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

Years ended 31 December 2003 and 2002

Together with Independent Auditors' Report

CONTENTS

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 sheets of Joint Stock Company "The State Export-Import Bank of Ukraine" (the "Bank") and its subsidiary as at 31 December 2003 and 2002 and the related statements of income, cash flows and changes in shareholder's equity for the years then ended. These financial statements, on pages 6 to 47, are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits 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 2003 and 2002 and the results of their operations and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst + Young Ukraudit

5 April 2004
Kyiv, Ukraine

CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF UKRAINIAN HRYVNIA)

	Notes	31 December 2003	31 December 2002
Assets			
Cash and due from the NBU	5	227,015	197,036
Amounts due from credit institutions	6	409,962	381,966
Loans to customers	7	2,380,352	1,626,068
Investment securities	8	331,555	164,335
Tax asset	9	467	–
Property, equipment and computer software	11	348,153	325,839
Other assets	12	26,277	241,936
Total assets		**3,723,781**	**2,937,180**
Liabilities			
Amounts due to the National Bank of Ukraine	13	378,662	416,272
Amounts due to credit institutions	14	717,528	463,340
Amounts due to customers	15	2,276,507	1,771,406
Tax liabilities	9	6,017	2,445
Other liabilities	12	22,948	12,410
Total liabilities		**3,401,662**	**2,665,873**
Shareholder's equity			
Share capital		975,232	909,232
Accumulated deficit		(653,113)	(637,925)
Total shareholder's equity	16	**322,119**	**271,307**
Total liabilities and shareholder's equity		**3,723,781**	**2,937,180**
Financial commitments and contingencies	17		

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

Olexander Sorokin, Chairman of the Board

Olga Alekseeva, Chief Accountant

5 April 2004

The accompanying notes on pages 10 to 47 are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF INCOME
(THOUSANDS OF UKRAINIAN HRYVNIA)

	Notes	Years ended 31 December 2003	2002
Interest income		377,348	332,121
Interest expense		(199,100)	(203,623)
Net interest income	18	**178,248**	**128,498**
Impairment of interest earning assets	10	(23,931)	(13,953)
		154,317	**114,545**
Fee and commission income		126,970	106,831
Fee and commission expense		(16,537)	(10,154)
Fees and commissions, net	19	**110,433**	**96,677**
Gains less losses from foreign currencies:			
– dealing		23,067	19,241
– translation differences		3,377	2,825
Dealing in securities		60	195
Other income		2,766	10,596
Non interest income		**29,270**	**32,857**
Remeasurement of financial instruments		(2,548)	(1,613)
Salaries and benefits	20	(133,427)	(94,238)
Depreciation and amortisation	11	(25,686)	(25,695)
Other administrative and operating expenses	20	(56,856)	(49,580)
Impairment of other assets and provisions	10	(1,477)	1,946
Non interest expense		**(219,994)**	**(169,180)**
Income before tax		**74,026**	**74,899**
Taxation	9	(23,214)	(10,187)
Net income		**50,812**	**64,712**

The accompanying notes on pages 10 to 47 are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

For the years ended 31 December 2003 and 2002
(Thousands of Ukrainian hryvnia)

	Share capital	Accumulated deficit	Total shareholder's equity
31 December 2001	**821,232**	**(614,637)**	**206,595**
Capitalised profits	88,000	(88,000)	-
Net income		64,712	64,712
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**

The accompanying notes on pages 10 to 47 are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(THOUSANDS OF UKRAINIAN HRYVNIA)

	Notes	Years ended 31 December 2003	2002
Cash flows from operating activities			
Interest and commissions received		498,575	374,552
Interest and commissions paid		(187,051)	(151,911)
Gains less losses from dealing in foreign currencies and securities		23,127	19,436
Other operating income received		4,104	9,583
Salaries and benefits		(130,587)	(94,238)
Other operating and administrative expenses paid		(58,158)	(49,951)
Cash flow from operating activities before changes in operating assets and liabilities		**150,010**	**107,471**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(204,331)	18,987
Loans to customers		(779,260)	(477,683)
Other assets		215,273	199,443
Net increase/(decrease) in operating liabilities			
Amounts due to the National Bank of Ukraine		(104,043)	(123,775)
Amounts due to credit institutions		25,367	69,177
Amounts due to customers		510,382	378,682
Other liabilities		6,683	10,729
Net cash flows from operating activities before income taxes		**(179,919)**	**183,031**
Income tax paid		(19,877)	(7,742)
Net cash flows from operating activities		**(199,796)**	**175,289**
Cash flows from financing activities			
Debt due to credit institutions		216,058	74,579
Net cash flows from financing activities		**216,058**	**74,579**
Cash flows used in investing activities			
Purchase of investment securities		(137,306)	(92,094)
Purchases of property, equipment and computer software		(55,426)	(71,544)
Proceeds from sale of property and equipment		8,498	339
Net cash flows used in investing activities		**(184,234)**	**(163,299)**
Effect of exchange rates changes on cash and cash equivalents		5,919	2,281
Net change in cash and cash equivalents		**(162,053)**	**88,850**
Cash and cash equivalents, beginning of the year	24	**517,824**	**428,974**
Cash and cash equivalents, ending of the year	24	**355,771**	**517,824**

The accompanying notes on pages 10 to 47 are an integral part of these 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 2003 and 2002, 100% of Bank's shares were owned by the State of Ukraine.

