Annual Report 2006

OTP BANK
OTP GROUP

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OTP GROUP

About the Bank

IN JUNE 2006, OTP BANK PLC. (HUNGARY) ACQUIRED RAIFFEISENBANK UKRAINE (RBU), ONE OF THE LEADERS OF UKRAINE'S DOMESTIC FINANCIAL SECTOR, FOUNDED IN MARCH 1998 AS A WHOLLY-OWNED FOREIGN SUBSIDIARY.

A Story of Success

Since incorporation, the bank has enjoyed a position of leadership in corporate business and has earned a reputation as an innovative bank. RBU took the lead in promoting innovative products, such as structured trade finance, project finance and other specialised services for large corporate companies.

In 2001, the bank became one of Ukraine's top ten banks and embarked on a strategy of development as a full-service bank.

Recent History

Following completion of the acquisition in November 2006, RBU ownership was fully taken over by OTP, with the bank re-branded accordingly as OTP Bank.

The bank's new owner – OTP Bank Plc.
– is the largest bank in Hungary enjoying a market share of almost 25%. (Refer for more details to the page153 "About the OTP Group").

OTP Bank is an universal, full-service bank and one of the leaders of Ukraine's banking industry.

Business Philosophy

VISION

- OTP Bank Plc. is a key player in the financial market of Central and Eastern Europe.
- The financial group led by OTP Bank Plc. comprises more than 40 financial institutions, including banks, leasing firms, factoring and asset management companies, pension and investment funds, and construction companies.
- OTP Bank is a full-service bank and one of the leaders of the country's banking sector. In terms of financial performance, the bank is of the top ten Ukrainian banks.
- OTP Bank is a subsidiary of OTP Bank Plc.

MISSION

- We promote long-term client relationships for mutual benefit.
- We provide a full range of high-quality financial services to corporate, retail and SME clients.
- As a subsidiary of OTP Bank Plc., we closely cooperate with our parent bank and other group companies.
- We consistently achieve above-average Return on Equity.
- We encourage creativity and commitment among our staff members and promote the full realisation of their potential.

GOALS

- Highest quality client service.
- Increasing shareholder value.

PRINCIPLES

- Efficiency, professionalism, innovativeness.

VALUES

Clients are the bank's core value. Tailoring service to clients' individual finance needs is at the heart of our banking policy.

At all times, we are guided by the principles of our client service philosophy:

- We work to make our service easy, clear and convenient to clients.
- We proactively assess clients' financial needs and deliver competent advice.
- We treat our clients with friendliness, respect and appreciation.

Personnel

Our team brings together a wealth of expertise and commitment to working toward common goals and achieving success.

According to Dmytro Zinkov, the Bank's CEO, it is our human resources that we regard as the key asset of our financial institution. The Bank encourages creativity and commitment among our staff, and creates optimal conditions for both labour and leisure, as well as provides social protection.

In 2006, the Bank's staff grew by 32% to a total of 2300. As at April 1, 2007 the Bank's staff stood at 2427 employees.

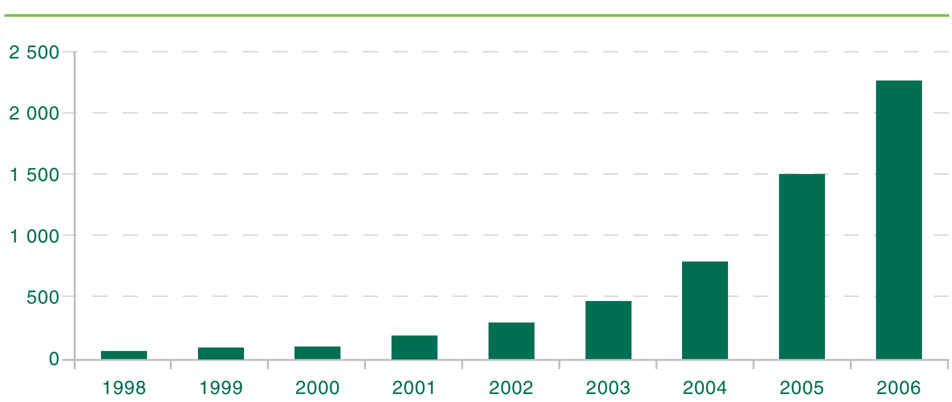
In 2007, OTP Bank is planning to dramatically expand its human resourses capacity to respond to challenges of dynamic network growth, both in Kiev and countrywide.

The Bank operates a training centre employing specially trained and certified trainers who deliver various training courses to Bank staff on an ongoing basis.

Our staff members are offered the opportunity to:

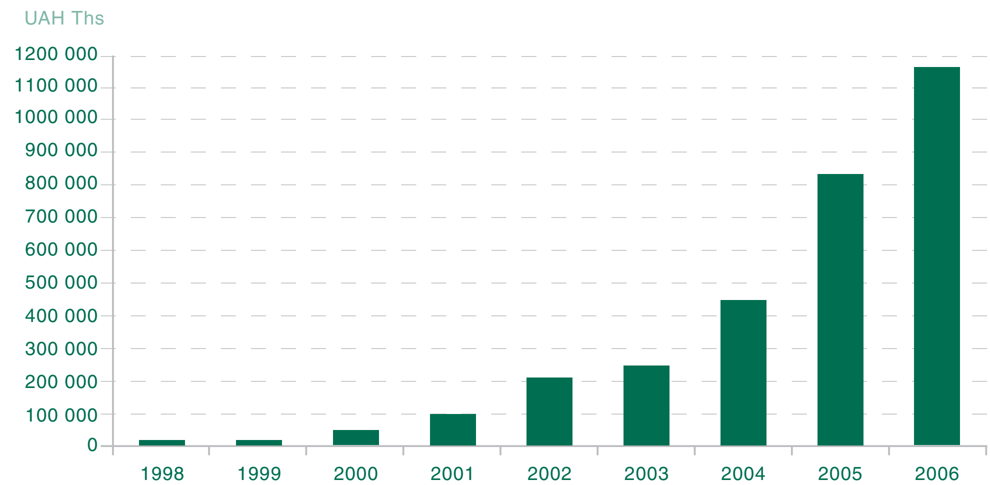
- Realise their intellectual potential
- Gain new knowledge
- Build careers as prominent management professionals

Personnel

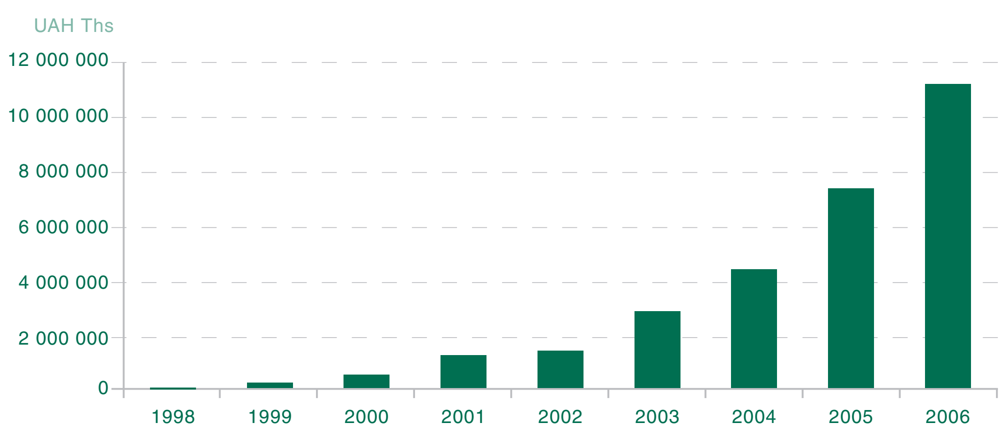


Key Performance Indicators:

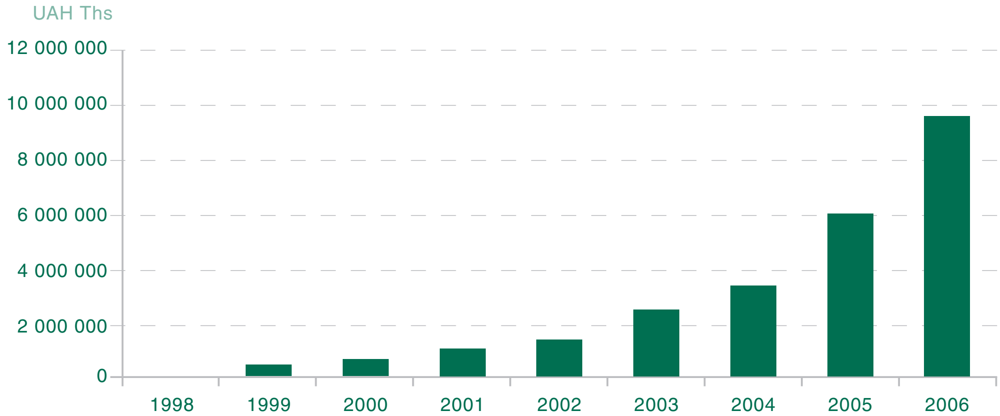
Capital



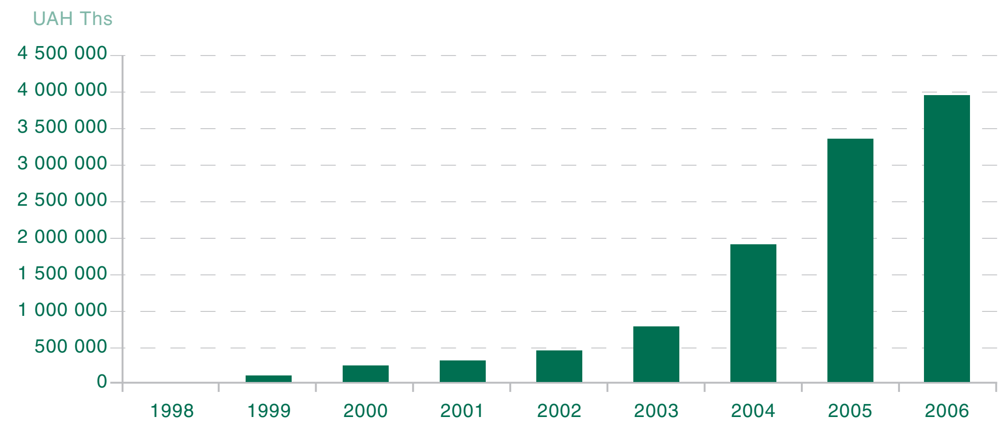
Total Assets



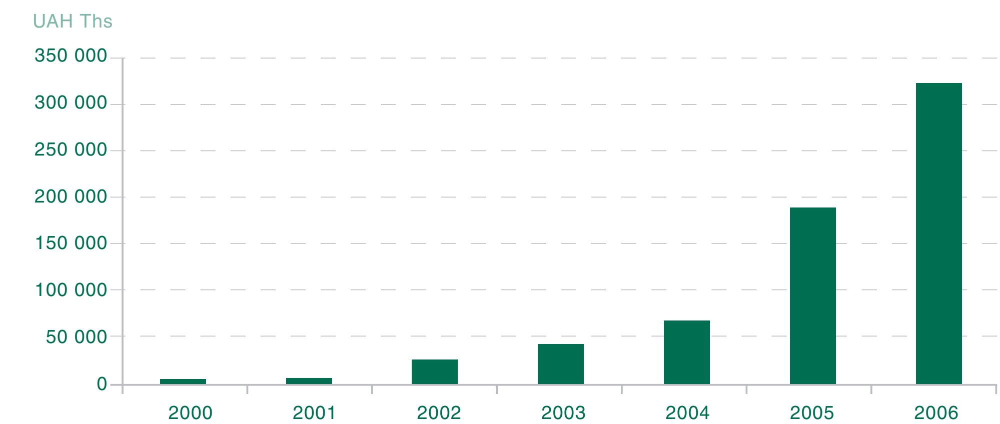
Loan Portfolio



Deposits



Profit after Tax



Message from the Chairman of the Supervisory Board

Dear shareholders, clients and partners of the Bank!

2006 ushered in a new era in the history of OTP Bank's operation in Ukraine. The dynamic growth over the past several years that has enabled the Bank to claim leadership positions in Ukraine's domestic market is set to be further reinforced by strong input from OTP Bank Plc. which builds its performance on international best practices in client service, innovative products and technologies, and effective management.

At present, OTP Bank is a dynamically growing leader in Ukraine's market operating under the umbrella of one of CEE's major financial groups.

In 2007, the Bank will carry on with its strategy of geographic expansion and market share growth in all segments of operations. Apart from that, the Bank has launched a series of internal reforms aimed at improving operational practices and harmonising them with those of OTP Bank Plc. We are confident that effective transformation of the Bank will enable it to become a prominent member of OTP Bank Plc. Group and Ukraine's best bank.

On behalf of the shareholders, let me extend appreciation to our clients and partners, as well as all our employees whose professionalism and confidence have contributed to OTB Bank's achieving its most ambitious goals.

Respectfully,
Pal Kovač
Chairman of the Supervisory Board of
CJSC OTP Bank

Message from the Chairman of the Management Board

Dear clients and partners!

In 2006, our Bank had to undergo two major transformations (preparation for a merger which never materialised, then a change of ownership and rebranding). We succeeded in closing yet another year of financial success – our ninth year since foundation.

The Bank's total assets grew by 55% in 2006 to a total of UAH 11.4 billion. The loan portfolio grew by 63% reaching UAH 9.7 billion, including a triple increase in retail loans to a total of UAH 3.9 billion.

Our mortgage loan portfolio also expanded three times to reach UAH 2.8 billion as at January 1, 2007. As of 2006, the Bank claims 10% of the residential mortgage market.

SME lending grew by 92% to a total volume of UAH 1.2 billion. Total deposits added 17% to reach UAH 3.9 billion. The Bank's net worth increased by 38% to a total of UAH 1,2 million. The charter capital remained unchanged throughout the reporting period at UAH 519.8 million.

The Bank reported a net profit of UAH 317.3 million for the year 2006. By this performance indicator, the Bank ranked among Ukraine's top five banks.

We achieved such outstanding performance by drawing on European technologies of client service, by dramatically improving the internal operational processes of banking business, and – most importantly – by capitalising on our team of likeminded professionals driven by a common goal and commitment to success.

During 2006, OTP Bank opened 6 new branches in Ukraine's major regional centres – Poltava, Cherkasy, Sumy, Simferopol, Lutsk and Ternopil. As a result, as at the end of 2006 our branch network comprised 16 regional branches and 25 outlets. We are planning to achieve a dramatic increase in the number of sales points in the short-term to enable OTP Bank to become a nationwide financial institution.

OTP Bank is committed to further focusing on the development and implementation of innovative products for retail and SME clients; project finance and structured trade finance for corporate clients, in particular, through syndicated lending with our parent bank.

In 2007, we are planning to complete our product line-up to match the product range offered to clients by banks in Central and Eastern Europe.

I'm confident that in the near future OTP Bank is set to grow even more dynamically than Ukraine's entire financial market and several years down the road claim a position among Ukraine's top five financial institutions by key financial indicators.

Respectfully,
Dmytro Zinkov
Chairman of the Management Board
CJSC OTP Bank

Macroeconomic and Political Environment

IN 2006, REAL GDP GROWTH ACCELERATED TO 7.1% YOY, HAVING REVIVED AFTER SIGNIFICANT DECELERATING TO 2.6% YOY IN 2005. GDP GROWTH WAS DRIVEN BY STRONG DOMESTIC CONSUMPTION, SUPPORTED BY BANKING AND EXTERNAL BORROWINGS.

Macroeconomic and Monetary Tendencies in 2006

Economic overview

In 2006, Ukraine demonstrated an improving economic performance in an unstable political environment. Following Parliamentary elections in March 2006 and formation of a Parliamentary coalition, the state power has been divided between the Cabinet of Ministries and the President. The absence of clear legislative norms regulating cooperation between the Government and the President contributed to an intensification of political tensions and made conducting state policy rather ineffective.

Despite the lack of state policy coordination, Ukraine succeeded in developing its relations with the United States and the European Union in 2006. The US granted the status of a market economy to Ukraine, canceled the amendment of Jackson-Venick, and signed a bilateral agreement on WTO accession. In 2006, Ukraine and EU decided to start negotiations concerning a new extended agreement that facilitates a free trade zone. Moreover, in 2006, negotiations for WTO accession approached the final stage.

In 2006, real GDP growth accelerated to 7.1% yoy, having revived after significantly decelerating to 2.6% yoy in 2005. GDP growth was driven by strong domestic consumption, supported by banking and external borrowings. Significant expansion of net domestic credit provoked a shift from export to domestic demand growth. However, growing domestic consumption against declining national savings led to a worsening in external balances, a current account surplus to a small deficit of USD1.6 bln (1.5% GDP). FDI inflows totaled USD5.2 bln (5% GDP) with an improved perception of Ukraine as an investment location. Meanwhile, external debt rose by

17.5% yoy driven by large borrowings of corporate and banking sectors satisfying their enormous demands for capital. CPI inflation climbed to 11.6% yoy, boosted by increased regulated tariffs for communal and heating services after an energy price increase.

