



U.S.\$2,000,000,000

Programme for the Issuance of Loan Participation Notes
to be issued by
Ukraine Issuance plc
for the purpose of financing loans to

Closed Joint-Stock Company “ALFA-BANK”

Under the Programme for the Issuance of Loan Participation Notes (the “Programme”) described in this base prospectus (the “Prospectus”), Ukraine Issuance plc (the “Issuer” or the “Lender”), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Loan Participation Notes (the “Notes”) on the terms set out herein, as supplemented by a final terms supplement (each such final terms supplement, “Final Terms”) setting out the specific terms of each issue. Notes will be issued in Series (as defined under “Overview of the Programme”) and the sole purpose of issuing each Series will be to finance a loan (each a “Loan”) to Closed Joint-Stock Company “ALFA-BANK” (the “Bank”) as borrower, on the terms of a framework agreement dated 23 July 2007 as amended and restated on 27 May 2008 as further amended and restated by the amended and restated framework agreement dated 18 July 2008 between the Lender and the Bank (as may be further amended or supplemented from time to time, the “Framework Agreement”), to be incorporated by reference and constituting an integral part of each loan agreement to be entered into between the Lender and the Bank in respect of each Loan on each Trade Date or Issue Date, as the case may be (each as defined in the principal trust deed dated 23 July 2007 as amended and restated on 27 May 2008 as further amended and restated by the amended and restated principal trust deed dated 18 July 2008 between the Issuer and Deutsche Trustee Company Limited (the “Trustee”) (as may be further amended or supplemented from time to time, the “Principal Trust Deed”, and as supplemented by a supplemental trust deed between the Issuer and the Trustee in respect of each series of Notes on each Issue Date, the “Trust Deed”) (each a “Loan Agreement”). Subject as provided in the Trust Deed, the Issuer will (a) charge, in favour of the Trustee, by way of a first fixed charge as security for its payment obligations in respect of each Series of Notes and under the Trust Deed, certain of its rights and interests under each of the relevant Loan Agreements and the relevant Account (as defined in the relevant Loan Agreement), and (b) assign, in favour of the Trustee, certain of its other rights under each of the relevant Loan Agreements but excluding any Reserved Rights (as defined in the Terms and Conditions of the Notes), in each case for the benefit of the holders of the corresponding Series of Notes (the “Noteholders”), all as more fully described under “Overview of the Programme”.

Ukrainian Issuance Holdings Limited (the “PECO Holder”) will have the benefit of a post-enforcement call option to acquire the Notes then outstanding, which will be exercisable only after certain conditions have been met. See Condition 6(g) (“Post-Enforcement Call Option”) in “Terms and Conditions of the Notes”.

Each Series of Notes will bear interest at the rate, and such interest will be payable on the dates, set out in the relevant Final Terms. Each Loan will rank *pari passu* in right of payment with the Bank’s other outstanding unsecured and unsubordinated indebtedness. Other than as described in this Prospectus and the Trust Deed, the Noteholders have no proprietary or other direct interest in the Issuer’s rights under or in respect of the relevant Loan Agreement or the relevant Loan. Subject to the terms of the Trust Deed, no Noteholder will have any rights to enforce any of the provisions in the relevant Loan Agreement or have direct recourse to the Bank except through action by the Trustee.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE “RISK FACTORS” BEGINNING ON PAGE 16 BEFORE INVESTING. THE NOTES AND THE CORRESPONDING LOANS HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “SECURITIES ACT”), AS AMENDED, AND, SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED AND SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (“REGULATION S”). THE NOTES MAY BE OFFERED AND SOLD (I) WITHIN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS (“QIBs”), AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”), THAT ARE ALSO QUALIFIED PURCHASERS (“QPs”), AS DEFINED IN SECTION 2(A)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940 (THE “INVESTMENT COMPANY ACT”) IN RELIANCE ON THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144A (THE “RULE 144A NOTES”) AND (II) TO NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S (THE “REGULATION S NOTES”). THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF THE RULE 144A NOTES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS, SEE “SUBSCRIPTION AND SALE” AND “TRANSFER RESTRICTIONS”.

Application has been made to the Irish Financial Services Regulatory Authority (the “Financial Regulator”) under Directive 2003/71/EC (the “Prospectus Directive”) for this Prospectus to be approved. Application has been made to Irish Stock Exchange Limited (the “Irish Stock Exchange”) for Notes issued under the Programme within 12 months of this Prospectus to be admitted to the official list of the Irish Stock Exchange (the “Official List”) and to be admitted to trading on its regulated market (the “Market”). The Market is a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC. Such approval relates only to the Series of Notes which are to be admitted to trading on the Market or other regulated markets for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area. Unlisted Notes may also be issued pursuant to the Programme. The relevant Final Terms in respect of the issue of any Notes will specify whether or not such Notes will be admitted to trade on the Irish Stock Exchange (or any other stock exchange) and admitted to trading on the Market (or any other market). Application may also be made to have Rule 144A Notes designated as eligible for trading in the PORTAL® Market of the NASDAQ OMX Group, Inc. (“PORTAL”), as specified in the applicable Final Terms.

Regulation S Notes of each Series which are sold in an “offshore transaction” within the meaning of Regulation S will initially be represented by a global unrestricted Note in registered form (each a “Regulation S Global Note Certificate”), without interest coupons, which will be deposited with a common depository for, and registered in the name of a nominee of, Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, *société anonyme* (“Clearstream”) on its Issue Date. Beneficial interests in a Regulation S Note, as represented by the Regulation S Global Note Certificate, will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear or Clearstream. Rule 144A Notes of each Series sold to QIBs that are also QPs, as referred to in, and subject to the transfer restrictions described in, “Subscription and Sale” and “Transfer Restrictions”, will initially be represented by a global restricted Note in registered form (each a “Rule 144A Global Note Certificate” and together with any Regulation S Global Note Certificates, the “Global Note Certificates”), without interest coupons, which will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company (“DTC”) on its Issue Date. Beneficial interests in a Rule 144A Note, as represented by one or more Rule 144A Global Note Certificates, will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See “Summary of the Provisions Relating to the Notes in Global Form”. Individual note certificates (“Individual Note Certificates”) in registered form will only be available in certain limited circumstances as described herein.

Arranger

UBS Investment Bank

Dealers

Credit Suisse

HSBC

The date of this Prospectus is 18 July 2008.

This Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer and the Bank, according to the particular nature of the Issuer, the Bank, the Notes and the Loans, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Bank.

Each of the Issuer and the Bank accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of each of the Issuer and the Bank (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Bank's legal name is Closed Joint-Stock Company "ALFA-BANK" and its registered address is 4/6 Desyatynna Street, Kyiv, Ukraine. The phone number of the Bank is +38 044 490 4600.

The Issuer's legal name is Ukraine Issuance plc. The Issuer was incorporated in England and Wales (registered number 6296689) as a public company with limited liability under the Companies Act 1985, and its registered office is 35 Great St. Helen's, London EC3A 6AP. The Issuer may be reached by telephone at +44 207 398 6300.

Certain statistical information and other data contained in "Summary of the Bank", "Description of the Bank's Business" and the Appendix to this Prospectus entitled "Appendix A: Overview of the Ukrainian Banking Sector and Regulation in Ukraine" has been extracted from publicly available data (such as information contained on official websites and in publications of governmental agencies of Ukraine, including the National Bank of Ukraine ("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. As far as the Bank is aware and is able to ascertain from the relevant publicly available information, no facts have been omitted that would render the reproduced information inaccurate or misleading.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Issuer, the Bank, the Arranger and the Dealers (each as defined under "Overview of the Programme") to subscribe for or purchase any of the Notes.

The distribution of this Prospectus and the offer or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Bank, the Arranger or the Dealers to inform themselves about and to observe any such restrictions. Further information with regard to restrictions on offers and sales of the Notes and the distribution of this Prospectus is set out under "Subscription and Sale".

No person is authorised to provide any information or make any representation not contained in this Prospectus and any information or representation not contained in this Prospectus and any information or representation so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Bank, the Trustee (as defined under "Overview of the Programme"), the Arranger or the Dealers. The delivery of this Prospectus at any time does not imply that the information contained in it is correct as at any time subsequent to its date. The website of the Bank does not form any part of the contents of this Prospectus. Any foreign language included in the document is for convenience purposes only and does not form part of this Prospectus

Neither the delivery of this Prospectus nor the offer, 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 any adverse change, in the condition (financial or otherwise) of the Bank since the date of this Prospectus.

None of the Issuer, the Bank, the Trustee, the Arranger or the Dealers or any of their respective representatives is making any representation to any offeree or purchaser of the Notes regarding the legality of an investment by such offeree or purchaser under relevant legal investment or similar laws. Each investor should consult with their own advisers as to the legal, tax, business, financial and related aspects of a purchase of the Notes.

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell any Notes or possess this Prospectus. Any consents or approvals that are needed in order to purchase any Notes must be obtained. The Bank, the Issuer, the Trustee, the Arranger and the Dealers are not responsible for compliance with these legal requirements. The appropriate characterisation of any Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase such Notes, is subject to significant interpretative uncertainties. No representation or warranty is made as to whether or the extent to which any Notes constitute a legal investment for investors whose investment authority is subject to legal restrictions. Such investors should consult their legal advisers regarding such matters.

This Prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Prospectus or any of its contents.

The price and amount of Notes to be issued under the Programme will be determined by the Issuer, the Bank and the relevant Dealer at the time of issue in accordance with prevailing market conditions. The Notes will be in denominations, for Rule 144A Notes, of at least US\$100,000 (or the equivalent in other currencies) and integral multiples of US\$1,000 (or the equivalent in other currencies) in excess thereof, and for Regulation S Notes, of at least €50,000 (or the equivalent in other currencies) and integral multiples of €1,000 (or the equivalent in other currencies) in excess thereof, save that unless otherwise permitted by then current laws and regulations, Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise would constitute a contravention of section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies).

In connection with the issue of any Series of Notes, the Dealer, if any, disclosed as a stabilising agent in the relevant Final Terms (or persons acting on its behalf) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that such Dealer (or persons acting on its behalf) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of a Series of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of such Series of Notes and 60 days after the date of allotment of such Series of Notes. Any stabilisation action or over-allotment must be conducted by the relevant stabilising agent (or person(s) acting on behalf of any stabilising agent) in accordance with all applicable laws and rules.

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE ARRANGER AND THE DEALERS AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS PROSPECTUS, AND NOTHING CONTAINED IN THIS PROSPECTUS IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION, WHETHER AS TO THE PAST OR THE FUTURE. THE ARRANGER AND THE DEALERS DO NOT ASSUME ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED IN THIS PROSPECTUS.

EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN ANY NOTES ISSUED UNDER THIS PROGRAMME FROM TIME TO TIME MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF THE BANK AND THE ISSUER AND ITS OWN DETERMINATION OF THE SUITABILITY OF ANY SUCH INVESTMENT, WITH PARTICULAR REFERENCE TO ITS OWN INVESTMENT OBJECTIVES AND EXPERIENCE AND ANY OTHER FACTORS WHICH MAY BE RELEVANT TO IT IN CONNECTION WITH SUCH INVESTMENT.

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

UNITED STATES INTERNAL REVENUE SERVICE CIRCULAR 230 DISCLOSURE

PURSUANT TO UNITED STATES INTERNAL REVENUE SERVICE CIRCULAR 230, WE HEREBY INFORM YOU THAT THE DESCRIPTION SET FORTH HEREIN WITH RESPECT TO UNITED STATES FEDERAL TAX ISSUES WAS NOT INTENDED OR WRITTEN TO BE USED, AND SUCH DESCRIPTION CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER UNDER THE UNITED STATES INTERNAL REVENUE CODE. SUCH DESCRIPTION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE NOTES. TAXPAYERS SHOULD SEEK ADVICE BASED ON EACH TAXPAYER’S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

ADDITIONAL INFORMATION

Neither the Issuer nor the Bank is required to file periodic reports under Section 13 or 15 of the U.S. Securities Exchange Act of 1934 (the “**Exchange Act**”). For so long as either the Issuer or the Bank is not a reporting company under Section 13 or 15(d) of the Exchange Act, or exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Issuer or the Bank, as the case may be, will, upon request, furnish to each holder or beneficial owner of Notes that are “restricted securities” (within the meaning of Rule 144(a)(3) under the Securities Act) and to each prospective purchaser thereof designated by such holder or beneficial owner upon request of such holder, beneficial owner or prospective purchaser, in connection with a transfer or proposed transfer of any such Notes pursuant to Rule 144A under the Securities Act or otherwise, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

TABLE OF CONTENTS

ENFORCEABILITY OF JUDGMENTS	vii
SUPPLEMENTAL PROSPECTUS.....	viii
PRESENTATION OF FINANCIAL AND OTHER INFORMATION	ix
CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS	xv
SUMMARY OF THE BANK	1
OVERVIEW OF THE PROGRAMME.....	6
RISK FACTORS	16
USE OF PROCEEDS	45
CAPITALIZATION OF THE BANK	46
SELECTED FINANCIAL INFORMATION.....	47
MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	50
DESCRIPTION OF THE BANK’S BUSINESS	105
ASSET, LIABILITY AND RISK MANAGEMENT	127
MANAGEMENT	137
RELATED PARTY TRANSACTIONS	144
SHARE CAPITAL, DIVIDENDS AND PRINCIPAL SHAREHOLDERS	148
THE ISSUER	151
THE POST-ENFORCEMENT CALL OPTION HOLDER	153
FRAMEWORK AGREEMENT	155
TERMS AND CONDITIONS OF THE NOTES	211
SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM	228
SUBSCRIPTION AND SALE	235
TAXATION	239
CERTAIN ERISA CONSIDERATIONS	251
TRANSFER RESTRICTIONS	253
FORM OF FINAL TERMS	257
GENERAL INFORMATION.....	267
LETTER OF SUPPORT	269
INDEX TO FINANCIAL STATEMENTS	F-1
APPENDIX A – OVERVIEW OF THE UKRAINIAN BANKING SECTOR AND REGULATION IN UKRAINE	A-1

ENFORCEABILITY OF JUDGMENTS

The Bank is a closed joint-stock company organized under the laws of Ukraine. The majority of the assets of the Bank and its executive officers and/or directors are located in Ukraine, and it may not be possible for investors to enforce in Ukraine judgments rendered against them in jurisdictions other than Ukraine, including judgments predicated upon the civil liability provisions of the U.S. federal securities laws. 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 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 or arrangement in effect between Ukraine and the United Kingdom or the United States.

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 the awards made 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). Each 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 in relation to those disputes may be enforced in Ukraine under the provisions of the New York Convention. In practice, reliance upon international treaties may meet with a lack of understanding on the part of a Ukrainian court or other officials, thereby introducing delay and unpredictability into the process for enforcing any foreign judgment or any foreign arbitral award in Ukraine.

The Framework Agreement will be governed by English law and will provide that all disputes, controversies and causes of action brought by any party thereto shall be settled by arbitration in accordance with the Rules of the London Court of International Arbitration although the Issuer has the right to have disputes settled in the courts of England.

Limitation on Enforcement Rights of Noteholders

The Notes will be represented by the Global Note Certificates. So long as the Notes are represented by interests in the Global Note Certificates, 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 Trustee on behalf of the Noteholders pursuant to the covenant to pay in the Trust Deed. However, as provided for in the Global Note Certificates, Noteholders could seek to exchange the Global Note Certificates for Individual Note Certificates in certain limited circumstances (see “*Summary of the Provisions Relating to the Notes in Global Form*”).

SUPPLEMENTAL PROSPECTUS

The Bank will, in connection with the admission to trading of the Notes on the regulated market of the Irish Stock Exchange, so long as any Note remains outstanding and listed on such exchange, in the event of any material change in the condition of the Issuer or the Bank which is not reflected in this Prospectus, prepare a supplement to this Prospectus or publish a new Prospectus for use in connection with any subsequent issue of Notes to be admitted to trade on the regulated market of the Irish Stock Exchange.

The Issuer and the Bank may agree with any Dealer that a Series of Notes may be issued in a form not contemplated by the Terms and Conditions herein, in which event a supplemental Prospectus, if appropriate, will be published which will describe the effect of the agreement reached in relation to such Notes.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Information

The financial information of the Bank set forth herein has been derived, unless otherwise indicated, from its unaudited condensed interim balance sheet, income statement, statements of changes in equity and cash flows as at and for the three months ended 31 March 2008 and the notes thereto (the “**Interim Financial Information**”), its audited balance sheet, income statement, statements of changes in equity and of cash flows as at and for the year ended 31 December 2007 and the notes thereto (the “**2007 Financial Statements**”), and its audited balance sheet and statements of operations, of cash flows and of changes in equity as at and for the year ended 31 December 2006 (with comparative data for the year ended 31 December 2005) and the notes thereto (the “**2006 Financial Statements**”, together with the 2007 Financial Statements, the “**Annual Financial Statements**” and, together with the Interim Financial Information, the “**Financial Statements**”). The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) issued by International Accounting Standards Board and the Interim Financial Information has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”. The US dollar is the presentation currency for the Bank’s Financial Statements.

Auditors

The Bank’s 2007 Financial Statements have been audited in accordance with International Standards on Auditing (“**ISA**”) by the Bank’s independent auditors, Audit Firm PricewaterhouseCoopers (Audit), who have expressed an unqualified opinion on the 2007 Financial Statements, as stated in their report herein. The Interim Financial Information has been reviewed by Audit Firm PricewaterhouseCoopers (Audit) in accordance with International Standard on Review Engagements 2410. With respect to the Interim Financial Information of the Bank for the three-month period ended 31 March 2008, included in this Base Prospectus, Audit Firm PricewaterhouseCoopers (Audit) reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their review report dated 7 July 2008 appearing herein, states that they did not audit and they do not express an opinion on that unaudited Interim Financial Information. The address of Audit Firm PricewaterhouseCoopers (Audit) is 75 Zhylyanska Str., Kyiv 01032, Ukraine. Audit Firm PricewaterhouseCoopers (Audit) is registered in the register of audit firms of the Audit Chamber of Ukraine.

The Bank’s 2006 Financial Statements have been audited in accordance with ISA by the Bank’s previous independent auditors, CJSC KPMG Audit. The address of CJSC KPMG Audit is 11 Mykhaylivska Str., Kyiv 01001, Ukraine. CJSC KPMG Audit is registered in the register of audit firms of the Audit Chamber of Ukraine.

In 2007, the Bank, with the approval of the Supervisory Board, dismissed CJSC KPMG Audit as its independent auditors. During the period between 1 January 2007 and the date on which CJSC KPMG Audit was dismissed, there was no (i) disagreement between the Bank and CJSC KPMG Audit on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreement, if not resolved to the satisfaction of CJSC KPMG Audit, would have caused CJSC KPMG Audit to make reference to the subject matter of such disagreement in connection with its report on the Bank’s financial statements or (ii) adverse opinion or a disclaimer of opinion, or qualification or modification as to uncertainty, audit scope or accounting principles in connection with its report on the Bank’s financial statements. The Bank engaged Audit Firm PricewaterhouseCoopers (Audit) as its new independent auditors in July 2007.

The Issuer’s auditors are BDO Stoy Hayward LLP, located at 55 Baker Street, London W1VU 7EU, United Kingdom. BDO Stoy Hayward LLP are Chartered Accountants and Registered Auditors in England and Wales.

Changes in IFRS

Effective from 1 January 2007, certain new or amended International Financial Reporting Standards and International Financial Reporting Interpretations Committee (“**IFRIC**”) interpretations have been applied

by the Bank. One such new standard has been introduced to improve disclosure about financial instruments, including quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk that is based on information provided internally to the entity's key management personnel and also cover exposure to credit risk, liquidity risk and market risk. Certain new or amended accounting standards and IFRIC interpretations became effective from 1 January 2008.

The amended and new standards and interpretations and their impact on the Bank's financial statements are described in Notes 5 and 6 to the Bank's condensed interim financial information as at 31 March 2008 and financial statements as at 31 December 2007.

Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the Interim Financial Information and 2007 Financial Statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year, are disclosed in Note 4 to the Interim Financial Information and the 2007 Financial Statements.

Reconciliation of the 2007 Financial Statements, the Interim Financial Information and the 2006 Financial Statements

Certain lines in the 2007 Financial Statements and the Interim Financial Information, on the one hand, and the 2006 Financial Statements, on the other hand, are not directly comparable due to changes in the classification of certain line items and to changes in accounting policies.

Accordingly, to promote investors' ability to compare financial information across the periods presented herein, certain line items in the Financial Statements have been aggregated or classified in a manner that is different from the respective financial statements. Certain financial information presented herein for the year ended 31 December 2006 has been extracted from the comparative data for the year ended 31 December 2006 included in the 2007 Financial Statements ("**Comparative 2006 Financial Information**"), not the audited 2006 Financial Statements.

The following line items, which are presented in the tables herein and discussed in Management's Discussion of Financial Condition and Results of Operations, contain financial information sourced from more than one line item or calculated on a different basis than the comparable line item in the Financial Statements, as set forth below:

Balance Sheet Data

- Cash and balances with the NBU – in the 2007 Financial Statements and the Interim Financial Information, the line item "Cash and cash equivalents" consists of: "Cash on hand", "Cash balances with the NBU (other than mandatory reserve deposits)", "Mandatory cash balances with the NBU" as well as "Correspondent accounts and overnight placements with other banks" and "Placements with other banks with original maturities of less than three months". The first three components of "Cash and cash equivalents" in the 2007 Financial Statements have been included in the line item "Cash and balances with the NBU" presented herein. Two line items in the 2006 Financial Statements were aggregated to produce the line item "Cash and balances with the NBU" presented herein: "Cash" and "Balances with the National Bank of Ukraine".
- Due from other banks (including term deposits and current accounts) – results from the aggregation of the following financial information in the 2007 Financial Statements and the Interim Financial Information: the line item "Due from other banks" as well as two components of the line item "Cash and cash equivalents" in the 2007 Financial Statements and the Interim Financial Information

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

(specifically, “Correspondent accounts and overnight placements with other banks” and “Placements with other banks with original maturities of less than three months”). The comparable line item in the 2006 Financial Statements is “Due from banks”.

- Due to other banks and the NBU – results from the aggregation of two line items in the 2006 Financial Statements: “due to banks” and “loans from the National Bank of Ukraine”.
- Current accounts of customers – in the 2007 Financial Statements and the Interim Financial Information, “current accounts of customers” and “term deposits of customers” are presented together as “Customer accounts”. To promote comparability with the 2006 Financial Statements, the current/settlement accounts component parts of the line item “Customer accounts” are aggregated to produce the line item referred to herein as “Current accounts of customers”.
- Term deposits of customers – in the 2007 Financial Statements and the Interim Financial Information, “current accounts of customers” and “term deposits of customers” are presented together as “Customer accounts”. To promote comparability with the 2006 Financial Statements, the term deposits component parts of the line item “Customer accounts” are aggregated to produce the line item referred to herein as “Term deposits of customers”. Two line items in the 2006 Financial Statements were aggregated to produce the line item “Term deposits” presented herein: “Deposits” and “Deposit certificates”.
- Other financial and non-financial assets – results from the aggregation of financial information in two line items in the 2007 Financial Statements and the Interim Financial Information: “Other financial assets” and “Other assets”. The comparable line item in the 2006 Financial Statements is “Other assets”.
- Other financial and non-financial liabilities – results from the aggregation of financial information in two line items in the 2007 Financial Statements and the Interim Financial Information: “Other financial liabilities” and “Other liabilities”. The comparable line item in the 2006 Financial Statements is “Other liabilities”.

Income Statement Data

- Interest income and interest expense – to promote comparability across the periods, certain sub-components of the “Interest income” and “Interest expense” line items have been re-categorized, as discussed further in the presentation of each line item in “Management's Discussion and Analysis of Financial Condition and Results of Operations”.
- Administrative and other operating expenses (including amount of impairment provision for other assets) – results from the aggregation of financial information in three line items in the 2006 Financial Statements: “Salaries and employee benefits”, “General administrative expenses” and “Depreciation and amortization”. In addition, the data for the year ended 31 December 2005 includes provision for impairment of other assets of US\$4 thousand.

The value of the line items “Interest income”, “Other operating income” and “Provision for impairment of loans and advances to customers” as presented in the 2007 Financial Statements and the Interim Financial Information, differ slightly from the value for such line items (“Interest income”, “Other income” and “Impairment provisions for loans and other assets”) contained in the 2006 Financial Statements due to the reclassification of penalties related to loans and advances to customers from “Other operating income” to “Interest income” and the reclassification of interest income accrued on overdue loans to movement in provision for loan impairment.

In addition, to further promote comparability, certain of the component parts of the line items set forth above have also been aggregated, as discussed in “*Management's Discussion and Analysis of Financial Condition and Results of Operations.*”

Currency

In this Prospectus, all references to “hryvnia” and “UAH” are to the lawful currency for the time being of Ukraine, all references to “US dollar”, “USD”, “US\$” and “U.S.\$” are to the lawful currency for the time being of the United States of America, all references to “£”, “p” and “Sterling” are to the lawful currency for the time being of the United Kingdom and all references to “euro”, “EUR” and “€” 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 US dollars to hryvnia are solely for the convenience of the reader, and are made at exchange rates established by the NBU and effective as at 31 March 2008, 31 December 2007, 31 March 2007, 31 December 2006 and 31 December 2005. No representation is made that the hryvnia or US dollar amounts referred to herein could have been converted into US dollars or hryvnia, as the case may be, at any particular exchange rate or at all. The NBU’s hryvnia/US dollar exchange rate as reported on 31 March 2008, 31 December 2007, 31 March 2007, 31 December 2006 and 31 December 2005, was UAH 5.05 to the US dollar. This is the rate used for the respective conversions. The NBU’s hryvnia/US dollar exchange rate as reported on 16 July 2008 was UAH 4.84 to the US dollar.

Rounding

Some numerical figures included in this Prospectus 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 FINANCIAL AND OTHER INFORMATION

Exchange Rate Information

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

	High	Low	Period Average ⁽¹⁾	Period End
	<i>(Ukrainian hryvnia per US dollar)</i>			
Year				
2003.....	5.33	5.33	5.33	5.33
2004.....	5.33	5.31	5.32	5.31
2005.....	5.31	5.05	5.12	5.05
2006.....	5.05	5.05	5.05	5.05
2007.....	5.05	5.05	5.05	5.05
2008 (through 16 July 2008).....	5.05	4.84	4.98	4.84
Month				
January 2008.....	5.05	5.05	5.05	5.05
February 2008.....	5.05	5.05	5.05	5.05
March 2008.....	5.05	5.05	5.05	5.05
April 2008.....	5.05	5.05	5.05	5.05
May 2008.....	5.05	4.85	4.99	4.85
June 2008.....	4.85	4.85	4.85	4.85
July 2008 (through 16 July 2008).....	4.85	4.84	4.84	4.84

(1) Calculated based on the exchange rates for each banking day of the period and the number of banking days in the period.

No representation is made that the Ukrainian hryvnia or US dollar amounts referred to herein could have been or could be converted into Ukrainian hryvnia or US dollars, as the case may be, at these rates, at any particular rate or at all.

Average Balances, Average Interest Rates and Effective Interest Rates

This Prospectus includes information on the average balances of interest-earning assets and interest-bearing liabilities of the Bank as well as the average rate of interest income or expense for such assets and liabilities for the three month period ended 31 March 2008 and for the years ended 31 December 2006 and 2007. The average balances of assets and liabilities presented in this document represent the average of the opening and closing balances for the applicable period. These average balances would likely be different if alternative or more frequent averaging methods were used and such differences could be material.

The average interest rates disclosed in this Prospectus are calculated by dividing aggregate interest income or expense for the relevant line item by the average balance for the same item for the applicable period. Average interest rates are distinct from the effective interest rates as at the end of respective period presented in the Financial Statements. The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest re-pricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate. See Note 3 to the 2007 Financial Statements (Summary of Significant Accounting Policies).

The Bank presents information on effective interest rates because IFRS requires that this rate be used in the preparation of its financial statements. Operationally, the Bank uses this information as well as average interest rates as both are considered useful business tools.

Industry and Market Data

In this Prospectus, the Bank and the Issuer refer to information regarding the Bank's business, the business of its competitors and the market in which the Bank operates and competes. The Bank and the Issuer obtained this information in part from various third party sources and in part from the Bank's own internal estimates. The Bank and the Issuer have obtained market and industry data relating to the Bank's business from providers of industry and market data, namely the National Bank of Ukraine ("NBU"), the Association of Ukrainian Banks and the State Statistics Committee of Ukraine.

Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable. Each of the Bank and the Issuer has relied on the accuracy of the information from industry publications, surveys and forecasts without carrying out an independent verification thereof and cannot guarantee their accuracy or completeness. Each of the Bank and the Issuer confirms that such third party information has been accurately reproduced, and as far as each of the Bank and the Issuer is aware and is able to ascertain from information published by such third parties, no facts have been omitted from the information in this Prospectus that would render it inaccurate or misleading.

In addition, in many cases, the Bank has made statements in this Prospectus regarding the Ukrainian banking industry and its position in this industry based on its own experience and investigation of market conditions. The Bank cannot assure you that any of its assumptions are accurate or correctly reflect its position in the industry, and its statements have not been verified by any independent sources. See "*Risk Factors — Risks Relating to Ukraine — Official economic data and third-party information may be unreliable*" and "*Risk Factors — Risks Relating to the Bank's Business — The Bank has not independently verified information regarding its competitors and official data from Government Agencies and the NBU*".

This Prospectus includes statistical information on the Bank's branch network. For purposes of compiling and presenting the data in this Prospectus, the definition of a "branch" includes all standard branches, information and consulting centers, point of sale terminals as well as auto-loan financing desks, which are located in local car dealerships. As at 1 April 2008, the Bank had 45 standard branches in Ukraine.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus, as well as certain written and oral statements, that the Bank and its officers may make from time to time in reports, filings, news releases, conferences, teleconferences, web postings or otherwise, are not historical facts and constitute “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 Prospectus, the words “anticipates”, “estimates”, “expects”, “believes”, “intends”, “plans”, “may”, “will”, “should” and any similar expressions identify forward-looking statements, but these expressions are not exclusive means of identifying such statements. These forward-looking statements are contained in “*Summary of the Bank*”, “*Risk Factors*”, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”, “*Description of the Bank’s Business*”, “*Asset, Liability and Risk Management*” and other sections of this Prospectus. The Bank has based these forward-looking statements on the current view of its management with respect to future events and financial performance. These views reflect the best judgement of the Bank’s management (“**Management**”) but involve uncertainties and are subject to certain risks the occurrence 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. Although Management believes that the estimates and the projections reflected in its forward-looking statements are reasonable, if one or more of the risks or uncertainties materialise or occur, including those which the Bank has identified in this Prospectus, or if any of the Bank’s underlying assumptions prove to be incomplete or incorrect, the Bank’s actual results of operations may vary from those expected, estimated or projected.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Prospective investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- inflation, interest rate and exchange rate fluctuations in Ukraine;
- prices for securities issued by Ukrainian entities;
- the health of the Ukrainian economy, including the Ukrainian banking sector;
- the effects of, and changes in, the policy of the government of Ukraine and regulations promulgated by the NBU;
- fluctuations in the international financial markets;
- the effects of competition in geographic and business areas in which the Bank conducts its operations;
- the effects of changes in laws, regulations, taxation or accounting standards or practices in jurisdictions where the Bank conducts its operations;
- the Bank’s ability to increase market share for its products and services and control expenses;
- acquisitions or divestitures;
- technological changes; and
- the Bank’s success at managing the risks associated with the aforementioned factors.

This list of important factors is not exhaustive. When relying on forward-looking statements, prospective investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Bank operates.

These forward-looking statements speak only as of the date of this Prospectus and are not subject to any continuing obligations under the listing guidelines of the Irish Stock Exchange (the “**Guidelines**”). Without

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

prejudice to any requirements under applicable laws and regulations, each of the Bank and the Issuer expressly disclaims any obligation or undertaking to disseminate after the date of this Prospectus 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. The Bank and the Issuer do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

SUMMARY OF THE BANK

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

The Bank

The Bank is a commercial bank headquartered in Kyiv, and offers a range of banking services to corporate and retail customers as well as treasury and capital markets services through a network as at 1 April 2008 of 45 standard branches ("**Standard Branches**"), 233 information and consulting centers ("**Information and Consulting Centers**"), 938 point of sale terminals ("POSs") (including unstaffed terminals) and 375 auto-loans financing desks ("**Auto-Loan Financing Desks**"), situated at local car dealerships. The Bank also has two representative offices in Moscow and Minsk.

The Bank is a subsidiary of ABH Ukraine Limited, which is beneficially owned by six shareholders (including Mikhail Fridman, German Khan and Alexei Kuzmichev). The Bank is a part of the Alfa Banking Group, one of the leading private banking groups in the Russian Federation. The Alfa Banking Group, in turn, is a part of the Alfa Consortium, a group of companies principally operating in the banking, insurance, telecommunications and oil and gas sectors, as well as in the investment and retail trade businesses.

Until December 2006, the Bank was a subsidiary of Alfa-Bank Russia, the Russian commercial and retail banking subsidiary within the Alfa Banking Group. The Bank continues to enjoy a close relationship with Alfa-Bank Russia, allowing it to benefit from Alfa-Bank Russia's brand management and marketing, risk management data and systems and product knowledge, especially in the retail banking sector.

The Ukrainian banking sector has been growing at an annual compound growth rate of 56 per cent. over the previous four years. While it remains relatively small, retail banking is growing faster than corporate banking in Ukraine and is more developed than retail banking in Russia. The Bank is well positioned to continue to capitalise on this growth. As at 31 March 2008, the Bank had total assets of US\$3,218.6 million, an increase of 23.9 per cent. compared to total assets as at 31 December 2007.

According to NBU official statistics, as at 1 April 2008 the Bank was the 10th largest bank in Ukraine in terms of total assets (compared to 14th as at 1 April 2007), the 9th largest in terms of loans to customers (compared to 11th as at 1 April 2007), the 6th largest in terms of corporate deposits and current accounts (compared to 9th as at 1 April 2007) and the 9th largest in terms of loans to individuals (compared to 19th as at 1 April 2007), all as calculated under Ukrainian Accounting Standards and based on statutory reporting requirements.

The Bank generated operating income (before provision for impairment) of US\$142.3 million for the year ended 31 December 2007, an annual increase of 151.9 per cent., and a net profit of US\$11.8 million. For the three months ended 31 March 2008, the Bank generated operating income (before provision for impairment) of US\$63.0 million, an increase of 202.2 per cent. compared to the three month period ended 31 March 2007, and a net profit of US\$8.8 million.

Corporate banking has historically been the Bank's main business and loans to corporate customers (including reverse sale and repurchase agreements) represented 70.6 per cent. of the Bank's gross loan portfolio and corporate customer accounts represented 88.8 per cent. of the Bank's customer accounts as at 31 December 2007 (69.4 per cent. of the Bank's gross loan portfolio and 91.7 per cent. of the Bank's customer accounts as at 31 March 2008). The Bank provides lending, deposit taking, cash settlement, currency exchange and cash management services to large companies, principally those ranked among the "Top 100" Ukrainian companies by Ukrainian investment newspaper, the "*Investgazeta*". In 2007 and the first quarter of 2008, the Bank expanded its business focus to include small and medium sized enterprises ("SMEs") when it hired a significant team from International Project Consulting. As at 31 December 2007,

the Bank's SME loan portfolio amounted to US\$86.7 million, or 3.8 per cent. of the Bank's gross loan portfolio, compared to nil as at 31 December 2006. As at 31 March 2008, the Bank's SME loan portfolio amounted to US\$139.5 million, or 4.8 per cent. of the Bank's gross loan portfolio, compared to nil as at 31 March 2007.

The Bank is also developing structured finance, leasing and trade finance products.

Since 2004, the Bank has focused on increasing its retail banking activities by improving and expanding the range of products that it offers and by increasing its geographical presence in the industrially developed regions of Ukraine. As at 1 April 2008, the Bank has approximately 535,000 retail customers (approximately 765,000 retail loans) and its retail banking services consist primarily of lending, including consumer finance, auto loans and residential mortgage loans, and deposit taking. As at 31 December 2007, the Bank's gross retail loan portfolio amounted to US\$589.3 million, an annual increase of 541.1 per cent., constituting 25.7 per cent. of the total gross loan portfolio as at 31 December 2007. The Bank's gross retail loan portfolio was US\$747.2 million as at 31 March 2008, an increase of 26.8 per cent compared to the gross retail loan portfolio at the end of 2007. The retail loan portfolio constituted 25.8 per cent. of the total gross loan portfolio as at 31 March 2008, compared to 25.7 per cent. as at 31 December 2007. The Bank also offers bank card products, foreign exchange and money transfer services and cash withdrawals through Automated Telling Machines ("ATMs") to its retail customers and is establishing internet banking services.

The Bank also generates income from debt trading and brokerage services, dealer services, custody services, arranging and underwriting corporate bonds, foreign exchange operations and interbank market activities. In addition, the Bank provides investment, project management and advisory services.

The Bank enjoys the following ratings by Moody's Investor Services, Inc. ("**Moody's**"): an individual financial strength rating of E+; a long term foreign currency deposit rating of B2; a long term national currency deposit rating of Ba3; a foreign currency senior unsecured debt rating of Ba3; and a long term national scale rating of Aa1.ua. The outlook on the foreign currency deposit rating is Positive, and the outlook on the Bank's other ratings is Stable. In addition, the bank enjoys the following ratings by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("**S&P**"): a long-term counterparty rating of B+; a short-term counterparty rating of B; and a national scale rating of uaA. The outlook on the ratings is stable.

Strengths

Management believes it has the following principal competitive strengths:

Relationship with Alfa-Bank Russia

The Bank is closely linked to Alfa-Bank Russia and is therefore able to benefit from the risk management and product management expertise, technology and banking experience gained by Alfa-Bank Russia. The Bank also draws on Alfa-Bank Russia's database and know-how resources, know-your customer and anti-money laundering expertise and other risk management resources. The Bank has advanced risk management systems, due to its relationship with Alfa-Bank Russia and the Director of Risk Management of Alfa-Bank Russia sits on the Supervisory Board of the Bank. However, the beneficial shareholders of the Bank have recognised that the Bank should be an autonomous bank independent of Alfa-Bank Russia, with its own strategy and management. The Bank is therefore able to implement its own strategy and carry out its operations with a specific focus on the Ukrainian banking market.

Highly Qualified Management Team

The Bank has a strong management team with an established track record in the Ukrainian banking sector. Many members of the Bank's management team are also currently, or have in the past been, members of the management of Alfa-Bank Russia, ABN AMRO, Citi, Raiffeisen Group, Procredit Group and other international banking and globally recognised institutions and have a track record of international banking.

Stable and International Funding Base and Shareholder Funding

The Bank has access to stable and international funding through its beneficial shareholders and its track record of obtaining international syndicated and capital markets funding. Management believes this funding base sets it apart from a number of its competitors and gives it access to funds which are cheaper than those available to many Ukrainian banks.

Unique Retail Concept

The Bank offers its retail lending services via a network of different types of branches and POSs (see “*Description of the Bank’s Business – Distribution Network*” below). The Bank’s retail network is comparatively low in cost when compared to many of the Bank’s competitors. A large number of the Bank’s consumer lending POSs are based in retail outlets and offices, thus avoiding the expense of establishing exclusively owned or rented retail branch premises. This retail network allows the Bank to offer retail lending products to a large number of retail customers, without the corresponding expense of establishing a large retail branch network.

Focus on Corporate Banking Services

The Bank has traditionally focused on the corporate banking sector. Due to its cooperation with Alfa-Bank Russia (one of the leading banks in the Russian corporate banking sector) the Bank benefits from the considerable professional experience of former senior corporate executives of Alfa-Bank Russia, who currently work in the Bank (see “*Management*”). The Bank’s extensive expertise of the corporate lending market in Ukraine, as well as strong risk-management and strong customer relationships, allows it to maintain a lower-risk loan portfolio than many of its peers and align with NBU requirements.

Full-Service Bank

In addition to strengthening its position as a corporate bank, the Bank has diversified into lending to SMEs and has actively invested in the growth and development of its retail business including the regional distribution network. The Bank has established itself as a full-service bank, establishing a platform for sustainable capitalization growth in the future.

Focus on Customer Service

The Bank offers fast and convenient customer service to its customers, enabling it to expand both its corporate and retail customer base. The Bank has innovative approaches to the banking needs of its customers, for example the Bank’s Information and Consulting Centers for retail customers (see “–*Distribution Network*” below), and is able to utilise the expertise of Alfa-Bank Russia in improving its customer service offering.

Brand Recognition and Marketing

The Bank has an established brand name due to the high profile in Russia of the “Alfa” brand and its established presence in Ukraine. The Bank has an extensive marketing campaign aimed at growing its customer base.

Corporate Governance

The Bank has effective corporate governance systems in place, including internally developed and strictly followed norms of ethical practices, requirements and conditions of corporate conduct and business. These effective corporate governance practices assist improving the overall management of the Bank and increase the Bank’s attractiveness for existing and prospective customers.

Strategy

The Bank's key objective is to strengthen its position as one of the leading banks in the Ukrainian corporate banking sector and to develop a leading position in the retail banking sector and SME financing markets in Ukraine. In particular, the Bank's strategies are:

To grow and diversify corporate banking

The Bank plans to continue to grow and diversify its corporate banking business by focusing on large corporates in key sectors of the Ukrainian economy, such as metallurgy, railways, retail, transport and trade, as well as on growth sectors such as chemicals and food production. The Bank will seek to grow its corporate customer base by continuing to develop and broaden the product range offered to corporate customers, including cash management services and the development of advanced credit products, such as structured finance, leasing and trade finance. The Bank also plans to continue to expand its commercial lending activities to SME customers, which constituted US\$86.7 million, or 3.8 per cent., of the Bank's gross loan portfolio as at 31 December 2007 (US\$139.5 million, or 4.8 per cent., as at 31 March 2008), in order to increase market share in this significant market in Ukraine.

To grow retail banking

Management believes that the retail banking sector is still relatively under developed in Ukraine and offers significant growth potential. Demand for banking products and services in Ukraine is high and continues to grow. Accordingly, whilst continuing to prioritise its corporate banking business, management plans to grow the Bank's retail loan portfolio to around 35 per cent. of the Bank's total loan portfolio within the next two years.

Retail banking services are broken down into five product segments – auto loans, residential mortgage loans, consumer loans, deposits and current accounts and plastic cards. The Bank aims to become one of the top five banks in each of these segments, differentiating itself from its competitors by providing greater product coverage and better service. The Bank seeks to expand its customer base through its innovative retail distribution network and alternative sales channels and by increasing awareness of the Alfa brand.

To grow and diversify funding sources

To support its growth plan, the Bank intends to diversify its funding sources. It plans to increase domestic deposits from corporate and individual customers by broadening the range of products it offers to corporate and retail customers. The Bank expects to continue to receive strong funding support from its shareholders and to continue to obtain syndicated and bilateral loan funding and to access international and domestic debt capital markets as a cost-effective source of long term funding. As its retail product portfolios mature, the Bank also plans to reduce its cost of capital through asset securitisations.

To expand its network, strengthen operations systems and broaden brand awareness

The Bank is expanding its network in industrially developed and heavily populated regions of Ukraine. As at 1 April 2008, the Bank has 45 Standard Branches, 233 Information and Consulting Centers, 938 POSs and 375 Auto-Loan Financing Desks. It plans to have approximately 90 Standard Branches, 350 Information and Consulting Centers, 2,965 POSs (including 1,950 unstaffed terminals) and 590 Auto-Loan Financing Desks in its network by the end of 2008.

In all retail banking and in most of corporate banking, all decision making is centralised, allowing the Bank to capitalise on its well developed IT systems and to control personnel and other overhead costs.

Alongside expanding its network, the Bank is rolling out a corporate brand strategy in order to broaden public awareness of the Bank and enhance the development of its retail business. In addition to using its corporate logo through the network, the Bank will continue to promote its brand image both through printed and broadcast media advertising, as well as e-marketing and web advertising. The Bank will also continue to sponsor charities and community projects in Ukraine.

To expand treasury and capital markets activities

The Bank intends to continue to grow its domestic capital markets operations, in particular, arranging bond issues for Ukrainian companies, where Management believes it is one of the market leaders, according to data available from the “Cbonds” website (www.cbonds.info). Management expects the domestic corporate bond market in Ukraine to continue to grow and that the Bank’s involvement in securities issues will assist in raising the Bank’s profile. Capital markets operations as well as new product offerings (such as advanced cash management services), will allow the Bank to increase its non interest income.

OVERVIEW OF THE PROGRAMME

The following overview contains basic information about the Notes, the Loans and the Post-Enforcement Call Option and should be read in conjunction with, and is qualified in its entirety by, the information set forth under “Terms and Conditions of the Notes” and “Framework Agreement” appearing elsewhere in this Prospectus.

Each transaction will be structured as a Loan by the Issuer to the Bank of an amount equal to the proceeds of an issue of a Series of Notes by the Issuer. The Issuer will issue a Series of Notes to Noteholders for the sole purpose of funding such Loan. Each Series of Notes will be constituted by a principal trust deed dated 23 July 2007 as amended and restated on 27 May 2008 as further amended and restated by the amended and restated principal trust deed dated 18 July 2008 between the Issuer and Deutsche Trustee Company Limited (the “**Trustee**”) (as may be further amended or supplemented from time to time, the “**Principal Trust Deed**”, and as supplemented by a supplemental trust deed between the Issuer and the Trustee in respect of each series of Notes on each Issue Date, the “**Trust Deed**”). Pursuant to the Trust Deed, the Issuer will: (1) charge in favour of the Trustee by way of first fixed charge (the “**Charge**”) (i) all the rights, title and interest in and to all sums of money now or in the future deposited in the account in respect of the relevant Series of Notes in the name of the Issuer with the Principal Paying Agent (the “**Account**”) and the debts represented thereby, including interest from time to time earned on the Account, provided that, subject to this Trust Deed (x) for the avoidance of doubt the Issuer shall remain the legal and beneficial owner of the property subject to the Charge following the creation of the Charge and (y) there shall be excluded from the Charge the Reserved Rights and any amounts relating to the Reserved Rights and (ii) all of the Issuer’s rights to principal, interest and other amounts (if any) paid and payable under any of the relevant Loan Agreements and its rights to receive all sums paid and payable under any claim, award or judgment relating to any of such Loan Agreements; and (2) with full title guarantee assign absolutely by way of security in favour of the Trustee for the benefit of itself and the Noteholders all the rights, interests and benefits, both present and future, which have accrued or may accrue to the Issuer in respect of such Loan Agreements but excluding any rights, interests and benefits charged in favour of the Trustee by way of the Charge and any Reserved Rights. The Charge under the Trust Deed will become enforceable upon the occurrence of a Relevant Event, as the case may be, as further described in the Trust Deed and the Terms and Conditions of the Notes.

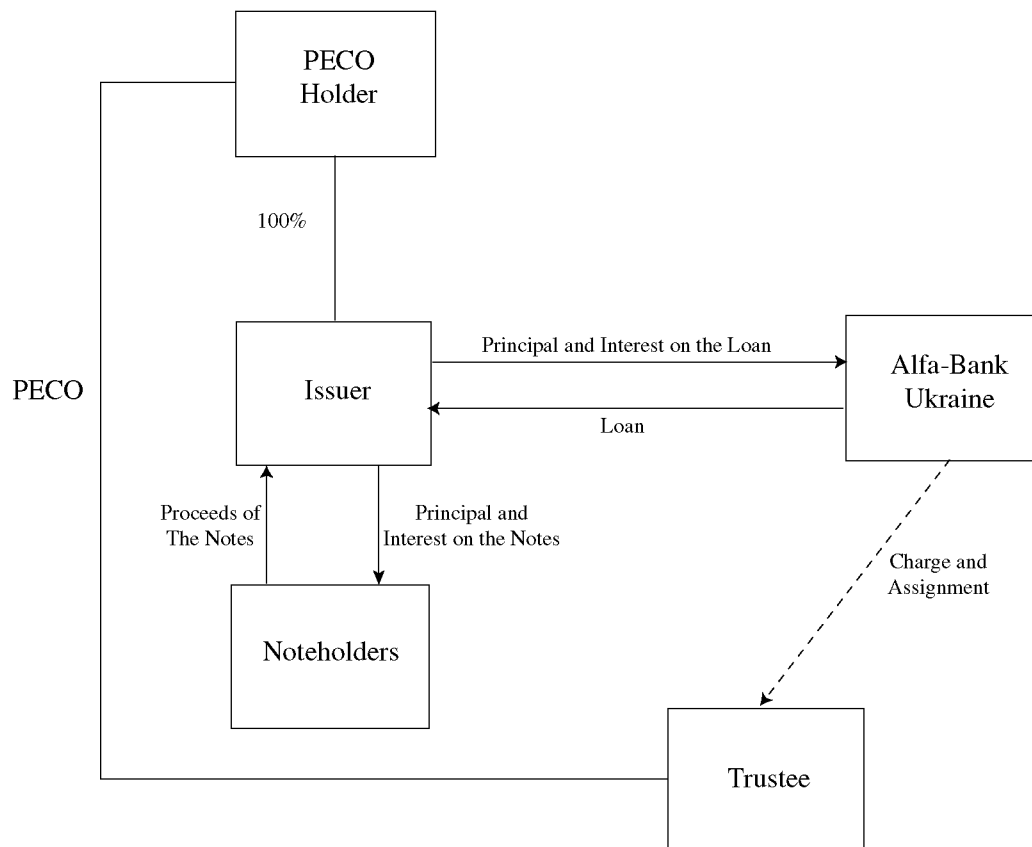
The Bank will be obliged to make payments under each Loan to the Lender in accordance with the terms of any of the relevant Loan Agreements to the Account or as otherwise instructed following a Relevant Event (as defined in the Trust Deed). The Issuer will agree in the Trust Deed not to make or consent to any amendment to or modification or waiver of the terms of any of the relevant Loan Agreements, unless the Trustee has given its prior written consent. The Issuer will further agree to act at all times in accordance with any instructions of the Trustee from time to time with respect to each of the relevant Loan Agreements. Any material amendments, modifications, waivers or authorisations made with the Trustee’s consent shall be notified to the Noteholders in accordance with, and as more fully described in, Condition 15 (*Notices*) in “*Terms and Conditions of the Notes*” and shall be binding on the Noteholders. Formal notice of the security interests created by any Trust Deed will be given to the Principal Paying Agent and Transfer Agent who will be required to acknowledge the same. The Bank has also entered into the deed of indemnity dated 23 July 2007 as amended and restated on 27 May 2008 as further amended and restated by the amended and restated deed of indemnity dated 18 July 2008 for the benefit of the Issuer, the Trustee, Deutsche Bank AG, London Branch (the “**Principal Paying Agent**”), Deutsche Bank Trust Company Americas (the “**U.S. Paying Agent**”), Deutsche International Corporate Services (Ireland) Limited (the “**Irish Paying Agent**”) and Deutsche Bank Luxembourg S.A. (the “**Registrar**”) and together with the Principal Paying Agent, the U.S. Paying Agent, the Irish Paying Agent and the Registrar, (the “**Paying Agents**”) (as may be further amended or supplemented from time to time, the “**Deed of Indemnity**”).

Ukrainian Issuance Holdings Limited (the “**PECO Holder**”) will, pursuant to the post-enforcement call option agreement dated 23 July 2007 as amended and restated by the amended and restated on 27 May 2008 as further amended and restated on 18 July 2008 (as may be further amended or supplemented from time to time, the “**Post-Enforcement Call Option Agreement**”), have the benefit of an option granted by the Trustee on behalf of the Noteholders (the “**Post-Enforcement Call Option**”) to acquire all the Notes of each

OVERVIEW OF THE PROGRAMME

Series then outstanding (together with any accrued and unpaid interest) for nominal consideration, which will be exercisable only after certain conditions have been met (see “*Risk Factors—Risks Relating to the Programme, Notes and the Trading Market—Post-enforcement call option*” below and Condition 6(g) (*Post-Enforcement Call Option*) of the “*Terms and Conditions of the Notes*”. The entire issued share capital of PECO Holder is held by SFM Corporate Services Limited (the “**Share Trustee**”) pursuant to the Declaration of Trust declared by the Share Trustee on 6 July 2007.

Set out below is a diagrammatic representation of the structure of each transaction entered into under the Programme:



Notes to be Issued Under the Programme

Issuer	Ukraine Issuance plc.
Borrower under the corresponding Loan	Closed Joint-Stock Company “ALFA-BANK”.
Description	Programme for the issuance of loan participation notes pursuant to which the Issuer may issue Notes.
Programme Size	Up to US\$2,000,000,000 (or its equivalent in other currencies at the Issue Date or Trade Date, as the case may be) aggregate principal amount of Notes outstanding at any one time. The Bank may increase the amount of the Programme in accordance with the Dealer Agreement (as defined herein).
Arranger	UBS Limited
Dealers	Credit Suisse Securities (Europe) Limited and HSBC Bank plc Pursuant to the terms of the Dealer Agreement, the Issuer, on the Bank’s instructions, may from time to time terminate the appointment of any dealer under the Programme or appoint any additional dealers either in respect of one or more Series of Notes or in respect of the whole Programme. References in this Prospectus to “ Dealers ” are to the person listed above and to such additional persons that are appointed as dealers in respect of the Programme (and whose appointment has not been terminated) and to all persons appointed as dealers in respect of one or more Series of Notes.
Trustee	Deutsche Trustee Company Limited.
Principal Paying Agent and Transfer Agent	Deutsche Bank AG, London Branch, unless it is specified in the relevant Final Terms relating to a Series of Notes that another principal paying agent has been appointed in respect of that Series. References in this Prospectus to “ Principal Paying Agent and Transfer Agent ” are to Deutsche Bank AG, London Branch or such alternative principal paying agent or agents, as the case may be.
Registrar	Deutsche Bank Luxembourg S.A. (for Regulation S Notes) and Deutsche Trust Company Americas (for Rule 144 Notes), unless it is specified in the relevant Final Terms relating to a Series of Notes that an alternative registrar is appointed in respect of that Series. References in this Prospectus to “ Registrar ” are to Deutsche Bank Luxembourg S.A. (for Regulation S Notes) and Deutsche Trust Company Americas (for Rule 144 Notes) or such alternative registrar, as the case may be.
Paying Agents	Deutsche Trust Company Americas (for Rule 144 Notes) and Deutsche International Corporate Services (Ireland) Limited unless it is specified in the relevant Final Terms relating to a Series of Notes that another paying agent or agents are appointed in respect of that Series. References in this Prospectus to “ Paying Agents ” are to Deutsche Bank Luxembourg S.A. (for Regulation S Notes) and Deutsche

Transfer Agents

Trust Company Americas (for Rule 144 Notes) and Deutsche International Corporate Services (Ireland) Limited or such alternative paying agent or agents, as the case may be.

Deutsche Trust Company Americas (for Rule 144 Notes) and Deutsche International Corporate Services (Ireland) Limited, unless it is specified in the relevant Final Terms relating to a Series of Notes that another transfer agent or agents are appointed in respect of that Series. References in this Prospectus to “**Transfer Agent**” are to Deutsche Trust Company Americas (for Rule 144 Notes) and Deutsche International Corporate Services (Ireland) Limited and or such alternative transfer agent or agents, as the case may be.

Calculation Agent

Deutsche Bank AG, London Branch, unless it is specified in the relevant Final Terms relating to a Series of Notes that another calculation agent is appointed in respect of that Series. References in this Prospectus to “**Calculation Agent**” are to Deutsche Bank AG, London Branch or such alternative calculation agent, as the case may be.

Corporate Services Provider

Structured Finance Management Limited in its capacity as Corporate Services Provider will be appointed to provide certain corporate services to the Issuer and the PECO Holder (as defined below) pursuant to the corporate services agreement dated 23 July 2007 as amended and restated on 27 May 2008 as further amended and restated on 18 July 2008 between the Issuer, the PECO Holder, the Share Trustee and the Trustee (as may be further amended or supplemented from time to time) (the “**CSA**”). The CSA shall have effect from the date of incorporation of the PECO Holder and shall terminate automatically on the discharge by the Issuer of all secured amounts (an “**Automatic Termination**”), save to the extent that such termination shall not take effect until the Issuer and the PECO Holder have commenced voluntary liquidation proceedings.

Subject to Clause 11.4 of the CSA, the CSA may be terminated by not less than three months’ prior written notice given jointly by the Issuer and the PECO Holder (with the prior written consent of the Trustee) to the Corporate Services Provider or by the Corporate Services Provider to each of the Issuer and/or the PECO Holder (as applicable) and the Trustee. Such termination shall take effect on the date of expiry of the notice or such longer period as the parties may agree.

Under certain circumstances and subject to certain provisions of the CSA each of the Issuer and the PECO Holder shall have the right to terminate the CSA forthwith at any time by giving notice in writing, copied to the Trustee, to the Corporate Services Provider. The Corporate Services Provider shall have the right to terminate the CSA forthwith at any time by giving notice in writing to the Issuer and/or the PECO Holder, copied to the Trustee, if the Issuer or the PECO Holder commits a material breach of any of the terms

or conditions of the CSA or any of the transactional documents and fails to remedy the same within 30 days (or such other period as shall be agreed between the parties) of being required to do so or in the case of the transactional documents, within the period permitted under such transactional document.

Save for an Automatic Termination, termination of the CSA shall not take effect until a substitute Corporate Services Provider has been appointed in accordance with Clause 14.1 of the CSA or three months notice has passed, whichever is the earlier; and the Directors and/or Company Secretary of the Issuer and the Directors and/or Company Secretary of the PECO Holder have tendered their resignation.

Method of Issue

The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “Series”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. The specific terms of each Series will be set out in a Final Terms supplement to this Prospectus which shall supplement the Terms and Conditions of the Notes.

Issue Price of Notes

The Notes will be issued at their principal amount or at a discount or premium to their principal amount as specified in the Final Terms. The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the Trade Date or Issue Date, as the case may be, in accordance with prevailing market conditions.

Status

Each Series of Notes will constitute the obligation of the Issuer to apply an amount equal to the gross proceeds of the sale of such Series of Notes solely for financing the corresponding Loan and to account to the Noteholders of such Series for principal, interest and additional amounts, if any, payable in respect of the Series in an amount equivalent to sums of principal, interest, Additional Amounts and Indemnity Amounts (as defined in the Framework Agreement) (if any) actually received by or for the account of the Issuer pursuant to such Loan, and will rank *pari passu* with all other Series of Notes, all as more fully described in Condition 1 (*Form, Denomination and Status*) in “*Terms and Conditions of the Notes*”.

Security

The Issuer’s obligations under the Notes and its obligations to pay all sums under the Trust Deed are charged in favour of the Trustee by way of the Charge over (i) all rights, title and interest in all and to all sums of money now or in the future deposited into the Account and the debts represented thereby including interest from time to time earned on the Account, and (ii) all of the Issuer’s rights to principal, interest and other amounts (if any) paid and payable under any of the relevant Loan Agreements and its rights to receive all sums paid and payable under any claim, award or

judgment relating to any of such Loan Agreements provided that, subject to this Trust Deed (x) for the avoidance of doubt the Issuer shall remain legal and beneficial owner of the property subject to the Charge following the creation of the Charge and the assignment of rights referred to below and (y), there shall be excluded from the Charge the Reserved Rights and any amounts relating to the Reserved Rights.

The Issuer will with full title guarantee assign absolutely by way of security in favour of the Trustee for the benefit of itself and the Noteholders all the rights, interests and benefits, both present and future, which have accrued or may accrue to the Issuer in respect of any relevant Loan but excluding any rights, interests and benefits charged in favour of the Trustee by way of the Charge above and any Reserved Rights.

Form

The Notes will be issued in registered form. The Notes will be represented by beneficial interests in a Global Note Certificate in fully registered form. The Global Note Certificate will be exchangeable for Individual Note Certificates in the limited circumstances specified in the Global Note Certificate.

Clearing Systems

The Depository Trust Company (in the case of Notes sold pursuant to Rule 144A), Euroclear and Clearstream (in the case of Notes sold pursuant to Regulation S), or such other clearing system(s) as may be agreed between the Issuer, the Bank, the Principal Paying Agent and Transfer Agent, the Trustee and the relevant Dealer(s).

Initial Delivery of Notes

On or before the Issue Date for each Series, the Rule 144A Global Note Certificate, if applicable, will be deposited with a custodian for The Depository Trust Company and the Regulation S Global Note Certificate, if applicable, will be deposited with a common depository for Euroclear and Clearstream. The Rule 144A Notes will be registered in the name of a nominee of The Depository Trust Company, and the Regulation S Notes will be registered in the name of a nominee for a common depository for Euroclear and Clearstream. Global Note Certificates may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Bank, the Principal Paying Agent, the Trustee and the relevant Dealer(s). Notes that are to be credited to one or more clearing systems on issue will be registered in the name of a nominee or nominees for such clearing systems.

Currencies

Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, the Bank and the relevant Dealer(s).

Maturities

Subject to compliance with all relevant laws, regulations and directives, any maturity as may be agreed between the Issuer, the Bank and the relevant Dealer(s).

Denomination	Notes will be in such denominations as may be specified in the relevant Final Terms, save that unless otherwise permitted by then current laws and regulations: (i) Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies), (ii) Notes resold pursuant to Rule 144A will be issued in denominations of US\$100,000 (or its equivalent in other currencies) and integral multiples of US\$1,000 (or its equivalent in other currencies) in excess thereof and (iii) the minimum denomination of Regulation S Notes shall be €50,000 (or the equivalent in other currencies as at the issue date of the relevant Notes) and integral multiples of €1,000 in excess thereof (or the equivalent in other currencies).
Rate of Interest	The Notes may be issued on a fixed rate or floating rate basis.
Fixed Rate Notes	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms.
Floating Rate Notes	Floating Rate Notes will bear interest determined separately for each Series and corresponding Loan as follows: <ul style="list-style-type: none">(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or(ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Final Terms) as adjusted for any applicable margin.
Interest Periods and Interest Rates	The length of the interest periods for the Notes and the applicable interest rate may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms.
Issuer's Covenants	As long as any of the Notes remain 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 any of the relevant Loan Agreements, except as otherwise expressly provided in the Trust Deed.
Redemption by the Issuer	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 of redemption and

	<p>any additional amounts in respect thereof, upon receiving notice that the Bank has prepaid the relevant Loan for tax reasons as more fully described in Clause 5.2 (<i>Prepayment for Tax Reasons and Changes in Circumstances</i>) of the Framework Agreement or in the event that it becomes unlawful for the Issuer to allow any relevant Loan to remain outstanding and in certain other circumstances as more fully described in Clause 5.3 (<i>Prepayment for Illegality</i>) of the Framework Agreement. See also Condition 6 (<i>Redemption, Purchase and Post-Enforcement Call Option</i>) in “<i>Terms and Conditions of the Notes</i>”.</p>
<p>Optional Redemption by the Noteholders upon a Change of Control</p>	<p>The Notes may be redeemed at the option of the Noteholders at their principal amount, together with accrued interest to the date of redemption, following the occurrence of a Put Event, as defined in Condition 6(c) (<i>Redemption at the option of the Noteholders upon a Put Event</i>) in “<i>Terms and Conditions of the Notes</i>”.</p>
<p>Post-Enforcement Call Option</p>	<p>Ukrainian Issuance Holdings Limited (the “PECO Holder”), a limited liability company incorporated in England and Wales (registered number 6301127) and whose registered office is at 35 Great St. Helen’s, London EC3A 6AP, United Kingdom will, pursuant to the Post-Enforcement Call Option Agreement, have the benefit of the Post-Enforcement Call Option granted by the Trustee on behalf of the Noteholders to acquire all the Notes of each Series then outstanding for nominal consideration at the relevant time (together with any accrued and unpaid interest), which will be exercisable only after certain conditions have been satisfied (see “<i>Risk Factors— Risks relating to the Programme, Notes and the Trading Market—Post-enforcement call option</i>” below and Condition 6(g) (<i>Post-Enforcement Call Option</i>) of “<i>Terms and Conditions of the Notes</i>”). The entire issued share capital of the PECO Holder is held by SFM Corporate Services Limited (the “Share Trustee”) as trustee pursuant to the Declaration of Trust declared by the Share Trustee on 6 July 2007.</p>
<p>Events of Default/Relevant Events</p>	<p>Following the occurrence of a Relevant Event (as defined in the Trust Deed), the Trustee may, subject to being indemnified and/or secured to its satisfaction and subject as provided in the Trust Deed, enforce the security created under the Trust Deed in favour of the Noteholders.</p> <p>Under the terms of each of the Loan Agreements, following the occurrence of an Event of Default (as defined in the Framework Agreement), the Trustee may, subject to being indemnified and/or secured to its satisfaction and subject to the provisions of the Trust Deed, declare all amounts payable by the Bank under the relevant Loan Agreement to be due and payable. Upon repayment of the relevant Loan following an Event of Default, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and any additional</p>

Withholding Tax

amounts then due (if any), and thereupon shall cease to be outstanding.

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 or Ukraine 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 relevant Loan Agreement and the Deed of Indemnity (as the case may be) will be required (subject to certain exceptions) to be increased to the extent necessary to ensure that the Noteholders receive the net sum which they would have received free from any liability in respect of any such deduction or withholding, had no such deduction or withholding been made or required to be made.

Use of Proceeds of the Notes

The Issuer will apply the gross proceeds of the offering of each Series of Notes solely to fund the corresponding Loan to the Bank.

Further Issues

The Issuer may from time to time issue further Notes of any Series on substantially the same terms as existing Notes and such further Notes shall be consolidated and form a single Series with such existing Notes of the same Series. In the event of such further issuance, the relevant Loan will be correspondingly increased. See “*Taxation—Certain U.S. Federal Income Tax Considerations—Further Issues*”.

Admission to Trading

Application will be made for the Notes to be admitted to trading on the regulated market of the Irish Stock Exchange. Application may be made for trading of Rule 144A Notes in PORTAL, as specified in the applicable Final Terms.

Governing Law

The Notes, each of the Final Terms, the Framework Agreement, each of the Loan Agreements, the Trust Deed, the Dealer Agreement, each of the Subscription Agreements, the Post-Enforcement Call Option Agreement, the Deed of Indemnity and the Agency Agreement will be governed by English law.

Selling Restrictions

No Notes have been registered under the Securities Act, and Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meaning ascribed to them by Regulation S under the Securities Act.

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.

The Notes may be sold in other jurisdictions (including the United Kingdom, the Russian Federation and Italy) only in compliance with applicable laws and regulations. See “*Subscription and Sale*”.

ERISA Considerations

A Series of Notes issued under the Programme may be regarded for ERISA purposes as equity interests in a separate entity whose sole asset is a Loan. Accordingly, the Notes may not be acquired by Benefit Plan Investors (as defined under “*Certain ERISA Considerations*” herein). Each purchaser and/or holder of Notes and each transferee therefore will be deemed to have made certain representations as to its status under ERISA. Potential purchasers should read the sections entitled “*Certain ERISA Considerations*” and “*Transfer Restrictions*”.

RISK FACTORS

Investment in the Notes involves a high degree of risk. Potential investors should carefully review this entire Prospectus 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 risks highlighted below could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects which, in turn, could have a material adverse effect on its ability to service payment obligations under any Loan Agreement and, as a result, the Issuer's ability to pay the debt service on any Series of the Notes. In addition, the value of the Notes could decline due to any of these risks, and the Noteholders may lose some or all of their investment.

Prospective investors should note that the risks described below are not the only risks the Bank faces. These are the risks that the Bank currently considers to be material. There may be additional risks that the Bank currently considers to be immaterial or of which the Bank is currently unaware, and any of these risks could have similar effects to those set forth below.

Risks Related to the Bank's Business

The Bank may fail to manage its growth

The Bank's total assets have grown rapidly in recent years from US\$1,237.3 million as at 31 December 2006 to US\$2,598.3 million as at 31 December 2007. As at 31 March 2008, the Bank had total assets of US\$3,218.6 million. Such growth is continually monitored by the Bank's Assets and Liabilities Committee and Risk Management Department for risk management and compliance with the NBU requirements. The Bank regularly undergoes inspections conducted by the NBU, which result in various recommendations, including regarding the enhancement of the risk management monitoring and compliance procedures within the Bank. In addition, the Bank's net customer loan portfolio grew from US\$951.8 million as at 31 December 2006 to US\$2,260.7 million as at 31 December 2007 (US\$2,853.8 million as at 31 March 2008). This significant increase in credit exposure will also require continued emphasis by the Bank on credit quality and the adequacy of its provisioning levels and continued development of financial and management controls. See "*Asset, Liability and Risk Management*". The growth of the Bank will also place pressure on the Bank's profitability as growth requires increased expenditure on network expansion and establishment and increased provisioning. Failure to effectively monitor compliance, to make adequate provisions or develop financial and management controls could have an adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank may be unable to effectively manage the growth of its retail loan portfolio

While corporate lending will continue to be a priority business of the Bank, it will continue to grow its retail banking business. The Bank's gross loans and advances to individuals have grown from US\$91.9 million (including loans of US\$91.8 million and overdrafts of US\$0.1 million) as at 31 December 2006 to US\$589.3 million as at 31 December 2007 (US\$747.2 million as at 31 March 2008). Although the Bank has been measured in the approach it has taken in its expansion into the retail lending market, by employing, among other things, strict loan application and approval procedures for certain types of retail loans, and standardised documentation, loans and advances to individuals represent a higher risk category of loans than the Bank's traditional loan portfolio of corporate borrowers. An absence of external credit history sources and sophisticated tools to measure impairment provisions may increase the risks associated with the growth of the Bank's retail loan portfolio. Failure by the Bank to effectively manage the expansion into the retail sector could have an adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank's business and results of operations may be adversely affected by the current general conditions in the international financial markets

While the Bank does not have any exposure to the US sub-prime market, the ensuing global liquidity crisis which commenced in July 2007 has resulted in, among other things, significantly higher interbank lending

RISK FACTORS

rates, making financing more difficult to obtain. A continued uncertainty in the international financial markets and any further tightening in credit conditions could adversely impact the Bank's business and operating results as a result of:

- decreases in the Bank's net interest income;
- increases in borrowing costs and reduced access to capital markets due to unfavorable market conditions; and
- decreases in fee and commission income due to slowing of capital markets activity or significant declines in market values

The Bank could also incur trading losses due to significant market volatility and, as a result, the Bank's financial results from such trading activity could significantly differ from the Bank's current expectations.

The Bank may be unable to accurately estimate the impairment provision in respect of loans and advances

The Bank's provision for impairment of both corporate and retail loans and advances is estimated by Management based on the analysis of individual accounts for individually significant loans, and collectively for loans with similar terms and characteristics. Factors taken into consideration when estimating impairment on loans and advances include historical loss experience, portfolio delinquency rates and overall economic conditions, together with specific analysis of particular borrowers' risk profiles and performance. The absence of external credit history sources and sophisticated tools to measure impairment provisions has in the past resulted in instances of reversals of, or the supplementing of, provisions. Although Management believes it has adequately provided for loan losses, including losses for loans and advances to retail customers, failure by the Bank to accurately estimate the impairment provision in respect of loans and advances could have an adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank may be unable to reduce the level of concentration of its customer accounts and loan portfolio

Although the Bank has been focussing on reducing concentration, there remains a high concentration both of the Bank's customer accounts and in its lending portfolio. As at 31 March 2008, the aggregate amount of customer accounts from the Bank's ten largest customers was US\$967.2 million, or 72.0 per cent. of the Bank's total customer accounts, compared to US\$560.2 million, or 66.5 per cent. of total customer accounts as at 31 December 2007, and compared to US\$428.7 million, or 81 per cent. of the Bank's total customer accounts as at 31 December 2006. As at 31 March 2008, the aggregate gross amount of loans issued to the ten largest borrowers was US\$555.3 million, or 19.2 per cent. of the Bank's total gross loan portfolio, compared to US\$508.4 million, or 22.1 per cent. of the Bank's total gross loan portfolio as at 31 December 2007, or US\$368.1 million, or 38 per cent. of the total gross loan portfolio, as at 31 December 2006. The Bank plans to continue to diversify its customer accounts to minimise the risk created by this concentration and to continue to emphasize the diversification of lending, credit quality and the development of financial and management control to monitor credit exposure. Failure to control and further reduce this concentration could have an adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank is exposed to substantial credit risk from both corporate customers and individuals and the increasing proportion of loans made to individuals and SMEs may adversely affect the overall credit quality of its loan portfolio

The Bank is exposed to substantial credit risk from both corporate customers and individuals. Many businesses in Ukraine have limited experience operating in competitive market conditions as compared to their Western counterparts. In addition, the Bank may not be able to accurately assess default risk on loans provided to corporate customers due to the unpredictability of economic conditions in Ukraine and abroad. While the Bank requires periodic disclosure of its corporate customers' financial statements, such financial statements may not always present a meaningful indication of each customer's consolidated financial condition due to disclosure and accounting regulations in relevant countries, including Ukraine.

Furthermore, the Bank's corporate customers typically do not have extensive or externally verified credit histories. Therefore, in spite of the Bank's credit risk evaluation procedures, the Bank may be unable to accurately evaluate the current or future financial condition of each prospective corporate borrower and the ability of such corporate borrower to repay its loans.

In particular, a number of the Bank's large corporate customers engage in the production and/or export of raw materials, including iron ore and steel, as well as petrochemical and chemical products, and their financial condition depends on the prices of the relevant commodities. A decrease in the prices of these commodities or an increase in production costs not offset by a corresponding price increase may negatively affect the financial condition of such customers and may result in, among other things, a decrease in the funds that these customers hold on deposit with the Bank, a reduction in the volume of foreign currency and/or foreign trade operations in which these customers engage, defaults, or the need to increase the security underlying the obligations of the customers to the Bank. A number of the Bank's clients are state-owned companies, which are regulated by the state and thus dependent on the state with regard to their financial condition. A downturn in the financial condition of such clients or restrictive regulation by the government may result in reduction of new loans or an increase in defaults under existing loans.

The Bank also intends to increase its lending to individuals and SMEs. These customers generally have less capital and liability management experience than larger customers and are more sensitive to economic downturns. In addition, the availability of accurate and comprehensive financial and general credit information on individuals and SMEs in Ukraine is even more limited than in the case of larger corporate customers, which makes it more difficult for the Bank to accurately assess the credit risk associated with such lending.

In addition, the Bank's strategy to significantly increase the size of its retail banking operations may require the extension of credit to individuals and SMEs that do not yet have an established credit history with the Bank. If the overall credit quality of the Bank's loan portfolio were to decline, the Bank would be subject to increased risk of impaired loans, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

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

A substantial portion of the Bank's loans to corporate customers and individuals is secured by collateral such as property, production equipment, vehicles and inventory. Downturns in the relevant markets or a general deterioration of economic conditions may result in declines in the value of collateral securing a number of loans to levels below the amounts of the outstanding principal and accrued interest on those loans. If collateral values decline, they may not be sufficient to cover uncollectible amounts on the Bank's secured loans which may require the Bank to downgrade the relevant loans, and establish additional allowances. See "*Asset, Liability and Risk Management — Credit Risk — Credit Risk Related to Retail and Corporate Lending.*" A failure to recover the expected value of collateral may expose the Bank to losses, which may materially adversely affect the Bank's business, financial condition and results of operations.

The Bank's financial condition and operating results could be affected by market risks

The Bank's financial condition and operating results could be affected by market risks that are outside the Bank's control, including, without limitation, volatility in interest rates, prices of securities and currency exchange rates.

Fluctuations in interest rates could adversely affect the Bank's operations and financial condition in a number of different ways. An increase in interest rates generally may decrease the value of the Bank's fixed rate loans and raise the Bank's funding costs. Such an increase could also generally decrease the value of fixed rate debt securities in the Bank's securities portfolio. In addition, an increase in interest rates may reduce overall demand for new loans and increase the risk of customer default, while general volatility in interest rates may result in a gap between the Bank's interest-rate sensitive assets and liabilities. As a result, the Bank may incur additional costs and expose itself to other risks by adjusting such asset and liability positions through the use of derivative instruments. Interest rates are sensitive to many factors beyond the

Bank's control, including the policies of central banks, including the NBU, domestic and international economic conditions and political factors. There can be no assurance that the Bank will be able to protect itself from the adverse effects of future interest rate fluctuations. Any fluctuations in market interest rates could lead to a reduction in net interest income and adversely affect the Bank's financial condition and results of operations.

The Bank's financial condition and operating results are also affected by changes in market values in the Bank's securities portfolio. As at 31 March 2008, the value of the Bank's securities portfolio was US\$78.2 million, which represented 2.4 per cent. of the Bank's total assets at that date. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations.*" The Bank's income from securities operations depends on numerous factors beyond its control, such as overall market trading activity, interest rate levels, fluctuations in currency exchange rates and general market volatility. Although the Bank has put in place limits for its securities portfolio, securities transactions, including specific limits on transactions with or by certain individual issuers, market price fluctuations, particularly affecting the Bank's Ukrainian corporate and government debt securities and Ukrainian equity securities, may adversely affect the value of the Bank's securities portfolio.

The Bank also trades in foreign currencies on behalf of its clients and for its own account and maintains open currency positions, which give rise to currency risks. The Bank has put in place limits aimed at reducing currency risks and adheres to the NBU limits on open currency positions. Future changes in currency exchange rates may adversely affect the Bank's financial condition and results of operations.

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. As at 1 July 2008, the Bank was in the process of implementing an advanced Operational Risk Management framework, the aim of which is a state-of-the-art approach towards managing of operational risks. The framework will be implemented in compliance with Basel II recommendations. However, failure to address such operational risks or to implement appropriate controls could have an adverse impact on the Bank's business, financial condition, results of operations and prospects.

The Bank is exposed to risks associated with the implementation of its risk management policies and procedures

The Bank has implemented risk management policies for each of the risks that it is exposed to, including, among others, credit risk, market risk, liquidity risk and operational risk, taking into account in each case worst case scenarios. The policies and procedures it employs to identify, monitor and manage these risks may fail under certain circumstances. If the measures implemented by the Bank to identify, monitor and manage risk prove insufficient, the Bank could experience material unexpected losses. See "*Asset, Liability and Risk Management.*"

Transactions with related parties may expose the Bank to additional risk

The Bank has had significant loans to related parties and continues to receive significant funding from related parties. As at 31 March 2008, US\$240.6 million (8.3 per cent.) of gross loans and advances to customers, were due from related parties (entities under common control with the Bank and key management personnel), compared to US\$247.7 million, or 10.8 per cent. of gross loans and advances to customers, as at 31 December 2007, and US\$36.7 million, or 3.8 per cent. of gross loans and advances, as at 31 December 2006. As at 31 March 2008, US\$497.7 million, or 37.1 per cent., of total customer accounts were due to the Bank's related parties compared to US\$259.3 million (30.8 per cent.) as at 31 December 2007, and US\$177.4 million (33.4 per cent.) as at 31 December 2006. It is the Bank's policy that transactions with related parties are priced at market rates and are subject to the same approval procedures and limits as are applied by the Bank to transactions with unrelated parties. The NBU monitors exposures to, and transactions with, "insiders" under NBU regulations. The NBU definition of "insiders" differs from

the International Financial Reporting Standards (“IFRS”) definition of related parties. The NBU does not set or monitor limits on IFRS-defined related party transactions. While Management believes it is not currently exposed to additional risk as a result of entering into such transactions, and the Bank is in compliance with NBU requirements in relation to transactions with “insiders”, failure to effectively manage any further increase in the level of related party transactions may have an adverse effect on the Bank’s business, financial condition, results of operations and prospects.

The Bank is dependent on its relationship with the Alfa Banking Group

The Bank has traditionally been reliant (both for funding and for revenues) on the Alfa Consortium, although Management believes that the majority of its related party transactions are with leading Ukrainian and Russian corporations. The Bank has two types of exposure to the Alfa Consortium, namely the loans it makes to members of the Alfa Banking Group (including loans and advances to banks and deposits and accounts held with banks) and other credit related commitments it assumes on behalf of members of the Alfa Banking Group (see “– Transactions with Related Parties may expose the Bank to Additional Risk” above). The Bank also receives significant funding from related parties, including approximately US\$99.8 million (as at 31 March 2008) of deposits from Alfa-Bank Russia received within US\$308.0 million general credit limit available to the Bank from Alfa-Bank Russia. It is the Bank’s policy that transactions with related parties are priced at market rates and are subject to the same approval procedures and limits as are applied by the Bank to transactions with unrelated parties. The Bank is also reliant on the Alfa Banking Group for brand development, management and operational support. Many of the Bank’s management staff have previously held, or currently hold, positions elsewhere within the Alfa Banking Group. The Bank also utilises the Alfa Banking Group’s expertise in risk management and customer information gathering. Failure by the Bank to diversify both its asset and liability base away from current concentrations within the Alfa Banking Group, or withdrawal of the Alfa Banking Group’s support could constrain the Bank’s ability to continue its current rates of growth, and have an adverse effect on the Bank’s business, financial condition, results of operations and prospects.

The Bank has significant off-balance sheet contingent liabilities that may lead to potential losses

As part of its business, the Bank issues guarantees and letters of credit. As at 31 March 2008, the Bank had issued guarantees amounting to US\$56.7 million and letters of credit amounting to US\$82.4 million. As at 31 March 2008, the Bank also had undrawn credit lines amounting to US\$24.8 million, compared to US\$102.4 million as at 31 December 2007 and US\$11.8 million as at 31 December 2006. All such credit related commitments are classified as off-balance sheet items in the Bank’s Financial Statements. The Bank has not established provisions for its off-balance sheet credit related commitments, and there can be no assurance that the Bank will not suffer losses due to its off-balance sheet credit related commitments. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Year Ended 31 December 2007 and 2006—Contingencies and Commitments” and “Asset, Liability and Risk Management — Credit Risk—Off-Balance Sheet and Related Party Credit Risk.”

The Bank may be unable to meet its regulatory requirements relating to capital adequacy

The Basel Committee on Banking Regulation and Supervisory Practices (the “Basel Committee”) has set international standards for capital adequacy for banks of eight per cent. of a bank’s risk-weighted assets, and the NBU has established a minimum capital adequacy ratios for Ukrainian banks of 10 per cent. of a bank’s risk-weighted assets. The level of the Bank’s net loans to customers has increased significantly from US\$951.8 million as at 31 December 2006 to US\$2,260.7 million as at 31 December 2007 and US\$2,853.8 million as at 31 March 2008. The Bank’s total capital adequacy ratio calculated in accordance with the Basel Committee standards was 16.4 per cent. as at 31 March 2008, compared to 16.1 per cent. as at 31 December 2007 and 15.7 per cent. as at 31 December 2006. The Bank is currently in compliance with its statutory and contractual capital adequacy ratio limits. The Bank must maintain sufficient capital to cover increased risk-weighted assets in order to maintain the capital adequacy ratios set forth by the Basel Committee and the NBU.

The Bank relies on capital injections in order to comply with its capital adequacy ratios, and in the event the actual ratio decreases to just above the statutory level, any delay in capital increase may result in suspension of the Bank's active operations up until the increase of the Bank's capital.

Rapid growth of the Bank's lending operations requires the Management to continually monitor the level of regulatory capital against the risk-weighted assets and to ensure the timely increase of capital if the ratio decreases. Although the Management believes that the monitoring policies are sufficient to eliminate the risk of violation of the capital adequacy ratios, failure by the Bank to exercise permanent control over the ratio may result in a violation of the ratio. Further, while the Bank considers that it has sufficient capital to fund the planned growth of its business, a failure by the Bank to maintain capital adequacy ratios may violate covenants in certain of the Bank's credit and loan agreements with other parties and result in non-compliance with the NBU's capital adequacy requirements, which could lead to the imposition of sanctions by the NBU and acceleration under the Bank's credit and loan agreements by other parties, any of which could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Furthermore, if the Bank fails to comply with applicable Ukrainian legislation and regulations of the NBU and this results in the loss of significant assets and bankruptcy of the Bank, the NBU may revoke the Bank's banking licence.

The market for financial services in Ukraine is characterized by intense competition

The Ukrainian market for financial 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 official statistics of the NBU as at 1 June 2008, there were a total of 195 commercial banks registered in Ukraine, of which 177 banks have been granted banking licences by the NBU. The Bank's most significant competitors include the Group 1 banks according to NBU classification, including PrivatBank, Raiffeisenbank Aval, UkrSibbank, Ukrsotsbank, Ukreximbank, Prominvestbank, Bank Nadra and OTP Bank. See "*Description of the Bank's Business — Market Position and Competition*".

The Bank expects the Ukrainian banking market to become increasingly competitive as a result of an increase in the number of foreign banks operating in Ukraine (subject to certain access criteria set out in Ukrainian legislation) due to deregulation of the banking industry and the abolition of restrictions on the opening of branch offices by foreign banks, occurring from the date of Ukraine's accession to the World Trade Organisation (the "WTO") on 16 May 2008. As at 1 June 2008, 47 banks with foreign ownership, 17 banks of which are 100 per cent. foreign-owned, were operating in Ukraine. In addition, the recent and planned acquisitions within the banking sector of Ukraine, including of controlling stakes in 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 VTB, Prestige Bank by Erste Bank, TAS-Komerzbank by Swedbank AB, Ukrsotsbank by Bank Austria Creditanstalt AG, Bank Forum by Commerzbank AG and Pravex by Intesa Sanpaolo S.p.A. may further increase competition among Ukrainian banks in both deposit taking and lending activities. 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.

If the Bank is unable to continue to compete successfully in the Ukrainian banking sector or to execute its strategy to expand in the corporate or retail banking sector, it could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects. See "*Description of the Bank's Business — Market Position and Competition*".

The Bank is increasingly dependent on sophisticated information technology systems

Banks and their activities are increasingly dependent on highly-sophisticated information technology ("IT") systems. Harmonizing and upgrading the IT systems to manage its growing corporate and retail banking businesses and to create a constant IT architecture poses significant challenges. Thus, the IT systems are

vulnerable to a number of problems, such as hardware or software malfunctions, malicious hacking, physical damage to vital IT centers and computer virus infection.

The Bank is committed to comprehensively upgrading and maintaining its IT systems, in order to meet the needs of changing business and regulatory requirements and to keep pace with the growth of the Bank's existing operations and possible expansion. In addition, upgrading the productivity and functionality of the IT systems will enable the Bank to accelerate the development of its business and enhance its competitiveness in the market.

However, the Bank may not be able to implement necessary upgrades on a timely basis, and upgrades may fail to function as planned. In addition to costs that may be incurred as a result of any failure of its IT systems, the Bank could face fines from bank regulators if its IT systems fail to enable it to comply with applicable banking or reporting regulations.

The Bank is currently in the process of designing a business continuity plan ("BCP") and disaster recovery plan ("DRP") for its IT systems. Situations inhibiting the normal course of business, such as explosions, floods, serious computer system malfunction or breach of IT security may occur at any time. The Bank's current lack of documented and verified procedures in relation to such an event (although such procedures are currently in the process of design and implementation) makes the Bank's success in relation to business continuity and disaster recovery dependant on a limited number of employees possessing suitable know-how and skills. In addition, as long as the Bank does not adequately document its business continuity procedures, weaknesses with the proposed BCP and DRP will be difficult to assess. The Bank's backup IT systems are located in a building approximately 12 kilometres from the primary IT systems and as such the risk of many of the same physical disruption events such as flood or fire are minimised. The Bank is in the process of planning and constructing a new datacenter with a split location in order to improve downtime in the event of material disruption. However, until this datacenter project is complete, the Bank's ability to switch its IT functions from the primary systems to the backup system could take up to and in excess of 90 minutes. In the event of such a delay, the Bank could suffer material disruption to ongoing transactions including settlements and credit applications.

Consequently, any major disruption of the Bank's existing IT systems and/or failure by the Bank to implement a successful BCP and DRP and to improve response times in switching from primary to backup IT in the event of a serious disruption event may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The lack of reliable information about borrowers in Ukraine could result in the Bank not becoming aware of events of default of its borrowers in a timely manner and reduce the likelihood that the Bank would be able to enforce security

The legislative framework for establishment and operation of credit bureaus, which would deliver information to Ukrainian banks to assist them in evaluating and minimising the credit risk of prospective borrowers, has recently been enacted in Ukraine. In June 2005, the Parliament passed a law, with effect from January 2006, permitting the establishment of credit bureaus and adopted further implementing regulations in late 2006. Several credit bureaus already established in Ukraine have recently obtained licences required by the law for collecting, processing, storing and utilising of credit information. In addition, a credit rating agency that provides information regarding participants in the Ukrainian securities market also operates in Ukraine. The information provided by the credit rating agency is made publicly available. However, Ukraine's system for gathering and publishing statistical information relating to the Ukrainian economy in general or specific economic sectors within it or corporate or financial information relating to companies is not as comprehensive as those of many countries with established market economies. Thus, the lack of statistical, corporate and financial information, including (in some cases) audited financial statements, available to the Bank relating to its prospective corporate borrowers or other clients makes the assessment of credit risk, including the valuation of collateral, more difficult. Although the Bank ordinarily estimates the net realisable value of collateral in determining applicable provisioning and collateral requirements, the absence of such statistical, corporate and financial information may impact the Bank's ability to make accurate assessments of credit risk, thereby increasing the risk of borrower

default and decreasing the likelihood that the Bank would be able to enforce any security in respect of the corresponding loan or that the relevant collateral will provide sufficient security for the loan. Furthermore, not all Ukrainian borrowers have credit histories. While Management considers that it has adequate risk evaluation procedures in place to perform the background checks in order to assess the credit risk of corporate and retail loan applicants, the Bank may be unable to evaluate correctly the current economic condition or determine the long-term economic outlook for each prospective borrower, which could have an adverse effect on the Bank's business, financial condition, results of operations and prospects.

Changes in regulation may adversely effect the Bank's competitiveness, increase costs or lead to other disadvantages

The NBU's Resolution No. 368, dated 28 August 2001, which authorised the Directive on Ukrainian Banking Activity Regulation (the "**Banking Regulation Directive**"), set forth capital adequacy and other ratios and limits, including liquidity ratios, credit risk and open currency position limits and the rules upon which the calculations of such 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 – Overview of the Ukrainian Banking Sector and Regulation in Ukraine*".

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 an adverse effect on the Bank's business and financial condition, results of operations and prospects or that could adversely affect the market price and liquidity of the Notes.

The Ukrainian banking sector continues to remain in a nascent state as compared to its Western counterparts. It is unclear how legal and regulatory developments may affect the competitive banking landscape in Ukraine and whether they will improve certain banking activities. No assurance can be given that the regulatory environment in which the Bank operates in Ukraine will not change in a manner that has both an adverse effect on the Bank's ability to compete and thus on its business, financial condition, results of operations and prospects.

The interests of the controlling shareholders may conflict with those of the noteholders

As at the date of this Prospectus, approximately 99 per cent. of the share capital in the Bank is owned by ABH Ukraine Limited. ABH Ukraine Limited therefore has the ability to influence the Bank's business significantly through its ability to control all actions that require shareholder or Supervisory Board approval, including appointment of the Supervisory Board and the Management Board. If circumstances were to arise where the interests of ABH Ukraine Limited or its shareholders conflicted with the interests of the Noteholders, the latter could be disadvantaged by any such conflict, as such controlling shareholder could take actions contrary to Noteholders' interests. The shareholders of ABH Ukraine Limited could elect to develop the Alfa Banking Group in a way which is adverse to the Bank or the interests of Noteholders. ABH Ukraine Limited has the ability to exercise control over the Bank's pursuit of acquisitions, divestitures, financings or other transactions that could enhance the value of its equity investment without necessarily benefiting the interests of the Noteholders. See "*Share Capital, Dividends and Principal Shareholders – Principal Shareholders*".

Compliance with anti-money laundering and anti-terrorism financing rules involves significant costs and efforts and non-compliance may have several legal, monetary and reputational consequences for the Bank

The Bank is subject to rules and regulations regarding money laundering and the financing of terrorism. Monitoring compliance with anti-money laundering and anti-terrorism financing rules can put a significant burden on banks and other financial institutions and pose significant technical problems. Although Management believes its current anti-money laundering policies and procedures are sufficient to ensure compliance with applicable laws, it cannot guarantee that the Bank is in compliance with all applicable anti-money laundering and anti-terrorism financing laws at all times or that its group-wide anti-money laundering and anti-terrorism financing standards are being consistently applied by its employees in all circumstances. Any violation of anti-money laundering and anti-terrorism financing rules, or even the suggestion of violations, may have severe legal, monetary and reputational consequences and may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

There can be no assurance that the Bank will have sufficient insurance coverage

The insurance industry in Ukraine is in a developing state and many forms of insurance protection common in other countries are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of damage arising from accidents on the Bank's property or relating to the Bank's operations. The Bank has obtained insurance policies to cover significant operational risks and losses. Unless the Bank obtains and maintains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have an adverse effect on the Bank's business, financial condition, results of operations and prospects.

The loss of senior management and qualified personnel may adversely effect the Bank's ability to implement its strategy

The Bank is dependent on members of its Management Board and the Supervisory Board for the implementation of its strategy.

In addition, the Bank's success will depend, in part, on its ability to continue to retain, motivate, and attract, if needed, qualified and experienced banking and management personnel. There is significant competition for personnel in the Ukrainian banking industry. In order to recruit qualified and experienced employees and to reduce the likelihood of their departure to other banks, the Bank is establishing a number of programmes with leading Ukrainian universities and attempting to provide an attractive compensation package that is in compliance with standards and safeguards stipulated by Ukrainian employment legislation. The Bank also provides training to its employees through a variety of in-house and external training programmes.

While Management believes that it has effective staff recruitment, training and incentive programmes in place, a failure by the Bank to recruit, train and/or retain necessary personnel could have an adverse effect on the Bank's business, financial condition, results of operations and prospects. See "Employees".

The Bank has not independently verified information regarding its competitors and official data from Government Agencies and the NBU

The Bank has derived substantially all of the information contained in this Prospectus concerning its competitors from publicly available information, and it has relied on the accuracy of this information without independent verification. In addition, some of the information contained in this Prospectus has been derived from the official data of Government agencies and the NBU. The official data published by Ukrainian state and local governments are substantially less complete or researched than those of Western countries and the veracity of some official data released by the Government may be questionable. Official statistics, including those produced by the NBU, may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Ukraine in this Prospectus must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Risks Relating to Ukraine

Since obtaining independence in 1991, Ukraine has undergone a substantial political transformation from a constituent republic of the former Union of Soviet Socialist Republics to an independent sovereign democratic state. Concurrently with this transformation, Ukraine has been progressively changing from a planned to a market-based economy and its achievements in this respect have recently been recognised by the European Union (the “EU”), 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 to reform Ukraine’s economy and its political and judicial systems, to some extent Ukraine still lacks the necessary legal infrastructure and regulatory framework that are 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, as well as cause the price of the Notes to decrease

Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. In particular, investors should be aware that emerging markets such as Ukraine are subject to greater risk than more developed markets, including in some cases significant political, economic and legal risks. Prospective investors should also note that emerging economies such as Ukraine’s are subject to rapid change and that some or all of the information set out in this Prospectus may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely effect prices in debt and equity markets of all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Ukraine and adversely effect the Ukrainian economy. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must decide whether, in light of those risks, their investment is appropriate. Prospective investors are urged to consult their own legal and financial advisors before making an investment in the Notes.

Political and governmental instability could adversely effect the value of investments in Ukraine

Historically, a lack of political consensus in the Verkhovna Rada, or Parliament, of Ukraine has made it consistently difficult for the Ukrainian government (the “**Government**”) to secure the necessary parliamentary support to implement a variety of policies intended to foster economic reform and financial stability. Since independence in 1991, governmental instability has been a feature of the Ukrainian political scene, with Ukraine experiencing 16 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 in 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 Yushchenko, and later in the appointment of the Cabinet of Ministers, led by Prime Minister Yuliya Tymoshenko. However, tensions between the Government, the President and other state bodies and within the Government itself became increasingly strong and major differences of policy became apparent. On 8 September 2005, President Yushchenko dismissed Prime Minister Tymoshenko and other members of the Cabinet of Ministers, and appointed Mr Yuriy Yekhanurov as acting Prime Minister.

On 25 May 2006, the constitutional reform limiting the powers of the President and transferring certain powers of the President to the Parliament and the Prime Minister became effective (with certain provisions in effect from 1 January 2006). The reform introduced, in particular, the requirement to create a majority

coalition in the 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 the Parliament, and the extension, from four years to five years, of the length of terms of both the Parliament and local councils. There can be no assurance that the amendments to the Constitution will provide for a greater degree of stability or ensure more responsible government policies, although they are meant to do so.

On 2 April 2007, President Yuschenko signed a decree dissolving the Parliament of Ukraine after several peoples' deputies from the opposition joined the majority coalition. The President claimed that the process of forming the 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, President Yuschenko, Prime Minister Yanukovich and Speaker of the Parliament Moroz, reached an agreement to hold early parliamentary elections on 30 September 2007.

Based on official results of the elections, announced on 27 October 2007 the Party of Regions led by Viktor Yanukovich obtained 175 seats out of 450 total seats in the Parliament, while the Yuliya Tymoshenko's Block obtained 156 seats, the pro-presidential Our Ukraine – People's Self-Defence Block obtained 72 seats, the Communist Party of Ukraine obtained 27 seats and the moderate centrist block headed by the former parliament Speaker Volodymyr Lytvyn obtained 20 seats. All other parties and blocks failed to reach the three per cent. mark of the total vote necessary for proportional representation in the Parliament.

On 29 November 2007, the Yuliya Tymoshenko Block and the pro-presidential Our Ukraine – People's Self-Defence Block signed an official coalition agreement to form a majority coalition in the newly elected parliament and appoint the government. On 4 December 2007, the Parliament elected Arseniy Yatseniuk as a new Speaker of the Parliament. On 18 December 2007, the new Ukrainian Parliament appointed Mrs Yuliya Tymoshenko as Prime Minister, as was envisaged by the coalition agreement, and endorsed a new government.

Viktor Yanukovich, whose Party of Regions no longer has a majority in the newly elected Parliament, declared that his party was moving into the opposition and did not participate in the formation of a new government.

On 6 June 2008, two people's deputies announced their withdrawal from the majority coalition whereby the number of signatories of the coalition agreement decreased to 224 out of total 450 people's deputies in the Parliament. Since the relevant provisions of the Ukrainian Constitution do not provide clear guidance as to whether the majority coalition should cease to exist in such circumstances, members of the parliamentary opposition requested the Constitutional Court of Ukraine to opine on the issue. Should the Court decide that the current majority coalition ceased to exist, a new coalition will need to be formed in the Parliament which may lead to the appointment of a new government.

President Yuschenko and the Government face several challenges, including the need to improve the relations between the eastern and western regions of Ukraine, the improvement of relations with Russia, the implementation of unpopular economic reforms and the building of political consensus. The long-term effects of the political events of April to June 2007 are not yet known, and it is possible that reforms and economic growth may be hindered as a result of such instability. In addition, there can be no assurance that the political initiatives necessary to achieve the constitutional reform or any other reforms described elsewhere in this Prospectus will continue, will not be reversed or will achieve their intended aims. Any significant changes in the political climate in Ukraine may have negative effects on the economy as a whole and, as a result, a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Economic instability in Ukraine could adversely effect the Bank's business

In recent years, the Ukrainian economy has been characterised by a number of features that contribute to economic instability, including a relatively weak banking system providing limited liquidity to Ukrainian enterprises, tax evasion, significant capital flight, and rising, but still 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 been partially impeded by lack of political consensus, controversies over privatisation (including privatisation of land in the agricultural sector and privatisation of large industrial enterprises), restructuring of the energy sector, removal of exemptions and privileges for certain state-owned enterprises or for certain industry sectors, and limited cooperation with international financial institutions.

While Ukraine has made significant gains in increasing its gross domestic product (“GDP”), reducing inflation, stabilising its currency, increasing real wages, and improving its trade balance and current account surplus, 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 five months ended 31 May 2008 was 14.6 per cent., compared to 1.9 per cent. for the same period in 2007. The rate of inflation in 2007 was 16.6 per cent., which is higher than the inflation rate of 11.6 per cent. in 2006 and 10.3 per cent. in 2005. GDP growth for the five months ended 31 May 2008 amounted to 6.4 per cent., compared to GDP growth of 7.9 per cent. for the same period in 2007. Ukraine’s GDP growth rate was 7.6 per cent. for 2007, compared to GDP growth of 7.3 per cent. and 2.7 per cent. recorded in 2006 and 2005, respectively. In addition, industrial output growth for the five months ended 31 May 2008 amounted to 8.0 per cent., compared to 12.2 per cent. growth for the same period in 2007. Industrial output growth was 10.2 per cent. for 2007 compared with 6.2 per cent. in 2006 and 3.1 per cent. in 2005.

On April 2005, the NBU revaluated the hryvnia and as a result, the exchange rate of the hryvnia to US dollar appreciated from UAH 5.19 to US\$1.00 on 20 April 2005 to UAH 5.05 to US\$1.00 on 21 April 2005. The UAH/US dollar official exchange rate has remained relatively stable since April 2005 and pursuant to the NBU’s guiding monetary policy principles for 2008, the UAH/US dollar exchange rate limits were established between UAH 4.95 and 5.25 to US\$1.00. However, on 21 May 2008, the Board of the NBU adopted a resolution revaluing hryvnia and establishing the exchange rate of UAH 4.85 to US\$1.00 with effect from 22 May 2008. On 22 May 2008, the Head of the Council of the NBU announced that the Council had vetoed the Board’s decision and recommended to set the exchange rate within the limits established by the NBU’s guiding monetary policy principles for 2008. Nevertheless, the official exchange rate remained at the level of UAH 4.85 to US\$1.00 as at 23 May 2008 and has remained relatively unchanged since then, subject to minor fluctuations (UAH 4.84 to US\$1.00 as at 16 July 2008). Such or any further appreciation of hryvnia may adversely affect the competitiveness of the Ukrainian economy.

Recent positive trends in GDP growth and increases in industrial output may not be sustainable over the longer term and may be reversed unless Ukraine undertakes certain important structural reforms in the near future while continuing to exercise monetary policies that have contributed to reduced inflation levels. The most critical structural reforms that need to be implemented or continued include (i) comprehensive reforms of Ukrainian tax legislation with a view to broadening the tax base by bringing a substantial portion of the shadow economy into the reporting economy, (ii) reforms of the energy sector through the introduction of uniform market-based energy prices and improvement in collection rates (and, consequently, the elimination of the persistent deficits in that sector) and (iii) reforms of social benefits and pensions.

Whereas the Ukrainian economy has improved in a number of areas, currently there is no clear consensus between the Government and the President 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. An economic downturn and any further currency revaluations may adversely affect the Ukrainian economy in general and, as a result, have a material adverse effect on the Bank’s business, financial condition, results of operations and prospects.

The illiquidity of the internal Ukrainian debt market causes the Bank to be dependant on external sources of financing

Ukraine’s internal debt market remains illiquid and underdeveloped as compared to markets in most western countries. 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, interest and fees but excluding debt owed to the International Monetary Fund (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, although it has fallen to approximately 2.1 per cent. as at 31 December 2004 and to approximately 1.8 per cent. as at 31 December 2005 and was approximately 2.5 per cent. in 2006, based on official government sources. Total government external debt servicing (excluding payments to the IMF and payments under state guarantees) was approximately US\$1.4 billion in 2003, US\$1.3 billion in 2004, US\$1.5 billion in 2005 and US\$1.5 billion in 2006, based on official government sources. As at 31 December 2007 the ratio of external debt servicing (including principal, interest and fees but excluding debt owed to the IMF) to GDP and the total government external debt servicing (excluding debt owed to the IMF and payments under state guarantees) were 0.9 per cent. and US\$1.2 billion, respectively.

In the immediate aftermath of the emerging market crisis in the autumn of 1998 and until the second half of 2002, loans from multinational organisations such as the IMF, the European Bank for Reconstruction and Development (the “EBRD”), the World Bank and the EU comprised Ukraine’s only significant sources of external financing. 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 US\$716.0 million. Further, in June 2006, the World Bank approved a US\$150.0 million loan for the “Access to Financial Services Project for Ukraine” (which aimed to increase access to financial services in rural areas) and in July 2006, the World Bank approved another US\$154.5 million loan for the “Second Export Development Project for Ukraine” (which 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 the improvement of power supply and urban infrastructure in Ukraine. Additionally, in December 2007, the World Bank approved an additional loan as part of the “Second Development Policy Loan Project” in the amount of US\$300 million and in January 2008, the World Bank approved a loan in the amount of US\$50 million aimed at strengthening operational efficiency and transparency of public financial management in Ukraine.

Ukraine has been able to access the international capital markets, raising new financing in each year between 2003 and 2008 and its credit rating has been upgraded from B2 to B1 by Moody’s in November 2003 (in November 2006, Moody’s upgraded its outlook on Ukraine’s credit rating from stable to positive), from B+ to BB- by S&P in May 2005 (in April 2007, S&P revised its long-term outlook on Ukraine from stable to negative) and from B+ to BB- by Fitch Ratings Ltd. (“Fitch”) in January 2005 (on 14 May 2008, Fitch revised its outlook on Ukraine’s foreign and local currency ratings from positive to stable, due to accelerating inflation and a growing deficit in its current accounts). On 12 June 2008 S&P revised its long-term foreign currency sovereign credit rating on Ukraine to B+ (stable) from BB- (stable), citing inflationary policies and rising contingent risks.

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, or if such markets are only accessible on unfavourable terms. Consequently, unless the international capital markets or syndicated loan markets are available to Ukraine, the Government will have to continue to rely to a significant extent on official or multilateral borrowings to finance part of the budget deficit, fund its payment obligations under domestic and international borrowings and support foreign exchange reserves. These borrowings may be conditioned on Ukraine’s satisfaction of certain requirements, which may include, among other things, implementation of certain strategic, institutional and structural reforms; reduction of overdue tax arrears; no increase of budgetary arrears; improvement of sovereign debt credit ratings; reduction of overdue indebtedness for electricity and gas and responsible monetary policy. Under such circumstances, any failure of Ukraine to resort to the international capital markets or syndicated loan markets or to receive adequate 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 Ukraine’s financing of its budget deficit, the level of inflation and/or the

value of the hryvnia, which, in turn, may adversely affect the Ukrainian economy as a whole, and thus, the Bank's business, financial condition, results of operations and prospects.

Sectors of the Ukrainian economy are dependent on the maintenance of positive relationships with Russia

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 countries of the EU (including Germany, Hungary, Slovakia and Romania), Commonwealth of Independent States ("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. In addition, a large share of Ukraine's services receipts comprise transit charges for oil, gas and ammonia from Russia. As a result, Ukraine considers its relations with Russia to be of strategic importance. As has been demonstrated in recent years, any significant change in the relationship between the two countries has tended to affect their relations in the energy sphere.

Thus, the outcome of the 2004 Ukrainian presidential elections has, 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 US\$101.00 per tonne as at 1 December 2004 to US\$237.6 per tonne as at 1 October 2006. Following the decreases in world oil prices, Russian oil export duty was decreased to US\$180.70 per tonne from 1 December 2006, and to US\$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 from US\$200.60 per tonne from 1 June 2007 to US\$398.10 per tonne from 1 June 2008.

In addition, gas prices in Ukraine have risen as a result of disagreements between Open Joint-Stock Company "Gazprom" ("**Gazprom**"), the Russian gas monopoly and National Joint-Stock Company "Naftogas of Ukraine" ("**NJSC Naftogas of Ukraine**"), the Ukrainian state-owned oil and gas company 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 US\$50 per 1,000 cubic metres. However, on 1 January 2006, Gazprom temporarily stopped supplies of natural gas to NJSC Naftogas of Ukraine in connection with a dispute over an increase in prices. On 4 January 2006, Gazprom, NJSC Naftogas of Ukraine 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 US\$95 per 1,000 cubic metres for the first six month of 2006 (which price remained in effect until 31 December 2006). In addition, the parties agreed on the transit fee for Russian natural gas through the territory of Ukraine at a rate of US\$1.60 per 1,000 cubic metres for each 100 km until 1 January 2011.

Also pursuant to these agreements, NJSC Naftogas of Ukraine and RosUkrEnergo AG established a Ukrainian joint venture, Closed Joint-Stock Company "Ukrغاز-Energo" ("**Ukrغاز-Energo**"), which entered into a five-year agreement for the supply of natural gas at a price to be fixed on a year-by-year basis. Although the parties established the transit fee charged by Ukraine to Russia for the period until 1 January 2011, the price of US\$95 per 1,000 cubic meters of natural gas was only agreed for the year 2006. In October 2006 this agreement was amended to provide for a supply of 55 billion cubic meters of natural gas to Ukraine in 2007 at a price of US\$130.00 per 1,000 cubic meters of gas, which represents a price increase of 36.9 per cent. compared to the prior price. According to the 4 December 2007 agreement with Gazprom, the imported gas price for Ukraine in 2008 has been increased to US\$179.5 per 1,000 cubic metres. At the same time, Ukraine increased the fee it will charge Gazprom for transporting its gas to Europe through Ukraine in 2008 to US\$1.7 per 1,000 cubic metres per 100 km.

In early 2008, the government announced its intention to remove intermediaries from the gas supply arrangements between NJSC Naftogas of Ukraine and Gazprom. On 8 January 2008, the National Electricity Regulatory Commission of Ukraine (the "**NERC**") limited the volume of gas which may be supplied to Ukrainian consumers by Ukrغاز-Energo to 5.04 billion cubic metres per annum (however, such limitation was subsequently cancelled by the Administrative Court in the Kyiv district upon the claim of Ukrغاز-Energo), and on 6 February 2008, the Cabinet of Ministers of Ukraine repealed its resolution which

approved the establishment of Ukrgaz-Energo. Furthermore, on 5 March 2008, the Cabinet of Ministers of Ukraine designated NJSC Naftogas of Ukraine as exclusive recipient of all imported gas to be used by Ukrainian consumers and in April 2008, NJSC Naftogas of Ukraine signed a direct agreement with RosUkrEnergo AG relating to supply of 49.8 billion cubic metres of gas to Ukraine in 2008.

On 19 March 2008, the Cabinet of Ministers of Ukraine generally approved the Agreement on the Development of Relations in the Gas Sector between NJSC Naftogas of Ukraine and Gazprom signed on 12 March 2008. In furtherance of the Agreement, in April 2004, Gazprom established a subsidiary Limited Liability Company “Gazprom Zbut Ukrayina” (“**Gazprom Zbut**”) for the purposes of supply of natural gas purchased with a nominal margin from NJSC Naftogas of Ukraine to Ukrainian consumers. On 24 April 2008, the NERC issued a one-year licence to Gazprom Zbut for the supply of 7.5 billion cubic metres of natural gas in Ukraine.

Natural gas is currently sold to industrial customers in Ukraine by a number of gas traders including Gazprom Zbut and SC “Gas of Ukraine”, a subsidiary of NJSC Naftogas of Ukraine.

Relations between the two countries have also been affected by controversy over the stationing of the Russian Black Sea Fleet (*Chernomorskyi Flot*) on the territory of Ukraine, including the amount payable to Ukraine for such stationing and the return of certain navigational facilities to Ukraine. In addition, in May 2008 the National Security and Defence Council of Ukraine issued a directive to the Cabinet of Ministers of Ukraine to prepare a draft law relating to the termination from 2017 of the agreements relating to the stationing of the Russian Black Sea Fleet (*Chernomorskyi Flot*) on the territory of Ukraine. Officials of the Russian Ministry for Foreign Affairs responded negatively to this action, as they did not consider it necessary to raise the issue at such an early stage.

In addition in January 2006, Russia banned import of Ukrainian livestock and dairy products on the basis of the alleged violation of veterinary and sanitary standards by Ukrainian producers. Following the inspections of Ukrainian exporters by Russian authorities, the ban was lifted in relation to a number of Ukrainian companies. The negotiations for final settlement of the issue are currently underway.

More than 20 per cent. of Ukrainian exports of goods currently go to Russia, while much of Russia’s exports of energy resources are delivered to the EU via Ukraine. The considerable dependence of the Ukrainian economy on Russian energy resource exports, accompanied by the increase of the price for natural gas by Russia, may adversely affect the pace of economic growth of Ukraine. 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 adverse 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, would likely have negative effects on certain sectors of the Ukrainian economy and thus on the Bank’s business, financial condition, results of operations and prospects.

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, financial condition, results of operations and prospects as well as on the market price of the Notes.

The Ukrainian legal system is continuing to develop, which may result in an uncertain environment for investment and business activity

Since independence in 1991, as Ukraine has been developing 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: (i) inconsistencies between and among the Constitution of Ukraine and various laws, presidential decrees, governmental, ministerial and local orders, decisions, resolutions and other acts; (ii) provisions in the laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted; (iii) a lack of judicial and administrative guidance on the interpretation of Ukrainian legislation, including the complicated mechanism through which the Constitutional Court of Ukraine exercises its constitutional jurisdiction; (iv) general inconsistency in the judicial interpretation of Ukrainian legislation in the same or similar cases and difficulty in predicting the outcome of judicial application of Ukrainian legislation; (v) corruption within the judiciary and (vi) the fact that not all Ukrainian resolutions, orders and decrees and other similar acts are readily available to the public or available in an understandably organised form.

Furthermore, several fundamental Ukrainian laws either have only relatively recently become effective or are still pending hearing or adoption by the Parliament. For example, with effect from 2004 and 2005, Ukraine adopted a new civil code, a new commercial code, new civil and administrative procedural codes, a new law on state registration of proprietary rights to immovable property, a new law on international private law, new secured finance laws and a new law on personal income tax. In June 2005, Ukraine adopted a new law on credit histories and credit bureaux which entered into force in January 2006. With effect from 2006, new laws on securities and stock market, holding companies and mortgage bonds were adopted and the laws on mortgage and real estate construction financing schemes were significantly amended. However, 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 between companies and regulatory authorities. These and other weaknesses in Ukraine's 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 have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

A deterioration in the climate for foreign direct investment could have a material adverse effect on the Ukrainian economy and the Bank's business

Notwithstanding the recent improvements in the Ukrainian economy, 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 in Ukraine 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 emphasized that the plans announced in early 2005 to review the privatization of a number of major companies are no longer under consideration, any future attempts to nationalise private enterprises could adversely affect the climate for foreign direct investment. Any deterioration in the climate for foreign direct investment in Ukraine could have a material adverse effect on the economy and thus on the Bank's business, financial condition, results of operations and prospects.

