

Investment certificates represent securities issued by the following investment funds:

Investment fund	Asset management company	Maturity of investment fund	2006		2005	
			Fair value of certificates	Number of certificates	Fair value of certificates	Number of certificates
Afin.....	Finkom Ltd.	2030	67,349	14,618,600	46,973	6,927,711
Kruf.....	Kruar Ltd.	2030	44,752	8,791,100	15,092	7,144,000
Spag.....	Spagia Ltd.	2014	7,711	18,406	10,895	26,010
Total.....			119,812		72,960	

As at 31 December 2006 and 2005, the assets of the investment fund “Afin” comprise shares of three Ukrainian companies engaged in the financial sector, including a consumer loan processing company (100 per cent interest), an insurance company (98 per cent interest) and a leasing company (100 per cent interest).

During 2006, the investment fund “Spag” sold stakes in five Ukrainian companies engaged in the realisation and development of projects in different industries, including lamp production, the hotel industry and construction of residential property, to the investment fund “Kruf”. The interest of the investment fund “Spag” in the capital of these companies ranged from 35 per cent to 100 per cent. As at 31 December 2006, the assets of the investment fund “Spag” mostly comprise amounts receivable from the investment fund “Kruf” on stakes sold.

As at 31 December 2006, the assets of the investment fund “Kruf” comprise shares and stakes of fourteen Ukrainian companies engaged in the realisation and development of projects in real estate, construction of commercial property in Kyiv and other major cities in Ukraine, with interests ranging from 9.8 per cent to 100 per cent (2005 — 100 per cent interest in eleven Ukrainian companies).

The investment funds are established by the asset management companies under Ukrainian legislation. The asset management companies obtain licences and report to the State Commission for Securities and Stock Market. All investments funds are closed non-diversified with private placement venture funds. There are no regulatory restrictions on the type of securities and composition of portfolios of assets for such type of funds. The asset management companies do not have an obligation to repurchase the investment certificates before the maturity of the respective investment fund. The Bank does not have any restrictions on the disposal of the investment certificates to third parties.

As at 31 December 2006, treasury bills in the amount of USD 3,762 thousand were pledged as collateral against loans received from the NBU (2005 — USD 5,130 thousand pledged as collateral against loans and deposits received from other banks).

As at 31 December 2006, treasury bills include USD 4,825 thousand of State treasury bills of external debt, which were issued by the Ukrainian Government to repay debt to RAO “Gazprom”, Russia, and which were acquired by the Bank in 1999 (2005 — USD 5,032 thousand).

Available-for-sale investment securities comprise:

	2006	2005
Promissory notes.....	9,042	826
Corporate shares.....	263	252
Investment securities available-for-sale.....	9,305	1,078

Promissory notes comprise notes issued by Ukrainian companies and redeemable in 2010. As at 31 December 2006, the fair value of promissory notes was determined by reference to recent market transactions on arm’s length terms.

Corporate shares are represented by shares of Ukrainian companies acquired for the purposes of participating in various financial market organisations. The Bank’s share in any of these

organisations does not exceed 6 per cent. These securities do not have quoted prices and are stated at cost less any allowance for impairment.

10. Taxation

The corporate income tax expense comprises:

	2006	2005
Current tax charge.....	8,188	1,522
Deferred tax charge — origination and reversal of temporary differences	14,283	7,537
Less: deferred tax recognised directly in equity.....	(5,708)	—
Income tax expense	16,763	9,059

In 2006, Ukrainian corporate income tax was levied on taxable income less allowable expenses at a rate of 25 per cent (2005 — 25 per cent).

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2006	2005
Profit before tax	66,773	36,165
Statutory tax rate.....	25%	25%
Theoretical income tax expense at the applicable statutory rate	16,693	9,041
Non-deductible expenditures	508	165
Current tax of prior periods.....	129	—
Disposal of subsidiaries	(195)	—
Gross income of prior periods.....	(372)	—
Other differences	—	(147)
Income tax expense	16,763	9,059

	2004	Originatio n and reversal of temporary differences in the statement of income	Translation difference	2005	Originatio n and reversal of temporary differences in the statement of income	Directly in equity	2006
Tax effect of deductible temporary differences:							
Allowances for impairment and provisions for other losses.....	8	(8)	—	—	—	—	—
Accruals.....	962	395	—	1,357	(807)	834	1,384
Deferred tax asset	970	387	—	1,357	(807)	834	1,384
Tax effect of taxable temporary differences:							
Fair value measurement of securities.....	(6,012)	(7,502)	(405)	(13,919)	(6,253)	—	(20,172)
Deferred up-front fees.....	—	(347)	—	(347)	(152)	—	(499)
Allowances for impairment and provisions for other losses.....	—	(134)	—	(134)	(172)	—	(306)
Property and equipment	(766)	59	—	(707)	(1,191)	(6,542)	(8,440)
				(15,107)			
Deferred tax liability	(6,778)	(7,924)	(405)	(13,750)	(7,768)	(6,542)	(29,417)
Deferred tax liability	(5,808)	(7,537)	(405)	(8,575)	(5,708)	(5,708)	(28,033)

11. Allowances for impairment and provisions

The movements in allowances for impairment of interest earning assets were as follows:

	Loans to customers	Due from credit institutions	Total
31 December 2004	25,443	534	25,977
Currency translation differences	1,773	18	1,791
Charge (release)	8,512	(385)	8,127
31 December 2005	35,728	167	35,895
Currency translation differences	(161)	—	(161)
Charge (release)	18,232	(167)	18,065
Write-offs	(794)	—	(794)
31 December 2006	53,005	—	53,005

The movements in allowances for other assets and provisions were as follows:

	Other assets	Guarantees and commitments	Total
31 December 2004	571	1,700	2,271
Currency translation differences	29	86	115
Release	(464)	(549)	(1,013)
31 December 2005	136	1,237	1,373
Currency translation differences	48	188	236
Charge (release)	246	(1,425)	(1,179)
31 December 2006	430	—	430

Allowances for impairment of assets are deducted from the carrying amounts of the related assets. Provisions for guarantees and commitments are recorded in liabilities.

