

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

Year ended 31 December 2003

Together with Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

Independent auditors' report to the Shareholders and Board of Management 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 2003, 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 2003, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst + Young Ukraudit

20 February 2004
Kyiv, Ukraine

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

	<i>Notes</i>	<i>31 December</i>	
		<i>2003</i>	<i>2002</i>
Assets			
Cash and due from the NBU	4	73,794	48,491
Amounts due from credit institutions	5	164,433	91,671
Securities portfolio	6	25,801	36,942
Loans to customers	7	753,685	568,451
Tax assets	8	13,689	137
Property, equipment and computer software	10	101,718	89,707
Other assets	11	9,986	8,563
Total assets		1,143,106	843,962
Liabilities			
Amounts due to the National Bank of Ukraine		542	1,466
Amounts due to credit institutions	12	182,624	102,029
Amounts due to customers	13	835,995	628,158
Debt securities issued		236	-
Tax liabilities	8	-	620
Other liabilities	11	6,177	1,998
Total liabilities		1,025,574	734,271
Shareholders' equity			
Share capital issued		197,557	197,557
Treasury shares		(227)	(92)
Accumulated deficit		(79,798)	(87,774)
Total shareholders' equity	14	117,532	109,691
Total liabilities and shareholders' equity		1,143,106	843,962
Financial commitments and contingencies	15		

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

Stepan Kubiv

Chairman of the Board

Taras Khoma

Chief accountant

19 February 2004

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>2003</i>	<i>2002</i>
Interest income		128,561	106,629
Interest expense		(68,536)	(62,608)
Net interest income	16	60,025	44,021
Impairment of interest earning assets	9	(26,639)	(18,984)
		33,386	25,037
Fee and commission income		38,951	29,569
Fee and commission expense		(5,600)	(3,879)
Fees and commissions, net	17	33,351	25,690
Gains less losses from foreign currencies:			
- dealing, net		7,498	5,725
- translation differences, net		805	3,033
Dealing in securities, net		121	475
Other income		943	1,358
Non interest income		9,367	10,591
Salaries and benefits	18	(30,641)	(22,564)
Depreciation and amortisation	10	(10,334)	(7,123)
Other administrative and operating expenses	18	(28,855)	(25,685)
Impairment of other assets	9	(1,987)	257
Non interest expense		(71,817)	(55,115)
Income before tax		4,287	6,203
Taxation benefit (charge)	8	3,695	(3,846)
Net income		7,982	2,357

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 2003 and 2002****(Thousands of Ukrainian hryvnia)**

	<i>Share capital issued</i>	<i>Treasury shares</i>	<i>Accumulated deficit</i>	<i>Total shareholders' equity</i>
31 December 2001	197,557	(44)	(90,131)	107,382
Purchases of treasury shares		(48)	-	(48)
Net income			2,357	2,357
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

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>Notes</i>	<i>Years ended 31 December</i>	
		<i>2003</i>	<i>2002</i>
Cash flows from operating activities			
Interest and commissions received		172,360	132,909
Interest and commissions paid		(69,589)	(61,125)
Gains less losses from dealing in foreign currencies and securities		7,619	6,041
Other operating income received		943	1,358
Salaries and benefits		(30,641)	(22,214)
Other operating and administrative expenses paid		(28,404)	(25,118)
Cash flow from operating activities before changes in operating assets and liabilities		52,288	31,851
<i>Net (increase) /decrease in operating assets</i>			
Amounts due from credit institutions		-	15,512
Loans to customers		(208,430)	(224,924)
Securities portfolio		8,933	(33,090)
Other assets		(3,102)	2,537
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to the National Bank of Ukraine		(907)	(946)
Amounts due to credit institutions		78,388	21,522
Amounts due to customers		195,971	189,527
Debt securities issued		231	(8,349)
Other liabilities		2,905	92
Net cash flows from (used in) operating activities before income taxes		126,277	(6,268)
Income tax paid		(10,477)	(3,226)
Net cash flows from (used in) operating activities		115,800	(9,494)
Cash flows used in investing activities			
Purchases of property, equipment and computer software		(23,098)	(25,000)
Proceeds from sale of property and equipment		338	111
Net cash flows used in investing activities		(22,760)	(24,889)
Cash flows used in financing activities			
Treasury shares purchased		(141)	(48)
Net cash flows used in financing activities		(141)	(48)
Effect of exchange rates changes on cash and cash equivalents		5,339	4,930
Net change in cash and cash equivalents		98,238	(29,501)
Cash and cash equivalents, beginning of the year		141,158	170,659
Cash and cash equivalents, ending of the year	22	239,396	141,158

