Joint Stock Company
“The State Export-Import Bank of Ukraine”
Consolidated Financial Statements

Year ended 31 December 2004
Together with Independent Auditors’ Report

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INDEPENDENT AUDITORS' REPORT

Independent auditors' report to the Directors of
Joint Stock Company "The State Export-Import Bank of Ukraine"

We have audited the accompanying consolidated balance sheet of Joint Stock Company "The State Export-Import Bank of Ukraine" (the "Bank") and its subsidiary as at 31 December 2004 and the related statements of income, cash flows and changes in shareholder's equity for the year then ended. These financial statements, on pages 1 to 27, are the responsibility of the Bank's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Bank and its subsidiary as at 31 December 2004 and the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Ukraudit

12 April 2005
Kyiv, Ukraine

CONSOLIDATED BALANCE SHEET

(Thousands of Ukrainian hryvnia)

	Notes	31 December 2004	31 December 2003
Assets			
Cash and due from the NBU	5	456,990	227,015
Amounts due from credit institutions	6	427,179	409,962
Loans to customers	7	3,460,435	2,380,352
Investment securities	8	381,822	331,555
Tax asset	9	9,618	467
Property, equipment and computer software	11	346,536	348,153
Other assets	12	27,139	26,277
Total assets		**5,109,719**	**3,723,781**
Liabilities			
Amounts due to the National Bank of Ukraine	13	291,103	378,662
Amounts due to credit institutions	14	633,216	717,528
Amounts due to customers	15	2,902,530	2,276,507
Eurobonds issued	16	799,915	-
Tax liabilities	9	1,792	6,017
Other liabilities	12	19,640	22,948
Total liabilities		**4,648,196**	**3,401,662**
Shareholder’s equity			
Share capital		1,081,232	975,232
Accumulated deficit		(619,709)	(653,113)
Total shareholder’s equity	17	**461,523**	**322,119**
Total liabilities and shareholder’s equity		**5,109,719**	**3,723,781**
Financial commitments and contingencies	18		

Signed and authorised for release on behalf of the Board of the Bank

Victor Kapustin — Chairman of the Board

Olga Alekseeva — Chief Accountant

11 April 2005

The accompanying notes on pages 5 to 27 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

(Thousands of Ukrainian hryvnia)

	Notes	Year ended 31 December 2004	2003
Interest income		482,955	377,348
Interest expense		(242,661)	(199,100)
Net interest income	19	**240,294**	**178,248**
Impairment of interest earning assets	10	(77,144)	(23,931)
		163,150	**154,317**
Fee and commission income		160,066	126,970
Fee and commission expense		(17,041)	(16,537)
Fees and commissions, net	20	**143,025**	**110,433**
Gains less losses from foreign currencies:			
- dealing		42,262	23,067
- translation differences		1,112	3,377
Dealing in securities		1,152	60
Other income		2,330	2,766
Non interest income		**46,856**	**29,270**
Remeasurement of financial instruments		(1,041)	(2,548)
Salaries and benefits	21	(161,999)	(133,427)
Depreciation and amortisation	11	(39,086)	(25,686)
Other administrative and operating expenses	21	(62,940)	(56,856)
Impairment of other assets and provisions	10	(3,402)	(1,477)
Non interest expense		**(268,468)**	**(219,994)**
Income before tax		**84,563**	**74,026**
Taxation	9	(25,159)	(23,214)
Net income		**59,404**	**50,812**

The accompanying notes on pages 5 to 27 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

For the year ended 31 December 2004

(Thousands of Ukrainian hryvnia)

	Share capital	*Accumulated deficit*	*Total shareholder's equity*
31 December 2002	**909,232**	**(637,925)**	**271,307**
Capitalised profits	66,000	(66,000)	-
Net income		50,812	50,812
31 December 2003	**975,232**	**(653,113)**	**322,119**
Capitalised profits	26,000	(26,000)	-
Share capital issued	80,000	-	80,000
Net income		59,404	59,404
31 December 2004	**1,081,232**	**(619,709)**	**461,523**

The accompanying notes on pages 5 to 27 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Thousands of Ukrainian hryvnia)

	Notes	Year ended 31 December 2004	2003
Cash flows from operating activities			
Interest and commissions received		616,892	498,575
Interest and commissions paid		(219,431)	(187,051)
Gains less losses from dealing in foreign currencies and securities		39,743	23,127
Other operating income received		2,330	4,104
Salaries and benefits		(160,140)	(130,587)
Other operating and administrative expenses		(69,474)	(58,158)
Cash flow from operating activities before changes in operating assets and liabilities		**209,920**	**150,010**
Net (increase) / decrease in operating assets			
Amounts due from credit institutions		58,433	(61,021)
Loans to customers		(1,112,526)	(779,260)
Other assets		322	215,273
Net increase / (decrease) in operating liabilities			
Amounts due to the National Bank of Ukraine		(100,136)	(104,043)
Amounts due to credit institutions		(78,029)	25,367
Amounts due to customers		604,663	510,382
Other liabilities		(11,637)	6,683
Net cash flows from operating activities before income taxes		**(428,990)**	**(36,609)**
Income tax paid		(38,629)	(19,877)
Net cash flows from operating activities		**(467,619)**	**(56,486)**
Cash flows from financing activities			
Amounts due to credit institutions		(24,401)	216,058
Share capital issued		80,000	-
Eurobonds issued		781,949	-
Net cash flows from financing activities		**837,548**	**216,058**
Cash flows used in investing activities			
Purchase of investment securities		(42,087)	(137,306)
Purchases of property, equipment and computer software		(38,272)	(55,426)
Proceeds from sale of property and equipment		7,337	8,498
Net cash flows used in investing activities		**(73,022)**	**(184,234)**
Effect of exchange rates changes on cash and cash equivalents		8,880	5,919
Net change in cash and cash equivalents		**305,787**	**(18,743)**
Cash and cash equivalents, beginning of the year	25	**499,081**	**517,824**
Cash and cash equivalents, ending of the year	25	**804,868**	**499,081**

The accompanying notes on pages 5 to 27 are an integral part of these consolidated financial statements.

(Thousands of Ukrainian hryvnia)

1. Principal Activities

The State Export-Import Bank of Ukraine (the "Bank") was founded in 1992. The Bank was registered at the National Bank of Ukraine (the "NBU") on 23 January 1992 and on 18 September 2000 was re-registered as an open joint stock company. Currently the Bank operates under a general banking licence #2 renewed by the NBU on 25 December 2001, which provides the Bank with the right to conduct banking operations, including currency operations.

As at 31 December 2004 and 2003, 100% of Bank's shares were owned by the State of Ukraine.

The Bank's Head office is in Kyiv at 127, Gorky St. It has 29 branches and 54 operating outlets (2003: 29 branches and 44 operating outlets) located in Kyiv and other regions of Ukraine. The Bank and its branches form a single legal entity. It had 3,065 employees as at 31 December 2004 (2003: 2,872 employees).

Historically, the main focus of the Bank's operations was servicing various export-import transactions. Currently, the Bank's customer base is diversified and includes some large industrial and State owned enterprises. The Bank accepts deposits from the public and makes loans, transfers payments in Ukraine and abroad, exchanges currencies, invests funds and provides cash and settlements, and other banking services to its customers.

One of the activities of the Bank is to facilitate, on behalf of the Ukrainian Government, the administration of loan agreements entered into by the Ukrainian Government and other foreign governments. The Bank acts as an agent on behalf of the Ukrainian Government with respect to loans from foreign financial institutions based on the aforementioned agreements. The loan proceeds are advanced to various enterprises within Ukraine on the basis of separate loan agreements between the Bank and Ukrainian enterprises.