At the same time, the consolidated budget deficit continued to decrease, determined by an overall good economic performance. The policy conducted by the National Bank of Ukraine was aimed at targeting the nominal exchange rate. Thus, the monetary policy continued to be ineffective to regulate money supply and at most supported banking liquidity. An important feature of banking development in 2006 was also an accelerating pace of crediting the economy in foreign currency and, therefore, increasing of dollarization of the economy.

Macroeconomic indicators

The beginning of 2006 was marked by a gradual recovering of economic growth after a year and a half of economic deceleration. Contrary to negative expectations due to high energy prices and a worsening trade balance, GDP growth accelerated to 7.1% yoy in 2006 underpinned by strong domestic demand. As in the previous years, consumption was the main driver of growth. The propensity to consume remained high, encouraged by growing wages and social benefits and by increased lending to individuals. Investment growth recovered to 14.7% yoy, determined by the necessity for renewal of production facilities and infrastructure.

Rapid growth of domestic consumption, stimulated growth in consumer-oriented sectors of the domestic economy. The fastest growing sectors were market services, trade and transportation, responding to increasing needs of households and growing industry. Value added growth in trade accelerated to 17.7% yoy and in transportation – to 6.6% yoy, thus explained together 43.6% of 7.1% growth in 2006. In 2006, it was the first time when industry growth rate did not exceed GDP growth. Industry contribution to total value added growth decreased significantly from 47% in 2005 to 17.5% in 2006. Industrial output growth accelerated to 6.2% yoy determined by growth in food industry, machine building and metallurgy.

In 2006, household disposable income slowed to 26.6% yoy (compared to 36.4% yoy in 2005) due to a high comparative base of the previous year and decelerating growth of social payments. In 2006, contrary to 2005, the nominal income growth was backed by increasing labor income rather than social payments. The monthly average wage grew by 29.2% yoy in 2006 versus 36.7% yoy in 2005.

This decline was due to a lower increase in the minimum wage (13% yoy in 2006 versus 40.1% yoy in 2005) and a high comparative base of 2005. In total, increasing wages, profit and mixed income, and property income provided 70.2% of all nominal income increases compared to 47.3% in 2005. Increasing earnings has provoked the income structure of society to change in favor of increasing share of households with average and above average income, which allowed not only to increase consumption but also to increase applications for banking loans in 2006. People realized the advantages of buying things with loans, especially in the periods of high inflation. As a result, in 2006, the growth rate of consumer expenditures was significantly higher than the growth rate of disposable income.

Over 2006 inflation accelerated to 11.6% yoy. The most inflationary components happened to be prices of utilities and fuel that contributed 8.89% to total growth of CPI index. On the contrary, there was deflationary pressure on CPI provided by food prices. Food price deflation lasted for six month in a row from March to August and was primarily attributed to overproduction of some products (such as milk, meat and dairy products, exports of which was restricted by Russia). As a result, CPI growth decelerated to 3.8% yoy in January-August. However, food deflation stopped in September. Consumer demand pressure on the inflation dynamic started to accelerate in the second half of 2006 driven mainly by consumer's inflation expectations and increasing individual loans. Moreover, the main hike in utilities prices happened in the fourth quarter 2006. Thus, in the fourth quarter 2006, inflation index sharply accelerated to 5.38% quarter-over-quarter and boosted the yearly indicator.

Contribution of GDP components to real growth, p.p.

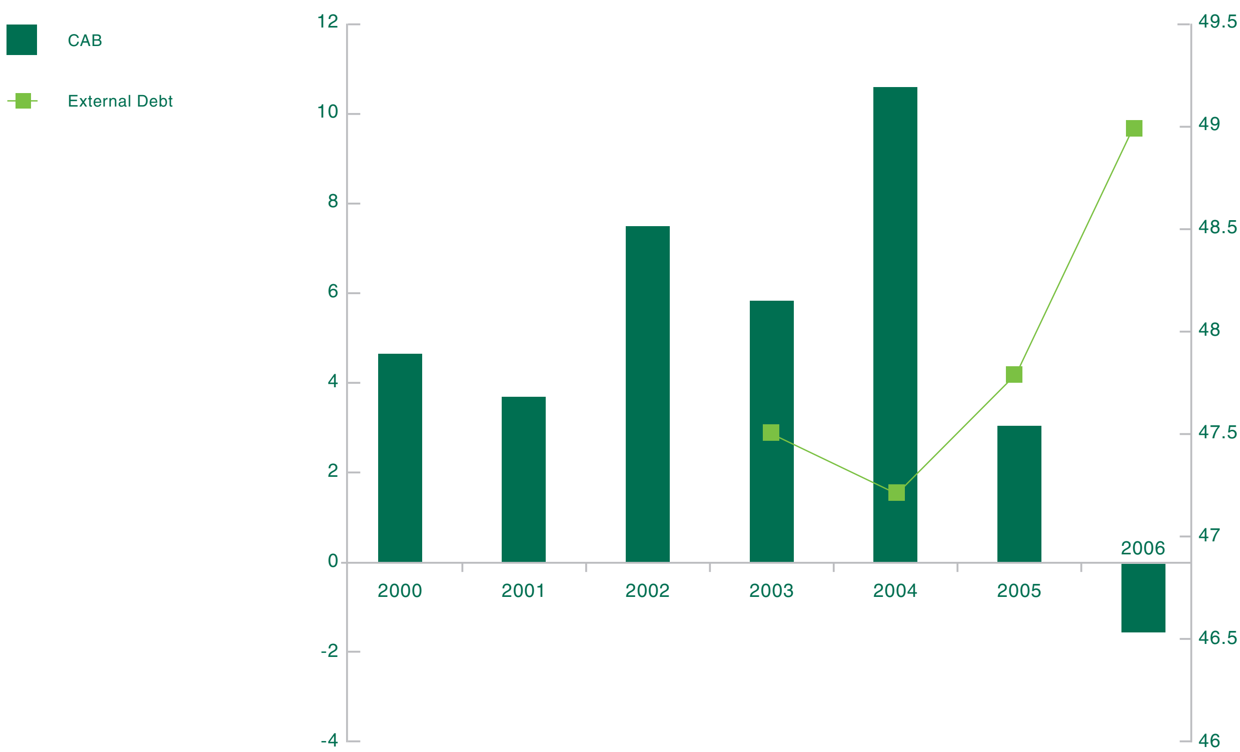
SOURCE: THE STATE STATISTICS COMMITTEE, OTP BANK CALCULATIONS

External relations

Despite some revival of exports dynamics in 2006, the merchandise balance remained negative mainly due to increasing imports at a preserved surpassing rate. Imports grew by 24.6% yoy in 2006, exceeding exports by USD 6 666.8 mln. The imports growth was fueled by intensive consumer and investment demand, and a price increase of imported energy resources. Thus, negative trade balance was the reason for worsening of the current account balance to deficit of 1.5% GDP. Substantial FDI inflows ($5.2 bln) and large foreign borrowings ($12.8 bln) allowed to finance current account deficit and even to increase NBU's international reserves by $906 mln. Foreign investors' interests to Ukraine increased in 2006 being attracted by dynamic development of local market. The most attractive sectors for foreign investments were financial operations, real estate operations, construction, and construction materials production. These sectors provided more than a half of FDI increase in 2006. Since they are more domestic market oriented, the FDI failed to drive up manufacturing and exports. Moreover, a significant accumulation of FDI stock led to worsening income balance deficit and contributed to current account deficit.

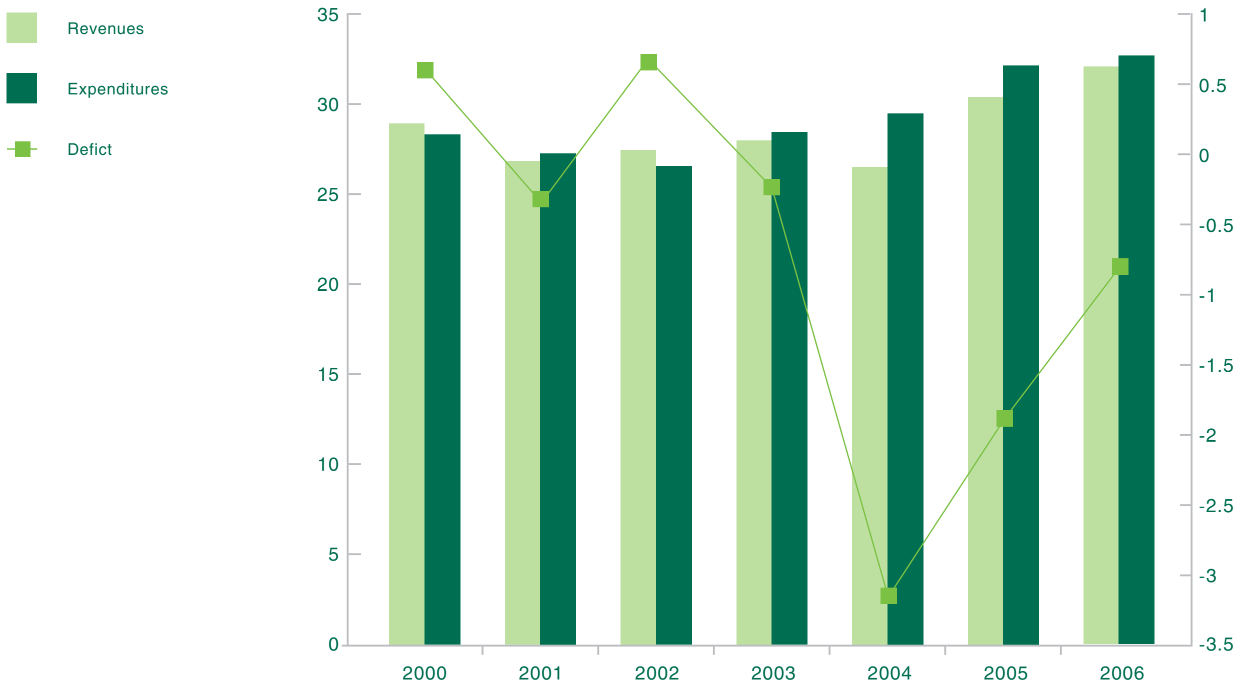
In 2006, there was observed an accelerating growth of long term foreign debt. Gross external debt of Ukraine grew by 17.5% in 2006, accumulated mainly by banking and corporate sectors. Despite accelerating pace of growth, the external debt stood at a safe level of approximately 49% GDP.

BOP current account and External debt, % GDP



SOURCE: THE NATIONAL BANK OF UKRAINE

Consolidated Budget, % GDP



SOURCE: MINISTRY OF FINANCE

Fiscal and Monetary developments

Revenues of the Consolidated Budget grew by 17.5% yoy in real terms in 2006. Redistribution of GDP through the Budget amounted to 32.1% in 2006. Increasing of the tax burden on the economy as a share of redistributed GDP was determined mainly by increasing VAT receipts. In 2006, deficit of the Consolidated budget decreased to 3.3% GDP from 9.3% GDP in 2005. In January-July, the budget deficit was financed by means of decreasing funds at the State treasury account. Then, in August, the new government had to manage the deficit manually. Thus, the government decreased meaningfully VAT refunding to exporters and cut fiscal expenditures (in particular, financing of some social programs). To finance budget deficit in case of lack of privatization receipts, the government pursued borrowings at domestic and foreign debt markets in the fourth quarter 2006. Actually, the state direct debt as a share of GDP decreased from 14.9% in 2005 to 12.7% in 2006, as GDP was increasing at rate exceeding the growth rate of the debt.

The monetary policy instrument changes aimed at supporting the stable official exchange rate of hryvnia to US dollar via forex market interventions and providing money liquidity in the banking system by releasing reserve requirements. In 2006, dynamics of monetary aggregates significantly decelerated following worsening deficit of payments balance over 9m06. Thus, the monetary base contracted by 8.8% in the first quarter 2006 and then gradually revived to 17.5% growth in 2006 (53.9% - in 2005) following significant foreign capital inflows in the fourth quarter 2006. The National bank of Ukraine failed to influence monetary base dynamics but supported banking liquidity at a steady level. Supply of broad money (M3) increased by 34.5% (49.3% - in 2005) stimulated by improving money multiplication: net domestic credit of the banking system to a non-government sector increased by 71.78% (35.7% in 2005).

Domestic Credit and Money Supply, % yoy

SOURCE: THE NATIONAL BANK OF UKRAINE

Over January – December 2006, the volume of crediting increased by 71% (compared with 61.9% in 2005 and 30.6% in 2004). The share of loans in local currency continued decreasing from 56.7% in December 2005 to 50.5% in December 2006. The growth rate of credits in foreign currency reached 95.4% that was almost twofold higher the growth rate of loans in local currency. This situation caused a serious anxious of the NBU as growing share of crediting in foreign currency stipulates for accumulating serious risks of economic disbalance. One more distinctive feature of the year was superfluous growth of retail loans – 134.2%, while the growth rate of loans to corporates demonstrated a modest growth rate of 51.8%. Simultaneously, the share of long-term loans continued to rise and reached 64.9% in December 2006 (compared with 61.8% in December 2005). This tendency was determined mainly by a growth of long-term mortgage loans. To provide the volume of crediting, banks continued active attraction of foreign funds through Eurobonds and syndicated loans.

In 2006, deposits were not the source of the significant growth rate of crediting. Over January – December 2006, the growth rate of deposits constituted only 38.8% (compared with 60% in 2005). As a result, the coverage of credits by deposits decreased from 0.926 (as of December 2005) to 0.752 (as of December 2006). Such a negative tendency is explained by a significant growth of crediting that caused an increase of consumption and slowdown of growth rates of savings. In general, the deposits of households in 2006 increased by 45.8%, while the deposits of corporates increased by 30.1%.

Statistical Summary

Indicators	2003	2004	2005 I-III	2005 I-VI	2005 I-IX	2005 I-XII	2006 I-III	2006 I-VI	2006 I-IX	2006 I-XII	2007 f
GDP indicators											
GDP, rcc, %	9.4	12.1	5.0	4.0	2.8	2.7	3.2	7.3	8.0	7.1	6.0
GDP, bln UAH	264.2	344.8	84.3	181.8	301.2	424.7	102.0	224.8	374.4	535.9	648.0
Economic activity											
Industrial output, rcc, %	15.8	12.5	7.1	5.0	3.2	3.1	0.2	3.6	5.5	6.2	6.5
Agricultural output, rcc, %	-9.9	19.1	3.9	6.4	3.4	0.0	4.0	3.2	-2.8	0.4	0.1
Construction, rcc, %	26.5	17.3	-5.9	-7.7	-7.2	-6.6	5.0	6.5	7.6	9.8	10
Retail sales, rcc, %	21.0	20.0	18.6	21.1	23.1	23.4	30.3	27.3	25.2	25.3	23
External economic activity											
Exports, FOB, cumulative change, %	28.5	41.6	16.8	9.2	6.1	5.0	-4.4	2.1	10.4	12.1	9.8
Imports, CIF, cumulative change, %	35.6	26.0	18.5	26.0	25.8	24.6	30.2	22.1	22.2	24.6	23.0
Trade balance, mln USD	1 288	4 873	1 208	1 634	1 268	671	-1 112	- 1 587	-1 471	- 2 973	-7 500
Current account balance, mln USD	2 891	6 804	1 603	2 223	2 627	2 531	-743	-782	-321	-1 600	-6 200
Net FDI, mln USD	1 411	1 711	247	612	1 059	7 533	662	2 072	3 561	4 296	6 000
Households											
Disposal household income, rcc, %	9.1	19.6	21.6	25.4	23.2	20.1	25.9	20.5	17.8	16.1	14.0
Consumer Confidence Index	99.4	100.1	107.3	105.2	95.5	103.1	103.7	84.9	87.5	90.6	93.0
Average pre-tax wage, UAH	462.3	589.6	676.5	724.6	763.9	806.2	918.3	966.9	1 004.1	1 041.4	1 200
Average pre-tax wage, rcc, %	15.2	23.8	14.8	17.0	18.0	20.3	23.6	22.9	21.2	18.3	15.0
Consolidated budget											
Consolidated Budget revenues, % GDP	28.5	26.5	30.9	33.7	32.8	32.0	35.3	35.0	34.3	32.1	31.0
Consolidated Budget expenditures, % GDP	28.7	29.7	27.3	32.7	30.8	33.8	35.0	35.5	33.5	32.7	34.0
Balance (deficit(-), surplus (+)), % GDP	-0.2	-3.2	3.6	1.0	2.0	-1.8	0.4	-0.5	0.7	-0.7	-3.0
Prices											
Consumer Price Index, %	8.2	12.3	4.4	6.4	7.1	10.3	2.7	2.9	5.9	11.6	9.3
Producer Price Index, %	11.1	24.1	4.9	8.3	9.3	9.5	1.9	5.0	10.3	14.1	13
Index of Inflationary Expectations	186.1	180.0	182.0	182.2	187.2	184.3	185.4	189.2	181.2	189.7	190
Monetary and banking indicators											
M0, change since start of year, %	25.3	27.9	1.7	21.2	31.0	42.2	-2.6	6.8	13.9	24.5	20.0
Monetary base, change since start of year, %	30.1	34.1	12.1	21.8	31.1	53.9	-8.8	-3.1	2.4	17.5	15.7
M3, change since start of year, %	46.5	32.4	11.4	24.3	35.9	54.3	0.6	10.3	21.0	34.7	30.0
Foreign Reserves of NBU, bln USD	6.9	9.5	12.0	13.1	14.3	19.4	17.3	17.6	19.1	22.3	25.3
Average official exchange rate, UAH/USD	5.33	5.32	5.29	5.06	5.05	5.05	5.05	5.05	5.05	5.05	5.08
Average official exchange rate, UAH/EUR	6.02	7.10	6.98	6.15	6.20	5.98	6.06	6.4	6.4	6.7	6.8
Interest rate for credits in UAH, average, %	17.9	17.7	17.4	15.7	15.8	16.4	16.0	15.7	15.1	15.4	15.1
Interest rate for deposits in UAH, average, %	7.1	7.9	9.3	7.6	7.7	8.2	7.3	7.2	7.4	7.9	7.3
Credits of banks, change since start of year, %	61.4	30.6	8.0	22.8	42.6	61.9	10.0	25.3	46.2	71.0	53.0
Deposits of banks, change since start of year, %	62.7	35.2	16.3	26.2	38.8	60.0	2.2	12.0	24.0	38.8	33.0

Business Report

IN 2006 ALONE, THE NUMBER OF ACTIVE CLIENTS GREW BY 35% – OVER 700 COMPANIES BECAME OTP BANK'S PARTNERS. THE TOTAL NUMBER OF ACTIVE CLIENTS EXCEEDED 2 500 BY YEAR-END.

