

**Joint Stock Company
Kredyt Bank (Ukraina)
Financial Statements**

*Year ended 31 December 2004
Together with Independent Auditors' Report*

CONTENTS

INDEPENDENT AUDITORS' REPORT

FINANCIAL STATEMENTS

Balance Sheets	1
Statements of Income	2
Statements of Changes in Shareholders' Equity	3
Statements of Cash Flows	4

NOTES TO THE FINANCIAL STATEMENTS

1. Principal Activities	5
2. Basis of Preparation	5
3. Summary of Accounting Policies	6
4. Cash and Due from the NBU	10
5. Amounts Due from Credit Institutions	10
6. Loans to Customers	11
7. Investment Securities	12
8. Taxation	12
9. Allowances for Losses	13
10. Property, Equipment and Computer Software	14
11. Other Assets and Liabilities	14
12. Amounts Due to Credit Institutions	15
13. Amounts Due to Customers	16
14. Shareholders' Equity	16
15. Commitments and Contingencies	17
16. Net Interest Income	19
17. Fees and Commissions	19
18. Salaries and Other Administrative and Operating Expenses	20
19. Risk Management Policies	20
20. Fair Values of Financial Instruments	23
21. Related Party Transactions	24
22. Cash and Cash Equivalents	25
23. Capital Adequacy	25

INDEPENDENT AUDITORS' REPORT

Independent auditors' report to the Shareholders and Board of
Joint Stock Company Kredyt Bank (Ukraine)

We have audited the accompanying balance sheet of Joint Stock Company Kredyt Bank (Ukraine) (the "Bank") as at 31 December 2004, and the related statements of income, changes in shareholders' equity, and cash flows for the year then ended. These financial statements, on pages 1 to 25, 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 provides a reasonable basis for our opinion.

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

Without qualifying our opinion, we draw attention to Note 19, which indicates that the Bank has a significant gap in the maturity of its assets and liabilities as at 31 December 2004 and describes how the management plans to address the maturity gap.



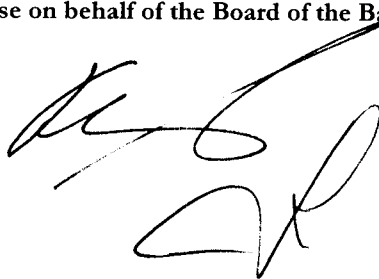
4 April 2005
Kyiv, Ukraine

BALANCE SHEETS**(Thousands of Ukrainian hryvnia)**

		<i>31 December</i>	
	<i>Notes</i>	<i>2004</i>	<i>2003</i>
Assets			
Cash and due from the NBU	4	109,046	73,794
Amounts due from credit institutions	5	96,495	164,433
Loans to customers	6	949,580	753,685
Investment securities	7	8,809	25,801
Tax assets	8	14,919	13,689
Property, equipment and computer software	10	107,980	101,718
Other assets	11	20,393	9,986
Total assets		1,307,222	1,143,106
Liabilities			
Amounts due to the National Bank of Ukraine		-	542
Amounts due to credit institutions	12	189,806	182,624
Amounts due to customers	13	990,354	835,995
Debt securities issued		-	236
Tax liabilities	8	374	-
Other liabilities	11	3,108	6,177
Total liabilities		1,183,642	1,025,574
Shareholders' equity			
Share capital		197,557	197,557
Treasury shares		(464)	(227)
Accumulated deficit		(73,513)	(79,798)
Total shareholders' equity	14	123,580	117,532
Total liabilities and shareholders' equity		1,307,222	1,143,106
Financial commitments and contingencies	15		

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

Taras Khoma



Deputy Chairman of the Board

Igor Gavrylyak

Deputy Chairman of the Board

4 April 2005

The accompanying notes on pages 5 to 25 are an integral part of these financial statements.

STATEMENTS OF INCOME**(Thousands of Ukrainian hryvnia)**

	<i>Notes</i>	<i>Years ended 31 December</i>	
		<i>2004</i>	<i>2003</i>
Interest income		157,796	128,561
Interest expense		(93,203)	(68,536)
Net interest income	16	64,593	60,025
Impairment of interest earning assets	9	(14,711)	(26,639)
Net interest income after impairment of interest earning assets		47,301	33,386
Fee and commission income		46,386	38,951
Fee and commission expense		(7,803)	(5,600)
Net fee and commission income	17	38,583	33,351
Gains less losses from foreign currencies:			
- dealing, net		13,438	7,498
- translation differences, net		(986)	805
Dealing in securities, net		(163)	121
Other income		1,491	943
Other non interest income		13,780	9,367
Salaries and benefits	18	(34,237)	(30,641)
Depreciation and amortisation	10	(11,621)	(10,334)
Other administrative and operating expenses	18	(40,686)	(28,855)
Impairment of other assets	9	(6,305)	(1,987)
Other non interest expense		(92,849)	(71,817)
Income before tax		9,396	4,287
Income tax (expense) benefit	8	(3,111)	3,695
Net income		6,285	7,982

The accompanying notes on pages 5 to 25 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended 31 December 2004 and 2003

(Thousands of Ukrainian hryvnia)

	<i>Share capital issued</i>	<i>Treasury shares</i>	<i>Accumulated deficit</i>	<i>Total shareholders' equity</i>
31 December 2002	197,557	(92)	(87,774)	109,691
Purchases of treasury shares		(135)	(6)	(141)
Net income			7,982	7,982
31 December 2003	197,557	(227)	(79,798)	117,532
Purchases of treasury shares		(237)		(237)
Net income			6,285	6,285
31 December 2004	197,557	(464)	(73,513)	123,580

The accompanying notes on pages 5 to 25 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

(Thousands of Ukrainian hryvnia)