A letter from the Cabinet of Ministers dated 4 August 1995, which was subsequently formalised in an Agency Agreement dated 19 September 1996, confirms that the responsibility of the Bank is to act as an agent of the Ukrainian Government for the above described activities and thereby the loan obligations and related risks belong to the Government.

"Ukreximleasing", a 100% owned subsidiary of the Bank, was founded in 1997 and operates in Ukraine in the trading and leasing business. The Bank is the main customer and provider of finance for the subsidiary.

2. Operating Environment and Economic Conditions

The Ukrainian economy continues to display emerging market characteristics. These characteristics include the lack of a well-developed business and regulatory infrastructure, limited convertibility of the national currency along with various currency controls, higher than average inflation, and low levels of liquidity in the capital market. The Government is attempting to address these issues; however it has not yet implemented the reforms necessary to create the banking, judicial and regulatory systems that usually exist in more developed markets. As a result, operations in Ukraine involve risks that are not typically associated with those in developed markets.

In common with many other businesses in Ukraine, foreign currencies, in particular the US dollar and euro, play a significant role in the underlying economics of the business transactions of the Bank. In 2004, the exchange rate of the Ukrainian hryvnia to the US dollar has fluctuated about 5.3. As at 31 December 2004, the exchange rate of the Ukrainian hryvnia as established by the NBU was 5.3054 to the US dollar (2003: 5.3315 and 2002: 5.3324). The rate as at the date of issue of these financial statements is UAH 5.2690 to the US dollar.

3. Basis of Preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IAS") and Standing Interpretations Committee

(Thousands of Ukrainian hryvnia)

interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect. These consolidated financial statements are presented in thousands of Ukrainian hryvnia ("UAH"), unless otherwise indicated. The hryvnia is utilised as the measurement currency as a large portion of the Bank's and its subsidiary's transactions are denominated, measured, or funded in Ukrainian hryvnia and the shareholder, the managers and the regulators measure the Bank's performance in hryvnia; the majority of the Bank's products are established mainly by reference to competitive forces and regulations in Ukraine. In addition, Ukrainian hryvnia, being the national currency of Ukraine, is the currency that reflects the economic substance of the underlying events and circumstances relevant to the Bank. Transactions in other currencies are treated as transactions in foreign currencies.

The Bank and its subsidiary are required to maintain their books of account in Ukrainian hryvnia and prepare statements for regulatory purposes in accordance with the "Regulations on the Organisation of Accounting and Reporting for Ukrainian Banking Institutions" ("UAR") issued by the National Bank of Ukraine and in accordance with Ukrainian Accounting Standards. These consolidated financial statements are based on the books and records of the Bank and its subsidiary as adjusted and reclassified in order to comply with IFRS.

The consolidated financial statements are prepared under the historical cost convention modified for the measurement at fair value of available-for-sale securities.

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as at the date of the financial statements. Actual results, therefore, could differ from these estimates.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its wholly owned subsidiary "Ukreximleasing" drawn up to the 31 December each year.

The subsidiary has been consolidated from the date on which control was transferred to the Bank.

Inflation Accounting

The Ukrainian economy was regarded as being hyperinflationary for the ten-year period ended 31 December 2000. As such, the Bank has applied IAS 29 "Financial accounting in hyperinflationary economies". The effect of applying IAS 29 is that non-monetary items were restated using the Consumer Price Index to measuring units current at 31 December 2000, and these restated values were used as a basis for accounting in subsequent accounting periods.

Reconciliation of UAR and IFRS Equity and Net Income

Shareholder's equity and net income are reconciled between UAR and IFRS as follows:

	2004		***2003***	
	Shareholder's equity	***Net income***	***Shareholder's equity***	***Net income***
UAR as reported	615,250	90,936	444,314	30,082
Application of IAS 29	(18,329)	(186)	(18,143)	738
Measurement of financial instruments	(16,157)	(6,566)	(9,591)	(29,354)
Additional allowance for impairment	(79,069)	(30,085)	(48,984)	61,825
Accruals	1,252	4,092	(2,840)	(420)
Additional IFRS depreciation	(48,147)	(11,027)	(37,120)	(1,810)
Deferred taxation	9,656	15,125	(5,469)	(5,696)
Other adjustments	(2,933)	(2,885)	(48)	(4,553)
IFRS as adjusted	**461,523**	**59,404**	**322,119**	**50,812**

(Thousands of Ukrainian hryvnia)

4. Summary of Accounting Policies

Recognition of Financial Instruments

The Bank recognises financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognised using trade date accounting.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Financial assets and liabilities are initially measured at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. Any gain or loss at initial recognition is recognised in the current period’s income statement. The accounting policies for subsequent re-measurement of financial instruments are disclosed in the respective accounting policies set out below.

The Bank derecognises financial assets when, and only when, it loses control of the contractual rights that comprise the financial asset and removes financial liabilities from its balance sheet when, and only when, they are extinguished.

If the Bank transfers control of an entire financial asset and, in doing so, creates a new financial asset, the Bank recognises the new financial asset at fair value and recognises a gain or loss on the transaction. If a new financial asset is created but cannot be measured reliably, its initial carrying amount is zero.

Amounts Due from Credit Institutions

In the normal course of business, the Bank maintains current accounts and deposits for various periods of time with other banks. Amounts due from credit institutions are recognised and initially measured under the policy for financial instruments. Amounts due from credit institutions with a fixed maturity term are subsequently re-measured at amortised cost using the effective interest rate method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for impairment.

Loans to Customers

Loans granted by the Bank by providing funds directly to the borrower are categorised as loans originated by the Bank and are recognised and initially measured in accordance with the policy for financial instruments. The difference between the nominal amount of consideration given and the fair value of loans issued at other than market terms is charged to the income statement in the period the loan is issued. Loans and advances to customers with fixed maturity are subsequently re-measured at amortised cost using the effective interest rate method. All loans and advances to customers are carried net of any allowance for impairment.

Loans are placed on non-accrual status when full payment of principal or interest is in doubt (a loan with principal and interest unpaid for at least ninety days). When a loan is placed on non-accrual status, contractual interest income is not recognised in the financial statements. A non-accrual loan may be restored to accrual status when principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period.

Promissory Notes

The majority of promissory notes held by the Bank are, in substance, equivalent to originated loans and are carried under the policy for such instruments. Allowances for impairment are assessed on the same basis as for originated loans. For promissory notes held as investment securities, the Bank applies the same accounting policies as for these categories of securities.

Repurchase and Reverse Repurchase Agreements

Repurchase and reverse repurchase agreements are utilised by the Bank as an element of its treasury management and trading business. These agreements are accounted for as financing transactions.

Securities sold under repurchase agreements are accounted for as trading or investment securities and funds received under these agreements are included into amounts due to credit institutions or amounts due to customers. Securities purchased under agreements to resell (“reverse repos”) are recorded as amounts due from credit institutions or as loans to customers.

(Thousands of Ukrainian hryvnia)

Any related income or expense arising from the pricing spreads of the underlying securities is recognised as interest income or expense, accrued using the effective interest rate method, during the period that the related transactions are open.

Securities Portfolio

Securities purchased principally for the purpose of generating a profit from short-term fluctuations in price or dealers’ margin are classified as trading securities. Trading securities are initially recognised under the policy for financial instruments and are subsequently measured at fair value, based on market values as at the balance sheet date. Realised and unrealised gains and losses resulting from operations with trading securities are recognised in the statement of income as result from dealing in securities. Interest earned on trading securities is reported as interest income.