The Bank's Head office is in Kyiv at 127, Gorkogo St. It has 29 branches and 44 operating outlets (2002: 29 branches and 50 operating outlets) located in Kyiv and other regions of Ukraine. The Bank and its branches form a single legal entity. It had 2,872 employees as at 31 December 2003 (2002: 2,708 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.

(Thousands of Ukrainian hryvnia)

Joint Stock Company "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 2003, the exchange rate of the Ukrainian hryvnia to the US dollar has fluctuated between 5.3 and 5.4. As at 31 December 2003, the exchange rate of the Ukrainian hryvnia as established by the NBU was 5.3315 to the US dollar (2002: 5.3324 and 2001: 5.2985). The rate as at the date of issue of these financial statements is UAH 5.3293 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 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

(Thousands of Ukrainian hryvnia)

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

(Thousands of Ukrainian hryvnia)

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:

	2003		2002	
	Shareholder's equity	Net income	Shareholder's equity	Net income
UAR as reported	444,314	30,082	414,232	13,196
Application of IAS 29	(18,143)	738	(18,881)	(510)
Measurement of financial instruments	(9,591)	(29,354)	19,763	(28,391)
Additional allowance for impairment	(48,984)	61,825	(110,809)	84,400
Accruals	(2,840)	(420)	(2,420)	(2,420)
Additional IFRS depreciation	(37,120)	(1,810)	(35,310)	(6,487)
Deferred taxation	(5,469)	(5,696)	227	242
Other adjustments	(48)	(4,553)	4,505	4,682
IFRS as adjusted	**322,119**	**50,812**	**271,307**	**64,712**

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.

(Thousands of Ukrainian hryvnia)

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.

(Thousands of Ukrainian hryvnia)

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.

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

(Thousands of Ukrainian hryvnia)

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.

(Thousands of Ukrainian hryvnia)

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.

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

(Thousands of Ukrainian hryvnia)

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

(Thousands of Ukrainian hryvnia)

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 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

(Thousands of Ukrainian hryvnia)

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.

5. Cash and Due from the NBU

As at 31 December 2003 and 2002, cash and due from the NBU comprise:

(Thousands of Ukrainian hryvnia)

	2003	2002
Cash on hand	135,312	99,903
Current accounts with the National Bank of Ukraine	91,703	97,133
Cash and due from the NBU	**227,015**	**197,036**

The current accounts with the NBU represents amounts deposited with the NBU relating to daily settlements and other activities. The Bank is also required to maintain, in the form of a non-interest earning cash deposit, certain cash reserves with the NBU (obligatory reserve), which are computed as a percentage of certain of the Bank's liabilities 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 2003 was UAH 188,520 thousand (2002: UAH 162,744 thousand). The Bank meets the NBU obligatory reserve requirements as at 31 December 2003 and 2002.

6. Amounts Due from Credit Institutions

As at 31 December 2003 and 2002, amounts due from credit institutions comprise:

	2003	2002
Current accounts		
OECD banks	104,727	148,605
CIS and other foreign banks	23,099	172,183
Ukrainian banks	930	-
	128,756	**320,788**
Loan and deposits		
OECD banks	148,328	48,862
Ukrainian banks	97,936	15,621
CIS and other foreign banks	39,200	1,405
	285,464	**65,888**
Less – Allowance for impairment	(4,258)	(4,710)
Due from credit institutions	**409,962**	**381,966**

(Thousands of Ukrainian hryvnia)

As at 31 December 2003, loans and deposits due from credit institutions include UAH 44,218 thousand of security deposits, placed mainly in respect of customers' transactions, such as letters of credit, performance guarantees and transactions with cheques (2002: UAH 14,775 thousand).

As at 31 December 2003, loans and deposits due from Ukrainian banks include UAH 40,006 thousand (2002: nil) granted to a Ukrainian bank. The Bank simultaneously received a short-term deposit from the same Ukrainian bank in the same amount, currency and with the same maturity (Note 14). The Bank earns a net interest margin of 0.1% on these arrangements.