	<i>Years ended 31 December</i>		
	<i>Notes</i>	<i>2004</i>	<i>2003</i>
Cash flows from operating activities			
Interest and commissions received		206,233	172,360
Interest and commissions paid		(99,494)	(69,589)
Gains less losses from dealing in foreign currencies and securities		13,438	7,619
Other operating income received		1,328	943
Salaries and benefits		(34,237)	(30,641)
Other operating and administrative expenses paid		(41,732)	(28,404)
Cash flow from operating activities before changes in operating assets and liabilities		45,536	52,288
<i>Net (increase) / decrease in operating assets</i>			
Amounts due from credit institutions		(7,958)	-
Loans to customers		(203,442)	(208,430)
Securities portfolio		17,118	8,933
Other assets		(16,584)	(3,102)
<i>Net increase / (decrease) in operating liabilities</i>			
Amounts due to the National Bank of Ukraine		(533)	(907)
Amounts due to credit institutions		4,795	78,388
Amounts due to customers		140,772	195,971
Debt securities issued		(231)	231
Other liabilities		(1,821)	2,905
Net cash flows (used in) from operating activities before income taxes		(22,348)	126,277
Income tax paid		(3,968)	(10,477)
Net cash flows (used in) from operating activities		(26,316)	115,800
Cash flows used in investing activities			
Purchases of property, equipment and computer software		(18,388)	(23,098)
Proceeds from sale of property and equipment		236	338
Net cash flows used in investing activities		(18,152)	(22,760)
Cash flows used in financing activities			
Treasury shares purchased		(237)	(141)
Net cash flows used in financing activities		(237)	(141)
Effect of exchange rate changes on cash and cash equivalents		3,612	5,339
Net change in cash and cash equivalents		(41,093)	98,238
Cash and cash equivalents, beginning of the year		239,396	141,158
Cash and cash equivalents, ending of the year	22	198,303	239,396

The accompanying notes on pages 5 to 25 are an integral part of these financial statements.

(Thousands of Ukrainian hryvnia)

1. Principal Activities

Kredyt Bank (Ukraine) (the “Bank”), formerly called West-Ukrainian Commercial Bank, was founded in 1990 as a joint stock company. Initially registered at the USSR State Bank, the Bank was re-registered at the National Bank of Ukraine (the “NBU”) on 14 October 1991. Currently the Bank operates under a general banking licence #43 granted by the NBU on 24 September 2001, which provides the Bank with the right to conduct banking operations, including currency operations.

As at 31 December 2004, 94.9% of the issued paid-in share capital (2003 - 94.9%) was owned by non-residents: PKO Bank S.A. (Poland) and the European Bank for Reconstruction and Development (“EBRD”). Details of the Bank’s shareholders are presented in Note 14.

The Bank’s Head office is in Lviv at 78, Saharova St. In 2004, it had 18 branches (2003 - 18) located in Lviv and other regions of Ukraine. The Bank and its branches form a single legal entity. It had 1,545 employees as at 31 December 2004 (2003 - 1,363 employees).

The Bank’s customer base is mainly comprised of medium sized 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.

2. Basis of Preparation

General

These 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 financial statements are presented in thousands of Ukrainian hryvnia (“UAH”), unless otherwise indicated. The hryvnia is utilised as the measurement currency as the majority of the Bank’s transactions are denominated, measured, or funded in Ukrainian hryvnia. Transactions in other currencies are treated as transactions in foreign currencies.

The Bank is required to maintain its books of account in Ukrainian hryvnia and prepare financial statements for regulatory purposes in accordance with the “Regulations on the Organisation of Accounting and Reporting for Ukrainian Banking Institutions” (“Ukrainian Accounting Regulation” or “UAR”) issued by the National Bank of Ukraine and in accordance with Ukrainian Accounting Standards. These financial statements are based on the Bank’s statutory books and records, as adjusted and reclassified in order to comply with IFRS. A reconciliation between UAR and IFRS is presented later in this note.

The 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. The most significant estimate made by the management in the preparation of these financial statements is the assessment of impairment losses on financial assets. The approach used in estimating allowances is described in Note 3, Section “Allowances for impairment of Financial Assets”.

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.

*(Thousands of Ukrainian hryvnia)***Reconciliation of UAR and IFRS Equity and Net Income**

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

	2004		2003	
	<i>Shareholders' equity</i>	<i>Net income</i>	<i>Shareholders' equity</i>	<i>Net income</i>
UAR as reported	147,631	7,870	139,998	16,101
Application of IAS 29	11,905	(356)	12,261	(706)
Additional allowance for impairment	(39,528)	(3,478)	(36,050)	(13,596)
Accruals	-	(72)	72	(439)
Deferral of loan origination fees	(5,219)	(2,741)	(2,478)	(2,478)
Deferred taxation	11,554	1,947	9,607	9,607
Accelerated depreciation	(2,763)	3,115	(5,878)	(507)
IFRS as adjusted	123,580	6,285	117,532	7,982

3. Summary of Accounting Policies**Recognition and Presentation 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 recognised 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 these items are disclosed in the respective accounting policies set out below.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBU, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Trading Securities

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 recognized under the policy for initial recognition of financial instruments and are subsequently measured at fair value, based on market values as of the balance sheet date. Realized and unrealized gains and losses resulting from operations with trading securities are recognized in the statement of income as other income. Interest earned on trading securities is reported as interest income.

In determining fair value, securities are valued at quoted bid prices. When quoted prices on an active market are not available, fair value is determined by reference to price quotations for similar instruments traded in different markets or using discounted cash flow models.

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 with a fixed maturity term are subsequently 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.

(Thousands of Ukrainian hryvnia)

Investment Securities

The Bank classifies 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 stated above and subsequently re-measured using the following policies:

1. Held-to-maturity securities – at amortised cost using the effective interest rate method. Any 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, the fair value has been estimated using discounted future cash at 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 statement of income as other income in the period that the change occurs.