Iryna Mikhailova
Member of the Management Board, Corporate Business

Corporate Business

2006 was marked by challenging developments in corporate business and, of course, bank wide. First and foremost, it was the change of ownership that became a milestone event for OTP Bank's corporate business. The new owner – OTP Bank Plc., Hungary's largest bank – is a dynamic and modern banking group. Integration into a new structure, however, always poses challenges of re-branding, new policy formulation and implementation. It is noteworthy, that the Bank's performance illustrated in 2006, particularly in corporate business, the adaptability of OTP Bank to new operational practices.

In the course of the re-branding, it was also demonstrated that OTP Bank fully capitalises on the advantages of a sustainable and successful bank: the growth of our client base clearly illustrates the high interest in our financial institution by both new and existing clients. In 2006 alone, the number of active clients grew by 35% – over 700 companies became OTP Bank's partners. The total number of active clients [i.e. companies that not only have open accounts with the Bank but also actively transact using those accounts] exceeded 2 500 by year-end.

2006 brought about fundamental changes in corporate client service. The situation in our corporate business requires stronger focus on promoting long-term client relationships. It is quality and promptness of service, as well as transparency of decision making rather than price that come to the forefront as the Bank's key competitive advantages.

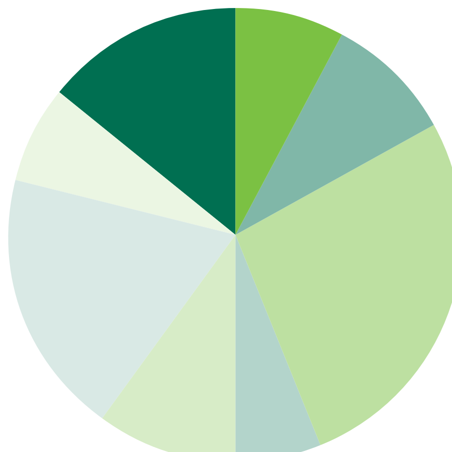
While committed to continuous expansion of our banking product range for corporate clients, OTP Bank offers a new solution for corporate cash flow management – the Cash Management group of banking services – to be shaped by bank officers in close cooperation with clients and tailored to meet each client's needs. OTP Bank's cash flow management products add value beyond ensuring timely and accurate payment execution, both inside and outside Ukraine. The application of modern innovative and interactive banking service solutions enables our clients to:

- streamline interest income and expense;
- obtain greater value from daily account transactions;
- manage corporate expenditures more efficiently by benefiting from OTP Bank's transparent and competitive pricing policy.

2006 was also marked by substantial growth in corporate deposits: average deposit account balances as at year-end demonstrated a 50% increase year-on-year and totalled UAH 0.5 million, weighted average current account balances grew by more than 60% to exceed UAH 1.2 billion at the end of 2006.
Our corporate loan portfolio, as at 1st January, 2007, exceeded UAH 4.6 billion.

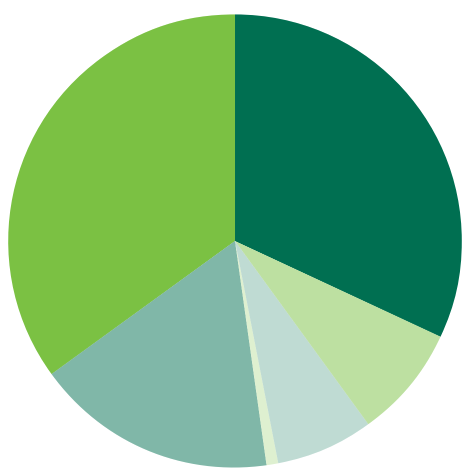
The composition of the loan portfolio covers leading Ukrainian industries:

- 8% – Auto traders
- 9% – Light industry, soft goods
- 27% – Foods, FMCG
- 6% – Electricity
- 10% – Engineering
- 19% – Metallurgy
- 7% – Real Estate
- 14% – others



We have traditionally focused on structured trade finance and working capital lending:

- 35 % – Structured Trade Finance
- 32% – Finance Working Capital
- 8% – Documentary nstruments and Aval of Promissory Notes
- 7% – Investment Finance
- 1% – Overdraft
- 17% – Project Finance



Trade Finance Business

OTP Bank finances trade at any stage. Our most popular products include pre- and post-export finance, merchandise inventory finance and import finance. Apart from that, the Bank has launched long-term finance facilities for imported equipment in partnership with export credit agencies from supplying countries. In addition, commercial limits available to us from top-notch foreign banks can also be leveraged to benefit OTP Bank's clients.

Any trade finance agreement is designed and tailored individually to each borrower's needs. The Bank has a wealth of experience in mitigating our clients' exposure to trading risks and providing tailored solutions to each company. Furthermore, the Bank uses its best endeavours to ensure client satisfaction with the products and services that we provide.

In 2006, OTP Bank continued with the development of factoring products. Access to factoring provided by the Bank has opened up new competitive advantages for our clients as they build effective relationships with their customers. Importantly enough, what makes a lot of difference for clients, as they carry out factoring transactions, is the absence of a requirement to pledge collateral. To meet our clients' needs, OTP Bank is keen on further fine-tuning and actively offering this product in Ukraine's banking market.

Project Finance

2006 confirmed the status of project finance as one of the most promising corporate lending products, demand for it has been growing steadily year after year. During 2006, our project finance portfolio grew by 39% to a total of UAH 0.8 billion.
Just as in previous years, the project finance portfolio was mostly concentrated in commercial real estate. Throughout 2006, however, an upward trend was observed in the demand for project finance on the part of industrial companies in need of overhauling their manufacturing facilities or interested in implementing new technologies and products.

Presently, OTP Bank's corporate client service unit closely cooperates with our parent bank in catering for the finance needs of Ukrainian companies by providing syndicated loans. Given the close connection between the national economies of Ukraine and Hungary, OTP Bank is seriously exploring prospects of serving numerous joint ventures and subsidiaries of Hungarian companies operating in Ukraine.

We give a lot of credit to our highly qualified staff in all of the Bank's units involved in corporate client service for making our major accomplishments possible. We are proud of our strong team of professionals in corporate client acquisition, our outstanding team of loan officers and the high quality of our client service.

Investment Banking Business

Bond Issuance and Brokerage Services

The Bank has been actively working in capital and securities markets. Over a short period of time, OTP Bank has become an undisputed leader in Ukraine's debt market. According to ratings by PFTS (Ukraine's leading over-the-counter trading system) and Cbonds agency, OTP Bank ranks among Ukraine's top ten investment banks and traders in corporate, municipal and government securities.

Over the past three years, the Bank has facilitated corporate bond issues to the total amount of UAH 375 million. Corporate bonds issued with support from OTP Bank had high demand in Ukraine's debt market.

OTP Bank has facilitated and successfully floated both own debt and bond issues by Ukraine's blue chips, e.g. ProCredit Bank, DniproShina, Eurotek, Harp Trading, UGMK et al.

OTP Bank also provides its clients with high-quality brokerage services in Ukraine's stock market.

Trade in Financial Markets (FOREX and Money Market)

OTP Bank holds leading positions in Ukraine's foreign exchange and money markets by providing a full range of financial transactions covered by our National Bank of Ukraine licence. As one of Ukraine's strongest banks, OTP Bank is an undisputed market maker in the foreign exchange SPOT market trading both in major currencies and almost in any CEE currency.

Based on our vast experience in funds and bank liquidity management, OTP Bank raised its money market funding volume more than 2.2 times year on year.

Our partnership with leading financial institutions, e.g. the Ukrainian Interbank Foreign Exchange and Kiev International Stock Exchange, and access to Ukrainian and international trading floors via Reuters-Dealing, First Stock Trading System and Bloomberg enable the Bank to stay at the cutting edge of global financial markets and offer best available pricing conditions for foreign exchange transactions and trade in securities.

OTP Bank has entered into general agreements with 125 domestic banks. Numerous domestic and foreign counterparties and an experienced Treasury team enable the Bank to stay among Ukraine's leading financial institutions and contribute to the country's financial market development.

2006 saw a dramatic increase in the volume of banknote transactions. During the year, this performance indicator almost tripled – from a low of UAH 209 million to a high of UAH 590 million. Access to retail foreign exchange market and a sustainable supply of physical cash to our branch network enables the Bank to expand the volume of our foreign exchange business and dramatically improve quality of service.

Correspondent Relationships

As of the end of 2006, OTP Bank had a broad network of correspondent relationships covering the world's major financial hubs. We are linked as correspondents with leading banks from developed countries throughout Europe, America and Asia, e.g.: Deutsche Bank AG, Commerzbank AG, the Bank of New York, American Express Bank Ltd, DZ Bank, Raiffeisen Zentralbank Österreich AG., Wachovia Bank, N.A., HSBC Bank Plc., Union Bank of Switzerland, The Bank of Tokyo-Mitsubishi, Ltd., Swenska Handelsbanken, etc.

Our direct correspondent relationships with foreign banks and membership in the interbank financial telecommunications SWIFT system, interfacing a large number of user banks, enable OTP Bank to execute payments and transfers to client order within minimum lead times, in the various foreign currencies of neighbouring and remote countries.

Individuals

Dmytro Beletsky
Member of the Management Board, Retail and SME

The growth of retail lending volume at OTP Bank reflects a general trend in the Ukrainian market. As of the end of 2006, the Bank's market share in consumer lending exceeded 6%.
As on 31.12.2006 loan portfolio of business line «Private clients» amounted to UAH 3.9 billion, or 40% of total loan portfolio of the bank. Total number of private clients in 2006 increased by 2,2 times – from 18 to 40 thousand.

The aggregate retail loan portfolio was growing on average at a rate of 10% per month. The rapid growth of the portfolio throughout 2006 was triggered by the launch of new products and services, and improvements in lending terms.

Mortgage Loans

Mortgage lending has been one of our key priorities. Since 2003, the Bank has been among the top five leaders in mortgage lending. The share of OTP Bank in the mortgage lending market reached 10.5% by the end of 2006. The mortgage lending volume tripled during 2006 and reached a total of UAH 2.8 billion while the total number of clients granted real-estate-secured loans exceeded 12 500 individuals. The share of residential mortgage loans as part of the bank's aggregate loan portfolio equalled 22%.

Our mortgage product range features:

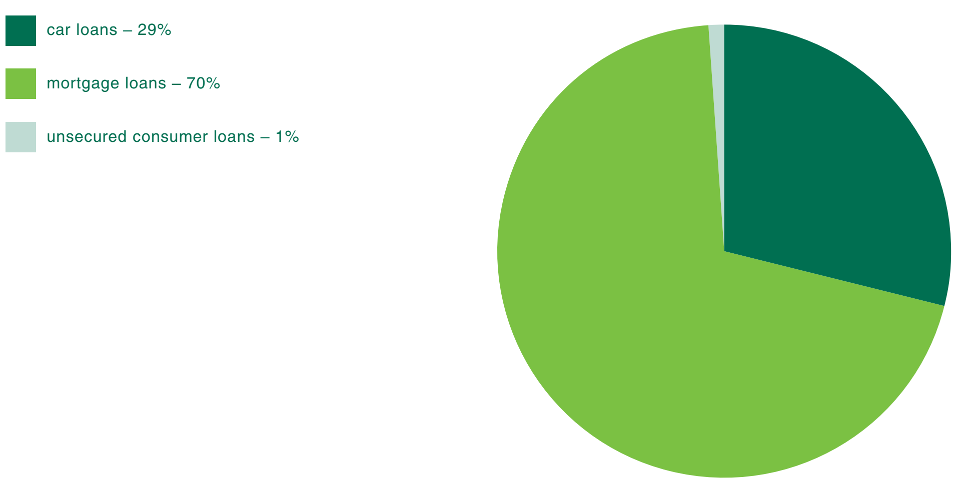
- loans to acquire and renovate residential property;
- consumer loans with collateral by residential property;
- refinancing mortgage loans;
- housing construction loans.

Structure of Mortgage Loans Portfolio

During the year, major changes were made to mortgage lending terms: the maturities were raised to 25 years while the maximum size of a loan reached USD 200 thousand providing numerous clients with better housing opportunities.

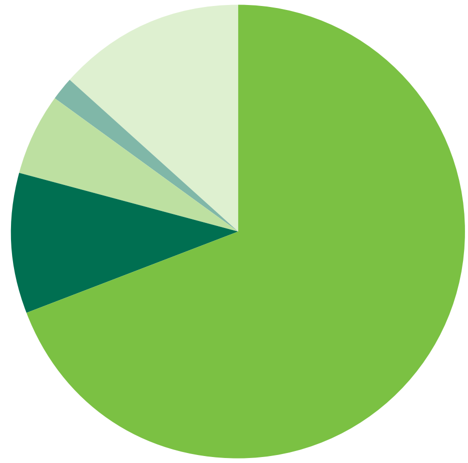
On 31 August, 2006 OTP Bank signed a General Refinancing and Mortgage Loan Servicing Agreement with the State Mortgage Authority (SMA) empowering the Bank to extend mortgage loans in compliance with SMA standards with further refinancing.

The structure of loan portfolio of business line «Private clients":



Structure of Mortgage Loans Portfolio:

- Loans to finance residential property acquisition in the secondary market totalled UAH 1.908 billion (69%)
- renovation – UAH 280 million (10%)
- efinancing – UAH 154 million (6%)
- home-building – UAH 48 million (2%)
- asset replacement mortgages – UAH 367 million (13%)



Throughout the year, the Bank continued strengthening partnerships with real estate agencies. Our 3rd Parties programme accounts for up to 25% of our aggregate mortgage portfolio. Thus, every fourth residential mortgage has been sold under this programme.

Car Loans

Car loans program was introduced at the beginning of 2003. During this period the bank granted car loans in the amount of total of UAH 1.1 billion. As well as in mortgage lending, OTP Bank enters top 5 banks leaders on car loans market.
During 2006 car loans portfolio increased by almost 2 times. The number of clients who have benefited from this service grew 1.8 times to 19 thousands.

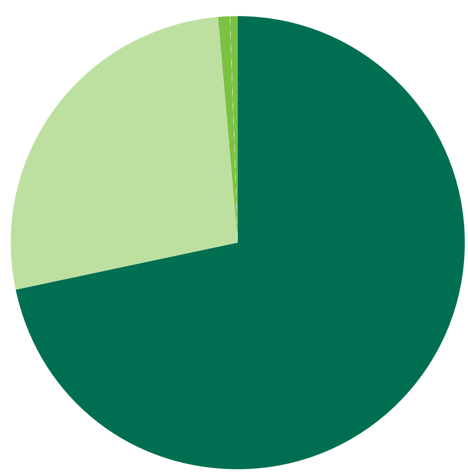
Existing loan programs represent universal lending facilities to finance car purchases as they provide loan options with or without down payment at a low interest rate and combining long maturities with low monthly instalments.

