

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

Year ended 31 December 2005

Together with Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Joint Stock Company "The State Export-Import Bank of Ukraine"

We have audited the accompanying consolidated balance sheet of Joint Stock Company "The State Export-Import Bank of Ukraine" and its subsidiary (the "Bank") as at 31 December 2005 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These financial statements, on pages 1 to 32, are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Bank as at 31 December 2005 and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.



14 April 2006

CONSOLIDATED BALANCE SHEET**(Thousands of Ukrainian hryvnia)**

	<i>Notes</i>	<i>31 December</i>	
		<i>2005</i>	<i>2004</i>
Assets			
Cash and due from the NBU	5	837,383	456,990
Amounts due from credit institutions	6	1,481,191	427,842
Loans to customers	7	6,987,133	3,460,435
Investment securities:	8		
- designated at fair value through profit and loss		230,738	93,740
- available for sale		1,252	1,039
- held to maturity		238,691	287,043
Tax assets	9	9	9,618
Property, equipment and computer software	11	356,525	346,536
Other assets	12	54,978	26,476
Total assets		10,187,900	5,109,719
Liabilities			
Amounts due to the National Bank of Ukraine	13	44,939	291,103
Amounts due to credit institutions	14	1,435,952	633,268
Amounts due to customers	15	4,761,072	2,902,530
Eurobonds issued	16	2,552,026	799,915
Bonds issued	17	200,470	-
Subordinated debt	18	205,194	-
Tax liabilities	9	14,835	1,792
Other liabilities	12	14,913	15,455
Provisions	10	12,097	4,133
Total liabilities		9,241,498	4,648,196
Equity			
Share capital		1,457,232	1,081,232
Accumulated deficit		(510,830)	(619,709)
Total equity	19	946,402	461,523
Total liabilities and equity		10,187,900	5,109,719

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

Victor Kapustin



Chairman of the Board

Olga Alekseeva



Chief Accountant

14 April 2006

The accompanying notes on pages 5 to 32 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME**(Thousands of Ukrainian hryvnia)**

	<i>Notes</i>	<i>Year ended 31 December</i>	
		<i>2005</i>	<i>2004</i>
Interest income		764,484	482,955
Interest expense		(398,774)	(242,661)
Net interest income	21	365,710	240,294
Impairment of interest earning assets	10	(30,055)	(77,144)
		335,655	163,150
Fee and commission income		199,139	160,066
Fee and commission expense		(15,763)	(15,436)
Fees and commissions, net	22	183,376	144,630
Gains less losses from foreign currencies:			
- dealing		65,108	42,262
- translation differences		(2,570)	1,112
Dealing in securities		616	1,152
Other income		2,519	2,330
Non interest income		65,673	46,856
Remeasurement of financial instruments		(1,333)	(1,041)
Salaries and benefits	23	(211,111)	(161,999)
Depreciation and amortisation	11	(37,483)	(39,086)
Other administrative and operating expenses	23	(69,903)	(64,545)
Impairment of other assets and provisions	10	(8,706)	(3,402)
Non interest expense		(328,536)	(270,073)
Profit before income tax expenses		256,168	84,563
Income tax expense	9	(71,289)	(25,159)
Profit for the year		184,879	59,404

The accompanying notes on pages 5 to 32 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**For the year ended 31 December 2005****(Thousands of Ukrainian hryvnia)**

	<i>Share capital</i>	<i>Accumulated deficit</i>	<i>Total equity</i>
31 December 2003	975,232	(653,113)	322,119
Capitalised profits	26,000	(26,000)	-
Share capital issued	80,000		80,000
Net income		59,404	59,404
31 December 2004	1,081,232	(619,709)	461,523
Capitalised profits	76,000	(76,000)	-
Share capital issued	300,000		300,000
Net income		184,879	184,879
31 December 2005	1,457,232	(510,830)	946,402

The accompanying notes on pages 5 to 32 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Thousands of Ukrainian hryvnia)

	<i>Notes</i>	<i>Year ended 31 December</i>	
		<i>2005</i>	<i>2004</i>
Cash flows from operating activities			
Interest and commissions received		911,578	616,892
Interest and commissions paid		(368,104)	(219,431)
Gains less losses from dealing in foreign currencies and securities		65,411	39,743
Other operating income received		2,519	2,330
Salaries and benefits		(208,151)	(160,140)
Other operating and administrative expenses		(69,367)	(69,474)
Cash flow from operating activities before changes in operating assets and liabilities		333,886	209,920
<i>Net (increase) /decrease in operating assets</i>			
Amounts due from credit institutions		(200,290)	58,433
Loans to customers		(3,712,210)	(1,112,526)
Other assets		(29,503)	322
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to the National Bank of Ukraine		(245,714)	(100,136)
Amounts due to credit institutions		396,064	(78,029)
Amounts due to customers		1,996,706	604,663
Other liabilities		(4,536)	(11,637)
Net cash flows from operating activities before income tax		(1,465,597)	(428,990)
Income tax paid		(48,635)	(38,629)
Net cash flows from operating activities		(1,514,232)	(467,619)
Cash flows from financing activities			
Amounts due to credit institutions		452,343	(24,401)
Share capital issued		300,000	80,000
Eurobonds issued		1,789,578	781,949
Local bonds issued		200,226	-
Subordinated debt issued		207,394	-
Net cash flows from financing activities		2,949,541	837,548
Cash flows used in investing activities			
Purchase of investment securities		(77,693)	(42,087)
Purchases of property, equipment and computer software		(48,962)	(38,272)
Proceeds from sale of property and equipment		1,620	7,337
Net cash flows used in investing activities		(125,035)	(73,022)
Effect of exchange rates changes on cash and cash equivalents		(22,213)	8,880
Net change in cash and cash equivalents		1,288,061	305,787
Cash and cash equivalents, beginning of the year	27	804,868	499,081
Cash and cash equivalents, ending of the year	27	2,092,929	804,868

The accompanying notes on pages 5 to 32 are an integral part of these consolidated financial statements.

(Thousands of Ukrainian hryvnia)

1. Principal activities

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

As at 31 December 2005 and 2004, 100% of Bank’s shares were owned by the State of Ukraine.

The Bank’s Head office is in Kyiv at 127, Gorky St. It has 29 branches and 64 operating outlets (2004: 29 branches and 54 operating outlets) located in Kyiv and other regions of Ukraine. The Bank and its branches form a single legal entity. There were 3,200 employees as at 31 December 2005 (2004: 3,065 employees).

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

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

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

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

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

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

The consolidated financial statements are prepared under the historical cost convention except as disclosed in the accounting policies below. For example, available for sale investments have been measured at fair value.

The consolidated financial statements are presented in thousands of Ukrainian hryvnia (“UAH”) unless otherwise indicated.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Bank has adopted those new/revised standards mandatory for financial years beginning on or after 1 January 2005.