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 initially recognised in accordance with the policy for recognition of financial instruments. The difference between the nominal amount of consideration given and the fair value of loans issued at other than market terms is recognised in the period the loan is issued, if material. Loans to customers with fixed maturities are subsequently measured at amortised cost using the effective interest rate method. Those that do not have fixed maturities are carried at cost. Loans to customers are carried net of any allowance for impairment.

Operating leases

Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating lease are recognised as expenses on a straight-line basis over the lease term and included into administrative and operating expenses.

Taxation

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

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences. Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

(Thousands of Ukrainian hryvnia)

Allowances for Impairment of Financial Assets

The Bank establishes allowances for 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 the related loans issued, held-to-maturity securities and other financial assets, which are carried at cost or amortised cost. The allowances for impairment of financial assets are 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 allowances are based on the Bank's own loss experience, management's judgement and objective evidence of impairment 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 methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed at least annually to reduce any differences between loss estimates and actual loss experience. The allowances for impairment of financial assets in the accompanying financial statements have 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 allowances for impairment of financial assets in future periods.

Changes in allowances are reported in the statement of income 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 related allowance is credited to the related impairment of financial assets in the statement of income.

Property and Equipment

Property and equipment are carried at cost (or restated cost for assets acquired before 31 December 2000) less accumulated depreciation. Depreciation of 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:

	<u>Years</u>
Buildings	50
Furniture, fixtures and other assets	10
Banking equipment	10
Motor vehicles	4
Computers	5

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 at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down. Impairment is recognised in the respective period and is included in other administrative and operating expenses.

Costs relating to repairs and renewals are charged when incurred and included in other administrative and operating expenses, unless they qualify for capitalisation.

Computer Software

Computer software includes acquired software licences. Computer software is stated at cost net of accumulated amortisation. Amortisation is provided so as to write down the cost of an asset on a straight-line basis over its estimated useful economic life. The useful life is 3-5 years.

Amounts Due to the NBU, Credit Institutions and to Customers

Amounts due to the NBU, credit institutions and to customers are initially recognised in accordance with the policy for recognition of financial instruments. Subsequently, amounts due are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of income over the period of the borrowings using the effective interest rate method.

(Thousands of Ukrainian hryvnia)

Debt Securities Issued

Debt securities issued represent bonds issued by the Bank. They are accounted for according to the same principles used for amounts due to credit institutions and to customers.

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) 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.

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 in the period the related salaries are earned. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

Share Capital

Share capital is recognised at restated cost.

Contingencies

Contingent liabilities are not recognised in the financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Income and Expense Recognition

Interest income and expense are recognised on an accrual basis calculated using the effective interest rate method. The recognition of contractual interest income is suspended when loans become overdue by more than ninety days. Commissions and other income are recognised when the related transactions are completed. Loan origination fees for loans issued to customers, when significant, are deferred and recognised as an adjustment to the loans effective yield. Non-interest expenses are recognised at the time the transaction occurs.

Foreign Currency Translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Ukrainian hryvnia at official NBU exchange rates at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of income as gains less losses from foreign currencies (translation differences).

Differences between the contractual exchange rate of a certain transaction and the NBU exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBU exchange rates at 31 December 2004 and 2003, were UAH 5.3054 and 5.3315 hryvnia to 1 US dollar and UAH 7.2175 and UAH 6.6622 to 1 euro, respectively.

*(Thousands of Ukrainian hryvnia)***4. Cash and Due from the NBU**

Cash and due from the NBU comprise:

	<u>2004</u>	<u>2003</u>
Cash on hand	61,664	49,587
Current accounts with the National Bank of Ukraine	47,382	24,207
Cash and due from the NBU	<u>109,046</u>	<u>73,794</u>

The current account with the NBU represents amounts deposited with the NBU relating to daily settlements and other activities. The Bank is also required to maintain, in the form of a non-interest earning cash deposit, certain cash reserves with the NBU, 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 penalties. The Bank was obligated to and maintained the minimal cumulative average reserve calculated on a daily basis over a monthly period.

5. Amounts Due from Credit Institutions

Amounts due from credit institutions comprise:

	<u>2004</u>	<u>2003</u>
Current accounts		
Ukrainian banks	1	22,185
OECD banks	34,743	31,144
CIS and other foreign banks	4,319	2,340
	<u>39,063</u>	<u>55,669</u>
Time deposits		
Ukrainian banks	56,107	91,958
OECD banks	2,087	15,308
CIS and other foreign banks	-	2,667
	<u>58,194</u>	<u>109,933</u>
Less – Allowance for impairment	(762)	(1,169)
Due from credit institutions, net	<u>96,495</u>	<u>164,433</u>

As at 31 December 2004, UAH 28,048 thousand was placed on current account with two internationally recognised OECD banks, who are the main counterparties of the Bank in performing international settlements (2003 - UAH 29,168 thousand with two OECD bank). These placements were made under normal banking conditions. As at 31 December 2004, UAH 961 thousand was placed on current account with PKO BP S.A. (Poland) (2003 - UAH 971 thousand with Kredyt Bank S.A. (Poland)).

As at 31 December 2004, the Bank placed UAH 38,441 thousand as time deposits with Ukrainian banks (2003 - UAH 20,742 thousand on current account and UAH 39,998 thousand as time deposit with Ukrainian banks). Simultaneously, the Bank received short-term funding from the same banks (see Note 12). The Bank has entered into these transactions for treasury management purposes.

Deposits with OECD banks represent an overnight deposit placed with one correspondent bank.

As at 31 December 2004, deposits due from Ukrainian banks include UAH 3,425 thousand of security deposits, placed with Ukrainian banks mainly in respect of customers' transactions, such as letters of credit, guarantees and transactions with plastic cards (2003 - UAH 2,635 thousand). Such placements are normally non-interest bearing.