Official economic data and third-party information may be unreliable

Although a range of government agencies, along with the NBU and the State Statistics Committee of Ukraine, produce statistics on Ukraine and its economy, there can be no assurance that these statistics are as accurate or as reliable as those compiled in more developed countries. Prospective investors should be aware that figures cited in this Prospectus may be subject to some degree of uncertainty and may not be fully in accordance with international standards. Furthermore, standards of accuracy of statistical data may vary from agency to agency and from period to period due to the application of different methodologies. Starting in the first quarter of 2003, Ukraine has been producing data in accordance with the IMF's Special Data Dissemination Standard. There can be no assurance, however, that this IMF standard has been fully implemented or correctly applied. The existence of a sizeable unofficial or shadow economy may also affect the accuracy and reliability of statistical information. In addition, Ukraine has experienced variable rates of inflation, including periods of hyperinflation in the early 1990s. Unless indicated, the information and figures presented in this Prospectus have not been restated to reflect such inflation and, as a result, period-to-period comparisons may not be meaningful. Prospective investors should be aware that none of these statistics has been independently verified by any person in connection with the offering of the Notes and is, therefore, subject to uncertainty due to questions regarding the completeness or reliability of such information. Specifically, prospective investors should be aware that certain statistical information and other data contained in this Prospectus has been extracted from official governmental sources in Ukraine and was not prepared in connection with the preparation of this Prospectus. The Bank accepts responsibility only for the correct extraction and reproduction of such information.

Any deterioration in Ukraine's relationships with western governments and institutions may have a material adverse effect on the Ukrainian economy and the Bank's business

Ukraine continues to pursue the objectives of achieving a closer relationship with the North Atlantic Treaty Organisation ("NATO") and hopes to negotiate an association agreement with the EU. With effect from 30 December 2005 and 1 February 2006, Ukraine was given market economy status by the EU and the United States, respectively.

Ukraine has recently strengthened its relationship with the United States and was a part of the coalition that dispatched troops to Iraq in support of the United States backed military campaign there. Shortly after President Yuschenko's visit to Washington, D.C., the United States allocated an additional US\$60 million of financial assistance to Ukraine, and in August 2005 the United States administration lifted tariff sanctions that have been in place since 2002 on US\$75 million worth of certain Ukrainian exports to the United States. On 23 March 2006, the Jackson Vanik amendment that restricted Ukrainian exports was repealed following announcement of the United States decision to grant Ukraine market economy status in February 2006. In April 2008, Ukraine and the United States signed a "road map" of U.S.-Ukraine relations which outlines the priorities of bilateral co-operation, as well as a bilateral agreement on co-operation relating to trade and investments. The priorities of U.S.-Ukraine bilateral co-operation envisaged by the "road map" include, among other things, assistance with Ukrainian legal system reform and law enforcement, support in the fight against corruption, cooperation in the energy sphere, intensification of activities in the sphere of disarmament and arms control and further Ukrainian military reforms.

Ukraine has been striving to join the WTO since 1993 and on 5 February 2008, the WTO General Council approved Ukraine's "accession package" which consisted of a report of WTO Working Party on the Accession of Ukraine, the market access schedules on goods and services, the WTO General Council Decision and the Protocol of Accession. Parliament ratified the Protocol of Accession on 10 April 2008 which was signed by the President on 16 April 2008. On 16 May 2008, Ukraine became a WTO member.

In late 2004 President Yuschenko stated his desire for Ukraine to quickly achieve membership in NATO. In September 2006 Prime Minister Victor Yanukovich announced that his Government would suspend membership negotiations with NATO for the time being. Ukraine is continuing its internal reforms of its defence and security sectors in consultation with NATO. On 5 October 2006, the Parliament ratified the Memorandum of Understanding between the Cabinet of Ministers and NATO Supreme Allied Command Transformation and NATO Supreme Allied Command Europe, which the Parliament had previously

rejected in November 2005. This Memorandum allows Ukrainian strategic transport aviation to take part in NATO operations and exercises. At the Bucharest Summit held on 2-4 April 2008, NATO leaders adopted the Bucharest Summit Declaration which welcomes Ukraine's aspiration to become a NATO member in the future.

NATO will work with Ukraine to address outstanding questions regarding its application to join the Membership Action Plan, which will be reviewed by NATO foreign ministers in December 2008. The formal basis for NATO-Ukraine relations is provided by the 1997 NATO-Ukraine Charter on a Distinctive Partnership. The Charter identified areas for consultation and cooperation and established the NATO-Ukraine Commission (NUC) to take work forward. A national referendum held after Ukraine has fulfilled its pre-accession formalities may be required as a final step towards the Ukraine's accession to NATO.

While Ukraine's relations with Western nations and international institutions appear to be improving, any major changes in Ukraine's relations with western governments and institutions, in particular any such changes adversely affecting the ability of Ukrainian manufacturers to access world export markets, may have negative effects on the Ukrainian economy as a whole and thus on the Bank's business, financial condition, results of operations and prospects.

Fluctuations in the global economy could have a material adverse effect on the Ukrainian economy and the Bank's business

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 by major export markets. Any such developments may have negative effects on the Ukrainian economy as a whole and thus on the Bank's business, financial condition, results of operations and prospects.

The disruptions recently experienced in the international and domestic capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants which has resulted in a reduction of available financing or a "credit crunch". 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. If the "credit crunch" were to continue and the Bank was to suffer from reduced liquidity and increased costs of financing as a result, this may have negative effects on the Bank's business, financial condition, results of operations and prospects and the value of the Notes.

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. Accordingly, any decrease in investor confidence within the emerging markets may have a negative effect on the price or availability of funding within such markets for the Bank and, as a result, on its business, financial condition, results of operations and prospects.

Ukrainian regulation of money laundering and the prevention of corruption has been undergoing significant changes

Independent analysts have identified corruption and money laundering as problems in Ukraine. In accordance with Ukrainian anti-money laundering legislation which came into force in June 2003, the NBU and other state authorities, as well as various entities carrying out financial transactions, are required to monitor certain financial transactions more closely for evidence of money laundering. As a result of the implementation of this legislation, the Financial Action Task Force on Money Laundering removed Ukraine from its list of Non-Cooperative Countries and Territories in February 2004 and discontinued the formal monitoring of Ukraine in January 2006. 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

thereby on the Ukrainian economy as a whole and thus on the Bank's business, financial condition, results of operations and prospects.

Weaknesses relation to the Ukrainian legal system and Ukrainian law create an uncertain environment for investment and business activity

The independence of the judicial system and its immunity from economic and political influences in Ukraine remain questionable. Although the Constitutional Court of Ukraine is the only body authorised to exercise constitutional jurisdiction and has mostly been impartial, the system of constitutional jurisdiction itself remains complicated. Accordingly, it is difficult to ensure smooth and effective removal of discrepancies between the Constitution and applicable Ukrainian legislation on the one hand and among various laws of Ukraine on the other hand.

Ukraine's court system of general and specialised courts is understaffed and underfunded. Judicial decisions under Ukrainian law generally have no precedential effect. Not all Ukrainian legislation is readily available to the public or organised in a manner that facilitates understanding. Further, only a small 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 generally limited. However, according to a new law "On Access to Court Decisions" which became effective on 1 June 2006, all decisions of courts of general jurisdiction in civil, economic, administrative and criminal matters issued from 1 June 2006 onward (and, in the case of local courts of general jurisdiction, from 1 January 2007) are starting to become available to the public.

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

The 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 could 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 applicable legal requirements, resulting in delays or failures in the enforcement of court orders and judgments.

These uncertainties also extend to certain rights, including investor rights. In Ukraine, there is no established history of investor rights or responsibility to investors and in certain cases, the courts may not enforce these rights. In the event courts take a consistent approach in protecting rights of investors granted under applicable Ukrainian legislation, the legislature of Ukraine may attempt legislatively to overrule any such court decisions by backdating such legislative changes to a previous date.

All of these factors make judicial decisions in Ukraine difficult to predict and effective redress uncertain. In addition, court claims are often used in furtherance of political aims. The Bank may be subject to such claims and may not be able to receive a fair hearing. Finally, court orders are not always enforced or followed by law enforcement institutions. The uncertainties of the Ukrainian judicial system could have a negative effect on the Ukrainian economy as a whole, and thus, on the Bank's business, financial condition, results of operations and prospects.

Ukrainian tax law and practice are not fully developed and are subject to frequent change and reinterpretation

Ukraine currently has a number of laws related to various taxes imposed by both central and local authorities. Applicable taxes include value-added tax, corporate income tax (profits tax), customs duties, payroll (social) taxes and other taxes. These tax laws have not been in force for significant periods of time, compared to more developed market economies, and often result in unclear or non-existent implementing regulations. Moreover, tax laws in Ukraine are subject to frequent changes and amendments, which can result in either a friendlier environment or unusual complexities for the Bank and its business generally. For example, with effect from 1 January 2004, the rate of corporate income tax was reduced from 30 per cent. to 25 per cent., and a new flat personal income tax was introduced initially at a rate of 13 per cent. for almost all types of income, which was subsequently increased to 15 per cent. from 1 January 2007. Also, different tax preferences, including, *inter alia*, those for domestic and foreign investors were abolished in 2005. In January 2008, the Government approved its action programme which reflects the intention of the Government to implement a comprehensive tax reform in Ukraine aimed at, *inter alia*, gradual reduction of the tax burden; expansion of the tax base; minimisation of tax benefits; unification of tax legislation; and an improvement of the tax administration system in line with international standards. Past efforts at tax reform, however, have encountered significant delays and opposition, which may occur again.

Differing opinions regarding legal interpretations often exist both among and within governmental ministries and organisations, including the tax authorities, creating uncertainties and areas of conflict. 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 generally create tax risks in Ukraine 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 period of three years after the filing of the relevant tax declarations, unless criminal proceedings against tax payers are commenced. However, this statutory limitation period may not be observed or may be extended in certain circumstances (for example, when the taxpayer fails to file tax returns for the relevant period as required by Ukrainian law). Moreover, the fact that a period has been reviewed by the competent tax authority does not exempt that period, or any tax declaration/return applicable to that period, from further review.

While Management believes that it is currently in compliance in all material respects with the tax laws affecting its operations, it is possible that relevant authorities could, in the future, take differing positions with regard to interpretative issues, which may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

There are weaknesses in corporate governance standards under Ukrainian law

Disclosure and reporting requirements have only recently been enacted in Ukraine. Anti-fraud legislation has only recently been adapted to the requirements of a market economy and remains largely untested. Most Ukrainian companies do not have corporate governance procedures that are in line with U.S. standards, including the standards set forth in the U.S. Sarbanes-Oxley Act of 2002. Ukrainian banking laws have introduced the concept of fiduciary duties owed by a bank's management to the bank and its shareholders, which concept was further elaborated in the Guidelines for the Improvement of Corporate Governance in Ukrainian Banks approved by the NBU in March 2007. However, the concept of fiduciary duties of management or members of the board to their companies or shareholders remains undeveloped in Ukraine. Violations of disclosure and reporting requirements or breaches of fiduciary duties by the Bank's directors or shareholders could significantly affect the receipt of material information or result in inappropriate management decisions, which may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Risks Relating to the Programme, Notes and the Trading Market

Post-enforcement call option

The obligations of the Issuer to the Noteholders are secured only to the extent of the security interests (see “*Terms and Conditions of the Notes*”). In the event that the security is enforced and upon realisation of all proceeds of such enforcement if there are insufficient funds to pay any amounts due and outstanding on the Notes (after payment of all other claims ranking in priority to, or *pari passu* to, the Notes), pursuant to the Post-Enforcement Call Option, the PECO Holder will have the option to purchase all Notes then outstanding for a consideration of one US\$0.01 in respect of each Note. If the Bank fails to meet its payment obligations under the relevant Loan Agreement in full and the proceeds of enforcement of the security are insufficient to pay any amounts still due and outstanding, this will result in the Noteholders receiving less than the scheduled amount of principal, interest or additional amounts, if any on the relevant due date.

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

At maturity, the Bank may not have the funds to fulfil its obligations under the relevant Loan and it may not be able to arrange for additional financing. If the maturity date of the relevant Loan occurs at a time when other arrangements prohibit the Bank from repaying such 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 is not able to obtain the waivers or refinance these borrowings, it may be unable to repay the relevant Loan.

The Bank may not have the ability to raise the funds necessary to finance the Put Event required by the Terms and Conditions of the Notes and each Loan Agreement

Upon the occurrence of certain change of control events relating to the Bank, the Issuer will be required to offer to repurchase all of the outstanding Notes. In general terms, a Put Event will occur if Mikhail Fridman, German Khan or Alexei Kuzmichev cease to own in excess of 50 per cent. plus one share of the voting stock of the Bank, where such event results in a rating decline of the Bank. See “*Framework Agreement*” and “*Ukrainian currency control regulations could impact the Bank’s ability to make payments to the Lender or the Trustee under any of the relevant Loan Agreements*” below. Additionally, the terms and conditions relating to a particular series of Notes may provide that the Noteholders would have the right (but not the obligation) to require the issuer to repurchase their Notes at a certain time prior to the stated maturity of the Notes, with a contemporaneous requirement that the Bank be required to prepay a corresponding portion of the Loan to the Issuer to fund such prepayment of the Notes. However, it is possible that the Bank will not have sufficient funds at the time of a Put Event or Noteholder Put Option Payment Date (as these terms are defined in each Loan Agreement and/or Final Terms) to make the required repayment of each Loan to enable the Issuer to repurchase the Notes. Additionally, the trading market of the Notes may be adversely impacted for any Noteholders who do not tender their Notes upon a Put Event or a Noteholder Put Option (as defined in the Loan Agreement and/or Final Terms) due to the decreased outstanding issue size of the Notes following such put.

Noteholders have no direct recourse to the Bank

Except as otherwise expressly provided 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 relevant Loan Agreement exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any provision of the relevant Loan Agreement or have direct recourse to the Bank as borrower, except through action by the Trustee pursuant to the rights granted to the Trustee in the Trust Deed. Under the Trust Deed and the Terms and Conditions of the Notes, neither the Issuer nor the Trustee pursuant to the assignment of the Transferred Rights (as defined in “*Terms and Conditions of the Notes*”) shall be required to take proceedings to enforce payment under the relevant 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. See “*Terms and Conditions of the Notes*”.

RISK FACTORS

In addition, the Noteholders should be aware that neither the Issuer nor the Trustee accepts any responsibility for the performance by the Bank of its obligations under any of the relevant Loan Agreements. See Condition 1 (*Form, Denomination and Status*) in “*Terms and Conditions of the Notes*”.

If the Notes are treated as equity for U.S. income tax purposes, there may be adverse consequences for U.S. taxpayers

There are no regulations, published rulings or judicial decisions addressing the characterisation for U.S. federal income tax purposes of securities issued under the same circumstances and with substantially the same terms as the Notes. The Issuer expects the Notes to be treated as debt for U.S. federal income tax purposes. However, no ruling will be obtained from the Internal Revenue Service (“IRS”) with respect to the characterisation of the Notes as debt, and there can be no assurance that the IRS or the courts would agree with this characterisation of the Notes. If, due to the capital structure of the Issuer or otherwise, the Notes were treated as equity interests in the Issuer, U.S. Holders would be treated as owning interests in a “passive foreign investment company” (a “PFIC”). Prospective investors should consult their tax advisers regarding the characterisation of the Notes and the consequences of owning an equity interest in a PFIC.

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

Ukrainian bankruptcy law differs from bankruptcy law in England and the United States, and is subject to varying interpretations. There is not enough precedent to be able to predict how claims of the Lender, the Trustee or the Noteholders against the Bank would be resolved in the event of the Bank’s bankruptcy. In the event of the Bank’s bankruptcy, its obligations to the Lender, the Trustee or the Noteholders 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 commencement of the liquidation procedure;
- obligations to individual depositors in an amount exceeding that established by the system of guaranteeing the deposits of individuals (currently UAH 50,000) but not more than UAH 50,000 or equivalent in other currency(ies);
- obligations to individual depositors in an amount exceeding UAH 50,000 or equivalent in other currency(ies);
- obligations to the Fund for the Guaranteeing of Deposits of Individuals; and
- obligations to individuals (with the exception of individual entrepreneurs) with blocked accounts.

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 also may impose a temporary administration in certain other circumstances. 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 possible extension for another year if the Bank’s liabilities are equal to or exceed 10 per cent. of 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 may apply only to an agreement which contains outstanding obligations of any party. 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/or 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 at the date when the moratorium was imposed.

Furthermore, Article 81 of the Law of Ukraine “On Banks and Banking Activity” dated 7 December 2000, as amended, 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 has been “any operation” (meaning a payment or other transaction) under such agreement: (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, if the operation involved any of the bank’s assets and was conducted on a free-of-charge basis or if 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 was based on forged documents or if it was of a fraudulent nature. If any of the relevant Loan Agreements were to be declared invalid on such basis, and the court applies Ukrainian law, the Bank would be required to repay to the Lender all funds received from the Lender pursuant to such relevant Loan Agreements, and the Lender would be required to repay to the Bank all funds received from the Bank pursuant to such relevant Loan Agreements. There is also a lack of certainty as to whether, in such event, the court might apply any other consequences of the invalidation of any of such Loan Agreements (this would depend on the facts of the relevant case).

Ukrainian counsel have advised that they believe there is no basis for challenging the validity of any of the relevant Loan Agreements or any transaction contemplated thereunder as contravening the requirements of Ukrainian legislation. However, in view of the risks associated with the Ukrainian legal system as disclosed under “ – *Risks Relating to Ukraine – Ukraine’s Developing Legal System*”, no assurance can be given that the courts in Ukraine would interpret this in the same manner.

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

Although Management believes it very unlikely to succeed, any of the relevant Loan Agreements could be challenged on the grounds that the Lender is not a financial institution.

The Commercial Code of Ukraine contains a provision which may be interpreted to allow borrowing foreign currency loans by the Bank only 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 institution, 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. The Bank has been advised that in the absence of a definitive statutory interpretation, the common law interpretation should apply. In addition, the Bank has also received advice from independent Queen's Counsel that in his opinion the Lender should be regarded as a financial institution under both English statute and English common law.

If an interested party seeks to challenge the validity of any Loan Agreement, in certain circumstances the Bank may be required to prepay the relevant Loan and indemnify the Lender for any loss resulting from such invalidity (see Clause 5.3 (*Prepayment for Illegality*) of the Framework Agreement). In such circumstances the Issuer would redeem the Notes. In addition, if the Issuer fails to redeem the Notes, or upon the occurrence of an illegality event of default, the Trustee on behalf of the Noteholders, would be able to enforce the security granted by the Issuer under the Trust Deed and take action against the Bank under the Loan Agreements and under the Deed of Indemnity.

If the NBU requires the Bank to obtain a licence in order to make certain payments under any of the relevant Loan Agreements and/or the Deed of Indemnity the Bank will need to apply for such a licence, and if it fails to obtain such licence, it may be restricted in its ability to make certain payments to the Lender or the Trustee under the relevant Loan Agreement and/or the Deed of Indemnity

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 as well as the process of obtaining such licence. Currently, no such individual licence is generally required for making payments of principal and interest by a resident borrower to a non-resident lender under a loan agreement registered with the NBU (such as any of the relevant Loan Agreements).

There is also some uncertainty as to whether or not a licence would be required following an event of default under any of the relevant Loan Agreements, depending on who would be the recipient of payments under any of the relevant Loan Agreements at that time (see "*Ukrainian currency control regulations could impact the Bank's ability to make payments to the Lender or the Trustee under any of the relevant Loan Agreements*" below). If the NBU determines in the future that a licence is required for payments by the Bank under any of the relevant Loan Agreements, the Bank will need to apply for a licence. In addition, such a licence may be required for payments under the Deed of Indemnity. The Bank cannot assure investors that it will receive such a licence in such cases. If the Bank does not receive such a licence, no assurance can be given that it will be able to make payments under any of the relevant Loan Agreements and/or the Deed of Indemnity.

Ukrainian currency control regulations could impact the Bank's ability to make payments to the Lender or the Trustee under any of the relevant Loan Agreements

The NBU is empowered to define the policy for, and regulate, currency operations in Ukraine, as well as establish any restrictions on currency operations, cross-border payments and the 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 each of the relevant Loan Agreements are only subject to registration with the NBU and no licence is required to be obtained from the NBU in order to make payments of principal and interest under any of such relevant Loan Agreements, there can be no guarantee that such law and practice will remain unchanged during the term of the relevant Loan.

While each of the relevant Loan Agreements will be registered with the NBU, payments of principal and interest under any of such relevant Loan Agreements to any entity other than the Lender would require prior registration with the NBU of the resulting change in the loan transaction or an individual licence from the NBU. Management believes that the NBU would be inclined to view enforcement of security by the Trustee as a mere assignment of the Lender's claims against the Bank to the Trustee and would be in the

position to register any required change in the loan transaction (provided that the Trustee is a bank or a non-banking financial institution). The registration of such a change would be effected by the NBU upon an examination and determination of the terms of the respective documents relating to the assignment to the Trustee. However, the NBU has broad discretion in evaluating and approving the registration of such a change in the loan transaction, and could reject such registration as a result of, for example, misleading or contradictory information being provided to the NBU for such registration. As a result, there can be no assurance that such an assignment of the Lender's claims against the Bank to the Trustee would be successfully registered with the NBU, thus allowing the Bank to make payments of principal and interest under any of the relevant Loan Agreements in the event of an enforcement of security by the Trustee. Should the NBU refuse to register such a 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 any of the relevant Loan Agreements and any proceeds (if any) that may be realised on any enforcement by the Trustee of the security granted to it under the Trust Deed 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, any payments (other than principal) which, in aggregate per annum, exceed an amount determined by applying the applicable maximum interest rate established by the NBU (the "MIR") as of the date of submission of the documents to NBU for registering of the loan agreement to the principal amount of the loan. Moreover, the parties to such agreement must reflect such limitation in the text of the loan agreement. As at the date of this Prospectus, the MIR applicable to fixed interest rate loans in major foreign convertible currencies (including US 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 per cent. per annum; the MIR applicable to loans the maturities of which are in excess of three years is 11 per cent. per annum; and the MIR applicable to floating interest rate loans is LIBOR for three month US dollar deposits plus 750 basis points per annum. 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 enforcement of security by the Trustee) if the effective interest rate (including additional amounts, fees, default interest, penalties and other payments) on the relevant Loan exceeds the then applicable MIR.

At the current MIR, Noteholders would generally receive payment of the full amount of accrued interest in respect of the Notes since the interest rate applicable to the Notes, and the interest rate on the relevant Loan, are less than the currently effective MIR. However, any premium over par, default interest or other payments made in connection with the respective Loan could be limited by the MIR.

In the event that the term of the relevant Loan is reduced (*i.e.*, prepayment or delay in disbursement of the relevant Loan), the NBU would not permit the aggregate amount of interest, additional amounts, fees, default interest, penalties and other payments made in connection with the relevant Loan to exceed, in aggregate per annum, an amount determined by applying the applicable MIR to the principal amount of the relevant Loan. The NBU would require the application of the MIR based on the period for which the relevant Loan has been outstanding as at the date of prepayment (or at the date of repayment, in case of late disbursement of the relevant Loan) 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, any premium over par, default interest or other payments made in connection with a prepayment or repayment, in the case of late disbursement of the relevant Loan, of the Notes resulted from reduction of the term of the relevant Loan.

There is an NBU regulation pursuant to which the State Information and Analytical Center for Monitoring External Commodity Markets (the "SIAC") is required to review the fees for services rendered by a nonresident 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 EUR100,000 (or an equivalent value in another currency), excluding payments made by banks in favour of non-residents for rendering financial services, as well as payments made according to the registration certificate issued for registration of a loan from a non-resident. 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 only be made 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 a 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's payments of fees under the relevant Loan Agreement are exempt from this requirement to the extent they constitute fees for financial services under Ukrainian law, which Management believes to be the case. 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, 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.

Interest payments under any of the relevant Loan Agreements and payments under the Deed of Indemnity may be subject to Ukrainian withholding tax

In general, payments of interest on borrowed funds by a Ukrainian resident entity to a non-resident entity (such as the Lender or the Trustee), provided that the interest is not effectively connected with a permanent establishment of the non-resident entity situated in Ukraine, as well as payments under the Deed of Indemnity to a non-resident entity (such as the Lender or the Trustee), and if such payments are treated as income from Ukrainian sources, are subject to Ukrainian withholding tax at the rate of 15 per cent., subject to any reduction or full exemption pursuant to the terms of an applicable double tax treaty. Based on professional advice it has received, Management 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 with respect to Taxes on Income and Capital Gains signed on 10 February 1993 and in force from 11 August 1993 (the “**Double Tax Treaty**”), as it is currently applied, payments of interest on the relevant Loan will not under current law be subject to withholding tax in Ukraine, 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.

In order for the exemption of interest payments on the relevant Loan from Ukrainian 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 interest payments being received in the United Kingdom and must be “subject to tax” in respect of such interest payments in the United Kingdom. The exemption of interest payments on the relevant Loan will not be available under the Double Tax Treaty if the Lender carries on business through a permanent establishment situated in Ukraine, and the debt-claim in respect of which the interest is paid is effectively connected with such permanent establishment. The notion of beneficial ownership is not well defined 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 interest payments being received in the United Kingdom or as subject to tax on the interest in the United Kingdom. However, Management believes that it is unlikely that the Ukrainian 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 using the United

Kingdom as the Lender's jurisdiction of residence for this financing transaction was to take advantage of the tax benefits (*i.e.*, exemption of the interest payments from withholding taxation in Ukraine) 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 any of the relevant Loan Agreements would cease to have the benefit of the Double Tax Treaty.

If interest payments under any of the relevant Loan Agreements or payments under the Deed of Indemnity are subject to Ukrainian withholding tax, the Bank may be required to pay additional amounts

If any payments (including payments of interest) under any of the relevant Loan Agreements and/or any payments under the Deed of Indemnity are subject to any withholding tax (as a result of which the Issuer would reduce payments under the Notes by the amount of such withholding), the Bank may, subject to certain exceptions specified in each of such relevant Loan Agreements, 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 contained in any of the relevant Loan Agreements and the Deed of Indemnity. Notwithstanding this, a failure by the Bank to pay additional amounts due under any of such relevant Loan Agreements and/or the Deed of Indemnity would constitute a default under any of the relevant Loan Agreements and/or the Deed of Indemnity respectively. Also, in the event that the Bank becomes obliged to pay additional amounts under any of the relevant Loan Agreements, the Bank may prepay the relevant Loan at its principal amount, together with accrued interest, and thereupon (subject to receipt of the relevant funds from the Bank) all outstanding Notes would be prepaid by the Issuer.

If the Trustee enforces the security under the Trust Deed, the Bank will be required to pay additional amounts on account of Ukrainian taxes withheld

In the event that the Trustee enforces the security under the Trust Deed, the Trustee will be entitled to payments of principal and interest under any of the relevant Loan Agreements and payments under the Deed of Indemnity (if applicable). If this were to occur, the Trustee may not be able to qualify for the benefit of the Double Tax Treaty and, consequently, payment under any relevant Loan Agreements may become subject to Ukrainian withholding tax, unless the Trustee meets all the criteria for the exemption under the Double Tax Treaty. Furthermore, payments to the Trustee under the Deed of Indemnity, if treated as income from Ukrainian sources, may be also subject to Ukrainian withholding tax. In the event the Bank would be obliged to pay additional amounts on account of Ukrainian taxes withheld under any of the relevant Loan Agreements, it may prepay the relevant Loan at its principal amount, together with accrued interest as fully set out in each of such relevant Loan Agreements. Thereupon all outstanding Notes will be redeemed by the Issuer.

If the Lender were to cease to be resident in a Qualifying Jurisdiction for purposes of any of the relevant Loan Agreements, or the Double Tax Treaty is otherwise rendered inapplicable, payments of interest under the relevant Loan Agreement would be subject to Ukrainian withholding tax

Payments of interest under any of the relevant Loan Agreements would be subject to Ukrainian withholding tax at the rate of 15 per cent. if the Lender or any successor or assignee thereof were to cease to be resident in a jurisdiction that has an effective double tax treaty with Ukraine that is similar to the Double Tax Treaty, or if the Lender or any successor or assignee thereof takes any action that would render the Double Tax Treaty inapplicable. If this were to occur, the Bank would become obligated to pay additional amounts, and may prepay the respective Loans at their principal amount, together with accrued interest as fully set out in each of such relevant Loan Agreements. Thereupon all outstanding Notes will be redeemed by the Issuer.

Foreign judgements may not be enforceable against the Bank

Courts in Ukraine will not recognise and/or enforce any judgement 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 judgements 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 an arbitration award obtained in a state which is also a party to the New York Convention, such as the United Kingdom, would be enforceable in Ukraine, subject to the terms of the New York Convention. See “*Enforceability of Judgements*”.

There is no public market for the Notes

There is no existing market for the Notes. Application will be made for the Notes to be admitted to trading on the regulated market of the Irish Stock Exchange. 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.

Because the Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer and the Bank

The Notes will be represented by the Global Notes except in certain limited circumstances described in the Permanent Global Note. The Global Notes will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Permanent Global Note, investors will not be entitled to receive definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg. The Issuer will discharge its payment obligations under the Notes by making payments to the common depository for Euroclear and Clearstream, Luxembourg for distribution to their accountholders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. Neither the Bank nor the Issuer has any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes. Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

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 business, financial condition, results of operations and prospects.

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 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.

Exchange rate risks and exchange controls generally

Principal and interest on the Notes will be paid in US 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 US dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the US 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 US dollars would decrease (i) the Investor's Currency equivalent yield on the Notes, (ii) the Investor's Currency equivalent value of the principal payable on the Notes and (iii) 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.

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

Ukraine has been assigned long-term credit ratings of "B+ (stable outlook)" by S&P, "B1 (positive outlook)" by Moody's and "BB- (stable outlook)" by Fitch. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. The Bank enjoys the following ratings by Moody's: an individual financial strength rating of E+, a long-term foreign currency deposits rating of B2, a long-term national currency deposits rating of Ba3; a foreign currency senior unsecured debt rating of Ba3; and a long-term national scale rating of Aa1.ua. In addition, the Bank enjoys the following ratings by S&P: a long-term counterparty rating of B+; a short-term counterparty rating of B; and a national scale rating of uaA. The outlook of the ratings is stable. Any negative change in the Bank's credit rating or the credit rating of Ukraine could materially adversely affect the market price of the Notes.

Risks Related to the Issuer

Taxation of the Issuer

The Issuer's accounts are required to comply with IFRS or with the 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 the Issuer's profits and losses were to follow, to a significant extent, the accounting treatment of its profits and losses, then this could result in the profits or losses being recognised for tax purposes which also bear little or no relationship to the Issuer's cash position.

USE OF PROCEEDS

An amount equal to the proceeds from the offering of a Series of Notes will be used by the Issuer for the sole purpose of financing the corresponding Loan to the Bank. The proceeds of any such Loan will be used by the Bank for general corporate purposes (unless otherwise specified in the relevant Loan Agreement). In connection with the receipt of any such Loan, the Bank will separately pay an arrangement fee, as reflected in the relevant Final Terms.

CAPITALIZATION OF THE BANK

The following table sets out the Bank's capitalization as at 31 March 2008. For further information regarding the Bank's financial condition, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements included elsewhere in this Prospectus.

	As at 31 March 2008 <i>(unaudited)</i>
	<i>(in thousands of US\$)</i>
Liabilities	
Due to other banks ¹	606,009
Customer accounts	1,343,322
Debt securities in issue	198,732
Loan participation notes ²	556,536
Current income tax liability	2,958
Deferred income tax liability	304
Other financial liabilities	5,086
Other liabilities	14,554
Subordinated debt	69,828
Total Liabilities	2,797,329
Equity	
Share capital ³	372,599
Additional paid-in capital.....	3,798
Retained earnings	23,951
Other reserves.....	20,888
Total equity	421,236
Total liabilities and equity	3,218,565

1 In addition, in May 2008 the Bank entered into a trade related loan facility with Credit Suisse in the amount of US\$25.0 million due to mature in May 2009.

2 In April and May 2008, the Bank issued loan participation notes through Ukraine Issuance Plc, with par values of US\$100.0 million and US\$250.0 million due to mature in May 2009 and July 2010, respectively, and both with a nominal interest rate of 9.25 per cent. per annum.

3 On 21 November 2007, the shareholders of the Bank took a decision to issue 374,710 thousand additional shares totalling US\$74.2 million (the equivalent of UAH 374,710 thousand). In December 2007, ABH Ukraine Limited, in compliance with agreements dated 14 December 2007 and 29 December 2007, made a payment of US\$100.0 million for shares with nominal value of US\$74.2 million. On 26 March 2008 the NBU registered the increase in the share capital of the Bank in the amount of US\$74.2 million and the proceeds of the share issue of US\$100.0 million were recognized as an increase in equity.

SELECTED FINANCIAL INFORMATION

The following tables set out a summary of financial information of the Bank which has been extracted from and should be read in conjunction with the Financial Statements of the Bank and the notes thereto included elsewhere in this Prospectus, as well as the sections entitled “*Capitalization*” and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”.

Selected Income Statement Data

	For the three month period ended 31 March <i>(unaudited)</i>		For the year ended 31 December		
	2008	2007	2007	2006	2005
	<i>(in thousands of US\$)</i>				
Interest income ^{1,2}	107,430	37,428	241,182	85,589	21,790
Interest expense ¹	(50,713)	(21,778)	(125,533)	(41,157)	(13,304)
Net interest income	56,717	15,650	115,649	44,432	8,486
Provision for impairment of loans and advances to customers ²	(15,191)	(6,296)	(33,491)	(21,183)	(5,266)
Net interest income after provision for loan impairment	41,526	9,354	82,158	23,249	3,220
Fee and commission income.....	6,881	4,801	19,084	9,949	5,305
Fee and commission expense.....	(899)	(309)	(1,469)	(936)	(257)
Gains less losses from financial derivatives.....	172	3	2,571	–	–
Foreign exchange gains less losses.....	870	1,482	11,256	3,741	982
Foreign exchange translation gains less losses/(losses less gains).....	2,198	299	(2,294)	(1,374)	(969)
Losses less gains on initial recognition of loans and receivables at rates below market measured at amortized cost.....	(834)	(1,083)	(3,422)	–	–
Losses on loan purchased from related party ³	(4,013)	–	–	–	–
Gain on change of expected maturity of liabilities at rates below market.....	1,034	–	–	–	–
Gains less losses/(losses less gains) on initial recognition of financial liabilities measured at amortized cost at rates below/above market.....	35	(91)	183	55	(212)
Gains less losses/(losses less gains) from disposal of investment securities available-for-sale.....	100	(4)	(110)	(119)	(138)
Impairment of investment securities available-for-sale	–	–	(5)	(5)	(5)
Other operating income ²	710	91	852	738	327
Administrative and other operating expenses (including amount of impairment provision for other assets) ⁴	(35,410)	(12,787)	(92,176)	(32,729)	(10,902) ⁴
Profit before tax	12,370	1,756	16,628	2,569	(2,649)
Income tax expense.....	(3,557)	(506)	(4,782)	(985)	730
Profit for the period	8,813	1,250	11,846	1,584	(1,919)

1 To promote comparability across the periods, certain sub-components of the “Interest income” and “Interest expense” line items have been re-categorized, as discussed further in the presentation of each line item in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

2 The value of the line items “Interest income”, “Other operating income” and “Provision for impairment of loans and advances to customers” as presented in the 2007 Financial Statements and the Interim Financial Information differ slightly from the value for such line items (“Interest income”, “Other income” and “Impairment provisions for loans and other assets”) contained in the 2006 Financial Statements due to the reclassification of penalties related to loans and advances to customers from “Other operating income” to “Interest income” and the reclassification of “interest income accrued on overdue loans” to movement in provision for loan impairment.

3 In February 2008 the Bank purchased a corporate loan from an entity under common control for US\$6.0 million. The fair value of this loan as at the date of purchase was US\$2.0 million. As a result of this transaction, the Bank recorded a loss on the purchase of US\$4.0 million. The Bank introduced the borrower to the related party. Following the loan’s impairment, the Bank decided to bear the loss and purchased the loan. This loss was recognised in the income statement to reflect its operational nature.

4 “Administrative and other operating expenses (including amount of impairment provision for other assets)” results from the aggregation of financial information in three line items in the 2006 Financial Statements: “Salaries and employee benefits”, “General administrative expenses” and “Depreciation and amortization”. In addition, the data for the year ended 31 December 2005 includes a provision for impairment of other assets in the amount of US\$4 thousand.

SELECTED FINANCIAL INFORMATION

Selected Balance Sheet Data

	As at 31 March <i>(unaudited)</i>	As at 31 December		
	2008	2007	2006	2005
		<i>(in thousands of US\$)</i>		
Assets				
Cash and balances with the NBU ¹	91,266	76,284	49,281	17,123
Due from other banks (including term deposits and current accounts) ²	131,276	152,061	186,519	69,628
Loans and advances to customers.....	2,853,820	2,260,715	951,765	309,707
Investment securities.....	78,161	49,348	10,897	996
Current income tax prepayment.....	–	–	351	–
Intangible assets ³	1,590	1,582	990	399
Premises, leasehold improvements and equipment ³	55,550	53,253	36,220	23,476
Other financial and non-financial assets ⁴	6,902	5,071	1,280	249
Total assets	3,218,565	2,598,314	1,237,303	421,578
Liabilities				
Due to other banks and the NBU ⁵	606,009	508,296	424,607	204,709
Current accounts of customers ⁶	561,305	420,426	115,618	20,293
Term deposits of customers ⁷	782,017	422,325	414,699	138,159
Debt securities in issue.....	198,732	196,241	9,581	600
Loan participation notes.....	556,536	552,648	158,225	–
Current income tax liability.....	2,958	1,002	–	811
Deferred income tax liability.....	304	42	4,233	3,597
Other financial and non-financial liabilities.....	19,640	15,470	1,930	474
Subordinated debt.....	69,828	69,223	10,151	8,994
Prepaid non-registered share capital.....	–	100,000	–	–
Total liabilities	2,797,329	2,285,673	1,139,044	377,637
Equity				
Share capital.....	372,599	272,599	72,599	26,461
Additional paid-in capital.....	3,798	3,798	3,466	4,621
Retained earnings (accumulated deficit).....	23,951	15,040	2,835	(152)
Other reserves.....	20,888	21,204	19,359	13,011
Total equity	421,236	312,641	98,259	43,941
Total liabilities and equity	3,218,565	2,598,314	1,237,303	421,578

1 To promote comparability across the periods, certain reclassifications have been made to the presentation of financial information in the table above. In the 2007 Financial Statements and the Interim Financial Information, the line item “Cash and cash equivalents” consists of: “Cash on hand”, “cash balances with the NBU (other than mandatory reserve deposits)”, “Mandatory cash balances with the NBU” as well as “Correspondent accounts and overnight placements with other banks” and “Placements with other banks with original maturities of less than three months”. The first three components of “Cash and cash equivalents” in the 2007 Financial Statements have been included in the line item “Cash and balances with the NBU” presented herein. Two line items in the 2006 Financial Statements were aggregated to produce the line item “Cash and balances with the NBU” presented herein: “Cash” and “Balances with the National Bank of Ukraine”.

2 “Due from other banks (including term deposits and current accounts)” results from the aggregation of financial information in two line items in the 2007 Financial Statements and the Interim Financial Information: “Due from other banks” and two components of the line item “Cash and cash equivalents” in the 2007 Financial Statements and the Interim Financial Information (specifically, “Correspondent accounts and overnight placements with other banks” and “Placements with other banks with original maturities of less than three months”). The comparable line item in the 2006 Financial Statements is “due from banks”.

3 The financial information presented in the line items “Intangible assets” and “Premises, leasehold improvements and equipment” in the 2007 Financial Statements and the Interim Financial Information are aggregated in the 2006 Financial Statements, where the comparable line item is “Property, equipment and intangible assets”.

4 The line item “other financial and non-financial assets” results from the aggregation of financial information in two line items in the 2007 Financial Statements and the Interim Financial Information: “other financial assets” and “other assets”. The comparable line item in the 2006 Financial Statements is “other assets”.

5 Due to other banks and the NBU – results from the aggregation of two line items in the 2006 Financial Statements: “Due to banks” and “Loans from the National Bank of Ukraine”.

6 In the 2007 Financial Statements and the Interim Financial Information, “current accounts of customers” and “term deposits of customers” are presented together as “Customer accounts”. To promote comparability with the 2006 Financial Statements, the current/settlement accounts component parts of the line item “Customer accounts” are aggregated to produce the line item referred to herein as “Current accounts of customers”.

7 In the 2007 Financial Statements and the Interim Financial Information, “current accounts of customers” and “term deposits of customers” are presented together as “Customer accounts”. To promote comparability with the 2006 Financial Statements, the term deposit component parts of the line item “Customer accounts” are aggregated to produce the line item referred to herein as “Term deposits of customers”. Two line items in the 2006 Financial Statements were aggregated to produce the line item “Term deposits of customers” presented herein: “Deposits” and “Deposit certificates”.

SELECTED FINANCIAL INFORMATION

Selected Financial Ratios

	As at and for the three months ended 31 March <i>(unaudited)</i>	As at and for the year ended 31 December		
	2008 ¹³	2007	2006	2005
		<i>(in per cent.)</i>		
Bank Performance Ratios				
Net interest margin ¹	8.2	6.4	5.8	3.2
Net non-interest income to income before operating expenses ²	13.1	24.5	34.1	61.0
Cost to income ratio ³	56.2	64.8	56.5	80.6
Return on average assets ⁴	1.2	0.6	0.2	(0.6)
Return on average equity ⁵	9.6	5.8	2.2	(4.5)
Balance Sheet Ratios				
Customer loans to customer accounts ⁶	212.4	268.3	179.5	195.5
Customer loans to total assets ⁷	88.7	87.0	76.9	73.5
Equity to total assets ⁸	13.1	15.9	7.9	10.4
Capital adequacy ratio ⁹	16.4	16.1	15.7	14.7
NBU total capital adequacy ratio ¹⁰	12.7	12.6	11.2	14.4
Asset Quality Ratios				
Provisions for impairment of loan portfolio to total customer loans ¹¹	1.5	1.5	1.9	1.9
Provision charge to total customer loans ¹²	2.1	1.5	2.3	1.7

- 1 Net interest margin was calculated as net interest income before impairment of interest bearing assets divided by the simple average of interest earning assets (Loans and advances to customers, due from other banks, investment securities available-for-sale and financial assets at fair value through profit and loss) after allowance for impairment as at the beginning and the end of the period.
- 2 Net non-interest income to income before operating expenses was calculated as net non-interest income (profit before tax, excluding net interest income after provision for loan impairment, impairment of investment securities available-for-sale and administrative and other operating expenses) divided by operating income (profit before tax, excluding administrative and other operating expenses).
- 3 Cost to income ratio was calculated as administrative and other operating expenses, divided by operating income (profit before tax, excluding administrative and other operating expenses and excluding provision for impairment of loans and advances to customers).
- 4 Return on average assets was calculated as profit for the period divided by the simple average of total assets at the beginning and end of the period.
- 5 Return on average equity was calculated as profit for the period divided by the simple average of total equity at the beginning and end of the period.
- 6 Customer loans to customer accounts was calculated as loans and advances to customers after allowance for impairment at the end of the period divided by customer accounts (including current accounts and deposits) at the end of the period.
- 7 Customer loans to total assets was calculated as loans and advances to customers after allowance for impairment at the end of the period divided by total assets at the end of the period.
- 8 Equity to total assets was calculated as total equity as at the end of the period plus prepaid non-registered share capital divided by total assets as at the end of the period.
- 9 Capital adequacy was calculated based upon the requirements and methodology defined in the 1988 Basel accord.
- 10 Capital adequacy was calculated based upon the requirements and methodology defined by the National Bank of Ukraine.
- 11 Provisions for impairment of loan portfolio to total customer loans was calculated as provision for impairment of loans and advances to customers divided by total loans and advances to customers before allowance for impairment as at the end of the period.
- 12 Provision charge to total customer loans was calculated as impairment charge for loans and advances to customers for the period divided by total loans and advances to customers before allowance for impairment as at the end of the period.
- 13 Ratios for the three months ended 31 March 2008 were annualised when necessary.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the Bank's financial condition and results of operation should be read in conjunction with the Financial Statements included elsewhere in this Prospectus. Unless otherwise specified, the financial data set forth below have been extracted from the Financial Statements which have been prepared in accordance with IFRS. This discussion includes forward-looking statements that involve risks and uncertainties. See "Cautionary Note Regarding Forward-Looking Statements". 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 Prospectus.

Overview

The core business activities of the Bank are corporate banking (including lending, deposit taking, the provision of customer accounts and cash management), retail banking (including lending to retail customers, deposit taking and cash settlement transactions) and treasury and capital markets businesses (including debt capital markets services, brokerage services, security trading and depositary services).

According to NBU official statistics, as at 1 April 2008 the Bank was the 10th largest bank in Ukraine in terms of total assets (compared to 14th as at 1 April 2007), the 9th largest in terms of loans to customers (compared to 11th as at 1 April 2007), the 6th largest in terms of corporate deposits and current accounts (compared to 9th as at 1 April 2007) and the 9th largest in terms of loans to individuals (compared to 19th as at 1 April 2007), all as calculated under Ukrainian Accounting Standards and based on statutory reporting requirements.

As at 31 December 2007 the Bank had total assets of US\$2,598.3 million (US\$3,218.6 million as at 31 March 2008), loans and advances to customers of US\$2,260.7 million (US\$2,853.8 million as at 31 March 2008), total customer current accounts of US\$420.4 million (US\$561.3 million as at 31 March 2008), and total customer term deposits of US\$422.3 million (US\$782.0 million as at 31 March 2008). For the year ended 31 December 2007, the Bank generated a profit before tax of US\$16.6 million and a profit for the year of US\$11.8 million. For the three month period ended 31 March 2008, the Bank generated a profit before tax of US\$12.4 million and a profit for the period of US\$8.8 million.

The Bank is a subsidiary of ABH Ukraine Limited, which is beneficially owned by six shareholders (including Mikhail Fridman, German Khan and Alexei Kuzmichev). The Bank is a part of the Alfa Banking Group, one of the leading private banking groups in the Russian Federation. The Alfa Banking Group, in turn, is a part of the Alfa Consortium, a group of companies principally operating in the banking, insurance, telecommunications and oil and gas sectors, as well as in the investment and retail trade businesses.

General Market Conditions and Operating Environment

Due to the concentration of the Bank's assets in Ukraine, the Bank is substantially affected by macroeconomic conditions in Ukraine. While there have been improvements in economic trends in the country, as indicated by the information in the table below, Ukraine continues to display certain characteristics of an emerging market economy. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible, restrictive currency controls and relatively high inflation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table sets forth certain Ukrainian economic indicators for the years ended 31 December 2007, 2006 and 2005.

	For the years ended 31 December		
	2007	2006	2005
Nominal gross domestic product ("GDP") (<i>millions of UAH</i>)	712,945.0	544,153.0	441,452.0
Real GDP (% change) ¹	107.6	107.3	102.7
Consumer price index ("CPI") (% change) ²	16.6	11.6	10.3
Wholesale Price Index ("WPI") (% change) ³	23.3	14.1	9.5

1 The State Committee of Statistics calculates real GDP for a particular year by dividing nominal GDP for such year by the relevant consumer price index. The real GDP percentage change for a particular year indicates the percentage change compared to the previous year.

2 The CPI percentage change for a particular year indicates the percentage change in weighted prices for consumer goods and services compared to the previous year.

3 WPI growth is the percentage growth in WPI as compared to the previous year.

In 2007, Ukraine enjoyed its eighth consecutive year of economic expansion. The real income of individuals has increased significantly as a result of accelerating wages and low unemployment.

While the NBU follows the floating exchange rate policy, intervening only to smooth out sharp fluctuations of the exchange rate, the Ukrainian hryvnia has been relatively stable due to a *de facto* fixed exchange rate established by the NBU. Under the NBU's monetary lending policy principles for 2005, the official hryvnia/US dollar exchange rate was targeted at between UAH 5.27 and 5.31 = US\$1.00 in 2005. On 21 April 2005, the NBU revalued the hryvnia against the US dollar by 2.7 per cent. in an attempt to address the growing imbalance between the hryvnia and the US dollar on the inter-bank market caused by continuing foreign currency inflows into Ukraine and to reduce inflationary pressure on the Ukrainian economy. The official hryvnia/US dollar exchange rate on 22 April 2005 was UAH 5.05 to the dollar compared with UAH 5.19 to the US dollar immediately prior to such revaluation. Throughout 2006 and 2007, the official hryvnia/US dollar exchange rate was unchanged at UAH 5.05 = US\$1.00 with market exchange rates fluctuating at between UAH 5.00 and 5.10 = US\$1.00. Under the NBU's monetary lending policy principles for 2008 the official hryvnia/US dollar exchange rate is targeted at between UAH 4.95 and 5.25 = US\$1.00. However, on 22 May 2008 the NBU revalued the hryvnia against the US dollar by 4% in an attempt to reduce inflationary pressure on the Ukrainian economy. The official hryvnia/US dollar exchange rate on 22 May 2008 was UAH 4.85 to the dollar compared with UAH 5.05 to the dollar immediately prior to such revaluation. In the four months ended 30 April 2008, market exchange rates fluctuated at between UAH 4.81 and 5.08 = US\$1.00. Management expects that the 2008 target indices for the official hryvnia/US dollar exchange rate will be changed. The NBU has stated that it expects the floating exchange rate policy to become more flexible upon the strengthening of financial stability of the domestic market, including improvement of its ability to mitigate unexpected exchange rate fluctuations.

The inflation rate, as measured by the CPI, was 10.3 per cent. in 2005, 11.6 per cent. in 2006 and 16.6 per cent. in 2007. A higher rate of inflation decreases the purchasing power in Ukrainian hryvnias of the Bank's customers. Such a decrease in purchasing power would adversely affect discretionary spending in general, and purchases of consumer goods and automobiles and real estate in particular, resulting in lower demand for credit cards, consumer loans, automobile loans and mortgages.

Ukraine's economy depends heavily on its trade flows with Russia, largely because Ukraine imports a large proportion of its energy requirements from Russia or from countries that transport energy-related exports through Russia. In addition, a large share of Ukraine's services receipts comprise of transit charges for oil, gas and ammonia from Russia. As a result, Ukraine considers its relations with Russia to be of strategic importance. However, relations between Ukraine and Russia cooled to a certain extent due to (i) disagreements in late 2005 and early 2006 over the prices and methods of payment for gas delivered by the Russian gas monopolist OJSC Gazprom ("Gazprom") to, or for transportation through, Ukraine; (ii) unresolved issues relating to the temporary stationing of the Russian Black Sea Fleet (*Chernomorskyi Flot*) in the territory of Ukraine; and (iii) a Russian ban on imports of meat and milk products from Ukraine. See "*Risks relating to Ukraine - Sectors of the Ukrainian Economy are dependent on the maintenance of the positive relations with Russia*".

Political instability can also have an impact on the level of customer deposits and also on the rate offered on them. For example, prior to the resolution of the political crisis relating to the contested elections in 2004, large amounts of deposits were withdrawn from the Ukrainian banks and banks generally had to offer better terms to their depositors to keep them in or to lure them back. With the resolution of the political crisis, customer deposits have continued to increase in spite of decreases in the average rate of return on deposited funds.

The need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of certain categories of collateral and other legal and fiscal impediments also contribute to difficulties experienced by banks currently operating in Ukraine. The continued success and stability of the Ukrainian economy will be significantly affected by the Ukrainian Government's continued implementation of administrative, legal and economic reforms. See "Risk Factors—Risks Relating to Ukraine".

Significant Factors Affecting Results of Operations

High growth potential of the Ukrainian banking sector

According to the statistics published by the NBU, the value of total assets in the Ukrainian banking sector reached 84.1 per cent. of GDP in 2007, compared to 62.5 per cent. in 2006 and 48.5 per cent. in 2005. While this percentage has been steadily increasing in recent years, the size of banking assets in Ukraine relative to the size of the country's economy is still much smaller than in developed economies.

Due to the limited funding and asset base of Ukrainian banks, the demand for banking products and particularly retail banking products has not been satisfied in many areas, especially in respect of mortgages and bank card services (debit and credit) that have only recently been introduced to the market on a significant scale. With the economy growing at a relatively high rate and real household incomes growing at an even faster rate as well as continuing high demand for corporate loans, Management expects that the assets of the Ukrainian banks will continue to grow in the near future. The Bank has benefited greatly from such unsatisfied demand and has achieved significant growth of both interest and non-interest income in recent years. Management expects that due to its expansive network of branch offices and the quality and quantity of its products and services it will continue to benefit from the unsatisfied demand for banking products and services in Ukraine in the future.

The following table sets forth information on the Ukrainian banking sector as at the dates indicated:

	As at 1 April 2008	As at 31 December 2007	As at 31 December 2006	2005
	<i>(millions of UAH)</i>			
Total shareholders' equity	78,452	69,578	42,566	25,451
Total assets	645,631	599,396	340,179	213,878
Statutory capital	49,716	42,873	26,266	16,144
Net income	2,079	6,620	4,144	2,170
Current accounts and term deposits of legal entities and individuals	350,902	318,389	202,929	147,094
Lending to Ukrainian economy	484,874	426,863	245,226	143,418

Source: the official website of the NBU.

Continuing expansion

The Bank has grown significantly in the periods under review through organic expansion. During this period, the Bank's cost to income ratio, defined as administrative and other operating expenses, divided by operating income (profit before tax, excluding administrative and other operating expenses and excluding provision for impairment of loans and advances to customers), decreased from 80.6 per cent. for the year ended 31 December 2005 to 56.2 per cent. for the three months ended 31 March 2008. The Bank's high cost to income ratio in 2005 was due to significant expenses incurred by the Bank in connection with the start up of the retail business compared to non-material revenues generated by this business in 2005. As reflected by the Bank's results for the three months ended 31 March 2008, the Bank's expansion strategy

has resulted in a decrease in the cost to income ratio, as revenue growth outpaced expense growth. The increase in revenue for the three months ended 31 March 2008 was primarily driven by external revenue generated by the retail business segment, which increased 330.0 per cent. compared to the three months ended 31 March 2007.

Impact of international financial markets

While the majority of the Bank's assets and customers are in Ukraine, the Bank is also impacted by the international financial markets. The global liquidity crisis which commenced in July 2007 has resulted in significantly higher interbank lending rates which may have an impact on the Bank's funding costs going forward. Continued tightening of credit and higher interest rates could impact the Bank's net interest income through increased borrowing costs. The Bank has been able to mitigate negative trends in cost of funding by implementing a flexible credit policy. In particular, the Bank has been able to charge higher interest rates for its products as demand for basic credit products from corporate clients has remained strong and the Bank has introduced new complex financial instruments, which generate higher rates of return, to the Ukrainian market. In the retail business, the Bank is optimizing its product line. Retail credit products are traditionally sold with higher interest rates. See "— Fluctuations in the Value of Securities."

Effects of competition

After a recent wave of acquisitions of Ukrainian banks by foreign banks, most notably the sale of Aval to Raiffeisen and UkrSibbank to BNP Paribas, the share of foreign banks in the Ukrainian banking sector increased significantly. As at 1 June 2008, 17 out of 195 Ukrainian banks were fully owned by foreign investors and another 30 banks were partially owned by foreign investors. As at the same date, the share of foreign capital in total statutory capital of banks operating in Ukraine amounted to approximately 35.5 per cent. Other large acquisitions may occur in the near future.

It is expected that the Ukrainian banking market will become more competitive as a result of the deregulation of the banking industry, the enactment of laws permitting foreign banks to operate branch offices in Ukraine and Ukraine's accession to the WTO. Since 16 May 2008, the date of Ukraine's entry to the WTO, foreign banks have been permitted to open branch offices in Ukraine, subject to certain access criteria established by the Law of Ukraine "On Banks and Banking Activity" dated 7 December 2000, as amended. One of the prerequisites to be satisfied before a general permission to open a branch could become operative is that the NBU and a bank supervisory authority of the foreign state where the relevant parent is headquartered have executed an agreement about their co-operation in the bank supervision field and a harmonization of principles and terms of such supervision. To date, only a few such agreements have been signed by the NBU, including, among others, with the banking regulators in Lithuania, Cyprus, Belarus, Armenia, Latvia and Kyrgystan.

There is intense competition from foreign banks in lending to large corporate clients and SMEs. Foreign banks are well positioned to compete because of their generally lower funding costs, although they are at a disadvantage compared to Ukrainian banks such as the Bank with a greater local knowledge and client relationships.

Competition for retail clients in Ukraine is also intense. As a result of the Bank's strategic decision to pursue a universal banking model, the Bank is increasingly focused on expanding its retail banking business. The Bank competes with a number of local peers, including larger pan-Ukrainian banks such as Bank Nadra, Bank "Finance and Credit", and Oschadbank, and smaller niche banks such as Delta Bank. The smaller local banks can have more limited access to low cost financing and some have narrow, more regional, branch networks. Foreign-owned banks, such as Raiffeisen Aval, UkrSibbank (BNP Paribas) and UkrSotsbank (UniCredit Group), also currently compete with the Bank for retail customers, and many other foreign banks are considering entry into the Ukrainian retail banking market or expanding their existing retail operations in Ukraine. Because foreign banks benefit from lower funding costs, high standards of services, access to advanced banking technologies and higher cost efficiency of their operations, the potential effects of future competition from foreign banks in retail banking should not be ignored.

Lack of long-term funding sources in Ukraine

All Ukrainian banks are affected by the difficulties of raising long-term funds (funds with a maturity exceeding two years) in the Ukrainian market, which leads to a mismatch of their assets and liabilities, as corporate clients have a strong demand for long-term loans and certain popular and highly profitable retail products, such as automobile loans and particularly mortgages, have to be provided to customers on a long-term basis. The lack of long-term funding negatively affects the banks' ability to provide products requiring long-term funds.

The Bank has repeatedly accessed both Ukrainian and international capital markets for funding to lengthen the terms and diversify the composition of its loan portfolio and to try to match the terms of its assets and liabilities. The Bank has been successful in attracting long-term resources from foreign banks and international financial institutions and expects to continue to rely on these sources of funding in the future to lengthen the terms and diversify the composition of its loan portfolio and to try to match the terms of its assets and liabilities.

Fluctuations in the value of securities

As at 31 March 2008, the Bank had US\$78.2 million (2.4 per cent. of its total assets) invested in its securities portfolio, compared to US\$49.3 million (equivalent to 1.9 per cent. of total assets) as at 31 December 2007 and US\$10.9 million (0.9 per cent. of total assets) as at 31 December 2006. The value of the Bank's securities portfolio has fluctuated in the past and will fluctuate in the future, which may have a direct impact on the Bank's results of operations and the structure of its balance sheet. As at 31 March 2008, the majority of the Bank's securities were freely tradable debt securities and, along with short-term placements with other banks, can be considered useful in managing the Bank's liquidity position.

Critical Accounting Policies

The Bank's accounting policies are integral to understanding its results of operations and financial condition presented in the consolidated financial statements and related notes thereto. The Bank's significant accounting policies and critical accounting estimates are described in Notes 3 and 4 to the 2007 Financial Statements and Note 3 to the 2006 Financial Statements. The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and of income and expenses during the relevant reporting period. The Bank's management believes that the following significant accounting policies, due to the judgment, estimates and assumptions inherent in the application thereof, are critical to an understanding of the Bank's financial statements. Actual results may differ from estimates, and such differences may be material.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Bank considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;

- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; and
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of Management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. 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 foreclosure is probable.

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 (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

Current accounts and term deposits. Current accounts and term deposits are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Debt securities in issue. Debt securities in issue include bonds issued by the Bank. Debt securities are stated at amortised cost. If the Bank purchases its own debt securities in issue, they are removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from earlier retirement of debt.

Loan participation notes. Loan participation notes include Eurobonds issued by the Bank. Loan participation notes are stated at amortised cost. If the Bank purchases its own loan participation notes, they are removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from earlier retirement of debt.

Income and expense recognition. Interest income and expense are recorded in the income statement for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Bank retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Custody fees are recorded rateably over the period the services are provided.

Impact of IFRS Changes on the Bank

Effective from 1 January 2007, certain new or amended International Financial Reporting Standards and International Financial Reporting Interpretations Committee (“**IFRIC**”) interpretations have been applied by the Bank. One such new standard has been introduced to improve disclosure about financial instruments, including quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk that is based on information provided internally to the entity's key management personnel and also cover exposure to credit risk, liquidity risk and market risk. Certain new or amended accounting standards and IFRIC interpretations became effective from 1 January 2008.

The amended and new standards and interpretations and their impact on the Bank's financial statements are described in Notes 5 and 6 to the Interim Financial Information and the 2007 Financial Statements.

Reconciliation of the 2007 Financial Statements, the Interim Financial Information and the 2006 Financial Statements

Certain lines in the 2007 Financial Statements and the Interim Financial Information, on the one hand, and the 2006 Financial Statements, on the other hand, are not directly comparable due to changes in the classification of certain line items and to changes in accounting policies.

Accordingly, to promote investors' ability to compare financial information across the periods presented herein, certain line items in the Financial Statements have been aggregated or classified in a manner that is different from the respective financial statements. Certain financial information presented herein for the year ended 31 December 2006 has been extracted from the Comparative 2006 Financial Information, not the audited 2006 Financial Statements.

The following line items, which are presented in the tables herein and discussed in Management's Discussion of Financial Condition and Results of Operations, contain financial information sourced from more than one line item or calculated on a different basis than the comparable line item in the Financial Statements, as set forth below:

Balance Sheet Data

- Cash and balances with the NBU – in the 2007 Financial Statements and the Interim Financial Information, the line item “Cash and cash equivalents” consists of: “Cash on hand”, “Cash balances with the NBU (other than mandatory reserve deposits)”, “Mandatory cash balances with the NBU” as well as “Correspondent accounts and overnight placements with other banks” and “Placements with other banks with original maturities of less than three months”. The first three components of “Cash and cash equivalents” in the 2007 Financial Statements have been included in the line item

“Cash and balances with the NBU” presented herein. Two line items in the 2006 Financial Statements were aggregated to produce the line item “Cash and balances with the NBU” presented herein: “Cash” and “Balances with the National Bank of Ukraine”.

- Due from other banks (including term deposits and current accounts) – results from the aggregation of the following financial information in the 2007 Financial Statements and the Interim Financial Information: the line item “Due from other banks” as well as the two components of the line item “Cash and cash equivalents” in the 2007 Financial Statements and the Interim Financial Information (specifically, “Correspondent accounts and overnight placements with other banks” and “Placements with other banks with original maturities of less than three months”). The comparable line item in the 2006 Financial Statements is “Due from banks”.
- Due to other banks and the NBU – results from the aggregation of two line items in the 2006 Financial Statements: “due to banks” and “loans from the National Bank of Ukraine”.
- Current accounts of customers – in the 2007 Financial Statements and the Interim Financial Information, “current accounts of customers” and “term deposits of customers” are presented together as “Customer accounts”. To promote comparability with the 2006 Financial Statements, the current/settlement accounts component parts of the line item “Customer accounts” are aggregated to produce the line item referred to herein as “Current accounts of customers”.
- Term deposits of customers – in the 2007 Financial Statements and the Interim Financial Information, “current accounts of customers” and “term deposits of customers” are presented together as “Customer accounts”. To promote comparability with the 2006 Financial Statements, the term deposits component parts of the line item “Customer accounts” are aggregated to produce the line item referred to herein as “Term deposits of customers”. Two line items in the 2006 Financial Statements were aggregated to produce the line item “Term deposits” presented herein: “Deposits” and “Deposit certificates”.
- Other financial and non-financial assets – results from the aggregation of financial information in two line items in the 2007 Financial Statements and the Interim Financial Information: “Other financial assets” and “Other assets”. The comparable line item in the 2006 Financial Statements is “Other assets”.
- Other financial and non-financial liabilities – results from the aggregation of financial information in two line items in the 2007 Financial Statements and the Interim Financial Information: “Other financial liabilities” and “Other liabilities”. The comparable line item in the 2006 Financial Statements is “Other liabilities”.

Income Statement Data

- Interest income and interest expense – to promote comparability across the periods, certain sub-components of the “Interest income” and “Interest expense” line items have been re-categorized, as discussed further in the presentation of each line item in “Management's Discussion and Analysis of Financial Condition and Results of Operations”.
- Administrative and other operating expenses (including amount of impairment provision for other assets) – results from the aggregation of financial information in three line items in the 2006 Financial Statements: “Salaries and employee benefits”, “General administrative expenses” and “Depreciation and amortization”. In addition, the data for the year ended 31 December 2005 includes provision for impairment of other assets of US\$4 thousand.

The value of the line items “Interest income”, “Other operating income” and “Provision for impairment of loans and advances to customers” as presented in the 2007 Financial Statements and the Interim Financial Information differ slightly from the value for such line items (“Interest income”, “Other income” and “Impairment provisions for loans and other assets”) contained in the 2006 Financial Statements due to the reclassification of penalties related to loans and advances to customers from “Other operating income” to

“Interest income” and the reclassification of interest income accrued on overdue loans to movement in provision for loan impairment.

In addition, to further promote comparability, certain of the component parts of the line items set forth above have also been aggregated, as discussed in “*Management’s Discussion and Analysis of Financial Condition and Results of Operations.*”

Selected Statistical Information

Average Assets and Liabilities Balances and Interest Rate Data

The following table sets forth the average balances of interest-earning assets and interest-bearing liabilities of the Bank for the years ended 31 December 2007, 2006 and 2005 as well as the amount of interest income and interest expense, respectively, and the average interest rate of such interest income or expense for such assets and liabilities. For the purposes of this table, the average balances of assets and liabilities represent the average of the opening and closing balances for the applicable year. The results of the analysis would likely be different if alternative or more frequent averaging methods were used and such differences could be material. The average interest rates below are calculated by dividing aggregate interest income or expense for the relevant line item below by the average balance for the same item for the applicable year. Average interest rates are distinct from the year-end effective interest rates presented in the Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended 31 December

	2007			2006			2005		
	Average Balance	Average Rate ¹	Interest/Income Expense	Average Balance	Average Rate ¹	Interest/Income Expense	Average Balance	Average Rate ¹	Interest/Income Expense
<i>(in thousands of US\$, except percentages)</i>									
Assets									
Loans and advances to customers	1,606,240	14.2	232,231	630,736	12.6	79,694	215,392	9.0	19,407
Due from other banks (including term deposits and current accounts) ²	169,290	3.4	5,770	128,074	3.3	4,257	53,432	4.1	2,213
Investment securities	30,123	10.6	3,181	5,947	22.5	1,340	1,318	12.9	170
Interest-earning assets	1,805,653	13.4	241,182	764,757	11.2	85,291⁹	270,142	8.1	21,790
Non-interest earning assets	112,158			64,686			37,756		
Total assets	1,917,811			829,443			307,898		
Liabilities and equity									
Due to other banks	466,452	6.5	30,323	314,658	5.9	18,547	135,717	3.8	5,210
Current accounts of customers ³	268,022	2.2	5,944	67,956	1.5	1,048	20,322	1.1	227
Term deposits of customers ⁴	418,512	8.0	33,525	276,429	6.9	19,031	96,768	7.2	6,933
Debt securities in issue	102,911	12.0	12,344	5,091	17.6	896	586	14.0	82
Loan participation notes	355,437	10.9	38,840	79,113	0.6 ⁵	452	—	—	—
Subordinated debt	39,687	11.4	4,534	9,573	12.1	1,158	6,744	12.3	829
Other financial liabilities and other liabilities ⁶	8,700	0.3	23	1,202	2.0	25	605	3.8	23
Interest-bearing liabilities	1,659,721	7.6	125,533	754,022	5.5	41,157	260,742	5.1	13,304
Non-interest-bearing liabilities	52,640			4,321			4,755		
Equity	205,450			71,100			42,401		
Total liabilities and equity	1,917,811			829,443			307,898		
Net interest income			115,649			44,134			8,486
Net interest spread ⁷		5.8			5.7			3.0	
Net interest margin ⁸		6.4			5.8			3.1	

1 Represents interest income or interest expense divided by the average balance of the respective item.

2 The line item "due from other banks (including term deposits and current accounts)" results from the aggregation of financial information in two line items in the 2007 Financial Statements: "Due from other banks" and two components of the line item "Cash and cash equivalents" in the 2007 Financial Statements (specifically, "Correspondent accounts and overnight placements with other banks" and "Placements with other banks with original maturities of less than three months"). The comparable line item in the 2006 Financial Statements is "due from banks".

3 In the 2007 Financial Statements, "current accounts of customers" and "term deposits of customers" are presented together as "Customer accounts". To promote comparability with the 2006 Financial Statements, the current/settlement accounts component parts of the line item "Customer accounts" are aggregated to produce the line item referred to herein as "Current accounts of customers".

4 In the 2007 Financial Statements, "current accounts of customers" and "term deposits of customers" are presented together as "Customer accounts". To promote comparability with the 2006 Financial Statements, the term deposits component parts of the line item "Customer accounts" are aggregated to produce the line item referred to herein as "Term deposits of customers". Two line items in the 2006 Financial Statements were aggregated to produce the line item "Term deposits of customers" presented herein: "Deposits" and "Deposit certificates".

5 In 2006, loan participation notes were not issued until December. If annualized on a monthly basis, the interest rate of related expense would equal 6.9 per cent.

6 The line item "other financial and non-financial liabilities" results from the aggregation of financial information in two line items in the 2007 Financial Statements: "other financial liabilities" and "other liabilities". The comparable line item in the 2006 Financial Statements is "other liabilities".

7 Represents the difference between the average interest rate on interest-earning assets and the average interest rate on interest-bearing liabilities.

8 Net interest margin was calculated as net interest income before impairment of interest earning assets divided by the simple average of interest earning assets (loans and advances to customers, due from other banks and investment securities available-for-sale) after allowance for impairment as at the beginning and the end of the period.

9 The line item "interest income" for the year ended 31 December 2006 has been extracted from the 2006 Financial Statements to promote comparability.

Net Changes in Interest Income and Interest Expense—Volume and Rate Analysis

The following table provides a comparative analysis of net changes in interest income and interest expense by reference to changes in average volume and average interest rates for the years ended 31 December 2007, 2006 and 2005. Net changes in net interest income and expense are attributed to either changes in average balances (volume change) or changes in average rates (rate change) for interest-earning assets and sources of funds on which interest is received or paid. Volume change is calculated as the change in average balance multiplied by the previous average rate, while rate change is the change in average rate multiplied by the later year average balance. Average balances used for calculating the information for the table below constitute the average of opening and closing balances for the applicable year.

	For the year ended 31 December					
	2007 vs. 2006			2006 vs. 2005		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Volume	Rate	Net change	Volume	Rate	Net change
	<i>(in thousands of US\$)</i>					
Interest income						
Loans and advances to customers	123,205	29,033	152,238	37,630	22,657	60,287
Due from other banks (including term deposits and current accounts) ¹	1,370	144	1,514	3,091	(1,047)	2,044
Investment securities	5,448	(3,607)	1,841	597	573	1,170
Total interest income	130,002	25,571	155,593	41,319	22,182	63,501
Interest expense						
Due to other banks	8,749	3,438	12,187	6,869	6,468	13,337
Current accounts of customers ²	3,085	1,811	4,896	532	289	821
Term deposits of customers ³	9,782	4,712	14,494	12,872	(774)	12,098
Debt securities in issue.....	17,218	(5,770)	11,448	630	184	814
Loan participation notes	3,018	34,958	37,976	–	452	452
Subordinated debt	3,643	(267)	3,376	348	(19)	329
Other financial liabilities and other liabilities ⁴	150	(151)	(1)	23	(21)	2
Total interest expense	45,644	38,732	84,376	21,274	6,579	27,853
Net change in net interest income	84,378	(13,161)	71,217	20,045	15,603	35,648

1 The line item “due from other banks (including term deposits and current accounts)” results from the aggregation of financial information in two line items in the 2007 Financial Statements: “Due from other banks” and two components of the line item “Cash and cash equivalents” in the 2007 Financial Statements (specifically, “correspondent accounts and overnight placements with other banks” and “Placements with other banks with original maturities of less than three months”). The comparable line item in the 2006 Financial Statements is “due from banks”.

2 In the 2007 Financial Statements, “current accounts of customers” and “term deposits of customers” are presented together as “Customer accounts”. To promote comparability with the 2006 Financial Statements, the current/settlement accounts component parts of the line item “Customer accounts” are aggregated to produce the line item referred to herein as “Current accounts of customers”.

3 In the 2007 Financial Statements, “current accounts of customers” and “term deposits of customers” are presented together as “Customer accounts”. To promote comparability with the 2006 Financial Statements, the term deposits component parts of the line item “Customer accounts” are aggregated to produce the line item referred to herein as “Term deposits of customers”. Two line items in the 2006 Financial Statements were aggregated to produce the line item “Term deposits of customers” presented herein: “Deposits” and “Deposit certificates”.

4 The line item “other financial and non-financial liabilities” results from the aggregation of financial information in two line items in the 2007 Financial Statements: “other financial liabilities” and “other liabilities”. The comparable line item in the 2006 Financial Statements is “other liabilities”.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Assets and Liabilities by Remaining Expected Maturity

The following table sets forth the Bank's assets and liabilities by remaining expected maturity date, and as a share of total assets or liabilities, as the case may be, as at 31 December 2007.

As at 31 December 2007						
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
<i>(In thousands of US\$, except percentages)</i>						
Assets						
Cash and cash equivalents	202,753	–	–	–	–	202,753
<i>Share of total financial assets.....</i>	8.0%	–	–	–	–	8.0%
Due from other banks	22,139	1,024	2,429	–	–	25,592
<i>Share of total financial assets.....</i>	0.9%	0.0%	0.1%	–	–	1.0%
Loans and advances to customers	324,385	429,895	595,890	728,052	182,493	2,260,715
<i>Share of total financial assets.....</i>	12.8%	16.9%	23.5%	28.7%	7.2%	89.0%
Investment securities available-for-sale	447	3,191	897	44,813	–	49,348
<i>Share of total financial assets.....</i>	0.0%	0.1%	0.0%	1.8%	–	1.9%
Other financial assets.....	2,240	42	10	–	–	2,292
<i>Share of total financial assets.....</i>	0.1%	0.1%	0.0%	–	–	0.1%
Total financial assets	551,964	434,152	599,226	772,865	182,493	2,540,700
<i>Share of total financial assets.....</i>	21.7%	17.1%	23.6%	30.4%	7.2%	100.0%
Liabilities						
Due to other banks	193,539	71,141	240,411	2,292	913	508,296
<i>Share of total financial liabilities ..</i>	8.9%	3.3%	11.1%	0.1%	0.0%	23.4%
Customer accounts	503,931	69,880	231,987	36,953	–	842,751
<i>Share of total financial liabilities ..</i>	23.2%	3.2%	10.7%	1.7%	–	38.8%
Debt securities in issue.....	–	28,903	102,859	64,479	–	196,241
<i>Share of total financial liabilities ..</i>	–	1.3%	4.7%	3.0%	–	9.0%
Loan participation notes	8,022	–	884	543,742	–	552,648
<i>Share of total financial liabilities ..</i>	0.4%	–	0.0%	25.0%	–	25.4%
Other financial liabilities	3,764	373	684	103	–	4,924
<i>Share of total financial liabilities ..</i>	0.2%	0.0%	0.0%	0.0%	–	0.2%
Subordinated debt	–	–	–	6,488	62,735	69,223
<i>Share of total financial liabilities ..</i>	–	–	–	0.3%	2.9%	3.2%
Total financial liabilities	709,256	170,297	576,825	654,057	63,648	2,174,083
<i>Share of total financial liabilities ..</i>	32.6%	7.8%	26.5%	30.1%	2.9%	100.0%
Net liquidity gap at						
31 December 2007	(157,292)	263,855	22,401	118,808	118,845	366,617
Cumulative liquidity gap at						
31 December 2007	(157,292)	106,563	128,964	247,772	366,617	
Credit related commitments.....	25,310	51,168	60,574	49,586	27,622	214,260

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table sets forth the Bank's assets and liabilities by remaining expected maturity date, and as a share of total assets or liabilities, as the case may be, as at 31 December 2006.

As at 31 December 2006*

	Within one month	From one to three months	From three months to one year	More than one year	No maturity	Total
	<i>(In thousands of US\$, except percentages)</i>					
Cash	4,152	–	–	–	–	4,152
Share of total assets	0.3%	–	–	–	–	0.3%
Balances with the NBU	45,129	–	–	–	–	45,129
Share of total assets	3.6%	–	–	–	–	3.6%
Due from banks	154,159	15,560	16,800	–	–	186,519
Share of total assets	12.5%	1.3%	1.4%	–	–	15.1%
Loans and advances	73,327	70,066	365,440	442,932	–	951,765
Share of total assets	5.9%	5.7%	29.5%	35.8%	–	76.9%
Available-for-sale debt securities	722	–	2,890	7,281	4	10,897
Share of total assets	0.06%	–	0.2%	0.6%	0.0%	0.9%
Property, equipment and intangible assets	–	–	–	–	37,210	37,210
Share of total assets	–	–	–	–	3.0%	3.0%
Prepaid income tax	351	–	–	–	–	351
Share of total assets	0.03%	–	–	–	–	0.03%
Other assets	1,280	–	–	–	–	1,280
Share of total assets	0.1%	–	–	–	–	–
Total assets	279,120	85,626	385,130	450,213	37,214	1,237,303
Share of total assets	22.6%	6.9%	31.1%	36.4%	3.0%	100.0%
Due to other banks	154,069	145,581	74,958	49,999	–	424,607
Share of total liabilities	13.5%	12.8%	6.6%	4.4%	–	37.3%
Current accounts	115,618	–	–	–	–	115,618
Share of total liabilities	10.2%	–	–	–	–	10.2%
Deposits	102,121	77,754	232,239	2,585	–	414,699
Share of total liabilities	9.0%	6.8%	20.4%	0.2%	–	36.4%
Debt securities	–	–	–	9,581	–	9,581
Share of total liabilities	–	–	–	0.8%	–	0.8%
Loan participation notes	–	–	433	157,792	–	158,225
Share of total liabilities	–	–	0.03%	13.9%	–	13.9%
Deferred tax liability	–	–	–	4,233	–	4,233
Share of total liabilities	–	–	–	0.4%	–	0.4%
Other liabilities	1,930	–	–	–	–	1,930
Share of total liabilities	0.2%	–	–	–	–	0.2%
Subordinated debt	–	–	–	10,151	–	10,151
Share of total liabilities	–	–	–	0.9%	–	0.9%
Total liabilities	373,738	223,335	307,630	234,341	–	1,139,044
Share of total liabilities	32.8%	19.6%	27.0%	20.6%	–	100.0%
Liquidity gap for the period	(94,618)	(137,709)	77,500	215,872	37,214	98,259
Cumulative liquidity gap	(94,618)	(232,327)	(154,827)	61,045	98,259	–

* The information concerning the contractual remaining maturities of assets and liabilities as at 31 December 2006 disclosed above is not fully comparable with the table of remaining expected maturity as at 31 December 2007 due to differences in the format of the financial statements issued by the Bank for the years ended 31 December 2007 and 31 December 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table sets forth the Bank's assets and liabilities by remaining expected maturity date, and as a share of total assets or liabilities, as the case may be, as at 31 December 2005.

As at 31 December 2005*

	Within one month	From one to three months	From three months to one year	More than one year	No maturity	Total
	<i>(In thousands of US\$, except percentages)</i>					
Cash	1,950	–	–	–	–	1,950
Share of total assets	0.5%	–	–	–	–	0.5%
Balances with the NBU	15,173	–	–	–	–	15,173
Share of total assets	3.6%	–	–	–	–	3.6%
Due from banks	33,440	28,028	8,160	–	–	69,628
Share of total assets	7.9%	6.6%	1.9%	–	–	16.5%
Loans and advances	3,535	5,757	161,248	139,167	–	309,707
Share of total assets	0.8%	1.4%	38.2%	33.0%	–	73.5%
Financial assets at fair value through profit and loss	–	–	792	204	–	996
Share of total assets	–	–	0.2%	0.0%	–	0.2%
Property, equipment and intangible assets	–	–	–	–	23,875	23,875
Share of total assets	–	–	–	–	5.7%	5.7%
Other assets	249	–	–	–	–	249
Share of total assets	0.0%	–	–	–	–	0.0
Total assets	54,347	33,785	170,200	139,371	23,875	421,578
Share of total assets	12.9%	8.0%	40.4%	33.1%	5.7%	100.0%
Due to other banks	114,628	39,939	43,417	3,838	–	201,822
Share of total liabilities	30.4%	10.6%	11.5%	1.0%	–	53.4%
Loan from the NBU	–	–	2,887	–	–	2,887
Share of total liabilities	–	–	0.8%	–	–	0.8%
Current accounts	20,293	–	–	–	–	20,293
Share of total liabilities	5.4%	–	–	–	–	5.4%
Deposits	17,643	66,734	39,337	14,445	–	138,159
Share of total liabilities	4.7%	17.7%	10.4%	3.8%	–	36.6%
Debt securities	–	–	–	600	–	600
Share of total liabilities	–	–	–	0.2%	–	0.2%
Payables for income tax	811	–	–	–	–	811
Share of total liabilities	0.2%	–	–	–	–	0.2%
Deferred tax liability	–	–	–	3,597	–	3,597
Share of total liabilities	–	–	–	1.0%	–	1.0%
Other liabilities	474	–	–	–	–	474
Share of total liabilities	0.1%	–	–	–	–	0.1%
Subordinated debt	–	–	–	8,994	–	8,994
Share of total liabilities	–	–	–	2.4%	–	2.4%
Total liabilities	153,849	106,673	85,641	31,474	–	377,637
Share of total liabilities	40.7%	28.2%	22.7%	8.3%	–	100.0%
Liquidity gap for the period	(99,502)	(72,888)	84,559	107,897	23,875	43,941
Cumulative liquidity gap	(99,502)	(172,390)	(87,831)	20,066	43,941	–

* The information concerning the contractual remaining maturities of assets and liabilities as at 31 December 2005 disclosed above is not fully comparable with the table of remaining expected maturity as at 31 December 2007 due to differences in the format of the financial statements issued by the Bank for the years ended 31 December 2007 and 31 December 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Loans and Advances to Customers

The following table sets forth loans and advances to customers, net of provision for loan impairment, as at 31 December 2007, 2006 and 2005.

	As at 31 December		
	2007	2006	2005
	<i>(in thousands of US\$)</i>		
Gross loans and advances to customers	2,295,941	970,033	315,686
Provision for impairment	(35,226)	(18,268)	(5,979)
Loans and advances to customers	2,260,715	951,765	309,707

Distribution of Gross Loans and Advances to Customers by Industry

The following table sets forth the distribution of the Bank's gross loans and advances to customers by industry as at 31 December 2007, 2006 and 2005:

	As at 31 December					
	2007		2006		2005	
	Amount	%	Amount	%	Amount	%
	<i>(in thousands of US\$, except percentages)</i>					
Retail trade	221,594	10%	31,092	4%	15,487	5%
Railways	145,931	6%	137,582	16%	31,288	10%
Investment and lease companies.....	144,868	6%	4,655	1%	1,372	0%
Wholesale trade	142,347	6%	47,326	5%	30,383	10%
Food industry	131,576	6%	53,004	6%	35,653	11%
Natural gas industry	113,093	5%	2,803	0%	12,085	4%
Construction and real estate	100,106	4%	38,101	4%	5,640	2%
Power industry	73,664	3%	19,858	2%	10,967	3%
Chemical and petrochemical industry	61,779	3%	24,923	3%	4,061	1%
Coal-mining industry	53,465	2%	21,782	2%	–	–
Transport.....	47,958	2%	58,302	7%	14,084	4%
Military organisations and aircraft constructions.....	47,234	2%	42,172	5%	12,655	4%
Metallurgy	42,390	2%	207,029	24%	16,937	5%
Mechanical engineering and metal-working industry	40,005	2%	82,350	9%	26,969	9%
Motor-car industry	36,749	2%	40,320	5%	18,793	6%
Agriculture	33,726	2%	11,012	1%	19,454	6%
Other	183,468	8%	55,805	6%	44,180	14%
Total loans and advances to customers, corporate (before impairment) ¹	1,619,953	71%	878,116	90%	300,008	95%
Retail and SME loans	675,988	29%	91,917 ²	10%	15,678 ²	5%
Total loans and advances to customers (before impairment)	2,295,941	100%	970,033	100%	315,686	100%

1 Includes loans and advances to corporate customers pursuant to reverse repurchase agreements, which have been assigned to an industry amounting to US\$8.0 million as at 31 December 2007. US\$4.9 million as at 31 December 2006 and US\$5.1 million have not been assigned to an industry as at 31 December 2005, and overdrafts of US\$13.7 million as at 31 December 2006 and US\$13.9 million as at 31 December 2005.

2 As at 31 December 2006 and 2005, the balance of retail and SME loans consists of retail loans only (SME launched in 2007).

Loan Concentration by Size of Loans

The following table sets forth the amount of loans and advances to the Bank's ten largest borrowers, and as a percentage of gross loans and advances to customers, as at 31 December 2007, 2006 and 2005.

	As at 31 December		
	2007	2006	2005
	<i>(in thousands of US\$)</i>		
Gross loans and advances to "top ten" customers.....	508,430	368,061	115,706
Share of total gross loans and advances to customers	22%	38%	37%
Total gross loans and advances to customers.....	2,295,941	970,033	315,686

Returns on Assets and Equity

The following table sets forth the net profit attributable to the Bank's equity holders as a percentage of average total assets and average total equity attributable to the Bank's equity holders for the years ended 31 December 2007, 2006 and 2005.

	For the year ended 31 December		
	2007	2006	2005
	<i>(in thousands of US\$)</i>		
Return on average assets ¹	0.6	0.2	(0.6)
Return on average equity ²	5.8	2.2	(4.5)

1 Return on average assets was calculated as profit for the year divided by the simple average of total assets at the beginning and end of the period.

2 Return on average equity was calculated as profit for the year divided by the simple average of total equity at the beginning and end of the period.

Related Party Lending

For a presentation of the Bank's transactions with related parties, including loans extended to related parties, see "***Related Party Transactions***".

Results of Operations for the Years Ended 31 December 2007, 2006 and 2005

The Bank's profit for the period increased to US\$11.8 million for the year ended 31 December 2007 from US\$1.6 million for the year ended 31 December 2006 and from a net loss of US\$1.9 million for the year ended 31 December 2005. The increase in profit for the periods under review was due to the overall expansion of the Bank's business and the significant growth of the retail loan portfolio. This primarily reflected growth in both interest income and non-interest income, including significant growth in loans and advances to customers and fee and commission income. This was partially offset by growth in administrative and other operating expenses, in particular, staff salaries and benefits as well as rent and utilities, due to the ongoing expansion of the Bank's business.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table sets forth the principal components of the Bank's results of operations for the periods indicated.

	For the year ended 31 December		
	2007	2006	2005
	<i>(in thousands of US\$)</i>		
Interest income ^{1 2}	241,182	85,589	21,790
Interest expense ¹	(125,533)	(41,157)	(13,304)
Net interest income	115,649	44,432	8,486
Provision for impairment of loans and advances to customers ²	(33,491)	(21,183)	(5,266)
Net interest income after provision for loan impairment	82,158	23,249	3,220
Fee and commission income	19,084	9,949	5,305
Fee and commission expense	(1,469)	(936)	(257)
Gains less losses from financial derivatives	2,571	–	–
Foreign exchange gains less losses	11,256	3,741	982
Foreign exchange translation losses less gains	(2,294)	(1,374)	(969)
Losses less gains on initial recognition of loans and receivables at rates below market measured at amortized cost	(3,422)	–	–
Gains less losses/(losses less gains) on initial recognition of financial liabilities measured at amortized cost at rates below/above market	183	55	(212)
Losses less gains from disposal of investment securities available-for-sale	(110)	(119)	(138)
Impairment of investment securities available-for-sale	(5)	(5)	(5)
Other operating income ²	852	738	327
Administrative and other operating expenses (including amount of impairment provision for other assets) ³	(92,176)	(32,729)	(10,902) ²
Profit before tax	16,628	2,569	(2,649)
Income tax (expense)/benefit	(4,782)	(985)	730
Profit for the year	11,846	1,584	(1,919)

1 To promote comparability across the periods, certain sub-components of the "Interest income" and "Interest expense" line items have been re-categorized, as discussed further in the presentation of each line item in "Management's Discussion and Analysis of Financial Condition and Results of Operations".

2 The line items "Interest income", "Other operating income" and "Provision for impairment of loans and advances to customers" as presented in the 2007 Financial Statements differ slightly from the value for such line items ("Interest income", "Other income" and "Impairment provisions for loans and other assets") contained in the 2006 Financial Statements due to the reclassification of penalties related to loans and advances to customers from "Other operating income" to "Interest income" and the reclassification of interest income accrued on overdue loans to movement in provision for loan impairment.

3 "Administrative and other operating expenses (including amount of impairment provision for other assets)" results from the aggregation of financial information in three line items in the 2006 Financial Statements: "Salaries and employee benefits", "General administrative expenses" and "Depreciation and amortization". In addition, the data for the year ended 31 December 2005 includes provision for impairment of other assets of US\$4 thousand.

Interest Income

Total interest income increased to US\$241.2 million for the year ended 31 December 2007, an increase of US\$155.6 million (181.8 per cent.) compared to US\$85.6 million for the year ended 31 December 2006. Total interest income increased by US\$63.8 million (292.8 per cent.) in the year ended 31 December 2006, compared to US\$21.8 million in the year ended 31 December 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table sets out the principal sources of the Bank's interest income for the years ended 31 December 2007, 2006 and 2005:

	For the year ended 31 December					
	2007		2006		2005	
	<i>(thousands of US\$)</i>	<i>(% of total)</i>	<i>(thousands of US\$)</i>	<i>(% of total)</i>	<i>(thousands of US\$)</i>	<i>(% of total)</i>
Interest income						
Loans and advances to customers	232,231	96.3	79,993	93.5	19,407	89.1
Due from other banks (including term deposits and current accounts) ¹	5,770	2.4	4,256	4.9	2,213	10.1
Investment securities	3,181	1.3	1,340	1.6	170	0.8
Total interest income	241,182	100.0	85,589	100.0	21,790	100.0

1 The line item "due from other banks (including term deposits and current accounts)" results from the aggregation of financial information in two line items in the 2007 Financial Statements: "Due from other banks" and two components of the line item "Cash and cash equivalents" in the 2007 Financial Statements (specifically, "Correspondent accounts and overnight placements with other banks" and "Placements with other banks with original maturities of less than three months"). The comparable line item in the 2006 Financial Statements is "Due from banks".

The increase in total interest income in the year ended 31 December 2007 compared to the year ended 31 December 2006 was principally due to a 190.3 per cent. increase in interest income from loans and advances to customers to US\$232.2 million for the year ended 31 December 2007. This increase was primarily attributable to growth in the volume of the Bank's loan portfolio, both corporate and retail loans. The increase in interest income was partially offset by a decrease in the effective interest rate on UAH-denominated loans and advances to customers, which was 16 per cent. as at 31 December 2007 compared to 23 per cent. for the year ended 31 December 2006. However, the Bank was able to charge higher interest rates for other assets as compared to the previous year.

The increase in total interest income in the year ended 31 December 2006 compared to the year ended 31 December 2005 also was principally due to a significant increase in interest income from loans and advances to customers to US\$80.0 million for the year ended 31 December 2006. This increase reflected the significant growth of the Bank's loan portfolio of commercial loans and was also due to the expansion of the Bank's distribution network, allowing the Bank access to more retail borrowers. The increase was also attributable to the diversification of the loan products offered by the Bank, as well as an increase in average interest rates. As at 31 December 2007, the corporate loan portfolio increased approximately two-fold compared to the year ended 31 December 2006, while the retail loan portfolio grew more than six times compared to the year ended 31 December 2006. The average effective interest rate on loans and advances to corporate customers denominated in UAH and foreign currency were 15 per cent. and 10 per cent., respectively, for the year ended 31 December 2006, compared to 13 per cent. and 11 per cent., respectively, for the year ended 31 December 2005. The average effective interest rate on loans and advances to retail customers denominated in UAH and foreign currency increased, in particular UAH-denominated loans. The average effective interest rate for UAH-denominated loans to retail customers increased from 27 per cent. for the year ended 31 December 2005 to 55 per cent. for the year ended 31 December 2006, and the average effective interest rate for loans to retail customers denominated in foreign currency increased slightly from 13 per cent. for the year ended 31 December 2005 to 14 per cent. for the year ended 31 December 2006.

Interest Expense

Total interest expense was US\$125.5 million for the year ended 31 December 2007, an increase of US\$84.4 million (205.0 per cent.) compared to US\$41.2 million for the year ended 31 December 2006, which in turn represented an increase of US\$27.9 million (209.4 per cent.) compared to US\$13.3 million for the year ended 31 December 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table sets out the principal sources of the Bank's interest expense for the years ended 31 December 2007, 2006 and 2005:

	2007		For the year ended 31 December 2006		2005	
	<i>Thousands of US\$</i>	<i>% of total</i>	<i>Thousands of US\$</i>	<i>% of total</i>	<i>Thousands of US\$</i>	<i>% of total</i>
Interest expense						
Loan participation notes	38,840	30.9%	452	1.1%	–	–
Term deposits of customers ¹	33,525	26.7%	19,031	46.2%	6,933	52.1%
Due to other banks and the NBU ²	30,323	24.2%	18,547	45.1%	5,210	39.2%
Debt securities in issue	12,344	9.8%	896	2.2%	82	0.6%
Current accounts of customers ..	5,944	4.7%	1,048	2.5%	227	1.7%
Subordinated debt	4,534	3.6%	1,158	2.8%	829	6.2%
Other	23	0.0%	25	0.1%	23	0.2%
Total interest expense	125,533	100.0%	41,157	100.0%	13,304	100.0%

1 In the 2007 Financial Statements, "current accounts" and "term deposits of customers" are presented together and labelled as "Customer accounts". To promote comparability with the 2006 Financial Statements, the term deposits component parts of the line item "Customer accounts" are aggregated to produce the line item referred to herein as "Term deposits". Two line items in the 2006 Financial Statements were aggregated to produce the line item "Term deposits of customers" presented herein: "Deposits" and "Deposit certificates".

2 The line item "due to other banks and the NBU" results from the aggregation of financial information in two line items in the 2007 Financial Statements: "term placements of other banks" and "current/settlement accounts of other banks" and from two line items in the 2006 Financial Statements: "due to banks" and "loan from the National Bank of Ukraine".

Loan Participation Notes

Interest expense on loan participation notes was US\$38.8 million for the year ended 31 December 2007, an increase of US\$38.4 million, compared to US\$0.5 million for the year ended 31 December 2006. This increase was due to increased interest on loan participation notes accruing following issuances in March and July 2007, as opposed to the year ended 31 December 2006 where loan participation notes were not issued until December in that year. No loan participation notes were issued prior to December 2006, and accordingly there is no interest expense for loan participation notes in the year ended 31 December 2005.

Term Deposits

Interest expense on term deposits was US\$33.5 million for the year ended 31 December 2007, an increase of US\$14.5 million (76.2 per cent.) compared to US\$19.0 million for the year ended 31 December 2006. Interest expense on term deposits increased by 174.5 per cent. in the year ended 31 December 2006. This increase in interest expense on term deposits in 2007 compared to 2006 was due to the increased volume of term deposits placed by legal entities, together with higher interest rates demanded by the market payable on term deposits denominated in US dollars, euro and other currencies excluding UAH. The average effective interest rates on term deposits denominated in UAH and foreign currency were 11 per cent. and 8 per cent., respectively for the year ended 31 December 2007, compared to 11 per cent. and 7 per cent., respectively, for the year ended 31 December 2006, and to 13 per cent. and 7 per cent., respectively, for the year ended 31 December 2005. The increase in 2007 compared to 2006 was also due to the increased volumes of term deposits of individuals from 67,250 for the year ended 31 December 2006 to 82,536 for the year ended 31 December 2007, together with increased interest rates payable on these deposits denominated in US dollars and euro of 8 per cent. and 8 per cent., respectively, for the year ended 31 December 2007. The increase in 2006 compared to 2005 was also due to the increased volume of term deposits placed by legal entities.

Due to other Banks and the NBU

Interest expense on amounts due to other banks was US\$30.3 million for the year ended 31 December 2007, an increase of US\$11.8 million (63.5 per cent.) compared to US\$18.6 million for the year ended 31

December 2006. This increase was due to increased amounts due to other banks, together with increased effective interest rates payable on interbank borrowings denominated in US\$, Euro and other currencies (excluding UAH) of 9 per cent., 9 per cent. and 6 per cent., respectively, as at 31 December 2007, compared to 7 per cent. in foreign currency (blended average) for the year ended 31 December 2006. These increases were due to the "credit crunch" financial uncertainties experienced in the global financial markets during the second half of 2007. However, these increases were partially offset by a decrease in effective interest rates payable on interbank borrowings denominated in UAH to 3 per cent. from 6 per cent. for the year ended 31 December 2007.

Interest expense on amounts due to banks and the NBU increased by US\$13.3 million (256.0 per cent.) during the year ended 31 December 2006 from US\$5.2 million for the year ended 31 December 2005. This increase was largely due to increases linked to the Bank's requirement to efficiently manage its liquidity position by attracting interbank funds.

Debt Securities in Issue

Interest expense on debt securities in issue was US\$12.3 million for the year ended 31 December 2007, an increase of US\$11.4 million compared to US\$0.9 million for the year ended 31 December 2006. This increase was due to an increase in the amount of debt securities in issue of US\$196.2 million as at 31 December 2007, compared to US\$9.6 million as at 31 December 2006. The increase was also due to an increase in the effective interest rate payable by the Bank on debt securities in issue of 11 per cent. as at 31 December 2007, compared to 10 per cent. for the year ended 31 December 2006.

The increase in interest expense on debt securities in issue of US\$0.8 million during the year ended 31 December 2006 compared to US\$0.1 million for the year ended 31 December 2005 was attributable to an increase in the volume of corporate UAH denominated bonds issued by the Bank as interest rates remained stable across the periods.

Current Accounts

Interest expense on customer current/settlement accounts was US\$5.9 million for the year ended 31 December 2007, an increase of US\$4.9 million (467.2 per cent.) compared to US\$1.0 million for the year ended 31 December 2006, which in turn represented an increase of US\$0.8 million (362 per cent.) compared to US\$0.2 million for the year ended 31 December 2005. This increase across the periods was primarily due to the increased volumes in customer accounts compared to the previous year as interest rates remained stable across the periods.

Subordinated Debt

Interest expense on subordinated debt was US\$4.5 million for the year ended 31 December 2007, an increase of US\$3.4 million (291.5 per cent.) compared to US\$1.2 million for the year ended 31 December 2006, which in turn represented an increase of US\$0.3 million (39.7 per cent.) compared to US\$0.8 million for the year ended 31 December 2005. This increase was due to increased volumes of subordinated debt of US\$69.2 million as at 31 December 2007, compared to US\$10.2 million as at 31 December 2006, and US\$9.0 million as at 31 December 2005, together with an increased effective interest rate of 10 per cent. payable on subordinated debt as at 31 December 2007, compared to 9 per cent. for the year ended 31 December 2006 and 9 per cent. for the year ended 31 December 2005.

Net interest margin and net interest spread

The net interest margin was calculated as net interest income before impairment of interest bearing assets divided by the simple average of interest earning assets (loans and advances to customers, due from other banks and investment securities available-for-sale) after allowance for impairment on loans and advances to customers as at the beginning and the end of the period. The Bank's net interest margin was 6.4 per cent. in 2007, compared to 5.8 per cent. in 2006 and 3.1 per cent. in 2005, which indicates that the Bank was able to grow its net interest income in line with its total interest-earning assets in the years ended 31

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 2007 and 2006. In addition, while interest rates increased significantly in 2007 largely as a result of the “credit crunch”, demand for corporate and retail products remained strong.

The net interest spread represents the difference between the average yield on interest-earning assets and the average cost on interest bearing liabilities. The Bank's net interest spread was 5.8 per cent. in 2007, 5.7 per cent. in 2006 and 3.0 per cent. in 2005. The increase in net interest spread in 2007 compared to 2006 was due primarily to the fact that the Bank's interest-bearing liabilities are generally fixed-rate instruments, while the interest rates applied to interest earning assets increased significantly due to the increase in the portion of loans granted to retail customers and SME.

For a presentation of the effective interest rates by major currencies for major interest bearing assets and liabilities, for the years ended 31 December 2007, 2006 and 2005, see “*Asset, Liability and Risk Management—Interest Rate Risk*”.

Provision for impairment on loans and advances to customers

The provision for impairment on loans and advances to customers includes changes in allowances for impairment on loans and advances to customers for corporate loans and consumer loans as well as loan products which were introduced in 2007, which comprise mortgage and car loans, and small and medium enterprise loans.

The following table sets forth movements in the Bank's provision for impairment on loans and advances to customers relating to the Bank's loans and advances to customers in the years ended 31 December 2007 and 2006.

	As at and for the year ended 31 December									
	2007	2006 ²	2007	2006 ²	2007	2006 ²	2007	2006 ²	2007	2006 ²
	Corporate Loans		Loans to individuals – consumer loans		Loans to individuals – mortgage and car loans		Loans to Small and medium enterprises		Total	
	<i>(in thousands of US\$)</i>									
Provision for impairment at 1 January.....	8,161	3,627	10,107	2,352	–	–	–	–	18,268	5,979
Provision for impairment during the year.	8,391	4,534	23,165	18,137	1,418	–	–	–	33,491	22,671
Amounts written off during the year as uncollectible	–	–	(16,664)	(10,382)	(498)	–	–	–	(17,162)	(10,382)
Interest income ¹	629	–	–	–	–	–	–	–	629	–
Provision for impairment at 31 December.	17,181	8,161	16,608	10,107	920	–	–	–	35,226	18,268
Gross loans and advances to customers									2,295,941	970,033
Provision of impairment as a percentage of gross loans and advances to customers									1.5%	1.9%

1 Interest income is accrued interest income generated from individually impaired corporate loans.

2 Movements in the Bank's provision for impairment are based on 2006 IFRS.

The provision for impairment on loans and advances to customers increased by US\$17.0 million (92.8 per cent.) to US\$35.2 million in the year ended 31 December 2007 from US\$18.3 million in the year ended 31 December 2006. This increase was due to increased provisions for impairment during the year ended 31 December 2007 as compared to the previous year due to the expansion of the Bank's activities and the growth of the loan portfolio, particularly growth of mortgage and car loans, which represent a higher credit risk to the Bank on an individual basis than loans to large corporate clients.

As at 31 December 2007, the provision for impairment on loans and advances to customers as a percentage of gross loans and advances to customers decreased to 1.5 per cent. from 1.9 per cent. as at 31 December

MANAGEMENT'S DISCUSSION AND ANALYSIS

2006 and 1.9 per cent. as at 31 December 2005. The Bank has a strategic focus of increasing the share of loans to individuals in its loan portfolio, with a goal of diversifying its client base and increasing its market share in areas such as mortgages and car loans. These types of borrowers represent a higher credit risk for the Bank on an individual basis than large corporate clients. The decrease in the Bank's provision for impairment on loans and advances to customers was a result of the further implementation of the Bank's risk management program, which resulted in the improvement of the Bank's retail loan portfolio as loans overdue by more than 180 days are written off on a quarterly basis. The share of loans to individuals in the Bank's gross loan portfolio increased to 25.7 per cent. as at 31 December 2007 from 9.5 per cent. as at 31 December 2006, and the percentage of overdue loans (calculated as outstanding loans that matured before the respective balance sheet date and loan installments due but not paid by that date, but excluding those installments that are not yet due) to gross loans and advances to customers decreased to 1.1 per cent. as at 31 December 2007 from 1.2 per cent. as at 31 December 2006. Following the Bank's adoption of IFRS 7 with effect from 1 January 2007, the definition of overdue loans has changed and as a consequence the amount of overdue loans as disclosed in the 2007 Financial Statements includes the whole balance of past due loans, not only the individual installments that are past due.

The following table sets forth movements in the Bank's provision for impairment on loans and advances to customers relating to the Bank's loans and advances to customers in the years ended 31 December 2006 and 2005.

	As at and for the year ended 31 December									
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	Corporate Loans		Loans to individuals – consumer loans		Loans to individuals – mortgage and car loans		Loans to Small and medium enterprises		Total	
	<i>(in thousands of US\$)</i>									
Provision for impairment at 1 January.....	3,627	691	2,352	13	–	–	–	–	5,979	704
Provision for impairment during the year.....	4,534	2,823	18,137	2,443	–	–	–	–	22,671	5,266
Amounts written off during the year as uncollectible.....	–	–	(10,382)	(106)	–	–	–	–	(10,382)	(106)
Translation difference	–	113	–	2	–	–	–	–	–	115
Provision for impairment at 31 December.....	8,161	3,627	10,107	2,352	–	–	–	–	18,268	5,979
Gross loans and advances to customers.....									970,033	315,686
Provision of impairment as a percentage of gross loans and advances to customers.....									1.9%	1.9%

The provision for impairment on loans and advances to customers increased by US\$12.3 million (205.5 per cent.) to US\$18.3 million in the year ended 31 December 2006 from US\$6.0 million in the year ended 31 December 2005. This increase was due to increased provisions for impairment during 2006 compared to the previous year due to the expansion of the Bank's activities, namely in retail business.

The provision for impairment on loans and advances to customers as a percentage of gross loans and advances to customers remained level at 1.9 per cent. as at 31 December 2006 and 2005.

Fee and commission income

Fee and commission income was US\$19.1 million for the year ended 31 December 2007, an increase of US\$9.1 million (91.8 per cent.) compared to US\$9.9 million for the year ended 31 December 2006. This increase was principally due to an increase in fee and commission income on currency exchange to US\$12.5 million for the year ended 31 December 2007, an increase of US\$9.0 million (255.8 per cent.) compared to US\$3.5 million for the year ended 31 December 2006. This increase was principally due to increased volumes of currency exchange carried out by the Bank compared to the previous year. This increase was

partially offset by a decrease in fee and commission income on cash and settlement transactions to US\$4.9 million for the year ended 31 December 2007, a decrease of US\$1.2 million (19.3 per cent.) compared to US\$6.1 million for the year ended 31 December 2006. This decrease was principally due to changes made in 2007 to the types of services provided by the Bank, the result of which changed the structure of the Bank's income. Due to such changes a portion of the cash and settlement commissions and fees have been recognized as financial instruments (loans and advances to customers) and has been amortized using the effective interest rate. These changes were reflected in the decrease of fee and commission income on cash and settlement transactions and increase of other interest and commission incomes. There was also an increase in other fee and commission income to US\$1.5 million for the year ended 31 December 2007, an increase of US\$1.3 million compared to US\$0.2 million for the year ended 31 December 2006.

Fee and commission income increased by US\$4.6 million (87.5 per cent.) during the year ended 31 December 2006 compared to US\$5.3 million for the year ended 31 December 2005, due largely to an increase of US\$2.7 million in income on currency exchange. Fee and commission income generated from cash payments and withdrawals increased by 107.3 per cent., from US\$1.4 million for the year ended 31 December 2005 to US\$2.9 million for the year ended 31 December 2006, which was a result of increases in these activities in line with the increase in both the number of customers, which in turn was impacted by the increase in the size of the Bank's distribution network. The increase in fee and commission income was partially offset by a decrease of 68.7 per cent. in commission income from the underwriting of securities.

Fee and commission expense

Fee and commission expense was US\$1.5 million for the year ended 31 December 2007, an increase of US\$0.5 million (56.9 per cent.) compared to US\$0.9 million for the year ended 31 December 2006, which in turn represented an increase of US\$0.7 million (264.2 per cent.) compared to US\$0.3 million for the year ended 31 December 2005. This increase in 2007 compared to 2006 and in 2006 compared to 2005 was due to the growth in the Bank's activities, principally an increase in cash and settlement transactions.

Gains less losses from financial derivatives

Gains less losses from financial derivatives were US\$2.6 million for the year ended 31 December 2007, compared to nil for the years ended 31 December 2006 and 2005. This increase reflected the Bank entering into financial derivatives transactions of this type for the first time during 2007.

Foreign Exchange gains less losses

Foreign exchange gains less losses were US\$11.3 million for the year ended 31 December 2007, an increase of US\$7.5 million (200.9 per cent.) compared to US\$3.7 million for the year ended 31 December 2006, which in turn represented an increase of US\$2.8 million (281.0 per cent.) compared to US\$1.0 million for the year ended 31 December 2005. This increase year-on-year was due to the growth in the Bank's activities, principally the increase of the Bank's customer base, and the increase of the number and volume of foreign exchange transactions conducted by the Bank's clients.

Administrative and other operating expenses (including amount of impairment provision for other assets)

Administrative and other operating expenses (including amount of impairment provision for other assets) were US\$92.2 million for the year ended 31 December 2007, an increase of US\$59.4 million (181.6 per cent.) compared to US\$32.7 million for the year ended 31 December 2006. This increase was principally due to increases in salaries and employee benefits to US\$55.7 million for the year ended 31 December 2007, an increase of US\$36.9 million (195.3 per cent.) compared to US\$18.9 million for the year ended 31 December 2006, due to increased numbers of employees due to the expansion of the Bank together with increasing salaries in Ukraine generally. Salaries and employee benefits represented 60.5 per cent. and 57.7 per cent. of the total amount of administrative and other operating expenses (including amount of impairment provision for other assets) in the years ended 31 December 2007 and 2006, respectively. There were also increases in rent to US\$9.1 million for the year ended 31 December 2007, an increase of US\$6.2

MANAGEMENT'S DISCUSSION AND ANALYSIS

million (217.6 per cent.) compared to US\$2.9 million for the year ended 31 December 2006, due to increased numbers and areas of premises due to expansion and increased rents in Ukraine generally, an increase in communication and IT expenses to US\$7.2 million for the year ended 31 December 2007, an increase of US\$4.7 million (185.3 per cent.) compared to US\$2.5 million for the year ended 31 December 2006, due to increase office premises and upgrades in IT infrastructure, and depreciation and amortization to US\$5.1 million for the year ended 31 December 2007, an increase of US\$3.1 million (153.5 per cent.) compared to US\$2.0 million for the year ended 31 December 2006, due to increased amounts of assets against which depreciation and amortization was measured.

Administrative and other operating expenses (including amount of impairment provision for other assets) were US\$32.7 million for the year ended 31 December 2006, an increase of US\$21.8 million (200.2 per cent.) compared to US\$10.9 million for the year ended 31 December 2005. This increase was also due largely to an increase in salaries and benefits of US\$13.1 million, in rent and utilities expenses of \$2.5 million, as well as an increase in communication and IT expenses of US\$1.9 million, in each case due to the expansion of the Bank's operations.

For the year ended 31 December 2007, the cost to income ratio, defined as administrative and other operating expenses, divided by operating income (profit before tax, excluding administrative and other operating expenses and excluding provision for impairment of loans and advances to customers), was 64.8 per cent., compared to 56.5 per cent. for the year ended 31 December 2006 and 80.6 per cent. for the year ended 31 December 2005. The main driver of changes in administrative and other operating expenses in 2007 compared to 2006 was the development of the Bank's regional network in 2007. The decrease of the cost to income ratio in 2006 in comparison to 2005 was due to significant expenses incurred by the Bank in connection with the start up of the retail business compared to non-material revenues from this business in 2005.

The following table sets forth changes in administrative and other operating expenses (including amount of impairment provision for other assets) for the years ended 31 December 2007, 2006 and 2005.

	For the year ended 31 December		
	2007	2006 ¹	2005
	<i>(in thousands of US\$)</i>		
Salaries and employee benefits.....	55,737	18,873	5,813
General administrative expenses	31,338	11,844	3,927 ²
Depreciation and amortization	5,101	2,012	1,162
Total administrative and other operating expenses	92,176	32,729	10,902

1 Extracted from the 2006 Financial Statements

2 The line item "general administrative expenses" includes provision for impairment of other assets of US\$4,000.

Profit before tax

Profit before tax was US\$16.6 million for the year ended 31 December 2007, an increase of US\$14.1 million (547.3 per cent.) compared to US\$2.6 million for the year ended 31 December 2006, which in turn represented an increase of US\$5.2 million (197.0 per cent.) compared to a loss of US\$2.6 million for the year ended 31 December 2005. The increases period-on-period were due to increases in net interest income and net fee and commission income, in each case as described above.

Income tax expense/benefit

Income tax expense was US\$4.8 million for the year ended 31 December 2007, an increase in income tax expense of US\$3.8 million (385.5 per cent.) compared to US\$1.0 million for the year ended 31 December 2006, which in turn represented an increase in income tax expense of US\$1.7 million (234.9 per cent.) compared to an income tax benefit of US\$0.7 million for the year ended 31 December 2005. This increase was due to increased current tax on the Bank's increased profit for the year as compared to the previous year, partially offset by increased deferred tax compared to the previous year.

Financial Condition as at 31 December 2007, 2006 and 2005
Total Assets

As at 31 December 2007, the Bank's total assets amounted to US\$2,598.3 million, an increase of US\$1,361.0 million (110.0 per cent.) compared to US\$1,237.3 million as at 31 December 2006, which in turn represented an increase of US\$815.7 million (193.5 per cent.) compared to US\$421.6 million as at 31 December 2005. This increase in 2007 compared to 2006 was principally attributable to growth in the Bank's loan portfolio, although this was partially offset by a decrease in balances due from other banks (including term deposits and current accounts). The increase in 2006 compared to 2005 was also primarily attributable to the growth in the Bank's loan portfolio, supplemented by an increase in balances due to other banks (including term deposits and current accounts).