(Thousands of Ukrainian hryvnia)

The changes in accounting policies result from adoption of the following new or revised standards:

IAS 1 (revised) “Presentation of Financial Statements”;
IAS 8 (revised) “Accounting Policies, Changes in Accounting Estimates and Errors”;
IAS 10 (revised) “Events after the Balance Sheet Date”;
IAS 16 (revised) “Property, Plant and Equipment”;
IAS 17 (revised) “Leases”;
IAS 21 (revised) “The Effects of Changes in Foreign Exchange Rates”;
IAS 24 (revised) “Related Party Disclosures”;
IAS 32 (revised) “Financial Instruments: Presentation and Disclosure”; and
IAS 39 (revised) “Financial Instruments: Recognition and Measurement”.

IAS 39 “Financial Instruments: Recognition and Measurement” (amended 2004)

Financial assets available-for-sale

The gains and losses on re-measurement of financial assets available-for-sale to fair value are recognised as a separate component of equity. Previously, the Bank had recognised such gains and losses in the statement of income.

The transitional provisions of IAS 39 allow the Bank to re-designate any financial assets and liabilities as “at fair value through profit or loss” when this standard is first applied. Accordingly, as at 1 January 2005, the Bank re-designated some of its available-for-sale financial assets as “at fair value through profit or loss”. Comparative figures are amended accordingly.

The effect of adoption of the new and revised standards on the corresponding figures can be summarised as follows:

	<i>As previously reported</i>	<i>Effect of changes in accounting policies</i>	<i>As adjusted</i>
Balance sheet as at 31 December 2004			
Investment securities available-for-sale	96,307	(93,740)	2,567
Investment securities designated at fair value through profit or loss	-	93,740	93,740

IAS 24 (revised) “Related Party Disclosures”

Starting from 1 January 2005, IAS 24 (revised) requires transactions with state owned entities to be disclosed as transactions with related parties.

IFRSs and IFRIC interpretations not yet effective

The Bank has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

IAS 19 (amended 2004) “Employee Benefits”;
IAS 21 (amended 2005) “The Effects of Changes in Foreign Exchange Rates”;
IAS 39 (amended 2005) “Financial Instruments: Recognition and Measurement”;
IFRS 7 “Financial Instruments: Disclosures”;
IFRIC 4 “Determining whether an Arrangement contains a Lease”;
IFRIC 7 “Applying the Restatement Approach under IAS 29 “Financial Reporting in Hyperinflationary Economies”.

The Bank expects that the adoption of the pronouncements listed above will have no significant impact on the Bank’s financial statements in the period of initial application.

(Thousands of Ukrainian hryvnia)

Inflation accounting

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

Reconciliation of UAR and IFRS Equity and Net Income

Equity and net income are reconciled between UAR and IFRS as follows:

	2005		2004	
	<i>Equity</i>	<i>Net income</i>	<i>Equity</i>	<i>Net income</i>
UAR	1,064,286	179,692	612,319	89,775
Application of IAS 29	9,270	(155)	(18,298)	(153)
Measurement of financial instruments	811	16,969	(16,158)	(6,566)
Additional allowance for impairment	(82,675)	(3,606)	(79,069)	(30,085)
Accruals	13,722	12,374	1,348	4,188
Additional IFRS depreciation	(55,768)	(7,738)	(48,030)	(10,910)
Deferred taxation	(2,262)	(12,072)	9,810	15,279
Other adjustments	(982)	(585)	(397)	(2,124)
International Financial Reporting Standards	946,402	184,879	461,525	59,404

3. Summary of accounting policies

Subsidiary

The consolidated financial statements include the wholly owned subsidiary “Ukreximleasing” drawn up to the 31 December each year. The subsidiary has been consolidated from the date on which control was transferred to the Bank. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiary have been changed to ensure consistency with the policies adopted by the Bank.

Financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets at fair value through profit or loss are recognised in the statement of income.

(Thousands of Ukrainian hryvnia)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the statement of income when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of income. However, interest calculated using the effective interest method is recognised in the statement of income.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis.

Allowances for impairment of financial assets

The Bank assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in the statement of income.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

(Thousands of Ukrainian hryvnia)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the statement of income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

When an asset is uncollectible, is it written off against the related allowance for impairment. Such assets are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of allowance for impairment in the statement of income.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of income, is transferred from equity to the statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the statement of income. Reversals of impairment losses on debt instruments are reversed through the statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Offsetting

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 to realise the asset and settle the liability simultaneously.

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.

Promissory notes

Promissory notes purchased are included in available for sale investment securities, or in amounts due from credit institutions or in loans to customers, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the balance sheet and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the financial statements. Securities borrowed are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the statement of income. The obligation to return them is recorded at fair value as a trading liability.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;

(Thousands of Ukrainian hryvnia)

- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of income.

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 to the extent only that it is probable that taxable profit will be available against which the deductible temporary differences 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.

Property and equipment

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

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

(Thousands of Ukrainian hryvnia)

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

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

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

Leases

Operating - Bank as lessee

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

Computer software

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

Borrowings

Borrowings, which include amounts due to the National Bank of Ukraine, amounts due to credit institutions, amounts due to customers, local bonds issued, Eurobonds issued and subordinated debt are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the liabilities are derecognised as well as through the amortisation process.

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 contributions received before 31 December 2000 are recognised at restated cost following the application of IAS 29 "Financial Reporting in Hyperinflationary Economies".

Contingencies

Contingent liabilities are not recognised in the consolidated 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 consolidated financial statements but disclosed when an inflow of economic benefits is probable.

(Thousands of Ukrainian hryvnia)

Income and expenses recognition

Interest income and expense are recognised on an accrual basis calculated using the effective interest rate method. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expenses items are generally recorded on an accrual basis when the service has been provided.

Foreign currency translation

The consolidated financial statements are presented in Ukrainian hryvnia (“UAH”), which is the Bank’s functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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 dealing in foreign currencies. The official NBU exchange rates at 31 December 2005 and 2004, were UAH 5.05 and 5.3054 hryvnia to 1 US dollar and UAH 5.9716 and UAH 7.2175 to 1 euro, respectively.

Corresponding figures

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

	<i>2004 as previously reported</i>	<i>2004 as reclassified</i>	<i>Differences</i>
Amounts due from credit institutions	427,179	427,842	663
Other assets	27,139	26,476	(663)
Amounts due to credit institutions	633,216	633,268	52
Other liabilities	15,507	15,455	(52)
Fee and commission expenses	17,041	15,436	(1,605)
Other operating and administrative expenses	62,940	64,545	1,605

4. Significant accounting judgements and estimates

Judgements

In the process of applying the Bank’s accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the financial statements:

Classification of securities

Securities owned by the Bank comprise Ukrainian State and corporate bonds, deposit certificates issued by the National Bank of Ukraine and corporate shares. Upon initial recognition, the Bank designates securities as financial assets with recognition of changes in fair value through profit or loss, held to maturity financial assets or available-for-sale financial assets with recognition of changes in fair value through equity.