Structure of Car Loans Portfolio

The Bank has been actively implementing a Bank's Partner lending programme geared towards completing all necessary agreements required for loan approval at an auto dealership's (as one-stop service). On top

Structure of Car Loans Portfolio:

- car loans requiring a down payment totalled UAH 826 million or 72%
- of all car loans while those requiring none totalled UAH 315 million (27%);
- car loans with grace period reached up to UAH 1.4 million (1%)



of that, clients benefit from a lower interest rate which is 0.5% below standard rate.
In 2006 share of car loans granted by the bank's partners comprised 50% of total car loans portfolio.

The most popular among car brands our clients are: Mitsubishi (19.8%), Peugeot (13.6%), Chevrolet (11.3%), Nissan (10.5%), Toyota (10.2%), Skoda (7.5%), Volkswagen (7.3%), VAZ (6,9%), Daewoo (6.9%), Ford (6%).

Unsecured consumer loans

The bank started granting unsecured consumer loans at the end of the year and for a couple of months volumes of loans granted reached UAH 380 thousands. The loan is issued in cash for 5 years, maximum amount is USD 5 thousands.
With the help of this loan our customers had opportunities
- to travel to a most desirable place;
- to purchase a state-of-the-art TV, modern refrigerator or furniture;
- to make refurbishment of an apartment or a car;
- to celebrate a big event;
- to arrange a wedding and unforgettable honeymoon;
- to pay for medical services;
- to obtain desired education, etc.

Term Deposits and On-Demand Deposits

During 2006, retail deposits with OTP Bank grew by 65% to a total of UAH 1.9 billion, while the average growth rate in retail deposits across Ukraine's banking industry was only 38.8%.

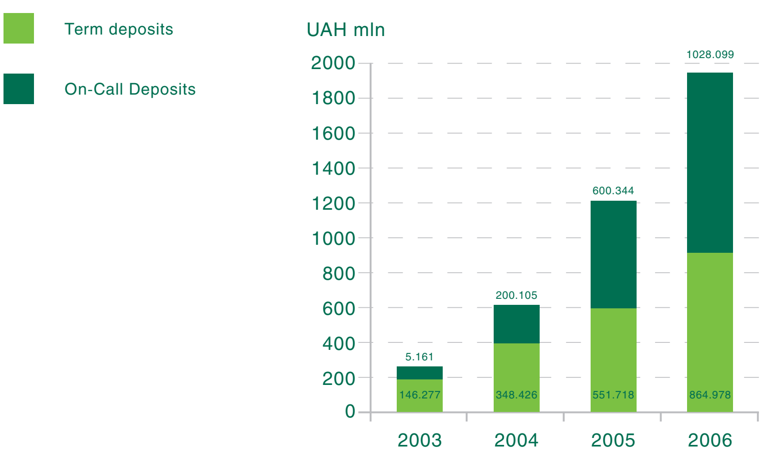
By offering our clients a broad range of deposits and savings products featuring attractive conditions and flexible fund management arrangements, we succeeded in acquiring up to 55 thousand new clients. The share of term deposits as part of the total deposit portfolio reached 46% (over UAH 864 million) while on-demand deposits hit 54 % (UAH 1.028 billion).

The currency profile of our deposit portfolio had the following composition: deposits in national currency – 54 %, USD and EUR deposits – 46%. It is long-term deposits that prevail in our deposit portfolio – 62% while short-term deposits account for 38%.

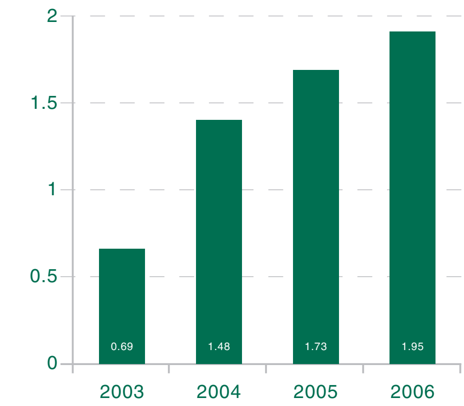
Demand has been consistently high for our long-term deposit offering placed in a child's name and maturing upon the child's coming of age. A savings deposit featuring an unlimited maturity account for the accumulation and unrestricted use of funds, along with earning increased interest on account balances with

Currency Structure of Deposits

Deposits Growth



Market Share



a top-up option has been another one of our core products used by most clients.
A loyalty pricing programme launched in the fourth quarter of 2006 for our dedicated clients, featuring bonus cards, contributed substantially to building up deposit volumes and increasing the number of term deposit accounts towards year-end. This positive trend has since continued.
Deposits Growth

Card Products

The clients of OTP Bank currently use cards issued under the umbrella of the MasterCard and Visa payment systems.

The Bank is offering retail clients a variety of debit card products: Cirrus Maestro, MasterCard Standard and MasterCard Gold available in three currencies – national, USD and EUR; MasterCard-based paycheque cards with an overdraft facility for the above MasterCard-based products (for individuals), as well as Visa Electron and Visa Classic available in national currency and USD only.

Corporate clients can use MasterCard Corporate.

OTP Bank offers its clients additional free-of-charge services – insurance certificates for clients travelling abroad and IAPA cards for Visa Gold holders.

OTP Bank's credit cards include Visa Classic and Visa Gold. The grace period offered on those is up to 55 days with the minimum payment of 5% of exposure.

As soon as April 2007, the Bank is planning to launch Visa-based paycheque cards featuring an improved service model, and AmEx Dollar Cards.

The number of debit products, as at the end of 2006, was 73 500 cards reflecting 43% growth. A total of 15 thousand cards were issued during the year. The total of the limits set on those hit EUR 9 million while total exposure reached EUR 2.3 million.

Small & Medium Enterprises Clients

2006 was a year of success for OTP Bank in lending to small and medium-sized enterprises (SME). Loans to SME, as at year-end, grew by 92% to a total of UAH 1.2 billion. SME deposits totalled UAH 193.4 million.

During 2006, the total number of SME clients reached 8 700. We persist with designing new products and fine-tuning existing services. To promote their competitiveness, the Bank frequently launches various promotion campaigns.

OTP Bank currently offers the following lending products to SME clients:

- loans secured by commercial real estate (to finance the acquisition of commercial real estate, renovation and business development);
- investment loans to finance vehicle purchases;
- investment loans to finance the acquisition of equipment secured by the equipment being acquired;
- loans to finance working capital needs (overdraft);
- term loans to finance working capital needs;
- long-term revolving lines of credit to finance working capital;
- guarantees to travel operators (travel agencies).

Cash Services and Deposits

Throughout 2006, the Bank focused heavly on client acquisition. We have developed special tariff packages ***Business***, ***Standard*** and ***Entrepreneurial*** which have been popular among SME clients. The tariff packages feature a set of most relevant financial services and competitive prices to meet client needs in a variety of business sizes.

Apart from that, with a view to supporting SME start-ups, a special tariff package has been crafted – ***Green-Light Start*** – offering newly incorporated businesses cash services on preferential terms throughout their emergent period.

OTP Bank is also offering clients innovative products ***Time Deposit*** and ***Deposit Line for SME.***

Loan Portfolio as at 31.12.06 (in UAH):

Commercial Real Estate	941 723 436
Investment Loans (acquisition of vehicles and equipment)	81 099 966
Business Development Loans	141 269 249
Total Loans	1 164 092 651

Bancassurance

OTP Bank has been successfully implementing a banking insurance programme entitled Bancassurance which was launched in November 2005. The programme represents a convenient and universal 'financial supermarket' and envisages insurance agreements being concluded by a bank officer on behalf of insurance companies to insure collateralised real property pledged by borrowers, borrowers themselves against accidents, and automobiles pledged as collateral under the CASCO programme.

The programme covers the following lending products:

- Home on Credit
- Residential Renovation Loan
- Residential Mortgage Refinancing Loan
- Loan for Consumer Needs
- Automobile on Credit

Bancassurance saves time both for clients and bank managers and provides the borrower with a one-stop-shop opportunity of concluding both loan and insurance agreements and paying the insurance premium right at the bank, as well as further extending the policy annually at a bank office.

Our choice of partners among insurance companies has been well justified: JSIC INGO Ukraine, CJSC IC VESCO and OJSC IC PZU Ukraine are key players in Ukraine's insurance market that have been our partners for years and have earned a solid track-record of success in providing insurance of consumer lending exposure.

As part of our unsecured lending programme which we have been implementing jointly with a global leader in insurance – the US-based ALICO AIG Life – we have designed a product with automatic insurance coverage whereby repayment by the borrower is insured against force-majeure circumstances, e.g. death or disability. This service is an innovative one in Ukraine's home market benefiting both bank and, in the first place, borrower.

OTP Bank was awarded as part of the Insurers' Best Banking Partner 2006 contest in the nomination Commitment to Partnership with Multiple Insurers. The contest was held between 19 January and 8 February, 2007. It was co-hosted by the Perspective Centre of Business Strategies and «Банкиръ» (The Banker), a leading international business journal, and sponsored by Ukraine's League of Insurers. The winners were identified in a personalised survey of banking and insurance professionals.

Branch Network

During 2006, OTP Bank opened 6 new branches in Ukraine's major regional centres – Poltava, Cherkasy, Sumy, Simferopol, Lutsk and Ternopil. As a result, as at the end of 2006 our branch network comprised 16 regional branches and 25 outlets.

Our development strategy envisages branch opening in all the regional centres of the country. It is expected that by the end of 2007 OTP Bank's will have expanded network to a total of 121 points of sale.

The Bank places a major emphasis on the quality of service and overall performance of our branches. During the reporting year, 19 points of sale reached break-even, 5 of which were launched in 2006. As a result, as at year-end, 90% of our outlets were profitable.

The aggregate loan portfolio of branches doubled during the year and reached UAH 7.1 billion. In particular, retail loans by branches grew 2.4 times year-on-year to a total of UAH 3,9 billion.

The quantity of loans granted to retail clients almost reached 21 thousand which is 1.8 times the quantity in 2005. Retail deposits with OTP Bank grew by 65% to a total of UAH 1.9 billion as at 01.01.2007, while the average growth rate in retail deposits across Ukraine's banking industry was only 38.8%.

The steady growth of our branches' loan and deposit portfolios is a good indication of their outstanding performance.

Alternative Distribution Channels

Call Centre

OTP Bank's Call Centre represents a modern and powerful distribution channel for our banking services.

By calling OTP Bank's Call Centre, a client receives access to free advice on any query regarding our services, may find out early about preliminary approval of his or her loan application and/or appoint a meeting with a relevant bank officer at the client's convenience.

The Call Centre operates 24 hours a day and 365 days a year. This provides clients with access to information about their account balances at any time.

Our 24/7 Card Monitoring and Client Support Service guarantees enhanced security and reliability of transaction processing to clients, and can be contacted via phone handset installed at each ATM zone in our branches.

The Call Centre currently comprises three sectors:

- Banking service sales sector which is primarily responsible for following up on client queries by providing advice, arranging appointments and selling banking products;
- Plastic card support sector providing high-quality service and informative support of cardholders;
- Electronic sales channels sector responsible for supporting and upgrading our corporate web site and providing account services via remote access.

The performance of the entire team of our Call Centre is quite spectacular. In August 2006, the direct marketing agency Meta in conjunction with the Contactis outsourcing centre conducted a survey of call centers performance among Ukraine's top twenty banks. It was OTP Bank's call centre that was awarded as the winner!

*OTP Bank's Call Centre can be reached at – **8 800 300 0 500**. All calls from fixed-line telephones in Ukraine are free of charge.*

Lending Partnerships

During 2006, OTP Bank focused heavily on strengthening partnerships.

As at 31.12.2006, the Bank had partnerships established with more than 240 partners – real estate agencies, auto dealerships, agents and brokers.

The promotion campaigns staged by OTP Bank jointly with our partners throughout 2006 have contributed to promoting the Bank's positive brand image in the domestic financial market, acquiring new clients and strengthening existing client relationships.

In July 2006 alone as a result of our joint efforts with partners we hit a record-high of 500 loan applications processed during one month.

To further improve service quality, OTP Bank has designed software for electronic loan application processing that supports electronic collection and analysis of data about our borrowers. By rolling out this software, we have been able to speed up loan approval to 1 day.

In 2006, the share of partner-facilitated car loans reached 50% of their total number while the share of mortgage loans was 20%.

Representative Office Performance as at 31.12.2006 (in ths UAH):

	Assets	Liabilities
Individuals	321 294	11 389
SME	114 286	230
Corporate Clients	31 615	811
TOTAL:	467 195	12 430

Rep Offices

As at 31.12.2006 OTP Bank's representative offices were operational in 19 cities throughout Ukraine: Bila Tserkva, Energodar, Ivano-Frankivsk, Izmail, Illichivsk, Kirovograd, Kremenchuk, Krivy Rig, Makiivka, Melitopol, Rivne, Romny, Sevastopol, Severodonetsk, Uman, Kherson, Khmelnitsky, Chernigiv and Chernivtsy.
A bank rep office is a unique distribution channel for selling banking products used by OTP Bank only. It is primarily concerned with selling banking products and providing advice. A rep office showing good performance is the first step to launching a branch or outlet in the respective region.

In 2007, OTP is planning to expand its network of rep offices to 56 sites.

Mobile Bankers (Direct Marketing Agents)

Mobile bankers (direct marketing agents) represent an alternative distribution channel which OTP Bank has been using for two years now. Mobile bankers focus on acquiring new clients among individuals and SMEs. They independently search for prospects and provide them with extensive advice and practical assistance.

For the year, OTP Bank partnered with 280 mobile bankers who contributed UAH 300 million worth of loans.

Corporate Web Site

The Bank's web site is a reliable and convenient source of information available to clients for retrieving all necessary information about our bank.

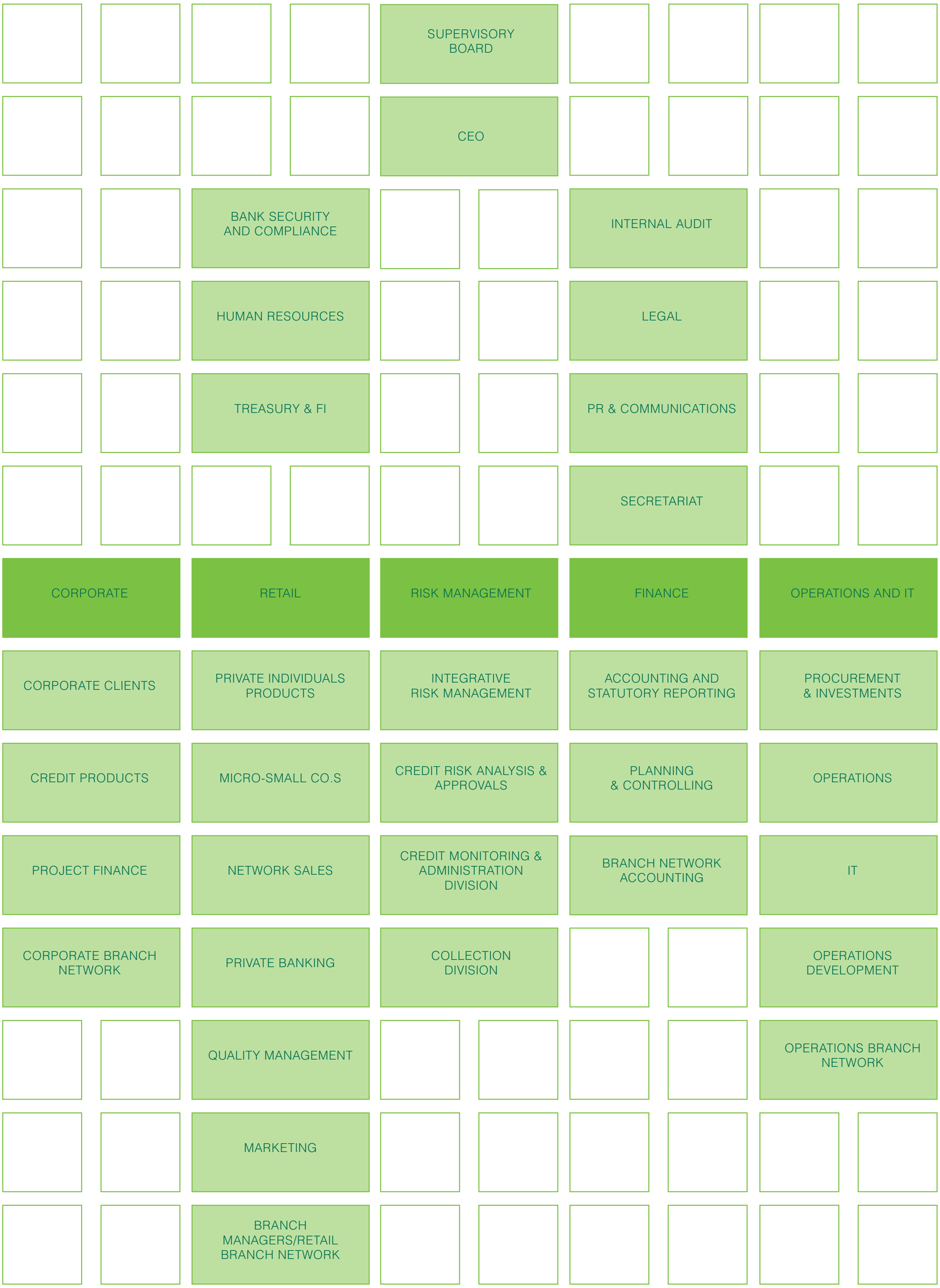
Over 1200 Internet users visit our web site daily which testifies to the high capacity of this communication channel. Clients can benefit from using the various loan calculators available on our website to calculate their borrowing costs. On top of that, they can fill in a questionnaire to apply for a plastic card, housing loan or car loan.