12. Property and equipment

The movements of property and equipment were as follows:

	Buildings	Leasehold- improvements	Computers and office equipment	Fixtures and fittings	Motor vehicles	Total
Cost or revalued amount						
31 December 2005	30,728	7,833	18,408	8,175	2,552	67,696
Additions	20,566	1,809	7,821	2,292	1,046	33,534
Disposals	(663)	(231)	(822)	(135)	(820)	(2,671)
Impairment loss	(49)	—	—	—	—	(49)
Effect of revaluation	25,505	—	—	—	—	25,505
31 December 2006	76,087	9,411	25,407	10,332	2,778	124,015
Accumulated depreciation						
31 December 2005	806	3,512	5,726	1,517	997	12,558
Charge for the year	516	1,334	4,126	869	648	7,493
Disposals	(659)	(161)	(355)	(49)	(393)	(1,617)
Effect of revaluation	(663)	—	—	—	—	(663)
31 December 2006	—	4,685	9,497	2,337	1,252	17,771
Net book value:						
31 December 2006	76,087	4,726	15,910	7,995	1,526	106,244
31 December 2005	29,922	4,321	12,682	6,658	1,555	55,138

	Buildings	Leasehold- improvements	Computers and office equipment	Fixtures and fittings	Motor vehicles	Total
Cost or revalued amount 31						
December 2004	25,726	5,743	10,572	5,124	1,744	48,909
Translation difference	1,301	290	535	259	88	2,473
Additions	4,473	2,627	7,573	3,130	1,405	19,208
Disposals	(772)	(827)	(272)	(338)	(685)	(2,894)
31 December 2005.....	30,728	7,833	18,408	8,175	2,552	67,696
Accumulated depreciation 31						
December 2004	616	2,635	2,870	887	576	7,584
Translation difference	31	133	145	45	29	383
Charge for the year.....	376	1,016	2,750	620	547	5,309
Disposals	(217)	(272)	(39)	(35)	(155)	(718)
31 December 2005.....	806	3,512	5,726	1,517	997	12,558
Net book value:						
31 December 2005.....	29,922	4,321	12,682	6,658	1,555	55,138
31 December 2004.....	25,110	3,108	7,702	4,237	1,168	41,325

The Group engaged an independent appraiser to determine the fair value of its buildings. Fair value is determined by reference to market-based evidence. The date of the revaluation was 31 December 2006. If the buildings were measured using the cost model, the carrying amounts would be as follows:

	2006	2005
Cost.....	47,097	29,458
Accumulated depreciation and impairment.....	(663)	(261)
Net carrying amount	46,434	29,197

13. Intangible assets

The movements in intangible assets were as follows:

	Software	Total
Cost:		
31 December 2005.....	2,069	2,069
Additions	743	743
Disposals.....	(80)	(80)
31 December 2006.....	2,732	2,732
Accumulated amortisation:		
31 December 2005.....	1,392	1,392
Charge for the year	184	184
Disposals.....	(19)	(19)
31 December 2006.....	1,557	1,557
Net book value:		
31 December 2006.....	1,175	1,175
31 December 2005.....	677	677

	Goodwill	Negative goodwill	Software	Total
Cost:				
31 December 2004	187	(235)	1,914	1,866
Translation difference.....	9	(12)	97	94
Additions.....	—	—	71	71
Disposals.....	(196)	247	(13)	38
31 December 2005	—	—	2,069	2,069
Accumulated amortisation:				
31 December 2004	156	(210)	1,181	1,127
Translation difference.....	8	(11)	60	57
Charge for the year.....	—	—	156	156
Disposals.....	(164)	221	(5)	52
31 December 2005	—	—	1,392	1,392
Net book value:				
31 December 2005	—	—	677	677
31 December 2004	31	(25)	733	739

14. Other assets and liabilities

Other assets comprise:

	2006	2005
Balances on transit accounts on settlements with clients.....	6,824	1,171
Prepayments for property and equipment.....	2,595	1,914
Other prepayments.....	1,964	1,038
Amounts receivable under finance leases.....	1,446	2,154
Accounts receivable.....	842	938
Accrued income.....	301	735
Settlements on operations with securities.....	—	12
Other.....	675	1,239
	14,647	9,201
Less — Allowance for impairment (Note 11).....	(430)	(136)
Other assets	14,217	9,065

Other liabilities comprise:

	2006	2005
Accounts payable for services provided.....	3,293	52
Accrued expenses.....	1,581	1,435
Balances on transit accounts on settlements with clients.....	1,289	1,548
Accounts payable for acquired equipment.....	793	—
Payables to deposits insurance fund.....	746	512
Accrued taxes payable.....	48	—
Settlements on operations with securities.....	22	28
Deferred income.....	12	104
Provision for credit related commitments.....	—	1,237
Other.....	376	213
Other liabilities	8,160	5,129