(Thousands of Ukrainian hryvnia)

Estimation uncertainty

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

Allowance for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Tax and other regulatory compliance risks

Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Bank has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.

At the same time it is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future, although this risk significantly diminishes with passage of time. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome.

5. Cash and due from the NBU

Cash and due from the NBU comprise:

	<u>2005</u>	<u>2004</u>
Cash on hand	142,271	162,227
Current account with the National Bank of Ukraine	695,112	294,763
Cash and due from the NBU	<u>837,383</u>	<u>456,990</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 of the Bank's liabilities less cash on hand and other eligible balances. There are no restrictions on the withdrawal of funds from the NBU, however, if minimum average reserve requirements are not met, the Bank could be subject to certain penalties. The Bank was obligated to and maintained the minimal cumulative average reserve calculated on a daily basis over a monthly period. The average daily requirement for the period from 1 to 31 December 2005 was UAH 352,723 thousand (2004: UAH 198,607 thousand). The Bank meets the NBU obligatory reserve requirements as at 31 December 2005 and 2004.

(Thousands of Ukrainian hryvnia)

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	<u>2005</u>	<u>2004</u>
Current accounts		
OECD banks	245,737	42,211
CIS and other foreign banks	136,055	35,422
Ukrainian banks	4,880	284
	<u>386,672</u>	<u>77,917</u>
Loans and deposits		
OECD banks	871,701	275,720
Ukrainian banks	199,788	41,246
CIS and other foreign banks	21,931	34,953
	<u>1,093,420</u>	<u>351,919</u>
Other amounts due from credit institutions	1,099	663
Less – Allowance for impairment	-	(2,657)
Due from credit institutions	<u>1,481,191</u>	<u>427,842</u>

As at 31 December 2005, included in current accounts with OECD banks is an amount of UAH 212,409 thousand placed on current accounts with two OECD banks. These banks are the main counter parties of the Bank in performing international settlements. The placements have made under normal banking conditions.

As at 31 December 2005, included in current accounts with CIS and other foreign banks is an amount of UAH 135,599 thousand placed on current accounts with two foreign banks (2004: UAH 20,805 thousand with one Russian bank). These banks are the main counter parties of the Bank in performing international settlements. The placements have made under normal banking conditions.

As at 31 December 2005, loans and deposits due from credit institutions include UAH 24,759 thousand of security deposits, placed mainly in respect of customers' transactions, such as letters of credit, performance guarantees and transactions with travellers' cheques (2004: UAH 40,696 thousand).

Loans and deposits due from OECD banks mainly represent overnight deposits placed with correspondent banks. These placements bear market interest rates. As at 31 December 2005, UAH 839,473 thousand were placed with two OECD banks (2004: UAH 269,977 thousand with five OECD banks).

7. Loans to customers

Loans to customers comprise:

	<u>2005</u>	<u>2004</u>
Loans to customers	7,169,194	3,876,245
Overdrafts	262,708	68,616
Promissory notes	14,875	12,032
	<u>7,446,777</u>	<u>3,956,893</u>
Less – Allowance for impairment	(459,644)	(496,458)
Loans to customers	<u>6,987,133</u>	<u>3,460,435</u>

(Thousands of Ukrainian hryvnia)

Loans and advances to customers have been extended to the following types of customers:

	<u>2005</u>	<u>2004</u>
Private entities	6,571,981	3,508,971
State and municipal entities	778,244	388,165
Individuals	96,552	59,757
	<u>7,446,777</u>	<u>3,956,893</u>

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

	<u>2005</u>	<u>%</u>	<u>2004</u>	<u>%</u>
Trade enterprises	1,630,065	21.9	851,856	21.5
Services	1,255,732	16.9	660,807	16.7
Consumer products	1,034,011	13.9	448,130	11.3
Engineering	983,065	13.2	696,405	17.6
Agriculture and food processing	604,993	8.1	434,654	11.0
Metals	560,733	7.5	342,052	8.6
Real estate and construction	414,867	5.6	54,970	1.4
Chemistry	355,077	4.8	207,748	5.3
Power utilities	237,534	3.2	41,224	1.0
Light industry	176,093	2.4	94,516	2.4
Individuals	96,552	1.2	59,757	1.5
Transport	83,573	1.1	50,009	1.3
Communications	13,415	0.2	14,262	0.4
Other industries	1,067	0.0	503	0.0
	<u>7,446,777</u>	<u>100</u>	<u>3,956,893</u>	<u>100</u>

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

	<u>2005</u>	<u>2004</u>
Ordinary loans	7,171,199	3,752,137
Loans under the Export Development Project	-	4,823
Loans under other international programmes	275,578	199,933
	<u>7,446,777</u>	<u>3,956,893</u>

The Bank has a loan from KfW for financing small and medium enterprises in Ukraine. The loan to the Bank and the loans made by it are denominated in euro and the Bank bears the credit risk on the loans it makes. These loans bear interest at 9.6% – 13.2% p.a. and mature in 2006-2008. As at 31 December 2005, the amount of loans granted under this programme was UAH 70,000 thousand net of allowances (2004: UAH 54,513 thousand net of allowances).

As at 31 December 2005, members of the Management Board have UAH 432 thousand (2004: UAH 979 thousand) of loans issued under normal conditions.

8. Investment securities

Investment securities designated at fair value through profit or loss comprise:

	<u>2005</u>	<u>2004</u>
Corporate bonds	140,512	20,517
Ukrainian State bonds	90,226	73,223
Investment securities designated at fair value	<u>230,738</u>	<u>93,740</u>

As at 31 December 2005 and 2004, corporate bonds designated at fair value include bonds issued by a number of Ukrainian entities maturing in 2006-2011 with effective yield 15.2%.

(Thousands of Ukrainian hryvnia)

As at 31 December 2005, Ukrainian State bonds include State bonds issued by the Ministry of Finance in order to settle amount due by the State in respect of refundable VAT, amounting to UAH 60,052 thousand (2004: UAH 73,223 thousand), maturing in 2008-2009 with an effective yield of 22.3% (2004: 13.0%).

As at 31 December 2005, Ukrainian State bonds include state bonds issued by the Ministry of Finance for internal debt financing amounting to UAH 30,174 thousand (2004: nil), maturing in 2008-2010 and with an effective yield of 7.4%.