As at 31 December 2003, loans and deposits due from Ukrainian banks include UAH 3,514 thousand (2002: UAH 7,827 thousand) of loans issued to two Ukrainian banks within a credit line granted by Kredit fur 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 2003, UAH 50,905 thousand was placed on current account with one internationally recognised OECD bank (2002: UAH 166,529 thousand with one Russian bank) that is the main counter party of the Bank in performing international settlements. The placement was made under normal banking conditions.

7. Loans to Customers

As at 31 December 2003 and 2002, loans to customers comprise:

	2003	2002
Loans to customers	2,770,159	2,057,960
Overdrafts	62,272	21,465
Promissory notes	4,551	30,526
Reverse repo transactions	-	3,105
	2,836,982	**2,113,056**
Less – Allowance for impairment	(456,630)	(486,988)
Loans to customers	**2,380,352**	**1,626,068**

(Thousands of Ukrainian hryvnia)

As at 31 December 2003, the total gross amount of impaired loans, on which interest was not accrued, was UAH 192,697 thousand (2002: UAH 148,353 thousand).

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

	2003	2002
Private entities	2,516,072	1,662,495
State entities	297,467	438,480
Individuals	23,443	12,081
	2,836,982	**2,113,056**
Less – Allowance for impairment	(456,630)	(486,988)
Loans to customers	**2,380,352**	**1,626,068**

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

	2003	%	2002	%
Trade enterprises	803,029	28.3	563,502	26.7
Engineering	451,108	15.9	323,211	15.3
Agriculture and food processing	346,246	12.2	258,474	12.2
Consumer products	316,362	11.2	169,269	8.0
Metals	311,752	11.0	313,142	14.8
Services	231,209	8.1	152,251	7.2
Chemistry	151,743	5.3	154,989	7.3
Transport	55,996	2.0	27,147	1.3
Real estate and construction	48,181	1.7	39,312	1.9
Light industry	41,352	1.5	24,997	1.2
Power utilities	37,066	1.3	62,774	3.0
Individuals	23,443	0.8	12,081	0.6
Communications	19,423	0.7	10,950	0.5
Other industries	72	0.0	957	0.0
	2,836,982	**100**	**2,113,056**	**100**
Less – Allowance for impairment	(456,630)		(486,988)	
Loans to customers	**2,380,352**		**1,626,068**	

(Thousands of Ukrainian hryvnia)

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

	2003	2002
Ordinary loans	2,476,781	1,829,960
Loans under the Export Development Project	311,522	253,891
Loans under other international programmes	48,679	29,205
	2,836,982	**2,113,056**
Less – Allowance for impairment	(456,630)	(486,988)
Loans to customers	**2,380,352**	**1,626,068**

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 it are denominated in US dollars and euro and the Bank bears the credit risk on the loans it makes. As at 31 December 2003, the amount of loans granted under this programme was UAH 300,470 thousand net of allowances (2002: UAH 240,538 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. The Bank's income on these arrangements is limited to a 7% interest margin. As at 31 December 2003, the amount of loans granted under this loan agreement was UAH 32,538 thousand net of allowances (2002: UAH 28,168 thousand net of allowances).

As at 31 December 2003, members of the Management Board have UAH 115 thousand (2002: UAH 211 thousand) of loans issued under preferential conditions.

8. Investment Securities

As at 31 December 2003 and 2002, investment securities comprise the following:

(Thousands of Ukrainian hryvnia)

	2003		2002	
	Nominal value	**Carrying value**	**Nominal value**	**Carrying value**
Held-to-maturity				
Ukrainian State bonds	201,542	203,600	157,217	156,448
Corporate bonds	112,730	113,505	-	-
		317,105		156,448
Available-for-sale				
Ukrainian State bonds	5,250	5,347	-	-
Corporate bonds	7,667	7,992	-	-
Corporate shares	87,111	2,226	2,249	1,775
Discount promissory notes	653	653	7,081	6,920
		16,218		8,695
Less – Allowance for impairment		(1,768)		(808)
Investment securities		**331,555**		**164,335**

In 2002 and 2003, the Bank acquired Ukrainian State bonds. These instruments are mainly used for treasury operations and asset management purposes. These bonds bear an effective yield from 6.5 to 13.9% and mature in 2004 - 2008.

As at 31 December 2003, held-to-maturity Ukrainian State bonds include UAH 916 thousand (2002: UAH 2,383 thousand) of converted State bonds with a floating interest rate and maturity in 2004. The interest rate on these bonds is determined by the Government on a semi-annual basis and approximates current market rates.

As at 31 December 2003, held-to-maturity Ukrainian State bonds include securities with a carrying value UAH 50,521 thousand (2002: nil) used to secure repo transactions with a Ukrainian bank (see Note 14).