15. Amounts due to the NBU and Government

Amounts due to the NBU and Government comprise:

	2006	2005
Amounts due to the NBU:		
— loans received from the NBU.....	3,050	2,737
— loans received from the NBU under the EBRD programme.....	6,293	11,775
Amounts due to the Government:		
— loans received from the Government under the IBRD programme.....	6,114	8,357
— loans received from the Government under the KfW grant.....	3,952	3,582
	19,409	26,451

Loans received from the NBU under the EBRD programme represent US dollar denominated Loans received under the Small and Medium Enterprise Support Programme of the EBRD in 2001-2004. These loans bear interest at US dollar six months LIBOR +3 per cent p.a. and mature in 2007-2009. The loans were granted subject to the Bank's continuing compliance with economic indicators as determined by the EBRD. These loans are fully secured by loans to customers granted by the Bank under this programme (see Note 7).

Loans due to the Government under the IBRD programme represent US dollar denominated loans received from the Ministry of Finance of Ukraine under the Micro, Small and Medium Enterprise Support Programme of the IBRD in 2003. These loans bear interest at US dollar six months LIBOR + 1.5 per cent p.a. and mature in 2010. These loans are administered by the NBU and were granted subject to the Bank's compliance with economic indicators as determined by the IBRD. These loans are fully secured by loans to customers granted by the Bank under this programme (see Note 7).

Loans under the KfW (Kreditanstalt für Wiederaufbau) grant represent euro denominated loans received from a German-Ukrainian fund within the Micro, Small and Medium Enterprise Support Programme of the German Government in 2004-2005. These loans bear interest at three months EURIBOR + 1.5 per cent p.a. and are repayable in 2007-2008. The loans are administered by the NBU and were granted subject to the Bank's compliance with economic indicators as determined by the KfW. These loans are fully secured by loans to customers granted by the Bank under this programme (see Note 7).

16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<u>2006</u>	<u>2005</u>
Current accounts.....	5,814	3,090
Time deposits and loans.....	505,568	242,951
Repurchase agreements.....	—	3,865
Amounts due to credit institutions	<u>511,382</u>	<u>249,906</u>

Included in current accounts as at 31 December 2006 is a balance of USD 3,960 thousand (2005 — USD 1,218 thousand) with a single Ukrainian bank.

In November 2006, the Bank attracted a syndicated loan amounting to USD 114,000 thousand from a group of OECD banks (2005 — USD 32,000 thousand). As at 31 December 2006, the carrying value of the loan included in time deposits and loans is USD 113,841 thousand (2005 — USD 32,144 thousand). The loan matures in November 2007 and bears interest at US dollar three months LIBOR + 2.15 per cent p.a. (2005 — US dollar three months LIBOR + 3.4 per cent p.a.).

During 2006, the Bank placed with and received short-term funds from Ukrainian banks in different currencies. As at 31 December 2006, the Bank received an equivalent of USD 57,132 thousand, an equivalent of USD 83,207 thousand and USD 109,423 thousand as deposits in Ukrainian hryvnia, euros and US dollars, respectively, of forty Ukrainian banks (2005 — an equivalent of USD 50,494 thousand, an equivalent of USD 34,070 thousand and USD 20,595 thousand as deposits in Ukrainian hryvnia, euros and US dollars, respectively, of twenty three Ukrainian banks), which relate to deposits granted to the same banks (see Note 6).

In July 2005, the Bank attracted a long-term deposit from a single internationally recognised OECD bank in the amount of USD 29,703 thousand. As at 31 December 2006, the carrying value of the deposit is USD 30,517 thousand (2005 — USD 30,369 thousand).

As at 31 December 2006, the Bank attracted long-term deposits from internationally recognised foreign banks in the amount of USD 77,548 thousand to finance the export-import transactions of its clients (2005 — USD 41,489 thousand).

17. Amounts due to customers

Amounts due to customers include the following:

	<u>2006</u>	<u>2005</u>
Current accounts		
— Companies	155,479	73,908
— Individuals	115,630	64,115
	<u>271,109</u>	<u>138,023</u>
Time deposits		
— Companies	174,899	78,774
— Individuals	640,222	441,621
— Certificates of deposits issued.....	907	1,438
	<u>816,028</u>	<u>521,833</u>
Amounts due to customers	<u>1,087,137</u>	<u>659,856</u>
Held as security against letters of credit and guarantees.....	9,142	5,713

As at 31 December 2006, time deposits from companies included USD 110,231 thousand (63 per cent of total time deposits from companies) due to the ten largest third party customers of the Bank (2005 — USD 35,411 thousand (45 per cent)).

As at 31 December 2006, an equivalent of USD 65,123 thousand (2005 — USD 3,423 thousand) of time deposits from companies were pledged as security against loans issued to these companies by the Bank.

18. Eurobonds issued

In November 2005, the Bank obtained a loan amounting to USD 100,000 thousand from Dresdner Bank AG. As at 31 December 2006, the carrying value of the loan is USD 100,212 thousand (2005 — USD 99,518 thousand). This loan was funded by 9.5 per cent loan participation notes (“Eurobonds”) issued by, but without recourse to, Dresdner Bank AG, for the sole purpose of funding the loan to the Bank. The loan matures in November 2008. The interest rate on the loan is 9.5 per cent p.a. Interest payments are made semi-annually in arrears on 4 May and 7 November of each year, commencing 4 May 2006.

