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PRELIMINARY OFFERING CIRCULAR

SUBJECT TO COMPLETION, DATED ● 2005

JOINT STOCK INNOVATION BANK
UKRSIBBANK

● per cent. Loan Participation Notes due ●

issued by Bayerische Hypo- und Vereinsbank AG on a limited recourse basis

for the sole purpose of funding a U.S.$● loan to

Joint-Stock Innovation Bank "UkrSibbank"

(established and registered in Ukraine)

Issue Price: ● per cent.

Bayerische Hypo- und Vereinsbank AG (the "Issuer") is issuing the U.S.$● ● per cent. Loan Participation Notes due ● (the "Notes") for the sole purpose of financing a loan (the "Loan") to Joint-Stock Innovation Bank "UkrSibbank" ("UkrSibbank" or the "Bank") pursuant to a loan agreement dated ● 2005 (the "Loan Agreement") between the Issuer as lender and UkrSibbank as borrower. The Notes will be issued on or about ● 2005 and constituted by a trust deed dated on or about ● 2005 (the "Trust Deed") between the Issuer and J.P. Morgan Corporate Trustee Services Limited as trustee (the "Trustee"). The Issuer will, amongst other things, in the Trust Deed, charge in favour of the Trustee for the benefit of the holders of the Notes (the "Noteholders") as security for its payment obligations in respect of the Notes (a) its rights as lender to all payments under the Loan Agreement and (b) amounts received pursuant to the Loan Agreement held in an account of the Issuer, in each case other than in respect of certain reserved rights, all as more fully described under "Description of the Transaction".

The Notes are limited recourse obligations of the Issuer. In each case where amounts are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts are due in respect of the Notes, for all amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement. The Issuer will have no other financial obligation under the Notes. **Accordingly, Noteholders are deemed to have agreed that they will rely solely and exclusively on the covenants, credit and financial standing of UkrSibbank in respect of the financial servicing of the Notes.**

Save as otherwise expressly provided in this document and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions in the Loan Agreement or have direct recourse to the Bank except through action by the Trustee under the Security Interests as defined in the "Terms and Conditions of the Notes".

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS".

Application has been made to list the Notes on the Luxembourg Stock Exchange.

The Notes will be issued in registered form in denominations of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof. The Notes will be represented by a global registered note certificate (the "Global Note Certificate" registered in the name of Chase Nominees Limited as nominee for, and deposited with, a common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") on or about ● 2005. Individual note certificates ("Individual Note Certificates") evidencing holdings of Notes will only be available in certain limited circumstances described under "Summary of Provisions Relating to the Notes in Global Form".

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act"). The Notes are being offered outside the United States in offshore transactions in reliance on Regulation S under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Deutsche Bank **UBS Investment Bank**

The date of this Offering Circular is ● 2005

The Bank accepts responsibility for the accuracy and completeness of the information contained in this Offering Circular, other than as provided herein. To the best of the Bank's knowledge and belief (and the Bank has taken all reasonable care to ensure that such is the case), the information for which the Bank is responsible is true and accurate in all material respects and is not misleading in any material respect; the opinions, predictions and intentions expressed in this Offering Circular are honestly held; and this Offering Circular does not omit to state any material fact necessary to make such information, opinions, predictions or intentions not misleading in any material respect. The Issuer accepts responsibility for information in respect of itself.

The Bank and the Issuer have not authorised any offer of Notes to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended (the "POS Regulations"). Notes may not lawfully be offered or sold to persons in the United Kingdom except in circumstances which do not result in an offer to the public in the United Kingdom within the meaning of the POS Regulations or otherwise in compliance with all applicable provisions of the POS Regulations.

The statistical information and other data contained in Appendix A to this Offering Circular entitled "Ukraine: The Banking Sector" has been extracted from publicly available data (such as information contained on official websites and in publications of governmental agencies of Ukraine, including the National Bank of Ukraine (the "NBU"), and from other government or mass media sources) and the Bank accepts responsibility for accurately extracting and reproducing such data but accepts no further responsibility in respect of such information.

No person is authorised to provide any information or to make any representation not contained in this document. Any such representation or information should not be relied upon as having been authorised by the Bank, the Issuer, the Trustee or any of the managers named under "Subscription and Sale" (the "Managers").

Neither the delivery of this document nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve an adverse change, in the condition (financial or otherwise) of the Bank and its Subsidiaries (as defined in "Business—Subsidiaries and Special Purpose Entities") or the Issuer since the date of this document.

The distribution of this document and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this document and other offering material relating to the Notes, see "Subscription and Sale".

IN CONNECTION WITH THIS ISSUE, UBS LIMITED (THE "STABILISING MANAGER"), OR ANY PERSON ACTING FOR THE STABILISING MANAGER, MAY OVER ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD. HOWEVER, THERE MAY BE NO OBLIGATION ON THE STABILISING MANAGER (OR ANY AGENT OF THE STABILISING MANAGER) TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD. SUCH STABILISING SHALL BE IN COMPLIANCE WITH ALL APPLICABLE LAWS, REGULATIONS AND RULES.

FORWARD LOOKING STATEMENTS

Some statements in this document may be deemed to be "forward-looking statements". Forward-looking statements include statements concerning the Bank's plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. When used in this document, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify forward-looking statements. These forward-looking statements are contained in "Summary", "Risk Factors", "Business" and other sections of this document. The Bank has based these forward-looking statements on the current views of the Bank's management with respect to future events and financial performance. These views reflect the best judgement of the Bank's management but involve uncertainties and are subject to certain risks, the materialisation of which could cause actual results to differ materially from those predicted in the Bank's forward-looking statements and from past results, performance or achievements. Although the Bank believes that the expectations, estimates and projections reflected in the Bank's forward-looking statements are reasonable, if one or more of the risks or uncertainties materialise, including those which the Bank has identified in this document, or if any of the Bank's underlying assumptions prove to be incomplete or inaccurate, the Bank's actual results of operations may vary from those expected, estimated or projected.

These forward-looking statements speak only as at the date of this Offering Circular. Without prejudice to any requirements under applicable laws and regulations, each of the Bank and the Issuer expressly disclaims any obligation or undertaking to disseminate after the date of this Offering Circular any updates or revisions to any forward-looking statements contained herein to reflect any change in their expectations with regard thereto or any change in events, conditions or circumstances on which any such forward-looking statement is based.

ENFORCEABILITY OF JUDGMENTS

Courts in Ukraine will not recognise and/or enforce any judgment obtained in a court established in a country other than Ukraine unless such enforcement is envisaged by an international treaty to which Ukraine is a party or by an *ad hoc* arrangement providing for the enforcement of judgments on a reciprocal basis that is in effect between such country and Ukraine, and then only in accordance with such *ad hoc* arrangements or the terms of such treaty. There is no such treaty in effect between Ukraine and Germany or Ukraine and the United Kingdom

Ukraine is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Consequently, a foreign arbitral award obtained in a state which is party to that convention should be recognised and enforced by a Ukrainian court (under the terms of the convention). Since the Loan Agreement contains a provision allowing for arbitration of disputes, respective arbitral awards may be enforced in Ukraine under the provisions of the New York Convention.

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PRESENTATION OF FINANCIAL INFORMATION

Financial Information

The financial information of the Bank set forth herein, has, unless otherwise indicated, been derived from its audited consolidated balance sheets and statements of income, cash flows and changes in shareholders' equity as at and for the years ended 31 December 2004 and 2003 (the "Financial Statements"), in each case prepared in accordance with International Financial Reporting Standards ("IFRS"). The Financial Statements have been audited by the Bank's independent auditors, LLC audit firm "PricewaterhouseCoopers (Audit)" ("PricewaterhouseCoopers"), registered audit firm, located at 4-5th Floor, 38 Turgenevska Str., 01054, Kyiv-54, Ukraine, in accordance with International Standards on Auditing ("ISA"). The Financial Statements, including the audit opinions of PricewaterhouseCoopers are set forth elsewhere in this Offering Circular. The Bank does not prepare non-consolidated financial statements.

The Ukrainian hryvnia has been selected as the measurement and presentation currency for the Financial Statements. Prior to 2001, Ukraine was considered to be hyperinflationary, as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). Therefore, the Financial Statements have been restated in accordance with IAS 29 by indexing the historical balances by changes in the general price index up to 31 December 2000.

Currency

In this Offering Circular, all references to "hryvnia" and "UAH" are to the lawful currency for the time being of Ukraine, all references to "Russian Roubles" and "RUR" are to the lawful currency for the time being of the Russian Federation, all references to "dollars", "U.S. dollars", "USD" and "U.S.$" are to the lawful currency for the time being of the United States of America and all references to "euros", "EUR" and "€" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

Translations of amounts from hryvnia to dollars are solely for the convenience of the reader and are made at various exchange rates. No representation is made that the hryvnia or dollar amounts referred to herein could have been converted into dollars or hryvnia, as the case may be, at any particular exchange rate or at all. The NBU's hryvnia/dollar exchange rate as reported on 31 December 2004 was UAH 5.31 to the dollar. The NBU's hryvnia/dollar exchange rate as reported on 3 June 2005 was UAH 5.055 to the dollar.

Rounding

Some numerical figures included in this Offering Circular have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them.

SUMMARY

This summary may not contain all of the information that may be important to prospective purchasers of the Notes. This entire Offering Circular, including the more detailed information regarding the Bank's business and the Financial Statements included elsewhere in this Offering Circular, should be read. Investing in the Notes involves risks. The information set forth under "Risk Factors" should be carefully considered. Certain statements in this Offering Circular are forward-looking statements that also involve risks and uncertainties as described under "Forward Looking Statements".

The Bank

Overview

The Bank divides its services into three main business segments: corporate banking, retail banking and investment banking. Corporate banking includes deposit taking and lending, settlement transactions and cash operations, foreign currency and trade finance products. Retail banking includes private banking services, private customer current accounts, savings, deposits, credit and debit cards, consumer loans and mortgage lending. Investment banking services are mainly provided to corporate customers and include debt and equity capital markets activities, securities, foreign exchange and banknote trading and corporate finance. The Bank also offers insurance, leasing and asset management services through its subsidiaries CJISC "Ukrainian Insurance Alliance", LLC "Ukrainian Leasing Company", JSC "Asset Management Company 'UkrSib Asset Management'" and OJSC "Closed Non-diversified Corporate Investment Fund 'UkrSib Stabilny Dohod'".

Corporate banking is the Bank's largest business segment with the segment's assets and liabilities constituting 59 per cent. and 43 per cent., respectively, of the Bank's total assets and liabilities as at 31 December 2004. The Bank's external revenue from corporate banking for the year ended 31 December 2004 was UAH 627.7 million, which represented 73 per cent. of its total external revenue for that period. Retail banking is the Bank's second largest business segment, with the segment's assets and liabilities constituting 24 per cent. and 32 per cent., respectively, of the Bank's total assets and liabilities as at 31 December 2004. The Bank's external revenue from retail banking for the year ended 31 December 2004 was UAH 142.0 million, which represented 16 per cent. of the Bank's total external revenue for that period. Investment banking is the Bank's third largest business segment. Since 2001, the Bank has participated in 25 domestic bond offerings (by major Ukrainian companies and two municipalities) as either lead manager or as a co-manager. Investment banking accounted for 9 per cent. of the Bank's total external revenue for the year ended 31 December 2004. See note 25 to the Financial Statements set out elsewhere in this Offering Circular for further information on the Bank's main business segments and the relationship between external revenue and revenue.

The Bank's total assets increased from UAH 1.90 billion as at 31 December 2002 to UAH 3.69 billion as at 31 December 2003 and UAH 5.38 billion as at 31 December 2004. Its total shareholders' equity increased from UAH 180.9 million as at 31 December 2002 to UAH 280.6 million as at 31 December 2003 and UAH 758.1 million as at 31 December 2004. For the year ended 31 December 2004, the Bank generated operating income of UAH 401.6 million and net profits of UAH 80.0 million compared with operating income of UAH 242.6 million and UAH 133.3 million and net profits of UAH 41.3 million and UAH 3.1 million for the years ended 31 December 2003 and 2002, respectively. The Bank's profits increased in 2004 compared with 2003 primarily as a result of the expansion in the Bank's loan and deposit portfolios and a corresponding increase in interest income and fees and commissions charged to customers.

The Bank is a principal member of VISA and MasterCard and an agent of Thomas Cook and Western Union.

Strategy

The Bank's goal, in accordance with its strategic plan for 2004-2006, as approved by the Bank's shareholders, is to continue to strengthen its market position and increase its market share in all sectors of the Ukrainian banking industry, including the corporate, retail and investment banking sectors. Specifically, the Bank aims to become one of the market leaders in the retail and corporate banking sectors in Ukraine, expand its retail network, consolidate and expand its leading position in the investment banking business, develop a range of financial services to complement its banking services and improve its operating systems, organisational structure and efficiency (see "Business—Market Position and Competition"). In order to achieve these objectives, the Bank is pursuing the following strategies:

- expanding its branch network and alternative sales channels;
- developing its retail and investment banking businesses;
- improving its internal operating systems and utilising new technologies;
- diversifying its loan portfolio and funding base;
- improving the quality and range of its corporate banking services;
- developing non-banking services; and
- developing its employees' professional skills and qualifications through training.

Credit Ratings

Currently, the Bank is rated by two rating agencies: Fitch Ratings ("Fitch") and Moody's Investors Service, Inc. ("Moody's"), which have issued the following credit ratings:

Fitch		*Moody's*	
Foreign currency long-term rating	B-	Foreign currency long-term deposit rating	B2
Foreign currency short term rating	B	Foreign currency short-term deposit rating	NP
Outlook	Stable	Outlook	Stable
Individual	D/E	Financial strength	E+
Support	5		

The Notes, on issue, will be assigned a B- senior unsecured debt rating by Fitch with stable outlook and a Ba3 senior unsecured debt rating with positive outlook by Moody's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

Recent Developments

Acquisition of Interest in Russian Bank

In August 2004, the Bank entered into an agreement for the acquisition of a 40 per cent. interest in a Russian bank, LLC Commercial Bank "National Financial Traditions" ("Bank NFT"). The Bank obtained the necessary licence for this acquisition from the NBU in November 2004 and obtained the necessary consents from the Russian Federal Antimonopoly Service and from the Central Bank of the Russian Federation in December 2004. The acquisition was completed in February 2005. The Bank paid RUR 60 million (UAH 11.4 million at the exchange rate at the date of payment) for a 40 per cent. share in the statutory capital of Bank NFT. At the date of acquisition, the total assets of Bank NFT amounted to RUR 283.7 million (equivalent to UAH 54.1 million at the exchange rate prevailing as at the date of the acquisition).

2004 Ukrainian Presidential Election

Ukraine experienced significant political instability during the 2004 presidential election, which Mr Viktor Yuschenko won in the second run-off against his closest rival Mr Viktor Yanukovich. The results of the first run-off of the election held between Mr Yuschenko and Mr Yanukovich on 21 November 2004, which declared Mr Yanukovich the winner, were disputed on the basis of allegations of massive corruption, voter intimidation and direct electoral fraud, as reported by numerous domestic and foreign observers and acknowledged in a decision of the Supreme Court of Ukraine, which declared the results of the run-off invalid. The disputed run-off was followed by series of peaceful protests, including a series of nationwide protests, sit-ins and planned general strikes by supporters of Mr Yuschenko. A second run-off election was ordered by Ukraine's Supreme Court and was held on 26 December 2004. Mr Yuschenko was declared the official winner of the second run-off and was inaugurated as President on 23 January 2005.

NBU Stabilisation Loan

As a result of the political instability and uncertainty regarding the outcome of the presidential election described above, corporate and private depositors began actively withdrawing funds from Ukrainian banks, including the Bank, in November 2004. In response, in December 2004, the NBU provided short-term stabilisation loans to 17 Ukrainian banks, including the Bank, to support their liquidity during the political crisis and also introduced restrictions on withdrawals of deposits by private depositors in Ukraine. Such restrictions on withdrawals remained in force from November 2004 until the end of December 2004. The Bank repaid its UAH 233 million short-term stabilisation loan from the NBU in full in January 2005 (in advance of the scheduled repayment date) and, as of the date of this Offering Circular, the Bank's corporate and retail deposits exceed the levels that were prevailing as at 1 January 2005. See "Risk Factors—Risks Relating to Ukraine—Political Considerations" below.

Syndicated Trade Facility and Bilateral Term Credit Facility

In February 2005, the Bank obtained a syndicated trade finance facility, arranged by Standard Bank London Limited and Raiffeisen Zentralbank Österreich Aktiengesellschaft, amounting to U.S.$37 million, at an interest rate of LIBOR +3.95 per cent. per annum, maturing in February 2006.

In May 2005, the Bank obtained a U.S.$20 million bilateral term credit facility from CSFBi at an interest rate of LIBOR +4.05 per cent. per annum, maturing in April 2007.

Appreciation of the Hryvnia

On 21 April 2005, the official exchange rate of the Ukrainian hryvnia to foreign currencies sharply appreciated. In particular, the exchange rate of the Ukrainian hryvnia to the U.S. dollar appreciated from UAH 5.19 to the dollar as at 20 April 2005 to UAH 5.05 to the dollar as at 21 April 2005. The total cumulative appreciation from the end of 2004 to 21 April 2005 was approximately 5 per cent.

Increase in Share Capital

On 27 May 2005, the Bank's General Meeting of Shareholders approved a decision to increase the Bank's nominal share capital by UAH 150 million to UAH 750 million by a further issuance of shares. The Bank expects that the existing shareholders will exercise their preferential rights to acquire such shares upon issue pro-rata to their existing shareholdings and that the increase in share capital will be paid up by the Bank's existing shareholders and registered with the NBU in 2005.

SUMMARY OF THE OFFERING

The following is a summary of certain information contained elsewhere in this document. Reference is made to, and this Summary is qualified in its entirety by, the more detailed information contained elsewhere in this document.