The following table sets forth the principal components of the Bank's total assets as at 31 December 2007, 2006 and 2005.

	As at 31 December		
	2007	2006	2005
	<i>(in thousands of US\$)</i>		
Assets			
Cash and balances with the NBU ¹	76,284	49,281	17,123
Due from other banks (including term deposits and current accounts) ²	152,061	186,519	69,628
Loans and advances to customers	2,260,715	951,765	309,707
Investment securities	49,348	10,897	996
Current income tax prepayment	–	351	–
Intangible assets ³	1,582	990	399
Premises, leasehold improvements and equipment ³	53,253	36,220	23,476
Other financial and non-financial assets ⁴	5,071	1,280	249
Total assets	2,598,314	1,237,303	421,578

1 To promote comparability across the periods, certain reclassifications have been made to the presentation of financial information in the table above. In the 2007 Financial Statements, the line item "Cash and cash equivalents" includes "Cash on hand", "Cash balances with the NBU (other than mandatory reserve deposits)", "Mandatory cash balances with the NBU" as well as "Correspondent accounts and overnight placements with other banks" and "Placements with other banks with original maturities of less than three months". The first three components of "Cash and cash equivalents" in the 2007 Financial Statements have been included in the line item "Cash and balances with the NBU" presented herein. Two line items in the 2006 Financial Statements were aggregated to produce the line item "cash and balances with the NBU" presented herein: "Cash" and "Balances with the National Bank of Ukraine".

2 "Due from other banks (including term deposits and current accounts)" results from the aggregation of financial information in two line items in the 2007 Financial Statements: "Due from other banks" and two components of the line item "Cash and cash equivalents" in the 2007 Financial Statements (specifically, "Correspondent accounts and overnight placements with other banks" and "Placements with other banks with original maturities of less than three months"). The comparable line item in the 2006 Financial Statements is "due from banks".

3 The financial information presented in the line items "Intangible assets" and "Premises, leasehold improvements and equipment" in the 2007 Financial Statements are aggregated in the 2006 Financial Statements, where the comparable line item is "Property, equipment and intangible assets".

4 The line item "other financial and non-financial assets" results from the aggregation of financial information in two line items in the 2007 Financial Statements: "other financial assets" and "other assets". The comparable line item in the 2006 Financial Statements is "other assets".

Cash and balances with the NBU

As at 31 December 2007, the Bank held US\$76.3 million in cash and balances with the NBU, an increase of US\$27.0 million (54.8 per cent.) compared to US\$49.3 million as at 31 December 2006. This increase was principally due to increases in mandatory reserve balances with the NBU, which were US\$59.6 million as at 31 December 2007, an increase of US\$46.0 million (338.9 per cent.) compared to US\$13.6 million as at 31 December 2006, due to growth in the Bank's operations and a simultaneous decrease in cash balances with the NBU (other than mandatory reserve deposits) as well as increases in cash on hand, which increased to US\$16.6 million as at 31 December 2007, an increase of US\$12.4 million (299.4 per cent.) compared to US\$4.2 million as at 31 December 2006. These increases were partially offset by the decrease in cash balances with the NBU (other than mandatory reserve deposits) to US\$0.1 million as at 31 December 2007,

MANAGEMENT'S DISCUSSION AND ANALYSIS

a decrease of US\$31.5 million (99.7 per cent.) compared to US\$31.5 million as at 31 December 2006, due to the Bank placing excess funds in more profitable ways elsewhere.

As at 31 December 2006, the Bank held US\$49.3 million in cash and balances with the NBU, an increase of US\$32.2 million (187.8 per cent.) compared to US\$17.1 million as at 31 December 2005. This increase was principally due to Bank holding higher balances in cash on its correspondent account with the NBU including mandatory cash balance (US\$45.1 million as at 31 December 2006 compared to US\$15.2 million as at 31 December 2005) due to the growth of the Bank's client base and operations, in particular in deposits, as well as an increase of US\$2.2 million (112.9 per cent.) in the amount of cash on hand, from US\$2.0 million as at 31 December 2005 to US\$4.2 million as at 31 December 2006.

Due from other banks (including term deposits and current accounts)

The following table sets forth the Bank's current and unimpaired balances due from other banks as at 31 December 2007 and 2006.

	Current accounts	Reverse sale and re- purchase agreements	Short-term placements with other banks ¹	Total
<i>(in thousands of US\$)</i>				
As at 31 December 2007				
Ukrainian banks	1,054	22,139	60,266	83,459
Non-OECD banks.....	11,246	–	1,024	12,270
OECD banks.....	22,205	–	34,127	56,332
Total due from other banks	34,505	22,139	95,417	152,061
As at 31 December 2006				
Ukrainian banks	10,047	–	79,345	89,392
Non-OECD banks	7,491	–	23,897	31,388
OECD banks.....	52,692	–	13,047	65,739
Total due from other banks	70,230	–	116,289	186,519
As at 31 December 2005				
Ukrainian banks	5,824	–	36,437	42,261
Non-OECD banks.....	4,510	–	–	4,510
OECD banks.....	22,857	–	–	22,857
Total due from other banks	33,191	–	36,437	69,628

¹ Short-term placements with other banks comprise all term inter-bank placements, including those with original maturities less than 3 months.

The total amount due from other banks (including term deposits and current accounts) was US\$152.1 million as at 31 December 2007, a decrease of US\$34.5 million (18.5 per cent.) compared to US\$186.5 million as at 31 December 2006. This decrease was principally due to a reduction in the amount placed in current accounts with other banks which totalled US\$34.5 million as at 31 December 2007, a decrease of US\$35.7 million (50.9 per cent.) compared to US\$70.2 million as at 31 December 2006, due to the Bank utilising these funds in more profitable ways elsewhere as well as a decrease in short-term placements with other banks to US\$95.4 million as at 31 December 2007, a decrease of US\$20.9 million (17.9 per cent.) compared to US\$116.3 million as at 31 December 2006 due to the requirements for liquidity management connected with the Bank's growth. This decrease was partially offset by the addition of US\$22.1 million in reverse sale and re-purchase agreements with Ukrainian banks.

The total amount due from other banks (including term deposits and current accounts) was US\$186.5 million as at 31 December 2006, an increase of US\$116.9 million (167.9 per cent.) compared to US\$69.6 million as at 31 December 2005. This increase was principally due to a significant increase in the amount placed in current accounts with other banks which totalled US\$70.2 million as at 31 December 2006, an

MANAGEMENT'S DISCUSSION AND ANALYSIS

increase of US\$37.0 million (111.6 per cent.) compared to US\$33.2 million as at 31 December 2005. In addition, the Bank significantly increased the amount of short-term placements with other banks, from US\$36.4 million as at 31 December 2005 to US\$116.3 million as at 31 December 2006.

Loans and advances to customers

The Bank offers a broad range of loan products to its customers through its distribution network. Loans and advances to customers net of provision for loan impairment are the largest component of the Bank's total assets, accounting for 87.0 per cent. of total assets as at 31 December 2007 (compared to 76.9 per cent. as at 31 December 2006 and 73.5 per cent. as at 31 December 2005). Loans and advances to customers net of provision for loan impairment was US\$2,260.7 million as at 31 December 2007, an increase of US\$1,309.0 million (137.5 per cent.) compared to US\$951.8 million as at 31 December 2006, which in turn represented an increase of US\$642.1 million (207.3 per cent.) compared to US\$309.7 million as at 31 December 2005.

The following table sets forth customer loans and advances, net of provision for loan impairment, as at 31 December 2007, 2006 and 2005.

	As at 31 December		
	2007	2006	2005
	<i>(in thousands of US\$)</i>		
Gross loans and advances to customers	2,295,941	970,033	315,686
Provision for impairment	(35,226)	(18,268)	(5,979)
Loans and advances to customers	<u>2,260,715</u>	<u>951,765</u>	<u>309,707</u>

Gross loans and advances to customers increased by US\$1,325.9 million (136.7 per cent.) to US\$2,295.9 million as at 31 December 2007 from US\$970.0 million as at 31 December 2006. The increase in 2007 reflected the continued expansion of the Bank's distribution network and the diversification of the loan products offered by the Bank. The increase in loans and advances occurred in both the corporate and retail segments, with the growth in loans and advances to retail and SME customers particularly strong (from US\$15.7 million (or 5 per cent. of total loans and advances to customers) as at 31 December 2005 to US\$676.0 million (or 29.4 per cent. of total loans and advances to customers) as at 31 December 2007. The increase was due largely to the introduction and roll-out of new business lines and products to the retail market (auto loans, mortgage products and personal instalment loans or "PILs") during the course of 2006 and 2007.

Distribution of Gross Loans and Advances to Customers by Industry

The following discussion is based on gross loans and advances to customers, prior to the provision for loan impairment. The Bank had broad exposure across industries in its customer loan portfolio. The Bank's loan portfolio includes loans to table retail customers and small-and-medium enterprises as well as loans to corporate customers in a variety of economic sector. The following table sets forth the distribution of the Bank's gross loans and advances to customers as at 31 December 2007, 2006 and 2005:

MANAGEMENT'S DISCUSSION AND ANALYSIS

	As at 31 December					
	2007		2006		2005	
	Amount	%	Amount	%	Amount	%
<i>(in thousands of US\$, except percentages)</i>						
Retail trade	221,594	10%	31,092	4%	15,487	5%
Railways	145,931	6%	137,582	16%	31,288	10%
Investment and lease companies	144,868	6%	4,655	1%	1,372	0%
Wholesale trade	142,347	6%	47,326	5%	30,383	10%
Food industry	131,576	6%	53,004	6%	35,653	11%
Natural gas industry	113,093	5%	2,803	0%	12,085	4%
Construction and real estate	100,106	4%	38,101	4%	5,640	2%
Power industry	73,664	3%	19,858	2%	10,967	3%
Chemical and petrochemical industry	61,779	3%	24,923	3%	4,061	1%
Coal-mining industry	53,465	2%	21,782	2%	–	–
Transport	47,958	2%	58,302	7%	14,084	4%
Military organisations and aircraft constructions	47,234	2%	42,172	5%	12,655	4%
Metallurgy	42,390	2%	207,029	24%	16,937	5%
Mechanical engineering and metal-working industry	40,005	2%	82,350	9%	26,969	9%
Motor-car industry	36,749	2%	40,320	5%	18,793	6%
Agriculture	33,726	2%	11,012	1%	19,454	6%
Other	183,468	8%	55,805	6%	44,180	14%
Total loans and advances to customers, corporate (before impairment)¹	1,619,953	71%	878,116	90%	300,008	95%
Retail and SME loans	675,988	29%	91,917 ²	10%	15,678 ²	5%
Total loans and advances to customers (before impairment)	2,295,941	100%	970,033	100%	315,686	100%

1 Includes loans and advances to corporate customers pursuant to reverse repurchase agreements, which have been assigned to an industry amounting to US\$8.0 million as at 31 December 2007. US\$4.9 million as at 31 December 2006 and US\$5.1 million have not been assigned to an industry as at 31 December 2005, and overdrafts of US\$13.7 million as at 31 December 2006 and US\$13.9 million as at 31 December 2005.

2 As at 31 December 2006 and 2005, the balance of retail and SME loans consisted of only retail loans as SME was launched in 2007.

This increase in 2007 compared to 2006 was principally due to increases in the Bank's gross corporate loan portfolio to US\$1,620.0 million as at 31 December 2007 (including securities held under reverse repurchase agreements of US\$8.0 million) an increase of US\$741.8 million (84.5 per cent.) compared to US\$878.1 million (including overdrafts of US\$13.7 million and securities held under reverse repurchase agreements of US\$4.9 million) as at 31 December 2006 and US\$300.0 million (including overdrafts of US\$13.9 million and securities held under reverse repurchase agreements of US\$5.1 million) as at 31 December 2005. The increase in gross corporate loans was spread over a number of sectors, but included significant increases in loans to clients in the retail trade industry, which increased to US\$221.6 million as at 31 December 2007, an increase of US\$190.5 million (612.7 per cent.) compared to US\$31.1 million as at 31 December 2006 (compared to US\$15.5 million as at 31 December 2005), loans to investment and lease companies which increased to US\$144.9 million as at 31 December 2007, an increase of US\$140.2 million, compared to US\$4.7 million as at 31 December 2006 (compared to US\$1.4 million as at 31 December 2005), and increases in loans to the wholesale trade industry, food industry, natural gas industry, construction and real estate industry, power industry and chemical and petrochemical industry, all reflecting the growth in the economy of Ukraine.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Loans and advances to the Bank's ten largest borrowers amounted to US\$508.4 million, or 22 per cent. of gross loans and advances, as at December 2007, compared to US\$368.1 million (38 per cent. of gross loans and advances) as at 31 December 2006, and to US\$115.7 million (37 per cent. of gross loans and advances) as at 31 December 2005. The Bank plans to continue to diversify its clients by industry type in order to maintain industry concentration below 25 per cent. As at the date of this Prospectus, the Bank is in compliance with NBU regulations, which stipulate that a bank's largest single non-cash covered loan exposure to a single borrower or group of borrowers must not exceed 25 per cent. of a bank's regulatory capital.

Gross loans and advances to retail and SME customers also increased by US\$584.1 million (635.4 per cent.) to US\$676.0 million as at 31 December 2007 from US\$91.9 million as at 31 December 2006, which in turn represented an increase of US\$76.2 million (486.3 per cent.) from US\$15.7 million as at 31 December 2005.

The following table sets forth the distribution of gross loans and advances to retail and SME customers as at 31 December 2007, 2006 and 2005.

	As at 31 December		
	2007 ¹	2006 ¹	2005 ¹
	<i>(in thousands of US\$)</i>		
Loans to individuals: consumer loans	240,782	54,173	15,678 ²
Loans to individuals: mortgage and car loans	274,439	31,838	–
Loans in individuals: other loans	74,099	5,907	–
Small and medium enterprises	86,668	–	–
Total loans and advances to retail and SME customers	675,998	91,917	15,678

1 Before provision for impairment.

2 As at 31 December 2005, loans to individuals consisted only of consumer loans.

There were significant increases in consumer loans to individuals to US\$240.8 million as at 31 December 2007, an increase of US\$186.6 million (344.4 per cent.) compared to US\$54.2 million as at 31 December 2006 (compared to US\$15.7 million as at 31 December 2005). In addition, the Bank introduced a range of new loan products for retail customers in 2006, with mortgage and car loans to individuals growing to US\$274.4 million as at 31 December 2007, an increase of US\$242.6 million compared to US\$31.8 million as at 31 December 2006 and other loans to individuals which increased to US\$74.1 million as at 31 December 2007, an increase of US\$68.2 million compared to US\$5.9 million as at 31 December 2006, all due to the Bank's ability to grow its retail loan portfolio, in particular due to the success of its expanded retail distribution network.

There was also a significant increase in loans to small and medium sized enterprises of US\$86.7 million as at 31 December 2007, as the Bank introduced products for this customer segment in 2007 and began to account for this segment on a separate basis from the corporate loan portfolio in 2007

These increases were partially offset by an increase in provision for impairment of the Bank's loan portfolio to US\$35.2 million as at 31 December 2007, an increase of US\$17.0 million (92.8 per cent.) compared to US\$18.3 million as at 31 December 2006 (and US\$6.0 million as at 31 December 2005), due to the Bank's provisioning increasing to match the growth in its loan portfolio generally, notwithstanding that the growth was largely in the corporate and SME sectors, which Management believes are loans which typically require less provisioning than the loans in the retail sector.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Analysis of credit quality of loans and advances to customers

The following table sets forth an analysis of the credit quality of loans and advances to customers, as at 31 December 2007.

	As at 31 December 2007						
	Corporate loans	Loans to individuals – consumer loans	Loans to individuals – mortgage and car loans	Loans to individuals – other loans	Small and medium enterprises	Reverse repurchase agreements	Total
	<i>(in thousands of US\$)</i>						
<i>Current and not impaired</i>							
Large borrowers with credit history with the Bank over 2 years	325,578	–	–	–	–	–	325,578
Large new borrowers with credit history with the Bank less than 2 years	1,197,347	–	–	–	–	8,045	1,205,392
Loans to medium and small size entities.....	–	–	–	–	86,535	–	86,535
Loans to individuals.....	–	216,599	265,799	74,099	–	–	556,497
Total current and not impaired	1,522,925	216,599	265,799	74,099	86,535	8,045	2,174,002
<i>Past due but not impaired</i>							
less than 30 days overdue	70,792	11,686	6,296	–	133	–	88,907
30 to 90 days overdue	518	6,723	1,850	–	–	–	9,091
Total past due but not impaired.....	71,310	18,409	8,146	–	133	–	97,998
<i>Loans individually determined to be impaired (gross)</i>							
less than 30 days overdue	12,000	–	–	–	–	–	12,000
90 to 180 days overdue	1,741	5,774	494	–	–	–	8,009
180 to 360 days overdue	3,932	–	–	–	–	–	3,932
Total individually impaired loans (gross).....	17,673	5,774	494	–	–	–	23,941
Less: Provision for impairment	(17,181)	(16,608)	(920)	–	(517)	–	(35,226)
Total loans and advances to customers.....	1,594,727	224,174	273,519	74,099	86,151	8,045	2,260,715

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table sets forth an analysis of the credit quality of loans and advances to customers, as at 31 December 2006.

As at 31 December 2006							
	Corporate loans	Loans to individuals – consumer loans	Loans to individuals – mortgage and car loans	Loans to individuals – other loans	Small and medium enterprises	Reverse repurchase agreements	Total
<i>(In thousands of US\$)</i>							
Current and not impaired							
Large borrowers with credit history with the Bank over 2 years	19,968	–	–	–	–	–	19,968
Large new borrowers with credit history with the Bank less than 2 years	837,412	–	–	–	–	4,938	842,350
Loans to medium and small size entities	–	–	–	–	–	–	–
Loans to individuals	–	43,695	31,833	5,906	–	–	81,434
Total current and not impaired	857,380	43,695	31,833	5,906	–	4,938	943,752
Past due but not impaired							
less than 30 days overdue ..	–	3,892	–	–	–	–	3,892
30 to 90 days overdue	–	3,173	–	–	–	–	3,173
Total past due but not impaired	–	7,065	–	–	–	–	7,065
Loans individually determined to be impaired (gross)							
less than 30 days overdue ..	15,381	–	–	–	–	–	15,381
30 to 90 days overdue	417	–	–	–	–	–	417
90 to 180 days overdue	–	3,418	–	–	–	–	3,418
Total individually impaired loans (gross).....	15,798	3,418	–	–	–	–	19,216
Less: Provision for impairment	(8,161)	(10,107)	–	–	–	–	(18,268)
Total loans and advances to customers	865,017	44,071	31,833	5,906	–	4,938	951,765

Investment securities

As at 31 December 2007 the bank held US\$49.3 million in investment securities available-for-sale, an increase of US\$38.5 million (352.9 per cent.) compared to US\$10.9 million as at 31 December 2006. This increase was principally due to increases in municipal and state bonds which were US\$11.9 million as at 31 December 2007, an increase of US\$9.1 million (329.5 per cent.) compared to US\$2.8 million of Government bonds held as at 31 December 2006, quoted corporate bonds which were US\$31.4 million as at 31 December 2007, an increase of US\$23.3 million (286.0 per cent.) compared to US\$8.1 million as at 31 December 2006, and an increase in unquoted corporate bonds to US\$6.1 million as at 31 December 2007 compared to nil as at 31 December 2006, all due to the Bank's policy of increasing the diversity of its asset base by investing in a varied securities portfolio.

Premises, leasehold improvements and equipment

The carrying value of premises, leasehold improvements, furniture, computers, motor vehicles and equipment was US\$53.3 million as at 31 December 2007, an increase of US\$17.0 million (47.0 per cent.) compared to US\$36.2 million as at 31 December 2006, which in turn represented an increase of US\$12.7 million (54.3 per cent.) compared to US\$23.5 million as at 31 December 2005. This increase was principally due to the expansion of the Bank's distribution network together with the increasing values of real estate in Ukraine generally. The Bank values its land and buildings on a market value basis.

Other financial and non-financial assets

As at 31 December 2007, the Bank had other financial and non-financial assets in the amount of US\$5.1 million, an increase of US\$3.8 million (296.2 per cent.) compared to US\$1.3 million as at 31 December 2006, which in turn represented an increase of US\$1.0 million (414.1 per cent.) compared to US\$0.2 million as at 31 December 2005. The increase in 2007 compared to 2006 as primarily due to an increase of US\$1.9 million in receivables, from US\$0.3 million as at 31 December 2006 to US\$2.2 million as at 31 December 2007. In addition, prepayments for intangible assets and construction services increased from US\$0.7 million as at 31 December 2006 to US\$1.3 million as at 31 December 2007 and other prepaid (2006: deferred) expenses increased from US\$0.4 million as at 31 December 2005 to US\$1.5 million as at 31 December 2007.

The increase in 2006 compared to 2005 was principally due to the increase in prepayments for property and prepaid repair to US\$0.7 million as at 31 December 2006 compared to nil as at 31 December 2005, together with an increase in deferred expenses of US\$0.2 million, both due to the Bank's expanding activities and distribution network.

Total Liabilities

The main sources of the Bank's funding during the periods under review were loan participation notes and debt securities, customer accounts including corporate deposits and corporate current accounts and borrowing from banks, including US\$14.9 million as at 31 December 2007 of deposits from Alfa-Bank Russia received within the Bank's general credit limit of US\$308.0 million approved by Alfa-Bank Russia. The Bank receives funding from foreign sources, including syndicated loans and international capital market issuances. The Bank has obtained additional funding through loan participation note issuances and by entering into subordinated debt facilities and from contributions by its shareholders through the issue of additional shares and domestic bond offerings. The Bank plans to further diversify its funding sources and extend the maturity profile of its liabilities by the issuance of additional Notes, with further domestic capital markets issuances and with the securitisation of asset streams.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table sets out the principal sources of the Bank's funding as at 31 December 2007, 2006 and 2005:

	As at 31 December		
	2007	2006	2005
	<i>(in thousands of US\$)</i>		
Liabilities			
Due to other banks and the NBU ¹	508,296	424,607	204,709
Current accounts of customers ²	420,426	115,618	20,293
Term deposits of customers ³	422,325	414,699	138,159
Debt securities in issue	196,241	9,581	600
Loan participation notes	552,648	158,225	–
Current income tax liability	1,002	–	811
Deferred income tax liability	42	4,233	3,597
Other financial and non-financial liabilities ⁴	15,470	1,930	474
Subordinated debt	69,223	10,151	8,994
Prepaid non-registered share capital	100,000	–	–
Total Liabilities	2,285,673	1,139,044	377,637

1 Due to other banks and the NBU – results from the aggregation of two line items in the 2006 Financial Statements: “Due to banks” and “Loans from the National Bank of Ukraine”.

2 In the 2007 Financial Statements “current accounts of customers” and “term deposits of customers” are presented together as “Customer accounts”. To promote comparability with the 2006 Financial Statements, the current/settlement accounts component parts of the line item “Customer accounts” are aggregated to produce the line item referred to herein as “Current accounts of customers”.

3 In the 2007 Financial Statements “current accounts of customers” and “term deposits of customers” are presented together as “Customer accounts”. To promote comparability with the 2006 Financial Statements, the term deposits component parts of the line item “Customer accounts” are aggregated to produce the line item referred to herein as “term deposits of customers”. Two line items in the 2006 Financial Statements were aggregated to produce the line item “Term deposits of customers” presented herein: “deposits” and “Deposit certificates”.

4 The line item “other financial and non-financial liabilities” results from the aggregation of financial information in two line items in the 2007 Financial Statements: “other financial liabilities” and “other liabilities”. The comparable line item in the 2006 Financial Statements is “other liabilities”.

The Bank's total liabilities were US\$2,285.7 million as at 31 December 2007, an increase of US\$1,146.6 million (100.7 per cent.) compared to US\$1,139.0 million as at 31 December 2006, which in turn represented an increase of US\$761.4 million (201.6 per cent.) compared to US\$377.6 million as at 31 December 2005. This increase across the periods under review was principally due to additional issuances of loan participation notes, increased volumes of current accounts and term deposits, as well as increased subordinated debt, all reflecting the growth of the Bank's activities and the Bank's corresponding requirement for additional finding for this growth.

Due to other banks and the NBU

	As at 31 December		
	2007	2006	2005
	<i>(in thousands of US\$)</i>		
Deposits and loans	493,515	390,178	113,8821
Current accounts	14,781	29,441	87,814
Payables for repurchased own debt securities	–	4,988	3,013
Total due to other banks and the NBU	508,296	424,607	204,709

1 Deposits and loans as at 31 December 2005 includes US\$111.0 million in deposits and loans as well as US\$2.9 million in loans from the National Bank of Ukraine.

US\$508.3 million was due to other banks as at 31 December 2007, an increase of US\$83.7 million (19.7 per cent.) compared to US\$424.6 million as at 31 December 2006, which in turn represented an increase of US\$219.9 million (107.4 per cent.) compared to US\$204.7 million as at 31 December 2005. This increase

is reflective of the Bank's growth and the Bank's continuing need to borrow in the interbank market in the ordinary course of business, although this need was proportionally less as at 31 December 2007 compared to 31 December 2006.

Deposits and current accounts of Alfa-Bank Russia amount to US\$14.9 million, or 3 per cent. of amounts due to other banks as at 31 December 2007 (compared to US\$44.8 million, or 11 per cent. of amounts as due to other banks and the NBU at 31 December 2006, and to US\$114.0 million, or 57 per cent. of amounts due to other banks and the NBU, as at 31 December 2005). This decrease is in line with the Bank's strategy of reducing reliance on the Alfa Banking Group for funding. Deposits and current accounts amounting to US\$170.2 million, or 33 per cent. of amounts due to other banks, are due to another related bank, Amsterdam Trade Bank as at 31 December 2007 (compared to US\$171.2 million, or 40 per cent. of amounts due to other banks and the NBU as at 31 December 2006, and to US\$22.1 million, or 10.9 per cent. of amounts due to other banks and the NBU, as at 31 December 2005).

The Bank has entered into two loan agreements with non-related parties which each account for more than 10 per cent. of the total amount due to other banks and the NBU. As at 31 December 2007, a loan granted by UBS AG London (London branch) ("UBS") in the amount of 119.9 million Swiss Francs ("CHF") (equal to US\$106.1 million at a CHF:US\$ exchange rate of 1.13:1 on 31 December 2007), which was 20.9 per cent. of the total amount due to other banks as at 31 December 2007 (compared to nil as at each of 31 December 2006 and 2005). In addition, as at each of 31 December 2007 and 2006, a loan granted by Cooperative Centrale Raiffeisen-Boerenleenbank B.A. ("Raiffeisen") amounted to US\$50.4 million (or 9.9 per cent. of the total amount due to other banks as at 31 December 2007 and 11.9 per cent. of the total amount due to other banks as at 31 December 2006), compared to nil as at 31 December 2005. In addition, on 1 October 2007, the Bank entered into a term facility agreement due 29 September 2008 with Bayerische Landesbank, Barclays Bank PLC, HSBC Bank plc, Natixis, Erste Bank der Oesterreichischen Sparkassen AG and JPMorgan Chase Bank, N.A., in the amount of US\$61.0 million (the "Term Facility"), which was 12.0 per cent. of the total amount due to other banks as at 31 December 2007 (compared to nil as at each of 31 December 2006 and 2005). For a discussion of certain terms and conditions of the loans with UBS and Raiffeisen as well as the Term Facility, see Note 13 to the 2007 Financial Statements.

Customers' current accounts and term deposit accounts

Customers' current accounts and term deposit accounts, when aggregated, are the single largest source of the Bank's funding as at 31 December 2007 and 2006, representing 36.9 per cent. and 46.6 per cent., respectively, of total liabilities as at 31 December 2007 and 2006, and when aggregated represented the second largest source of the Bank's funding as at 31 December 2005 (42.0 per cent. of total liabilities as at 31 December 2005). The following table sets forth the composition of the Bank's customer accounts portfolio as at 31 December 2007, 2006 and 2005.

	As at 31 December		
	2007	2006	2005
	<i>(in thousands of US\$)</i>		
Current accounts of customers			
Corporate	392,977	109,163	17,689
Retail	27,449	6,455	2,604
Term Deposits of customers			
Corporate	355,075	396,587	124,416
Retail (including certificates of deposit)	67,250	18,112	13,743
Total current accounts and term deposits of customers	842,751	530,317	158,452

Total customer current accounts and term deposits were US\$842.8 million as at 31 December 2007, an increase of US\$312.4 million (58.9 per cent.) compared to US\$530.3 million as at 31 December 2006, which in turn represented an increase of US\$371.9 million (234.7 per cent.) compared to US\$158.5 million as at 31 December 2005. This increase was principally due to increases in the current accounts and term

MANAGEMENT'S DISCUSSION AND ANALYSIS

deposits of corporate customers, from US\$17.7 million as at 31 December 2005 to US\$393.0 million as at 31 December 2007, in the case of corporate current accounts, and from US\$124.4 million as at 31 December 2005 to US\$355.1 million as at 31 December 2007, in the case of term deposits, in each case reflecting the growth in the Bank's business generally. The increase in total customer current accounts and term deposits was also due to the growth in current accounts and term deposits of retail customers, from US\$2.6 million as at 31 December 2005 to US\$ 27.4 million as at 31 December 2007, in the case of retail current accounts, and from US\$13.7 million as at 31 December 2005 to US\$ 67.3 million as at 31 December 2007, in the case of retail term deposits (including certificates of deposit), in each case reflecting the growth of the Bank's retail business and distribution network.

Current accounts and term deposits of customers by sector

The Bank obtains funding from its broad client base across industry sectors. The Bank's current accounts and term deposits include deposits of state and public organizations and other legal entities (together referred to as "corporate") as well as individuals. The following table sets forth concentrations within the Bank's current accounts and term deposits of customers as at 31 December 2007 and 2006 and, to the extent available, as at 31 December 2005.

	As at 31 December					
	2007		2006		2005 ¹	
	Amount	%	Amount	%	Amount	%
	<i>(in thousands of US\$, except percentages)</i>					
Individuals (including certificates of deposit)	94,699	11%	24,567	5%	16,347	10%
Corporate					142,105	90%
Communication	171,876	20%	115,050	22%		
Coal-mining industry	102,177	12%	–	0%		
Investment and lease companies	100,265	12%	47,621	9%		
Wholesale trade	56,614	7%	32,032	6%		
Chemical and petrochemical industry	62,904	7%	1,974	0%		
Ferrous metallurgy	53,532	6%	168,894	32%		
Military-industrial establishment and aircraft construction	53,339	6%	266	0%		
Natural gas industry	44,237	5%	48,988	9%		
Insurance	29,392	3%	–	0%		
Mechanical engineering and metal-working industry	12,635	2%	14,645	3%		
Power industry	8,312	2%	–	0%		
Transport	5,225	1%	–	0%		
Food industry	4,785	1%	821	0%		
Retail trade	2,667	0%	2,927	1%		
Construction and real estate ...	1,537	0%	5,108	1%		
Other	38,555	5%	67,424	12%		
Total current accounts and term deposits of customers	842,751	100%	530,317	100%	158,452	100%

1 Extracted from the 2006 Financial Statements

As at 31 December 2007, 66.0 per cent. of the Bank's total customer accounts were placed with the Bank by its 10 largest customers, compared to 81 per cent. as at 31 December 2006.

Debt securities in issue

Debt securities in issue amounted to US\$196.2 million as at 31 December 2007, an increase of US\$186.7 million compared to US\$9.6 million as at 31 December 2006, which in turn represented an increase of US\$9.0 million compared to US\$0.6 million as at 31 December 2005. This increase was due to the Bank's issuance of four new series of domestic UAH-denominated bonds in 2007, partially offset by the repayment of one series of Bonds during the year, reflecting the Bank's growth and requirement for stable funding. The increase in 2006 was due to the issuance of additional debt securities during the year compared to 2005.

Loan participation notes

The Bank had US\$552.6 million loan participation notes outstanding as at 31 December 2007, an increase of US\$394.4 million (249.3 per cent.) compared to US\$158.2 million as at 31 December 2006 and nil as at 31 December 2005. This increase in 2007 was due to two additional issuances of loan participation notes in March and July 2007, made due to the Bank's continuing requirement for long term stable funding in foreign currency. The increase in 2006 was due to the issuance of loan participation notes in December 2006.

Other financial and non-financial liabilities

Other financial and non-financial liabilities were US\$15.5 million as at 31 December 2007, compared to US\$1.9 million as at 31 December 2006 and US\$0.5 million as at 31 December 2005. The increase from 2006 to 2007 was due to increases in derivative financial instruments to US\$2.5 million as at 31 December 2007 compared to nil at 31 December 2006 and other payables increasing to US\$2.4 million as at 31 December 2007, as well as to an increase in accrued bonuses US\$8.0 million as at 31 December 2007 from nil at 31 December 2006, reflecting the growth of the Bank's workforce and the bonuses payable to those staff based on the Bank's increased profitability. The increase from 2005 to 2006 was due largely to an accrual for unused vacation days of US\$0.9 million as at 31 December 2006, reflecting the Bank's increased work force following the expansion of the Bank.

Subordinated debt

The Bank owed US\$69.2 million in subordinated debt as at 31 December 2007, an increase of US\$59.1 million compared to US\$10.2 million as at 31 December 2006, which in turn represented an increase of US\$1.2 million compared to US\$9.0 million as at 31 December 2005. This increase in 2007 was due to the Bank's requirement to maintain its capital base by borrowing on a subordinated basis, in addition to its other funding for regulatory funding purposes. The slight increase in 2006 reflects accrued interest on the subordinated debt.

Equity

The Bank's total equity was US\$312.6 million as at 31 December 2007, an increase of US\$214.4 million (218.2 per cent.) compared to US\$98.3 million as at 31 December 2006, which in turn represented an increase of US\$54.3 million (123.7 per cent.) compared to US\$43.9 million as at 31 December 2005. The increase across the periods was principally due to an additional issuance of shares to the Bank's shareholders made in order to increase the Bank's regulatory capital and to maintain the Bank's ability to grow its loan portfolio.

As at 31 December 2006 the Bank's nominal share capital amounted to UAH 360 million (US\$71.3 million). On 5 February 2007 the Bank's shareholders resolved to increase the share capital of the Bank by UAH 505 million (US\$100 million) up to a nominal amount of UAH 865 million (US\$171.3 million). On 14 February 2007 this additional share issuance was registered with the State Securities and Stock Market Commission (the "SSSMC"). The consequent amendments to the Bank's charter were approved by the General Meeting of Shareholders on 12 March 2007 and the respectively amended edition of the Bank's charter was registered by the NBU on 26 April 2007. In March 2007 all such issued shares were acquired and fully paid in by the Bank's then existing shareholders. All registration procedures were completed by the end of June 2007. On 16 July 2007 the Bank's shareholders decided to increase the share capital of the

MANAGEMENT'S DISCUSSION AND ANALYSIS

Bank by an additional UAH 505 million (US\$100.0 million) up to UAH 1,370 million (US\$271.3 million). On 2 August 2007 this additional share issuance was registered with the SSSMC. By the end of August all such shares were acquired and fully paid in by the Bank's then existing shareholders. The consequent amendments to the Bank's charter were approved by the General Meeting of Shareholders on 3 September 2007 and the respectively amended edition of the Bank's charter was registered by the NBU on 21 September 2007. All registration procedures were completed by the beginning of November 2007. In addition, on 21 November 2007, the Bank's shareholders took the decision to further increase the share capital of the Bank by UAH 374.7 million (US\$74.2 million) to UAH 1,744.7 million (US\$345.5 million). On 4 December 2007 this additional share issuance was preliminarily registered with the SSSMC. By the end of December 2007, all such issued shares were acquired and fully paid in by the Bank's then existing shareholders.

Analysis by Segment

The Bank's primary format for reporting segment information is the following three business segments: retail banking, corporate banking and central treasury. Corporate banking is the largest business segment, generating 71.8 per cent. of external revenues in 2007 and representing 68.6 per cent. of total assets as at 31 December 2007 (compared to 63.2 per cent. of external revenue and 71.5 per cent. of total assets as at 31 December 2006). Retail banking generated 24.7 per cent. of external revenue in 2007 and represents 21.1 per cent. of total assets as at 31 December 2007 compared to 30.6 per cent. of external revenue and 8.7 per cent. of total assets as at 31 December 2006). The following tables set forth certain data for the Bank's primary reporting segments as at 31 December 2007 and 2006. For further details regarding the Bank's accounts on a segment basis, please see note 32 to the 2006 Financial Statements.

As at and for the year ended 31 December 2007

	Corporate	Retail	Central Treasury	Eliminations	Total
	<i>(in thousands of US\$)</i>				
Income statement data					
Total revenues.....	240,335	66,257	119,058	(164,532)	261,118
Segment result.....	22,438	(44,830)	43,596	–	21,204
Unallocated costs					(4,576)
Profit before tax					16,628
Balance sheet data					
Total segment assets	1,781,421	548,396	268,497	–	2,598,314
Segment liabilities	854,868	76,674	1,352,387	–	2,283,929
Total liabilities ¹					2,285,673

1 Includes unallocated current income tax liability of US\$1.0 million, deferred income tax liability of US\$0.04 million and other unallocated liabilities of US\$0.7 million.

As at 31 December 2006

	Corporate	Retail	Central Treasury	Eliminations	Total
	<i>(in thousands of US\$)</i>				
Income statement data					
Total revenues.....	89,024	31,183	58,829	(82,760)	96,276
Segment result.....	7,120	(9,928)	7,581	–	4,773
Unallocated costs					(2,204)
Profit before tax					2,569
Balance sheet data					
Segment assets.....	885,128	107,322	244,501	–	1,236,952
Current income tax prepayment (unallocated)					351
Total assets.....					1,237,303
Total liabilities ¹					1,139,044

1 Includes unallocated deferred income tax liability of US\$4.2 million and other unallocated liabilities of US\$1.0 million.

Contingencies and Commitments

The Bank enters into certain financial instruments with off-balance sheet risk in the ordinary course of business to meet its customers' needs. These instruments, which include guarantees, undrawn credit lines and letters of credit, involve varying degrees of risk and are not reflected on the Bank's balance sheet. The Bank uses similar credit approval policies in undertaking off-balance sheet credit related commitments as it does for its on-balance sheet operations. See "Asset, Liability and Risk Management—Credit Risk—Off-Balance Sheet and Related Party Risk". Documentary and commercial letters of credit are collateralized by the underlying goods to which they relate or cash deposits. See "Risk Factors—Risks Relating to the Bank's Business—The Bank has significant off-balance sheet credit related commitments that may lead to potential losses".

The following table sets forth the Bank's credit related commitments for the years ended 31 December 2007, 2006 and 2005.

	As at 31 December		
	2007	2006	2005
	<i>(in thousands of US\$)</i>		
Guarantees issued	60,951	4,678	23
Undrawn credit lines	102,427	11,785	5,551
Letters of credit	48,869	2,238	402
Avals issued	2,013	–	–
Total credit related commitments	214,260	18,701	5,976

Total credit related commitments increased by US\$195.6 million to US\$214.3 million as at 31 December 2007 from US\$18.7 million as at 31 December 2006, which in turn represented an increase of US\$12.7 million (212.9 per cent.) compared to US\$6.0 million as at 31 December 2005. The increase in 2007 was primarily attributable to an increase in undrawn credit lines by US\$90.6 million and an increase in guarantees issued by US\$56.3 million, both of which were in line with the increase in the Bank's customer base and operations. The increase in 2007 was also due to an increase by US\$46.6 million in letters of credit, which was due to the Bank's implementation in 2007 of a trade finance operation. The slight increase in 2006 was primarily attributable to increase in the Bank's customer base and operations.

As at 31 December 2007, the Bank had US\$2.6 million in contractual capital expenditure commitments in respect of premises, leasehold improvements and equipment, an increase of US\$1.9 million (262.0 per cent.) compared to 2006, due primarily to the expansion of the Bank's facilities and operations. As at 31 December 2005, the Bank had nil contractual capital expenditure commitments.

Capital Adequacy

The Bank complies with the NBU's mandatory minimum capital adequacy ratios for Ukrainian banks, which is currently 10 per cent. The Bank's capital adequacy ratio calculated in accordance with the NBU methodology (being the ratio of capital to total risk weighted assets) was 12.6 per cent. as at 31 December 2007 compared to 11.2 per cent as at 31 December 2006 and 14.4 as at 31 December 2005.

The Bank also complies with the Basel Capital Accord standards established by the Basel Committee, which requires the Bank to maintain a total capital ratio in excess of 8 per cent. As at 31 December 2007, the Bank's capital adequacy calculated in accordance with the Basel Capital Accord was 16.1 per cent., compared to 15.7 per cent. as at 31 December 2006 and 14.7 per cent. as at 31 December 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table sets forth an analysis of the Bank's capital base, based on Basel Capital Accord standards, as at 31 December 2007, 2006 and 2005.

	As at 31 December		
	2007	2006	2005
	<i>(in thousands of US\$)</i>		
Tier 1 capital			
Share capital	272,599	72,599	26,461
Disclosed reserves	15,040	6,301	4,469
Total tier 1 capital	287,639	78,900	30,930
Tier 2 capital			
Revaluation reserves	19,066	17,225	10,791
Cumulative translation reserve.....	2,220	2,220	2,220
Fair value reserve.....	(82)	(86)	–
Subordinated debt	69,129	9,006	8,994
Total tier 2 capital	90,333	28,365	22,005
Total capital.....	377,972	107,265	52,935
Risk weighted assets	2,351,078	681,886	361,235
Total capital ratio ¹ (in %)	16.1	15.7	14.7

1 Calculated in accordance with the Basel Accord.

The increase in risk weighted assets in the periods under review was due to a increase in the Bank's business volumes and consequently, credit and market risk linked to the Bank's lending activities as well as operations with securities.

The Bank is continually exploring ways to strengthen its capital position and is evaluating the impact of the adoption of Basel II proposals. Pillar II of the Basel II proposals relating to the maintenance of regulatory capital calculated for the three major components of risk that a bank faces (credit risk, operational risk and market risk), is not expected to be applied until 2010 in Ukraine.

Results of Operations for the Three Month Period Ended 31 March 2008 and 31 March 2007

The Bank's profit for the period increased 605 per cent. to US\$8.8 million in the three months ended 31 March 2008 from US\$1.3 million in the three months ended 31 March 2007. The increase in profit for the periods under review was due to the overall expansion of the Bank's business. This primarily reflected significant growth in net interest income and non-interest income, partially offset by growth in staff costs and administrative expenses from the ongoing expansion of the Bank's business.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table sets forth the principal components of the Bank's results of operations for the periods indicated.

	For the three months ended 31 March (unaudited)	
	2008	2007
	<i>(in thousands of US\$)</i>	
Interest income	107,430	37,428
Interest expense.....	(50,713)	(21,778)
Net interest income	56,717	15,650
Provision for impairment of loans and advances to customers	(15,191)	(6,296)
Net interest income after provision for loan impairment	41,526	9,354
Fee and commission income	6,881	4,801
Fee and commission expense.....	(899)	(309)
Gains less losses from financial derivatives	172	3
Foreign exchange gains less losses.....	870	1,482
Foreign exchange translation losses less gains.....	2,198	299
Losses less gains on initial recognition of loans and receivables at rates below market measured at amortized cost.....	(834)	(1,083)
Losses on loan purchased from related party ¹	(4,013)	–
Gain from change of expected maturity of liabilities at rates below market	1,034	–
Gains less losses/(losses less gains) on initial recognition of financial liabilities measured at amortized cost at rates below/above market	35	(91)
Gains less losses/(losses less gains) from disposal of investment securities available-for-sale	100	(4)
Other operating income	710	91
Administrative and other operating expenses	(35,410)	(12,787)
Profit before tax	12,370	1,756
Income tax expense.....	(3,557)	(506)
Profit for the period	8,813	1,250

1 In February 2008 the Bank purchased a corporate loan from an entity under common control for US\$6.0 million. The fair value of this loan as at the date of purchase was US\$2.0 million. As a result of this transaction, the Bank recorded a loss on the purchase of US\$4.0 million. The Bank introduced the borrower to the related party. Following the loan's impairment, the Bank decided to bear the loss and purchased the loan. This loss was recognised in the income statement to reflect its operational nature. Were the Bank to recognise all such gains and losses in the income statement, there would be no effect on the net profit for the three month period ended 31 March 2008 (3 months ended 31 March 2007: increase in profit for the period by US\$0.2 million).

Interest Income

Interest income increased by US\$70.0 million (187.0 per cent.) to US\$107.4 million in the three month period ended 31 March 2008 from US\$37.4 million in the three month period ended 31 March 2007. The increase was due largely to growth in volumes in lending to corporate and individual customers.

The following table sets forth the principal components of the Bank's interest income for the three month periods ended 31 March 2008 and 2007.

	For the three months ended 31 March <i>(unaudited)</i>			
	2008		2007	
	<i>(thousands of US\$)</i>	<i>(% of total)</i>	<i>(thousands of US\$)</i>	<i>(% of total)</i>
Interest income				
Loans and advances to customers	101,256	94.3	35,012	93.5
Due from other banks	2,829	2.6	823	2.2
Debt investment securities available-for-sale.....	1,773	1.7	503	1.4
Cash and cash equivalents	1,572	1.5	1,090	2.9
Total interest income	107,430	100.0	37,428	100.0

The increase in total interest income in the three month period ended 31 March 2008 compared to the three month period ended 31 March 2007 was principally due to an increase of US\$66.2 million in interest income (189.2 per cent.) from loans and advances to customers to US\$101.3 million for the three month period ended 31 March 2008, compared to US\$35.0 million for the three month period ended 31 March 2007. This increase reflected the further significant growth of the Bank's loan portfolio, particularly a substantial increase in retail loan volume. The increase in interest income from loans and advances to customers was further augmented by the increase in the interest rates applied to loans of both retail and corporate customers. The interest income from loans and advances to customers accounted for 94.3 per cent. and 93.5 per cent. of total interest income for the three month periods ended 31 March 2008 and 2007, respectively. Interest income from due from other banks increased by US\$2.0 million (243.7 per cent.) from US\$0.8 million for the three month period ended 31 March 2007 to US\$2.8 million for the three month period ended 31 March 2008, due to increased amounts due from other banks. Interest income on amounts due from other banks accounted for 2.6 per cent. and 2.2 per cent. of total interest income for the three month periods ended 31 March 2008 and 2007, respectively.

Interest Expense

Total interest expense was US\$50.7 million for the three month period ended 31 March 2008, an increase of US\$28.9 million (132.9 per cent.) compared to US\$21.8 million for the three month period ended 31 March 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table sets out the principal sources of the Bank's interest expense for the three month periods ended 31 March 2008 and 2007:

	For the three month period ended 31 March (unaudited)			
	2008		2007	
	Thousands of US\$	% of Total	Thousands of US\$	% of Total
Interest expense				
Loan participation notes	14,121	27.8%	5,478	25.2%
Term deposits of legal entities	13,362	26.3%	6,411	29.4%
Term placements of other banks.....	10,336	20.4%	5,695	26.2%
Debt securities in issue	6,331	12.5%	1,196	5.5%
Term deposits of individuals.....	2,131	4.2%	864	4.0%
Customer current/settlement accounts	1,837	3.6%	809	3.7%
Subordinated debt	1,638	3.2%	682	3.1%
Current/settlement accounts of other banks	939	1.9%	640	2.9%
Other borrowed funds	8	0.0%	–	–
Other	10	0.0%	3	0.0%
Total interest expense.....	50,713	100%	21,778	100%

Loan Participation Notes

Interest expense on loan participation notes was US\$14.1 million for the three month period ended 31 March 2008, an increase of US\$8.6 million (157.8 per cent.), compared to US\$5.5 million for the three month period ended 31 March 2007. This increase was due to increased interest on loan participation notes accruing following issuances in March and July 2007, as opposed to the three month period ended 31 March 2007. Interest from loan participation notes for the three month period ended 31 March 2007 included interest accruing following the issuance of loan participation notes in December 2006.

Term Deposits of Legal Entities

Interest expense on term deposits of legal entities was US\$13.4 million for the three month period ended 31 March 2008, an increase of US\$7.0 million (108.4 per cent.) compared to US\$6.4 million for the three month period ended 31 March 2007. This increase in interest expense on term deposits of legal entities in the first quarter of 2008 compared to the first quarter of 2007 was due to the increased volume of term deposits placed by legal entities, together with higher interest rates demanded by the market payable on term deposits denominated in US dollars, euro and other currencies.

Term Placements of Other Banks

Interest expense on term placements of other banks increased by US\$4.6 million (81.5 per cent.) to US\$10.3 million for the three month period ended 31 March 2008 compared to US\$5.7 million for the three month period ended 31 March 2007. This increase was due to increased volume of term placements of other banks, together with increased effective interest rates payable on interbank borrowings denominated in US\$, Euro and other currencies.

Debt Securities in Issue

Interest expense on debt securities in issue was US\$6.3 million for the three month period ended 31 March 2008, an increase of US\$5.1 million compared to US\$1.2 million for the three month period ended 31 March 2007. This increase was due to an increase in the amount of debt securities in issue as well as an increase in the effective interest rate payable by the Bank on debt securities in issue.

Term Deposits of Individuals

Interest expense on term deposits of individuals was US\$2.1 million for the three month period ended 31 March 2008, an increase of US\$1.3 million (146.6 per cent.) compared to US\$0.9 million for the three month period ended 31 March 2007, due primarily to the increased volume of term deposits of individuals.

Customer Current/Settlement Accounts

Interest expense on customer current/settlement accounts was US\$1.8 million for the three month period ended 31 March 2008, an increase of US\$1.0 million (127.1 per cent.) compared to US\$0.8 million for the three month period ended 31 March 2007. This increase across the periods was due to the increased volumes in customer accounts compared to the previous period, augmented by a slight increase in average interest rates.

Subordinated Debt

Interest expense on subordinated debt was US\$1.6 million for the three month period ended 31 March 2008, an increase of US\$1.0 million (140.2 per cent.) compared to US\$0.7 million for the three month period ended 31 March 2007. This increase was due primarily to new subordinated debt.

Current/Settlement Accounts of Other Banks

Interest expense on current/settlement accounts of other banks was US\$0.9 million for the three month period ended 31 March 2008, an increase of US\$0.3 million (46.7 per cent.) compared to US\$0.6 million for the three month period ended 31 March 2007.

Net interest margin and net interest spread

The net interest margin was calculated as net interest income before impairment of interest bearing assets divided by the simple average of interest earning assets (loans and advances to customers, due from other banks and investment securities available-for-sale) after allowance for impairment on loans and advances to customers as at the beginning and the end of the period. The Bank's net interest margin was 8.2 per cent. in the first quarter of 2008, compared to 6.4 per cent. for 2007, which indicates that the Bank was able to grow its net interest income in line with its total interest-earning assets in the three month period ended 31 March 2008.

The net interest spread represents the difference between the average yield on interest-earning assets and the average cost on interest bearing liabilities. The Bank's net interest spread was 7.4 per cent. in the first quarter of 2008 and 5.8 per cent. in 2007, due largely to increase in volume and interest rates applied to interest earning assets.

Provision for impairment of loans and advances to customers

The provision for impairment of loans and advances to customers includes changes in allowances for impairment of loans and advances to customers for corporate loans, consumer loans, mortgage and car loans, and small and medium enterprise loans. The provision for impairment of loans and advances to customers increased by US\$8.9 million (141.3 per cent.) to US\$15.2 million in the three month period ended 31 March 2008 from US\$6.3 million in the three month period ended 31 March 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table sets forth movements in the Bank's provision for impairment on loans and advances to customers relating to the Bank's loans and advances to customers during the three month periods ended 31 March 2008 and 2007.

	Three months ended 31 March (unaudited)									
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	Corporate Loans		Loans to individuals – consumer loans		Loans to individuals – mortgage and car loans		Loans to Small and medium enterprises		Total	
	<i>(in thousands of US\$)</i>									
Provision for impairment at 1 January	17,181	8,161	16,608	10,107	920	–	517	–	35,226	18,268
Provision for impairment during the period	1,053	1,312	13,255	4,738	729	246	154	–	15,191	6,296
Amounts written off during the period as uncollectible	–	–	(5,322)	(5,361)	(460)	–	–	–	(5,782)	(5,361)
Provision for impairment at 31 March	<u>18,234</u>	<u>9,473</u>	<u>24,541</u>	<u>9,484</u>	<u>1,189</u>	<u>246</u>	<u>671</u>	<u>–</u>	<u>44,635</u>	<u>19,203</u>
									31	
									March	31
									2008	December
									<i>(unaudited)</i>	2007
									<i>(in thousands of US\$)</i>	
Gross loans and advances to customers									2,898,455	2,295,941
Provision for impairment as a percentage of gross loans and advances to customers									1.5%	1.5% ¹

1 Provision for impairment at 31 December 2007 in the amount of US\$35.2 million divided by gross loans and advances to customers as at 31 December 2007.

As at 31 March 2008, the provision for impairment on loans and advances to customers as a percentage of gross loans and advances to customers was 1.54 per cent. and 1.53 per cent. as at 31 December 2007. The stable ratio level in the Bank's provision for impairment on loans and advances as a percentage of gross loans and advances to customers was a result of the continued strict application of the Bank's risk management program. The share of loans to individuals in the Bank's total gross loan portfolio increased slightly to 25.8 per cent. as at 31 March 2008 from 25.7 per cent. as at 31 December 2007.

Fee and commission income

Fee and commission income was US\$6.9 million for the three month period ended 31 March 2008, an increase of US\$2.1 million (43.3 per cent.) compared to US\$4.8 million for the three month period ended 31 March 2007. This increase was principally due to the introduction of new retail products, such as credit cards, and the expanded availability of certain services for corporate clients, such as letters of credit and guarantees.

Fee and commission expense

Fee and commission expense was US\$0.9 million for the three month period ended 31 March 2008, an increase of US\$0.6 million (190.9 per cent.) compared to US\$0.3 million for the three month period ended

31 March 2007. This increase was due to the growth in the Bank's activities, principally an increase in the payment of fees in connection with cash and settlement transactions.

Gains less losses from financial derivatives

Gains less losses from financial derivatives were US\$0.2 million for the three month period ended 31 March 2008, compared to US\$0.003 million for the three month period ended 31 March 2007.

Foreign exchange gains less losses

Foreign exchange gains less losses were US\$0.9 million for the three month period ended 31 March 2008, a decrease of US\$0.6 million (41.3 per cent.) compared to US\$1.5 million for the three month period ended 31 March 2007. This decrease was due primarily to more active cooperation with key corporate clients in the field of foreign currency transactions.

Administrative and other operating expenses

Administrative and other operating expenses were US\$35.4 million for the three month period ended 31 March 2008, an increase of US\$22.6 million compared to US\$12.8 million for the three month period ended 31 March 2007. This increase was principally due to increases in salaries and employee benefits from US\$7.4 million for the three month period ended 31 March 2007 to US\$21.7 million for the three month period ended 31 March 2008, due to increased numbers of employees and salary rate increases in Ukraine generally. Salaries and employee benefits represented 61.3 per cent. and 57.8 per cent. of the total amount of administrative and other operating expenses in the first quarter of 2008 and 2007, respectively. Rent expenses also increased by US\$3.2 million, from US\$1.3 million for the three month period ended 31 March 2007 to US\$4.5 million for the three month period ended 31 March 2008, due to increased numbers and areas of premises due to expansion and increased rents in Ukraine generally.

For the three month period ended 31 March 2008, the cost to income ratio, defined as administrative and other operating expenses, divided by operating income (profit before tax, excluding administrative and other operating expenses and excluding provision for impairment of loans and advances to customers, was 56.2 per cent., compared to 61.4 per cent. for the three month period ended 31 March 2007, which reflects the implementation of a more strict policy concerning costs and increased profitability.

Profit before tax

Profit before tax was US\$12.4 million for the three month period ended 31 March 2008, an increase of US\$10.6 million (604.4 per cent.) compared to US\$1.8 million for the three month period ended 31 March 2007, due to the increases in net interest income and net fee and commission income described above.

Income tax expense

Income tax expense was US\$3.6 million for the three month period ended 31 March 2008, an increase of US\$3.1 million (600.0 per cent.) compared to US\$0.5 million for the three month period ended 31 March 2007. This increase was due to increased current tax on the Bank's increased profit for the year as compared to the previous year.

Financial Condition as at 31 March 2008 and 31 December 2007

Total Assets

As at 31 March 2008, the Bank's total assets amounted to US\$3,218.6 million, an increase of US\$620.3 million (23.9 per cent.) compared to US\$2,598.3 million as at 31 December 2007. This increase was principally attributable to growth in the Bank's loan portfolio, although this was partially offset by a decrease in balances due from other banks.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table sets forth the principal components of the Bank's total assets as at the dates indicated.

	As at 31 March 2008 <i>(unaudited)</i>	As at 31 December 2007
<i>(in thousands of US\$)</i>		
Assets		
Cash and balances with the NBU ¹	91,266	76,284
Due from other banks (including term deposits and current accounts) ²	131,276	152,061
Loans and advances to customers	2,853,820	2,260,715
Investment securities available-for-sale	78,161	49,348
Intangible assets.....	1,590	1,582
Premises, leasehold improvements and equipment.....	55,550	53,253
Other financial and non-financial assets ³	6,902	5,071
Total assets	3,218,565	2,598,314

- 1 To promote comparability across the periods, certain reclassifications have been made to the presentation of financial information in the table above. In the Interim Financial Information and 2007 Financial Statements, the line item "Cash and cash equivalents" includes "Cash on hand", "Cash balances with the NBU (other than mandatory reserve deposits)", "Mandatory cash balances with the NBU" as well as "Correspondent accounts and overnight placements with other banks" and "Placements with other banks with original maturities of less than three months". The first three components of "Cash and cash equivalents" in the 2007 Financial Statements and the Interim Financial Information have been included herein to produce the line item "Cash and balances with the NBU" presented herein.
- 2 "Due from other banks (including term deposits and current accounts)" results from the aggregation of financial information in two line items in the Interim Financial Information: "Due from other banks" and the two components of line item "Cash and cash equivalents" in the Interim Financial Information (specifically, "Correspondent accounts and overnight placements with other banks" and "Placements with other banks with original maturities of less than three months").
- 3 The line item "other financial and non-financial assets" results from the aggregation of financial information in two line items in the Interim Financial Information: "Other financial assets" and "Other assets".

Cash and balances with the NBU

As at 31 March 2008, the Bank held US\$91.3 million in cash and balances with the NBU, an increase of US\$15.0 million (19.6 per cent.) compared to US\$76.3 million as at 31 December 2007. This increase was principally due to increases in mandatory cash reserve balances with the NBU, which were US\$72.9 million as at 31 March 2008, an increase of US\$13.3 million (22.4 per cent.) compared to US\$59.6 million as at 31 December 2007, due to NBU requirements.

Due from other banks (including term deposits and current accounts)

The following table sets forth the Bank's balances due from other banks (including term deposits and current accounts) as at the dates indicated.

	Current accounts	Reverse sale and re- purchase agreements	Short-term placements with other banks ¹	Total
<i>(in thousands of US\$)</i>				
As at 31 March 2008				
Ukrainian banks	890	–	76,189	77,079
Non-OECD banks	23,736	–	–	23,736
OECD banks	17,031	–	13,430	30,461
Total due from other banks (unaudited)	41,657	–	89,619	131,276
As at 31 December 2007				
Ukrainian banks	1,054	22,139	60,266	83,459
Non-OECD banks	11,246	–	1,024	12,270
OECD banks	22,205	–	34,127	56,332
Total due from other banks	34,505	22,139	95,417	152,061

- 1 Short-term placements with other banks comprise all term inter-bank placements, including those with original maturities less than 3 months.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The total amount due from other banks (including term deposits and current accounts) was US\$131.3 million as at 31 March 2008, a decrease of US\$20.8 million compared to US\$152.1 million as at 31 December 2007.

Loans and advances to customers

The Bank offers a broad range of loan products to its customers through its distribution network. Loans and advances to customers net of provision for loan impairment are the largest component of the Bank's total assets, accounting for 88.7 per cent. of total assets as at 31 March 2008 (compared to 87.0 per cent. as at 31 December 2007). Loans and advances to customers net of provision for loan impairment was US\$2,853.8 million as at 31 March 2008, an increase of US\$593.1 million (26.2 per cent.) compared to US\$2,260.7 million as at 31 December 2007. The following table sets forth customer loans and advances, net of provision for loan impairment, as at the dates indicated.

	As at 31 March 2008 <i>(unaudited)</i>	As at 31 December 2007
	<i>(in thousands of US\$)</i>	
Gross loans and advances to customers	2,898,455	2,295,941
Provision for impairment	(44,635)	(35,226)
Total loans and advances to customers	<u>2,853,820</u>	<u>2,260,715</u>

Gross loans and advances to customers increased by US\$602.5 million (26.2 per cent.) to US\$2,898.5 million as at 31 March 2008 from US\$2,295.9 million as at 31 December 2007. The increase in the first quarter of 2008 reflected the continued expansion of the Bank's distribution network and the diversification of the loan products offered by the Bank, active development of SME products and services, customer relationship management and increasing cross-selling between the corporate and retail businesses.

Distribution of Gross Loans and Advances to Customers by Industry

The following discussion is based on gross loans and advances to customers, prior to the provision for loan impairment. The Bank had broad exposure across industries in its customer loan portfolio. The Bank's loan portfolio includes loans to retail customers and small-and-medium enterprises as well as loans to corporate customers in a variety of economic sector. The following table sets forth the distribution of the Bank's gross loans and advances to customers as at the dates indicated:

MANAGEMENT'S DISCUSSION AND ANALYSIS

	As at 31 March 2008 <i>(unaudited)</i>		As at 31 December 2007	
	Amount	%	Amount	%
	<i>(In thousands of US\$)</i>			
Retail trade.....	266,912	9%	221,594	10%
Railways.....	273,488	9%	145,931	6%
Investment and lease companies.....	85,992	3%	144,868	6%
Wholesale trade	239,487	8%	142,347	6%
Food Industry.....	177,086	6%	131,576	6%
Natural gas industry.....	21,522	1%	113,093	5%
Construction and real estate.....	105,026	4%	100,106	4%
Power industry	116,858	4%	73,664	3%
Chemical and petrochemical industry.....	96,976	3%	61,779	3%
Coal-mining industry	50,163	2%	53,465	2%
Transport	43,926	2%	47,958	2%
Military organisations and aircraft constructions.....	67,017	2%	47,234	2%
Metallurgy	34,642	1%	42,390	2%
Mechanical engineering and metal-working industry working industry	88,149	3%	40,005	2%
Motor-car industry	89,678	3%	36,749	2%
Agriculture	50,775	2%	33,726	2%
Other	204,061	7%	183,468	8%
Total loans and advances to customers, corporate (before impairment)¹.....	2,011,758	69%	1,619,953	71%
Retail and SME loans.....	886,697	31%	675,988	29%
Total loans and advances to customers (before impairment)	2,898,455	100%	2,295,941	100%

1 Includes loans and advances to corporate customers pursuant to reverse repurchase agreements, in the amount of US\$8.0 million as at 31 December 2007 and US\$4.5 million as at 31 March 2008.

This increase in total loans and advances to customers as at 31 March 2008 compared to 31 December 2007 was principally due to increases in the Bank's gross corporate loan portfolio to US\$2,011.8 million (including securities held under reverse repurchase agreements of US\$4.5 million) as at 31 March 2008, an increase of US\$391.8 million (24.2 per cent.) compared to US\$1,620.0 million (including securities held under reverse repurchase agreements of US\$8.0 million) as at 31 December 2007. The increase in gross corporate loans was spread over a number of sectors, but included increases in loans to clients in the railway industry, which increased to US\$273.5 million as at 31 March 2008, an increase of US\$127.6 million (87.4 per cent.) compared to US\$145.9 million as at 31 December 2007, loans to the wholesale trade industry which increased to US\$239.5 million as at 31 March 2008, an increase of US\$97.1 million (68.2 per cent.) compared to US\$142.3 million as at 31 December 2007, and increases in loans to the retail trade industry, the power industry and the chemical and petrochemical industry, all reflecting the growth in the economy of Ukraine. The increase in total loans and advances to customers was offset slightly by a decrease of US\$91.6 million (81.0 per cent.) in loans to the natural gas industry, from US\$113.1 million as at 31 December 2007 to US\$21.5 million as at 31 March 2008.

Loans and advances to the Bank's ten largest borrowers amounted to US\$555.3 million, or 19 per cent. of gross loans and advances, as at 31 March 2008, compared to US\$508.4 million, or 22 per cent., as at 31 December 2007. As previously described, the Bank plans to continue to diversify its clients by industry type in order to maintain industry concentration below 25 per cent.

Gross loans and advances to retail and SME customers also increased by US\$210.7 million, from US\$676.0 million as at 31 December 2007 to US\$886.7 million as at 31 March 2008. The following table sets forth the distribution of gross loans and advances to retail and SME customers as at the dates indicated.

MANAGEMENT'S DISCUSSION AND ANALYSIS

	As at 31 March 2008' <i>(unaudited)</i>	As at 31 December 2007'
	<i>(in thousands of US\$)</i>	
Loans to individuals: consumer loans.....	299,552	240,782
Loans to individuals: mortgage and car loans	343,245	274,439
Loans to individuals: other loans	104,399	74,099
Small and medium enterprises.....	139,501	86,668
Gross loans and advances to retail and SME customers	886,697	675,998

1 Before provision for impairment.

There were increases in consumer loans to individuals to US\$299.6 million as at 31 March 2008, an increase of US\$58.8 million (24.4 per cent.) compared to US\$240.8 million as at 31 December 2007, mortgage and car loans to individuals to US\$343.2 million as at 31 March 2008, an increase of US\$68.8 million (25.1 per cent.) compared to US\$274.4 million as at 31 December 2007, and other loans to individuals which increased to US\$104.4 million as at 31 March 2008, an increase of US\$30.3 million (40.9 per cent.) compared to US\$74.1 million as at 31 December 2007, all due to the Bank's ability to grow its retail loan portfolio, in particular due to the success of its expanded retail distribution network, customer relationship management, diversification of the loan products offered by the Bank, and the creation of synergies with the Bank's corporate business.

There was also a significant increase in loans to small and medium sized enterprises of US\$52.8 million (61.0 per cent.) from US\$86.7 million as at 31 December 2007 to US\$139.5 million as at 31 March 2008, as the Bank began to focus further on this business and also began to account for this segment on a separate basis from the corporate loan portfolio. There was an increase in provision for impairment of the Bank's loan portfolio to US\$44.6 million as at 31 March 2008, an increase of US\$9.4 million (26.7 per cent.) compared to US\$35.2 million as at 31 December 2007, to match the growth in its loan portfolio.

Investment securities

As at 31 March 2008 the Bank held US\$78.2 million in investment securities, an increase of US\$28.8 million (58.4 per cent.) compared to US\$49.3 million as at 31 December 2007. This increase was principally due to increases in unquoted corporate bonds which were US\$29.6 million as at 31 March 2008, an increase of US\$23.5 million (386.7 per cent.) compared to US\$6.1 million of unquoted corporate bonds held as at 31 December 2007, quoted corporate bonds, which were US\$43.8 million as at 31 March 2008, an increase of US\$12.4 million (39.4 per cent.) compared to US\$31.4 million as at 31 December 2007, all due to the Bank's policy to increasingly diversify its asset base by investing in a varied securities portfolio. The increase as at 31 March 2008 was partially offset by a decrease in quoted municipal and state bonds of US\$9.1 million (76.5 per cent.) from US\$11.9 million as at 31 December 2007 to US\$2.8 million as at 31 March 2008.

Premises, leasehold improvements and equipment

The total carrying value of premises, leasehold improvements and equipment was US\$55.5 million as at 31 March 2008, an increase of US\$2.3 million (4.3 per cent.) compared to US\$53.3 million as at 31 December 2007. This increase was principally due to the expansion of the Bank's distribution network together with the increase in the volume of repair work and improvements performed. The Bank values its land and buildings on a market value basis.

Total Liabilities

The main sources of the Bank's funding during the periods under review were loan participation notes and debt securities, customer accounts including corporate deposits and corporate current accounts and borrowing from banks, including US\$99.8 million (as at 31 March 2008) of deposits from Alfa-Bank Russia

MANAGEMENT'S DISCUSSION AND ANALYSIS

received within the Bank's general credit limit of US\$308.0 million approved by Alfa-Bank Russia. The Bank receives funding from foreign sources, including syndicated loans and international capital market issuances. The Bank has obtained additional funding through loan participation note issuances and by entering into subordinated debt facilities and from contributions by its shareholders through the issue of additional shares and domestic bond offerings. The Bank plans to further diversify its funding sources and extend the maturity profile of its liabilities by the issuance of additional Notes, with further domestic capital markets issuances and with the securitisation of asset streams.

The following table sets out the principal sources of the Bank's funding as at the dates indicated:

	As at 31 March 2008 <i>(unaudited)</i>	As at 31 December 2007
	<i>(in thousands of US\$)</i>	
Due to other banks	606,009	508,296
Current accounts of customers ¹	561,305	420,426
Term deposits of customers ²	782,017	422,325
Debt securities in issue	198,732	196,241
Loan participation notes	556,536	552,648
Current income tax liability	2,958	1,002
Deferred income tax liability	304	42
Other financial and non-financial liabilities ³	19,640	15,470
Subordinated debt	69,828	69,223
Prepaid non-registered share capital	–	100,000
Total Liabilities	2,797,329	2,285,673

1 In the 2007 Financial Statements and the Interim Financial Information, "Current accounts of customers" and "Term deposits of customers" are presented together and labelled as "Customer accounts". To promote comparability with the 2006 Financial Statements, the current/settlement account component parts of the line item "Customer accounts" are aggregated to produce the line item referred to herein as "Current accounts of customers".

2 In the 2007 Financial Statements and the Interim Financial Information, "Current accounts of customers" and "Term deposits of customers" are presented together as "Customer accounts". To promote comparability with the 2006 Financial Statements, the term deposits component parts of the line item "Customer accounts" are aggregated to produce the line item referred to herein as "Term deposits of customers". Two line items in the 2006 Financial Statements were aggregated to produce the line item "Term deposits of customers" presented herein: "Deposits" and "Deposit certificates".

3 The line item "other financial and non-financial liabilities" results from the aggregation of financial information in two line items in the Interim Financial Information and the 2007 Financial Statements: "Other financial liabilities" and "Other liabilities".

The Bank's total liabilities were US\$2,797.3 million as at 31 March 2008, an increase of US\$511.7 million (22.4 per cent.) compared to US\$2,285.7 million as at 31 December 2007. This increase was principally due to increased volumes of customer accounts and amounts due to other banks, all reflecting the growth of the Bank's activities and the Bank's corresponding requirement for additional finding for this growth.

Due to other banks

The following table sets forth the amount due to other banks as at the dates indicated

	As at 31 March 2008 <i>(unaudited)</i>	As at 31 December 2007
	<i>(in thousands of US\$)</i>	
Deposits and loans	546,641	493,515
Current accounts	59,368	14,781
Due to other banks	606,009	508,296

MANAGEMENT'S DISCUSSION AND ANALYSIS

US\$606.0 million was due to other banks as at 31 March 2008, an increase of US\$97.7 million (19.2 per cent.) compared to US\$508.3 million as at 31 December 2007. This increase is reflective of the Bank's growth and the Bank's continuing need to borrow in the interbank market in the ordinary course of business.

Deposits and current accounts of Alfa-Bank Russia, amount to US\$99.8 million (16.5 per cent.) of amounts due to other banks as at 31 March 2008 (compared to US\$14.9 million (2.9 per cent.) as at 31 December 2007). The Bank adheres to a strategy of reducing its reliance on the Alfa-Banking Group for funding.

Customer's current accounts and term deposits

Customer's current accounts and term deposits are the single largest source of the Bank's funding, representing 48.0 per cent. and 36.9 per cent. of total liabilities as at 31 March 2008 and 31 December 2007, respectively. The following table sets forth the composition of the Bank's customer accounts portfolio as at the dates indicated.

	31 March 2008	31 December 2007
	<i>(unaudited)</i>	
	<i>(in thousands of US\$)</i>	
Current accounts of customers		
Corporate	531,865	392,977
Retail	29,440	27,449
Term deposits of customers		
Corporate	699,481	355,075
Retail	82,536	67,250
Total current accounts and term deposits of customers.....	<u>1,343,322</u>	<u>842,751</u>

Total customer current accounts and term deposits were US\$1,343.2 million as at 31 March 2008, an increase of US\$500.6 million (59.4 per cent.) compared to US\$842.8 million as at 31 December 2007. This increase was principally due to increases in current accounts and term deposits of corporate customers, from US\$393.0 million as at 31 December 2007 to US\$531.9 million as at 31 March 2008, in the case of corporate current accounts, and from US\$335.1 million as at 31 December 2007 to US\$699.5 million as at 31 March 2008, in the case of corporate term deposits, in each case reflecting the growth in the Bank's business generally. The increase in the total number of current accounts and term deposits was also due to the growth in current accounts and term deposits of retail customers, from US\$67.3 million as at 31 December 2007 to US\$82.5 million as at 31 March 2008, in the case of retail term deposits, and from US\$27.4 million as at 31 December 2007 to US\$29.4 million as at 31 March 2008, in the case of retail current accounts, in each case reflecting the growth of the Bank's retail business and distribution network.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Current accounts and term deposits of customers by sector

The Bank obtains funding from its broad client base across industry sectors. The Bank's customer accounts include deposits of state and public organizations and other legal entities (together referred to as "corporate") as well as individuals. The following table sets forth concentrations within the Bank's customer accounts as at the dates indicated.

	31 March 2008 (unaudited)		31 December 2007	
	Amount	%	Amount	%
<i>(In thousands of US\$, except percentages)</i>				
Individuals	111,976	8%	94,699	11%
Corporate				
Communication	266,114	20%	171,876	20%
Coal-mining industry	13,786	1%	102,177	12%
Investment and lease companies	357,397	26%	100,265	12%
Wholesale trade	49,729	4%	56,614	7%
Chemical and petrochemical industry.....	5,898	0%	62,904	7%
Ferrous metallurgy	170,074	13%	53,532	6%
Military-industrial establishment and aircraft construction	43,689	3%	53,339	6%
Natural gas industry.....	124,145	9%	44,237	5%
Insurance	34,597	3%	29,392	3%
Mechanical engineering and metal-working industry	21,688	2%	12,635	2%
Power industry	8,804	1%	8,312	2%
Transport	10,256	1%	5,225	1%
Food industry.....	36,607	3%	4,785	1%
Retail trade.....	15,248	1%	2,667	0%
Construction and real estate.....	18,844	1%	1,537	0%
Other	54,470	4%	38,555	5%
Total current accounts and term deposits of customers ..	1,343,322	100%	842,751	100%

As at 31 March 2008, growth in customers' current accounts and term deposits was primarily attributable to an increase of US\$94.2 million (54.8 per cent.) in deposits by companies operating in the communication, of US\$116.5 million (217.7 per cent.) in deposits by companies operating in ferrous metallurgy, of US\$257.1 million (256.5 per cent.) in deposits by investment and lease companies, and of US\$79.9 million (180.6 per cent.) in deposits by companies operating in the natural gas industry, offset by a decline of US\$88.4 million (86.5 per cent.) in deposits by companies in the coal mining industry. Customer accounts of individuals increased by US\$17.3 million (18.2 per cent.), from US\$94.7 million as at 31 December 2007 to US\$112.0 million as at 31 March 2008. The overall growth in customer accounts was due to the ongoing expansion of the Bank's business.

As at 31 March 2008, 72 per cent. of the Bank's total customer accounts (US\$967.2 million) were placed with the Bank by its 10 largest customers, compared to 66 per cent. (US\$560.2 million) as at 31 December 2007.

Debt securities in issue

The Bank had debt securities in issue with a carrying value of US\$198.7 million as at 31 March 2008, an increase of US\$2.5 million (1.3 per cent.) compared to a carrying value of US\$196.2 million as at 31 December 2007. This slight increase was due to the issuance of one new series of domestic UAH-denominated notes and another tranche under an existing series of domestic UAH-denominated notes, partially offset by the repayment of portions of other series of domestic UAH-denominated notes, reflecting the Bank's growth and requirement for stable funding.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Loan participation notes

The Bank had US\$556.5 million loan participation notes outstanding as at 31 March 2008, an increase of US\$3.9 million (0.7 per cent.) compared to US\$552.6 million as at 31 December 2007. This slight increase was due to interest accrued during the first three months of 2008.

Other financial and non-financial liabilities

Other financial and non-financial liabilities were US\$19.6 million as at 31 March 2008, compared to US\$15.5 million as at 31 December 2007. This increase was due to an increase in other liabilities of US\$4.0 million to US\$14.6 million as at 31 March 2008 compared to US\$10.5 million at 31 December 2007 and an increase in other financial liabilities of US\$0.2 million to US\$5.1 million as at 31 March 2008 from US\$4.9 million as at 31 December 2007.

Subordinated debt

The Bank owed US\$69.8 million in subordinated debt as at 31 March 2008, an increase of US\$0.6 million (0.9 per cent.) compared to US\$69.2 million as at 31 December 2007. This slight increase was due to interest accrued and other adjustments.

Analysis by Segment

The Bank's primary format for reporting segment information is the following three business segments: retail banking, corporate banking and central treasury. Corporate banking is the largest business segment, generating 60.7 per cent. of external revenues for the three months ended 31 March 2008 and representing 69.8 per cent. of total assets as at 31 March 2008 (compared to 75.6 per cent. of external revenue for 2007 and 68.6 per cent. of total assets as at 31 December 2007). Retail banking generated 31.3 per cent. of external revenue and 21.8 per cent. of total assets as at 31 March 2008 (compared to 20 per cent. of external revenue for the three months ended 31 March 2008 and representing 21.1 per cent. of total assets as at 31 December 2007). The following tables set forth certain data for the Bank's primary reporting segments as at the dates indicated.

	Corporate	Retail	Central Treasury	Eliminations	Total
	<i>(in thousands of US\$)</i>				
For the three months ended					
31 March 2008 (unaudited)					
Income statement data					
Total revenues	90,944	36,433	54,704	(67,060)	115,021
Segment result.....	6,361	(16,043)	22,791	–	13,109
Unallocated costs					(739)
Profit before tax				–	12,370
As at 31 March 2008 (unaudited)					
Balance sheet data					
Total segment assets	2,248,139	702,818	267,608	–	3,218,565
Segment liabilities	1,157,506	51,937	1,581,696		2,791,139
Total liabilities ¹					2,797,329

1 Includes unallocated current income tax liability of US\$3.0 million, deferred income tax liability of US\$0.3 million and other unallocated liabilities of US\$2.9 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

	Corporate	Retail	Central Treasury	Eliminations	Total
<i>(in thousands of US\$)</i>					
For the three months ended					
31 March 2007 (unaudited)					
Income statement data					
Total revenues	43,004	8,795	16,479	(25,958)	42,320
Segment result.....	7,010	(7,760)	4,127	–	3,377
Unallocated costs					(1,621)
Profit before tax					1,756

As at 31 December 2007

Balance sheet data

Total segment assets	1,781,421	548,396	268,497	–	2,598,314
Total segment liabilities.....	854,868	76,674	1,352,387	–	2,283,929
Total liabilities ¹					2,285,673

1 Includes unallocated current income tax liability of US\$1.0 million, deferred income tax liability of US\$0.04 million and other unallocated liabilities of US\$0.7 million.

Contingencies and Commitments

The Bank enters into certain financial instruments with off-balance sheet risk in the ordinary course of business to meet its customers' needs. For a discussion of the financial instruments, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Year End 31 December 2007 and 2006—Contingencies and Commitments".

The following table sets forth the Bank's credit related commitments as at the dates indicated.

	As at 31 March 2008 <i>(unaudited)</i>	As at 31 December 2007
<i>(in thousands of US\$)</i>		
Guarantees issued	56,705	60,951
Undrawn credit lines	24,830	102,427
Letters of credit	82,375	48,869
Avals issued	859	2,013
Acceptance	402	–
Total credit related commitments	165,171	214,260

Total credit related commitments decreased by 22.9 per cent. to US\$165.2 million as at 31 March 2008 from US\$214.3 million as at 31 December 2007. The decrease was primarily attributable to a significant decrease in undrawn letters of credit by US\$77.6 million, due largely to an increase in the value of the loan portfolio and the number of loans issued. The decrease in total credit related commitments was partially offset by an increase in letters of credit by US\$33.5 million, which was largely in line with the increase in the Bank's customer base and operations and the development of the trade finance business.

As at 31 March 2008, the Bank had US\$6.8 million in contractual capital expenditure commitments in respect of premises, leasehold improvements and equipment, an increase of US\$4.2 million (163.1 per cent.) compared to 2007, due primarily to the further significant expansion of the Bank's facilities and operations.

Capital Adequacy

The Bank complies with the NBU's mandatory minimum capital adequacy ratios for Ukrainian banks, which is currently 10 per cent. The following table sets forth an analysis of the Bank's capital base, based on Basel Capital Accord standards, as at the dates indicated.

	31 March 2008	31 December 2007
	<i>(in thousands of US\$)</i>	
Tier 1 capital		
Share capital	372,599	272,599
Disclosed reserves	23,951	15,040
Total tier 1 capital	396,550	287,639
Tier 2 capital		
Revaluation reserves	18,968	19,066
Cumulative translation reserve	2,220	2,220
Fair value reserve.....	(300)	(82)
Subordinated debt	69,633	69,129
Total tier 2 capital	90,521	90,333
Total capital	487,071	377,972
Risk weighted assets	2,961,239	2,351,078
Total capital ratio ¹	16.4	16.1

1 Calculated in accordance with the Basel Accord.

The increase in risk weighted assets in the first three months of 2008 was due to an increase in the Bank's business volumes.

Recent Developments

The Bank has continued to raise debt financing in the ordinary course of its business in the form of drawdowns under the Programme of US\$100.0 million in April 2008 and US\$250.0 million in May 2008 to finance its operations and a trade-finance related loan facility from Credit Suisse in May 2008 in the amount of US\$25.0 million. See "Capitalization".

The registration procedures with regard to the amendments to the Bank's charter made in connection with the decision by the Bank's shareholders on 21 November 2007 to increase the share capital of the Bank by UAH 374.7 million (US\$74.2 million) to UAH 1,744.7 million (US\$345.5 million) were completed by the end of April 2008.

On 21 April 2008 the Bank's shareholders decided to increase the share capital of the Bank by an additional UAH 505 million (US\$100 million). This latest additional share issuance was registered with the SSSMC on 25 April 2008. In May and June 2008 all such newly shares were acquired and fully paid in by the Bank's existing shareholders. The respective amendments to the Bank's charter were approved by the General Meeting of Shareholders on 16 June 2008, a new edition of which is expected to be registered by the NBU by the end of July 2008. All registration procedures are expected to be completed by the end of September 2008. In addition, the Bank's shareholders have recently initiated another US\$100 million capital increase to be exercised in the fourth quarter of 2008.

On 21 May 2008 National Bank of Ukraine set the official exchange rate between the US dollar and the Ukrainian hryvnia to UAH 4.85 to US\$1. Since then the official US dollar exchange rate to Ukrainian hryvnia has fluctuated in line with market trends.

DESCRIPTION OF THE BANK'S BUSINESS

Overview

The Bank is a commercial bank headquartered in Kyiv, and offers a range of banking services to corporate and retail customers as well as treasury and capital markets services through a network as at 1 April 2008 of 45 Standard Branches, 233 Information and Consulting Centers, 928 POSs (including unstaffed terminals) and 375 Auto-Loans Financing Desks, situated at local car dealerships. The Bank also has two representative offices in Moscow and Minsk.

The Bank is a subsidiary of ABH Ukraine Limited, which is beneficially owned by six shareholders (including Mikhail Fridman, German Khan and Alexei Kuzmichev). The Bank is a part of the Alfa Banking Group, one of the leading private banking groups in the Russian Federation. The Alfa Banking Group, in turn, is a part of the Alfa Consortium, a group of companies principally operating in the banking, insurance, telecommunications and oil and gas sectors, as well as in the investment and retail trade businesses.

Until December 2006, the Bank was a subsidiary of Alfa-Bank Russia, the Russian commercial and retail banking subsidiary within the Alfa Banking Group. The Bank continues to enjoy a close relationship with Alfa-Bank Russia, allowing it to benefit from Alfa-Bank Russia's brand management and marketing, risk management data and systems and product knowledge, especially in the retail banking sector.

The Ukrainian banking sector has been growing at an annual compound growth rate of 56 per cent. over the previous four years. While it remains relatively small, retail banking is growing faster than corporate banking in Ukraine and is more developed than retail banking in Russia. The Bank is well positioned to continue to capitalise on this growth. As at 31 March 2008, the Bank had total assets of US\$3,218.6 million, an increase of 23.9 per cent. compared to total assets as at 31 December 2007.

According to NBU official statistics, as at 1 April 2008 the Bank was the 10th largest bank in Ukraine in terms of total assets (compared to 14th as at 1 April 2007), the 9th largest in terms of loans to customers (compared to 11th as at 1 April 2007), the 6th largest in terms of corporate deposits and current accounts (compared to 9th as at 1 April 2007) and the 9th largest in terms of loans to individuals (compared to 19th as at 1 April 2007), all as calculated under Ukrainian Accounting Standards and based on statutory reporting requirements.

The Bank generated operating income (before provision for impairment) of US\$142.3 million for the year ended 31 December 2007, an annual increase of 151.9 per cent., and a net profit of US\$11.8 million. For the three months ended 31 March 2008, the Bank generated operating income (before provision for impairment) of US\$63.0 million, an increase of 202.2 per cent. compared to the three month period ended 31 March 2007, and a net profit of US\$8.8 million.

Corporate banking has historically been the Bank's main business and loans to corporate customers (including reverse sale and repurchase agreements) represented 70.6 per cent. of the Bank's gross loan portfolio and corporate customer accounts 88.8 per cent. of the Bank's customer accounts as at 31 December 2007 (69.4 per cent. of the Bank's gross loan portfolio and 91.7 per cent. of the Bank's customer accounts as at 31 March 2008). The Bank provides lending, deposit taking, cash settlement, currency exchange and cash management services to large companies, principally those ranked among the "Top 100" Ukrainian companies by Ukrainian investment newspaper, the "*Investgazeta*". In 2007 and the first quarter of 2008, the Bank expanded its business focus to include small and medium sized enterprises ("SMEs") when it hired a significant team from International Project Consulting. As at 31 December 2007, the Bank's SME loan portfolio amounted to US\$86.7 million, or 3.8 per cent. of the Bank's gross loan portfolio, compared to nil as at 31 December 2006. As at 31 March 2008, the Bank's SME loan portfolio amounted to US\$139.5 million, or 4.8 per cent. of the Bank's gross loan portfolio, compared to nil as at 31 March 2007.

The Bank is also developing structured finance, leasing and trade finance products.

Since 2004, the Bank has focused on increasing its retail banking activities by improving and expanding the range of products that it offers and by increasing its geographical presence in the industrially developed regions of Ukraine. As at 1 April 2008, the Bank has approximately 535,000 retail customers (approximately 765,000 retail loans) and its retail banking services consist primarily of lending, including consumer finance, auto loans and residential mortgage loans, and deposit taking. As at 31 December 2007, the Bank's gross retail loan portfolio amounted to US\$589.3 million, an annual increase of 541.1 per cent., constituting 25.7 per cent. of the total gross loan portfolio as at 31 December 2007. The Bank's gross retail loan portfolio was US\$747.2 million as at 31 March 2008, an increase of 26.8 per cent compared to the gross retail loan portfolio at the end of 2007. The retail loan portfolio constituted 25.8 per cent. of the total gross loan portfolio as at 31 March 2008, compared to 25.7 per cent. as at 31 December 2007. The Bank also offers bank card products, foreign exchange and money transfer services and cash withdrawals through ATMs to its retail customers and is establishing internet banking services.

The Bank also generates income from debt trading and brokerage services, dealer services, custody services, arranging and underwriting corporate bonds, foreign exchange operations and interbank market activities. In addition, the Bank provides investment, project management and advisory services.

The Bank enjoys the following ratings by Moody's: An individual financial strength rating of E+; a long term foreign currency deposit rating of B2; a long term national currency deposit rating of Ba3; a foreign currency senior unsecured debt rating of Ba3; and a long term national scale rating of Aa1.ua. The outlook on the foreign currency deposit rating is Positive, and the outlook on the Bank's other ratings is Stable. In addition, the Bank enjoys the following ratings by S&P: a long-term counterparty rating of B+; a short-term counterparty rating of B; and a national scale rating of uaA. The outlook on the ratings is stable.

Strengths

Management believes it has the following principal competitive strengths:

Relationship with Alfa-Bank Russia

The Bank is closely linked to Alfa-Bank Russia and is therefore able to benefit from the risk management and product management expertise, technology and banking experience gained by Alfa-Bank Russia. The Bank also draws on Alfa-Bank Russia's database and know-how resources, know-your customer and anti-money laundering expertise and other risk management resources. The Bank has advanced risk management systems, due to its relationship with Alfa-Bank Russia and the Director of Risk Management of Alfa-Bank Russia sits on the Supervisory Board of the Bank. However, the beneficial shareholders of the Bank have recognised that the Bank should be an autonomous bank independent of Alfa-Bank Russia, with its own strategy and management. The Bank is therefore able to implement its own strategy and carry out its operations with a specific focus on the Ukrainian banking market.

Highly Qualified Management Team

The Bank has a strong management team with an established track record in the Ukrainian banking sector. Many members of the Bank's management team are also currently, or have in the past been, members of the management of Alfa-Bank Russia, ABN AMRO, Citi, Raiffeisen Group, Procredit Group and other international banking and globally recognised institutions and have a track record of international banking.

Stable and International Funding base and Shareholder Funding

The Bank has access to stable and international funding through its beneficial shareholders and its track record of obtaining international syndicated and capital markets funding. Management believes this funding base sets it apart from a number of its competitors and gives it access to funds which are cheaper than those available to many Ukrainian banks.

Unique Retail Concept

The Bank offers its retail lending services via a network of different types of branches and POSs (see “–*Distribution Network*” below). The Bank's retail network is comparatively low in cost when compared to many of the Bank's competitors. A large number of the Bank's consumer lending POSs are based in retail outlets and offices, thus avoiding the expense of establishing exclusively owned or rented retail branch premises. This retail network allows the Bank to offer retail lending products to a large number of retail customers, without the corresponding expense of establishing a large retail branch network.

Focus on Corporate Banking Services

The Bank has traditionally focused on the corporate banking sector. Due to its cooperation with Alfa-Bank Russia (one of the leading banks in the Russian corporate banking sector) the Bank benefits from the considerable professional experience of former senior corporate executives of Alfa-Bank Russia, who currently work in the Bank (see “*Management*”). The Bank's extensive expertise of the corporate lending market in Ukraine, as well as strong risk-management and strong customer relationships, allows it to maintain a lower-risk loan portfolio than many of its peers and align with NBU requirements.

Full-Service Bank

In addition to strengthening its position as a corporate bank, the Bank has diversified into lending to SMEs and has actively invested in the growth and development of its retail business including the regional distribution network. The Bank has established itself as a full-service bank, establishing a platform for sustainable capitalization growth in the future.

Focus on Customer Service

The Bank offers fast and convenient customer service to its customers, enabling it to expand both its corporate and retail customer base. The Bank has innovative approaches to the banking needs of its customers, for example the Bank's Information and Consulting Centers for retail customers (see “–*Distribution Network*” below), and is able to utilise the expertise of Alfa-Bank Russia in improving its customer service offering.

Brand Recognition and Marketing

The Bank has an established brand name due to the high profile in Russia of the “Alfa” brand and its established presence in Ukraine. The Bank has an extensive marketing campaign aimed at growing its customer base.

Corporate Governance

The Bank has effective corporate governance systems in place, including internally developed and strictly followed norms of ethical practices, requirements and conditions of corporate conduct and business. These effective corporate governance practices assist improving the overall management of the Bank and increase the Bank's attractiveness for existing and prospective customers.

Strategy

The Bank's key objective is to strengthen its position as one of the leading banks in the Ukrainian corporate banking sector and to develop a leading position in the retail banking sector and SME financing markets in Ukraine. In particular, the Bank's strategies are:

To grow and diversify corporate banking

The Bank plans to continue to grow and diversify its corporate banking business by focusing on large corporates in key sectors of the Ukrainian economy, such as metallurgy, railways, retail, transport and trade, as well as on growth sectors such as chemicals and food production. The Bank will seek to grow its

corporate customer base by continuing to develop and broaden the product range offered to corporate customers, including cash management services and the development of advanced credit products, such as structured finance, leasing and trade finance. The Bank also plans to continue to expand its commercial lending activities to SME customers, which constituted US\$86.7 million, or 3.8 per cent., of the Bank's gross loan portfolio as at 31 December 2007 (US\$139.5 million, or 4.8 per cent., as at 31 March 2008), in order to increase market share in this significant market in Ukraine.

To grow retail banking

Management believes that the retail banking sector is still relatively under developed in Ukraine and offers significant growth potential. Demand for banking products and services in Ukraine is high and continues to grow. Accordingly, whilst continuing to prioritise its corporate banking business, management plans to grow the Bank's retail loan portfolio to around 35 per cent. of the Bank's total loan portfolio within the next two years.

Retail banking services are broken down into five product segments – auto loans, residential mortgage loans, consumer loans, deposits and current accounts and plastic cards. The Bank aims to become one of the top five banks in each of these segments, differentiating itself from its competitors by providing greater product coverage and better service. The Bank seeks to expand its customer base through its innovative retail distribution network and alternative sales channels and by increasing awareness of the Alfa brand.

To grow and diversify funding sources

To support its growth plan, the Bank intends to diversify its funding sources. It plans to increase domestic deposits from corporate and individual customers by broadening the range of products it offers to corporate and retail customers. The Bank expects to continue to receive strong funding support from its shareholders and to continue to obtain syndicated and bilateral loan funding and to access international and domestic debt capital markets as a cost-effective source of long term funding. As its retail product portfolios mature, the Bank also plans to reduce its cost of capital through asset securitisations.

To expand its network, strengthen operations systems and broaden brand awareness

The Bank is expanding its network in industrially developed and heavily populated regions of Ukraine. As at 1 April 2008, the Bank has 45 Standard Branches, 233 Information and Consulting Centers, 938 POSs and 375 Auto-Loan Financing Desks. It plans to have approximately 90 Standard Branches, 350 Information and Consulting Centers, 2,965 POSs (including 1,950 unstaffed terminals) and 590 Auto-Loan Financing Desks in its network by the end of 2008.

In all retail banking and in most of corporate banking, all decision making is centralised, allowing the Bank to capitalise on its well developed IT systems and to control personnel and other overhead costs.

Alongside expanding its network, the Bank is rolling out a corporate brand strategy in order to broaden public awareness of the Bank and enhance the development of its retail business. In addition to using its corporate logo through the network, the Bank will continue to promote its brand image both through printed and broadcast media advertising, as well as e-marketing and web advertising. The Bank will also continue to sponsor charities and community projects in Ukraine.

To expand treasury and capital markets activities

The Bank intends to continue to grow its domestic capital markets operations, in particular, arranging bond issues for Ukrainian companies, where Management believes it is one of the market leaders, according to data available from the "Cbonds" website (www.cbonds.info). Management expects the domestic corporate bond market in Ukraine to continue to grow and that the Bank's involvement in securities issues will assist in raising the Bank's profile. Capital markets operations as well as new product offerings (such as advanced cash management services), will allow the Bank to increase its non interest income.

History

The Bank was founded as a limited liability company under the laws of Ukraine on 18 November 1992, was registered with the NBU on 24 March 1993 and began its operations under the name Commercial Bank for Consumer's Co-operation "Vito" from its head office in Kyiv. In 1995 the Bank was reorganised into Limited Liability Company Commercial Bank "Kyivinvestbank", which in turn was reorganised into Stock Commercial Bank "Kyivsky Investytsiyny Bank" in 1997. The Bank has operated under its current name since January 2001. The Bank's address is 4/6 Desyatynna Str., Kyiv 01025, Ukraine.

The Bank was registered with the NBU in the State Register of Banks on 24 March 1993 under registration number 158. Its current banking license and its NBU permit for conducting certain types of banking activities were renewed on 3 December 2001 and 25 June 2007, respectively. In 2002 the Bank obtained a license issued by the State Securities and Stock Market Commission (the "SSSMC") allowing the Bank to conduct specific professional activities on the Ukrainian securities market. The license was reissued in 2004 and expired on 11 October 2007. On 12 October 2007, the SSSMC issued four separate licenses to the Bank allowing it to perform various professional activities on the stock market (brokerage, dealing, underwriting and custodian services). These licenses are valid until 12 October 2012. On 2 September 1999 the Bank was registered as a member of the Fund for the Guaranteeing of Deposits of Individuals. See "*Licenses*" and "*Appendix A – Overview of the Ukrainian Banking Sector and Regulation in Ukraine*".

In the period from 2001 to 2005, the Bank focused on developing its corporate customer base. Since 2005 the Bank has also turned towards increasing its retail banking operations. By 2006, the Bank had become a universal bank with a strong presence in the corporate banking sector and an expanding presence in the retail banking sector.

In 2001, the Bank became a member of the Society for Worldwide Interbank Financial Telecommunications ("SWIFT"), allowing it to offer new electronic payment services. In 2001, the Bank became an associated member of VISA International and began offering VISA cards to its customers. In addition, in 2001 the Bank joined the Ukrainian First Stock Trading System ("PFTS") and has been a member of its Council since August 2004. In 2003 the Bank joined the UkrCard payment system. In July 2006, the Bank started to provide quotations on security positions through Reuters and Bloomberg. The Bank is also a member of the Association of Ukrainian Banks, the Kyiv Bankers Union, the Ukrainian Interbank Currency Exchange ("UICE"), securities depository "The Interregional Stock Union (ISU)", the Universal Commodity Exchange Kontractovy Dim UMVB, the Ukrainian Interbank Payment Systems Member Association, the Professional Association of Registrars and Custodians, the American Chamber of Commerce, the European Business Association, Ukrainian Processing Center ("UPC") and the Ukrainian National Mortgage Association ("UNIA").

In 2002, the Bank began to offer a full range of services for placing domestic bond issues of Ukrainian companies.

During 2002 and 2003, the Bank began developing its branch network, with the establishment of branches in Donetsk, Kharkiv and Dnipropetrovsk. In 2006, 2007 and the first quarter of 2008, the Bank continued its regional expansion and established operations in every Ukrainian region. See "*Distribution Network*" below. The Bank has also launched a series of new products and services, including consumer finance in August 2005, auto loans in May 2006 and mortgages in Fall 2006. In addition, the Bank has expanded the range of products and services it offers to SMEs. The Bank launched its SME business in April 2008.

Market Position and Competition

As at 1 June 2008, there were 195 commercial banks registered in Ukraine, 177 of which were licensed by the NBU to perform banking transactions, compared to 198 commercial banks registered in Ukraine, 175 of which were licensed as at 1 January 2008.

Commercial banks operating in Ukraine are divided by the NBU into four groups according to the size of assets and regulatory capital of the banks. As at 1 April 2008, the first group included 17 banks with total assets of more than UAH 10 billion and regulatory capital of more than UAH 1 billion; the second group included 17 banks with total assets ranging from UAH 3 billion to UAH 10 billion and regulatory capital

ranging from UAH 300 million to UAH 1 billion; the third group includes 34 banks with total assets ranging from UAH 1 billion to UAH 3 billion and regulatory capital ranging from UAH 100 million to UAH 300 million; and the fourth group included 108 banks with total assets of less than UAH 1 billion and regulatory capital of less than UAH 100 million. Although certain banks have exceeded the thresholds for their respective groups, they usually remain in the groups to which they are allocated by the NBU throughout the year. According to the NBU classification, the Bank is included in the first group.

Two of the largest banks in Ukraine, Ukreximbank and Oschadbank, are state-owned. In addition, as at 1 June 2008, 47 banks in Ukraine had foreign capital, 17 of which were fully owned by foreign entities. See "Appendix A – Overview of the Ukrainian Banking Sector and Regulation in Ukraine".

According to information published by the NBU, as at 1 June 2008, the total assets of the banks which have been granted licences by the NBU to perform banking transactions in Ukraine were approximately UAH 691.5 billion. The Ukrainian corporate banking market grew in terms of the volume of transactions and number of customers from 2004 to 2007. According to the NBU, the total value of loans granted to corporations in Ukraine as at 1 June 2008 was UAH 318.0 billion (compared to UAH 167.8 million as at 1 January 2007, UAH 109.1 billion as at 1 January 2006 and UAH 72.9 billion as at 1 January 2005).

Management believes it is well placed to compete in the Ukrainian banking sector, being among the first group of banks in terms of total assets as determined by the NBU as at 1 April 2008. The Bank faces competition from a number of existing participants in the banking sector in Ukraine. The Bank generally considers large banks in Ukraine as its main competitors, including Privatbank, Raiffeisen Bank Aval, UkrSibbank, UkrSotsbank, Prominvestbank, Ukreximbank, OTP Bank, Bank Nadra and certain other Ukrainian banks.

Banking Services and Activities

Overview

The Bank's main business activities are corporate banking (including SMEs), retail banking and treasury and capital markets services. Corporate banking currently accounts for the largest proportion of the Bank's loans and deposits. The Bank intends to increase the volume of total loans it extends to retail customers.

As at 31 March 2008, the Bank had grown its net loan portfolio to US\$2,853.8 million in total loans and advances to customers, less provision for impairment losses, compared to US\$2,260.7 million as at 31 December 2007. The Bank's customer accounts had grown to US\$1,343.3 million as at 31 March 2008, compared to US\$842.8 million as at 31 December 2007.

Corporate Banking

Corporate banking is the Bank's largest business segment. Corporate banking includes lending, opening and maintaining current accounts, deposit taking, cash settlement transactions, foreign exchange ("FX") operations (both in UAH and foreign currencies, principally the US dollar and the euro), cash management, investment funds, corporate financing and consulting, asset management, card operations, and payroll services.

As at 31 March 2008, total loans and advances to corporate customers (including reverse sale and repurchase agreements) were US\$2,011.8 million, or 69.4 per cent. of the Bank's gross loan portfolio, compared to US\$1,620.0 million, or 70.6 per cent., as at 31 December 2007. The Bank's corporate customer accounts (including state and public organizations) were US\$1,231.3 million, or 91.7 per cent. of the Bank's total customer accounts, as at 31 March 2008, compared to US\$748.1 million, or 88.8 per cent., as at 31 December 2007. As at 1 April 2008, the Bank had approximately 2,790 corporate customers, compared to 2,775 as at 31 December 2007.

The Bank has also developed a range of modern credit products (such as factoring) and specialised credit programmes (such as loans secured by deposits and loans to SMEs). The Bank has started to target SME lending through its retail network. The Bank services its corporate customers through corporate divisions

DESCRIPTION OF THE BANK'S BUSINESS

within the Bank's Standard Branches which cover major regions of Ukraine (see "*Distribution Network*" below).

Corporate Lending

The Bank has traditionally focused on lending to large corporate entities in Ukraine in order to maintain a lower-risk loan portfolio. The Bank's largest customers are ranked among the "Top-100" companies of Ukraine by Ukrainian investment newspaper, the "*Investgazeta*", including Interpipe Group companies, Naftogas, Energoatom, Fozzy, Foxtrot, Industrial Union of Donbas and state railway companies, representing the metallurgy, electrical energy, trade, transport, oil and gas and machine building sectors.

Corporate lending activities include the provision of loan facilities, overdraft facilities, loans to finance working capital and purchases of property, plant and equipment, revolving credit facilities and standby facilities. The largest concentration of the Bank's corporate loans is in the trade and consumer goods, services, railway, machine and equipment building and metallurgy sectors. The Bank's corporate loan portfolio also includes loans to the chemical goods production industry, oil and gas industry, energy industry, construction and real estate and air industries.

Corporate Customer Accounts

Corporate customer accounts accounted for US\$1,231.3 million, or 91.7 per cent. of the Bank's customer accounts as at 31 March 2008, compared to US\$748.1 million, or 88.8 per cent., as at 31 December 2007. Corporate customer accounts increased by US\$483.3 million during the three month period ended 31 March 2008, compared to an increase of US\$242.3 million, or 47.9 per cent., during the year ended 31 December 2007. The Bank's top 10 corporate customers accounted for US\$967.2 million, or 72.0 per cent., of the Bank's customer accounts as at 31 March 2008, compared to for US\$560.2 million, or 66 per cent., as at 31 December 2007. By sector, as at 31 March 2008, the top 10 corporate customers were engaged in business in the following sectors: investment and lease, communication, natural gas, financial services, ferrous metallurgy, food, and military organizations and aircraft construction.

Cash Management

The Bank is seeking to become the market leader in offering innovative cash and liquidity management solutions to its corporate customers. The Bank provides automated liquidity management solutions for cash consolidation, control and investment. Corporate customers typically execute such transactions manually, freeing up time for more strategic treasury management. The Bank also provides cash management services to wholesale clients. Cash management banking products are a valuable service and allow the Bank to cross sell and retain customers. The Bank earns interest on balances in bank accounts, as well as non-interest income through transaction fees.

Other Corporate Services

The Bank also provides financial telecommunication services including "Bank-client", the Bank's corporate internet-banking service.

Retail Banking

The Bank is concentrating on expanding its retail banking business in order to take advantage of the rapidly growing retail banking market in Ukraine. Retail banking includes providing current and deposit accounts, consumer finance loans, auto-loans and residential mortgage loans to individuals, debit cards, debit cards with PILs and credit cards, foreign currency exchange services and money transfers.

In 2005, 2006 and 2007 the Bank focused on the overall growth of its retail banking business. As at 31 March 2008, the Bank's gross retail loan portfolio amounted to US\$747.2 million, or 25.8 per cent., compared to US\$589.3 million, or 25.7 per cent, as at 31 December 2007. Retail customer accounts increased by US\$17.3 million during the three month period ending 31 March 2008, compared to an increase of US\$70.1 million, or 285.5 per cent., during the year ended 31 December 2007. As at 1 April

2008, the Bank had approximately 535,600 retail banking customers (and approximately 765,000 retail loans), compared to approximately 431,000 customers (and approximately 621,000 retail loans) as at 31 December 2007.

The Bank is currently placing emphasis on developing its retail banking business, both in terms of numbers of customers and products offered to those customers. To this end, the Bank has been expanding its branch network in order to increase its presence in locations where it can attract new retail customers. The Bank will be increasing its product offering to retail customers in the near future with the growth of the Bank's new credit cards business line and improved services such as internet banking and wireless application protocol ("WAP") and short message service ("SMS") banking.

The Bank has launched and will further develop its retail business distribution network (see "*- Distribution Network*" below) and alternative sales channels for its retail banking products through its customer support services such as call centers and other client relationship management ("CRM") technologies, see "*Description of the Bank's Business – Banking Services and Activities – Retail Banking – Alternative sales channels*". During 2007 the Bank started to provide retail internet banking and mobile telephone banking to its customers thus giving its customers remote access to their accounts via the internet and SMS banking. The Bank is planning to further develop these services. Currently, the Bank provides limited telephone banking services to enable its corporate and retail customers to obtain account information over the telephone and uses SMS to communicate with its retail clients.

The Bank's retail banking activities are divided into the following categories:

Retail Lending

Retail lending activities include the provision of consumer finance, auto-loans secured by new and used cars purchased by the borrower and residential mortgage loans. The Bank offers secured loans to its retail customers (see "*- Collateral*" below). As at 31 March 2008, the Bank's gross loans and advances to retail customers amounted to US\$747.2 million, constituting 25.8 per cent. of the Bank's gross loan portfolio, compared to 25.7 per cent. as at 31 December 2007. Gross loans and advances to retail customers increased by US\$157.9 million during the three month period ending 31 March 2008, compared to an increase of US\$497.4 million, or 541.1 per cent., during the year ended 31 December 2007.

The Bank currently offers three main types of loan to retail customers: mortgage loans, auto-loans and consumer finance.

Mortgage loans are longer-term loans to individuals made to finance the purchase of residential real estate. Mortgage loans are generally 15 years in tenor, and are secured upon the real estate purchased with the loan. Mortgage loans are typically for amounts from UAH 150,000 to UAH 500,000.

Auto-loans are loans made to individuals for the purchase of new and used motor vehicles. Auto-loans are typically 42 months in tenor and are secured upon the vehicle purchased with the loan. Auto-loans are typically for amounts from UAH 50,000 to UAH 100,000.

Consumer finance loans are loans made to individuals for general purpose use or to finance purchases of (for example) white goods such as kitchen appliances. Consumer finance loans are generally from 12 to 36 months in tenor and are typically for amounts from UAH 1,500 to UAH 15,000.

The Bank plans to increase its share in the Ukrainian retail loan market by continuing to expand its branch and distribution network, including alternative channels of sale. The Bank is targeting retail lending activities by establishing a broad retail network (see "*- Distribution Network*" below). The Bank will also continue to build and broaden awareness of the Alfa Bank brand with marketing and advertising campaigns.

ATM and POS Network

The Bank offers its customers the ability to withdraw cash from current accounts via its ATM network and via the UkrCard network of ATMs, linking the ATM networks of various Ukrainian banks. The Bank's

DESCRIPTION OF THE BANK'S BUSINESS

customers are also able to make payments for purchases via its POS terminal network. As at 1 April 2008, the Bank had a network of 121 ATMs and 938 POSs. Management believes that ATM services are important for attracting customers and increasing the cross-selling opportunities of the Bank's card products and services.

The Bank is in the process of changing its processing center from UkrCard to UPC (Ukrainian Processing Center) and as a result to join a partner ATM network comprising approximately 1,500 ATMs. An ATM is a self-service device from which customers may, among other things, make cash withdrawals and access information on their accounts and is a constituent part of an automated system of cash operations, intra-bank and inter-bank payments systems. ATMs are situated both at branches and outlets and off-site of the Bank's property, subject to appropriate securities measures. A POS terminal is an electronic device which provides automated cash payout operations, payments for products, works or services in a trade network, and the execution of payment documentation in electronic form for operations using a payment card issued by the Bank. The Bank has also signed an agreement with a corporate provider to provide a cash-in service to the Bank's customers in over 4,160 "I-box" terminals. These terminals are located in popular retail centers and stores and allows the Bank's customers to pay monthly bills.

Cash Settlement Transactions

The Bank offers a variety of cash settlement and transfer services to retail customers, including opening and maintaining current accounts, deposit services, foreign exchange operations, cheque book operations, cash transfer operations and cash withdrawals over the counter or via ATMs.

Bank Card Products and Services

The Bank's card business is a growing source of fee and commission income and provides cross-selling opportunities to the Bank. The Bank is an associated member of the Visa International payment system and holds licences on issuing and carrying out cash-acquiring services. The Bank offers Visa Electron, Visa Classic, Visa Gold and Visa Business cards. The Bank is also a member of UkrCard payment system and holds a licence to conduct cash-acquiring operations.

According to the Ukrainian Interbank Payment Systems Member Association, the Bank ranks 30th among credit and debit card issuers in Ukraine in terms of total cards issued. As at 1 April 2008, the Bank had issued approximately 185,345 Visa debit cards (including debit cards with PILs), and approximately 11,077 were Visa credit cards. Among other card products and services, the Bank offers salary payment cards issued to employees of corporate customers for which it provides payroll services, as well as corporate cards for the Bank's corporate clients.

Current Accounts and Deposit Taking

The Bank offers its retail customers both current account and time deposit facilities denominated in UAH and in foreign currencies (US dollar and euro).

Alternative Sales Channels

During 2007, the Bank launched alternative sales channels for retail banking products through its customer support services such as cross-selling call center and other CRM-technologies. Cross-selling offers existing customers PILs and credit cards. The Bank's call center offers access to information on the Bank's services, as well as management of clients' accounts 24 hours a day, seven days a week. The scope of the call center services includes, *inter alia*, information about clients' accounts balances and transactions carried out on these accounts, loans contracted, term deposits and payment cards.

Banking Services for VIP Clients

The Bank has established a VIP client service ("A-club"), which offers individual banking services to a limited number of individual clients (principally high net worth individuals and their family members, including the Alfa Banking Group shareholders, owners and senior management of the Bank's corporate

clients). A-club offers clients exclusive services, an individual approach and confidentiality. Each A-club client is assigned a personal manager with extensive banking and financial experience. A-club members are offered the whole range of the Bank's cash services, an individual tariff-plan for current and deposit accounts, Visa cards, auto-loans, mortgage loans and credits for other needs.

Treasury and Capital Markets

The Bank provides a range of treasury and capital markets services, primarily to corporate customers and certain high net worth individuals (see “ – Retail Banking – Banking services for VIP clients” above). Treasury and capital markets services include debt capital markets activities, brokerage and dealer services, securities trading and ancillary services such as custodian services. The Bank's current licenses which authorise it to engage in professional brokerage, underwriting, dealer and custodian services, were issued by the SSSMC on 12 October 2007 and expire on 12 October 2012. The Bank has focused on developing its treasury and capital market activities since 2002, and believes that it is currently one of the leaders in the Ukrainian securities market, particularly in the corporate debt market.