19. Other debt securities issued

Other debt securities comprise:

	<u>2006</u>	<u>2005</u>
Bonds issued.....	36,397	2,669
Promissory notes issued.....	4,129	1,204
Other debt securities issued	<u>40,526</u>	<u>3,873</u>

In February 2006, the Bank issued long-term domestic bonds. The bonds mature in February 2008. The interest rate on the bonds is 12.5 per cent p.a. Interest payments are made semi-annually in arrears on 7 July and 7 February of each year, commencing 7 July 2006.

Promissory notes comprise notes issued by the Group in favour of Ukrainian companies for purchased equipment. These notes mostly mature in 2008-2010.

20. Equity

Movements in shares outstanding, issued and fully paid were as follows:

	Number of shares		Nominal amount, thousand of UAH		Total
	Privileged	Ordinary	Privileged	Ordinary	
31 December 2004	40,000	8,054,150	400	80,542	80,542
Increase in share capital.....		15,905,850		159,058	159,058
Shares conversion.....	(39,519)	39,519	(395)	395	—
31 December 2005	481	23,999,519	5	239,995	240,000
Increase in share capital.....		14,986,266		149,863	149,863
31 December 2006	481	38,985,785	5	389,858	389,863

The total number of authorised ordinary and privileged shares is 39,035,785 (2005 — 23,999,519) and 481 (2005 — 481) respectively, both with a nominal value of UAH 10 per share. All authorised shares have been issued. As at 31 December 2006, 50,000 shares with a total nominal value of UAH 500 thousand were issued but not paid yet (2005 — all issued shares were paid).

The share capital of the Bank was contributed in Ukrainian hryvnia and US dollars by the shareholders who are entitled to dividends and any capital distribution in Ukrainian hryvnia. Privileged shares are non-voting and are entitled to dividends, if any, in the amount approved by the shareholders' meeting irrespective of the financial results of the Bank.

The following is a reconciliation of the Bank's statutory share capital and share capital presented in accordance with IFRS:

	2006	2005
Share capital in accordance with Ukrainian regulations, in UAH '000	389,862	240,000
Translation difference arising from the application of the US dollar as the presentation currency prior to 1 January 2002, in UAH thousand.....	46,251	46,251
Expenses recognised in equity, in UAH thousand.....	(13,700)	(1,059)
	422,413	285,192
Exchanges rate used to translate into US dollars at 31 December.....	5.05	5.05
Share capital in accordance with IFRS, in USD '000	83,646	56,474

On 22 August 2006, the shareholders of the Bank approved an issue of 15,036,266 ordinary shares. The shares were paid in cash, UAH 500 thousand (USD 99 thousand) remained unpaid as at 31 December 2006. The share issue was registered with the NBU on 10 November 2006 and with the State Securities and Stock Market Commission of Ukraine on 29 November 2006.

During 2006, one of the existing shareholders of the Bank sold 2,792,103 shares to foreign investors through a private placement and simultaneously used the proceeds from the sale to acquire new shares of the Bank. Expenses of USD 2,503 thousand associated with the private placement were recognised in equity as a deduction from the proceeds of the share issue.

Dividends that were declared and paid by the Bank to its shareholders as its earnings distribution are as follows:

	2006	2005
Dividends declared and paid:		
- in thousands of UAH (for 2004: UAH 0.10 per share, for 2005: UAH 0.10 per share).....	2,400	809
- in thousands of USD (for 2004: USD 0.02 per share, for 2005: USD 0.02 per share).....	475	160

The Bank's distributable reserves are determined by the amount of its reserves as disclosed in its accounts prepared in accordance with UAR. As at 31 December 2006, the statutory accounts of the Bank disclosed distributable reserves of UAH 105,471 thousand (USD 20,885 thousand) (2005 — UAH 82,765 thousand, USD 16,389 thousand) and the amount of non-distributable reserves was UAH 7,593 thousand (USD 1,504 thousand) (2005 — UAH 6,272 thousand, USD 1,242 thousand).

Non-distributable reserves are represented by a general reserve fund, which is created as required by Ukrainian legislation, in respect of general banking risks, including future losses and other unforeseen risks or contingencies.

21. Commitments and contingencies

Operating environment

The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, relatively high inflation and the existence of currency controls which cause the national currency to be illiquid outside of Ukraine. The stability of the Ukrainian economy will be significantly impacted by the government's policies and actions with regards to supervisory, legal, and economic reforms.

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Tax and other regulatory compliance

Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.

At the same time there is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future, although this risk significantly diminishes with passage of time. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome.

Financial commitments and contingencies

The Group's financial commitments and contingencies comprised the following:

	<u>2006</u>	<u>2005</u>
Credit related commitments		
Undrawn non-cancellable loan commitments	84,606	40,989
Letters of credit.....	208,663	44,047
Guarantees	27,119	13,810
Promissory notes guarantees.....	3,860	18,872
	<u>324,248</u>	<u>117,718</u>
Less — Cash held as security against letters of credit and guarantees.....	<u>(9,142)</u>	<u>(5,713)</u>
Financial commitments and contingencies	<u>315,106</u>	<u>112,005</u>

As at 31 December 2006, no provision was recognised by the Group against guarantees issued (2005 — a provision of USD 1,237 thousand was recognised).