*(Thousands of Ukrainian hryvnia)***6. Loans to Customers**

Loans to customers comprise:

	<u>2004</u>	<u>2003</u>
Loans to customers	997,957	786,917
Promissory notes	10,385	11,464
Overdrafts	18,108	17,274
	1,026,450	815,655
Less – Allowance for impairment	<u>(76,870)</u>	<u>(61,970)</u>
Loans to customers, net	<u>949,580</u>	<u>753,685</u>

Loans are placed on non-accrual status as to contractual interest 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 timely repayment. As at 31 December 2004, the total gross amount of impaired loans, on which interest was not accrued, was UAH 24,386 thousand (2003 - UAH 28,492 thousand).

Loans have been extended to the following types of customers:

	<u>2004</u>	<u>2003</u>
Corporate customers	954,338	777,254
Retail customers	72,112	38,401
	1,026,450	815,655
Less – Allowance for impairment	<u>(76,870)</u>	<u>(61,970)</u>
Loans to customers, net	<u>949,580</u>	<u>753,685</u>

Loans are made principally within Ukraine to the following sectors:

	<u>2004</u>	<u>%</u>	<u>2003</u>	<u>%</u>
Trading enterprises	393,863	38.4	302,605	37.1
Manufacturing	229,491	22.3	148,260	18.2
Agriculture and food processing	179,434	17.5	156,024	19.1
Retail customers	71,555	7.0	38,401	4.7
Financial services	44,924	4.4	15,900	1.9
Services	35,848	3.5	75,322	9.2
Transport	34,387	3.3	27,366	3.4
Real estate and construction	22,572	2.2	17,412	2.1
Energy	7,198	0.7	23,443	2.9
Telecommunications	3,227	0.3	5,740	0.7
Other industries	3,394	0.4	5,182	0.7
	1,026,450	100	815,655	100
Less – Allowance for impairment	<u>(76,870)</u>		<u>(61,970)</u>	
Loans to customers, net	<u>949,580</u>		<u>753,685</u>	

*(Thousands of Ukrainian hryvnia)***7. Investment Securities**

Investment securities comprise:

	2004		2003	
	Nominal value	Carrying value	Nominal value	Carrying value
Held-to-maturity				
Ukrainian Government bonds		-	20,634	20,910
Ukrainian corporate bonds		-	3,000	3,002
		-		23,912
Available-for-sale				
Ukrainian Government bonds	103	79		-
Ukrainian corporate bonds	6,500	6,575		-
Corporate shares	1,993	1,993	1,597	1,597
Interest bearing promissory notes	234	366	469	667
		9,013		2,264
Less – Allowance for impairment		(204)		(375)
Investment securities, net		8,809		25,801

8. Taxation

The corporate income tax charge (benefit) comprises:

	2004	2003
Current tax charge	4,423	9,912
Deferred tax credit	(1,312)	(13,607)
Income tax (benefit) charge	3,111	(3,695)

In 2004, Ukrainian corporate income tax was levied on taxable income less allowable expenses at a rate of 25%. At the end of 2002, 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 became applicable with effect from 1 January 2004.

Tax assets and liabilities consist of the following:

	2004	2003
Current tax assets	-	82
Deferred tax assets	14,919	13,607
Tax assets	14,919	13,689
Current tax liabilities	374	-
Deferred tax liabilities	-	-
Tax liabilities	374	-

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

	2004	2003
Income before tax	9,396	4,287
Statutory tax rate	25%	30%
Theoretical income tax expense at the statutory rate	2,349	1,286
Non-deductible expenditures	1,367	1,269
Non-taxable income	-	(7)
Effect of change in tax rates	-	2,088
Change in valuation allowance against deferred tax asset	158	(7,838)
Tax deductions	(763)	(493)
Income tax charge (benefit)	3,111	(3,695)

(Thousands of Ukrainian hryvnia)

Deferred tax assets and liabilities consist of the following:

	<i>2004</i>	<i>2003</i>
Tax effect of deductible temporary differences:		
Loans to customers	10,779	10,831
Other assets	5,129	3,498
Due to customers	866	-
Securities	433	105
Due from credit institutions	1,369	1,256
Other liabilities	11	828
Deferred tax assets	18,587	16,518
Tax effect of taxable temporary differences:		
Property and equipment	(2,489)	(1,890)
Deferred tax liability	(2,489)	(1,890)
Net deferred tax position	16,098	14,628
Less – Valuation allowance	(1,179)	(1,021)
Deferred tax asset, net	14,919	13,607

9. Allowances for Losses

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

	<i>Loans to customers</i>	<i>Due from credit institutions</i>	<i>Securities</i>	<i>Total</i>
31 December 2002	36,141	996	55	37,192
Translation differences	95	27	-	122
Charge	26,173	146	320	26,639
Write-offs	(439)	-	-	(439)
31 December 2003	61,970	1,169	375	63,514
Translation differences	19	8	-	27
Charge	15,297	(415)	(171)	14,711
Write-offs	(416)	-	-	(416)
31 December 2004	76,870	762	204	77,836

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

	<i>Other assets</i>
31 December 2002	12,237
Translation difference	34
Charge	1,987
Write-offs	(740)
31 December 2003	13,518
Translation difference	61
Charge	6,305
Write-offs	(10,335)
31 December 2004	9,549

Allowances for impairment of assets are deducted from the related assets.