Issuer:	Bayerische Hypo- und Vereinsbank AG
Borrower:	Joint-Stock Innovation Bank "UkrSibbank"
Lead Managers:	Deutsche Bank AG, London Branch and UBS Limited
Issued Amount:	U.S.$●
Issue price:	● per cent. of the principal amount of the Notes
Maturity Date:	●
Trustee:	J.P. Morgan Corporate Trustee Services Limited
Registrar:	J.P. Morgan Bank Luxembourg, S.A.
Transfer Agent and Paying Agent:	J.P. Morgan Bank Luxembourg, S.A.
Principal Paying Agent:	JPMorgan Chase Bank, London Branch
Interest:	The Notes will bear interest from ● 2005 at a rate of ● per cent. per annum payable semi-annually in arrear on ● and ● in each year commencing on ● 2005.
Status:	The Notes will constitute the obligations of the Issuer to apply an amount equal to the gross proceeds of the issue of the Notes solely for the purpose of financing a ●-year loan (the "Loan") to the Bank pursuant to the terms of a loan agreement made between the Issuer and the Bank and dated ● 2005 (the "Loan Agreement"). The Issuer will account to the holders of the Notes solely for all amounts equivalent to those (if any) received from the Bank under the Loan Agreement less amounts in respect of certain Reserved Rights (as defined in the Terms and Conditions of the Notes).
Form:	The Notes will be issued in registered form. The Notes will be in denominations of U.S.$100,000 each and integral multiples of U.S.$1,000 in excess thereof and will be represented by a Global Note Certificate which will be exchangeable for Notes in individual form in the limited circumstances specified in the Global Note Certificate.
Early Redemption:	The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, upon giving notice to the Noteholders, at the principal amount thereof together with accrued and unpaid interest to the date of redemption and any additional amounts in respect thereof, upon receiving notice that the Bank has prepaid the Loan for tax reasons or in the event that it becomes unlawful for the Lender to fund the advance or allow to remain outstanding the Loan under the Loan Agreement as more fully described in Clause 10 of the Loan Agreement. See also Condition 5 "Redemption and Purchase" in "Terms and Conditions of the Notes".
Corporate Restructuring:	Upon a Corporate Restructuring (as defined in the Loan Agreement) the Issuer will make an offer to purchase all or any part of the Notes

	at a price per Note equal to 100 per cent. of the principal amount thereof, plus accrued and unpaid interest thereon and additional amounts, if any, up to the date of repurchase. In such case, the Borrower is required to prepay the Loan in an amount sufficient to provide the funds to enable the Issuer to repurchase the Notes.
Issuer's Covenant:	As long as any of the Notes remains outstanding, the Issuer will not, without the prior written consent of the Trustee, agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement.
Negative Pledge and Other Covenants:	The Loan Agreement contains a negative pledge in relation to the creation of Security Interests (other than Permitted Security Interests) (each as defined in the Loan Agreement) over the Indebtedness or Guarantee of Indebtedness of the Bank and its Material Subsidiaries (each as defined in the Loan Agreement) as set out in the Loan Agreement. The Loan Agreement also contains covenants restricting mergers and disposals by the Bank, transactions between the Bank and its Affiliates (as defined in the Loan Agreement), exposure of the Bank to a single borrower and the making of certain payments and distributions by the Bank and its Subsidiaries (as defined in the Loan Agreement). The Loan Agreement also contains a covenant by the Bank to comply with certain capital adequacy requirements.
Change of Control:	Upon a Change of Control (as defined in the Loan Agreement) the Issuer will make an offer to purchase all or any part of the Notes at a price per Note equal to 100 per cent. of the principal amount thereof, plus accrued and unpaid interest thereon and additional amounts, if any, up to the date of repurchase. In such case, the Borrower is required to prepay the Loan in an amount sufficient to provide the funds to enable the Issuer to repurchase the Notes.
Events of Default/Relevant Events:	In the case of an Event of Default (as defined in the Loan Agreement) or a Relevant Event (as defined in the Terms and Conditions of the Notes), the Trustee may, subject as provided in the Trust Deed, (1) require the Lender to declare all amounts payable under the Loan Agreement by the Bank to be due and payable (in the case of an Event of Default) or (2) enforce the security created in the Trust Deed in favour of the Noteholders (in the case of a Relevant Event). Upon repayment of the Loan following an Event of Default, the Notes will be redeemed or repaid at the principal amount thereof, together with interest accrued to the date fixed for redemption and any additional amounts due, and thereupon shall cease to be outstanding.
Withholding Tax:	All payments of principal and interest in respect of the Notes will be made free and clear of and without deduction or withholding for or on account of any taxes, duties, assessments, fees or other governmental charges of Germany or Ukraine save as required by law. If any such withholding or deduction is so required, the Issuer shall (subject to certain exceptions) pay such additional amounts as will result in the receipt by the Noteholders of such amounts as

	would have been received by them had no such withholding or deduction been required. The sum payable by the Bank under the Loan will be required (subject to certain exceptions) to be increased to the extent necessary to ensure that the Issuer receives a net sum of sufficient amount to enable it to pay such additional amounts. The sole obligation of the Issuer in this respect will be to pay to the Noteholders sums equivalent to the sums received from the Bank. See Condition 7 "Taxation" in "Terms and Conditions of the Notes".
Listing:	Application has been made to list the Notes on the Luxembourg Stock Exchange.
Selling Restrictions:	The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Notes may be sold in Germany, the United Kingdom, the Russian Federation and the Republic of Italy only in compliance with applicable laws. The Notes have not been registered in Ukraine and may not be offered or sold within Ukraine. The offer and sale of the Notes may also be restricted in other jurisdictions. See "Subscription and Sale".
Governing Law:	The Notes will be governed by English law.
Risk Factors:	For a discussion of certain issues that should be considered by prospective purchasers of the Notes, see "Risk Factors".

SUMMARY FINANCIAL INFORMATION AND STATISTICAL DATA

The summary financial information and statistical data for the Bank set forth below should be read in conjunction with the Financial Statements included elsewhere in this Offering Circular. The Financial Statements have been prepared in accordance with IFRS.

The summary financial information set forth below for the years ended 31 December 2004, 2003 and 2002 has been extracted without material adjustment from the Financial Statements of the Bank which are included elsewhere in this Offering Circular. The information should be read in conjunction with, and is qualified in its entirety by reference to, such financial statements.

The Ukrainian hryvnia has been selected as the measurement currency for the Financial Statements.

	Year ended 31 December				
	2004[1] (Unaudited) (U.S.$'000)	**2004 (Audited) (UAH'000)**	**2003[1] (Unaudited) (U.S.$'000)**	**2003 (Audited) (UAH'000)**	**2002 (Audited) (UAH'000)**
INCOME STATEMENT DATA					
Net interest income	56,966	303,058	36,188	192,880	88,562
Provision for loan impairment	(15,702)	(83,533)	(13,806)	(73,586)	(32,837)
Net interest income after provision for loan impairment	**41,264**	**219,525**	**22,382**	**119,294**	**55,725**
Fee and commissions income	18,717	99,574	15,576	83,021	36,711
Fee and commissions expense	(1,535)	(8,169)	(1,273)	(6,787)	(2,353)
Gains less losses arising from trading securities	3,892	20,706	133	710	7,171
Gains less losses arising from investments available-for-sale	783	4,165	2,024	10,789	19,021
Gains less losses arising from trading in foreign currencies	11,536	61,374	7,160	38,163	16,320
Foreign exchange translation gains less losses/(losses net of gains)	506	2,692	(255)	(1,359)	(255)
Losses net of gains on origination of financial instruments at rates above and below market	(82)	(435)	(113)	(604)	—
Loss on change in terms of subordinated debt	(1,614)	(8,589)	—	—	—
Provision for losses on credit related commitments	(576)	(3,062)	(698)	(3,723)	(438)
Other operating income	2,596	13,809	586	3,122	1,443
Operating income	**75,487**	**401,590**	**45,521**	**242,626**	**133,345**
Staff costs	(23,183)	(123,333)	(15,229)	(81,169)	(64,321)
Other operating expenses	(30,506)	(162,293)	(16,828)	(89,691)	(62,412)
Profit before taxation	**21,798**	**115,964**	**13,465**	**71,766**	**6,612**
Income tax expense	(6,647)	(35,361)	(5,724)	(30,508)	**(3,543)**
Profit after taxation	**15,151**	**80,603**	**7,741**	**41,258**	**3,069**
Minority interest	(122)	(650)	—	—	—
Net profit	**15,029**	**79,953**	**7,741**	**41,258**	**3,069**

1 Convenience translation. See "Presentation of Financial Information—Currency" above.

	As at 31 December				
	2004[1] (Unaudited) (U.S.$'000)	2004 (Audited) (UAH'000)	2003[1] (Unaudited) (U.S.$'000)	2003 (Audited) (UAH'000)	2002 (Audited) (UAH'000)
BALANCE SHEET DATA					
Cash and cash equivalents and mandatory reserve	116,525	618,213	67,814	361,552	187,020
Trading securities	52,012	275,943	34,205	182,365	108,967
Due from other banks	17,547	93,095	27,885	148,670	189,115
Loans and advances to customers	665,826	3,532,473	490,420	2,614,673	1,187,124
Investments available-for-sale	36,311	192,644	23,224	123,820	88,940
Investments held-to-maturity	9,030	47,908	14,198	75,696	—
Guarantee deposits with the National Bank of Ukraine	21,802	115,668	—	—	—
Other assets	14,982	79,484	7,664	40,860	22,793
Premises, leasehold improvements and equipment	79,331	420,882	27,160	144,806	112,168
Deferred tax asset	—	—	—	—	3,072
Total assets	**1,013,366**	**5,376,310**	**692,571**	**3,692,442**	**1,899,199**
Due to the National Bank of Ukraine	73,520	390,052	16,080	85,729	9,900
Due to other banks	33,305	176,697	75,054	400,151	237,481
Debt securities in issue	107,577	570,739	10,764	57,390	23,934
Customer accounts	620,166	3,290,231	507,916	2,707,956	1,338,729
Other liabilities	12,217	64,817	4,913	26,193	20,448
Subordinated debt	13,841	73,433	21,483	114,537	87,818
Deferred tax liability	8,074	42,838	3,162	16,858	—
Total liabilities	**868,701**	**4,608,807**	**639,372**	**3,408,814**	**1,718,310**
Minority interest	1,768	9,382	566	3,020	—
Shareholders' equity					
Share capital	290,965	1,543,684	214,972	1,146,124	1,083,684
Share premium	388	2,060	386	2,060	2,060
Additional capital	1,315	6,974	1,308	6,974	—
Revaluation reserve for equipment	746	3,958	742	3,958	4,019
Accumulated deficit	(150,517)	(798,555)	(164,777)	(878,508)	(908,874)
Total shareholders' equity	**142,896**	**758,121**	**52,632**	**280,608**	**180,889**
Total liabilities, minority interest and shareholders' equity	**1,013,366**	**5,376,310**	**692,571**	**3,692,442**	**1,899,199**

1 Convenience translation. See "Presentation of Financial Information—Currency" above.

	Year ended 31 December		
	2004	**2003**	**2002**
STATISTICAL DATA			
Bank Performance Ratios			
Net interest margin[1]	7.9%	7.8%	6.7%
Net non-interest income to operating income[2]	37.5%	39.0%	46.7%
Cost to income ratio[3]	58.9%	54.0%	76.3%
Return on average assets[4]	1.8%	1.5%	0.2%
Return on average equity[5]	15.4%	17.9%	1.9%
Balance Sheet Ratios[6]			
Customer loans to customer deposits[7]	107.4%	96.6%	88.7%
Customer loans to total assets[8]	65.7%	70.8%	62.5%
Shareholders' equity to total assets	14.1%	7.6%	9.5%
Tier 1 capital adequacy ratio	16.4%	8.7%	11.1%
Total capital adequacy ratio	18.2%	13.2%	16.9%
Asset Quality Ratios[6]			
Overdue customer loans to total loans (gross)[9]	2.4%	0.6%	2.5%
Provisions to total customer loans (gross)[10]	7.0%	6.8%	9.0%
Provisions to overdue loans[11]	292.0%	1112.3%	368.8%
Provision charge to total customer loans (gross)[12]	2.2%	2.6%	2.5%

1 Net interest margin was calculated as net interest income before provision for loan impairment divided by average interest earning assets.

2 Net non-interest income to operating income was calculated as net non-interest income (being net fee and commission income, gains less losses arising from trading securities, gains less losses arising from investments available-for-sale, gains less losses arising from trading in foreign currencies, foreign exchange translation gains less losses/(losses net of gains), gains less losses on origination of assets and liabilities at rates below market, loss on change in terms of subordinated debt, provision for losses on credit related commitments and other operating income) divided by operating income before provision for loan impairment.

3 Cost to income ratio was calculated as operating expenses divided by operating income before provision for loan impairment.

4 Return on average assets was calculated as net profit for the period divided by the simple average of total assets at the beginning and at the end of the year.

5 Return on average equity was calculated as net profit for the period divided by simple average of total equity at the beginning and at the end of the year.

6 At year end.

7 Customer loans to customer deposits was calculated as total loans and advances to customers net of provision for loan impairment divided by total customer accounts.

8 Customer loans to total assets was calculated as total loans and advances to customers net of provision for total loan impairment divided by total assets.

9 Overdue loans include outstanding loans that matured before the respective year end and loan instalments due but not paid on that date.

10 Provisions to total customer loans was calculated as the provision for loan impairment at the year end divided by total loans and advances to customers before provision for loan impairment.

11 Provisions to overdue loans was calculated as the provision for loan impairment at the year end divided by the amount of overdue loans at the year end.

12 Provision charge to total customer loans was calculated as provision charge for the period divided by gross customer loans at the year end.

DESCRIPTION OF THE TRANSACTION

The following summary contains basic information about the Notes and the Loan and should be read in conjunction with, and is qualified in its entirety by, the information set forth under "Terms and Conditions of the Notes" and "The Loan Agreement" appearing elsewhere in this Offering Circular.

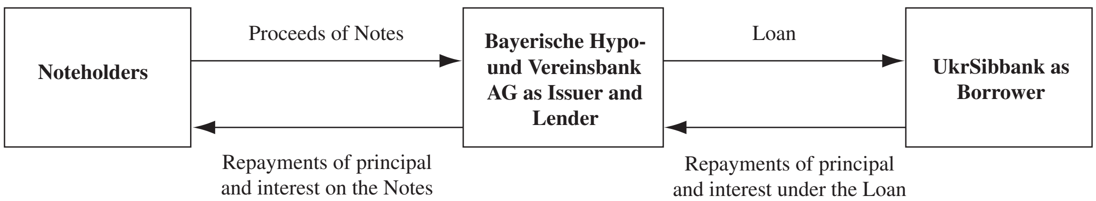
The transaction will be structured as a loan to the Bank by the Issuer.

The Notes are limited recourse loan participation notes to be issued by the Issuer for the sole purpose of funding the Loan. The Notes will have the benefit of, and be constituted by, the Trust Deed. As provided in the Trust Deed, the Issuer will (a) charge by way of security to the Trustee its rights to principal, interest and other amounts under the Loan Agreement (other than certain Reserved Rights (as defined in the Terms and Conditions)) and (b) charge by way of security to the Trustee sums held on deposit from time to time in an account with JPMorgan Chase Bank, London Branch, in the name of the Issuer together with the debt represented thereby. The Issuer will also assign certain administrative rights under the Loan Agreement to the Trustee for the benefit of the Noteholders. The Bank will be obliged to make payments under the Loan to the Issuer in accordance with the terms of the Loan Agreement to the account described above. The Issuer will agree in the Trust Deed not to make any amendment to or any modification or waiver of or authorise any breach of or proposed breach of the terms of the Loan Agreement unless the Trustee has given its prior written consent or except as otherwise expressly provided in the Trust Deed and the Loan Agreement. The Issuer will further agree to act at all times in accordance with any instruction of the Trustee from time to time with respect to the Loan Agreement, save as otherwise provided in the Trust Deed. Any amendments, modifications, waivers or authorisations made with the Trustee's consent shall be notified to the Noteholders in accordance with Condition 14 ("Notices") of the Terms and Conditions and shall be binding on the Noteholders. Formal notice of the security interests created by the Trust Deed will be given to the Bank, JPMorgan Chase Bank, London Branch, and J.P. Morgan Luxembourg S.A., which will each be required to acknowledge the same.

In the event that the Trustee enforces the security interests granted to it, the Trustee will assume certain rights and obligations towards the Noteholders as more fully set out in the Trust Deed.

The Notes are limited recourse obligations and the Issuer will not have any obligation to the Noteholders other than the obligation to account to the Noteholders for payments of principal and interest received by it under the Loan less the Reserved Rights which the Issuer is entitled to retain from any amounts actually received.

Set out below is a diagrammatic representation of the structure:



RISK FACTORS

Investment in the Notes involves a high degree of risk. Potential investors should carefully review this entire Offering Circular and in particular should consider all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. The materialisation of these risks, individually or together, could have a material adverse effect on the Bank's business, operations and financial condition and/or the trading price of the Notes.

Risks Relating to Ukraine

General

Since independence in 1991, Ukraine has undergone a substantial political transformation from a constituent republic of the former Soviet Union to an independent sovereign democracy. In parallel with this transformation, Ukraine is slowly changing from a centrally planned economy to a market economy. Although some progress has been made since independence in reforming Ukraine's economy and its political and judicial systems, to some extent Ukraine still lacks the necessary legal infrastructure and regulatory framework that is essential to support market institutions, the effective transition to a market economy and broad-based social and economic reforms. Set forth below is a brief description of some of the risks incurred by investing in Ukraine, although the list is not an exhaustive one.

Risks Associated with Emerging Markets

Investors in emerging markets such as Ukraine should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant political, economic and legal risks. Investors should also note that emerging economies such as Ukraine's are subject to rapid change and that the information set out in this Offering Circular may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved, and investors are urged to consult with their own legal and financial advisors before making an investment in the Notes.

Official Statistics

Official statistics and other data published by Ukrainian state authorities may not be as complete or reliable as those of more developed countries. Official statistics and other data may also be produced on different bases than those used in more developed countries. The Bank has not independently verified such official statistics and other data, and any discussion of matters relating to Ukraine in this Offering Circular is, therefore, subject to uncertainty due to questions regarding the completeness or reliability of such information. Specifically, investors should be aware that certain statistical information and other data contained in this Offering Circular have been extracted from official governmental sources in Ukraine and were not prepared in connection with the preparation of this Offering Circular. The Bank only accepts responsibility for the correct extraction and reproduction of such information.

Political Considerations

Historically, a lack of political consensus in the Verkhovna Rada (Parliament), has made it difficult for the Ukrainian government to sustain a stable coalition of parliamentarians to secure the necessary support to implement a series of policies intended to foster liberalisation, privatisation and financial stability. Since independence in 1991, governmental instability has been a feature of the Ukrainian political scene, with Ukraine having experienced thirteen changes in prime minister since 1991. The current prime minister, Yulia Tymoshenko, was nominated by the President on 24 January 2005 and took office on 4 February 2005. The various state authorities, and the relations between them, as well as the Ukrainian government's policies and the political leaders who formulate and implement them, are subject to rapid change.

Ukraine experienced significant instability during the 2004 presidential election, in which Mr Viktor Yuschenko won in the second run-off against his closest rival Mr Viktor Yanukovich. The results of the first run-off of the election held between Mr Yuschenko and Mr Yanukovich on 21 November 2004, which declared Mr Yanukovich the winner, were disputed on the basis of allegations of massive corruption, voter intimidation and direct electoral fraud, as reported by numerous domestic and foreign observers and acknowledged in a decision of the Supreme Court of Ukraine, which declared the results of the run-off invalid. The disputed run-off was followed by series of peaceful protests including a series of nationwide protests, sit-ins and planned general strikes by supporters of Mr Yuschenko. A second run-off election was ordered by Ukraine's Supreme Court and was held on 26 December 2004. Mr Yuschenko was declared the official winner of the second run-off and was inaugurated as President on 23 January 2005.

As a result of the political instability and uncertainty regarding the outcome of the presidential election described above, corporate and private depositors began actively withdrawing funds from Ukrainian banks, including the Bank, in November 2004. In response, in December 2004, the NBU provided short-term stabilisation loans to 17 Ukrainian banks, including the Bank, to support their liquidity during the political crisis and also introduced restrictions on withdrawals of deposits by private depositors in Ukraine. Such restrictions on withdrawals remained in force from November 2004 until the end of December 2004.

It remains to be seen how the Ukrainian political climate will change as a result of Mr Yuschenko's election. The elections on 31 March 2002 to the Parliament confirmed a gradual decline of Communist and other leftist factions and a modest gain, rather than decisive victory, for the centre-right and pro-reformist forces in Ukraine. If pro-market economy and moderate members of Parliament and President Yuschenko are unable to form an effective and cohesive majority, there may be an adverse impact on the Ukraine economy and the business of the Bank.

On 8 December 2004, the Parliament of Ukraine passed political reform bill No. 4180, which introduced amendments to the Constitution according to which Ukraine would be converted into European-style parliamentary republic. According to the amended Constitution:

- a new Parliament to be elected in March 2006 is required to form a majority coalition within a month after being elected;
- the parliamentary majority will appoint the Prime Minister after agreeing his candidacy with the President;
- the Prime Minister will select nominees to head government ministries, the State Property Fund, the Antimonopoly Committee and other government agencies and submit the nominations to Parliament for approval;
- nominees for the positions of Minister of Defence and Minister of Foreign Affairs will be proposed by the President;
- Parliament will approve nominees for the position of NBU Governor, while nominations for the positions of Prosecutor General and the Head of the Security Service of Ukraine will be submitted by the President;
- Parliament will be able to unilaterally dismiss the government, while the President will only be able to propose government resignation subject to Parliamentary approval; and
- the President will be able to dismiss Parliament if (i) it fails to form a majority coalition within a month upon being elected, (ii) it fails to appoint the government within 60 days or (iii) it fails to convene during 30 days of a non-recess period.

The amendments to the Constitution will enter into effect either in September 2005 or January 2006, subject to Parliament's approval of a different set of constitutional amendments dealing with regional self-government.

There can be no assurance that the amendments to the Constitution will provide for a greater degree of stability or ensure more responsible government policies. Any major changes in the political climate in

Ukraine, including any significant change in government policies as a result of the change in power following the presidential election or any other changes affecting the stability of the Ukrainian government or involving a rejection or reversal of reform policies favouring privatisation, industrial restructuring and administrative reform, may have negative effects on the economy. While the immediate threat of a liquidity crisis in the Ukrainian banking sector triggered by the political instability described above has been averted, the new government continues to face significant economic and political challenges in the short term. The failure to adequately address these challenges could have a material negative effect on consumer confidence in the Ukrainian economy and banking sector, which could in turn result in a more acute liquidity crisis. Any negative changes in the economy or liquidity crisis in the Ukrainian banking sector may have a negative effect on the business of the Bank.

Relationships with Western Governments and Institutions

Ukraine continues to pursue the objectives of a closer relationship with NATO, joining the World Trade Organisation and becoming an associate member of the European Union. Although Ukraine has announced its intention to withdraw troops from Iraq, it regards the United States as an important strategic partner and currently enjoys good relations with the United States, as demonstrated by Mr Yuschenko's recent visit to Washington. Any major changes in Ukraine's relations with Western governments and institutions, in particular any such changes adversely affecting the ability of Ukrainian manufacturers to access world export markets, may have negative effects on the economy and thus on the business of the Bank.