Debt Capital Market Services

The Bank launched its corporate bond arrangement and underwriting services in 2002. These services include underwriting, drafting of investment and offering circulars, presentations to investors, securities' registration with state authorities, listing of securities, stabilisation and paying agency services. As at 1 April 2008, the Bank had arranged 45 domestic bond issues with a total value of UAH 3.7 billion, including the issuance of 10 domestic bonds by the Bank, with a total value of UAH 1.6 billion. As a result, Management believes it is one of the market leaders for domestic corporate bond issues in Ukraine. In particular, during the period from 2002 to 2007 the Bank placed domestic bond issues for leading Ukrainian companies, including National Nuclear Energy Generating Company “Energoatom”, Limited Liability Company “Metalen”, Closed Joint-Stock Company “Kyivstar GSM”, Closed Joint-Stock Company “Mandarin Plaza”, Closed Joint-Stock Company “AVK”, Limited Liability Company “Velyka Kyshenya-Finance”, LLC “Evroset”, IC “Universalna”, Open Joint-Stock Company “Dneproshina”, LLC “Tsukrovyk Poltavshyn”, retail chain “Fora” and two municipalities (the cities of Vinnytsia and Berdyansk). The Bank has also underwritten certain of these bond offerings. In February 2008 the Bank, together with Pershiy Investytsiyniy Bank (“PIB”), were the co-underwriters of bonds of Zhitomioblenergo, Sevastopolenergo and Kirovogradoblenergo, Ukrainian energy supply companies. In April 2008 the Bank began a placement of bonds of the LLC Soyuz-Leader company. And together with Ukrsibbank, the Bank carried out a placement of bonds for First Ukrainian International Bank. The Bank considers the Ukrainian domestic bond market to be under-developed and therefore represents an opportunity for further expansion.

Brokerage Services and Securities Trading

The Bank's trading and brokerage business includes the execution of trades in debt securities for corporate customers. The brokerage business involves primarily UAH-denominated debt securities of Ukrainian corporate issuers. The Bank engages in brokerage activities on behalf of its corporate customers and high net worth private banking clients, primarily in the PFTS and in over-the-counter markets. The Bank also quotes its securities positions through Reuters and Bloomberg. The Bank also maintains a securities portfolio and engages in securities trading on its own account.

Interbank Activities

Activities on the interbank market include settlement transactions, foreign exchange operations, servicing of correspondent bank accounts, granting and accepting of interbank loans and deposits.

Custodian Services

The Bank provides a broad range of basic and supplementary custodian services for legal entities and individuals holding securities of Ukrainian issuers. The Bank's current license authorising it to engage in

DESCRIPTION OF THE BANK'S BUSINESS

professional custodian services was issued by the SSSMC on 12 October 2007 and expires on 12 October 2012.

The Bank's custodian services include opening and maintaining securities accounts for corporations and individuals, residents and non-residents of Ukraine, acting as custodian for securities (both in registered and bearer form), executing share transfers, providing custodian services for mutual investment institutions and attending and voting by proxy at general meetings of shareholders on behalf of its clients.

Distribution Network

The Bank offers its services through a network of branches, smaller outlets, representative offices and POSs for retail customers located in a wide variety of locations covering all regions of Ukraine.

The Bank acknowledges that in order to be a major presence in the Ukrainian corporate and retail banking market, it must have an extensive network of branches. To this end, the Bank is expanding its distribution network of branches to specifically tailor for corporate and retail customers.

Corporate Distribution Network

The Bank targets its corporate customers through corporate divisions within the Standard Branches located in the major regions of Ukraine. The corporate divisions within the Bank's Standard Branches offer the full range of the Bank's corporate banking services. Standard Branches also offer services to retail and SME customers through specific retail divisions. As at 1 April 2008, the Bank had 14 Standard Branches in Kyiv, Kharkiv, Donetsk, Dnipropetrovsk, Lviv, Odesa and other large cities in which corporate clients are served and plans to open six more Standard Branches by the end of 2008. As at 31 December 2007 the Bank had 24 Standard Branches servicing SME clients and plans to open 36 further Standard Branches by the end of 2008. As at 31 March 2008, 10 additional Standard Branches had been opened.

The Bank also has two representative offices in Moscow and Minsk through which it seeks to attract further corporate customers.

Retail Distribution Network

The Bank offers its retail banking services from retail divisions within its Standard Branches, Information and Consulting Centers, POSs and Auto-Loan Financing Desks situated at local car dealerships. The Standard Branches offer the full range of the Bank's retail banking services. As at 1 April 2008, the Bank had 45 Standard Branches covering almost all regions of Ukraine and situated in the most economically developed regions. The Bank plans to continue its regional expansion and to have 90 Standard Branches in almost all regions throughout Ukraine by the end of 2008. As at 31 March 2008, 6 additional Standard Branches had been opened as compared to the end of 2007. The Information and Consulting Centers network is spread all over the country and numbered 233 outlets as at 1 April 2008. Information and Consulting Centers specialise in unsecured loan products (personal unsecured consumer loans and bank cards). Information and Consulting Centers are predominantly located in large shopping centers. In 2007, the Bank established close relationships with the main centers including Karavan, Megamarket, Furshet, Aladin, Intermarket, Amstor, and Tavriya B. The Bank became the exclusive partner of the "Focus" retail chain which is the largest network of Kodak Express photoshops in the world. Through these centers and "Focus" retail chain the Bank has established its presence in all regions of Ukraine and opened over 200 Information and Consulting Centers. The Bank has also established a new project in the unsecured consumer loan sector – mobile information-consulting centers known as "Automobile Friend". Automobile Friends are small minibuses with Alfa-Bank livery and are able to move throughout the country to cities and towns where there are currently no branches or where there is a particular demand for unsecured consumer loan services.

The Bank has rolled-out a network of 938 POSs as at 1 April 2008 and plans to increase its number to 2,965 POSs (including 1,950 unstaffed terminals) and 590 Auto-Loan Financing Desks, by the end of 2008. The POSs are primarily situated in large retail white goods and electronics chains (including Metro, Mobilochka, Technopolis, Eldorado, Domotekhnika, Unitrade and City.com). During 2007, the Bank

became one of the four partners of retail electronics chain “Foxtrot Technique for home”, a leader in the Ukrainian market. The strategy of the Bank is to develop a universal network in which every branch is able to provide a full range of modern and qualitative retail banking services.

The successful launch of the Bank's auto-loan program continued in 2007 by concluding partnership agreements with approximately 600 car dealerships and as at 1 April 2008, the Bank opened approximately 375 Auto-Loan Financing Desks within the facilities of these dealerships. The Bank also offers foreign exchange and money transfer services and cash withdrawals through ATMs to its retail customers and convenient internet banking services.

Correspondent and Foreign Banking Relationships

The Bank has a broad network of correspondent banks and, as at 1 April 2008, had correspondent relationships with 193 banking institutions globally, including 55 in Ukraine, 59 in Russia, seven in Belarus, 13 in Kazakhstan, and over 59 in other countries (including Switzerland, USA, the UK, Germany, and the Netherlands). The Bank carries out settlement transactions, foreign exchange operations, servicing of correspondent bank accounts, and the granting and accepting of interbank loans and deposits with correspondent banks.

As at 1 April 2008, the Bank had 23 accounts with major foreign banks available for international settlements in different currencies, including Deutsche Bank AG, Commerzbank AG, JPMorgan Chase Bank N.A, UBS AG, American Express Bank Ltd. and Credit Europe Bank N.V.

Regulatory and Licenses

As a Ukrainian bank, the Bank's activity is governed by the NBU regulations and supervised by the NBU.

The Bank was registered with the NBU in 1993 and its current banking license was re-issued on 3 December 2001. The Bank is entitled to conduct different types of banking operations on the basis of its license, as well as to conduct the operations specified in the written permit issued by the NBU, which was renewed on 25 June 2007. In particular, the Bank may:

- attract and place foreign currency in Ukraine and abroad;
- open and operate current and deposit accounts (including correspondent 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 settle cheques, bills of exchange and other payment instruments;
- issue bank cards; and
- provide asset management services.

The Bank holds four separate licenses issued by the SSSMC which allows the Bank to conduct specific professional activities on the Ukrainian securities markets, including activities related to the provision of brokerage, underwriting, dealer and custodian services.

On 14 September 2006, Ukraine's parliament adopted a law amending the Law of Ukraine “On Banks and Banking Activity” of 7 December 2000, which provides that banks may be established only in the form of an open joint-stock company or cooperative bank (*i.e.*, it is not permitted to establish banks in the form of a closed joint-stock company or limited liability company). Furthermore, the amendments also require that all existing banks established in the form of a closed joint-stock company or limited liability company be

reorganised appropriately within three years from 4 October 2006. The Bank does not foresee any difficulties in reorganising to become an open joint-stock company within the stipulated time limits. See “Appendix A – Overview of the Ukrainian Banking Sector and Regulation in Ukraine”.

Sources of Funding

The main sources of the Bank's funding are loan participation notes and debt securities, customer accounts including corporate deposits and corporate current accounts and borrowing from banks, including US\$99.8 million (as at 31 March 2008) of deposits from Alfa-Bank Russia received within the Bank's general credit limit of US\$308.0 million approved by Alfa-Bank Russia. The Bank receives funding from foreign sources, including syndicated loans and international capital market issuances. The Bank has obtained additional funding through loan participation note issuances and by entering into subordinated debt facilities and from contributions by its shareholders through the issue of additional shares and domestic bond offerings. The Bank plans to further diversify its funding sources and extend the maturity profile of its liabilities by the issuance of additional Notes, with further domestic capital markets issuances and with the securitisation of asset streams. For a discussion of the Bank's principal sources of funding, see “*Management's Description and Analysis of Financial Condition and Results of Operations—Financial Condition as at 31 December 2007, 2006 and 2005*”.

The Bank attracted its first subordinated loan in the amount of US\$6.8 million from a related party, Westlaw Inc. in November 2002. This loan matures in November 2010. In June 2005 Westlaw Inc. granted to the Bank a second loan on subordinated debt terms in the amount of US\$5.2 million. This loan matures in June 2013. In addition, in January 2007, March 2007 and August 2007 the Bank obtained additional subordinated loans from Westlaw. Inc. in the amounts of US\$20.0 million, US\$4.98 million and US\$30.0 million, respectively. These loans mature in January 2017, January 2017 and August 2017, respectively. Following receipt of the relevant approvals from the NBU on 20 March, 23 April and 13 September, respectively, each of these loans were included in the Bank's Tier-II capital. Based on assignment agreements dated 5 December 2007, all claims against the Bank in relation to the subordinated loans mentioned above were irrevocably assigned to Overstand Limited, an entity also under common control with the Bank. All changes to the agreements were authorised by the NBU in February 2008. As at 31 March 2008, the total amount of subordinated debt outstanding was US\$69.8 million (compared to US\$69.2 million as at 31 December 2007).

In December 2006, the Bank obtained a loan of US\$160 million from VTB Bank Europe plc, ultimately funded by Loan Participation Notes due 2009 issued by Emerging Markets Structured Products B.V.. In March 2007, the Bank obtained a further US\$185.0 million with a par value loan from VTB Bank Europe plc, ultimately funded by further Loan Participation Notes to be consolidated and form a single series with the above notes. In July 2007, the Bank obtained a loan with a par value of US\$200.0 million from Ukraine Issuance plc due 2010 under the Programme. Overall, as at 31 December 2007, the Bank had issued loan participation notes in the total amount of US\$552.6 million (compared to US\$158.2 million as at 31 December 2006). In April 2008, the Bank attracted an additional loan under the Programme in the amount of US\$100.0 million due 2009. In May 2008, the Bank obtained a further loan under the Programme increasing the original US\$200.0 million par value loan by US\$250.0 million.

In November 2006, the Bank obtained a loan from Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. in the principal amount of US\$50.0 million (fair value amount of US\$50.4 million), fully repaid by the Bank at maturity in February 2008. On 25 June 2007, the Bank entered into a loan agreement with UBS AG as lender in the amount of 150.0 million Swiss francs (approximately US\$122.1 million). The loan facility is a committed facility and has a one year maturity. Under a term facility dated 1 October 2007 the Bank received a syndicated loan in the amount of US\$61.0 million, due September 2008, from Bayerische Landesbank, Barclays Bank Plc, HSBC Bank Plc, Natixis, Erste Bank der Oesterreichischen Sparkassen AG and JPMorgan Chase Bank, N.A.

In addition, the Bank raises funds through domestic corporate UAH-denominated bond issuances. As at 31 March 2008, the Bank had issued domestic bonds in the total amount of US\$198.7 million (compared to US\$196.2 million as at 31 December 2007).

Lending Policies and Procedures

The Bank has well defined procedures for approving loan applications, monitoring loan quality and handling amendments, extensions and refinancing of existing loans. The Bank also focuses on the monitoring of loans to affiliated companies and loans granted on special terms. The Bank's Credit Committees are key to the lending and approval process and are responsible for implementing the Bank's lending strategy, coordinating the activities of the credit officers and forming a balanced and diversified loan portfolio.

The Bank's lending policies and established credit approval procedures are based on guidelines set in accordance with Ukrainian legislation, NBU regulations and the Bank's own internal regulations. The Assets and Liabilities Committee ("ALCO") determines the Bank's loan pricing strategy. The ALCO also sets interest rate policy of the Bank and reviews such decisions at each ALCO meeting. The interest rates established by the ALCO are based upon the term and currency of a particular loan and sources of funding for such loan, together with information on the borrower including credit record, credit rating and use of funds. Lending decisions are taken by the appropriate Credit Committees or the Supervisory Board within the limits of their respective authorities. For a summary description of the applicable legislation, see "*Appendix A – Overview of the Ukrainian Banking Sector and Regulation in Ukraine.*"

The decision making period after submission of the relevant credit documentation is, on average, 45 days for corporate customers and, on average, from 15 minutes (in case of consumer finance loans) to 2 days (in case of auto-loans and residential mortgage loans) for retail customers.

Loan Approval Procedure

Corporate Lending

The Bank's general lending process involves a credit officer, internal legal counsel of the Bank, an officer of the Risk Management Department (the "RMD") and a banking security officer.

The approval procedure for both corporate customers is illustrated below:

Initiation: Upon receipt of a customer's loan application, a credit officer informs the client of the Bank's lending terms and conditions, and explains the loan approval procedure. Following preliminary negotiations with a potential borrower a credit officer decides whether to proceed with the application or to decline.

Preliminary stage: If the decision is to proceed with the application, the customer collects and files credit documentation. A credit officer verifies the company and management background and assesses the strengths and weaknesses of the borrower. Based on the conclusions of a credit officer, an authorised employee of the Bank may take a decision at this stage to reject a loan.

Verification stage: The customer's application is extensively reviewed by all the relevant divisions and departments of the Bank: the RMD, the Legal Department, the Collateral Management Department (the "CMD") and the Security Division, among others. The relevant credit officer sends the appropriate documents to the Legal Department for their legal analysis, to the Security Division for the analysis of the credit history of the borrower, its reputation, surety, founders and to the CMD for assessment of collateral.

Decision taking: The appropriate Credit Committee makes a decision to approve or decline the application. If a loan fits certain categories or exceeds certain limits it will also be reviewed by the Supervisory Board. If all required approvals are received, the credit manager authorises extension of the loan.

When granting loans to corporate customers, the Bank takes certain steps to secure the loan, including obtaining guarantees from shareholders of the borrower, entering into security agreements, sureties and banking guarantees, prescribing the borrower's own equity contribution for the project financing and requiring cash flows from the financed project or counter-parties to be directed to the current accounts opened with the Bank. When taking collateral, the Bank gives preference to the most liquid form of collateral with the highest resale value. It also takes into account regional factors when determining the value of collateral. See "*– Collateral*" below.

DESCRIPTION OF THE BANK'S BUSINESS

The Bank evaluates its corporate customers pursuant to its internal scoring system, in accordance with their credit history, the quality of collateral offered, their financial condition (taking into account such matters as indebtedness ratios and cash flows) and the Bank's own analysis of sector and regional risk as well as the risk associated with the particular borrower, using a rating scale which reflects certain aspects of the approach of international rating agencies. In evaluating the risks associated with a particular borrower, the Bank looks at factors such as the management of the borrower, the main business activities of the borrower, the geographical location of the borrower, its suppliers and customers, information on previously received loans, the financial indices of the borrower including its financial stability and turnover and an economic appraisal of the likely return on the loan.

A lack of credit history with the Bank or lack of credit history in general is not necessarily an obstacle to granting a loan, provided the Bank receives sufficient information to assess the borrower's business activities and financial position. However, when the Bank provides a loan to a borrower with no credit history, it sets additional conditions such as a requirement that a certain part of the borrower's cash revenues from its operations be paid into a current account opened with the Bank, charging a higher interest rate and/or requiring additional collateral or guarantees from the borrower or third party guarantors.

Customers of strategic importance to the Bank may receive loan terms which are different to those available to ordinary customers, although the process of their evaluation is the same as that described above.

Retail Lending

Loans to retail customers are subject to a standardised approval procedure which is similar to the approval procedure for corporate lending. Credit officers are required to obtain information and documentation from the applicant in accordance with specified criteria and parameters. Loans are subject to maximum limits depending on an applicant's financial standing, liquidity and quality of collateral (if applicable). As part of the loan approval procedure, the credit officer verifies the authenticity of information furnished by the applicant, and requests the Security Division to perform a credit check on the applicant. See "*Asset, Liability and Risk Management – Credit Risk*". Simultaneously, the Security Division and the RMD assess the borrower's reputation and credit history and, if applicable, assess the proposed collateral. The Bank typically takes collateral to secure loans to retail customers (other than consumer finance loans), such as a pledge over the property to be purchased in the case of mortgage loans and auto-loans. See "*– Collateral*" below.

The Bank has successfully implemented a separate automated scoring system for retail customers which is used for consumer sales finance.

The Bank is continuously working on the improvement of its lending procedures and training of staff working in this area to reduce credit risks.

Related Party Loans

Related party loans are extended to companies in the Alfa Consortium at rates in accordance with policies set by the ALCO and are generally extended on an arm's length basis and at market rates. For a breakdown of amounts due from entities under common control with the Bank, see "*Related Party Transactions*".

The Bank has established its own in-house Security Division, which is responsible for verifying the authenticity of the credit history and reputation (based on knowledge of management and founders, among others) of each client, researching information on the financial performance of customers which is not available in their statements, both at the time of credit approval and during the life of the loan. In the event of a payment default on a loan, the Security Division investigates whether other means of payment of interest or repayment of the loan are available, assists the Legal Department in handling legal proceedings and enforcement, cooperates with state authorities on enforcement proceedings and assists in the recovery of debts and sale of collateral.

Collateral

The Bank considers collateral to be an essential means of credit risk minimisation. The Bank's requirements for collateral are established by the Bank's internal regulations, which are based on Ukrainian legislation and NBU regulations and are set out in the Alfa Banking Group Credit Policy. Collateral is evaluated and analysed in accordance with this Credit Policy as part of the process of making lending decisions.

Depending on the circumstances, the Bank seeks different types of collateral for each loan granted. Collateral must meet the Bank's criteria as to liquidity and should be of sufficient market value to cover the credit risk. The main types of collateral accepted by the Bank as security from both corporate and retail borrowers are real estate, machinery and equipment, vehicles, cash deposits held with the Bank, and guarantees issued by banks on which the Bank has an approved credit limit. Collateral eligibility is determined by taking into account the form of ownership of the borrower, its credit history, financial performance, rating and the term of the loan being considered. Inventories, securities, receivables (including future receivables) and guarantees issued by banks on which the Bank has no approved credit limit are generally accepted as additional security only. The Bank also accepts combinations of different types of collateral depending on market conditions and prospects of the borrower. Guarantees given in favour of the Bank include guarantees from third parties, keep-well agreements and guarantees issued by western and Ukrainian banks. According to the Bank's internal procedure, where collateral is required, it should be provided to cover outstanding liabilities during the whole duration of a transaction and its value should exceed the aggregate of the principal amount of the loan, interest accrued and other payments due from the borrower (such as the Bank's commissions).

The CMD is responsible for appraising and monitoring collateral taken. The primary task of the CMD is to reduce risks taken by the Bank while carrying out banking operations on all levels. The CMD evaluates liquidity, adequacy and reliability of property or property rights offered to the Bank as collateral. When granting loans, the Bank pays particular attention to the value and quality of collateral. Evaluation of collateral is carried out by certified professional appraisers and the Bank maintains a list of appraisers which it has approved for such purpose.

Collateral is required to offset the risk of non-payment of principal and interest. The size of collateral required is determined by the credit rating of the borrower and the proposed security type. Where appropriate, the relevant Credit Committee may, in its discretion, determine a specific coverage ratio, which may be lower than the standard one, taking into account the nature of the proposed loan, whether or not the creditor is a VIP customer and/or the nature and reliability of the collateral provided.

Unless the relevant Credit Committee or an authorised official determines otherwise, any assets, other than securities and monetary funds, pledged to the Bank as loan collateral, must be insured for the benefit of the Bank with an insurance company acceptable to the Bank, unless the Main Credit Committee provides for a different procedure. The Bank has a list of insurers who are regularly approved by the Head of the Risk Management Department.

Monitoring of collateral is carried out on a regular basis through inspections made by the Bank's CMD. The frequency of a collateral review depends on the type of collateral taken. In normal circumstances, collateral can be realised within three months. However, the realisation of certain collateral, such as real estate and industrial equipment, may take longer owing to lengthy legal procedures and other circumstances such as seasonal price fluctuations and demand.

DESCRIPTION OF THE BANK'S BUSINESS

The following table sets out loans and advances to customers by type of collateral taken as at 31 December 2007.

	As at 31 December 2007						
	Corporate loans	Loans to individuals – consumer loans	Loans to individuals – mortgage and car loans	Loans to individuals – other loans	Small and medium enterprises	Reverse repurchase agreements	Total
	<i>(In thousands of US\$)</i>						
Unsecured loans.....	205,192	240,782	–	11,560	68,652	–	526,186
Loans collateralised by:							
cash deposits with the Bank	74,038	–	–	7,572	58	–	81,668
other real estate	493,259	–	–	48,188	7,877	–	549,324
residential real estate	15,634	–	93,597	–	–	–	109,231
tradeable securities.....	26,517	–	–	6,500	–	8,045	41,062
other assets	797,268	–	180,842	279	10,081	–	988,470
Total loans and advances to customers	1,611,908	240,782	274,439	74,099	86,668	8,045	2,295,941

The proportion of collateralised loans to total loans and advances to customers was 77.1 per cent. as at 31 December 2007.

Loan Classification and Allowances

The Bank's internal scoring system is compliant with the NBU rating system. It has also developed its own rating system for evaluating the creditworthiness of borrowers using a more detailed rating scale based on the scoring system used by Alfa-Bank Russia and the Central Bank of Russia rating system. The Bank also relies on its expert assessment of the expected level of losses that the Bank may incur based on its evaluation of risks and its historical loss experience. The Bank's internal credit risk rating system forms the basis of the calculation of the provision for loan impairment.

Assessment of Provision for Loan Impairment for IFRS Purposes

Management reviews the loan portfolio to assess impairment on a regular basis. In accordance with IFRS, a loan (or a group of loans) is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan and that event (or events) has an impact on the estimated future cash flows of the loan (or the group of loans) that can be reliably estimated.

The Bank first assesses whether objective evidence of impairment exists individually for loans and advances to customers that are individually significant, and individually or collectively for loans and advances to customers that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan has been incurred, the amount of the loss is measured as the difference between the loan carrying amount and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral (excluding future losses that have not been incurred), discounted at the loan's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

The assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

An impairment loss in respect of a loan or a receivable carried at amortized cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

The Bank's provision for loan impairment was US\$44.6 million (including provision for impairment of retail loans of US\$25.7 million, corporate loans of US\$18.2 million, and SME loans US\$0.7 million) as at 31 March 2008, compared to US\$35.2 million as at 31 December 2007. This increase was mainly due to increased provisioning for the Bank's loan portfolio in line with its growth. The Bank has adopted an adequate provisioning methodology and carefully analyses credit risks.

This approach to provisioning followed the expansion of the Bank's loan portfolio away from its premium-quality corporate customer base, in particular with retail lending, notwithstanding that the quality of the loan portfolio remains generally high.

Problem Loan Recovery

The internal procedures relating to problem loan recovery are described in a series of internal regulations, which detail a consistent approach involving comprehensive set of procedures intended to enable the Bank to obtain repayment on non-performing loans.

To decrease risks of deterioration of performing loans, the Bank regularly monitors laws and regulations and takes appropriate action in the event of changes in a borrower including 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.

If a borrower fails to perform its obligations under a loan agreement, it is the responsibility of the relevant credit officer to take initial actions to determine the cause of late payments (whether of interest or principal). If the non-performance is due to a circumstance or event which indicates that the borrower may be unable to meet its obligations under the loan agreement, all relevant departments of the Bank are notified and the Bank: (i) checks that it has adequate collateral for the loan; (ii) verifies the sources of repayment of the loan; and (iii) determines a programme of further action to be taken with regard to the borrower, which may include accelerating the loan where necessary. If all possible steps that can be taken to obtain repayment of the loan fail, the loan is classified as a "problem loan".

When a problem loan arises, it is referred to the relevant Credit Committee depending on the amount of the loan and, if required, such Credit Committee establishes a specific task force including officers from the RMD, the Security Division, the Legal Department, the Corporate Banking and the CMD. 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 under the problem loan specifying terms of fulfilment and responsible persons.

The RMD, the Credit Committees, the Corporate Banking and the Security Division of the Bank monitor work related to doubtful loans. The RMD determines the prospects of repayment and reviews such debts on a regular basis (at least once a quarter). The Corporate Banking, Legal Department and the Security Division coordinate the Bank's problem debt collection. The main functions of the Legal 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

DESCRIPTION OF THE BANK'S BUSINESS

problem loan collection, 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 Department. The Legal Department often participates in negotiations with the borrower with the assistance of the Corporate Banking and the Security Division over a problem loan either concurrent with, or prior to, initiating court proceedings. Negotiations with the borrower are usually aimed at debt restructuring and include obtaining additional security, personal guarantees by shareholders and management, increased interest rates and revised repayment schedules, subject to the relevant Credit Committee approval of such actions as part of a debt recovery programme.

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), 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 sales of collateral without the Bank's consent.

Debt collection for retail borrowers is conducted on a centralised basis depending on the amount of a loan and specific details of a client. The main actions taken for problem retail debt collection include three successive procedures: (i) "soft collection" involving telephone conversations with, and delivering information notices to the customers, (ii) "hard collection" involving negotiation with a particular customer on an individual basis, and (iii) "legal collection" involving legal and enforcement procedures.

Historically in Ukraine, collateral enforcement procedures were not clearly provided for in the legislation and existing practices were also very limited. This was a significant barrier to the development of credit business by Ukrainian banks. However, the Commercial Code, the new Civil Code and the Law on Securing Claims of Creditors and Registration of Encumbrances, which came into effect on 1 January 2004, as well as the Law on State Registration of Proprietary Rights to Real Property and Restrictions Thereof, which came into effect on 3 August 2004, significantly enhance the rights of creditors in the debt collection process which is expected to speed up the repayment of problem loans. It is therefore expected that procedures allowing for enforcement of collateral will improve in the near future. A register of real estate charges has been created that offers lenders information about the property status of borrowers in order to enable lenders to assess such borrowers' credit risk and evaluate collateral. This register also provides information regarding priority of charges.

For an analysis of the credit quality of loans and advances to customers outstanding at 31 December 2007 and 31 December 2006, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition as at 31 December 2007, 2006 and 2005—Total Assets—Loans and Advances to Customers—Analysis of Credit Quality of Loans and Advances to Customers*".

If actions on overdue debt collection by enforcement against a borrower or its guarantors or enforcement of collateral have not resulted in repayment, and it is confirmed that a borrower has no means or property to settle the arrears and that there are legal grounds to consider such debt as bad debt, the relevant Credit Committee will submit an application to the Management Board to make the decision to write off such debt against the provision for impairment. The procedure for writing of bad debts is regulated by the NBU and the internal procedures of the Bank. The Bank wrote off US\$5.8 million of loans and advances for the three month period ended 31 March 2008, compared to US\$5.4 million for the three month period ended 31 March 2007.

The primary factors that the Bank considers when deciding whether a loan is impaired is its overdue status and realisability of related collateral, if any.

A corporate client's loan is considered individually significant where the amount of the loan is greater than 10 per cent. of the Bank's paid-in statutory capital as of the beginning of the reporting month. Loans to SMEs and individual clients loans are considered individually significant where the amount of any such loan is greater than 5 per cent. of the Bank's paid-in statutory capital as of the beginning of the reporting month.

Objective evidence that a loan is impaired includes observable data that comes to the attention of the Bank of any of the following loss events: (i) significant financial difficulty of the borrower (or the group such borrower belongs to); (ii) a breach of contract, such as a default or delinquency in interest or principal

payments for a period of more than 7 days; (iii) the Bank, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Bank would not otherwise consider; (iv) it becoming probable (in the Bank's objective view) that the borrower will enter bankruptcy or other financial reorganisation; or (v) observable data indicating that there is a measurable decrease in the estimated future cash flows from a financial asset since the initial recognition of these assets.

If a corporate or SME client's loan is not considered as individually significant, then the loan can be assessed and classified as impaired if the following data comes to the attention of the Bank: (i) significant financial difficulty of the borrower (or a group such borrower belongs to); or (ii) a breach of contract, such as a default or delinquency in interest or principal payments for a period of more than seven days.

Borrowers have the contractual right to repay loans early at par. Based on the type of loan agreement, the Bank may also charge penalties for such early repayments.

During the three month period ended 31 March 2008 losses less gains on initial recognition amounting to US\$0.8 million of loans and advances to customers were recorded in the income statement (US\$1.1 million for the three month period ended 31 March 2007). Losses less gains on initial recognition were recognised for loans and advances to customers issued at rates below market rates during marketing campaigns and represent marketing expenses.

Past due but not impaired loans, except for customer loans, represent collateralised loans, where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the outstanding amount of such loans, not only the individual instalments that are past due.

Information Technology

The Bank operates a centralised IT system which enables it to process and account for banking transactions, including customer service, settlement operations, card operations and produce management information. In addition, the Bank has a back-up system in place for interruptions or failures in its IT systems. The Bank's IT back-up systems are an area which the Bank is seeking to further enhance and protect, as IT systems are an integral part of the Bank's internal controls system. The Bank's backup IT systems are located in a building approximately 12 kilometres from the primary IT systems and as such the risk of many of the same physical disruption events such as flood or fire are minimised. The Bank is in the process of planning and constructing a new datacenter with a split location in order to improve downtime in the event of material disruption.

The Bank's IT system links its branch network with the head office in Kyiv, provides a single platform for its branch network and allows the Bank to conduct its operations on a real-time basis. The Bank uses the B2 domestic core banking system, which provides general ledger and NBU reporting functions, in addition to linking the Bank with the domestic Ukrainian clearing system for UAH settlements, and SWIFT for settlements in foreign currencies. In 2005 the Bank implemented GEMINI/SLOLP, an innovative web-based front-office application for processing consumer loans, developed by BSC Prague, a financial services software company based in the Czech Republic. In 2006 and 2007 the capabilities of GEMINI/SLOLP were further extended to allow for the opening of PILs and auto loans. The Bank is currently planning to implement Temenos T24, a world-leading retail core banking system by January 2009. The Temenos T24 system will provide non-stop operations for thousands of simultaneous users.

The Bank has implemented an electronic banking system (the "Client Bank" system) which enables the Bank's corporate customers to make remote payment orders via the Internet. Currently, 100 per cent. of the Bank's corporate customers are using this system. The Bank also provides limited telephone banking services to enable its corporate and retail customers to obtain account information over the telephone and uses SMS to communicate with its retail customers. In the middle of 2007 the Bank also launched a new internet-service for its retail clients. "My Alfa-Bank" system allows clients to calculate current payments, check debt balances and repayment structures among other services and is available for all retail customers, thereby allowing them to obtain required information on their loans and monthly payments without visits

DESCRIPTION OF THE BANK'S BUSINESS

to the Bank and/or phone calls. The Bank is also one of the first banks in Ukraine proposing to allow loan repayment via the internet through credit and debit cards issued by any Ukrainian bank.

The Bank is currently focused on developing its IT systems to better accommodate the Bank's growth in terms of number of customers, growing volume of transactions and the introduction of new products. The Bank is implementing IT systems that will more efficiently generate management reporting statistics, as well as support development of new and recently launched products such as cash and liquidity management, consumer loans and mortgages. In 2006, a series of the Bank's computer system upgrades were effected. The Bank has also planned to further enhance and update its IT facilities and has carried out extensive stress testing of its recently implemented systems in order to ensure the Bank's current systems are adequate in the short and medium-term. The Bank has also secured agreements with Microsoft, Oracle, IBM and domestic as well as overseas software companies for the supply of software necessary for the Bank to effectively operate its computer system.

The Bank is a leader in Non-Staffed Technology ("NST"), the use of which allows sale of the Bank's products such as PILs (to be introduced in the second half of 2008) without the Bank's staff present at the NST location.

In 2007 the Bank undertook a new core banking system implementation project. The system utilises a general ledger, retail module including consumer, car and mortgage loans and interfaces to local and international payment systems. The Bank expects to finalise the implementation of this system by the end of 2009.

In 2008 the Bank will continue to upgrade its IT infrastructure, with a particular focus on IT infrastructure within the Bank's head office. The Bank is also currently in the process of designing a business continuity plan ("BCP") and disaster recovery plan ("DRP") for its IT systems. New technology will be introduced for newly opened branches. Current communication links to remote branches will be upgraded to 1Mbps internet protocol virtual private network (also known as IP VPN) data channels with backup lines over high-speed Internet. In addition, the Bank expects to increase its bandwidth capacity for no increased cost over current charges.

The Bank also plans to implement a data-warehouse ("DWH") system to provide improved centralised data storage utilisation from different sources. The DWH system will also provide centralised data access for the various finance functions, Risk Management Department, Treasury and other departments within the Bank. This will materially reduce the risk of the use of inaccurate data or data which is not sufficiently up to date in the risk management and decision making processes.

Employees

As at 1 April 2008, the Bank had 5,180 employees, as compared to 5,098 employees as at 31 December 2007, approximately 1,730 employees as at 31 December 2006, and 991 employees as at 31 December 2005. As at 1 June 2008, the number of employees had increased to 5,286. The Bank's employees are bound by a collective bargaining agreement approved by the general meeting of the labour collective on 9 January 2007 (the "**Collective Bargaining Agreement**") that stipulates salary terms and other benefits. The Bank contributes to a statutory pension fund in accordance with applicable legislation on behalf of its employees. The Bank considers that it has good relations with its employees.

Employees are trained within existing branches and offices. The Bank is focused on providing standardised training to its staff in order to provide consistent customer service across its entire distribution network. The Bank requires that its employees have high educational qualifications and substantial knowledge of the banking industry.

The Bank considers the quality and commitment of its personnel to be one of the key factors of its future development. Some of the Bank's planned employee development initiatives include the development of recruitment programmes with Ukraine's leading universities, the development of specialised testing systems for potential employees and the establishment of programmes for the sharing of professional experience and know how between branches. The Bank also plans to introduce measures to enhance general corporate culture, including the introduction of service standards for various staff groups (the front, middle and back

DESCRIPTION OF THE BANK'S BUSINESS

offices) and the development of training programmes. The Bank is actively seeking the best staff in the market, with significant experience in international banking, and seeks to retain such staff with attractive remuneration and other benefits.

The Bank budgeted approximately US\$0.3 million for employee recruitment and training for the three month period ended 31 March 2008, and US\$0.9 million and US\$0.8 million for the years ended 31 December 2007 and 31 December 2006, respectively. Expenditure on employee recruitment and training was approximately US\$0.2 million during the first three months of 2008.

Salaries are paid to the Bank's employees according to standards and safeguards stipulated by Ukrainian employment legislation and the regulation on employees remuneration (annex No.3, as amended and restated by annex No.7, to the Collective Bargaining Agreement). Conditions and procedure for awarding bonuses are set out in the employees bonus regulation (annex No.4, as amended and restated by annex No.6, to the Collective Bargaining Agreement).

To date, no material disputes have occurred between the Bank and its employees.

Property

The Bank owns or leases premises for its head office, branches and other banking units, with leases typically signed for between an three and five year term. The Bank typically enters into five year term leases for its Standard Branches. A portion of the leases for the Bank's information and consulting centers are for three years term, with the remaining leases running for one year terms. The leases generally include provisions for automatic extension unless the parties give notice of their intention to terminate. The total net book value of the Bank's land and buildings was US\$32.3 million as at 31 December 2007.

Insurance

The Bank maintains insurance policies and a level of coverage that it deems to be appropriate. The Bank's insurance policies include a financial institution's blanket bond covering losses from computer, personnel and external crimes, depositary insurance for securities, insurance for cash, securities and precious metal in transit, insurance of ATMs. In addition, the Bank also has an insurance policy to cover the liability of its directors, officers and other key management members. See "*Risk Factors — The Bank's business entails operational risks.*"

Legal Proceedings

From time to time and in the ordinary course of business, the Bank is party to certain legal proceedings, including proceedings against defaulting borrowers. There are no legal proceedings pending, or, to the Bank's knowledge, threatened, which could, individually or in the aggregate, have a material adverse effect on the Bank.

KSAME Litigations

In October 2006 and February 2007, the Bank filed a claim in the Economic Court of Kharkivska Oblast against the Kharkiv State Aviation Order of October Revolution and the Red Banner of Labour Manufacturing Enterprise ("**KSAME**"), one of the leading companies in the Ukrainian aviation industry. Those claims were in relation to collection of debts (comprising unpaid principal amount, unpaid interest and fines) of US\$5.3 million and US\$7.2 million under Credit Line Agreements dated 31 October 2005 and 9 November 2005, respectively. Following a series of judgments and appeals, the Economic Court of Kharkivska Oblast by its rulings dated 12 November 2007 and 20 December 2007 approved settlement agreements between the parties to those disputes, pursuant to which KSAME undertook to repay the debt by 15 July 2012 in 19 quarterly instalments, with the exception of default interest accrued on the principal amount of the relevant loan and default interest accrued on the unpaid interest. Such default interest in an amount of approximately US\$0.1 million was written off pursuant to the terms of the relevant settlement agreements.

ASSET, LIABILITY AND RISK MANAGEMENT

Overview

The Bank has developed comprehensive risk management policies. The policies are based on the general risk management principles of Alfa-Bank Russia but are also adapted to the specific circumstances of the banking sector in Ukraine. The Bank's risk management strategy focuses on financial risks.

Financial risk management comprises the management of credit risk, liquidity risk, interest rate risk and currency risk. The primary objective of financial risk management is to establish risk limits and to ensure that exposure to risks stays within these limits. Operational and legal risk management involves ensuring that the Bank's internal procedures and policies are designed so as to minimise exposure to operational and legal risks. The Bank's risk management policies and systems are continuously modified and enhanced to reflect changes in the market and products.

The Bank's risk management systems have been developed based on internal Alfa Banking Group's standards and are in compliance with the methodology provided by the NBU. The NBU has established minimum capital adequacy ratios that are mandatory for Ukrainian banks. Such ratios are based on a methodology that is generally consistent with applicable standards of the Basel Committee.

The basic principles of the Bank's risk management policy are:

- centralisation of management of all financial risks at the head office level;
- maintaining a balance between the level of risk and profitability;
- definition of limits and restrictions on certain balance sheet items;
- unified pricing of transactions and services; and
- ensuring that risks are continually monitored.

The Bank's strategy for asset and liability management is based on diversification of its assets and liabilities in terms of counterparty, region and sector, the matching of assets and liabilities in terms of maturity, sensitivity to interest rate movements and currency risk and the maintenance of capital adequacy levels.

The Bank seeks to control the size and degree of its interest rate and exchange rate exposure to minimise the effect of these risks on profitability levels and to ensure sufficient liquidity is available for funding.

Customer accounts represented 48.0 per cent. of the Bank's total liabilities as at 31 March 2008 (compared to 36.9 per cent. as at 31 December 2007). The Bank is seeking to enhance its liquidity by raising longer term financing, including through issues of debt securities such as the Notes. In addition, the Bank maintains a portfolio of liquid domestic corporate and government bonds as a protection against potential outflows.

Risk Management Bodies

Risk management policy, monitoring and control are conducted by a number of specialised bodies and divisions within the Bank. The bodies and divisions most actively involved in risk management are the ALCO and the Credit Committees, the RMD and the Treasury, respectively.

In addition, the Supervisory Board and the Management Board are involved in the support, application and monitoring of compliance with the Bank's risk management policies. The Supervisory Board determines the Bank's overall risk management strategy and is responsible, among other things, for appointing the external auditor of the Bank. The Management Board is authorised to establish permanent collective bodies of the Bank (including the Credit Committees, the RMD, the Tender Committee and the Budget Committee) and to appoint the members of the RMD, the ALCO and the Main Credit Committee.

The Legal Department and the Security Division are also involved in managing legal and operational risks.

ALCO

The Bank monitors and manages its asset and liability position through the ALCO, which currently consists of four senior managers of the Bank: the Chairman of the Management Board, Head of the Treasury, Head of Corporate Bank, and Head of RMD. The ALCO is chaired by the Chairman of the Management Board. The ALCO's composition is determined by the Management Board.

The ALCO meets at least every two weeks to review the Bank's asset and liability position including maturities and interest rates and yields; the size of the Bank's loan and investment portfolios; the net foreign currency position; operational ratios, relative to NBU regulations; exchange rates, inflation rates and other factors; and general national, political and economic trends. Based on its reviews, the ALCO assesses the Bank's risk profile and determines short-term strategy.

The Credit Committees

The Bank's credit approval bodies are the Main Credit Committee, the Small Credit Committee and the Retail Credit Committee, which directly report to the Management Board and strictly adhere to established credit policies and strategies of the Bank. Members of the Bank's Main Credit Committee are appointed from time to time by the Management Board. Members of the Small Credit Committee and the Retail Credit Committee are appointed by the Chairman of the Management Board.

The Bank's Main Credit Committee consists of seven members, including the Chairman of the Management Board, Head of Corporate Bank, Head of Corporate Clients Division, Head of Credit Department, Head of the Treasury, Head of Legal Department and Head of RMD, and is chaired by the Chairman of the Management Board. The Main Credit Committee convenes twice a week. The Main Credit Committee makes a final decision on all applications for all loans with amounts up to US\$30 million to the extent that such applications comply with the limits set out by the Bank. All loans over US\$30 million require approval of the Supervisory Board.

The Bank's Small Credit Committee is composed of three members, including Head of RMD, Head of Credit Department and Head of Legal Department. The Small Credit Committee meets on an ad hoc basis as often as necessary, but usually not less than every second week. The Small Credit Committee makes the final decision on all applications for loans with tenors under 12 months and for amounts under US\$2 million, as well as on fully cash covered deals for amounts under US\$12 million.

The Bank's Retail Credit Committee consists of five members, including Head of RMD, Head of Retail Banking, Chief Operating Officer, Head of Retail Sales and Distribution and Head of Auto Loans. The Retail Credit Committee meets on an ad hoc basis to approve retail products, portfolio targets, set lending limits, to adopt policies and procedures regulating the retail business of the Bank and to manage doubtful debts.

The RMD

The RMD is an independent function of the Bank which is primarily responsible for monitoring all types of risks to which the Bank is exposed. The RMD currently consists of several units, including Corporate Credit Risk Management, Small and Medium Business Risk Management, Retail Risk Management, Antifraud Division, and Credit Administration (responsible for operational and market risks, the Bank's middle office and Risk management information system). Head of the RMD is Mr Dmytro Kolechko (Deputy Chairman, member of the Management Board). The RMD develops policies based on internal Alfa Banking Group's standards in relation to all types of risk management. The policies and procedures are approved by the Bank's Credit Committee and ALCO.

The RMD's functions include controlling financial risk by:

- evaluating and analysing financial risk;
- making proposals for the management of financial risk;

- continually monitoring compliance with limits and guidelines;
- preparing monthly liquidity forecasts and suggesting limits of liquidity ratios, and
- developing the Bank's methodology for the evaluation and management of risks.

Treasury

The Treasury conducts risk monitoring on a day-to-day basis, in particular in relation to liquidity risk, interest rate risk and currency risk. It plays a significant role in developing policies and limits as well as internal procedures. The Treasury also monitors the Bank's compliance with IFRS and NBU ratios under applicable Ukrainian legislation and the Bank's funding agreements. The Treasury also manages the Bank's securities portfolio.

Credit Risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank. The Bank manages its credit risk by establishing internal policies aimed at maintaining credit risk exposure within accepted parameters. The Bank sets, monitors and reviews internal credit ratings of customers and counterparties, sets and monitors lending limits, constantly monitors creditworthiness of its customers and established allowances for the impairment of assets. Allowances for impairment of assets are established estimations of the loss incurred. In its management of credit risk, the Bank applies various internal methodologies. The policies are applied to all borrowers, including related parties.

The Bank uses a group-wide system of internal credit ratings ("ICRs") based on a methodology developed by Alfa-Bank Russia for customer and transaction analysis. The ICR system regulates every aspect of lending operations of the Bank and outlines procedures for analysing the financial position of borrowers and the valuation of any proposed collateral or other security and specifies the requirements for loan documentation and the procedure for monitoring loans. The ICR system uses a rating scale of five grades from 1 (best) to 5 (worst). ICRs are determined separately for the customer and for the specific transaction. The parameters used to determine the ICR of a borrower fall broadly into two groups: financial situation and business characteristics. Financial situation is assessed on the basis of the quality of assets, liquidity, leverage, accounts receivable and payable, and profit dynamics. The parameters used to assess the characteristics of the borrower's business include activity ratios, profitability, turnover growth, credit history, management quality and reputation, market share and suppliers and customers. The ICRs for specific transactions are based on project feasibility and collateral provided. In making its credit decisions with regard to loans to banks, the Bank uses a rating scale based on international ratings, if any, and financial statements audited by recognised auditors.

Management has established internal policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration. The Bank's exposure to each borrower or group of related borrowers is restricted by the maximum credit limit for a single borrower (or group of borrowers), which is set by the NBU and is currently set at 25.0 per cent. of the Bank's regulatory capital. The limit for the total amount of large credit exposures is 800 per cent. of Bank's regulatory capital. The Bank has also established limits on the shares of borrowers depending on their ICR, industry, and collateral. The Bank fully complies with limitations on maximum credit exposure, established by the NBU. The Bank's middle office function is responsible for monitoring and controlling established credit limits.

Credit Risk Related to Retail and Corporate Lending

The Bank structures the levels of credit risk it undertakes by placing separate limits on the amount of risk accepted in relation to each borrower and each category of borrowers. Risks of the Bank's credit portfolio are monitored and reviewed on a weekly basis.

Lending limits for individual borrowers and any changes to those limits are set by the relevant credit committee. Credit limits include limits on the amount and repayment schedule for each loan agreement and

restrictions on the purpose of the loan. The credit officers of the Bank monitor operations with the Bank's customers on a regular basis and notify the relevant Credit Committee in the event of any change in a customer's circumstances. The Bank either confirms existing limits or contacts a customer if it is necessary to review the terms of a loan.

When structuring loans to customers, the Bank follows certain basic principles. It sets out repayment schedules and adapts them so as to take into account any seasonality in a borrower's business and, where applicable, also obtains guarantees from affiliates of the borrower, enters into collateral agreements to secure related loans, prescribes the borrower's own equity contribution for the project to be financed and requires cash flows from the financed project or counter parties to be directed to current accounts opened with the Bank. In the case of loans to both corporate and retail customers, the Bank typically takes collateral to secure such loan. As the Bank's lending policy is to give priority to the quality of the borrower over the quality of the collateral available, lending decisions are always based on risk assessment rather than on the quality of the collateral. When taking security, the Bank gives preference to the most liquid form of collateral with the highest resale value. The Bank also considers regional factors when determining the value of collateral.

The Bank also follows a policy of diversifying its loan portfolio in order to reduce risk. The Bank's Credit Committees take into account the performance of specific sectors of the economy and industries when considering loan applications.

Credit Risk Related to Inter-bank Operations

Credit risks related to inter-bank operations mainly arise as a result of exposures to counterparties being unsecured, notwithstanding that such exposures typically have relatively short-term maturities (which generally range from several hours up to one month, with an average duration of one week). The Bank sets separate limits for counterparty banks based on its evaluation of their financial statements and on any available non-financial information (such as information on the borrowers' shareholders, customers, quality of management, market position, concentration of activity and growth rate). The Management Board is responsible for approving and changing the limits for each category of counter party banks on a monthly basis. If the RMD determines that the financial performance of a counter party bank has deteriorated or is likely to deteriorate, the RMD suspends the credit limit and notifies respective departments accordingly.

Credit Risk Related to Treasury Business

Investments by the Bank in corporate securities are analysed and reviewed in the same manner as loan applications. The Bank monitors the financial performance of issuers and companies and the market for their debt and equity securities. The Bank's Treasury is responsible for the Bank's investment decisions and implementing transactions, including relevant assessments of credit risk. As at 31 March 2008, the value of the Bank's available-for-sale investment securities portfolio was US\$78.2 million, compared to US\$49.3 million as at 31 December 2007.

Monitoring Credit Risk

The Bank monitors the performance by borrowers of the terms of their loan agreements, primarily repayment of principal and interest. It also monitors borrowers' financial position based on information requested from the relevant borrower. Particular attention is given to whether borrowers are using the proceeds of their loans for the purposes stipulated in the loan agreement and meeting the targets set out in their business plans; the status of collateral; and any available non financial information, such as any available information on actual or pending legal proceedings involving the borrower and the potential impact of such proceedings on the borrower's ability to conduct business and reputation. According to the ICR system the Bank conducts constant and regular monitoring.

Regular monitoring of the Bank's loan portfolio enables the Bank to react to changes in the performance of a particular borrower, and determine whether changes to the terms and conditions of the loan agreement are necessary. The Credit Committees are notified of the results of such monitoring by the Bank's Credit Department on a regular basis and on an ad hoc basis in case of any particular warning signs. Based on its

analysis, the Bank either confirms the terms and conditions of outstanding loans or where appropriate negotiates amendments with the relevant borrower.

Non-performing Loans

Due to present economic conditions and the legal climate in Ukraine, assessments of the risk of default of customers' debt is problematic. However, some of the major customers of the Bank prepare financial statements in accordance with IFRS which are audited in accordance with International Standards on Auditing. It is difficult to reliably evaluate the financial condition of small and medium sized customers who do not report in accordance with IFRS.

Off-Balance Sheet and Related Party Credit Risk

The Bank applies the same credit policies and procedures for evaluating and monitoring credit risk for off-balance sheet and contingent liabilities. Furthermore, the Bank applies the same procedures to transactions with related parties as it applies to other borrowers (except that, depending on the size of the loan, loans to individuals who are related parties are subject to additional restrictions as described in "*Description of the Bank's Business – Related Party Loans*"). If the level of risk does not fall within the parameters set by the Bank (as described in "*Description of the Bank's Business – Lending Policies and Procedures*"), it either rejects the loan application or requires the transaction to be secured by additional collateral.

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. It arises in the general funding of the Bank's activities and in the management of its positions and includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. An unmatched position potentially enhances a bank's profitability, but can also increase the risk of losses. 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. The Bank has developed a comprehensive package of procedures and systems to implement its liquidity risk management strategy. These procedures are summarized in the Bank's Assets and Liabilities Management Policy. The policy defines the structure of relations between the different departments within the Bank for the purposes of risk management and liquidity monitoring and allocates responsibility for monitoring and actions in case of non-compliance within established limits. The policy also 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 methods.

The Bank's process of managing liquidity risk is continuous. Liquidity management is conducted continuously by the ALCO, the RMD and the Treasury. The ALCO determines the Bank's liquidity management policy, approves procedures for evaluating and managing liquidity risk as well as liquidity requirements. The Treasury manages the liquidity of the Bank under the limits approved by the ALCO for inter-bank loans, repurchase operations and securities trading. The RMD carries out the day-to-day monitoring of the Bank's short-term exposure to liquidity risk and prepares monthly liquidity position forecasts. Forecasts are made on the basis of accounting and operational information and the expertise of the RMD and the Treasury. Liquidity position forecasts are submitted to the ALCO. The Treasury carries out day-to-day monitoring of the Bank's short-term exposure to liquidity risk. The Bank's payments schedule is analysed daily, and decisions are taken on attracting short-term interbank deposits, selling securities from the Treasury's portfolio, and other facilities available to the Bank.

The Bank assesses liquidity risk based on cash flow and gap analysis of the difference between assets and liabilities with the same maturity. The amounts of such unmatched positions in assets and liabilities having

the same maturity are used to calculate cumulative gap, which is subject to certain limits. These limits are determined by the Bank's ability to source funds in line with its Contingency Funding Plan adopted by the Treasury and reviewed by it on a quarterly basis. This plan is filed by the Treasury on regular basis and describes sources of funds and amounts which can be raised in case of urgent needs. One of the Bank's key sources of funds is US\$99.8 million of term deposits (as at 31 March 2008) from Alfa-Bank Russia, received within the general credit limit approved for the Bank by Alfa-Bank Russia amounting to US\$308.0 million.

The risks associated with the Bank's concentrations of loans and deposits require continuous monitoring. Management acknowledges the risks associated with possible high concentrations of assets and liabilities and seeks to match maturities of high value corporate loans and deposits as a means of managing liquidity and interest rate risk. The Bank has access to a diverse funding base, including deposits, domestic debt, money market loans, subordinated liabilities and share capital, which enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank also holds a portfolio of liquid assets (UAH denominated bonds and short-term money market positions in UAH and US dollars) as part of its liquidity risk management. The use of a combination of instruments to manage liquidity risks enables the Bank to use its lending resources and maintain liquidity levels effectively.

The Bank is able to obtain overnight loans from the NBU on a secured basis collateralised by securities and domestic bonds and on an unsecured basis at the interest rate prevailing from time to time. See "*Appendix A – Overview of the Ukrainian Banking Sector and Regulation in Ukraine*". For a presentation of the Bank's assets and liabilities by remaining expected maturity as at 31 December 2007 and 31 December 2006, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Selected Statistical Information—Assets and Liabilities by Remaining Expected Maturity*".

Management believes that, in spite of a substantial portion of customer accounts having maturity on demand or less than one month, diversification of these balances by number and type of customers, and the past experience of the Bank, indicate that these balances provide a reliable and stable source of funding for the Bank. 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 of promotion of long term deposits and products for established customers of the Bank;
- borrowings from international capital markets, including the Notes;
- maintaining a proportion of highly liquid assets to ensure sufficient liquidity, which would enable the Bank to operate for a period of time in the event of 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 December 2004, the NBU offered short-term stabilisation loans to a number of Ukrainian banks to support their liquidity during the political crisis that followed the disputed presidential elections in late 2004. The Bank did not require such a stabilisation loan from the NBU as it had sufficient internal funding to meet its liquidity requirements at that time.

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

Interest Rate Risk

The Bank is exposed to interest rate risk, principally as a result of lending and advances to customers and other banks at fixed interest rates in amounts and for periods which differ from those of term deposits and other borrowed funds at fixed interest rates. The Bank may incur losses in the event of unfavourable movements in interest rates.

Fixed interest rate assets and liabilities, can be renegotiated to reflect current market conditions. The Bank measures interest rate risk separately for each of the main international currencies. The Bank's interest rate risk management procedures are the same for all currencies.

The ALCO and the Treasury are responsible for interest rate risk management. The ALCO sets limits on the level of mismatch interest rate repricing that may be undertaken, which is monitored weekly by the Treasury. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions. The evaluation and analysis of interest rate risk is performed at each ALCO meeting. The Treasury monitors changes in benchmark interest rates, market volatility or similar events on a day-to-day basis. The results of such evaluation and analysis are discussed at ALCO meetings. The ALCO also establishes the principal policies and approaches to interest rate risk management, including minimum credit loan and maximum borrowing rates in respect of products, customer groups and tenors. The Corporate Business and Retail Banking and Consumer Finance departments, with the approval of the Treasury, will recommend altering certain interest rates to the ALCO following changes in market conditions or for the Bank's internal reasons. The ALCO has delegated certain authorities to Heads of the Corporate Business and the Treasury to alter interest rates.

In addition to applying standard calculations, the Bank uses stress tests. These involve determining the level of interest rate risk that would apply in the event of unforeseen circumstances or contingencies arising. This approach enables the Bank to evaluate changes in net interest income for future periods and determine the priority areas for interest risk management. Results of the tests are reviewed and discussed at ALCO meetings.

ASSET LIABILITY AND RISK MANAGEMENT

The following table sets out the average effective interest rates of major interest bearing assets and liabilities by currencies of the Bank as at 31 December 2007 and 31 December 2006:

	As at 31 December 2007			
	UAH	US\$	Euro	Other
	<i>In % p.a.</i>			
Assets				
Placements with other banks with original maturities of less than three months.....	11%	7%	4%	8%
Due from other banks	13%	10%	–	–
Loans and advances to customers	16%	14%	11%	10%
Investment securities available-for-sale	12%	–	–	–
Liabilities				
Due to other banks.....	3%	9%	9%	6%
Customer accounts				
current and settlement accounts	1%	1%	1%	1%
term deposits	11%	8%	8%	10%
Debt securities in issue	11%	–	–	–
Loan participation notes	–	10%	–	–
Subordinated debt	–	10%	–	–
	As at 31 December			
	2006		2005	
	UAH	Foreign Currency	UAH	Foreign Currency
Due from banks.	10%	6%	9%	4%
Loans and advances:				
Commercial	15%	10%	13%	11%
Retail	55%	14%	27%	13%
Securities available-for-sale.....	13%	–	–	–
Financial assets at fair value through profit and loss	–	–	11%	–
Due to banks.....	8%	7%	9%	7%
Loans from the National Bank of Ukraine	–	–	7%	–
Current accounts	1%	1%	1%	1%
Deposits	11%	7%	13%	7%
Debt securities	10%	–	11%	–
Loan participation notes	–	10%	–	–
Subordinated debt	–	9%	–	9%

* The information concerning the average effective interest rates of major interest bearing assets and liabilities by currencies as at 31 December 2006 disclosed above is not fully comparable with the table of average effective interest rates as at 31 December 2007 due to differences in the format of the financial statements issued by the Bank for the years ended 31 December 2007 and 31 December 2006.

Interest rate risk management is conducted using the gap analysis method, whereby the difference or “gap” between rate sensitive assets and rate sensitive liabilities is determined and analysed. The Bank can perform interest rate sensitivity scenario analysis of the net interest income (the analysis is based on gap reports) for periods of up to one year, although it considers such analysis to be most reliable over a period of three months. Limits on interest rate risk are set by the ALCO after assessment of the sensitivity of net interest income to a 1 per cent. upward shift in interest rates. In deciding the size of interest rate risk limits the ALCO considers losses acceptable in the event of adverse movements in interest rates, taking into account possible movements in interest rates for major types of interest bearing assets and liabilities, such as corporate and retail loans, inter-bank loans, securities and corporate and retail deposits. Limits are subject to review depending on the volatility of interest rate movements. The Treasury is responsible for making recommendations to review such limits, which are subject to approval by the ALCO. Gaps are maintained

ASSET LIABILITY AND RISK MANAGEMENT

within prescribed limits for all periods. Gap analysis is supplemented by interest rate forecasts over periods of up to one year for major types of assets and liabilities. This allows the ALCO to evaluate not only the level of interest rate risk but also the most likely changes in net interest income.

The Bank continually monitors interest rate spread and net interest income and reports on these matters are provided weekly to the Bank's senior management. In order to minimise potential losses from unforeseen movements in interest rates, when entering into agreements the Bank provides for interest rate reviews in light of current market rates. The Bank also manages interest risk by setting minimum interest rates for loans and maximum interest rates for deposits. The Bank sets interest rates for major types of assets and liabilities by maturity and currency.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of Bank. It is unusual for a bank's interest rates ever to be completely matched as business transacted is often of uncertain terms and of different types. An unmatched position may potentially enhance profitability, but can also increase the risk of losses.

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. Such positions are calculated as differences between assets and liabilities in the same currency as of the balance sheet date.

The Bank evaluates, monitors and sets limits for long and short foreign exchange open positions using UAH as its base currency. Limits on open currency positions are set for the Bank as a whole, proceeding from capital adequacy requirements. The Bank complies with all applicable NBU requirements in addition to using its own methods for evaluating currency rate risk.

Currency risk is centrally controlled at the head office level while a clear segregation of duties between divisions and branches enables the Bank to minimize possible losses caused by currency risk. The Bank's net open position is monitored on a daily basis by the Treasury. The Treasury reports to the ALCO at each ALCO meeting in order to review strategy and limits on the level of FX exposures by currencies. These limits are set on the amount of ABH Ukraine Limited's open FX positions using USD as base currency given USD nature of capital of the ABH Ukraine Limited. ABH Holdings Corp. controls a special trading company which arranges hedges against hryvnia depreciation. The limits mentioned above are reviewed in the event of volatility in FX rates. The ALCO may also amend limits based on recommendations by the Treasury.

The following table sets forth the Bank's foreign currency positions as at 31 December 2007:

	As at 31 December 2007			
	Monetary financial assets	Monetary financial liabilities	Derivative (SWAP, spot)	Net balance sheet position
	<i>(In thousands of US\$)</i>			
As at 31 December 2007				
Ukrainian hryvnias	1,020,799	602,693	(134,752)	283,354
US Dollars	1,247,565	1,281,964	139,101	104,702
Euros	66,468	170,499	101,573	(2,458)
Other	205,728	116,412	(107,881)	(18,565)
Total.....	2,540,560	2,171,568	(1,959)	367,033

ASSET LIABILITY AND RISK MANAGEMENT

The following table sets forth the Bank's open currency limits for the periods indicated, which are in line with the NBU's limits:

NBU limits, share of Equity	Currency position		Long currency position		Short currency position		Capital
31 March 2008	16.22%	US\$76.5 million	15.80%	US\$74.5 million	0.42%	US\$2.0 million	US\$471.9 million
31 December 2007.....	12.42%	US\$47.56 million	4.01%	US\$15.35 million	8.41%	US\$32.21 million	US\$382.9 million
31 December 2007.....	13.85%	US\$13.2 million	13.84%	US\$13.2 million	0.01%	US\$0.0 million	US\$95.1 million

Operational and Legal Risk

The Bank has established strong anti-money laundering controls and "Know your Customer" policies and procedures developed in cooperation with Alfa-Bank Russia. These procedures and policies are tailored to NBU and other Ukrainian (and other appropriate jurisdictions) regulations and methodologies. A "Know your Customer" questionnaire must be completed in respect of each new customer and regularly updated, and the Bank is required to report certain customer transactions to the NBU. The Internal Audit Service of the Bank regularly inspects the legality of operations conducted by the Bank's departments and assesses and reports any deficiencies to the Management Board. The Internal Audit Service also monitors the Bank's internal controls and reporting procedures.

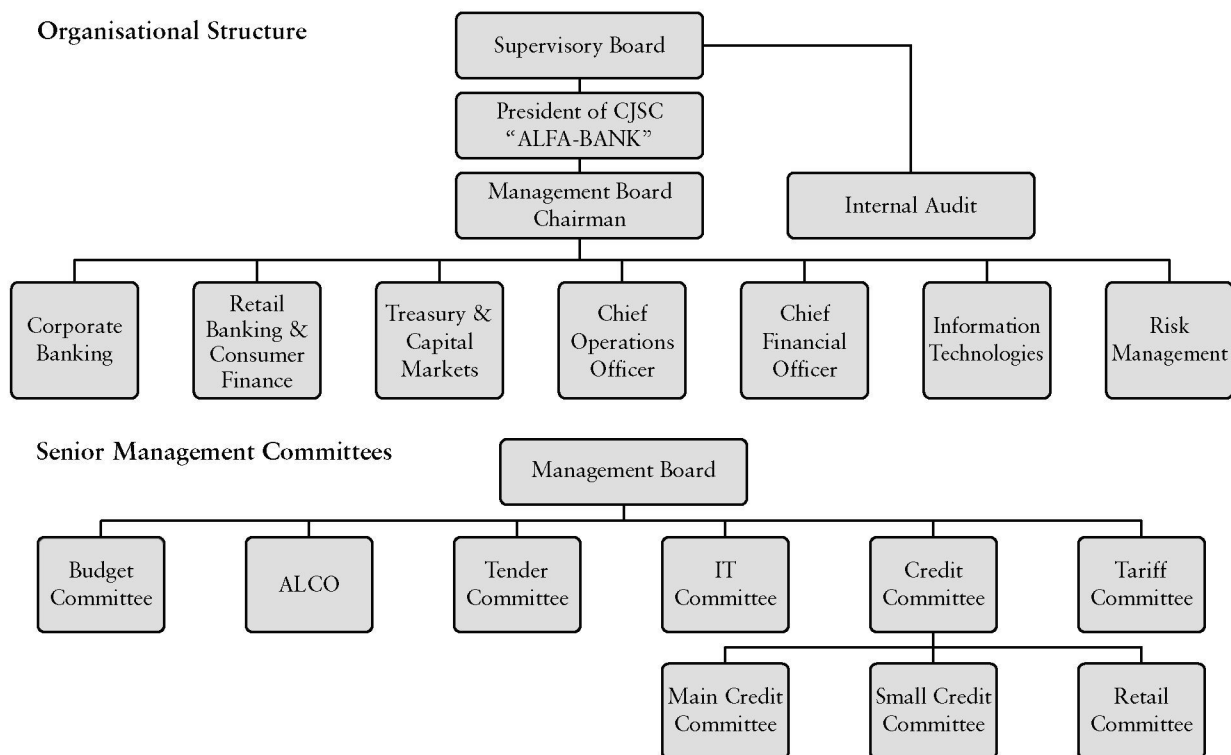
The Bank's Legal Department and Security Division monitors and oversees the management of legal risks. This includes applying the appropriate procedures to protect against the risk of providing loans to entities which lack the requisite power or authority to borrow and against the risk of failure to secure loans over relevant assets in an effective manner. The Bank uses standardised documentation, developed in house by the Bank's Legal Department, for entering into contracts with counterparties. The Legal Department individually reviews and approves all non standard agreements. External law firms are retained to represent the Bank in international transactions.

MANAGEMENT

Management

The Bank's current charter was approved by the General Meeting of Shareholders of the Bank on 15 January 2008 and registered with the NBU on 26 March 2008. The Bank's governing bodies are the General Meeting of Shareholders, the Management Board and the Supervisory Board. The Bank's Auditing Committee is the controlling body of the Bank.

The following diagrams set out the organisational structure and senior management committees of the Bank respectively:



General Meeting of Shareholders

The General Meeting of Shareholders is the supreme governing body of the Bank. The authority of the General Meeting of Shareholders includes, *inter alia*, the following:

- determining the main areas of operations of the Bank;
- approving amendments to the Bank's charter;
- approving changes to the share capital of the Bank and taking decisions on the issuance of shares of the Bank;
- appointing and dismissing the Chairman and members of the Supervisory Board and the Auditing Committee;
- approving annual results of the Bank's activities (including any subsidiaries) and approving reports and conclusions made by the Auditing Committee and external auditors;
- approving profit distribution and dividends; and
- terminating the business operations 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. Being the supreme body of the Bank, the General Meeting of Shareholders is also authorised to make any other decision concerning the Bank's activity. The General Meeting of Shareholders may decide to delegate certain other functions, except those listed above, to the Supervisory Board of the Bank. Decisions to (i) approve amendments to the Bank's charter and (ii) terminate the Bank's business operations require a qualified majority of 75 per cent. of voting shares. Other matters are decided by a simple majority vote.

Supervisory Board

The Supervisory Board is not directly involved in the day-to-day management of the Bank but plays a significant oversight role in monitoring the business activities of the Bank. The Supervisory Board also represents the interests of the Bank's shareholders between the meetings of the General Meeting of Shareholders and exercises control over the activities of the Management Board. Members of the Supervisory Board are elected by the General Meeting of Shareholders from among the Bank's shareholders or their representatives for a three year term and may be re-elected. The General Meeting of Shareholders sets the number of members of the Supervisory Board which may not consist of less than seven persons. The Supervisory Board meets to the extent necessary and is accountable to the General Meeting of Shareholders.

The responsibilities of the Supervisory Board include, *inter alia*, the following:

- determining the composition of the Management Board, appointing and dismissing the Chairman and members of the Management Board;
- exercising control over the activities of the Management Board;
- establishing, re-organising and liquidating subsidiaries, branches and representative offices, and approving their charters/regulations and amendments thereto;
- appointing the external auditors; and
- determining the terms and conditions of remuneration for the Chairman and members of the Management Board.

The current Head and members of the Supervisory Board have been in place since 25 December 2006. The name, position, qualifications and certain other information relating to each member of the Supervisory Board is set out below:

Name	Age	Position in the Supervisory Board	Responsibilities in the Alfa Consortium
Mr Andrey Kosogov	46	Head of the Supervisory Board	Member of the Board of Directors of Alfa-Bank Russia
Mr Alexander Lukanov	45	Deputy Head of the Supervisory Board	President of the Bank, Member of the Board of Directors of Alfa-Bank Russia
Mr Alarich Fenyves	62	Member of the Supervisory Board	Independent Director
Mr Philip Halperin	56	Member of the Supervisory Board	Director of Risk Management of Alfa-Bank Russia
Mr Pavel Nazarian	35	Member of the Supervisory Board	Director of ABH Holdings Corp
Mr Tomasz Kazmierowski	40	Member of the Supervisory Board	Adviser to Alfa-Bank Russia
Mr Ildar Karimov	46	Member of the Supervisory Board	Member of the Board of Directors of Alfa-Bank Russia

- Mr Andrey Kosogov (age 46) was appointed as Head of the Supervisory Board in November 2005. Mr Kosogov is Chairman of the Board of Directors of Alfa Asset Management and Chairman of the Altimo Advisory Board, member of the Board of Directors of AlfaStrakhovanie from 2003 until 2007. Mr Kosogov is also a member of the Board of Directors of Alfa-Bank Russia, Alfa Finance

Holdings S.A. (oil and financial assets) and a member of the Supervisory Board of Kyivstar since July 2002. Until May 2005 Mr Kosogov was the First Deputy Chairman of the Board of Directors of Alfa-Bank Russia and Director of Alfa Bank's Investment banking division.

- Mr Alexander Lukanov (age 45) was appointed as President and Deputy Head of the Supervisory Board in November 2005. Currently, he is also a member of the Board of Directors of Alfa-Bank Russia and a member of the Supervisory Board of Amsterdam Trade Bank. During the five years up to September 2005, Mr Lukanov served as Head of Corporate Banking and Deputy Chairman of the Board of Directors of Alfa-Bank Russia. During this period, in addition to his position with Alfa-Bank Russia, he was also a member of the Board of CJSC "Trade House Perekryostok" and a member of the Board of Directors of Alfa Strakhovanie. Prior to joining Alfa-Bank Russia in 1995 as Head of Credit Division, he held a research position at the Moscow Power Engineering Institute and later served as Chairman of the Executive Board of one of the first venture capital funds in Russia, SPK Kontakt XXI.
- Mr Alarich Fenyves (age 62) was appointed as a member of the Supervisory Board in November 2005. Mr. Fenyves has been a partner in Rolland Berger Strategy Consultants since 2001. Prior to that, he was Deputy Chairman of the Managing Board of Creditanstalt AG, Deputy Chairman of the Managing Board and acting CEO of Bank Austria Creditanstalt International (BA-CAI), as well as Chairman of the Supervisory Board of CAIB Investmentbank AG Vienna.
- Mr Philip Halperin (age 56) was appointed as a member of the Supervisory Board in November 2005. He is also Director of Risk Management of Alfa-Bank Russia. He joined Alfa-Bank Russia in 1999, prior to which he was Head of Risk Management at Refco Overseas Ltd. in London. Mr Halperin has a PhD in business administration from Columbia University and a Masters Degree in Public and Private Management from Yale University.
- Mr Pavel Nazarian (age 35) was appointed as a member of the Supervisory Board in November 2005. Mr Nazarian is a Director of ABH Holding Corp., Director of Headquarters of Alfa Finance Holding S.A., Secretary of its Executive Board and Managing Director of the entire international chain of its subsidiaries outside CIS, responsible for international compliance, administration, shareholders structure, financial reporting & consolidation and relationship with local authorities. Since July 2007 he has also been a member of the Board of Directors of Alfa Assets Management. From 1999 to 2002, Mr Nazarian served as Chief Financial Officer of international chain of the same organisation. Mr Nazarian is a graduate of Harvard Business School (Boston, USA); London Business School (London, U.K.); International Marketing and Management Academy (Moscow, Russia); Bauman State Technical University of Moscow (Moscow, Russia).
- Mr Tomasz Kazmierowski (age 40) was appointed as a member of the Supervisory Board in November 2005. Mr Kazmierowski is an Advisor to Alfa-Bank Russia, has been a member of the Supervisory Board since 2005. He joined the Alfa Banking Group in June 2004 to lead the Consumer Finance Business at Alfa-Bank Russia. Prior to that, Mr Kazmierowski was a member of the Board and then CEO of direct bank Inteligo in Poland. He also gained experience in senior managerial positions with leading FMCG companies, Pepsi and Nestle, and served as Vice President for Citibank in Poland (Retail). Mr Kazmierowski holds a diploma in law from University of Poznan (1991), Poland, and in business from Ecole Supérieure de Commerce in France (1992).
- Mr Ildar Karimov (age 46) was appointed as a member of the Supervisory Board in November 2005. He is also a member of the Board of Directors of Alfa-Bank Russia and Director for Corporate Development, Planning and Control, Alfa Bank Russia. He is responsible for relations with shareholders, strategic investors and partners of the Bank and contacts within the Alfa Consortium. Mr Karimov is also a member of the Board of Directors of AlfaInsurance and a member of the Board of Directors of Alfa Assets Management. Before joining the Bank in 1994, he worked at the International Institute for Applied Systems Analysis in Laxenburg, Austria and prior to that at the Central Economic Mathematics Institute. Mr Karimov holds a PhD in Mathematical Economics (1986) and has a Diploma with honours from Moscow State University (1983).

Each member of the Supervisory Board has disclosed all information above relating to their external business activities. No member of the Supervisory Board has any conflict of interest with the Bank. The business address of the members of the Supervisory Board is CJSC “ALFA-BANK”, 4/6 Desyatynna Str., Kyiv 01025, Ukraine.

Management Board

The Management Board (the “**Board**”) is an executive body of the Bank and is responsible for the day-to-day management of the Bank. It is accountable to the General Meeting of Shareholders and to the Supervisory Board of the Bank. The Board organises and manages the operations of the Bank, which includes monitoring the implementation of resolutions approved by the General Meeting of Shareholders and the Supervisory Board. Members of the Board are appointed by the Supervisory Board for a term of one year and are employed by the Bank. The Supervisory Board also defines the number of members of the Board which may not consist of less than seven persons.

The powers of the Board include the following:

- approving agreements on disposing (including alienation by any means, pledge or transfer into use) of the following assets:
 - movable property owned by the Bank, with a balance value not exceeding the equivalent of US\$50 million;
 - immovable property of the Bank, with a balance value not exceeding the equivalent of US\$50 million, upon prior written approval by the Deputy Head of the Supervisory Board – the President of the Bank; and
 - property of the Bank, with a balance value exceeding the equivalent of US\$50 million, upon prior written approval by the Supervisory Board of the Bank;
- current planning of income and expenditures of the Bank;
- submission of annual budget and of quarterly administrative expenditure estimates of the Bank for approval by the Supervisory Board;
- making arrangements necessary to convene and hold the General Meeting of Shareholders pursuant to the law and the Bank’s charter;
- establishing and liquidating the Bank’s units, approval of regulations thereon, making amendments thereto;
- making decisions on issue of bonds, with total nominal value of one issue not exceeding the equivalent of US\$50 million as well as approval of terms of issue, any offering circular and amendments thereto;
- taking decisions on issue of bonds, with total nominal value of one issue exceeding the equivalent of US\$50 million, upon approval of such decisions by the Supervisory Board of the Bank;
- approving the structure and staff list of the Bank and making amendments thereto;
- determination of recruitment and dismissal procedures regarding the Bank’s employees; and
- settlement of other issues related to activities of the Bank, save for those that fall within the competence of other governing bodies and officials of the Bank.

The Chairman of the Board manages the work of the Board and is entitled to represent the Bank in relations with any individuals or legal entities, including state authorities, to enter into and sign any agreements on behalf of the Bank, to issue powers of attorney, to exercise other legal acts and dispose of the property and funds of the Bank, within the limits contemplated by the Bank’s charter and other internal regulations of the Bank.

MANAGEMENT

The name, position, qualifications and certain other information relating to each member of the Board is set out below:

Name	Age	Position	Responsibilities in the Bank and the Alfa Banking Group	Date of Appointment
Mr Andriy Volkov	32	Chairman of the Board		26 October 2007
Mr Volodymyr Saloid	53	Deputy Chairman of the Board	Chief Security Officer	26 October 2007
Ms Olena Lukyanchuk	34	Deputy Chairman of the Board	Chief Operating Officer	26 October 2007
Ms Olena Malynska	31	Deputy Chairman of the Board	Chief Financial Officer	26 October 2007
Mr Evgeniy Berezovskiy	33	Member of the Board	Head of Corporate Bank	26 October 2007
Mr Andrey Bobyshev	29	Member of the Board	Head of the Treasury	26 October 2007
Ms Tetyana Strekal	39	Member of the Board	Head of Human Resources	26 October 2007
Mr Dmytro Kolechko	32	Member of the Board	Head of Risk Management	26 October 2007
Mr Serhiy Polovko	31	Member of the Board	Head of Legal Department	26 October 2007
Ms Tamara Solomienko	51	Member of the Board	Head of the Corporate Business Development Department	26 October 2007
Mr Oleg Vysotskyy	46	Member of the Board	Head of Information Technologies	26 October 2007

- Mr Andriy Volkov (age 32) has served as Chairman of the Board since 2006. Mr Volkov has ten years of banking experience. Prior to his current position, he was Deputy Chairman of the Board as of 2003, and he started his career in the Bank in 2001 as Head of Risk Management. Previously he worked at ING Baring as Project Manager, and PricewaterhouseCoopers Ukraine as Banking Sector Consultant.
- Mr Volodymyr Saloid (age 53) has served as Chief Security Officer since March 2002. Mr Saloid has nine years of banking experience. Prior to his current position, he was Head of the Monitoring Group of the Economic Security Service from September 2001 after joining the Bank in March 2001 as Deputy Head of the Monitoring Group of the Economic Security Service. Previously he worked as Head of the Security Service in CJSC “Kyiv Investment Bank” (between 1999 and 2000).
- Ms Olena Lukyanchuk (age 34) has served as Chief Operating Officer since March 2007. Ms Lukyanchuk has twelve years of banking experience. Prior to her current position, she was employed as Operations Director of Renaissance Capital Bank (Ukraine). From 2002 to 2005 she worked as Head of Internal Audit Department at ING Ukraine Bank and prior to that she worked in the Audit and Accounting Department at Arthur Anderson from 1997 to 2002.
- Ms Olena Malynska (age 31) has served as Chief Financial Officer since September 2006. Ms Malynska has ten years of experience in the banking sector. Prior to her current position, she was employed as Chief Financial Officer of ProCredit Bank Ukraine. She also gained international experience in Arthur Andersen LLP, USA and Rothstein, Kass & Co., P.C. USA.
- Mr Evgeniy Berezovskiy (age 33) has served as Head of Corporate Bank since 2006. Mr Berezovskiy has eleven years of banking experience. Prior to his current position, he was Director of Clients’ Business Development of Alfa-Bank Russia from 2004, and Deputy Head of Credit & Tariff Policy and Control from 1997. He also served as Vice President and Senior Vice President of Alfa-Bank Russia between 1999 and 2005 after joining Alfa-Bank Russia in 1995.
- Mr Andrey Bobyshev (age 29) has served as Head of the Treasury since 2006. Mr Bobyshev has six years of banking experience. Prior to his current position, he was Head of Market Risk Management at Alfa-Bank Russia from 2005, and started his career in Alfa-Bank Russia in 2001 as Risk Analyst.

MANAGEMENT

- Ms Tetyana Strekal (age 39) has served as Head of Human Resources since 2005. Ms Strekal has nine years of working in the banking sector. Prior to her current position she was employed as Human Resources Manager for British American Tobacco Ukraine and Moldova from 1998.
- Mr Dmytro Kolehko (age 32) has served as Head of Risk Management since July 2006. Mr Kolehko has eight years of banking experience. Prior to his current position, he was Head of Risk Management in Raiffeisenbank Ukraine. He started his banking career in 1999 at the NBU.
- Mr Serhiy Polovko (age 31) has served as Head of Legal Department since 1999. Mr Polovko has eleven years of banking experience. Mr Polovko joined the Bank in 1998, prior to which he worked at Agroinvest company as a lawyer from 1996.
- Ms Tamara Solomienko (age 51) is Deputy Head of Corporate Banking and has served as Head of the Corporate Business Development Department of the Bank since 2001. Ms Solomienko has sixteen years of banking experience. Prior to her current position with the Bank, she was Head of the Corporate Client's Development Department of OJSC "Kreditprombank".
- Mr Oleg Vysotskyy (age 46) has served as Head of Information Technologies since April 2007. Mr Oleg Vysotskiy has sixteen years of banking experience. Prior to his current position, he was Head of Information Technologies at ProCredit Bank Ukraine from May 2004. He also previously held positions at Bank Pekao as Deputy Head of Information Technologies and Kyiv Branch of Polesye Bank as Head of Information Technologies.

No member of the Management Board has any external business activities. No member of the Management Board has any conflict of interest with the Bank. The business address of the members of the Management Board is CJSC "ALFA-BANK", 4/6 Desyatynna Str., Kyiv 01025, Ukraine.

Auditing Committee

The Auditing Committee is a controlling body of the Bank and is authorised to initiate and perform revisions of the Bank's financial and operational activities as well as to initiate and perform internal investigations of the Bank's activities and functions. The Auditing Committee is accountable to the General Meeting of Shareholders. Members of the Auditing Committee are elected by the General Meeting of Shareholders from among the Bank's shareholders or their representatives for a three year term, and may be re-elected. The General Meeting of Shareholders defines the number of members of the Auditing Committee, which may not consist of less than five persons.

The current Chairman and three members of the Auditing Committee were appointed on 25 December 2006. The remaining member was appointed on 3 September 2007. The name, position, qualifications and certain other information relating to each member of the Board is set out below:

Name	Age	Position	Responsibilities in the Bank and the Alfa Banking Group
Mr Danila Smirnov	39	Chairman of the Auditing Committee	Head of the Internal Auditing Department of Alfa-Bank Russia
Mr Dmitriy Zapolskiy	43	Member of the Auditing Committee	Chief Financial Controller of Alfa-Bank Russia
Ms Elena Matveeva	34	Member of the Auditing Committee	Head of the Investment and Corporate Development and Monitoring Department of Alfa-Bank Russia
Mr Aleksey Urusov	31	Member of the Auditing Committee	Chief Specialist of the Project Management and Quality Monitoring Department of Alfa-Bank Russia

MANAGEMENT

Mr Andrey Glavatskyy 31 Member of the Auditing Committee Financial Director and Human Resources Manager of Alfa Capital Holdings (Cyprus) Ltd.

- Mr Danila Smirnov (age 39) has served as Head of the Internal Auditing Department of Alfa-Bank Russia since 2004. During the periods from 1997 to 2000 and from 2002 to 2004 he worked within KPMG Russia. From 2000 to 2001 Mr Smirnov served as Head of the Auditing Department of the CJSC Bank Austria Creditanstalt. Mr Smirnov began his banking career in 1992 as an economist at Russian National Commercial Bank.
- Mr Dmitriy Zapolskiy (age 43) has served as Chief Financial Controller of Alfa-Bank Russia since 1999. Prior to joining Alfa-Bank Russia in 1995, he held the position of Deputy Head of the Department at the Uchebno Proizvodstvennoe Obyedineniye Ltd (from 1993 to 1995).
- Ms Elena Matveeva (age 34) has served as Head of the Investment and Corporate Development and Monitoring Department of Alfa-Bank Russia since 2003. During the period from 1997 to 1999 she worked in the Auditing Department of the Commercial Bank “Moscow Business World”. Ms Matveeva began her career as an economist at the Main Department of the Central Bank of Russian Federation.
- Mr Aleksey Urusov (age 31) has served as Chief Specialist of the Project Management and Quality Monitoring Department of Alfa-Bank Russia since 2006. Prior to joining Alfa-Bank Russia, he worked at CJSC “Rosan Finance”.
- Mr Andrey Glavatskyy (age 31) is the Financial Director and Human Resources Manager of Alfa Capital Holdings (Cyprus) Ltd. He is responsible for supervising the day to day activities of Alfa Capital Holdings (Cyprus) Ltd. He joined Alfa Group in 2000. Before joining the Group he worked for several years in the equities and banking business in Kiev, Ukraine. Mr Glavatskyy is a graduate of National State University of Economics, Kyiv.

Each member of the Auditing Committee has disclosed above all information relating to their external business activities. The business address of the members of the Auditing Committee is CJSC “ALFA-BANK”, 4/6 Desyatynna Str., Kyiv 01025, Ukraine.

Management Remuneration

Key management personnel (the President of the Bank (Deputy Head of the Supervisory Board) and members of the Board) received aggregate remuneration in the form of short term employee benefits amounting to US\$1.6 million during the three month period ended 31 March 2008 (compared to US\$0.7 million during the three month period ended 31 March 2007), US\$6.1 million for the year ended 31 December 2007, US\$4.7 million for the year ended 31 December 2006 and US\$0.9 million for the year ended 31 December 2005. There are no service contracts with members of the supervisory board.

RELATED PARTY TRANSACTIONS

The Bank has traditionally been reliant (both for funding and for revenues) on the Alfa Consortium, although Management believes that the majority of its related party transactions are with leading Ukrainian and Russian corporates. However, the Bank is pursuing a strategy of diversifying its customer base. Although the Bank is reducing its levels of reliance on the Alfa Consortium, as at 31 December 2007, US\$247.2 million, or 10.9 per cent., of net loans and advances (after provision for impairment) were due from entities under common control with the Bank. As at 31 December 2007, US\$258.4 million, or 30.7 per cent., of the Bank's customer accounts were due to entities under common control with the Bank. It is the Bank's policy that transactions with its related parties are priced predominantly at market rates and are subject to the same approval procedures and limits as are applied by the Bank to transactions with unrelated parties.

There were neither balances nor transactions other than share issue (and prepayment for share capital) with the parent (ABH Ukraine Limited) as at 31 March 2008, 31 December 2007 and as at 31 December 2006, and for the periods ended 31 March 2008, 31 December 2007 and 31 December 2006. On 21 April 2008, the shareholders of the Bank took a decision to issue 505,000 thousand additional shares totalling US\$100 million (the equivalent of UAH 505.0 million). In May and June 2008, all such newly issued shares were acquired by ABH Ukraine Limited and one of the Bank's minority shareholders, in compliance with underlying agreements. The relevant payments received by the Bank are expected to be transferred to the Bank's equity by the end of September 2008.

As at and for the periods ended 31 March 2008, 31 December 2007 and 31 December 2006, the significant balances and operations with related parties were as follows:

	As at and for the three months ended 31 March (unaudited)		As at and for the year ended 31 December			
	2008		2007		2006	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
<i>(in thousands of US\$, except percentages)</i>						
Balances with entities under common control						
Due from other banks (including current accounts and term deposits)	23,960	18.3	11,333	7.5	11,633	6.2
Gross loans and advances to customers	240,099	8.3	247,218	10.8	36,059	3.7
Less: provision for loan impairment of loans and advances to customers	(715)	1.6	(188)	0.5	–	–
Other financial and non-financial assets	5	0.1	6	0.1	–	–
Due to other banks	150,687	24.9	185,070	36.4	216,026	50.9
Customer accounts	496,639	37.0	258,410	30.7	177,377	33.4
Subordinated debt	69,828	100.0	69,223	100.0	10,151	100.0
Interest income	8,813	8.2	12,627	5.2	5,797	6.8
Interest expense	9,308	18.4	22,223	17.7	14,174	34.4

RELATED PARTY TRANSACTIONS

The following tables set forth the currency positions and effective interest rates of transactions with entities under common control as at 31 December 2007 and 31 December 2006*, respectively.

As at 31 December 2007

	UAH	Interest rate	USD	Interest rate	EUR	Interest rate	Other	Interest rate
<i>(in thousands of US\$, except percentages)</i>								
Cash and cash equivalents	–	–	8,094	–	150	–	3,089	–
Loans and advances to customers	6,741	14%	171,950	12%	296	11%	68,231	10%
Due to other banks	11,294	–	22,528	10%	147,691	10%	3,557	6%
Customer accounts	121,870	9%	135,355	8%	1,185	9%	–	–
Subordinated debt	–	–	69,223	10%	–	–	–	–

As at 31 December 2006

	US\$	Interest rate	EUR	Interest rate	Other	Interest rate
<i>(in thousands of US\$, except percentages)</i>						
Due from banks	1,432	–	3	–	10,187	6%
Loans and advances to customers	36,059	12%	–	–	–	–
Due to other banks	175,659	8%	40,232	5%	–	–
Customer accounts	92,997	5%	65	1%	–	–
Subordinated debt	10,151	9%	–	–	–	–

* The information concerning the foreign currency positions and effective interest rates of transactions with related parties as at 31 December 2006 disclosed above is not fully comparable with the table of currency positions and effective interest rates of transactions with entities under common control as at 31 December 2007 due to differences in the format of the financial statements issued by the Bank for the years ended 31 December 2007 and 31 December 2006.

The following tables set forth the contractual remaining maturities of balances with entities under common control as at 31 December 2007 and 31 December 2006*, respectively:

As at 31 December 2007

	Demand and less than 1 month	From one to three months	From three months to 12 months	From 12 months to 5 years	Over 5 years	Total
<i>(in thousands of US\$)</i>						
Loans and advances to customers	30,758	68,445	51,033	33,245	63,737	247,218
Cash and cash equivalents	11,333	–	–	–	–	11,333
Other Assets	6	–	–	–	–	6
Due to other banks	160,475	20,040	4,555	–	–	185,070
Customer accounts	67,386	57,052	131,865	2,107	–	258,236
Subordinated debt	–	–	–	6,488	62,735	69,223

RELATED PARTY TRANSACTIONS

As at 31 December 2006						
Description	Within one month	From one to three months	From three months to one year	More than one year	No maturity	Total
<i>(in thousands of USD)</i>						
Loans and advances.....	–	24,000	–	12,059	–	36,059
Due from banks.....	11,633	–	–	–	–	11,633
Other assets.....	3	–	–	–	–	3
Due to banks.....	68,827	136,778	10,421	–	–	216,026
Current accounts.....	34,294	–	–	–	–	34,294
Deposits.....	29,823	59,328	53,933	–	–	143,084
Subordinated debt.....	–	–	–	10,151	–	10,151

* The information concerning the contractual remaining maturities of balances with related parties as at 31 December 2006 disclosed above is not fully comparable with the table of contractual remaining maturities of balances with entities under common control as at 31 December 2007 due to differences in the format of the financial statements issued by the bank for the years ended 31 December 2007 and 31 December 2006.

The following tables set forth the currency positions and effective interest rates of transactions with key management personnel as at 31 December 2007 and 31 December 2006, respectively.

	USD	EUR	UAH	Interest rate
<i>(in thousands of US\$, except percentages)</i>				

As at 31 December 2007

Loans and advances to customers.....	519	–	–	11%
Customer accounts.....	76	358	420	9%

As at 31 December 2006

Loans and advances to customers.....	609			12%
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The contractual remaining maturities of balances with key management personnel as at 31 December 2007 are as follows:

As at 31 December 2007						
	Demand and less than 1 month	From one to three months	From three months to 12 months	From 12 months to 5 years	Over 5 years	Total
<i>(in thousands of US\$)</i>						

As at 31 December 2007

Loans and advances to customers.....	9	17	73	306	114	519
Customer accounts.....	783	–	55	16	–	854

The contractual remaining maturities of balances with key management personnel as at 31 December 2006 are as follows:

As at 31 December 2006		
	From 12 months to 5 years	Total
<i>(in thousands of US\$)</i>		
Loans and advances to customers.....	609	609

RELATED PARTY TRANSACTIONS

Aggregate amounts lent to and repaid by related parties during the year ended as at 31 December 2007 are as follows:

	31 December 2007	
	Entities under common control	Key management personnel
<i>(in thousands of US\$)</i>		
As at 31 December 2007		
Amounts lent to related parties during the period.....	622,079	1,140
Amount repaid by related parties during the period	430,459	190

Other Transactions

During the year ended 31 December 2007 entities related by virtue of common control within the Alfa-Banking Group contributed to the development of the customer base and the expansion of the Bank's business and incurred expenses of US\$16.4 million (US\$6.9 million during the first three months of 2008). Entities under common control will not require reimbursement of incurred expenses from the Bank.

During 2007, an entity related by virtue of common control within the Alfa-Banking Group received compensation of US\$7.9 million for services related to the Bank's activity, namely customer identification for lending by another related party. The Bank will not request for reimbursement of the income received by the entity related by virtue of common control.

In February 2008 the Bank purchased a corporate loan from an entity under common control for US\$6.0 million. The fair value of this loan as at the date of purchase was US\$2.0 million. As a result of this transaction, the Bank recorded a loss of US\$4.0 million.

In addition, Boreta Limited, a company 100 per cent. owned by the Bank's parent company, ABH Ukraine Limited, has provided funding to the Issuer and may continue to do so in the future.

SHARE CAPITAL, DIVIDENDS AND PRINCIPAL SHAREHOLDERS

Authorising Share Capital

According to Ukrainian legislation, a bank may increase its share capital through additional cash subscriptions, upon all previously issued and subscribed shares having been paid in full by their holders. The general meeting of shareholders of a bank has the exclusive power to take decisions to increase a bank's share capital. This includes announcements of the subscription for new share capital setting out the main terms of an issuance, and upon completion of the subscription, decisions on making appropriate amendments to such bank's charter. Decisions on amendments to the charter (including the registration of increased share capital), are subject to registration by the NBU prior to becoming effective. The additional share issuance must then be registered with the SSSMC of Ukraine.

Any shareholder of a bank has a pre-emptive right to buy any additional shares to be issued by such bank. If, as a result of the acquisition of additional shares in a bank, a shareholder's interest would, directly or indirectly, constitute a rise in such shareholder's holding to over 10, 25, 50 or 75 per cent. of the share capital, such shareholder would be required to obtain a prior written consent of the NBU for such acquisition.

Since the Bank has started to operate under its current name in January 2001, its initial nominal share capital was UAH 73 million (US\$14.5 million) comprised of 73 million ordinary shares with a nominal value of UAH 1 each. On 23 January 2004 the General Meeting of Shareholders resolved to increase the Bank's nominal share capital by UAH 54 million (US\$10.7 million) up to UAH 127 million (US\$25.1 million); the consequential amendments into the Bank's charter were approved by the General Meeting of Shareholders on 17 August 2004 and registered by the NBU on 12 November 2004. All such issued shares were acquired and fully paid in by the Bank's then existing shareholders in November 2004. This first additional share issuance was duly registered with the SSSMC on 27 December 2004. On 28 December 2005 the Bank's shareholders voted to further increase the Bank's share capital by UAH 233 million (US\$46.1 million) up to a nominal amount of UAH 360 million (US\$71.3 million). The resultant amendments to the Bank's charter were introduced and approved by the General Meeting of Shareholders on 7 August 2006. Respectively amended edition of the Bank's charter (with an authorised nominal share capital in the amount of UAH 360 million) was registered by the NBU on 2 October 2006. This additional share issuance was registered with the SSSMC on 30 October 2006. By the end of October 2006, all such shares were acquired and fully paid in by the Bank's then existing shareholders. All registration procedures with respect to such additional share issue were completed in November 2006. On 5 February 2007 the shareholders of the Bank took the decision to further increase the share capital of the Bank by UAH 505 million (US\$100 million) up to a nominal amount of UAH 865 million (US\$171.3 million). This additional share issuance was registered with the SSSMC on 14 February 2007. On 12 March 2007 the General Meeting of Shareholders approved the respective amendments to the Bank's charter, a new edition of which (with an authorised nominal share capital in the amount of UAH 865 million) was registered by the NBU on 26 April 2007. In March 2007 all such issued shares were acquired and fully paid in by the Bank's then existing shareholders. All registration procedures were completed by the end of June 2007. On 16 July 2007 the Bank's shareholders decided to increase the share capital of the Bank by an additional UAH 505 million (US\$100.0 million) up to UAH 1,370 million (US\$271.3 million). This additional share issuance was registered with the SSSMC on 2 August 2007. By the end of August all such shares were acquired and fully paid in by the Bank's then existing shareholders. The respective amendments to the Bank's charter were approved by the General Meeting of Shareholders on 3 September 2007, a new edition of which (with an authorised nominal share capital in the amount of UAH 1,370 million) was registered by the NBU on 21 September 2007. All registration procedures were completed by the beginning of November 2007. In addition, on 21 November 2007, the Bank's shareholders resolved to further increase the share capital of the Bank by UAH 374.7 million (US\$74.2 million) up to UAH 1,744.7 million (US\$345.5 million). This additional share issuance was registered with the SSSMC on 4 December 2007. By the end of December 2007, all such issued shares were acquired and fully paid in by the Bank's existing shareholders. On 15 January 2008 the General Meeting of Shareholders approved the respective amendments to the Bank's charter, a new edition of which (with an authorised nominal share capital in the amount of UAH

SHARE CAPITAL, DIVIDENDS AND PRINCIPAL SHAREHOLDERS

1,744.7 million) was registered by the NBU on 26 March 2008. All registration procedures were completed by 30 April 2008. Furthermore, on 21 April 2008, the Bank's shareholders decided to increase the share capital of the Bank by an additional UAH 505 million (US\$100 million) up to UAH 2,249.7 million (US\$445.5 million). This latest additional share issuance was registered with the SSSMC on 25 April 2008. In May and June 2008, all such newly shares were acquired and fully paid in by the Bank's existing shareholders. The respective amendments to the Bank's charter (with an authorised nominal share capital in the amount of UAH 2,249.7 million) were approved by the General Meeting of Shareholders on 16 June 2008, a new edition of which is expected to be registered by the NBU by the end of July 2008. All registration procedures are expected to be completed by the end of September 2008. In addition, the Bank's shareholders have recently initiated another US\$100 million capital increase to be exercised in the fourth quarter of 2008.

Dividends

According to the provisions of the Bank's charter and Ukrainian law, the shareholders of the Bank are entitled to receive dividends on a *pro rata* basis. Dividends may be distributed and paid once a year, subject to the decision of the General Meeting of Shareholders, from the Bank's annual net profit. The Bank did not declare a dividend for the financial years ended 31 December 2007, 2006, 2005, 2004, 2003 and 2002. The Bank is currently pursuing a policy of capitalising profits in order to help maintain adequate capitalization of the Bank.

Principal Shareholders

The following table sets forth the Bank's nominal share capital structure as at 16 June 2008:

Shareholder	Number of shares issued	per cent.	Nominal value, in UAH
ABH Ukraine Limited	1,744,676,253	99.9981	1,744,676,253.0
Others.....	33,747	0.0019	33,747.00
Total	1,744,710,000	100.00	1,744,710,000.00

ABH Ukraine Limited, a company incorporated under the Laws of Cyprus, is the primary shareholder of the Bank. ABH Ukraine Limited also owns 100 per cent. of Boreta Limited, a company which has provided, and may continue to provide, funding to the Issuer, and recently acquired Joint Stock Commercial International Trade and Investment Bank, a bank located in Belarus.

ABH Ukraine Limited is 100 per cent. owned by ABH Holdings Corp., a corporation incorporated under the laws of the British Virgin Islands. ABH Holdings Corp. is beneficially owned by six individuals in the following proportions:

Name	Percentage
Mikhail Fridman	36.47%
German Khan	23.27%
Alexei Kuzmichev	18.12%
Peter Aven	13.76%
Alex Knaster	4.30%
Andrey Kosogov	4.08%
Total.....	100.00%

ABH Holdings Corp. is also a sole shareholder of ABH Financial Limited, a company incorporated in the British Virgin Islands. ABH Financial Limited is the parent company of the Alfa Banking Group. The Alfa Banking Group being a part of the Alfa Consortium (principally operating in the banking, insurance, telecommunications and oil and gas sectors, as well as in the investment and retail trade business) is one of the leading privately owned banking groups in Russian Federation. As at 31 December 2007, the Alfa Banking Group had total assets of US\$22.7 billion and total equity of US\$1.9 billion, as compared to

US\$15.2 billion and US\$1.3 billion, respectively as at 31 December 2006. For the year ended 31 December 2007, the Alfa Banking Group generated operating income of US\$1,036.2 million and had a net profit of US\$253.5 million, as compared to US\$799.2 million and US\$190.3 million, respectively for the year ended 31 December 2006. The Alfa Banking Group offers a wide range of banking services including corporate and retail lending, deposit, payment and account services, foreign exchange operations, cash handling services, investment banking services and other ancillary services to corporate and retail customers. The Alfa Banking Group also has a treasury division that carries out a variety of asset, liability and interest rate management functions as well as foreign currency trading operations. The Alfa Banking Group carries out its corporate and retail banking activities principally through Alfa-Bank Russia and its subsidiaries. Its investment banking activities are principally carried out through Alfa Capital Holdings (Cyprus) Limited and certain other subsidiaries. The Alfa Banking Group also operates through subsidiaries in Kazakhstan, the Netherlands, Cyprus, the United States and the United Kingdom. As at 1 April 2008, the Alfa Banking Group had 304 offices across Russia and abroad.

During the period from 2001 to August 2006, Alfa-Bank Russia was the principal shareholder of the Bank directly owing 93.75 per cent. of the Bank's share capital. Founded in 1990, Alfa-Bank Russia has developed rapidly to become Russian Federation's largest privately owned bank and is present in all key sectors of the financial services industry, including corporate banking, retail banking, investment banking, trade finance and asset management.

In December 2005, the Alfa Banking Group decided to restructure its banking operations. As part of the inter-group restructuring taking place in August 2006, Alfa-Bank Russia sold its shareholding of 64,770,000 shares, constituting approximately 51 per cent. of the Bank's share capital, to ABH Ukraine Limited. Pursuant to the Bank's charter reflecting the relevant changes in the shareholding structure registered with the NBU on 2 October 2006, 82.56 per cent. of the Bank's issued share capital was owned by ABH Ukraine Limited, 15.24 per cent. of the Bank's issued share capital was owned by Alfa-Bank Russia, 1.12 per cent. of the Bank's issued share capital was owned by ABH Financial Limited, and the remaining 1.08 per cent. of the Bank's issued share capital was owned by minority shareholders.

On 26 December 2006 Alfa-Bank Russia completed the sale of the entirety of its shareholding in the Bank to ABH Ukraine Limited. Further, in January 2007, ABH Ukraine Limited acquired 1.12 per cent. of the Bank's share capital owned by ABH Financial Limited. All registration procedures on the title transfer were performed on 24 January 2007. According to the new edition of the Bank's charter, which reflects the above share title transfers as well as the two recent share capital injections each in the amount of UAH 505 million (US\$100 million) in 2007 and a further capital increase in the amount of UAH 374.7 million (US\$74.2 million) in 2008 and was registered with the NBU on 26 March 2008, 99.9981 per cent. of the Bank's issued share capital is owned by ABH Ukraine Limited and the remaining 0.0019 per cent. of the Bank's issued share capital is owned by minority shareholders.

The above discussed inter-group restructuring does not change the beneficial shareholders of the Bank and is in line with the Bank's business strategy.

THE ISSUER

Ukraine Issuance plc (the “**Issuer**”), was incorporated in England and Wales on 28 June 2007 (registered number 6296689), 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. The Issuer has been established as a special purpose vehicle or entity for the purpose of issuing the Notes.

Principal Activities

The principal objects of the Issuer are set out in clause 4 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.

The Issuer has commenced operations. As at the date of this Prospectus no accounts have yet been drawn up in respect of the Issuer. The Issuer intends to publish its audited accounts for the period from its date of incorporation to 31 December 2007 on or around 31 July 2008.

The Issuer will covenant to observe certain restrictions on its activities, which are detailed in Condition 3 (*Covenants*) of the “*Terms and Conditions of the Notes*” and the Trust Deed.

The issued share capital in the Issuer is legally and beneficially owned and controlled directly by the PECO Holder, a limited liability company incorporated in England and Wales with registered number 6301127. The rights of the PECO Holder as a shareholder in the Issuer are contained in the articles of association of the Issuer and will be managed by its directors in accordance with those articles and with the provisions of English Law.

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 United Kingdom	Directors of special purpose companies
SFM Directors (No.2) Limited	35 Great St. Helen’s London EC3A 6AP United Kingdom	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, United Kingdom. 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 Prospectus are Jonathan Keighley, James Macdonald, Robert Berry, J-P Nowacki, Claudia Wallace and Helena Whitaker (together with their alternate directors Annika Aman-Goodwille, Cane Pickersgill and Debra Parsall), whose business addresses are 35 Great St. Helen’s London EC3A 6AP, United Kingdom and who perform no other principal activities outside the Issuer which are significant with respect to the Issuer.

In connection with the Loan, ABH Ukraine Limited has issued a letter of support to Ukraine Issuance plc (the “**Letter of Support**”). Investors should note that the Letter of Support should not be considered as a financial undertaking by ABH Ukraine Limited in favour of any party, or as providing grounds for any

claim on the basis of any obligation of ABH Ukraine Limited. A copy of the Letter of Support is set out in this Prospectus. See “*Letter of Support*”.

Capitalization and Indebtedness

The capitalization and indebtedness of the Issuer as at the date of this Prospectus 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 Ukrainian Issuance Holdings Limited (the “**PECO Holder**”). The remaining one share in the Issuer (which is fully paid) is held by SFM Nominees Limited (registered number 4115230) (the “**Nominee Trustee**”) as nominee for the PECO Holder.

Indebtedness

On 26 July 2007, the Issuer issued series 1 US\$200,000,000 9.25 per cent. loan participation notes due 2010 (the “**Tranches 1 and 2 Notes**”) for the purpose of funding a loan to the Bank in accordance with the terms of a loan agreement between the Issuer, acting as lender, and the Bank dated 23 July 2007.

On 23 April 2008, the Issuer issued US\$100,000,000 9.75 per cent. loan participation notes due 2009 (the “**Series 2 Notes**”) for the purpose of funding an additional loan to the Bank in accordance with the terms of a loan agreement between the Issuer and the Bank dated 23 April 2008.

On 28 May 2008, the Issuer issued series 3 US\$6,250,000 zero coupon subordinated note due 2038 (the “**Series 3 Note**”) to Boretta Limited, a wholly-owned subsidiary of ABH Ukraine Limited, the Bank’s parent). On 29 May 2008, the Issuer issued US\$250,000,000 9.25 per cent. loan participation notes due 2010 (“**Tranche 3 Notes**”) which were consolidated to form a single series with the Tranches 1 and 2 Notes (together with the Tranche 3 Notes, the “**Series 1 Notes**”). The proceeds of the issues of the Series 1 Notes and the Series 3 Note were used to fund a further loan to the Bank pursuant to a loan relating to the Series 1 Notes in accordance with the terms of a loan agreement between the Issuer, acting as lender, and the Bank dated 27 May 2008. Interest and principal payable under such further loan shall be used by the Issuer to meet its obligations under the Series 1 Notes.

On 16 July 2008, the Issuer passed resolutions approving the issuance of (i) a Series 4 zero coupon subordinated note (the “**Series 4 Note**”) and (ii) the Series 5 loan participation notes due 2013 (the “**Series 5 Notes**”) to be issued under the Programme. The proceeds of the issues of the Series 4 Note and the Series 5 Notes, when issued, shall be used to fund a loan to the Bank in accordance with the terms of a loan agreement between the Issuer, acting as a lender, and the Bank. Interest and principal payment payable under such loan shall be used by the Issuer to meet its obligations under the Series 5 Notes.

Except as set out above, the Issuer has no outstanding loan capital, borrowings, indebtedness or contingent liabilities and the Issuer has not created any mortgages or charges nor has it given any guarantees as at the date hereof. In relation to the Series 1 Notes, the Series 2 Notes, the Series 3 Notes, the Series 4 Note and the Series 5 Notes, the Issuer has created charges over certain of its rights and interests in the related loan agreements in favour of the Trustee as set out fully in “*Overview of the Programme – Security*” and Condition 5 “*Security*” in “*Terms and Conditions of the Notes*”.

Auditors

BDO Stoy Hayward LLP are the Issuer’s independent auditors. The address of BDO Stoy Hayward LLP is 55 Baker Street, London W1VU 7EU, United Kingdom. BDO Stoy Hayward LLP are Chartered Accountants and Registered Auditors in England and Wales.

THE POST-ENFORCEMENT CALL OPTION HOLDER

Ukrainian Issuance Holdings Limited (the “PECO Holder”), was incorporated in England and Wales on 3 July 2007 (registered number 6301127), as a private company with limited liability under the Companies Act 1985. The registered office of the PECO Holder is at 35 Great St. Helen’s, London, United Kingdom EC3A 6AP.

Principal Activities

The only purposes of the PECO Holder are to hold shares in the Issuer, to enter into appropriate arrangements to subscribe for such shares and to hold the Post-Enforcement Call Option. The Post-Enforcement Call Option will be granted to the PECO Holder by the Trustee on behalf of all the Noteholders and will permit the PECO Holder to acquire from the Noteholders all the Notes then outstanding for a purchase price of US\$0.01 per Note. The Post-Enforcement Call Option will only be exercised if the Trustee gives notice to the PECO Holder that all amounts outstanding under the Notes have become due and payable, all available funds have been distributed, and there is no reasonable likelihood of there being any further realisations (whether arising from an enforcement of the security or otherwise) which would be available to pay amounts outstanding under the Notes. See further Condition 6(g) (*Post-Enforcement Call Option*) of the “*Terms and Conditions of the Notes*”.

Directors and Secretary

The directors of the PECO Holder 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 United Kingdom	Directors of special purpose companies
SFM Directors (No.2) Limited	35 Great St. Helen’s London EC3A 6AP United Kingdom	Directors of special purpose companies

The company secretary of the PECO Holder is SFM Corporate Services Limited, a company registered in England and Wales (registered number 3920255), whose business address is 35 Great St. Helen’s Limited, London, United Kingdom EC3A 6AP. The directors of SFM Directors Limited, SFM Directors (No.2) Limited and SFM Corporate Services Limited and their principal activities are as follows:

Name	Business Address	Principal Activities
Robert William Berry	35 Great St. Helen’s London EC3A 6AP United Kingdom	Director
James Garner Smith Macdonald	35 Great St. Helen’s London EC3A 6AP United Kingdom	Director
Jonathan Eden Keighley	35 Great St. Helen’s London EC3A 6AP United Kingdom	Director
J-P Nowacki	35 Great St. Helen’s London EC3A 6AP United Kingdom	Director
Claudia Wallace	35 Great St. Helen’s London EC3A 6AP United Kingdom	Director
Helena Whitaker	35 Great St. Helen’s London EC3A 6AP United Kingdom	Director

THE POST-ENFORCEMENT CALL OPTION HOLDER

The company secretaries of SFM Corporate Services Limited are Helena Whitaker and Annika Aman-Goodwille of 35 Great St. Helen's, London EC3A 6AP.

Capitalization and Indebtedness

The capitalization of the PECO Holder as at the date of this Prospectus is as follows:

Share Capital

Share Capital

Authorised Share Capital £	Issued Share Capital £	Nominal Value of Each Share £	Shares Fully Paid Up	Paid Up Share Capital £	Paid Up Share Premium £
1,000	2	1	2	2	49,997

The PECO Holder has an authorised share capital of £1,000 divided into 1,000 ordinary shares of £1 each, of which two ordinary shares has been issued with one of such ordinary shares being issued at a premium of £49,997 over its nominal value. SFM Corporate Services Limited (the “**Share Trustee**”) holds the entire issued shares of the PECO Holder as trustee pursuant to the Declaration of Trust declared by the Share Trustee on 6 July 2007.

FRAMEWORK AGREEMENT

THIS AMENDED AND RESTATED FRAMEWORK AGREEMENT is made on 18 July 2008

BETWEEN:

- (1) **CLOSED JOINT-STOCK COMPANY “ALFA-BANK”**, a joint-stock company organised under the laws of Ukraine whose registered office is at 4/6 Desyatynna Street, Kyiv, Ukraine, with identification code 23494714, as borrower (the “**Borrower**”) represented by Mr S.N. Polovko, Acting Chairman of the Management Board, acting on the basis of the Charter; and
- (2) **UKRAINE ISSUANCE PLC**, 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, as lender (the “**Lender**” or in its capacity as issuer, the “**Issuer**”).

WHEREAS:

- (A) The Borrower and the Lender have entered into a framework agreement dated 23 July 2007 (the “**Original Framework Agreement**”) as amended and restated by the amended and restated framework agreement dated 27 May 2008 (the “**Amended and Restated Framework Agreement**”) in relation to the Programme (as defined below).
- (B) The Lender has, at the request of the Borrower agreed, on the terms and subject to the conditions, *inter alia*, of this amended and restated Framework Agreement, to make available to the Borrower a series of Loans each entered into under a relevant loan agreement dated the relevant Closing Date substantially in the form set out in the Schedule I hereto and incorporating this amended and restated Framework Agreement by reference as an integral part thereof (each, unless the context otherwise requires, a “**Loan Agreement**”).
- (C) It is intended that, concurrently with the extension of any Loan under each relevant Loan Agreement, the Lender will issue certain loan participation notes.