Available-for-sale investment securities comprise:

	<u>2005</u>	<u>2004</u>
Corporate shares	2,127	1,914
Discount promissory notes	653	653
	<u>2,780</u>	<u>2,567</u>
Less – Allowance for impairment	(1,528)	(1,528)
Available-for-sale investments	<u><u>1,252</u></u>	<u><u>1,039</u></u>

Held-to-maturity investment securities comprise the following:

	<u>2005</u>		<u>2004</u>	
	<i>Nominal value</i>	<i>Carrying value</i>	<i>Nominal value</i>	<i>Carrying value</i>
Ukrainian State bonds	107,900	108,847	132,867	134,134
NBU deposit certificates	25,000	25,297	-	-
Corporate bonds	103,008	104,547	151,390	152,909
Held-to-maturity investments		<u><u>238,691</u></u>		<u><u>287,043</u></u>

As at 31 December 2005, held-to-maturity Ukrainian State bonds include bonds with a carrying value of UAH 18,092 thousand (2004: UAH 123,435 thousand) pledged as security for loans received from the NBU (Note 13).

As at 31 December 2005, corporate bonds held by the Bank to maturity include bonds amounting to UAH 16,810 thousand (2004: UAH 54,084 thousand) issued by a State owned Ukrainian transportation company. These bonds are denominated in hryvnia, mature in 2006 and have an effective yield of 12%. The Bank received a hryvnia denominated loan from the NBU to fund the acquisition of such bonds (Note 13). Corporate bonds with a carrying value of UAH 16,625 thousand (2004: UAH 53,490 thousand) were pledged as security under the loan received from the NBU.

As at 31 December 2005, corporate bonds held-to-maturity include bonds amounting to UAH 32,515 thousand (2004: UAH 61,333 thousand) issued by a State owned energy generating company. These bonds are denominated in hryvnia, mature in 2006 and have an effective yield of 12%. The Bank received a hryvnia denominated loan from the NBU to compensate for resources used for the acquisition of these bonds (Note 13). Corporate bonds of UAH 32,515 thousand (2004: UAH 61,333 thousand) were pledged as security under the loan received from the NBU.

9. Income tax

The corporate income tax charge comprises:

	<u>2005</u>	<u>2004</u>
Current tax charge	59,218	40,439
Deferred tax	12,071	(15,280)
Income tax expense	<u><u>71,289</u></u>	<u><u>25,159</u></u>

(Thousands of Ukrainian hryvnia)

Tax assets and liabilities consist of the following:

	<u>2005</u>	<u>2004</u>
Current tax asset	6	14
Deferred tax assets	3	9,604
Tax asset	<u>9</u>	<u>9,618</u>
Current tax liabilities	12,323	1,749
Deferred tax liabilities	2,512	43
Tax liabilities	<u>14,835</u>	<u>1,792</u>

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

	<u>2005</u>	<u>2004</u>
Income before tax	256,168	84,563
Statutory tax rate	25%	25%
Income tax expense at the statutory rate	64,042	21,141
Non-deductible expenditures	7,247	4,018
Income tax expense	<u>71,289</u>	<u>25,159</u>

Deferred tax assets and liabilities as at 31 December comprise:

	<u>2005</u>	<u>2004</u>
Tax effect of deductible temporary differences:		
Allowances for impairment	51,587	48,079
Accruals	-	920
Deferred tax assets	<u>51,587</u>	<u>48,999</u>
Tax effect of taxable temporary differences:		
Property, equipment and computer software	(24,193)	(23,482)
Valuation of financial instruments	(29,418)	(15,831)
Accruals	(42)	
Other assets and liabilities	(443)	(123)
Deferred tax liabilities	<u>(54,096)</u>	<u>(39,436)</u>
Net deferred tax (liability)/ asset	<u>(2,509)</u>	<u>9,563</u>

10. Allowances for impairment and provisions

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>Total</i>
31 December 2003	456,630	4,258	460,888
Charge/(release)	78,741	(1,597)	77,144
Write-offs	(40,246)	(4)	(40,250)
Recoveries	1,333	-	1,333
31 December 2004	496,458	2,657	499,115
Translation differences	(17,388)	(290)	(17,678)
Charge/(release)	32,422	(2,367)	30,055
Write-offs	(51,945)	-	(51,945)
Recoveries	97	-	97
31 December 2005	<u>459,644</u>	<u>-</u>	<u>459,644</u>

(Thousands of Ukrainian hryvnia)

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

	<i>Investment securities</i>	<i>Other assets</i>	<i>Off-balance risk</i>	<i>Total</i>
31 December 2003	1,768	22,892	589	25,249
Charge/(release)	(46)	(95)	3,543	3,402
Write-offs	(194)	-	-	(194)
31 December 2004	1,528	22,797	4,132	28,457
Translation differences	-	(26)	(687)	(713)
Charge	-	54	8,652	8,706
Write-offs	-	(68)	-	(68)
31 December 2005	1,528	22,757	12,097	36,382

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

11. Property, equipment and computer software

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

	<i>Buildings and 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 2004	289,505	114,979	20,825	47,815	14,159	15,210	502,493
Additions	52	5,947	1,188	2,452	-	39,323	48,962
Disposals	(1,465)	(1,352)	(242)	(376)	(264)	(57)	(3,756)
Transfers	4,871	5,475	1,467	1,025	947	(13,785)	-
31 December 2005	292,963	125,049	23,238	50,916	14,842	40,691	547,699
Accumulated depreciation and amortisation							
31 December 2004	(36,735)	(69,163)	(12,383)	(26,817)	(10,859)		(155,957)
Charge for the year	(9,965)	(18,467)	(4,191)	(2,688)	(2,172)		(37,483)
Disposals	136	1,314	241	263	312		2,266
31 December 2005	(46,564)	(86,316)	(16,333)	(29,242)	(12,719)		(191,174)
Net book value:							
31 December 2004	252,770	45,816	8,442	20,998	3,300	15,210	346,536
31 December 2005	246,399	38,733	6,905	21,674	2,123	40,691	356,525

(Thousands of Ukrainian hryvnia)

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

As at 31 December 2005 buildings and property include leasehold improvements with a net book value of UAH 5,579 thousand (2004: UAH 4,969 thousand).

As at 31 December 2005 the Bank had capital commitments on purchase property and equipment amounting to UAH 33,963 thousand (2004: UAH 6,455 thousand).

12. Other assets and liabilities

Other assets comprise:

	2005	2004
Collateral held for resale	23,671	23,102
Inventory	18,804	4,642
Prepayments	15,718	3,083
Settlements on card operations	6,495	8,517
Settlements on transactions with customers	6,725	6,372
Other accrued income	2,490	2,096
Other	3,832	2,124
	77,735	49,936
Less – Allowance for impairment	(22,757)	(22,797)
Other assets	54,978	27,139

As at 31 December 2005, collateral held for resale comprises balances of oil products amounting to UAH 21,835 thousand (2004: UAH 21,835 thousand) accepted by the Bank prior to 2002 on a non-performing loan. The Bank has a dispute as to the repayment of the outstanding receivable with the Ukrainian oil refinery, which accepted these products for processing from the original borrower. The timing of the resolution of this dispute is neither certain nor can be assessed reliably and the Bank has recognised a full allowance for this balance as at 31 December 2005 (2004: 100% allowance).