The Bank has classified its investment securities into two categories:

1. Securities with fixed maturities and fixed or determinable payments that management has both the positive intent and the ability to hold to maturity are classified as held-to-maturity; and
2. Securities that are not classified by the Bank as held-to-maturity or trading are included in the available-for-sale portfolio.

The Bank classifies securities depending upon the intent of management at the time of the purchase. Investment securities are initially recognised in accordance with the policy for financial instruments stated above and subsequently re-measured using the following policies:

1. Held-to-maturity securities – at amortised cost using the effective interest rate method. Allowance for impairment is estimated on a case-by-case basis.
2. Available-for-sale securities are subsequently measured at fair value, which is equal to the market value as at the balance sheet date. When debt securities with fixed maturities are non-marketable or no information is available on market of similar instruments, fair value has been estimated as the discounted future cash flows using current interest rates. Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for diminution in value unless there are other appropriate and workable methods of reasonably estimating their fair value.

   Gains and losses arising from changes in the fair value of available-for-sale securities are recognised in the income statement as other income in the period that the change occurs.

Property and Equipment

Property and equipment are carried at cost or restated cost (for assets acquired prior to 31 December 2000), less accumulated depreciation. Depreciation on assets under construction and those not placed in service commences from the date the assets are placed in service. Depreciation is calculated on a straight-line basis over the following estimated useful lives (in years):

Buildings	50 years
Furniture, fixtures and other assets	10 years
Equipment and computers	5 years
Motor vehicles	4 years

Leasehold improvements are amortised over the shorter of the life of the related leased asset or term of the respective lease agreement.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Expenses relating to repairs and renewals are charged to the income statement when incurred and included in other operating and administrative expenses unless they qualify for capitalisation.

(Thousands of Ukrainian hryvnia)

In 2004, management revised its economic useful life estimate for automatic cash machines, which are included in equipment and computers, to 5 years. The change in accounting estimate resulted in an increase of depreciation and amortisation expenses of approximately UAH 4,725 thousand for the year ended 31 December 2004.

Computer Software

Computer software includes acquired software licences. Computer software is stated at cost or restated cost (for assets acquired prior to 31 December 2000) net of accumulated amortisation. Amortisation is calculated on a straight-line basis over the useful lives of five years.

Operating Leases

Leases of assets under which the lessor effectively retains the risks and rewards of ownership are classified as operating leases.

Lease payments under operating leases are recognised as expenses on a straight-line basis over the lease term and included in other operating and administrative expenses.

Lease income from operating leases is recognised in the consolidated income statement on a straight-line basis over the lease term as other operating income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are recognised as an expense in the consolidated income statement in the period in which they are incurred.

Allowances for Impairment of Financial Assets

The Bank establishes allowances for the impairment of financial assets when it is probable that the Bank will not be able to collect the principal and interest according to the contractual terms of loans issued, held-to-maturity securities and other financial assets, which are carried at cost and amortised cost. The allowance for impairment of financial assets is defined 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 original effective interest rate of the financial instrument. For instruments that do not have fixed maturities, expected future cash flows are discounted using periods during which the Bank expects to realise the financial instrument.

The allowance is based on the Bank's own loss experience and management's judgment as to the level of losses that will most likely be recognised from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower. The allowance for impairment of financial assets in the accompanying consolidated financial statements has been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in Ukraine and what effect such changes might have on the adequacy of the allowance for impairment of financial assets in future periods.

Changes in allowances are reported in the income statement of the related period. When a loan is not collectable, it is written off against the related allowance for impairment; if the amount of the impairment subsequently decreases due to an event occurring after the write-down, the reversal of the allowance is credited to the related impairment of financial assets in the income statement.

Financial Liabilities

Financial liabilities include amounts due to the NBU, due to credit institutions and amounts due to customers. Financial liabilities are recognised and initially measured in accordance with policy for financial instruments. Subsequent re-measurement is made at amortised cost using the effective interest rate method.

Share Capital

Share capital is reported at restated cost.

Income and Expenses Recognition

Interest income and expense relating to financial instruments accounted at amortised cost are recognised using the effective interest rate method and are considered when determining the carrying value of the respective financial instruments. Interest income and expense relating to other financial instruments are recognised on an accrual basis. Interest income includes interest income earned on investment and trading securities. Commissions and other

(Thousands of Ukrainian hryvnia)

income are credited to income when the related transactions are completed. Loan origination fees, if any, for loans issued to customers, are deferred and recognised as an adjustment to the effective yield on the loan. Non-interest expenses are recognised at the time the transaction occurs.

Income from sales of goods are recognised in the consolidated income statement when the significant risks and rewards of ownership of goods are transferred to a buyer, amounts of revenue and costs incurred can be measured reliably, and it is probable that economic benefits associated with a transaction will flow to the Bank or its subsidiary.

Taxation

The current income tax charge is calculated in accordance with Ukrainian taxation regulations.

Deferred taxes are calculated using the balance sheet liability method. Deferred taxes reflect the effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. Deferred tax assets and liabilities are off set to the extent that there is a legally enforceable right to set off current tax assets against current tax liabilities and the recognised amounts relate to income taxes levied by the same taxation authority on the same taxable entity.

Ukraine also has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of other operating and administrative expenses in the consolidated income statement.

Retirement and Other Benefit Obligations

The Bank does not have any pension arrangements separate from the State pension system of Ukraine, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to the income statement in the period the related salaries are earned. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

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.

Contingencies

Contingent liabilities are not recognised in the consolidated financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Foreign Currency Transaction

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated into Ukrainian hryvnia at the exchange rates ruling as at the balance sheet date. All differences are taken to the income statement as translation differences.

Corresponding Figures

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation.

(Thousands of Ukrainian hryvnia)

5. Cash and Due from the NBU

Cash and due from the NBU comprise:

	2004	*2003*
Cash on hand	162,227	135,312
Current accounts with the National Bank of Ukraine	294,763	91,703
Cash and due from the NBU	**456,990**	**227,015**

The current accounts with the NBU represent amounts deposited with the NBU relating to daily settlements and other activities. The Bank is also required to maintain, in the form of a non-interest earning cash deposit, certain cash reserves with the NBU (obligatory reserve), which are computed as a percentage of certain of the Bank's liabilities less cash on hand and other eligible balances. There are no restrictions on the withdrawal of funds from the NBU, however, if minimum average reserve requirements are not met, the Bank could be subject to certain penalties. The Bank was obligated to and maintained the minimal cumulative average reserve calculated on a daily basis over a monthly period. The average daily requirement for the period from 1 to 31 December 2004 was UAH 198,607 thousand (2003: UAH 188,520 thousand). The Bank meets the NBU obligatory reserve requirements as at 31 December 2004 and 2003.

6. Amounts Due from Credit Institutions

Amounts due from credit institutions comprise:

	2004	*2003*
Current accounts		
OECD banks	42,211	104,727
CIS and other foreign banks	35,422	23,099
Ukrainian banks	284	930
	77,917	**128,756**
Loan and deposits		
OECD banks	275,720	148,328
Ukrainian banks	41,246	97,936
CIS and other foreign banks	34,953	39,200
	351,919	**285,464**
Less – Allowance for impairment	(2,657)	(4,258)
Due from credit institutions	**427,179**	**409,962**

As at 31 December 2004, loans and deposits due from credit institutions include UAH 40,696 thousand of security deposits, placed mainly in respect of customers' transactions, such as letters of credit, performance guarantees and transactions with travellers' cheques (2003: UAH 44,218 thousand).

As at 31 December 2004, loans and deposits due from Ukrainian banks include UAH 1,456 thousand (2003: UAH 3,514 thousand) of loans issued to two Ukrainian banks pursuant to credit line granted by Kredit für Wiederaufbau (Germany) ("KfW") under loan agreements for financing small and medium enterprises in Ukraine (Note 14).