It is agreed as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

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

“**Account**” means an account in the name of the Lender as specified in the relevant Loan Agreement;

“**Additional Amounts**” has the meaning set forth in Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Additional Amounts*);

“**Affiliate**” of any specified Person means (a) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person or (b) 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 paragraph (a) 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;

“**Agency Agreement**” means the agency agreement dated 23 July 2007 as amended and restated by the amended and restated agency agreement dated 27 May 2008 as further amended and restated by the amended and restated agency agreement dated 18 July 2008, relating to the Programme

between the Issuer, the Borrower, the Trustee and the agents named therein, as may be further amended or supplemented from time to time;

“**Auditors**” means LLC Audit Firm “PricewaterhouseCoopers (Audit)” 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;

“**Banking Business**” means, in relation to the Borrower any type of banking business (including, without limitation, any short term inter-bank operations with maturities of one year or less, factoring, consumer credit, mortgages, issuance of banking guarantees and letters of credit and related cash cover provision), bills of exchange, promissory notes and certificates of deposit and payments under such guarantees, letters of credit, trading of securities, fund management and professional securities market participation business) which it conducts or may conduct pursuant to its licence issued by the appropriate authorities and accepted market practice and any applicable law;

“**Borrower Account**” means an account in the name of the Borrower as specified in the relevant Loan Agreement for receipt of Loan funds;

“**Business Day**” means (save in relation to Clause 4 (*Interest*)) a day (other than a Saturday or Sunday) on which (a) banks and foreign exchange markets are open for business generally in the relevant place of payment, and (b) if on that day a payment is to be made in a Specified Currency other than euro hereunder, where payment is to be made by transfer to an account maintained with a bank in the Specified Currency, foreign exchange transactions may be carried on in the Specified Currency in the principal financial centre of the country of such Specified Currency and (c) if on that day a payment is to be made in euro hereunder, a day on which the TARGET System is operating and (d) in relation to a Loan corresponding to a Series of Notes to be sold pursuant to Rule 144A under the Securities Act, banks and foreign exchange markets are open for business generally in New York City;

“**Calculation Agent**” means, in relation to any Loan, Deutsche Bank AG, London Branch or any person named as such in the relevant Loan Agreement or any successor thereto;

“**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 Control**” shall be deemed to have occurred at each time (whether or not approved by the management board of the Borrower) that an announcement is made that the Permitted Holders (individually or in aggregate) intend to or that they cease to control (directly or indirectly) 50 per cent. plus one share of the Voting Stock of the Borrower;

“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);

“Closing Date” means the date specified as such in the relevant Loan Agreement;

“Conditions” has the meaning ascribed to it in the Trust Deed;

“Corporate Restructuring” means the announcement or occurrence of any amalgamation, merger, division, spin-off, transformation or other reorganisation or restructuring under applicable Ukrainian legislation, or any other reorganisation or restructuring under the laws of any other relevant jurisdiction;

“Day Count Fraction” has the meaning specified in the relevant Loan Agreement;

“Dealer Agreement” means the dealer agreement dated 23 July 2007 as amended and restated by the amended and restated dealer agreement dated 27 May 2008 as further amended and restated by the amended and restated dealer agreement dated 18 July 2008 relating to the Programme, between the Issuer, the Borrower, UBS Limited, Credit Suisse Securities (Europe) Limited and HSBC Bank plc, as may be further amended or supplemented from time to time;

“Deed of Indemnity” means the deed of indemnity dated 23 July 2007 as amended and restated by the amended and restated deed of indemnity dated 27 May 2008 as further amended and restated by the amended and restated deed of indemnity dated 18 July 2008 relating to the Programme between the Lender, the Borrower, the Trustee, the Principal Paying Agent and other parties named therein, as may be further amended or supplemented from time to time;

“Dollars”, “\$”, “U.S. Dollars” or “U.S.\$” means the lawful currency of the United States of America;

“Double Tax Treaty” means 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 with respect to Taxes on Income and Capital Gains signed on 10 February 1993 and in force from 11 August 1993 or, where applicable, any other treaty on the avoidance of double taxation between Ukraine and other Qualifying Jurisdiction where the Lender or any successor thereto is resident for tax purposes;

“euro” or “€” means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome, as amended;

“Event of Default” means the events of default specified in Clause 13 (*Events of Default*);

“**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 the relevant Loan Agreement;

“**Fixed Rate Loan**” means a Loan specified as such in the relevant Loan Agreement;

“**Floating Rate Loan**” means a Loan specified as such in the relevant Loan Agreement;

“**Funding Documents**” means the Dealer Agreement, this Agreement, the Deed of Indemnity, the Agency Agreement, the Principal Trust Deed and together with, in relation to each Loan, the relevant Subscription Agreement, Loan Agreement, Supplemental Trust Deed and any Fees Letter;

“**Group**” means the Borrower and its Subsidiaries from time to time taken as a whole;

“**Guarantee**” means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

- (a) any obligation to purchase such Indebtedness;
- (b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;
- (c) any indemnity against the consequences of a default in the payment of such Indebtedness; and
- (d) any other agreement to be responsible for such Indebtedness;

“**hryvnia**” means the lawful currency of Ukraine;

“**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 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, notes, 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;

“**Indemnity Amounts**” has the meaning set out in Clause 6.3 (*Withholding on Notes*);

“**Independent Appraiser**” means an investment banking firm or third party appraiser of international standing selected by the Borrower and approved by the Lender, such approval not to be unreasonably withheld; provided that such firm or third party appraiser is not an Affiliate of the Borrower;

“**Interest Commencement Date**” means the date specified in any relevant Loan Agreement;

“**Interest Payment Date(s)**” means the date(s) specified as such in the relevant Loan Agreement, or if any such day is not a Business Day, the next succeeding Business Day;

“**Interest Period**” means each period beginning on (and including) an Interest Payment Date or, in the case of the first Interest Period, the Interest Commencement Date, and ending on (but excluding) the next Interest Payment Date;

“**Issuer**” means Ukraine Issuance plc acting in the capacity as issuer;

“**Lead Manager(s)**” means the Relevant Dealer(s) specified as such in the relevant Subscription Agreement;

“**Loan**” means the loan to be made pursuant to, and on the terms specified in the relevant Loan Agreement;

“**Loan Agreement**” means the relevant loan agreement which incorporates this Agreement by reference as an integral part thereof;

“**Material Adverse Effect**” means a material adverse change in, or material adverse effect on, (a) the business, operations or financial condition of the Borrower or of the Group; (b) the Borrower’s ability to perform its obligations under any Loan Agreement or (c) the validity or enforceability of any Loan Agreement or any of the Funding Documents or the rights or remedies of the Lender thereunder;

“**Material Subsidiary**” means, at any given time, any Subsidiary of the Borrower (a) whose total assets or gross revenues (or, where the Subsidiary in question prepares consolidated accounts, whose total consolidated assets or gross consolidated revenues, as the case may be) represent at least 5 per cent. of the total assets, or, as the case may be, total revenues of the Borrower and its Subsidiaries and, for these purposes (i) the total assets and gross revenues 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 assets and gross revenues of the Borrower shall be determined by reference to the Borrower’s then most recent audited financial statements (or, if none, its then most recent 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. A certificate by two members of the management board of the Borrower stating 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 members of the management board of the Borrower as to proper extraction of the figures used by the management 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;

“**Noteholder**” means, in relation to a Note, the person in whose name such Note is registered in the register of the noteholders (or in the case of joint holders, the first named holder thereof);

“**Noteholder Put Option**” means, in respect of a Series of Notes, any put option granted to Noteholders pursuant to the Final Terms;

“**Noteholder Put Option Payment Date**” means, in respect of a Noteholder Put Option, the date set out in the relevant Loan Agreement and further specified by or on behalf of the Lender in the written notice on which any outstanding part of any relevant Loan is to be prepaid in accordance with Clause 5.5 (*Prepayment upon a Noteholder Put Option*);

“**Notes**” means the loan participation notes that may be issued from time to time by the Lender (in its capacity as Issuer) under the Programme in Series, each Series corresponding to the respective Loan as defined in the relevant Loan Agreement;

“**Officer’s Certificate**” means a certificate, substantially in the form attached as Schedule II hereto, signed on behalf of the Borrower by a member of the management board of the Borrower who is the principal executive officer, principal accounting officer or principal financial officer of the Borrower;

“**Opinion of Counsel**” means a written opinion from international legal counsel as reasonably selected by the Borrower with the written consent of the Lender, such consent not to be unreasonably withheld or delayed;

“**Paying Agents**” means, in relation to the Notes of any Series, the several institutions (including, where the context permits, the Principal Paying Agent) at their respective specified offices initially appointed pursuant to the Agency Agreement and/or, if applicable, any Successor paying agents, in relation to such Notes at their respective specified offices;

“**Permitted Holders**” means any of Mikhail Fridman, German Khan and Alexei Kuzmichev;

“**Permitted Security Interests**” means:

- (a) Security Interests in existence at the date of this Agreement;
- (b) Security Interests to the extent arising in the ordinary course of the Banking Business including, without limitation, cross-currency, deposit swaps and Security Interests in favour of the NBU arising out of refinancing transactions in the ordinary course;
- (c) Security Interests to the extent arising upon, or with respect to, any present or future assets or revenues or any part thereof which are created pursuant to any Repo in the ordinary course of the Borrower’s business;
- (d) Security Interests granted in favour of the Borrower or any of its Subsidiaries;
- (e) Security Interests on property acquired (or deemed to be acquired) under a financial lease, or claims arising from the use or loss of or damage to such property; provided that any such Security Interest secures only Indebtedness under such lease;
- (f) Security Interests securing Indebtedness of a Person existing at the time that such Person is merged into or consolidated with the Borrower or becomes a Subsidiary of the Borrower or any other member of the Group; provided that such Security Interests were not created in contemplation of such merger or consolidation or event and do not extend to any assets or property of the Borrower or such member of the Group already existing;
- (g)
 - (i) Security Interests already existing on assets or property acquired by the Borrower or a Subsidiary of the Borrower; provided that such Security Interests were not created in contemplation of such acquisition and do not extend to any other assets or property (other than proceeds of such acquired assets or property); and
 - (ii) Security Interests granted over property acquired by the Borrower or any of its Subsidiaries after the date hereof to secure Indebtedness incurred by the Borrower or such Subsidiary, as the case may be, solely for the purpose of financing the acquisition of such property (other than a Security Interest created in contemplation of such acquisition), provided that the maximum amount of Indebtedness secured by such Security Interest does not exceed the indebtedness incurred by the Borrower or such Subsidiary, as the case may be, solely for the purpose of financing the acquisition of such property;
- (h) any Security Interests arising by operation of law;
- (i) any Security Interest arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by a Security Interest permitted by any of the exceptions herein, provided that the Indebtedness thereafter secured by such Security Interest (i) is not more restrictive in any material respect than the original Security Interest, (ii) does not exceed

the amount of the original Indebtedness and (iii) such Security Interest is not extended to cover any property not previously subject to such Security Interest;

- (j) any Security Interest upon, or with respect to, any present or future assets or revenues of the Borrower or any part thereof which is created pursuant to the securitisation of receivables, asset-backed financing or similar financing structure and whereby all payment obligations secured by such Security Interest or having the benefit of such Security Interest are to be discharged solely from such assets or revenues, provided that the aggregate value of assets or revenues subject to such Security Interest when added to the aggregate value of assets or revenues of the Borrower which are the subject of any securitisation of receivables, asset backed financing or similar financing structure permitted pursuant to Clause 12.6 (*Disposals*), does not, at any such time, exceed 10 per cent. of the total assets of the Borrower as determined at any time by reference to the latest audited financial statements of the Borrower prepared in accordance with IFRS;
- (k) Security Interests incurred, or pledges and deposits in connection with workers compensation, unemployment insurance and other social security benefits, and leased, appeal bonds and other obligations of like nature in the ordinary course of business;
- (l) Security Interests for ad valorem, income or property Taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which the Borrower has set aside in its books of account reserves to the extent required by IFRS, as consistently applied;
- (m) easements, rights of way, restrictions (including zoning restrictions), reservations, permits, servitudes, minor defects or irregularities in title and other similar charges or encumbrances, and Security Interests arising under leases or subleases granted to others, in each case not interfering in any material respect with the business of the Borrower or any of its Subsidiaries and existing, arising or incurred in the ordinary course of business;
- (n) (i) bankers' Security Interests in respect of deposit accounts; (ii) statutory landlords' Security Interests; (iii) deposits to secure the performance of bids, tenders, trade contracts, government contracts, leases, statutory obligations, surety and appeal bonds, performance and return-of-money bonds or liabilities to insurance carriers under insurance or self insurance arrangements and other obligations of like nature (so long as, in each case with respect to items described in paragraphs (i), (ii) and (iii) above of this paragraph (n) such Security Interests (x) do not secure obligations constituting Indebtedness for borrowed money and (y) are incurred in the ordinary course of business); and (iv) Security Interests arising from any judgement, decree or other order which does not constitute a Potential Event of Default or an Event of Default; and
- (o) any Security Interests not otherwise permitted by the preceding paragraphs (a) through (n), provided that the aggregate principal amount of the Indebtedness secured by such Security Interests does not at any time exceed an amount equal to 10 per cent. of the value of the assets of the Borrower, as determined by reference to the Borrower's financial statements as at the end of its most recent IFRS Fiscal Period, consolidated, as the case may be;

"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;

"Potential Event of Default" means any event which may become (with the passage of time, the giving of notice and/or the making of a determination and/or the fulfilment of any other requirement) an Event of Default under any Loan Agreement;

"Principal Paying Agent" means the party designated from time to time as principal paying agent under the Agency Agreement;

“Principal Trust Deed” means the principal trust deed dated 23 July 2007 as amended and restated by the amended and restated principal trust deed dated 27 May 2008 as further amended and restated by the amended and restated principal trust deed dated 18 July 2008 relating to the Programme between the Issuer and the Trustee, as may be further amended or supplemented from time to time;

“Programme” means the programme for the issuance of loan participation notes of the Lender (acting in its capacity as the Issuer);

“Programme Limit” means U.S.\$2,000,000,000 or its equivalent in other currencies, being the maximum aggregate principal amount of Notes that may be issued and outstanding at any time under the Programme as may be increased in accordance with the Dealer Agreement;

“Prospectus” has the meaning ascribed to it in the Dealer Agreement;

“Put Event” means a Change of Control followed by a Rating Decline unless the Rating Decline results from a general downgrading by the relevant Rating Agency in respect of the corporate credit ratings in the Ukrainian banking sector or Ukrainian corporate credit ratings generally;

“Put Event Payment Date” means, in respect of a Put Event, the date specified by or on behalf of the Lender in the Put Event Redemption Notice on which any outstanding part of any relevant Loan is to be prepaid in accordance with Clause 5.4 (*Prepayment upon a Put Event*), which date shall be not less than 30 days after the Borrower has notified the Lender that a Put Event has or is deemed to have occurred in accordance with Clause 5.4 (*Prepayment upon a Put Event*);

“Put Event Redemption Notice” means, in respect of a Put Event, a notice given by or on behalf of the Lender to the Borrower specifying, *inter alia*, (a) the principal amount of any relevant Loan to be prepaid; and (b) the Put Event Payment Date;

“Put Option” means the put option granted to Noteholders pursuant to the Conditions;

“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” has the meaning assigned to such term in the relevant Loan Agreement;

“Rating Agency” means Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc. (“**S&P**”), Moody’s Investors Service Limited (“**Moody’s**”) or Fitch Ratings Ltd. (“**Fitch**”), or any of their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Borrower, from time to time with the prior written approval of the Lender (and, following a Relevant Event, the Trustee without regard to the Lender);

“Rating Categories” means (a) with respect to S&P or Fitch, any of the following categories (any of which may or may not include a “+” or “-”): AAA, AA, A, BBB, BB, B, CCC, CC, C and D (or equivalent successor categories); (b) with respect to Moody’s, any of the following categories (any of which may or may not include a “1”, “2” or “3”): Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C and D (or equivalent successor categories); and (c) the equivalent of any such categories of S&P, Fitch or Moody’s used by another Rating Agency, if applicable;

“Rating Decline” means that at any time within 90 days (which period shall be extended so long as the corporate credit rating of the Borrower or the credit rating in respect of the Notes is under publicly announced consideration for possible downgrade by any Rating Agency) after the announcement or the occurrence of Change of Control, the corporate rating of the Borrower or the rating of the Notes is decreased or downgraded by a Rating Agency by one or more Rating Categories below the corporate rating of the Borrower or the rating of the Notes as of the date hereof (or if a Rating Agency has not assigned any such rating as of the date hereof, below the first such rating assigned to the Borrower or the Notes by that Rating Agency after the date hereof) as

a result of such transaction or series of transactions, reorganisation or corporate reconsolidation as specified by the relevant Rating Agency (which, for the purposes hereof, shall include a downgrade of “+”, “-”, “1”, “2” or “3” or the equivalent of any such categories of S&P, Fitch or Moody’s used by another Rating Agency, if applicable);

“**Relevant Event**” has the meaning given thereto in the Notes;

“**Relevant Time**” means, in relation to a payment in a Specified Currency, the time in the principal financial centre of such Specified Currency and, in relation to a payment in euro, Brussels time;

“**Repayment Date**” means the date specified as such in the relevant Loan Agreement;

“**Repo**” means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities borrowing agreement or any agreement relating to securities which is similar in effect to any of the foregoing and, for purposes of this definition, the term “securities” means any Capital Stock, debenture or other debt or equity instrument, or any derivative thereof, whether issued by any private or public company, any Agency or any supranational, international or multilateral organisation;

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

“**Same Day Funds**” means funds for payment, in the Specified Currency as the Lender may at any time determine to be customary for the settlement of international transactions in the principal financial centre of the country of the Specified Currency or, as the case may be, euro funds settled through the TARGET System or such other funds for payment in euro as the Lender may at any time determine to be customary for the settlement of international transactions in Brussels 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);

“**Series**” means a series of Notes that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number;

“**Specified Currency**” means the currency specified as such in the relevant Loan Agreement;

“**Sterling**” or “**£**” means the lawful currency of the United Kingdom;

“**Stock Exchange**” means the Irish Stock Exchange and/or such other stock exchange on which a Series may be listed;

“**Subscription Agreement**” means the agreement specified as such in the relevant Loan Agreement and made substantially in the form set out in Schedule E to the Dealer Agreement;

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

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

“**Successor**” means, in relation to the Paying Agents, such other or further person, as may from time to time be appointed pursuant to the Agency Agreement as a Paying Agent;

“**Supplemental Trust Deed**” means a supplemental trust deed in respect of each Series of Notes which constitutes and secures, *inter alia*, each such Series dated the relevant Closing Date and made between the Lender and the Trustee (substantially in the form set out in Schedule 9 of the Principal Trust Deed);

“**TARGET System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor thereof;

“**Tax(es)**” 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;

“**Taxing Authority**” has the meaning set out in *Clause 6.2 (No Set-Off, Counterclaim or Withholding; Additional Amounts)*;

“**Tax Certificate**” means a certificate issued by the relevant Taxing Authority (as defined in Clause 6.2.1) *(No Set-Off, Counterclaim or Withholding; Additional Amounts)* confirming that the Lender or any successor or assignee thereto is a tax resident in the relevant Qualifying Jurisdiction for the purposes of the applicable Double Tax Treaty and is subject to the relevant corporation tax on its profits on the basis of its registration as a legal entity, location of its management body or other similar criterion (and not merely on its income or capital gains from sources in the relevant Qualifying Jurisdiction);

“**Trust Deed**” means the Principal Trust Deed as supplemented by the relevant Supplemental Trust Deed;

“**Trustee**” means Deutsche Trustee Company Limited, as trustee under the Trust Deed and any successor thereto as provided thereunder;

“**Ukraine**” means Ukraine and any province or political subdivision thereof or therein;

“**United Kingdom**” means the United Kingdom of Great Britain and Northern Ireland;

“**Voting Stock**” means, in relation to any Person, Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees of any Person; and

“**Warranty Date**” means the date hereof, the date of each Loan Agreement, each Closing Date, each date on which the Prospectus or any of the Funding Documents is amended, supplemented or replaced and each date on which the Programme Limit is increased.

1.2 Other Definitions

Unless the context otherwise requires, terms used in this Agreement which are not defined in this Agreement but which are defined in the Principal Trust Deed, the Notes, the Agency Agreement, the Dealer Agreement or any relevant Loan Agreement shall have the meanings assigned to such terms therein.

1.3 Interpretation

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement:

1.3.1 all references to “**Clause**” are references to a Clause or sub-Clause of this Agreement;

1.3.2 the terms “**hereof**”, “**herein**” and “**hereunder**” and other words of similar import shall mean the relevant Loan Agreement as a whole and not any particular part hereof;

1.3.3 words importing the singular number include the plural and vice versa;

1.3.4 the table of contents and the headings are for convenience only and shall not affect the construction hereof;

- 1.3.5 all references to “**this Agreement**” or any other document are to this Agreement or that document as amended, supplemented or replaced from time to time in relation to the Programme and include any document that amends, supplements or replaces it;
- 1.3.6 the “**Borrower**” or the “**Lender**” includes its and any subsequent successors, assignees and chargees in accordance with their respective interests;
- 1.3.7 “**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;
- 1.3.8 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 that 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 or, where the first currency is hryvnia and the second currency is U.S. dollars (or vice versa), by the NBU, at or about 10.00 a.m. (New York City time) or, as the case may be, between 1.00 p.m. and 4.00 p.m. (Kyiv time) on such date for the purchase of the first currency with the second currency;
- 1.3.9 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);
- 1.3.10 “**repay**” (or any derivative form thereof), subject to any contrary indication, includes repay (or, as the case may be, the corresponding derivative form thereof);
- 1.3.11 the “**rights**” of the Lender in this Agreement shall be read as references to rights of the Trustee pursuant to the charge and assignment referred to in Clause 17.3 (*Assignments by the Lender*) except as in relation to the Reserved Rights as specified in the Funding Documents;
- 1.3.12 “**VAT**” means value added tax, including any similar tax which may be imposed in place thereof from time to time; and
- 1.3.13 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 reenacted.

1.4 Amendment and Restatement

This Agreement amends and restates the Amended and Restated Framework Agreement. Any Loan Agreements entered into on or after the date of this Agreement shall be so entered into pursuant to this Agreement. This Agreement does not affect any Loan Agreements entered into prior to the date hereof which shall be subject to the Original Framework Agreement or the Amended and Restated Framework Agreement as relevant for each Loan.

2. LOANS

2.1 Loans

On the terms and subject to the conditions of the relevant Loan Agreement the Lender hereby agrees to make available to the Borrower Loans in an aggregate principal amount at any time

outstanding not exceeding the Programme Limit. For the avoidance of doubt, any obligations of the Lender to provide financing to the Borrower will only arise upon execution of a relevant Loan Agreement.

2.2 Purpose

The proceeds of each Loan will be used by the Borrower to fund its lending activities and for general corporate

purposes (unless otherwise specified in any relevant Loan Agreement), but the Lender shall not be concerned with the application thereof.

2.3 Separate Loans

It is agreed that with respect to each Loan, all the provisions of this Agreement and each relevant Loan Agreement shall apply mutatis mutandis separately and independently to each such Loan and the expressions “Account”, “Closing Date”, “Day Count Fraction”, “Interest Payment Date”, “Loan Agreement”, “Notes”, “Rate of Interest”, “Repayment Date”, “Specified Currency”, “Subscription Agreement” and “Trust Deed”, together with all other terms that relate to such a Loan shall be construed as referring to those of the particular Loan in question and not of all Loans unless expressly so provided, so that the relevant Loan and each Loan Agreement and this Agreement shall, together govern the relevant Loan with the intent that, unless expressly provided, events affecting one Loan shall not affect any other.

3. DRAWDOWN

3.1 Drawdown

On the terms and subject to the conditions of the relevant Loan Agreement, the Lender shall make a Loan to the Borrower on the Closing Date thereof and the Borrower shall make a single drawing in the full amount of such Loan.

3.2 Facility Fee

In consideration of the Lender making a respective Loan to the Borrower, the Borrower shall no later than 2.30 p.m. (London time) one Business Day prior to the relevant Closing Date, or as otherwise agreed by the Borrower and the Lender, pay to the Lender in Same Day Funds all amounts reasonably incurred and properly documented by the Lender in connection with such Loan and required to be paid by the Borrower to the Lender (the “Facility Fee”) as fully set out in a relevant Fees Letter between the Lender, the Borrower and the other parties thereto, as the case may be. The total amount of the Facility Fee is to be as specified in the relevant Loan Agreement.

3.3 Disbursement

Subject to the conditions set forth in this Agreement and, as the case may be, the relevant Loan Agreement, the Lender shall transfer the full amount of the relevant Loan on the relevant Closing Date to the Borrower Account specified in the relevant Loan Agreement.

3.4 Ongoing Fees and Expenses

In consideration of the Lender (a) agreeing to make Loans to the Borrower, (b) making available any Loan and (c) supporting each such continuing loan and managing the relevant accounts, the Borrower shall pay on demand to the Lender all ongoing fees and expenses (other than routine administrative costs and expenses) incurred by the Lender in connection therewith as set forth to the Borrower in an invoice from the Lender. Each such invoice shall set out in detail the nature of such ongoing fees and expenses and calculation of each relevant payment.

3.5 Act of Acceptance

The Borrower and the Lender shall enter into and sign a delivery and acceptance act (the “**Act of Acceptance**”) in form and substance satisfactory to the Borrower, confirming receipt by the Lender of the respective amounts paid by the Borrower pursuant to and in accordance with any relevant Fees Letter or, in case of ongoing fees and expenses, any relevant invoice received by the Borrower from the Lender. Such Act of Acceptance shall specify (a) the net amount paid, (b) any applicable Ukrainian income tax withholding (if any), (c) any applicable Ukrainian value added tax (if any) and (d) the resulting total amount inclusive of tax.

4. INTEREST

4.1 Rate of Interest for Fixed Rate Loans

Each Fixed Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the applicable Rate of Interest.

If a Fixed Amount is specified in the relevant Loan Agreement, the amount of interest payable on each Interest Payment Date will be such Fixed Amount. If a Broken Amount is specified as being payable in the relevant Loan Agreement, such Broken Amount will be payable on the Interest Payment Date(s) specified in the relevant Loan Agreement.

4.2 Payment of Interest for Fixed Rate Loans

Interest shall accrue at the Rate of Interest on each Fixed Rate Loan from day to day, starting from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date or the Repayment Date (as the case may be) and shall be paid by the Borrower to the Lender in arrear not later than 10.00 a.m. (Relevant Time) (a) two New York Business Days prior to each Interest Payment Date (if the Specified Currency is U.S.\$), (b) two Brussels or London Business Days prior to each Interest Payment Date (if the Specified Currency is euro or Sterling, respectively), or (c) if the Specified Currency is a currency other than those specified in the preceding paragraphs (a) and (b), such number of Business Days before the relevant Interest Payment Date that will allow the Lender to make the corresponding payment on the Interest Payment Date under the Trust Deed.

4.3 Interest for Floating Rate Loans

4.3.1 *Interest Payment Dates:* Each Floating Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date at the rate per annum (expressed as a percentage) equal to the applicable Rate of Interest, such interest being payable by the Borrower to the Lender in arrear not later than 10.00 a.m. (Relevant Time) (a) two New York Business Days prior to each Interest Payment Date (if the Specified Currency is U.S.\$), (b) two Brussels or London Business Days prior to each Interest Payment Date (if the Specified Currency is euro or Sterling, respectively) or (c) if the Specified Currency is a currency other than those specified in the preceding paragraphs (a) and (b), such number of Business Days prior to the relevant Interest Payment Date that will allow the Lender to make the corresponding payment on the Interest Payment Date under the Trust Deed. Such Interest Payment Date(s) is/are either shown in the relevant Loan Agreement as Specified Interest Payment Date(s) or, if no Specified Interest Payment Date(s) is/are shown in the relevant Loan Agreement, Interest Payment Date shall mean each date which falls the number of months or other period shown in the relevant Loan Agreement as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

4.3.2 *Business Day Convention*: If any date referred to in the relevant Loan Agreement that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (a) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (b) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (c) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (d) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

4.3.3 *Rate of Interest for Floating Rate Loans*: The Rate of Interest in respect of Floating Rate Loans for each Interest Accrual Period shall be determined in the manner specified in the relevant Loan Agreement. The provisions below relating to either ISDA Determination or Screen Rate Determination, as specified in the relevant Loan Agreement, shall apply.

(i) ISDA Determination for Floating Rate Loans:

Where ISDA Determination is specified in the relevant Loan Agreement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the sum of the Margin and the relevant ISDA Rate. For the purposes of this paragraph (i), “**ISDA Rate**” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (a) the Floating Rate Option is as specified in the relevant Loan Agreement;
- (b) the Designated Maturity is a period specified in the relevant Loan Agreement; and
- (c) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Loan Agreement.

For the purposes of this paragraph (i), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**”, “**Reset Date**” and “**Swap Transaction**” have the meanings given to those terms in the ISDA Definitions.

(ii) Screen Rate Determination for Floating Rate Loans:

(x) Where Screen Rate Determination is specified in the relevant Loan Agreement as the manner in which the Reference Rate is to be determined, the Rate of Interest for each Interest Accrual Period will, subject to the provisions below, be either:

- (a) the offered quotation; or
- (b) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (either London time in the case of LIBOR, or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, only one of such quotations) and the lowest (or, if there is more than

one such lowest quotation, only one of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate as specified in the relevant Loan Agreement is not LIBOR or EURIBOR, the Rate of Interest in respect of such Loan will be determined as provided in the relevant Loan Agreement.

- (y) if the Relevant Screen Page is not available, or if paragraph (x)(a) above applies and no such offered quotation appears on the Relevant Screen Page, or if paragraph (x)(b) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the appropriate time specified above (subject as provided below), the Calculation Agent shall request (i) if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or (ii) if the Reference Rate is EURIBOR, the principal Euro zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Reference Rate for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and
- (z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, the Reference Rate shall be subject as provided below, the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter bank market or, if the Reference Rate is EURIBOR, the Euro zone inter bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is/are in the opinion of the Trustee and the Lender suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter bank market or, if the Reference Rate is EURIBOR, the Euro zone inter bank market, as the case may be, and the Rate of Interest shall be the sum of the Margin and the Reference Rate so determined provided that, if the Reference Rate cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be the sum of the Margin and the Reference Rate determined as at the last preceding Interest Determination Date.

4.4 Accrual of Interest

Interest shall cease to accrue on the relevant Loan on the due date for repayment thereof unless payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the applicable Rate of Interest up to but excluding the date on which payment in full of the outstanding principal amount of the respective Loan is made.

4.5 Maximum/Minimum Rates of Interest and Rounding

4.5.1 If any Maximum or Minimum Rate of Interest is specified in the relevant Loan Agreement, then any Rate of Interest shall be subject to such maximum or minimum, as the case may be.

4.5.2 For the purposes of any calculations required pursuant to any Loan Agreement (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “unit” means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

4.6 Calculations

The amount of interest payable in respect of any Loan for any period shall be calculated by multiplying (a) the product of the Rate of Interest and the outstanding principal amount of such Loan and (b) the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is specified in the relevant Loan Agreement in respect of such period, in which case the amount of interest payable in respect of such Loan for such period shall equal such Interest Amount or be calculated in accordance with such formula. Where any Interest Accrual Period comprises two or more Interest Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

4.7 Determination and Notification of Rates of Interest and Interest Amounts

The Calculation Agent shall, as soon as practicable on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts in respect of such Floating Rate Loan for the relevant Interest Accrual Period, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date to be notified to the Borrower, the Trustee, the Lender, each of the Paying Agents and any other Calculation Agent appointed in respect of such Floating Rate Loan that is to make a further calculation upon receipt of such information. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Clause 4.3.2 (*Business Day Convention*), the Interest Amounts and the Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made with the consent of the Borrower and the Lender by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If such Floating Rate Loan becomes due and payable under Clause 13 (*Events of Default*), the accrued interest and the Rate of Interest payable in respect of such Floating Rate Loan shall nevertheless continue to be calculated as previously, in accordance with this Clause 4 (*Interest*). The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

4.8 Determination or Calculation by Trustee

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount in relation to a Floating Rate Loan, the Lender and the Borrower agree that such determination or calculation may be made by or at the direction of the Trustee. The Trustee shall incur no liability in respect of such determination or calculation.

4.9 Definitions

In this Clause 4 (*Interest*), unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“**Business Day**” means:

- (a) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (b) in the case of euro, a day on which the TARGET System is operating (a “**TARGET Business Day**”).

“**Broken Amount**” has the meaning specified in the relevant Loan Agreement;

“**Business Day Convention**” has the meaning specified in the relevant Loan Agreement;

“**Compounding Period**” means, in respect of a Calculation Period, each period from, and including, one Compounding date to, but excluding, the next following applicable Compounding Date during the Calculation Period, except that (i) each initial Compounding Period for a Swap Transaction will commence on, and include, the Effective Date and (ii) each final Compounding Period for a Swap Transaction will end on, but exclude, the Termination Date.

“**Compounding Date**” means each day during the term of a Swap Transaction specified as such (or determined pursuant to a method specified for such purpose) for the Swap Transaction or a party.

“**Day Count Fraction**” means, in respect of a Swap Transaction and the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or Interest Accrual Period, the “**Calculation Period**” or “**Compounding Period**”):

- (i) if 1/1 is specified, 1;
- (ii) if “**Actual/Actual**”, “**Actual/Actual (ISDA)**”, “**Act/Act**” or “**Act/Act (ISDA)**” is specified in the relevant Loan Agreement, the actual number of days in the Calculation Period or Compounding Period in respect of which payment is being made divided by 365 (or, if any portion of that Calculation Period or Compounding Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period or Compounding Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period or Compounding Period falling in a non-leap year divided by 365);
- (iii) if “**Actual/Actual (ICMA)**” or “**Act/Act (ICMA)**” is specified in the relevant Loan Agreement, a fraction equal to “number of days accrued/number of days in year”, as such terms are used in Rule 251 of the statutes, by-laws, rules and recommendations of the International Capital Market Association (the “**ICMA Rule Book**”), calculated in accordance with Rule 251 of the ICMA Rule Book as applied to non US dollar denominated straight and convertible bonds issued after December 31, 1998, as though the interest coupon on a bond were being calculated for a coupon period corresponding

to the Calculation Period or Compounding Period in respect of which payment is being made;

- (iv) if “**Actual/365 (Fixed)**”, “**Act/365 (Fixed)**”, “**A/365 (Fixed)**” or “**A/365F**” is specified in the relevant Loan Agreement, the actual number of days in the Calculation Period or Compounding Period in respect of which payment is being made divided by 365;
- (v) if “**Actual/360**”, “**Act/360**” or “**A/360**” is specified in the relevant Loan Agreement, the actual number of days in the Calculation Period or Compounding Period in respect of which payment is being made divided by 360;
- (vi) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified in the relevant Loan Agreement, the number of days in the Calculation Period or Compounding Period in respect of which payment is being made divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period or Compounding Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period or Compounding Period falls;

“**M₁**” is the number of the calendar month in which the first day of the Calculation Period or Compounding Period falls;

“**M₂**” is the number of the calendar month in which the day immediately following the last day included in the Calculation Period or Compounding Period falls;

“**D₁**” is the number of the calendar day of the first day of the Calculation Period or Compounding Period, unless such number would be 31, in which case **D₁** will be 30; and

“**D₂**” is the number of the calendar day immediately following the last day included in the Calculation Period or Compounding Period, unless such number would be 31 and **D₁** is greater than 29, in which case **D₂** will be 30; and

- (vii) if “**30E/360**” or “**Eurobond Basis**” is specified in the relevant Loan Agreement, the number of days in the Calculation Period or Compounding Period in respect of which payment is being made divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period or Compounding Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period or Compounding Period falls;

“**M₁**” is the number of the calendar month in which the first day of the Calculation Period or Compounding Period falls;

“**M₂**” is the number of the calendar month in which the day immediately following the last day included in the Calculation Period or Compounding Period falls;

“D₁” is the number of the calendar day of the first day of the Calculation Period or Compounding Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the number of the calendar day immediately following the last day included in the Calculation Period or Compounding Period, unless such number would be 31, in which case D₂ will be 30.

- (viii) if “30E/360 (ISDA)” is specified, the number of days in the Calculation Period or Compounding Period in respect of which payment is being made divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period or Compounding Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period or Compounding Period falls;

“M₁” is the calendar month expressed as a number, in which the first day of the Calculation Period or Compounding Period falls;

“M₂” is the calendar month, expressed as a number, in which the first day immediately following the last day included in the Calculation Period or Compounding Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period or Compounding Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period or Compounding Period, unless (i) that day is the last day of February but not the Termination Dates or (ii) such number would be 31, in which case D₂ will be 30.

“**Determination Period**” means the period from and including a Determination Date in any year to but excluding the next Determination Date;

“**Determination Date**” means the date specified in the relevant Loan Agreement or, if none is so specified, the Interest Payment Date;

“**Effective Date**” means, in respect of a Swap Transaction, the date specified as such in the related confirmation, which date is the first day of the term of the Swap Transaction.

“**Fixed Amount**” has the meaning specified in the relevant Loan Agreement;

“**Interest Accrual Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date;

“**Interest Amount**” means the amount of interest payable, and in the case of Fixed Rate Loans, means the Fixed Amount or Broken Amount, as the case may be;

“**Interest Commencement Date**” means the Closing Date or such other date as may be specified in the relevant Loan Agreement;

“**Interest Determination Date**” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Loan Agreement or, if none is so

specified, (a) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (b) the day falling two Business Days in London and for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (c) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro;

“**Interest Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date or the Repayment Date (as the case may be);

“**Interest Period Date**” means each Interest Payment Date unless otherwise specified herein;

“**ISDA Definitions**” means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Loan Agreement;

“**Margin**” has the meaning specified in the relevant Loan Agreement;

“**Maximum Rate of Interest**” has the meaning specified in the relevant Loan Agreement;

“**Minimum Rate of Interest**” has the meaning specified in the relevant Loan Agreement;

“**Reference Banks**” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro zone inter bank market, in each case selected by the Calculation Agent or as specified in the relevant Loan Agreement;

“**Reference Rate**” means the rate specified as such in the relevant Loan Agreement;

“**Relevant Screen Page**” means such page, section, caption, column or other part of a particular information service as may be specified in the relevant Loan Agreement;

“**Swap Transaction**” means (a) any transaction which is a rate swap transaction, basis swap, forward rate transaction, interest rate cap transaction, interest rate floor transaction, interest rate collar transaction, currency swap transaction, cross-currency rate swap transaction, or any other similar transaction, (b) any combination of these transactions, or (c) any other transaction identified as a Swap Transaction in the related confirmation;

“**Target System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor thereof; and

“**Termination Date**” means, in respect of a Swap Transaction, the date specified as such in the related confirmation, which date is the last day of the Term of the Swap Transaction.

4.10 Calculation Agent

The Lender shall procure that there shall at all times be specified one or more Calculation Agents if provision is made for them herein and for so long as any amount remains outstanding under a Loan Agreement. Where more than one Calculation Agent is appointed in respect of a Loan, references in the relevant Loan Agreement to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the relevant Loan Agreement. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or Interest Period or to calculate any

Interest Amount, or to comply with any other requirement, the Lender shall (with the prior approval of the Borrower) appoint a leading bank or investment banking firm engaged in the inter-bank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid. Both the Borrower and the Lender agree that such successor Calculation Agent will be appointed on the terms of the Agency Agreement in relation to each particular Series.

5. REPAYMENT AND PREPAYMENT

5.1 Repayment

Except as otherwise provided herein and in each applicable Loan Agreement, the Borrower shall repay the outstanding amount of each Loan not later than 10.00 a.m. (Relevant Time) (a) two New York Business Days prior to the Repayment Date therefor (if the Specified Currency is U.S.\$), (b) two Brussels or London Business Days prior to the Repayment Date therefor (if the Specified Currency is euro or Sterling respectively) or (c) such number of Business Days prior to the Repayment Date therefor if the Specified Currency is a currency other than those specified in the preceding paragraphs (a) and (b) such that the Lender will be able to make the relevant payment on the Interest Payment Date under the Trust Deed.

5.2 Prepayment for Tax Reasons and Change in Circumstances

If: (a) as a result of the application of or any amendment or clarification to or change (including a change in the application or interpretation thereof) in (i) 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 (ii) the laws or regulations of Ukraine or the United Kingdom (or any Qualifying Jurisdiction where the Lender or any successor thereto is resident for tax purposes) or of any political subdivision thereof or any authority therein having power to tax or any Agency therein, the Borrower would thereby be required to pay, pursuant to any Loan Agreement, Additional Amounts in respect of Taxes as provided in Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Additional Amounts*) or Indemnity Amounts as provided in Clause 6.3 (*Withholding on Notes*); or (b) the Lender ceases to be resident for tax purposes in a Qualifying Jurisdiction, and as a result the Borrower would be required to withhold or deduct an amount on account of Tax from any payment to be made pursuant to any Loan Agreement; or (c) (for whatever reason) the Borrower would have to or has been required to pay additional amounts pursuant to Clause 9 (*Change in Law or Increase in Cost*); or (d) after a Relevant Event, the Borrower is or would be required to increase the payment of principal or interest or any other payment due hereunder as provided in Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Additional Amounts*) as a result of such payments being made to any person other than the Lender to whom the benefit of the Double Tax Treaty is unavailable 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, in the form set out in Schedule II hereto, to the effect that the Borrower would be required in the case of paragraphs (a), (c) and (d) above to increase the amount payable or to pay such Additional Amounts, Indemnity Amounts or additional amounts, and in the case of paragraph (b) above to withhold or deduct such amounts and such obligation cannot be avoided by the Borrower taking reasonable measures, supported (where the certification relates to tax matters) by an opinion of an independent tax adviser of recognised standing in the relevant tax jurisdiction, prepay any relevant Loan in whole (but not in part) together with any Additional Amounts then payable under Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Additional Amounts*), Indemnity Amounts payable under Clause 6.3 (*Withholding on Notes*), additional amounts payable pursuant to Clause 9 (*Change in Law or Increase in Cost*) and accrued interest. Any such notice of prepayment given by the Borrower shall

be irrevocable and shall oblige the Borrower to make such prepayment date specified in the notice, which shall be on any Interest Payment Date, in the case of a Floating Rate Loan, or at any time, in the case of a Fixed Rate Loan. 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, Indemnity Amounts or additional amounts, as the case may be.

5.3 Prepayment for Illegality

If, at any time after the date of any relevant Loan Agreement, by reason of the application of or any amendment or clarification to or the introduction of, or any change in, any applicable law or regulation or regulatory requirement or directive of any Agency of any state the Lender reasonably determines that it is or would be unlawful or contrary to such applicable law, regulation, regulatory requirement or directive for the Lender to allow all or part of any relevant Loan or the corresponding Series of Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with any relevant Loan Agreement and/or to charge or receive or to be paid interest at the rate then applicable to any such Loan, as the case may be, then upon notice by the Lender to the Borrower in writing (setting out in reasonable detail the nature and extent of the relevant circumstances), the Borrower and the Lender shall consult in good faith as to a basis which eliminates the application of such circumstances; provided, however, that the Lender shall be under no obligation to continue such consultation if a basis has not been determined within 30 days of the date on which it so notified the Borrower. If such a basis has not been determined within the 30 days, then upon notice by the Lender to the Borrower in writing, the Borrower shall prepay any such Loan in whole (but not in part) together with accrued interest (up to but excluding the date of such payment) thereon and all other amounts owing to the Lender hereunder on the next Interest Payment Date therefor, in the case of a Floating Rate Loan, or, in the case of a Fixed Rate Loan, on such date as the Lender shall certify to be necessary to comply with such requirements, subject to the right of the Lender to require prepayment earlier than set out in this Clause 5.3 (*Prepayment for Illegality*) to the extent that any applicable grace periods permitted by law would otherwise be exceeded, 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).

5.4 Prepayment upon a Put Event

5.4.1 If, following a Put Event, any Noteholder has exercised its Put Option, the Borrower shall on one Business Day prior to the Put Event Payment Date, prepay the outstanding principal amount of any relevant Loan in an amount which corresponds to the aggregate outstanding principal amount of the corresponding Series of Notes in relation to which the Put Option has been duly exercised in accordance with the Conditions of such Series of Notes together with accrued interest (up to but excluding the date of such payment) on the Loan.

5.4.2 Promptly, and in any event within 15 calendar days after the date of any Put Event, the Borrower shall deliver to the Lender, the Trustee and the Principal Paying Agent a written notice in the form of an Officer's Certificate, which notice shall be irrevocable, stating that a Put Event has occurred and stating the circumstances and relevant facts giving rise to such Put Event.

5.4.3 The Lender shall notify the Borrower not more than three Business Days after receipt of notice thereof from the Paying Agent, the amount of and date of which the relevant Loan has to be prepaid as a consequence of the exercise of the Put Option by any Noteholder.

5.5 Prepayment upon a Noteholder Put Option

5.5.1 In respect of any Series of Notes which provide a Noteholder Put Option, if any Noteholder has exercised its Noteholder Put Option as provided in the relevant Final Terms, the Borrower shall on one Business Day prior to the Noteholder Put Option

Payment Date (as set out in the relevant Final Terms) prepay the outstanding principal amount of any relevant Loan in an amount which corresponds to the aggregate outstanding principal amount of the corresponding Series of Notes in relation to which the Noteholder Put Option has been duly exercised in accordance with the relevant Final Terms.

5.5.2 Promptly, and in any event not less than 5 calendar days prior to the Noteholder Put Option Date, the Principal Paying Agent shall provide written notice to the Lender, such notice being irrevocable, stating that a Noteholder Put Option pursuant to the Final Terms has occurred and setting out the aggregate principal amount of Notes which are exercising the Noteholder Put Option, together with accrued but unpaid interest thereon up to and including the Noteholder Put Option Payment Date.

5.5.3 The Lender shall notify the Borrower not more than three Business Days after receipt of notice thereof from the Paying Agent, the amount of the relevant Loan that must be prepaid as a consequence of the exercise of the Noteholder Put Option by any Noteholder and the date on which the relevant Loan must be prepaid.

5.6 Reduction of a Loan Upon Redemption and Cancellation of Notes

The Borrower or any Subsidiary of the Borrower may from time to time, in accordance with the Conditions of the Notes and to the extent permitted by applicable law, purchase Notes in the open market or by tender or by a private agreement at any price. In the event that, following such purchase, an amount of Notes has been surrendered to the Lender for cancellation by the Borrower or any of the Borrower's Subsidiaries and cancelled, the relevant Loan shall be deemed to have been prepaid by the Borrower in an amount corresponding to the aggregate principal amount of the Notes surrendered to the Lender for cancellation, together with accrued interest and other amounts (if any) thereon and no further payment shall be made or required to be made by the Borrower in respect of such amounts.

5.7 Payment of Other Amounts

If any Loan is to be prepaid by the Borrower pursuant to any of the provisions of Clause 5.2 (*Prepayment for Tax Reasons and Change in Circumstances*), Clause 5.3 (*Prepayment for Illegality*) and Clause 5.4 (*Prepayment upon a Put Event*) or pursuant to the terms of any relevant Loan Agreement, the Borrower shall, simultaneously with such prepayment, to the extent not already paid in accordance with Clause 4 (*Interest*), pay to the Lender accrued interest thereon to the date of actual receipt of payment by the Lender and all other sums payable by the Borrower pursuant to the relevant Loan Agreement.

5.8 Provisions Exclusive

The Borrower may not voluntarily prepay or repay any Loan except in accordance with the express terms of each relevant Loan Agreement. Any amount prepaid or repaid may not be reborrowed under any Loan Agreement.

6. PAYMENTS

6.1 Making of Payments

All payments of principal and interest to be made by the Borrower under the relevant Loan Agreement shall be made to the Lender not later than 10.00 a.m. (Relevant Time) (a) two New York Business Days prior to each Interest Payment Date or the Repayment Date (as the case may be) (if the Specified Currency is U.S.\$), (b) two Brussels and London Business Days prior to each Interest Payment Date or the Repayment Date (as the case may be) (if the Specified Currency is euro or Sterling, respectively) or (c) such number of Business Days prior to each Interest Payment Date or the Repayment Date (as the case may be) if the Specified Currency is a currency other than

those specified in the preceding paragraphs (a) and (b) such that the Lender will be able to make the relevant payment on the date on which it is due under the Trust Deed, in each case in Same-Day Funds to the relevant Account. The Lender agrees with the Borrower that it will not deposit any other monies into such Account and will not withdraw any amounts from such Account other than as provided for and in accordance with the Trust Deed and Agency Agreement. The Borrower shall indemnify the Lender on written demand against any administrative costs and legal expenses reasonably incurred and properly documented by the Lender on account of any prepayment made in accordance with this Clause 6.1 (*Making of Payments*).

6.2 No Set-Off, Counterclaim or Withholding; Additional Amounts

6.2.1 All payments to be made by the Borrower under or in respect of the relevant Loan Agreement shall be made in full without set off or counterclaim and (except to the extent required by law) free and clear of and without deduction or withholding for or on account of any Taxes imposed or levied by or on behalf of any government or political subdivision or territory or possession of any government or authority or Agency in, or levied by or on behalf of or having authority to tax in, Ukraine or the United Kingdom or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes (each a “**Taxing Authority**”). If the Lender or the Borrower becomes subject at any time to any taxing jurisdiction other than or in addition to Ukraine or the United Kingdom or any Qualifying Jurisdiction references in this Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Additional Amounts*) shall be construed as references to Ukraine and/or the United Kingdom and/or any Qualifying Jurisdiction and/or such other jurisdiction. If the Borrower shall be required by applicable law to make any deduction or withholding from any payment of principal or interest under any Loan Agreement for or on account of any such Taxes, referred to in this Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Additional Amounts*), it shall increase any payment due under any such Loan Agreement to such amount (“**Additional Amounts**”) as may be necessary to ensure that the Lender and the Trustee or other relevant Person receives a net amount in the Specified Currency equal to the full amount which it would have received had payment not been made subject to such Taxes, shall account to the relevant Taxing Authorities for the relevant amount of such Taxes so withheld or deducted within the time allowed for such payment under the applicable law 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 Taxing Authority. If the Lender pays any amount in respect of such Taxes, the Borrower shall increase the amount payable to the Lender accordingly in the Specified Currency for such payment on demand. For the avoidance of doubt, this Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Additional Amounts*) is without prejudice to the obligations of the Lender pursuant to Clause 6.8 (*Double Tax Treaty Relief*). This Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Additional Amounts*) shall not apply to any taxes imposed by reference to the overall net income of the Lender.

6.2.2 At least 30 calendar days prior to each date on which any payment under or with respect to any Loan Agreement 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.

6.2.3 Whenever any Loan 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 any Loan Agreement or otherwise with respect to any such Loan Agreement, this includes, without duplication, payment of any Additional Amounts and Indemnity Amounts that may be applicable.

6.3 Withholding on Notes

Without prejudice to or duplication of the provisions of Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Additional Amounts*), if the Lender notifies the Borrower that it has become obliged to make any withholding or deduction for or on account of any Taxes (other than Taxes assessed on the Lender by reference to its overall net income) from any payment which it is obliged to make under or in respect of a Series of Notes in circumstances where the Lender, subject to receipt thereof, is required to pay additional amounts pursuant to Condition 8 of such Series of Notes, the Borrower agrees to pay to the Lender, not later than 10.00 a.m. (Relevant Time) (a) two New York Business Days prior to the date on which payment is due to the Noteholders of such Series or such other party (as the case may be) (if the Specified Currency is U.S.\$), (b) two Brussels or London Business Days prior to the date on which payment is due to the Noteholders of such Series or such other party (as the case may be) (if the Specified Currency is euro or Sterling, respectively) or (c) such number of Business Days prior to the date on which payment is due to the Noteholders of such Series or such other party (as the case may be) if the Specified Currency is a currency other than those specified in the preceding paragraphs (a) and (b) such that the Lender will be able to make the relevant payment on the date on which it is due under the Trust Deed, in each case in Same Day Funds to the relevant Account, such additional amounts as are equal to the said additional amounts which the Lender must pay pursuant to the terms of Condition 8 of such Series of Notes or otherwise provided, however, that the Lender shall procure that immediately upon receipt from any Paying Agent of any sums paid pursuant to this provision, to the extent that the Noteholders of such Series or such other party, as the case may be, are not entitled to such additional amounts pursuant to the Conditions of such Series of Notes, pay such additional amounts to the Borrower (it being understood that neither the Lender, nor the Principal Paying Agent and Transfer Agent nor any Paying Agent shall have any obligation to determine whether any Noteholder of such Series or such other party is entitled to such additional amount).

Any notification by the Lender to the Borrower in connection with this Clause 6.3 (*Withholding on Notes*) shall be given as soon as reasonably practicable after the Lender becomes aware of any obligation on it to make any such withholding or deduction, provided that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its affairs.

Any payments required to be made by the Borrower under this Clause 6.3 (*Withholding on Notes*) are collectively referred to as “**Indemnity Amounts**”. For the avoidance of doubt, the provisions of this Clause 6.3 (*Withholding on Notes*) shall not apply to any withholding or deduction of Taxes with respect to any Loan which are subject to payment of Additional Amounts under Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Additional Amounts*).

6.4 Tax Credits and Tax Refunds

6.4.1 If a payment is made under Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Additional Amounts*) or Clause 6.3 (*Withholding on Notes*) by the Borrower for the benefit of the Lender and the Lender determines in its absolute discretion (acting in good faith) 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 payment by the Borrower, 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 or payment; *provided* that (i) the Lender shall not be obliged to make any payment under this Clause 6.4 (*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 and further provided (ii) 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 6.2 (*No Set-Off, Counterclaim or Withholding; Additional Amounts*) or Clause 6.3 (*Withholding on Notes*). Any such payment shall, in the absence of manifest error, gross negligence or wilful default and subject to the Lender specifying in writing in reasonable detail the calculation of such credit, relief, remission or repayment and of such payment and providing relevant supporting documents evidencing such matters, be conclusive evidence of the amount due to the Borrower hereunder and shall be accepted by the Borrower in full and final settlement of its rights of reimbursement hereunder in respect of such deduction or withholding. Without prejudice to the Lender's obligations contained herein nothing contained in this Clause 6.4 (*Tax Credits and Tax Refunds*) or Clause 6.9 (*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.

- 6.4.2** 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 6.2 (*No Set-Off, Counterclaim or Withholding; Additional Amounts*) and 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, under the supervision of the Lender on behalf of the Lender, to the relevant Taxing Authority for a Tax refund and such Tax refund is credited by such Taxing Authority to a bank account of the Lender, the Lender shall as soon as reasonably practicable 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 been no failure to obtain relief from such withholding or deduction.

6.5 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of the Borrower to make any withholding or deduction as described in Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Additional Amounts*) or Clause 6.3 (*Withholding on Notes*), then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or the Borrower's obligations, under such Clauses, such party shall promptly upon becoming aware of such circumstances notify the other party, and, thereupon the parties shall consider and consult with each other in good faith with a view to finding, agreeing upon and implementing a method or methods by which any such obligation may be avoided or mitigated and, to the extent that both parties can do so without taking any action which in the reasonable opinion of such party is prejudicial to its own position, take such reasonable steps as may be reasonably available to it to avoid such obligation or mitigate the effect of such circumstances. The Borrower agrees to reimburse the Lender for all reasonably incurred and properly documented costs and expenses (including but not limited to legal fees) incurred by the Lender in connection with this Clause 6.5 (*Mitigation*) and 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 any Funding Document.

6.6 Lender's Representations and Covenants

- 6.6.1 The Lender represents and warrants that as at the date of this Agreement and on each Warranty Date it is a public limited company incorporated in the United Kingdom and resident in the United Kingdom for United Kingdom corporation tax purposes and therefore subject to United Kingdom corporation tax on its worldwide profits on the basis of its registration as a legal entity, location of its management body or another similar criterion (and not merely on its income or capital gains from sources in the United Kingdom or connected with property in the United Kingdom).
- 6.6.2 The Lender represents and warrants that as at the date of this Agreement and on each Warranty Date it does not have a permanent establishment in Ukraine which is effectively connected with the Loan.
- 6.6.3 The Lender represents and warrants that as at the date of this Agreement and on each Warranty Date it does not have any current intentions to effect, during the term of the Programme, any corporate action or reorganisation or change of taxing jurisdiction that would result in the Lender ceasing to be a resident of the United Kingdom.
- 6.6.4 The Lender (in its capacity as Issuer), shall not, (otherwise than as contemplated by this Framework Agreement, a relevant Loan Agreement or the Trust Deed) have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any person, give any guarantee, or subject to the laws of England and Wales, petition for any winding up or bankruptcy.
- 6.6.5 Nothing in this Agreement or the Conditions is meant to limit the Lender's (in its capacity as the Issuer) rights to enter into other financing transactions or issue further notes or (with the prior written consent of the Borrower) to issue and allot shares.

6.7 Lender Notification

The Lender agrees promptly, upon becoming aware thereof, to notify the Borrower if it ceases to be resident in the United Kingdom or any other Qualifying Jurisdiction or if any of the representations set forth in Clause 10.2 (*Representations and Warranties of the Lender*) are no longer true and correct.

6.8 Double Tax Treaty Relief

- 6.8.1 The Lender will use its best and timely endeavours to furnish the Borrower, as soon as 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 Tax Certificate in respect of that year provided that, without prejudice to its representation in Clause 6.6 (*Lender's Representations and Covenants*), the Lender shall have no liability to the Borrower, provided that such representation is correct and that the Lender has appropriately applied for the relevant certificate in accordance with each Loan Agreement, if the United Kingdom Tax Authority fails to issue a Tax Certificate in respect of any calendar year or only does so after the relevant Interest Payment Date.
- 6.8.2 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 deducting withholding tax or a reduction in the withholding tax rate to the maximum extent possible in accordance with the Double Tax Treaty in respect of payments to be made by the Borrower under the relevant Loan Agreement.

- 6.8.3 The Borrower shall use reasonable and timely efforts to assist the Lender in ensuring that all payments of interest by the Borrower to the Lender under the relevant Loan Agreement may be made without deduction on account of the generally applicable withholding tax established by Ukrainian legislation. 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 income 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.
- 6.8.4 If the Lender becomes resident for tax purposes in another Qualifying Jurisdiction, references in Clauses 6.8 (*Double Tax Treaty Relief*) to United Kingdom Tax Authority, Tax Certificate and Double Tax Treaty shall be read, respectively, as including references to the Tax Authority of such Qualifying Jurisdiction, a tax certificate of such Qualifying Jurisdiction and the double tax treaty between Ukraine and such Qualifying Jurisdiction.

6.9 Delivery of Forms and Other Instruments

- 6.9.1 The Lender shall, subject as provided in Clause 6.8 (*Double Tax Treaty Relief*), 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 6.6 (*Lender's Representations and Covenants*), issued by the competent Taxing Authority in the United Kingdom or any other Qualifying Jurisdiction, confirming that the Lender is a tax resident in such Qualifying Jurisdiction for purposes of the relevant double taxation treaty and such other information or forms as may be required (including pursuant to the relevant procedures in connection with the obtaining of relief from deduction or withholding of Tax in Ukraine or refunds in respect thereof) to be duly completed and delivered by the Lender with the cooperation and assistance of the Borrower to enable the Borrower to apply to obtain relief from deduction or withholding of Tax in Ukraine or, as the case may be, to apply to obtain a refund if a relief from deduction or withholding of Tax in Ukraine has not been obtained or claimed.
- 6.9.2 The Lender shall, within 30 days of a written 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 to the Borrower 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 commercially reasonable to obtain a Tax refund if a relief from deduction or withholding of Ukrainian Tax has not been obtained or claimed.
- 6.9.3 The Tax Certificate and, if required, other forms referred to in this Clause 6.9 (*Delivery of Forms and Other Instruments*) shall be duly signed by the Lender, if applicable, and 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.
- 6.9.4 If a relief from deduction or withholding of Ukrainian Tax under this Clause 6.9 (*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 any Loan 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.

- 6.9.5** If a relief from deduction or withholding of Ukrainian Tax or a Tax refund under this Clause 6.9 (*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 (a) use reasonable efforts to procure that such hryvnia bank account of the Lender is duly opened and maintained and (b) 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.
- 6.9.6** 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 any Loan Agreement.
- 6.9.7** Nothing contained in this Clause 6.9 (*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 or 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 the provision of a Tax Certificate (as described in Clause 6.9.3 above or its obligations under Clause 6.9.5 or 6.9.6).

6.10 Alternative Payment Arrangements

If, at any time, it shall become impracticable (by reason of any action of any Agency or any Change of Law, exchange control regulations or any similar event) for the Borrower to make any payments under any Loan Agreement in the manner specified in Clause 6.1 (*Making of Payments*), 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 6.1 (*Making of Payments*)) under any Loan 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.

6.11 No Set-Off

All payments required to be made by the Borrower under any Loan Agreement 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.

7. TAX RECEIPTS

7.1 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 the Borrower shall promptly notify the Lender prior to such payment being made.

7.2 Evidence of Payment of Tax

- 7.2.1** 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 Taxing Authority imposing such Taxes. The Borrower will furnish to the Lender, as soon as practicable but in any event within 60 calendar days after the date the payment of any

Taxes so deducted or withheld is due pursuant to applicable law, original 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.

- 7.2.2 The Lender will use its reasonable endeavours to provide the Borrower with tax receipts evidencing the payment of any Taxes deducted or withheld by it from each Taxing Authority imposing such Taxes. The Lender will furnish to the Borrower, as soon as practicable but in any event within 60 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.

8. CONDITIONS PRECEDENT

8.1 Documents to be Delivered

The obligation of the Lender to make the relevant Loan shall be subject to the receipt by the Lender on or prior to the relevant Closing Date of evidence that the persons mentioned in Clause 21.5 (*Service of Process*) have agreed to receive process in the manner specified therein.

8.2 Further Conditions

The obligation of the Lender to make the relevant Loan shall be subject to the further conditions precedent that as of the relevant Closing Date (a) the representations and warranties of the Borrower referred to in Clause 10.1 (*Representations and Warranties of the Borrower*) are accurate, (b) there is no Event of Default as described in Clause 13 (*Events of Default*) in existence, (c) there is no breach by the Borrower of any Loan Agreement, (d) the Lender shall have received in full the amount referred to in Clause 3.2 (*Facility Fee*) and Clause 3.4 (*Ongoing Fees and Expenses*), if due and payable, above, as specified in each relevant Loan Agreement, and by the Closing Date of this Agreement, the Subscription Agreement, Trust Deed and the Agency Agreement shall be executed by the relevant parties thereto.

9. CHANGE IN LAW OR INCREASE IN COST

9.1 Compensation

In the event that after the date of any Loan Agreement there is any Change of Law or in the interpretation or application thereof by any person charged with the administration thereof, which:

- 9.1.1 subjects or will subject the Lender to any Taxes with respect to payments of principal or interest on any Loan or any other amount payable under any Loan Agreement (other than any Taxes imposed by reference to the overall net income of the Lender or any Taxes referred to in Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Additional Amounts*) or Clause 6.3 (*Withholding on Notes*)); or
- 9.1.2 increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal or interest on any Loan or any other amount payable under any Loan Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Lender on its overall net income, capital gains or as a result of any Taxes referred to in Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Additional Amounts*) or Clause 6.3 (*Withholding on Notes*)); or
- 9.1.3 imposes, modifies or deems applicable any Capital Adequacy Requirements, reserve or deposit requirements attributable to this Agreement or to a class of business or transaction which, in the reasonable opinion of the Lender, includes this Agreement, against assets held by, or deposits in or for the amount of, or credit extended by the Lender; provided,

however, that the foregoing shall not include any increase in the rate of tax payable on the overall net income or capital gains of the Lender as a result of any change in the manner in which the Lender is required to allocate resources to this Agreement; or

9.1.4 imposes or will impose on the Lender any other condition affecting any Loan Agreement or any Loan,

and if as a result of any of the foregoing:

- (a) the cost to the Lender of making, funding or maintaining any such Loan is increased; or
- (b) the amount of principal, interest or other amount payable to or received by the Lender under any such Loan Agreement is reduced; or
- (c) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from the Borrower hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any such Loan,

then subject to the following, and in each such case:

- (i) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to the Borrower, together with a certificate signed by two directors of the Lender or by any person empowered by the authorised signatories of the Lender on behalf of the Lender describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and describing the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and setting out in reasonable detail the basis on which such amount has been calculated, and providing all relevant reasonable supporting documents describing such matters; and
- (ii) the Borrower, in the case of sub-clauses (a) and (c) above, shall within 30 days of receiving a written demand from the Lender, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of sub-clause (b) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return,

provided however, that the amount of such increased cost, reduced amount or payment made or foregone shall be deemed not to exceed an amount equal to the proportion which is directly attributable to any such Loan Agreement, and provided further that this Clause 9.1 (*Compensation*) will not apply to or in respect of any matter for which the Lender has already been compensated under Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Additional Amounts*) or Clause 6.3 (*Withholding on Notes*).

9.2 Mitigation

In the event that the Lender becomes entitled to make a claim pursuant to Clause 9.1 (*Compensation*), the Lender shall consult in good faith with the Borrower and shall use reasonable efforts (based on the Lender's reasonable interpretation of any relevant tax, law, regulation, requirement, official directive, request, policy or guideline) to reduce, in whole or in part, the Borrower's obligations to pay any additional amount pursuant to such Clause, except that nothing in this Clause 9.2 (*Mitigation*) shall obligate the Lender to incur any costs or expenses in taking any action hereunder unless the Borrower agrees to reimburse the Lender such reasonably incurred

and properly documented costs or expenses and 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 any Funding Document.

10. REPRESENTATIONS AND WARRANTIES

10.1 Representations and Warranties of the Borrower

The Borrower does, and on each Warranty Date (unless expressly stated otherwise) shall be deemed to, represent and warrant to the Lender as follows, with the intent that such representations and warranties shall form the basis of the relevant Loan Agreement:

10.1.1 Status

The Borrower is duly incorporated and validly existing under Ukrainian law and each of its Subsidiaries is duly incorporated and validly existing under the law of its respective jurisdiction and has full power and authority to own, lease and operate its properties and conduct its business as currently conducted and, in the case of the Borrower, is able lawfully to execute and perform its obligations under the relevant Loan Agreement and to borrow Loans.

10.1.2 Governmental Approvals

Save as provided in Clause 12.1 (*Maintenance of Legal Validity*), all actions or things required to be taken, fulfilled or done by the laws and regulations of Ukraine (including the obtaining of any authorisation, order, licence or qualification of or with any court or Agency) and all registrations, filings or notarisations required by the laws and regulations of Ukraine in order to ensure (a) that the Borrower is able to own its assets and carry on its business as currently conducted, (b) the due execution, delivery, validity and performance by the Borrower of the relevant Loan Agreement, (c) the compliance by the Borrower with all the provisions of the relevant Loan Agreement and (d) the consummation of all the transactions contemplated by the relevant Loan Agreement has been (or will, on or before each Warranty Date, have been) obtained, fulfilled or done and is (or will, on or before each Warranty Date, be) in full force and effect.

10.1.3 Corporate Approvals

The Borrower has taken all necessary corporate action required to authorise the borrowing of the relevant Loan on the terms and subject to the conditions of the relevant Loan Agreement and to authorise the execution and delivery of the relevant Loan Agreement and other Funding Documents and all other documents to be executed and delivered by it in connection with the relevant Loan Agreement, and the performance of the relevant Loan Agreement in accordance with its terms.

10.1.4 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 the relevant Loan Agreement will rank at least *pari passu* in right of payment with the claims of all its other unsecured creditors, save those whose claims are preferred by any bankruptcy, insolvency, liquidation, moratorium or similar laws of general application.

10.1.5 No Deduction

Without prejudice to the provisions of Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Additional Amounts*), 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 6.9 (*Delivery of Forms and Other Instruments*) payments of interest by the Borrower to the Lender under the relevant Loan Agreement may be made without deduction on account of the generally applicable withholding tax (at a rate of 15 per cent.) established by applicable Ukrainian legislation.

10.1.6 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.

10.1.7 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 any Loan Agreement, the choice of English law as the governing law of any such Loan Agreement and any arbitral award with respect to any such Loan Agreement obtained in the United Kingdom will be recognised and enforced in Ukraine, after compliance with the applicable procedural rules in Ukraine.

10.1.8 Valid and Binding Obligations

The obligations expressed to be assumed by the Borrower in the Funding Documents and in the relevant Loan Agreement (upon registration of the relevant respective Loan Agreement with the NBU) 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.

10.1.9 No Stamp Taxes

Under the laws of Ukraine in force at the date of this Agreement, the execution and delivery of the relevant Loan Agreement and other Funding Documents to which it is a party is not subject to any registration tax, transfer tax, stamp duty or similar levy in Ukraine and payments hereunder are, if the representations in Clause 6.6 (*Lender's Representations and Covenants*) are true, not subject to Ukrainian withholding tax.

10.1.10 No Default

No event has occurred or circumstance has arisen which might (whether or not with the giving of notice and/or the passage of time and/or the fulfilment of any other requirement) constitute an Event of Default or a Potential Event of Default under any Loan Agreement and no such event will occur upon the making of any relevant Loan.

10.1.11 No Bankruptcy or Winding-up Proceedings

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 in writing against the Borrower or any of its Subsidiaries for its or their bankruptcy, winding-up, dissolution, external administration or reorganisation (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 of any or all of its or their assets or revenues.

10.1.12 No Material Proceedings

There are no legal or administrative or arbitration proceedings current or pending or, to the best of the knowledge and belief of the Borrower having made due and careful

enquiries, threatened before any court, tribunal, arbitration panel or Agency to which the Borrower or any of its Subsidiaries is subject which prohibit the execution and delivery of this Agreement or the Borrower's or its Subsidiaries' compliance with its obligations hereunder or might reasonably be expected to have, in the singular or in the aggregate, a Material Adverse Effect.

10.1.13 No Material Adverse Change

Save as disclosed in the Prospectus, since 31 December 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 Borrower.

10.1.14 Financial Statements

The Borrower's audited financial statements for the years ended 31 December 2007, and 2006 and 2005 and its reviewed condensed interim balance sheet, income statement, statement of changes in equity and cash flows as at and for the three months ended 31 March 2008, were prepared in accordance with IFRS and present fairly in all material respects the financial position and the results of operations of the Borrower as at the dates for the period in respect of which they have been prepared.

10.1.15 Execution of Agreements

The Borrower's execution and delivery of the relevant Loan Agreement and the other Funding Documents to which it is a party and its exercise of its rights and performance of its obligations hereunder and under such other Funding Documents do not and will not:

- 10.1.15.1 violate or conflict with any existing applicable law, rule, regulation, judgment, order, directive or decree of any Agency binding upon the Borrower or any of its Subsidiaries;
- 10.1.15.2 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 Subsidiaries is a party or by which it or its properties is bound;
- 10.1.15.3 conflict with the provisions of the constitutional documents of the Borrower or any of its Subsidiaries or any resolution of its shareholders; or
- 10.1.15.4 give rise to any event of default or moratorium in respect of any of the obligations of the Borrower, in each case to an extent or in a manner which has or is capable of having a Material Adverse Effect or create any Security Interest or other encumbrance in respect of any of the assets of the Borrower or any of its Subsidiaries.

10.1.16 Compliance with Laws

The Borrower is in compliance with, in all material respects, all applicable provisions of the laws and regulations of Ukraine.

10.1.17 U.S. Securities Laws

With respect to the offer and sale of each Series of Notes, neither the Borrower nor any of its Affiliates nor any Person acting on its or their behalf (other than the Dealers, on behalf of whom the Borrower makes no representation) has engaged or will engage in any directed selling efforts (as defined in Regulation S under the U.S. Securities Act of 1933, as amended);

10.1.18 No Immunity

Neither the Borrower nor its respective property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to this Agreement or any Loan Agreement.

10.2 Representations and Warranties of the Lender

The Lender does, and on each Warranty Date (unless expressly stated otherwise) shall be deemed to, represent and warrant to the Borrower as follows, including the representations set out in Clause 6.6 (*Lender's Representations and Covenants*), with the intent that such shall form the basis of the relevant Loan Agreement;

10.2.1 Status and Capacity

The Lender is duly incorporated under the laws of the United Kingdom and has full power and capacity to execute the relevant Loan Agreement, the Funding Documents and all other documents to be executed and delivered in connection with the relevant Loan Agreement and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary action to approve and authorise the same.

10.2.2 Execution of Agreement

The execution of the relevant Loan Agreement, other Funding Documents 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 or any agreement or instrument to which it is a party or by which it is bound or in respect of indebtedness in relation to which it is a surety.

10.2.3 Valid and Binding Obligations

The relevant Loan Agreement and other Funding Documents constitute legal, valid and binding obligations of the Lender enforceable in accordance with their terms, subject to applicable bankruptcy, insolvency, liquidation, administration, moratorium, re-organisation and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity.

10.2.4 Corporate Approvals

All authorisations, consents, approvals and actions required by the Lender for or in connection with the execution of the relevant Loan Agreement, other Funding Documents and all other documents to be executed and delivered in connection with the relevant Loan Agreement and the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect.

10.2.5 Principal Activity

The principal activity of the Lender is to participate in securities issues and provide services related to such issues and to make loans to the Borrower with the proceeds of such issues.

11. INFORMATION

11.1 Delivery

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 (or any other or further stock exchange or stock exchanges or any other relevant authority or authorities on which the Notes may, from time to time, be listed and/or admitted to trading) may require in connection with the listing or admittance to trading of the Notes.

12. COVENANTS

The covenants in this Clause 12 (*Covenants*) remain in force for so long as any amount remains outstanding under any Loan Agreement.

12.1 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 the relevant Loan Agreement to which it is a party and to ensure the legality, validity, enforceability or admissibility in evidence in Ukraine of the relevant Loan Agreement.

12.2 Notification of Default

The Borrower shall inform the Lender and the Trustee promptly on becoming aware of the occurrence of any Event of Default or Potential Event of Default and within five calendar days 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 or Potential Event of Default has occurred.

12.3 Claims Pari Passu

The Borrower shall ensure that at all times the claims of the Lender and the Trustee against it under the relevant Loan Agreement rank at least *pari passu* in right of payment with the claims of all other unsubordinated creditors of the Borrower, save for those claims that are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application.

12.4 Negative Pledge of the Borrower

The Borrower shall not, and shall not permit any of its Material Subsidiaries, directly or indirectly, to create, incur or suffer to exist any Security Interests, other than Permitted Security Interests, on any of its or their assets, now owned or hereafter acquired, securing any Indebtedness or any Guarantee of any Indebtedness, unless any respective Loan is secured equally and rateably with such other Indebtedness or Guarantee or otherwise as approved by the Lender and the Trustee.

12.5 Mergers

12.5.1 The Borrower shall not, and shall ensure that none of its Material Subsidiaries will, without the prior written consent of the Lender, enter into any, or participate in any other type of Corporate Restructuring, if any such Corporate Restructuring 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 the relevant Loan Agreement and the performance and observance of every covenant of the Borrower under the relevant Loan Agreement.

12.5.2 For the avoidance of doubt, any such Corporate Restructuring or other type of Corporate Restructuring contemplated by this Clause 12.5 (*Mergers*) shall be considered as having a

Material Adverse Effect for the purposes of this Clause 12.5 (*Mergers*) in the event that it leads to a downgrading of either the senior unsecured issuer rating given to the Borrower by any Rating Agency or, in the case of the circumstances above where the Borrower is not the surviving entity following such reorganisation or other type of Corporate Restructuring, the ratings granted to the surviving entity immediately following such reorganisation or other type of Corporate Restructuring by the rating agencies are lower than the ratings granted to the Borrower by each of the Rating Agencies immediately prior to such reorganisation or other type or corporate reorganisation.

12.6 Disposals

- 12.6.1 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 assets which together constitute more than 10 per cent. of the total assets of the Borrower (as determined by reference to the latest IFRS audited financial statements of the Borrower) unless such transaction(s) is/are (a) made on an arm's-length basis and on commercially reasonable terms as determined in its sole discretion by an Independent Appraiser and (b) has/have been approved by a decision adopted by the competent governing body of the Borrower, or as the case may be, a Subsidiary.
- 12.6.2 For the avoidance of doubt, this Clause 12.6 (*Disposals*) shall not apply to any revenues or assets (or any part thereof) the subject of any securitisation of receivables, asset-backed financing or similar financing structure originated by the Borrower whereby all payment obligations are to be discharged solely from such assets or revenues, provided that the aggregate value of such assets or revenues which are the subject of all such securitisation of receivables, asset-backed financing or similar financing structures, when added to the aggregate value of assets or revenues subject to any Security Interests described under (j) in the definition of "Permitted Security Interests" and permitted under the terms of this Agreement, does not at any time exceed 10 per cent. of the total assets of the Borrower (as determined by reference to the latest IFRS audited financial statements of the Borrower).

12.7 Transactions with Affiliates

- 12.7.1 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 intercompany 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.
- 12.7.2 With respect to an Affiliate Transaction or any series of related Affiliate Transactions involving aggregate payments or a value exceeding 35 per cent. of the Group's assets (as determined by reference to the latest IFRS audited financial statements of the Borrower), 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.
- 12.7.3 This Clause 12.7 (*Transactions with Affiliates*) shall not apply to (a) 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); (b) transactions between or among all or any of the Borrower and/or any of its Subsidiaries; or (c) any compensation or employee benefit arrangements with any officer or director of the Borrower or any of its Subsidiaries, as the case may be, arising as a result of their employment contract.

12.8 Payment of Taxes and Other Claims

The Borrower shall, and shall ensure that its 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 Subsidiaries; provided that, none of the Borrower nor any Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (a) 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 (b) whose amount, together with all such other unpaid or undischarged Taxes, assessments, charges and claims, does not in the aggregate exceed U.S.\$1,000,000 (or its equivalent in any other currency), plus the amount of any Tax credit to which the Borrower is entitled under the applicable tax law or regulation.

12.9 Financial Information

12.9.1 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, as the case may be, financial statements for such financial year, prepared in accordance with IFRS and together with the report of the Auditors thereon.

12.9.2 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 reviewed financial statements for six months, prepared in accordance with IFRS, together with the review report of the Auditors thereon. To the extent that the Borrower produces quarterly unaudited financial statements ("Quarterly Statements"), prepared in accordance with IFRS, the Borrower further undertakes to provide copies of such Quarterly Statements within three months after the end of each quarter.

12.9.3 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 the Trust Deed.

12.10 Maintenance of Capital Adequacy

The Borrower shall not, and shall ensure that each Material Subsidiary which carries on a Banking Business shall not, permit its capital adequacy ratio to fall below the minimum capital adequacy ratio required by the NBU (in the case of the Borrower and any Subsidiary which carries on a Banking Business in Ukraine) or the relevant banking authority responsible for setting and supervising capital adequacy requirements for financial institutions in the jurisdiction in which the Borrower or any Material Subsidiary carries out its Banking Business outside Ukraine.

12.11 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 (a) at any time when there exists an Event of Default or a Potential Event of Default or (b) at any time when no such Event of Default or Potential Event of Default exists, (i) more frequently than once during any calendar year or (ii) in an aggregate amount exceeding 50 per cent. of the Borrower's net income for the latest period, calculated in accordance with IFRS, for which purpose, the amount of the Borrower's net income shall be determined by reference to its audited financial

statements of the latest period. The foregoing limitation shall not apply to distributions of fully paid common shares of the Borrower.

12.12 Limitation on restrictions on distributions from Subsidiaries

The Borrower shall not, and shall not permit any of its Subsidiaries to, create or otherwise cause or permit to exist 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;
- (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.

12.13 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, the maximum credit risk per one counterparty and the maximum amount of loans, guarantees and sureties provided to one insider (as such terms are defined in the rules and regulations promulgated by the NBU from time to time) to the extent that failure to comply with such rules and regulations could not be reasonably expected have resulted in a Material Adverse Effect.

12.14 Compliance Certificates

On each relevant Loan Interest Payment Date, the Borrower shall deliver to the Lender and the Trustee written notice in the form of an Officers' Certificate stating whether any Potential Event of Default or 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.

13. EVENTS OF DEFAULT

Each of Clauses 13.1 (*Failure to Pay*) to 13.9 (*Analogous Events*) (inclusive) describes the circumstances which constitute an Event of Default. If one or more Events of Default shall occur, the Lender shall be entitled to the remedies set forth in Clause 13.10 (*Acceleration*).

13.1 Failure to Pay

The Borrower fails to pay any sum due from it under any Loan Agreement at the time, in the currency and in the manner specified herein, and such failure is not remedied within five Business Days of the due date for payment.

13.2 Obligations

The Borrower fails duly to perform or comply with, or is otherwise in breach of any other of its obligations (other than set out in Clause 13.1 (*Failure to Pay*)) or covenants expressed to be assumed by it in the relevant Loan Agreement and such failure or breach is not remedied within 15 Business Days after the Lender (and, following a Relevant Event, the Trustee) has given notice of it to the Borrower requiring the same to be remedied.

13.3 Cross Default

Any Indebtedness of the Borrower or any of its Material Subsidiaries becomes (or becomes capable of being declared) due and payable prior to the stated maturity thereof (other than at the option

of the debtor) or the Borrower or any of its Material Subsidiaries shall fail to make any payment of principal in respect of any Indebtedness of the Borrower or any of its Material Subsidiaries on the date on which such payment is due and payable or at the expiration of any grace period originally applicable thereto or the Borrower, or any of its Material Subsidiaries shall fail to honour any payment under any Guarantee of any Indebtedness, unless the individual or aggregate amount of Indebtedness relating to any/or all the above events is less than U.S.\$10,000,000 (or its equivalent in any other currency).

13.4 Validity and Illegality

The validity of any Loan Agreement is contested by the Borrower or the Borrower shall deny any of its obligations under any Loan Agreement or (save as provided in Clause 12.1 (*Maintenance of Legal Validity*)) it is, or will become, unlawful for the Borrower to perform or comply with any of its obligations under any Loan Agreement or any of such obligations shall become unenforceable or cease to be legal, valid and binding or the Borrower is prohibited or enjoined by court order or other judicial proceeding or act of any Agency of any state from performing any of its obligations under any Loan Agreement in a manner which has a material adverse effect on the rights or claims of the Lender or, following a Relevant Event, the Trustee under such Loan Agreement.

13.5 Authorisations

Any regulation, decree, consent, approval, licence or other authority necessary to enable the Borrower to enter into or (save as provided in Clause 12.1 (*Maintenance of Legal Validity*)) perform its obligations under any Loan Agreement or for the validity or enforceability thereof shall expire or be withheld, revoked or terminated or otherwise cease to remain in full force and effect or shall be modified in a manner which adversely affects any rights or claims of the Lender or, following a Relevant Event, the Trustee under such Loan Agreement.

13.6 Revocation of Licence; Insolvency

13.6.1 The occurrence of any of the following events: (a) revocation of the general banking licence of the Borrower or, if applicable, of any of its Material Subsidiaries; (b) any of the Borrower or any of its Material Subsidiaries seeking, consenting or acquiescing in the introduction of proceedings for its liquidation or bankruptcy or the appointment of a liquidation commission or a similar officer of any of the Borrower or any of its Material Subsidiaries, as the case may be; (c) the presentation or filing of a petition in respect of any of the Borrower or any of its Material Subsidiaries in any court, arbitration court or before any Agency alleging or for the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceeding) of any of the Borrower or any of its Material Subsidiaries; (d) the institution of the supervision, external management, bankruptcy management of any of the Borrower or any of its Material Subsidiaries; (e) the convening or announcement of an intention to convene a meeting of creditors of any of the Borrower or any of its Material Subsidiaries for the purposes of considering an amicable settlement and/or (f) any extra judicial liquidation or analogous act in respect of any of the Borrower or any of its Subsidiaries by any Agency in or of Ukraine.

13.6.1 The Borrower or any of its Material Subsidiaries (a) fails or is unable to pay its debts generally as they become due, or (b) consents by answer or otherwise to the commencement against it of an involuntary case in bankruptcy or any other such action or proceeding or to the appointment of a custodian of it or for any substantial part of its property or (c) a court of competent jurisdiction enters an order for relief or a decree in an involuntary case in bankruptcy or any other such action or proceeding or for the appointment of a custodian in respect of the Borrower or any of its Material Subsidiaries or any part of their property.

13.6.2 The shareholders of the Borrower shall have approved any plan of liquidation or dissolution of the Borrower.

13.7 Unsatisfied Judgments

The aggregate amount of unsatisfied judgments, decrees or orders of courts or other appropriate law-enforcement bodies (from which no further appeal or judicial review is permissible under applicable law) for the payment of money against the Borrower and/or any Material Subsidiaries of the Borrower exceeds U.S.\$5,000,000 or the equivalent thereof in any other currency or currencies and following the entry thereof (or, if later, the date therein specified for payment) all such judgments, decrees or orders are not discharged, waived or the execution thereof stayed within 60 days.

13.8 Business

The Borrower ceases to carry on the principal business, as described in the Prospectus, it carried on at the date hereof.

13.9 Analogous Events

Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in Clauses 13.4 (*Validity and Illegality*) to 13.7 (*Unsatisfied Judgments*).

13.10 Acceleration

If an Event of Default has occurred and is continuing, the Lender and/or the Trustee may by written notice to the Borrower declare all outstanding amounts payable under any relevant Loan Agreement to be immediately due and payable (whereupon the same shall become immediately due and payable together with accrued interest thereon and any other sums then owed by the Borrower hereunder) or declare all outstanding amounts payable under any relevant Loan Agreement to be due and payable on demand of the Lender and/or the Trustee.

13.11 Amounts Due on Demand

If, pursuant to Clause 13.10 (*Acceleration*), the Lender or the Trustee declares all outstanding amounts payable under any relevant Loan Agreement to be due and payable on demand of the Lender or the Trustee, then, and at any time thereafter, the Lender or the Trustee may by written notice to the Borrower require repayment of all outstanding amounts payable under any relevant Loan Agreement on such date as it may specify in such notice (whereupon the same shall become due and payable on such date together with accrued interest thereon and any other sums then owed by the Borrower hereunder) or withdraw its declaration with effect from such date as it may specify in such notice.

14. DEFAULT INTEREST AND INDEMNITY

14.1 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 5.1 (*Repayment*), interest will continue to accrue on such sum 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.

14.2 The Borrower's Indemnity

14.2.1 The Borrower undertakes to the Lender, that if the Lender, any of its Subsidiaries, or any director, officer, employee or agent of the Lender or any such Subsidiaries or any person controlling the Lender within the meaning of the United States securities laws, or the

Trustee (each an “indemnified party”) incurs any loss, liability, cost, claim, charge, expense (including, without limitation, legal fees, costs and expenses and any VAT thereon) (a “Loss”) as a result of or in connection with any breach of representation or warranty under and in any manner in relation to this Agreement or any Loan Agreement or any other Funding Documents, any Event of Default or Potential Event of Default under and in any manner in relation to this Agreement or any Loan Agreement (or enforcement thereof), or the issue, constitution, sale, listing, admission to trading or enforcement of the Notes being outstanding or any combination of any of the foregoing, then the Borrower shall pay to the Lender on demand an amount equal to such Loss and all 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.

14.2.2 The indemnity in Clause 14.2.1 (*The Borrower’s Indemnity*) does not apply to Loss (i) which is caused by an indemnified party’s gross negligence, wilful misconduct or wilful default, provided that the Borrower hereby confirms that the Lender’s entering into any Loan Agreement or any other Funding Documents or related documentation with full knowledge of the rights and obligations relating thereto shall not constitute negligence of the Lender for the purposes of this exception or (ii) which is recovered under Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Additional Amounts*) or (iii) where an indemnity is sought already under Clause 6.3 (*Withholding on Notes*), Clause 9 (*Change in Law or Increase in Cost*) or Clause 16 (*Costs And Expenses*).

14.2.3 The Lender shall not have any duty or obligation, whether as fiduciary or trustee or otherwise, for any indemnified party or otherwise, to recover any such payment or to account to any other person for any amounts paid to it under this Clause 14.2 (*The Borrower’s Indemnity*).

14.3 Independent Obligation

Clause 14.2 (*The Borrower’s Indemnity*) constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with the relevant Loan Agreement or any other obligations of the Borrower thereunder and shall not affect, or be construed to affect, any other provision of any Loan Agreement or any such other obligations.

14.4 Evidence of Loss

A certificate of the Lender, supported by relevant documentation, setting forth the amount of Loss described in Clause 14.2 (*The Borrower’s Indemnity*) and specifying in full detail the basis therefor shall, in the absence of manifest error, gross negligence or wilful default, be evidence of the amount of such Loss.

14.5 Survival

The obligations of the Borrower pursuant to Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Additional Amounts*), 6.3 (*Withholding on Notes*), 6.11 (*No Set-Off*) and 14.2 (*The Borrower’s Indemnity*) shall survive the execution and delivery of the relevant Loan Agreement and the drawdown and repayment of any relevant Loan.

15. CURRENCY OF ACCOUNT AND PAYMENT

15.1 Currency Indemnity

If any sum due from the Borrower under any Loan 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 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 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.

16. COSTS AND EXPENSES

16.1 Transaction Expenses and Fees

The Borrower shall, pursuant to Clause 3.2 (*Facility Fee*) and each relevant Loan Agreement, pay the Lender the Facility Fee in the Specified Currency incurred and properly documented by the Lender in connection with the extension of the Loan.

16.2 Preservation and Enforcement of Rights

The Borrower shall, from time to time on written demand by the Lender, reimburse the Lender for all reasonably incurred and properly documented 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 any Loan Agreement (except where the relevant claim is successfully defended by the Borrower).

16.3 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 Document or any judgement given against the Borrower in connection therewith is or at any time may be subject and shall, from time to time on written demand by the Lender, indemnify the Lender against any reasonably incurred and 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.

16.4 Costs Relating to Amendments and Waivers

The Borrower shall, from time to time on written demand of the Lender (or the Trustee) (and without prejudice to the provisions of Clause 14.2 (*The Borrower's Indemnity*) and Clause 16.2 (*Preservation and Enforcement of Rights*)) compensate the Lender (and, as the case may be, the Trustee) at such daily and/or hourly rates 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 reasonably incurred and properly documented costs and expenses (including telephone, fax, copying and travel costs) they may incur, in connection with the Lender (and, as the case may be, the Trustee) taking such action as it may consider appropriate in connection with:

16.4.1 any meeting of Noteholders or the granting or proposed granting of any waiver or consent requested under any Loan Agreement by the Borrower;

16.4.2 any actual or potential breach by the Borrower of any of its obligations under any Loan Agreement;

16.4.3 the occurrence of any event which is an Event of Default or a Potential Event of Default; or

16.4.4 any amendment or proposed amendment to any Loan Agreement or any other Funding Document requested by the Borrower.

In that regard, the Lender shall, promptly upon request by the Borrower, convene a meeting of Noteholders in accordance with the terms and conditions of the notes and the provisions of the Funding Documents.

16.5 Act of Acceptance

Any reimbursement or indemnification of any costs and expenses in connection with this Agreement or any Loan Agreement, including, but not limiting to costs and expenses mentioned in Clauses 6.1 (*Making of Payments*), 6.5 (*Mitigation*), 9.2 (*Mitigation*), 16.2 (*Preservation and Enforcement of Rights*) and 16.4 (*Costs Relating to Amendments and Waivers*) shall be made by the Borrower following receipt of a relevant invoice from the Lender setting out in detail the nature of such costs and expenses and calculation of each relevant payment. In addition, in each such case the Borrower and the Lender shall enter into and sign the respective Act of Acceptance as provided in Clause 3.5 (*Act of Acceptance*).

17. ASSIGNMENTS AND TRANSFERS

17.1 Binding Agreement

Each Loan Agreement shall be binding upon and ensure to the benefit of each party thereto and its or any subsequent successors and permitted assigns.

17.2 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.

17.3 Assignments by the Lender

The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations hereunder except for the charge by way of first fixed charge granted by the Lender in favour of the Trustee of certain of the Lender's rights and benefits hereunder and to the Account and the absolute assignment by way of security by the Lender to the Trustee of certain rights, interest and benefits hereunder and to the Account, in each case pursuant to the Funding Documents.

18. CALCULATIONS AND EVIDENCE OF DEBT

18.1 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 or any Loan 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.

18.2 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 6.2 (*No Set-Off, Counterclaim or Withholding; 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 6.3 (*Withholding on Notes*) or Clause 9 (*Change in Law or Increase in Cost*) or Clause 14.2 (*The 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.

19. REMEDIES AND WAIVERS, PARTIAL INVALIDITY

19.1 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.

19.2 Partial Invalidity

If, at any time, any provision of this Agreement or any Loan Agreement 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 of this Agreement or such Loan Agreement 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.

20. NOTICES; LANGUAGE

20.1 Written Notice

All notices, requests, demands or other communication to be made under this Agreement or any Loan Agreement shall be in writing and, unless otherwise stated, shall be delivered by fax or post.

20.2 Giving of Notice

20.2.1 Any communication or document to be delivered by one person to another pursuant to this Agreement or any Loan 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:

- (a) If to the Borrower:
Closed Joint-Stock Company “ALFA-BANK”
4/6 Desyatynna Street
Kyiv
Ukraine
Attention: Mr Andriy Volkov (the Chairman of the Board), Mr Andriy Bobyshev and Mr Igor Tykhonov (Treasury and Capital Markets)
Fax: +380 44 4991035
- (b) If to the Lender
Ukraine Issuance plc
35 Great St. Helen’s
London
EC3A 6AP
Attention: The Directors
Fax: +44(0) 207 398 6325

20.2.2 Each communication and document to be made or delivered by one party to another pursuant to this Agreement or any Loan 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 20.2.2 (*Giving of Notice*) and shall be effective upon receipt by the addressee on a business day on the city of the recipient; provided that, (a) 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 (b) 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.

20.3 English Language

Each communication and document delivered by one party to another pursuant to this Agreement or any Loan 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.

20.4 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 thereof, or any dispute regarding the interpretation of any provision in the English or Ukrainian versions hereof, the English version shall prevail and any question of interpretation shall be addressed solely in the English language.

21. GOVERNING LAW, ARBITRATION AND JURISDICTION

21.1 English Law

This Agreement is governed by, and shall be construed in accordance with, English law.

21.2 Arbitration

Subject to Clause 21.3 (*English Courts*), 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 rules of the London Court of International Arbitration (the "**Rules**") as at present in force and as modified by this Clause 21.2 (*Arbitration*), which Rules shall be deemed incorporated in this Clause 21.2 (*Arbitration*). 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. Sections 45 and 69 of the Arbitration Act 1996 shall not apply.

21.3 English Courts

At any time before the Lender has nominated an arbitrator to resolve any Dispute or Disputes pursuant to Clause 21.2 (*Arbitration*), the Lender may, at its sole option, elect by notice in writing to the Borrower that such Dispute(s) shall instead be heard by the courts of England or by any other court of competent jurisdiction, as more particularly described below. Following any such election, no arbitral tribunal shall have jurisdiction in respect of such Dispute(s). In the event that the Lender serves a written notice of election in respect of any Dispute(s) pursuant to this Clause 21.3 (*English Courts*), 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 Clause 21.3 (*English Courts*) 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.

21.4 Appropriate Forum

For the purposes of Clause 21.3 (*English Courts*), 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.

21.5 Service of Process

The Borrower agrees that the service of process relating to any Proceedings in England and Wales may be made by delivery to Law Debenture Corporate Services Limited, at its registered office, currently located at 5th Floor, 100 Wood Street, London EC2V 7EX. If such person is not or ceases to be effectively appointed to accept service of process, the Borrower shall (a) immediately notify the Trustee and (b) promptly appoint a further person in England and Wales to accept service of process on its behalf and, failing such appointment within 15 days of the notification referred to in (a) above, the Lender shall be entitled to appoint such a person by written notice to the Borrower. Nothing in this Clause 21.5 (*Service of Process*) shall affect the right of the Trustee, the Agents, the Corporate Services Provider or Lender to serve process in any other manner permitted by law.

21.6 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:

21.6.1 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

21.6.2 each of Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Additional Amounts*), 13.10 (*Acceleration*), 14.2 (*The Borrower’s Indemnity*), 15.1 (*Currency Indemnity*) and 16.4 (*Costs Relating to Amendments and Waivers*) shall be enforceable by the Trustee as if it were a party to this Agreement.

22. 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.

23. PRESCRIPTION

Subject to the Lender having received the principal amount thereof or interest thereon from the Borrower, the Lender shall forthwith repay to the Borrower, the principal amount or the interest amount thereon, respectively, of any Series of Notes upon such Series of Notes becoming void pursuant to Condition 9 (*Prescription*) of such Notes.

24. AMENDMENTS

Except as otherwise provided by its terms, this Agreement may not be varied except by an agreement in writing signed by the parties.

FRAMEWORK AGREEMENT

AS WITNESS the hands of the duly authorised representatives of the parties hereto the day and year first before written.

UKRAINE ISSUANCE PLC

By:

Title:

By:

Title:

CLOSED JOINT-STOCK COMPANY "ALFA-BANK"

By:

Title:

SCHEDULE I

FORM OF LOAN AGREEMENT

THIS LOAN AGREEMENT is made on [SIGNING DATE]

BETWEEN:

- (1) **CLOSED JOINT-STOCK COMPANY "ALFA-BANK"**, a joint-stock company incorporated under the laws of Ukraine, whose registered office is at 4/6 Desyatynna Street, Kyiv, Ukraine, with identification code 23494714, as borrower (the "**Borrower**") represented by [], [], acting on the basis of the [Charter]; and
- (2) **UKRAINE ISSUANCE PLC**, 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, as lender (the "**Lender**").

WHEREAS:

- (A) The Borrower and the Lender entered into a framework agreement dated 23 July 2007 as amended and restated by the amended and restated framework agreement dated 27 May 2008 as further amended and restated by the amended and restated framework agreement dated 18 July 2008 (as may be further amended or supplemented from time to time, the "**Framework Agreement**") in respect of the Borrower's U.S.\$2,000,000,000 Programme for the Issuance of Loan Participation Notes (the "**Programme**").
- (B) The Borrower proposes to borrow [] (the "**Loan**") and the Lender wishes to make such Loan on the terms set out in this Loan Agreement.

IT IS AGREED as follows:

1. DEFINITIONS

Capitalised terms used but not defined in this Loan Agreement shall have the meaning given to them in the Framework Agreement save to the extent supplemented or modified herein.

2. ADDITIONAL DEFINITIONS

For the purpose of this Loan Agreement, the following expressions used in the Framework Agreement shall have the following meanings:

"**Account**" means the account in the name of the Lender (account number [], []);

"**Borrower Account**" means the account in the name of the Borrower (account number []);

"**Calculation Agent**" means [];

"**Closing Date**" means [];

"**Facility Fee**" means [];

"**Loan Agreement**" means this Loan Agreement;

"**Repayment Date**" means [] [amend as required for Floating Rate Loans]; and

"**Specified Currency**" means [];

3. INCORPORATION BY REFERENCE

Except as otherwise provided, the terms of the Framework Agreement shall be incorporated herein by reference and constitute an integral part of this Loan Agreement and all references to “this Agreement” in the Framework Agreement shall be deemed references to this Loan Agreement.

4. THE LOAN

4.1 NBU Registration

This Loan Agreement (and any amendments thereto, if required by any applicable law or regulation of Ukraine) shall become upon its registration with the NBU.

4.2 Drawdown

Subject to the terms and conditions of this Loan Agreement, the Lender agrees to make the Loan on the Closing Date to the Borrower and the Borrower shall make a single drawing in the full amount of the Loan.

4.3 Interest

The Loan is a [Fixed Rate][Floating Rate] Loan. Interest shall be calculated, and the following terms used in the Framework Agreement shall have the meanings, as set out below:

- | | |
|---|---|
| 4.3.1 Fixed Rate Loan Provisions | [Applicable/Not Applicable]

<i>(If not applicable, delete the remaining sub paragraphs of this paragraph)</i> |
| (i) Interest Commencement Date: | [] |
| (ii) Rate[(s)] of Interest: | [] per cent. per annum payable [annually/semi annually] in arrear |
| (iii) Interest Payment Date(s): | [] in each year [adjusted in accordance with <i>[specify Business Day Convention and any applicable Business Centre (s) for the definition of “Business Day”]</i> /not adjusted] |
| (iv) Fixed Amount[(s)]: | [] per [] in principal amount |
| (v) Broken Amount: | <i>[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Amount [(s)] and the Interest Payment Date (s) to which they relate]</i> |
| (vi) Day Count Fraction (Clause 4.9 (Definitions) of the Framework Agreement): | []

<i>(Day count fraction should be Actual/Actual ICMA for all fixed rate loans other than those denominated in U.S. dollars, unless otherwise specified)</i> |
| (vii) Determination Date(s) (Clause 4.9 (Definitions) of the Framework Agreement): | [] in each year. <i>[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last interest period]*</i> |
| (viii) Other terms relating to the method of calculating interest for Fixed Rate Loans: | [Not Applicable/give details] |

SCHEDULE 1

4.3.2 Floating Rate Loan Provisions	[Applicable/Not Applicable] (If not applicable, delete the remaining sub paragraphs of this paragraph)
(i) Interest Commencement Date:	[]
(ii) Interest Period(s):	[]
(ix) Specified Interest Payment Dates:	[]
(x) Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ other (<i>give details</i>)]
(xi) Business Centre(s):	[]
(xii) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/ other (<i>give details</i>)]
(xiii) Interest Period Date(s):	[Not Applicable/specify dates]
(xiv) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[]
(xv) Screen Rate Determination (Clause 4.3.3 (<i>Rate of Interest for Floating Rate Loans</i>) of the Framework Agreement):	
Relevant Time:	[]
Interest Determination Date:	[[] <i>[TARGET] Business Days in [specify city] for [specify currency] prior to [the first day in each Interest Period/each Interest Payment Date]</i>]
Relevant Screen Page/Primary Source for Floating Rate:	<i>[Specify relevant screen page or “Reference Banks”]</i>
Reference Banks (if Primary Source is “Reference Banks”):	<i>[Specify four]</i>
Relevant Financial Centre:	<i>[The financial centre most closely connected to the Reference rate—specify if not London]</i>
Reference Rate:	<i>[LIBOR, LIBID, LIMEAN, EURIBOR or other reference rate]</i>
Representative Amount:	<i>[Specify if screen or Reference Bank quotations are to be given in respect of a transaction of a specified notional amount]</i>
Effective Date:	<i>[Specify if quotations are not to be obtained with effect from commencement of Interest Period]</i>
Specified Duration:	<i>[Specify period for quotation if not duration of Interest Period]</i>

(xvi) ISDA Determination (Clause 4.3.3 (*Rate of Interest for Floating Rate Loans*) of the Framework Agreement):

Floating Rate Option: []

Designated Maturity: []

Reset Date: []

ISDA Definitions: (if different from those set out in the Conditions) []

(xvii) Margin(s): [+/-] [] per cent. per annum

(xviii) Minimum Rate of Interest: [] per cent. per annum

(xix) Maximum Rate of Interest: [] per cent. per annum

(xx) Day Count Fraction (Clause 4.9 (*Definitions*) of the Framework Agreement): []

(xxi) Rate Multiplier: []

(xxii) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Loans, if different from those set out in the Framework Agreement: []

4.4 Use of Proceeds

[]

5. FEES AND EXPENSES

Pursuant to Clause 3.2 (*Facility Fee*) of the Framework Agreement and in consideration of the Lender making the Loan to the Borrower, the Borrower hereby agrees that it shall, no later than 2.30 pm (London Time) one Business Day before the Closing Date/or as otherwise agreed by the Borrower and the Lender, pay to the Lender, in Same Day Funds, the Facility Fee as fully set out in the relevant Fees Letter. The Borrower and the Lender shall enter into and sign the relevant Act of Acceptance as provided in Clause 3.5 (*Act of Acceptance*) of the Framework Agreement.

6. GOVERNING LAW, ARBITRATION AND JURISDICTION

6.1 English Law

This Loan Agreement is governed by, and shall be construed in accordance with, English law.

6.2 Arbitration

Subject to Clause 6.3 (*English Courts*), any claim, dispute or difference of whatever nature arising under, out of or in connection with this Loan Agreement (including a claim, dispute or difference regarding the existence, termination or validity of this Loan Agreement) (a “**Dispute**”) shall be referred to and finally settled by arbitration in accordance with the rules of the London Court of International Arbitration (the “**Rules**”) as at present in force and as modified by this Clause 6.2, (*Arbitration*) which Rules shall be deemed incorporated in this Clause 6.2 (*Arbitration*). 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. Sections 45 and 69 of the Arbitration Act 1996 shall not apply.

6.3 English Courts

At any time before the Lender has nominated an arbitrator to resolve any Dispute or Disputes pursuant to Clause 6.2 (*Arbitration*), the Lender may, at its sole option, elect by notice in writing to the Borrower that such Dispute(s) shall instead be heard by the courts of England or by any other court of competent jurisdiction, as more particularly described below. Following any such election, no arbitral tribunal shall have jurisdiction in respect of such Dispute(s). In the event that the Lender serves a written notice of election in respect of any Dispute(s) pursuant to this Clause 6.3 (*English Courts*), 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 Loan Agreement (“**Proceedings**”) and, for such purposes, irrevocably submits to the jurisdiction of such courts. Nothing in this Clause 6.3 (*English Courts*) 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.

6.4 Appropriate Forum

For the purposes of Clause 6.3 (*English Courts*), 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.

6.5 Service of Process

The Borrower agrees that the service of process relating to any Proceedings in England or Wales are began may be served on it by being delivered to Law Debenture Corporate Services Limited, currently located at 5th Floor, 100 Wood Street, London EC2V 7EX. 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 6.5 (*Service of Process*) shall affect the right of the Lender to serve process in any other manner permitted by law.

The Lender agrees that the service of process relating to any Proceedings in England and Wales may be made by delivery to itself at its registered office for the time being, currently at 35 Great St. Helen’s, London EC3A 6AP. Nothing in this Clause 6.5 (*Service of Process*) shall affect the right of the Borrower to serve process in any other manner permitted by law.

7. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

A person who is not a party to this Loan Agreement (a “third party”) shall have no rights to enforce any of its provisions except that:

- 7.1 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
- 7.2 each of Clauses 6.2 (*No Set Off, Counterclaim or Withholding; Additional Amounts*), 13.10 (*Acceleration*), 14.2 (*The Borrower’s Indemnity*), 15.1 (*Currency Indemnity*) and 16.4 (*Costs relating to Amendments and Waivers*) of the Framework Agreement shall be enforceable by the Trustee as if it were a party to this Loan Agreement.

8. COUNTERPARTS

This Loan 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.

9. AMENDMENTS

Except as otherwise provided by its terms, this Loan Agreement may not be varied except by an agreement in writing signed by the parties.

10. LANGUAGE

This Loan Agreement has been executed in the English and Ukrainian languages. In the event of any conflict or discrepancy between the English and Ukrainian versions hereof or any dispute regarding the interpretation of any provision in the English or Ukrainian versions hereof, the English version shall prevail and questions of interpretation shall be addressed solely in the English language.

SCHEDULE II

Form of Officers' Certificate to Trustee and the Lender

[On the letterhead of the Borrower]

[Date]

Deutsche Trustee Company Limited
One Canada Square
London E14 5AL
United Kingdom

and

Ukraine Issuance plc
35 Great St. Helen's
London EC3A 6AP
United Kingdom

Dear Sirs,

Re: U.S.\$[] loan (the "Loan"), provided by Ukraine Issuance plc (the "Lender") to Closed Joint-Stock Company "ALFA-BANK" (the "Borrower") pursuant to the loan agreement dated [] 2008 (the "Loan Agreement") and the framework agreement dated 23 July 2007 as amended and restated by the amended and restated framework agreement dated 27 May 2008 as further amended and restated by the amended and restated framework agreement dated 18 July 2008, as may be further amended or supplemented from time to time (the "Framework Agreement") between the Borrower and the Lender

I refer to Clause 5.2 (*Prepayment for Tax Reasons and Change in Circumstances*) of the Framework Agreement. Terms used and defined in the Framework Agreement are used herein as so defined.

I hereby give you notice that as a result of:

[(a)] [the application of]/[an amendment to]/[a clarification of]/[a change in] (i) the Double Tax Treaty or (ii) the laws or regulations of [Ukraine]/ [the United Kingdom]/[the Qualifying Jurisdiction where the Lender is resident for tax purposes], the Borrower is required to pay, pursuant to the Loan Agreement, [Additional Amounts in respect of Taxes as provided in Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Additional Amounts*) of the Framework Agreement]/[Indemnity Amounts as provided in Clause 6.3 (*Withholding on Notes*) of the Framework Agreement][*delete as appropriate*]; [and]

[(b)] [the Lender ceasing to be resident for tax purposes in a Qualifying Jurisdiction, the Borrower is required to withhold or deduct an amount on account of Tax from payments made pursuant to the Loan Agreement][*delete as appropriate*]; [and]

[(c)] [the Borrower is required to pay additional amounts pursuant to Clause 9 (*Change in Law or Increase in Cost*) of the Framework Agreement][*delete as appropriate*]; [and]

[(d)] [a Relevant Event, the Borrower is required to increase the payment of [principal]/[interest]/[insert other payment] pursuant to Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Additional Amounts*) of the Framework Agreement][*delete as appropriate*],

the Borrower shall prepay the Loan Agreement in whole (but not in part) together with any Additional Amounts payable under Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Additional Amounts*), Indemnity Amounts payable under Clause 6.3 (*Withholding on Notes*), additional amounts payable pursuant to Clause 9 (*Change in Law or Increase in Cost*) of the Framework Agreement and accrued interest and such prepayment shall be paid on [*insert payment date as appropriate*] [Interest Payment Date, in the case of a Floating Rate Loan, or at any time, in the case of a Fixed Rate Loan]].

SCHEDULE 2

Yours faithfully,

Closed Joint-Stock Company “ALFA-BANK”

By: _____

Name: _____

Title: _____

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 Note in definitive form. The terms and conditions applicable to any Note in global form 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” as described in the Prospectus. References in these Terms and Conditions to “Notes” are to the Notes in one Series only, not to all Notes that may be issued under the Programme. Capitalised terms used but not defined in these terms and condition shall have the same meaning given to them in the Funding Documents (as defined in the Framework Agreement).

The Notes are constituted by, are subject to, and have the benefit of, the principal trust deed dated 23 July 2007 as amended and restated by the amended and restated principal trust deed dated on or about 27 May 2008 and as further amended and restated by the amended and restated principal trust deed dated on or about 18 July 2008 (such amended and restated principal trust deed as modified and/or restated and/or supplemented from time to time, the “**Principal Trust Deed**”) and as supplemented on the Issue Date, specified hereon by a supplemental trust deed (the “**Supplemental Trust Deed** and together with the Principal Trust Deed, the “**Trust Deed**”) between Ukraine Issuance plc (the “**Issuer**” or in its capacity as lender, the “**Lender**”) and Deutsche Trustee Company Limited as trustee (the “**Trustee**”, which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed). The Notes are the subject of an agency agreement dated 23 July 2007 as amended and restated by an amended and restated agency agreement dated on or about 27 May 2008 and as further amended and restated by an amended and restated agency agreement dated on or about 18 July 2008 (such amended and restated agency agreement as modified and/or restated and/or supplemented from time to time, the “**Agency Agreement**”) between the Issuer, Deutsche Bank Luxembourg S.A. and Deutsche Bank Trust Company Americas as registrar (the “**Registrar**”, which expression includes any successor registrar appointed from time to time in connection with the Notes), Deutsche Bank AG, London Branch 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), the transfer agents named therein (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 Transfer Agents and the Paying Agents and any reference to an “**Agent**” is to any one of them. Certain provisions of these 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 once for the time being of the Trustee, being at the date hereof Winchester House, 1 Great Winchester Street, London EC2N 2DB, England 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 to be used for the sole purpose of financing loans (each, a “**Loan**”) to be made by the Issuer to Closed Joint-Stock Company “ALFA-BANK” (the “**Borrower**”). The Lender and the Borrower have recorded the terms and conditions in a framework agreement dated 23 July 2007 as amended and restated by an amended and restated framework agreement dated on or about 27 May 2008 and as further amended and restated by an amended and restated framework agreement dated on or about 18 July 2008 (such amended and restated framework agreement as modified and/or restated and/or supplemented from time to time, the “**Framework Agreement**”) to be incorporated by reference and constituting an integral part of each loan agreement to be entered into between the Lender and the Borrower, in respect of each Loan on each Trade Date or Issue Date, as the case may be (each as defined in the Trust Deed (each a “**Loan Agreement**”).

The Issuer has:

- (a) charged in favour of the Trustee by way of a first fixed charge (the “**Charge**”) all the rights, title and interest in and to all sums of money now or in the future deposited in the account in respect of the relevant Series of Notes in the name of the Issuer with the Principal Paying Agent (the “**Account**”) and the debts represented thereby, including interest from time to time earned on the Account, provided that, subject to the Trust Deed (i) for the avoidance of doubt the Issuer shall remain the legal and beneficial of the property subject to the Charge following the creation of the Charge and (ii) there shall be excluded from the Charge the Reserved Rights and any amounts relating to the Reserved Rights;
- (b) charged in favour of the Trustee by way of the Charge all of the Lender’s rights to principal, interest and other amounts (if any) paid and payable under any of the relevant Loan Agreements and its rights to receive all sums paid and payable under any claim, award or judgment relating to any of such Loan Agreements (this sub paragraph (b), together with sub paragraph (a) other than the Reserved Rights, the “**Charged Property**”); and
- (c) with full title guarantee assigned absolutely by way of security to the Trustee for the benefit of itself and the Noteholders all the rights, interests and benefits, both present and future, which have accrued or may accrue to the Issuer in respect of each relevant Loan other than the Charged Property and any Reserved Rights (the “**Transferred Rights**” and together with the Charged Property, the “**Note Security**”).

In certain circumstances, the Trustee may (subject to its being indemnified and/or secured 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) be required in writing by Noteholders holding at least 25 per cent. in aggregate principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders, to institute such proceedings to enforce the rights of Noteholders under the Trust Deed (including enforcing the security credited).

1. FORM, DENOMINATION AND STATUS

- (a) *Form and denomination:* The Notes will be issued in fully registered form, and in the Specified Denomination shown hereon, without interest coupons. Interests in the Rule 144A Notes shall be held in amounts of not less than U.S.\$100,000 (or the equivalent in other currencies) and integral multiples of U.S.\$1,000 (or the equivalent in other currencies) in excess thereof. Interests in the Regulation S Notes shall be held in amounts of not less than €50,000 (or the equivalent in other currencies) and integral multiples of €1,000 (or the equivalent in other currencies) in excess thereof (each an “**Authorised Holding**”).

So long as the Notes are represented by a Global Note Certificate and the relevant clearing system(s) so permit, the Notes shall be tradeable only in principal amounts of at least the Specified Denomination (or, if more than one Specified Denomination, the lowest Specified Denomination) provided hereon and integral multiples of the Tradeable Amount provided in the relevant Final Terms.

A Note issued under the Trust Deed may be a Fixed Rate Note, a Floating Rate Note, a combination of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis specified hereon.