As at 31 December 2003, held-to-maturity Ukrainian State bonds include bonds with a carrying value of UAH 123,896 thousand (2002: nil) pledged as security for loans received from the National Bank of Ukraine.

As at 31 December 2003, corporate bonds held by the Bank to maturity include bonds amounting to 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 loan from the NBU

(Thousands of Ukrainian hryvnia)

amounting to UAH 85,500 thousand to refinance the acquisition of such bonds. The NBU loan has a repayment schedule, which matches the maturity of the bonds, and is secured by the acquired bonds with a carrying value of UAH 90,355 thousand.

As at 31 December 2003, corporate bonds held by the Bank to maturity include bonds amounting to UAH 22,146 thousand issued by various local banks. These hryvnia bonds mature in 2004 and have an effective yield of 12-15%. As at 31 December 2003, the available-for-sale portfolio includes UAH 4,891 thousand of corporate bonds issued by local bank and shares of various Ukrainian enterprises with a carrying value of nil (nominal value UAH 84,885 thousand). These securities were accepted by the Bank as repayment of a loan from one of its borrowers (see Note 23). Currently, no market for the shares exists.

9. Taxation

The corporate income tax charge comprises:

	2003	2002
Current tax charge	17,497	10,187
Deferred tax charge	5,717	-
Income tax charge	**23,214**	**10,187**

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 will be applicable after 1 January 2004.

As at 31 December 2003 and 2002, tax assets and liabilities consist of the following:

	2003	2002
Current tax asset	467	-
Deferred tax assets	-	-
Tax asset	**467**	**-**
Current tax liabilities	300	2,445
Deferred tax liabilities	5,717	-
Tax liabilities	**6,017**	**2,445**

(Thousands of Ukrainian hryvnia)

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:

	2003	2002
Income before tax	74,026	74,899
Statutory tax rate	30%	30%
Income tax expense at the statutory rate	22,208	22,470
Effect of change in tax rates	1,168	1,207
Change in valuation allowance against deferred tax asset	(6,154)	2,714
Non-deductible expenditures	6,105	1,771
Non-taxable income	-	(366)
Changes in deductibility of certain items	-	(17,609)
Tax deductions	(113)	-
Income tax charge	**23,214**	**10,187**

Deferred tax assets and liabilities as at 31 December 2003 and 2002 consist of the following:

	2003	2002
Tax effect of deductible temporary differences:		
Allowances for impairment	41,109	29,344
Other assets and liabilities	433	1,362
Accruals	-	2,196
Deferred tax assets	**41,542**	**32,902**
Tax effect of taxable temporary differences:		
Property, equipment and computer software	(22,281)	(20,219)
Valuation of financial instruments	(23,979)	(6,529)
Other assets and liabilities	(548)	-
Accruals	(451)	-
Deferred tax liabilities	**(47,259)**	**(26,748)**
Net deferred tax (liability) asset	**(5,717)**	**6,154**
Less – Valuation allowance	-	(6,154)
Deferred tax liability	**(5,717)**	**-**

(Thousands of Ukrainian hryvnia)

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 2001	**480,233**	**2,509**	**482,742**
Charge	11,805	2,148	13,953
Write-offs	(8,318)	-	(8,318)
Translation differences	2,793	53	2,846
Recovery	475	-	475
31 December 2002	**486,988**	**4,710**	**491,698**
Charge	23,612	319	23,931
Write-offs	(54,948)	(759)	(55,707)
Recoveries	1,338	-	1,338
Translation differences	(360)	(12)	(372)
31 December 2003	**456,630**	**4,258**	**460,888**

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

	Investment securities	Other assets	Off-balance risk	Total
31 December 2001	**5,849**	**19,625**	**425**	**25,899**
Charge/(release)	(5,041)	2,718	377	(1,946)
Write-offs	-	(169)	-	(169)
Translation difference	-	2	-	2
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**

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

11. Property, Equipment and Computer Software

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

(Thousands of Ukrainian hryvnia)