(Thousands of Ukrainian hryvnia)

10. Property, Equipment and Computer Software

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

	<i>Property</i>	<i>Computers and equipment</i>	<i>Computer software</i>	<i>Furniture, fixtures and other assets</i>	<i>Motor vehicles</i>	<i>Construction in progress</i>	<i>Total</i>
Cost							
31 December 2003	73,801	31,807	4,532	15,637	4,512	809	131,098
Additions	1,423	9,194	1,135	2,317	520	3,799	18,388
Disposals	(477)	(82)	-	(476)	(146)	-	(1,181)
31 December 2004	<u>74,747</u>	<u>40,919</u>	<u>5,667</u>	<u>17,478</u>	<u>4,886</u>	<u>4,608</u>	<u>148,305</u>
Accumulated depreciation and amortisation							
31 December 2003	7,147	11,214	877	7,084	3,058	-	29,380
Charge for the year	2,210	5,674	1,144	1,796	796	-	11,620
Disposals	(114)	(46)	-	(369)	(146)	-	(675)
31 December 2004	<u>9,243</u>	<u>16,842</u>	<u>2,021</u>	<u>8,511</u>	<u>3,708</u>	<u>-</u>	<u>40,325</u>
Net book value							
31 December 2003	<u>66,654</u>	<u>20,593</u>	<u>3,655</u>	<u>8,553</u>	<u>1,454</u>	<u>809</u>	<u>101,718</u>
31 December 2004	<u>65,504</u>	<u>24,077</u>	<u>3,646</u>	<u>8,967</u>	<u>1,178</u>	<u>4,608</u>	<u>107,980</u>

As at 31 December 2004, property comprises land and buildings occupied by the Bank with a carrying value of UAH 61,562 thousand and leasehold improvements with a carrying value of UAH 3,942 thousand (2003 – UAH 62,963 thousand and UAH 3,691 thousand, respectively).

The Bank has pledged tangible fixed assets to secure loans received from Kredyt Bank S.A. (Poland). The total estimated market value of pledged assets as at 31 December 2004 was UAH 72,834 thousand (2003 - UAH 72,834 thousand).

11. Other Assets and Liabilities

Other assets comprise:

	<i>2004</i>	<i>2003</i>
Balance relating to a legal dispute	-	10,334
Assets taken over for resale	17,215	65
Receivables for collateral sold	-	5,053
Prepayments	3,399	2,085
Balances on transit accounts:		
Settlements on payments cards	2,121	2,258
Settlements with Western Union system	277	375
Cash issued to couriers for distribution to clients	2,387	1,126
Settlements with clients	1,501	814
Blocked accounts	877	227
Settlements for operations with securities	799	240
Materials	432	445
Other accrued income	367	195
Other	567	287
	<u>29,942</u>	<u>23,504</u>
Less – Allowance for impairment	(9,549)	(13,518)
Other assets, net	<u>20,393</u>	<u>9,986</u>

As at 31 December 2004, prepayments comprise mainly prepayments for other taxes amounting to UAH 1,665 thousand (2003 – prepayments for property and equipment UAH 813 thousand).

As at 31 December 2004, allowance for impairment includes UAH 6,996 thousand recognised against Assets taken over for resale and UAH 877 thousand recognised against Blocked accounts. As at 31 December 2003, allowance

(Thousands of Ukrainian hryvnia)

for impairment includes UAH 10,334 recognised against Balance relating to a legal dispute, which was written-off by the Bank in 2004, and UAH 227 thousand recognised against Blocked accounts.

Blocked accounts represent correspondent accounts with two German banks, which were blocked as a result of a dispute with Dresdner Bank, as described in Note 15.

The Bank acts as an agent for cash transfer operations under the Meest money transfer programme. Cash issued to couriers represents cash funds, which were provided to couriers who deliver cash to the Bank's customers.

Other liabilities comprise:

	<i>2004</i>	<i>2003</i>
Payables to Guarantee Fund of Individuals' Deposits	854	628
Settlements on payments cards	614	37
Payables for purchased equipment	184	2,017
Deferred income	72	846
Other liabilities	194	144
	<u>1,918</u>	<u>3,672</u>
Accrued salary payable	-	1,680
Other accrued expenses	1,190	825
	<u>1,190</u>	<u>2,505</u>
Other liabilities	<u>3,108</u>	<u>6,177</u>

12. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	<i>2004</i>	<i>2003</i>
Current accounts		
Ukrainian banks	1,531	56,010
OECD banks	81	1,486
	<u>1,612</u>	<u>57,496</u>
Time deposits		
Ukrainian banks	55,428	6,664
OECD banks	132,766	118,396
CIS and other foreign banks	-	68
	<u>188,194</u>	<u>125,128</u>
Due to credit institutions	<u>189,806</u>	<u>182,624</u>

As at 31 December 2004, time deposits from OECD banks include UAH 64,177 thousand due to Kredyt Bank S.A. (Poland) and UAH 48,718 thousand due to PKO BP S.A. (Poland) (2003 – UAH 113,510 thousand due to Kredyt Bank S.A.).

As at 31 December 2004, the Bank received funds of UAH 38,413 thousand as time deposits from Ukrainian banks (2003 – UAH 54,447 thousand in current accounts and UAH 6,664 thousand as time deposits from Ukrainian banks). Simultaneously, the Bank placed balances in current accounts and as time deposits with the same banks (see Note 5). The Bank has entered into these transactions for treasury management purposes.

As at 31 December 2004, the Bank received funds of UAH 10,493 thousand from EBRD under the loan agreement for financing of the franchisee network of one international enterprise (2003 – UAH 4,585 thousand).

*(Thousands of Ukrainian hryvnia)***13. Amounts Due to Customers**

Amounts due to customers comprise:

	<u>2004</u>	<u>2003</u>
Current accounts		
- Companies	186,971	154,257
- Individuals	70,224	69,366
	<u>257,195</u>	<u>223,623</u>
Time deposits		
- Companies	112,899	112,024
- Individuals	620,259	500,348
	<u>733,158</u>	<u>612,372</u>
Due to customers	<u>990,354</u>	<u>835,995</u>

14. Shareholders' Equity

The movement of fully paid and outstanding shares follows:

	<u>Number of shares</u>	<u>Nominal amount</u>	<u>Total restated value</u>
31 December 2002	14,345,793,785	143,458	197,465
Purchase of treasury shares	(13,574,316)	(135)	(135)
31 December 2003	14,332,219,469	143,323	197,330
Purchase of treasury shares	(23,683,919)	(237)	(237)
31 December 2004	<u>14,308,535,550</u>	<u>143,086</u>	<u>197,093</u>

At 31 December 2004, the Bank's authorised share capital comprised 14,354,946,916 (2003 – 14,354,946,916) ordinary shares, with a nominal value of UAH 0.01 per share. All shares have equal voting rights. As at 31 December 2004, 14,308,535,550 shares were issued, fully paid and registered (2003 – 14,332,219,469 shares).