(Thousands of Ukrainian hryvnia)

Other liabilities comprise:

	2005	2004
Settlements on card operations	3,576	9,341
Deferred income	2,398	2,427
Payables to Guarantee Fund of Individuals' Deposits	1,953	1,645
Other liabilities	1,647	600
Settlements on transactions with customers	1,081	693
	10,655	14,706
Provision on unused vacations	2,961	-
Other accrued expenses	1,292	743
Accrued salary payable	5	6
	4,258	749
Other liabilities	14,913	15,455

13. Amounts due to the National Bank of Ukraine

Amounts due to the NBU comprise:

	2005	2004
Current account	49	-
Loans from the NBU	44,890	250,750
Repo operation	-	40,353
Due to the NBU	44,939	291,103

As at 31 December 2005 loans from the NBU are represented by loans used to fund the acquisition of bonds issued by a State owned Ukrainian transportation company amounting to UAH 15,732 thousand (2004: UAH 50,616 thousand) and bonds issued by a State owned energy generating company amounting to UAH 29,158 thousand (2004: UAH 55,037 thousand) (see Note 8).

As at 31 December 2005, loans due to the NBU are secured by Ukrainian State and corporate bonds with a total carrying value of UAH 67,232 thousand (2004: UAH 286,000 thousand) (see Note 8).

14. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2005	2004
Current accounts		
Ukrainian banks	58,948	62,093
CIS and other foreign banks	1,944	613
	60,892	62,706
Loans and time deposits		
OECD banks	654,056	254,768
International financial organisations	430,566	304,616
CIS and other foreign banks	253,728	4,502
Ukrainian banks	36,553	6,624
	1,374,903	570,510
Other amounts due to credit institutions	157	52
Due to credit institutions	1,435,952	633,268

As at 31 December 2005, included in current accounts of Ukrainian banks is an amount of UAH 23,550 thousand received from three Ukrainian banks (2004: UAH 16,340 thousand from one Ukrainian bank). The amount was

(Thousands of Ukrainian hryvnia)

received under normal banking conditions.

Loans due to international financial organisations include loans from the International Bank for Reconstruction and Development (the “IBRD”) under the Export Development Project amounting to UAH 234,666 thousand (2004: UAH 281,775 thousand). Proceeds from these loans are used to provide financing for eligible Ukrainian borrowers (see Note 7). These loans are denominated in US dollars or euro, bear nominal interest at LIBOR+0.5% and effective interest LIBOR+0.17% and mature in 2013. This debt is subject to various covenants and restrictions as more fully described in Note 20.

Loans due to international financial organisations include loans from Cargill Financial Services Inc. amounting to UAH 191,196 thousand (2004: UAH 16 254 thousand). Proceeds from the loans are used to provide financing to certain borrowers. The loans are denominated in US dollars and euro, bear fixed interest at 7.61% (for loans denominated in US dollars) and from 5.63% to 5.72% (for loans denominated in euro), and mature in 2006.

As at 31 December 2005, loans and deposits from OECD banks included UAH 59,550 thousand granted by Kreditanstalt fur Wiederaufbau (KfW) under loan agreements for financing small and medium sized enterprises in Ukraine (2004: UAH 62,075 thousand). The loans are denominated in euro, bear interest at a fixed rate of 5.04% and mature in 2008.

As at 31 December 2005, loans and deposits included UAH 594,513 thousand received from OECD banks under trade and export financing agreements (2004: UAH 194,276 thousand) and UAH 253,728 thousand received from other foreign banks under trade and export financing agreements. These loans are denominated in US dollars or euro, bear interest at a floating rate and are matched in maturities with loans to customers issued under these trade and export financing programmes.

15. Amounts due to customers

Amounts due to customers comprise:

	<i>2005</i>	<i>2004</i>
Current accounts		
- Budget funds	145,357	193,078
- Companies	1,694,127	867,634
- Individuals	355,128	251,793
	<u>2,194,612</u>	<u>1,312,505</u>
Time deposits		
- Companies	1,196,237	456,808
- Individuals	1,370,223	1,133,217
	<u>2,566,460</u>	<u>1,590,025</u>
Due to customers	<u>4,761,072</u>	<u>2,902,530</u>
Held as security against letters of credit	315,827	23,724
Held as security against guarantees and avals	65,938	25,984

As at 31 December 2005, time deposits due to legal entities include UAH 807,460 thousand attracted from five legal entities (2004: UAH 159,709 thousand from five legal entities).

16. Eurobonds issued

In September 2004, the Bank obtained a loan amounting to USD 150,000 thousand (UAH 757,500 thousand), from Dresdner bank AG (carrying value of UAH 755,156 thousand as at 31 December 2005). This loan was funded by 7.75% loan participation notes (“Eurobonds”) issued by but without recourse to, Dresdner Bank AG, for the sole purpose of funding the loan to the Bank. The loan matures in September 2009. The interest rate on the loan is 7.75% p.a. Interest payments are made semi-annually in arrears on 23 March and 23 September of each year, commencing 23 March 2005.

(Thousands of Ukrainian hryvnia)

In February 2005, the Bank obtained a further loan amounting to USD 100,000 thousand (UAH 505,500 thousand) from Dresdner Bank AG (carrying value of UAH 522,310 thousand as at 31 December 2005). This loan was funded by 7.75% loan participation notes (“Eurobonds”) which were consolidated and form a single series with the notes issued in September 2004.

In October 2005, the Bank obtained a loan amounting to USD 250,000 thousand (UAH 1,262,500 thousand) from Credit Suisse First Boston International (carrying value of UAH 1,274,560 thousand as at 31 December 2005). This loan was funded by 6.80% loan participation notes (“Eurobonds”) issued by but without recourse to, Credit Suisse First Boston International, for the sole purpose of funding this loan to the Bank. The loan matures in October 2012 and the interest rate is 6.80% p.a. Interest payments are made semi-annually in arrears on 4 April and 4 October of each year, commencing on 4 April 2006.

17. Bonds issued

In December 2005, the Bank issued local bonds amounting to UAH 200,000 thousand (carrying value of UAH 200,470 thousand as at 31 December 2005). Bonds are denominated in UAH, bear interest at 9.55% p. a. and mature in December 2008. Interest payments are made quarterly. As at 31 December 2005, bonds with a carrying value amounting to UAH 163,531 thousand were due to one legal entity.