Loans and deposits due from OECD banks mainly represent overnight deposits placed with correspondent banks. These placements bear market interest rates.

As at 31 December 2004, UAH 20,805 thousand was placed on a current account with one Russian bank (2003: UAH 50,905 thousand with one internationally recognised OECD bank) that is the main counter party of the Bank in performing international settlements. The placement was made under normal banking conditions.

As at 31 December 2004, allowances for impairment made on amounts due from credit institutions include allowances for impairment on current account balance amounting to UAH 717 thousand and on loan and deposit balances amounting to UAH 1,940 thousand (2003: UAH 474 thousand and UAH 3,784 thousand respectively).

(Thousands of Ukrainian hryvnia)

7. Loans to Customers

Loans to customers comprise:

	2004	*2003*
Loans to customers	3,876,245	2,770,159
Overdrafts	68,616	62,272
Promissory notes	12,032	4,551
	3,956,893	**2,836,982**
Less – Allowance for impairment	(496,458)	(456,630)
Loans to customers	**3,460,435**	**2,380,352**

As at 31 December 2004, the total gross amount of impaired loans, on which interest was not accrued, was UAH 202,132 thousand (2003: UAH 192,697 thousand).

The Bank's portfolio of loans and advances to customers is extended to the following types of clients:

	2004	*2003*
Private entities	3,508,971	2,516,072
State entities	388,165	297,467
Individuals	59,757	23,443
	3,956,893	**2,836,982**
Less – Allowance for impairment	(496,458)	(456,630)
Loans to customers	**3,460,435**	**2,380,352**

Loans are made principally within Ukraine to companies of the following sectors:

	2004	*%*	*2003*	*%*
Trade enterprises	851,856	21.5	803,029	28.3
Engineering	696,405	17.6	451,108	15.9
Agriculture and food processing	434,654	11.0	346,246	12.2
Consumer products	448,130	11.3	316,362	11.2
Metals	342,052	8.6	311,752	11.0
Services	660,807	16.7	231,209	8.1
Chemistry	207,748	5.3	151,743	5.3
Light industry	94,516	2.4	41,352	1.5
Real estate and construction	54,970	1.4	48,181	1.7
Transport	50,009	1.3	55,996	2.0
Power utilities	41,224	1.0	37,066	1.3
Individuals	59,757	1.5	23,443	0.8
Communications	14,262	0.4	19,423	0.7
Other industries	503	0.0	72	0.0
	3,956,893	**100**	**2,836,982**	**100**
Less – Allowance for impairment	(496,458)		(456,630)	
Loans to customers	**3,460,435**		**2,380,352**	

(Thousands of Ukrainian hryvnia)

The Bank’s portfolio of loans and advances to customers consists of the following types of lending:

	2004	*2003*
Ordinary loans	3,752,137	2,476,781
Loans under the Export Development Project	4,823	311,522
Loans under other international programmes	199,933	48,679
	3,956,893	**2,836,982**
Less – Allowance for impairment	(496,458)	(456,630)
Loans to customers	**3,460,435**	**2,380,352**

The Bank has loans from the International Bank for Reconstruction and Development (the “IBRD”) under the Export Development Project (see Note 14). The loans to the Bank and the loans made by the Bank are denominated in US dollars and euro and the Bank bears the credit risk on the loans it makes. The Bank’s income on these arrangements is limited to a 7% interest margin adjusted to reflect cost of borrowing of the IBRD. As at 31 December 2004, the amount of loans granted under this programme was UAH 4,734 thousand net of allowances (2003: UAH 300,470 thousand net of allowances).

The Bank has a loan from KfW for financing small and medium enterprises in Ukraine. The loan to the Bank and the loans made by it are denominated in euro and the Bank bears the credit risk on the loans it makes. These loans bear interest at 12 – 13.2% p.a. and mature in 2004-2005. As at 31 December 2004, the amount of loans granted under this loan agreement was UAH 54,513 thousand net of allowances (2003: UAH 32,538 thousand net of allowances).

As at 31 December 2004, members of the Management Board have UAH 19 thousand (2003: UAH 115 thousand) of loans issued under preferential conditions.

8. Investment Securities

Investment securities comprise the following:

	2004		*2003*	
	Nominal value	*Carrying value*	*Nominal value*	*Carrying value*
Held-to-maturity				
Ukrainian State bonds	132,867	134,134	201,542	203,600
Corporate bonds	151,390	152,909	112,730	113,505
		287,043		**317,105**
Available-for-sale				
Ukrainian State bonds	86,714	73,223	5,250	5,347
Corporate bonds	20,254	20,517	7,667	7,992
Corporate shares	83,008	1,914	87,111	2,226
Discount promissory notes	653	653	653	653
		96,307		**16,218**
Less – Allowance for impairment		(1,528)		(1,768)
Investment securities		**381,822**		**331,555**

As at 31 December 2004, held-to-maturity and available-for-sale Ukrainian State bonds include bonds with a carrying value of UAH 123,435 thousand (2003: UAH 123,896 thousand) and UAH 47,742 thousand (2003: nil), respectively pledged as security for loans received from the National Bank of Ukraine.

As at 31 December 2004, corporate bonds held by the Bank to maturity include bonds amounting to UAH 54,084 thousand (2003: UAH 91,359 thousand) issued by a State owned Ukrainian transportation company. These bonds are denominated in hryvnia, mature in 2006 and have an effective yield of 12%. The Bank received a hryvnia denominated loan from the NBU amounting to fund the acquisition of such bonds (Note 13). Corporate bonds of UAH 53,490 thousand (2003: UAH 90,355 thousand) were pledged as a security under the loan received from the NBU.

(Thousands of Ukrainian hryvnia)

As at 31 December 2004, corporate bonds held-to-maturity include bonds amounting to UAH 61,333 thousand (2003: nil) issued by a State owned energy generating company. These bonds are denominated in hryvnia, mature in 2006 and have an effective yield of 12%. The Bank received a hryvnia loan from the NBU to compensate for resources used for the acquisition of these bonds (Note 13). Corporate bonds of UAH 61,333 thousand (2003: nil) were pledged as a security under the loan received from the NBU.

As at 31 December 2004, the available-for-sale portfolio includes corporate bonds issued by a Ukrainian bank with carrying value of UAH 2,580 thousand (2003: UAH 4,891 thousand) and shares of various Ukrainian enterprises with a carrying value of nil (nominal value UAH 79,709 thousand). These securities were accepted by the Bank as repayment of a loan from one of its borrowers (Note 24). Currently, no market for the shares exists.

9. Taxation

The corporate income tax charge comprises:

	2004	*2003*
Current tax charge	40,439	17,497
Deferred tax charge/(benefit)	(15,280)	5,717
Income tax charge	**25,159**	**23,214**

In 2003, Ukrainian corporate income tax was levied on taxable income less allowable expenses at a rate of 30%. In earlier 2003, new amendments to the Corporate Income Tax Law were approved, which introduced a new tax rate of 25% applicable for corporate profits. The new tax rate is applicable after 1 January 2004.