The respective interests of shareholders as at 31 December 2004 and 2003 are as follows:

Shareholder	<u>2004</u>	<u>2003</u>
PKO BP S.A.	66.6%	0.0%
Kredyt Bank S.A.	0.0%	66.6%
EBRD	28.3%	28.3%
Other (Ukrainian shareholders)	5.1%	5.1%
Total	<u>100.0%</u>	<u>100.0%</u>

The share capital of the Bank was contributed by the shareholders in Ukrainian hryvnia or euro and they are entitled to dividends and any capital distribution in 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 statutory accounts of the Bank disclosed distributable reserves of UAH 1,598 thousand (2003 – nil) and the amount of non-distributable reserves was UAH 2,926 thousand (2003 - UAH 1,312 thousand). Non-distributable reserves are represented by a general reserve fund, which is created to cover general banking risks, including future losses and other unforeseen risks or contingencies.

(Thousands of Ukrainian hryvnia)

15. Commitments and Contingencies

Operating Environment

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 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.

Legal

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

One of the problems arising from the activities of the Kyiv branch of the Bank prior to 1998 was a claim by Dresdner Bank. In 1998, Dresdner Bank asserted to the Land Frankfurt Court, that the Bank was liable to reimburse USD 2,480 thousand under a pre-financing agreement, which was granted to a customer of the Bank. Consequently, the accounts of the Bank with two German banks were blocked. The case was subsequently brought to the Ukrainian court, which ruled in favour of the Bank. In 2001, the provision, which was earlier recognised by the Bank, was released in view of the favourable decision of the Ukrainian court. Additionally, no evidence supporting the claim from Dresdner Bank has so far been provided. Consequently, the management assesses that it is possible that a settlement may be required as a result of this claim but neither amount nor timing can be assessed at present. No provision has been made.

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 has complied with all regulations and paid or accrued all taxes that are applicable. Where uncertainty exists, the Bank has accrued tax liabilities based on management's best estimate.

Financial covenants

The Bank is a party to certain debt arrangements with the European Bank for Reconstruction and Development, which contain financial covenants relating to the financial performance and general risk profile of the Bank. Under such covenants, the Bank is required to maintain a minimum international risk based capital adequacy ratio of 12%, a ratio of liquid assets to total assets of at least 25% and to limit credit exposure to a single party to 15% of capital. As at 31 December 2004, the Bank has not complied with the capital adequacy and liquidity covenants. As at the date of issue of these financial statements, the Bank has discussed this with the EBRD and expects to receive appropriate waiver letters in respect of 31 December 2004 and any other subsequent dates and, consequently, non-compliance with the above financial covenants is not expected to restrict or effect the Bank's operations in the future.

*(Thousands of Ukrainian hryvnia)***Financial commitments and contingencies**

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

	<i>2004</i>	<i>2003</i>
Credit related commitments	38,756	43,955
Letters of credit	4,474	7,510
Guarantees	14,855	11,869
Avals on promissory notes	777	1,755
	58,862	65,089
Lease commitments		
Not later than 1 year	1,308	2,027
Later than 1 year but not later than 5 years	3,154	10,312
Later than 5 years	15,640	12,838
	20,102	25,177

The Bank considers no provision is required against unsecured commitments.

Avals on promissory notes represent guarantees of the Bank in respect of promissory notes issued by the Bank's customers in favour of the tax authorities.

Capital commitments

As at 31 December 2004, the Bank has capital commitments of UAH 6,360 thousand in respect of the acquisition of intangible assets.

Insurance

The Bank has obtained insurance coverage against physical damage and loss, from a Ukrainian insurance company in respect of property (including buildings, equipment, computers and vehicles) for a sum assured of UAH 103,162 thousand (2003 - UAH 96,115 thousand).

*(Thousands of Ukrainian hryvnia)***16. Net Interest Income**

Net interest income comprises:

	<i>2004</i>	<i>2003</i>
Interest income		
Loans to customers	146,541	118,548
Due from credit institutions	6,398	5,711
Securities portfolio	4,857	4,302
	<u>157,796</u>	<u>128,561</u>
Interest expenses		
Due to the NBU	(290)	(166)
Due to credit institutions	(5,128)	(3,563)
Due to customers	(87,785)	(64,250)
Debt securities issued	-	(557)
	<u>(93,203)</u>	<u>(68,536)</u>
Net interest income	<u>64,593</u>	<u>60,025</u>

17. Fees and Commissions

Fees and commissions comprise:

	<i>2004</i>	<i>2003</i>
Fees and commission income		
Cash and settlement operations	30,521	24,065
Credit services	7,599	7,991
Currency conversion	6,129	5,550
Operations with guarantees and letters of credit	1,532	864
Securities dealing fees	172	311
Other	413	170
	<u>46,386</u>	<u>38,951</u>
Fees and commission expenses		
Cash and settlement operations	(6,074)	(4,400)
Currency conversion	(1,606)	(1,116)
Other	(123)	(84)
	<u>(7,803)</u>	<u>(5,600)</u>
Fees and commissions, net	<u>38,583</u>	<u>33,351</u>

(Thousands of Ukrainian hryvnia)

18. Salaries and Other Administrative and Operating Expenses

Salaries and benefits, other administrative and operating expenses comprise:

	<u>2004</u>	<u>2003</u>
Salaries and bonuses	26,386	24,038
Employment taxes	7,851	6,603
Salaries and benefits	<u>34,237</u>	<u>30,641</u>
Occupancy and rent	7,522	3,616
Office expenses	4,957	3,669
Security	4,209	2,984
Repairs and maintenance	3,305	2,642
Expenses related to deposit insurance fund	3,136	2,317
EDP costs	2,796	2,382
Operating taxes	2,678	985
Communications	2,598	2,066
Legal and consultancy	2,153	2,488
Marketing and advertising	2,008	1,722
Charity	1,152	650
Business travel and related expenses	1,112	1,163
Loss on property and equipment disposal	232	292
Penalties incurred	121	17
Other	2,707	1,862
Other administrative and operating expenses	<u>40,686</u>	<u>28,855</u>

The aggregate remuneration and other benefits paid to members of the Management Board for 2004 is UAH 2,288 thousand (2003 – UAH 2,234 thousand).