Regional Relationships

Ukraine's economy depends heavily on its trade flows with Russia and the rest of the Commonwealth of Independent States ("CIS"), largely because Ukraine imports a significant proportion of its energy requirements, especially from Russia. Transit charges for oil and gas from Russia comprise a large share of Ukraine's export revenues.

In recent years, bilateral relations between Ukraine and Russia have improved, due in part to the conclusion in May 1997 of the Friendship and Cooperation Treaty (which confirmed Ukrainian territorial integrity and the leasing by Russia's Black Sea Fleet of port facilities in Sevastopol), the conclusion in December 2000 of two inter-governmental agreements on the transit and supply of Russian natural gas and the conclusion in October 2002 of a framework agreement to ensure natural gas transit for the next 30 years and provide for the construction, modernisation and operation of gas pipelines. However, Russia has recently completed construction of a gas transit pipeline through Belarus and Poland, by-passing Ukraine, and has also threatened to construct the second leg of that pipeline, thus reducing its reliance on Ukraine for the transit of natural gas to markets in Western Europe.

Any major changes in Ukraine's relations with Russia, in particular any such changes adversely affecting energy supplies from Russia to Ukraine and/or Ukraine's export revenues derived from transit charges for Russian oil and gas, may also have negative effects on the economy and thus on the business of the Bank.

External Debt

Due to high domestic interest rates and the lack of demand for domestic treasury obligations, the Ukrainian government has depended to a significant degree on the receipt of substantial financial assistance from several foreign governments and international organisations, including the International Monetary Fund and the World Bank. No assurance can be given that similar financing will be available to Ukraine in the future. If such financial assistance is eliminated or curtailed, economic development in Ukraine may be materially adversely affected.

In 2000, faced with a liquidity crisis on its external debt payments, Ukraine undertook a comprehensive debt restructuring exercise. While this and subsequent debt restructurings have enabled Ukraine to meet its external debt obligations, there can be no assurance that Ukraine will not be required to raise funds on the international capital markets to finance amounts owed to holders of such external debt obligations. However, due to such debt restructurings and other factors, the Ukrainian government may be unable to raise funds on the international capital markets, which may materially adversely affect the financing of the budget deficit, the level of inflation and/or the value of the hryvnia.

Problems in the management of Ukraine's external debt, any failure of Ukraine to continue to receive funding from foreign governments and international organizations, as well as any inability of Ukraine to access the international capital markets, may have negative effects on the economy of Ukraine and the business of the Bank.

Economic Considerations

In its transition from a command economy to a market economy, the Ukrainian economy has experienced:

- declines in gross domestic product;
- hyperinflation;
- a devaluing currency;
- high government debt relative to gross domestic product;
- a weak banking system, providing limited liquidity to Ukrainian enterprises;
- high levels of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of a black and grey-market economy;
- pervasive capital flight;
- high levels of corruption and the penetration of organised crime into the economy; and
- the impoverishment of a large portion of the Ukrainian population and increasing unemployment.

Although the Ukrainian government has generally been committed to economic reform, the implementation of reform has consistently been impeded by lack of political consensus, controversies over privatisation (including privatisation of land in the agricultural sector), the restructuring of the energy sector, the removal of exemptions and privileges for certain state-owned enterprises or for certain industry sectors, and the limited extent of cooperation with international financial institutions.

Whereas the Ukrainian economy has improved in a number of areas since 1999, there is no clear consensus between the President and the Parliament as to the scope, pace and content of economic and political reform. No assurance can be given that current reform policies favouring privatisation, industrial restructuring, administrative and tax reform will continue to be implemented and, even if implemented, that those policies will be successful, or that the economy in Ukraine will improve.

The growth and stability of the Bank's business depends in a large part on the stability and growth of Ukraine's emerging economy. There can be no assurance that recent trends in the Ukrainian economy, such as the continuing increase in the gross domestic product, improvements in Ukraine's trade balance and current account surplus, strong domestic demand, price stability, rising real wages and a relatively stable hryvnia, will continue or will not be abruptly reversed.

On 21 April 2005, the NBU revalued the hryvnia in an attempt to address the growing imbalance between the hryvnia and U.S. dollar on the inter-bank market caused by continuing foreign currency inflows into Ukraine and reduce inflationary pressure on the Ukrainian economy. As a result, the exchange rate of the Ukrainian hryvnia to the U.S. dollar appreciated from UAH 5.19 to the dollar as at 20 April 2005 to UAH 5.05 to the dollar as at 21 April 2005. The total cumulative appreciation from the end of 2004 to 21 April 2005 was approximately 5%. The appreciation of the hryvnia may result in domestic products becoming less competitive on foreign markets.

Fluctuations in the Global Economy

Ukraine's economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In addition, because Ukraine is a major producer and exporter of metal and agricultural products, the Ukrainian economy is especially vulnerable to world commodity prices and/or the imposition of import tariffs by the United States, the European Union or by other major export markets. Any of such developments may have negative effects on the economy and thus on the business of the Bank.

Lack of Continued Access to Foreign Trade and Investment

Notwithstanding the recent improvements in the Ukrainian economy, cumulative foreign direct investment remains low for a country the size of Ukraine. As has happened in the past, an increase in the perceived risks associated with investing in Ukraine could dampen foreign direct investment in Ukraine and adversely affect the Ukrainian economy. No assurance can be given that Ukraine will remain receptive to foreign trade and investment. Any deterioration in the climate for foreign direct investment in Ukraine could have a material adverse effect on the economy and thus on the business of the Bank.

Corruption and Money Laundering Issues

External analysts have identified corruption and money laundering as problems in Ukraine. The local and international press have alleged high levels of official corruption in Ukraine. In accordance with amendments to Ukrainian anti-money laundering legislation which came into force in June 2003, the NBU and financial institutions are required to monitor certain financial transactions more closely for evidence of money laundering. As a result of the passage of these amendments, the Financial Action Task Force on Money Laundering ("FATF") removed Ukraine from its list of Non-Co-operative Countries and Territories in February 2004. Any future allegations of corruption in Ukraine or evidence of money laundering could have a negative effect on the ability of Ukraine to attract foreign investment and thus have a negative effect on the economy of Ukraine and thus on the business of the Bank.

Ukraine's business environment and the lack of liquidity

Ukrainian enterprises have a limited history of operating in free-market conditions and have had limited experience (compared with companies in more developed jurisdictions) of entering into and performing contractual obligations. Ukrainian enterprises, when compared to businesses operating in more developed jurisdictions, are often characterised by management that lacks experience in responding to changing market conditions and limited capital resources with which to develop their operations. In addition, Ukraine has a limited infrastructure to support a market system, with communications, banks and other financial infrastructure being less well developed and less well regulated than their counterparts in more developed jurisdictions, Ukrainian enterprises face significant liquidity problems due to a limited supply of domestic savings, few foreign sources of funds, high taxes, limited lending by the banking sector to the industrial sector and other factors. Many Ukrainian enterprises cannot make timely payments for goods or services and owe large amounts in taxes, as well as wages to employees. A deterioration in the business environment in Ukraine could have a material adverse effect on the Bank's business and on the market price of the Notes.

Social instability in Ukraine

The failure of the Ukrainian government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest. Labour and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism, with restrictions on foreign ownership in the economy of Ukraine, and violence. Any of these events could restrict the Bank's operations and lead to the loss of revenue, thereby materially adversely affecting both the Bank's ability to conduct its business effectively and the market price of the Notes.

Ukraine's Physical Infrastructure

Ukraine's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained over the past decade, in particular power generation and transmission, communication systems and building stock. Road conditions throughout Ukraine are relatively poor by comparison with more developed countries. The Ukrainian government has been implementing plans to develop the nation's rail, electricity and telephone systems. Any such development may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The deterioration of Ukraine's physical infrastructure harms the national economy, disrupts the transportation of goods and supplies, adds costs to doing business in Ukraine and can interrupt business operations. Further deterioration in the physical infrastructure could have a material adverse effect on the Bank's business and could materially adversely affect the market price of the Notes.

Developing Legal System

Risks associated with the Ukrainian legal system include:

- inconsistencies between and among the constitution of Ukraine, laws, presidential decrees, and Ukrainian governmental, ministerial and local orders, decisions, resolutions and other acts;
- provisions in the laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted;
- a lack of judicial and administrative guidance on the interpretation of Ukrainian legislation, including the complicated mechanism of exercising constitutional jurisdiction by the Constitutional Court of Ukraine;
- general inconsistency in the judicial interpretation of Ukrainian legislation in the same or similar cases; and
- corruption within the judiciary.

Furthermore, several fundamental Ukrainian laws either have only recently become effective or are still pending hearing or adoption by the Ukrainian Parliament. The recent origin of much of Ukrainian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Ukrainian legal system in ways that may not always coincide with market developments place the enforceability and underlying constitutionality of laws in doubt, and result in ambiguities, inconsistencies and anomalies. In addition, Ukrainian legislation often contemplates implementing regulations. Often such implementing regulations have either not yet been promulgated, leaving substantial gaps in the regulatory infrastructure, or have been promulgated with substantial deviation from the principal rules and conditions imposed by the respective legislation, which results in a lack of clarity and growing conflicts between companies and regulatory authorities. These weaknesses in the Ukrainian legal system could make it difficult for the Bank to implement its policies or could lead to conflicts between the NBU and the Bank, which would have a negative effect on the business of the Bank.

Uncertainties Relating to the Judicial System

The independence of the judicial system and its immunity from economic and political influences in Ukraine remain largely untested, notwithstanding the decision of the Supreme Court of Ukraine to declare the results of the disputed first run-off of the presidential election in November 2004 invalid (see "—Political

Considerations"). Although the Constitutional Court of Ukraine is the only body authorised to exercise constitutional jurisdiction and has mostly demonstrated its impartiality of judgment, the system of constitutional jurisdiction itself remains too complicated to ensure smooth and effective removal of discrepancies between the Constitution of Ukraine and applicable Ukrainian legislation on the one hand and various laws of Ukraine on the other hand.

The system of general and specialised courts is understaffed and under-funded. Judicial precedents under Ukrainian law have no binding effect on subsequent decisions. Not all Ukrainian legislation is readily available to the public or organised in a manner that facilitates understanding. Court decisions are not open to public access and, therefore, may not serve as guidelines in interpreting applicable Ukrainian legislation to the public at large. Moreover, courts themselves are not bound by earlier decisions taken under the same or similar circumstances, which results in the inconsistent application of Ukrainian legislation to resolve the same or similar disputes. The Ukrainian judicial system became more complicated and hierarchic as a result of the recently introduced judicial reform. The expected result of the judicial reform is that the Ukrainian judicial system will become even slower than before. All of these factors make judicial decisions in Ukraine difficult to predict and effective redress uncertain. In addition, court claims are often used in furtherance of political aims. The Bank may be subject to such claims and may not be able to receive a fair hearing.

Enforcement of court orders and judgments can in practice be very difficult in Ukraine. The State Execution Service, a body independent of the Ukrainian courts, is responsible for the enforcement of court orders and judgments in Ukraine. Often, enforcement procedures are very time-consuming and may fail for a variety of reasons, including the defendant lacking sufficient bank account funds, the complexity of auction procedures for the sale of the defendant's property or the defendant undergoing bankruptcy proceedings. In addition, the State Execution Service has limited authority to enforce court orders and judgments quickly and effectively. Ukrainian enforcement agencies are bound by the method of execution envisaged by the relevant court order or judgment and may not independently change such method even if it proves to be inefficient or unrealisable. Furthermore, notwithstanding successful execution of a court order or a judgment, a higher court could reverse the court order or judgment and require that the relevant funds or property be restored to the defendant. Moreover, in practice the procedures employed by the State Execution Service do not always comply with applicable legal requirements, resulting in delays to or failures in enforcement of court orders and judgments.

Any uncertainties relating to the judicial system could have a negative effect on the economy and thus on the business of the Bank.

Uncertain Implications of the Tax System

Ukraine currently has a number of laws related to various taxes imposed by both central and regional governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), customs duties, personal income tax, payroll (social) taxes and other taxes. These tax laws have not been in force for significant periods of time as compared to more developed market economies, and, as a result, there is uncertainty as to their application. For example, with effect from 1 January 2004, personal income tax has been reformed by the introduction of a new flat tax of 13 per cent. (to be increased to 15 per cent. from 1 January 2007). In addition, with effect from 1 January 2004, the rate of corporate profits tax was reduced from 30 per cent. to 25 per cent. Differing opinions regarding legal interpretation often exist both among and within governmental ministries and organisations, including the tax administration, creating uncertainties and areas of conflict.

Tax declarations/returns, together with other legal compliance areas (such as customs and currency control matters), are subject to review and investigation by a number of authorities, which are authorised by law to impose severe fines, penalties and interest charges. These circumstances create tax risks in Ukraine substantially more significant than typically found in countries with more developed tax systems. Generally, tax declarations/returns in Ukraine remain open and subject to inspection for an indefinite period of time. However, in practice the risk of retroactive tax assessments and penalty charges decreases significantly after three years. As at the date hereof, the tax authorities have reviewed substantially all of the Bank's tax declarations and returns through 31 December 2004. However, the fact that a period has been reviewed does not exempt that period, or any tax declaration/return applicable to that period, from further review. While the Bank believes that it is currently in compliance with the tax laws affecting its operations, it is possible that relevant authorities could take differing positions with regard to interpretative issues, which may result in a material adverse effect on the Bank's results of operations and financial condition.

Disclosure and Reporting Requirements and Fiduciary Duties

Disclosure and reporting requirements have only recently been enacted in Ukraine. Anti-fraud legislation has only recently been adapted to the requirements of a market economy and remains largely untested. Most Ukrainian companies do not have corporate governance procedures that are in line with U.S. standards, including the standards set forth in the U.S. Sarbanes-Oxley Act of 2002. The concept of fiduciary duties of management or members of the board to their companies or shareholders remains undeveloped in Ukraine. Violations of disclosure and reporting requirements or breaches of fiduciary duties by the Bank's directors or to the Bank's shareholders could significantly affect the receipt of material information or result in inappropriate management decisions, materially adversely affecting the value of an investment in the Notes.

Risks Relating to the Bank

Increasing Competition

The Ukrainian market for financial services is becoming highly competitive. The Bank principally competes with a number of other national and regional banks, some of which have a broader geographic reach and greater capital resources than the Bank. As at 1 April 2005, there were a total of 185 commercial banks registered in Ukraine, out of which 161 operating banks have been granted licences by the NBU to perform banking transactions. The Bank's most significant competitors include Privatbank, Bank Aval and UkrSotsbank.

The Bank expects the Ukrainian banking market to become increasingly competitive. In particular, the Bank expects increased competition in both deposit-taking and lending activities, which could narrow spreads between deposit and loan rates, which in turn could have an adverse impact on the Bank's profitability. In addition, the Bank expects increased competition from foreign banks, particularly for large corporate customers, and/or possible mergers between foreign and local banks. If the Bank is unable to continue to compete successfully in the Ukrainian banking sector or to execute its strategy for expansion in the retail and investment banking sectors, this could have a material adverse effect on the Bank's business and results of operations. See "Business—Market Position and Competition".

Management of Growth

The Bank's total assets have grown rapidly in recent years from UAH 1,899 million as at 31 December 2002 to UAH 3,692 million as at 31 December 2003 and UAH 5,376 million as at 31 December 2004. The rapid growth in the Bank's total assets will require continued monitoring by the Bank's Management Board, Credit Committee, Asset and Liability Management Committee and Risk Management Department for risk management and compliance with NBU requirements. In addition, the Bank's customer loan portfolio (less provisions) grew from UAH 1,187 million as at 31 December 2002 to UAH 2,615 million as at 31 December 2003 and UAH 3,532 million as at 31 December 2004. This significant increase in credit exposure will require continued emphasis by the Bank on credit quality and the adequacy of its provisioning levels and continued development of financial and management control. Moreover, the Bank intends to continue to expand its branch network by opening approximately 400 additional branches and banking units in 2005. Growth rates such as those recently experienced by the Bank and the planned expansion of its network also require the Bank to attract and retain qualified personnel. See "—Dependence on Key Management and Qualified Personnel". Failure to do so may adversely affect the Bank's ability to maintain adequate levels of financial and management control as its business and operations and its branch network expand.

Concentration of Lending

As at 31 December 2004, the Bank's top 20 borrowers comprised 28 per cent. of its total loan portfolio, compared to 36 per cent. as at 31 December 2003 and 50 per cent. as at 31 December 2002. The Bank's loan portfolio also has relatively high industry concentration. As at 31 December 2004, the commerce and finance, agriculture and food industry and oil and gas sectors accounted for 25 per cent., 15 per cent. and 9 per cent., respectively, of the Bank's loan portfolio. The Bank has taken steps to reduce the concentration of its lending in the last few years, including increasing the proportion of retail loans. In order to minimise the risks related to loan portfolio concentration, the Bank continues to take measures to diversify its loan portfolio, but there is no guarantee that the Bank will be able to further diversify its loan portfolio, and failure to do so may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Lack of Information and Risk Assessments

Ukraine's system for gathering and publishing statistical information relating to the Ukrainian economy generally or specific economic sectors within it or corporate or financial information relating to companies and other economic enterprises is not as comprehensive as those of many countries with established market economies. In addition, an accurate assessment of default risk on loans and other instruments is difficult for the Bank due to the unpredictability of economic conditions in Ukraine and abroad. The statistical, corporate and financial information, including audited financial statements, available to the Bank relating to its prospective corporate borrowers or other clients makes the assessment of credit risk, including the valuation of collateral, more difficult. For example, financial statements of most of the Bank's corporate clients are not prepared in accordance with U.S. GAAP or IFRS and are not audited in accordance with U.S. Generally Accepted Auditing Standards or International Standards on Auditing, and accordingly, they may not present a complete and comparable picture of each such client's financial condition. Furthermore, few medium and small enterprises have credit histories and there is no central credit bureau in Ukraine as at the date of this Offering Circular. While Management considers that it has adequate risk determination procedures in place, including an in-house Security Department which performs background checks in order to assess the credit risk of retail and corporate loan applicants, in spite of such procedures the Bank may be unable to evaluate correctly the current economic condition of each prospective borrower and to determine the long-term economic outlook for each such borrower. Although the Bank ordinarily estimates the net realisable value of collateral in determining applicable provisioning and collateralisation requirements, the absence of additional statistical, corporate and financial information and accepted market risk management techniques such as value-at-risk (VAR) may decrease the accuracy of the Bank's assessments of credit risk, thereby increasing the risk of borrower default and decreasing the likelihood that the Bank would be able to enforce any security in respect of the corresponding loan or that the relevant collateral will have a value commensurate to the loan secured on it. If the Bank fails to assess correctly the credit risk of potential borrowers, this may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects. See "Risk Management—Credit Risk".

Regulation of the Banking Industry

The NBU's Board Resolution No. 368, dated 28 August 2001, as amended, which authorised the Directive on Ukrainian Banking Activity Regulation (the "Banking Regulation Directive"), set forth capital adequacy ratios and the rules upon which the calculations of the capital adequacy ratio are based in addition to a number of other mandatory ratios, including ratios on exposure to related parties, single borrowers and groups of borrowers, liquidity, investment in corporate securities and open currency position, among others. The Banking Regulation Directive also provides general rules regarding the submission by banks of statistical information to the NBU and calculation of the ratios based on consolidated financial statements. Notwithstanding the Banking Regulation Directive, regulatory standards applicable to banks in Ukraine and the oversight and enforcement thereof by Ukrainian regulators may differ from those applicable to banking operations in more highly developed regulatory regimes. There can be no assurance that the NBU will not implement regulations or policies, including policies or regulations or legal interpretations of existing banking or other regulations, relating to or affecting taxation, interest rates, inflation, exchange controls, or otherwise take action that could have a material adverse effect on the Bank's business, financial condition or results of operations or that could adversely affect the market price and liquidity of the Notes. If the Bank fails to comply with applicable Ukrainian legislation and regulations of the NBU and this results in the loss of significant assets and insolvency of the Bank, the NBU may revoke the Bank's banking licence, which would result in the Bank ceasing to carry out its activities.

Dependence on Key Management and Qualified Personnel

The Bank is dependent on members of its Management Board for the implementation of its strategy. In addition, the personal connections and business relationships of members of its Management Board are important to the conduct of its business. While the Bank has entered into employment contracts with members of its Management Board, no assurance can be given that the current members of the Bank's Management Board will continue to make their services available to the Bank on a long-term basis.