Tax assets and liabilities consist of the following:

	2004	*2003*
Current tax asset	14	467
Deferred tax assets	9,604	-
Tax asset	**9,618**	**467**
Current tax liabilities	1,749	300
Deferred tax liabilities	43	5,717
Tax liabilities	**1,792**	**6,017**

The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax charge based on the statutory rate with the actual rate is as follows:

	2004	*2003*
Income before tax	84,563	74,026
Statutory tax rate	25%	30%
Income tax expense at the statutory rate	21,141	22,208
Effect of change in tax rates	-	1,168
Change in valuation allowance against deferred tax asset	-	(6,154)
Non-deductible expenditures	4,018	6,105
Tax deductions	-	(113)
Income tax charge	**25,159**	**23,214**

(Thousands of Ukrainian hryvnia)

Deferred tax assets and liabilities as at 31 December comprise:

	2004	*2003*
Tax effect of deductible temporary differences:		
Allowances for impairment	48,079	41,109
Other assets and liabilities	-	433
Accruals	920	-
Deferred tax assets	**48,999**	**41,542**
Tax effect of taxable temporary differences:		
Property, equipment and computer software	(23,482)	(22,281)
Valuation of financial instruments	(15,831)	(23,979)
Other assets and liabilities	(123)	(548)
Accruals	-	(451)
Deferred tax liabilities	**(39,436)**	**(47,259)**
Deferred tax asset / (liability)	**9,563**	**(5,717)**

10. Allowances for Losses

The movements in allowances for impairment of interest earning assets were as follows:

	Loans to customers	***Due from credit institutions***	***Total***
31 December 2002	**486,988**	**4,710**	**491,698**
Translation differences	(360)	(12)	(372)
Charge	23,612	319	23,931
Write-offs	(54,948)	(759)	(55,707)
Recovery	1,338	-	1,338
31 December 2003	**456,630**	**4,258**	**460,888**
Charge/(release)	78,741	(1,597)	77,144
Write-offs	(40,246)	(4)	(40,250)
Recoveries	1,333	-	1,333
31 December 2004	**496,458**	**2,657**	**499,115**

The movements in allowances for other assets and provisions were as follows:

	Investment securities	***Other assets***	***Off-balance risk***	***Total***
31 December 2002	**808**	**22,176**	**802**	**23,786**
Charge/(release)	960	730	(213)	1,477
Write-offs	-	(14)	-	(14)
31 December 2003	**1,768**	**22,892**	**589**	**25,249**
Charge/(release)	(46)	(95)	3,543	3,402
Write-offs	(194)	-		(194)
31 December 2004	**1,528**	**22,797**	**4,132**	**28,457**

Allowances for impairment of assets are deducted from the related assets. Provisions are recognised as other liabilities.

(Thousands of Ukrainian hryvnia)

11. Property, Equipment and Computer Software

The movements of property, equipment and computer software were as follows:

	Buildings and property	*Computers and equipment*	*Computer software*	*Furniture, fixtures and other assets*	*Motor vehicles*	*Construction in progress*	*Total*
Cost							
31 December 2003	**282,749**	**63,008**	**17,055**	**65,356**	**13,911**	**24,284**	**466,363**
Additions	171	6,621	2,559	2,241	-	26,676	38,268
Disposals	(61)	(800)	(2)	(438)	(409)	(428)	(2,138)
Transfers	6,646	46,150	1,213	(19,344)	657	(35,322)	-
31 December 2004	**289,505**	**114,979**	**20,825**	**47,815**	**14,159**	**15,210**	**502,493**
Accumulated depreciation and amortisation							
31 December 2003	**(30,691)**	**(43,674)**	**(8,527)**	**(26,438)**	**(8,880)**	**-**	**(118,210)**
Charge for the year	(5,912)	(21,880)	(3,858)	(5,205)	(2,231)	-	(39,086)
Disposals	7	778	2	300	252	-	1,339
Transfers	(139)	(4,387)	-	4,526	-	-	-
31 December 2004	**(36,735)**	**(69,163)**	**(12,383)**	**(26,817)**	**(10,859)**	**-**	**(155,957)**
Net book value:							
31 December 2003	**252,058**	**19,334**	**8,528**	**38,918**	**5,031**	**24,284**	**348,153**
31 December 2004	**252,770**	**45,816**	**8,442**	**20,998**	**3,300**	**15,210**	**346,536**

As at 31 December 2004 buildings and property include leasehold improvements with a net book value of UAH 7,620 thousand (2003: UAH 5,203 thousand).

12. Other Assets and Liabilities

Other assets comprise:

	2004	*2003*
Collateral held for resale	23,102	22,767
Prepayments	3,083	8,586
Other accrued income	2,096	1,185
Other	21,655	16,631
	49,936	**49,169**
Less – Allowance for impairment	(22,797)	(22,892)
Other assets	**27,139**	**26,277**

As at 31 December 2004, collateral held for resale comprises balances of oil products amounting to UAH 21,835 thousand (2003: UAH 21,835 thousand) accepted by the Bank in a previous period on a non-performing loan. The Bank has a dispute as to the repayment of the outstanding receivable with the Ukrainian oil refinery, which accepted these products for processing from the original borrower. The timing of resolution of this dispute is neither certain nor can be assessed reliably and the Bank has recognised a full allowance for this balance as at 31 December 2004 (2003: 100% allowance).

(Thousands of Ukrainian hryvnia)

Other liabilities comprise:

	2004	2003
Settlements on transactions with customers	693	7,981
Settlements on card operations	9,343	5,407
Deferred income	2,427	1,742
Payables to Guarantee Fund of Individuals' Deposits	1,645	1,140
Provision	4,133	589
Other liabilities	650	2,962
	18,891	**19,821**
Accrued salary payable	6	2,840
Other accrued expenses	743	287
	749	**3,127**
Other liabilities	**19,640**	**22,948**

13. Amounts Due to the National Bank of Ukraine

Amounts due to the NBU comprise:

	2004	2003
Loans from the NBU	250,750	195,400
Repo operation	40,353	-
Deposit supporting Government related assets	-	183,262
Due to the NBU	**291,103**	**378,662**

Loans from the NBU are represented by refinancing loans amounting to UAH 145,097 thousand (2003: UAH 109,900 thousand) and loans used to fund the acquisition of bonds issued by a State owned Ukrainian transportation company amounting to UAH 50,616 thousand (2003: UAH 85,500 thousand) and bonds issued by a State owned energy generating company amounting amounting to UAH 55,037 thousand (2003: nil) (see Note 8).

As at 31 December 2004, loans due to the NBU are secured by State and corporate bonds with a total carrying amount of UAH 286,000 thousand (2003: UAH 214,251 thousand) (see Note 8).

14. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	2004	2003
Current accounts		
Ukrainian banks	62,093	19,232
CIS and other foreign banks	613	715
	62,706	**19,947**
Loans and time deposits		
International financial organisations	304,616	316,497
OECD banks	254,768	265,161
Ukrainian banks	6,624	115,923
CIS and other foreign banks	4,502	-
	570,510	**697,581**
Due to credit institutions	**633,216**	**717,528**

As at 31 December 2004, included in current accounts of Ukrainian banks is an amount of UAH 16,340 thousand received from one Ukrainian bank (2003: nil). The amount was received under normal banking conditions.

Loans due to international financial organisations include loans from the International Bank for Reconstruction and Development (the “IBRD”) under the Export Development Project. Proceeds from these loans are used to provide

(Thousands of Ukrainian hryvnia)

financing for eligible Ukrainian borrowers (see Note 7). These loans are denominated in US dollars or euro, bear interest at LIBOR+0.5% and mature in 2013. This debt is subject to various covenants and restrictions as more fully described in Note 18.

As at 31 December 2004, loans and deposits from OECD banks included UAH 62,075 thousand granted by KfW under loan agreements for financing small and medium sized enterprises in Ukraine (2003: UAH 45,252 thousand). The loans are denominated in euro, bear interest at a floating rate and mature in 2008-2013.

As at 31 December 2004, loans and deposits from OECD banks included UAH 194,276 thousand received under trade financing agreements with a number of OECD banks (2003: UAH 231,767 thousand). These loans are denominated in US dollars or euro, bear interest at a floating rate and are matched with loans to customers under this trade financing programmes.