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 (Ukraina) (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 2003, 94.9% of the issued paid-in share capital (2002 - 94.9%) was owned by non-residents: Kredyt 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 2003, it had 18 branches (2002 - 18) located in Lviv and other regions of Ukraine. The Bank and its branches form a single legal entity. It had 1,363 employees as at 31 December 2003 (2002 - 1,166 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.

In 2002, and the preceding reporting periods, the Bank presented its financial statements in euro. Accordingly, the respective corresponding balances were recalculated using the official NBU exchange rate of the Ukrainian hryvnia to the euro as at the respective balance sheet date.

The Bank is required to maintain its 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" ("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.

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:

	2003		2002	
	<i>Shareholders' equity</i>	<i>Net income</i>	<i>Shareholders' equity</i>	<i>Net income</i>
UAR as reported	139,998	16,101	124,038	1,152
Application of IAS 29	12,261	(706)	12,967	(400)
Additional allowance for impairment	(36,050)	(13,596)	(22,454)	285
Accruals	72	(439)	511	1,104
Deferral of loan origination fees	(2,478)	(2,478)	-	-
Deferred taxation	9,607	9,607	-	-
Accelerated depreciation	(5,878)	(507)	(5,371)	216
IFRS as adjusted	117,532	7,982	109,691	2,357

3. 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 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.

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.

Securities Portfolio

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

The Bank has classified its investment securities into two categories:

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

(Thousands of Ukrainian hryvnia)

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.

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.

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.

(Thousands of Ukrainian hryvnia)

The allowances are 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 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.

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.

(Thousands of Ukrainian hryvnia)

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 2003 and 2002, were UAH 5.3315 and 5.3324 hryvnia to 1 US dollar and UAH 6.6622 and UAH 5.5329 to 1 euro, respectively.

Corresponding figures

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

Reclassifications

The following reclassification has been made to the 2002 balances to conform to the 2003 presentation:

<i>Amount</i>	<i>Previously reported</i>	<i>As reclassified</i>	<i>Description</i>
UAH 75,764 thousand	Time deposits due from credit institutions	Cash and cash equivalents	For cash flows statement

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

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

	<u>2003</u>	<u>2002</u>
Cash on hand	49,587	30,328
Current accounts with the National Bank of Ukraine	24,207	18,163
Cash and due from the NBU	<u>73,794</u>	<u>48,491</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 (obligatory reserve), which are computed as a percentage of certain 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 37,292 thousand (2002 - UAH 25,773 thousand). The Bank meets the NBU obligatory reserve requirements as at 31 December 2003 and 2002.

5. Amounts Due from Credit Institutions

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

	<u>2003</u>	<u>2002</u>
Current accounts		
Ukrainian banks	22,185	614
OECD banks	31,144	13,335
CIS and other foreign banks	2,340	2,954
	<u>55,669</u>	<u>16,903</u>
Time deposits		
Ukrainian banks	91,958	49,693
OECD banks	15,308	23,747
CIS and other foreign banks	2,667	2,324
	<u>109,933</u>	<u>75,764</u>
Less – Allowance for impairment	(1,169)	(996)
Due from credit institutions, net	<u>164,433</u>	<u>91,671</u>

As at 31 December 2003, UAH 29,168 thousand was placed on current account with two internationally recognised OECD banks, who are the main counter parties of the Bank in performing international settlements (2002 - UAH 5,007 thousand with one OECD bank). These placements were made under normal banking conditions. As at 31 December 2003, UAH 971 thousand was placed on current account with Kredyt Bank S.A. (Poland) (2002 - UAH 5,926 thousand).