In addition, the Bank's success will depend, in part, on its ability to continue to attract, retain and motivate qualified and experienced banking and management personnel. Competition in the Ukrainian banking industry for personnel with relevant expertise is intense, due to the disproportionately low number of available qualified and/or experienced individuals compared to the demand. Moreover, the Bank's need for qualified staff will increase as it expands its branch network. In order to recruit qualified and experienced employees and to minimise the possibility of their departure for other banks, the Bank attempts to provide attractive compensation packages in a manner consistent with evolving standards of the Ukrainian labour market. The Bank also provides training to its employees through a variety of in-house and external training programmes. While the Bank believes that it has effective staff recruitment, training and incentive programmes in place, the Bank is not insured against damage that may be incurred in the event of the loss or dismissal of its key personnel. The Bank's failure to recruit, train and/or retain necessary personnel could have a material adverse effect on its business, financial condition, results of operations and prospects. See "Employees".

Impact of the Ukrainian Corporate Securities Market on the Bank's Investment Banking Activities

The Bank maintains a securities portfolio and engages in securities trading on its own account. Due in part to the limited liquidity of the Ukrainian corporate securities market and the relative lack of effective securities market regulation in comparison to more developed markets such as the United Kingdom, the prices of Ukrainian corporate securities may be significantly affected by a relatively small amount of trading activity or favourable or unfavourable press coverage. Moreover, regulation of market making and insider trading is not fully developed. As a result, the prices of Ukrainian corporate securities may be affected by practices not permitted in more developed securities markets. This may have a negative impact on the Bank's investment banking activities.

Controlling Shareholders

The Bank's ultimate controlling shareholders are Mr Oleksandr Yaroslavskyy and Mr Ernest Galiyev. In aggregate, they control, directly or indirectly, over 75 per cent. of the Bank's share capital and also have representatives on the Bank's Supervisory Council. By virtue of such controlling shareholding, Mr Yaroslavskyy and Mr Galiyev have the ability jointly to influence the Bank's business significantly through their ability to control actions which require shareholder approval and through their representatives on the Supervisory Council. For example, Ukrainian law requires the attendance of shareholders holding more than 60 per cent. of a company's share capital for a quorum to be present at a general meeting of shareholders. Therefore, any shareholder or combination of shareholders representing 40 per cent. or more of the Bank's share capital has the ability to block certain corporate actions by refusing to attend the general meeting of shareholders. If circumstances were to arise where the interests of Mr Yaroslavskyy and Mr Galiyev conflict with the interests of the Noteholders, Noteholders could be disadvantaged by any such conflict, as those controlling shareholders could take actions contrary to the Noteholders' interests. For example, Mr Yaroslavskyy and Mr Galiyev have the ability to exercise control over the Bank's pursuit of acquisitions, divestitures, financings or other transactions which could enhance the value of their equity investment without necessarily benefiting the interests of the Noteholders. See "Shareholding".

Transactions with Related Parties

As at 31 December 2004, assets due from related parties accounted for 7 per cent. of the Bank's total assets compared to 9 per cent. as at 31 December 2003. As at 31 December 2004, liabilities due to related parties accounted for 13 per cent. of the Bank's total liabilities compared to 22 per cent. as at 31 December 2003. The Bank has taken steps to reduce the proportion of loans to and deposits from related parties in the last few years. Moreover, the Bank believes that, as transactions with related parties are priced predominantly at market rates and as they are subject to the same loan approval procedures and limits as are applied by the Bank to transactions with unrelated parties, it is not currently exposed to additional risk as a result of entering into such transactions. However, any increase in the level of related party transactions may have an adverse effect on the Bank's business, financial condition, results of operations and prospects.

Risks Relating to the Offering, the Notes and the Trading Market

Noteholders' rights to receive payment on the Notes will be limited to payments received from the Bank under the Loan Agreement

The Issuer will only be obliged to make payments under the Notes to Noteholders to the extent of the amount of principal, interest, Additional Amounts (as defined in the Loan Agreement), if any, and Tax Indemnity Amounts (as defined in the Loan Agreement), if any, actually received by or for the account of the Issuer under the Loan Agreement, less any amount in respect of Reserved Rights. The Issuer will have no other financial obligation under the Notes. Consequently, if the Bank fails to fully meet its obligations under the Loan Agreement, Noteholders will on the relevant due date receive less than the scheduled amount of principal, interest and/or additional amounts (if any) due and payable under the Notes.

The Bank may be unable to repay the Loan at maturity

At maturity, the Bank may not have the funds to fulfil its obligations under the Loan and it may not be able to arrange for additional financing. If the maturity date of the Loan occurs at a time when other arrangements prohibit the Bank from repaying the Loan, the Bank would try to obtain waivers of such prohibitions from the lenders under those other arrangements, or it could attempt to refinance the borrowings that contain the restrictions. If the Bank could not obtain the waivers or refinance these borrowings, it may be unable to repay the Loan.

The Bank may not have the ability to raise the funds necessary to finance the Corporate Restructuring or Change of Control offer required by the Terms and Conditions of the Notes and the Loan Agreement

Upon the occurrence of certain corporate restructuring and change of control events relating to the Bank, the Issuer will be required to offer to repurchase all of the outstanding Notes. However, it is possible that the Bank will not have sufficient funds at the time of a Corporate Restructuring or Change of Control (as these terms are defined in the Loan Agreement) to make the required repayment of the Loan to enable the Issuer to repurchase the Notes. In general terms, a Corporate Restructuring will occur if there is an announcement or occurrence of any amalgamation, merger, division, spin-off, transformation or other reorganisation or restructuring under applicable Ukrainian legislation, or any other reorganisation or restructuring under the laws of any other relevant jurisdiction, in respect of the Group (as defined in the Loan Agreement), and such announcement or occurrence has resulted in a Rating Decline (as defined in the Loan Agreement). A Change of Control will occur if there is an announcement or occurrence of Mr Oleksandr Yaroslavskyy and Mr Ernest Galiyev, being the current indirect owners of in excess of 75 per cent. in aggregate of the issued and allotted ordinary share capital of the Bank, ceasing to own (directly or indirectly) in excess of 50 per cent. of the issued and allotted ordinary share capital of the Bank. See "The Loan Agreement" and "–Ukrainian currency control regulations could impact the Bank's ability to make payments to the Issuer or Trustee under the Loan Agreement" below.

Noteholders have no direct recourse to the Bank

Except as otherwise disclosed in the "Terms and Conditions of the Notes" and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the Loan Agreement or have direct recourse to the Bank, except through action by the Trustee under the Security Interests (as defined in "Terms and Conditions of the Notes"). Neither the Issuer nor the Trustee pursuant to the assignment of the Transferred Rights (as defined in "Terms and Conditions of the Notes") shall be required to enter into proceedings to enforce payment under the Loan Agreement, unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

The claims of Noteholders may be limited in the event that the Bank is declared bankrupt

Ukrainian bankruptcy law differs from bankruptcy laws of England and the United States, and is subject to varying interpretations. There is not enough precedent to be able to predict how claims of the Issuer or Noteholders against the Bank would be resolved in the event of the Bank's bankruptcy. In the event of the Bank's bankruptcy, its obligations to the Issuer or Noteholders would be subordinated to the following obligations:

- obligations secured by pledges of the Bank's assets;
- obligations to the Fund for the Guaranteeing of Deposits of Individuals;
- severance pay;
- expenditures associated with the conduct of the bankruptcy proceedings and expenses of the liquidator;
- obligations arising as a result of inflicting harm on the life or health of individuals;
- obligations to individual depositors in an amount exceeding that established by the system of guaranteeing deposits of individuals; and
- employment related obligations.

In the event of the Bank's bankruptcy, Ukrainian bankruptcy law may materially adversely affect its ability to make payments to the Issuer or the Trustee.

In addition, claims against the Bank may be incapable of enforcement upon the introduction by the NBU of temporary administration for the financial rehabilitation of the Bank. If the NBU determines that a significant threat exists of the Bank becoming insolvent, the NBU may impose temporary administration of the Bank to improve its financial situation. During the term of operation of the temporary administration, but not longer than for a six-month period during such term, the NBU may, in its discretion, order a moratorium on the satisfaction of claims of creditors of the Bank which have become payable before the appointment of the temporary administration. During the term of such moratorium, the Bank may be unable to make payments to the Issuer and the Trustee, and the Issuer's and/or the Trustee's claims against the Bank would not be enforceable. The Bank may not be held liable for the non-performance of its obligations to the Issuer and/or the Trustee resulting from the imposition of the moratorium. Upon the termination of the moratorium (other than as a result of the Bank entering bankruptcy proceedings), the Issuer and/or the Trustee would be entitled to make, and to enforce, claims against the Bank in the amounts existing as at the date when the moratorium was imposed.

Further, Article 81 of the Law of Ukraine "On Banks and Banking Activity" dated 7 December 2000, as amended, permits a temporary administrator of a bank appointed pursuant to any such temporary administration to request a Ukrainian court to declare invalid, among other agreements to which the bank may be party, an agreement between the bank and a third party, if there has been "any operation" (meaning a payment or other transaction) under such agreement: (i) within a six month period before the appointment of such temporary administrator, and a court has ruled that the purpose of the operation was to grant a preference to such third party compared to the bank's other creditors; (ii) within one year before the appointment of such temporary administrator between the bank and a related party, and a court has ruled that the operation contravened the requirements of Ukrainian legislation or "threatened the interests of depositors and creditors" of the bank; (iii) within three years before the appointment of such temporary administrator, with the purpose of alienating any of the bank's assets free of charge or at a price significantly lower than the value of the assets or services; or (iv) within three years before the appointment of such temporary administrator, with the purpose of concealing assets from the bank's creditors or otherwise violating the rights of such creditors. In addition, a court may annul an agreement which has not been executed in full or in part, at the request of a liquidator, if it determines that: (i) the bank would incur losses as a result of performing its obligations under the agreement; or (ii) the agreement was entered into for a period of more than one year and would only yield "long term" benefits to the bank. If the Loan Agreement were to be declared invalid on such basis, the Bank would be required to repay to the Issuer all funds received from the Issuer pursuant to the Loan Agreement, and the Issuer would be required to repay to the Bank all funds received from the Bank pursuant to the Loan Agreement. There is also a lack of certainty as to whether, in such event, the court might apply any other consequences of the invalidation of the Loan Agreement (this would depend on the facts of the relevant case). Ukrainian counsel have advised that they believe there is no basis for challenging the validity of the Loan Agreement or any transaction contemplated thereunder as contravening the requirements of Ukrainian legislation. However, in view of the risks associated with the Ukrainian legal system as disclosed under "—Risks Relating to Ukraine—Developing Legal System", no assurance can be given that the courts in Ukraine would interpret this in the same manner.

If the NBU requires the Bank to obtain a licence in order to make certain payments under the Loan, the Bank will need to apply for such a licence, and without a licence, it may be restricted in its ability to make certain payments to the Issuer or Trustee under the Loan Agreement

NBU regulations are subject to substantial change and varying interpretations which complicate the process of determining whether a licence is needed to make certain payments as well as the process of obtaining such licence.

There is some uncertainty as to whether or not a licence would be required following an event of default under the Loan Agreement, depending on who would be the recipient of payments under the Loan Agreement at that time (see "—Ukrainian currency control regulations could impact the Bank's ability to make payments to the Issuer or Trustee under the Loan Agreement"). If the NBU determines in the future that a licence is required for payments by the Bank under the Loan, the Bank will need to apply for a licence. The Bank cannot assure investors that it will receive such a licence in such case. If the Bank does not receive such a licence, no assurance can be given that it will be able to make payments on the Loan in such case.

Ukrainian currency control regulations could impact the Bank's ability to make payments to the Issuer or Trustee under the Loan Agreement

The NBU is empowered to define the policy applicable to and regulate the currency operations in Ukraine, as well as establish any restrictions on currency operations, cross-border payments and repatriation of profits.

Ukrainian currency control regulations and practice may be subject to continual change, with the NBU exercising considerable autonomy in interpretation and practice. While at present the Loan is only subject to registration with the NBU and no licence is required to be obtained from the NBU in order to make payments of principal and interest under the Loan, there can be no guarantee that such law and practice will remain unchanged during the term of the Loan.

Payments under the Loan to any entity other than the Issuer would require registration with the NBU of the resulting change in the loan transaction or an individual licence from the NBU. The Bank believes the NBU would be inclined to view enforcement of security by the Trustee as a mere assignment of the Issuer's claims by the Issuer to the Trustee, and would be in the position to register the respective amendment to the loan transaction. In the absence of such registration, the NBU may require an individual licence in order for the Bank to make payments to the Trustee, and in the absence of an established procedure for the issuance of such a license, there can be no assurance that the Bank would receive a licence if one were to be required. If the necessary registration or licence, as the case may be, were to be refused, there can be no assurance that the Bank would be able to make payments on the Loan.

The board of the NBU has passed a resolution prohibiting Ukrainian borrowers from making, in connection with prepayments on loans granted by foreign lenders, any payments (other than principal) which, in aggregate, exceed an amount determined by applying the applicable maximum interest rate established by the NBU (the "MIR") to the principal amount prepaid. This resolution came into force on 15 August 2004. As at the date of this Offering Circular, the MIR applicable to loans in foreign convertible currencies the maturities of which as set out in the relevant loan agreements are up to one year will be 9.8 per cent. per annum, while the MIR applicable to such loans the maturities of which are up to three years will be 10 per cent per annum, and 11 per cent per annum for loans the maturities of which exceed three years.

In the event of any prepayment of such a loan, the NBU would not permit the aggregate amount of interest, fees, default interest, penalties, additional amounts and other charges payable in connection with the loan to exceed an amount determined by applying the relevant MIR to the principal amount prepaid . While the NBU's regulations on the MIR have not been tested in this regard, there is a risk that the NBU would require the application of MIR based on the period for which the loan has been outstanding as at the date of prepayment rather than the contractual maturity, which might result in the application of a lower MIR to the amounts payable. Further, the NBU has the authority to review and modify such MIR from time to time. A reduction in the MIR could further limit the ability of Noteholders to collect interest, default interest or other charges payable in connection with a prepayment of the Notes.

German insolvency law may adversely affect the validity and enforceability of the security interest granted to the Trustee

In certain circumstances, the security interest granted to the Trustee for the benefit of the Noteholders may be avoided by a German insolvency administrator according to the rules of avoidance (*Insolvenzanfechtung*). Any transfer of rights or assets or any payments contemplated may be avoided by an insolvency administrator of the Issuer in accordance with Sections 129 to 147 of the German Insolvency Code (*Insolvenzordnung*). In the event of such avoidance, the security interest granted to the Trustee would become unenforceable.

Specifically, under Section 103 of the German Insolvency Code (*Insolvenzordnung*), if German insolvency proceedings were to be initiated against the Issuer, the insolvency administrator appointed upon the opening of such proceedings would be entitled to elect, at its discretion and on behalf of the estate of the Issuer, whether (1) to reject the performance of any contract entered into by the Issuer the provisions of which have not been fully performed by both parties or (2) to perform such contract. A contract is considered to be one whose provisions have not been fully performed by both parties (an "Executory Contract") if neither party to a bilateral contract had fully performed all of its respective obligations under or in relation to such contract at the time of opening of insolvency proceedings against either of the parties.

There have been recent views expressed in German legal literature arguing that loan contracts could be subject to Section 103 of the German Insolvency Code, even if the loan proceeds have already been fully disbursed. There is no ruling of the German Federal Civil Court available on this matter. Therefore, there is a risk that a German court might take the view that the Loan granted by the Issuer to the Bank should be deemed to be an Executory Contract.

If, following the opening of any insolvency proceedings against the Issuer, the insolvency administrator of the Issuer were to reject an Executory Contract, then the rights and receivables arising from such Executory Contract would be deemed to be extinguished as of the time of opening of insolvency proceedings against the assets of the Issuer by operation of law, and the Bank would have a claim for damages pursuant to Section 103 subsection 2 of the German Insolvency Code (*Insolvenzordnung*) against the insolvency estate, which substitutes all primary and secondary contractual rights under the Loan and which constitutes a new, independent damage claim.

If, on the other hand, the insolvency administrator were to decide to assume an Executory Contract, the contract would have to be performed with the rights and obligations as agreed between the parties. However, according to a recent ruling of the German Federal Civil Court, such rights and obligations are novated by and as a result of the decision of the insolvency administrator to assume the Executory Contract. Such extinguishing of obligations or novation may affect the security interest granted to the Trustee for the benefit of the Noteholders.

In the event that the Issuer is declared insolvent, the proceeds available for distribution to Noteholders could be reduced by German taxes and costs

Clause 4 of the Trust Deed provides for, among other things, an English law charge in favour of the Trustee for the benefit of Noteholders over certain receivables of the Issuer under the Loan.

Section 166(2) of the German Insolvency Code provides that receivables assigned for security purposes may, after the commencement of insolvency proceedings, not be enforced by the assignee but by the insolvency administrator, who will be entitled to deduct from the enforcement proceeds a lump sum of 9 per cent. consisting of 4 per cent. as cost of determination and 5 per cent. as costs for realization. However, the 5 per cent. component may be increased or decreased by any substantial amount by which the actual costs of realization exceed or fall below 5 per cent. of the enforcement proceeds. Value added tax will be deducted to the extent payable by the insolvent estate in connection with the realization. Should the Issuer become unable to make payments with respect to the Notes, the proceeds that are available for distribution to Noteholders under the security given pursuant to Clause 4 of the Trust Deed might therefore be reduced by 9 per cent. as increased or decreased by an amount reflecting the actual costs of realization and value added tax, since a court could hold that an English law charge should be subject to Section 166(2).

The same may apply if the secured property may be enforced by the Trustee, but the Trustee does not enforce the security interests within the certain time limit set by the insolvency court. Where the insolvency administrator waives his right of realization in favour of the Trustee, the Trustee is nevertheless obliged to transfer to the estate out of the enforcement proceeds an amount equal to the costs of determination (which may amount to up to 4 per cent.), as well as the amount of any value added tax, if applicable.

Interest payments on the Loan from the Bank to the Issuer and interest payments on the Notes from the Issuer to the Noteholders may be subject to Ukrainian and German withholding tax, which would reduce the amounts received under the Notes if the Bank does not "gross up" the Bank's payments to the Issuer

In general, payments of interest on borrowed funds by a Ukrainian entity to a non-resident person are subject to Ukrainian withholding tax at a rate of 15 per cent., absent reduction or elimination pursuant to the terms of an applicable tax treaty. Based on professional advice that the Bank has received, the Bank believes that, under the terms of the double taxation treaty between Ukraine and the Federal Republic of Germany (the "Taxation Treaty"), payments of interest on the Loan are currently subject to a 2 per cent. withholding tax on the gross amount of such interest payments, provided that certain conditions set forth in the Taxation Treaty and under applicable Ukrainian legislation are duly satisfied. Under the Loan Agreement, the Bank will be required to gross up payments in respect of such withholding tax at a rate of up to 2 per cent. However, there can be no assurance that such reduced rate of withholding tax under the Taxation Treaty is or will continue to be available in the future.

Specifically, in order for the reduced rate of withholding under the Taxation Treaty to be applicable, the Issuer must be the beneficial owner of the interest payments being received in Germany. While the Bank believes the Issuer will be treated as the beneficial owner of the interest payments in question, the notion of beneficial ownership is not well defined, either in Ukrainian or in international tax law. As a consequence, different interpretations are possible and the position could be taken that the Issuer should not be viewed as the beneficial owner of the interest payments being received in Germany. However, the Bank believes that it is unlikely that the Ukrainian authorities will adopt this view.

To the extent that payments under the Loan Agreement are subject to any withholding tax (other than in respect of applicable withholding tax at a rate of up to 2 per cent.), the Issuer will reduce payments under the Notes in the amount of the withholding tax. If this occurs, the Bank is obliged in certain circumstances to pay such Additional Amounts (as defined in the Loan Agreement) as may be necessary so that the net payments received by the Issuer will not be less than the amount it would have received in the absence of such withholding tax.

In addition, in certain cases, interest payments on the Notes by the Issuer to the Noteholders who are German tax residents may be subject to German withholding tax, which would reduce the amounts received by Noteholders under the Notes. In these cases, the Issuer will not pay any Additional Amounts unless it has received such funds from the Bank. In addition, interest payments on the Notes by the Issuer to Noteholders who are not German tax residents may be subject to German withholding tax if the Notes are issued in definitive form and interest is paid directly to such Noteholders. Based on professional advice the Bank has received, the Bank believes that payments in respect of the Notes will only be subject to deduction or withholding for or on account of German or Ukrainian taxes as described in "Taxation—German Tax Considerations" and "Taxation—Ukrainian Tax Considerations".