- (b) *Status:* The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance each respective Loan. The Notes constitute the obligation of the Issuer to apply an amount equal to the gross proceeds of the sale of the Notes solely for financing each respective Loan and to account to the Noteholders for principal, interest and additional amounts, if any, payable in respect of the Notes in an amount equivalent to sums of principal, interest, Additional Amounts and Indemnity Amounts, payable by the Borrower to the Lender pursuant to the relevant Loan Agreement (less any amounts in respect of Reserved Rights), the rights to receive which are, *inter alia*, being charged by way of

security to the Trustee by virtue of the Note Security as security for the Issuer's payment obligations under the Trust Deed and in respect of the Notes.

Noteholders are deemed to have 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 (save as otherwise expressly provided in the Trust Deed and paragraph (vi) below) liability, or obligation in respect of the performance and observance by the Borrower of its obligations under the Loan Agreement or the recoverability of any sum of principal, interest, Additional Amounts or Indemnity Amounts or other amounts, if any, due or to become due from the Borrower under the 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 relevant Loan Agreement;
- (iv) 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 Paying Agent, any Transfer Agent or any Paying Agent of their respective obligations under the Agency Agreement;
- (v) pursuant to the assignment of the Transferred Rights, 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 relevant Loan Agreement and shall not otherwise be responsible for investigating any aspect of the Borrower's performance in relation thereto. Subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Note Security (as defined above) and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the secured property represented by the Note Security, whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Note Security whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee will have no responsibility for the value of such security;
- (vi) the financial servicing and performance of the terms of the Notes depend solely and exclusively upon the performance by the Borrower of its obligations under the relevant Loan Agreement and its covenant to make payments under such Loan Agreement and its credit and financial standing. The Borrower has represented and warranted to the Lender in the relevant Loan Agreement (subject to certain qualifications) that the relevant Loan Agreement constitutes a legal, valid and binding obligation of the Borrower. The representations and warranties given by the Borrower in the relevant Loan Agreement are given by the Borrower to the Lender and (following the assignment of the Transferred Rights) the Trustee, and no Noteholder separately shall have any remedy or rights against the Borrower in respect of a breach of such representations or warranties; and
- (vii) that the relevant Loan Agreement constitutes a legal, valid and binding obligation of the Borrower. The representations and warranties given by the Borrower in the relevant Loan Agreement and the Deed of Indemnity are given by the Borrower to the Lender and (following the assignment of the Transferred Rights) the Trustee, and no Noteholder separately shall have any remedy or rights against the Borrower in respect of a breach of such representations or warranties.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Lender's rights under or in respect of the relevant Loan Agreement or the respective 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 in the relevant Loan Agreement or have direct recourse to the Borrower except through action by the Trustee under the Note Security. Neither the Issuer nor the Trustee pursuant to the Transferred Rights shall be required to take proceedings to enforce payment under the relevant 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.

After realisation of the security which has become enforceable and application of the proceeds in accordance with Clause 10 (*Application of Moneys received by the Trustee*) of the Trust Deed, the obligations of the Issuer with respect to the Trustee and the Noteholders in respect of the Notes shall be satisfied and none of the foregoing parties may take any further steps against the Issuer to recover any further sums in respect thereof and the right to receive any such sums shall be extinguished. In particular, neither the Trustee nor any Noteholder shall petition or take any other step for the winding up of the Issuer.

The obligations of the Issuer to make payments as stated in the previous paragraph 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.

Payments made by the Borrower under the relevant 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 to the extent that there is a subsequent failure to make payment to the Noteholders.

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, a “**Note Certificate**”) will be issued to each Noteholder in respect of its registered holding. Each 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 Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such 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*) below, a Note may be transferred upon surrender of the relevant 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 Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

- (d) *Registration and delivery of Note Certificates:* Within five business days of the surrender of a Note Certificate in accordance with Condition 2(c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new 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, and such consent is not to be unreasonably withheld or delayed. 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 admitted to listing on the regulated market of the Irish Stock Exchange, a copy of the current regulations will be publicly available at the Specified Offices of the Irish Paying Agent in Ireland.

3. COVENANTS

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 relevant Loan Agreement and will act in accordance with any instructions of the Trustee from time to time with respect to such Loan Agreement, except as otherwise expressly provided in the Trust Deed and the relevant 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 15 (*Notices*).

Save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee or an Extraordinary Resolution or Written Resolution, shall not (otherwise than as contemplated in these Conditions or the Trust Deed), *inter alia*, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any person, make any distributions to its shareholders, give any guarantee, or subject to the laws of England and Wales, petition for any winding up or bankruptcy.

Nothing in these Terms and Conditions is meant to limit the Issuer’s rights to enter into other financing transactions or issue further notes provided that, in each such transaction or further note issue the creditors’ rights are subject to a post enforcement call option on substantially the same terms as the Post-Enforcement Call Option Agreement entered into with respect to the Notes. In addition the Issuer shall be entitled to issue and allot shares without the consent of the Noteholders.

4. INTEREST

- (a) *Interest on Fixed Rate Notes:* Each Fixed Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest specified hereon which shall be equal to the rate per annum at which interest under each respective Loan accrues. Accordingly, on each Interest Payment Date or as soon thereafter as the same shall be received by the Lender, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest due to Noteholders in respect of such Notes pursuant to the relevant Loan Agreement.

If a Fixed Amount or a Broken Amount is specified hereon, the amount of interest payable on each Interest Payment Date will amount to the Fixed Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified hereon or as soon as thereafter as the same is received.

- (b) *Interest on Floating Rate Notes:*

(i) *Interest Payment Dates:* Each Floating Rate Note bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest specified hereon, which shall be equal to the rate per annum at which interest under each respective Loan accrues, such interest being payable in arrear on each Interest Payment Date or as soon as thereafter as the same is received. Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date. Accordingly, on each such date or as soon thereafter as the same shall be received by the Lender, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under each respective Loan received by or for the account of the Lender pursuant to the relevant Loan Agreement.

(ii) *Business Day Convention:* If any date referred to in these Terms and Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period (as defined in the relevant Loan Agreement) shall be determined in the manner specified hereon and as set out in the relevant Loan Agreement.

- (c) *Accrual of Interest:* Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 4 to the Relevant Date (as defined in Condition 8 (*Taxation*)).

- (d) *Calculations:* The amount of interest payable in respect of any Note for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding nominal amount of such Note

by the Day Count Fraction as specified hereon and in the relevant Loan Agreement, unless an Interest Amount (or a formula for its calculation) is specified in respect of such period, in which case the amount of interest payable in respect of such Note for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

- (e) *Publication of Rates of Interest and Interest Amounts:* The Calculation Agent shall, as soon as practicable after calculating or determining the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date as set out in the relevant Loan Agreement, cause such Rate of Interest and Interest Amounts to be notified to the Trustee, the Issuer, the Borrower, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 4(b)(ii) (*Interest on Floating Rate Notes*), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable as a consequence of amounts under the relevant Loan Agreement becoming due and payable prior to the Repayment Date (as defined in the relevant Loan Agreement), the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.
- (f) *Determination or Calculation by Trustee:* If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount pursuant to the relevant Loan Agreement, the Trustee shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances. The Trustee shall incur no liability in respect of such determination or calculation.
- (g) *Default Interest under the Loan Agreement:* In the event that, and to the extent that, the Lender actually receives any amounts in respect of interest on unpaid sums pursuant to Clause 14 (*Default Interest and Indemnity*) of the Framework 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(g) will be made on the next following business day (as defined in Condition 6(d)) after the day on which the Lender receives such amounts and, save as provided in this Condition 4(g), subject as provided in Condition 7 (*Payments*).

5. SECURITY

The Issuer's obligations under the Notes and its obligations to pay all sums under the Trust Deed are charged in favour of the Trustee by way of the Charge over (i) all rights, title and interest in all and to all sums of money now or in the future deposited into the Account and the debts represented thereby including interest from time to time earned on the Account and (ii) all of the Lender's rights to principal, interest and other amounts (if any) paid and payable under any of the relevant Loan Agreements and its rights to receive

all sums paid and payable under any claim, award or judgment relating to any of such Loan Agreements, *provided* that, subject to the Trust Deed (x) for the avoidance of doubt the Issuer shall remain legal and beneficial owner of the property subject to the Charge following the creation of the Charge and (y) there shall be excluded from the Charge the Reserved Rights and any amounts relating to the Reserved Rights.

The Issuer, pursuant to the Trust Deed, with full title guarantee will assign (the “**Assignment**”) absolutely by way of security to the Trustee for the benefit of itself and the Noteholders all the rights, interests and benefits, both present and future, which have accrued or may accrue to the Lender in respect of each relevant Loan other than any rights, interests and benefits charged in favour of the Trustee by way of the Charge in this Condition 5 and any Reserved Rights.

In certain circumstances, the Trustee may (subject to its being indemnified and/or secured 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) be required in writing by Noteholders holding at least 25 per cent. in aggregate principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to institute such proceedings to enforce the rights of Noteholders under the Trust Deed (including enforcing the security credited).

6. REDEMPTION, PURCHASE AND POST-ENFORCEMENT CALL OPTION

- (a) *Final Redemption*: Unless the respective Loan is previously prepaid or repaid pursuant to Clauses 5.2 (*Prepayment for Tax Reasons and Change in Circumstances*), 5.3 (*Prepayment for Illegality*), 5.4 (*Prepayment upon a Put Event*) or 14 (*Default Interest and Indemnity*) of the Framework Agreement, the Borrower will be required to repay the respective Loan on the Repayment Date and, subject to such repayment, as set forth in the relevant Loan Agreement, all the Notes then remaining outstanding will on that date be redeemed or repaid by the Issuer in the relevant Specified Currency on the Redemption Date specified hereon at their Final Redemption Amount (which, unless otherwise specified hereon, is 100 per cent. of the principal amount thereof).
- (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 same date as that set forth in the notice of prepayment referred to in Condition 6(b)(i) or 6(b)(ii) below) in accordance with Condition 15 (*Notices*) at the principal amount thereof, together with interest accrued and unpaid to the date fixed for redemption and any additional amounts in respect thereof pursuant to Condition 8 (*Taxation*), if:
- (i) the Lender has received a notice of prepayment from the Borrower pursuant to Clause 5.2 (*Prepayment for Tax Reasons and Change in Circumstances*) of the Framework Agreement; or
 - (ii) the Lender has delivered a notice to the Borrower, the contents of which require the Borrower to repay the respective Loan, in accordance with the provisions of Condition 5.3 (*Prepayment for Illegality*) of the Framework Agreement.

Upon receipt from the Lender of a copy of the Borrower’s notice of prepayment 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 6(b). A copy of the Borrower’s notice of prepayment or details of the circumstances contemplated by Clause 5.3 (*Prepayment for Illegality*) of the Framework Agreement and the date fixed for redemption shall be set forth in the notice.

The Trustee shall be entitled to accept and rely on without liability any notice or certificate delivered by the Issuer in accordance with this Condition 6(b) 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 6(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 6 (*Redemption, Purchase and Post-Enforcement Call Option*), subject as provided in Condition 7 (*Payments*).

- (c) *Redemption at the option of the Noteholders upon a Put Event:* Under Clause 5.4.2 (*Prepayment upon a Put Event*) of the Framework Agreement, upon the occurrence of a Put Event (as defined below) the Borrower is obliged to notify the Lender, the Principal Paying Agent and the Trustee, in writing thereof.

Upon the Lender being notified in writing, pursuant to the relevant Loan Agreement that a Put Event has occurred, the Issuer shall and upon the Trustee becoming so aware (of the Issuer having failed to do so) the Trustee may, and, if so requested by the holders of at least one quarter in principal amount of the Notes then outstanding, shall, give notice (a “**Put Event Notice**”) to the Noteholders in accordance with Condition 15 (*Notices*) specifying the nature of the Put Event and the procedure for exercising the option contained in this Condition 6(c).

To exercise the right to require the redemption of a Note under this Condition 6(c), a Noteholder must deliver, on any Put Business Day (as defined below) falling within the period of 30 days after the Put Event Notice is given by the Trustee (the “**Put Period**”), to the specified office of any Paying Agent, such Note together with a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (a “**Put Option Exercise Notice**”) (unless, prior to the delivery of the Put Option Exercise Notice, the Issuer gives notice to the Noteholders under Condition 6(b) above or the respective Loan becomes due and payable pursuant to Clause 13 (*Events of Default*) of the Framework Agreement).

The Paying Agent to which such Note Certificate and Put Option Exercise Notice is delivered will issue to the Noteholder concerned a non-transferable receipt and give notice to the Trustee, the Issuer and the Principal Paying Agent that the Noteholder concerned wishes to redeem the Note which is the subject of such Put Option Exercise Notice.

Provided that any Note Certificate that is the subject of such Put Option Exercise Notice has been delivered to the Principal Paying Agent or other Paying Agent prior to the expiry of the Put Period, the Issuer shall redeem each Note represented by such Note Certificate on a date which is the fifteenth Put Business Day immediately following the last day of the Put Period or if that date is not a Business Day, the first Put Business Day thereafter (the “**Put Settlement Date**”).

A Put Option Exercise Notice, once given, shall be irrevocable.

The Trustee shall not be required to take any steps to ascertain whether a Put Event or a Change of Control or a Rating Decline has occurred and will not be responsible or liable to Noteholders for any loss arising from any failure to do so.

Redemption by the Issuer shall be subject to receipt by the Lender of the relevant monies from the Borrower under the relevant Loan Agreement. To the extent that such payment is received by the Issuer under the relevant Loan Agreement, the Lender shall be required to redeem each Note held by the relevant Noteholder on the Put Settlement Date at its principal amount together with accrued interest (if any) to (but excluding) the Put Settlement Date.

In this Condition 6(c):

A “**Change of Control**” shall be deemed to have occurred at each time (whether or not approved by the management board of the Borrower) that an announcement is made that the Permitted Holders (individually or in aggregate) cease to control or that they intend to cease to control (directly or indirectly) 50 per cent. plus one share of the Voting Stock of the Borrower;

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

“**Put Business Day**” means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in New York, London and Kyiv and in the place of presentation;

“**Put Event**” means a Change of Control followed by, a Rating Decline unless the Rating Decline results from a general down grading by the relevant Rating Agency in respect of the corporate credit ratings in the Ukrainian banking sector or Ukrainian corporate credit ratings generally;

“**Rating Agency**” means Standard & Poor’s Rating Services, a division of The McGraw Hill Companies, Inc. (“**S&P**”), Moody’s Investors Service Limited (“**Moody’s**”) or Fitch Ratings Ltd (“**Fitch**”), or any of their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Borrower, from time to time with the prior written approval of the Issuer (and, following a Relevant Event, the Trustee without regard to the Issuer);

“**Rating Categories**” means (i) with respect to S&P, any of the following categories (any of which may or may not include a “+” or “-”): AAA, AA, A, BBB, BB, B, CCC, CC, C and D (or equivalent successor categories); (ii) with respect to Moody’s, any of the following categories (any of which may or may not include a “1”, “2” or “3”): Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C and D (or equivalent successor categories); and (iii) the equivalent of any such categories of S&P or Moody’s used by another Rating Agency, if applicable;

“**Rating Decline**” means that at any time within 90 days (which period shall be extended so long as the corporate credit rating of the Borrower or the credit rating in respect of any Notes is under publicly announced consideration for possible downgrade by any Rating Agency) after the announcement or the occurrence of a Change of Control, the corporate rating of the Borrower or the rating of the Notes is decreased or downgraded by a Rating Agency by one or more Rating Categories below the corporate rating of the Borrower or the rating of any Notes as of the date hereof (or if a Rating Agency has not assigned any such rating as of the date hereof, below the first such rating assigned to the Borrower or any Notes by that Rating Agency after the date hereof) as a result of such transaction or series of transactions, as specified by the relevant Rating Agency (which, for the purposes hereof, shall include a downgrade of “+,” “-,” “1”, “2” or “3” or the equivalent of any such categories of S&P or Moody’s used by another Rating Agency, if applicable); and

“**Voting Stock**” means, in relation to any Person, Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees of any Person.

- (d) *No other redemption by the Issuer:* Except where a respective Loan is accelerated pursuant to Clause 13.6 (*Revocation of Licence; Insolvency*) of the Framework Agreement, the Issuer shall not be entitled to redeem any Notes prior to that due date otherwise than as provided in Conditions 6(b) (*Redemption by the Issuer*) and 6(c) (*Redemption at the Option of the Noteholders upon a Put Event*) above.
- (e) *Purchase:* The Issuer or any of its subsidiaries or the Borrower or any of its subsidiaries may at any time purchase any Notes in the open market or otherwise and at any price. Such Notes purchased by the Issuer cannot be reissued or resold and will be cancelled forthwith.

Notes held by the Borrower, the Issuer or any of their respective subsidiaries will cease to carry rights to attend and vote at meetings of Noteholders and will not be taken into account, for the purposes of Condition 12 (*Meetings of Noteholders; Modification and Waiver; Substitution*) and Condition 13 (*Enforcement*) or determining how many Notes are outstanding for the purposes of these Conditions.

- (f) *Cancellation:* All Notes so redeemed or purchased and surrendered for cancellation by the Issuer or any of its subsidiaries shall be cancelled and all Notes purchased by the Borrower or any of its subsidiaries and surrendered to the Issuer pursuant to Clause 5.6 (*Reduction of a Loan Upon Redemption and Cancellation of Notes*) of the Framework Agreement, together with an authorisation addressed to the Registrar, shall be cancelled. The relevant Loan Agreement provides that the outstanding amount thereunder shall be reduced *pro tanto* with effect from the date of cancellation by the Registrar of such Notes.

(g) *Post-Enforcement Call Option:*

(i) *Sale of Notes to the PECO Holder:* The Noteholders will, at the request of Ukrainian Issuance Holdings Limited (the “**PECO Holder**”), sell all (but not some only) of their holdings of Notes then outstanding to the PECO Holder pursuant to the option granted to the PECO Holder (the “**Post-Enforcement Call Option**”) under a post-enforcement call option agreement dated 23 July 2007 (as amended and restated by the amended and restated post-enforcement call option agreement dated 27 May 2008 as further amended and restated by the amended and restated post-enforcement call option agreement dated 18 July 2008 (as may be amended or supplemented from time to time) (the “**Post-Enforcement Call Option Agreement**”) between the PECO Holder and the Trustee to acquire all the Notes of the Issuer then outstanding (plus any accrued and unpaid interest thereon) for a consideration of U.S.\$0.01 per Note. The Post-Enforcement Call Option will be exercisable only after the conditions in this Condition 6(g) have been satisfied.

(ii) *Exercise of Post-Enforcement Call Option:* The Post-Enforcement Call Option will become exercisable on the date upon which the Trustee gives written notice to the PECO Holder that it has determined, in its sole opinion and discretion, that all amounts outstanding under the Notes have become due and payable, all available funds have been distributed, and there is no reasonable likelihood of there being any further realisations (whether arising from an enforcement of the security interests or otherwise) which would be available to pay amounts outstanding under such Notes.

Provided that the PECO Holder has put the Trustee in funds to enable it to meet the costs of serving notice under the provisions of the Post-Enforcement Call Option Agreement, the PECO Holder may exercise the Post-Enforcement Call Option in relation to any Series of Notes by serving notice (the “**Exercise Notice**”) on the Trustee (with a copy to the Principal Paying Agent) within 10 Business Days after the date on which the Post-Enforcement Call Option shall become exercisable (the “**Option Date**”) and shall on the date of such service pay U.S.\$0.01 (one U.S. cent) for each Note then outstanding in that Series (the “**Exercise Price**”).

(iii) *Acknowledgement of Post-Enforcement Call Option:* Each of the Noteholders grants to the Trustee, and acknowledges that the Trustee has, the authority and the power to bind such Noteholder in accordance with the provisions set out in the Post-Enforcement Call Option Agreement and each Noteholder by acquiring the relevant Notes irrevocably authorises the Trustee to act on its behalf in respect of the Post-Enforcement Call Option and agrees to be bound by the terms of this Condition and the Post-Enforcement Call Option Agreement on its behalf, accordingly.

(iv) *Notice of exercise:* The Issuer or the Trustee shall give notice of the exercise of the Post-Enforcement Call Option by the PECO Holder to the Noteholders in accordance with Condition 15 (*Notices*).

(v) *Surrender of Notes Certificates:* Within 60 days of receipt of notice by the relevant Noteholders that the Exercise Notice has been served on the Trustee and the Exercise Price has been received by the Principal Paying Agent, each relevant Noteholder shall surrender the Notes Certificates held by such Noteholder to the Registrar for registration of the PECO Holder as the holder of the Notes.

(h) *Compulsory Sale:* The Issuer may compel any beneficial owner of an interest in the Rule 144A Notes to sell its interest in such Notes, or may sell such interest on behalf of such holder, if such holder is not a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and a qualified purchaser (as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940).

7. PAYMENTS

(a) *Principal:* Payments of principal shall be made by US dollar cheque drawn on, or, upon application by a Noteholder to the Specified Office of the Principal Paying Agent not later than the fifteenth day

before the due date for any such payment, by transfer to a US dollar account maintained by the payee with, 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 Note Certificates at the Specified Office of any Paying Agent.

- (b) *Interest:* Payments of interest shall be made by US dollar cheque drawn on, or upon application by a Noteholder to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a US dollar account maintained by the payee with, 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 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 8 (*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 US 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 US 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 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 Noteholder 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 7 (*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 Note Certificate, in the place in which the 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 Principal Paying Agent 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 Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant 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 Account:* Save as the Trustee may otherwise direct at any time after the security created pursuant to the Trust Deed becomes enforceable, the Issuer will pursuant to the provisions of Clause 6.1 (*Payments to the Principal Paying Agent*) of the Agency Agreement require the Borrower to make all payments of principal, interest, Additional Amounts, Indemnity Amounts or other amounts, if any, to be made pursuant to the relevant Loan Agreement, to the Account (less any amounts in respect of the Reserved Rights).

8. TAXATION

All payments by or on behalf of the Issuer in respect of the Notes shall be made free and clear of and without deduction or withholding for or on account of any present or future taxes, duties, assessments, fees or other governmental charges (“**Taxes**”) imposed or levied by or on behalf of the United Kingdom, any jurisdiction from or through which a payment is made, or any political subdivision or taxing authority thereof or therein in each of the preceding jurisdictions (each, a “**Taxing Jurisdiction**”), unless such

withholding or deduction 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) (in the case of payments of principal or interest on redemption) Taxes that would not have been imposed but for the surrender by the Noteholder of the relevant Note Certificate 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 the Noteholder would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through any other Paying Agent in a Member State of the European Union;
- (d) Taxes imposed on a payment to an individual and which are required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26/27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; and
- (e) with respect to taxes, duties, assessments or governmental charges in respect of such Note imposed as a result of the failure of the holder or beneficial owner of the Note to comply with a reasonable written request of the Issuer before any such withholding or deduction would be payable (i) to provide timely or accurate information concerning the nationality, residence or identity of the holder or beneficial owner or (ii) to make any valid or timely declaration or similar claim or satisfy any certification, information or other reporting requirement, which is required or imposed by a statute, treaty, regulation or administrative practice of the United Kingdom or any authority therein or thereof having the power to tax as a condition to exemption from all or part of such taxes.

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 in accordance with Condition 15 (*Notices*).

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 8 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 8 (*Taxation*) pursuant to the Trust Deed or the relevant Loan Agreement.

If the Issuer becomes subject at any time to any taxing jurisdiction other than or in addition to the United Kingdom, references in these Conditions to the United Kingdom shall be construed as references to the United Kingdom and/or such other jurisdiction.

9. PRESCRIPTION

Claims for principal and interest on redemption shall become void unless the relevant 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.

10. REPLACEMENT OF NOTE CERTIFICATES

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar and the Transfer Agent, subject to all applicable laws and stock exchange

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, Registrar or Transfer Agent may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

11. TRUSTEE AND AGENTS

Under separate agreement between the Borrower and the Trustee, the Trustee is entitled to be indemnified and/or secured to its satisfaction 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 and the Borrower and any entity relating to the Issuer and 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 and 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 8 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 8 (*Taxation*) pursuant to the Trust Deed.

The Trust Deed will provide, *inter alia*, that the Trustee may act on the opinion or advice of or a certificate or any information obtained from any lawyer, banker, valuer, surveyor, broker, auctioneer, accountant, auditor or other expert, notwithstanding that such opinion or advice contains a limitation on liability or, in the case of the Auditors, disclaims all liability. The Notes provide for the Trustee to take action on behalf of the Noteholders in certain situations, but only if the Trustee is indemnified and/or secured to its satisfaction. It may not be possible for the Trustee to take certain actions in relation to the Notes and accordingly in such circumstances the Trustee will be unable to take action, notwithstanding the provision of any indemnity to it, and it will be for the Noteholders to take action directly.

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/or secured to their satisfaction 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 paying agent and a registrar, (b) a paying agent and a transfer agent in Ireland, 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 15 (*Notices*).

12. 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 the modification of any provision of the relevant

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 Noteholders 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 or the date for any such payment, (iv) to change the currency of payments under the Notes, (v) to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution, (vi) to alter the governing law of the Conditions, the Trust Deed or the relevant Loan Agreement, (vii) to change any date fixed for payment of principal or interest under the relevant Loan Agreement, (viii) to alter the method of calculating the amount of any payment under the relevant Loan Agreement or (ix) to change the currency of payment or, without prejudice to the rights under Condition 12(b) (*Modification and Waiver*) below, change the definition of "Event of Default" under the Framework Agreement (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 half, 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 of the 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, pursuant to the Transferred Rights, the relevant Loan Agreement (other than, in respect of a Reserved Matter) and the Deed of Indemnity which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial 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, pursuant to the Transferred Rights, the Deed of Indemnity or the relevant Loan Agreement by the Borrower, or determine that any event which would or might otherwise give rise to a right of acceleration under the relevant 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 15 (*Notices*).

- (c) *Substitution:* The Trust Deed contains provisions under which the Issuer may, without the consent of the Noteholders, transfer the obligations of the Issuer 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 Irish Stock Exchange, in the event of such substitution, the Irish Stock Exchange will be informed of such substitution, a supplemental Prospectus will be produced and will be made publicly available at the Specified Offices of the Irish Paying Agent in Ireland and such substitution shall be notified to the Noteholders as soon as practicable thereafter and in accordance with Condition 15 (*Notices*).

13. ENFORCEMENT

At any time after an Event of Default (as defined in the Framework Agreement) or a Relevant Event (as defined below) shall have occurred and be continuing, the Trustee may, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

- (a) 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
- (b) it has been indemnified and/or provided with security 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.

The Trust Deed also provides that, in the case of an Event of Default or a Relevant Event, the Trustee may, and shall if requested to do so by Noteholders of at least one quarter in principal amount of the Notes outstanding or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction, (1) require the Lender to declare all amounts payable under the relevant Loan Agreement by the Borrower to be due and payable (where an Event of Default has occurred and is continuing), or (2) enforce the security created in the Trust Deed in favour of the Noteholders (in the case of a Relevant Event). Upon repayment of the respective Loan following an Event of Default, the Notes will be immediately due and payable 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 8 (*Taxation*) and thereupon shall cease to be outstanding.

For the avoidance of doubt, the Trustee may only enforce the Note Security following the occurrence of a Relevant Event.

“**Relevant Event**” means the earlier of (a) the Issuer failing to make payment of principal or interest on the Notes when due; (b) the Issuer being adjudged, by law or a court, to be insolvent or bankrupt or unable to pay its debts; (c) the Issuer stopping, suspending or threatening to stop or suspend payment of all or a material part of (or a particular type of) its debts, proposing to make a general assignment or arrangement or composition with or for the benefit of the relevant creditors in respect of any such debts; (d) a moratorium being agreed or declared in respect of or affecting all or any part of (or a particular type of) the debts of the Issuer; (e) an order being made or an effective resolution being passed for the winding up or dissolution of the Issuer; or (f) the Issuer ceasing or threatening to cease to carry on all or a material part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by an Extraordinary Resolution of Noteholders.

14. 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 original Trust Deed. In relation to such issue of further notes, the Lender will enter into a loan agreement supplemental to the relevant Loan Agreement with the Borrower on the same terms as the original 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. The Issuer will provide a further fixed charge and absolute assignment by way of security in favour of the Trustee of its rights under such supplemental loan agreement equivalent to the rights charged and assigned as Note Security in relation to the Lender's rights under the original Loan Agreement which will, together with the Note Security referred to in these Conditions, secure both the Notes and such further notes and the Trustee is entitled to assume without enquiry that this arrangement as regards security for the Notes will not materially prejudice the interests of the Noteholders.

15. NOTICES

So long as the Notes are listed on the main segment of the Irish Stock 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 Irish Stock Exchange (www.ise.ie). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

16. GOVERNING LAW, ARBITRATION 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) *Arbitrations:* The parties to the Trust Deed have agreed that, subject to Condition 16(c) below, any claim, dispute or difference of whatever nature arising under, out of or in connection with the Notes and the Trust Deed (including a claim, dispute or difference regarding their existence, termination or validity) (a “**Dispute**”), shall be referred to and finally settled by arbitration in accordance with the rules of the London Court of International Arbitration (the “**Rules**”) as at present in force and as modified by this Condition 16 (b). The number of arbitrators shall be three, one of whom shall be nominated by each of the parties and the third of whom, who shall act as Chairman, shall be nominated by the two party nominated arbitrators. The seat of arbitration shall be London, England and the language of the arbitration shall be English. Sections 45 and 69 of the Arbitration Act 1996 shall not apply.
- (c) *Jurisdiction:* At any time before the Trustee or any of the Noteholders have nominated an arbitrator to resolve any Dispute or Disputes in accordance with Condition 16(b) above the Issuer has in the Trust Deed (i) agreed that the Trustee or such Noteholders may, at their sole option, elect by notice in writing to the Issuer that such Dispute(s) shall instead be heard by the courts of England or by any other court of competent jurisdiction and that following such election no arbitral tribunal shall have jurisdiction in respect of such Dispute(s); (ii) agreed, in the event of such notice of election being served, for the benefit of the Trustee and the Noteholders 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 the Notes (“**Proceedings**”); (iii) agreed that those courts are the most appropriate and convenient courts to hear and determine any Proceedings and, accordingly, that it will not argue that any other courts are more appropriate or convenient; (iv) agreed not to claim and irrevocable waive any immunity for itself, its assets or revenues from suit, execution, attachment or other legal process; (v) consented in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (in respect of its use or intended use) of any order or judgment which is made or given in such Proceedings; and (vi) designated an address in England for the purpose of accepting service of any process. The Trust Deed also states that nothing contained in the Trust Deed prevents the Trustee or any of the Noteholders from taking 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.

17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

There will appear at the foot of the Conditions endorsed on or (as the case may be) attached to each Individual Note Certificate the names and Specified Offices of the Registrar, the Paying Agents and the Transfer Agents as set out at the end of the Prospectus.

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Global Note Certificates

Each Series of Notes will be evidenced on issue (i) in the case of Regulation S Notes, a Regulation S Global Note Certificate deposited with, and registered in the name of a nominee for, a common depository for Euroclear and Clearstream and (ii) in the case of Rule 144A Notes, a Rule 144A Global Note Certificate deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Beneficial interests in a Regulation S Note, as represented by a Regulation S Global Note Certificate, may be held only through Euroclear or Clearstream at any time. See “—*Book-Entry Procedures for the Global Note Certificates*”. On acquisition of a beneficial interest in a Regulation S Note, as represented by a Regulation S Global Note Certificate, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person and that, prior to the expiration of 40 days after completion of the distribution of the Series of which such Notes are a part as determined and certified to the Principal Paying Agent and Transfer Agent by the relevant Dealer (or in the case of a Series of Notes sold to or through more than one relevant Dealer, by each of such relevant Dealers as to the Notes of such Series sold by or through it, in which case the Principal Paying Agent and Transfer Agent shall notify each such relevant Dealer when all relevant Dealers have so certified (the “**distribution compliance period**”), it will not offer, sell, pledge or otherwise transfer such interest except to a person whom the seller reasonably believes to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See “*Transfer Restrictions*”. Beneficial interests in a Rule 144A Note, as represented by one or more Rule 144A Global Note Certificates, may only be held through DTC at any time. See “—*Book-Entry Procedures for the Global Note Certificates*”. By acquisition of a beneficial interest in a Rule 144A Note, as represented by one or more Rule 144A Global Note Certificates, the purchaser thereof will be deemed to represent, among other things, that if it is a U.S. person (within the meaning of Regulation S), it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Agency Agreement. See “*Transfer Restrictions*”.

Beneficial interests in either the Regulation S Notes or the Rule 144A Notes, as represented by the relevant Global Note Certificates, will be subject to certain restrictions on transfer set forth thereon and in the Agency Agreement, and with respect to Rule 144A Notes, as set forth in Rule 144A, and on the Rule 144A Global Note Certificates will bear the legends set forth thereon regarding such restrictions set forth under “*Transfer Restrictions*”. A beneficial interest in a Regulation S Note, as represented by a Regulation S Global Note Certificate, may be transferred to a person who takes delivery in the form of an interest in a Rule 144A Note, as represented by one or more Rule 144A Global Note Certificates, in denominations greater than or equal to the minimum denominations applicable to interests in a Rule 144A Note, as represented by one or more Rule 144A Global Note Certificates, and only upon receipt by the Registrar of a written certification (in the form provided in the Paying Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB that is also a QP and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in a Rule 144A Note, as represented by one or more Rule 144A Global Note Certificates, may be transferred to a person who takes delivery in the form of an interest in a Regulation S Note, as represented by a Regulation S Global Note Certificate, only upon receipt by the Registrar of a written certification (in the form provided in the Paying Agency Agreement) from the transferor to the effect that the transfer is being made to a non-U.S. person and in accordance with Regulation S.

Any beneficial interest in a Regulation S Global Note, as represented by a Regulation S Global Note Certificate, that is transferred to a person who takes delivery in the form of an interest in a Rule 144A Note, as represented by one or more Rule 144A Global Note Certificates, will, upon transfer, cease to be an interest in the Regulation S Note, as represented by a Regulation S Global Note Certificate, and become an interest in the Rule 144A Note, as represented by one or more Rule 144A Global Note Certificates, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Note, as represented by one or more Rule 144A Global Note

Certificates, for as long as it remains such an interest. Any beneficial interest in a Rule 144A Note, as represented by one or more Rule 144A Global Note Certificates, that is transferred to a person who takes delivery in the form of an interest in a Regulation S Note, as represented by a Regulation S Global Note Certificate, will, upon transfer, cease to be an interest in the Rule 144A Note, as represented by one or more Rule 144A Global Note Certificates, and become an interest in the Regulation S Note, as represented by a Regulation S Global Note Certificate, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Note, as represented by a Regulation S Global Note Certificate, for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in either the Regulation S Notes or the Rule 144A Notes, as represented by the relevant Global Note Certificate will not be entitled to receive physical delivery of individual Note certificates (the “**Individual Note Certificates**”). The Notes are not issuable in bearer form.

Amendments to the Terms and Conditions

Each Global Note Certificate contains provisions that apply to the Notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions:

Payments

Payments of principal and interest in respect of Notes evidenced by a Global Note Certificate will be made against presentation for endorsement by the Principal Paying Agent and Transfer Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note Certificate to or to the order of the Principal Paying Agent and Transfer Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note Certificate, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Notes.

Notices

So long as any Notes are evidenced by a Global Note Certificate and the relevant Global Note Certificate is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of such Notes provided that for so long as the Notes are admitted to trading on the Irish Stock Exchange and the rules of the Irish Stock Exchange so require, notices will also be published by means of electronic publication on the internet website of the Irish Stock Exchange (www.ise.ie).

Meetings

The holder of an interest in a Global Note will be treated as being one person for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of Notes for which the relevant Global Note Certificate may be exchangeable.

Trustee's Powers

In considering the interests of Noteholders while interests in the relevant Global Note are held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to an interest in such Global Note and may consider such interests as if such accountholders were the holders of an interest in such Global Note.

Cancellation

Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.

Redemption at the Option of Noteholders

If a Put Event (as defined in the “*Terms and Conditions of the Notes*”) occurs, the Issuer must, upon becoming aware of the occurrence of a Change of Control, promptly give notice to the Noteholders in accordance with the “*Terms and Conditions of the Notes*” and the standard procedures of DTC, Euroclear and Clearstream of such Change of Control. For so long as all of the Notes are represented by the Global Note Certificates and the relevant Global Note Certificates are held on behalf of Euroclear and/or Clearstream and DTC, as applicable, such option of the Noteholders to require redemption of the Notes may be exercised by an accountholder (shown in the records of Euroclear and/or Clearstream and DTC, as applicable, as the holder of Notes) giving notice to a Paying Agent in accordance with the standard procedures of Euroclear, Clearstream and DTC of the principal amount of the Notes in respect of which such option is to be exercised, not later than 30 days after the Issuer has given the notice of the Change of Control referred to above. Following presentation of the relevant Global Note Certificates to the Principal Paying Agent and Transfer Agent for notation, the Issuer shall (subject to certain limitations on the obligation of payment of the Issuer in Condition 5 (*Redemption and Purchase*)) redeem the relevant proportion of each relevant Global Note five business days after the expiration of the 30 day period detailed above and the Paying Agent will mark down the relevant Global Note Certificates in accordance with the terms of the Agency Agreement.

Exchange for Individual Note Certificates

Exchange

Each Global Note Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Individual Note Certificates if: (i) interests in the relevant Global Note are held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the Global Note or ceases to be a “clearing agency” registered under the U.S. Securities Exchange Act of 1934 (the “**Exchange Act**”) or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (B) Euroclear or Clearstream and Euroclear or Clearstream as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent or (ii) if 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) of any jurisdiction referred to in Condition 8 (*Taxation*) which would not be suffered were the Notes evidenced by Individual Note Certificates and a notice to such effect signed by two directors of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar or any Transfer Agent and the Noteholders, of its intention to exchange the relevant Global Note Certificate for Individual Note Certificates on or after the Exchange Date (as defined below) specified in the notice.

On or after the Exchange Date, the holder of the relevant Global Note may surrender such Global Note Certificate evidencing such Global Note to or to the order of the Registrar or any Transfer Agent. In exchange for the relevant Global Note Certificate, as provided in the Paying Agency Agreement, the Registrar will deliver, or procure the delivery of, an equal aggregate amount of duly executed and authenticated Individual Note Certificates in or substantially in the form set out in the relevant schedule to the Trust Deed.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for interests evidenced by Individual Note Certificates for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

“**Exchange Date**” means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note Certificate shall be exchanged in full for Individual Note Certificates and the Issuer will, at the cost of the Bank (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Individual Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note, as represented by a Global Note Certificate must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of a Rule 144A Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB that is also a QP. Individual Note Certificates issued in exchange for one or more Rule 144A Global Note Certificate evidencing beneficial interests in a Rule 144A Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under “*Transfer Restrictions*”.

Legends

The holder of an Individual Note Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Individual Note Certificate bearing the legend referred to under “*Transfer Restrictions*”, or upon specific request for removal of the legend on a Rule 144A Individual Note Certificate, the Issuer will deliver only Rule 144A Individual Note Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

Book-Entry Procedures for the Global Note Certificates

For each Series of Notes evidenced by both a Regulation S Global Note Certificate and a Rule 144A Global Note Certificate, custodial and depository links are to be established between DTC, Euroclear and Clearstream to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See “—*Book Entry Ownership—Settlement and Transfer of Notes*” below.

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream if they are accountholders (“**Direct Participants**”) or indirectly (“**Indirect Participants**” and together with Direct Participants, “**Participants**”) through organisations which are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a “banking organization” under the laws of the State of New York, a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates.

Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in Rule 144A Notes directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Note as to which such Participant or Participants has or have given such direction. However, in the circumstances described under “*Exchange for Individual Note Certificates*”, DTC will surrender the relevant Rule 144A Global Note Certificates for exchange for Rule 144A Individual Note Certificates (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book-Entry Ownership

Euroclear and Clearstream

The Regulation S Global Note Certificate representing Regulation S Notes of any Series will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depository on behalf of, Euroclear and Clearstream. The address of Euroclear is 1 Boulevard du Roi Albert II, B1210 Brussels, Belgium, and the address of Clearstream is 42 Avenue J.F. Kennedy, L 855, Luxembourg.

DTC

The Rule 144A Global Note Certificate representing Rule 144A Notes of any Series will have a CUSIP number and will be deposited with a custodian for and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC System. The address of DTC is 55 Water Street, New York, New York 10041, USA.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream or DTC as the holder of a Note evidenced by a Global Note Certificate must look solely to Euroclear, Clearstream or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note Certificate, the common depository by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants’ or accountholders’ accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and

customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will, in turn, be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for interests evidenced by Individual Note Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who, in turn, act on behalf of Indirect Participants, the ability of a person having an interest in a Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement ("**SDFS**") system in same-day funds, if payment is effected in U.S. Dollars, or free of payment, if payment is not effected in U.S. Dollars. Where payment is not effected in U.S. Dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in a Rule 144A Global Note to the account of a Euroclear or Clearstream accountholder wishing to purchase a beneficial interest in a Regulation S Global Note (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant. On the settlement date, the custodian of the Rule 144A Global Note evidenced by one or more Rule 144A Global Note Certificates will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note Certificate of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream and evidenced by the Regulation S Global Note Certificate. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream Seller and DTC purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Rule 144A Global Note (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream participant must send to Euroclear or Clearstream delivery free of payment instructions by

7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, as the case may be, will, in turn, transmit appropriate instructions to the common depository for Euroclear and Clearstream and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream accountholder, as the case may be. On the settlement date, the common depository for Euroclear and Clearstream will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note who will, in turn, deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream and evidenced by a Regulation S Global Note Certificate; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by a Rule 144A Global Note Certificate.

Although Euroclear, Clearstream and DTC have agreed to the foregoing procedures in order to facilitate transfers of a beneficial interest in a Global Note among participants and accountholders of Euroclear, Clearstream and DTC, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance by Euroclear, Clearstream or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the Closing Date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the relevant Closing Date should consult their own advisers.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in a dealer agreement dated 23 July 2007 as amended and restated on 27 May 2008 as further amended and restated by the amended and restated dealer agreement dated 18 July 2008 between the Issuer, the Bank, UBS Limited as arranger and the Dealers named therein (as may be further amended or supplemented from time to time, the “**Dealer Agreement**”), the Notes will be offered from time to time by the Issuer to the Dealers or such other Dealers as may be appointed from time to time in respect of any Series of Notes pursuant to the Dealer Agreement. Any agreement for the sale of Notes will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, whether the placement of the Notes is underwritten or sold on an agency basis only, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) which are payable or allowable by the Issuer in respect of such purchase and the form of any indemnity to the Dealers against certain liabilities in connection with the offer and sale of the relevant Notes. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Dealer Agreement also provides for Notes to be issued in syndicated Series that may be jointly and severally underwritten by two or more Dealers. Furthermore, any of the Dealers may from time to time purchase and hold the Notes for their own account or for the accounts that they exercise on a discretionary basis.

Each of the Issuer and the Bank has agreed to indemnify the Dealers against certain losses, as set out in the Dealer Agreement. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe for the Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Selling Restrictions

United States

The Notes and the corresponding Loans have not been and will not be registered under the Securities Act, the securities laws of any State or other jurisdiction of the United States, 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.

Each Dealer has agreed that, except as permitted by the Dealer Agreement, it will not offer or sell the Notes of any Series (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of the Notes of such Series within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells Notes of any Series (other than a sale pursuant to Rule 144A) during the distribution compliance period with respect to that Series a confirmation or other notice setting forth the restrictions on offers and sales of the Notes of that Series within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering of the Notes of a Series, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Notes offered and sold outside the United States to non-U.S. persons may be sold in reliance on Regulation S. The Dealer Agreement provides that the Dealer(s) may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes within the United States only to persons whom they reasonably believe are QIBs and QPs who can represent that (a) they are QPs who are QIBs within the meaning of Rule 144A, (b) they are not broker-dealers who own and invest on a discretionary basis less than US\$25 million in securities of unaffiliated issuers, (c) they are not a participant-directed employee plan, such as a 401(k) plan, (d) they are acting for their own account, or the account of one or more QIBs each of which is a QP, (e) they are not formed for the purpose of investing in the Issuer or the Notes, (f) each

account for which they are purchasing will hold and transfer at least US\$100,000 in principal amount of Notes at any time, and (g) they will provide notice of the transfer restrictions set forth in this Prospectus to any subsequent transferees.

The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States or to any U.S. person other than any QIB who is also a QP and to whom an offer has been made directly by one of the Dealers or its U.S. broker-dealer affiliate. Distribution of this Prospectus by any non-U.S. person outside the United States or by any QIB that is a QP within the United States to any U.S. person or to any other person within the United States, other than any QIB that is a QP and those persons, if any, retained to advise such non-U.S. person or QIB that is a QP with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, other than any QIB that is a QP and those persons, if any, retained to advise such non-U.S. person or QIB that is a QP, is prohibited.

The Issuer jointly with the Paying Agent will request Bloomberg to include, in the “Description” page on each Bloomberg screen containing information about the Rule 144A Note, a statement in the “Comments” box that the Rule 144A Note “*are being offered in reliance on the exemption from registration under Rule 144A of the Securities Act to Persons that are both (1) qualified institutional buyers (as defined in Rule 144A under the Securities Act) and (2) qualified purchasers (as defined in 2(a)(51) of the Investment Company Act of 1940)*”.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each Dealer has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus to the public in that Relevant Member State other than:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR43,000,000; and (3) an annual net turnover of more than EUR50,000,000, as shown in its last annual or consolidated accounts;
- (c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Arranger; or
- (d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of Notes to the public**” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “**Prospectus Directive**” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (“FSMA”) by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of 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
- (c) it has complied and will comply 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

Each Dealer has agreed that the Notes shall not be offered by any of them for circulation, distribution, placement, sale, purchase or other transfer in the territory of Ukraine. Accordingly, nothing in this Prospectus 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

Each Dealer represents to and agrees with the Issuer and Alfa-Bank that it has not offered or sold or otherwise transferred and will not offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter any Notes to or for the benefit of any persons (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 and to the extent otherwise permitted under Russian law.

Republic of Italy

The offering of the Notes has not been registered and will not be registered with the Commissione Nazionale per le Società e la Borsa (“CONSOB”) pursuant to the Italian securities legislation and, accordingly, each of the Dealers represents and agrees that it has not offered or sold, and will not offer or sell, any Notes in the Republic of Italy in a solicitation to the public at large within the meaning of Article 1, paragraph 1, letter (t) of legislative decree No. 58 of 24 February 1998, and that sales of the Notes in the Republic of Italy shall be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulation.

Each of the Dealers represents and agrees that it will not offer, sell or deliver any Notes or distribute copies any document relating to the Notes in the Republic of Italy except:

- (a) to “**Professional Investors**”, as defined in Article 31.2 of CONSOB Regulation No. 11522 of 1 July 1998, as amended (“**CONSOB Regulation No. 11522**”), pursuant to Article 30.2 and 100 of Legislative Decree No. 58 of 24 February 1998, as amended (“**Italian Financial Act**”); or

- (b) in any other circumstances where an express exemption from compliance with the solicitation restrictions applies, as provided under the Italian Financial Act or Regulation No. 11971 of 14 May 1999, as amended.

Any such offer, sale or delivery of the Notes or any document relating to the Notes in the Republic of Italy must be:

- (i) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1 September 1993 as amended, the Italian Financial Act, CONSOB Regulation No. 11522 and any other applicable laws and regulations; and
- (ii) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

Investors should also note that, in any subsequent distribution of the Notes in the Republic of Italy, Article 100-bis of the Italian Financial Act may require compliance with the law relating to public offers of securities. Furthermore, where the Notes are placed solely with professional investors and are then systematically resold on the secondary market at any time in the 12 months following such placing, purchasers of Notes who are acting outside of the course of their business or profession may in certain circumstances be entitled to declare such purchase void and to claim damages from any authorised person at whose premises the Notes were purchased, unless an exemption provided for under the Italian Financial Act applies.

General

Each Dealer has agreed that it has, to the best of its knowledge and belief, complied and will comply with applicable securities laws and regulations in each jurisdiction in which it offers, sells or delivers Notes or distributes this Prospectus (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes, the Issuer or the Bank.

No action has been or will be taken in any jurisdiction by the Issuer, the Bank or any of the Dealers that would, or is intended to, permit a public offer of the Notes or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Accordingly, each Dealer has undertaken to the Issuer and the Bank that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

These selling restrictions may be modified by the agreement of the Issuer, the Bank and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Prospectus.

The Arranger and the Dealers and its or their affiliates, as the case may be, have engaged in trade financing and other financing transactions with the Bank (including, in some cases, credit agreements and credit lines), some of which are currently outstanding, in the ordinary course of its banking business, for which they received customary fees. The Arranger and the Dealers may enter into similar ordinary course financing transactions in the future. In addition, the Arranger and the Dealers may have performed various investment banking, financial advisory, and other services for the Bank, for which they receive customary fees, and the Arranger and the Dealers and its or their affiliates, as the case may be, may provide such services in the future.

TAXATION

The following is a general description of certain tax laws relating to the Notes and does not purport to be a comprehensive discussion of the tax treatment of every Series of Notes. Prospective purchasers of any Series of Notes are advised to consult their own tax advisers as to the consequences of the purchase, ownership and disposition of any Series of Notes in light of their particular circumstances, including, but not limited to, the consequences of the receipt of interest and the sale or redemption of any Series of Notes.

Ukraine

General

The following summary of the principal Ukrainian tax consequences of the acquisition, ownership and disposition of the Notes as well as Ukrainian tax legislation applicable to payments under the respective Loan and related agreements 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 Prospectus. Such laws and regulations are subject to change or varying interpretations, possibly with retroactive effect. 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 practice may be amended with retroactive effect. Accordingly, it is possible that payments to be made to the holders of the Notes could become subject to taxation or that rates currently in effect with respect to such payments could be increased in ways that cannot be anticipated as at the date of this Prospectus.

Tax on Interest Payments under the respective Loan

The Law of Ukraine “On Taxation of Profits of Enterprises”, dated 28 December 1994, as restated and amended (the “**CIT Law**”) establishes that interest income received by non-resident entities from Ukrainian source shall be subject to Ukrainian withholding tax at the rate of 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 effective in 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 (Article 11), 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 such interest in the United Kingdom.

Based on professional advice it has received, Management believes that, under the Double Tax Treaty, as currently applied, payments of interest on the respective Loan will not be subject to Ukrainian withholding tax, 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 Ukrainian withholding tax under the Double Tax Treaty to be applicable, the Lender must be (a) a resident of the United Kingdom for the purposes of the Double Tax Treaty, (b) the “beneficial owner” of the interest payments being received in the United Kingdom, and (c) “subject to tax” in respect of such interest payments in the United Kingdom. The exemption of interest payments on the relevant Loan Agreements will not be available under the Double Tax Treaty if the Lender carries on business through a permanent establishment situated in Ukraine, and the debt-claim in respect of which the interest is paid is effectively connected with such permanent establishment. It is unclear how the test for taxation of interest payments in the United Kingdom will be interpreted and applied by the Ukrainian tax authorities. In addition, the notion of beneficial ownership is not well defined in Ukrainian tax law. 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 interest payments being received in the United Kingdom or as subject to tax thereon in the United Kingdom. However, Management 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, treaty benefits would not be available (and interest on the respective Loan would be subject to Ukrainian withholding tax) if the Ukrainian tax authorities were to take the position that one of the main purposes of using the United Kingdom, as the Lender’s jurisdiction of residence for this financing transaction was to take advantage of the tax benefits (*i.e.*, exemption of the interest payments from withholding taxation in Ukraine) under the Double Tax Treaty.

Applicable Ukrainian legislation allows upfront relief from Ukrainian withholding tax under the Double Tax Treaty if the United Kingdom recipient of income from sources in Ukraine provides the payer with a confirmation that the recipient is a resident of the United Kingdom for the purposes of the Double Tax Treaty. A new tax residency confirmation must be obtained for each calendar year. In the event that the tax residency confirmation for the relevant calendar year has not been provided to the Bank as at the date of interest payments to the Lender, the Bank may rely on the 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. In order to claim treaty relief the payee or payer is not required to apply for and/or obtain any transaction specific prior clearance from the Ukrainian tax authorities. Instead, the Ukrainian payer may directly apply the rate under the Double Tax Treaty, provided that the current tax residency confirmation is available on or prior to the date of payment of Ukrainian source income.

Tax on Payments under the Deed of Indemnity

Payments under the Deed of Indemnity, if treated as income from Ukrainian sources, are subject to 15 per cent. withholding tax in Ukraine, unless all relevant criteria under the Double Tax Treaty and applicable Ukrainian legislation are met.

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 under the Notes will not be made by the Bank or from Ukraine.

Tax on Principal under the respective Loan

The amounts received by the Lender as repayment or prepayment of principal amount of the respective Loan are not treated as income. Therefore, these amounts shall not be subject to income tax in Ukraine either by withholding or otherwise.

Tax on Payment of Instalments of Principal and On Redemption of the Notes

The amounts received by non-resident Noteholders upon the Notes redemption should not be subject to withholding tax in Ukraine, taking into account that payment on redemption of the Notes will not be made by the Bank or from Ukraine.

Gross-Up Provisions

If any payments (including payments of interest) under any of the relevant Loan Agreements and/or any payments under the Deed of Indemnity become subject to any withholding tax (as a result of which the Issuer would reduce payments under the Notes by the amount of such withholding tax), the Bank may, subject to certain exceptions specified in each of such relevant Loan Agreements, become 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 the event the Bank is obliged

to pay additional amounts on account of Ukrainian taxes withheld under any of the relevant Loan Agreements, the Bank would have the right to prepay the respective Loan as fully set out in each of the relevant Loan Agreements. Notwithstanding the foregoing, the CIT Law prohibits contractual provisions under which residents undertake to pay taxes for non-residents on their income received from sources in Ukraine. If interpreted broadly, such restriction would also apply to gross-up provisions of any of such relevant Loan Agreements and the Deed of Indemnity and obligations of the Bank to pay additional amounts thereunder. As a result, the gross-up provisions could be found null and void and, therefore, unenforceable in Ukraine.

If the Trustee were to enforce security under the Trust Deed, the Trustee shall be receiving payments of principal and interest under each of the relevant Loan Agreements and/or payments under the Deed of Indemnity (as the case may be) in the name of the Lender or in its own name. As a result, benefits under the Double Tax Treaty may cease to be applicable to payments under any of such relevant Loan Agreements and/or the Deed of Indemnity (as the case may be) and such payments may become subject to withholding tax in Ukraine unless the Trustee meets all the criteria for the exemption under the Double Tax Treaty. If this were to occur, the Bank would be obliged to pay additional amounts on account of Ukrainian taxes withheld under any of the relevant Loan Agreements and/or the Deed of Indemnity and may prepay the respective Loan at its principal amount, together with accrued interest. Thereupon all outstanding Notes will be redeemed by the Issuer.

The Issuer is obliged to make payments under the Notes to the Noteholders only to the extent of the amount of principal, interest and additional amounts, if any, actually received by or for the account of the Lender under any of the relevant Loan Agreements, less any amount in respect of the Reserved Rights (as defined in the Conditions). See also “*Risk Factors – Risks Relating to the Programme, Notes and the Trading Market*”.

Transfers of Notes to Ukrainian Investors

If the Notes are held by a non-resident entity, any gain derived by a non-resident entity from the sale or other disposition of the Notes to a Ukrainian resident entity will be subject to withholding tax in Ukraine at the rate of 15 per cent. If the Notes are held by a non-resident individual, any gain 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. Such gain derived by non-resident entity or individuals from the sale or other disposition of the Notes, otherwise subject to income taxation in Ukraine, may be exempt from taxation in Ukraine under provisions of applicable Ukrainian double tax treaties.

Transfers of Notes to Non-Ukrainian Investors

No Ukrainian withholding tax should apply to the gains derived by a non-resident entity from the sale or other disposition of the Notes to another non-resident entity or individual.

Tax Implications for Residents of Ukraine and Permanent Establishments of Non-Residents

A Noteholder who is an individual or entity resident in Ukraine for tax purposes (including a permanent establishment of a non-resident entity) is subject to taxation in Ukraine on net basis on its worldwide income (income attributable to its permanent establishment in Ukraine). Interest from holding debt securities is included into the taxable income of a resident taxpayer or taxable income of a non-resident taxpayer attributable to its permanent establishment in Ukraine, while the principal amount is not treated as income to the extent such amount does not exceed the original issue price or, as the case may be, the purchase price of the Notes acquired by the holders in the secondary market.

United Kingdom

The following is a summary of the United Kingdom withholding tax treatment at the date hereof in relation to payments of principal and interest in respect of the Notes and the provision of information in the United Kingdom. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of Notes (including stamp duties). The comments relate only to the position of persons who are

absolute beneficial owners of the Notes and some aspects do not apply to certain classes of taxpayer (such as dealers in the Notes, persons who hold the Notes for trading purposes, and for holders of the Notes who are connected or associated with the Issuer for relevant tax purposes). Prospective Noteholders should be aware that the issue of any further notes may affect the tax treatment 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 tax 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 tax aspects of payments in respect of the Notes. In particular, Noteholders should be aware that they may be liable to tax 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 tax under the laws of the United Kingdom.

UK Withholding Tax

Interest may be paid by the Issuer without withholding or deduction for or on account of United Kingdom income tax if the Notes in respect of which the interest is paid constitute “quoted Eurobonds”. The Notes which carry a right to interest will constitute “quoted Eurobonds” if they are and continue to be listed on a recognised stock exchange. Securities are “listed on a recognised stock exchange” where they are admitted to trading on a recognised stock exchange and are included in the official UK list or are officially listed in a country with a recognised stock exchange outside the UK in accordance with provisions corresponding to those generally applicable in EEA states. On the basis of the Issuer’s understanding of current HM Revenue & Customs practice, securities listed on the regulated market of the Irish Stock Exchange should be “listed on a recognised stock exchange” for this purpose.

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 basic 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.

Provision of Information

Individuals who are 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 & 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 tax purposes. Where the Noteholder is not so resident, the details provided to HM Revenue & Customs may, in certain cases, be passed by HM Revenue & Customs to the tax authorities of the jurisdiction in which the Noteholder is resident for tax purposes.

Reference is made to the following section “EU Savings Directive on the Taxation of Savings Income in the Form of Interest Payments (Directive 2003/48/EC)”. The United Kingdom has implemented this directive and provides to the tax authorities of the Member States (and certain non-EU countries and dependent or associated territories) the details of payments of interest and other similar income paid by a person within the United Kingdom to an individual (or a residual entity) resident in that country or territory.

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 tax treaty.

The references 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 terms and conditions of the Notes or any related documentation.

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer in accordance with the Trust Deed or otherwise and does not consider the tax consequences of any such substitution.

EU Savings Directive on the Taxation of Savings Income in the Form of Interest Payments (Directive 2003/48/EC)

Under European Council Directive 2003/48/EC (the “EU Savings Directive”), each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a paying agent within the meaning of the EU Savings Directive to an individual or certain types of entities called “residual entities” within the meaning of the EU Savings Directive established in that other Member State (or certain dependant and associated territories). For a transitional period, however, Austria, Belgium and Luxembourg are permitted to apply an optional information reporting system whereby if a beneficial owner does not comply with one of two procedures for information reporting, the Member State will levy a withholding tax on payments to such beneficial owner. The withholding tax system will apply for a transitional period during which the rate of withholding will be 20 per cent. until 30 June 2011 and 35 per cent. as from 1 July 2011. The transitional period is to terminate at the end of the first fiscal year following agreement by certain non-EU countries (Switzerland, Liechtenstein, San Marino, Monaco and Andorra) to exchange information and to introduce a withholding tax.

Also, a number of non-EU countries (Switzerland, Andorra, Liechtenstein, Monaco and San Marino), 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 paying agent within its jurisdiction to, or collected by such a paying agent for, an individual or a residual entity 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 (Jersey, Guernsey, Isle of Man, Montserrat, British Virgin Islands, Netherlands Antilles and Aruba) in relation to payments made by a paying agent in a Member State to, or collected by such a paying agent for, an individual or a residual entity resident in one of those territories.

Certain U.S. Federal Income Tax Considerations

U.S. Circular 230 Disclosure

The discussion of tax issues in this Prospectus is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer under the United States Internal Revenue Code. This discussion is written to support the promotion or marketing of the Notes. Prospective investors should seek advice based on their particular circumstances from an independent tax adviser.

Generally

The following is a summary of the principal U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes by a U.S. Holder (as defined below). This summary does not address the material U.S. federal income tax consequences of every type of Note which may be issued under the

Programme, and the relevant Final Terms will contain additional or modified disclosure concerning the material U.S. federal income tax consequences relevant to such type of Note as appropriate. Except as otherwise indicated, this summary deals only with U.S. Holders that purchase Notes at original issuance at their initial issue price, that will hold the Notes as capital assets and whose functional currency is the U.S. dollar. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors, and does not address state, local, non-U.S. or other tax laws. In particular, this summary does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, partners in a partnership that invests in Notes and such partnership, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers or traders in securities or currencies, and investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes). Moreover, the summary deals only with Notes with a term of 30 years or less.

As used herein, the term “**U.S. Holder**” means a beneficial owner of Notes that is, for U.S. federal income tax purposes, a citizen or resident of the United States, a domestic corporation, or an estate or trust the income of which is subject to U.S. federal income tax regardless of source.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds the Notes, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax adviser as to its consequences.

The summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended (the “**Code**”), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and available and all subject to change at any time, possibly with retroactive effect.

The summary of U.S. federal income tax consequences set out below is for general information only. Prospective purchasers should consult their tax advisers as to the particular tax consequences to them of owning the Notes, including the applicability and effect of state, local, foreign and other tax laws and possible changes in tax law.

Characterisation of the Notes

Whether a note is treated as debt (and not equity) for U.S. federal income tax purposes is an inherently factual question. The Issuer believes and intends to take the position that the Notes constitute debt for U.S. federal income tax purposes. However, no ruling from the Internal Revenue Service (“**IRS**”) or opinion from counsel will be obtained with respect to the characterisation of the Notes as debt, and there can be no assurance that the IRS or the courts would agree with this characterisation of the Notes. If, due to the capital structure of the Issuer or otherwise, the Notes were treated as equity interests in the Issuer, U.S. Holders would likely be treated as owning interests in a “passive foreign investment company” (a “**PFIC**”) and, as a result, could be subject to significant adverse tax consequences. Prospective investors should consult their tax advisers regarding the characterisation of the Notes and the consequences of owning an equity interest in a PFIC. The discussion below assumes that the Notes will be treated as debt for U.S. federal income tax purposes.

Interest

The gross amount of interest (other than interest on a “Discount Note” that is not “qualified stated interest” (each as defined below under “*Original Issue Discount—General*”)) and Additional Amounts (if any) on a Note (without reduction for withholding taxes, if any) will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder’s method of accounting for tax purposes. Interest paid by the Issuer on the Notes and OID, if any, accrued with respect to the Notes (as described below under “*Original Issue Discount*”) generally will constitute income from sources outside the United States. For U.S. foreign tax credit limitation purposes, interest on the Notes generally will constitute

“passive category income”, or, in the case of certain U.S. Holders, “general category income” which are treated separately from other types of income in computing the foreign tax credit allowable to U.S. Holders under U.S. federal income tax laws.

Original Issue Discount

General

The following is a summary of the principal U.S. federal income tax consequences of the ownership of Notes issued with original issue discount (“OID”). The following summary does not discuss Notes that are characterised as contingent payment debt instruments for U.S. federal income tax purposes. In the event the Issuer issues contingent payment debt instruments, the applicable Final Terms will describe the principal U.S. federal income tax consequences thereof, as appropriate.

A Note, other than a Note with a term of one year or less (a “**Short-Term Note**”), will be treated as issued with OID (a “**Discount Note**”) if the excess of the Note’s “stated redemption price at maturity” over its “issue price” is equal to or more than a *de minimis* amount (0.25 per cent. of the Note’s stated redemption price at maturity multiplied by the number of complete years to its maturity (or the weighted average maturity in the case of installment notes)). Generally, the issue price of a Note will be the first price at which a substantial amount of Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers. The stated redemption price at maturity of a Note is the total of all payments provided by the Note that are not payments of “qualified stated interest”. The term “**qualified stated interest**” generally means stated interest that is unconditionally payable in cash or in property (other than debt instruments of the Issuer) at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods), or, subject to certain conditions, at a variable rate based on one or more interest indices.

U.S. Holders of Discount Notes must include OID in income calculated on a constant yield method before the receipt of cash attributable to the income, and generally will have to include in income increasingly greater amounts of OID over the life of the Discount Notes. The amount of OID includible in income is the sum of the daily portions of OID with respect to the Discount Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Discount Note (“**accrued OID**”). The daily portion is determined by allocating to each day in any “accrual period” a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Note as long as (i) no accrual period is longer than one year and (ii) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of the Discount Note’s adjusted issue price at the beginning of the accrual period and the Discount Note’s yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the Note allocable to the accrual period. In the case of a Floating Rate Note that is a Discount Note and is a “variable rate debt instrument”, as defined below under “Floating Rate Notes,” both the “yield to maturity and “qualified stated interest” generally will be determined for these purposes as though such Floating Rate Note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to the interest payments on the Note on its date of issue or in the case of certain Floating Rate Notes, the rate that reflects the yield that is reasonably expected for the Note. (Additional rules may apply if interest on such a Floating Rate Note is based on more than one interest index.) The “adjusted issue price” of a Discount Note at the beginning of any accrual period is the issue price of the Note increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Note that were not qualified stated interest payments.

Acquisition Premium

A U.S. Holder that purchases a Discount Note for an amount less than or equal to the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, but in excess of its adjusted issue price (any such excess being “**acquisition premium**”) and that does not make the

election described below under “—*Election to Treat All Interest as Original Issue Discount*,” is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder’s adjusted basis in the Note immediately after its purchase over the Note’s adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, over the Note’s adjusted issue price.

Market Discount

A Note, other than a Short-Term Note, purchased in the secondary market or upon a further issuance that is a qualified reopening for U.S. federal income tax purposes generally will be treated as purchased at a market discount (a “**Market Discount Note**”) if the Note’s stated redemption price at maturity or, in the case of a Discount Note, the Note’s adjusted issue price, exceeds the amount for which the U.S. Holder purchased the Note by at least 0.25 per cent. of the Note’s stated redemption price at maturity or adjusted issue price, respectively, multiplied by the number of complete years to the Note’s maturity (or, in the case of a Note that is an instalment obligation, the Note’s weighted average maturity). If this excess is not sufficient to cause the Note to be a Market Discount Note, then the excess constitutes “*de minimis* market discount”.

Upon disposition or maturity of a Market Discount Note, or upon receipt of a partial principal payment on a Market Discount Note that is an installment obligation, any gain will be treated as ordinary income to the extent that the gain does not exceed the market discount which has not been previously included in gross income and which accrued on the Note while held by such U.S. Holder. In general terms, market discount is accrued on a rateable basis, or, at the U.S. Holder’s election, on a constant yield basis, but is not currently included in taxable income. A constant yield election is irrevocable unless the IRS consents to a revocation. Alternatively, a U.S. Holder of a Market Discount Note may elect to include market discount in income currently (on either a rateable or constant yield basis) over the life of the Note. This election shall apply to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies. This election may not be revoked without the consent of the IRS. A U.S. Holder of a Market Discount Note that does not elect to include market discount in income currently will generally be required to defer deductions for interest on borrowings incurred to purchase or carry a Market Discount Note that is in excess of the interest and OID on the Note includible in the U.S. Holder’s income, to the extent that this excess interest expense does not exceed the portion of the market discount allocable to the days on which the Market Discount Note was held by the U.S. Holder.

Election to Treat All Interest as Original Issue Discount

A U.S. Holder may elect to include in gross income all interest that accrues on a Note using the constant yield method described above under “—*General*”, with certain modifications. For purposes of this election, interest includes stated interest, acquisition discount, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable bond premium (described below under “*Notes Purchased at a Premium*”) or acquisition premium. This election generally will apply only to the Note with respect to which it is made and may not be revoked without the consent of the IRS. If the election to apply the constant yield method to all interest on a Note is made with respect to a Market Discount Note, the electing U.S. Holder will be treated as having made the election discussed above under “—*Market Discount*” to include market discount in income currently over the life of all debt instruments with market discount acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and if the election to apply the constant yield method to all interest on a Note is made with respect to a Note purchased at a premium, the electing U.S. Holder will be treated as having made the election discussed below under “*Notes Purchased at a Premium*” to amortise bond premium on all taxable bonds held or thereafter acquired by the U.S. Holder. U.S. Holders should consult their tax advisers concerning the propriety and consequences of this election.

Short-Term Notes

In general, an individual or other cash basis U.S. Holder of a Short-Term Note is not required to accrue OID (as specially defined below for the purposes of this paragraph) for U.S. federal income tax purposes

unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short-Term Notes on a straight-line basis or, if the U.S. Holder so elects, under the constant-yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realised on the sale or retirement of the Short-Term Note will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant yield method) through the date of sale or retirement. U.S. Holders who are not required and do not elect to accrue OID on Short-Term Notes will be required to defer deductions for interest on borrowings allocable to Short-Term Notes in an amount not exceeding the deferred income until the deferred income is realised.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Note are included in the Short-Term Note's stated redemption price at maturity. A U.S. Holder may elect to determine OID on a Short-Term Note as if the Short-Term Note had been originally issued to the U.S. Holder at the U.S. Holder's purchase price for the Short-Term Note. This election shall apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

Floating Rate Notes

It is expected that Floating Rate Notes generally will bear interest at a "qualified floating rate" or an "objective rate" and thus will be treated as "variable rate debt instruments" under Treasury regulations governing accrual of OID. A Floating Rate Note will qualify as a "**Variable Rate Debt Instrument**" if (a) its issue price does not exceed the total non-contingent principal payments due under the Floating Rate Note by more than a specified *de minimis* amount and (b) it provides for stated interest, paid or compounded at least annually, at, inter alia, one or more qualified floating rates or a single objective rate. A variable rate is a "qualified floating rate" if variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds. An "objective rate" is a rate which is determined using a single fixed formula and which is based on objective financial or economic information (e.g., one or more qualified floating rates or the yield of actively traded personal property). If a Floating Rate Note that provides for stated interest at, inter alia, one or more qualified floating rates or a single objective rate throughout the term thereof qualifies as a Variable Rate Debt Instrument, then any stated interest on the Note which is unconditionally payable in cash or property (other than debt instruments of the Issuer) at least annually will constitute qualified stated interest and will be taxed accordingly. Thus, a Floating Rate Note that provides for stated interest at, inter alia, one or more qualified floating rates or a single objective rate throughout the term thereof and that qualifies as a Variable Rate Debt Instrument will generally not be treated as having been issued with OID unless the Floating Rate Note is issued at a "true" discount (i.e., at a price below the Note's stated principal amount) in excess of a specified *de minimis* amount.

For OID on a Floating Rate Note arising from "true" discount see above under "*Original Issue Discount—General*".

If a Floating Rate Note does not qualify as a Variable Rate Debt Instrument, then the Floating Rate Note will be treated as a contingent payment debt obligation. The proper U.S. federal income tax treatment of Floating Rate Notes that are treated as contingent payment debt obligations will be more fully described in the applicable Final Terms.

Further Issues

The Issuer may, without the consent of the Holders of outstanding Notes, issue additional Notes with identical terms. These additional Notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such a case, the additional Notes may be considered to have been issued with OID even if the original Notes had no OID, or the additional Notes may have a greater amount of OID than the original Notes. These differences may affect the market value of the original Notes if the additional Notes are not otherwise distinguishable from the original Notes.

Notes Purchased at a Premium

A U.S. Holder that purchases a Note for an amount in excess of its principal amount, or for a Discount Note, its stated redemption price at maturity, may elect to treat the excess as “amortisable bond premium”, in which case the amount required to be included in the U.S. Holder’s income each year with respect to qualified stated interest on the Note will be reduced by the amount of amortisable bond premium allocable (based on the Note’s yield to maturity) to that year. Any election to amortise bond premium shall apply to all bonds (other than bonds the interest on which is excludable from gross income for U.S. federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS. A U.S. Holder that purchases a Discount Note for an amount in excess of its stated redemption price at maturity is not required to include any OID in gross income. See also “*Original Issue Discount—Election to Treat All Interest as Original Issue Discount*” above.

Purchase, Sale, Exchange and Retirement of Notes

A U.S. Holder generally will recognise gain or loss on the sale, exchange or retirement of (including upon any sale to the PECO Holder pursuant to the Post-Enforcement Call Option) a Note equal to the difference between the amount realised on the sale, exchange or retirement (other than amounts attributable to accrued but unpaid interest which will be taxable as such) and the tax basis of the Note. A U.S. Holder’s tax basis in a Note generally will be its cost to the Holder increased by the amount of any OID or market discount included in the U.S. Holder’s income with respect to the Notes (whether or not *de minimis*) and reduced by (i) the amount of any payments that are not qualified stated interest payments, and (ii) the amount of any amortisable bond premium applied to reduce interest on the Notes. Except to the extent described above under “*Original Issue Discount—Market Discount*” or “*Original Issue Discount—Short-Term Notes*” or attributable to accrued but unpaid interest or changes in exchange rates (as discussed below), gain or loss recognised on the sale, exchange or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder’s holding period in the Notes exceeds one year. Gain or loss realised by a U.S. Holder on the sale, exchange or retirement of a Note generally will be U.S. source gain or loss. The deductibility of capital losses is subject to limitations.

Foreign Currency Notes

Interest

If an interest payment is denominated in, or determined by reference to, a foreign currency, the amount of income recognised by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual basis U.S. Holder may determine the amount of income recognised with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

Upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale, exchange or retirement of a Note) denominated in, or determined by reference to, a foreign

currency, the U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars. If a payment received in a foreign currency is not immediately converted into U.S. dollars, the later disposition of the foreign currency may give rise to further exchange gain or loss.

OID

OID for each accrual period on a Discount Note denominated in, or determined by reference to, a foreign currency, will be determined in the foreign currency and then translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above. Upon receipt of an amount attributable to OID (whether in connection with a payment on the Note or a sale of the Note), a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

Bond Premium

Bond premium (including acquisition premium) on a Note that is denominated in, or determined by reference to, a foreign currency, will be computed in units of the foreign currency, and any such bond premium that is taken into account currently will reduce interest income in units of the foreign currency. On the date bond premium offsets interest income, a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) measured by the difference between the spot rate in effect on that date, and on the date the Notes were acquired by the U.S. Holder. A U.S. Holder that does not elect to take bond premium (other than acquisition premium) into account currently will recognise a market loss when the Note matures.

Market Discount

Market Discount on a Note that is denominated in, or determined by reference to, a foreign currency, will be accrued in the foreign currency. If the U.S. Holder elects to include market discount in income currently, the accrued market discount will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. Holder's taxable year). Upon the receipt of an amount attributable to accrued market discount, the U.S. Holder may recognise U.S. source exchange gain or loss (which will be taxable as ordinary income or loss) determined in the same manner as for accrued interest or OID. A U.S. Holder that does not elect to include market discount in income currently will recognise, upon the disposition or maturity of the Note, the U.S. dollar value of the amount accrued, calculated at the spot rate on that date, and no part of this accrued market discount will be treated as exchange gain or loss.

Sale, Exchange or Retirement

As discussed above under "*Purchase, Sale, Exchange and Retirement of Notes*", a U.S. Holder generally will recognise gain or loss on the sale, exchange or retirement of a Note equal to the difference between the amount realised on the sale, exchange or retirement and its tax basis in the Note. A U.S. Holder's tax basis in a Note that is denominated in a foreign currency will be determined by reference to the U.S. dollar cost of the Note. The U.S. dollar cost of a Note purchased with foreign currency will generally be the U.S. dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase.

The amount realised on a sale, exchange or retirement for an amount in foreign currency will be the U.S. dollar value of this amount on the date of sale, exchange or retirement or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale. Such an election by an accrual basis U.S. Holder described in this and the preceding paragraph must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

A U.S. Holder will recognise U.S. source exchange rate gain or loss (taxable as ordinary income or loss) on the sale, exchange or retirement of a Note equal to the difference, if any, between the U.S. dollar values of the principal amount of the Note (which, for these purposes is generally equal to the U.S. Holder's purchase price for the Note) (i) on the date of sale or retirement and (ii) the date on which the U.S. Holder acquired the Note. Any such exchange rate gain or loss will be realised only to the extent of total gain or loss realised on the sale, exchange or retirement.

Disposition of Foreign Currency

Foreign currency received as interest on a Note or on the sale, exchange or retirement of a Note will have a tax basis equal to the U.S. dollar amount taken into account as interest or proceeds from sale, exchange or retirement of a Note. Foreign currency that is purchased will generally have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Notes or upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

U.S. Information Reporting and Backup Withholding Tax

A U.S. Holder may be subject to information reporting unless it establishes that payments to it made within the United States or by a U.S. payor or U.S. middleman are exempt from these rules (*e.g.*, payments to corporations generally are exempt from these rules). Payments that are subject to information reporting may be subject to backup withholding if a U.S. Holder does not provide its taxpayer identification number and otherwise comply with the backup withholding rules. Amounts withheld under the backup withholding rules are available to be credited against a U.S. Holder's U.S. federal income tax liability and may be refunded to the extent they exceed such liability, provided the required information is provided to the IRS.

Reportable Transactions

U.S. Treasury regulations require a U.S. taxpayer that participates in a "reportable transaction" to disclose such participation to the IRS. The scope and application of these rules is not entirely clear. In the event the acquisition, holding or disposition of Notes constitutes participation in a "reportable transaction" for purposes of these rules, a U.S. Holder will be required to disclose its investment by filing Form 8886 with the IRS and the Issuer and its advisers may also be required to disclose the transaction to the IRS. In addition, the Issuer and its advisers may be required to maintain a list of U.S. Holders, and to furnish this list and certain other information to the IRS upon written request. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules to the acquisition, holding or disposition of Notes.

CERTAIN ERISA CONSIDERATIONS

The U.S. Employee Retirement Income Security Act of 1974, of amended (“**ERISA**”) imposes fiduciary standards and certain other requirements on employee benefit plans subject thereto (collectively, “**ERISA Plans**”), including collective investment funds, separate accounts, and other entities or accounts whose underlying assets are treated as assets of such plans pursuant to ERISA and the U.S. Department of Labor “plan assets” regulation, 29 CFR Section 2510.3-101 (the “**Plan Assets Regulation**”), and on those persons who are fiduciaries with respect to ERISA Plans.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code (together with ERISA Plans, “**Plans**”)) and certain persons (referred to as “**parties in interest**” or “**disqualified persons**”) having certain relationships to such Plans, unless a statutory or administrative exemption applies to the transaction. In particular, an extension of credit between a Plan and a “party in interest” or “disqualified person” may constitute a prohibited transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes or other liabilities under ERISA and the Code.

The Issuer or the Trustee, directly or through affiliates, may be considered a party in interest or disqualified person with respect to many Plans. Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if the Notes are acquired by a Plan with respect to which the Issuer or the Trustee or any of their respective affiliates is a party in interest or a disqualified person, unless the Notes are acquired pursuant to and in accordance with an applicable exemption. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may apply depending in part on the type of Plan fiduciary making the decision to acquire a Note and the circumstances under which that decision is made. However, Notes may not be acquired by any Benefit Plan Investors as discussed below.

Under a “look-through rule” set forth in Section 3(42) of ERISA and the Plan Assets Regulation, if a Plan invests in an “equity interest” of an entity and no other exception applies, the Plan’s assets include both the equity interest and an undivided interest in each of the entity’s underlying assets. This rule will not apply where less than 25 per cent. of the value of each class of equity interest in the entity is held by Benefit Plan Investors immediately after the most recent acquisition of any equity interest in the entity (disregarding equity interests held by certain persons, other than Benefit Plan Investors, with discretionary authority or control over the assets of the entity or who provide investment advice with respect to such assets, or any affiliates of such persons). An equity interest does not include debt (as determined by applicable local law) which does not have substantial equity features. Under Section 3(42) of ERISA a “Benefit Plan Investor” means (1) an employee benefit plan (as defined in Section 3(3) of ERISA) subject to the provisions of part 4 of subtitle B of Title I of ERISA, (2) a plan to which Section 4975 of the Code applies, or (3) any entity whose underlying assets include “plan assets” by reason of any such plan’s investment in the entity, (to the extent of the percentage of the equity interests in such entity that are held by Benefit Plan Investors). The Plan Assets Regulation provides that where the value of an interest in an entity relates solely to identified property of the entity, that property is treated as the sole property of a separate entity.

Because the Notes do not represent an interest in any property of the Issuer other than the relevant Loan, they may be regarded for ERISA purposes as equity interests in a separate entity whose sole asset is the relevant Loan. Further, neither the Issuer nor the Trustee will be able to monitor the Noteholders’ possible status as Benefit Plan Investors. Accordingly, the Notes may not be purchased or held by Benefit Plan Investors. The Notes may be purchased and held by governmental, church or non-U.S. plans which are subject to any U.S. Federal, state, local or non-U.S. law that is substantially similar to the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code (“**Similar Laws**”) if such purchase and holding does not and will not result in a non-exempt violation of any Similar Laws, and will not subject the Issuer to any laws, rules or regulations applicable to such plan solely as a result of the investment in the Issuer by such plan.

CERTAIN ERISA CONSIDERATIONS

It should be noted that an insurance company's general account may be deemed to include assets of Plans under certain circumstances, *e.g.*, where a Plan purchases an annuity contract issued by such insurance company, based on the reasoning of the United States Supreme Court in *John Hancock Mutual Life Ins. Co. v. Harris Trust and Savings Bank*, 114 S.Ct. 517 (1993).

EACH PURCHASER AND EACH TRANSFEREE OF THE NOTES OR ANY INTEREST THEREIN, AND EACH FIDUCIARY ACTING ON BEHALF OF THE PURCHASER OR TRANSFEREE (BOTH IN ITS INDIVIDUAL AND CORPORATE CAPACITY), WILL BE DEEMED TO REPRESENT, WARRANT AND AGREE THAT, DURING THE PERIOD IT HOLDS ANY NOTE OR ANY INTEREST IN ANY NOTE, IT IS NOT, AND IS NOT ACTING ON BEHALF OF (1) EITHER (A) A BENEFIT PLAN INVESTOR OR A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN WHICH IS SUBJECT TO ANY SIMILAR LAWS AND/OR LAWS OR REGULATIONS THAT PROVIDE THAT THE ASSETS OF THE ISSUER COULD BE DEEMED TO INCLUDE "PLAN ASSETS" OF SUCH PLAN, AND NO PART OF THE ASSETS TO BE USED BY IT TO PURCHASE OR HOLD SUCH NOTES OR ANY INTEREST THEREIN CONSTITUTES THE ASSETS OF ANY BENEFIT PLAN INVESTOR OR SUCH A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, OR (B) IT IS, OR IS ACTING ON BEHALF OF A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, AND SUCH PURCHASE DOES NOT AND WILL NOT RESULT IN A NON-EXEMPT VIOLATION OF ANY SIMILAR LAWS, AND WILL NOT SUBJECT THE ISSUER TO ANY LAWS, RULES OR REGULATIONS APPLICABLE TO SUCH PLAN SOLELY AS A RESULT OF THE INVESTMENT IN THE ISSUER BY SUCH PLAN; AND (2) IT WILL NOT SELL OR OTHERWISE TRANSFER SUCH NOTES OR ANY INTEREST THEREIN OTHERWISE THAN TO A PERSON THAT IS DEEMED TO REPRESENT, WARRANT AND AGREE WITH RESPECT TO ITS PURCHASE, HOLDING AND DISPOSITION OF THE NOTES TO THE SAME EFFECT AS THE PURCHASER'S REPRESENTATIONS, WARRANTIES AND AGREEMENTS SET OUT IN THIS SENTENCE. NO PURCHASE BY OR TRANSFER TO A BENEFIT PLAN INVESTOR OF ANY NOTE WILL BE EFFECTIVE, AND NEITHER THE ISSUER NOR THE TRUSTEE WILL RECOGNIZE SUCH PURCHASE OR TRANSFER OF SUCH NOTE. IN THE EVENT THAT THE ISSUER DETERMINES THAT ANY NOTE IS HELD BY A BENEFIT PLAN INVESTOR, THE ISSUER MAY CAUSE A SALE OR TRANSFER OF SUCH NOTE.

TRANSFER RESTRICTIONS

Because of the following restrictions, you are advised to consult legal counsel prior to making any offer, resale or other transfer offered hereby.

Rule 144A Notes

Each purchaser of a Rule 144A Note, by accepting delivery of this Prospectus and the Rule 144A Notes, will be deemed to have represented, agreed and acknowledged that:

If it is a U.S. person within the meaning of Regulation S it is (a) a QIB that is also a QP, (b) not a broker-dealer which owns and invests on a discretionary basis less than US\$25 million in securities of unaffiliated issuers, (c) not a participant-directed employee plan, such as a 401(k) plan, (d) acquiring such Notes for its own account, or the account of one or more QIBs each of which is also a QP, (e) not formed for the purpose of investing in the Rule 144A Notes or the Issuer, and (f) aware, and each beneficial owner of such Notes has been advised, that the seller of such Rule 144A Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

It is (a) purchasing not less than US\$100,000 principal amount of such Rule 144A Notes and (b) will provide notice of the transfer restrictions set forth herein to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in the Issuer's securities from one or more book entry depositories.

It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB and that is also a QP purchasing for its own account or for the account of one or more QIBs, each of which is also a QP or (b) to a non-U.S. person within the meaning of Regulation S in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, in each case in accordance with any applicable securities laws of any State of the United States.

It understands that the Issuer has the power to compel any beneficial owner of Rule 144A Notes that is a U.S. person and is not a QIB and a QP to sell its interest in the Rule 144A Notes, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honour the transfer of an interest in the Rule 144A Notes to a U.S. person who is not a QIB and a QP.

It understands and acknowledges that its purchase and holding of such Notes constitutes a representation and agreement by it that (1) either (i) is not, and is not acting on behalf of (and for so long as it holds such Notes (or any interest therein) will not be, or be acting on behalf of) a Benefit Plan Investor or a governmental, church or non-U.S. plan which is subject to any Similar Laws and/or laws or regulations that provide that the assets of the Issuer could be deemed to include "plan assets" of such plan, and no part of the assets used by it to purchase or hold such Note or any interest therein constitutes the assets of such Benefit Plan Investor or such plan, or (ii) it is, or is acting on behalf of, a governmental, church or non-U.S. plan, and such purchase or holding of such Note does not and will not result in a non-exempt violation of any Similar Laws, and will not subject the Issuer to any laws, rules or regulations applicable to such plan solely as a result of the investment in the Issuer by such plan; and (2) it will not sell or otherwise transfer such Note or any interest therein otherwise than to a person that is deemed to make these same representations, warranties and agreements with respect to its acquisition, holding and disposition of such Note.

It understands that the Rule 144A Global Note Certificates and any Rule 144A Individual Note Certificates issued in exchange thereof, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THE NOTES REPRESENTED HEREBY AND THE LOAN IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY

STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE NOTES REPRESENTED HEREBY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A “QIB”) AND THAT IS A QUALIFIED PURCHASER (“QP”) WITHIN THE MEANING OF SECTION 2(a)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE “INVESTMENT COMPANY ACT”), PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs EACH OF WHICH IS A QP WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN US\$100,000 PRINCIPAL AMOUNT OF NOTES OR (2) IN AN OFFSHORE TRANSACTION TO A PERSON WHO IS NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT (“REGULATION S”) IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S, AND, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES REPRESENTED HEREBY IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. TRANSFERS IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID AB INITIO, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR REALES OF THIS NOTE.

IF THE BENEFICIAL OWNER HEREOF IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S, SUCH BENEFICIAL OWNER REPRESENTS THAT (1) IT IS A QIB THAT IS ALSO A QP; (2) IT IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN US\$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN; (4) IT IS HOLDING THE NOTES REPRESENTED HEREBY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs, EACH OF WHICH IS A QP; (5) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THE NOTES REPRESENTED HEREBY; (6) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITARIES; AND (7) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES.

THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS NOTE IT IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S THAT IS NOT A QIB AND A QP, THE ISSUER MAY (A) COMPEL IT TO SELL ITS INTEREST IN THIS NOTE TO A PERSON WHO IS (I) A U.S. PERSON WHO IS A QIB AND A QP THAT IS, IN EACH CASE, OTHERWISE QUALIFIED TO PURCHASE THE NOTES REPRESENTED HEREBY IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S OR (B) COMPEL THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THE NOTES REPRESENTED HEREBY TO THE ISSUER OR AN AFFILIATE OF THE ISSUER OR TRANSFER ITS INTEREST IN THIS NOTE TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER AT A PRICE EQUAL TO THE LESSER OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100 PER CENT. OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THE NOTES REPRESENTED HEREBY TO A U.S. PERSON WHO IS NOT A QIB AND A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

BY ACCEPTING THIS NOTE (OR ANY INTEREST IN THE NOTES REPRESENTED HEREBY) EACH BENEFICIAL OWNER HEREOF, AND EACH FIDUCIARY ACTING ON BEHALF OF THE BENEFICIAL OWNER (BOTH IN ITS INDIVIDUAL AND CORPORATE CAPACITY), WILL BE DEEMED TO REPRESENT, WARRANT AND AGREE THAT, DURING THE PERIOD IT HOLDS ANY INTEREST IN THIS NOTE (1) EITHER (A) IT IS NOT, AND IT IS NOT ACTING ON BEHALF OF AN EMPLOYEE BENEFIT PLAN (AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“ERISA”)) SUBJECT TO THE PROVISIONS OF PART 4 OF SUBTITLE B OF TITLE I OF ERISA, A PLAN TO WHICH SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (“CODE”), APPLIES, OR ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE “PLAN ASSETS” BY REASON OF SUCH AN EMPLOYEE BENEFIT PLAN’S OR PLAN’S INVESTMENT IN SUCH ENTITY (EACH, A “BENEFIT PLAN INVESTOR”) OR A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE, LOCAL, NON-U.S. OR OTHER LAWS OR REGULATIONS THAT ARE SUBSTANTIALLY SIMILAR TO THE FIDUCIARY RESPONSIBILITY AND/OR THE PROHIBITED TRANSACTION PROVISIONS OF ERISA AND/OR SECTION 4975 OF THE CODE (“SIMILAR LAWS”) AND/OR LAWS OR REGULATIONS THAT PROVIDE THAT THE ASSETS OF THE ISSUER COULD BE DEEMED TO INCLUDE “PLAN ASSETS” OF SUCH PLAN, AND NO PART OF THE ASSETS TO BE USED BY IT TO PURCHASE OR HOLD SUCH NOTES OR ANY INTEREST HEREIN CONSTITUTES THE ASSETS OF ANY BENEFIT PLAN INVESTOR OR SUCH A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN OR (B) IT IS, OR IS ACTING ON BEHALF OF A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, AND SUCH ACQUISITION DOES NOT AND WILL NOT RESULT IN A NON-EXEMPT VIOLATION OF ANY SIMILAR LAWS AND WILL NOT SUBJECT THE ISSUER TO ANY LAWS, RULES OR REGULATIONS APPLICABLE TO SUCH PLAN SOLELY AS A RESULT OF THE INVESTMENT IN THE ISSUER BY SUCH PLAN; AND (2) IT WILL NOT SELL OR OTHERWISE TRANSFER THIS NOTE OR ANY INTEREST HEREIN OTHERWISE THAN TO AN PURCHASER OR TRANSFEREE THAT IS DEEMED TO MAKE THESE SAME REPRESENTATIONS, WARRANTIES AND AGREEMENTS WITH RESPECT TO ITS PURCHASE, HOLDING AND DISPOSITION OF THIS NOTE. NO PURCHASE BY OR TRANSFER TO A BENEFIT PLAN INVESTOR OF THIS NOTE, OR ANY INTEREST HEREIN, WILL BE EFFECTIVE, AND NEITHER THE ISSUER NOR THE TRUSTEE WILL RECOGNIZE ANY SUCH ACQUISITION OR TRANSFER. IN THE EVENT THAT THE ISSUER DETERMINES THAT THIS NOTE IS HELD BY A BENEFIT PLAN INVESTOR, THE ISSUER MAY CAUSE A SALE OR TRANSFER IN THE MANNER DESCRIBED IN THE PROSPECTUS.

THE ISSUER MAY COMPEL EACH BENEFICIAL OWNER OF THE NOTES REPRESENTED HEREBY THAT IS A U.S. PERSON WITHIN THE MEANING OF REGULATIONS TO CERTIFY PERIODICALLY THAT SUCH BENEFICIAL OWNER IS A QIB AND A QP.

It acknowledges that the Issuer, the Bank, the Registrar, the Dealers and their respective affiliates, and others, will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer, the Bank and the applicable Dealer(s). If it is acquiring any Note as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

It understands that Rule 144A Notes of a Series will be represented by interests in one or more Rule 144A Global Note Certificates. Before any interest in a Rule 144A Global Note Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Rule 144A Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of a beneficial interest in the Regulation S Notes, by accepting delivery of this Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) It is, or at the time Regulation S Notes are purchased it will be, the beneficial owner of such Regulation S Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer, the Bank or a person acting on behalf of the Issuer, the Bank or such an affiliate.
- (2) It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and, prior to the expiration of the applicable distribution compliance period for such Notes, it will not offer, sell, pledge or otherwise transfer such Notes except in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
- (3) It understands that Regulation S Notes of a Series will be evidenced by a Regulation S Global Note Certificate. Before any interest in a Regulation S Global Note Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.
- (4) It understands and acknowledges that its purchase and holding of such Notes constitutes a representation and agreement by it that (1) either (i) is not, and is not acting on behalf of (and for so long as it holds such Notes (or any interest therein) will not be, or be acting on behalf of), a Benefit Plan Investor or a governmental, church or non-U.S. plan which is subject to any Similar Laws and/or laws or regulations that provide that the assets of the Issuer could be deemed to include “plan assets” of such plan, and no part of the assets used by it to purchase or hold such Note or any interest therein constitutes the assets of such Benefit Plan Investor or such plan, or (ii) it is, or is acting on behalf of, a governmental, church or non-U.S. plan, and such purchase or holding of such Note does not and will not result in a non-exempt violation of any Similar Laws, and will not subject the Issuer to any laws, rules or regulations applicable to such plan solely as a result of the investment in the Issuer by such plan; and (2) it will not sell or otherwise transfer such Note or any interest therein otherwise than to person that is deemed to make these same representations, warranties and agreements with respect to its acquisition, holding and disposition of such Note.
- (5) It acknowledges that the Issuer, the Bank, the Registrar, the Dealer(s) and their respective affiliates, and others, will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Regulation S Notes is no longer accurate, it shall promptly notify the Issuer, the Bank and the applicable Dealer(s). If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

FORM OF FINAL TERMS

The form of Final Terms that will be issued in respect of each Series, subject only to the deletion of non-applicable provisions, is set out below.

FINAL TERMS

Final Terms dated []

CLOSED JOINT-STOCK COMPANY “ALFA-BANK”

Issue of [Aggregate Principal Amount of Series] [Title of Loan Participation Notes] due [] by Ukraine Issuance plc (the “**Issuer**”) or, in its capacity as Lender, (the “**Lender**”) for the purpose of financing a Loan to Closed Joint-Stock Company “ALFA-BANK” (“**Alfa-Bank**”) under a [U.S.\$2,000,000,000 Programme] for the Issuance of Loan Participation Notes.

PART A—CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Base Prospectus dated 18 July 2008 [and the supplemental Base Prospectus dated []] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer and Alfa-Bank and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus [and the supplemental Prospectus] [is] [are] available for viewing at the specified offices of the Trustee and the Paying Agent [and] [website] and copies may be obtained from the specified offices of the Trustee and the Paying Agent.

The following alternative language applies if the first issue of a Series which is being increased was issued under a Base Prospectus with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the “**Conditions**”) set forth in the Base Prospectus dated [] [and the supplemental Base Prospectus dated []]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”) and must be read in conjunction with the Base Prospectus dated 18 July 2008 [and the supplemental Base Prospectus dated []], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated [] [and the supplemental Base Prospectus dated []]. Full information on the Issuer and Alfa-Bank is only available on the basis of a combination of these Final Terms and Base Prospectus dated 18 July 2008 and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospecti dated [] [and the supplemental Base Prospectus dated []]. The Base Prospecti [and the supplemental Base Prospectus] are available for viewing at the specified offices of the Trustee and the Paying Agent [and] [website] and copies may be obtained from the specified offices of the Trustee and the Paying Agent.

[The following alternative language applies if Notes are issued pursuant to Rule 144A.]

THE NOTES REFERRED TO HEREIN THAT ARE REPRESENTED BY A RULE 144A GLOBAL NOTE HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A THAT IS ALSO A QUALIFIED PURCHASER AS DEFINED IN SECTION

2(A)(51) OF THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER THAT IS ALSO A QUALIFIED PURCHASER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR REALES OF NOTES REPRESENTED BY A RULE 144A GLOBAL NOTE.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK, SEE THE SECTION ENTITLED “RISK FACTORS” SET OUT IN THE BASE PROSPECTUS.

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.]

[When completing Final Terms or adding any other final terms or information, consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article [16] of the Prospectus Directive.]

1. Issuer: Ukraine Issuance plc
2. (i) Series Number: []
(ii) Tranche Number: []
3. Specified Currency: []
4. Aggregate Principal Amount of Notes: []
5. Issue Price: [] per cent. of the aggregate principal amount of the Notes [plus accrued interest from [insert date] to [insert date] (if applicable)]
6. (i) Specified Denominations: [So long as the Notes are represented by a Global Note Certificate the Notes will be tradeable only in principal amounts of at least the Specified Denomination and integral multiples of the Tradeable Amount (as set out in Part B – Other Information of the Final Terms) in excess thereof]
(ii) Calculation amount: []
7. (i) Issue Date: []
(ii) Interest Commencement Date: []
8. Repayment Date: *[specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]*
9. Interest Basis: [[] per cent. Fixed Rate]
[(further particulars specified below)]
[[specify reference rate] +/- [] per cent. Floating Rate]
[(further particulars specified below)]

FORM OF FINAL TERMS

10. Redemption/Payment Basis: Redemption at par
11. Change of Interest or Redemption/Payment Basis: [*Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis*]
12. Put/Call Options: [*Specify details of any provision for Issuer Put/Issuer Call*]
[(further particulars specified below)]
13. [(i)] Status of the Notes: Senior
[(ii)] Date of Issuer's [Board] approval for issuance of Notes obtained: [] [and [] respectively]]
[(iii)] Date of Alfa-Bank's Management Board approval for issuance of Notes obtained: [] [and [] respectively]]
[N.B. Only relevant where Board (or similar) authorisation is required for the particular Series of Notes]
14. Method of distribution: [*Syndicated/Non-syndicated*]

PROVISION RELATING TO INTEREST PAYABLE UNDER THE NOTES

15. Fixed Rate Note Provisions: [Applicable/Not Applicable]
(if not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate [(s)] of Interest: [] per cent. per annum payable [annually/semi-annually] in arrear
- (ii) Interest Payment Date(s): [] in each year
- (iii) Fixed Coupon Amount[(s)]: [] per [] in principal amount
- (iv) Broken Amount: [*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount [(s)] and the Interest Payment Date(s) to which they relate*]
- (v) Day Count Fraction (as defined in Clause 4.9 (*Definitions*) of the Framework Agreement): []
[Day count fraction should be Actual/Actual-ICMA for all fixed rate issues other than those denominated in U.S. dollars, unless otherwise specified]
- (vi) Determination Date(s) (as defined in Clause 4.9 (*Definitions*) of the Framework Agreement): [] in each year [*Insert regular interest payment dates, ignoring issue date or repayment date in the case of a long or short first or last coupon*]
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/give details]
16. Floating Rate Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Interest Period(s): []

FORM OF FINAL TERMS

- (ii) Specified Interest Payment Dates: []
- (iii) Business Day Convention: [Floating Rate Business Day Convention/ Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/other (*give details*)]
- (iv) Business Centre(s): []
- (v) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/ other (*give details*)]
- (vi) Interest Period Date(s): [Not Applicable/specify dates]
- (vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent): []
- (viii) Screen Rate Determination: As set out in the attached Loan Agreement
- (ix) ISDA Determination: As set out in the attached Loan Agreement
- (x) Margin(s): [+/-] [] per cent. per annum
- (xi) Minimum Rate of Interest: [] per cent. per annum
- (xii) Maximum Rate of Interest: [] per cent. per annum
- (xiii) Day Count Fraction (as defined in Clause 4.9 (*Definitions*) of the Framework Agreement): []
- (xiv) Rate Multiplier: []
- (xv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes and Floating Rate Loans, if different from those set out in the Conditions: []
17. Zero Coupon Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub paragraphs of this paragraph)
- (i) [Amortisation/Accrual] Yield: [] per cent. per annum
- (ii) Reference Price: []
- (iii) Day Count Fraction [(Condition [])] []
- (iv) Any other formula/basis of determining amount payable: []
18. Index-Linked Interest Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub paragraphs of this paragraph)

FORM OF FINAL TERMS

- (i) Index/Formula: [give or annex details]
 - (ii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Agent]): []
 - (iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: []
 - (iv) Interest Determination Date(s): []
 - (v) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable or otherwise disrupted: []
 - (vi) Interest or calculation period(s): []
 - (vii) Specified Interest Payment Dates: []
 - (viii) Business Day Convention: [Floating Rate Business Day Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ other (give details)]
 - (ix) Business Centre(s): []
 - (x) Minimum Rate/Amount of Interest: [] per cent. per annum
 - (xi) Maximum Rate/Amount of Interest: [] per cent. per annum
 - (xii) Day Count Fraction [(Condition []): []]
19. Dual Currency Note Provisions: [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub paragraphs of this paragraph)*
- (i) Rate of Exchange/method of calculating Rate of Exchange: [give details]
 - (ii) Party, if any, responsible for calculating the principal and/or interest due (if not the [Agent]): []
 - (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: []
 - (iv) Person at whose option Specified Currency(ies) is/are payable: []
 - (v) Day Count Fraction [(Condition []): []]

PROVISIONS RELATING TO REDEMPTION

20. Call Option: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub paragraphs of this paragraph)
- (i) Optional Redemption Date(s): []
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [] per Note of [] specified denomination
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: []
- (b) Maximum Redemption Amount: []
- (iv) Option Exercise Date(s): []
- (v) Description of any other Issuer's option: []
- (vi) Notice period: []
21. Put Option: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub paragraphs of this paragraph)
- (i) Optional Redemption Date(s): []
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [] per Calculation Amount
- (iii) Option Exercise Date(s): []
- (iv) Description of any other Noteholder's option: []
- (v) Notice period: []
22. Final Redemption Amount of each Note: [[] per Note of [] specified denomination/other]
23. Early Redemption Amount(s) of each Note payable if the Loan should become repayable under the Loan Agreement prior to the Repayment Date: [Principal amount/other]
24. Redemption for taxation reasons permitted on days other than Interest Payment Dates (Condition []): [Yes/No]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25. Form of the Notes: Registered/Bearer Notes
26. New Global Note: [Yes] [No]
27. Financial Centre(s) (Condition []) or other special provisions relating to Payment Dates: [Not Applicable/give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which items [15(ii)], [16(iv)] and [18(ix)] relate]
28. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
29. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details]
30. Details relating to Instalment Notes: [Not Applicable/give details]
- (i) Instalment Amount(s): []
- (ii) Instalment Date(s): []
- (iii) Minimum Instalment Amount: []
- (iv) Maximum Instalment Amount: []
31. Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions [in Condition []] apply]
32. Other final terms: Notes issued but not admitted to trading prior to the update of this Base Prospectus may be admitted to trading pursuant to the Final Terms under this Base Prospectus unless otherwise provided in the final terms specifically relating to those notes.
- (When adding any other final terms, consideration should be given as to whether such terms constitute a “significant new factor” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive).

DISTRIBUTION

33. (i) If syndicated, names of Managers: [Not Applicable/give names]
- (ii) Stabilising Manager (if any): [Not Applicable/give name]
34. If non-syndicated, name of Dealer: [Not Applicable/give names]
35. U.S. Selling Restrictions: [Reg. S Compliance Category; Rule 144A Compliance Category (Qualified Institutional Buyers / Qualified

FORM OF FINAL TERMS

Purchasers); TEFRA C / TEFRA D / TEFRA not applicable]

36. Additional selling restrictions: [Not Applicable/give names]

GENERAL

37. Additional steps that may only be taken following approval by an Extraordinary Resolution in accordance with Condition 12 (*Meetings of Noteholders; Modification and Waiver; Substitution*): [Not Applicable/give details]

38. The aggregate principal amount of Notes issued has been translated into U.S. dollars at the rate of [], producing a sum of (for Notes not denominated in U.S. dollars): [Not Applicable/U.S.\$[]]

39. Consolidation Provisions: [Not Applicable/give details]

[LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the U.S.\$2,000,000,000 Programme for the Issuance of Loan Participation Notes to be issued by Ukraine Issuance plc for the purpose of financing loans to Alfa-Bank.]

RESPONSIBILITY

The Issuer and Alfa-Bank accept responsibility for the information contained in these Final Terms. [[] has been extracted from []. Each of the Issuer and Alfa-Bank confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of UKRAINE ISSUANCE PLC

By:

By:

Title:

Title:

Duly Authorised

Duly Authorised

Signed on behalf of CLOSED JOINT-STOCK COMPANY "ALFA-BANK"

By:

Title:

Duly Authorised

PART B — OTHER INFORMATION

1. ADMISSION TO TRADING

- (i) Admission to trading: [Application has been made [to the Irish Stock Exchange Limited (the “**Irish Stock Exchange**”)] for the Notes to be admitted [to the official list of the Irish Stock Exchange and to be admitted] to trading on the [regulated market of the Irish Stock Exchange/other (*specify*)/None] with effect from [].[Not Applicable]
- (ii) Estimate of total expenses related to admission to trading: []

2. RATINGS

- Ratings: The Notes to be issued have been rated:
- [S & P:]
- [Moody’s:]
- [Fitch:]
- [[Other]:]
- (The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating)

3. [NOTIFICATION]

The [include name of competent authority in EEA home Member State][has been requested to provide/has provided][include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [include names of competent authorities of host Member States] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.]

4. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

If applicable, a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest is to be included. This may be satisfied by the inclusion of the following statement:

“Save as discussed in “*Subscription and Sale*”, so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer”.]

5. [REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES]

- [(i) Reasons for the offer: []
- [(ii)] Estimated net proceeds: []
- [(iii)] Estimated total expenses: [] [Include breakdown of expenses]

6. [Fixed Rate Notes only—YIELD]

- Indication of yield: []

[The yield is calculated at the Issue Date or Trade Date on the basis of the Issue Price. It is not an indication of future yield.]

7. OPERATIONAL INFORMATION

ISIN Code: (Reg S Notes): []

ISIN Code (Rule 144A Notes): []

Common Code: (Reg S Notes): []

Common Code (Rule 144A Notes): []

[CUSIP Code]: []

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme* [and DTC] and the relevant identification number(s): [Not Applicable/give name(s) and number(s) [and addresses]]

Delivery: Delivery [against/free of] payment

Names and addresses of additional []
Paying Agent(s) (if any):

GENERAL INFORMATION

- (1) The Bank and the Issuer have obtained or will obtain all necessary consents, approvals and authorisations in Ukraine and England in connection with any Loan and the issue and performance of the corresponding Series of Notes. The establishment of the Programme was authorised by the Directors of the Issuer on 20 July 2007. The update of the Programme was authorised by the Directors of the Issuer on 16 July 2008. Loans under the Programme will be subject to approval by either the Management Board, the Supervisory Board or the General Meeting of Shareholders of the Bank.
- (2) Application has been made to the Irish Stock Exchange for the Notes to be admitted to trading on the regulated market of the Irish Stock Exchange. Prior to official admission to trading, however, dealings will be permitted by the Irish Stock Exchange in accordance with the guidelines. Transactions will normally be effected for delivery on the third working day after the day of the transaction. However, Notes may be issued pursuant to the Programme which will not be admitted to trading on any stock exchange. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with Notes and is not itself seeking admission of the Notes to the Official List or to trading on the regulated market of the Irish Stock Exchange for the purposes of the Prospectus Directive.
- (3) Save as disclosed in this Prospectus, there has been no significant change in the financial or trading position or prospects of the Issuer or the Bank since 31 March 2008 and no material adverse change in the financial or trading position or prospects of the Issuer or the Bank since 31 December 2007. The Issuer has no subsidiaries.
- (4) Save as disclosed in this Prospectus, neither the Bank or any of its subsidiaries is involved in, or has been involved in, any governmental, legal or arbitration proceedings that may have had in the twelve months before the date of this Prospectus, a significant effect on the financial position or profitability of the Bank, nor, so far as the Bank is aware, are any such proceedings pending or threatened.
- (5) The Issuer has not been involved in any governmental, legal or arbitration proceedings that may have had, in the twelve months before the date of this Prospectus, a significant effect on the Issuer's financial position or profitability, nor, so far as the Issuer is aware, are any such proceedings pending or threatened.
- (6) For so long as any Series of Notes is outstanding, copies (and English translations where the documents in question are not in English) of the following documents may be obtained in physical form free of charge at the specified offices of the Trustee and the Paying Agent in Ireland during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):
 - the audited financial statements of the Bank as of and for each of the years ended 31 December 2007 and 2006 and the condensed interim financial information of the Bank as of and for the three months ended 31 March 2008;
 - and copies of the following documents will be available for inspection at the specified offices of the Trustee and the Paying Agent in Ireland during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted);
 - the Bank's charter and the Memorandum of Association and Articles of Incorporation of the Issuer;
 - the Trust Deed in respect of the Notes (including the forms of the Global Note Certificates and Individual Note Certificates);
 - the Agency Agreement;
 - the Framework Agreement;
 - each Loan Agreement;

- the Post-Enforcement Call Option Agreement;
- the Deed of Indemnity;

each Final Terms for Notes which are listed on the Irish Stock Exchange or any other stock exchange (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer, the Bank and the Paying Agent as to its holding of Notes and identity); and

a copy of this Prospectus together with any supplement to this Prospectus or further Prospectus.

- (7) The Bank does not prepare financial statements in accordance with U.S. GAAP.
- (8) The Notes have been accepted for clearance through Euroclear and Clearstream and, in the event that Rule 144A Notes are issued, application will be made for such Notes to be accepted for clearance through DTC. The Common Code and the International Securities Identification Number (ISIN) and (where applicable) the CUSIP number and the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms. In addition, application may be made to have Rule 144A Notes designated as eligible for trading on PORTAL.
- (9) As of the date of this Prospectus, the Bank is in compliance with applicable Ukraine law corporate governance requirements in all material respects.
- (10) The Issuer does not intend to provide any post-issuance information in respect of each Series of Notes, or any post-issuance information in respect of any underlying collateral in respect of each series of Notes.

ABH Ukraine Limited

*Elenion Building, 2nd floor, 5 Th. Dervis Street, CY-1066 Nicosia, Cyprus, P O Box 25549, CY-1310 Nicosia, Cyprus
Tel: +357-22555800, Fax: +357-22555803*

TO: Ukraine Issuance plc
35 Great St. Helen's
London EC3A 6AP

ATTN: Debra Parsall

08 July 2008

LETTER OF SUPPORT¹

Dear Sirs,

We refer to the U.S \$2,000,000,000 Programme for the issuance of Loan Participation Notes by Ukraine Issuance plc (the "**Lender**") for the purposes of funding loans (the "**Loans**") to Closed Joint-Stock Company "ALFA-BANK" (the "**Bank**"). We are the majority shareholders of the Bank and would like to make the following statements in relation to any such Loans:

- We consider Ukraine to be one of our highest priorities in the development strategy of the Alfa Consortium, in general, and the Alfa Banking Group, in particular;
- Within the above-mentioned strategy, in November 2007 we took the decision to further increase the share capital of the Bank by UAH 374.7 million (US\$74.2 million) which was fully paid in by us together with one of the Bank's minority shareholders in December 2007. In addition, on 21 April 2008 we took the decision to further increase the share capital of the Bank by UAH 505 million (US\$100 million). These newly issued shares were acquired by us together with one of the Bank's minority shareholders in May and June 2008. The relevant payments are expected to be transferred to the Bank's equity by the end of September 2008;
- We view the further development of the Bank to be of strategic importance to the Alfa Banking Group, and will strive to ensure that the Bank meets its liabilities;
- We will not initiate or support any actions that may result in change of the ownership structure of the Bank if such change could weaken the financial position, stability or ability of the Bank to meet its liabilities.

The shareholders of the Alfa Consortium historically have provided financial support to the Alfa Banking Group, and without any continuing obligation, express their readiness to provide such support to the Bank in the future.

Sincerely yours,

Mr. Pavel Nazarian
Director of ABH Ukraine Limited
Member of Supervisory Board of
CJSC "ALFA-BANK"



¹ This letter of support is issued by ABH Ukraine Limited in respect of Loans to be provided by Ukraine Issuance plc to Closed Joint-Stock Company "ALFA-BANK" (the "**Bank**"). Under no circumstances should this Letter of Support be considered as a financial undertaking by the shareholders of the Bank in favour of any party, or as providing grounds for any claim against or the basis of any obligation of the shareholders of the Bank.