	Buildings and property	Computers and equipment	Computer software	Furniture, fixtures and other assets	Motor vehicles	Construction in progress	Total
Cost							
31 December 2002	**274,330**	**56,074**	**13,273**	**54,005**	**11,086**	**11,631**	**420,399**
Additions	80	5,277	571	3,935	-	45,553	55,416
Disposals	(5,285)	(432)	(274)	(979)	(723)	(1,759)	(9,452)
Transfers	13,624	2,089	3,485	8,395	3,548	(31,141)	-
31 December 2003	**282,749**	**63,008**	**17,055**	**65,356**	**13,911**	**24,284**	**466,363**
Accumulated depreciation and amortisation							
31 December 2002	**(25,128)**	**(35,767)**	**(5,975)**	**(20,484)**	**(7,206)**	**-**	**(94,560)**
Charge for the year	(5,971)	(8,264)	(2,827)	(6,446)	(2,178)	-	(25,686)
Disposals	408	357	275	492	504	-	2,036
Transfers	-	-	-	-	-	-	-
31 December 2003	**(30,691)**	**(43,674)**	**(8,527)**	**(26,438)**	**(8,880)**	**-**	**(118,210)**
Net book value:							
31 December 2002	**249,202**	**20,307**	**7,298**	**33,521**	**3,880**	**11,631**	**325,839**
31 December 2003	**252,058**	**19,334**	**8,528**	**38,918**	**5,031**	**24,284**	**348,153**

12. Other Assets and Liabilities

As at 31 December 2003 and 2002, other assets comprise:

	2003	2002
Collateral held for resale	22,767	21,835
Prepayments	8,586	9,550
Other accrued income	1,185	870
Cargill debt	-	199,558
Other	16,631	32,299
	49,169	**264,112**
Less – Allowance for impairment	(22,892)	(22,176)
Other assets	**26,277**	**241,936**

As at 31 December 2003 and 2002, prepayments comprise mainly prepayments for property and equipment amounting to UAH 4,259 thousand (2002: UAH 5,003 thousand).

(Thousands of Ukrainian hryvnia)

As at 31 December 2003 and 2002, collateral held for resale comprises balances of oil products amounting to UAH 21,835 thousand (2002: 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 2003 (2002: 100% allowance).

The Cargill debt represents the balance due from the Government under a financial guarantee, which the Bank was obliged to settle with Cargill International SA in 1993. The debt was restructured in 1999 under an arrangement whereby the Bank received as collateral non-interest bearing and non-negotiable treasury bills, which become due according to an agreed repayment schedule for the debt. These treasury bills were issued for the full amount of the debt outstanding. The Bank also received regulatory and liquidity support from the NBU (see Note 13 and 23) under this restructuring arrangement. In 2003, the Cargill debt was fully repaid to the Bank in accordance with the agreed schedule and the balance as at 31 December 2003 is nil (2002: carrying value UAH 199,558).

As at 31 December 2003 and 2002, other liabilities comprise:

	2003	2002
Settlements on transactions with customers	7,981	5,761
Settlements on card operations	5,407	2,197
Deferred income	1,742	11
Payables to Guarantee Fund of Individuals' Deposits	1,140	729
Other liabilities	3,551	3,509
	19,821	**12,207**
Accrued salary payable	2,840	-
Other accrued expenses	287	203
	3,127	**203**
Other liabilities	**22,948**	**12,410**

(Thousands of Ukrainian hryvnia)

13. Amounts Due to the National Bank of Ukraine

As at 31 December 2003 and 2002, amounts due to the NBU comprise:

	2003	2002
Short-term loans from the NBU	195,400	77,331
Deposit supporting Government related assets	183,262	334,961
Current accounts	-	3,980
Due to the NBU	**378,662**	**416,272**

Short-term loans from the National Bank of Ukraine represent refinancing loans received, including a refinancing loan for the acquisition of bonds issued by a State owned Ukrainian transportation company (see Note 8). As at 31 December 2003, these loans are secured by State and corporate bonds with a total carrying amount of UAH 214,251 thousand (see Note 8).

Further to the Cargill debt restructuring arrangement referred to in Note 12 and as a means of liquidity support, the Bank signed a US dollar denominated deposit agreement with the NBU, under which repayments of the bonds were linked to settlement of the Cargill debt and other Government related assets (see Note 12 and 23). The deposit is non-interest bearing and provides the Bank with liquidity during the period in which all Government related obligations to the Bank should be settled. A quarterly fee of USD 158 thousand is payable and the deposit will be fully settled in October 2004.

14. Amounts Due to Credit Institutions

As at 31 December 2003 and 2002, amounts due to credit institutions comprise:

	2003	2002
Current accounts		
Ukrainian banks	19,232	6,589
CIS and other foreign banks	715	707
OECD banks	-	112
	19,947	**7,408**
Loans and time deposits		
International financial organisation	316,497	330,761
OECD banks	265,161	22,400
Ukrainian banks	115,923	102,771
	697,581	**455,932**
Due to credit institutions	**717,528**	**463,340**

(Thousands of Ukrainian hryvnia)

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 financing for eligible Ukrainian borrowers (see Note 7). These loans are denominated in US dollars and 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 17.

As at 31 December 2003, loans and deposits from OECD banks included UAH 45,252 thousand granted by KfW under loan agreements for financing small and medium sized enterprises in Ukraine (2002: UAH 22,400 thousand). The loans are denominated in euro, bear interest at a floating rate and mature in 2008-2013.