While there is doubt as to whether the "gross-up" clauses in the Loan Agreement are enforceable under Ukrainian law, a failure by the Bank to pay Additional Amounts, where applicable, would constitute an event of default under the Loan Agreement. If, as a result of certain changes in the Taxation Treaty or certain other laws, the Bank would be obliged to pay Additional Amounts (other than Additional Amounts payable in respect of applicable Ukrainian withholding tax at a rate of up to 2 per cent.), under certain circumstances the Bank may prepay the Loan at its principal amount, together with accrued but unpaid interest and Additional Amounts, if any, and Tax Indemnity Amounts, if any.

If the Trustee enforces the security under the Trust Deed in response to a Relevant Event, payments under the Loan Agreement may no longer have the benefit of the Taxation Treaty, in which case payments of principal and interest would be subject to withholding tax and the Bank will not be required to gross up payments

In the event that the Trustee enforces the security under the Trust Deed in response to the occurrence of a Relevant Event (as defined in "Terms and Conditions of the Notes"), the payments under the Loan Agreement may cease to have the benefit of the Taxation Treaty and may be subject to additional withholding tax. Such circumstances include the failure by the Issuer to make payment on the Notes where it has received equivalent payments from the Bank under the Loan Agreement, the Issuer becoming bankrupt or insolvent or being dissolved and the occurrence of certain orders being issued to the Issuer by, or notices being made to the Issuer by, the German Federal Banking Supervisory Authority. The Bank will not be required to gross up payments under the Loan Agreement in such circumstances and, consequently, Noteholders may receive payments net of any such withholding tax and will have no right to require that their Notes be redeemed early.

The Bank will be required to gross up payments if the Issuer ceases to be incorporated in a qualifying jurisdiction by reason of a change of law, or if the Taxation Treaty is amended or repudiated

Payments of interest under the Loan Agreement will be subject to Ukrainian withholding tax at the rate of 15 per cent. if the Issuer, or any successor or assign of the Issuer, ceases to be resident in a jurisdiction that has a double taxation treaty with Ukraine that is similar to the Taxation Treaty, or if the Issuer, or any successor or assign of the Issuer, takes any action that would render the Taxation Treaty inapplicable. Where this is the case, the Bank will only be required to gross up payments in the event that the Issuer, or any successor or assign of the Issuer, ceases to be resident in a qualifying jurisdiction by reason of a change of law or if the Taxation Treaty is amended or repudiated after the date of the Loan Agreement. Consequently, should the Issuer, or any successor or assign of the Issuer, cease to be resident in a qualifying jurisdiction in any other circumstances, the Bank has no obligation to gross up and no right to prepay the Loan. As a result, Noteholders will receive payments under the Notes net of such withholding and will have no right to require that the Notes be redeemed early.

Foreign judgments may not be enforceable against the Bank

Courts in Ukraine will not recognise and/or enforce any judgment obtained in a court established in a country other than Ukraine unless a treaty providing for the reciprocal enforcement of judgments is in effect between such country and Ukraine, and then only in accordance with the terms of such treaty. There is no such treaty in effect between Ukraine and Germany, or Ukraine and the United Kingdom.

Since Ukraine is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention"), an arbitration award would be enforceable in Ukraine, subject to the terms of the New York Convention.

There is no public market for the Notes

There is no existing market for the Notes. Application has been made to list the Notes on the Luxembourg Stock Exchange. However, there can be no assurance that a liquid market will develop for the Notes, that holders of the Notes will be able to sell their Notes, or that such holders will be able to sell their Notes for a price that reflects their value.

The market price of the Notes may be volatile

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Bank's own and the Bank's competitors' operating results, adverse business developments, changes to the regulatory environment in which the Bank operates, changes in financial estimates by securities analysts, and the actual or expected sale of a large number of Notes, as well as other factors, including the trading market for Notes issued by or on behalf of Ukraine as a sovereign borrower. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Bank's results of operations, prospects or financial condition.

Financial turmoil in emerging markets could cause the price of the Notes to suffer

The market price of the Notes is influenced by economic and market conditions in Ukraine and, to a varying degree, economic and market conditions in other CIS, Eastern European and emerging markets generally. Financial turmoil in Ukraine and other emerging markets in 1997 and 1998 adversely affected market prices in the world's securities markets for companies that operate in those developing economies. Even if the Ukrainian economy remains relatively stable, financial turmoil in these countries could materially adversely affect the market price of the Notes.

Any negative change in Ukraine's or the Bank's own credit rating could adversely affect the market price of the Notes

Ukraine sovereign bonds are rated "BB- (stable outlook)" by Standard & Poor's Rating Service, a division of The McGraw Hill Companies, Inc., "B1 (stable outlook)" by Moody's Investors Service, Inc. and "BB- (stable outlook)" by Fitch Ratings Ltd. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organization. The Bank has received credit ratings from Fitch Ratings Ltd. and from Moody's as set out in "Summary—Credit Ratings". Any negative change in the Bank's credit rating or the credit rating of Ukraine could materially adversely affect the market price of the Notes.

USE OF PROCEEDS

The proceeds from the offering of the Notes, being U.S.$●, will be used by the Issuer for the purpose of financing the Loan to the Bank. The Bank will receive gross proceeds of the Loan in the amount of U.S.$● and will separately pay commissions, fees and expenses in connection with the offering of approximately U.S.$●. As a result, the net proceeds of the Loan available to the Bank, after payment of such commissions, fees and expenses incurred in connection with the offering, will be approximately U.S.$●. The Bank intends to use the net proceeds from the Loan to prepay existing obligations, fund loans to corporate and/or individual customers and for general corporate purposes.

EXCHANGE RATES

The following table sets forth, for the periods indicated, the average and period-end official rates set by the NBU, in each case for the purchase of Ukrainian hryvnia, all expressed in Ukrainian hyrvnia per U.S. dollar. The Bank has translated some financial data from Ukrainian hyrvnia into U.S. dollars at the rate of UAH 5.33 to U.S.$1.00, the official rate set by the NBU on 31 December 2004 and 31 December 2003. These translations should not be construed as representations that Ukrainian hryvnia amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated as at any at the dates mentioned in this Offering Circular or at all.

	High	Low	Average	Period End
	(Ukrainian hryvnia per U.S. dollar)			
2000	5.60	5.22	5.44	5.43
2001	5.43	5.27	5.37	5.30
2002	5.33	5.30	5.33	5.33
2003	5.33	5.33	5.33	5.33
2004	5.33	5.31	5.32	5.31
2005 (up to 30 May, inclusive)	5.30	5.05	5.23	5.05

On 21 April 2005 the official exchange rate of the Ukrainian hryvnia to foreign currencies sharply appreciated. See "Summary—Recent Developments—Appreciation of the Hryvnia". The NBU's hryvnia/dollar exchange rate as reported on 3 June 2005 was UAH 5.055 to the dollar .

CAPITALISATION

The following table sets forth (i) the Bank's unaudited consolidated liabilities and shareholders' equity at 31 December 2004 and (ii) such capitalisation as adjusted to reflect the Bank's borrowing under the Loan Agreement (as if such borrowing had occurred at 31 December 2004). This information should be read in conjunction with the Financial Statements included elsewhere in this Offering Circular.

	31 December 2004 (Actual)		31 December 2004 (As adjusted)	
	(U.S.$'000)[1]	(UAH'000)	(U.S.$'000)[1]	(UAH'000)
Liabilities				
Due to other banks[2]	33,305	176,697	33,305	176,697
Customer accounts[3]	620,166	3,290,231	620,166	3,290,231
Due to the National Bank of Ukraine[4]	73,520	390,052	73,520	390,052
Debt securities in issue	107,577	570,739	107,577	570,739
Subordinated debt	13,841	73,433	13,841	73,433
Other liabilities	12,217	64,817	12,217	64,817
Deferred tax liability	8,074	42,838	8,074	42,838
Loan Agreement	—	—	●	●
Total liabilities	868,701	4,608,807	868,701	4,608,807
Shareholders' equity				
Share capital[5]	290,965	1,543,684	290,965	1,543,684
Share premium	388	2,060	388	2,060
Additional capital	1,315	6,974	1,315	6,974
Revaluation reserve	746	3,958	746	3,958
Accumulated deficit	(150,517)	(798,555)	(150,517)	(798,555)
Total shareholders' equity	142,896	758,121	142,896	758,121
Total liabilities and shareholders' equity[6]	1,013,366	5,376,310	1,013,366	5,376,310

1 Convenience Translation. See "Presentation of Financial Information—Currency" above.

2 In February 2005, the Bank obtained a syndicated trade finance facility amounting to U.S.$37 million at an interest rate of LIBOR +3.95% per annum, maturing in February 2006. In May 2005, the Bank obtained a U.S.$20 million bilateral term credit facility at an interest rate of LIBOR +4.05 per cent. per annum, maturing in April 2007.

3 As at 31 March 2005, the Bank estimates that customer accounts amounted to approximately UAH 3.8 billion.

4 In January 2005, the Bank repaid a UAH 233 million short-term stabilisation loan from the NBU.

5 As at 31 December 2004, the nominal value of the Bank's authorised, issued and paid-in share capital, not taking into account IAS 29 adjustments for hyperinflation that were made up to 31 December 2000, was UAH 600 million. As at the date of this Offering Circular, the Bank's share capital comprises 12 billion ordinary shares with a par value of UAH 0.05 each. On 27 May 2005, the Bank's General Meeting of Shareholders approved a decision to increase the Bank's share nominal capital by UAH 150 million to UAH 750 million by a further issuance of shares. The Bank expects that the existing shareholders will exercise their preferential rights to acquire such shares upon issue pro-rata to their existing shareholdings and that the increase in share capital will be paid up by the Bank's existing shareholders and registered with the NBU in 2005.

6 There has been no other material change in the Bank's share capital and total liabilities and shareholders' equity (as so adjusted) since 31 December 2004, except as set forth above.

SELECTED FINANCIAL AND OPERATING INFORMATION

The following tables present selected financial information which has been extracted without material adjustment from the Bank's Financial Statements. The financial information of the Bank set forth herein, has, unless otherwise indicated, been derived from its audited consolidated balance sheets and statements of income, cash flows and changes in shareholders' equity as at and for the years ended 31 December 2004 and 2003 (the "Financial Statements"), prepared in accordance with International Financial Reporting Standards ("IFRS"). The Financial Statements have been audited by the Bank's independent auditors, LLC audit firm "PricewaterhouseCoopers (Audit)" ("PricewaterhouseCoopers"), registered audit firm, located at 4-5th Floor, 38 Turgenevska Str., 01054, Kyiv-54, Ukraine, in accordance with International Standards on Auditing ("ISA"). The Financial Statements, including the audit opinions of PricewaterhouseCoopers, are set forth elsewhere in this Offering Circular. The Ukrainian hryvnia has been selected as the measurement and presentation currency for the Financial Statements. Prior to 2001, Ukraine was considered to be hyperinflationary, as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). Therefore, the Financial Statements have been restated in accordance with IAS 29 by indexing the historical balances by changes in the general price index up to 31 December 2000.

	Year ended 31 December				
	2004[1] (Unaudited) (U.S.$'000)	**2004 (Audited) (UAH'000)**	**2003[1] (Unaudited) (U.S.$'000)**	**2003 (Audited) (UAH'000)**	**2002 (Audited) (UAH'000)**
INCOME STATEMENT DATA					
Net interest income	56,966	303,058	36,188	192,880	88,562
Provision for loan impairment	(15,702)	(83,533)	(13, 806)	(73, 586)	(32,837)
Net interest income after provision for loan impairment	**41,264**	**219,525**	**22, 382**	**119, 294**	**55,725**
Fee and commissions income	18,717	99,574	15,576	83,021	36,711
Fee and commissions expense	(1,535)	(8,169)	(1,273)	(6,787)	(2,353)
Gains less losses arising from trading securities	3,892	20,706	133	710	7,171
Gains less losses arising from investments available-for-sale	783	4,165	2,024	10,789	19,021
Gains less losses arising from trading in foreign currencies	11,536	61,374	7,160	38,163	16,320
Foreign exchange translation gains less losses/(losses net of gains)	506	2,692	(255)	(1,359)	(255)
Losses net of gains on origination of financial instruments at rates above and below market	(82)	(435)	(113)	(604)	—
Loss on change in terms of subordinated debt	(1,614)	(8,589)	—	—	—
Provision for losses on credit related commitments	(576)	(3,062)	(698)	(3,723)	(438)
Other operating income	2,596	13,809	586	3,122	1,443
Operating income	**75,487**	**401,590**	**45, 521**	**242, 626**	**133,345**
Staff costs	(23,183)	(123,333)	(15,229)	(81,169)	(64,321)
Other operating expenses	(30,506)	(162,293)	(16,828)	(89,691)	(62,412)
Profit before taxation	**21,798**	**115,964**	**13,465**	**71,766**	**6,612**
Income tax expense	(6,647)	(35,361)	(5,724)	(30,508)	**(3,543)**
Profit after taxation	**15,151**	**80,603**	**7,741**	**41,258**	**3,069**
Minority interest	(122)	(650)	—	—	—
Net profit	**15,029**	**79,953**	**7,741**	**41,258**	**3,069**

1 Convenience translation. See "Presentation of Financial Information—Currency" above.

	As at 31 December				
	2004[1] (Unaudited) (U.S.$'000)	2004 (Audited) (UAH'000)	2003[1] (Unaudited) (U.S.$'000)	2003 (Audited) (UAH'000)	2002 (Audited) (UAH'000)
BALANCE SHEET DATA					
Cash and cash equivalents and mandatory reserve	116,525	618,213	67,814	361,552	187,020
Trading securities	52,012	275,943	34,205	182,365	108,967
Due from other banks	17,547	93,095	27,885	148,670	189,115
Loans and advances to customers	665,826	3,532,473	490,420	2,614,673	1,187,124
Investments available-for-sale	36,311	192,644	23,224	123,820	88,940
Investments held-to-maturity	9,030	47,908	14,198	75,696	—
Guarantee deposits with the National Bank of Ukraine	21,802	115,668	—	—	—
Other assets	14,982	79,484	7,664	40,860	22,793
Premises, leasehold improvements and equipment	79,331	420,882	27,160	144,806	112,168
Deferred tax asset	—	—	—	—	3,072
Total assets	**1,013,366**	**5,376,310**	**692,571**	**3,692,442**	**1,899,199**
Due to the National Bank of Ukraine	73,520	390,052	16,080	85,729	9,900
Due to other banks	33,305	176,697	75,054	400,151	237,481
Debt securities in issue	107,577	570,739	10,764	57,390	23,934
Customer accounts	620,166	3,290,231	507,916	2,707,956	1,338,729
Other liabilities	12,217	64,817	4,913	26,193	20,448
Subordinated debt	13,841	73,433	21,483	114,537	87,818
Deferred tax liability	8,074	42,838	3,162	16,858	—
Total liabilities	**868,701**	**4,608,807**	**639,372**	**3,408,814**	**1,718,310**
Minority interest	1,768	9,382	566	3,020	—
Shareholders' equity					
Share capital	290,965	1,543,684	214,972	1,146,124	1,083,684
Share premium	388	2,060	386	2,060	2,060
Additional capital	1,315	6,974	1,308	6,974	—
Revaluation reserve for equipment	746	3,958	742	3,958	4,019
Accumulated deficit	(150,517)	(798,555)	(164,777)	(878,508)	(908,874)
Total shareholders' equity	**142,896**	**758,121**	**52,632**	**280,608**	**180,889**
Total liabilities, minority interest and shareholders' equity	**1,013,366**	**5,376,310**	**692,571**	**3,692,442**	**1,899,199**

1 Convenience translation. See "Presentation of Financial Information—Currency" above.

BUSINESS

History

The Bank was established on 4 May 1990 as Commercial Innovation Bank "Kharkovincombank" and registered by the State Bank of the USSR on 18 June 1990. It was reorganised into a closed joint stock company and re-registered by the NBU on 28 October 1991 under registration number 57. In 1992, it was renamed Joint Stock Innovation Bank "UkrSibbank". In 1993, it was reorganised into an open joint stock company.

In the first years of the Bank's existence, it was a local Kharkiv-based bank which served a limited number of related party corporate customers. In 1992, the Bank received its NBU licence to operate with foreign currency and opened its first correspondent account in foreign currency. In 1996, the Bank opened branches in Cherkasy, Severodonetsk and Zhytomyr. In 1997, it opened a branch in Kyiv and began distributing American Express credit cards.

In 1998, the Bank underwent a change of ownership and management when its current shareholders acquired a majority interest (see "Shareholders") and it began the process of development into a commercial and investment bank offering a full range of banking products and services with a national network of branches. Also in 1998, it began providing custodial services, and in 1999 it opened branches in Poltava, Sevastopol, Odessa and Krivoy Rog.

From 2000, the Bank began to extend and diversify its range of products and services and customer base. In particular, it began offering a full range of banking services to corporate and retail customers and entered the investment banking area, primarily as a manager and underwriter of domestic bond offerings. Also in 2000, it opened additional branches in Nikolaev, Dnepropetrovsk and Donetsk. In 2002, the Bank opened branches in Sumy, Zaporozhie, Kirovograd, Vinnitsya, Kherson and Rovno. From 2000 to 2003, the Bank's corporate banking business expanded and it became one of the leading investment banks in Ukraine.

In 2003, the Bank moved its head office from Kharkiv to Kyiv. Beginning in 2003, the Bank started its current phase of strategic development, which is focused on the further expansion of its branch network and of its retail and investment banking businesses. In 2004, the Bank expanded its branch network by opening 305 additional sub-branches, known as banking units (see "—Branch Network" below for a description of the Bank's branches and banking units). The Bank also established an asset management subsidiary and two unincorporated investment funds in that year.

In 2005, the Bank acquired a 40 per cent. interest in a Russian bank, LLC Commercial Bank "National Financial Traditions" (see "—Subsidiaries and Special Purpose Entities" below).

The Bank is now one of the ten leading Ukrainian banks in terms of assets, loan portfolio, deposits, capitalisation and number of branches (see "—Market Position and Competition" below).

Overview

Head Office and Branches

The Bank's registered address is 60 Moskovsky Prospekt, 61005 Kharkiv, Ukraine and its head office is currently located at 2/12 Andriyivska Street, 04070 Kyiv, Ukraine. As at 31 December 2004, the Bank had 22 full-scale branches and 502 banking units in 123 towns and cities in Ukraine. See "—Branch Network" below for a description of the Bank's branches and banking units.

Licences

The Bank, in common with all other Ukrainian banks, is regulated and supervised by the NBU. It holds banking licence No. 75 issued by the NBU on 24 December 2001 and written permit No. 75-2 issued by the NBU on 19 November 2002. The Bank also holds additional licences required under applicable Ukrainian laws and regulations authorising it to perform all banking activities, including, but not limited to, lending, receiving and holding deposits from legal entities and individuals, cash operations, the provision of settlement and money transfer services, maintaining pension deposit accounts, acting as a depository of securities, acting as a depository of investment funds and investment companies and execution of operations related to the issuance and circulation of securities and foreign currency transactions.

Corporate Objectives

The Bank's main objective, as described in article 2.3 of its charter, is to earn profits for its shareholders utilising its own and invested funds and to develop its banking business. The Bank was established in order to provide a full range of domestic and international banking services, including commercial and investment banking services and custodial activities and any other activities permitted by applicable Ukrainian legislation.

Business Segments

The Bank divides its services into three main business segments: corporate banking, retail banking and investment banking. Corporate banking includes deposit taking and lending, settlement transactions and cash operations, foreign currency and trade finance products. Retail banking includes private banking services, private customer current accounts, savings, deposits, credit and debit cards, consumer loans and mortgage lending. Investment banking services are mainly provided to corporate customers and include debt and equity capital markets, securities, foreign exchange and banknote trading and corporate finance. The Bank, through its subsidiaries, also offers certain non-banking services, such as insurance, leasing and asset management services.

Corporate banking is the Bank's largest business segment with the segment's assets and liabilities constituting 59 per cent. and 43 per cent., respectively, of the Bank's total assets and liabilities as at 31 December 2004. The Bank's external revenue from corporate banking for the year ended 31 December 2004 was UAH 627.7 million, which represented 73 per cent. of its total external revenue for that period. Retail banking is the Bank's second largest business segment, with the segment's assets and liabilities constituting 24 per cent. and 32 per cent., respectively, of the Bank's total assets and liabilities as at 31 December 2004. The Bank's external revenue from retail banking for the year ended 31 December 2004 was UAH 142.0 million, which represented 16 per cent. of the Bank's total external revenue for that period. Investment banking is the Bank's third largest business segment. Since 2001, the Bank has participated in 25 domestic bond offerings (by major Ukrainian companies and two municipalities) as either lead manager or as a co-manager. Investment banking accounted for 9 per cent. of the Bank's total external revenue for the year ended 31 December 2004. See note 25 to the Financial Statements set out elsewhere in this Offering Circular for further information on the Bank's main business segments and the relationship between external revenue and revenue.