Financial covenants

The Bank is a party to various arrangements with other credit institutions, which contain financial covenants relating to the financial performance and general risk profile of the Bank. Under such covenants, the Bank is required to maintain a minimum international risk based capital adequacy ratio of 12 per cent, to limit credit exposure to a single borrower and to ensure a certain level of operating

activity. These financial covenants may restrict the Bank's ability to execute certain business strategies and enter into other significant transactions in the future.

As at 31 December 2006, the Bank was in compliance with all financial covenants set in arrangements with other credit institutions.

22. Net fee and commission income

Fees and commissions comprise:

	2006	2005
Fee and commission income		
Cash and settlement operations.....	18,075	12,573
Documentary operations.....	4,051	781
Currency conversion.....	846	2,342
Securities dealing fees.....	646	303
Other.....	653	1,147
	<u>24,271</u>	<u>17,146</u>
Fee and commission expenses		
Cash and settlement operations.....	(1,650)	(2,263)
Credit fees.....	(202)	(276)
Currency conversion.....	(47)	(209)
Other.....	(1,164)	(803)
	<u>(3,063)</u>	<u>(3,551)</u>
Fees and commissions, net.....	<u>21,208</u>	<u>13,595</u>

23. Gains less losses from investment securities

Gains less losses from investment securities comprise:

	2006	2005
Realised gain /(loss).....	3,868	(79)
Gain on change in fair value.....	36,816	27,958
Loss on change in fair value.....	(260)	(12)
	<u>40,424</u>	<u>27,867</u>

In 2006, net gains on financial assets designated by the Group as at fair value through profit or loss amount to USD 36,556 thousand (2005: USD 27,946 thousand).

24. Salaries and other operating expenses

Salaries and benefits, and other operating expenses comprise:

	2006	2005
Salaries and bonuses.....	32,022	17,389
Employment taxes.....	9,967	5,687
Salaries and benefits.....	<u>41,989</u>	<u>23,076</u>
Occupancy and rent.....	9,123	5,543
Office maintenance.....	7,799	5,259
Marketing and advertising.....	3,808	2,558
Expenses relating to deposits insurance fund.....	2,760	1,711
Communications.....	2,705	2,130
Data processing and information systems maintenance.....	2,063	1,423
Security.....	1,854	1,546
Legal and consultancy.....	1,520	825
Business travel and related expenses.....	1,389	758
Credit files storage and correspondence services.....	1,221	—
Taxes, duties and charges.....	901	1,531
Sponsorship and charity.....	190	174
Other.....	2,190	1,587
Other operating expenses.....	<u>37,523</u>	<u>25,045</u>

25. Financial risk management

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The main financial risks inherent in the Group's operations are those related to credit, liquidity and market movements in interest and foreign exchange rates and equity prices. A summary description of the Group's risk management policies in relation to those risks follows.

Credit risk

The Group is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to industry segments. The Management Board and/or Credit Committee approve limits on the level of credit risk by borrower and product. Where appropriate, the Group obtains collateral. Such risks are monitored on a continuous basis and subject to frequent reviews.

The exposure to any one borrower including banks is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Management Board and/or Credit Committee. The maximum credit risk exposure, ignoring the fair value of any collateral, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the accompanying financial statements and the disclosed financial commitments.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Geographical concentration

The geographical concentration of the Group's monetary assets, liabilities and off-balance sheet commitments is set out below:

	2006			
	Ukraine	OECD	CIS and other non-OECD countries	Total
Assets:				
Cash and cash equivalents	113,492	53,384	3,147	170,023
Precious metals	3,191	—	—	3,191
Amounts due from credit institutions	249,830	2,166	—	251,996
Loans to customers	1,405,043	45	22	1,405,110
Investment securities:				
— designated at fair value through profit or loss	142,965	—	—	142,965
— available-for-sale	9,305	—	—	9,305
Other monetary assets	8,544	—	—	8,544
	<u>1,932,370</u>	<u>55,595</u>	<u>3,169</u>	<u>1,991,134</u>
Liabilities:				
Amounts due to the NBU and Government	19,409	—	—	19,409
Due to credit institutions	264,921	244,248	2,213	511,382
Due to customers	1,016,257	2,183	68,697	1,087,137
Eurobonds issued	—	100,212	—	100,212
Other debt securities issued	40,526	—	—	40,526
Other monetary liabilities	9,651	—	—	9,651
	<u>1,350,764</u>	<u>346,643</u>	<u>70,910</u>	<u>1,768,317</u>
Net balance sheet position	<u>581,606</u>	<u>(291,048)</u>	<u>(67,741)</u>	<u>222,817</u>
Net off-balance sheet position	<u>309,750</u>	<u>4,873</u>	<u>483</u>	<u>315,106</u>

	2005			Total
	Ukraine	OECD	CIS and other non-OECD countries	
Assets:				
Cash and cash equivalents	101,191	15,620	3,391	120,202
Precious metals	1,455	—	—	1,455
Amounts due from credit institutions.....	105,262	1,253	—	106,515
Loans to customers	814,284	—	70	814,354
Investment securities:				
— designated at fair value through profit or loss.....	90,494	—	—	90,494
— available-for-sale	1,078	—	—	1,078
Securities pledged under repurchase agreements.....	3,865	—	—	3,865
Other monetary assets.....	4,780	—	—	4,780
	1,122,409	16,873	3,461	1,142,743
Liabilities:				
Amounts due to the NBU and Government	26,451	—	—	26,451
Due to credit institutions.....	129,354	119,094	1,458	249,906
Due to customers	621,041	2,506	36,309	659,856
Eurobonds issued	—	99,518	—	99,518
Other debt securities issued	3,873	—	—	3,873
Loan.....	—	—	17,700	17,700
Other monetary liabilities	3,811	—	—	3,811
	784,530	221,118	55,467	1,061,115
Net balance sheet position	337,879	(204,245)	(52,006)	81,628
Net off-balance sheet position	106,873	4,133	999	112,005

Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

Currency risk

The Group is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Asset and Liability Management Committee sets limits on the net currency position by major currencies (US dollars, Ukrainian hryvnia and euro). These limits also comply with the minimum requirements of the National Bank of Ukraine.