As at 31 December 2003, the Bank placed UAH 20,742 thousand on current account and UAH 39,998 thousand as time deposits with Ukrainian banks (2002 - UAH 5,330 thousand as time deposit with a Ukrainian bank). 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. This placements bears market interest rates.

As at 31 December 2003, deposits due from Ukrainian banks include UAH 2,635 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 (2002 - UAH 1,903 thousand). Such placements are normally non-interest bearing.

*(Thousands of Ukrainian hryvnia)***6. Securities Portfolio**

As at 31 December 2003 and 2002, the securities portfolio comprises:

	2003		2002	
	Nominal value	Carrying value	Nominal value	Carrying value
Held-to-maturity				
Ukrainian Government bonds	20,634	20,910	11,156	11,018
Ukrainian corporate bonds	3,000	3,002	22,000	23,194
		<u>23,912</u>		<u>34,212</u>
Available-for-sale				
Corporate shares	1,597	1,597	1,134	1,062
Interest bearing promissory notes	469	667	1,467	1,723
		<u>2,264</u>		<u>2,785</u>
Less – Allowance for impairment		(375)		(55)
Securities portfolio, net		<u>25,801</u>		<u>36,942</u>

7. Loans to Customers

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

	2003	2002
Loans to customers	786,917	589,034
Promissory notes	11,464	8,907
Overdrafts	17,274	6,651
	<u>815,655</u>	<u>604,592</u>
Less – Allowance for impairment	(61,970)	(36,141)
Loans to customers, net	<u>753,685</u>	<u>568,451</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 2003, the total gross amount of impaired loans, on which interest was not accrued, was UAH 28,492 thousand (2002 - UAH 32,124 thousand).

Loans have been extended to the following types of customers:

	2003	2002
Corporate customers	777,254	584,491
Retail customers	38,401	20,101
	<u>815,655</u>	<u>604,592</u>
Less – Allowance for impairment	(61,970)	(36,141)
Loans to customers, net	<u>753,685</u>	<u>568,451</u>

(Thousands of Ukrainian hryvnia)

Loans are made principally within Ukraine to the following sectors:

	2003	%	2002	%
Trading enterprises	302,605	37.1	214,909	35.5
Agriculture and food processing	156,024	19.1	158,318	26.2
Manufacturing	148,260	18.2	114,088	18.9
Services	75,322	9.2	52,408	8.7
Retail customers	38,349	4.7	21,101	3.3
Transport	27,366	3.4	9,561	1.6
Energy	23,443	2.9	13,362	2.2
Real estate and construction	17,412	2.1	9,959	1.6
Financial services	15,900	1.9	8,471	1.4
Telecommunications	5,740	0.7	-	-
Other industries	5,234	0.7	3,415	0.6
	815,655	100	604,592	100
Less – Allowance for impairment	(61,970)		(36,141)	
Loans to customers, net	753,685		568,451	

8. Taxation

The corporate income tax (benefit) charge comprises:

	2003	2002
Current tax charge	9,912	3,846
Deferred tax credit	(13,607)	-
Income tax (benefit) charge	(3,695)	3,846

In 2003, Ukrainian corporate income tax was levied on taxable income less allowable expenses at a rate of 30%. 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 will be applicable after 1 January 2004.

Tax assets and liabilities consist of the following:

	2003	2002
Current tax assets	82	137
Deferred tax assets	13,607	-
Tax assets	13,689	137
Current tax liabilities	-	620
Deferred tax liabilities	-	-
Tax liabilities	-	620

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

	2003	2002
Income before tax	4,287	6,203
Statutory tax rate	30%	30%
Theoretical income tax expense at the statutory rate	1,286	1,861
Non-deductible expenditures	1,269	1,421
Non-taxable income	(7)	(259)
Effect of change in tax rates	2,088	837
Changes in deductibility of certain provisions	-	(2,735)
Change in valuation allowance against deferred tax asset	(7,838)	3,459
Tax deductions	(493)	(738)
Income tax (benefit) charge	(3,695)	3,846

(Thousands of Ukrainian hryvnia)