Total Assets, Shareholders' Equity, Income, Profits and Accumulated Deficit

The Bank's total assets increased from UAH 1.90 billion as at 31 December 2002 to UAH 3.69 billion as at 31 December 2003 and UAH 5.38 billion as at 31 December 2004. Its total shareholders' equity increased from UAH 180.9 million as at 31 December 2002 to UAH 280.6 million as at 31 December 2003 and UAH 758.1 million as at 31 December 2004. For the year ended 31 December 2004, the Bank generated operating income of UAH 401.6 million and net profits of UAH 80.0 million compared with operating income of UAH 242.6 million and UAH 133.3 million and net profits of UAH 41.3 million and UAH 3.1 million for the years ended 31 December 2003 and 2002, respectively. The Bank's profits increased in 2004 compared with 2003 primarily as a result of the expansion in the Bank's loan and deposit portfolios and a corresponding increase in interest income and fees and commissions charged to customers. The Bank's accumulated deficit as at 31 December 2004 was UAH 798.6 million, and arose mainly as a result of restating the share capital contributed to the Bank during the period prior to 2001 when Ukraine was considered to be a hyperinflationary economy.

Memberships

The Bank is a principal member of VISA and Mastercard, and an agent of Thomas Cook and Western Union. The Bank has been a member of SWIFT since 20 January 1995. In addition, the Bank is one of the founding members of the Ukrainian Interbank Currency Exchange (UICE) and Interregional Stock Union (ISU) and a member of REUTERS international network, the Ukrainian First Stock Trading System, the Professional Association of Registrars and Depository Institutions (PARDI), the Association of Ukrainian Commercial Banks (AUCB), the Kharkiv Banking Union (KhBU) and the Kyiv Banking Union (KBU). The Bank is authorised to execute operations related to the circulation of Ukrainian Pension Fund bills and bills issued by the Kharkiv and Cherkasy State Regional Administrations in Ukraine.

Strategy

The Bank's goal, in accordance with its strategic plan for 2004-2006, as approved by the Bank's shareholders in 2004, is to continue to strengthen its market position and increase its market share in all sectors of the Ukrainian banking industry, including the corporate, retail and investment banking sectors. Specifically, the Bank aims to become one of the market leaders in the retail and corporate banking sectors in Ukraine, expand its retail network, consolidate and expand its leading position in the investment banking business, develop a range of financial services to complement its banking services and improve its operating systems, organisational structure and efficiency.

In order to achieve these objectives, the Bank is pursuing the following strategies:

Expanding its Branch Network and Alternative Sales Outlets

The Bank intends to widen existing sales outlets and create new ones for its products and services. The Bank delivers its retail and corporate banking services through a number of distribution channels, primarily through its network of branches and banking units and also through alternative sales channels such as Internet banking and telephone banking. In 2002, the Bank began to expand its branch network in regions of Ukraine that account for a relatively high share of Ukraine's gross national product (GNP) or have high concentrations of businesses or population. The Bank currently has 22 branches and 502 banking units throughout Ukraine (see "—Branch Network" below for a discussion of the Bank's branches and banking units). The Bank intends to continue to expand its branch network by opening approximately 400 additional branches and banking units in 2005, primarily in major cities and in regions of Ukraine that are experiencing strong economic growth. Decisions on whether to buy or lease new branch premises will be made depending on the cost and expected growth value of real estate in a given region.

The Bank also plans to expand outside Ukraine. Specifically, it intends to develop its recently acquired subsidiary bank in the Russian Federation, LLC Commercial Bank "National Financial Traditions", in order to offer corporate and retail banking services to Russian and Ukrainian customers in Russia.

In addition, the Bank plans to increase the volume of retail sales through Internet banking and telephone banking by promotional activities and through improvements in its internal operating systems (see "—Improving Internal Operating Systems and Utilising New Technologies" below).

Developing its Retail and Investment Banking Businesses

Management believes that the retail and investment banking sectors will provide the greatest opportunities for growth over the next few years. Accordingly, in addition to expanding its branch network and alternative sales channels, the Bank plans to expand its retail banking business and in particular, its mortgage lending, automobile loans and micro-financing services. In retail lending, the Bank has established six mortgage centres, including one in Kyiv and five others in major regional cities, which offer home buyers insurance and ancillary services (such as notary services) in addition to mortgages and plans to open two additional mortgage centres in 2005. In investment banking, the Bank intends to build on its reputation as one of the leading underwriters in the domestic bond market and develop its business in the areas of structured financing, advising on mergers and acquisitions, initial public offerings and the privatisation of state assets and advising Ukrainian companies on external borrowing. In order to achieve this objective, the

Bank has retained a team of qualified staff who are in the process of developing new investment banking products. It is also marketing its investment banking products at targeted customers.

Improving its Internal Operating Systems and Utilising New Technologies

The Bank plans to continue to invest in technology and make improvements to its organisational structure to increase market penetration and enhance the convenience of banking for its customers. In order to improve efficiency and reduce personnel costs as its branch network expands, the Bank is taking steps to standardise technology in use at its branches and units, standardise procedures for opening branches, unify trading technology and centralise management, control and operations capacities in the head office. In particular, the Bank is in the process of implementing SAP AG's "SAP for Banking" system in order to improve the quality and efficiency of decision-making and customer servicing, reduce operating risks and reduce costs.

Diversifying its Loan Portfolio and Funding Base

The Bank intends to continue to diversify its loan portfolio and deposit base. In particular, the Bank intends to increase the share of retail loans in its total loan portfolio, to increase the amount of small loans (under U.S.$100,000) in its loan portfolio and to increase the share of retail deposits as a proportion of total deposits, with the aim of reducing overall credit risk and increasing the stability of its deposit base, in each case by the end of 2007.

Improving the Quality and Range of its Corporate Banking Services

While the Bank intends to focus on expanding its retail and SME customer base, as its expects that there will be greater potential for growth in these segments, it also plans to develop its share of the corporate banking market in Ukraine by continuing to improve the quality, and by expanding the range, of services that it provides to corporations. The Bank seeks to improve the quality of services in various ways, such as reducing cut-off periods for clearing with correspondent banks and increasing the ratio of staff assigned to individual corporate customers. The Bank markets itself to potential corporate customers as a bank that is able to provide a full range of banking services. The Bank also studies the industry and the regions in which its customers operate and tailors its services to the requirements of the particular industry and/or region. The Bank believes that by building a reputation for providing high-quality banking products and services to strategic clients it will be able to expand its services to their affiliates and counter-parties.

Developing Non-Banking Services

The Bank plans to expand its existing and develop new non-banking products and services including insurance, finance leasing and asset management and to establish further mortgage centres (in addition to the six existing mortgage centres located in Kyiv and five other major regional cities) offering home buyers insurance and ancillary services (such as notary services) in addition to mortgages, as described in "—Developing its Retail and Investment Banking Business" above. It is expected that such non-banking services will generate additional revenues and provide the Bank with cross-selling opportunities.

Developing its Employees' Professional Skills and Qualifications Through Training

Part of the Bank's strategy is to develop the professional skills and potential of its staff through a mixture of training programmes and by stimulating their individual skills so as to encourage the continuous growth of their professionalism and a creative approach to problem solving, which will enable it to continue to enhance the quality of its services. For example, the Bank has established its own study centres in several regions of Ukraine which train staff in skills such as negotiation, planning and customer relations through a mixture of classroom and practical sessions, home study, video courses and online training. The Bank plans to hire additional staff as its branch network expands and all new staff will be required to undergo training. See "Employees".

Market Position and Competition

As at 1 May 2005, there were a total of 185 commercial banks registered in Ukraine, 162 of which have been granted licences by the NBU to perform banking transactions, compared to 181 registered banks and 157 banks with NBU licenses as at 1 May 2004. Commercial banks operating in Ukraine are divided by the NBU into four groups according to size. The first group comprises ten major banks with total assets of more than UAH 2.5 billion, including Privatbank, Bank Aval, UkrSotsbank, UkrSibbank, State Export-Import Bank of Ukraine ("Ukreximbank"), OschadBank, Raiffeisenbank Ukraina, Nadra and Brokbusinessbank. The second group comprises 14 banks with total assets ranging from UAH 1.3 billion to UAH 2.5 billion. The third group comprises 31 banks with total assets ranging from UAH 0.4 billion to UAH 1.3 billion. The fourth group comprises 106 banks with total assets of less than UAH 0.4 billion. As at 1 April 2005, the minimum regulatory capital requirements are €6.0 million, €4.0 million and €1.3 million for national banks, regional banks and cooperative banks, respectively. Two out of the ten largest banks in Ukraine, Ukreximbank and OschadBank, are state owned. As at 1 March 2005, twenty one banks in Ukraine have some foreign capital and seven of those banks are fully foreign owned. See "Appendix A—Ukraine: The Banking Sector" below.

According to information published by the NBU, as at 1 January 2005, the total assets of banks in Ukraine were approximately UAH 134 billion (U.S.$25 billion), with the ten largest banks accounting for approximately 53 per cent. of such total assets, and Privatbank, the largest bank in Ukraine in terms of assets and volume of banking operations, accounting for 11 per cent. of such total assets. According to the NBU, as at 1 January 2005, the Bank was the fifth largest bank in Ukraine by assets, sixth by loan portfolio, fifth by shareholders' equity and eighth by net profit, all as calculated under Ukrainian Accounting Regulations. According to the Association of Ukrainian Banks, as at 31 December 2004, the Bank was the fourth largest Ukrainian bank in terms of corporate deposits and the third largest Ukrainian bank in terms of term deposits from corporate customers.

The Bank faces competition from a number of existing participants in the banking sector in Ukraine, particularly Privatbank, Bank Aval and UkrSotsbank. Set forth below is a description of the Bank's principal competitors and what the Bank considers to be their key strengths.

- *Privatbank*. Headquartered in Dnipropetrovsk, with branches in Russia, Kazakhstan, Moldova and Cyprus, Privatbank is among the five best known banks in Ukraine and is the largest bank in terms of assets, customer deposits and loans, based on statistics from the NBU. As at 31 December 2004, it had total assets of UAH 14.7 billion according to the NBU. It is the largest issuer of bank cards in Ukraine and has the second largest network of branches. It also has an extensive network of ATMs. Its principal businesses are corporate and retail banking.

- *Bank Aval*. Bank Aval is also considered a major competitor of the Bank. Headquartered in Kyiv, Bank Aval is the second largest bank in terms of total assets in Ukraine based on statistics from the NBU and has an extensive corporate and retail client base. As at 31 December 2004, it had total assets of UAH 11.8 billion according to the NBU. It is one of the largest issuers of bank cards in Ukraine and has a significant network of branches and ATM machines to service its customers. Management considers Bank Aval to be a major competitor in corporate banking services.

- *UkrSotsbank*. UkrSotsbank is the fourth largest bank in Ukraine in terms of assets, based on statistics from the NBU, and has an extensive network of branches throughout Ukraine. As at 31 December 2004, it had total assets of UAH 7 billion according to the NBU. In addition to providing a range of retail and corporate banking services, it is one of the leading underwriters of domestic bonds. Management considers UkrSotsbank to be a major competitor as it is similar in size, is expanding and is pursuing similar business objectives to the Bank.

- *Other banks*. The extensive branch network of Oschadny (Savings) Bank makes it one of the Bank's main competitors with respect to retail banking, although the Bank does not consider it be a strong competitor. Management considers that Prominvestbank is one of its major competitors in corporate banking services. While foreign-owned banks are not currently active in the retail banking sector, they are increasing their market share in corporate banking and, in particular, are able to offer competitive rates to large corporate customers. Raiffeisen Bank Ukraine is the largest bank with foreign ownership in Ukraine. Other significant foreign banks in Ukraine include ING and Vneshtorgbank. See "Risk Factors—Risks Relating to the Bank—Increasing Competition".

Management considers that the Bank's competitive strengths include the speed with which it makes lending decisions; its individual approach to its corporate customers; its extensive and growing network of branches; the range of its banking and non-banking services, including its innovative plans to develop mortgage centres as one-stop shops for home buyers; and the strength of its investment banking business, particularly in underwriting domestic corporate bonds.

The Ukrainian corporate banking market grew in terms of volume of transactions and number of customers during 2002, 2003 and 2004. According to the NBU, the total value of loans granted to enterprises in Ukraine as at 1 January 2005 was UAH 72.9 billion. The Bank seeks to differentiate itself from other banks, particularly Ukrainian banks, by offering faster and more flexible services to its corporate customers at competitive prices (see "—Banking Services—Corporate Banking" below).

Management considers that the Ukrainian investment banking sector is experiencing high growth rates, but that it is less competitive than the corporate banking sector. The Bank's competitors in this market are other commercial banks and non-banking financial institutions, such as consulting and investment firms which specialise in investment banking services. The Bank considers that its principal strengths in investment banking are its existing customer base, brand, track record in the corporate bonds market and innovative services (see "—Banking Services—Investment Banking—Investment Banking Services" below).

Management considers that retail banking is currently relatively undeveloped in Ukraine compared with more developed markets and offers considerable opportunities for growth. As the Ukrainian economy grows and public confidence in the banking system in Ukraine increases, demand for retail banking services is increasing. To address this growing demand, the Bank is seeking to expand its retail banking business (see "—Strategy—Developing its Retail and Investment Banking Businesses" above).

The Bank's efforts to improve its brand recognition include marketing campaigns in Kyiv, Kharkov, Donetsk, Dnipropetrovsk, Sevastopol and other cities and regions of Ukraine, which use billboard, print, TV, radio and online advertising. The Bank spent UAH 4.7 million on advertising and marketing in 2002, UAH 6 million during 2003 and UAH 12 million during 2004. In 2005, the Bank plans to increase its advertising and marketing activities in order to achieve greater brand recognition.

Banking Services

The Bank provides banking services in the following principal segments: corporate banking, retail banking and investment banking. It also provides certain non-banking services.

Corporate Banking

Corporate banking is the Bank's principal banking segment. In addition to providing standard corporate banking services, the Bank aims to assist corporate customers in their business development by providing advice and consultancy services, especially with respect to key and strategic clients (being those customers for whom the Bank provides a range of banking products such as lending, deposit taking and cash settlement services), and aims to provide banking services to their affiliates and counter-parties. In 2002, the Bank was the first Ukrainian bank to begin offering combined packages of products and services aimed at corporate customers, which enable such customers to reduce their banking costs by increasing efficiency while at the same time generating more sales for the Bank. Banking services currently marketed to potential strategic and other corporate customers include term deposit and current accounts, loans and cash settlement transactions.

The Bank's corporate banking customers receive service packages tailored to their business and industry needs and have access to dedicated managers at the Bank who are familiar with their operations and markets. These managers work with up to five key and strategic clients that, for the most part, operate in the same industry. The Bank provides to key and strategic customers certain complimentary services in addition to its core corporate banking services, which are viewed by the Bank as important in building and maintaining client relationships.

As at the date of this Offering Circular, the Bank has more than 33,000 single corporate banking customers in Ukraine. The Bank's corporate banking customers include large corporations and small- and medium-sized enterprises, including a number of companies with an established reputation in Ukraine and abroad and represent a range of industries, predominantly commerce and finance, agriculture and food, oil and gas, chemicals, motor vehicles trading, property construction, manufacture and machinery building. Other corporate banking customers include regional governments and municipalities. In addition, the Bank enters into commercial banking transactions in the ordinary course of business with significant shareholders, directors, companies with which the Bank has significant shareholders in common and other related parties - see "Related Party Transactions" below.

The Bank is the fourth largest Ukrainian bank in terms of corporate deposits, the third largest Ukrainian bank in terms of term deposits from corporate customers and the sixth largest Ukrainian bank in terms of corporate loans as at 31 December 2004, according to the Association of Ukrainian Banks. The Bank's deposits from and loans to corporations have increased overall since 1 January 2004. Corporate current accounts increased by 38 per cent. from UAH 460.0 million as at 31 December 2003 to UAH 636.5 million as at 31 December 2004, while corporate term and guarantee deposits decreased by 12 per cent. from UAH 1.36 billion as at 31 December 2003 to UAH 1.20 billion as at 31 December 2004. Corporate deposits accounted for 40 per cent. of the Bank's total liabilities as at 31 December 2004. The size of the Bank's gross corporate loan portfolio increased from UAH 1.22 billion as at 31 December 2002 to UAH 2.41 billion as at 31 December 2003 and UAH 2.84 billion as at 31 December 2004. The expansion in the Bank's corporate lending business is due principally to the growth of the Ukrainian economy in recent years and increased demand for banking services by Ukrainian companies.

Corporate Banking Services

The Bank's corporate banking services include deposit taking, corporate lending, cash settlement transactions and other corporate banking services.

Deposit taking. The Bank is the fourth largest Ukrainian bank in terms of corporate deposits and the third largest Ukrainian bank in terms of term deposits from corporate customers as at 31 December 2004, according to the Association of Ukrainian Banks, with total corporate deposits of UAH 1.84 billion as at 31 December 2004. The Bank offers a range of corporate deposit products, including deposit lines (interest-bearing accounts which allow customers to make deposits or withdrawals at any time), advance deposits (which pay interest for the entire term of the deposit in advance) and term deposit accounts (which pay interest each month or at other periods agreed with the customer).

Corporate lending. The Bank is the sixth largest Ukrainian bank in terms of corporate loans as at 31 December 2004, according to the Association of Ukrainian Banks. The Bank's corporate lending activities include hryvnia and foreign currency denominated loans and credit-related products, including overdraft facilities, revolving lines of credit, bank guarantees and letters of credit. The Bank also offers project finance and investment loans. From the beginning of its operations, the Bank traditionally focussed on lending to major manufacturing and trading companies. However, starting from 1998, the Bank began to expand and diversify its corporate lending activities to include small- and medium-sized businesses. Corporate lending to small- and medium-sized businesses increased significantly during 2002, 2003 and 2004, which has allowed the Bank to diversify its loan portfolio. The share of loans to the Bank's twenty largest borrowers decreased from 50 per cent. of its total loan portfolio as at 31 December 2002 to 36 per cent. as at 31 December 2003 and 28 per cent. as at 31 December 2004 (see "Risk Factors—Risks Relating to the Bank—Concentration of Lending" above). The Bank provides short-term and medium-term loans to corporate customers. As at 31 December 2004, 96 per cent. of such loans were fully secured. The Bank's corporate loan portfolio grew by 18 per cent. from 31 December 2003 to 31 December 2004.

Cash settlement transactions. The Bank earns significant fees and commissions from corporate customers by providing high-quality cash management and transfer services utilising advanced information technology, including:

- payroll services to more than 1,000 public and private sector employers, whereby salaries are directly deposited by the employer with the Bank and can be withdrawn by employees using MasterCard or GEO debit cards issued by the Bank;
- remote account management services, which enable corporate customers with extensive branch networks or operations to manage group cash flows more effectively;
- current account servicing; and
- cash management services.

Other corporate banking services. In addition to the core corporate banking services described above, the Bank also offers corporate customers services such as foreign exchange, trade finance and documentary credit operations.

Retail Banking

Retail banking is the Bank's second largest business segment. The Bank offers a full range of retail banking services and is among the five leading banks in Ukraine in terms of retail deposits and loans according to the Association of Ukrainian Banks. The Bank's deposits from and loans to retail customers have increased significantly since 31 December 2003. Retail deposits increased by 64 per cent. from UAH 888 million as at 31 December 2003 to UAH 1,453 million as at 31 December 2004. Retail deposits comprised 32 per cent. of the Bank's total liabilities as at 31 December 2004. The size of the Bank's retail loan portfolio, including micro-financing loans, increased from UAH 83 million at 31 December 2002 to UAH 399 million as at 31 December 2003 and UAH 954 million as at 31 December 2004. The expansion in the Bank's retail lending business is due principally to the growth of the Ukrainian economy in recent years, increased public confidence in the banking system and increased demand for banking services by Ukrainian retail customers.

Retail Banking Services

Retail banking services offered by the Bank include deposit taking, retail lending (including, among others, mortgage lending and automobile loans), cash settlement transactions and bank card products and services.

Deposit taking from private individuals. Retail deposits principally include current accounts, savings accounts which pay interest per month or quarter and fixed term savings accounts which pay interest on maturity. Deposit accounts are available in hryvnia and foreign currency. The Bank had retail deposits as at 31 December 2004 totalling UAH 1,453 million.