15. Amounts Due to Customers

Amounts due to customers comprise:

	2004	***2003***
Current accounts		
- Budget funds	193,078	84,204
- Companies	867,634	814,720
- Individuals	251,793	255,708
	1,312,505	**1,154,632**
Time deposits		
- Companies	456,808	287,484
- Individuals	1,133,217	834,391
	1,590,025	**1,121,875**
Due to customers	**2,902,530**	**2,276,507**
Held as a security against letters of credit	23,724	13,896
Held as a security against guarantees and avals	25,984	42,532

16. Eurobonds issued

In September 2004, the Bank obtained a loan amounting to USD 150,000 thousand (UAH 795,810 thousand), from Dresdner bank. This loan was funded by 7.75% loan participation notes ("Eurobonds") issued by but without recourse to, Dresdner Bank, for the sole purpose of funding the loans to the Bank. The loans mature in September 2009. The interest rate on the loan is 7.75% per annum. Interest payments are made semi-annually in arrears on 23 March and 23 September of each year, commencing 23 March 2005.

17. Shareholder's Equity

As at 31 December 2004, the Bank's authorised issued share capital comprised 368,000 (2003: 262,000) ordinary shares, with a nominal value of UAH 1,000 per share. All shares have equal voting rights. As at 31 December 2004, all issued shares were fully paid and registered (2003: all issued shares were fully paid and registered).

These consolidated financial statements reflect the amount of paid-in capital stated at cost, which is restated using the consumer price index for the contributions made before 31 December 2000. The share capital of the Bank was contributed in Ukrainian hryvnia and US dollars and the Government, as the shareholder, is entitled to dividends and any capital distributions in Ukrainian hryvnia.

In accordance with the Decision of the Cabinet of Ministers of Ukraine dated 12 May 2004, the Bank's share capital was increased by UAH 26,000 thousand through capitalisation of profits.

In addition, in accordance with the Decision of the Cabinet of Ministers of Ukraine dated 25 August 2004, the Bank's share capital was increased by UAH 80,000 thousand through the issue of new shares.

(Thousands of Ukrainian hryvnia)

The Bank's distributable reserves are determined by the amount of its reserves as disclosed in the accounts prepared in accordance with UAR. As at 31 December 2004, the Bank has distributable reserves amounting to UAH 94,556 thousand (2003: UAH 33,694 thousand). The amount of non-distributable reserves was UAH 152,694 thousand (2003: UAH 148,620 thousand). Non-distributable reserves are represented by a statutory revaluation reserve and a general reserve fund, which is created to cover general banking risks, including future losses and other unforeseen risks or contingencies.

18. Commitments and Contingencies

Legal

In the ordinary course of business, the Bank and its subsidiary are subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank and its subsidiary.

Tax Risks

Ukrainian legislation and regulations regarding taxation and other operational matters continue to evolve as a result of an economy in transition. Legislation and regulations are not always clearly written and their interpretation is subject to the opinions of local, regional and national authorities, and other Governmental bodies. Instances of inconsistent opinions are not unusual. Management believes that the Bank and its subsidiary have complied with all regulations and paid or accrued all taxes that are applicable. Where the risk of outflow of resources is probable, the Bank and its subsidiary have accrued tax liabilities based on management's best estimate.

The Bank's operations and financial position will continue to be affected by Ukrainian political developments including the application of existing and future legislation and tax regulations. The Bank does not believe that these contingencies, as relating to its operations, are any more significant than those of similar enterprises in Ukraine.

Financial Commitments and Contingencies

The Bank's financial commitments and contingencies comprise the following:

	2004	***2003***
Letters of credit	218,241	87,997
Guarantees	219,502	77,919
Avals on promissory notes	12,441	36,204
	450,184	**202,120**
Lease commitments		
Not later than 1 year	-	210
Later than 1 year but not later than 5 years	-	2,880
Later than 5 years	-	3,574
	-	**6,664**

As at 31 December 2004, letters of credit and guaranteed were secured by customers' cash deposits amounting to UAH 49,708 thousand (2003: UAH 56,428 thousand). As at 31 December 2004, the Bank has recognised a provision of UAH 4,132 thousand (2003: UAH 589 thousand) against unsecured commitments.

Insurance

The Bank's premises were not insured as at 31 December 2004 and 2003. The Bank has not obtained insurance coverage relating to liabilities arising from errors or omissions.

Financial Covenants

The Bank is a party to various arrangements with other credit institutions, which contain financial covenants relating to the financial performance and general risk profile of the Bank. Under such covenants, the Bank is required to maintain a minimum international risk based capital adequacy ratio of 10%, to limit credit exposure to a single

(Thousands of Ukrainian hryvnia)

borrower and to ensure a certain level of operating activity. These financial covenants may restrict the Bank's ability to execute certain business strategies and enter into other significant transactions in the future.

19. Net Interest Income

Net interest income comprises:

	2004	*2003*
Interest income		
Loans to customers	424,523	337,207
Due from credit institutions	14,868	13,447
Securities	43,544	26,603
Due from the NBU	20	91
	482,955	**377,348**
Interest expenses		
Due to customers	(170,745)	(132,469)
Due to the NBU	(29,265)	(57,751)
Due to credit institutions	(25,150)	(8,880)
Eurobonds issued	(17,500)	-
	(242,661)	**(199,100)**
Net interest income	**240,294**	**178,248**

20. Fees and Commissions, net

Fees and commissions comprise:

	2004	*2003*
Fees and commission income		
Cash and settlement operations	76,197	59,417
Currency conversion	42,530	34,167
Operations with banks	10,618	12,037
Off-balance sheet operations	19,430	10,799
Credit servicing commission	10,342	9,924
Other	949	626
	160,066	**126,970**
Fees and commission expenses		
Cash and settlement operations	(14,396)	(14,063)
Currency conversion	(923)	(906)
Other	(1,722)	(1,568)
	(17,041)	**(16,537)**
Fees and commissions, net	**143,025**	**110,433**

(Thousands of Ukrainian hryvnia)

21. Salaries and Other Administrative and Operating Expenses

Salaries and benefits, other administrative and operating expenses comprise:

	2004	***2003***
Salaries and bonuses	137,486	112,660
Employment taxes	24,513	20,767
Salaries and benefits	**161,999**	**133,427**
Repair and maintenance expenses	12,934	10,812
EDP costs	5,782	5,624
Expenses related to deposit insurance fund	5,973	4,245
Communications	4,933	3,993
Security	4,585	4,224
Occupancy and rent	4,555	4,057
Operating taxes	4,446	4,643
Legal and consultancy	3,065	1,179
Business travel and related expenses	2,543	2,307
Marketing and advertising	1,993	1,900
Charity	1,230	1,737
Loss (gain) on property and equipment disposal	90	(1,082)
Sundry expenses	6,697	5,355
Other	4,114	7,862
Other administrative and operating expenses	**62,940**	**56,856**

The aggregate remuneration and other benefits paid to members of the Management Board for 2004 is UAH 6,918 thousand (2003: UAH 5,165 thousand).

22. Risk Management Policies

Risk management is fundamental to the banking business and is an essential element of the Bank’s operations. The main risks inherent in the Bank’s operations are those relating 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.

Credit Risk

The Bank is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. The Management Board and/or Credit Committee approve limits on the level of credit risk by borrower and product. Normally, the Bank obtains collateral. Such risks are monitored on a continuous basis and are subject to annual or more frequent reviews.