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

	<u>2003</u>	<u>2002</u>
Tax effect of deductible temporary differences:		
Allowances for impairment	14,965	9,952
Securities	105	66
Accruals, net	1,448	560
Deferred tax assets	16,518	10,578
Tax effect of taxable temporary differences:		
Property and equipment	(1,890)	(1,719)
Deferred tax liability	(1,890)	(1,719)
Net deferred tax asset	14,628	8,859
Less – Valuation allowance	(1,021)	(8,859)
Deferred tax asset, net	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 2001	18,144	489	55	18,688
Charge	18,479	505	-	18,984
Write-offs	(611)	-	-	(611)
Translation differences	98	2	-	100
Recovery	31	-	-	31
31 December 2002	36,141	996	55	37,192
Charge	26,173	146	320	26,639
Write-offs	(439)	-	-	(439)
Translation differences	95	27	-	122
31 December 2003	61,970	1,169	375	63,514

The movements in allowances for other assets were as follows:

	<i>Other assets</i>
31 December 2001	12,487
Release	(257)
Translation difference	7
31 December 2002	12,237
Charge	1,987
Write-offs	(740)
Translation difference	34
31 December 2003	13,518

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 2002	64,527	20,387	1,524	13,489	4,168	5,885	109,980
Additions	932	12,070	3,008	2,810	586	3,692	23,098
Disposals	(423)	(540)	-	(772)	(242)	(3)	(1,980)
Transfers	8,765	(110)	-	110	-	(8,765)	-
31 December 2003	73,801	31,807	4,532	15,637	4,512	809	131,098
Accumulated depreciation and amortisation							
31 December 2002	4,519	7,978	454	4,953	2,369	-	20,273
Charge for the year	2,681	4,106	423	2,210	914	-	10,334
Disposals	(53)	(456)	-	(493)	(225)	-	(1,227)
Transfers	-	(414)	-	414	-	-	-
31 December 2003	7,147	11,214	877	7,084	3,058	-	29,380
Net book value:							
31 December 2002	60,008	12,409	1,070	8,536	1,799	5,885	89,707
31 December 2003	66,654	20,593	3,655	8,553	1,454	809	101,718

As at 31 December 2003, property comprises land and buildings occupied by the Bank with a carrying value of UAH 62,963 thousand and leasehold improvements with a carrying value of UAH 3,691 thousand (2002 - UAH 55,714 thousand and UAH 4,294 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 2003 was UAH 72,834 thousand (2002 - UAH 45,414 thousand).

11. Other Assets and Liabilities

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

	<i>2003</i>	<i>2002</i>
Balance relating to a legal dispute	10,334	10,334
Receivables for collateral sold	5,053	550
Balances on transit accounts:		
Settlements on payments cards	2,258	830
Settlements with Western Union system	375	502
Prepayments	2,085	2,382
Cash issued to couriers for distribution to clients	1,126	2,648
Settlements with clients	814	852
Materials	445	347
Settlements for operations with securities	240	124
Blocked accounts	227	193
Other accrued income	195	249
Assets taken over for resale	65	229
Other	287	1,560
Less – Allowance for impairment	(13,518)	(12,237)
Other assets, net	9,986	8,563

As at 31 December 2003, prepayments comprise mainly prepayments for property and equipment amounting to UAH 813 thousand (2002 - UAH 1,648 thousand).

(Thousands of Ukrainian hryvnia)

The Bank is acting 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.

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.

As at 31 December 2003, the balance of UAH 10,334 thousand (2002 – UAH 10,334 thousand) relating to a legal dispute with a customer represents the amount, which was written-off from the Bank's correspondent account with the NBU as a result of a legal dispute with the customer, as described in Note 15. Full allowance has been made in 2003 and 2002 against this balance.