The Group's exposure to foreign currency exchange rate risk follows:

	2006				Total
	UAH	USD	Euro	Other	
Assets:					
Cash and cash equivalents	87,360	56,313	12,847	13,503	170,023
Precious metals	—	—	—	3,191	3,191
Amounts due from credit institutions.....	118,362	117,734	13,727	2,173	251,996
Loans to customers	575,680	699,465	110,296	19,669	1,405,110
Investment securities:					
— designated at fair value through profit or loss.....	138,140	4,825	—	—	142,965
— available-for-sale	9,305	—	—	—	9,305
Other monetary assets.....	5,070	2,604	870	—	8,544
	933,917	880,941	137,740	38,536	1,991,134
Liabilities:					
Amounts due to the NBU and Government	3,050	12,407	3,952	—	19,409
Due to credit institutions.....	102,217	265,315	143,757	93	511,382
Amounts due to customers.....	608,568	372,772	82,164	23,633	1,087,137
Eurobonds issued.....	—	100,212	—	—	100,212
Other debt securities issued	40,526	—	—	—	40,526
Other monetary liabilities	8,589	895	162	5	9,651
	762,950	751,601	230,035	23,731	1,768,317
Net balance sheet position	170,967	129,340	(92,295)	14,805	222,817
Net off-balance sheet position	71,136	126,267	74,427	43,276	315,106

	2005				Total
	UAH	USD	Euro	Other	
Assets:					
Cash and cash equivalents	86,789	24,646	8,123	644	120,202
Precious metals	—	—	—	1,455	1,455
Amounts due from credit institutions.....	20,391	79,680	6,444	—	106,515
Loans to customers	351,481	389,039	73,139	695	814,354
Investment securities:					
— designated at fair value through profit or loss.....	85,462	5,032	—	—	90,494
— available-for-sale	1,078	—	—	—	1,078
Securities pledged under repurchase agreements.....	3,865	—	—	—	3,865
Other monetary assets.....	3,991	707	82	—	4,780
	553,057	499,104	87,788	2,794	1,142,743
Liabilities:					
Amounts due to the NBU and Government	1,222	25,229	—	—	26,451
Amounts due to credit institutions	64,758	114,073	71,009	66	249,906
Amounts due to customers.....	381,104	213,540	56,730	8,482	659,856
Eurobonds issued.....	—	99,518	—	—	99,518
Other debt securities issued	3,873	—	—	—	3,873
Loans	—	17,700	—	—	17,700
Other monetary liabilities	2,535	1,189	87	—	3,811
	453,492	471,249	127,826	8,548	1,061,115
Net balance sheet position	99,565	27,855	(40,038)	(5,754)	81,628
Net off-balance sheet position	29,856	54,493	26,687	969	112,005

Other currencies comprise mainly Swiss francs, Russian roubles and bank gold.

The Group's principal cash flows (revenues, operating expenses) are largely generated in Ukrainian hryvnia. As a result, future movements in the exchange rate between the Ukrainian hryvnia and other currencies will affect the carrying value of the Group's foreign currency denominated monetary assets and liabilities.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on financial instruments. The principles of interest rate management are determined in Risk management policy, which is approved by the Management Board.

The tables below summarise the Group's exposure to interest rate risk as at 31 December 2006. Included in the table are the Group's monetary assets and liabilities at carrying amounts, classified by the earlier of contractual repricing or maturity dates.

	2006							Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	Past due	
Assets:								
Cash and cash equivalents..	118,851	51,172	—	—	—	—	—	170,023
Precious metals.....	3,191	—	—	—	—	—	—	3,191
Amounts due from credit institutions.....	—	167,688	82,142	—	2,166	—	—	251,996
Loans to customers.....	—	76,879	93,381	431,478	607,806	164,944	30,622	1,405,110
Investment securities:								
— designated at fair value through profit or loss	—	—	4,825	3,813	14,515	119,812	—	142,965
— available-for-sale.....	—	—	—	—	9,042	263	—	9,305
Other monetary assets	6,955	52	620	460	381	—	76	8,544
	<u>128,997</u>	<u>295,791</u>	<u>180,968</u>	<u>435,751</u>	<u>633,910</u>	<u>285,019</u>	<u>30,698</u>	<u>1,991,134</u>
Liabilities:								
Amounts due to the NBU and Government.....	—	—	3,952	15,457	—	—	—	19,409
Due to credit institutions	5,766	189,978	69,172	246,418	48	—	—	511,382
Due to customers.....	271,520	132,862	180,698	450,908	51,149	—	—	1,087,137
Eurobonds issued.....	—	—	—	1,535	98,677	—	—	100,212
Other debt securities issued	1,017	—	1,744	—	37,765	—	—	40,526
Other monetary liabilities...	1,287	3,586	1,369	3,293	—	116	—	9,651
	<u>279,590</u>	<u>326,426</u>	<u>256,935</u>	<u>717,611</u>	<u>187,639</u>	<u>116</u>	<u>—</u>	<u>1,768,317</u>
Total interest sensitivity gap	<u>(150,593)</u>	<u>(30,635)</u>	<u>(75,967)</u>	<u>(281,860)</u>	<u>446,271</u>	<u>284,903</u>	<u>30,698</u>	<u>222,817</u>