18. Subordinated debt

In February 2005, the Bank obtained a loan amounting to USD 40,000 thousand (UAH 202,200 thousand) from Dresdner bank AG (carrying value of UAH 205,194 thousand as at 31 December 2005). This loan was funded by 8.75% loan participation notes issued by but without recourse to Dresdner Bank AG, for the sole purpose of funding a subordinated loan to the Bank. The loan matures in February 2010. The interest rate on this loan is 8.75% p.a. Interest payments are made semi-annually in arrears on 10 February and 10 August of each year, commencing on 10 August 2005. In February 2006, the Bank repaid this loan in full.

19. Equity

As at 31 December 2005, the Bank’s authorised issued share capital comprised 744,000 (2004: 368,000) ordinary shares, with a nominal value of UAH 1,000 per share. All shares have equal voting rights. As at 31 December 2005, 444,000 shares were fully paid and registered and 300,000 shares were fully paid but not registered (2004: all issued shares were fully paid and registered).

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

The movements in share capital for the years ended 31 December 2005 and 2004 were as follows:

	<i>Number of shares</i>	<i>Nominal amount, UAH’000</i>	<i>Restated cost, UAH’000</i>
31 December 2003	262,000	262,000	975,232
Shares issued	106,000	106,000	106,000
31 December 2004	368,000	368,000	1,081,232
Shares issued	376,000	376,000	376,000
31 December 2005	744,000	744,000	1,457,232

In accordance with the Decision of the Cabinet of Ministers of Ukraine dated 26 May 2005, the Bank’s share capital was increased by UAH 76,000 thousand through capitalisation of profits.

In addition, in accordance with the Decision of the Cabinet of Ministers of Ukraine dated 30 November 2005, the

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Bank's share capital was increased by UAH 300,000 thousand through the issue of new shares.

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 2005, the Bank has distributable reserves amounting to UAH 181,310 thousand (2004: UAH 94,556 thousand). The amount of non-distributable reserves was UAH 138,976 thousand (2004: UAH 152,694 thousand). Non-distributable reserves are represented by a statutory revaluation reserve and a general reserve fund, which is created to cover general banking risks, including future losses and other unforeseen risks or contingencies.

20. Commitments and contingencies

Operating environment

The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, relatively high inflation and the existence of currency controls which cause the national currency to be illiquid outside of Ukraine. The stability of the Ukrainian economy will be significantly impacted by the Government's policies and actions with regards to supervisory, legal, and economic reforms.

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 and its subsidiary.

Financial commitments and contingencies

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

	2005	2004
Letters of credit	818,137	218,241
Guarantees	187,630	219,502
Avals on promissory notes	71,405	12,441
Indrawn loan commitments	200,610	-
	1,277,782	450,184
Less – Cash held as security against letters of credit, avals and guarantees	(381,765)	(49,708)
Financial commitments and contingencies	896,017	400,476

As at 31 December 2005, the Bank has recognised a provision of UAH 12,097 thousand (2004: UAH 4,132 thousand) against unsecured commitments.

As at 31 December 2005, the Bank issued letters of credit amounting to UAH 287,835 thousand to one Ukrainian company that was fully secured by cash deposit (2004: UAH 128,198 thousand of unsecured letters of credit to six Ukrainian companies).

As at 31 December 2005, the Bank issued guarantees amounting to UAH 88,961 thousand in favor of four Ukrainian companies (2004: UAH 161,196 thousand in favor of four Ukrainian companies).

Insurance

The Bank's premises were not insured as at 31 December 2005 and 2004. The Bank has not obtained insurance coverage relating to liabilities arising from errors or omissions.

Financial covenants

The Bank is a party to various arrangements with other credit institutions, which contain financial covenants

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relating to the financial performance and general risk profile of the Bank. Under such covenants, the Bank is required to maintain a minimum international risk based capital adequacy ratio of 10%, to limit credit exposure to a single borrower and to ensure a certain level of operating activity. These financial covenants may restrict the Bank's ability to execute certain business strategies and enter into other significant transactions in the future.

21. Net interest income

Net interest income comprises:

	<i>2005</i>	<i>2004</i>
Interest income		
Loans to customers	664,992	424,523
Securities	57,473	43,544
Due from credit institutions	41,990	14,868
Due from the NBU	29	20
	<u>764,484</u>	<u>482,955</u>
Interest expenses		
Due to customers	(237,801)	(170,745)
Eurobonds issued	(111,982)	(17,500)
Due to credit institutions	(25,901)	(25,151)
Subordinated debt	(16,750)	-
Due to the NBU	(6,340)	(29,265)
	<u>(398,774)</u>	<u>(242,661)</u>
Net interest income	<u><u>365,710</u></u>	<u><u>240,294</u></u>

22. Fees and commissions, net

Fees and commissions comprise:

	<i>2005</i>	<i>2004</i>
Fees and commission income		
Cash and settlement operations	93,569	76,197
Currency conversion	57,081	42,530
Operations with banks	11,669	10,618
Off-balance sheet operations	17,457	19,430
Credit servicing commission	17,820	10,342
Other	1,543	949
	<u>199,139</u>	<u>160,066</u>
Fees and commission expenses		
Cash and settlement operations	(13,002)	(12,791)
Currency conversion	(903)	(923)
Other	(1,858)	(1,722)
	<u>(15,763)</u>	<u>(15,436)</u>
Fees and commissions, net	<u><u>183,376</u></u>	<u><u>144,630</u></u>

(Thousands of Ukrainian hryvnia)

23. Salaries and other administrative and operating expenses

Salaries and benefits, other administrative and operating expenses comprise:

	<i>2005</i>	<i>2004</i>
Salaries and bonuses	177,171	137,486
Employment taxes	33,940	24,513
Salaries and benefits	211,111	161,999
Repair and maintenance expenses	13,781	12,934
Expenses related to deposit insurance fund	7,335	5,973
EDP costs	6,191	5,782
Occupancy and rent	6,146	4,555
Operating taxes	5,094	4,446
Security	4,709	4,270
Expenses for cash collection	3,734	3,250
Communications	3,454	3,603
Business travel and related expenses	3,488	2,543
Marketing and advertising	2,563	1,993
Legal and consultancy	2,349	3,065
Charity	1,538	1,230
(Gain)/loss on property and equipment disposal	(130)	90
Sundry expenses	7,626	6,697
Other	2,025	4,114
Other administrative and operating expenses	69,903	64,545

The aggregate remuneration and other benefits paid to nine members of the Management Board for 2005 is UAH 10,638 thousand (2004: UAH 6,918 thousand).

24. Risk management policies

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

Credit risk

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

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

Concentration

The Bank is 100% owned by the Government and by virtue of its function performs a large part of its transactions with Government bodies and State owned enterprises. Further disclosure of the proportion of assets and liabilities with Government related entities is made in Note 26.