As at 31 December 2003, loans from Ukrainian banks include UAH 50,602 thousand (2002: nil) received from a Ukrainian bank under repo arrangements (see Note 8). This loan bears interest of 8% and matures in February 2004.

As at 31 December 2003, loans from Ukrainian banks include UAH 40,004 thousand (2002: nil) received from a Ukrainian bank. The Bank simultaneously placed a short-term deposit in the same Ukrainian bank in the same amount, currency and with the same maturity (Note 6). The Bank earns a net interest margin of 0.1% on these arrangements.

15. Amounts Due to Customers

As at 31 December 2003 and 2002, amounts due to customers comprise:

	2003	2002
Current accounts		
– Budget funds	84,204	30,428
– Companies	814,720	638,037
– Individuals	255,708	189,436
	1,154,632	**857,901**
Time deposits		
– Companies	287,484	291,559
– Individuals	834,391	621,946
	1,121,875	**913,505**
Due to customers	**2,276,507**	**1,771,406**

(Thousands of Ukrainian hryvnia)

16. Shareholder's Equity

As at 31 December 2003, the Bank's authorised issued share capital comprised 262,000 (2002: 196,000) ordinary shares, with a nominal value of UAH 1,000 per share. All shares have equal voting rights. As at 31 December 2003 and 2002, 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. 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 4 September 2003, the Bank's share capital was increased in 2003 by UAH 66,000 thousand through capitalisation of profits.

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 2003, the Bank has distributable reserves amounting to UAH 33,694 thousand (2002: UAH 13,775 thousand). The amount of non-distributable reserves was UAH 148,620 thousand (2002: UAH 204,457 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.

17. 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.

(Thousands of Ukrainian hryvnia)

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 uncertainty exists, the Bank and its subsidiary have accrued tax liabilities based on management's best estimate.

Financial commitments and contingencies

As at 31 December 2003 and 2002, the Bank's financial commitments and contingencies comprise the following:

	2003	2002
Letters of credit	87,997	16,217
Guarantees	77,919	51,841
Avals on promissory notes	36,204	9,508
	202,120	**77,566**
Lease commitments		
Not later than 1 year	210	115
Later than 1 year but not later than 5 years	2,880	2,349
Later than 5 years	3,574	1,392
	6,664	**3,856**

As at 31 December 2003, letters of credit amounting to UAH 13,896 thousand were secured by customers' cash deposits (2002: UAH 8,291 thousand). As at 31 December 2003, the Bank has recognised a provision of UAH 589 thousand (2002: UAH 802 thousand) against unsecured commitments.

As at 31 December 2003, the Bank's capital committments relating to purchase of banking equipment amounted to UAH 4,733 thousand (2002: nil).

Insurance

The Bank's premises were not insured as at 31 December 2003 and 2002. 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 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.

(Thousands of Ukrainian hryvnia)

18. Net Interest Income

Net interest income comprises:

	2003	2002
Interest income		
Loans to customers	337,207	318,552
Due from credit institutions	13,447	6,271
Securities	26,603	7,206
Due from the NBU	91	92
	377,348	**332,121**
Interest expenses		
Due to customers	(132,469)	(117,034)
Due to the NBU	(57,751)	(77,701)
Due to credit institutions	(8,880)	(8,888)
	(199,100)	**(203,623)**
Net interest income	**178,248**	**128,498**

19. Fees and Commissions

Fees and commissions comprise:

	2003	2002
Fees and commission income		
Cash and settlement operations	59,417	53,696
Currency conversion	34,167	32,425
Operations with banks	12,037	2,776
Off-balance sheet operations	10,799	7,513
Other	10,550	10,421
	126,970	**106,831**
Fees and commission expenses		
Cash and settlement operations	(14,063)	(8,342)
Currency conversion	(906)	(982)
Other	(1,568)	(830)
	(16,537)	**(10,154)**
Fees and commissions, net	**110,433**	**96,677**

(Thousands of Ukrainian hryvnia)

20. Salaries and Other Administrative and Operating Expenses

Salaries and benefits, other administrative and operating expenses comprise:

	2003	2002
Salaries and bonuses	112,660	78,468
Employment taxes	20,767	15,770
Salaries and benefits	**133,427**	**94,238**
Repair and maintenance expenses	10,812	7,398
Operating taxes	4,643	6,953
EDP costs	5,624	5,086
Security	4,224	4,002
Occupancy and rent	4,057	3,527
Communications	3,993	3,335
Expenses related to deposit insurance fund	4,245	2,609
Business travel and related expenses	2,307	2,304
Charity	1,737	1,470
Legal and consultancy	1,179	1,187
Marketing and advertising	1,900	896
Loss (gain) on property and equipment disposal	(1,082)	334
Sundry expenses	5,355	5,095
Other	7,862	5,384
Other administrative and operating expenses	**56,856**	**49,580**

The aggregate remuneration and other benefits paid to members of the Management Board for 2003 is UAH 5,165 thousand (2002: UAH 4,514 thousand).