	2005							Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	Past due	
Assets:								
Cash and cash equivalents..	98,694	21,508	—	—	—	—	—	120,202
Precious metals.....	1,455	—	—	—	—	—	—	1,455
Amounts due from credit institutions.....	—	86,471	18,791	—	1,253	—	—	106,515
Loans to customers.....	—	20,652	96,907	367,329	242,108	57,848	29,510	814,354
Investment securities:								
— designated at fair value through profit or loss.....	—	660	674	8,341	7,859	72,960	—	90,494
— available-for-sale.....	—	—	—	—	—	1,078	—	1,078
Securities pledged under repurchase agreements...	—	—	—	1,054	2,811	—	—	3,865
Other monetary assets.....	1,211	1,122	958	490	730	—	269	4,780
	101,360	130,413	117,330	377,214	254,761	131,886	29,779	1,142,743
Liabilities:								
Amounts due to the NBU and Government.....	—	196	3,373	22,882	—	—	—	26,451
Due to credit institutions....	3,054	109,464	21,307	78,273	37,808	—	—	249,906
Due to customers.....	138,023	35,293	85,655	275,285	125,600	—	—	659,856
Eurobonds issued.....	—	—	—	1,562	—	97,956	—	99,518
Other debt securities issued	805	56	—	2,613	399	—	—	3,873
Subordinated loan.....	—	—	—	—	17,700	—	—	17,700
Other monetary liabilities...	1,543	1,990	89	—	54	135	—	3,811
	143,425	146,999	110,424	380,615	181,561	98,091	—	1,061,115
Total interest sensitivity gap.....	(42,065)	(16,586)	6,906	(3,401)	73,200	33,795	29,779	81,628

As at 31 December, the effective average interest rates by currencies for interest generating/bearing monetary financial instruments were as follows:

	2006		2005	
	UAH	USD/Euro	UAH	USD/Euro
Amounts due from credit institutions.....	8.4%	5.0%	10.0%	4.1%
Treasury bills.....	10.9%	8.5%	11.1%	8.5%
Municipal bonds.....	13.0%	—	13.0%	—
Corporate bonds.....	14.7%	—	15.1%	—
Loans to customers.....	20.8%	13.9%	19.2%	13.3%
Amounts due to credit institutions.....	7.5%	5.7%	8.9%	4.4%
Amounts due to the NBU and Government.....	10.0%	6.9%	14.1%	7.0%
Amounts due to customers.....	13.3%	9.1%	13.5%	10.1%
Eurobonds issued.....	—	10.4%	—	10.6%
Bonds issued.....	12.5%	—	13.8%	—
Subordinated loans.....	—	—	—	9.5%

During 2006, the NBU discount rate decreased from 9.5 per cent to 8.5 per cent (2005: increased from 9 per cent to 9.5 per cent).

The majority of the Group's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Group monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Group monitors on a daily basis the future expected cash flows on clients' accounts and cash flows from its banking operations, which is a part of assets/liabilities management process. The Asset and Liability Management Committee sets liquidity gap limits for each maturity category by major currencies.

The following tables provide an analysis of assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date.

	2006							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	Past due	Total
Assets:								
Cash and cash equivalents..	118,851	51,172	—	—	—	—	—	170,023
Precious metals.....	3,191	—	—	—	—	—	—	3,191
Amounts due from credit institutions.....	—	167,688	82,142	—	2,166	—	—	251,996
Loans to customers.....	—	76,879	89,429	364,703	670,007	173,470	30,622	1,405,110
Investment securities:								
— designated at fair value through profit or loss	—	—	4,825	—	18,328	119,812	—	142,965
— available -for-sale.....	—	—	—	—	9,042	263	—	9,305
Other monetary assets.....	6,955	52	620	460	381	—	76	8,544
	128,997	295,791	177,016	365,163	699,924	293,545	30,698	1,991,134
Liabilities:								
Amounts due to the NBU and Government.....	—	—	—	5,378	14,031	—	—	19,409
Due to credit institutions....	5,766	189,978	69,172	188,281	49,659	8,526	—	511,382
Due to customers.....	271,520	132,862	180,698	450,908	51,149	—	—	1,087,137
Eurobonds issued.....	—	—	—	1,535	98,677	—	—	100,212
Other debt securities issued	1,017	—	1,744	—	37,765	—	—	40,526
Other monetary liabilities...	1,287	3,586	1,369	3,293	—	116	—	9,651
	279,590	326,426	252,983	649,395	251,281	8,642	—	1,768,317
Net position	(150,593)	(30,635)	(75,967)	(284,232)	448,643	284,903	30,698	222,817
Accumulated gap	(150,593)	(181,228)	(257,195)	(541,427)	(92,784)	192,119	222,817	