INDEX TO FINANCIAL STATEMENTS

Condensed interim financial information for CJSC “Alfa-Bank” as at and for the three month period ended 31 March 2008	F-2
Review report	F-4
Condensed interim balance sheet as at 31 March 2008	F-5
Condensed interim income statement for the three month period ended 31 March 2008	F-6
Condensed interim statement of changes in equity for the three month period ended 31 March 2008.....	F-7
Condensed interim statement of cash flows for the three month period ended 31 March 2008	F-8
Notes to the condensed interim financial information	F-9
Financial statements (IFRS) for CJSC “Alfa-Bank” as at and for the year ended 31 December 2007	F-31
Independent auditor’s report.....	F-33
Balance sheet as at 31 December 2007	F-34
Income statement for the year ended 31 December 2007	F-35
Statement of changes in equity for the year ended 31 December 2007	F-36
Statement of cash flows for the year ended 31 December 2007	F-37
Notes to the financial statements	F-38
Consolidated IFRS financial statements for CJSC “Alfa-Bank” as at and for the year ended 31 December 2006	F-101
Independent auditors’ report	F-103
Consolidated balance sheet as at 31 December 2006	F-105
Consolidated statement of operations for the year ended 31 December 2006	F-106
Consolidated statement of cash flows for the year ended 31 December 2006	F-107
Consolidated statement of changes in equity for the year ended 31 December 2006	F-109
Notes to the consolidated financial statements	F-110

Alfa-Bank

**Condensed Interim Financial Information and
Review Report**

31 March 2008

CONTENTS

REVIEW REPORT

CONDENSED INTERIM FINANCIAL INFORMATION

Condensed Interim Balance Sheet	1
Condensed Interim Income Statement.....	2
Condensed Interim Statement of Changes in Equity	3
Condensed Interim Statement of Cash Flows.....	4

Notes to the Condensed Interim Financial Information

1	Introduction.....	5
2	Operating Environment of the Bank.....	5
3	Basis of Preparation and Significant Accounting Policies	6
4	Critical Accounting Estimates, and Judgments in Applying Accounting Policies	7
5	Adoption of New or Revised Standards and Interpretations	8
6	New Accounting Pronouncements.....	9
7	Cash and Cash Equivalents	11
8	Loans and Advances to Customers.....	11
9	Investment Securities Available-for-Sale	13
10	Due to Other Banks	13
11	Customer Accounts	14
12	Debt Securities in Issue.....	15
13	Loan Participation Notes.....	16
14	Subordinated Debt.....	17
15	Share Capital.....	18
16	Interest Income and Expense	19
17	Fee and Commission Income and Expense	19
18	Administrative and Other Operating Expenses.....	20
19	Segment Analysis.....	20
20	Contingencies and Commitments.....	23
21	Related Party Transactions	25
22	Subsequent Events.....	26

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REVIEW REPORT

To the Shareholders and Management Board of Alfa-Bank

Introduction

- 1 We have reviewed the accompanying condensed interim balance sheet of Alfa-Bank (the "Bank") as at 31 March 2008 and the related condensed interim statements of income, changes in equity and cash flows for the three-month period then ended. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review

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

Conclusion

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


LLC AF PricewaterhouseCoopers (Audit)

Kyiv, Ukraine
7 July 2008

Alfa-Bank
Condensed Interim Balance Sheet (unaudited)

<i>In thousands of USD (as presentation currency, Note 3)</i>	Note	31 March 2008 (unaudited)	31 December 2007
ASSETS			
Cash and cash equivalents	7	220,170	202,753
Due from other banks		2,372	25,592
Loans and advances to customers	8	2,853,820	2,260,715
Investment securities available-for-sale	9	78,161	49,348
Intangible assets		1,590	1,582
Premises, leasehold improvements and equipment		55,550	53,253
Other financial assets		2,153	2,292
Other assets		4,749	2,779
TOTAL ASSETS		3,218,565	2,598,314
LIABILITIES			
Due to other banks	10	606,009	508,296
Customer accounts	11	1,343,322	842,751
Debt securities in issue	12	198,732	196,241
Loan participation notes	13	556,536	552,648
Current income tax liability		2,958	1,002
Deferred income tax liability		304	42
Other financial liabilities		5,086	4,924
Other liabilities		14,554	10,546
Subordinated debt	14	69,828	69,223
Prepaid non-registered share capital		-	100,000
TOTAL LIABILITIES		2,797,329	2,285,673
EQUITY			
Share capital	15	372,599	272,599
Additional paid-in capital		3,798	3,798
Retained earnings		23,951	15,040
Other reserves		20,888	21,204
TOTAL EQUITY		421,236	312,641
TOTAL LIABILITIES AND EQUITY		3,218,565	2,598,314

Approved for issue and signed on behalf of the Management Board on 7 July 2008.


 A. Volkov
 Chairman of the Management Board


 O. Malynska
 Chief Financial Officer

Alfa-Bank
Condensed Interim Income Statement (unaudited)

<i>In thousands of USD (as presentation currency, Note 3)</i>	Note	Three months ended 31 March 2008 (unaudited)	Three months ended 31 March 2007 (unaudited)
Interest income	16	107,430	37,428
Interest expense	16	(50,713)	(21,778)
Net interest income		56,717	15,650
Provision for impairment of loans and advances to customers	8	(15,191)	(6,296)
Net interest income after provision for loan impairment		41,526	9,354
Fee and commission income	17	6,881	4,801
Fee and commission expense	17	(899)	(309)
Gain less losses from financial derivatives		172	3
Foreign exchange gains less losses		870	1,482
Foreign exchange translation gains less losses		2,198	299
Losses less gains on initial recognition of loans and receivables at rates below market measured at amortized cost		(834)	(1,083)
Losses on loan purchased from related party	21	(4,013)	-
Gain on change of expected maturity of liabilities at rates below market	14	1,034	-
Gains less losses/(losses less gains) on initial recognition of financial liabilities measured at amortised cost at rates below/above market		35	(91)
Gains less losses/ (losses less gains) from disposal of investment securities available-for-sale		100	(4)
Other operating income		710	91
Administrative and other operating expenses	18	(35,410)	(12,787)
Profit before tax		12,370	1,756
Income tax expense		(3,557)	(506)
Profit for the period		8,813	1,250

The notes set out on pages 5 to 26 form an integral part of this condensed interim financial information.

2

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

<i>In thousands of USD (as presentation currency, Note 3)</i>	Note	Share capital	Additional paid-in capital	Other Reserves	Retained Earnings	Total equity
Balance at 31 December 2006		72,599	3,466	19,359	2,835	98,259
Available-for-sale investments:						
- Fair value losses less gains		-	-	(68)	-	(68)
- Income tax recorded in equity		-	-	17	-	17
Land and buildings:						
- Depreciation transfer		-	-	(90)	90	-
Net loss recognised directly in equity		-	-	(141)	90	(51)
Profit for the period (unaudited)		-	-	-	1,250	1,250
Total recognised income for the period (unaudited)		-	-	(141)	1,340	1,199
Additional paid-in capital - difference between proceeds and amount at initial recognition of liabilities at rates below market	14	-	310	-	-	310
Income tax recorded in equity		-	(78)	-	-	(78)
Balance at 31 March 2007 (unaudited)		72,599	3,698	19,218	4,175	99,690
Available-for-sale investments:						
- Fair value gains less losses		-	-	73	-	73
- Income tax recorded in equity		-	-	(18)	-	(18)
Land and buildings:						
- Revaluation of premises and land		-	-	2,934	-	2,934
- Depreciation transfer		-	-	(269)	269	-
- Income tax recorded in equity		-	-	(734)	-	(734)
Net income recognised directly in equity		-	-	1,986	269	2,255
Profit for the period (unaudited)		-	-	-	10,596	10,596
Total recognised income for the period (unaudited)		-	-	1,986	10,865	12,851
Share issue	15	200,000	-	-	-	200,000
Additional paid-in capital - difference between proceeds and amount at initial recognition of liabilities at rates below market	14	-	133	-	-	133
Income tax recorded in equity		-	(33)	-	-	(33)
Balance at 31 December 2007		272,599	3,798	21,204	15,040	312,641
Available-for-sale investments:						
- Fair value losses less gains		-	-	(291)	-	(291)
- Income tax recorded in equity		-	-	73	-	73
Land and buildings:						
- Depreciation transfer		-	-	(98)	98	-
Net loss recognised directly in equity		-	-	(316)	98	(218)
Profit for the period (unaudited)		-	-	-	8,813	8,813
Total recognised income for the period (unaudited)		-	-	(316)	8,911	8,595
Share issue	15	100,000	-	-	-	100,000
Balance at 31 March 2008 (unaudited)		372,599	3,798	20,888	23,951	421,236

The notes set out on pages 5 to 26 form an integral part of this condensed interim financial information.

3

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

<i>In thousands of USD (as presentation currency, Note 3)</i>	Note	Three months ended 31 March 2008 (unaudited)	Three months ended 31 March 2007 (unaudited)
Cash flows from operating activities			
Interest received		85,595	38,304
Interest paid		(42,151)	(14,905)
Fees and commissions received		20,935	6,690
Fees and commissions paid		(855)	(404)
Income received from trading in foreign currencies		1,925	1,550
Other operating income received		1,087	87
Staff costs paid		(17,734)	(7,136)
Administrative and other operating expenses paid		(12,281)	(4,346)
Income tax paid		(1,340)	(507)
Cash flows from operating activities before changes in operating assets and liabilities		35,181	19,333
Changes in operating assets and liabilities			
Net decrease in due from other banks		23,130	63,165
Net increase in loans and advances to customers		(605,461)	(238,706)
Net (increase)/decrease in other financial assets and other assets		(1,404)	633
Net increase/(decrease) in due to other banks		97,360	(208,092)
Net increase in customer accounts		498,577	933
Net increase in other financial liabilities and other liabilities		741	192
Net cash from/(used in) operating activities		48,124	(362,542)
Cash flows from investing activities			
Acquisition of investment securities available-for-sale		(146,246)	(22,719)
Proceeds from disposal of investment securities available-for-sale		117,361	21,593
Acquisition of premises, leasehold improvements and equipment		(3,886)	(2,916)
Proceeds from disposal of premises, leasehold improvements and equipment		1	-
Acquisition of intangible assets		(84)	(139)
Net cash used in investing activities		(32,854)	(4,181)
Cash flows from financing activities			
Repayment of debt securities in issue		(62,334)	(8,181)
Proceeds from debt securities in issue		63,339	48,388
Proceeds from loan participation notes		-	188,700
Proceeds from subordinated debt		-	24,980
Paid-in share capital		-	100,000
Net cash from financing activities		1,005	353,887
Effect of exchange rate changes on cash and cash equivalents		1,142	231
Net increase/(decrease) in cash and cash equivalents		17,417	(12,605)
Cash and cash equivalents at the beginning of the period		202,753	158,409
Cash and cash equivalents at the end of the period	7	220,170	145,804

The notes set out on pages 5 to 26 form an integral part of this condensed interim financial information.

4

1 Introduction

This condensed interim financial information has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as at 31 March 2008 and for the three months then ended for CJSC Alfa-Bank (the “Bank”).

The Bank was incorporated and domiciled in Ukraine. The Bank is a joint stock company of a closed type limited by shares and was set up in accordance with Ukrainian regulations.

Principal activity. The Bank was registered by the National Bank of Ukraine (“NBU”) in January 2001, and is the legal successor of commercial bank “Kyiv investment bank”, which was registered in July 1997, and, in its turn, was the legal successor of commercial bank “Vito” registered by the NBU in March 1993.

The Bank’s principal business activity is commercial and retail banking operations within Ukraine. These services include taking deposits and granting loans and advances, investing in securities, transferring payments in Ukraine and abroad and exchanging currencies.

The Bank has more than 180 branches and mini-branches, and more than 1,000 retail outlets, which provide loans and other services to individuals throughout Ukraine.

The Bank’s immediate parent is ABH Ukraine Limited (31 December 2007: ABH Ukraine Limited). The Bank is ultimately controlled by three Russian citizens Mr. Fridman, Mr. Khan and Mr. Kuzmichev. None of them individually controls or owns a 50% or more interest. They have entered into an agreement to vote as if they were a single shareholder and to vote consistently in relation to all matters. The next most senior parent that produces financial information available for public use is ABH Holding Corp.

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

4/6 Desyatynna str.
Kiev, 01025,
Ukraine

Presentation currency. This financial information is presented in thousands of United States Dollars (“USD”).

This condensed interim financial information has been authorised for issue by the Chairman of the Management Board on 7 July 2008.

2 Operating Environment of the Bank

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

The tax, currency and customs legislation within Ukraine is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by banks currently operating in Ukraine. The future economic direction of Ukraine is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Recent volatility in financial markets. Over the last year the financial markets have seen a sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond the US housing market as global investors were forced to re-evaluate the risks they were taking which resulted in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. The tighter credit markets may affect the ability of the Bank to refinance its borrowings, deposits from customers or other liabilities and affect the value of its loan portfolio. Under IFRS, a decline in the fair value of a financial asset below its amortised cost that results from an increase in the base interest rate is generally not evidence of impairment. Management is unable to estimate the effects on the Bank’s financial position of any further possible deterioration in the financial markets’ liquidity and increased volatility

3 Basis of Preparation and Significant Accounting Policies

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

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

The Bank operates in an industry where significant seasonal or cyclical variations in operating income are not experienced during the financial year.

The accounting policies and methods of computation applied in the preparation of this condensed interim financial information are consistent with those disclosed in the annual financial statements of the Bank for the year ended 31 December 2007 except for adoption of new standards and interpretations as described in Note 5.

Foreign currency translation. The Bank's functional currency is the national currency of Ukraine, Ukrainian hryvnias ("UAH").

Monetary assets and liabilities are translated into the functional currency at the official exchange rate of the NBU at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the functional currency at period-end official exchange rates of the NBU are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

The Bank uses the US dollar ("USD") as a currency in which it presents its financial statements. USD has been selected as the presentation currency for convenience and the benefit of the shareholders of the Bank. USD is the currency in which Management of the Bank monitors business risks and exposures, and measures the performance of its business and reports to the shareholders.

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

- (i) assets and liabilities items other than the net profit or loss for the period that is included in the balance of retained earnings for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity within other reserves.

The principal UAH exchange rates used in the preparation of the financial statements are as follows:

Currency	31 March 2008, UAH	31 December 2007, UAH
EURO	7.97698	7.41946
US dollar	5.05000	5.05000

Interim period measurement. Income tax expense is recognised in this condensed interim financial information based on Management best estimate of the weighted average effective annual income tax rate expected for the full financial year. Cost that occur unevenly during the financial year are anticipated or deferred in the interim report only if it would also be appropriate to anticipate or defer such costs at the end of the financial year.

4 Critical Accounting Estimates, and Judgments in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Change of the counterpart. Judgement is required to determine whether the change of the counterpart, whilst retaining other terms of an agreement, is an extinguishment of a financial liability. In December 2007 all claims to the Bank for subordinated debts were irrevocably assigned from Westlaw Inc, an entity under common control, to Overstand Limited, another entity under common control (Refer to Note 14). The Bank did not account for derecognition of the initial subordinated debts provided by Westlaw Inc, as according to the assignment agreements, the Bank was not legally released from its obligations. If the Bank applied an alternative accounting treatment as at the date of change of the counterpart it would have recognised a gain on extinguishment amounting to USD 1,604 thousand immediately in the income statement.

Timing of recognizing the effect of change in estimates. Management applies judgement to determine when the carrying amounts of the financial asset or financial liability should be adjusted to reflect changes in the estimates of related cash payments or receipts. The basis for judgment is the timing when supporting evidence for reliable revised estimates become available. During the three months period ended 31 March 2008 the Bank recognized a gain of USD 1,034 thousand, representing the effect of the change in the estimate of expected maturity of subordinated debts received in the year ended 31 December 2007. Were the Bank to recognise this gain during the year ended 31 December 2007, the opening equity as at 1 January 2008 would increase by USD 775 thousand and the net profit for the three month period ended 31 March 2008 would decrease by the same amount.

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the assessed delay in repayment of principal on 5% of the total loans and advances to customers differs by +/- one month, the provision would be approximately USD 1,169 thousand (31 December 2007: USD 919 thousand) higher or USD 1,169 thousand (31 December 2007: USD 919 thousand) lower.

Initial recognition of related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Fair value of land and buildings. Land and building of the Bank are subject to revaluation on a regular basis. Such revaluations are based on the results of work of independent valuers. The basis for the valuation is the sales comparison approach. When performing revaluation certain judgements and estimates are applied by the valuers in order to determine which comparable premises should be used in the sales comparison approach.

Recognition of financial instruments. Management applies judgement to determine whether financial assets and financial liabilities should be recognised in the transaction where the counterparty for both asset and liability is the same. No asset or liability is recognised in the balance sheet where the arrangement is in the same currency, for the same amount and with the same maturity, unless there is a substantial business purpose for such an arrangement.

4 Critical Accounting Estimates, and Judgments in Applying Accounting Policies (Continued)

Classification of gains and losses on transactions with entities under common control. Management applies judgement to determine whether gains and losses arising from transactions with entities under common control should be recognised in the statement of changes in equity as transactions with shareholders in respect of capital contributions and distributions or in the income statement as results from operations. The basis for judgment is economic substance of transaction. As disclosed in Note 21, in February 2008 the Bank purchased a corporate loan from an entity under common control for USD 6,013 thousand. The fair value of this loan as at the date of purchase was USD 2,000 thousand. As a result of this transaction, the Bank recorded a loss on the purchase of USD 4,013 thousand. The Bank introduced the borrower to the related party. Following the loan's impairment, the Bank decided to bear the loss and purchased the loan. This loss was recognised in the income statement to reflect its operational nature. Were the Bank to recognise all such gains and losses in the income statement, there would be no effect on the net profit for the three month period ended 31 March 2008 (3 months ended 31 March 2007: increase in net profit for the period by USD 232 thousand).

5 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Bank from 1 January 2008. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Bank's operations and the nature of their impact on the Bank's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings at 1 January 2007, unless otherwise described below.

- IFRIC 11, *IFRS 2 - Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 14, *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2008).

Effect of Adoption of New or Revised Standards. The above interpretations had no effect on the Bank's financial position at 31 March 2008 and 31 December 2007 and on the results of its operations for the three months ended 31 March 2008 and 31 March 2007.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2008 or later periods and which the Bank has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management is currently assessing what impact the standard will have on segment disclosures in the Bank's financial statements.

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

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

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Bank expects the revised IAS 1 to impact the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

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

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

6 New Accounting Pronouncements (Continued)

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

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate - IFRS 1 and IAS 27 Amendment (revised May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous generally accepted accounting principles carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments are not expected to have an impact on the Bank's financial statements.

IFRIC 13, Customer Loyalty Programmes (issued in June 2007; effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is currently not relevant to the Bank's operations.

Improvements to IFRSs (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non urgent, amendments to International Financial Reporting Standards. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and corrections to terminology in various standards. The Bank does not expect any material impact on its financial statements from these amendments when they become effective on 1 January 2009 or later.

IFRIC 15, Agreements for the Construction of Real Estate (issued in July 2008, effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The Bank does not expect any material impact on its financial statements from this interpretation when it becomes effective on 1 January 2009.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (issued in July 2008, effective for annual periods beginning on or after 1 October 2008). This interpretation applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39. The interpretation clarifies that hedge accounting may be applied only to the foreign exchange difference arising between the functional currency of the foreign operation and the parent entity's functional currency. The Bank does not expect any material impact on its financial statements from this interpretation when it becomes effective on 1 October 2008.

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

Alfa-Bank
Notes to the Condensed Interim Financial Information – 31 March 2008 (unaudited)

7 Cash and Cash Equivalents

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 March 2008 (unaudited)	31 December 2007
Cash on hand	16,847	16,584
Cash balances with the NBU (other than mandatory reserve deposits)	1,475	94
Mandatory cash balances with the NBU	72,944	59,606
Correspondent accounts and overnight placements with other banks		
- Ukraine	890	1,054
- Other countries	40,767	33,451
Placements with other banks with original maturities of less than three months	87,247	91,964
Total cash and cash equivalents	220,170	202,753

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

8 Loans and Advances to Customers

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 March 2008 (unaudited)	31 December 2007
Corporate loans	2,007,253	1,611,908
Loans to individuals - consumer loans	299,552	240,782
Loans to individuals - mortgage and car loans	343,245	274,439
Loans to individuals - other loans	104,399	74,099
Small and medium enterprises	139,501	86,668
Reverse sale and repurchase agreements	4,505	8,045
Less: Provision for impairment	(44,635)	(35,226)
Total loans and advances to customers	2,853,820	2,260,715

Movements in the provision for loan impairment during three months ended 31 March 2008 are as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Corporate loans	Loans to individuals - consumer loans	Loans to individuals - mortgage and car loans	Small and medium enterprises	Total
Provision for impairment at 1 January 2008	17,181	16,608	920	517	35,226
Provision for impairment during the period	1,053	13,255	729	154	15,191
Amounts written off during the period as uncollectible	-	(5,322)	(460)	-	(5,782)
Provision for impairment at 31 March 2008 (unaudited)	18,234	24,541	1,189	671	44,635

Alfa-Bank
Notes to the Condensed Interim Financial Information – 31 March 2008 (unaudited)

8 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during three months ended 31 March 2007 are as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Corporate loans	Loans to individuals - consumer loans	Loans to individuals - mortgage and car loans	Small and medium enterprises	Total
Provision for impairment at 1 January 2007	8,161	10,107	-	-	18,268
Provision for impairment during the period	1,312	4,738	246	-	6,296
Amounts written off during the period as uncollectible	-	(5,361)	-	-	(5,361)
Provision for impairment at 31 March 2007 (unaudited)	9,473	9,484	246	-	19,203

At 31 March 2008 the Bank had 10 borrowers (31 December 2007: 10 borrowers) with aggregated loan balances above USD 44,000 thousand (31 December 2007: USD 31,700 thousand). The total aggregate amount of these loans was USD 555,264 thousand (31 December 2007: USD 508,430 thousand) or 19% of the gross loan portfolio (31 December 2007: 22%).

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

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 March 2008 (unaudited)		31 December 2007	
	Amount	%	Amount	%
Retail and SME loans	886,697	31%	675,988	29%
Railways	273,488	9%	145,931	6%
Retail trade	266,912	9%	221,594	10%
Wholesale trade	239,487	8%	142,347	6%
Food industry	177,086	6%	131,576	6%
Power industry	116,858	4%	73,664	3%
Construction and real estate	105,026	4%	100,106	4%
Chemical and petrochemical industry	96,976	3%	61,779	3%
Motor-car industry	89,678	3%	36,749	2%
Mechanical engineering and metal- working industry	88,149	3%	40,005	2%
Investment and lease companies	85,992	3%	144,868	6%
Military organisations and aircraft constructions	67,017	2%	47,234	2%
Agriculture	50,775	2%	33,726	2%
Coal-mining industry	50,163	2%	53,465	2%
Transport	43,926	2%	47,958	2%
Metallurgy	34,642	1%	42,390	2%
Natural gas industry	21,522	1%	113,093	5%
Other	204,061	7%	183,468	8%
Total loans and advances to customers (before impairment)	2,898,455	100%	2,295,941	100%

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

Alfa-Bank
Notes to the Condensed Interim Financial Information – 31 March 2008 (unaudited)

9 Investment Securities Available-for-Sale

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 March 2008 (unaudited)	31 December 2007
Corporate bonds - quoted	43,765	31,400
Corporate bonds - unquoted	29,616	6,085
Municipal and state bonds - quoted	2,791	11,863
Municipal and state bonds - unquoted	1,985	-
Total debt securities	78,157	49,348
Corporate shares – unquoted	4	10
Loss: Provision for impairment	-	(10)
Total investment securities available-for-sale	78,161	49,348

10 Due to Other Banks

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 March 2008 (unaudited)	31 December 2007
Current accounts		
Domestic	41,272	3,483
OECD countries	106	-
Non-OECD countries	17,990	11,298
Deposits and loans		
Domestic	9,484	21,381
OECD countries	312,457	455,546
Non-OECD countries	224,700	16,588
Total due to other banks	606,009	508,296

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

Alfa-Bank
Notes to the Condensed Interim Financial Information – 31 March 2008 (unaudited)

11 Customer Accounts

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 March 2008 (unaudited)	31 December 2007
State and public organisations		
- Current/settlement accounts	27,351	19,925
- Term deposits	10,808	15,943
Other legal entities		
- Current/settlement accounts	504,514	373,052
- Term deposits	688,673	339,132
Individuals		
- Current/demand accounts	29,440	27,449
- Term deposits	82,536	67,250
Total customer accounts	1,343,322	842,751

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 March 2008 (unaudited)		31 December 2007	
	Amount	%	Amount	%
Investment and lease companies	357,397	26%	100,265	12%
Communication	266,114	20%	171,876	20%
Ferrous metallurgy	170,074	13%	53,532	6%
Natural gas industry	124,145	9%	44,237	5%
Individuals	111,976	8%	94,699	11%
Wholesale trade	49,729	4%	56,614	7%
Military-industrial establishment and aircraft construction	43,689	3%	53,339	6%
Food industry	36,607	3%	4,785	1%
Insurance	34,597	3%	29,392	3%
Mechanical engineering and metal-working industry	21,688	2%	12,635	2%
Construction and real estate	18,844	1%	1,537	0%
Retail trade	15,248	1%	2,667	0%
Coal-mining industry	13,786	1%	102,177	12%
Transport	10,256	1%	5,225	1%
Power industry	8,804	1%	8,312	2%
Chemical and petrochemical industry	5,898	0%	62,904	7%
Other	54,470	4%	38,555	5%
Total customer accounts	1,343,322	100%	842,751	100%

At 31 March 2008 the Bank had 10 customers (31 December 2007: 10 customers) with balances above USD 28,900 thousand (31 December 2007: USD 18,200 thousand). The aggregate balance of these customers was USD 967,166 thousand (31 December 2007: USD 560,185 thousand) or 72% (31 December 2007: 66%) of total customer accounts.

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

Alfa-Bank
Notes to the Condensed Interim Financial Information – 31 March 2008 (unaudited)

12 Debt Securities in Issue

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 March 2008 (unaudited)	31 December 2007
Bonds issued on domestic market	198,732	196,241
Total debt securities in issue	198,732	196,241

At 31 March 2008 the Bank has debt securities in issue with carrying value of USD 198,732 thousand (31 December 2007: USD 196,241 thousand) denominated in Ukrainian hryvnias. These bonds were issued with following terms and conditions:

In thousands of USD (as presentation currency, Note 3)

Series of bonds	Nominal value	Coupon rate	Yield to maturity	Maturity	Next option on early repayment and interest change
C	10,858	13%	13%	8 December 2010	10 December 2008
D	38,614	13%	13%	20 December 2011	23 December 2008
E	59,406	12%	12%	24 April 2009	-
F	57,426	10%	13%	9 September 2012	15 September 2008
G	3,267	11%	11%	9 September 2012	15 September 2008
H	22,178	14%	14%	14 March 2013	17 March 2009
Total debt securities in issue	191,749				

As at 31 December 2007:

In thousands of USD (as presentation currency, Note 3)

Series of bonds	Nominal value	Coupon rate	Yield to maturity	Maturity	Next option on early repayment and interest change
C	9,868	13%	12%	8 December 2010	10 December 2008
D	35,644	13%	14%	20 December 2011	23 December 2008
E	59,406	12%	12%	24 April 2009	-
F	57,426	10%	13%	9 September 2012	15 September 2008
G	29,010	8%	8%	9 September 2012	17 March 2008
Total debt securities in issue	191,354				

Alfa-Bank
Notes to the Condensed Interim Financial Information – 31 March 2008 (unaudited)

13 Loan Participation Notes

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 March 2008 (unaudited)	31 December 2007
Loan participation notes	556,536	552,648
Total loan participation notes	556,536	552,648

In December 2006, the Bank issued loan participation notes (the "Notes") through VTB Bank Europe Plc (the "Lender") with a par value of USD 160,000 thousand, nominal interest rate of 9.75% per annum, and due on 22 December 2009. In accordance with conditions of the loan agreement dated 18 December 2006, interest will be paid by the Bank on 22 June and 22 December in each year in which the Notes remain outstanding.

The loan agreement, signed between Lender and the Bank also includes the following financial covenants:

- limitation of any type of corporate restructuring without written consent of the Lender;
- it states a 12 month period, when the Bank shall not sell, lease, transfer or otherwise dispose of the any part of the Bank's assets which constitute more than 10% of total assets; and
- the Bank shall not permit its capital adequacy ratio to fall below the minimum capital adequacy ratio required by the NBU.

In March 2007, the Bank issued additional Notes through VTB Bank Europe Plc amounting to USD 188,700 thousand, with par value USD 185,000 thousand, nominal interest rate of 9.56% per annum, and due on 22 December 2009. In accordance with conditions of the loan agreement dated 18 December 2006, interest will be paid by the Bank on 22 June and 22 December in each year in which the Notes remain outstanding.

In July 2007, the Bank issued loan participation notes through Ukraine Issuance Plc amounting to USD 200,175 thousand, with par value USD 200,000 thousand, nominal interest rate of 9.25% per annum, and due on 26 July 2010. In accordance with conditions of the loan agreement dated 23 July 2007, interest will be paid by the Bank on 26 July and 26 January in each year in which the Notes remain outstanding.

The loan agreement, signed between Ukraine Issuance Plc and the Bank also includes the following financial covenants:

- the Bank must at all times ensure that:
 - its Capital expressed as a percentage of its Risk Weighted Assets is not less than (i) that required by the Bank for International Settlements or (ii) twelve per cent (12%), whichever is the higher; and
 - its Tier 1 Capital expressed as a percentage of its Risk Weighted Assets is not less than (i) that required by the Bank for International Settlements or (ii) eight per cent (8 %), whichever is the higher.
- the Bank should comply with all NBU rules and regulations applicable to banks.

14 Subordinated Debt

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

Included in subordinated debt, provided by a related party, being entity under common control, Westlaw Inc, are USD denominated subordinated debts issued in January 2007 and March 2007 in the amount of USD 20,000 thousand and USD 4,980 thousand respectively, at par at 8.5% per annum with contractual maturity in January 2017. A gain on initial recognition of subordinated debts at rates below market in the amount of USD 260 thousand and USD 50 thousand, accordingly, was recognized in the statement of changes in equity, because it represented a capital contribution from the Bank's owners.

In August 2007 the Bank received subordinated debt amounting to USD 30,000 thousand at par from an entity under common control, Westlaw Inc. The subordinated debt carries the interest rate of 8.5% per annum and matures in August 2017. Subordinated debt was registered by the NBU on 13 September 2007. A gain on initial recognition of subordinated debts at rates below market in the amount of USD 133 thousand was recognized in the statement of changes in equity, because it represented a capital contribution from the Bank's owners.

The rest of the amount is represented by USD denominated subordinated debts, provided by an entity under common control, Westlaw Inc. These subordinated debts were issued in November 2002 in the amount of USD 6,800 thousand at LIBOR per annum payable at maturity with contractual maturity in November 2010 and in June 2005 in the amount of USD 5,200 thousand at LIBOR per annum payable at maturity with contractual maturity in June 2013. A gain on initial recognition of subordinated debts at rates below market in the amount of USD 3,214 thousand and USD 1,407 thousand, accordingly, was recognized in the statement of changes in equity at exchange rates at the dates of initial recognition, because it represented a capital contribution from the Bank's owners.

Based on the Assignment agreements dated 5 December 2007 all claims to the Bank, related to all abovementioned subordinated debts, were irrevocably assigned and given by primary investor (Westlaw Inc, an entity under common control) to new investor (Overstand Limited, an entity under common control). All respective changes were properly authorized by the NBU in February 2008.

Because of the change in management assumptions regarding the maturity date of subordinated debts issued in 2007, from December 2007 to December 2008 a gain of USD 1,034 thousand arising from the change in the present value of estimated future cashflows of these subordinated debts has been recognized in the income statement during the three months period ended 31 March 2008.

Included in subordinated debt as at 31 March 2008 is accrued interest in the amount of USD 6,109 thousand (31 December 2007: USD 4,829 thousand).

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

Alfa-Bank
Notes to the Condensed Interim Financial Information – 31 March 2008 (unaudited)

15 Share Capital

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

<i>In thousands of USD (as presentation currency, Note 3), except for number of shares</i>	Number of outstanding shares	Nominal amount	Adjusted amount
At 1 January 2007	360,000,000	71,287	72,599
New shares issued	-	-	-
At 31 March 2007 (unaudited)	360,000,000	71,287	72,599
New shares issued	1,010,000,000	200,000	200,000
At 31 December 2007	1,370,000,000	271,287	272,599
New shares issued	374,710,000	74,200	74,200
Share premium paid	-	-	25,800
At 31 March 2008 (unaudited)	1,744,710,000	345,487	372,599

On 21 November 2007 the shareholders of the Bank took a decision to issue 374,710 thousand additional shares totalling USD 74,200 thousand (equivalent of UAH 374,710 thousand). In December 2007 ABH Ukraine Limited in compliance with agreements dated 14 December 2007 and 29 December 2007 made a payment of USD 100,000 thousand for shares with the nominal value USD 74,200 thousand. On 26 March 2008 the NBU registered the increase in the share capital of the Bank in the amount of USD 74,200 thousand and the proceeds from share issue of USD 100,000 thousand were recognized as an increase in equity.

All ordinary shares have a nominal value of USD 0.198 per share and rank equally. Each share carries one vote.

The shareholders' structure of the Bank was the following as at 31 March 2008:

<i>In thousands of USD (as presentation currency, Note 3), except for number of shares and percentages</i>			
Shareholder	Number of shares issued	%	Nominal value
ABH Ukraine Limited	1,744,676,253	99.9981%	345,480
Others	33,747	0.0019%	7
Total	1,744,710,000	100.000%	345,487

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

Alfa-Bank
Notes to the Condensed Interim Financial Information – 31 March 2008 (unaudited)

16 Interest Income and Expense

<i>In thousands of USD (as presentation currency, Note 3)</i>	3 months ended 31 March 2008 (unaudited)	3 months ended 31 March 2007 (unaudited)
Interest income		
Loans and advances to customers	101,256	35,012
Due from other banks	2,829	823
Debt investment securities available-for-sale	1,773	503
Cash and cash equivalents	1,572	1,090
Total interest income	107,430	37,428
Interest expense		
Loan participation notes	14,121	5,478
Term deposits of legal entities	13,362	6,411
Term placements of other banks	10,336	5,695
Debt securities in issue	6,331	1,196
Term deposits of individuals	2,131	864
Customer current/settlement accounts	1,837	809
Subordinated debt	1,638	682
Current/settlement accounts of other banks	939	640
Other borrowed funds	8	-
Other	10	3
Total interest expense	50,713	21,778
Net interest income	56,717	15,650

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

17 Fee and Commission Income and Expense

<i>In thousands of USD (as presentation currency, Note 3)</i>	3 months ended 31 March 2008 (unaudited)	3 months ended 31 March 2007 (unaudited)
Fee and commission income		
<i>Fee and commission income in respect of financial instruments not at fair value through profit or loss:</i>		
- Currency exchange	3,052	3,413
- Cash and settlement transactions	1,894	1,222
- Documentary operations	1,812	81
- Transactions with securities	84	18
- Fiduciary activities	34	29
- Other	5	38
Total fee and commission income	6,881	4,801
Fee and commission expense		
<i>Fee and commission expense in respect of financial instruments not at fair value through profit or loss</i>		
- Cash and settlement transactions	759	213
- Transactions with securities	50	52
- Other	90	44
Total fee and commission expense	899	309
Net fee and commission income	5,982	4,492

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

Alfa-Bank
Notes to the Condensed Interim Financial Information – 31 March 2008 (unaudited)

18 Administrative and Other Operating Expenses

<i>In thousands of USD (as presentation currency, Note 3)</i>	3 months ended 31	3 months ended 31
	March 2008	March 2007
	(unaudited)	(unaudited)
Salaries and employee benefits	21,712	7,393
Rent	4,464	1,261
Communication and IT	2,914	1,454
Depreciation and amortization	1,682	809
Administration and office maintenance	624	224
Professional services	253	214
Travelling	295	225
Entertainment expenses	172	91
Utilities	410	168
Provision for impairment of other assets	41	33
Other	2,843	915
Total administrative and other operating expenses	35,410	12,787

Included in staff costs are statutory social security and pension contribution of USD 3,452 thousand (three months ended 31 March 2008: USD 1,342 thousand).

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

19 Segment Analysis

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

Business Segments. The Bank is organised on a basis of three main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Central treasury – undertakes the Bank's funding and centralised risk management activities through borrowings, issues of debt securities and investing in liquid assets such as short-term placements and corporate and government debt securities.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Bank's cost of capital. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding taxation. Internal charges and transfer pricing adjustments have been reflected in the performance of each business segment.

Alfa-Bank
Notes to the Condensed Interim Financial Information – 31 March 2008 (unaudited)

19 Segment Analysis (Continued)

Segment reporting for the Bank's assets and liabilities per business segments as at 31 March 2008 is as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Corporate	Retail	Central treasury	Eliminations	Total
Segment assets	2,248,139	702,818	267,608	-	3,218,565
Segment liabilities	1,157,506	51,937	1,581,696	-	2,791,139
Current income tax liability					2,958
Deferred income tax liability					304
Other unallocated liabilities					2,928
Total liabilities					2,797,329
Other segment items					
Capital expenditure incurred during three months ended 31 March 2008	1,563	2,083	361	-	4,007

Segment reporting for the Bank's income and expense per business segments for the three months ended as at 31 March 2008 is as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Corporate	Retail	Central treasury	Eliminations	Total
31 March 2008					
External revenues	69,761	35,947	9,313	-	115,021
Revenues from other segments	21,183	486	45,391	(67,060)	-
Total revenues	90,944	36,433	54,704	(67,060)	115,021
Total revenues comprise:					
- Interest income	84,838	35,336	54,316	(67,060)	107,430
- Fee and commission income	5,994	761	126	-	6,881
- Other operating income	112	336	262	-	710
Total revenues	90,944	36,433	54,704	(67,060)	115,021
Segment result	6,361	(16,043)	22,791	-	13,109
Unallocated costs					(739)
Profit before tax					12,370
Income tax expense					(3,557)
Profit					8,813

Alfa-Bank
Notes to the Condensed Interim Financial Information – 31 March 2008 (unaudited)

19 Segment Analysis (Continued)

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

<i>In thousands of USD (as presentation currency, Note 3)</i>	Corporate	Retail	Central treasury	Eliminations	Total
Segment assets	1,781,421	548,396	268,497	-	2,598,314
Segment liabilities	854,868	76,674	1,352,387	-	2,283,929
Current income tax liability					1,002
Deferred income tax liability					42
Other unallocated liabilities					700
Total liabilities					2,285,673
Other segment items					
Capital expenditure incurred during three months ended 31 March 2007	1,192	1,590	275	-	3,057

Segment reporting for the Bank's income and expense per business segments for the three months ended as at 31 March 2007 is as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Corporate	Retail	Central treasury	Eliminations	Total
31 March 2007					
External revenues	32,013	8,360	1,947	-	42,320
Revenues from other segments	10,991	435	14,532	(25,958)	-
Total revenues	43,004	8,795	16,479	(25,958)	42,320
Total revenues comprise:					
- Interest income	38,562	8,416	16,408	(25,958)	37,428
- Fee and commission income	4,442	309	50	-	4,801
- Other operating income	-	70	21	-	91
Total revenues	43,004	8,795	16,479	(25,958)	42,320
Segment result	7,010	(7,760)	4,127	-	3,377
Unallocated costs					(1,621)
Profit before tax					1,756
Income tax expense					(506)
Profit					1,250

20 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and both internal and external professional advice Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

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

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

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

Capital expenditure commitments. At 31 March 2008 the Bank has contractual capital expenditure commitments in respect of premises, leasehold improvements and equipment totalling USD 6,808 thousand (31 December 2007: USD 2,588 thousand).

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

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

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 March 2008 (unaudited)	31 December 2007
Not later than 1 year	14,367	13,266
Later than 1 year and not later than 5 years	21,116	20,107
Later than 5 years	-	56
Total operating lease commitments	35,483	33,429

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

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

Alfa-Bank
Notes to the Condensed Interim Financial Information – 31 March 2008 (unaudited)

20 Contingencies and Commitments (Continued)

Outstanding credit related commitments are as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 March 2008 (unaudited)	31 December 2007
Guarantees issued	56,705	60,951
Undrawn credit lines	24,830	102,427
Letters of credit	82,375	48,869
Avals issued	859	2,013
Acceptance	402	-
Total credit related commitments	165,171	214,260

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

Assets pledged and restricted. At 31 March 2008 the Bank has the following assets pledged as collateral:

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 March 2008 (unaudited)		31 December 2007	
	Asset pledged	Related liability	Asset pledged	Related liability
Investment securities available-for-sale	2,024	2,024	4,201	4,201
Gross receivables under swap agreements	232,297	234,295	406,482	408,857
Total	234,321	236,319	410,683	413,058

Gross receivables under swap agreements presented above are recognised on a net basis in the balance sheet, giving rise to a derivative financial asset or liability within other assets or other liabilities, respectively.

In addition to the above, balances due from other banks totalling USD 692 thousand (31 December 2007: USD 4,780 thousand) have been pledged as cover for letters of credit and international payments.

21 Related Party Transactions

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

There were neither balances nor transactions other than the share issue with the parent, ABH Ukraine Limited as at 31 March 2008 and as at 31 December 2007 and for the three month period ended 31 March 2008 and 31 March 2007 (Note 15).

Key management personnel - President of the Bank (Deputy head of Supervisory Board) and members of the Management Board - received remuneration in the form of short-term employee benefits amounting to USD 1,551 thousand during three months ended 31 March 2008 (three months ended 31 March 2007: USD 680 thousand).

Included in staff costs is an amount accrued for bonuses for the three months period ended 31 March 2008 of USD 3,500 thousand. The decision as to final amount of bonus to be paid and how the bonus accrual will be divided between key management personnel and other employees is subject to the decision of the Compensation Committee of the Bank. As such, the amount of this bonus for key management personnel for 2008 is not included in the amount of management remuneration disclosed above.

At 31 March 2008 and 31 December 2007, the outstanding balances with related parties were as follows:

	31 March 2008 (unaudited)		31 December 2007	
	Entities under common control	Key manage- ment personnel	Entities under common control	Key manage- ment personnel
<i>In thousands of USD (as presentation currency, Note 3)</i>				
Assets				
Cash and cash equivalents	23,960	-	11,333	-
Gross loans and advances to customers (contractual interest rate from 9% to 18%; 31 December 2007: from 9% to 16%)	240,099	456	247,218	519
Less: provision for loan impairment of loans and advances to customers	(715)	-	(188)	-
Other assets	5	25	6	-
Liabilities				
Due to other banks (contractual interest rate from 0% to 10%, 31 December 2007: from 0% to 17%)	150,687	-	185,070	-
Customer accounts (contractual interest rate from 0% to 14%, 31 December 2007: from 0% to 14%)	496,639	1,074	258,410	854
Subordinated debt (contractual interest rate from 4% to 9%, 31 December 2007: from 4% to 9%)	69,828	-	69,223	-
Credit related commitments				
Guarantees issued	610	-	2,864	-
Undrawn credit lines	140	-	140	-

21 Related Party Transactions (Continued)

The income and expense items with related parties for three months ended 31 March 2008 were as follows:

	Three months ended 31 March 2008 (unaudited)		Three months ended 31 March 2007 (unaudited)	
	Entities under common control	Key manage- ment personnel	Entities under common control	Key manage- ment personnel
<i>In thousands of USD (as presentation currency, Note 3)</i>				
Interest income	8,813	14	1,213	11
Fee and commission income	289	2	-	-
Foreign exchange translation gains less losses	6	-	3	-
Interest expense	9,308	19	5,837	-
Impairment charge	527	-	-	-
Gain on origination of subordinated debt recognised directly in equity	-	-	310	-
Gain on change of expected maturity of liabilities at rates below market	1,034	-	-	-
Gains less losses/(losses less gains) on initial recognition of financial liabilities measured at amortised cost at rates below/above market	35	-	(91)	-
Losses on loan purchased from related parties	4,013	-	-	-
Administrative and other operating expenses (excluding key management personnel remuneration)	-	6	2	7

As at 31 March 2008 included in loans and advances to entities under common control are loans of USD 26,086 thousand (31 December 2007: USD 44,586 thousand) collateralised by cash deposits placed with the Bank.

In February 2008 the Bank purchased a corporate loan from an entity under common control for USD 6,013 thousand. The fair value of this loan as at the date of purchase was USD 2,000 thousand. As a result of this transaction, the Bank recorded a loss on the purchase of USD 4,013 thousand. The Bank introduced the borrower to the related party. Following the loan's impairment, the Bank decided to bear the loss and purchased the loan. The Bank is taking steps to recover the loan from the borrower in full.

During the period ended 31 March 2008 entities related by virtue of common control contributed to the development of customer base and expansion of the Bank's business and incurred expenses of USD 6,937 thousand (three months ended 31 March 2007: USD 3,133 thousand). Entities under common control will not require reimbursement of incurred expenses from the Bank.

22 Subsequent Events

In April and May 2008, the Bank issued loan participation notes through Ukraine Issuance Plc with par values of USD 100,000 thousand and USD 250,000 thousand, respectively, both with nominal interest rate 9.25% p.a. and due dates in May 2009 and in July 2010 respectively.

On 21 April 2008 the shareholders of the Bank took a decision to issue 505,000 thousand additional shares totalling USD 100,000 thousand (equivalent of UAH 505,000 thousand). In May-June 2008 ABH Ukraine Limited made a payment of USD 100,000 thousand to the Bank. The shareholders meeting of 16 June 2008 approved the results of the new share issue and decided to make the respective changes to the Bank's Charter. As at the date of issuing this condensed interim financial information the changes have not yet been registered by the relevant authorities.

On 21 May 2008 the National Bank of Ukraine changed the official exchange rate of the US dollar to Ukrainian hryvnia from 5.05 hryvnia for 1 US dollar to 4.85 hryvnia for 1 US dollar.

Alfa-Bank
Financial Statements
31 December 2007

CONTENTS

INDEPENDENT AUDITOR'S REPORT

FINANCIAL STATEMENTS

Balance Sheet.....	1
Income Statement.....	2
Statement of Changes in Equity.....	3
Statement of Cash Flows.....	4

Notes to the Financial Statements

1	Introduction.....	5
2	Operating Environment of the Bank.....	5
3	Summary of Significant Accounting Policies.....	6
4	Critical Accounting Estimates, and Judgments in Applying Accounting Policies.....	14
5	Adoption of New or Revised Standards and Interpretations.....	16
6	New Accounting Pronouncements.....	17
7	Cash and Cash Equivalents.....	18
8	Due from Other Banks.....	19
9	Loans and Advances to Customers.....	21
10	Investment Securities Available-for-Sale.....	27
11	Premises, Leasehold Improvements, Equipment and Intangible Assets.....	29
12	Other Financial Assets and Other Assets.....	30
13	Due to Other Banks.....	31
14	Customer Accounts.....	33
15	Debt Securities in Issue.....	34
16	Loan Participation Notes.....	35
17	Other Financial Liabilities and Other Liabilities.....	36
18	Subordinated Debt.....	37
19	Share Capital.....	38
20	Other Reserves.....	39
21	Interest Income and Expense.....	39
22	Fee and Commission Income and Expense.....	40
23	Administrative and Other Operating Expenses.....	40
24	Income Taxes.....	41
25	Segment Analysis.....	42
26	Financial Risk Management.....	46
27	Management of Capital.....	57
28	Contingencies and Commitments.....	58
29	Derivative Financial Instruments.....	60
30	Fair Value of Financial Instruments.....	61
31	Reconciliation of Classes of Financial Instruments with Measurement Categories.....	62
32	Related Party Transactions.....	64
33	Subsequent Events.....	67

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management Board of Alfa-Bank:

We have audited the accompanying financial statements of Alfa-Bank (the "Bank"), which comprise the balance sheet as at 31 December 2007 and the income statement, statement of changes in equity and 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 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 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 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 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 accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


LLC AF PricewaterhouseCoopers (Audit)

Kyiv, Ukraine
7 April 2008

Alfa-Bank
Balance Sheet

<i>In thousands of USD (as presentation currency, Note 3)</i>	Note	31 December 2007	31 December 2006
ASSETS			
Cash and cash equivalents	7	202,753	158,409
Due from other banks	8	25,592	77,391
Loans and advances to customers	9	2,260,715	951,765
Investment securities available-for-sale	10	49,348	10,897
Current income tax prepayment		-	351
Intangible assets	11	1,582	990
Premises, leasehold improvements and equipment	11	53,253	36,220
Other financial assets	12	2,292	268
Other assets	12	2,779	1,012
TOTAL ASSETS		2,598,314	1,237,303
LIABILITIES			
Due to other banks	13	508,296	424,607
Customer accounts	14	842,751	530,317
Debt securities in issue	15	196,241	9,581
Loan participation notes	16	552,648	158,225
Current income tax liability		1,002	-
Deferred income tax liability	24	42	4,233
Other financial liabilities	17	4,924	-
Other liabilities	17	10,546	1,930
Subordinated debt	18	69,223	10,151
Prepaid non-registered share capital	33	100,000	-
TOTAL LIABILITIES		2,285,673	1,139,044
EQUITY			
Share capital	19	272,599	72,599
Additional paid-in capital	18	3,798	3,466
Retained earnings		15,040	2,835
Other reserves	20	21,204	19,359
TOTAL EQUITY		312,641	98,259
TOTAL LIABILITIES AND EQUITY		2,598,314	1,237,303

Approved for issue and signed on behalf of the Management Board on 7 April 2008.


A. Volkov
Chairman of the Board


D. Malynska
Chief Financial Officer

Alfa-Bank
Income Statement

<i>In thousands of USD (as presentation currency, Note 3)</i>	Note	2007	2006
Interest income	21	241,182	85,589
Interest expense	21	(125,533)	(41,157)
Net interest income		115,649	44,432
Provision for impairment of loans and advances to customers	9	(33,491)	(21,183)
Net interest income after provision for loan impairment		82,158	23,249
Fee and commission income	22	19,084	9,949
Fee and commission expense	22	(1,469)	(936)
Gain less losses from financial derivatives		2,571	-
Foreign exchange gains less losses		11,256	3,741
Foreign exchange translation losses less gains		(2,294)	(1,374)
Losses less gains on initial recognition of loans and receivables at rates below market measured at amortized cost	9	(3,422)	-
Gains less losses on initial recognition of financial liabilities measured at amortised cost at rates below market	13	183	55
Losses less gains from disposal of investment securities available-for-sale		(110)	(119)
Impairment of investment securities available-for-sale	10	(5)	(5)
Other operating income		852	738
Administrative and other operating expenses	23	(92,176)	(32,729)
Profit before tax		16,628	2,569
Income tax expense	24	(4,782)	(985)
Profit for the year		11,846	1,584

Alfa-Bank
Statement of Changes in Equity

<i>In thousands of USD (as presentation currency, Note 3)</i>	Note	Share capital	Additional paid-in capital	Other Reserves (Note 20)	(Accumulated deficit)/ Retained Earnings	Total equity
Balance at 31 December 2005 as previously reported		26,461	4,621	13,011	(152)	43,941
Reclassification	3	-	(1,155)	-	1,155	-
Balance as at 1 January 2006 after reclassification		26,461	3,466	13,011	1,003	43,941
<hr/>						
Available-for-sale investments:						
- Fair value losses less gains	10	-	-	(108)	-	(108)
- Income tax recorded in equity	24	-	-	22	-	22
Land and buildings:						
- Revaluation of land and building		-	-	8,910	-	8,910
- Depreciation transfer		-	-	(248)	248	-
- Income tax recorded in equity		-	-	(2,228)	-	(2,228)
<hr/>						
Net income recognised directly in equity		-	-	6,348	248	6,596
Profit for the year		-	-	-	1,584	1,584
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Total recognised income for the year		-	-	6,348	1,832	8,180
<hr/>						
Share issue		46,138	-	-	-	46,138
<hr/>						
Balance at 31 December 2006		72,599	3,466	19,359	2,835	98,259
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Available-for-sale investments:						
- Fair value losses less gains	10	-	-	5	-	5
- Income tax recorded in equity	24	-	-	(1)	-	(1)
Land and buildings:						
- Revaluation of premises and land	11	-	-	2,934	-	2,934
- Depreciation transfer		-	-	(359)	359	-
- Income tax recorded in equity		-	-	(734)	-	(734)
<hr/>						
Net income recognised directly in equity		-	-	1,845	359	2,204
Profit for the year		-	-	-	11,846	11,846
<hr/>						
Total recognised income for the year		-	-	1,845	12,205	14,050
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Share issue	19	200,000	-	-	-	200,000
Additional paid-in capital - difference between proceeds and amount at initial recognition of liabilities at rates below market	18	-	443	-	-	443
Income tax recorded in equity	24	-	(111)	-	-	(111)
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Balance at 31 December 2007		272,599	3,798	21,204	15,040	312,641

The notes set out on pages 5 to 67 form an integral part of these financial statements.

Alfa-Bank
Statement of Cash Flows

<i>In thousands of USD (as presentation currency, Note 3)</i>	Note	31 December 2007	31 December 2006
Cash flows from operating activities			
Interest received		261,933	82,482
Interest paid		(113,843)	(38,225)
Fees and commissions received		18,936	9,949
Fees and commissions paid		(1,759)	(898)
Income received from trading in foreign currencies		6,781	1,286
Other operating income received		740	4,248
Staff costs paid		(46,517)	(19,708)
Administrative and other operating expenses paid		(29,366)	(13,162)
Income tax paid		(8,466)	(3,738)
Cash flows from operating activities before changes in operating assets and liabilities		88,439	22,234
Changes in operating assets and liabilities			
Net decrease/(increase) in due from other banks		51,875	(57,793)
Net increase in loans and advances to customers		(1,358,201)	(661,817)
Net increase in other financial assets and other assets		(4,184)	373
Net increase in due to other banks		84,083	218,108
Net increase in customer accounts		311,417	370,687
Net increase in other financial liabilities and other liabilities		3,114	396
Net cash used in operating activities		(823,457)	(107,812)
Cash flows from investing activities			
Acquisition of investment securities available-for-sale		(256,820)	(78,672)
Proceeds from disposal of investment securities available-for-sale		216,573	68,684
Acquisition of premises, leasehold improvements and equipment	11	(18,972)	(5,791)
Proceeds from disposal of premises, leasehold improvements and equipment	11	7	84
Acquisition of intangible assets	11	(827)	(714)
Other investing cash outflows		-	(396)
Other investing cash inflows		396	-
Net cash used in investing activities		(59,643)	(16,805)
Cash flows from financing activities			
Proceeds from debt securities in issue		181,407	8,891
Proceeds from loan participation notes	16	388,875	160,000
Proceeds from subordinated debt	18	54,980	-
Proceeds from issued non-registered ordinary shares	32	100,000	-
Issue of ordinary shares	19	200,000	46,138
Net cash from financing activities		925,262	215,029
Effect of exchange rate changes on cash and cash equivalents		2,182	1,029
Net decrease in cash and cash equivalents		44,344	91,441
Cash and cash equivalents at the beginning of the year	7	158,409	66,968
Cash and cash equivalents at the end of the year	7	202,753	158,409

The notes set out on pages 5 to 67 form an integral part of these financial statements.

4

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as at 31 December 2007 and for the year then ended for CJSC Alfa-Bank (the “Bank”).

The Bank was incorporated and domiciled in Ukraine. The Bank is a joint stock company of a closed type limited by shares and was set up in accordance with Ukrainian regulations.

Principal activity. The Bank was registered by the National Bank of Ukraine (“NBU”) in January 2001, and is the legal successor of commercial bank “Kyiv investment bank”, which was registered in July 1997, and, in its turn, was the legal successor of commercial bank “Vito” registered by the NBU in March 1993.

The Bank’s principal business activity is commercial and retail banking operations within Ukraine. These services include taking deposits and granting loans and advances, investing in securities, transferring payments in Ukraine and abroad and exchanging currencies.

The Bank has more than 220 branches and mini-branches, and more than 1,000 retail outlets, which provide loans and other services to individuals throughout Ukraine.

The Bank’s immediate parent is ABH Ukraine Limited (31 December 2006: ABH Ukraine Limited). The Bank is ultimately controlled by three Russian citizens Mr. Fridman, Mr. Khan and Mr. Kuzmichev. None of them individually controls or owns a 50% or more interest. They have entered into an agreement to vote as if they were a single shareholder and to vote consistently in relation to all matters. The next most senior parent that produces financial statements available for public use is ABH Holding Corp.

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

4/6 Desyatynna str.
Kiev, 01025,
Ukraine

Presentation currency. These financial statements are presented in thousands of United States Dollars (“USD thousand”).

These financial statements have been authorised for issue by the Chairman of the Board on 7 April 2008.

2 Operating Environment of the Bank

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

The tax, currency and customs legislation within Ukraine is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by banks currently operating in Ukraine. The future economic direction of Ukraine is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

3 Summary of Significant Accounting Policies

Basis of Preparation. These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS").

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets and derivatives. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

Key measurement terms. Depending on their classification financial instruments are carried at fair value, cost or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Bank may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arms length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related balance sheet items.

3 Summary of Significant Accounting Policies (Continued)

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

Initial recognition of financial instruments. Derivatives are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Bank commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss; and recognised in equity for assets classified as available-for-sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Cash and cash equivalents include mandatory reserve deposits with the NBU and all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

When financial assets are renegotiated or otherwise modified, except for the cases such as financial difficulties of the borrower or issuer, and if the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Bank considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

3 Summary of Significant Accounting Policies (Continued)

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of Management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. 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 foreclosure is probable.

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 (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

Credit related commitments. The Bank enters into credit related commitments, commitments to extend credit, letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each balance sheet date, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date.

Investment securities available-for-sale. This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Bank classifies investments as available-for-sale at the time of purchase.

3 Summary of Significant Accounting Policies (Continued)

Investment securities available-for-sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Bank's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available-for-sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements") which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the balance sheet unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks.

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Bank are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties for a fixed fee are retained in the financial statements in their original balance sheet category unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds.

Derecognition of financial assets. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Premises, leasehold improvements and equipment. Premises, leasehold improvements and equipment are stated at cost, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Land and buildings of the Bank are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the land and buildings being revalued. The revaluation reserve for land and buildings included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Bank; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

3 Summary of Significant Accounting Policies (Continued)

All other items of premises, leasehold improvements and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises, leasehold improvements and equipment items are capitalised and the replaced part is retired.

If impaired, premises, leasehold improvements and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land is not depreciated. Depreciation on other items of premises, leasehold improvements and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

Buildings	50 years
Furniture and equipment	5-10 years
Computers and motor vehicles	2-10 years
Leasehold improvements	over the term of the underlying lease

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Bank expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Intangible assets. All of the Bank's intangible assets have definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 5 to 10 years.

Operating leases. Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

3 Summary of Significant Accounting Policies (Continued)

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost. If the Bank purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Debt securities in issue. Debt securities in issue include bonds issued by the Bank. Debt securities are stated at amortised cost. If the Bank purchases its own debt securities in issue, they are removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from earlier retirement of debt.

Loan participation notes. Loan participation notes include Eurobonds issued by the Bank. Loan participation notes are stated at amortised cost. If the Bank purchases its own loan participation notes, they are removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from earlier retirement of debt.

Subordinated debt. Subordinated debt represents borrowing agreements that, in case of the Bank's default, would be secondary to primary debt obligations. Subordinated debt is recognized initially at fair value, net of transaction costs incurred. For subordinated debt that represents in substance a transaction with shareholders acting in their capacity as shareholders, the difference between the nominal amount of the subordinated debt issued and its fair value upon initial recognition is recorded as additional paid-in capital. Subsequently, subordinated debt is stated at amortized cost and any difference between cost and the redemption value is recognized in the income statement using the effective interest rate method.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, currency swaps and options are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Bank does not apply hedge accounting.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, 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 the obligation can be made.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost.

Prepaid non-registered share capital. Prepaid but non-registered share capital is accounted for as a liability until the additional share issue is registered by the National Bank of Ukraine and the State Securities and Exchange Committee.

Income taxes. Income taxes have been provided for in the financial statements in accordance with Ukrainian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the income statement except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

3 Summary of Significant Accounting Policies (Continued)

Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Income and expense recognition. Interest income and expense are recorded in the income statement for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Bank retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Custody fees are recorded rateably over the period the services are provided.

Fiduciary assets. Assets held by the Bank in its own name, but on the account of third parties, are not reported on the balance sheet. Commissions received from fiduciary activities are shown in fee and commission income.

Foreign currency translation. The Bank's functional currency is the national currency of Ukraine, Ukrainian hryvnias ("UAH").

Monetary assets and liabilities are translated into the functional currency at the official exchange rate of the NBU at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the functional currency at year-end official exchange rates of the NBU are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

3 Summary of Significant Accounting Policies (Continued)

The Bank uses the US dollar (“USD”) as a currency in which it presents its financial statements. USD has been selected as the presentation currency for convenience and the benefit of the shareholders of the Bank. USD is the currency in which Management of the Bank monitors business risks and exposures, and measures the performance of its business and reports to the shareholders.

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

- (i) assets and liabilities items other than the net profit or loss for the period that is included in the balance of retained earnings for balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity within other reserves (Note 20).

The principal UAH exchange rates used in the preparation of the financial statements are as follows:

Currency	31 December 2007, UAH	31 December 2006, UAH
EURO	7.41946	6.65085
US dollar	5.05000	5.05000

Offsetting. Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Accounting for the effects of hyperinflation. Ukraine has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 “Financial Reporting in Hyperinflationary Economies” (“IAS 29”). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. It states that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

The characteristics of the economic environment of Ukraine indicated that hyperinflation had ceased effective from 1 January 2001. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current at as 31 December 2000 are the basis for the carrying amounts in these financial statements. The restatement was calculated using the conversion factors derived from Consumer Price Index (“CPI”), published by the Ukrainian Statistics Agency.

Staff costs and related contributions. Wages, salaries, contributions to Ukraine state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank.

3 Summary of Significant Accounting Policies (Continued)

Segment reporting. A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Bank have been reported separately within these financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts. The Bank changed its accounting policy for cash and cash equivalents and decided to include balances with the National Bank of Ukraine and amounts due from other banks with original maturity within three months into cash and cash equivalents. The effect of reclassifications is as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	2006
Increase in	
Cash and cash equivalents	154,257
Customer accounts	530,317
Decrease in	
Balances with the National Bank of Ukraine	(45,129)
Due from banks	(109,128)
Current accounts	(115,618)
Deposits	(414,699)

Any further changes to these financial statements require approval of the Bank's Management who authorised these financial statements for issue.

Reclassification. As at 1 January 2006 the Bank reclassified an amount of USD 1,155 thousand from additional paid-in capital to retained earnings, which represents the deferred tax effect of the gain on initial recognition of subordinated debt.

4 Critical Accounting Estimates, and Judgments in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the assessed delay in repayment of principal on 5% of the total loans and advances to customers differs by +/- one month, the provision would be approximately USD 919 thousand (31 December 2006: USD 532 thousand) higher or USD 919 thousand (31 December 2006: USD 532 thousand) lower.

4 Critical Accounting Estimates, and Judgments in Applying Accounting Policies (Continued)

Initial recognition of related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Fair value of land and buildings. As stated in Note 3, land and building of the Bank are subject to revaluation on a regular basis. Such revaluations are based on the results of work of independent valuers. The basis for their work is the sales comparison approach. When performing revaluation certain judgements and estimates are applied by the valuers in order to determine which comparable premises should be used in the sales comparison approach or what should be the useful lives of the assets revalued. Changes in assumptions about these factors could affect reported fair values. The valuation was based on comparative sales of premises with the price per square meter varying from USD 3,889 thousand to USD 10,433 thousand depending upon the location of premises. To the extent that the price per square meter differs by +/-5 percent, the fair value of premises would be USD 1,399 thousand (31 December 2006: USD 1,284 thousand) higher or USD 1,399 thousand (31 December 2006: USD 1,284 thousand) lower.

Recognition of financial instruments. Management applies judgement to determine whether financial assets and financial liabilities should be recognised in the transaction where the counterparty for both asset and liability is the same. No asset or liability is recognised in the balance sheet where the arrangement is in the same currency, for the same amount and with the same maturity, unless there is a substantial business purpose for such an arrangement.

Recent volatility in financial markets. The last few months have seen a sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond the US housing market as global investors were forced to re-evaluate the risks they were taking which resulted in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. The tighter credit markets may affect the ability of the Group to refinance its borrowings, deposits from customers or other liabilities and affect the value of its loan portfolio. Under IFRS, a decline in the fair value of a financial asset below its amortised cost that results from an increase in the base interest rate is generally not evidence of impairment. Management is unable to estimate the effects on the Group's financial position of any further possible deterioration in the financial markets' liquidity and increased volatility.

Change of the counterpart. Judgement is required to determine whether the change of the counterpart, whilst retaining other terms of an agreement, is an extinguishment of a financial liability. In 2007 all claims to the Bank for subordinated debts were irrevocably assigned from Westlaw Inc, an entity under common control, to Overstand Limited, another entity under common control (Refer to Note 18). The Bank did not account for derecognition of the initial subordinated debts provided by Westlaw Inc, as according to the assignment agreements, the Bank was not legally released from its obligations. If the Bank applied an alternative accounting treatment it would have recognised a gain on extinguishment amounting to USD 1,604 thousand immediately in the income statement. A gain would be calculated based on expected maturity of December 2008, which represents a revised estimate of the debts' original maturity described in the following paragraph.

Gain on initial recognition. A gain on initial recognition of subordinated debts issued in 2007 was calculated based on the expected maturity of December 2007, although the contractual maturity date was 2017. Management believes that expected maturity is a more accurate estimate of subordinated debt maturity as at the time of signing of these agreements, the Management Board, shareholder and counterpart approved a restructuring plan, according to which subordinated debts should mature in December 2007.

5 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Bank from 1 January 2007. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Bank's operations and the nature of their impact on the Bank's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings at 1 January 2006, unless otherwise described below.

IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). The IFRS introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaced IAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and some of the requirements in IAS 32, *Financial Instruments: Disclosure and Presentation*. The Amendment to IAS 1 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these financial statements.

Other new standards or interpretations. The Bank has adopted the following other new standards or interpretations which became effective from 1 January 2007, unless otherwise stated:

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for annual periods beginning on or after 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006);
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006).

The new IFRIC 7 to 10 interpretations did not significantly affect the Bank's financial statements.

Effect of Adoption of New or Revised Standards. As a result of adoption of IFRS 7, the Bank made certain changes in presentation. The effect of reclassifications was not significant.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2008 or later periods and which the Bank has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management is currently assessing what impact the Standard will have on segment disclosures in the Bank's financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised Standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Bank is currently assessing the impact of the amended Standard on its financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Bank expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

Other new standards or interpretations. The Bank has not early adopted the following other new standards or interpretations:

- IFRIC 11, *IFRS 2 - Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 13, *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008);
- IFRIC 14, *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2008).
- IFRS 3 (Revised), *Business Combinations* (effective for annual periods beginning on or after 1 July 2009);
- IAS 27 (Revised) - *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009);
- IAS 32 and IAS 1 Amendment - *Puttable financial instruments and obligations arising on liquidation* (effective for annual periods beginning on or after 1 January 2009)

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

Alfa-Bank
Notes to the Financial Statements – 31 December 2007

7 Cash and Cash Equivalents

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 December 2007	31 December 2006
Cash on hand	16,584	4,152
Cash balances with the NBU (other than mandatory reserve deposits)	94	31,549
Mandatory cash balances with the NBU	59,606	13,580
Correspondent accounts and overnight placements with other banks		
- Ukraine	1,054	10,047
- Other countries	33,451	60,183
Placements with other banks with original maturities of less than three months	91,964	38,898
Total cash and cash equivalents	202,753	158,409

As at 31 December 2007 mandatory reserve balance with the National Bank of Ukraine is calculated on the basis of a simple average over a monthly period (2006: monthly period) and should be maintained at the level of 0.5 to 5 per cent (2006: 0.5 to 5 per cent) of certain obligations of the Bank. As such, mandatory reserve balance with the National Bank of Ukraine can vary from day-to-day. For December 2007 the Bank's mandatory reserve balance was USD 59,606 thousand (December 2006: USD 13,580 thousand). The Bank may satisfy its mandatory reserve requirement with its balance on correspondent account with the National Bank of Ukraine. Mandatory reserve balances carry 0% interest rate (2006: 0%).

As at 31 December 2007, in accordance with the NBU regulations the Bank was required to maintain the daily balance on correspondent account with the NBU at the level not less than 100% of the mandatory reserves balance for the preceding month (2006: not less than 100% of the mandatory reserve balance for the preceding month).

As at 31 December 2006 placements with other banks totaling USD 8,998 thousand represent EUR deposit pledged against USD placement received for the same term from the same counterparty bank totalling USD 9,000 thousand. Refer to Notes 13 and 28.

Analysis by credit quality of cash and cash equivalents outstanding at 31 December 2007 is as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Cash on hand	Cash balances with the NBU	Correspondent accounts and overnight placements with other banks	Placements with other banks with original maturities less than three months	Total
<i>Current and not impaired</i>					
Cash on hand	16,584	-	-	-	16,584
Cash balances with the NBU (other than mandatory reserve deposits)	-	94	-	-	94
Mandatory cash balances with the NBU	-	59,606	-	-	59,606
Largest 20 Ukrainian banks	-	-	219	46,211	46,430
Other Ukrainian banks	-	-	835	11,984	12,819
Large OECD banks	-	-	22,205	33,769	55,974
Non-OECD banks	-	-	11,246	-	11,246
Total cash and cash equivalents	16,584	59,700	34,505	91,964	202,753

7 Cash and Cash Equivalents (Continued)

Analysis by credit quality of cash and cash equivalents outstanding at 31 December 2006 is as follows:

	Cash on hand	Cash balances with the NBU	Correspondent accounts and overnight placements with other banks	Placements with other banks with original maturities less than three months	Total
<i>In thousands of USD (as presentation currency, Note 3)</i>					
<i>Current and not impaired</i>					
Cash on hand	4,152	-	-	-	4,152
Cash balances with the NBU (other than mandatory reserve deposits)	-	31,549	-	-	31,549
Mandatory cash balances with the NBU	-	13,580	-	-	13,580
Largest 20 Ukrainian banks	-	-	6	3,002	3,008
Other Ukrainian banks	-	-	10,041	19,896	29,937
Large OECD banks	-	-	52,693	12,956	65,649
Non-OECD banks	-	-	7,490	3,044	10,534
Total cash and cash equivalents	4,152	45,129	70,230	38,898	158,409

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 26. The information on related party balances is disclosed in Note 32.

8 Due from Other Banks

	31 December 2007	31 December 2006
<i>In thousands of USD (as presentation currency, Note 3)</i>		
Short-term placements with other banks with original maturities of more than three months	3,453	77,391
Reverse sale and repurchase agreements with other banks with original maturities of more than three months	22,139	-
Total due from other banks	25,592	77,391

As at 31 December 2006 term placements with other banks totalling USD 56,448 thousand represent UAH, USD, EUR and RUB deposits pledged against UAH, USD, EUR and CHF term placements received for the same term from the same counterparty banks totalling USD 56,423 thousand. Refer to Notes 13 and 28.

At 31 December 2007 amounts due from other banks of USD 22,139 thousand (31 December 2006: nil) are effectively collateralized by securities purchased under reverse sale and repurchase agreements. These securities had a fair value of USD 21,943 thousand at 31 December 2007 (31 December 2006: Nil) and the Bank has a right to sell or re-pledge the securities.

Alfa-Bank
Notes to the Financial Statements – 31 December 2007

8 Due from Other Banks (Continued)

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2007 is as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Reverse sale and repurchase agreements	Short-term placements with other banks	Total
<i>Current and not impaired</i>			
- Largest 20 Ukrainian banks	21,416	-	21,416
- Other Ukrainian banks	723	2,071	2,794
- Non-OECD Banks	-	1,024	1,024
- Large OECD Banks	-	358	358
Total due from other banks	22,139	3,453	25,592

Analysis by credit quality of amounts due from other banks as at 31 December 2006 is as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Short-term placements with other banks	Total
<i>Current and not impaired</i>		
- Largest 20 Ukrainian banks	40,624	40,624
- Non-OECD banks	20,854	20,854
- Other Ukrainian banks	15,822	15,822
- Large OECD Banks	91	91
Total due from other banks	77,391	77,391

The primary factor that the Bank considers whether a deposit is impaired is its overdue status. As at 31 December 2007 the Bank had neither overdue nor impaired term placements with other banks (31 December 2006: nil).

At 31 December 2007 the Bank had balances with 8 counterparty banks (31 December 2006: 10 banks) with total aggregate amount of USD 25,592 (31 December 2006: USD 74,482 thousand) or 100% of the total amount due from other banks (31 December 2006: 96%).

At 31 December 2007 the estimated fair value of due from other banks was USD 25,592 thousand (31 December 2006: USD 77,391 thousand). The carrying amount of each class of instruments included in due from other banks approximates the fair value.

Geographical, currency, maturity and interest rate analysis of due from other banks is disclosed in Note 26.

Alfa-Bank
Notes to the Financial Statements – 31 December 2007

9 Loans and Advances to Customers

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 December 2007	31 December 2006
Corporate loans	1,611,908	873,178
Loans to individuals - consumer loans	240,782	54,178
Loans to individuals - mortgage and car loans	274,439	31,833
Loans to individuals - other loans	74,099	5,906
Small and medium enterprises	86,668	-
Reverse sale and repurchase agreements	8,045	4,938
Less: Provision for impairment	(35,226)	(18,268)
Total loans and advances to customers	2,260,715	951,765

At 31 December 2007 loans and advances to customers of USD 8,045 thousand (31 December 2006: USD 4,938 thousand) are effectively secured by securities purchased under reverse sale and repurchase agreements. The securities had a fair value of USD 8,275 thousand at 31 December 2007 (31 December 2006: USD 4,938 thousand), and the Bank has a right to sell or repledge the securities.

Movements in the provision for impairment of loans and advances to customers during the year ended 31 December 2007 are as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Corporate loans	Loans to individuals - consumer loans	Loans to individuals - mortgage and car loans	Small and medium enterprises	Total
Provision for impairment at 1 January 2007	8,161	10,107	-	-	18,268
Provision for impairment during the year	8,391	23,165	1,418	517	33,491
Amounts written off during the year as uncollectible	-	(16,664)	(498)	-	(17,162)
Interest income	629	-	-	-	629
Provision for impairment at 31 December 2007	17,181	16,608	920	517	35,226

Alfa-Bank
Notes to the Financial Statements – 31 December 2007

9 Loans and Advances to Customers (Continued)

Movements in the provision for impairment of loans and advances to customers during the year ended 31 December 2006 are as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Corporate loans	Loans to individuals - consumer loans	Loans to individuals - mortgage and car loans	Small and medium enterprises	Total
Provision for impairment at 1 January 2006	3,627	2,352	-	-	5,979
Provision for impairment during the year	3,051	18,132	-	-	21,183
Amounts written off during the year as uncollectible	-	(10,377)	-	-	(10,377)
Interest income	1,483	-	-	-	1,483
Provision for impairment at 31 December 2006	8,161	10,107	-	-	18,268

At 31 December 2007 the Bank had 10 borrowers (31 December 2006: 10 borrowers) with aggregated loan balances above USD 31,700 thousand (31 December 2006: USD 19,300 thousand). The total aggregate amount of these loans was USD 508,430 thousand (31 December 2006: USD 368,061 thousand) or 22% of the gross loan portfolio (31 December 2006: 38%).

As at 31 December 2007 the Bank had 11 borrowers (31 December 2006: 31 borrowers) with aggregate loan balances in excess of 10% of net assets or USD 31,264 thousand (31 December 2006: USD 9,856 thousand). The total aggregate amount of these loans was USD 539,859 thousand (31 December 2006: USD 612,437 thousand) or 24% of the gross loan portfolio (31 December 2006: 63%). Refer to Note 26.

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

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 December 2007		31 December 2006	
	Amount	%	Amount	%
Retail and SME loans	675,988	29%	91,917	10%
Retail trade	221,594	10%	31,092	3%
Railways	145,931	6%	137,582	14%
Investment and lease companies	144,868	6%	4,655	0%
Wholesale trade	142,347	6%	47,326	5%
Food industry	131,576	6%	53,004	6%
Natural gas industry	113,093	5%	2,803	0%
Construction and real estate	100,106	4%	38,101	4%
Power industry	73,664	3%	19,858	2%
Chemical and petrochemical industry	61,779	3%	24,923	3%
Coal-mining industry	53,465	2%	21,782	2%
Transport	47,958	2%	58,302	6%
Military organizations and aircraft constructions	47,234	2%	42,172	4%
Metallurgy	42,390	2%	207,029	21%
Mechanical engineering and metal- working industry	40,005	2%	82,350	9%
Motor-car industry	36,749	2%	40,320	4%
Agriculture	33,726	2%	11,012	1%
Other	183,468	8%	55,805	6%
Total loans and advances to customers (before impairment)	2,295,941	100%	970,033	100%

Alfa-Bank
Notes to the Financial Statements – 31 December 2007

9 Loans and Advances to Customers (Continued)

Breakdown of loans and advances to customers (gross) by type of collateral taken as at 31 December 2007 is as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Corporate loans	Loans to individuals - consumer loans	Loans to individuals - mortgage and car loans	Loans to individuals - other loans	Small and medium enterprises	Reverse repur- chase agree- ments	Total
Unsecured loans	205,192	240,782	-	11,560	68,652	-	526,186
Loans collateralised by:							
- cash deposits with the Bank	74,038	-	-	7,572	58	-	81,668
- other real estate	493,259	-	-	48,188	7,877	-	549,324
- residential real estate	15,634	-	93,597	-	-	-	109,231
- tradable securities	26,517	-	-	6,500	-	8,045	41,062
- other assets	797,268	-	180,842	279	10,081	-	988,470
Total loans and advances to customers	1,611,908	240,782	274,439	74,099	86,668	8,045	2,295,941

Breakdown of loans and advances to customers (gross) by type of collateral taken as at 31 December 2006 is as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Corporate loans	Loans to individuals - consumer loans	Loans to individuals - mortgage and car loans	Loans to individuals - other loans	Reverse repurchase agreements	Total
Unsecured loans	45,453	54,178	-	5,906	-	105,537
Loans collateralised by:						
- residential real estate	-	-	31,833	-	-	31,833
- other real estate	135,806	-	-	-	-	135,806
- tradable securities	-	-	-	-	4,938	4,938
- cash deposits with the Bank	279,276	-	-	-	-	279,276
- guarantee by others	155,206	-	-	-	-	155,206
- other assets	257,437	-	-	-	-	257,437
Total loans and advances to customers	873,178	54,178	31,833	5,906	4,938	970,033

Alfa-Bank
Notes to the Financial Statements – 31 December 2007

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans and advances to customers outstanding at 31 December 2007:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Corporate loans	Loans to individuals - consumer loans	Loans to individuals - mortgage and car loans	Loans to individuals - other loans	Small and medium enterprises	Reverse repurchase agreements	Total
<i>Current and not impaired</i>							
- Large borrowers with credit history with the Bank over 2 years	325,578	-	-	-	-	-	325,578
- Large new borrowers with credit history with the Bank less than 2 years	1,197,347	-	-	-	-	8,045	1,205,392
- Loans to medium and small size entities	-	-	-	-	86,535	-	86,535
- Loans to individuals	-	216,599	265,799	74,099	-	-	556,497
Total current and not impaired	1,522,925	216,599	265,799	74,099	86,535	8,045	2,174,002
<i>Past due but not impaired</i>							
- less than 30 days overdue	70,792	11,686	6,296	-	133	-	88,907
- 30 to 90 days overdue	518	6,723	1,850	-	-	-	9,091
Total past due but not impaired	71,310	18,409	8,146	-	133	-	97,998
<i>Loans individually determined to be impaired (gross)</i>							
- less than 30 days overdue	12,000	-	-	-	-	-	12,000
- 90 to 180 days overdue	1,741	5,774	494	-	-	-	8,009
- 180 to 360 days overdue	3,932	-	-	-	-	-	3,932
Total individually impaired loans (gross)	17,673	5,774	494	-	-	-	23,941
Less: Provision for impairment	(17,181)	(16,608)	(920)	-	(517)	-	(35,226)
Total loans and advances to customers	1,594,727	224,174	273,519	74,099	86,151	8,045	2,260,715

Alfa-Bank
Notes to the Financial Statements – 31 December 2007

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans and advances to customers as at 31 December 2006:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Corporate loans	Loans to individuals - consumer loans	Loans to individuals - mortgage and car loans	Loans to individuals - other loans	Reverse repurchase agreements	Total
<i>Current and not impaired</i>						
- Large borrowers with credit history with the Bank over 2 years	19,968	-	-	-	-	19,968
- Large new borrowers with credit history with the Bank less than 2 years	837,412	-	-	-	4,938	842,350
- Loans to individuals	-	43,695	31,833	5,906	-	81,434
Total current and not impaired	857,380	43,695	31,833	5,906	4,938	943,752
<i>Past due but not impaired</i>						
- less than 30 days overdue	-	3,892	-	-	-	3,892
- 30 to 90 days overdue	-	3,173	-	-	-	3,173
Total past due but not impaired	-	7,065	-	-	-	7,065
<i>Loans individually determined to be impaired (gross)</i>						
- less than 30 days overdue	15,381	-	-	-	-	15,381
- 30 to 90 days overdue	417	-	-	-	-	417
- 90 to 180 days overdue	-	3,418	-	-	-	3,418
Total individually impaired loans (gross)	15,798	3,418	-	-	-	19,216
Less: Provision for impairment	(8,161)	(10,107)	-	-	-	(18,268)
Total loans and advances to customers	865,017	44,071	31,833	5,906	4,938	951,765

The primary factors that the Bank considers whether a loan is impaired is its overdue status and realisability of related collateral, if any. The Bank's policy is to consider a loan as not impaired until the loss can be specifically identified with the loan.

The borrowers have the contractual right to early repay the loans at par. Based on the types of loan products the Bank may charge penalties for such early repayments.

During the year ended 31 December 2007 losses less gains on initial recognition amounting to USD 3,422 thousand of loans and advances to customers at rates below market have been recorded in the income statement. Losses less gains on initial recognition were recognised for loans and advances to customers issued at rates below market rates during marketing campaign and represent marketing expenses.

Past due but not impaired loans, except for consumer loans, represent collateralised loans, where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

Alfa-Bank
Notes to the Financial Statements – 31 December 2007

9 Loans and Advances to Customers (Continued)

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2007 was as follows:

	Corporate loans	Loans to individuals - mortgage and car loans	Small and medium enter- prises	Total
<i>In thousands of USD (as presentation currency, Note 3)</i>				
<i>Fair value of collateral - loan past due but not impaired</i>				
- residential real estate	-	3,403	-	3,403
- other real estate	18,340	-	-	18,340
- other assets	16,575	5,095	49	21,719
<i>Fair value of collateral - individually impaired loans</i>				
- other assets	3,422	-	-	3,422
Total	38,337	8,498	49	46,884

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2006 was as follows:

	Corporate loans	Total
<i>In thousands of USD (as presentation currency, Note 3)</i>		
<i>Fair value of collateral - individually impaired loans</i>		
- other assets	3,422	3,422
Total	3,422	3,422

At 31 December 2007 the estimated fair value of loans and advances to customers was USD 2,244,217 thousand (31 December 2006: USD 951,765 thousand).

The estimated fair value of loans and advances to customers by class of financial asset:

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 December 2007	31 December 2006
Corporate loans	1,579,088	865,017
Loans to individuals - consumer loans	224,173	44,071
Loans to individuals - mortgage and car loans	272,660	31,833
Loans to individuals - other loans	74,099	5,906
Small and medium enterprises	86,151	-
Reverse sale and repurchase agreements	8,046	4,938
Total loans and advances to customers	2,244,217	951,765

Geographical, currency, maturity and interest rate analysis of loans and advances to customers is disclosed in Note 26. The information on related party balances is disclosed in Note 32.

Alfa-Bank
Notes to the Financial Statements – 31 December 2007

10 Investment Securities Available-for-Sale

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 December 2007	31 December 2006
Government bonds - quoted	-	2,762
Municipal and state bonds - quoted	11,863	-
Corporate bonds - quoted	31,400	8,135
Corporate bonds - unquoted	6,085	-
Total debt securities	49,348	10,897
Corporate shares – unquoted	10	5
Loss: Provision for impairment	(10)	(5)
Total investment securities available-for-sale	49,348	10,897

Movements in the impairment provision of investment securities available-for-sale during 2006 and 2007 are as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	2007	2006
Provision for impairment at 1 January	5	-
Provision for impairment during the year	5	5
Provision for impairment at 31 December	10	5

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

<i>In thousands of USD (as presentation currency, Note 3)</i>	Municipal and state bonds	Corporate bonds	Total
<i>Current and not impaired</i>			
- Ukrainian municipal and state organisations	11,863	-	11,863
- Large Ukrainian corporates	-	9,754	9,754
- Medium sized Ukrainian banks	-	2,606	2,606
- Medium sized Ukrainian companies	-	25,125	25,125
Total investment securities available-for-sale	11,863	37,485	49,348

Analysis by credit quality of debt securities outstanding at 31 December 2006 is as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Ukrainian government bonds	Corporate bonds	Total
<i>Current and not impaired</i>			
- Ukrainian government	2,762	-	2,762
- Large Ukrainian corporates	-	3,105	3,105
- Small and Medium sized Ukrainian companies	-	5,030	5,030
Total investment securities available-for-sale	2,762	8,135	10,897

10 Investment Securities Available-for-Sale (Continued)

At 31 December 2007 investment securities available-for-sale with a fair value of USD 4,201 thousand (2006: Nil) have been pledged to third parties as collateral with respect to term placements of other banks. Refer to Notes 13 and Note 28.

Municipal and state bonds are Ukrainian hryvnia denominated Ukrainian municipal and state securities issued by the Vinnitsa City and the State Mortgage Institution. As at 31 December 2007 municipal and state bonds had maturity date from December 2009 to December 2011, coupon rate from 10% to 11% per annum and yield to maturity from 8% to 10% per annum depending on the type of bonds issue.

Ukrainian corporate bonds are Ukrainian hryvnia denominated securities issued by large and medium sized companies and banks. Corporate bonds are issued at a discount or premium to face value. As at 31 December 2007 corporate bonds had maturity date from January 2008 to May 2012, coupon rate from 7% to 16% per annum. (31 December 2006: 15% to 30% per annum) and yield to maturity from 8% to 18% per annum (31 December 2006: 12% to 18% per annum) depending on the type of bonds issue.

During the year ended 31 December 2007 the Bank recognised a fair value loss in the equity amounting to USD 82 thousand, net of tax. In addition a loss of USD 86 thousand, net of tax was removed from the equity and recognised in the income statement on disposal of investment securities available-for-sale.

Geographical, currency, maturity and interest rate analysis of investment securities available-for-sale is disclosed in Note 26.

Alfa-Bank
Notes to the Financial Statements – 31 December 2007

11 Premises, Leasehold Improvements, Equipment and Intangible Assets

<i>In thousands of USD (as presentation currency, Note 3)</i>	Land and buildings	Leasehold improve- ments	Furniture and equipment	Computer and motor vehicles	Total premises, leasehold improvements and equipment	Intangible assets	Total
Cost or valuation at 1 January 2006	20,468	941	2,523	1,967	25,899	570	26,469
Accumulated depreciation and amortisation	(121)	(375)	(1,186)	(741)	(2,423)	(171)	(2,594)
Carrying amount at 1 January 2006	20,347	566	1,337	1,226	23,476	399	23,875
Additions	523	1,342	1,384	2,542	5,791	714	6,505
Revaluation	8,910	-	-	-	8,910	-	8,910
Disposals	-	(1)	(30)	(26)	(57)	(11)	(68)
Depreciation and amortisation charge	(418)	(179)	(534)	(769)	(1,900)	(112)	(2,012)
Carrying amount at 31 December 2006	29,362	1,728	2,157	2,973	36,220	990	37,210
Cost or valuation at 31 December 2006	29,469	2,281	3,820	4,294	39,864	1,268	41,132
Accumulated depreciation and amortisation	(107)	(553)	(1,663)	(1,321)	(3,644)	(278)	(3,922)
Carrying amount at 31 December 2006	29,362	1,728	2,157	2,973	36,220	990	37,210
Additions	632	4,824	7,391	6,125	18,972	827	19,799
Revaluation	2,934	-	-	-	2,934	-	2,934
Disposals	-	(4)	(2)	(1)	(7)	-	(7)
Depreciation and amortization charge	(658)	(705)	(1,612)	(1,891)	(4,866)	(235)	(5,101)
Transfers	33	-	(33)	-	-	-	-
Carrying amount at 31 December 2007	32,303	5,843	7,901	7,206	53,253	1,582	54,835
Cost or valuation at 31 December 2007	32,566	6,766	11,108	10,382	60,822	2,093	62,915
Accumulated depreciation and amortisation	(263)	(923)	(3,207)	(3,176)	(7,569)	(511)	(8,080)
Carrying amount at 31 December 2007	32,303	5,843	7,901	7,206	53,253	1,582	54,835

Alfa-Bank
Notes to the Financial Statements – 31 December 2007

11 Premises, Leasehold Improvements, Equipment and Intangible Assets (Continued)

Land and buildings were independently valued as at 31 December 2007. The valuation was carried out by an independent firm of valuers, International Law Company “Solomon-Group”, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was market value.

Included in the above carrying amount is USD 25,421 thousand (31 December 2006: USD 22,967 thousand) representing revaluation surplus relating to land and buildings of the Bank. At 31 December 2007 the carrying amount of land and buildings would have been USD 6,485 thousand (31 December 2006: USD 5,884 thousand) had the assets been carried at cost less depreciation.

12 Other Financial Assets and Other Assets

<i>In thousands of USD (as presentation currency, Note 3)</i>	Note	31 December 2007	31 December 2006
<i>Other financial assets</i>			
Receivables		2,152	268
Financial derivatives	29	140	-
Total financial assets		2,292	268
<i>Other assets</i>			
Prepayments for intangible assets and construction services		1,303	718
Prepaid expenses		1,505	351
Other assets		17	59
Less: Provision for impairment		(46)	(116)
Total other assets		2,779	1,012

Movements in the provision for impairment of other assets during 2006 and 2007 are as follows:

<i>In thousands of Ukrainian hryvnias</i>	2007	2006
Provision for impairment at 1 January	116	121
Charge/(Recovery) of provision for impairment during the year	38	(5)
Amounts written off during the year as uncollectible	(108)	-
Provision for impairment at 31 December	46	116

Geographical and currency analysis of other financial assets and other assets is disclosed in Note 26. The information on related party balances is disclosed in Note 32.

Alfa-Bank
Notes to the Financial Statements – 31 December 2007

13 Due to Other Banks

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 December 2007	31 December 2006
Current accounts		
Domestic	3,483	22,091
Non-OECD countries	11,298	7,350
Deposits and loans		
Domestic	21,381	58,961
OECD countries	455,546	287,166
Non-OECD countries	16,588	44,051
Payables for repurchased own debt securities – domestic	-	4,988
Total due to other banks	508,296	424,607

As at 31 December 2006 placements received from other banks totaling USD 65,423 thousand represent UAH, USD, EUR and RUB deposits pledged against UAH, USD, EUR and CHF placements for the same term with the same counterparty banks totaling USD 65,446 thousand. Refer to Note 7, 8 and 28.

Deposits and current accounts of OJSC “Alfa-Bank” (Russia), a related party under common control, amount to USD 14,852 thousand, or 3% of due to other banks as at 31 December 2007 (31 December 2006: USD 44,843 thousand, or 11%).

Deposits and current accounts amounting to USD 170,218 thousand, or 33% of due to other banks, are due to Amsterdam Trade Bank (Netherlands), a related party under common control, as at 31 December 2007 (31 December 2006: USD 171,183 thousand or 40% of due to other banks).

Loan granted by Cooperative Centrale Raiffeisen-Boerenleenbank B.A (the “Rabobank”) amounts to USD 50,413 thousand, or 10% of due to other banks as at 31 December 2007 (31 December 2006: 12%). The main terms and conditions of the loan are as follows:

- nominal value: USD 50,000 thousand;
- nominal interest rate: fixed 9% per annum;
- repayment date: 29 February 2008;
- interest payment dates: 28 February 2007, 29 May 2007, 29 August 2007, 29 November 2007 and 29 February 2008;
- effective interest rate: 9% per annum.

This loan agreement includes the following financial covenants:

- the maximum credit risk to one counterparty and the maximum amount of loans, guarantees and sureties provided to one insider;
- follow a level of the NBU total capital adequacy ratio; Capital Adequacy Ratio and Tier 1 (as defined by the Basel Accord) – not less than 12% and 8%, respectively.

A loan granted by UBS AG London (London branch) (the “UBS”) amounts to CHF 119,943 thousand (equivalent of USD 106,131 thousand), or 21% of due to other banks as at 31 December 2007 (31 December 2006: nil). The main terms and conditions of the loan are as follows:

- nominal value: CHF 150,000 thousand, amount of CHF 30,000 thousand was repaid on 20 September 2007;
- nominal interest rate: fixed 5.84% per annum;
- repayment date: 23 June 2008;
- interest payment dates: 26 September 2007, 26 December 2007, 26 March 2008 and 23 June 2008;
- effective interest rate: 6.09% per annum.

13 Due to Other Banks (Continued)

Based on the term facility agreement dated 1 October 2007 the Bank received the term loan from following lenders: Bayerische Landesbank, Barclays Bank PLC, HSBC Bank plc, Natixis, Erste Bank der oesterreichischen Sparkassen AG, JPMorgan Chase Bank, N.A. The main terms and conditions of the loan are as follows:

- nominal value: USD 61,000 thousand;
- nominal interest rate: LIBOR plus 1.5%;
- repayment date: 29 September 2008;
- interest payment dates: 3 April 2008, 29 September 2008;
- effective interest rate: 7.9% per annum.

The term facility agreement dated 1 October 2007 also includes the following financial covenants:

- the minimum Tangible Net Worth (net assets less goodwill and intangible assets, amounts set aside for tax, minority interest, any dividend or other distribution declared by the Bank) – it should not be less than USD 98,259 thousand;
- compliance with the NBU Regulations, e.g. compliance of the maximum credit risk per one counterparty and the maximum amount of loans and guaranties provided to one insider;
- follow a level of the NBU total capital adequacy ratio; Capital Adequacy Ratio and Tier 1 (as defined by the Basel Accord) – not less than 12% and 8%, respectively.

During the year ended 31 December 2007 a gain on initial recognition of due to other banks at rates below market in amount of USD 183 thousand has been recognised in the income statement.

Carrying value of each class of due to other banks approximates fair value at 31 December 2007 and 31 December 2006. At 31 December 2007 the estimated fair value of due to other banks was USD 508,296 thousand (31 December 2006: USD 424,607 thousand).

Geographical, currency, maturity and interest rate analysis of due to other banks is disclosed in Note 26. The information on related party balances is disclosed in Note 32.

Alfa-Bank
Notes to the Financial Statements – 31 December 2007

14 Customer Accounts

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 December 2007	31 December 2006
State and public organisations		
- Current/settlement accounts	19,925	2
- Term deposits	15,943	21,054
Other legal entities		
- Current/settlement accounts	373,052	109,161
- Term deposits	339,132	375,533
Individuals		
- Current/demand accounts	27,449	6,455
- Term deposits	67,250	18,112
Total customer accounts	842,751	530,317

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 December 2007		31 December 2006	
	Amount	%	Amount	%
Communication	171,876	20%	115,050	22%
Coal-mining industry	102,177	12%	-	0%
Investment and lease companies	100,265	12%	47,621	9%
Individuals	94,699	11%	24,567	5%
Wholesale trade	56,614	7%	32,032	6%
Chemical and petrochemical industry	62,904	7%	1,974	0%
Ferrous metallurgy	53,532	6%	168,894	32%
Military-industrial establishment and aircraft construction	53,339	6%	266	0%
Natural gas industry	44,237	5%	48,988	9%
Insurance	29,392	3%	-	0%
Mechanical engineering and metal-working industry	12,635	2%	14,645	3%
Power industry	8,312	2%	-	0%
Transport	5,225	1%	-	0%
Food industry	4,785	1%	821	0%
Retail trade	2,667	0%	2,927	1%
Construction and real estate	1,537	0%	5,108	1%
Other	38,555	5%	67,424	12%
Total customer accounts	842,751	100%	530,317	100%

At 31 December 2007 the Bank had 10 customers (31 December 2006: 10 customers) with balances above USD 18,200 thousand. The aggregate balance of these customers was USD 560,185 thousand (31 December 2006: USD 428,656 thousand) or 66% (31 December 2006: 81 %) of total customer accounts.

At 31 December 2007 included in customer accounts are deposits of USD 4,780 thousand (31 December 2006: USD 139 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 28. As at 31 December 2007 included in customer accounts are deposits of USD 81,668 thousand (31 December 2006: USD 279,276 thousand) held as collateral for loans and advances to customers, issued by the Bank. Refer to Note 9.

At 31 December 2007 the estimated fair value of customer accounts was USD 842,751 thousand (31 December 2006: USD 530,317 thousand). The carrying amount of each class of customer accounts approximates the fair value.

Geographical, currency, maturity and interest rate analysis of customer accounts is disclosed in Note 26. The information on related party balances is disclosed in Note 32.

Alfa-Bank
Notes to the Financial Statements – 31 December 2007

15 Debt Securities in Issue

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 December 2007	31 December 2006
Bonds issued on domestic market	196,241	9,581
Total debt securities in issue	196,241	9,581

At 31 December 2007 the Bank has debt securities in issue of USD 196,241 thousand (31 December 2006: USD 9,581 thousand) denominated in Ukrainian hryvnas. These bonds were issued with following terms and conditions:

In thousands of USD (as presentation currency, Note 3)

Series of bonds	Nominal value	Coupon rate	Yield to maturity	Maturity	Next option on early repayment and interest change
C	9,868	13%	12%	8 December 2010	10 December 2008
D	35,644	13%	14%	20 December 2011	23 December 2008
E	59,406	12%	12%	24 April 2009	-
F	57,426	10%	13%	9 September 2012	15 September 2008
G	29,010	8%	8%	9 September 2012	17 March 2008
Total debt securities in issue	191,354				

As at 31 December 2006:

In thousands of USD (as presentation currency, Note 3)

Series of bonds	Nominal value	Coupon rate	Yield to maturity	Maturity	Next option on early repayment and interest change
B	4,554	12%	11%	10 November 2009	13 February 2007
C	4,918	13%	11%	8 December 2010	12 December 2007
Total debt securities in issue	9,472				

At 31 December 2007 the fair values of debt securities in issue were as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 December 2007		31 December 2006	
	Fair value	Carrying value	Fair value	Carrying value
B	-	-	4,562	4,626
C	10,131	9,966	4,952	4,955
D	36,713	35,755	-	-
E	64,479	64,479	-	-
F	56,851	57,138	-	-
G	28,903	28,903	-	-
Total debt securities in issue	197,077	196,241	9,514	9,581

Geographical, currency and interest rate analyses of debt securities in issue are disclosed in Note 26.

16 Loan Participation Notes

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 December 2007	31 December 2006
Loan participation notes	552,648	158,225
Total loan participation notes	552,648	158,225

In December 2006, the Bank issued loan participation notes (the "Notes") through VTB Bank Europe Plc (the "Lender") with a par value of USD 160,000 thousand, nominal interest rate of 9.75% per annum, and due on 22 December 2009. In accordance with conditions of the loan agreement dated 18 December 2006, interest will be paid by the Bank on 22 June and 22 December in each year in which the Notes remain outstanding.

The loan agreement, signed between Lender and the Bank also includes the following financial covenants:

- limitation of any type of corporate restructuring without of written consent of the Lender;
- it states a 12 month period, when the Bank shall not sell, lease, transfer or otherwise dispose of the any part of the Bank's assets which constitute more than 10% of total assets;
- the Bank shall not permit its capital adequacy ratio to fall below the minimum capital adequacy ratio required by the NBU.

In March 2007, the Bank issued additional Notes through VTB Bank Europe Plc amounting to USD 188,700 thousand, with par value USD 185,000 thousand, nominal interest rate of 9.56% per annum, and due on 22 December 2009. In accordance with conditions of the loan agreement dated 18 December 2006, interest will be paid by the Bank on 22 June and 22 December in each year in which the Notes remain outstanding.

In July 2007, the Bank issued loan participation notes through Ukraine Issuance Plc amounting to USD 200,175 thousand, with par value USD 200,000 thousand, nominal interest rate of 9.25% per annum, and due on 26 July 2010. In accordance with conditions of the loan agreement dated 23 July 2007, interest will be paid by the Bank on 26 July and 26 January in each year in which the Notes remain outstanding.

As at 31 December 2007 yield to maturity of loan participation notes was from 9.26% to 10.3% (31 December 2006: 9.52%).

At 31 December 2007 the estimated fair value of loan participation notes was USD 552,648 thousand (31 December 2006: USD 161,800 thousand).

Geographical, maturity, currency and interest rate analyses of loan participation notes is disclosed in Note 26.

Alfa-Bank
Notes to the Financial Statements – 31 December 2007

17 Other Financial Liabilities and Other Liabilities

Other liabilities comprise the following:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Note	31 December 2007	31 December 2006
<i>Other financial liabilities</i>			
Derivative financial instruments	29	2,515	-
Other payables		2,409	-
Total other financial liabilities		4,924	-
<i>Other liabilities</i>			
Accrued bonuses		8,000	-
Unused vacation reserve		2,384	1,192
Other		162	738
Total other liabilities		10,546	1,930

Derivative financial instruments are carried at fair value. Refer to Note 29 and 30.

Movements in the unused vacation reserve and liability for bonuses are as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Unused vacation reserve	Accrued bonuses	Total
Carrying amount at 1 January 2007	1,192	-	1,192
Additions charged in profit and loss	2,592	12,000	14,592
Payments made	(1,400)	(4,000)	(5,400)
Carrying amount at 31 December 2007	2,384	8,000	10,384

Geographical, currency, maturity and interest rate analysis of other financial liabilities and other liabilities is disclosed in Note 26.

18 Subordinated Debt

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

Included in subordinated debt, provided by a related party, being entity under common control, Westlaw Inc, are USD denominated subordinated debts issued in January 2007 and March 2007 in amount of USD 20,000 thousand and USD 4,980 thousand respectively, at par at 8.5% per annum with contractual maturity in January 2017. A gain on initial recognition of subordinated debts at rates below market in the amount of USD 260 thousand and USD 50 thousand, accordingly, was recognized in the statement of changes in equity, because it represented a capital contribution from the Bank's owners.

In August 2007 the Bank received subordinated debt amounting to USD 30,000 thousand of par from an entity under common control, Westlaw Inc. The subordinated debt carries the interest rate of 8.5% per annum and matures in August 2017. Subordinated debt was registered by the NBU on 13 September 2007. A gain on initial recognition of subordinated debts at rates below market in the amount of USD 133 thousand was recognized in the statement of changes in equity, because it represented a capital contribution from the Bank's owners.

The rest of the amount is represented by USD denominated subordinated debts, provided by an entity under common control, Westlaw Inc. These subordinated debts were issued in November 2002 in the amount of USD 6,800 thousand at LIBOR per annum payable at maturity with contractual maturity in November 2010 and in June 2005 in the amount of USD 5,200 thousand at LIBOR per annum payable at maturity with contractual maturity in June 2013. A gain on initial recognition of subordinated debts at rates below market in the amount of USD 3,214 thousand and USD 1,407 thousand, accordingly, was recognized in the statement of changes in equity at exchange rate at the dates of initial recognition, because it represented a capital contribution from the Bank's owners.

Based on the Assignment agreements dated 5 December 2007 all claims to the Bank, related to all abovementioned subordinated debts, were irrevocably assigned and given by Primary Investor (Westlaw Inc, an entity under common control) to New Investor (Overstand Limited, an entity under common control). All respective changes were properly authorized by the NBU in February 2008.

Included in subordinated debt as at 31 December 2007 is accrued interest in the amount of USD 4,829 thousand (31 December 2006: USD 1,291 thousand).

At 31 December 2007 the estimated fair value of subordinated debt was USD 68,738 thousand (31 December 2006: USD 8,764 thousand).

Geographical, currency, maturity and interest rate analysis of subordinated debt is disclosed in Note 26. The information on related party balances is disclosed in Note 32.

Alfa-Bank
Notes to the Financial Statements – 31 December 2007

19 Share Capital

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

<i>In thousands of USD (as presentation currency, Note 3)</i>	Number of outstanding shares	Nominal amount	Inflation adjusted amount
At 1 January 2006	127,000,000	25,149	26,461
New shares issued	233,000,000	46,138	46,138
At 31 December 2006	360,000,000	71,287	72,599
New shares issued	1,010,000,000	200,000	200,000
At 31 December 2007	1,370,000,000	271,287	272,599

On 5 February 2007 the shareholders of the Bank took a decision to issue 505,000 thousand additional shares totalling USD 100,000 thousand (equivalent of UAH 505,000 thousand). In March 2007 ABH Ukraine Limited in compliance with an agreement dated 19 February 2007 paid USD 100,000 thousand. On 26 April 2007 the NBU registered the increase in the share capital of the Bank in the amount of USD 100,000 thousand.

According to a decision taken at the shareholders meeting of 16 July 2007, the share capital was increased by USD 100,000 thousand (equivalent of UAH 505,000 thousand). In August 2007 ABH Ukraine Limited in compliance with an agreement dated 11 August 2007 paid USD 100,000 thousand. On 26 September 2007 the NBU registered the increase in the share capital of the Bank in the amount of USD 100,000 thousand.

All ordinary shares have a nominal value of USD 0.198 per share, rank equally and each share carries one vote.

The shareholders structure of the Bank was the following as at 31 December 2007:

<i>In thousands of USD (as presentation currency, Note 3)</i>			
Shareholder	Number of shares issued	%	Nominal value
ABH Ukraine Limited	1,369,966,818	99.998%	271,277
Others	33,182	0.002%	10
Total	1,370,000,000	100.000%	271,287

In accordance with IAS 29, *Financial Reporting in Hyperinflationary Economies*, share capital was restated for effects of hyperinflation by USD 2,641 thousand (Note 3). The difference, amounting to USD 1,329 thousand, arose due to presentation of the share capital, denominated in UAH, in presentation currency USD (Note 3). This difference was recognized in equity in Other Reserves.

Alfa-Bank
Notes to the Financial Statements – 31 December 2007

20 Other Reserves

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 December 2007	31 December 2006
Revaluation reserve for land and building, net of tax	19,066	17,225
Effect of translation to presentation currency	2,220	2,220
Revaluation reserve for securities available-for-sale	(82)	(86)
Total other reserves	21,204	19,359

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

In accordance with Ukrainian legislation, the Bank distributes profits or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Ukrainian Accounting Rules. The Bank's reserves under Ukrainian Accounting Rules at 31 December 2007 are USD 13,386 thousand (31 December 2006: USD 1,054 thousand).

21 Interest Income and Expense

<i>In thousands of USD (as presentation currency, Note 3)</i>	2007	2006
Interest income		
Loans and advances to customers	232,231	79,993
Cash and cash equivalents	3,320	1,472
Debt investment securities available-for-sale	3,181	1,340
Due from other banks	2,450	2,784
Total interest income	241,182	85,589
Interest expense		
Loan participation notes	38,840	864
Term deposits of legal entities	28,694	17,671
Term placements of other banks	28,552	14,964
Debt securities in issue	12,344	896
Customer current/settlement accounts	5,944	1,048
Term deposits of individuals	4,831	1,360
Subordinated debt	4,534	1,158
Current/settlement accounts of other banks	1,771	3,059
Other borrowed funds	-	113
Other	23	24
Total interest expense	125,533	41,157
Net interest income	115,649	44,432

Information on interest income and expense from transactions with related parties is disclosed in Note 32.

Alfa-Bank
Notes to the Financial Statements – 31 December 2007

22 Fee and Commission Income and Expense

<i>In thousands of USD (as presentation currency, Note 3)</i>	2007	2006
Fee and commission income		
<i>Fee and commission income in respect of financial instruments not at fair value through profit or loss:</i>		
- Currency exchange	12,491	3,511
- Cash and settlement transactions	4,947	6,130
- Transactions with securities	61	85
- Fiduciary activities	133	48
- Other	1,452	175
Total fee and commission income	19,084	9,949
Fee and commission expense		
<i>Fee and commission expense in respect of financial instruments not at fair value through profit or loss</i>		
- Cash and settlement transactions	1,235	869
- Transactions with securities	72	19
- Other	162	48
Total fee and commission expense	1,469	936
Net fee and commission income	17,615	9,013

Information on fee and commission income and expense from transactions with related parties is disclosed in Note 32.

23 Administrative and Other Operating Expenses

<i>In thousands of USD (as presentation currency, Note 3)</i>	Note	2007	2006
Salaries and employee benefits		55,737	18,875
Rent		9,101	2,866
Communication and IT		7,209	2,527
Depreciation and amortization	11	5,101	2,012
Administration and office maintenance		2,119	435
Professional services		1,495	885
Travelling		1,399	890
Entertainment expenses		1,211	963
Utilities		1,003	452
Provision for impairment of other assets		38	-
Other		7,763	2,824
Total administrative and other operating expenses		92,176	32,729

Included in staff costs are statutory social security of USD 854 thousand (2006: USD 382 thousand) and pension contributions of USD 7,393 thousand (2005: USD 2,325 thousand).

Information on administrative and other operating expenses from transactions with related parties is disclosed in Note 32.

Alfa-Bank
Notes to the Financial Statements – 31 December 2007

24 Income Taxes

Income tax expense comprises the following:

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 December 2007	31 December 2006
Current tax	9,819	2,555
Deferred tax	(5,037)	(1,570)
Income tax expense for the period	4,782	985

The income tax rate applicable to the Bank's income is 25% (2006: 25%). A reconciliation between the expected and the actual taxation charge is provided below.

<i>In thousands of USD (as presentation currency, Note 3)</i>	2007	2006
IFRS profit before tax	16,628	2,569
Theoretical tax charge at statutory rate (2007: 25%; 2006: 25%)	4,157	642
Tax effect of items which are not deductible for taxation purposes: - Non deductible expenses	625	343
Income tax expense for the period	4,782	985

Differences between IFRS and Ukrainian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 25%.

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 December 2005	(Charged)/ credited to income statement	(Charged)/ credited directly to equity	31 December 2006	(Charged)/ credited to income statement	Charged directly to equity	31 December 2007
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards							
Loans and advances to customers	(137)	1,643	-	1,506	4,582	-	6,088
Premises, leasehold improvements and equipment	(3,498)	(308)	(2,228)	(6,034)	828	(734)	(5,940)
Due from banks	-	-	-	-	(1,919)	-	(1,919)
Debt securities	-	-	-	-	1,156	-	1,156
Financial and non-financial liabilities	81	(264)	-	(183)	(524)	(111)	(818)
Fair valuation of investment securities available-for-sale	12	2	22	36	541	(1)	576
Other non-financial assets	(55)	497	-	442	373	-	815
Net deferred tax liability	(3,597)	1,570	(2,206)	(4,233)	5,037	(846)	(42)

25 Segment Analysis

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

Business Segments. The Bank is organised on a basis of three main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products for clients.
- Central treasury – undertakes the Bank's funding and centralised risk management activities through borrowings, issues of debt securities and investing in liquid assets such as short-term placements and corporate and government debt securities.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Bank's cost of capital. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding taxation. Internal charges and transfer pricing adjustments have been reflected in the performance of each business segment.

Alfa-Bank
Notes to the Financial Statements – 31 December 2007

25 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Bank as at 31 December 2007 and for the year than ended is set out below:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Corporate	Retail	Central treasury	Eliminations	Total
31 December 2007					
External revenues	187,545	64,390	9,183	-	261,118
Revenues from other segments	52,790	1,867	109,875	(164,532)	-
Total revenues	240,335	66,257	119,058	(164,532)	261,118
Total revenues comprise:					
- Interest income	222,428	64,671	118,615	(164,532)	241,182
- Fee and commission income	17,786	1,087	211	-	19,084
- Other operating income	121	499	232	-	852
Total revenues	240,335	66,257	119,058	(164,532)	261,118
Segment result	22,438	(44,830)	43,596	-	21,204
Unallocated costs					(4,576)
Profit before tax					16,628
Income tax expense					(4,782)
Profit					11,846
Total segment assets	1,781,421	548,396	268,497	-	2,598,314
Segment liabilities	854,868	76,674	1,352,387	-	2,283,929
Current income tax liability					1,002
Deferred income tax liability					42
Other unallocated liabilities					700
Total liabilities					2,285,673
Other segment items					
Capital expenditure (Note 11)	7,722	10,295	1,782	-	19,799
Depreciation and amortisation expense (Note 11)	1,989	2,653	459	-	5,101
Impairment losses charged to profit or loss (Note 9, 10, 12)	8,945	24,585	4	-	33,534

Alfa-Bank
Notes to the Financial Statements – 31 December 2007

25 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Bank as at 31 December 2006 and for the year than ended is set out below:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Corporate	Retail	Central treasury	Eliminations	Total
31 December 2006					
External revenues	60,857	29,418	6,001	-	96,276
Revenues from other segments	28,167	1,765	52,828	(82,760)	-
Total revenues	89,024	31,183	58,829	(82,760)	96,276
Total revenues comprise:					
- Interest income	80,841	29,568	57,940	(82,760)	85,589
- Fee and commission income	8,182	1,578	189	-	9,949
- Other operating income	1	37	700	-	738
Total revenues	89,024	31,183	58,829	(82,760)	96,276
Segment result	7,120	(9,928)	7,581	-	4,773
Unallocated costs					(2,204)
Profit before tax					2,569
Income tax expense					(985)
Profit					1,584
Segment assets	885,128	107,322	244,501	-	1,236,952
Current income tax prepayment					351
Total assets					1,237,303
Segment liabilities	578,120	24,492	531,207	-	1,133,819
Deferred income tax liability					4,233
Other unallocated liabilities					992
Total liabilities					1,139,044
Other segment items					
Capital expenditure (Note 11)	2,537	3,383	585	-	6,505
Depreciation and amortisation expense (Note 11)	785	1,046	181	-	2,012
Impairment losses charged to profit or loss (9, 10, 12)	3,051	18,132	-	-	21,183

25 Segment Analysis (Continued)

Geographical segments. Segment information for the main geographical segments of the Bank is set out below as at 31 December 2007 and the period then ended.