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures which are set by the Management Board and/or Credit Committee. The maximum credit risk exposure, ignoring the fair value of any collateral, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the accompanying consolidated financial statements and the disclosed financial commitments.

Concentration

The Bank is 100% owned by the Government and by virtue of its function performs a large part of its transactions with Government bodies and State owned enterprises. Further disclosure of the proportion of assets, liabilities and transactions with Government related entities is made in Note 24.

(Thousands of Ukrainian hryvnia)

Market Risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits, margin and collateral requirements. The main components of the market risks are analysed below.

Currency Risk

The Bank is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank sets limits on the level of exposure by currencies (primarily US dollars and euro), by branches and in total. These limits also comply with the minimum requirements of the National Bank of Ukraine. The Bank’s exposure to foreign currency exchange rate risk follows:

	2004			
	UAH	***Freely convertible***	***Non freely convertible***	***Total***
Assets:				
Cash and due from the NBU	369,140	78,943	8,907	456,990
Due from credit institutions	278	375,213	51,688	427,179
Loans to customers	918,132	2,514,863	27,440	3,460,435
Investment securities	381,822	-	-	381,822
Tax asset	9,618	-	-	9,618
Other monetary assets	6	4,416	20,381	24,803
	1,678,996	**2,973,435**	**108,416**	**4,760,847**
Liabilities:				
Due to the NBU	291,103	-	-	291,103
Due to credit institutions	6,853	586,037	40,326	633,216
Due to customers	1,291,173	1,571,389	39,968	2,902,530
Eurobonds issued	-	799,915	-	799,915
Tax liabilities	1,792	-	-	1,792
Other liabilities	13,721	5,605	314	19,640
	1,604,642	**2,962,946**	**80,608**	**4,648,196**
Net balance sheet position	**74,354**	**10,489**	**27,808**	

	2003			
	UAH	***Freely convertible***	***Non freely convertible***	***Total***
Assets:				
Cash and due from the NBU	152,212	74,042	761	227,015
Due from credit institutions	40,137	348,138	21,687	409,962
Loans to customers	673,857	1,706,495	-	2,380,352
Investment securities	331,555	-	-	331,555
Tax asset	467	-	-	467
Other monetary assets	18,673	2,019	-	20,692
	1,216,901	**2,130,694**	**22,448**	**3,370,043**
Liabilities:				
Due to the NBU	195,400	183,262	-	378,662
Due to credit institutions	91,792	625,189	547	717,528
Due to customers	974,098	1,286,020	16,389	2,276,507
Tax liabilities	6,017	-	-	6,017
Other liabilities	10,697	7,209	5,042	22,948
	1,278,004	**2,101,680**	**21,978**	**3,401,662**
Net balance sheet position	**(61,103)**	**29,014**	**470**	

The Bank does not enter into foreign exchange contracts to hedge its foreign exchange risk as such financial instruments are not readily available for currencies where the Bank considers it has exposure.

(Thousands of Ukrainian hryvnia)

Freely convertible currencies represent mainly US dollar and euro amounts, but also include currencies from other OECD countries. Non-freely convertible amounts mainly relate to currencies of CIS countries, excluding Ukraine.

The Bank's principal cash flows (revenues, operating expenses) are largely generated in Ukrainian hryvnia and US dollars. As a result, future movements in the exchange rate between the Ukrainian hryvnia and other currencies will affect the carrying value of the Bank's foreign currency denominated monetary assets and liabilities.

Interest Rate Risk

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

As at 31 December, the effective average interest rates by currencies for interest generating/ bearing monetary financial instruments were as follows:

	2004		***2003***	
	UAH	***USD/euro***	***UAH***	***USD/euro***
Due from credit institutions	n/a	3.01%	1.80%	2.74%
Loans to customers	17.38%	11.45%	15.97%	11.09%
Interest bearing securities	11.98%	n/a	11.03%	n/a
Due to credit institutions	11.46%	3.42%	6.82%	3.05%
Customer deposits	15.16%	7.57%	15.63%	6.90%

During 2004, the NBU refinancing rate was increase from 7% to 9% (2003: remained at level of 7%).

Certain 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. As disclosed below, the maturity dates applicable to the large portion of the Bank's assets and liabilities are relatively short-term. The Bank analyses changes in the interest rates its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

The table below provides an analysis of interest generating / bearing instruments grouped by the earlier of contractual repricing or maturity dates.

	2004				
	Less than 1 month	***1 to 3 months***	***3 months to 1 year***	***Over 1 year***	***Total***
Assets:					
Cash and due from the NBU	456,990	-	-	-	456,990
Due from credit institutions	410,606	2,665	8,798	5,110	427,179
Loans to customers	138,840	1,244,421	1,871,111	206,063	3,460,435
Investment securities	112,269	16,104	92,371	161,078,	381,822
	1,118,705	**1,263,190**	**1,972,280**	**372,251**	**4,726,426**
Liabilities:					
Due to the NBU	129,397	9,957	106,859	44,890	291,103
Due to credit institutions	105,375	76,007	425,453	26,381	633,216
Due to customers	1,634,472	321,665	799,231	147,162	2,902,530
Eurobonds issued		17,087		782,828	799,915
	1,869,244	**424,716**	**1,331,543**	**1,001,261**	**4,626,764**
Net position	**(750,539)**	**(838,474)**	**640,737**	**(629,010)**	**99,662**
Accumulated gap	**(750,539)**	**(87,935)**	**728,672**	**99,662**	

(Thousands of Ukrainian hryvnia)

	2003				
	Less than 1 month	*1 to 3 months*	*3 months to 1 year*	*Over 1 year*	*Total*
Assets:					
Cash and due from the NBU	227,015	-	-	-	227,015
Due from credit institutions	366,085	-	17,728	26,149	409,962
Loans to customers	142,921	1,400,428	520,921	316,082	2,380,352
Investment securities	30,631	84,772	30,932	185,220	331,555
	766,652	**1,485,200**	**569,581**	**527,451**	**3,348,884**
Liabilities:					
Due to the NBU	72,587	15,814	239,645	50,616	378,662
Due to credit institutions	662,891	50,000	-	4,637	717,528
Due to customers	1,310,997	164,314	648,696	152,500	2,276,507
	2,046,475	**230,128**	**888,341**	**207,753**	**3,372,697**
Net position	**(1,279,823)**	**1,255,072**	**(318,760)**	**319,698**	**(23,813)**
Accumulated gap	**(1,279,823)**	**(24,751)**	**(343,511)**	**(23,813)**	

The Bank does not enter into interest rate derivative contracts, as such contracts are generally not available in Ukraine.

Liquidity Risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Bank monitors, on a daily basis, the expected cash flows on clients’ and banking operations. This is a part of the normal asset and liability management process. The Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The tables below provide an analysis of banking assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date.