19. Risk Management Policies

Management of risk is fundamental in 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, liquidity and market movements in interest and foreign exchange rates. A summary description of the Bank's risk management policies in relation to these 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. Where appropriate, 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 financial statements and the disclosed financial commitments.

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 and margin and collateral requirements.

*(Thousands of Ukrainian hryvnia)***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 Management Board 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:

	<i>2004</i>			<i>Total</i>
	<i>UAH</i>	<i>Freely convertible</i>	<i>Non freely convertible</i>	
Assets:				
Cash and due from the NBU	77,947	30,118	981	109,046
Due from credit institutions	7,337	84,996	4,162	96,495
Securities portfolio	8,809	-	-	8,809
Loans to customers	492,356	457,224	-	949,580
Tax asset	14,919	-	-	14,919
Other monetary assets	7,062	3,006	-	10,068
	608,430	575,344	5,143	1,188,917
Liabilities:				
Due to credit institutions	55,551	133,709	545	189,806
Due to customers	531,849	453,853	4,653	990,354
Tax liability	374	-	-	374
Other liabilities	2,879	218	-	3,097
	590,653	587,780	5,198	1,183,631
Net balance sheet position	17,777	(12,436)	(55)	
<i>2003</i>				
	<i>UAH</i>	<i>Freely convertible</i>	<i>Non freely convertible</i>	<i>Total</i>
Assets:				
Cash and due from the NBU	49,643	23,702	449	73,794
Due from credit institutions	42,838	118,736	2,859	164,433
Securities portfolio	25,801	-	-	25,801
Loans to customers	406,228	347,457	-	753,685
Tax asset	13,689	-	-	13,689
Other monetary assets	6,070	2,320	-	8,390
	544,269	492,215	3,308	1,039,792
Liabilities:				
Due to the NBU	-	542	-	542
Due to credit institutions	22,354	160,008	262	182,624
Due to customers	520,392	312,477	3,126	835,995
Debt securities issued	236	-	-	236
Other liabilities	6,136	41	-	6,177
	549,118	473,068	3,388	1,025,574
Net balance sheet position	(4,849)	19,147	(80)	

Non-freely convertible amounts relate to currencies of CIS countries, excluding Ukraine.

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

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Bank's interest rate policy is reviewed and approved by the Bank's Asset and Liability Management Committee.

As at 31 December 2004 and 2003, the effective average interest rates by currencies for interest generating/ bearing monetary financial instruments were as follows:

(Thousands of Ukrainian hryvnia)

	2004		2003	
	UAH	USD/euro	UAH	USD/euro
Due from credit institutions	20%	5.3%	11%	3.55%
Securities	17%	-	17%	-
Loans to customers	21%	13%	20%	13%
Due to credit institutions	13%	5%	-	2%
Customer deposits	15%	7%	15%	7%

The majority of the Bank's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. Additionally, as disclosed in the maturity analysis below, the maturity dates applicable to the majority 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.

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 future expected cash flows on client accounts and cash flows from its banking operations. This is a part of the Bank's 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 following tables 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				Total
	Less than 1 month	1 to 3 months	3 months to 1 year	Over 1 year	
Assets:					
Cash and due from the NBU	109,046	-	-	-	109,046
Due from credit institutions	83,232	5,305	7,958	-	96,495
Securities portfolio	938	217	3,017	4,637	8,809
Loans to customers	88,857	127,713	379,731	353,279	949,580
Tax asset	-	-	4,032	10,887	14,919
Other monetary assets	6,594	1,764	210	1,500	10,068
	288,667	134,999	394,948	370,303	1,188,917
Liabilities:					
Due to credit institutions	100,974	7,903	6,258	74,671	189,806
Due to customers	354,486	166,320	336,257	133,291	990,354
Tax liabilities	-	374	-	-	374
Debt securities issued	-	-	-	-	-
Other liabilities	900	984	1,187	26	3,097
	456,360	175,581	343,702	207,988	1,183,631
Net position	(167,693)	(40,582)	51,246	162,315	5,286
Accumulated gap	(167,693)	(208,275)	(157,029)	5,286	

(Thousands of Ukrainian hryvnia)

	<i>2003</i>				<i>Total</i>
	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>Over 1 year</i>	
Assets:					
Cash and due from the NBU	73,794	-	-	-	73,794
Due from credit institutions	131,891	32,542	-	-	164,433
Securities portfolio	347	-	15,783	9,671	25,801
Loans to customers	59,242	126,751	375,098	192,594	753,685
Tax asset	-	1,635	-	12,054	13,689
Other monetary assets	5,118	240	3,032	-	8,390
	<u>270,392</u>	<u>161,168</u>	<u>393,913</u>	<u>214,319</u>	<u>1,039,792</u>
Liabilities:					
Due to the NBU	-	542	-	-	542
Due to credit institutions	88,151	26,520	67,953	-	182,624
Due to customers	334,162	121,601	358,614	21,618	835,995
Tax liabilities	-	-	-	-	-
Debt securities issued	236	-	-	-	236
Other liabilities	1,829	2,316	2,032	-	6,177
	<u>424,378</u>	<u>150,979</u>	<u>428,599</u>	<u>21,618</u>	<u>1,025,574</u>
Net position	<u>(153,986)</u>	<u>10,189</u>	<u>(34,686)</u>	<u>192,701</u>	<u>14,218</u>
Accumulated gap	<u>(153,986)</u>	<u>(143,797)</u>	<u>(178,483)</u>	<u>14,218</u>	

The Bank's capability of discharging its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. As shown in the table above, there is a significant deficit in the periods due in less than one year. Partly, this results from a significant concentration of short-term deposits from PKO Bank S.A. (2003 - Kredyt Bank S.A.), which are utilised to provide loans to customers. The management of the Bank believes that the maturity of such deposits will be rescheduled considering the nature of the relationship between the Bank and the related lender.