(Thousands of Ukrainian hryvnia)

Market risk

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

Currency risk

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

	<i>2005</i>				
	<i>UAH</i>	<i>USD</i>	<i>Euro</i>	<i>Other currencies</i>	<i>Total</i>
Assets:					
Cash and due from the NBU	791,888	29,286	9,454	6,755	837,383
Due from credit institutions	145,363	1,132,280	56,328	147,220	1,481,191
Loans to customers	2,104,116	4,278,215	597,125	7,677	6,987,133
Investment securities	470,681	-	-	-	470,681
Tax asset	9	-	-	-	9
Other monetary assets	28,433	5,149	755	1	34,338
	3,540,490	5,444,930	663,662	161,653	9,810,735
Liabilities:					
Due to the NBU	44,939	-	-	-	44,939
Due to credit institutions	9,886	1,082,386	335,516	8,164	1,435,952
Due to customers	2,813,645	1,493,685	308,560	145,182	4,761,072
Eurobonds issued	-	2,552,026	-	-	2,552,026
Bonds issued	200,470	-	-	-	200,470
Subordinated debt	-	205,194	-	-	205,194
Tax liabilities	14,835	-	-	-	14,835
Other liabilities	10,045	4,039	706	123	14,913
Provisions	10	8,212	2,914	961	12,097
	3,093,830	5,345,542	647,696	154,430	9,241,498
Net balance sheet position	446,660	99,388	15,966	7,223	
	<i>2004</i>				
	<i>UAH</i>	<i>USD</i>	<i>Euro</i>	<i>Other currencies</i>	<i>Total</i>
Assets:					
Cash and due from the NBU	369,140	68,221	10,722	8,907	456,990
Due from credit institutions	278	361,377	14,491	51,696	427,842
Loans to customers	918,132	2,118,662	396,201	27,440	3,460,435
Investment securities	381,822	-	-	-	381,822
Tax asset	9,618	-	-	-	9,618
Other monetary assets	6	1,803	1,959	20,372	24,140
	1,678,996	2,550,063	423,373	108,415	4,760,847
Liabilities:					
Due to the NBU	291,103	-	-	-	291,103
Due to credit institutions	6,853	376,478	209,611	40,326	633,268
Due to customers	1,291,174	1,351,089	220,299	39,968	2,902,530
Eurobonds issued	-	799,915	-	-	799,915
Tax liabilities	1,792	-	-	-	1,792
Other liabilities	9,588	5,059	494	314	15,455
Provisions	369	2,018	1,746	-	4,133
	1,600,879	2,534,559	432,150	80,608	4,648,196
Net balance sheet position	78,117	15,504	(8,777)	27,807	

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

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

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on financial instruments. The Bank’s interest rate policy is reviewed and approved by the Bank’s Assets and Liabilities Management Committee.

Certain of the Bank’s loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. As disclosed below, the maturity dates applicable to the large portion of the Bank’s assets and liabilities are relatively short-term. The Bank analyses changes in its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk. The Bank may reconsider interest rate margin included in floating interest rate loan contracts at every basis changed.

The table below summarises the Bank exposure to interest rate risk as at December 31, 2005. Included in the table are the Bank’s monetary assets and liabilities at carrying amounts, classified by the earlier of contractual repricing or maturity dates.

	<i>2005</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	837,383	-	-	-	837,383
Due from credit institutions	1,437,838	21,010	3,564	18,779	1,481,191
Loans to customers	1,635,941	2,095,081	988,318	2,267,793	6,987,133
Investment securities	239,051	13,811	100,253	117,566	470,681
	4,150,213	2,129,902	1,092,135	2,404,138	9,776,388
Liabilities:					
Due to the NBU	5,256	10,481	29,202	-	44,939
Due to credit institutions	113,997	674,721	344,394	302,840	1,435,952
Due to customers	2,392,745	456,914	1,227,219	684,194	4,761,072
Eurobonds issued	-	47,926	-	2,504,100	2,552,026
Bonds issued	-	470	-	200,000	200,470
Subordinated debt	-	7,064	-	198,130	205,194
	2,511,998	1,197,576	1,600,815	3,889,264	9,199,653
Net position	1,638,215	932,326	(508,680)	(1,485,126)	576,735
Accumulated gap	1,638,215	2,570,541	2,061,861	576,735	

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	<i>2004</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	456,990	-	-	-	456,990
Due from credit institutions	411,269	2,665	8,798	5,110	427,842
Loans to customers	138,840	1,244,421	1,871,111	206,063	3,460,435
Investment securities	112,269	16,104	92,371	161,078	381,822
	1,119,368	1,263,190	1,972,280	372,251	4,727,089
Liabilities:					
Due to the NBU	129,397	9,957	106,859	44,890	291,103
Due to credit institutions	105,427	76,007	425,453	26,381	633,268
Due to customers	1,634,472	321,665	799,231	147,162	2,902,530
Eurobonds issued	-	17,087	-	782,828	799,915
	1,869,296	424,716	1,331,543	1,001,261	4,626,816
Net position	(749,928)	838,474	640,737	(629,010)	100,273
Accumulated gap	(749,928)	88,546	729,283	100,273	

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

The interest rate on certain loans to customers and deposits due to customers of the Bank are linked to the NBU discount rate, which is reconsidered on a monthly basis. Consequently, these financial instruments are included in “less than 1 month” category in the tables above. During 2005 and 2004, the NBU discount rate has remained relatively stable and the last change was in August 2005.

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

	<i>2005</i>		<i>2004</i>	
	<i>UAH</i>	<i>USD/euro</i>	<i>UAH</i>	<i>USD/euro</i>
Due from credit institutions	11.17%	4.22%	n/a	3.01%
Loans to customers	16.39%	10.96%	17.38%	11.45%
Interest bearing securities	13.78%	n/a	11.98%	n/a
Due to credit institutions	7.00%	5.62%	11.46%	3.42%
Customer deposits	10.61%	7.39%	15.16%	7.57%
Eurobonds issued	n/a	7.71%	n/a	8.50%
Bonds issued	9.55%	n/a	n/a	n/a
Subordinated debt	n/a	9.71%	n/a	n/a

During 2005, the NBU discount rate increased from 9% to 9.5% (2004: increased from 7% to 9%).