The web site's various features provide good liaison and feedback between clients and bank staff which contributes substantially to improving service quality.

During 2006, we registered a total of 500 thousand hits on our web site. The total volume of sales of banking products via our corporate website exceeded EUR 2.4 million.

Visit OTP Bank's web site at:
www.otpbank.com.ua

Organisational Chart



Corporate Governance

Shareholder

The single owner and shareholder of the bank is the Open Stock Company «Central Savings and Commercial Bank» (OTP Bank Plc.), a legal entity bases on Hungarian legislation, located at the address: Hungary, 1051, Budapest, 16 Nador St.

Management of the Bank

Supervisory Board:

Pal Kovacs – Senior Managing Director Commercial Banking Directorate, OTP Bank Plc.

Laszlo Vagi – Managing Director, Nort Plain Region, OTP Bank Plc.

Dora Losteiner – Director Liquidity & Capital Markets, Debt & Capital Markets, OTP Bank Plc.

Peter Forrai – Managing Director of Electronic Banking Directorate, OTP Bank Plc.

Gabriella Balogh – Marketing & Sales Managing Director, OTP Bank Plc.

Dmytro Zinkov

Chairman of the Management Board

Born in 1969. Graduated with honors from Kiev State Economic University in 1993. Has more than 12 years work experience in banking sector. Started with Bank in September 1999 as head of corporate clients and loans department. Since 2001 was heading the direction of branch network expansion and retail business development. In November 2005 was appointed Member of the Management Board. Since June 2006 – Chairman of the Management Board.
Married, has a son and a daughter.

Liliya Lazepko

Member of the Management Board, Chief Operations Officer

Born in 1970. Graduated from Kiev National Economic University. Has 14 years work experience in banking sector. Started with Bank in March 1998 as a Deputy Operations Manager. Since March 2002 – Head of Operations. In March 2003 became Member of the Management Board.
Married, raises two sons.

Iryna Mikhailova

Member of the Management Board, Corporate Business

Born in 1957. Graduated from Kiev State Institute of Foreign Languages and Kiev National University of Economics. Has nearly 14 years work experience in banking sector. Started with Bank in July 1998 as a head of Structured Trade Finance department. Since February 2001 – Head of Corporate Credit Products Division, Member of Credit Committee. In May 2006 was appointed Member of the Management Board.
Married, has two daughters.

Dmytro Beletsky

Member of the Management Board, Retail and SME

Born in 1965. Graduated from the Kharkiv State University with specialisations «Teacher of political history», and later gained qualifications in Marketing and Foreign Economy. Has more than 15 years work experience in banking institutions.
His activity in Bank began as a Head of Kharkiv Branch organization Department and from January 2004 he was a Head of Kharkiv Branch. In January 2007 was appointed Member of the Management Board.
Married, has a daughter.

Desmond O'Maonaigh

Member of the Management Board, Chief Financial Officer.

Born in 1966 in Dublin, Ireland. Graduated from University College Dublin with a Bachelor of Arts (Economics) degree, followed by a Master of Business Studies (MBS) degree at University College Dublin, Graduate School of Business.
Has more than 15 years work experience. Over 11 years were spent in Ukraine. Occupied the position of Financial Controller and Member of Management Board of Ukraine International Airlines, has worked with International Finance Corporation in the area of corporate governance and has been responsible for IFC's Banking Corporate Governance Project in Ukraine. In this role he also participated in the OECD Eurasian Task Force on Banking Corporate Governance.
In May 2007 was appointed Member of the Management Board, Chief Financial Officer of OTP Bank.
Married, has a son.

Risk Management:

Risk management comprises identification, measurement and management of risks constantly existing in business environment. As a part of OTP Group, OTP Bank successfully employs knowledge of Ukrainian financial and money markets as well as international best practices of risk management.

Basic risk management principles:

- In-depth identification and measurement Integrated control
- Relevance of information for decision-making

Basic principles of OTP Bank risk management were elaborated on the grounds of the Basel Committee recommendations and best practice of Raiffeisen Zentral Bank (Vienna). In 2006 OTP Bank Plc. conducted due-diligence of risk management in the Bank and has designed a strategy to incorporate the local risk management system in the group-level one. General risk management policy for the whole group is designed in the parent bank while the Board and Supervisory Board of a network bank are responsible for implementation of the group-level policy and procedures.

Risk Management Structure

Risk Management Division of the Bank is responsible for risk management. The Division comprises the departments of large corporate customers' risk management, small and medium enterprises' and private individuals' risk management together with the Research and Market Risk Management Dpt, Credit Administration Dpt. and Collateral Monitoring one. The Research and Market Risk Management Department elaborates and implements the newest risk measurement techniques to assess the magnitude of liquidity, interest rate and currency risks, as well as prepares regular analytical reports and forecasts for ALCO.

Assets and Liability Management Committee

Assets and Liability Management Committee is responsible for liquidity, interest rate and currency risk management in CJSC OTP Bank. Consisting of the Head of the Board and the Board members that are in charge of business units' supervision, ALCO performs «risk-return» trade-off optimization by means of coordinated management of assets and liabilities structure for profit maximization at appropriate level of risks.

Credit Committee

The Bank has three credit committees (CC) in its RM structure: large corporate CC, small and medium enterprises CC and retail one. There are also credit commissions in the Bank's outlets.

Credit Risk Management

Credit risk management is enhanced by:

- credit policy and standards or credit risk management approved by the Supervisory Board of the Bank;
- standardized decision making process regarding the retail segments, conduct of corporate credit analysis and preparation of recommendations for Credit Committee; control over loan portfolio quality;
- the system of limits on risk exposure;
- the system of limits on decision making regarding loan granting to different client segments;
- loan portfolio diversification efficient client rating and scoring system;
- system of pricing and collection of liquid collateral, unified approach to collateral value discounting according to its liquidity and market/fair value;
- monthly reporting on trends of loan and investment portfolio, its quality and amount of non-performing loans;
- quarterly reporting on loan portfolio structures, capital adequacy;
- Basel implementation reports.

Credit Risk Monitoring is done by specialized Credit Administration Department that is in charge of limit control and corporate customers credit disbursement authorization. This is the only analytical centre of the Bank that calculates and forecasts the loan loss provision.

Liquidity Risk Management

Liquidity risk is defined as that of Bank's inability to meet the existing liabilities not bearing abnormal costs. It arises from a maturity mismatch between assets and liabilities and existence of off-balance sheet liabilities. OTP Bank employs contemporary Value-At-Risk methodology that allows potential loss due to liquidity risk assessment at given confidence level. To supplement the decision making process, the Research and Market Risk Management constantly monitors the financial market developments and predicts future trends. Liquidity risk management is done by means of planned cash flows and liquidity position analysis and early identification of future funding needs taking into account macroeconomic conditions and overall liquidity of banking system.

Interest Risk Management

Interest Rate Risk is the possibility of net interest margin decrease due to adverse fluctuations of the interest rates. Bank's exposure to interest rate risk depends on sensitivity of the existing assets and liabilities to changes in interest rates and on the loan portfolio structure. To identify and measure the risk, detailed analysis of the interest-bearing assets and liabilities structure is performed and potential loss due to interest rate fluctuations with 99% certainty is assessed. Additional stress-testing procedures allow obtaining «full picture» of the potential loss in case of adverse developments on the market.

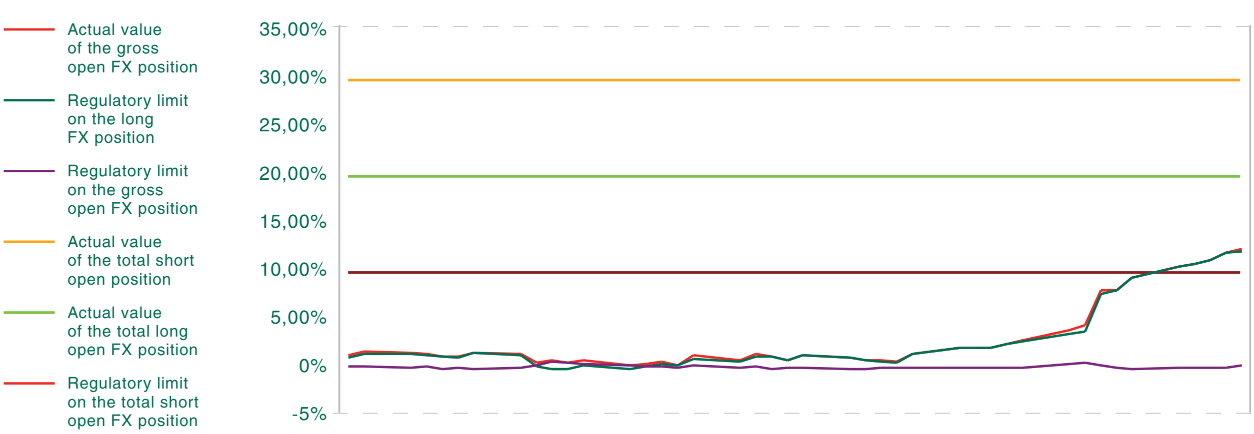
FX Risk Management

Currency risk arises due to mismatch between assets and liabilities denominated in the foreign currencies. To quantify the risk and supplement the decision-making process with timely and precise information, the Research and Market Risk Management Department uses Value-At-Risk methodology and portfolio approach to assess the magnitude of the risk and determine individual currency contribution to portfolio risk and changes of the latter if the open currency position is closed or altered. Constant FOREX markets monitoring and current and future trends' analysis are performed to keep the FX risk assessments up to date.

Operational Risk Management

Operational Risk Management in OTP Bank is done in accordance to the standardized Basel approach that involves separation of 8 business lines to represent the full scope of the Bank's activities. Double check principal is applied when the unauthorized actions of the front-office personnel are checked and blocked by both middle-office and back-office. Besides, Internal Audit Department is in charge of assessment of the Bank units' compliance to internal regulations.

NBU covenants on open FX position compliance in 2006



Corporate Social Responsibility (CSR)

OTP Bank abides by the fundamental values of a civilised and highly developed society and has long-term commitment to helping the underprivileged.

The Bank's CSR policy provides for helping orphans and children's hospitals. We are also committed to sponsoring educational institutions and supporting talented youth.

During 2006, OTP Bank was involved in the following charitable activities:

Assistance to Children:

- Mykolayiv Regional Children's Hospital (Mykolayiv)
- Nizhin Orphanage (Nizhyn)

Assistance to Municipal Charitable Programmes:

- Charitable Foundation of the Dniprodzerzhinsk Municipal Council

Assistance to Educational Institutions:

- Chigirin Special Secondary Boarding School
- Shevchenko Kiev National University
- Odessa State Economic University

CLOSED JOINT STOCK COMPANY OTP BANK

INDEPENDENT AUDITORS' REPORT

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

OTP BANK

OTP GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' audit report set out on page 117, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Closed Joint Stock Company OTP Bank (the "Bank").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as of 31 December 2006, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgements and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of Ukraine;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Detecting and preventing fraud and other irregularities.

The financial statements for the year ended 31 December 2006 were authorised for issue on 23 February 2007 by the Management Board.

On behalf of the Management Board:

Dmitry Zinkov, Chairman of the Board

23 February 2007

Kyiv

Dmitry Gerasimenko, Chief Accountant

23 February 2007

Kyiv

The notes on pages 123-151 form an integral part of these financial statements.

The Independent Auditors' Report is on page 117.

Deloitte.

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDER AND MANAGEMENT BOARD OF THE CLOSED JOINT STOCK COMPANY OTP BANK:

Report on the Financial Statements

We have audited the accompanying financial statements of the Closed Joint Stock Company OTP Bank (hereinafter referred to as the "Bank"), which comprise the balance sheet as of 31 December 2006, and the income statement, statements of changes in equity and 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 financial statements present fairly, in all material respects the financial position of the Bank as of 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

23 February 2007

CLOSED JOINT STOCK COMPANY OTP BANK
INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

(IN UKRAINIAN HRYVNIAS AND IN THOUSANDS)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
Interest income	4, 22	1,010,377	559,161
Interest expense	4, 22	(387,805)	(194,910)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		622,572	364,251
Provision for impairment losses on interest bearing assets	5	(71,467)	(10,565)
NET INTEREST INCOME		551,105	353,686
Net gain/(loss) on foreign exchange operations	6	47,856	(9,289)
Fee and commission income	7	109,310	87,870
Fee and commission expense	7	(13,954)	(7,045)
Other income		9,224	2,575
NET NON-INTEREST INCOME		152,436	74,111
OPERATING INCOME		703,541	427,797
OPERATING EXPENSES	8, 22	(277,995)	(170,543)
OPERATING PROFIT		425,546	257,254
Provision for impairment losses on other transactions	5	(257)	(3,696)
PROFIT BEFORE INCOME TAX		425,289	253,558
Income tax expense	9	(108,016)	(64,059)
NET PROFIT		317,273	189,499

On behalf of the Management Board:

Dmitry Zinkov, Chairman of the Board

23 February 2007

Kyiv

Dmitry Gerasimenko, Chief Accountant

23 February 2007

Kyiv

The notes on pages 123-151 form an integral part of these financial statements.

The Independent Auditors' Report is on page 117.

CLOSED JOINT STOCK COMPANY OTP BANK
BALANCE SHEET
AS OF 31 DECEMBER 2006

(IN UKRAINIAN HRYVNIAS AND IN THOUSANDS)

	Notes	31 December 2006	31 December 2005
ASSETS:			
Cash and balances with the National bank of Ukraine	10	625,507	390,675
Due from banks	11, 22	848,726	674,704
Loans to customers	12, 22	9,685,634	5,932,776
Investments available for sale	13	114,932	242,617
Property, equipment and intangible assets	14	123,398	88,664
Current income tax assets		-	970
Other assets	15	12,968	16,286
TOTAL ASSETS		11,411,165	7,346,692

LIABILITIES AND EQUITY

LIABILITIES:			
Due to banks and financial institutions	16, 22	6,043,265	2,876,378
Customer accounts	17, 22	3,966,009	3,381,172
Current income tax liabilities		16,547	9,517
Deferred income tax liabilities	9	39,511	47,348
Other liabilities	18	23,802	27,371
		10,089,134	6,341,786
Subordinated debt	19	174,274	173,833
Total liabilities		10,263,408	6,515,619
EQUITY:			
Share capital	20	539,993	539,993
Share premium		2,370	2,370
Investments available for sale fair value reserve		358	947
Retained earnings		605,036	287,763
Total equity		1,147,757	831,073
TOTAL LIABILITIES AND EQUITY		11,411,165	7,346,692

On behalf of the Management Board:

Dmitry Zinkov, Chairman of the Board

23 February 2007

Kyiv

Dmitry Gerasimenko, Chief Accountant

23 February 2007

Kyiv

The notes on pages 123-151 form an integral part of these financial statements.

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CLOSED JOINT STOCK COMPANY OTP BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006

(IN UKRAINIAN HRYVNIAS AND IN THOUSANDS)

	Note	Share capital	Share premium	Investments available for sale fair value (deficit) / reserve	Retained earnings	Total
Balance as of 31 December 2004 according to financial statements for 2005		330,614	2,370	-	120,035	453,019
Effect of restatement due to changes in IFRS	3	-	-	(24)	24	-
31 December 2004 (restated)	3	330,614	2,370	(24)	120,059	453,019
Share capital increase of ordinary shares		209,379	-	-	-	209,379
Gains on revaluation of investments available for sale		-	-	947	-	947
Losses transferred to income statement on sale of investments available for sale		-	-	24	-	24
Dividends declared		-	-	-	(21,795)	(21,795)
Net profit (restated)	3	-	-	-	189,499	189,499
31 December 2005		539,993	2,370	947	287,763	831,073
Losses on revaluation of investments available for sale		-	-	(789)	-	(789)
Losses transferred to income statement on sale of investments available for sale		-	-	200	-	200
Net profit		-	-	-	317,273	317,273
31 December 2006		539,993	2,370	358	605,036	1,147,757

On behalf of the Management Board:

Dmitry Zinkov, Chairman of the Board

23 February 2007

Kyiv

Dmitry Gerasimenko, Chief Accountant

23 February 2007

Kyiv

The notes on pages 123-151 form an integral part of these financial statements.