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

	<i>2003</i>	<i>2002</i>
Payables for purchased equipment	2,017	87
Deferred income	846	34
Payables to Guarantee Fund of Individuals' Deposits	628	424
Other liabilities	181	225
	<u>3,672</u>	<u>770</u>
Accrued salary payable	1,680	350
Other accrued expenses	825	878
	<u>2,505</u>	<u>1,228</u>
Other liabilities	<u>6,177</u>	<u>1,998</u>

12. Amounts Due to Credit Institutions

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

	<i>2003</i>	<i>2002</i>
Current accounts		
Ukrainian banks	56,010	2,414
OECD banks	1,486	321
	<u>57,496</u>	<u>2,735</u>
Time deposits		
Ukrainian banks	6,664	10,452
OECD banks	118,396	88,842
CIS and other foreign banks	68	-
	<u>125,128</u>	<u>99,294</u>
Due to credit institutions	<u>182,624</u>	<u>102,029</u>

As at 31 December 2003, time deposits from OECD banks include UAH 113,510 thousand due to Kredyt Bank S.A. (Poland) (2002 – UAH 88,842 thousand).

As at 31 December 2003, the Bank received funds of UAH 54,447 thousand in current accounts and UAH 6,664 thousand as time deposits from Ukrainian banks (2002 – UAH 5,330 thousand as time deposit from a Ukrainian bank). 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.

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

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

	<u>2003</u>	<u>2002</u>
Current accounts		
- Companies	154,257	46,485
- Individuals	69,366	121,369
	<u>223,623</u>	<u>167,854</u>
Time deposits		
- Companies	500,348	82,343
- Individuals	112,024	377,961
	<u>612,372</u>	<u>460,304</u>
Due to customers	<u>835,995</u>	<u>628,158</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 2001	14,350,573,347	140,417	197,513
Purchase of treasury shares	(4,779,562)	(48)	(48)
Share premium	-	3,089	-
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

At 31 December 2003, the Bank's authorised share capital comprised 14,354,946,916 (2002 – 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 2003, 14,332,219,469 shares were issued, fully paid and registered (2002 – 14,345,793,785 shares).

The respective interests of shareholders as at 31 December 2003 and 2002 are as follows:

Shareholder	<u>2003</u>	<u>2002</u>
Kredyt Bank S.A.	66.6%	66.6%
EBRD	28.3%	28.3%
Other (Ukrainian shareholders)	5.1%	5.1%
Total	<u>100%</u>	<u>100%</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 2003 and 2002, the Bank did not have any distributable reserves. As at 31 December 2003, the amount of non-distributable reserves was UAH 1,333 thousand (2002 - UAH 1,223 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.

In 2000, one of the Bank's customers commenced proceedings against the Bank involving the transfer and settlement of bills of exchange. In 2000, the court ruled in favour of the Bank, however the customer appealed to a higher commercial court requesting that the decision should be reviewed. The higher commercial court nullified all previous court decisions and brought in a verdict, which instructed the Bank to satisfy the claim and reimburse the amount of UAH 10,334 thousand. Based on this verdict, the amount claimed was written off from the correspondent account of the Bank with the NBU in favour of the customer. The Bank appealed to the Supreme Commercial Court of Ukraine and in January 2002, the Court decided to reopen the case and review it again in the higher arbitration court. In July 2002, the decision was revised in favour of the Bank. In August 2002, bankruptcy proceedings were brought against the Bank's customer at the request of another creditor and in May 2003 the Court declared the Bank's customer bankrupt and started the process of liquidating the customer's assets. Management believes that the proceeds from the liquidation of assets of the customer will not be sufficient to cover the balance due from this customer and the timing of any such proceeds can not be reliably assessed. Consequently, an allowance for the full balance of UAH 10,334 thousand has been made as at 31 December 2003 (2002 – UAH 10,334 thousand) (see Note 11).

A claim 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.

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

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

	2003	2002
Credit related commitments	43,955	25,544
Letters of credit	7,510	9,511
Guarantees	11,869	4,636
Avals on promissory notes	1,755	127
	65,089	39,818
Lease commitments		
Not later than 1 year	2,027	1,170
Later than 1 year but not later than 5 years	10,312	2,797
Later than 5 years	12,838	1,584
	25,177	5,551

As at 31 December 2003, letters of credit amounting to UAH 452 thousand were secured by customers' cash deposits (2002 - UAH 7,098 thousand). 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.

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 96,115 thousand (2002 - UAH 82,567 thousand).