Retail lending. The Bank has significantly increased its retail loan portfolio from UAH 399 million as at 31 December 2003 to UAH 954 million as at 31 December 2004, which represents an increase of 139 per cent. over such period. The Bank concentrates lending to individuals in four primary areas:

- *Mortgage loans*. For the year ended 31 December 2004, Management estimates that mortgage loans accounted for 41 per cent. of its total loans to retail customers. The Bank has established six mortgage centres, including one in Kyiv and five others in major regional cities, which offer home buyers insurance and ancillary services (such as notary services) in addition to mortgages and plans to open two additional mortgage centres in 2005;

- *Automobile loans*. For the year ended 31 December 2004, Management estimates that automobile loans represented the largest part of the Bank's retail loans, accounting for approximately 39 per cent. of the Bank's total loans to retail customers;

- *Micro-financing for entrepreneurs*. For the year ended 31 December 2004, Management estimates that micro-financing accounted for 13 per cent. of its total loans to retail customers. The Bank introduced a scheme of micro-financing in 2002, whereby the Bank extends loans to small- and medium-sized businesses (including individual entrepreneurs and companies) on favourable terms and conditions for the purpose of enhancing and developing or diversifying their businesses; and

- *Consumer goods loans*. For the year ended 31 December 2004, Management estimates that consumer goods loans (which exclude automobile loans) accounted for 7 per cent. of its retail loans.

While the Bank provides retail loans to customers throughout Ukraine, the provision of mortgage loans and automobile loans is concentrated in Kyiv and other major regional cities.

Cash settlement transactions. The Bank provides cash management and payroll services to retail customers, including direct payment of salaries to public and private sector employees, social security payments, benefits and State pensions. The Bank also conducts cash transfers via Western Union and other cash transfer systems, cashing cheques, cash withdrawals over the counter or via ATMs and currency exchange.

Bank card products and services. The Bank had issued approximately 615,000 debit cards as at 31 March 2005, which represents an increase of approximately four times compared with 1 December 2003. In line with the Bank's general strategy of targeting customers at various income levels, the Bank offers a range of international debit cards which are designed for different categories of customer: Maestro (for new users, students and pensioners), MasterCard Mass (for middle-income customers), MasterCard Gold (for high-income customers) and MasterCard Business (for corporate customers). In 2003, the Bank began offering certain high net worth individuals and corporate customers MasterCard and American Express credit cards. The Bank is a principal member of MasterCard, has entered into an agency agreement with American Express and is a principal member of VISA. In addition, the Bank offers GEO bank cards (which utilise advanced chip technologies) to employees of large Ukrainian companies which can be used to withdraw cash from any branch of the Bank throughout Ukraine. The Bank also offers overdraft facilities and a variety of additional services to bank card holders, including direct deposit, direct payment of household and utility bills, ATM services, GSM-banking (where customers receive information on their mobile telephones), telephone banking and Internet-banking.

Investment Banking

The Bank provides a range of investment banking services primarily to corporate customers and certain high net worth individuals.

Investment Banking Services

Investment banking services primarily include debt capital markets activities, brokerage services and proprietary trading, foreign exchange spot and money market activities, repo transactions, corporate finance and research.

Debt capital market activities. The Bank provides advisory and consulting services and underwrites domestic bond offerings. The Bank also undertakes the origination of syndicated loans and commercial paper transactions. In the period from 2001 to 2004 (inclusive), the Bank acted as lead manager or as a co-manager in 25 domestic bond offerings of major Ukrainian companies, such as the mobile telephone company CJSC Kvivstar GSM, the State international airport Borispil, a subsidiary of the national gas transport company National JSC Naftogas Ukrainy Ukrtransgas, AVK Food Processing and Sarmat

Breweries and municipal domestic bond offerings by the cities of Kyiv and Zaporizhya. The Bank has also arranged one domestic bond offering so far in 2005.

Brokerage services and proprietary trading. The Bank engages in brokerage activities on behalf of its corporate customers and high net worth private clients, primarily in the Ukrainian First Stock Trading System ("FSTS"), the Ukrainian Inter-bank Currency Exchange and in over-the-counter markets, including trading in domestic corporate bonds and stocks, money market products, foreign currencies and promissory notes. The Bank also maintains a securities portfolio and engages in securities trading on its own account. For the year ended 31 December 2004, the Bank estimates that the largest share of its income from brokerage activities derived from proprietary trading. According to FSTS, the Bank was the leading corporate and municipal bond broker by volume of trades in FSTS in 2004.

Foreign exchange spot and money market activities. The Bank's foreign exchange spot and money market activities consist of inter-bank lending and foreign exchange spot, forward and derivatives transactions on behalf of its customers and for its own account.

REPO transactions. The Bank engages in repo and reverse repo transactions secured by corporate, municipal and local government bonds. The Bank does not currently enter into any other form of derivative transactions. See "—Funding".

Corporate finance. The Bank's corporate finance services include advising on and financing mergers and acquisitions and initial public offerings, consulting services in connection with structured finance and advising on financial strategy and the privatisation of state assets.

Research. The Bank's research services consist of weekly reports covering various segments of domestic capital markets, including the Ukrainian corporate and municipal bond market, the Ukrainian government bond market and the money market. Weekly reports also include a brief description and analysis of new issuers.

Non-Banking Services

Insurance and Leasing

The Bank offers products which combine banking products and non-banking financial services, such as loans combined with insurance on the property used to secure the loan, the preparation of lease agreements and other combined products. In order to enable it to offer its customers one-stop-shop customer service (being banking products combined with non-banking financial services), the Bank has two subsidiaries, CJISC "Ukrainian Insurance Alliance" and LLC "Ukrainian Leasing Company", which provide insurance and leasing services, respectively (see "—Subsidiaries and Special Purpose Entities").

Asset Management

In order to extend the range of its corporate finance services, the Bank established its subsidiary JSC "Asset Management Company "UkrSib Asset Management"' for the purpose of providing asset management services. In 2004, the Bank established OJSC "Closed Non-diversified Corporate Investment Fund "UKRSIB Stabilny Dohod" and two unincorporated investment funds, venture capital investment fund "Venture Capital" and investment fund "Ukrsib Stabilny Investitsii". Asset management services do not currently account for a material part of the Bank's revenues.

Branch Network

As at 31 December 2004, the Bank had 22 full-scale branches and 502 banking units in 123 towns and cities in Ukraine. Branches are regional departments of the Bank that have their own credit committee, internal audit function and lending limits. The Bank's 502 banking units consist of six mortgage centres, 412 general purpose banking units (divided into categories according to size) and 84 dedicated service centres, which provide the following services:

- *Mortgage centres*. The Bank has established six mortgage centres located in Kyiv and five other major regional cities, which offer home buyers insurance and ancillary services (such as notary services) in addition to mortgages.

- *Banking units*. Banking units provide a full range of banking products and services. Banking units are divided by size into categories "A" (with twelve or more staff), "B" (with from seven to twelve staff) and "C" (with up to seven staff). As at 31 December 2004, the Bank had 121 category "A", 177 category "B" and 114 category "C" banking units.

- *Service centres.* Service centres are dedicated banking units which provide banking services to particular corporate clients or groups and are often located at clients' premises.

Funding

The main sources of the Bank's funding are deposits from corporate and retail customers and debt securities in issue. The Bank meets its overall funding requirements by customer deposits and debt securities and relies on the interbank market primarily to manage its liquidity position. During 2004, customer deposits increased by 21 per cent. while the Bank's asset base increased by 46 per cent. During 2003, customer deposits grew by 102 per cent. while the Bank's asset base increased by 94 per cent. Customer deposits accounted for 71 per cent. of the Bank's liabilities as at 31 December 2004, compared to 79 per cent. as at 31 December 2003.

The following table sets out the composition of the Bank's customer deposit portfolio as at 31 December 2004, 2003 and 2002.

	31 December		
	2004	**2003**	**2002**
		(UAH'000)	
Legal entities			
Current accounts	636,481	459,971	422,252
Term and guarantee deposits	1,200,547	1,360,385	450,822
Individuals			
Current accounts	101,999	87,722	55,143
Term deposits	1,351,204	799,878	410,512
Total customer accounts	**3,290,231**	**2,707,956**	**1,338,729**

The following table sets out concentrations within customer deposit accounts by industry sector as at 31 December 2004, 2003 and 2002.

	31 December					
	2004		**2003**		**2002**	
	(UAH'000)	**%**	**(UAH'000)**	**%**	**(UAH'000)**	**%**
Individuals	1,453,203	44	887,600	33	465,655	35
Commerce and trade	839,821	26	1,040,211	38	387,411	29
Manufacturing	382,255	12	271,860	10	119,648	9
Transport and communication	232,247	7	207,431	8	99,076	7
Financial services	69,757	2	81,626	3	107,428	8
Cultural and educational services	38,119	1	72,801	3	65,832	5
Other	274,829	8	146,427	5	93,679	7
Total customer accounts	**3,290,231**	**100**	**2,707,956**	**100**	**1,338,729**	**100**

The Bank has also raised funds through a Eurobond offering and through syndicated and bilateral credit facilities. In April 2004, Dresdner Bank Aktiengesellschaft issued U.S.$100 million 10.50 per cent. loan participation notes due 2007, on a limited recourse basis, for the sole purpose of financing a U.S.$100

| million loan bearing interest at 10.50 per cent. per annum to the Bank. The bonds carry a fixed coupon rate of 10.5 per cent. per annum and are scheduled to mature on 5 April 2007.

In February 2005, the Bank obtained a syndicated trade finance facility, arranged by Standard Bank London Limited and Raiffeisen Zentralbank Österreich Aktiengesellschaft, amounting to U.S.$37 million at an interest rate of LIBOR +3.95 per cent. per annum, maturing in February 2006. In May 2005, the Bank obtained a U.S.$20 million bilateral term credit facility from CSFBi at an interest rate of LIBOR +4.05 per cent. per annum, maturing in April 2007.

The Bank also raises funds in the inter-bank market in order to improve its short-term funding base. As at 31 December 2004, inter-bank funding amounted to 4 per cent. of the Bank's liabilities, compared to 12 per cent. as at 31 December 2003.

In addition to borrowing in the inter-bank market, the Bank raises funding by selling securities under repo transactions. The Bank's main repo counterparties include Bank "Aval", First Ukrainian International Bank, ING Bank Ukraine and Ukrgazbank. VAT bonds, local government and corporate bonds are the primary assets used in repo transactions.

Capital Adequacy

The Bank complies with the NBU's mandatory minimum capital adequacy ratios for Ukrainian banks. Set forth below are the Bank's capital and capital adequacy ratios calculated in accordance with the international framework for capital measurement and capital standards of banking institutions (the "Basle Capital Accord") set by the Basle Committee on Banking Regulation and Supervisory Practices (the "Basle Committee") in 1988, without adjustment to reflect the amendment to the Basle Capital Accord to incorporate market risks adopted in January 1996.

	As at 31 December		
	2004	**2003**	**2002**
	(UAH'000, except ratios)		
Tier 1 capital			
Share capital	1,543,684	1,146,124	1,083,684
Share premium	2,060	2,060	2,060
Accumulated deficit	(798,555)	(878,508)	(908,874)
Total Tier 1 capital	**747,189**	**269,676**	**176,870**
Tier 2 capital			
Revaluation reserve	3,958	3,958	4,019
Additional capital	6,974	3,394	
Subordinated debt	71,623	131,444	88,435
Total Tier 2 capital	**82,555**	**138,796**	**92,454**
| **Total capital**	**829,744**	**408,472**	**269,324**
| **Risk weighted assets**	**4,553,044**	**3,092,101**	**1,589,205**
| **Capital adequacy ratio**	**18.22%**	**13.21%**	**16.95%**

As at 31 December 2004, the nominal value of the Bank's paid-in registered statutory capital (not taking into account IAS 29 adjustments for hyperinflation that were made up to 31 December 2000) was UAH 600 million. The Bank's statutory capital consisted of issued and placed common stock in the amount of 12 billion shares with a nominal value of UAH 0.05 per share.

The Basle Committee has set international standards for capital adequacy for banks. The NBU has established mandatory minimum capital adequacy ratios which are mandatory for Ukrainian banks and has also adopted norms based on the Basle Committee's standards. With effect from 1 March 2004, the NBU's mandatory minimum capital adequacy ratio was increased and is currently 10 per cent. The Bank's capital adequacy ratio calculated in accordance with the NBU regulations (being the ratio of capital to total risk weighted assets) is 15.2 per cent. as at 1 April 2005, which is in compliance with the mandatory minimum capital adequacy ratio currently set by the NBU. On 31 December 2004, the Bank's capital adequacy ratio was 15.5 per cent., as calculated in accordance with the NBU's requirements based on statutory Ukrainian accounting data (or 18.22 per cent., as calculated in accordance with the Basle Capital Accord, as shown in the table above).

The level of the Bank's net loans to customers has increased significantly over the last few years from UAH 1,187 million as at 31 December 2002 to UAH 2,615 million as at 31 December 2003 and UAH 3,532 million as at 31 December 2004. This growth in loans to customers and consequent growth in the Bank's risk weighted assets generally had a significant impact on the Bank's capital adequacy ratios in 2003 and the first quarter of 2004. The Bank's total capital adequacy ratio decreased from 16.95 per cent. as at 31 December 2002 to 13.21 per cent. as at 31 December 2003 and subsequently increased to 18.22 per cent. as at 31 December 2004. The Bank's Tier 1 capital adequacy ratio decreased from 11.1 per cent. as at 31 December 2002 to 8.7 per cent. as at 31 December 2003 and subsequently increased to 16.4 per cent. as at 31 December 2004. The Bank must maintain sufficient capital to cover increased risk weighted assets in order to maintain the capital adequacy ratios set by the Basle Committee and the NBU.

In order to increase its level of capitalisation, the Bank has incurred subordinated debt in the form of subordinated debt agreements. As at 31 December 2004, the value of subordinated debt amounted to UAH 73 million. The amount of subordinated debt included in the Bank's capital for the purpose of calculating its capital adequacy ratio is UAH 71 million or 8.6 per cent. of the Bank's total capital.

Subsidiaries and Special Purpose Entities

The Bank conducts its operations itself and also provides certain services through its subsidiaries, CJISC "Ukrainian Insurance Alliance", LLC "Ukrainian Leasing Company", JSC "Asset Management Company 'UkrSib Asset Management'" and OJSC "Closed Non-diversified Corporate Investment Fund 'UkrSib Stabilny Dohod'" and through two special purpose entities, LLC "UkrSib-Finance" and LLC "Universal Leasing Company". In addition, during 2004, the Bank established two unincorporated investment funds, a venture capital investment fund known as "Venture Capital" and an investment fund known as "Ukrsib Stabilny Investitsii". In February 2005, the Bank acquired a 40 per cent. interest in Bank NFT, a bank established in the Russian Federation. At the date of acquisition, the total assets of Bank NFT amounted to RUR 283.7 million (equivalent to UAH 54.1 million at the exchange rate prevailing as at the date of the acquisition) (see "Summary—Recent Developments—Acquisition of Interest in Russian Bank" above for further details). None of the Bank's subsidiaries or special purpose entities accounts for a material part of the Bank's net assets or its net profit.

Property

The Bank owns or leases premises where its head office, branches and banking units are located. The Bank generally purchases premises in major cities, where it considers that the value of real estate is likely to increase; otherwise it leases premises. As at 31 December 2004, the total net book value of the Bank's premises was UAH 97 million.

Legal Proceedings

From time to time and in the normal course of business, the Bank is party to certain legal proceedings (including proceedings against delinquent borrowers). There are no legal proceedings pending or, to the Bank's knowledge, threatened, which could, individually or in the aggregate, have a material adverse effect on the Bank.

Information Technology

The Bank views information technology as an integral part of its daily operations and is committed to modernising its existing information technology infrastructure and continuing to invest in information technology in order to support the growth of its operations. The core element of the Bank's IT infrastructure is its software system, which is installed at the Bank's head office and networked across all of the Bank's branches and banking units. This system facilitates full-scale operational and analytical support for wire transfers and cash settlements, credit decisions, lending activities, bank deposit maintenance, buying and selling of securities, investment projects such as acquisitions and debt origination, transactions in foreign currencies and risk management activities and remote account management services including customer-to-bank, telephone-banking, Internet-banking and in-account funds flow management. This system enables the Bank to provide customer support services to its retail customers 24 hours a day, seven days a week. It is integrated with other software packages and SWIFT. The Bank expects that this system will process approximately 90% of all operations on a daily basis by 2007.

In addition, the Bank operates other software that facilitates the processing of debit card transactions, transactions made by private depositors, securities depositary operations, employee record keeping and document exchange between the Bank and its clients.

The Bank outsources certain IT functions which enable it to reduce costs connected with IT infrastructure and increase the quality of its services.

The Bank is in the process of implementing SAP AG's "SAP for Banking" solution, which it successfully tested during 2003, to provide an integrated system for the automation of its operations. Management expects that this will enable it to implement advanced banking technologies such as customer relationships management, provide personal Internet-gateways to every customer, servicing customers 24 hours per day, seven days a week. Management expects that the principal modules of this system will be implemented by the end of 2005. The Bank believes that it is the only Ukrainian bank currently installing SAP technology.

The Bank spent approximately UAH 53 million on investment in tangible and intangible IT in 2004, as compared to approximately UAH 11 million in 2003 and approximately UAH 16 million in 2002.

RISK MANAGEMENT

Overview

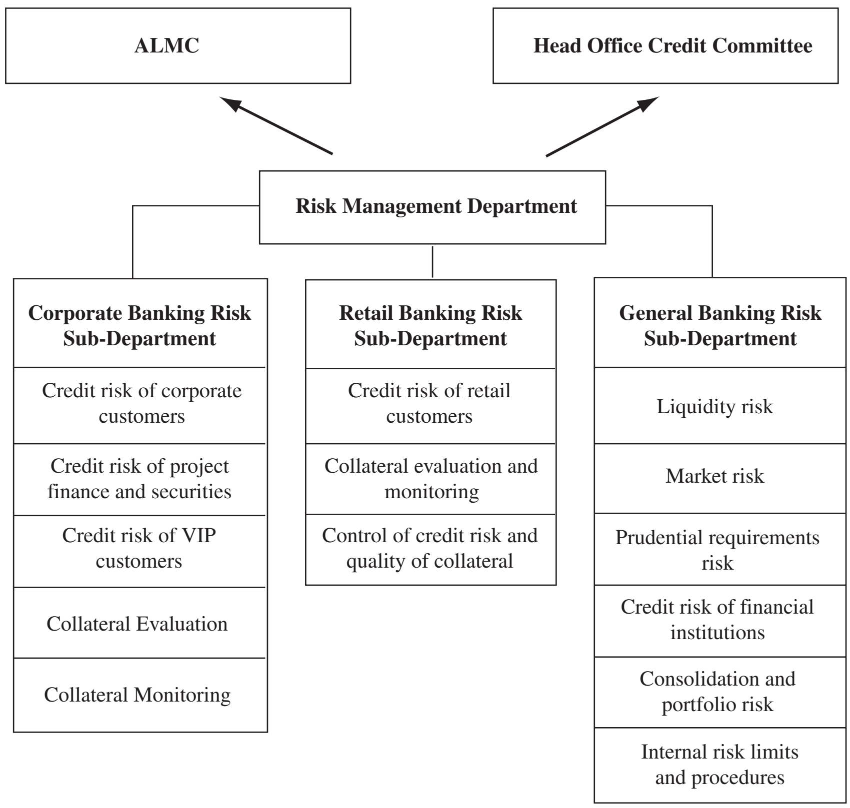
The Bank carries out risk management in respect of financial, operational and legal risks. Financial risks include credit risk, exchange risk, liquidity risk and interest rate risk. Operational and legal risk management involves ensuring that the Bank's internal procedures and policies are complied with so as to minimise exposure to such risks. The Bank's risk management systems are based on recommendations of the Basle Committee, although Ukrainian legislation does not yet impose obligatory compliance with such standards. The Bank's risk management policies and systems are continuously modified and enhanced to reflect changes in markets and products. The primary objective of the Bank's asset and liability management is to limit its exposure to liquidity and market risks while maximising profitability. The Bank's policy is to maintain a structure of assets and liabilities that optimises both long-term and short-term financial income while maintaining constant levels of income within the constraints of general market conditions.

The basic principles of the Bank's risk management policy are to:

- centralise risk management (i.e., risk analysis and calculation is centralised and appropriate limits are set for the Bank's business divisions);
- maintain a balance between the level of risk and profitability; and
- ensure risks are continually monitored.

Risk Management Bodies

Risk management policy, monitoring and control are conducted by a number of specialised divisions and units within the Risk Management Department ("RMD") under the supervision of the Asset and Liability Management Committee ("ALMC") and the Head Office Credit Committee. The organisational structure and reporting lines of the Bank's risk management bodies are set out in the diagram below.