The Independent Auditors' Report is on page 117.

CLOSED JOINT STOCK COMPANY OTP BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2006

(IN UKRAINIAN HRYVNIAS AND IN THOUSANDS)

	Year ended 31 December 2006	Year ended 31 December 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received	986,752	531,045
Interest paid	(337,713)	(180,577)
Fees and commissions received	109,310	87,870
Fees and commissions paid	(13,954)	(7,045)
Gains less losses from dealing in foreign currencies	37,735	31,230
Operating expenses paid	(249,590)	(135,843)
Other income received	8,016	-
Cash flow from operating activities before changes in operating assets and liabilities	540,556	326,680
Changes in operating assets and liabilities		
(Increase)/decrease in operating assets:		
Minimum reserve deposit with NBU	80,503	(144,735)
Amounts due from banks	(514,703)	(76,357)
Investments available for sale	128,043	(100,940)
Loans to customers	(3,752,895)	(2,670,384)
Other assets	(4,310)	(12,431)
Increase/(decrease) in operating liabilities:		
Amounts due to credit institutions	3,113,360	848,473
Amounts due to customers	524,698	1,496,662
Other liabilities	5,670	2,956
Cash inflow/(outflow) from operating activities before income taxes	120,922	(330,076)
Income tax paid	(108,592)	(35,437)
Net cash inflow/(outflow) from operating activities	12,330	(365,513)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, equipment and intangible assets	(61,420)	(53,039)
Proceeds on sale of property and equipment	40	568
Net cash outflow from investing activities	(61,380)	(52,471)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Share capital contribution	-	209,379
Subordinated debt	-	100,336
Dividends paid	-	(21,795)
Net cash inflow from financing activities	-	287,920

CLOSED JOINT STOCK COMPANY OTP BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2006
(CONTINUED)

(IN UKRAINIAN HRYVNIAS AND IN THOUSANDS)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
NET DECREASE IN CASH AND CASH EQUIVALENTS		(49,050)	(130,064)
Effect of foreign exchange rate changes on cash and cash equivalents		1,235	(2,901)
CASH AND CASH EQUIVALENTS, beginning of year	10	762,067	895,032
CASH AND CASH EQUIVALENTS, end of year	10	714,252	762,067

On behalf of the Management Board:

Dmitry Zinkov, Chairman of the Board

23 February 2007
Kyiv

Dmitry Gerasimenko, Chief Accountant

23 February 2007
Kyiv

The notes on pages 123-151 form an integral part of these financial statements.
The Independent Auditors' Report is on page 117.

1. ORGANISATION

Closed Joint Stock Company OTP Bank (the "Bank") was founded on 2 March 1998 as a subsidiary of Raiffeisen Zentralbank Österreich Group (Austria). In 2006 the Bank was acquired by OTP Bank Plc. (Hungary). The transaction was formally approved by the National Bank of Ukraine (the "NBU") in October 2006. The Bank is regulated by NBU and conducts its business under license number 191. The Bank's areas of operation include originating loans and guarantees, accepting deposits from entities and the public, commercial activities, trading with securities and foreign currencies.

The registered office of the Bank is located at 43 Zhylyanska St., Kyiv, Ukraine.

The Bank operates through a head office located in Kyiv as well as 16 regional branches in Ukraine.

As of 31 December 2006 and 2005, the following shareholders owned the issued shares.

	31 December 2006, %	31 December 2005, %
Shareholder		
OTP Bank Plc.	100%	-
Raiffeisen International Bank-Holding AG	-	99.998%
Raiffeisen Zentralbank Österreich	-	0.002%
Total	100%	100%

These financial statements were authorised for issue by the Bank's Management Board on 23 February 2007.

2. BASIS OF PRESENTATION

Accounting basis – These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements are presented in thousands of Ukrainian Hryvnias ("UAH"), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments.

In accordance with International Accounting Standard 29 "Financial Reporting in Hyper-inflationary Economies" (IAS 29) the economy of Ukraine was considered to be hyperinflationary during 2000 and prior years. From 1 January 2001, the Ukrainian economy is no longer considered to be hyperinflationary and the values of the Bank's non-monetary assets, liabilities and equity as stated in measuring units as of 31 December 2000 have formed the basis for the amounts carried forward.

The Bank maintains its accounting records in accordance with Ukrainian law. These financial statements have been prepared from the Ukrainian statutory accounting records and have been adjusted to conform with IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

Key assumptions – The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments.

Key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period include:

	31 December 2006	31 December 2005
Loans to customers	9,685,634	5,932,776

Loans to customers are measured at amortised cost less allowance for impairment losses. The estimation of allowance for impairment losses involves an exercise of judgment. It is impracticable to assess the extent of the possible effects of key assumptions or other sources of uncertainty on these balances at the balance sheet date.

Functional currency – The functional currency of these financial statements is the Ukrainian Hryvnia ("UAH").

3. SIGNIFICANT ACCOUNTING POLICIES

Recognition and measurement of financial instruments – The Bank recognises financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognised using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognised at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss transaction, costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents – Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank of Ukraine with original maturity within 90 days, advances to banks in countries included in the Organisation for Economic Co-operation and Development ("OECD"), except for margin deposits for operations with plastic cards, which may be converted to cash within a short period of time. For purposes of determining cash flows, the minimum reserve deposit required by the National Bank of Ukraine is not included as a cash equivalent due to restrictions on its availability.

Due from banks – In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Due from banks with a fixed maturity term are subsequently measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at amortised cost based on expected maturities. Amounts due from credit institutions are carried net of any allowance for impairment losses.

Loans to customers – Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active mark other than those classified in other categories of financial assets.

Loans granted by the Bank with fixed maturities are initially recognised at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognised as a loss on initial recognition of the loan and included in the income statement according to nature of these losses. Subsequently, loans are carried at amortised cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Write off of loans and advances – Loans and advances are written off against allowance for impairment losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. Loans are written off with the respective decision of the Management Board.

Allowance for impairment losses – The Bank establishes an allowance for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The allowance for impairment losses is measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate, for financial assets which are carried at amortised cost. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusted an allowance account. For financial assets carried at cost the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of the allowance for impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of risk for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in the allowance for impairment losses is charged to profit and loss and the total of the allowance for impairment losses is deducted in arriving at assets as shown in balance sheet. Factors that the Bank considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain losses, which are substantial relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets.

Investments available for sale – Investments available for sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at fair value. Subsequently the securities are measured at fair value, with such re-measurement recognised directly in equity until sold when gain/loss previously recorded in equity recycles through the income statement, except for foreign exchange gains or losses and interest income accrued using the effective interest method, which are recognised directly in the income statement. The Bank uses quoted market prices to determine the fair value for the Bank's investments available for sale. If the market for investments is not active, the Bank establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Bank uses that technique. Dividends received are included in dividend income in the income statement.

Non-marketable debt and equity securities are stated at amortised cost and cost, respectively, less impairment losses, unless fair value can be reliably measured.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognised in equity is removed from equity and recognised in the income statement for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognised in the income statement for the period. Reversals of such impairment losses on equity instruments are not recognised in the income statement.

Property, equipment and intangible assets – Property, equipment and intangible assets, acquired after 1 January 2001 are carried at historical cost less accumulated depreciation and any recognised impairment loss. Fixed and intangible assets, acquired before 1 January 2001 are carried at historical cost restated for inflation less accumulated depreciation and any recognised impairment loss. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation of property, equipment and amortisation of intangible assets is charged on the carrying value of fixed assets and is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual prescribed rates:

Buildings	2-5%
Leasehold improvements	14%-100%
Computers and office equipment	20-33%
Furniture and other assets	10-25%
Intangible assets	10% – 100%

Leasehold improvements are amortised over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalisation.

The carrying amounts of fixed and intangible assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount.

An impairment is recognised in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for fixed assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Taxation – Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deposits from banks and customers – Customer and bank deposits are initially recognised at fair value. Subsequently amounts due are stated at amortised cost and any difference between carrying and redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Deposits from banks and customers include certificates of deposits issued. They are accounted for according to the same principles used for customer and bank deposits.

Subordinated debt – Subordinated debt is initially recognised at fair value. Subsequently, subordinated debt is stated at amortised cost using the effective interest method.

Provisions – Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Financial guarantee contracts issued and letters of credit – Financial guarantee contracts and letters of credit issued by the Bank are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognised at fair value. Subsequently they are measured at the higher of (a) the amount recognised as a provision and (b) the amount initially recognised less, where appropriate, cumulative amortisation of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Share capital and share premium – Contributions to share capital, made before 1 January 2001 are recognised at their cost restated for inflation. Contributions to share capital, made after 1 January 2001 are recognised at cost. Share premium represents the excess of contributions over the nominal value of the shares issued.

Dividends on ordinary shares are recognised in equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under International Accounting Standard 10 “Events after the Balance Sheet Date” (“IAS 10”) and disclosed accordingly.

Retirement and other benefit obligations – In accordance with the requirements of the Ukrainian legislation such pension system provides for calculation of current payments by the employer as a percentage of current total disbursements to staff. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by pension funds selected by employees. The Bank does not have any pension arrangements separate from the State pension system of Ukraine. In addition, the Bank has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense – Interest income and expense are recognised on an accrual basis using effective interest rate method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down or partly written down as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income also includes income earned on investments in securities. Other income is credited to income statement when the related transactions are completed.

Loan origination fees are deferred, together with the related direct costs, and recognised as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognised as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognised in the consolidated profit and loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognised in the consolidated profit and loss on expiry. Loan servicing fees are recognised as revenue as the services are provided. Loan syndication fees are recognised in the consolidated profit and loss when the syndication has been completed. All other commissions are recognised when services are provided.

Foreign currency translation – Monetary assets and liabilities denominated in foreign currencies are translated into UAH at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

Rates of exchange – The exchange rates at year end used by the Bank in the preparation of the financial statements are as follows:

	31 December 2006	31 December 2005
UAH/1 US Dollar	5.05000	5.05000
UAH/1 Euro	6.65085	5.97163

Offset of financial assets and liabilities – Financial assets and liabilities are offset and reported net on the balance sheet when the Bank has a legally enforceable right to set off the recognised amounts and the Bank intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Bank does not offset the transferred asset and the associated liability.

Restatement due to changes in IFRS – Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") effective for accounting periods beginning on 1 January 2006 imposed restrictions on use of designation of financial assets or financial liabilities at fair value through profit or loss at initial recognition.

The Bank de-designated all its financial assets previously designated at fair value through profit or loss since they do not qualify for such designation in accordance with amended IAS 39. These financial assets are classified as investments available for sale and accounted for as such (Note 13). De-designation was made retrospectively as required by transitional provisions of IAS 39.

The restatement was made as follows:

Balance sheet/Income statement item	Amount as per previous report (UAH thousands)	Amount of restatement (UAH thousands)	Amount as per current report (UAH thousands)
Retained earnings as of 31 December 2004	120,035	24	120,059
Investments available for sale fair value deficit as of 31 December 2004	-	(24)	(24)
Net profit for the year ended 31 December 2005	190,470	(971)	189,499
Retained earnings as of 31 December 2005	288,710	(947)	287,763
Investments available for sale fair value reserve as of 31 December 2005	-	947	947

Adoption of new standards – As of 31 December 2006 the following Standards and Interpretations applicable to the Bank were issued but not yet effective:

- IFRS 7 "Financial Instruments: Disclosures" (effective 1 January 2007);
- Amendments to IAS 1 "Presentation of Financial Statements" regarding disclosure on the Bank's objectives, policies and processes for managing capital (effective 1 January 2007).

The management is currently assessing the impact of the adoption of these new and revised Standards in future periods.

4. NET INTEREST INCOME

	Year ended 31 December 2006	Year ended 31 December 2005
Interest income		
Interest on loans to customers	975,229	523,538
Interest on debt securities	25,593	31,402
Interest on due from banks	9,555	4,221
Total interest income	1,010,377	559,161
Interest expense		
Interest on due to banks and financial institutions	(238,622)	(101,710)
Interest on customer accounts	(134,087)	(79,203)
Interest on subordinated debt	(13,804)	(12,356)
Interest on certificates on deposit issued	(1,292)	(1,641)
Total interest expense	(387,805)	(194,910)
Net interest income before provision for impairment losses on interest bearing assets	622,572	364,251

5. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

The movements in allowance for impairment losses on interest earning assets were as follows:

	Loans to customers
31 December 2004	78,687
Provision	10,565
Exchange rate differences	(3,300)
31 December 2005	85,952
Provision	71,467
Write-off of assets	(14,015)
Exchange rate differences	692
31 December 2006	144,096

The movements in allowances for impairment losses on other transactions were as follows:

	Other assets	Guarantees and other commitments	Total
31 December 2004	-	559	559
Provision	1,170	2,526	3,696
31 December 2005	1,170	3,085	4,255
Provision/(Recovery)	2,518	(2,261)	257
Write-off of assets	(59)	-	(59)
31 December 2006	3,629	824	4,453

6. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprise:

	Year ended 31 December 2006	Year ended 31 December 2005
Dealing, net	37,043	31,230
Translation differences, net	10,813	(40,519)
Total net gain on foreign exchange operations	47,856	(9,289)

7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2006	Year ended 31 December 2005
Fee and commission income		
Cash and settlements operations	55,679	37,627
Foreign exchange operations	36,754	38,221
Documentary operations	13,304	8,876
Other	3,573	3,146
Total fee and commission income	109,310	87,870
Fee and commission expense:		
Cash and settlements operations	(13,860)	(6,758)
Other	(94)	(287)
Total fee and commission expense	(13,954)	(7,045)

8. OPERATING EXPENSES

	Year ended 31 December 2006	Year ended 31 December 2005
Salaries and bonuses	114,404	59,801
Rent	31,395	24,904
Depreciation and amortisation	26,118	17,595
Employment taxes	23,718	13,693
Data processing and information systems maintenance	15,810	6,295
Marketing and advertising	13,981	5,618
Office maintenance	13,663	5,115
Payments to individuals deposits guarantee fund	6,764	3,476
Communications	6,028	4,048
Security	4,007	2,322
Taxes, duties and charges	3,793	375
Business travel and related expenses	3,589	4,753
Cash collection	2,517	2,170
Insurance	2,165	2,108
Legal and consultancy	1,010	10,957
Non-bank operating expenses	374	1,919
Sponsorship and charity	95	238
Other	8,564	5,156
	277,995	170,543

9. INCOME TAXES

The Bank provides for taxes based on the tax accounts maintained and prepared in accordance with the Ukrainian statutory tax regulations which may differ from International Financial Reporting Standards.

The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.
Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax

purposes. Temporary differences as of 31 December 2006 and 2005 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as of 31 December 2006 and 2005 comprise:

	31 December 2006	31 December 2005
Deductible temporary differences:		
Accrued interest on deposits from customers	40,489	23,092
Accrued interest on deposits from credit institutions	36,866	7,584
Accrued expenses and other liabilities	27,360	16,216
Property and equipment	9,915	6,072
Deferred flat fees on loans to customers	7,322	27,444
Allowance for other assets	3,629	-
Accrued interests on subordinated debt	2,830	2,440
Total deductible temporary differences	128,411	82,848
Taxable temporary differences:		
Allowance for impairment and provisions for other losses	236,936	236,276
Accrued interest on loans to customers	45,239	25,684
Deferred flat fees on deposits from credit institutions	3,534	3,800
Other assets	487	2,940
Deferred flat fees on subordinated debt	257	2,728
Other liabilities	-	812
Total taxable temporary differences	286,453	272,240
Net taxable temporary differences	158,042	189,392
Net deferred tax liabilities at the statutory tax rate (25%)	39,511	47,348

Relationships between tax expenses and accounting profit for the years ended 31 December 2006 and 2005 are explained as follows:

	Year ended 31 December 2006	Year ended 31 December 2005
Profit before income tax	425,289	253,558
Tax at the statutory tax rate	106,322	63,390
Tax effect of permanent differences	1,694	669
Income tax expense	108,016	64,059
Current income tax expense	115,853	42,437
(Recovery)/provision for deferred tax liabilities	(7,837)	21,622
Income tax expense	108,016	64,059

Deferred income tax liabilities	2006	2005
1 January	47,348	25,726
(Recovery)/provision for deferred tax liabilities	(7,837)	21,622
31 December	39,511	47,348

10. CASH AND BALANCES WITH THE NATIONAL BANK OF UKRAINE

	31 December 2006	31 December 2005
Cash	315,995	151,878
Balances with the National Bank of Ukraine	309,512	238,797
Total cash and balances with the National Bank of Ukraine	625,507	390,675

The balances with National Bank of Ukraine as of 31 December 2006 and 2005 include UAH 124,024 thousand and UAH 204,527 thousand, respectively, which represents the obligatory minimum reserve deposits with the NBU. The Bank is required to maintain the reserve balance at the NBU at all times.