21. 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

(Thousands of Ukrainian hryvnia)

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 23.

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:

(Thousands of Ukrainian hryvnia)

	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**	

	2002			
	UAH	Freely convertible	Non freely convertible	Total
Assets:				
Cash and due from the NBU	117,456	78,929	651	197,036
Due from credit institutions	-	371,837	10,129	381,966
Loans to customers	486,089	1,139,979	-	1,626,068
Investment securities	164,335	-	-	164,335
Other monetary assets	17,386	219,361	-	236,747
	785,266	**1,810,106**	**10,780**	**2,606,152**
Liabilities:				
Due to the NBU	77,331	338,765	176	416,272
Due to credit institutions	100,223	363,076	41	463,340
Due to customers	796,330	965,332	9,744	1,771,406
Tax liabilities	2,445	-	-	2,445
Other liabilities	5,080	7,330	-	12,410
	981,409	**1,674,503**	**9,961**	**2,665,873**
Net balance sheet position	**(196,143)**	**135,603**	**819**	

(Thousands of Ukrainian hryvnia)

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.

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 2003 and 2002, the effective average interest rates by currencies for interest generating/ bearing monetary financial instruments were as follows:

	2003		2002	
	UAH	USD/euro	UAH	USD/euro
Due from credit institutions	1.80%	2.74%	n/a	2.89%
Loans to customers	15.97%	11.09%	18.15%	10.78%
Interest bearing securities	11.03%	n/a	9.68%	n/a
Due to credit institutions	6.82%	3.05%	7.07%	2.32%
Customer deposits	15.63%	6.90%	17.10%	7.75%

In 2003 and 2002, in Ukraine interest rates decreased for term deposits in hryvnia, US dollars and euro. Time weighted average customer deposit interest rates decreased to 16.06% for UAH deposits and to 7.02% for USD/EUR deposits in 2003 (2002: 21.06% and 7.13% respectively). Time weighted average loan portfolio interest rates increased to 27.02% for UAH loans and to 10.86% for USD/EUR loans in 2003 (2002: 25% and 10.61% respectively).

During 2003, the NBU refinancing rate remained at the level of 7% (2002: gradually reduced from 12.5% to 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 monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

(Thousands of Ukrainian hryvnia)

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

	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)**	

	2002				
	Less than 1 month	**1 to 3 months**	**3 months to 1 year**	**Over 1 year**	**Total**
Assets:					
Cash and due from the NBU	197,036	-	-	-	197,036
Due from credit institutions	366,874	7,346	-	7,746	381,966
Loans to customers	109,424	411,248	804,672	300,724	1,626,068
Investment securities	5,347	2,384	31,329	125,275	164,335
	678,681	**420,978**	**836,001**	**433,745**	**2,369,405**
Liabilities:					
Due to the NBU	91,169	-	187,047	138,056	416,272
Due to credit institutions	433,340	-	30,000	-	463,340
Due to customers	990,268	139,319	546,462	95,357	1,771,406
	1,514,777	**139,319**	**763,509**	**233,413**	**2,651,018**
Net position	**(836,096)**	**281,659**	**72,492**	**200,332**	**(281,613)**
Accumulated gap	**(836,096)**	**(554,437)**	**(481,945)**	**(281,613)**	

(Thousands of Ukrainian hryvnia)

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.

	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)**	

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	2002				
	Less than 1 month	**1 to 3 months**	**3 months to 1 year**	**Over 1 year**	**Total**
Assets:					
Cash and due from the NBU	197,036	-	-	-	197,036
Due from credit institutions	353,744	18,192	98	9,932	381,966
Loans to customers	109,424	157,156	898,100	461,388	1,626,068
Investment securities	5,347	33	32,825	126,130	164,335
Other monetary assets	18,914	887	215,399	1,547	236,747
	684,465	**176,268**	**1,146,422**	**598,997**	**2,606,152**
Liabilities:					
Due to the NBU	91,169	-	187,047	138,056	416,272
Due to credit institutions	81,824	-	30,000	351,516	463,340
Due to customers	959,824	139,319	546,462	125,801	1,771,406
Tax liabilities	2,445	-	-	-	2,445
Other liabilities	5,645	5,807	958	-	12,410
	1,140,907	**145,126**	**764,467**	**615,373**	**2,665,873**
Net position	**(456,442)**	**31,142**	**381,955**	**(16,376)**	**(59,721)**
Accumulated gap	**(456,442)**	**(425,300)**	**(43,345)**	**(59,721)**	

As at 31 December 2003, overdue loans amounting to UAH 4,705 thousand net of allowance (2002: UAH 43,197 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.