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

Net interest income comprises:

	<i>2003</i>	<i>2002</i>
Interest income		
Loans to customers	118,548	97,817
Due from credit institutions	5,711	5,475
Securities portfolio	4,302	3,303
Due from the NBU	-	34
	128,561	106,629
Interest expenses		
Due to the NBU	(166)	(85)
Due to credit institutions	(3,563)	(2,310)
Due to customers	(64,250)	(59,283)
Debt securities issued	(557)	(930)
	(68,536)	(62,608)
Net interest income	60,025	44,021

17. Fees and Commissions

Fees and commission comprise:

	<i>2003</i>	<i>2002</i>
Fees and commission income		
Cash and settlement operations	24,065	16,912
Credit services	7,991	7,310
Currency conversion	5,550	4,608
Operations with guarantees and letters of credit	864	339
Securities dealing fees	311	149
Other	170	251
	38,951	29,569
Fees and commission expenses		
Cash and settlement operations	(4,400)	(2,630)
Currency conversion	(1,116)	(770)
Other	(84)	(479)
	(5,600)	(3,879)
Fees and commissions, net	33,351	25,690

*(Thousands of Ukrainian hryvnia)***18. Salaries and Other Administrative and Operating Expenses**

Salaries and benefits, other administrative and operating expenses comprise:

	<u>2003</u>	<u>2002</u>
Salaries and bonuses	24,038	17,528
Employment taxes	6,603	5,036
Salaries and benefits	30,641	22,564
Office expenses	3,669	3,065
Occupancy and rent	3,616	2,249
Security	2,984	2,524
Repair and maintenance	2,642	1,039
Legal and consultancy	2,488	3,147
EDP costs	2,382	1,944
Expenses related to deposit insurance fund	2,317	1,487
Communications	2,066	1,816
Marketing and advertising	1,722	2,906
Business travel and related expenses	1,163	1,083
Operating taxes	985	1,618
Charity	650	117
Loss on property and equipment disposal	292	409
Penalties incurred	17	79
Other	1,862	2,202
Other administrative and operating expenses	28,855	25,685

The aggregate remuneration and other benefits paid to members of the Management Board for 2003 is UAH 2,234 thousand (2002 – UAH 1,339 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 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.

*(Thousands of Ukrainian hryvnia)***Market Risk**

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

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:

	2003			Total
	UAH	Freely convertible	Non freely convertible	
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
	<u>544,269</u>	<u>492,215</u>	<u>3,308</u>	<u>1,039,792</u>
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
Tax liability	-	-	-	-
Other liabilities	6,136	41	-	6,177
	<u>549,118</u>	<u>473,068</u>	<u>3,388</u>	<u>1,025,574</u>
Net balance sheet position	<u>(4,849)</u>	<u>19,147</u>	<u>(80)</u>	
2002				
	UAH	Freely convertible	Non freely convertible	Total
Assets:				
Cash and due from the NBU	29,678	18,540	273	48,491
Due from credit institutions	21,985	69,511	175	91,671
Securities portfolio	36,942	-	-	36,942
Loans to customers	283,019	285,432	-	568,451
Tax asset	137	-	-	137
Other monetary assets	1,742	3,862	-	5,604
	<u>373,503</u>	<u>377,345</u>	<u>448</u>	<u>751,296</u>
Liabilities:				
Due to the NBU	-	1,466	-	1,466
Due to credit institutions	10,562	91,204	263	102,029
Due to customers	366,361	258,280	3,517	628,158
Debt securities issued	-	-	-	-
Tax liability	620	-	-	620
Other liabilities	1,981	17	-	1,998
	<u>379,524</u>	<u>350,967</u>	<u>3,780</u>	<u>734,271</u>
Net balance sheet position	<u>(6,021)</u>	<u>26,378</u>	<u>(3,332)</u>	

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

(Thousands of Ukrainian hryvnia)

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 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	11%	3,55%	13%	7%
Securities	17%	-	17%	-
Loans to customers	20%	13%	26%	15%
Due to credit institutions	-	2%	10%	2-4%
Customer deposits	15%	7%	17%	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 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.