Long-term credits and overdraft facilities are generally not available in Ukraine. However, in the Ukrainian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, the maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one year in the tables above. In addition, available-for-sale securities are shown at their latest maturity, however such assets may be realized in a short period of time without adverse price effects.

Management monitors the Bank's liquidity position and has plans to reduce the liquidity gap in the period up to one year in 2005. These plans include controlling the growth in long-term loans, extending the maturity of customer deposits, attraction of the long-term subordinated liabilities and the potential increase of the Bank's capital. The Bank believes that in spite of a substantial portion of deposits from individuals being in the period up to 1 year, diversification of these deposits by number and type of depositors and past experience of the Bank indicates that these deposits provide a long-term and stable source of funding for the Bank.

Considering the above, management believes that the Bank will be able to meet its liquidity needs in 2005 and beyond. The plans as described above and overall liquidity management requires that the Bank extends the maturity of its customer deposits, which are subject to prevailing market conditions, including market liquidity, pricing and competitive pressures, and to secure additional long-term funding. Failure to extend the maturity of its customer deposits or to effectively implement any of the plans described above could have a materially adverse effect on the ability of the Bank to meet its obligations, including debt servicing, and, therefore, the Bank's results of operations and financial condition.

20. 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

(Thousands of Ukrainian hryvnia)

at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, 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 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, the interest rates applicable reflect market rates and, consequently, the fair value approximates the carrying amounts.

Loans to Customers

The estimate of the fair value was made by discounting the scheduled future cash flows of individual loans through to estimated maturity using prevailing market rates as at the respective year-end. The estimated fair values do not differ significantly from the carrying amounts of loans to customers.

Securities Portfolio

Available-for-sale securities are measured as described in Note 3. As at 31 December 2004 and 2003, the carrying amount of available-for-sale securities approximates their fair value. Securities held-to-maturity include only securities with fixed interest rates, which reflect market interest rates, and, consequently, the fair value approximates the carrying amounts.

Amounts Due to Customers

For balances maturing within one month the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For longer term fixed interest bearing deposits and other borrowings the estimated fair value is based on discounted cash flows using interest rates for new debts with similar remaining maturity. Carrying values of amounts due to customers approximates fair values.

Debt Securities Issued

Debt securities are issued at interest rates approximate to market rates and, consequently, the carrying amount of debt securities issued is a reasonable estimate of their fair value.

21. Related Party Transactions

Related parties, as defined by IAS 24 "Related Party Disclosures", are those counter parts that represent:

- (a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Bank. This includes holding companies, subsidiaries and fellow subsidiaries;
- (b) associates – enterprises in which the Bank has significant influence and which are neither subsidiaries nor joint ventures of the Bank;
- (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank, which gives them significant influence over the Bank, and anyone expected to influence, or be influenced by, that person in their dealings with the Bank;
- (d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and
- (e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

(Thousands of Ukrainian hryvnia)

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

As at 31 December 2004 and 2003, the Bank had the following transactions with related parties:

	2004		2003	
	<i>Related party transactions</i>	<i>Total category</i>	<i>Related party transactions</i>	<i>Total category</i>
Due from credit institutions	961	96,495	1,900	164,433
Loans to customers	1,484	949,580	1,038	753,685
Due to credit institutions	59,271	189,806	119,843	182,624
Commission expenses to banks	113	6,074	41	4,400
Interest expense to other banks	1,622	5,128	1,264	3,563

Included in the table above are the following outstanding transactions with related parties:

- 1) As at 31 December 2004, due from credit institutions consisted of balances on current accounts amounting to UAH 961 thousand with PKO BP S.A. (Poland) (2003 - UAH 971 thousand with Kredyt Bank S.A.).
- 2) As at 31 December 2004 and 2003, loans to customers comprise loans to middle management of the Bank.
- 3) As at 31 December 2004 and 2003, due to credit institutions include time deposits of UAH 59,211 thousand received from PKO BP S.A. (Poland) and EBRD (2003 – UAH 118,095 thousand received from Kredyt Bank S.A. and EBRD).
- 4) The amount of commission expense to correspondent banks represents commissions paid to Kredyt Bank S.A. (Poland) (2003 – UAH 41 thousand).
- 5) The amounts of interest expense to banks for 2004 represent interests on transactions with Kredyt Bank S.A. (Poland), PKO BP S.A. and EBRD amounting to UAH 1,330 thousand, UAH 44 thousand and UAH 248 thousand, respectively (2003 – UAH 1,215 thousand on transactions with Kredyt Bank S.A and UAH 49 thousand – with EBRD).
- 6) As at 31 December 2004 and 2003, members of the Management Board had no loans due to the Bank.

22. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBU, and due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances. As at 31 December 2004 and 2003, cash and cash equivalents included in the cash flow statement comprise the following balance sheet items:

	2004	2003
Cash on hand (see Note 4)	61,664	49,587
Current accounts with the National Bank of Ukraine (see Note 4)	47,382	24,207
Current accounts with credit institutions (see Note 5)	39,063	55,669
Time deposits with credit institutions with contractual maturity of less than ninety days	50,194	109,933
Cash and cash equivalents	198,303	239,396

23. Capital Adequacy

The Bank's risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines issued in 1988, as at 31 December 2004 and 2003, was 11.4% and 12.6%, respectively. These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.