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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.

22. 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.

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 the 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

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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 short-term 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 2003, the total fair value of loans to customers was UAH 2,385,725 thousand (2002: UAH 1,627,650 thousand).

Investment Securities

Available-for-sale and trading securities are measured as described in Note 4. As at 31 December 2003, 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.

Cargill Debt

This financial instrument has been recognised at cost, which effectively reflected the fair value of the consideration paid at the initial recognition date, and has been subsequently re-measured and amortised using the effective interest rate method. The fair value of this balance estimated based on discounted cash flows using interest rates for similar new instruments comprises UAH 205,519 thousand as at 31 December 2002.

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.

For the deposit supporting Government related assets, the Bank applied accounting policies under IAS 39 as at 31 December 2003. Accordingly, the instrument is carried at cost, which effectively reflects the fair value of the instrument at the initial recog-

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nition date, amortised using the effective interest rate method. The Bank has estimated the fair value of such balances based on discounted cash flows using interest rates for similar new instruments. The effective yield of new issues of Ukrainian state eurobonds were used as the discounting rate.

As at 31 December 2003, the total fair value of amounts due to the NBU was UAH 386,657 thousand (2002: UAH 440,253 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.

23. 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.

As at 31 December 2003 and 2002, the Bank had the following balances outstanding and performed the following types of Government related transactions:

	2003		2002	
	Carrying value	Nominal value	Carrying value	Nominal value
Cargill debt (see Note 12)	-	-	199,558	213,416
Government directed lending				
Donkavament	-	108,944	-	108,963
Uzhmash	-	-	35,882	44,852
Dniprovskiy metallurgical plant	-	-	-	73,978
			35,882	227,793
Government related assets	**-**	**108,944**	**235,440**	**441,209**
Supporting deposit from the NBU	183,262	195,742	334,961	392,681
Government related liabilities	**183,262**	**195,742**	**334,961**	**392,681**

(Thousands of Ukrainian hryvnia)

Cargill debt

The Cargill debt was due from the Government under a financial guarantee, which the Bank settled with Cargill International SA (see Note 12). In 2003, the Cargill debt was fully repaid to the Bank in accordance with the agreed schedule. The Bank has credited interest of UAH 13,858 thousand in the income statement for the year ended 31 December 2003 (2002: UAH 46,156 thousand).

Government directed lending

In 1993 and 1995, the Bank issued US dollar denominated loans to "Uzhmash", "Donkavamet" and "Dniprovskiy metallurgical plant", State owned enterprises, amounting in total to USD 60,698 thousand at the direction of the Government. The Government guaranteed the loans due from "Uzhmash" and "Donkavamet".

In 2003, the loan due from "Uzhmash" was repaid by the Government in full and the Bank received previously written off interest amounting to UAH 32,893 thousand relating to earlier reporting periods. This interest has been credited to interest income in the consolidated income statement.

In 2003, the Bank restructured the debt due from "Dniprovskiy metallurgical plant" and accepted certain securities (see Note 8) as a repayment of the principal and previously accrued interest for this loan. The securities accepted had insufficient value to cover the amount of the total debt and the Bank was only able to recover UAH 36,238 thousand of the loan. The remaining balance was written off.

The Bank is continuing to negotiate a repayment for the loan due from "Donkavamet" with the Government.

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

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 insol-

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vency. As a part of these arrangements and those referred to in Note 12, the NBU has provided the Bank with liquidity and regulatory support throughout the restructuring period and will continue to do so until 2004.

The Bank has debited interest of UAH 44,387 thousand relating to this balance in the income statement for the year ended 31 December 2003 (2002: UAH 72,162 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.

24. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBU, and current accounts with credit institutions. As at 31 December 2003 and 2002, cash and cash equivalents included in the cash flow statement comprise the following balance sheet items:

	2003	2002
Cash on hand (see Note 5)	135,312	99,903
Current accounts with the National Bank of Ukraine (see Note 5)	91,703	97,133
Current accounts with credit institutions (see Note 6)	128,756	320,788
Cash and cash equivalents	**355,771**	**517,824**

25. Capital Adequacy

The NBU requires banks to maintain a capital adequacy ratio of 8% of risk-weighted assets, computed on the basis of UAR. At 31 December 2003, the Bank's capital adequacy ratio on this basis was 12.8% (2002: 15.44%) and exceeded the statutory minimum.

The Bank's international risk based capital adequacy ratio as at 31 December 2003 was 11.33% (2002: 13.67%), 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.