	2004				
	Less than 1 month	*1 to 3 months*	*3 months to 1 year*	*Over 1 year*	*Total*
Assets:					
Cash and due from the NBU	456,990	-	-	-	456,990
Due from credit institutions	349,934	4,133	24,536	48,576	427,179
Loans to customers	162,349	197,110	1,433,254	1,667,722	3,460,435
Investment securities	112,269	16,104	92,371	161,078	381,822
Tax asset	-	14	-	9,604	9,618
Other monetary assets	7,489	883	680	15,751	24,803
	1,089,031	**218,244**	**1,550,841**	**1,902,731**	**4,760,847**
Liabilities:					
Due to the NBU	129,397	9,957	106,859	44,890	291,103
Due to credit institutions	75,434	57,548	122,520	377,714	633,216
Due to customers	1,634,472	321,665	799,231	147,162	2,902,530
Eurobonds issued	-	17,087	-	782,828	799,915
Tax liabilities	-	1,792	-	-	1,792
Other liabilities	17,940	149	1,279	272	19,640
	1,857,243	**408,198**	**1,029,889**	**1,352,866**	**4,648,196**
Net position	**(768,212)**	**(189,954)**	**520,952**	**549,865**	**112,651**
Accumulated gap	**(768,212)**	**(958,166)**	**(437,214)**	**112,651**	

(Thousands of Ukrainian hryvnia)

	2003				
	Less than 1 month	***1 to 3 months***	***3 months to 1 year***	***Over 1 year***	***Total***
Assets:					
Cash and due from the NBU	227,015	-	-	-	227,015
Due from credit institutions	321,255	101	42,831	45,775	409,962
Loans to customers	142,920	182,732	1,016,007	1,038,693	2,380,352
Investment securities	30,631	84,772	30,932	185,220	331,555
Tax asset	-	467	-	-	467
Other monetary assets	11,841	2,341	6,279	231	20,692
	733,662	**270,413**	**1,096,049**	**1,269,919**	**3,370,043**
Liabilities:					
Due to the NBU	72,587	15,814	239,645	50,616	378,662
Due to credit institutions	86,526	54,007	212,783	364,212	717,528
Due to customers	1,255,835	164,334	651,337	205,001	2,276,507
Tax liabilities	-	300	-	5,717	6,017
Other liabilities	21,738	136	991	83	22,948
	1,436,686	**234,591**	**1,104,756**	**625,629**	**3,401,662**
Net position	**(703,024)**	**35,822**	**(8,707)**	**644,290**	**(31,619)**
Accumulated gap	**(703,024)**	**(667,202)**	**(675,909)**	**(31,619)**	

As at 31 December 2004, overdue loans amounting to UAH 1,838 thousand net of allowance (2003: UAH 4,705 thousand net of allowance) are included as amounts due in less than one month.

In Ukraine there is currently no market for derivative financial instruments to manage liquidity risk.

The Bank's capability to discharge its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time.

The maturity gap analysis does not reflect the historical stability of current accounts, whose maturity is generally longer than that indicated in the table above. The table is based upon the account holder's entitlement to withdraw on demand.

In the Ukrainian marketplace, many short-term loans are granted with the expectation of renewing the loans at maturity. Accordingly, the effective maturity of the loan portfolio may be longer than indicated by a classification based on contractual terms. Additionally, in the case of liabilities, the earliest repayment date is shown whereas the expectation is that the real maturity of liabilities is greater than that indicated by contractual maturity.

23. Fair Values of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: disclosure and presentation". Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. As no readily available market exists for a large part of the Bank's financial instruments, judgement is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realise in a market exchange from the sale of its full holdings of a particular instrument.

The following methods and assumptions are used by the Bank to estimate the fair value of those classes of financial instrument not represented on the Bank's balance sheet at their fair value:

Cash and Amounts Due from the National Bank of Ukraine

These assets mature within one month and the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments.

(Thousands of Ukrainian hryvnia)

Amounts Due from and to Credit Institutions

For assets maturing within one month the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For longer-term deposits and loans, the interest rates applicable reflect market rates and consequently the fair value approximates the carrying amounts.

Loans to Customers

The fair value of the loan portfolio is based on the credit and interest rate characteristics of individual loans within each sector of the portfolio. The estimation of the allowance for loan impairment includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the economic sector in which each borrower operates, the economic situation of each borrower and guarantees obtained. Accordingly, the allowance for loan impairment is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

Loans are generally granted at market rates and consequently the carrying amount of loans is a reasonable estimate of their fair value. For loans issued under preferential terms, the fair value of considerations given is recognised as the cost at initial measurement. Consequently, the carrying value calculated as the amortised cost of such instruments is a reasonable estimate of their fair value.

For long-term fixed interest bearing loans, the estimated fair value is based on discounted cash flows using interest rates applicable to new instruments with similar remaining maturities and risk characteristics.

As at 31 December 2004, the total fair value of loans to customers was UAH 3,463,972 thousand (2003: UAH 2,385,725 thousand).

Investment Securities

Available-for-sale and trading securities are measured as described in Note 4. As at 31 December 2004, the carrying amount of available-for-sale securities approximates their fair value. Held-to-maturity securities bear interest rates, which reflect fair market rates, and consequently the fair value approximates the carrying amount of such instruments.

Amounts Due to the NBU

For short-term loans due to the NBU, the interest rates applicable reflect market rates and consequently the fair value approximates the carrying amounts.

As at 31 December 2004, the total fair value of amounts due to the NBU was UAH 291,103 thousand (2003: UAH 386,657 thousand).

Amounts Due to Customers

For deposits maturing within one month the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For longer-term deposits, the interest rates applicable reflect market rates and consequently the fair value approximates the carrying amounts.

24. Government Related Transactions Analysis

In the past the Bank has carried out a significant volume of transactions with various State authorities, the Government and State controlled entities, some transactions are also performed upon the direct request of the Government.

Balance Due to the NBU

In 1998, the Government undertook to support the Bank for at least five years from 1 July 1998 and guaranteed that, in this period, it would not permit major negative changes in the financial position of the Bank that could cause bankruptcy or insolvency. As a part of these arrangements and those referred to in Note 13, the NBU has provided

(Thousands of Ukrainian hryvnia)

the Bank with liquidity and regulatory support throughout the restructuring period and will continue to do so until 2004, inclusive. The deposit received from the NBU was repaid by the Bank in 2004.

The Bank has debited interest of UAH 15,848 thousand relating to this balance in the income statement for the year ended 31 December 2004 (2003: UAH 44,387 thousand).

Borrowing from other State entities is not made at the direction of the Government and such transactions are on normal arms-length commercial terms.

25. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBU, current accounts with credit institutions and overnight deposits. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet items:

	2004	*2003*
Cash on hand (see Note 5)	162,227	135,312
Current accounts with the National Bank of Ukraine (see Note 5)	294,763	91,703
Current accounts with credit institutions (see Note 6)	77,917	128,756
Overnight deposits	269,961	143,310
Cash and cash equivalents	**804,868**	**499,081**

26. Capital Adequacy

The NBU requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets (2003: 8%), computed on the basis of UAR. At 31 December 2004, the Bank's capital adequacy ratio on this basis was 13.01% (2003: 12.8%) and exceeded the statutory minimum.

The Bank's international risk based capital adequacy ratio as at 31 December 2004 was 11.40% (2003: 11.33%), which exceeds the minimum ratio of 8% recommended by the Basle Accord. Capital adequacy was assessed based on the requirements and methodology defined in the 1988 Basle Accord.

27. Subsequent Events

In February 2005, the Bank obtained a loan amounting to USD 100,000 thousand (approximately UAH 530,000 thousand) from Dresdner bank. This loan was funded by 7.75% loan participation notes ("Eurobonds") to be consolidated and form a single series with the notes issued in September 2004 (see Note 16) issued by but without recourse to Dresdner Bank, for the sole purpose of funding the loans to the Bank. The loan matures in September 2009. The interest rate on this loan is 7.75% per annum. Interest payments are made semi-annually in arrears on 23 March and 23 September of each year, commencing 23 March 2005.

In addition, in February 2005, the Bank obtained a loan amounting to USD 40,000 thousand (approximately UAH 212,000 thousand) from Dresdner bank. This loan was funded by 8.75% loan participation notes issued by but without recourse to Dresdner Bank, for the sole purpose of funding a subordinated loan to the Bank. The loan matures in February 2010. The interest rate on this loan is 8.75% per annum. Interest payments are made semi-annually in arrears on 10 February and 10 August of each year, commencing 10 August 2005.