*In thousands of USD
(as presentation currency, Note 3)*

	Ukraine	OECD	Non-OECD	Total
Total segment assets	2,365,488	66,617	166,209	2,598,314
External revenues	247,860	6,525	6,733	261,118
Capital expenditure (Note 11)	19,799	-	-	19,799
Credit related commitments (Note 28)	214,260	-	-	214,260

External revenues and assets, other than as detailed below, and credit related commitments have generally been allocated based on domicile of the counterparty. Cash on hand, premises, leasehold improvements and equipment and capital expenditure have been allocated based on the country in which they are physically held.

Segment information for the main geographical segments of the Bank is set out below as at 31 December 2006.

*In thousands of USD (as presentation currency,
Note 3)*

	Ukraine	OECD	Non-OECD	Total
Total segment assets	974,877	196,075	66,351	1,237,303
External revenues	88,187	2,065	6,024	96,276
Capital expenditure (Note 11)	6,505	-	-	6,505
Credit related commitments (Note 28)	18,701	-	-	18,701

26 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Bank takes on exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the balance sheet. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 28.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by Management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Loan applications originated by the relevant client relationship managers are passed on to the relevant Credit Committee for approval of credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees. Risks of the Bank's credit portfolio are monitored and reviewed on a weekly basis. Lending limits for individual borrowers and any changes to those limits are set by the relevant Credit Committee. Credit limits include limits on the amount and repayment schedule for each loan agreement and restrictions on the purpose of the loan. The credit officers of the Bank monitor operations with the Bank's customers on a regular basis and notify the relevant Credit Committee in the event of any change in customer's circumstances. The Bank either confirms existing limits or contacts a customer if it is necessary to review the terms of a loan.

When structuring loans to customers, the Bank follows certain basic principles. It sets out repayment schedules and adapts them so as to take into account any seasonality in a borrower's business and, where applicable, also obtains guarantees from affiliates of the borrower, enters into collateral agreements to secure related loans, prescribes the borrower's own equity contribution for the project to be financed and requires cash flows from the financed project or counter-parties to be directed to current accounts opened with the Bank. In the case of loans to both corporate and individual customers, except for consumer loans, the Bank typically takes collateral to secure such loan. As the Bank's lending policy is to give priority to the quality of the borrower over the quality of the collateral available, lending decisions are always based on risk assessment rather than on the quality of the collateral. When taking security, the Bank gives preference to the most liquid form of collateral with the highest re-sale value. The Bank also considers regional factors when determining the value of collateral.

The Bank applies the same credit policies and procedures for evaluating and monitoring credit risk for off-balance sheet and contingent liabilities. Furthermore, the Bank applies the same procedures to transactions with related parties as it applies to other borrowers. In such cases, if the level of risk does not fall within the parameters set by the Bank, it either rejects the loan application or requires the transaction to be secured by additional collateral.

The Bank also follows a policy of diversifying its loan portfolio in order to reduce risk. The Bank's Credit Committees take into account the performance of specific sectors of the economy and industries when considering loan applications.

The Bank's Risk Management department reviews ageing analysis of outstanding loans and follows up past due balances. Management therefore considers appropriate to provide ageing and other information about credit risk as disclosed in Notes 7, 8, 9, and 10.

Credit risks related to interbank operations mainly arises as a result of exposures to counterparties being unsecured, notwithstanding that such exposures typically have relatively short-term maturities (which generally range from several hours up to one month, with an average duration of one week). The Bank sets separate limits for counterparty banks based on its evaluation of their financial statements and on any available non-financial information (such as information on the borrowers' shareholders, customers, quality of management, market position, concentration of activity and growth rate).

26 Financial Risk Management (Continued)

The Executive Board is responsible for approving and changing the limits for each category of counterparty banks on a monthly basis. If the Risk Management Department determines that the financial performance of a counter-party bank has deteriorated or is likely to deteriorate, the Risk Management Department suspends the credit limit and notifies respective departments accordingly.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

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. Such positions are calculated as differences between assets and liabilities in the same currency as of the balance sheet date. The Bank evaluates, monitors and sets limits for long and short foreign exchange open positions using hryvnia as its base currency. Limits on open currency positions are set for the Bank as a whole. The Bank complies with all applicable NBU requirements in addition to using its own methods for evaluating currency rate risk. Currency risk is centrally controlled at the head office level while a clear segregation of duties between divisions and branches enables the Bank to minimize possible losses caused by currency risk. The Bank's net open position is monitored on a daily basis by the Treasury. The Treasury reports to the Assets and Liabilities Credit Committee (hereinafter ALCO) at each ALCO meeting in order to review strategy and limits on the level of foreign currency exposures by currencies. These limits are set on the amount of ABH Ukraine Limited's open foreign currency positions. ABH Holdings Corp. controls a special trading company which arranges economic hedges against hryvnia depreciation. The limits mentioned above are reviewed in the event of increased volatility in foreign currency rates. The ALCO may also amend limits based on recommendations by the Treasury.

The table below summarises the Bank's exposure to currency risk at the balance sheet date:

<i>In thousands of USD (as presentation currency, Note 3)</i>	At 31 December 2007				At 31 December 2006		
	Monetary financial assets	Monetary financial liabilities	Derivative (SWAP, spot)	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
Ukrainian hryvnias	1,020,799	602,693	(134,752)	283,354	335,933	286,063	49,870
US Dollars	1,247,565	1,281,964	139,101	104,702	785,551	769,391	16,160
Euros	66,468	170,499	101,573	(2,458)	58,203	56,271	1,932
Other	205,728	116,412	(107,881)	(18,565)	19,043	21,156	(2,113)
Total	2,540,560	2,171,568	(1,959)	367,033	1,198,730	1,132,881	65,849

Prepaid non-registered share capital was excluded from currency disclosure as it will be settled in shares rather than cash.

Derivatives in each column represents the fair value, at the balance sheet date, of the respective currency that the Bank agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

26 Financial Risk Management (Continued)

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date, with all other variables held constant:

<i>In thousands of USD (as presentation currency, Note 3)</i>	At 31 December 2007		At 31 December 2006	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollars strengthening by 5%	5,235	5,235	808	808
US Dollars weakening by 5%	(5,235)	(5,235)	(808)	(808)
Euro strengthening by 10%	(246)	246	193	193
Euro weakening by 10%	246	(246)	(193)	(193)
Other strengthening by 5%	(928)	928	(106)	(106)
Other weakening by 5%	928	(928)	106	106

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Bank.

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

Fixed interest rate assets and liabilities, can be renegotiated to reflect current market conditions. The Bank's interest rate risk management procedures are the same for all currencies. The ALCO and the Treasury are responsible for interest rate risk management. The ALCO sets limits on the level of mismatch in interest rate repricing that may be undertaken, which is monitored weekly by the Treasury. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions. The evaluation and analysis of interest rate risk is performed at each ALCO meeting. The Treasury monitors changes in benchmark interest rates, market volatility or similar events on a day-to-day basis. The results of such evaluation and analysis are discussed at ALCO meetings. The ALCO also establishes the principal policies and approaches to interest rate risk management, including minimum credit loan and maximum borrowing rates in respect of products, customer groups and tenors. The Corporate Business and Retail Banking and Consumer Finance departments, with the approval of the Treasury, will recommend altering certain interest rates to the ALCO following changes in market conditions or for the Bank's internal reasons. The ALCO has delegated certain authorities to Heads of the Corporate Business and the Treasury to alter interest rates. In addition to applying standard calculations, the Bank uses stress tests. These involve determining the level of interest rate risk that would apply in the event of unforeseen circumstances or contingencies arising. This approach enables the Bank to evaluate changes in net interest income for future periods and determine the priority areas for interest risk management. Results of the tests are reviewed and discussed at ALCO meetings.

Interest rate risk management is conducted using the gap analysis method, whereby the difference or "gap" between rate sensitive assets and rate sensitive liabilities is determined and analysed. The Bank can perform interest rate sensitivity scenario analysis of the net interest income (the analysis is based on gap reports) for periods of up to one year, although it considers such analysis to be most reliable over a period of three months. Limits on interest rate risk are set by the ALCO after assessment of the sensitivity of net interest income to a 100 basis points upward shift in interest rates. In deciding the size of interest rate risk limits the ALCO considers losses acceptable in the event of adverse movements in interest rates, taking into account possible movements in interest rates for major types of interest bearing assets and liabilities, such as corporate and retail loans, inter-bank loans, securities and corporate and retail deposits. Limits are subject to review depending on the volatility of interest rate movements. The Treasury is responsible for making recommendations to review such limits, which are subject to approval by the ALCO. Gaps are maintained within prescribed limits for all periods. Gap analysis is supplemented by interest rate forecasts over periods of up to one year for major types of assets and liabilities. This allows the ALCO to evaluate not only the level of interest rate risk but also the most likely changes in net interest income.

26 Financial Risk Management (Continued)

The Bank continually monitors interest rate spread and net interest income. In order to minimise potential losses from unforeseen movements in interest rates, when entering into agreements the Bank provides for interest rate reviews in light of current market rates. The Bank also manages interest risk by setting minimum interest rates for loans and maximum interest rates for deposits. The Bank sets interest rates for major types of assets and liabilities by maturity and currency. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of Bank. It is unusual for a bank's interest rates ever to be completely matched as business transacted is often of uncertain terms and of different types. An unmatched position may potentially enhance profitability, but can also increase the risk of losses.

The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

<i>In thousands of USD (as presentation currency, Note 3)</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Over 5 years	Non- interest bearing	Total
31 December 2007							
Total financial assets	551,704	433,494	629,789	742,906	182,492	315	2,540,700
Total financial liabilities	717,159	169,906	576,734	705,360	-	4,924	2,174,083
Net interest sensitivity gap at 31 December 2007	(165,455)	263,588	53,055	37,546	182,492	(4,609)	366,617
31 December 2006							
Total financial assets	273,674	85,997	384,994	435,492	14,421	4,152	1,198,730
Total financial liabilities	383,550	228,032	310,946	210,353	-	-	1,132,881
Net interest sensitivity gap at 31 December 2006	(109,876)	(142,035)	74,048	225,139	14,421	4,152	65,849

Prepaid non-registered share capital was excluded from interest rate disclosure as it will be settled in shares rather than cash.

At 31 December 2007, if interest rates had been 100 basis points higher, with all other variables held constant, profit and equity would have been USD 479 thousand and USD 412 thousand higher, respectively (31 December 2006: USD 50 thousand and USD 27 thousand higher, respectively), mainly as a result of higher interest income on variable interest assets. If interest rates had been 100 basis points lower, with all other variables held constant, profit and equity would have been USD 479 thousand and USD 546 thousand lower, respectively (31 December 2006: USD 50 thousand and USD 73 thousand lower, respectively), mainly as a result of lower interest income on variable interest assets.

Sensitivity analysis is calculated for all interest bearing financial instruments with the floating interest rates, which are carried at amortised cost and are subject to changes in market interest rate. In addition, changes in market interest rates have an impact on fair value of fixed interest instruments classified as available-for-sale. Sensitivity analysis is prepared based on the assumption that all other variables are held constant and changes in the market interest rate would only affect interest bearing financial instruments with the floating interest rate carried at amortised cost and fair value of available-for-sale debt securities.

26 Financial Risk Management (Continued)

The Bank monitors interest rates for its financial instruments. The table below summarises effective interest rates based on reports reviewed by key management personnel:

<i>In % p.a.</i>	31 December 2007				31 December 2006			
	UAH	USD	Euro	Other	UAH	USD	Euro	Other
Assets								
Placements with other banks with original maturities of less than three months	11%	7%	4%	8%	9%	6%	3%	6%
Due from other banks	13%	10%	-	-	11%	6%	4%	6%
Loans and advances to customers	16%	14%	11%	10%	23%	11%	11%	9%
Investment securities available-for-sale	12%	-	-	-	13%	-	-	-
Liabilities								
Due to other banks	3%	9%	9%	6%	6%	8%	5%	3%
Customer accounts								
- current and settlement accounts	1%	1%	1%	1%	1%	1%	1%	1%
- term deposits	11%	8%	8%	10%	11%	7%	7%	-
Debt securities in issue	11%	-	-	-	10%	-	-	-
Loan participation notes	-	10%	-	-	-	10%	-	-
Subordinated debt	-	10%	-	-	-	9%	-	-

The sign “-“ in the table above means that the Bank does not have the respective assets or liabilities in corresponding currency.

Alfa-Bank
Notes to the Financial Statements – 31 December 2007

26 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2007 is set out below:

<i>In thousands of USD</i> (as presentation currency, Note 3)	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	135,533	55,974	11,246	202,753
Due from other banks	24,210	358	1,024	25,592
Loans and advances to customers	2,096,518	10,268	153,929	2,260,715
Investment securities available-for-sale	49,348	-	-	49,348
Other financial assets	2,269	17	6	2,292
Total financial assets	2,307,878	66,617	166,205	2,540,700
Non-financial assets				
Intangible assets	1,582	-	-	1,582
Premises, leasehold improvements and equipment	53,253	-	-	53,253
Other non-financial assets	2,775	-	4	2,779
Total non-financial assets	57,610	-	4	57,614
Total assets	2,365,488	66,617	166,209	2,598,314
Liabilities				
Due to other banks	24,864	455,546	27,886	508,296
Customer accounts	746,059	265	96,427	842,751
Debt securities in issue	196,241	-	-	196,241
Loan participation notes	-	552,648	-	552,648
Other financial liabilities	4,891	-	33	4,924
Subordinated debt	-	-	69,223	69,223
Total financial liabilities	972,055	1,008,459	193,569	2,174,083
Non-financial liabilities				
Current income tax liability	1,002	-	-	1,002
Deferred income tax liability	42	-	-	42
Other non-financial liabilities	10,545	-	1	10,546
Prepaid non-registered share capital	-	-	100,000	100,000
Total non-financial liabilities	11,589	-	100,001	111,590
Total liabilities	983,644	1,008,459	293,570	2,285,673
Net balance sheet position	1,381,844	(941,842)	(127,361)	312,641
Credit related commitments	214,260	-	-	214,260

Alfa-Bank
Notes to the Financial Statements – 31 December 2007

26 Financial Risk Management (Continued)

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Balances with Ukrainian counterparties actually outstanding to/from off-shore companies of these Ukrainian counterparties are allocated to the caption "Ukraine". Cash on hand and premises, leasehold improvements and equipment have been allocated based on the country in which they are physically held.

The geographical concentration of the Bank's assets and liabilities at 31 December 2006 is set out below:

<i>In thousands of USD</i> (as presentation currency, Note 3)	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents and mandatory reserve balance	82,226	65,649	10,534	158,409
Due from other banks	56,446	91	20,854	77,391
Loans and advances to customers	770,471	143,292	38,002	951,765
Investment securities available-for-sale	10,897	-	-	10,897
Other financial assets	268	-	-	268
Total financial assets	920,308	209,032	69,390	1,198,730
Non-financial assets				
Intangible assets	990	-	-	990
Premises, leasehold improvements and equipment	36,220	-	-	36,220
Current income tax prepayment	351	-	-	351
Other non-financial assets	1,007	-	5	1,012
Total non-financial assets	38,568	-	5	38,573
Total assets	958,876	209,032	69,395	1,237,303
Liabilities				
Due to other banks	86,041	287,166	51,400	424,607
Customer accounts	468,369	210	61,738	530,317
Debt securities in issue	9,381	-	200	9,581
Loan participation notes	-	158,225	-	158,225
Subordinated debt	-	-	10,151	10,151
Total financial liabilities	563,791	445,601	123,489	1,132,881
Non-financial liabilities				
Deferred income tax liability	4,233	-	-	4,233
Other non-financial liabilities	1,887	34	9	1,930
Total non-financial liabilities	6,120	34	9	6,163
Total liabilities	569,911	445,635	123,498	1,139,044
Net balance sheet position	388,965	(236,603)	(54,103)	98,259
Credit related commitments	18,701	-	-	18,701

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. Refer to Note 9.

26 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset/Liability Committee of the Bank.

The Bank seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and debt securities and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the National Bank of Ukraine. These ratios are:

- Instant liquidity ratio (N4), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand; the ratio was 32% at 31 December 2007 (31 December 2006: 96%).
- Current liquidity ratio (N5), which is calculated as the ratio of liquid assets to liabilities maturing within 31 calendar days; the ratio was 68% at 31 December 2007 (31 December 2006: 85%).
- Short-term liquidity ratio (N6), which is calculated as the ratio of assets maturing in one year to regulatory capital and liabilities maturing in one year; the ratio was 36% at 31 December 2007 (31 December 2006: 33%).

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term deposits with banks and other interbank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

The table below shows liabilities at 31 December 2007 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under a gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows. Net settled derivatives are included at the net amounts expected to be paid.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the balance sheet date.

26 Financial Risk Management (Continued)

The maturity analysis of financial liabilities at 31 December 2007 is as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to other banks	194,080	73,761	249,241	2,946	1,876	521,904
Customer accounts	494,223	79,750	287,012	40,242	-	901,227
Debt securities in issue	-	3,485	17,603	245,013	-	266,101
Loan participation notes	9,359	-	43,135	619,914	-	672,408
Gross settled derivatives (outflow only)	317,522	63,724	29,543	-	-	410,789
Other financial liabilities	1,902	373	31	103	-	2,409
Subordinated debt	-	-	-	8,907	109,426	118,333
Total contractual future payments for financial obligations	1,017,086	221,093	626,565	917,125	111,302	2,893,171
Undrawn credit lines (Note 28)	20,465	26,962	15,396	39,604	-	102,427

Prepaid non-registered share capital was excluded from maturity analysis as it will be settled in shares rather than cash.

The maturity analysis of financial liabilities at 31 December 2006 is as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to other banks	154,392	148,185	81,387	51,150	-	435,114
Customer accounts	223,023	80,795	240,946	2,677	-	547,441
Debt securities in issue	26	4,863	5,429	-	-	10,318
Loan participation notes	-	-	15,860	191,677	-	207,537
Gross settled derivatives (outflow only)	14,543	-	2,110	-	-	16,653
Subordinated debt	-	-	-	9,064	7,374	16,438
Total contractual future payments for financial obligations	391,984	233,843	345,732	254,568	7,374	1,233,501
Undrawn credit lines (Note 28)	-	439	11,206	140	-	11,785

Payments in respect of gross settled forwards will be accompanied by related cash inflows which are disclosed at their present values in Note 28. The inflows are not included in the tables above. Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Ukrainian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

Guarantees issued and letters of credit are carried in the balance sheet at the unamortised balances of fees received. The Bank does not expect any of the guarantees to materialise as a cash outflow and has therefore not presented them in the above tables. The gross amount of the guarantees is disclosed in the Note 28.

26 Financial Risk Management (Continued)

The Bank does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors expected maturities, which may be summarised as follows at 31 December 2007:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	202,753	-	-	-	-	202,753
Due from other banks	22,139	1,024	2,429	-	-	25,592
Loans and advances to customers	324,385	429,895	595,890	728,052	182,493	2,260,715
Investment securities available-for-sale	447	3,191	897	44,813	-	49,348
Other financial assets	2,240	42	10	-	-	2,292
Total financial assets	551,964	434,152	599,226	772,865	182,493	2,540,700
Liabilities						
Due to other banks	193,539	71,141	240,411	2,292	913	508,296
Customer accounts	503,931	69,880	231,987	36,953	-	842,751
Debt securities in issue	-	28,903	102,859	64,479	-	196,241
Loan participation notes	8,022	-	884	543,742	-	552,648
Other financial liabilities	3,764	373	684	103	-	4,924
Subordinated debt	-	-	-	6,488	62,735	69,223
Total financial liabilities	709,256	170,297	576,825	654,057	63,648	2,174,083
Net liquidity gap at 31 December 2007	(157,292)	263,855	22,401	118,808	118,845	366,617
Cumulative liquidity gap at 31 December 2007	(157,292)	106,563	128,964	247,772	366,617	
Credit related commitments (Note 28)	25,310	51,168	60,574	49,586	27,622	214,260

26 Financial Risk Management (Continued)

The expected maturity analysis at 31 December 2006 is as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	158,409	-	-	-	-	158,409
Due from other banks	45,011	15,580	16,800	-	-	77,391
Loans and advances to customers	73,762	70,066	365,304	428,211	14,422	951,765
Investment securities available-for-sale	722	-	2,890	7,285	-	10,897
Other financial assets	268	-	-	-	-	268
Total financial assets	278,172	85,646	384,994	435,496	14,422	1,198,730
Liabilities						
Due to other banks	153,657	145,994	74,958	49,998	-	424,607
Customer accounts	219,742	77,412	230,600	2,563	-	530,317
Debt securities in issue	-	4,626	4,955	-	-	9,581
Loan participation notes	-	-	433	157,792	-	158,225
Subordinated debt	-	-	-	5,727	4,424	10,151
Total financial liabilities	373,399	228,032	310,946	216,080	4,424	1,132,881
Net liquidity gap at 31 December 2006	(95,227)	(142,386)	74,048	219,416	9,998	65,849
Cumulative liquidity gap at 31 December 2006	(95,227)	(237,613)	(163,565)	55,851	65,849	-
Credit related commitments (Note 28)	5,514	439	12,748	-	-	18,701

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. 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.

Management believes that in spite of a substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customers accounts provide a long-term and stable source of funding for the Bank.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

27 Management of Capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the National Bank of Ukraine, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on Basel Accord of at least 8%. Compliance with capital adequacy ratios set by the National Bank of Ukraine is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Financial Officer and Chief Accountant.

Under the current capital requirements set by the National Bank of Ukraine banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. Regulatory capital is based on the Bank's daily reports prepared based on the statutory trial balance unadjusted for accruals, provisions and taxes and comprises:

	31 December 2007	31 December 2006
<i>In thousands of USD (as presentation currency, Note 3)</i>		
Net assets unadjusted for accruals, provisions and taxes	274,354	71,336
Plus subordinated debt	64,260	10,640
Other	44,199	14,670
Total regulatory capital	382,813	96,646

The Bank is also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Bank's capital calculated in accordance with Basel Accord is as follows:

	31 December 2007	31 December 2006
<i>In thousands of USD (as presentation currency, Note 3)</i>		
Tier 1 capital		
Share capital	272,599	72,599
Disclosed reserves	15,040	2,835
Total tier 1 capital	287,639	75,434
Tier 2 capital		
Revaluation reserves	19,066	17,225
Cumulative translation reserve	2,220	2,220
Fair value reserve	(82)	(86)
Subordinated debt	69,129	12,472
Total tier 2 capital	90,333	31,831
Total capital	377,972	107,265

The Bank's capital adequacy ratio calculated in accordance with the Basel Accord is 16.1% as at 31 December 2007 (31 December 2006: 15.7%).

The Bank has complied with the capital requirements imposed by the NBU and loan providers (loan covenants) throughout years ended 31 December 2007 and 31 December 2006.

In addition to the above management monitors and targets return on IFRS equity based on the monthly budgets. Any variances between the budgets and actual results are quantified and followed up.

28 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and both internal and external professional advice Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

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

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

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

Capital expenditure commitments. At 31 December 2007 the Bank has contractual capital expenditure commitments in respect of premises, leasehold improvements and equipment totalling USD 2,588 thousand (31 December 2006: USD 715 thousand).

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

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

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 December 2007	31 December 2006
Not later than 1 year	13,266	4,063
Later than 1 year and not later than 5 years	20,107	7,558
Later than 5 years	56	15
Total operating lease commitments	33,429	11,636

Compliance with covenants. The Bank is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Bank. The Bank is in compliance with covenants as at 31 December 2007.

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

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

28 Contingencies and Commitments (Continued)

Outstanding credit related commitments are as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 December 2007	31 December 2006
Guarantees issued	60,951	4,678
Undrawn credit lines	102,427	11,785
Letters of credit	48,869	2,238
Avals issued	2,013	-
Total credit related commitments	214,260	18,701

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Credit related commitments are denominated in currencies as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 December 2007	31 December 2006
Ukrainian hryvnias	120,426	16,353
EURO	64,868	2,238
US Dollars	28,966	110
Total credit related commitments	214,260	18,701

As at 31 December 2007 the estimated fair value of credit related commitments was insignificant (31 December 2006: insignificant).

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

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 December 2007		31 December 2006	
	Number of securities	Nominal value	Number of securities	Nominal value
Shares held on behalf of the Bank's customers	3,688,053,391	352,119	1,794,301,946	51,090
Bonds held on behalf of the Bank's customers	708,160	47,471	30,493	6,038
Investment certificates held on behalf of the Bank's customers	93,909	18,651	90,221	17,933
Total fiduciary assets	3,688,855,460	418,241	1,794,422,660	75,061

Assets pledged and restricted. At 31 December 2007 the Bank has the following assets pledged as collateral:

<i>In thousands of USD (as presentation currency, Note 3)</i>	Notes	31 December 2007		31 December 2006	
		Asset pledged	Related liability	Asset pledged	Related liability
Investment securities available-for-sale	10	4,201	4,201	-	-
Gross receivables under swap agreements	7, 8, 13	406,482	408,857	65,446	65,423
Total		410,683	413,058	65,446	65,423

28 Contingencies and Commitments (Continued)

Gross receivables under swap agreements presented above are recognised on a net basis in the balance sheet, giving rise to a derivative financial asset or liability within other assets or other liabilities, respectively.

As disclosed in Note 14, balances due from other banks totaling USD 4,780 thousand (31 December 2006: USD 139 thousand) have been pledged as cover for letters of credit and international payments.

29 Derivative Financial Instruments

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

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

<i>In thousands of USD</i> (as presentation currency, Note 3)	Notes	31 December 2007	
		Contracts with positive fair value	Contracts with negative fair value
Foreign exchange swap: fair values, at the balance sheet date, of	26		
- USD receivable on settlement (+)		185,510	145,907
- USD payable on settlement (-)		(72,600)	(2,491)
- Euros receivable on settlement (+)		-	2,465
- Euros payable on settlement (-)		-	(126,414)
- UAH receivable on settlement (+)		72,600	-
- UAH payable on settlement (-)		(185,370)	(21,982)
Net fair value of foreign exchange forwards	12, 17	140	(2,515)

The Bank had outstanding obligations from unsettled spot transactions with foreign currencies of USD 336,057 thousand (31 December 2006: nil). Net fair value of unsettled spot transactions is insignificant.

The Bank had outstanding obligations to deliver corporate bonds with fair value, at the balance sheet date, of USD 33,002 thousand (31 December 2006: USD 16,653 thousand) and obligations to accept delivery of shares with fair value, at the balance sheet date, of USD 9,749 thousand (31 December 2006: USD 16,653 thousand). The fair value of these forward contracts was zero (31 December 2006: zero).

30 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Ukraine continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Investment securities available-for-sale and financial derivatives are carried on the balance sheet at their fair value. Fair values were determined based on quoted market prices except for certain investment securities available-for-sale for which there were no available external independent market price quotations. These securities have been fair valued by the Bank on the basis of results of recent sales of securities between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

<i>In thousands of USD</i> <i>(as presentation currency, Note 3)</i>	31 December 2007	31 December 2006
<i>Placements with other banks with original maturities of less than three months</i>	4 % to 12 % p.a.	3 % to 12 % p.a.
<i>Due from other banks – Note 8</i>		
Short-term placements with other banks with original maturities of more than three months	11 % to 16 % p.a.	4 % to 12 % p.a.
Reverse sale and repurchase agreements with other banks with original maturities of more than three months	13 % to 15 % p.a.	-
<i>Loans and advances to customers – Note 9</i>		
Corporate loans	9 % to 15 % p.a.	8 % to 18 % p.a.
Loans to individuals - consumer loans	10 % to 108 % p.a.	9 % to 135 % p.a.
Loans to individuals - mortgage and car loans	10 % to 18 % p.a.	11 % to 14 % p.a.
Loans to individuals - other loans	10 % to 18 % p.a.	11 % to 21 % p.a.
Small and medium enterprises	11 % to 43 % p.a.	-
Reverse sale and repurchase agreements	8 % to 25 % p.a.	12 % to 16 % p.a.

Refer to Notes 7, 8 and 9 for the estimated fair values of cash and cash equivalents, due from other banks and loans and advances to customers, respectively.

Liabilities carried at amortised cost. The fair value of debt securities in issue and loan participation notes are based on quoted market prices. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period (“demandable liabilities”) is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Refer to Notes 13, 14, 15, 16 and 18 for the estimated fair values of due to other banks, customer accounts, debt securities in issue, loan participation notes and subordinated debt, respectively. Discount rates used were consistent with the Bank’s credit risk and also depend on currency and maturity of the instrument and ranged from 1% p.a. to 12% p.a. (2006: from 1 % p.a. to 11% p.a.)

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. The fair values are based on observable market prices. Refer to Note 29.

31 Reconciliation of Classes of Financial Instruments with Measurement Categories

For the purposes of measurement, the Bank classified financial assets into the following categories defined in IAS 39, *Financial Instruments: Recognition of Measurement*: (a) loans and receivables; (b) available-for-sale financial assets (c) trading assets at fair value through profit or loss. The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2007.

	Loans and receivables	Available- for-sale assets	Trading assets at fair value through profit or loss	Total
<i>In thousands of USD</i>				
<i>(as presentation currency, Note 3)</i>				
Assets				
Cash and cash equivalents	202,753	-	-	202,753
Due from other banks	25,592	-	-	25,592
- Short-term placements with other banks with original maturities of more than three months	3,453	-	-	3,453
- Reverse sale and repurchase agreements with other banks with original maturities of more than three months	22,139	-	-	22,139
Loans and advances to customers	2,260,715	-	-	2,260,715
- Corporate loans	1,594,727	-	-	1,594,727
- Loans to individuals - consumer loans	224,174	-	-	224,174
- Loans to individuals - mortgage and car loans	273,519	-	-	273,519
- Loans to individuals - other loans	74,099	-	-	74,099
- Small and medium enterprises	86,151	-	-	86,151
- Reverse sale and repurchase agreements	8,045	-	-	8,045
Investment securities available-for-sale	-	49,348	-	49,348
Other financial assets	2,152	-	140	2,292
- Financial derivatives	-	-	140	140
- Receivables	2,152	-	-	2,152
TOTAL FINANCIAL ASSETS	2,491,212	49,348	140	2,540,700
NON-FINANCIAL ASSETS	-	-	-	57,614
TOTAL ASSETS	-	-	-	2,598,314

Alfa-Bank
Notes to the Financial Statements – 31 December 2007

31 Reconciliation of Classes of Financial Instruments with Measurement Categories
(Continued)

A reconciliation of classes of financial assets with these measurement categories as at 31 December 2006:

	Loans and receivables	Available- for-sale assets	Trading assets at fair value through profit or loss	Total
<i>In thousands of USD</i>				
<i>(as presentation currency, Note 3)</i>				
ASSETS				
Cash and cash equivalents				
	149,411	-	8,998	158,409
- Cash and cash equivalents	149,411	-	8,998	158,409
Due from other banks				
	20,943	-	56,448	77,391
- Short-term placements with other banks with original maturities of more than three months	20,943	-	56,448	77,391
Loans and advances to customers				
	951,765	-	-	951,765
- Corporate loans	865,017	-	-	865,017
- Loans to individuals - consumer loans	44,071	-	-	44,071
- Loans to individuals - mortgage and car loans	31,833	-	-	31,833
- Loans to individuals - other loans	5,906	-	-	5,906
- Reverse sale and repurchase agreements	4,938	-	-	4,938
Investment securities available-for-sale	-	10,897	-	10,897
Other financial assets				
	268	-	-	268
- Receivables	268	-	-	268
TOTAL FINANCIAL ASSETS	1,122,387	10,897	65,446	1,198,730
NON-FINANCIAL ASSETS				
	-	-	-	38,573
TOTAL ASSETS	-	-	-	1,237,303

As at 31 December 2007 and 31 December 2006, all of the Bank's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category as instruments held for trading.

32 Related Party Transactions

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

There were neither balances nor transactions other than share issue and prepayment for share capital with parent, ABH Ukraine Limited as at 31 December 2007 and as at 31 December 2006 and for the periods ended 31 December 2007 and 31 December 2006. On 21 November 2007 the shareholders of the Bank took a decision to issue 374,710 thousand additional shares totalling USD 74,200 thousand (equivalent of UAH 374,710 thousand). In December 2007 ABH Ukraine Limited in compliance with agreements dated 14 December 2007 and 29 December 2007 made a payment USD 100,000 thousand for shares with the nominal value USD 74,200 thousand.

Key management personnel, who are represented as President of the Bank (Deputy head of Supervisory Board) and members of the Management Board, received remuneration in the form of short-term employee benefits amounting to USD 6,148 thousand during 2007 (31 December 2006: USD 4,694 thousand), which is included in salaries and employee benefits:

<i>In thousands of USD (as presentation currency, Note 3)</i>	2007	2006
Salaries and other related payments	3,910	3,185
Bonus paid	2,155	1,449
Contributions to state pension and social insurance funds paid	83	60
Total remuneration received by the Management	6,148	4,694

Included in staff costs (refer to Note 23) is an amount accrued for bonuses for the year ended 31 December 2007 of USD 8,000 thousand. The decision as to final amount of bonus to be paid and how the bonus accrual will be divided between key management personnel and other employees is subject to the decision of the Compensation Committee of the Bank. As such, the amount of this bonus for key management personnel for 2007 is not included in the table above.

At 31 December 2007 and 31 December 2006, the outstanding balances with related parties were as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 December 2007		31 December 2006	
	Entities under common control	Key management personnel	Entities under common control	Key management personnel
Cash and cash equivalents	11,333	-	11,633	-
Gross loans and advances to customers (contractual interest rate from 9% to 16%; 2006: from 11% to 13%)	247,218	519	36,059	609
Less: provision for loan impairment of loans and advances to customers	(188)	-	-	-
Other assets	6	-	-	-
Due to other banks (contractual interest rate from 0% to 17%; 2006: from 5% to 9%)	185,070	-	216,026	-
Customer accounts (contractual interest rate from 0% to 14%; 2006: from 6% to 12%)	258,410	854	178,085	-
Subordinated debt (contractual interest rate from 4% to 9%; 2006: 5%)	69,223	-	10,151	-

As at 31 December 2007 included in loans and advances to entities under common control are loans of USD 44,586 thousand (31 December 2006: USD 28,000 thousand) collateralised by cash deposits placed with the Bank.

32 Related Party Transactions (Continued)

The income, expense and equity items with related parties for the year ended 31 December 2007 were as follows (except for key management compensation disclosed on the previous page):

	2007		2006	
	Entities under common control	Key management personnel	Entities under common control	Key management personnel
<i>In thousands of USD (as presentation currency, Note 3)</i>				
Interest income	12,627	66	5,797	-
Fee and commission income	234	-	-	-
Foreign exchange translation gains less losses	50	-	-	-
Interest expense	22,223	8	14,174	-
Impairment charge	188	-	-	-
Gain on initial recognition of liabilities at rates below market	183	-	55	-
Gain on origination of subordinated debt recognised directly in equity	443	-	-	-

Outstanding credit related commitments are as follows:

	31 December 2007		31 December 2006	
	Entities under common control	Key management personnel	Entities under common control	Key management personnel
<i>In thousands of USD (as presentation currency, Note 3)</i>				
Guarantees issued	2,864	-	556	-
Undrawn credit lines	140	-	140	-

The currency positions and effective interest rates of transactions with entities under common control as at 31 December 2007 are as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	UAH	Interest rate	USD	Interest rate	EUR	Interest rate	Other	Interest rate
Cash and cash equivalents	-	-	8,094	-	150	-	3,089	-
Loans and advances to customers	6,741	14%	171,950	12%	296	11%	68,231	10%
Due to other banks	11,294	-	22,528	10%	147,691	10%	3,557	6%
Customer accounts	121,870	9%	135,355	8%	1,185	9%	-	-
Subordinated debt	-	-	69,223	10%	-	-	-	-

The foreign currency positions and interest rates of transactions with entities under common control as at 31 December 2006 are as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	UAH	Interest rate	USD	Interest rate	EUR	Interest rate	Other	Interest rate
Cash and cash equivalents	11	-	1,432	-	3	-	10,187	6%
Loans and advances to customers	-	-	36,059	12%	-	-	-	-
Due to other banks	135	-	175,659	8%	40,232	5%	-	-
Customer accounts	85,010	9%	93,010	5%	65	1%	-	6%
Subordinated debt	-	-	10,151	9%	-	-	-	-

Alfa-Bank
Notes to the Financial Statements – 31 December 2007

32 Related Party Transactions (Continued)

The contractual remaining maturities of balances with entities under common control as at 31 December 2007 are as follows:

<i>In thousands of USD</i> <i>(as presentation currency, Note 3)</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Loans and advances to customers	30,758	68,445	51,033	33,245	63,737	247,218
Cash and cash equivalents	11,333	-	-	-	-	11,333
Other assets	6	-	-	-	-	6
Due to other banks	160,475	20,040	4,555	-	-	185,070
Customer accounts	67,386	57,052	131,865	2,107	-	258,236
Subordinated debt	-	-	-	6,488	62,735	69,223

The contractual remaining maturities of balances with entities under common control as at 31 December 2006 are as follows:

<i>In thousands of USD</i> <i>(as presentation currency, Note 3)</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Loans and advances to customers	-	24,000	-	11,641	418	36,059
Cash and cash equivalents	11,633	-	-	-	-	11,633
Due to other banks	68,827	136,778	10,421	-	-	216,026
Customer accounts	65,426	59,117	53,542	-	-	178,085
Subordinated debt	-	-	-	5,727	4,424	10,151

The currency positions and effective interest rates of transactions with key management personnel as at 31 December 2007 are as follows:

<i>In thousands of USD</i> <i>(as presentation currency, Note 3)</i>	USD	EUR	UAH	Interest rate
Loans and advances to customers	519	-	-	11%
Customer accounts	76	358	420	9%

The foreign currency positions and interest rates of transactions with key management personnel as at 31 December 2006 are as follows:

<i>In thousands of USD</i> <i>(as presentation currency, Note 3)</i>	USD	Interest rate
Loans and advances to customers	609	12%

The contractual remaining maturities of balances with key management personnel as at 31 December 2007 are as follows:

<i>In thousands of USD</i> <i>(as presentation currency, Note 3)</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Loans and advances to customers	9	17	73	306	114	519
Customer accounts	783	-	55	16	-	854

Alfa-Bank
Notes to the Financial Statements – 31 December 2007

32 Related Party Transactions (Continued)

The contractual remaining maturities of balances with key management personnel as at 31 December 2006 are as follows:

<i>In thousands of USD (as presentation currency, Note 3)</i>	From 12 months to 5 years	Total
Loans and advances to customers	609	609

Aggregate amounts lent to and repaid by related parties during the year ended as at 31 December 2007 and year ended as at 31 December 2006 were:

<i>In thousands of USD (as presentation currency, Note 3)</i>	31 December 2007		31 December 2006	
	Entities under common control	Key management personnel	Entities under common control	Key management personnel
Amounts lent to related parties during the period	622,079	1,140	49,461	239
Amounts repaid by related parties during the period	430,459	190	37,402	95

During the year ended 31 December 2007 entities related by virtue of common control contributed to the development of customer base and expansion of the Bank's business and incurred expenses of USD 16,412 thousand. Entities under common control won't require reimbursement of incurred expenses from the Bank.

In addition, during 2007 an entity related by virtue of common control received compensation of USD 7,944 thousand for services related to the Bank's activity, namely customer identification for lending by another related party. The Bank will not request for reimbursement of the income received by the entity related by virtue of common control.

33 Subsequent Events

On 26 March 2008 the NBU registered the increase in the share capital of the Bank in the amount of USD 74,200 thousand. Refer to the Note 32.

Closed Joint-Stock Company “Alfa-Bank”

Consolidated financial statements

31 December 2006

These Consolidated Financial statements contain 47 pages

Contents

Independent auditors' report	
Consolidated balance sheet	2
Consolidated statement of operations	3
Consolidated statement of cash flows	4
Consolidated statement of changes in equity	6
Notes to consolidated financial statements	7



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Independent Auditors' Report

The Board of Directors
Closed Joint-Stock Company "Alfa-Bank"

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Closed Joint-Stock Company "Alfa-Bank" and its subsidiary (the "Group"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated statement of operations, consolidated statement of changes in equity and consolidated cash flow statement 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 financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 principles 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 opinion.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2006, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

CJSC KPMG Audit

CJSC KPMG Audit
10 April 2007

CJSC Alfa-Bank
Consolidated financial statements
Consolidated balance sheet as at 31 December 2006

		2006	2005
<i>(in thousands of USD)</i>	<i>Note</i>		
Assets			
Cash		4,152	1,950
Balances with the National Bank of Ukraine	4	45,129	15,173
Due from banks	5	186,519	69,628
Loans and advances	6	951,765	309,707
Financial assets at fair value through profit and loss		-	996
Available-for-sale debt securities	7	10,897	-
Property, equipment and intangible assets	8	37,210	23,875
Prepaid income tax		351	-
Other assets	9	<u>1,280</u>	<u>249</u>
Total assets		<u>1,237,303</u>	<u>421,578</u>
Liabilities			
Due to banks	10	424,607	201,822
Loans from the National Bank of Ukraine		-	2,887
Current accounts	11	115,618	20,293
Deposits	12	414,699	138,159
Payables for income tax			811
Debt securities	13	9,581	600
Loan participation notes	14	158,225	-
Deferred tax liability	26	4,233	3,597
Other liabilities	15	1,930	474
Subordinated debt	16	<u>10,151</u>	<u>8,994</u>
Total liabilities		<u>1,139,044</u>	<u>377,637</u>
Equity			
Share capital issued	17	72,599	26,461
Additional paid-in capital	16	4,621	4,621
Revaluation surplus		17,225	10,791
Translation reserve		2,220	2,220
Fair value reserve		(86)	-
Retained earnings (accumulated deficit)	18	<u>1,680</u>	<u>(152)</u>
Total equity		<u>98,259</u>	<u>43,941</u>
Total liabilities and equity		<u>1,237,303</u>	<u>421,578</u>
Off-balance sheet commitments and contingent liabilities	19		

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 7 to 47.

CJSC Alfa-Bank
Consolidated financial statements
Consolidated statement of operations for the year ended 31 December 2006

		2006	2005
<i>(in thousands of USD)</i>	<i>Note</i>		
Interest income	20	85,291	21,790
Interest expenses	21	<u>(41,157)</u>	<u>(13,304)</u>
Net interest income		44,134	8,486
Fee and commission income		9,949	5,305
Fee and commission expense		<u>(936)</u>	<u>(257)</u>
Net fee and commission income	22	9,013	5,048
Gains less losses from dealing in foreign currencies:			
Valuation of currency positions		(1,374)	(969)
Spread earned on foreign currency activities		3,741	982
Gains less losses from financial assets at fair value through profit and loss		17	(138)
Gain less losses from available-for-sale debt securities		(119)	-
Gains less losses on origination of deposits due to banks at rates above and below market	10	55	(212)
Other income	23	<u>2,502</u>	<u>327</u>
Operating income		57,969	13,524
Salaries and employee benefits		(18,873)	(5,813)
General administrative expenses	24	(11,844)	(3,923)
Depreciation and amortization	8	(2,012)	(1,162)
Impairment provision for loans and other assets	25	<u>(22,671)</u>	<u>(5,275)</u>
Operating expenses		(55,400)	(16,173)
Profit (loss) before tax		2,569	(2,649)
Income tax (expense) benefit	26	<u>(985)</u>	<u>730</u>
Net profit (loss)		<u>1,584</u>	<u>(1,919)</u>

The consolidated statement of operations is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 7 to 47.

CJSC Alfa-Bank
Consolidated financial statements
Consolidated statement of cash flows for the year ended 31 December 2006

	2006	2005
<i>(in thousands of USD)</i>		
Operating activities		
Profit (loss) before tax	2,569	(2,649)
<i>Adjustments for:</i>		
Depreciation of property, equipment and intangible assets	2,012	1,162
(Gain) loss on disposal of property, equipment and intangible assets	(16)	8
Impairment provision for loans and other assets	22,671	5,275
Gains less losses on origination of deposits due to banks at rates above and below market	(55)	212
Unrealized foreign exchange gain on subordinated debt	-	(354)
Amortisation of subordinated debt	<u>1,157</u>	<u>829</u>
	25,769	7,132
Changes in operating assets and liabilities		
Increase in due from banks	(79,852)	(14,533)
Increase in loans and advances	(664,729)	(187,895)
Increase in other assets	(1,031)	(316)
Increase in due to banks	222,841	136,356
Decrease in loan from the National Bank of Ukraine	(2,887)	(2,562)
Increase (decrease) in current accounts	95,325	(1,090)
Increase in deposits	276,540	79,977
Increase in other liabilities	<u>1,456</u>	<u>344</u>
Net cash from operating activities before tax	(123,999)	14,764
Income taxes paid	<u>(3,739)</u>	<u>(731)</u>
Cash flows from operating activities	(127,738)	14,033

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 7 to 47.

CJSC Alfa-Bank
Consolidated financial statements
Consolidated statement of cash flows for the year ended 31 December 2006
(continued)

	2006	2005
<i>(in thousands of USD)</i>		
Investing activity		
Purchases of property, equipment and intangible assets	(6,505)	(2,026)
Proceeds from disposal of property, equipment and intangible assets	84	83
Purchases of financial assets at fair value though profit and losses and securities available-for-sale	(9,988)	(3,041)
Proceeds from sales of financial assets at fair value though profit and losses and securities available-for-sale	-	5,089
Cash flows (used in) from investing activities	(16,409)	105
Financing activities		
Shares issued	46,138	-
Increase in subordinated debt	-	5,200
Debt securities issued	8,981	-
Loan participation notes issued	158,225	-
Cash flows from financing activities	213,344	5,200
Effect of exchange rate changes on cash and cash equivalents (Note 3(a))	-	61
Net increase in cash and cash equivalents	69,197	19,338
Cash and cash equivalents as at 1 January	50,314	30,915
Cash and cash equivalents as at end of year	119,511	50,314
Cash and cash equivalents		
Cash	4,152	1,950
Balances with the National Bank of Ukraine	45,129	15,173
Current accounts due from banks	70,230	33,191
Cash and cash equivalents as at end of year	119,511	50,314

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 7 to 47.

CJSC Alfa-Bank
Consolidated financial statements
Consolidated statement of changes in equity for the year ended 31 December 2006

<i>(in thousands of USD)</i>	Share capital	Additional paid-in capital	Revaluation surplus	Translation reserve	Fair value reserve	Retained earnings (accumulated deficit)	Total
Balances as at 31 December 2004	26,461	3,215	9,289	174	-	1,726	40,865
Revaluation of property	-	-	2,064	-	-	-	2,064
Deferred tax on revaluation	-	-	(516)	-	-	-	(516)
Foreign currency differences on translation from functional currency to presentation currency (Note 3(a))	-	-	(5)	2,046	-	-	2,041
Depreciation of revaluation surplus	-	-	(41)	-	-	41	-
Net income recognised directly in equity	-	-	1,502	2,046	-	41	3,589
Net loss	-	-	-	-	-	(1,919)	(1,919)
Total recognised income and expense for the period	-	-	1,502	2,046	-	(1,878)	1,670
Difference on origination of subordinated debt at rates below market (note16)	-	1,406	-	-	-	-	1,406
Balances as at 31 December 2005	<u>26,461</u>	<u>4,621</u>	<u>10,791</u>	<u>2,220</u>	<u>-</u>	<u>(152)</u>	<u>43,941</u>
Revaluation of property	-	-	8,910	-	-	-	8,910
Deferred tax on revaluation	-	-	(2,228)	-	-	-	(2,228)
Depreciation of revaluation surplus	-	-	(248)	-	-	248	-
Net change in fair value of available-for-sale debt securities	-	-	-	-	(86)	-	(86)
Net income recognised directly in equity	-	-	6,434	-	(86)	248	6,596
Net profit	-	-	-	-	-	1,584	1,584
Total recognised income and expense for the period	-	-	6,434	-	(86)	1,832	8,180
Share capital increase	46,138	-	-	-	-	-	46,138
Balances as at 31 December 2006	<u>72,599</u>	<u>4,621</u>	<u>17,225</u>	<u>2,220</u>	<u>(86)</u>	<u>1,680</u>	<u>98,259</u>

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 7 to 47.

1 Background

(a) Organization and operations

These consolidated financial statements comprise CJSC Alfa-Bank (the “Bank”) and its subsidiary (together referred to as the “Group”).

CJSC Alfa-Bank (the Bank) was registered by the National Bank of Ukraine (“NBU”) in November 2001, and is the assignee of commercial bank “Kyiv investments bank”, which was registered in July 1997, and, in its turn, was the assignee of commercial bank “Vito” registered by the NBU in March 1993.

The Bank provides banking services to companies operating in various industries and to individuals. These services include taking deposits and granting loans and advances, investing in securities, transferring payments in Ukraine and abroad and exchanging currencies.

The head office is located in Kyiv and the address of its registered office is Kyiv, Desiatinna Street, 4/6. The Bank has 8 regional branches and more than 380 retail outlets and mini-branches, which provide loans and other services to individuals, throughout Ukraine.

In December 2006 the Bank founded LLC Budivelni Proecty (the “Subsidiary”) with share capital amounting to USD 397 thousand. The Bank owns 100% of the share capital of the Subsidiary. The main activity of the Subsidiary is asset management services in the construction market of Ukraine. The Subsidiary has not conducted any activities during 2006.

(b) Ukrainian business environment

Ukraine is experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in Ukraine involve risks that do not typically exist in other markets. These consolidated financial statements reflect management’s current assessment of the possible impact of the Ukrainian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The Group adopted the revised versions of IFRSs that are effective for accounting periods beginning on 1 January 2006.

The changes to the accounting policies and their effect on the consolidated financial statements are described in note 3 (t). The comparative figures as at and for the year ended 31 December 2005 are adjusted to conform to changes in presentation in the consolidated financial statements as at and for the year ended 31 December 2006 as required by the amended IFRSs.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for financial assets at fair value through profit and loss, available-for-sale assets and property, which are stated at fair value. Equipment and intangible assets and share capital are measured at cost adjusted to reflect the effect of the hyperinflationary conditions that existed in Ukraine from 1 January 1991 to 1 January 2001 in accordance with International Financial Reporting Standard IAS 29 *Financial Reporting in Hyperinflationary Economies*.

(c) Functional and presentation currency

The national currency of Ukraine is the Ukrainian hryvnia (“UAH”), which is the Group’s functional currency.

The Group uses US dollar (“USD”) as the currency in which it presents its financial statements.

The USD has been selected as the presentation currency because USD is the currency in which management of the Group manages business risks and exposures and measures the performance of its business.

(d) Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Actual results could differ from these estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is as follows:

(i) Key sources of estimation uncertainty

- Impairment of loans and advances. Management estimates impairment by assessing the likelihood of repayment of loans and advances based on analysis of individual accounts for individually significant loans, and collectively for loans with similar terms and risk characteristics.

Factors taken into consideration when assessing individual loans include collection history, current financial condition of the borrower, timeliness of repayments and collateral, if any. To determine the amount of impairment, management estimates the amounts and timing of future payments of principal and interest and proceeds from the disposal of collateral, if any. These cash flows are then discounted using the loan’s original interest rate. Actual principal and interest payments depend on the borrowers’ ability to generate cash flows from operations or obtain alternative financing, and could differ from management’s estimates.

Factors taken into consideration when estimating impairment on loans assessed collectively include historical loss experience, portfolio delinquency rates and overall economic conditions.

- Fair value of financial assets. The fair value of financial instruments represents the price at which a transaction would occur at the balance sheet date in that instrument in the most advantageous active market to which the Group has immediate access. In estimating fair value for financial assets, management uses quoted bid prices from an active market. If a financial asset is not quoted in an active market, management uses discounted cash flow techniques.
- Valuation of property. Property is carried at fair value less any subsequent accumulated depreciation and impairment losses. The method used to estimate fair value is the market approach, which is based upon an analysis of the results of comparable sales of similar items of property. Estimating the fair value of property requires the exercise of judgment and the use of assumptions regarding the comparability of properties and other factors. Management engages external independent appraisers to estimate the fair value of property.
- Determination of the fair value of subordinated debt upon initial recognition. The fair value of subordinated debt upon initial recognition is determined using discounted cash flow techniques. The discount rate is determined based on the market interest rate for similar types of borrowings.
- Determination of the fair value of deposits due to a related bank at rates above and below market rates upon initial recognition. The fair value of these deposits is calculated using discounted cash flow techniques. The discount interest rate is determined as a rate equal to the rate the Group would pay for a similar deposit to a non-related bank. Refer to note 10 for sensitivity analysis.

(ii) Critical accounting judgements in applying accounting policies

Management has made the following critical accounting judgements in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

- Determination that in substance the subordinated debt issue is a transaction with shareholders acting in their capacity as shareholders and, therefore, the difference between the nominal value of subordinated debt and its fair value upon initial recognition is recorded as additional paid-in-capital.
- Determination that in substance the borrowings in the form of deposits due to a related bank at rates above and below market rates is not a transaction with shareholders acting in their capacity as shareholders and, therefore, the difference between the nominal value of these deposits and their fair value upon initial recognition is recorded in the consolidated statement of operations.

3 Significant accounting policies

The following significant accounting policies have been consistently applied in the preparation of the consolidated financial statements.

(a) Foreign currency translation

(i) Translation of foreign currency transactions to the functional currency (UAH)

Transactions in foreign currencies are translated to Ukrainian hryvnias at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to hryvnias at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the consolidated statement of operations. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to hryvnias at the foreign exchange rate ruling at the date of the transaction.

(ii) Translation from functional currency (UAH) to presentation currency (USD)

Assets and liabilities are translated into US dollars at exchange rate at the year end. Income statement items are translated at the exchange rate at the date of the transactions. Equity items other than the net profit or loss for the period that is included in retained earnings (accumulated deficit) are translated at the closing rate existing at the date of each balance sheet presented. All resulting exchange differences are recognized as a separate component of equity ("Translation reserve").

The principal UAH exchange rates used in the preparation of the consolidated financial statements as at 31 December are as follows:

Currency	2006	2005
US dollar	5.050	5.050
Russian rouble	0.192	0.175
EURO	6.651	5.972

(b) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss include financial assets or liabilities held for trading, financial instruments designated at fair value through profit or loss at initial recognition, and derivative financial assets or liabilities.

A financial instrument is classified as held for trading if it is acquired principally for the purpose of selling it in the near term or it is a part of a portfolio for which there is evidence of a recent actual pattern of short-term profit-taking, or it is a derivative.

The Group designates financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed and evaluated on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise, or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Financial assets and liabilities at fair value through profit or loss are not reclassified subsequent to initial recognition. Financial instruments at fair value through profit or loss include trading securities, other financial instruments at fair value through profit or loss, and derivative financial instruments.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, those that the Group upon initial recognition designates as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss
- those that the Group designates as available-for-sale, or
- those that meet the definition of loans and receivables.

Available-for-sale assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held to maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

The Group recognizes regular way purchases/sales of financial instruments on the settlement date. All other financial instruments are recognized when the Group becomes a party to the contractual provisions of the instrument.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method
- held to maturity investments which are measured at amortized cost using the effective interest method, and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost. Amortized cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

(iv) *Fair value measurement principles*

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates using a discount rate representing a market rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

(v) *Gains and losses on subsequent measurement*

Gains and losses arising from a change in the fair value of financial assets at fair value through profit or loss are included in the determination of net profit or loss.

Gains and losses arising from a change in the fair value of available-for-sale assets are recognized directly in equity. When available-for-sale assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognized in equity is included in the determination of net profit. When a decline in fair value of available-for-sale assets has been recognized in equity and there is objective evidence that the assets are impaired, the loss recognized in equity is removed and recognized in the consolidated statement of operations, even though the assets have not been derecognized.

(vi) Derecognition

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. A financial liability is derecognized when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

(c) Impairment

Assets, except for deferred tax assets, are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

(i) Calculation of recoverable amount

Loans and advances

Management reviews the loan portfolio to assess impairment on a regular basis. A loan (or a group of loans) is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan and that event (or events) has an impact on the estimated future cash flows of the loan (or the group of loans) that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for loans and advances that are individually significant, and individually or collectively for loans and advances that are not individually significant.

The Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan has been incurred, the amount of the loss is measured as the difference between the loan carrying amount and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral (excluding future losses that have not been incurred) discounted at the loan's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, management uses its experience and judgment to estimate the amount of any impairment loss.

The assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Other assets

The recoverable amount of financial assets at fair value through profit and loss and available-for-sale assets is their fair value.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) *Reversal of impairment*

An impairment loss in respect of a held-to-maturity asset and a loan or a receivable carried at amortized cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized. An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in the consolidated statement of operations.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(d) *Repurchase and reverse repurchase agreements*

Securities sold under agreements to repurchase are retained within the Group's portfolio and accounted for accordingly. Liability accounts are used to record the obligation to repurchase the security. The difference between the sale and repurchase price represents interest expense and is recognized in the consolidated statement of operations over the term of the repurchase agreement using the effective interest rate method.

Securities purchased under reverse repurchase agreements are recorded as loans and advances. The difference between the purchase and sale price represents interest income and is recognized in the consolidated statement of operations over the term of the reverse repurchase agreement using the effective interest rate method.

(e) *Property, equipment and intangible assets*

Land and buildings are carried at a revalued amount, representing fair value less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Management believes that stating land and buildings at revalued amounts results in a more accurate presentation of property because of the rapidly changing market for property in Ukraine.

To determine the fair value of property, management generally obtains appraisals from independent and professionally qualified appraisers. Methods used to determine fair value included comparison to recent sales of similar properties, discounted cash flow measurements of rents of similar properties, and construction costs for new properties. Given the consistent trend of rising commercial property values in Ukraine, and the increased availability of information on property sales and rent, management believes that the use of recent sales of similar properties is the best indicator of fair values.

Revaluations of property are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

Equipment and intangible assets are carried at cost less accumulated depreciation and amortization and impairment losses. Depreciation and amortization of property, equipment and intangible assets is computed by the straight-line method over the estimated useful lives of the assets. Depreciation and amortization commences from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	50 years
Furniture and equipment	5 to 10 years
Computers and motor vehicles	4 to 8 years
Intangible assets	5 to 10 years

Expenditures made for leasehold improvements are recognized as assets and charged to the consolidated statement of operations on a straight-line basis over shorter of their useful lives or the period of the applicable lease.

(f) Interest bearing borrowings

Interest-bearing borrowings are recognized initially at fair value, net of any transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the consolidated statement of operations over the period of the borrowings using the effective interest rate method.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognized immediately in the consolidated statement of operations.

(g) Subordinated debt

Subordinated debt represents long-term borrowing agreements that, in case of the Group's default, would be secondary to primary debt obligations. Subordinated debt is recognized initially at fair value, net of transaction costs incurred. For subordinated debt that represents in substance a transaction with shareholders acting in their capacity as shareholders, the difference between the nominal amount of the subordinated debt issued and its fair value upon initial recognition is recorded as additional paid-in capital. Subsequently, subordinated debt is stated at amortized cost and any difference between cost and the redemption value is recognized in the consolidated statement of operations using the effective interest rate method.

(h) Leases

Payments for operating leases, where the Group does not assume substantially all the risks and rewards of ownership, are classified as expenses when incurred.

(j) Dividends

Dividends in relation to ordinary shares are reflected as a reduction to retained earnings as and when declared.

(k) Off-balance sheet commitments and contingent liabilities

The Group enters into commitments and assumes contingent liabilities in the normal course of business to meet the financing needs of its customers. These commitments and contingencies include credit instruments representing varying degrees of risk exposure.

When the Group enters into contracts to guarantee the indebtedness of its customers, management believes these to be insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

Guarantee fees are recognized on a straight line basis over the guarantee period.

(l) Income and expense recognition

Interest income and expense are recognized in the consolidated statement of operations on an accrual basis, taking into account the effective yield/rate of the asset/liability or an applicable floating rate. Interest income and expense include the amortization of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Commission income and expense are recognized on an accrual basis when the services are provided.

(m) Gains less losses on financial assets at fair value through profit and loss

Gains less losses on financial assets at fair value through profit and loss include changes in fair value of these financial assets and gains less losses arising upon disposals of these financial assets.

(n) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the consolidated statement of operations except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for items that at the time of initial recognition, affects neither accounting profit nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(o) Employee benefits

Pensions are provided by the State. Mandatory contributions are made by the Group and employees based on each employee's earnings. The cost of these contributions is recognized in the consolidated statement of operations when contributions are due and is included in the caption "Salaries and employee benefits".

(p) Statement of cash flows

Cash and cash equivalents include cash in hand, balances with the NBU and current accounts due from banks.

(r) Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(s) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(t) Changes in accounting policies as a result of new or revised standards

Certain new IFRSs became effective on 1 January 2006. Listed below are those new or amended standards that are relevant to the Group's operations. The changes in accounting policies are applied retroactively unless otherwise stated.

- International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* introduces The Fair Value Option concept, and is effective for annual periods beginning on or after 1 January 2006. The amendment to this standard restricts the designation of financial instruments as "at fair value through profit or loss". Financial instruments that were designated as at fair value through profit or loss as at 31 December 2005 complied with the requirements of the amendment and were retained within this category upon its application.

- International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 4 *Insurance Contracts* introduces the Financial Guarantee Contracts concept, and is effective for annual periods beginning on or after 1 January 2006. The amendment requires guarantees that are not insurance contracts to be measured at fair value upon initial recognition. The Group has chosen to treat its guarantee contracts as insurance arrangements (refer to note 3 (k)).

There was no impact on opening equity arising from the adoption of any of the above-mentioned standards or amendments.

(u) New Standards and Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective and have not been applied in preparing these IFRS consolidated financial statements. Of these pronouncements, the following will potentially have an impact on the consolidated financial statements:

- IFRS 7 *Financial Instruments: Disclosures* is effective for annual periods beginning on or after 1 January 2007. IFRS 7 will require increased disclosure in respect of financial instruments and replaces International Financial Reporting Standard IAS 30 *Disclosures in the Consolidated Financial Statements of Banks and Similar Financial Institutions*.
- Amendment to IFRS 1 *Presentation of Consolidated Financial statements – Capital Disclosures* is effective for annual periods beginning on or after 1 January 2007. This amendment will require increased disclosure regarding capital and how it is measured.

Management has not yet analyzed the likely impact of these new standards on its consolidated financial statements.

4 Balances with the National Bank of Ukraine

The Bank is required by the NBU to maintain a monthly and daily obligatory reserve balance. The monthly obligatory reserve requirement amounts to USD 15,711 thousand as at 31 December 2006 (2005: USD 15,549 thousand). The funds qualifying for the monthly obligatory reserve requirement comprise funds maintained in the current account with the NBU as at 31 December 2006. The Bank meets the NBU reserve requirements as at 31 December 2006 and 2005.

Balances with the National Bank of Ukraine amounting to USD 733 thousand as at 31 December 2005 were pledged as collateral for the long-term loan from the National Bank of Ukraine.

5 Due from banks

Balances due from banks as at 31 December are as follows:

<i>(in thousands of USD)</i>	2006	2005
Current accounts:		
Domestic	10,047	5,824
OECD countries	52,692	22,857
Non-OECD countries	<u>7,491</u>	<u>4,510</u>
	70,230	33,191
Loans and advances:		
Domestic	79,345	36,437
OECD countries	13,047	-
Non-OECD countries	<u>23,897</u>	<u>-</u>
	116,289	36,437
Total	<u><u>186,519</u></u>	<u><u>69,628</u></u>

Loans and advances due from banks amounting to USD 65,423 thousand are pledged for and are secured by similar deposits in another currency received from those same banks as at 31 December 2006 (2005: USD 36,187 thousand).

Balances due from one bank amount to USD 58,668 thousand, or 31% of gross due from banks as at 31 December 2006 (2005: USD 18,974 thousand, or 27%).

6 Loans and advances

Loans and advances as at 31 December are as follows:

<i>(in thousands of USD)</i>	2006	2005
Commercial	859,619	280,994
Overdrafts	13,723	13,925
Retail	91,753	15,678
Securities held under reverse repurchase agreements	<u>4,938</u>	<u>5,089</u>
	970,033	315,686
Provision for impairment (note 25)	<u>(18,268)</u>	<u>(5,979)</u>
Total	<u><u>951,765</u></u>	<u><u>309,707</u></u>

Loans and advances to the 10 largest borrowers amount to USD 368,061 thousand, or 38% of gross loans and advances as at 31 December 2006 (2005: USD 115,706 thousand, or 37%).

The repayment profile of loans and advances as at 31 December is as follows:

	2006	2005
<i>(in thousands of USD)</i>		
Current	958,852	315,553
Overdue	<u>11,181</u>	<u>133</u>
Total	<u>970,033</u>	<u>315,686</u>

The Group categorizes as overdue only that portion of the loan that is overdue, while the remaining portion of the loan is shown as a current.

Loans and advances to by economic sector as at 31 December are as follows:

	2006	2005
<i>(in thousands of USD)</i>		
Metallurgy	207,029	16,937
Railway road	137,582	31,288
Retail	91,753	15,678
Mechanical engineering and metal-working industry	82,350	26,969
Transport	58,302	14,084
Food industry	53,004	35,653
Wholesale trade	47,326	30,383
Military-industrial establishment and aircraft construction	42,172	12,655
Motor-car industry	40,320	18,793
Construction and real estate	38,101	5,640
Retail trade	31,092	15,487
Chemical and petrochemical industry	24,923	4,061
Coal-mining industry	21,782	-
Power industry	19,858	10,967
Agriculture	11,012	19,454
Investment and lease companies	4,655	1,372
Natural gas industry	2,803	12,085
Other	<u>55,969</u>	<u>44,180</u>
Total	<u>970,033</u>	<u>315,686</u>

Loans and advances by type of security as at 31 December are as follows:

<i>(in thousands of USD)</i>	2006	2005
Deposits with the Bank	279,276	46,837
Pledged assets	167,643	170,744
Guarantee by others	155,206	4,114
Securities	4,938	5,089
Secured by other assets	257,437	71,228
Unsecured	<u>105,533</u>	<u>17,674</u>
Total	<u>970,033</u>	<u>315,686</u>

This table summarizes the amount of loans secured by collateral, rather than the fair value of the collateral itself. Pledged assets include of loans that are in secured by real estate, property, plant and equipment and other liquid assets. Secured by other assets include the amount of loans that are secured by goods in turnover, property rights and other pledges, which are characterized by low liquidity.

The Bank's lending activities are primarily conducted in Ukraine. The ability of borrowers to repay their debt is dependent on a number of factors including the overall financial health of the borrower and continued development of the Ukrainian economy.

7 Available-for-sale debt securities

Available-for-sale debt securities as at 31 December are as follows:

<i>(in thousands of USD)</i>	2006	2005
Corporate bonds	8,135	-
Government bonds	2,762	-
Other	<u>5</u>	<u>-</u>
	<u>10,902</u>	<u>-</u>
Provision for impairment (Note 25)	<u>(5)</u>	<u>-</u>
Total	<u>10,897</u>	<u>-</u>

8 Property, equipment and intangible assets

A summary of activity in property, equipment and intangible assets for the year ended 31 December 2006 is as follows:

<i>(in thousands of USD)</i>	Land and buildings	Leasehold improve- ments	Furniture and equipment	Computer and motor vehicles	Intangible assets	Total
Cost or valuation						
1 January 2006	20,468	941	2,523	1,967	570	26,469
Additions	523	1,342	1,384	2,542	714	6,505
Revaluation	8,478	-	-	-	-	8,478
Disposals	-	(2)	(87)	(215)	(16)	(320)
31 December 2006	29,469	2,281	3,820	4,294	1,268	41,132
Accumulated depreciation						
1 January 2006	121	375	1,186	741	171	2,594
Depreciation charge	418	179	534	769	112	2,012
Revaluation	(432)	-	-	-	-	(432)
Disposals	-	(1)	(57)	(189)	(5)	(252)
31 December 2006	107	553	1,663	1,321	278	3,922
Net book value as at 31 December 2006	29,362	1,728	2,157	2,973	990	37,210

A summary of activity in property, equipment and intangible assets for the year ended 31 December 2005 is as follows:

<i>(in thousands of USD)</i>	Land and buildings	Leasehold improve- ments	Furniture and equipment	Computer and motor vehicles	Intangible assets	Total
Cost or valuation						
1 January 2005	18,632	907	1,926	1,029	376	22,870
Additions	8	35	741	1,043	199	2,026
Revaluation	1,828	-	-	-	-	1,828
Disposals	-	(1)	(144)	(105)	(5)	(255)
31 December 2005	<u>20,468</u>	<u>941</u>	<u>2,523</u>	<u>1,967</u>	<u>570</u>	<u>26,469</u>
Accumulated depreciation						
1 January 2005	15	233	863	587	117	1,815
Depreciation charge	337	140	398	230	57	1,162
Revaluation	(236)	-	-	-	-	(236)
Disposals	-	-	(80)	(79)	(4)	(163)
Exchange differences	5	2	5	3	1	16
31 December 2005	<u>121</u>	<u>375</u>	<u>1,186</u>	<u>741</u>	<u>171</u>	<u>2,594</u>
Net book value as at 31 December 2005	<u><u>20,347</u></u>	<u><u>566</u></u>	<u><u>1,337</u></u>	<u><u>1,226</u></u>	<u><u>399</u></u>	<u><u>23,875</u></u>

The carrying amount of land and buildings that would have been included in these consolidated financial statements had the assets been carried at historical cost less accumulated depreciation and impairment losses is USD 5,884 thousand as at 31 December 2006 (2005: USD 5,121 thousand).

9 Other assets

Other assets as at 31 December are as follows:

	2006	2005
<i>(in thousands of USD)</i>		
Prepayments for property and prepaid repair	718	-
Deferred expenses	351	139
Receivables	268	195
Accrued income on other assets	53	22
Other	6	14
	<u>1,396</u>	<u>370</u>
Provision for impairment (note 25)	<u>(116)</u>	<u>(121)</u>
Total	<u>1,280</u>	<u>249</u>

10 Due to banks

Balances due to banks as at 31 December are as follows:

	2006	2005
<i>(in thousands of USD)</i>		
Current accounts		
Domestics	22,091	77,959
Non-OECD countries	7,350	9,855
	<u>29,441</u>	<u>87,814</u>
Deposits and loans		
Domestic	58,961	52,434
OECD countries	287,166	22,169
Non-OECD countries	44,051	36,392
	<u>390,178</u>	<u>110,995</u>
Payables for repurchased own debt securities – domestic (note 13)	<u>4,988</u>	<u>3,013</u>
Total	<u>424,607</u>	<u>201,822</u>

Deposits and current accounts of a related bank, OJSC “Alfa-Bank” (Moscow), amount to USD 44,843 thousand, or 11% of due to banks as at 31 December 2006 (2005: USD 113,971 thousand, or 57%).

Deposits and current accounts amounting to USD 171,182 thousand, or 40% of due to banks, are due to another related bank, Amsterdam Trade Bank, as at 31 December 2006 (2005: USD 22,054 thousand).

Gains less losses on origination of deposits at rates above and below market rates are calculated as the difference between the nominal proceeds received and fair value upon initial recognition. This gain/loss is recognized in the consolidated statement of operations.

The fair value upon initial recognition is calculated as the present value of the deposit using a discount rate equal to the rate the Bank would pay for a similar deposit to a non-related bank. As at 31 December 2006, the discount rate is 8.2% for USD denominated deposits and 5.3% for EUR denominated deposits (2005: 6.0% for USD).

The increase in the discount rate by one percentage point would increase gains less losses on origination of deposits due to banks at rates above and below market by USD 1,625 thousand.

Loan granted by Cooperative Centrale Raiffeisen-Boerenleenbank B.A (the "Rabobank") amounts to USD 50,413 thousand, or 12% of due to banks as at 31 December 2006 (2005: nil). The main terms and conditions of the loan are as follows:

- nominal value: USD 50,000 thousand
- nominal interest rate: 9% per annum
- repayment date: 29 February 2008
- interest payment dates: 28 February 2007, 29 May 2007, 29 August 2007, 29 November 2007 and 29 February 2008.

The loan agreement with Rabobank also includes the following covenants:

- the Bank should comply with all NBU rules and regulations applicable to banks, including but not limited to, the maximum credit risk to one counterparty and the maximum amount of loans, guarantees and sureties provided to one insider
- the Bank shall not permit its total capital ratio to fall below the minimum total capital adequacy ratio required by the NBU
- the Bank must at all times ensure that both on a consolidated and an unconsolidated basis:
 - its capital (as defined by the Basel Accord) expressed as a percentage of its risk weighted assets is not less than: (i) that required by the Bank for International Settlements or (ii) twelve per cent (12%), whichever is higher, and
 - its Tier 1 capital (as defined by the Basel Accord) expressed as a percentage of its risk weighted assets is not less than: (i) that required by the Bank for International Settlements or (ii) eight per cent. (8%), whichever is higher.

the Bank shall not, directly or indirectly, create incur or suffer to exist any lien or pledge, other than permitted, on any of its/their assets, now owned or hereafter acquired, securing any indebtedness, unless: (i) the loan is secured equally and rateably with such other indebtedness to the satisfaction of the Rabobank or (ii) such

other security for the loan as may be approved by the Rabobank is provided to the satisfaction of the Rabobank. Permitted pledges include, among others, pledges of interbank deposits in one currency for deposits received from the same counterparty in another currency (cross-currency deposit swaps).

- specific requirements and restrictions related to transactions with the Bank's affiliates and related parties including, among others, a requirement that the terms of such transactions are no less favorable to the Bank than those that would be obtained in a comparable arms-length transaction with an unrelated party.
- the Bank shall not permit following restricted payments:
 - declare any dividends or make any other distributions (whether by way of redemptions, acquisition or otherwise) in respect of its share capital, other than dividends or distribution payable to the Bank, or
 - voluntarily purchase, redeem or otherwise retire for value any capital stock or subordinated debt

The Bank may make a restricted payment if at the time of such payment no default has occurred or would result therefrom and the aggregate amount of all restricted payments in any fiscal year does not exceed fifty per cent (50%) of the Group's consolidated net profit for the immediately preceding fiscal year determined by reference to the latest consolidated financial statements of the Bank prepared in accordance with IFRS.

11 Current accounts

Current accounts as at 31 December are as follows:

<i>(in thousands of USD)</i>	2006	2005
Commercial	109,163	16,022
Retail	6,455	2,604
Special current account – Energoatom	<u>-</u>	<u>1,667</u>
Total	<u>115,618</u>	<u>20,293</u>

Current accounts of commercial entities amounting to USD 93,158 thousand, representing 81% of the total current accounts of commercial entities, are due to the ten largest customers as at 31 December 2006 (2005: USD 9,508 thousand, or 59%).

12 Deposits

Deposits as at 31 December are as follows:

	2006	2005
<i>(in thousands of USD)</i>		
Commercial	396,587	124,416
Retail	17,759	13,384
Certificates of deposit	<u>353</u>	<u>359</u>
Total	<u>414,699</u>	<u>138,159</u>

Deposits amounting to USD 365,849 thousand, or 88% of the total deposits, are placed with the Group by its ten largest depositors as at 31 December 2006 (2005: USD 121,582 thousand, or 89%).

13 Debt securities

During the year ended 31 December 2006 the Group issued corporate UAH denominated bonds with a par value of USD 25,908 thousand (2005: USD 13,266 thousand) with an effective interest rate of 13% and a maturity in December 2010. A total of USD 15,049 thousand of these bonds were redeemed during the year ended 31 December 2006 (2005: USD 10,297 thousand).

Payables as at 31 December 2006 in the amount of USD 4,988 thousand (2005: USD 3,013 thousand) for the repurchase of debt securities are classified as due to banks (note 10).

14 Loan participation notes

In December 2006, the Group issued loan participation notes (the "Notes") through VTB Bank Europe Pls (the "Lender") with a par value of USD 160,000 thousand, nominal interest rate of 9.75% per annum, and due on 22 December 2009. In accordance with conditions of the loan agreement dated 18 December 2006, interest will be paid by the Bank on 22 May and 22 December in each year in which the Notes remain outstanding.

The term and conditions of an additional issuance of the Notes subsequent to 31 December 2006 are disclosed in note 35.

The loan agreement, signed between Lender and the Bank also includes the following covenants:

- the Bank shall not, without the prior written consent of the Lender, enter into any, or participate in any other type of corporate restructuring, if any such corporate restructuring would result in a material adverse effect
- the Bank shall not within a 12 month period, sell, lease, transfer or otherwise dispose of the whole or any part of its assets which together constitute more than 10 per cent of the

total assets of the Bank unless such transaction(s) is/are (a) made on an arm's-length basis and on commercially reasonable terms as determined in its sole discretion by an independent appraiser and (b) has/have been approved by a decision adopted by the competent governing body of the Bank

- the Bank shall not conduct any business, enter into or permit to exist any transaction or series of related transactions with, or for the benefit of, any affiliate (related party), including intercompany loans, unless the terms of such affiliate transaction are no less favourable to the Bank, 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 Bank. With respect to an affiliate transaction or any series of related affiliate transactions involving aggregate payments or a value exceeding 35 per cent of the Group's assets, the Bank shall deliver to the Lender a written opinion from an independent appraiser to the effect that such affiliate transaction is fair, from a financial point of view, to the Bank
- the Bank shall not permit its capital adequacy ratio to fall below the minimum capital adequacy ratio required by the NBU or the relevant banking authority responsible for setting and supervising capital adequacy requirements for financial institutions in the jurisdiction in which the Bank carries out its banking business outside Ukraine
- the Bank will not make any payments by way of dividends, cash or otherwise, or make any other distributions in respect of its share capital (i) at any time when there exists an event of default or a potential event of default or (ii) at any time when no such event of default or potential event of default exists, (a) more frequently than once during any calendar year or (b) in an aggregate amount exceeding 50 per cent of the Bank's net income for the latest period, calculated in accordance with IFRS. The foregoing limitation shall not apply to distributions of fully paid common shares of the Bank.
- the Bank shall not to create, incur or suffer to exist any security interests, other than permitted security interests or pledges, on any of its or their assets, now owned or hereafter acquired, securing any indebtedness, unless the loan is secured equally and rateably with such other indebtedness or guarantee or otherwise as approved by the Lender. Permitted pledges include, among others, pledges of interbank deposits in one currency for deposits received from the same counterparty in another currency (cross-currency deposit swaps).

15 Other liabilities

Other liabilities as at 31 December are as follows:

	2006	2005
<i>(in thousands of USD)</i>		
Accrual for unused vacations	1,192	265
Other accrued expenses	80	3
Payables to deposit guarantee fund	22	19
Accrued taxes and obligatory payments	20	21
Other	<u>616</u>	<u>166</u>
Total	<u>1,930</u>	<u>474</u>

16 Subordinated debt

The subordinated debt was received in November 2002 in the amount of USD 6,800 thousand from a related party, Westlaw Inc. The stated interest rate on the subordinated loan is LIBOR (1.63% as of the date of issuance) and it matures in November 2010. A gain on origination in the amount of USD 3,214 thousand was recognized since the stated interest rate was lower than the market rate of interest for similar types of borrowings at the time the loan was made, which was estimated to be 10%. This gain is calculated as the difference between the nominal value of subordinated debt and the fair value of subordinated debt upon initial recognition. This gain was recorded as additional paid-in-capital, as in substance the subordinated debt issue is a transaction with shareholders acting in their capacity as shareholders.

In June 2005 additional subordinated debt was received in the amount of USD 5,200 thousand from Westlaw Inc. The stated interest rate on subordinated loan is LIBOR (3.76% as of the date of issuance) and it matures in June 2013. The gain on origination in the amount of USD 1,407 thousand is calculated based on the market rate of interest for similar types of borrowings, which was estimated to be 7% and is recorded as additional paid-in-capital.

Included in subordinated debt as at 31 December 2006 is accrued interest in the amount of USD 1,291 thousand (2005: USD 653 thousand).

Subsequent to 31 December 2006 the Group received additional subordinated debt as disclosed in note 35.

17 Share capital issued

As at 31 December 2006 share capital issued comprised USD 72,599 thousand (2005: USD 26,461 thousand).

The nominal share capital as at 31 December 2006 is USD 71,287 thousand. All shares are ordinary and their nominal value is USD 0.198. The share capital structure of the Bank was the following as at 31 December 2006 (also refer to note 29):

Shareholder	Number of shares issued	%	Nominal value
	shares		thousand USD
ABH Ukraine Limited	352,067,369	97.80%	69,716
ABH Financial Limited (B.V.I.)	4,040,999	1.12%	800
Others	3,891,632	1.08%	771
	360,000,000	100.00%	71,287

On 28 December 2005 shareholders voted to increase share capital by USD 46,138 thousand. In March 2006 the Bank entered into a share purchase agreement with ABH Ukraine Limited to sell shares amounting to USD 46,138 thousand. During August-December 2006 additional

share capital was paid by ABH Ukraine Limited. On 5 October 2006, the share capital increase was registered by National Bank of Ukraine. Information related to increase of share capital subsequent to 31 December 2006 is disclosed in Note 35.

In accordance with International Financial Reporting Standard *IAS 29 Financial Reporting in Hyperinflationary Economies* in 2003 share capital was increased by USD 2,641 thousand (refer to note 2 (b)). Difference amounting to USD 1,329 thousand arose due to presentation of the share capital, denominated in UAH, in presentation currency USD (note 3(a)). This difference was recognized in equity as Translation reserve.

18 Retained earnings

Distributable reserves are limited to the balance of accumulated reserves as recorded in the statutory consolidated financial statements prepared in accordance with legislative requirements of Ukraine. The amount of distributable reserves as at 31 December 2006 is nil (2005: nil) (unaudited).

19 Off-balance sheet commitments and contingent liabilities

(a) Guarantees

The Group issued guarantees on behalf of its clients amounting to USD 4,678 thousand as at 31 December 2006 (2005: USD 23 thousand).

(b) Letters of credit

Commitments under letters of credit are USD 2,238 thousand as at 31 December 2006 (2005: USD 402 thousand).

(c) Commitments to extend credit

The amount of irrevocable commitments to extend credit is USD 11,785 thousand as at 31 December 2006 (2005: USD 5,551 thousand).

(d) Operating lease commitments

The Group leases operational space in its normal course of business. Future minimum lease payments as at 31 December are as follows:

	2006	2005
<i>(in thousands of USD)</i>		
Within one year	4,063	1,879
From one to five years	7,558	2,105
After five years	<u>15</u>	<u>73</u>
Total	<u>11,636</u>	<u>4,057</u>

(e) Capital expenditure commitments

The Group's outstanding non-cancelable commitments for capital expenditures as at 31 December 2006 amount to USD 715 thousand (2005: Nil).

(g) Tax contingency

The Ukrainian tax system can be characterized by numerous taxes and frequently changing legislation. Tax regulations are often unclear, open to wide interpretation, and in some instances are conflicting. Instances of inconsistent opinions between local, regional and national tax authorities and between the National Bank of Ukraine and the Ministry of Finance are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enacted by law to impose significant penalties and interest charges. These facts create tax risks in Ukraine substantially more significant than typically found in countries with more developed tax systems.

Management believes it has complied with all existing tax legislation. However, there can be no assurance that the tax authorities will not have a different interpretation of the Group's compliance with existing legislation and assess fines and penalties. No provision for potential tax assessments has been made in these consolidated financial statements.

(g) Litigation

As at 31 December 2006 the bank is involved in litigation by bank Forum against LLC Agroproduct, OJSC Agroexport and the Bank for failure of LLC Agroproduct to repay the issued bonds in the amount of USD 630 thousand, where the Bank was involved as underwriter. Management believes that the risk of losses for the Bank resulting from this litigation is not probable. No provision was created for potential losses under this litigation in these consolidated financial statements.

20 Interest income

Interest income for the year ended 31 December is as follows:

<i>(in thousands of USD)</i>	2006	2005
Loans and advances	79,694	19,407
Due from banks	4,257	2,213
Available-for-sale debt securities	1,289	-
Financial assets at fair value through profit and loss	<u>51</u>	<u>170</u>
Total	<u>85,291</u>	<u>21,790</u>

21 Interest expenses

Interest expense for the year ended 31 December is as follows:

	2006	2005
<i>(in thousands of USD)</i>		
Deposits	18,988	6,909
Due to banks	18,434	4,921
Subordinated debts	1,158	829
Current accounts	1,048	227
Debt securities	896	82
Loan participation notes	452	-
Loan from the National Bank of Ukraine	113	289
Deposit certificates	43	24
Other	<u>25</u>	<u>23</u>
Total	<u>41,157</u>	<u>13,304</u>

22 Net fee and commission income

Net fee and commission income for the year ended 31 December is as follows:

	2006	2005
<i>(in thousands of USD)</i>		
Currency exchange	3,512	766
Cash payments and withdrawals	2,900	1,399
Full service commission for VIP clients*	1,692	1,926
Credit fees	670	455
Underwriting of securities	114	364
Other	<u>125</u>	<u>138</u>
Total	<u>9,013</u>	<u>5,048</u>

* Full service commission is provided to selected (VIP) clients and includes the following types of commission: cash payments and withdrawals, currency exchange and credit fees.

23 Other income

Included in other income for the year ended 31 December 2006 are penalties amounting to USD 1,781 thousand (2005: USD 20 thousand) or 71% of the total amount of other income. These penalties are charged to retail and commercial borrowers due to breaches of repayment terms.

24 General administrative expenses

General administrative expenses for the year ended 31 December are as follows:

<i>(in thousands of USD)</i>	2006	2005
Rent and utilities	3,318	764
Communication and IT	2,527	605
Entertainment	964	310
Traveling	890	163
Financial consultancy and audit services	885	316
Administration and office maintenance	435	334
Taxes, duties and charges	294	94
Marketing and advertising	203	278
Security services	193	175
Other	<u>2,135</u>	<u>884</u>
Total	<u>11,844</u>	<u>3,923</u>

25 Impairment provision for loans and advances, other assets and available-for-sale debt securities

The following is a schedule of movements in the impairment provision for the year ended 31 December:

<i>(in thousands of USD)</i>	2006	2005
Balance as at 1 January	6,100	816
Impairment charge	22,671	5,275
Translation difference (Note 3(a))	-	115
Amounts written off	<u>(10,382)</u>	<u>(106)</u>
Total	<u>18,389</u>	<u>6,100</u>

Impairment provisions as at 31 December are as follows:

<i>(in thousands of USD)</i>	2006	2005
Loans and advances (note 6)	18,268	5,979
Other assets (note 9)	116	121
Available-for-sale debt securities (note 7)	<u>5</u>	-
Total	<u>18,389</u>	<u>6,100</u>

26 Income tax expense

The statutory income tax rate is 25% for 2006 (2005: 25%).

The components of the income tax expense (benefit) for the year ended 31 December are as follows:

<i>(in thousands of USD)</i>	2006	2005
Current	2,577	1,520
Deferred - origination and reversal of temporary differences recognized in the consolidated statement of operations	<u>(1,592)</u>	<u>(2,250)</u>
Total	<u>985</u>	<u>(730)</u>

The difference between the total expected income tax expense (benefit) computed by applying the statutory income tax rate to profit (loss) before tax and the reported income tax expense is (benefit) as follows:

<i>(in thousands of USD)</i>	2006	%	2005	%
Profit (loss) before tax	<u>2,569</u>		<u>(2,649)</u>	
Computed expected income tax at statutory rate	642	25%	(662)	25%
Previously unrecognised tax loss carry-forward utilized	-	-	(184)	7%
Non-deductible items	<u>343</u>	<u>13%</u>	<u>116</u>	<u>(4%)</u>
Effective income tax expense (benefit)	<u>985</u>	<u>38%</u>	<u>(730)</u>	<u>28%</u>

Recognized deferred tax assets and liabilities as at 31 December are attributable to the items detailed as follows:

<i>(in thousands of USD)</i>	2006	2006	2005	2005
	Asset	Liability	Asset	Liability
Impairment provision:				
Loans and advances to customers and due from banks	1,506	-	-	(137)
Due to banks	-	(560)	-	-
Other assets	442	-	-	(55)
Other liabilities	377	-	81	-
Property, equipment and intangible assets	-	(6,034)	-	(3,498)
Debt securities	36	-	12	-
	<u>2,361</u>	<u>(6,594)</u>	<u>93</u>	<u>(3,690)</u>
Total				
		<u>(4,233)</u>		<u>(3,597)</u>

The change in net deferred tax liability for the year ended 31 December is recognized as follows:

<i>(in thousands of USD)</i>	2006	2005
Equity	2,228	509
Consolidated statement of operations	<u>(1,592)</u>	<u>(2,250)</u>
Total	<u>636</u>	<u>(1,741)</u>

27 Foreign currency positions

Foreign currency positions as at 31 December 2006 are as follows:

<i>(in thousands of USD)</i>	USD	EUR	Other
Assets			
Cash	1,961	106	20
Due from banks	132,949	19,766	13,089
Loans and advances	650,106	38,484	5,936
Other assets	82	4	1
Total assets	<u>785,098</u>	<u>58,360</u>	<u>19,046</u>
Liabilities			
Due to banks	310,833	53,827	8,787
Current accounts	35,839	1,117	7,381
Deposits	254,343	1,327	-
Loan participation notes	158,225		
Other liabilities	143	32	3
Subordinated debt	10,151	-	-
Total liabilities	<u>769,534</u>	<u>56,303</u>	<u>16,171</u>
Net long (short) position as at 31 December 2006	<u>15,564</u>	<u>2,057</u>	<u>2,875</u>

Foreign currency positions as at 31 December 2005 are as follows:

<i>(in thousands of USD)</i>	USD	EUR	Other
Assets			
Cash	658	44	10
Due from banks	26,235	5,706	10,116
Loans and advances	204,392	6,064	-
Other assets	94	4	-
Total assets	<u>231,379</u>	<u>11,818</u>	<u>10,126</u>
Liabilities			
Due to banks	156,706	10,687	9,622
Current accounts	4,405	226	89
Deposits	47,269	943	-
Other liabilities	506	56	-
Subordinated debt	8,994	-	-
Total liabilities	<u>217,880</u>	<u>11,912</u>	<u>9,711</u>
Net long (short) position as at 31 December 2005	<u>13,499</u>	<u>(94)</u>	<u>415</u>

28 Interest rate analysis

(a) Average interest rates

The average effective interest rates of major interest bearing assets and liabilities by currencies as at 31 December are as follows:

	2006	2006	2005	2005
	UAH	Foreign currency	UAH	Foreign currency
Due from banks	10%	6%	9%	4%
Loans and advances:				
Commercial	15%	10%	13%	11%
Retail	55%	14%	27%	13%
Securities available-for-sale	13%	-	-	-
Financial assets at fair value through profit and loss	-	-	11%	-
Due to banks	8%	7%	9%	7%
Loans from the National Bank of Ukraine	-	-	7%	-
Current accounts	1%	1%	1%	1%
Deposits	11%	7%	13%	7%
Debt securities	10%	-	11%	-
Loan participation notes	-	10%	-	-
Subordinated debt	-	9%	-	9%

(b) Gap analysis

The Group's operations are subject to the risk of interest rate fluctuation to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in different amounts.

29 Maturity analysis

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2006. Due to the fact that substantially all financial instruments of the Bank are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates. Subordinated debt carries a floating interest rate (LIBOR) and is, therefore, repricing continually.

The contractual remaining maturities of assets and liabilities as at 31 December 2006 are as follows:

Description <i>(in thousands of USD)</i>	Maturity periods					Total
	Within one month	From one to three months	From three months to one year	More than one year	No maturity	
Cash	4,152	-	-	-	-	4,152
Balances with the NBU	45,129	-	-	-	-	45,129
Due from banks	154,159	15,560	16,800	-	-	186,519
Loans and advances	73,327	70,066	365,440	442,932	-	951,765
Available-for-sale debt securities	722	-	2,890	7,281	4	10,897
Property, equipment and intangible assets	-	-	-	-	37,210	37,210
Prepaid income tax	351	-	-	-	-	351
Other assets	1,280	-	-	-	-	1,280
Total assets	279,120	85,626	385,130	450,213	37,214	1,237,303
Due to banks	154,069	145,581	74,958	49,999	-	424,607
Current accounts	115,618	-	-	-	-	115,618
Deposits	102,121	77,754	232,239	2,585	-	414,699
Debt securities	-	-	-	9,581	-	9,581
Loan participation notes	-	-	433	157,792	-	158,225
Deferred tax liability	-	-	-	4,233	-	4,233
Other liabilities	1,930	-	-	-	-	1,930
Subordinated debt	-	-	-	10,151	-	10,151
Total liabilities	373,738	223,335	307,630	234,341	-	1,139,044
Liquidity gap for the period	(94,618)	(137,709)	77,500	215,872	37,214	98,259
Cumulative liquidity gap	(94,618)	(232,327)	(154,827)	61,045	98,259	-

The contractual remaining maturities of assets and liabilities as at 31 December 2005 are as follows:

Description	Maturity periods					Total
	Within one month	From one to three months	From three months to one year	More than one year	No maturity	
<i>(in thousands of USD)</i>						
Cash	1,950	-	-	-	-	1,950
Balances with the NBU	15,173	-	-	-	-	15,173
Due from banks	33,440	28,028	8,160	-	-	69,628
Loans and advances	3,535	5,757	161,248	139,167	-	309,707
Financial assets at fair value through profit and loss	-	-	792	204	-	996
Property, equipment and intangible assets	-	-	-	-	23,875	23,875
Other assets	249	-	-	-	-	249
Total assets	54,347	33,785	170,200	139,371	23,875	421,578
Due to banks	114,628	39,939	43,417	3,838	-	201,822
Loan from the NBU	-	-	2,887	-	-	2,887
Current accounts	20,293	-	-	-	-	20,293
Deposits	17,643	66,734	39,337	14,445	-	138,159
Payables for income tax	811	-	-	-	-	811
Debt securities	-	-	-	600	-	600
Deferred tax liability	-	-	-	3,597	-	3,597
Other liabilities	474	-	-	-	-	474
Subordinated debt	-	-	-	8,994	-	8,994
Total liabilities	153,849	106,673	85,641	31,474	-	377,637
Liquidity gap for the period	(99,502)	(72,888)	84,559	107,897	23,875	43,941
Cumulative liquidity gap	(99,502)	(172,390)	(87,831)	20,066	43,941	-

Current accounts are due on demand and have been reflected as such in both schedules above. However, management believes that demand on a majority of the accounts will occur at significantly later dates.

30 Balances with related parties

(a) Control relationship

As at 31 December the following shareholders owned the outstanding shares issued:

<i>Shareholder</i>	2006	2005
	%	%
ABH Ukraine Limited	97.80	00.00
OJSC "Alfa-bank" (Moscow)	-	93.75
ABH Financial Limited (B.V.I.)	1.12	3.18
Others	1.08	3.07
	100.00	100.00

As at 31 December 2006 the Bank's parent is ABH Ukraine Limited which is controlled by ABH Holdings Corp. (B.V.I.) (2005: OJSC "Alfa-Bank" which is registered in Moscow, Russian Federation). The next most senior parent that produces financial statements available for public use is Alfa-Group (owned by Mr. Fridman, Mr. Khan and Mr. Kuzmichev).

During 2006, ABH Ukraine Limited purchased the Bank's newly issued shares amounting to USD 46,138 thousand (refer note 17).

The Group has a controlling relationship with its Subsidiary (refer note 1(a)).

(b) Management remuneration

Key management personnel received the remuneration in the form of short-term employee benefits amounting to USD 4,694 thousand during the year ended 31 December 2006 (31 December 2005: USD 915 thousand), which is included in salaries and employee benefits.

(c) Transactions with other related parties

During the years ended 31 December 2006 and 2005, the Group had a number of transactions and balances with related parties. Related parties comprise the shareholders of the Group, companies which are under common control with the Group, key management personnel and their close family members, companies that are controlled or significantly influenced by shareholders, by key management personnel or by their close family members.

There were no balances with parent ABH Ukraine Limited as at 31 December 2006.

The balances and amounts of transactions with other related parties as at and for the year ended 31 December are as follows:

	2006	2005
<i>(in thousands of USD)</i>		
Balances with the parent		
Due from banks	-	4,510
Due to banks	-	114,203
Interest income	64	17
Interest expenses	5,703	2,080
Balances with other entities under common control		
Loans and advances	36,668	24,000
Due from banks	11,633	4,540
Other assets	3	1
Due to banks	216,026	136,372
Current accounts	34,294	3,810
Deposits	143,083	64,894
Subordinated debts	10,151	8,994
Interest income	5,733	198
Interest expense	8,471	3,240

The foreign currency positions and effective interest rates of transactions with related parties as at 31 December 2006 are as follows:

	USD	Interest rate	EUR	Interest rate	Other	Interest rate
<i>(in thousands of USD)</i>						
Due from banks	1,432	-	3	-	10,187	6%
Loans and advances	36,668	12%	-	-	-	-
Current accounts	29,184	1%	65	1%	-	-
Due to banks	175,659	8%	40,232	5%	-	-
Current accounts	27,565	1%	65	1%	-	-
Deposits	63,813	7%	-	-	-	-
Subordinated debts	10,151	9%	-	-	-	-

The foreign currency positions and interest rates of transactions with related parties as at 31 December 2005 are as follows:

<i>(in thousands of USD)</i>	USD	Interest rate	EUR	Interest rate	Other	Interest rate
Balances with the parent						
Due from banks	38	1-2%	0	-	4,471	1-2%
Due to banks	108,774	0.1-10%	4,742	9-10%	687	9%
Balances with other entities under common control						
Due from Banks	31	4%	-	-	-	-
Loans and advances	24,000	13%	-	-	-	-
Other assets	-	-	-	-	1	-
Due to banks	16,201	7-17%	5,969	7%	-	-
Customers' current accounts	1,016	1%	-	1%	-	-
Deposits from customers	36,502	4-11%	-	-	28,391	8-11%
Subordinated debts	8,994	9%	-	-	-	-

The contractual remaining maturities of balances with related parties as at 31 December 2006 are as follows:

Description	Maturity periods					Total
	Within one month	From one to three months	From three months to one year	More than one year	No maturity	
<i>(in thousands of USD)</i>						
Loans and advances	-	24,000	-	12,668	-	36,668
Due from banks	11,633	-	-	-	-	11,633
Other assets	3	-	-	-	-	3
Due to banks	68,827	136,778	10,421	-	-	216,026
Current accounts	34,294	-	-	-	-	34,294
Deposits	29,823	59,328	53,933	-	-	143,084
Subordinated debts	-	-	-	10,151	-	10,151

The contractual remaining maturities of balances with related parties as at 31 December 2005 are as follows:

Description	Maturity periods					Total
	Within one month	From one to three months	From three months to one year	More than one year	No maturity	
<i>(in thousands of USD)</i>						
Balances with the parent						
Due from banks	4,510	-	-	-	-	4,510
Due to banks	93,319	7,357	24,220	-	-	124,896
Balances with other entities under common control						
Loans and advances	-	-	24,000	-	-	24,000
Due from banks	31	-	-	-	-	31
Other assets	1	-	-	-	-	1
Due to banks	615	7,882	13,672	-	-	22,169
Current accounts	3,810	-	-	-	-	3,810
Deposits	2,000	36,856	26,037	-	-	64,893
Subordinated debts	-	-	-	8,994	-	8,994

31 Estimation of fair value

The estimated fair values of financial assets and liabilities are determined using discounted cash flow and other appropriate valuation methodologies at year-end, and may not be indicative of the fair value of those instruments at the date these consolidated financial statements are prepared or distributed. These estimates do not reflect any premium or discount that could result from offering for sale at one time entire holdings of a particular financial instrument. Fair value estimates are based on judgments regarding future expected cash flows, current economic conditions, risk characteristics of various financial instruments and other factors.

Fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments. In addition, tax ramifications related to the realization of the unrealized gains and losses can have an effect on fair value estimates and have not been considered.

The fair value of all financial assets and liabilities are approximately equal to their carrying amounts due to their short term nature or because they have related interest rates that approximate market interest rates at year end.

32 Analysis by segment

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

The Group is organized into two main business segments:

- Commercial banking – includes corporate banking operations which include deposit taking and commercial lending, settlements and cash operations with corporate customers.
- Retail banking – includes retail banking operations which include deposit taking and commercial lending, settlements and cash operations with retail customers.
- Central treasury – undertakes the Group's funding and centralised risk management activities through borrowings, issues of debt securities and investing in liquid assets such as short-term placements and corporate and government debt securities.

Management determined that the dominant source of the Group's geographical risks result from the location of its markets and customers. Because the Group's services are rendered predominantly in Ukraine, geographical segment information is not presented.

Business Segments

2006

<i>(in thousands of USD)</i>	Commercial	Retail	Central treasury	Consolidated
External revenue	39,463	27,592	(9,784)	57,271
Inter-segment revenue	(17,100)	(2,082)	19,182	-
Total segment revenue	22,363	25,510	9,398	57,271
Segment result	14,423	1,031	9,398	24,852
Unallocated income				698
Unallocated expenses				(22,981)
Income tax expense				(985)
Net profit				1,584
Segment assets	870,007	81,977	242,545	1,194,529
Unallocated assets				42,774
Consolidated total assets				1,237,303
Segment liabilities	505,765	24,592	602,564	1,132,921
Unallocated liabilities				6,123
Consolidated total liabilities				1,139,044
Other information				
Impairment charge for loans and other assets	(4,535)	(18,136)	-	(22,671)
Depreciation and amortisation	-	-	-	(2,012)

Business Segments

2005

(in thousands of USD)

	Commercial	Retail	Central treasury	Consolidated
External revenue	15,952	319	(3,029)	13,242
Inter-segment revenue	(5,567)	1,244	4,323	-
Total segment revenue	<u>10,385</u>	<u>1,563</u>	<u>1,294</u>	<u>13,242</u>
Segment result	<u>7,825</u>	<u>(1,152)</u>	<u>1,294</u>	<u>7,967</u>
Unallocated income				282
Unallocated expenses				(10,898)
Income tax benefit				<u>730</u>
Net loss				<u>(1,919)</u>
Segment assets	296,378	13,422	85,797	395,597
Unallocated assets				<u>25,981</u>
Consolidated total assets				<u>421,578</u>
Segment liabilities	142,109	16,659	214,303	373,071
Unallocated liabilities				<u>4,566</u>
Consolidated total liabilities				<u>377,637</u>
Other information				
Impairment charge for loans and other assets	(2,560)	(2,715)	-	(5,275)
Depreciation and amortisation	-	-	-	(1,162)

Transfer prices between business segments are set on arm's length basis in a manner similar to transactions with third parties. Segment revenue and segment result include transfers between business segments to reflect the allocation of funding costs. The mentioned transfers are eliminated in consolidation.

33 Risk management

Management of risk is fundamental to the business of banking and is an essential element of operations. The major risks faced are those related to credit exposures, liquidity and movements in interest rates and foreign exchange rates. These risks are managed in the following manner:

(a) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group.

Management put in place policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. To manage the credit risk, the Group deals with counterparties of good credit standing and, when appropriate, obtains collateral.

The credit policy is reviewed and approved by the Board of Directors.

The maximum credit risk exposure is generally reflected in the carrying amounts of instruments in the consolidated balance sheet.

(b) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rate. Fair value interest rate arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period. For further information of the Group's exposure to fair value interest rate risk at year end refer to notes 28 and 29.

(c) Liquidity risk

Liquidity risk arises in the general funding of the Group's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

Management continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group strategy.

In addition, the Group holds a portfolio of liquid assets as part of its liquidity risk management strategy.

(d) Foreign exchange rate risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. Management establishes limits and constantly monitors foreign currency positions in accordance with the regulations of the NBU and internally developed methodology.

34 Capital adequacy

The Bank's capital adequacy ratio calculated in accordance with the Basle Accord is 15.7% as at 31 December 2006 (2005: 14.7%).

35 Subsequent Events

According to a decision take at the shareholders meeting of 5 February 2007, the share capital is to be increased by USD 100,000 thousand. In March 2007 ABH Ukraine Limited in compliance with an agreement dated 19 February 2007 paid USD 100,000 thousand.

Additional subordinated debts were received from a related party, Westlaw Inc., in January 2007 and March 2007 in the amounts of USD 20,000 thousand and USD 4,980 respectively. The nominal interest rates on the subordinated debts are 8.5% p.a. and debts mature in January 2017.

In March 2007, the Bank issued additional loan participation notes through VTB Bank Europe Plc with a par value of USD 188,700 thousand, nominal interest rate 9.75% p.a. and due on 22 December 2009. This additional issue of loan participation notes was consolidated and formed a single series with Notes issued in 2006 which are described in Note 14 to these consolidated financial statements.

Chairman of the Board



A. Volkov

Chief Financial Officer



O. Malynska

Chief Accountant



L. Gladchenko

10 April 2007

APPENDIX A – OVERVIEW OF THE UKRAINIAN BANKING SECTOR AND REGULATION IN UKRAINE

The following information has been extracted from publicly available sources. It has not been independently verified by the Bank, the Issuer or the Dealers. None of Bank, the Issuer or the Dealers accept any responsibility for the accuracy or completeness of this information. See “*Risk Factors – Risks Relating to Ukraine – Official Economic Data and third party information*”.

Ukrainian Banking System

The current institutional framework of the Ukrainian banking sector consists of the NBU and commercial banks. As at 1 June 2008, there were a total of 195 commercial banks registered in Ukraine, 177 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 April 2008, approximately 64.8 per cent. of the banking sector’s total assets were held by the seventeen largest Ukrainian banks. As at 1 April 2008, Ukraine’s two state-owned banks (The State Export-Import Bank of Ukraine (“**Ukreximbank**”) and State Savings Bank of Ukraine (“**Oschadbank**”)) had approximately 7.8 per cent. of the Ukrainian banking sector’s total assets, 7.0 per cent. of the total loan portfolio and 9.8 per cent. of total retail deposits in Ukraine. As at 1 June 2008, 47 banks in Ukraine had foreign capital, of which 17 were fully owned by foreign owners.

According to the NBU, as at 1 June 2008, the total assets of Ukrainian banks licensed to perform banking transactions amounted to UAH 691.5 billion. The total loan portfolio of such banks as at 1 June 2008 constituted UAH 555.9 billion, including UAH 318.0 billion of corporate loans and UAH 185.2 billion of retail loans.

According to the NBU, during the five months ended 31 May 2008, the statutory capital of Ukrainian banks that were licensed to perform banking transactions increased by 20.1 per cent., amounting to UAH 51.5 billion as at 1 June 2008 (compared to a 63.2 per cent. increase in statutory capital in 2007). During the five months ended 31 May 2008, the total assets and total liabilities of all licensed Ukrainian banks increased by, respectively, 11.7 per cent. and 10.9 per cent. and amounted to UAH 691.5 billion and UAH 587.6 billion, respectively as at 1 June 2008 (compared to increases of 75.3 per cent. and 77.5 per cent., respectively, in 2007). The regulatory capital of Ukrainian banks increased by 19.0 per cent. during the five months ended 31 May 2008 (compared to a 75.6 per cent. increase in 2007), amounting to UAH 86.0 billion as at 1 June 2008 (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—Capital Requirements*” below 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 and regulatory capital of the banks. As at 1 April 2008, the first group included 17 banks with total assets of more than UAH 10 billion and regulatory capital of more than UAH 1 billion; the second group included 17 banks with total assets ranging from UAH 3 billion to UAH 10 billion and regulatory capital ranging from UAH 300 million to UAH 1 billion; the third group includes 34 banks with total assets ranging from UAH 1 billion to UAH 3 billion and regulatory capital ranging from UAH 100 million to UAH 300 million; and the fourth group included 108 banks with total assets of less than UAH 1 billion and regulatory capital of less than UAH 100 million. Although certain banks have exceeded the thresholds for their respective groups, 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 July 2008 was 17.7 per cent. for loans in hryvnia and 11.4 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 followed by a decrease to 195 by 1 June 2008. 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.

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 US dollar to UAH 5.4 per US 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 Financial Action Task Force (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 2008, a number of foreign banks acquired or plan to acquire majority stakes in leading Ukrainian banks, including Bank Aval (Raiffeisen International Bank-Holding AG), UkrSibbank (BNP Paribas), Raiffeisenbank Ukraina (OTP Bank), TAS-Kommerzbank (Swedbank AB), UkrSotsbank (Bank Austria-Creditanstalt AG), Bank Forum (CommerzBank AG), Pravex (Intesa Sanpaolo S.p.A.) and smaller banks including Mriya (VTB), Index-Bank (Crédit Agricole), Prestige Bank (Erste Bank), HVB Ukraine (Bank Pekao), Bank NRB (Sberbank), International Commerce Bank (Piraeus Bank), Electron Bank (Austrian Volksbanken) and Marine Transport Bank (Marfin Popular Bank). On 14 September 2006, the Parliament adopted a law amending the Banking Law (as defined below), according to which the minimum statutory capital requirement for all banks established after the date when the amendments became effective (4 October 2006) is €10 million. In addition, the amendments provide that banks are to be established only in the form of an open joint-stock company or cooperative bank (*i.e.*, it is no longer permitted to establish banks in the form of a closed joint-stock company or limited liability company). Furthermore, the amendments also require that all existing banks established in the form of a closed joint-stock company or limited liability company be reorganised appropriately within three years from 4 October 2006.

The Ukrainian banking market is expected to become more competitive as a result of the deregulation of the banking industry and Ukraine's accession to the WTO. In particular, from 16 May 2008, the date of Ukraine's accession to the WTO, foreign banks are permitted to operate branch offices in Ukraine, subject to certain statutory access criteria.

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 deposit, swap and 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. However, the NBU increased the discount rate to 10 per cent. from 1 January 2008, and to 12 per cent. from 30 April 2008 to address the goal of reducing

inflation. Since 1 March 2004, the NBU has separately determined interest rates on overnight unsecured loans (16.0 per cent. as at 1 July 2008) and overnight loans secured by state securities (15.0 per cent. as at 1 July 2008). Starting from 17 November 2006, the NBU has been setting separate interest rates for deposit certificates issued by the NBU for various terms (overnight, up to 14 days and up to 365 days). In addition, the NBU performs with banks swap, repo and refinancing transactions (overnight loans, up to 14 day and up to 365 day refinancing loans) and transactions with notes of external and internal state borrowings as well provides stabilising loans.

The NBU has stated that the main goal of its monetary policy in 2008 is to maintain the stability of the hryvnia and macroeconomic balance, and to establish the prerequisites for the renewal of stable economic growth.

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), clearing units, the Mint, a banknote paper factory, the State Gemmary 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 expenditures.

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 Instruction on Regulation of Activities of Ukrainian Banks No. 368, dated 28 August 2001 (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 2008, the minimum regulatory capital requirements for newly established banks (being those that have been in existence for less than one year) are UAH 36.1 million (€5 million) for nationwide banks, UAH 21.7 million (€3 million) for regional banks and UAH 7.2 million (€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 UAH 39.7 million (€5.5 million) for nationwide banks, UAH 25.3 million (€3.5 million) for regional banks and UAH 7.9 million (€1.1 million) for cooperative banks; while the requirements for banks in existence for a period from two to three years are UAH 43.3 million (€6 million), UAH 28.9 million (€4 million) and UAH 8.7 million (€1.2 million), respectively; for those in existence for a period from three to four years: UAH 50.5 million (€7 million), UAH 32.5 million (€4.5 million) and UAH 9.7 million (€1.35 million), respectively; and for those in existence for more than four years and for banks that existed before 1 January 2002: UAH 57.7 million (€8 million), UAH 36.1 million (€5 million) and UAH 10.8 million (€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, deposits placed with the NBU and other banks, extended loans and available-for-sale and held-to-maturity debt securities, 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 (including off-balance sheet commitments) 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 complies with the minimum regulatory capital requirement, the bank's regulatory 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 and 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 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 imposed by the

NBU in accordance with applicable regulations. 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. From 2 May 2008, funds borrowed from non-resident banks became subject to such mandatory reserve requirements.

Banks are required to file information regarding their reserves with the NBU and its regional units promptly after the end of each reporting period.

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.

Loan 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 "budget loans", credit transactions between entities within the system of one bank (for banks 100 per cent. owned by foreign entities — credit transactions with the parent company if such company is assigned an investment-grade credit rating), 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: 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 instalments. 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 July 2008, the Deposit Guarantee Fund had 175 member banks and two temporary member banks. As at 1 July 2008, the total amount of funds accumulated by the Deposit Guarantee Fund was equal to UAH 1,478.1 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.

On 27 December 2007, the NBU adopted resolution No. 480 “On the Procedure for Preparation and Disclosure of Financial Statements of the Ukrainian Banks”, which introduces new rules for preparation of financial statements based on the IFRS requirements for the disclosure of information in financial statements, as well as on Ukrainian accounting standards requirements, and the regulations of the NBU. Banks may prepare their 2007 annual financial statements in accordance with the new resolution, and will be required to do so starting from the 2008 annual financial statements and financial statements for the first quarter of 2009. 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 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. 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.

Additionally, the temporary administrator may apply to a Ukrainian court to declare invalid any agreement if there has been any transaction (which is a transfer of assets or a payment or otherwise): (a) within a six month period before the appointment of the temporary administrator, if the purpose of the transfer was to grant a preference to one of the bank's as compared to the bank's other creditors (such as where the transaction was not carried out on an arms-length basis and/or was carried out on preferential terms); or (b) within a three-year period before the appointment of the temporary administrator, if the value of the asset or services was significantly lower than the price paid by the purchaser to the bank; or (c) within a three-year period before the appointment, if the purpose of the transaction was to conceal the bank's assets from the other creditors or to violate the rights of such creditors; or (d) within a one-year period before the appointment of the temporary administrator, if the transaction involved a related party of the bank and threatened the interests of the bank's creditors or contravened the requirements of Ukrainian legislation; or (e) within a three-year period before the appointment of the temporary administrator, if the transfer of assets was made without consideration; or (f) at any time if it was based on forged documents or if it was of a 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 license 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 during the term of the temporary administration or it is impracticable to perform the plan of the temporary administration on the reorganisation of the bank, 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 or revenues 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 license 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 (i) 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 (ii) a resolution of the NBU on the revocation of its banking license 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 license remains effective. Ukrainian law does not permit the financial rehabilitation (sanation) of a bank if its banking license 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 license 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 or 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 Financial 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, amongst others, 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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