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	31 December 2006	31 December 2005
Cash and balances with the National Bank of Ukraine	625,507	390,675
Due from banks in OECD countries	212,769	575,919
	838,276	966,594
Less minimum reserve deposits with the NBU	(124,024)	(204,527)
Total cash and cash equivalents, net	714,252	762,067

11. DUE FROM BANKS

	31 December 2006	31 December 2005
Correspondent accounts with other banks	670,189	527,380
Time deposits with other banks	178,537	147,324
Total due from banks, net	848,726	674,704

Included in due from banks is accrued interest in the amount of UAH 111 thousand and UAH 80 thousand as of 31 December 2006 and 2005, respectively.

As of 31 December 2006 and 2005 the Bank had due from one bank totalling UAH 600,210 thousand and UAH 450,834 thousand, respectively, which individually exceeded 10% of the Bank's equity.

During the years ended 31 December 2006 and 2005 the Bank simultaneously placed with and received short-term funds and deposits from Ukrainian and OECD banks in different currencies. As of 31 December 2006, the Bank placed equivalent of UAH 596,417 thousand and UAH 19,695 thousand and received equivalent of UAH 598,497 thousand and UAH 19,695 thousand as balances on correspondent accounts and short-term deposits, respectively, with two Ukrainian banks. As of 31 December 2005, the Bank placed an equivalent of UAH 449,065 as a balance on a correspondent account and received a short-term deposit in the same amount from one OECD bank (Note 16).

As of 31 December 2006 and 2005 the maximum credit risk exposure on due from banks amounted to UAH 848,726 thousand and UAH 674,704 thousand, respectively.

As of 31 December 2006 and 2005 included in due from banks are guarantee deposits placed by the bank for its operations with plastic cards in the amount of UAH 253 thousand and UAH 505 thousand, respectively.

12. LOANS TO CUSTOMERS

	31 December 2006	31 December 2005
Originated loans	9,829,730	6,018,728
Less allowance for impairment losses	(144,096)	(85,952)
Total loans to customers, net	9,685,634	5,932,776

Movements in allowances for impairment losses for the years ended 31 December 2006 and 2005 are disclosed in Note 5.

As of 31 December 2006 and 2005 accrued interest income included in loans to customers amounted to UAH 51,132 thousand and UAH 27,539 thousand, respectively.

	31 December 2006	31 December 2005
Analysis by collateral:		
Real estate	5,661,718	3,666,546
Inventory, equipment and other assets	3,090,959	1,750,560
Guarantees from OTP Group	454,342	-
Guarantees from RZB Group	93,365	162,582
Cash placed with the bank	45,960	36,546
Securities	32,815	775
Other guarantees	12,418	7,230
Unsecured loans	294,057	308,537
Total loans to customers, net	9,685,634	5,932,776

The above table summarised the amount of loans secured by collateral, rather than the fair value of the collateral itself.

	31 December 2006	31 December 2005
Analysis by sector:		
Retail customers	4,644,818	1,544,473
Trading enterprises	2,336,860	1,111,602
Metallurgy and mining	771,921	893,924
Agriculture and food processing	458,117	1,090,046
Machine building	351,698	379,047
Construction	232,369	86,671
Oil, gas and chemical	152,670	191,715
Real estate	137,369	338,561
Media and communications	65,853	27,549
Printing and publishing	57,299	72,007
Financial services	29,944	74,798
Pharmaceutical	7,482	39,946
Other	439,234	82,437
Total loans to customers, net	9,685,634	5,932,776

As of 31 December 2006 and 2005 the Bank provided loans to five and four customers, totalling UAH 868,672 thousand and UAH 484,207 thousand, respectively, which individually exceeded 10% of the Bank's equity.

All loans are granted to companies operating in Ukraine, which represents significant geographical concentration in one region.

As of 31 December 2006 and 2005 a maximum credit risk exposure of loans to customers amounted to UAH 9,685,634 thousand and UAH 5,932,776 thousand, respectively.

13. INVESTMENTS AVAILABLE FOR SALE

	Interest to nominal %	31 December 2006	Interest to nominal %	31 December 2005
Debt securities				
Bonds of OJSC "Dniproshina"	14.4%	25,624	13.7%	12,661
Bonds of Commercial Bank Khreschatik	13.0%	14,748	13.0%	14,705
Bonds of LLC "Kharp-Trading"	16.0%	13,289	15.0%	13,417
Bonds of OJSC "Lutskij Avtomobilnij Zavod"	14.0%	9,750	14.0%	10,076
Bonds of OJSC "Concern "Galnaftogaz"	12.4%	9,098	14.8%	16,337
Bonds of LLC "MKS"	16.0%	7,269	16.0%	7,273
Bonds of CJSC "Kyiv-Konti"	14.5%	5,132	13.0%	5,063
Bonds of OJSC "Kombinat Pridneprovski"	16.0%	5,081	16.0%	5,004
Bonds of CJSC "Pershij Likero-gorilochnij Zavod"	16.5%	5,000	17.0%	5,216
Bonds of Ministry of Finance	8.6%	3,930	11.6%	3,122
Bonds of LLC "Intermarket"	15.5%	3,078	15.5%	3,055
Bonds of OJSC "Palmirskij Zukrovij Zavod"	16.0%	3,055	16.0%	3,187
Bonds of OJSC "Teplovozoremontnij zavod"	15.0%	3,030	17.0%	3,094
Bonds of OJSC "Concern "Khlibprom"	16.0%	2,998	15.0%	3,056
Bonds of PE "Molokozavod Olkom"	16.0%	2,534	15.0%	2,548
Bonds of CJSC "Ukrchampignon"	15.0%	1,058	15.4%	3,180
Bonds of LLC "Ukrainskaja Gorno-Metalurgichnaja Kompania"	-	-	12.0%	25,538
Bonds of LLC "Metalen"	-	-	12.8%	25,351
Bonds of CJSC "Evrotek"	-	-	15.0%	15,900
Bonds of CJSC "Procreditbank"	-	-	9.0%	15,819
Bonds of DK "Ukrtransgaz"	-	-	12.0%	12,958
Bonds of CJSC "ZAZ"	-	-	14.0%	10,157
Bonds of OJSC "Concern "AVK"	-	-	14.0%	10,036
Bonds of DP OJSC "Galakton Galaktis"	-	-	17.0%	7,186
Bonds of OJSC "Kreditprombank"	-	-	13.0%	5,126
Bonds of CJSC "Velika Kishenia"	-	-	13.0%	3,294
		114,674		242,359

	Share %	31 December 2006	Share %	31 December 2005
Equity securities				
LLC "First Ukrainian Credit History Bureau"	Less than 1%	250	Less than 1%	250
OJSC "Interregional Fund Society"	Less than 1%	8	Less than 1%	8
		258		258
Total investments available for sale		114,932		242,617

14. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings	Leasehold improve-ments	Computers and office equipment	Furniture and other assets	Intangible assets	Construction in progress	Total
At cost							
31 December 2004	5,429	14,096	33,973	14,070	4,504	-	72,072
Additions	3,039	11,812	19,266	6,335	9,250	8,839	58,541
Disposals	-	-	(192)	(559)	-	-	(751)
31 December 2005	8,468	25,908	53,047	19,846	13,754	8,839	129,862
Additions	5,554	12,084	13,697	10,443	18,235	5,452	65,465
Disposals	-	-	(348)	(265)	(5,304)	-	(5,917)
31 December 2006	14,022	37,992	66,396	30,024	26,685	14,291	189,410
Accumulated depreciation							
31 December 2004	225	4,611	13,640	3,017	2,292	-	23,785
Charge for the year	110	3,990	8,783	3,420	1,292	-	17,595
Eliminated on disposals	-	-	(98)	(84)	-	-	(182)
31 December 2005	335	8,601	22,325	6,353	3,584	-	41,198
Charge for the year	178	7,032	11,360	4,631	2,917		26,118
Eliminated on disposals	-	-	(346)	(162)	(796)	-	(1,304)
31 December 2006	513	15,633	33,339	10,822	5,705	-	66,012
Net book value							
31 December 2006	13,509	22,359	33,057	19,202	20,980	14,291	123,398
31 December 2005	8,133	17,307	30,722	13,493	10,170	8,839	88,664

15. OTHER ASSETS

	31 December 2006	31 December 2005
Prepayments for fixed assets	6,099	11,016
Prepaid expenses	3,121	1,903
Settlements with customers	2,779	2,340
Balances on transit accounts	2,112	641
Materials	1,391	937
Accrued income	866	605
Other	229	14
	16,597	17,456
Less allowance for impairment losses on other assets	(3,629)	(1,170)
Total other assets, net	12,968	16,286

Movements in allowances for impairment losses for the years ended 31 December 2006 and 2005 are disclosed in Note 5.

16. DUE TO BANKS AND FINANCIAL INSTITUTIONS

Due to banks and financial institutions comprise:

	31 December 2006	31 December 2005
Loans from other banks and financial institutions including		
-Long term loan from International Finance Corporation, due in July 2011 at rate LIBOR+2.75%	139,453	152,404
-Long term loan from EBRD, due in August 2015 at rate LIBOR+2.5%	50,974	4,709
-Long term loan from EBRD, due in March 2008 at rate LIBOR+2%	11,056	18,358
-Long term loan from EBRD, due in March 2007 at rate LIBOR+2%	7,370	22,029
Term deposits of other banks	5,229,445	2,652,882
Correspondent accounts of other banks	604,967	25,996
Total due to banks and financial institutions	6,043,265	2,876,378

As of 31 December 2006 and 2005 accrued interest expenses included in due to banks amounted to UAH 36,866 thousand and UAH 4,613 thousand, respectively.

During the years ended 31 December 2006 and 2005 the Bank simultaneously placed with and received short-term funds and deposits from Ukrainian and OECD banks in different currencies (Note 11).

As of 31 December 2006 and 2005 due to banks in the amounts of UAH 5,395,916 thousand (89%) and UAH 2,594,009 thousand (90%), respectively, were due to two and one banks, respectively which represents significant concentration.

17. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2006	31 December 2005
Time deposits	1,629,802	1,217,394
Repayable on demand	2,336,207	2,163,778
Total customer accounts	3,966,009	3,381,172

As of 31 December 2006 and 2005 accrued interest expenses included in customers accounts amounted to UAH 40,490 thousand and UAH 23,092 thousand, respectively.

As of 31 December 2006 and 2005 customer accounts amounted to UAH 57,919 thousand and UAH 48,996 thousand, respectively, were held as security against letters of credit issued and other transaction related contingent obligations. As of 31 December 2006 and 2005 customer accounts amounted to UAH 4,013 thousand and UAH 1,507 thousand, respectively, were held as security against guarantees issued.

As of 31 December 2006 and 2005 the customer accounts in the amounts of UAH 238,859 thousand (6%) and UAH 396,450 thousand (12%), respectively, were due to two customers, which represents significant concentration.

	31 December 2006	31 December 2005
Analysis by sector:		
Retail customers	1,946,051	1,201,932
Trade	655,547	814,434
Transport and telecommunications	377,748	395,622
Manufacturing	310,375	452,938
Real estate	178,073	139,149
Mining and metallurgy	140,768	61,080
Agriculture and food processing	103,163	7,881
Financial services	80,720	126,755
Construction	51,832	76,585
Hotels and restaurants	48,121	35,255
Social services	39,168	22,371
Other	34,443	47,170
Total customer accounts	3,966,009	3,381,172

18. OTHER LIABILITIES

	31 December 2006	31 December 2005
Accrued salary payable	7,958	6,074
Provision for unused vacation	6,960	-
Accrued legal fees	5,519	7,284
Operating taxes accrued	1,076	337
Provision for guaranties and commitments	824	3,085
Deferred income	824	501
Other accrued expenses	274	2,609
Settlements on client transactions	174	1,647
Payables for intangible asset	7	5,502
Other	186	332
Total other liabilities	23,802	27,371

Movements in provision for guarantees and other commitments for the years ended 31 December 2006 and 2005 are disclosed in Note 5.

19. SUBORDINATED DEBT

	Currency	Maturity year	Interest rate %	31 December 2006	31 December 2005
OTP Bank Plc.	USD	2012	(LIBOR+2.85%)/0.98	97,705	-
Raiffeisen Zentralbank Österreich AG	USD	2012	(LIBOR+2.85%)/0.98	-	97,374
European Bank for Reconstruction and Development	USD	2009	LIBOR+2.75%	50,806	50,779
European Bank for Reconstruction and Development	USD	2010	LIBOR+2.75%	25,763	25,680
				174,274	173,833

As of 31 December 2006 and 2005 accrued interest expense included in subordinated debt amounted to UAH 2,831 thousand and UAH 2,439 thousand, respectively.

In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayment of the Bank's liabilities to all other creditors.

Pursuant to Assignment and Assumption Agreement between Raiffeisen Zentralbank sterreich AG and OTP Bank Plc. dated 10 November 2006 the former transferred its rights and obligations arising from Subordinated Loan Agreement with the Bank to the latter. Consent and registration by the NBU is a legal requirement to fully perform the transfer and it was not obtained as of 31 December 2006.

20. SHARE CAPITAL AND SHARE PREMIUM

As of 31 December 2006 and 2005 share capital authorised, issued and fully paid comprised 56,092 ordinary shares with par value of UAH 9,266.89 each. All ordinary shares are ranked equally and carry one vote.

The Bank's distributable reserves to shareholders are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statute, that provides for the creation of a reserve for these purposes.

21. FINANCIAL COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

The Bank's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Bank's uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

Provision for losses on letters of credit and guarantees amounted to UAH 824 thousand and UAH 3,085 thousand as of 31 December 2006 and 2005, respectively (Note 18).

The risk-weighted amount is obtained by applying credit conversion factor and counterparty risk weightings according to the principles employed by the Basle Committee on Banking Supervision.

As of 31 December 2006 and 2005, the nominal or contract amounts and risk-weighted amounts were:

	31 December 2006		31 December 2005	
	Nominal amount	Risk weighted amount	Nominal amount	Risk weighted amount
Contingent liabilities and credit commitments				
Guarantees issued and similar commitments	159,566	155,553	130,885	129,378
Avals	28,215	27,845	5,967	5,887
Letters of credit and other transaction related contingent obligations	81,278	10,640	178,899	66,069
Commitments on loans and unused credit lines	261,954	130,977	151,751	75,876
Total contingent liabilities and credit commitments	531,013	325,015	467,502	277,210

Operating lease commitments – Where the Bank is the lessee, the future minimum lease payments under non cancellable operating leases are as follows:

	31 December 2006	31 December 2005
Not later than 1 year	27,238	26,220
Later than 1 year and not later than 5 years	80,766	75,688
Later than 5 years	3,243	15,210
Total operating lease commitments	111,247	117,118

Legal proceedings – From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

Taxes – Due to the presence in Ukrainian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on management's judgment of the Bank's business activities was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest. Such uncertainty may relate to valuation of financial instruments, loss and impairment provisions and market level for deals' pricing. The Bank believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for three years.

Pensions and retirement plans – Employees receive pension benefits in accordance with the laws and regulations of the respective countries. As of 31 December 2006 and 2005, the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Operating environment – The Bank's principal business activities are within Ukraine. Laws and regulations affecting the business environment in Ukraine are subject to rapid changes and the Bank's assets and operations could be at risk due to negative changes in the political and business environment.

22. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", represent:

(a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Bank that gives then significant influence over the Bank; and that have joint control over the Bank;
(b) Associates – enterprises on which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
(c) Joint ventures in which the Bank is a venturer;
(d) Members of key management personnel of the Bank or its parent;
(e) Close members of the family of any individuals referred to in (a) or (d);
(f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) Post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party of the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Bank had the following transactions outstanding with related parties:

	31 December 2006		31 December 2005	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Due from banks	-	848,726	471,194	674,704
- shareholders	-		461,506	
- entities under common control	-		9,688	
Loans to customers, gross	2,364	9,829,730	1,113	6,018,728
- key management personnel of the entity	2,364		1,113	
Due to banks and financial institutions	4,797,500	6,043,265	2,701,218	2,876,378
- shareholders	4,797,500		2,697,986	
- entities under common control	-		3,232	
Customer accounts	1,536	3,966,009	719	3,381,172
- key management personnel of the entity	1,536		719	
Subordinated debt	97,705	174,274	97,374	173,833
- shareholders	97,705		97,374	
Unused loan commitments	45	261,954	28	151,751
- key management personnel of the entity	45		28	

	31 December 2006		31 December 2005	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Key management personnel compensation:	7,247	138,122	929	73,494
short-term employee benefits	6,207		929	
termination benefits	1,040		-	

Included in the income statement for the years ended 31 December 2006 and 2005 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2006		Year ended 31 December 2005	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	119	1,010,377	6,683	559,161
- shareholders	-		6,683	
- key management personnel of the entity	119		-	
Interest expense	209,100	387,805	86,462	194,910
- shareholders	206,627		84,218	
- entities under common control	2,435		2,244	
- key management personnel of the entity	38		-	
Operating expenses	5,741	277,995	3,784	170,543
- entities under common control	5,741		3,784	

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Bank could realise in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the balance sheet of the Bank is presented below:

	31 December 2006		31 December 2005	
	Current value	Fair value	Current value	Fair value
Cash and balances with the National Bank of Ukraine	625,507	625,507	390,675	390,675
Due to banks	848,726	848,726	674,704	674,704
Investments available for sale	114,932	114,932	242,617	242,617
Due from banks and financial institutions	6,043,265	6,043,265	2,876,378	2,876,378
Customer accounts	3,966,009	3,966,009	3,381,172	3,381,172
Subordinated debt	174,274	174,274	173,833	173,833

The fair value of loans to customers can not be measured reliably as it is not practicable to obtain market information or apply any other valuation techniques on such instruments.

24. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (as set forth in the table below) of total (8%) and tier 1 capital (4%) to risk weighted assets.

The ratio was calculated according to the principles employed by the Basle Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for impairment losses:

Estimate	Description of position
0%	Cash and balances with the Central bank of Ukraine
0%	State debt securities
20%	Loans and advances to banks for up to 1 year
100%	Loans to customers
100%	Guarantees
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Other assets

As of 31 December 2006 the Bank's total capital amount for Capital Adequacy purposes was UAH 1,291,128 thousand and tier 1 capital amount was UAH 1,147,399 thousand with ratios of 14 % and 13%, respectively.

As of 31 December 2005 the Bank's total capital amount for Capital Adequacy purposes was UAH 989,645 thousand and tier 1 capital amount was UAH 830,126 thousand with ratios of 16% and 13%, respectively.

As of 31 December 2006 and 2005 the Bank included in the computation of Total capital for Capital Adequacy purposes the subordinated debt received, calculated in accordance with Basle Committee requirements for amortisation in the last 5 years to maturity (20% per year) and limited to 50% of Tier 1 capital (Note 19). In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

25. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Bank's business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Bank's risk management policies in relation to those risks follows.

The Bank manages the following risks:

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Assets and Liabilities Committee («ALCO») controls these types of risks by means of maturity analysis, determining the Bank's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimisation.

In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Bank controls the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand in compliance with NBU norms/limits and by means of additional strict limits on maturity gap.

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The ALCO manages interest rate and market risks by matching the Bank's interest rate position, which provides the Bank with a positive interest margin. The Financial Controlling Department conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in interest rates and its influence on the Bank's profitability.

The majority of the Bank's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

The following table presents an analysis of interest rate risk and thus the potential of the Bank for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Bank.

		2006		2005
	UAH	Freely convertible currencies (USD, EUR)	UAH	Freely convertible currencies (USD, EUR)
ASSETS				
Due from banks	5%	3%	9%	2%
Loans to customers	16%	11%	15%	11%
Investments available for sale	14%	-	13%	-
LIABILITIES				
Due to banks and financial institutions	4%	7%	-	6%
Customer accounts	11%	6%	10%	5%
Subordinated debt	-	8%	-	7%

The analysis of interest rate and liquidity risk on balance sheet transactions is presented in the following table:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2006 Total
ASSETS							
Due from banks	239,724	-	-	-	-	253	239,977
Loans to customers	640,923	922,524	2,347,569	3,364,798	2,409,820	-	9,685,634
Investments available for sale	-	-	26,079	88,595	-	-	114,674
Total interest bearing assets	880,647	922,524	2,373,648	3,453,393	2,409,820	253	10,040,285
Cash and balances with the National Bank of Ukraine	501,483	-	-	-	-	124,024	625,507
Due from banks	608,749	–	–	–	–	–	608,749
Investments available for sale	-	-	-	258	-	-	258
Property, equipment and intangible assets	-	-	-	-	-	123,398	123,398
Other assets	4,677	5,223	-	3,068	-	–	12,968
TOTAL ASSETS	1,995,556	927,747	2,373,648	3,456,719	2,409,820	247,675	11,411,165
LIABILITIES							
Due to banks and financial institutions	354,268	552,867	2,224,451	2,289,376	17,708	-	5,438,670
Customer accounts	2,821,204	442,205	591,164	100,680	10,756	-	3,966,009
Subordinated debt	-	512	12,418	137,356	23,988	-	174,274
Total interest bearing liabilities	3,175,472	995,584	2,828,033	2,527,412	52,452	-	9,578,953
Due to banks and financial institutions	604,595	-	-	-	-	-	604,595
Current income tax liabilities	16,547	-	-	-	-	-	16,547
Deferred income tax liabilities	-	-	-	39,511	-	-	39,511
Other liabilities	1,465	9,034	6,960	5,519	-	824	23,802
TOTAL LIABILITIES	3,798,079	1,004,618	2,834,993	2,572,442	52,452	824	10,263,408
Liquidity gap	(1,802,523)	(76,871)	(461,345)	884,277	2,357,368		
Interest sensitivity gap	(2,294,825)	(73,060)	(454,385)	925,981	2,357,368		
Cumulative interest sensitivity gap	(2,294,825)	(2,367,885)	(2,822,270)	(1,896,289)	461,079		
Cumulative interest sensitivity gap as a percentage of total assets	(20%)	(21%)	(25%)	(17%)	4%		

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2005 Total
ASSETS							
Due from banks	649,488	-	-	-	-	505	649,993
Investments available for sale	-	-	77,133	151,798	13,428	-	242,359
Loans to customers	416,590	502,453	1,647,782	1,963,212	1,402,739	-	5,932,776
Total interest bearing assets	1,066,078	502,453	1,724,915	2,115,010	1,416,167	505	6,825,128
Cash and balances with the National Bank of Ukraine	186,148	-	-	-	-	204,527	390,675
Due from banks	24,711	-	-	-	-	-	24,711
Investments available for sale	-	-	-	258	-	-	258
Property, equipment and intangible assets	-	-	-	-	-	88,664	88,664
Current income tax assets	-	970	-	-	-	-	970
Other assets	2,794	10,278	3,214	-	-	-	16,286
TOTAL ASSETS	1,279,731	513,701	1,728,129	2,115,268	1,416,167	293,696	7,346,692
LIABILITIES							
Due to banks and financial institutions	678,869	32,287	228,387	1,887,604	23,988	-	2,851,135
Customer accounts	2,372,656	473,849	404,006	106,851	23,810	-	3,381,172
Subordinated debt	-	-	2,439	99,738	71,656	-	173,833
Total interest bearing liabilities	3,051,525	506,136	634,832	2,094,193	119,454	-	6,406,140
Due to banks and financial institutions	25,243	-	-	-	-	-	25,243
Current income tax liabilities	-	9,517	-	-	-	-	9,517
Deferred income tax liabilities	-	-	-	47,348	-	-	47,348
Other liabilities	10,591	6,411	-	7,284	-	3,085	27,371
TOTAL LIABILITIES	3,087,359	522,064	634,832	2,148,825	119,454	3,085	6,515,619
Liquidity gap	(1,807,628)	(8,363)	1,093,297	(33,557)	1,296,713		
Interest sensitivity gap	(1,985,447)	(3,683)	1,090,083	20,817	1,296,713		
Cumulative interest sensitivity gap	(1,985,447)	(1,989,130)	(899,047)	(878,230)	418,483		
Cumulative interest sensitivity gap as a percentage of total assets	(27%)	(27%)	(12%)	(12%)	6%		

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The ALCO controls currency risk by management of the open currency position on the estimated basis of UAH devaluation and other macroeconomic indicators, which gives the Bank an opportunity to minimise losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Bank’s open currency position with the aim to match the requirements of the National bank.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	UAH and non monetary items	USD USD 1 = UAH 5.05	EUR EUR 1 = UAH 6.65085	Other currency	31 December 2006 Total
ASSETS					
Cash and balances with the National Bank of Ukraine	432,757	177,568	15,182	-	625,507
Due from banks	625,799	178,346	32,581	12,000	848,726
Loans to customers	1,911,541	7,289,221	484,872	-	9,685,634
Investments available for sale	114,932	-	-	-	114,932
Property, equipment and intangible assets	123,398	-	-	-	123,398
Other assets	12,968	-	-	-	12,968
TOTAL ASSETS	3,221,395	7,645,135	532,635	12,000	11,411,165
LIABILITIES					
Due to banks and financial institutions	659,317	5,330,098	53,838	12	6,043,265
Customer accounts	1,668,483	1,825,041	461,585	10,900	3,966,009
Current income tax liabilities	16,547	-	-	-	16,547
Deferred income tax liabilities	39,511	-	-	-	39,511
Other liabilities	14,788	2,068	6,944	2	23,802
Subordinated debt	-	174,274	-	-	174,274
TOTAL LIABILITIES	2,398,646	7,331,481	522,367	10,914	10,263,408
OPEN BALANCE SHEET POSITION	822,749	313,654	10,268	1,086	

	UAH and non monetary items	USD USD 1 = UAH 5.05	EUR EUR 1 = UAH 5.97163	Other currency	31 December 2005 Total
ASSETS					
Cash and balances with the National Bank of Ukraine	334,706	47,896	8,073	-	390,675
Due to banks	68,160	79,124	365,248	162,172	674,704
Loans to customers	1,641,556	3,873,375	417,845	-	5,932,776
Investments available for sale	242,617	-	-	-	242,617
Property, equipment and intangible assets	88,664	-	-	-	88,664
Current income tax assets	970	-	-	-	970
Other assets	16,286	-	-	-	16,286
TOTAL ASSETS	2,392,959	4,000,395	791,166	162,172	7,346,692
LIABILITIES					
Due to banks and financial institutions	7,068	2,392,221	325,680	151,409	2,876,378
Customer accounts	1,729,130	1,303,002	337,038	12,002	3,381,172
Current income tax liabilities	9,517	-	-	-	9,517
Deferred income tax liabilities	47,348	-	-	-	47,348
Other liabilities	27,371		-	-	27,371
Subordinated debt	-	173,833	-	-	173,833
TOTAL LIABILITIES	1,820,434	3,869,056	662,718	163,411	6,515,619
OPEN BALANCE SHEET POSITION	572,525	131,339	128,448	(1,239)	

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Bank manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments the Bank is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Bank manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Financial Controlling Department conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in fair value interest rates and its influence on the Bank's profitability.

Credit risk

The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within authority limits set by the Supervisory Board and Credit Committees. Before any application is made by the Credit Committee, all recommendations on credit processes are reviewed and approved by the branch risk-manager or the Risk Management Division. Risk management Division and its Branch representatives continue the risk assessment function based on periodical financial reporting of the customers. Ongoing monitoring of the credit agreement (and their derivatives) conditions is under control of respective business units such as: Corporate Credit Products Division, Project Finance Division, Small and Middle Entities Business Division, Collections.

The Bank structures the level 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 industry segments. The exposure to any one borrower including banks is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guarantees but a significant portion is lending to private individuals, where such facilities not always can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i. e. using limits to mitigate the risk, and continuous monitoring. The Bank monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Geographical concentration

The ALCO exercises control over the risk in the legislation and regulatory area and assesses its influence on the Bank's activity. This approach allows the Bank to minimise potential losses from the investment climate fluctuations in Ukraine. The Bank's Management Board sets up country limits, which mainly applies to banks of the Commonwealth of Independent States and Baltic countries.

The geographical concentration of assets and liabilities is set out below:

	Ukraine	Other non-OECD countries	OECD countries	31 December 2006 Total
ASSETS				
Cash and balances with the National Bank of Ukraine	625,507	-	-	625,507
Due from banks	630,279	5,425	213,022	848,726
Loans to customers	9,685,634	-	-	9,685,634
Investments available for sale	114,932	-	-	114,932
Property, equipment and intangible assets	123,398	-	-	123,398
Other assets	12,968	-	-	12,968
TOTAL ASSETS	11,192,718	5,425	213,022	11,411,165
LIABILITIES				
Due to banks and financial institutions	805,741	258	5,237,266	6,043,265
Customer accounts	3,898,382	6,721	60,906	3,966,009
Current income tax liabilities	16,547	-	-	16,547
Deferred income tax liabilities	39,511	-	-	39,511
Other liabilities	23,802	-	-	23,802
Subordinated debt	-	-	174,274	174,274
TOTAL LIABILITIES	4,783,983	6,979	5,472,446	10,263,408
NET POSITION	6,408,735	(1,554)	(5,259,424)	

	Ukraine	Other non-OECD countries	OECD countries	31 December 2005 Total
ASSETS				
Cash and balances with the National Bank of Ukraine	390,675	-	-	390,675
Due from banks	87,087	11,193	576,424	674,704
Loans to customers	5,932,776	-	-	5,932,776
Investments available for sale	242,617	-	-	242,617
Property, equipment and intangible assets	88,664	-	-	88,664
Current income tax assets	970	-	-	970
Other assets	16,286	-	-	16,286
TOTAL ASSETS	6,759,075	11,193	576,424	7,346,692
LIABILITIES				
Due to banks and financial institutions	71,976	5,791	2,798,611	2,876,378
Customer accounts	3,285,188	2,597	93,387	3,381,172
Current income tax liabilities	9,517	-	-	9,517
Deferred income tax liabilities	47,348	-	-	47,348
Other liabilities	27,371	-	-	27,371
Subordinated debt	-	-	173,833	173,833
TOTAL LIABILITIES	3,441,400	8,388	3,065,831	6,515,619
NET POSITION	3,317,675	2,805	(2,489,407)	

Events after the Balance-Sheet Date

January:

■ Dmytro Beletsky was appointed a Member of the Management Board of OTP Bank, responsible for retail and SME business lines.

■ Outlet Shevchenkivske launched in Donetsk, outlet Soborne launched in Zaporizhya.

February:

■ Zhytomir regional outlet opened.

March:

■ Celebration of OTP Bank's 9 years of success in Ukraine's financial market.

■ General Shareholders' Meeting approves an increase in the Bank's Charter Capital of UAH 134 million.

April:

■ Outlet Osokorky launched in Kyiv.

■ Based on 2006 results OTP Bank achieved second place in a rating survey of the most reliable banks in Ukraine presented by «Expert-Rating» and the Ukrainian society of financial analysts.

■ In the first quarter of 2007 the retail loan portfolio of OTP Bank grew by 9% up to UAH 5 bln. Thus, in terms of retail lending the bank was ranked number 5 by rating of the Association of Ukrainian Banks.

■ Mortgage lending reached UAH 3 bln.

■ OTP Bank launched mortgage and car loans in Swiss franks (CHF).

■ Package Account is introduced for private clients, combining advantages of current and card accounts.

■ SME clients receive new services – deposit line and long-term credit line for financing working capital needs.

May:

■ Syndicated Loan in the amount of USD 150 mln is signed.
The Bank-organizer is Raiffesien Zentral Bank Osterreich AG, (Austria).

■ New cash management product is launched for corporate clients «Interest Bearing Current Account».

■ Desmond O'Maonaigh was appointed as a member of the Management Board and Chief Financial Officer of OTP Bank.

About the OTP Group

The National Savings and Commercial Bank (OTP Bank Plc.) was founded in 1949. During 1995-1999 it went through a major transformation into an universal retail bank, fully publicly traded on the Budapest Stock Exchange. Its GDRs are listed on the stock exchanges of Luxemburg and London. At present, 85% of the bank's stock is held by foreign institutional investors.

Following its own privatisation, OTP Bank Plc. embarked on international expansion targeting CEE markets with good growth prospects. A series of successful acquisitions have enabled the bank to become a key player in the region.

OTP Group currently comprises 40 financial institutions including banks, leasing firms, factoring and asset management companies, and pension funds. Via its subsidiaries, the Group presently operates in the markets of Hungary, Bulgaria, Croatia, Rumania, Serbia, Slovakia, Montenegro, Russia and Ukraine.

The Group's overarching business strategy is geared towards maximising shareholder value by creating CEE's best-performing financial conglomerate.

The Group's strategy in Ukraine provides for dramatic expansion of our network of branches, regional outlets and rep offices and implementation of state-of-the-art e-banking technologies, e.g. telebanking, mobile banking and Internet banking.

The Group is also committed to providing high-quality service, project finance and structured trade finance to its large corporate clients to better cater for their needs, including syndicated lending facilities in conjunction with the parent bank.

Licenses, Membership

Licenses

License of the NBU #191 as of 08.11.2006 on conducting banking operations

License of the State Committee on Securities and Stock Market AB #189770 as of 20.11.2006 on conduction professional activities on securities market.

Membership

- Association of Ukrainian Banks
- SWIFT
- VISA International
- Europay International
- MasterCard International
- Official dealer American Express
- Partner of Western Union
- UkrSWIFT
- First Ukrainian Bureau of Credit Histories
- Dnipropetrovsk Banking Union
- Interregional Stock Union
- Private Depositors' Guarantee Fund
- Ukrainian Interbank Currency Exchange
- The European Business Association
- The Ukrainian National Mortgage Association
- Professional Custodian Association
- PFTS
- The Crimean Banking Union

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