	2003				Total
	Less than 1 month	1 to 3 months	3 months to 1 year	Over 1 year	
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
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	(153,986)	10,189	(34,686)	192,701	14,218
Accumulated gap	(153,986)	(143,797)	(178,483)	14,218	

(Thousands of Ukrainian hryvnia)

	<i>2002</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	48,491	-	-	-	48,491
Due from credit institutions	82,877	8,794	-	-	91,671
Securities portfolio	6,490	10,425	5,301	14,726	36,942
Loans to customers	35,682	84,372	317,727	130,670	568,451
Tax asset	-	137	-	-	137
Other monetary assets	4,864	-	740	-	5,604
	<u>178,404</u>	<u>103,728</u>	<u>323,768</u>	<u>145,396</u>	<u>751,296</u>
Liabilities:					
Due to the NBU	-	747	160	559	1,466
Due to credit institutions	57,321	-	-	44,708	102,029
Due to customers	255,204	106,691	241,174	25,089	628,158
Tax liability	-	620	-	-	620
Other liabilities	769	326	903	-	1,998
	<u>313,294</u>	<u>108,384</u>	<u>242,237</u>	<u>70,356</u>	<u>734,271</u>
Net position	<u>(134,890)</u>	<u>(4,656)</u>	<u>81,531</u>	<u>75,040</u>	<u>17,025</u>
Accumulated gap	<u>(134,890)</u>	<u>(139,546)</u>	<u>(58,015)</u>	<u>17,025</u>	

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. There is a significant deficit in the period due in less than one month, partly resulting from a significant concentration of short-term deposits from 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 month in the tables above. While some available-for-sale securities are shown at demand, realising such assets upon demand is dependent upon financial market conditions.

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 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.

(Thousands of Ukrainian hryvnia)

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 2003 and 2002, 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.

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 2003 and 2002, the Bank had the following transactions with related parties:

	2003		2002	
	<i>Related party transactions</i>	<i>Total category</i>	<i>Related party transactions</i>	<i>Total category</i>
Due from credit institutions	1,900	164,433	6,103	91,671
Loans to customers	1,038	753,685	210	568,451
Due to credit institutions	119,843	182,624	88,842	102,029
Commission expenses to banks	41	4,400	216	2,630
Interest expense to other banks	1,264	3,563	1,675	2,310

(Thousands of Ukrainian hryvnia)

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

- 1) As at 31 December 2003, due from credit institutions included an overnight deposit of UAH 929 thousand (2002 – UAH 177 thousand) and balances on current accounts amounting to UAH 971 thousand (2002 - UAH 5,926 thousand) with Kredyt Bank S.A. (Poland).
- 2) As at 31 December 2003 and 2002, loans to related customers comprise loans to middle management of the Bank.
- 3) As at 31 December 2003 and 2002, due to related credit institutions include time deposits of UAH 113,510 thousand (2002 – UAH 88,842 thousand) received from Kredyt Bank S.A. (Poland).
- 4) The amount of commission expense to correspondent banks for 2003 represents UAH 41 thousand paid to Kredyt Bank S.A. (Poland) (2002 – UAH 127 thousand paid to EBRD and UAH 89 thousand paid to Kredyt Bank S.A.).
- 5) The amounts of interest expense to related banks for 2003 represent interest on transactions with Kredyt Bank S.A. (Poland) amounting to UAH 1,215 thousand and on transactions with EBRD amounting to UAH 49 thousand (2002 – on transactions with Kredyt Bank S.A.).
- 6) As at 31 December 2003 and 2002, 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 2003 and 2002, cash and cash equivalents included in the cash flow statement comprise the following balance sheet items:

	<i>2003</i>	<i>2002</i>
Cash on hand (see Note 4)	49,587	30,328
Current accounts with the National Bank of Ukraine (see Note 4)	24,207	18,163
Current accounts with credit institutions (see Note 5)	55,669	16,903
Time deposits with credit institutions with contractual maturity of less than ninety days	109,933	75,764
Cash and cash equivalents	239,396	141,158

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 2003 and 2002, was 12.6% and 15.0%, respectively. These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.