	2006							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	Past due	Total
Assets:								
Cash and cash equivalents..	98,694	21,508	—	—	—	—	—	120,202
Precious metals.....	1,455	—	—	—	—	—	—	1,455
Amounts due from credit institutions.....	—	86,471	18,791	—	1,253	—	—	106,515
Loans to customers.....	—	20,652	96,907	328,452	273,487	65,346	29,510	814,354
Investment securities:								
— designated at fair value through profit or loss.....	—	660	674	4,315	11,885	72,960	—	90,494
— available-for-sale.....	—	—	—	—	—	1,078	—	1,078
Securities pledged under repurchase agreements...	—	—	—	1,054	2,811	—	—	3,865
Other monetary assets.....	1,211	1,122	958	490	730	—	269	4,780
	101,360	130,413	117,330	334,311	290,166	139,384	29,779	1,142,743
Liabilities:								
Amounts due to the NBU and Government.....	—	196	3,373	5,222	17,660	—	—	26,451
Due to credit institutions....	3,054	109,428	21,307	43,106	63,735	9,276	—	249,906
Due to customers.....	138,023	35,293	85,655	275,285	125,600	—	—	659,856
Eurobonds issued.....	—	—	—	1,562	—	97,956	—	99,518
Other debt securities issued	805	56	—	2,613	399	—	—	3,873
Subordinated loan.....	—	—	—	—	17,700	—	—	17,700
Other monetary liabilities...	1,543	1,990	89	—	54	135	—	3,811
	143,425	146,963	110,424	327,788	225,148	107,367	—	1,061,115
Net position	(42,065)	(16,550)	6,906	6,523	65,018	32,017	29,779	81,628
Accumulated gap	(42,065)	(58,615)	(51,709)	(45,186)	19,832	51,849	81,628	

The Group's capability to discharge its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. As shown in the table above, there is a liquidity gap in the periods less than five years. The management of the Group believes that the maturity of deposits will be rescheduled considering the nature of the relationship between the Group and the related lenders.

In the Ukrainian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis

presented above. In addition, the maturity gap analysis does not reflect the historical stability of customers' current accounts and time deposits. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due on demand in the tables above.

The Group believes that in spite of a substantial portion of deposits from individuals being in the period up to one year, diversification of these deposits by number and type of depositors and past experience of the Group indicates that these deposits provide a long-term and stable source of funding for the Group.

The Group has access to diversified funding resources. Funds are raised using a broad range of instruments including deposits, certificates of deposits, Eurobonds, local bonds and share capital. The Group strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Group continuously assesses liquidity risk by identifying and monitoring changes in the funding required to meet its business goals and targets set in terms of overall Group strategy.

26. Fair values of financial instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in forced sale or liquidation. As no readily available market exists for a large part of the Group's financial instruments, judgement is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realise in a market exchange from the sale of its full holdings of a particular instrument.

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value.

	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Amounts due from credit institutions.....	251,996	251,996	106,515	106,515
Loans to customers	1,405,110	1,399,080	814,354	823,584
Financial liabilities				
Amounts due to the NBU and Government	19,409	19,409	26,451	26,451
Due to credit institutions.....	511,382	511,382	249,906	249,906
Due to customers	1,087,137	1,087,137	659,856	659,856
Eurobonds issued.....	100,212	100,212	99,518	99,518
Other debt securities issued	40,526	39,844	3,873	3,873

The following methods and assumptions are used by the Group to estimate the fair value of these financial instruments:

Amounts due from and to credit institutions and customers, amounts due to the NBU and Government

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short- term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates.

Eurobonds and other debt securities issued

Market values have been used to determine the fair value of debt securities traded on an active market. For other debt securities, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

27. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or 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.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The volumes of related party transactions, outstanding balances at the year-end and related expense and income for the year are as follows:

	2006			2005				
	Shareholders	Entities under common control	Key management personnel	Shareholders	Entities under common control	Other Associates	Key management personnel	Related parties
Loans outstanding at January 1, gross	—	1,279	922	6,924	—	448	1,889	2,113
Loans issued during the year	—	123	1,495	—	9,315	—	—	—
Loan repayments during the year	—	(1,004)	(1,460)	(6,924)	(8,036)	(448)	(967)	(2,113)
Loans outstanding at 31 December, gross	—	398	957	—	1,279	—	922	—
Less: allowance for impairment at 31 December	—	(327)	—	—	(222)	—	—	—
Loans outstanding at 31 December, net	—	71	957	—	1,057	—	637	—
Interest income on loans	—	176	59	—	733	—	69	—
Impairment charge for loans	—	105	—	—	222	—	—	—
Deposits at 1 January	—	485	—	—	—	289	503	16
Deposits received during the year	—	972	1,009	—	485	—	—	—
Deposits repaid during the year	—	(754)	—	—	—	(289)	(503)	(16)
Deposits at 31 December	—	703	1,009	—	485	—	—	—
Current accounts at 31 December	113	173	19	58	—	—	—	—
Interest expense on deposits	—	60	54	—	15	—	—	—
Commitments and guarantees issued	—	—	10	—	—	—	90	—
Other operating expenses	—	—	275	—	—	—	78	—

The total amount of employee benefits paid to key management personnel for 2006 is USD 683 thousand (2005 — USD 362 thousand).

28. Capital adequacy

The Group's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines issued in 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2006, was 19.2 per cent (2005 — 12.8 per cent). This ratio exceeded the minimum ratio of 8 per cent recommended by the Basle Accord.

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