Liquidity risk

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

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

(Thousands of Ukrainian hryvnia)

	2005				Total
	<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	837,383	-	-	-	837,383
Due from credit institutions	1,402,710	45,250	10,654	22,577	1,481,191
Loans to customers	302,600	375,012	1,493,375	4,816,146	6,987,133
Investment securities	239,051	13,811	100,253	117,566	470,681
Tax asset	-	6	-	3	9
Other monetary assets	1,242	13,196	10,033	9,867	34,338
	2,782,986	447,275	1,614,315	4,966,159	9,810,735
Liabilities:					
Due to the NBU	5,256	10,481	29,202	-	44,939
Due to credit institutions	103,153	35,161	712,031	585,607	1,435,952
Due to customers	2,392,745	456,914	1,227,219	684,194	4,761,072
Eurobonds issued	-	47,926	-	2,504,100	2,552,026
Bonds issued	-	470	-	200,000	200,470
Subordinated debt	-	7,064	-	198,130	205,194
Tax liabilities	-	12,323	-	2,512	14,835
Other liabilities	7,868	1,701	973	4,371	14,913
Provisions	2,756	4,776	4,352	213	12,097
	2,511,778	576,816	1,973,777	4,179,127	9,241,498
Net position	271,208	(129,541)	(359,462)	787,032	569,237
Accumulated gap	271,208	141,667	(217,795)	569,237	

	2004				Total
	<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	456,990	-	-	-	456,990
Due from credit institutions	350,597	4,133	24,536	48,576	427,842
Loans to customers	162,349	197,110	1,433,254	1,667,722	3,460,435
Investment securities	112,269	16,104	92,371	161,078	381,822
Tax asset	-	14	-	9,604	9,618
Other monetary assets	6,826	883	680	15,751	24,140
	1,089,031	218,244	1,550,841	1,902,731	4,760,847
Liabilities:					
Due to the NBU	129,397	9,957	106,859	44,890	291,103
Due to credit institutions	75,486	57,548	122,520	377,714	633,268
Due to customers	1,634,472	321,665	799,231	147,162	2,902,530
Eurobonds issued	-	17,087	-	782,828	799,915
Tax liabilities	-	1,792	-	-	1,792
Other liabilities	13,755	149	1,279	272	15,455
Provisions	64	677	2,570	822	4,133
	1,853,174	408,875	1,032,459	1,353,688	4,648,196
Net position	(764,143)	(190,631)	518,382	549,043	112,651
Accumulated gap	(764,143)	(954,774)	(436,392)	112,651	

As at 31 December 2005, overdue loans amounting to UAH 3,587 thousand net of allowance (2004: UAH 1,838 thousand net of allowance) are included as amounts due in less than one month.

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

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

The maturity gap analysis does not reflect the historical stability of current accounts, whose maturity is generally

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longer than that indicated in the table above. The table is based upon the account holder's entitlement to withdraw on demand.

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

25. Fair values of financial instruments

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

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

Cash and amounts due from the National bank of Ukraine

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

Amounts due from and to credit institutions

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

Loans to customers

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

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

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

As at 31 December 2005, the total fair value of loans to customers was UAH 6,990,717 thousand (2004: UAH 3,463,972 thousand).

Investment securities

Available-for-sale and securities designated at fair value through profit or loss are measured as described in Note 4. As at 31 December 2005, the carrying amount of available-for-sale securities is equal to their fair value. Held-to-

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maturity securities bear interest rates, which reflect fair market rates, and consequently the fair value approximates the carrying amount of such instruments.

Amounts due to the NBU

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

As at 31 December 2005, the total fair value of amounts due to the NBU was UAH 44,939 thousand (2004: UAH 291,103 thousand).

Amounts due to customers

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

26. Related party transactions

In accordance with IAS 24 “Related Party Disclosures”, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The outstanding balances of related party transactions at the year end, and related expense and income for the years are as follows:

	<i>2005</i>	<i>2004</i>
	<i>State controlled entities</i>	<i>State controlled entities</i>
Correspondent account with the NBU	695,112	294,763
State bonds designated at fair value through profit and loss	90,226	73,223
Other corporate bonds designated at fair value through profit and loss	12,203	15,517
Total financial assets designated at fair value through profit and loss	102,429	88,740
Held to maturity State bonds	108,847	134,134
Held to maturity NBU deposit certificates	25,297	-
Held to maturity other corporate bonds	69,703	115,418
Total held to maturity securities	203,847	249,552
Loans outstanding at 31 December, gross	777,342	384,331
Less: allowance for impairment at 31 December	(29,221)	(24,001)
Loans outstanding at 31 December, net	748,121	360,330
Other assets	650	626
Amounts due to the NBU	44,939	291,103
Current accounts at 31 December	795,964	357,341
Time deposits as at 31 December	114,623	55,856
Amounts due to customers	910,587	413,197
Other liabilities	24	935
Commitments and guarantees issued	194,043	196,794

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	<u>2005</u>	<u>2004</u>
	<u>State controlled entities</u>	<u>State controlled entities</u>
Interest income on loans	80,420	48,940
Interest income on securities	44,704	39,303
Interest expense on clients' deposits	(26,016)	(8,194)
Interest expenses on amounts due to the NBU	(6,340)	(15,942)
Commission income	24,278	20,502
Commission expenses	(109)	(117)
Translation differences	(6,237)	270
Other operating income	2	3
Other operating and administrative expenses	(136)	(93)

As at 31 December 2005, a loan amounting to UAH 72,775 thousand was issued to a Ukrainian company involved in transactions initiated by the Cabinet Ministry of Ukraine. The loan was issued under normal banking conditions. The loan was subsequently repaid in 2006.

All transactions were performed on normal banking conditions.

27. Cash and cash equivalents

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

	<u>2005</u>	<u>2004</u>
Cash on hand (see Note 5)	142,271	162,227
Current accounts with the National Bank of Ukraine (see Note 5)	695,112	294,763
Current accounts with credit institutions (see Note 6)	386,672	77,917
Overnight deposits	868,874	269,961
Cash and cash equivalents	<u>2,092,929</u>	<u>804,868</u>

28. Capital adequacy

The NBU requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets (2004: 10%), computed on the basis of UAR. At 31 December 2005, the Bank's capital adequacy ratio on this basis was 13.61% (2004: 13.01%) and exceeded the statutory minimum.

The Bank's international risk based capital adequacy ratio as at 31 December 2005 was 14.48% (2004: 11.40%), which exceeds the minimum ratio of 8% recommended by the Basle Accord. Capital adequacy was assessed based on the requirements and methodology defined in the 1988 Basle Accord.

29. Subsequent events

In February 2006, the Bank obtained a loan amounting to USD 95,000 thousand (approximately UAH 479,750 thousand) from Credit Suisse International. This loan was funded by 8.40% loan participation notes issued by but without recourse to Credit Suisse International, for the sole purpose of funding a subordinated loan to the Bank. The loan matures in February 2016 with an interest rate step up in 2011. The interest rate on this loan is 8.40% per annum. Interest payments are made semi-annually in arrears on 9 February and 9 August of each year, commencing 9 August 2006.

In March 2006, the Bank's Supervisory Board has approved a decision to capitalise profit for 2005 in the amount of UAH 156,000 thousand. This decision should be further approved by the Cabinet of Ministers of Ukraine.