Asset and Liability Management Committee (ALMC)

The ALMC consists of eight of the Bank's senior managers and is chaired by the Chairman of the Bank's Management Board. The ALMC meets at least once every month. The ALMC is responsible for the control and management of the Bank's asset and liability structure. It also sets interest rates and maturities, compares the Bank's performance ratios with its competitors and analyses its market share. In addition, the ALMC is responsible for managing risks and monitoring compliance with the limits it has set, reviewing reports on liquidity, interest and foreign exchange risk, establishing the methodology for carrying out risk calculation and setting limits and standards with the aim of balancing the level of risks and profitability.

Head Office Credit Committee and Branch Credit Committees

The Bank's Credit Committees comprise the Head Office Credit Committee and the Branch Credit Committees. The Head Office Credit Committee is chaired by the Chairman of the Management Board and also comprises the heads of the Corporate Banking, Legal, Security, Customer Service and Corporate Banking Risk Sub-Departments. Each Branch Credit Committee has a similar structure to the Head Office Credit Committee. The authority of Branch Credit Committees to grant loans (in terms of the amount and terms of loans which they are authorised to grant to corporate and retail customers) is set by the Head Office Credit Committee.

The Credit Committees are responsible for approving loans, implementing the bank's lending strategy, coordinating the activities of the Bank's departments and sub-committees and forming a balanced and diversified loan portfolio. Credit Committee approval is required to grant loans, make provisions and recover debt (including signing loan agreements and bringing claims or legal proceedings). The Head Office Credit Committee meets twice per week, while the Branch Credit Committees meet on an *ad-hoc* basis. Branch Credit Committees report directly to the Head Office Credit Committee.

Risk Management Department (RMD)

The RMD assists the ALMC and Credit Committees in discharging their functions. Its functions include evaluating and analysing financial risks, monitoring compliance with limits, and making recommendations with regard to balancing risk and profitability, based on overall levels of risk and risks associated with particular business areas and banking products.

The RMD evaluates financial risks using information on quality of assets and liabilities (including interest rates, amounts and maturities) from the Bank's business divisions, information on exposure limits, procedures and methodologies from the ALMC and details of planned levels of assets and liabilities and investments from the Financial Analysis and Planning Department. It then provides the ALMC with the results of its risk analysis and monitoring and its recommendations on setting or changing limits, and informs the Bank's business divisions, back office and Financial Analysis and Planning Department of the normative risk levels.

The RMD submits to the Credit Committees quality ratings required for particular loan transactions, and recommendations for setting and changing lending decision-making authority and monitors the quality of all ongoing loan transactions.

Based on information concerning loan applications (from the Corporate Banking Department and the Investment Business Department) (see "Management—Management Structure" and "—Credit Risk—Credit Risk Related to Investment Business" below) and information concerning customers' competence, reputation and past payment record (from the Legal Department, Security Department and back office, respectively), the RMD determines customers' creditworthiness and provides its conclusions to the Credit Committees, together with the results of its monitoring of loans, recommendations as to setting or changing limits and recommendations as to changing the Bank's internal procedures. It also determines the appropriate level of provisions.

The principal categories of market risk to which the Bank is exposed through its operations and the way the Bank manages these risks are described below.

Credit Risk

As a result of its lending operations, the Bank is exposed to credit risk, which is the risk that a customer (or counter-party bank, as the case may be) will be unable to pay amounts in full when due.

The Bank manages its credit risk by establishing internal policies aimed at maximizing risk-adjusted income by maintaining credit risk exposure within accepted limits, by setting, monitoring and reviewing credit ratings, by setting and authorising lending limits and by constantly monitoring the creditworthiness of its customers.

The RMD determines levels of overall risk by reference to customers and products. Specialised units within the RMD's Corporate Banking Risk Sub-Department and Retail Banking Risk Sub-Department regularly evaluate customers' creditworthiness and business activities.

The Bank has developed an internal credit rating system whereby each loan transaction is assigned four ratings respectively corresponding to (i) the structure of the transaction, (ii) the borrower's financial position, (iii) the borrower's credit history and (iv) the quality of the collateral. The Corporate Banking Risk Sub-Department or the Retail Banking Risk Sub-Department, as appropriate, assigns a final rating for the transaction, which is subject to approval by the Credit Committee. When assigning credit ratings to a particular loan transaction, the Corporate Banking Risk Sub-Department or the Retail Banking Risk Sub-Department takes into account the importance of the transaction to the Bank and the prevailing market terms for similar transactions offered by other banks. In making its credit decisions with regard to loans to banks, the Bank uses a rating scale based on the approach of international rating and audit firms, allocating prospective borrowers to various credit rating groups, as adapted to the Ukrainian financial and economic situation. The Bank evaluates the borrower's financial statements, credit history, economic position and cash flows in order to determine the expected risk of default for such borrower and also monitors the weighted average credit risk of potential borrowers on a portfolio basis and by industry sector.

All loan applications are subject to a detailed review procedure as set forth in "—Lending Policies and Procedures—Lending Decisions" below.

Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees. See "—Lending Policies and Procedures—Collateral" below.

Credit Risk Related to Retail and Corporate Lending

The Bank structures the levels of credit risk that it undertakes by placing separate limits on the amount of risk accepted in relation to each borrower and each category of borrowers within a particular industry or geographical region. Such risks are monitored and reviewed regularly. Lending limits for individual borrowers and any changes to those limits are set by the Credit Committee on the basis of collective decisions. Credit limits include limits on the amount and repayment schedule for each loan agreement and restrictions on the purpose of the loan and are updated on each loan approval. The Bank monitors operations with its customers on a regular basis and notifies the Credit Committee periodically, or in the event of any change in a customer's circumstances. The Bank either confirms existing limits or contacts the customer if it is necessary to review the terms of the loan.

When structuring loans to corporate customers, the Bank follows certain basic principles. It sets out repayment schedules and adapts them so as to take into account any seasonality in the borrower's business and, where applicable, also obtains guarantees from affiliates of the borrower, enters into collateral agreements to secure related loans, prescribes the borrower's own equity contribution at all levels of the project and requires cash flows from the financed project or counter-parties to be transferred to the Bank. In the case of loans to retail customers, the Bank typically takes collateral in the form a mortgage or pledge over property, depending on the type of loan.

The Bank imposes limits on the amounts which individual branches are authorised to lend without Head Office approval. Limits are set with respect to the amount of individual loans, the total amount of loans that can be granted by a branch and the maximum permitted maturity of loans. The procedure for setting such limits is contained in the Bank's internal regulations. Once per month, the Head Office Credit Committee approves credit limits for all branches. Branches themselves and certain Head Office departments (namely the Corporate Banking Department, Risk Management Department, Legal Department and Security Department) may apply for a review of the limits on a branch's lending authority.

As the Bank's lending policy is to give priority to the quality of the borrower over the quality of the collateral available, lending decisions are always based on risk assessment rather than on the quality of the collateral. When taking security, the Bank gives preference to the most liquid form of collateral with the highest re-sale value. It also takes into account regional factors when determining the value of collateral. See "—Lending Policies and Procedures—Collateral" below.

The Bank also follows a policy of diversifying its loan portfolio in order to reduce risk. For example, the Bank is increasing retail lending because it considers that this involves lower risk than lending to corporate customers and reduces loan portfolio concentration.

Credit Risk Related to Inter-Bank Operations

Credit risk of inter-bank operations mainly arises as a result of exposures being unsecured, albeit such exposures typically have relatively short-term maturities (which generally range from several hours up to two months). Inter-bank exposure comprises a relatively small proportion (approximately 5-10 per cent.) of the Bank's total assets. The Bank sets separate limits for counter-party banks based on its evaluation of the financial condition and on any available non-financial information (such as the bank's shareholders, customers, quality of management, market position, concentration of activity and growth rate). The Head Office Credit Committee is responsible for approving and changing the limits for each category of counter-party banks on a monthly basis. If the RMD determines that the financial performance of a counter-party bank has deteriorated or is likely to deteriorate, the RMD suspends the credit limit and notifies the Bank's management accordingly.

Credit Risk Related to Investment Business

Applications for investments by the Bank in corporate securities are analysed and reviewed in the same manner as loan applications. The Bank monitors the financial performance of issuers and companies and the market for their debt and equity securities. The Bank's Investment Business Department is responsible for the Bank's investment decisions and implementing transactions, including relevant assessments of credit risk. As at 31 December 2004, the value of the Bank's securities portfolio was UAH 516 million, comprising UAH 276 million in trading securities, UAH 193 million in investments available for sale and UAH 48 million in investments held to maturity.

Monitoring Credit Risk

The Bank monitors borrowers' performance of the terms of their loan agreements, primarily repayment of principal and interest. It also monitors borrowers' financial condition on the basis of information provided by the relevant borrower on a monthly and quarterly basis; whether the loan is being used for prescribed purposes; whether a corporate borrower is meeting targets set in its business plan; collateral; and non-financial information, such as any available information on actual or pending legal proceedings involving the borrower and the borrower's reputation.

Constant monitoring of the Bank's loan portfolio enables the Bank to react to changes in the quality of particular loans and determine whether changes to their terms and conditions are necessary. The Credit Committee is notified of the results of such monitoring on a regular basis and in the event of any warning signals. Based on its analysis, the Bank either confirms the terms and conditions of outstanding loans or where necessary negotiates amendments with the borrower.

Off-Balance Sheet and Related Party Credit Risk

The Bank applies the same credit policies and procedures for evaluating and monitoring credit risk for off balance sheet and contingent liabilities. Furthermore, the Bank applies the same approach to transactions with related parties as to arm's length transactions. If the level of risk does not fall within the parameters set by the Bank (as described in "—Lending Policies and Procedures—Lending Decisions" below), it either declines the loan application or requires the transaction to be secured by cash.

Liquidity Risk

Liquidity risk arises from mismatches between the maturity of assets and liabilities, which may result in the Bank being unable to meet its obligations in a timely manner. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. An unmatched position potentially enhances a bank's profitability but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

The Bank's process of managing liquidity risk is continuous. The RMD carries out day-to-day monitoring of the Bank's short-term exposure to liquidity risk. Senior management receives weekly reports and the ALMC performs a monthly review of liquidity risk management.

The Bank assesses liquidity risk based on gap analysis, i.e. an analysis of the difference between assets and liabilities with the same maturity. The amounts of such unmatched positions in assets and liabilities having the same maturity are used to calculate cumulative gap, which is subject to certain limits. These limits are determined by the Bank's ability to source funds on the money markets. Such limits may be reviewed, depending on changes in the Bank's capacity to source funds. The RMD is responsible for making recommendations with respect to changing limits, which are subject to approval by the ALMC. In addition, the Bank has developed procedures which apply in the event these limits are exceeded, as well as contingency plans for unforeseen situations.

The risks associated with the Bank's concentration of loans and deposits require continuous monitoring. Management acknowledges the risks associated with high concentrations of assets and liabilities and seeks to match maturities of high-value corporate loans and deposits, which Management views as a means of managing liquidity and interest rate risk. Due to the Bank's expansion and, in particular, its increasing activity on the money markets, the number of instruments it uses for asset and liability management has increased. These instruments include medium-term loans and deposits on the money market and trading securities. The use of a combination of instruments to manage liquidity risks enables the Bank to use its lending resources and maintain liquidity levels more effectively.

The liquidity position of the Bank as at 31 December 2004 is set out below (in UAH thousands).

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents and mandatory reserve	618,213	—	—	—	—	618,213
Trading securities	275,943	—	—	—	—	275,943
Due from other banks	—	43,501	36,540	13,054	—	93,095
Loans and advances to customers	288,026	538,226	1,108,276	1,597,945	—	3,532,473
Investments available-for-sale	—	—	5,069	13,802	173,773	192,644
Investment securities held-to-maturity	2,754	4,762	21,457	18,935	—	47,908
Guarantee deposits with the National Bank of Ukraine	115,668	—	—	—	—	115,668
Other assets	37,300	32,760	4,889	4,535	—	79,484
Premises, leasehold improvements and equipment	—	—	—	—	420,882	420,882
Total assets	**1,337,904**	**619,249**	**1,176,231**	**1,648,271**	**594,655**	**5,376,310**
Liabilities						
Due to other banks	42,282	59,173	50,779	24,463	—	176,697
Customer accounts	1,216,552	455,762	1,410,380	207,537	—	3,290,231
Due to the National Bank of Ukraine	117,279	4,795	252,895	15,083	—	390,052
Debt securities in issue	43	539	45,694	524,463	—	570,739
Subordinated debt	—	1,810	—	71,623	—	73,433
Other liabilities	49,053	245	1,164	14,355	—	64,817
Deferred tax liability	—	—	—	—	42,838	42,838
Total liabilities	**1,425,209**	**522,324**	**1,760,912**	**857,524**	**42,838**	**4,608,807**
Net liquidity gap	**(87,305)**	**96,925**	**(584,681)**	**790,747**	**551,817**	**767,503**
Cumulative liquidity gap at 31 December 2004	**(87,305)**	**9,620**	**(575,061)**	**215,686**	**767,503**	—
Cumulative liquidity gap at 31 December 2003	**(78,770)**	**(3,201)**	**(331,038)**	**37,851**	**283,628**	—

The Bank has a cumulative maturity mismatch of assets and liabilities maturing within 12 months. This liquidity mismatch arises because the Bank's major source of finance as at 31 December 2004 was customer accounts being on demand and maturing in less than 12 months. Management believes that in spite of a substantial portion of customer accounts maturing in less than 12 months, the diversification of these deposits by number and type of depositor and the past experience of the Bank would indicate that these deposits provide a long-term and stable source of funding for the Bank.

In December 2004, the NBU provided short-term stabilisation loans to a number of Ukrainian banks, including the Bank, to support their liquidity during the political crisis that followed the disputed presidential elections in late 2004 (see "Summary—Recent Developments" above). The Bank repaid its UAH 233 million short-term stabilisation loan from the NBU in full in January 2005 (in advance of the scheduled repayment date).

In addition, the Bank is subject to liquidity requirements set by the NBU. See "Appendix A—Ukraine: The Banking Sector" below. The Bank's risk management system incorporates the NBU's requirements and does not permit limits set by the NBU to be exceeded.

Interest Rate Risk

The Bank is exposed to interest rate risk principally as a result of mismatches in the maturity of its interest-bearing assets and liabilities. The Bank may incur losses in the event of unfavourable movements in interest rates.

The ALMC sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored by the FRD. In the absence of any available hedging instruments, the Bank seeks to match its interest rate positions. The evaluation and analysis of interest rate risk size is performed as at the first day of each month and updated as necessary to reflect market changes, for example, a change in benchmark interest rates, market volatility or similar events. The results of such evaluation and analysis are discussed at regular ALMC meetings. In addition to applying standard calculations, the Bank uses stress-tests. These involve determining the level of interest-rate risk that would apply in the event of unforeseen circumstances or contingencies arising. This approach enables the Bank to evaluate changes in net interest income for future periods and determine the priority areas for interest risk management.

The Bank assesses the level of interest rate risk based on gap analysis, which is the analysis of the imbalance between the amounts of assets and liabilities which mature or reprice over the same period. Limits are set at the level of loss of net interest income which Management considers acceptable in the event of adverse movements in interest rates, taking into account possible movements in interest rates for major types of interest-bearing assets and liabilities, such as corporate and retail loans, inter-bank loans, securities and corporate and retail deposits. Management considers losses of up to 3 per cent. of average monthly net interest income to be acceptable. Limits are subject to review depending on the volatility of interest rate movements. The RMD is responsible for making recommendations to review such limits, which are subject to approval by the ALMC.

Gaps are within the prescribed limits for all periods except for those up to one month. In the category up to one month, the excess is the result of the high proportion of customers' current accounts, but Management believes that this excess does not pose a significant risk since current accounts are not substantially affected by movements in interest rates.

Gap analysis is supplemented by interest rate forecasts over six-month horizons for major types of assets and liabilities. This allows Management to evaluate not only the level of interest rate risk but also the most likely changes in net interest income.

The Bank continually monitors interest rate spread and net interest income and reports on these matters are provided to the Bank's senior management each week. In addition, in order to minimise potential losses from unforeseen movements in interest rates, the Bank provides for interest rate review in light of current market rates when entering into agreements. The Bank also manages interest rate risk by setting minimum interest rates for loans and maximum interest rates for deposits. The Bank sets interest rates for major types of assets and liabilities by maturity and currency.

The table below contains certain information regarding the Bank's interest rate sensitivity as at 31 December 2004 (in UAH thousands, except percentages). Interest rate sensitivity is the relationship between market interest rates and net interest income from the periodic re-pricing of assets and liabilities. A negative gap denotes liability sensitivity and normally means that a decline in interest rates would have a positive effect on interest income. Included in the table are the Bank's interest-bearing assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total
Interest Bearing Assets					
Cash and cash equivalents and mandatory reserve	618,213	—	—	—	618,213
Trading securities[1]	275,943	—	—	—	275,943
Due from other banks	—	43,501	36,540	13,054	93,095
Loans and advances to customers	287,808	560,172	1,106,308	1,578,185	3,532,473
Investments available-for-sale	—	—	5,069	13,802	18,871
Investment securities held-to-maturity	2,754	4,762	21,457	18,935	47,908
Guarantee deposits with the National Bank of Ukraine	115,668	—	—	—	115,668
Total Interest Bearing Assets	**1,300,386**	**608,435**	**1,169,374**	**1,623,976**	**4,702,171**
Interest Bearing Liabilities					
Due to other banks	42,282	59,173	75,242	—	176,697
Customer accounts	1,241,597	446,621	1,394,476	207,537	3,290,231
Due to the National Bank of Ukraine	117,279	4,795	252,895	15,083	390,052
Debt securities in issue	43	539	32,386	537,771	570,739
Subordinated debt	—	1,810	—	71,623	73,433
Other liabilities	121	245	1,164	14,354	15,884
Total Interest Bearing Liabilities	**1,401,322**	**513,183**	**1,756,163**	**846,368**	**4,517,036**
Interest sensitivity gap	**(100,936)**	**95,252**	**(586,789)**	**777,608**	**185,135**
Cumulative interest sensitivity gap	**(100,936)**	**(5,684)**	**(592,473)**	**185,135**	—
Cumulative interest sensitivity gap as a percentage of total assets	**(2.1%)**	**(0.1%)**	**(12.6%)**	**3.9%**	—

1 The Bank's entire portfolio of trading securities is classified within demand and less than one month, as the portfolio is of a trading nature and Management believes this is a fairer portrayal of the Bank's liquidity position.

Exchange Rate Risk

Exchange rate risk is the risk of losses resulting from adverse movements in foreign currency exchange rates. Exchange rate risk results from the Bank having open positions in different currencies. Such positions are calculated as differences between assets and liabilities in the same currencies.

The Bank evaluates, monitors and sets limits for open positions using the U.S. dollar as its base currency, as it considers the hryvnia to be a less stable currency. The Bank uses U.S. dollars as the presentation currency in its management accounts, as Management considers that such presentation better reflects the value of its assets and liabilities.

The Bank complies with all applicable NBU requirements in addition to using its own methods for evaluating exchange rate risk.

The ALMC sets limits on the level of exposure by currency. Such limits are reviewed subject to volatility in foreign exchange rates. The ALMC may amend limits based on recommendations by the FRD. In recent years, the Bank has, on average, amended limits once or twice per year.

The Bank monitors compliance with such limits daily. Reports on changes in open currency positions are provided to Management on a weekly and a monthly basis.

The following table sets out the Bank's open currency limits, which are within the NBU's limits:

Currency	Long	Short
EUR	U.S.$1,000,000	U.S.$1,000,000
UAH	U.S.$10,000,000	U.S.$10,000,000
Other	U.S.$500,000	U.S.$500,000
Total	U.S.$11,500,000	U.S.$11,500,000

The Bank's Treasury Department has the authority to open currency positions on its own account up to the following limits:

Currency	Long	Short
EUR	U.S.$500,000	U.S.$500,000
UAH	U.S.$8,000,000	U.S.$3,000,000
Other	U.S.$300,000	U.S.$300,000

The Bank's Treasury Department is authorised to keep currency positions open on its own account for no more than 14 days in hryvnia and euros and no more than 31 days in other currencies.

The following table sets out the Bank's assets and liabilities by currency as at 31 December 2004 (in UAH thousands):

	UAH	USD	Euro	Other currencies	Non-monetary items	Total
Assets						
Cash and cash equivalents and mandatory reserve	408,125	160,021	36,775	13,292	—	618,213
Trading securities	275,943	—	—	—	—	275,943
Due from other banks	68,235	23,713	1,147	—	—	93,095
Loans and advances to customers	1,257,332	2,122,512	148,586	4,043	—	3,532,473
Investments available-for-sale	18,871	—	—	—	173,773	192,644
Investment securities held-to-maturity	47,908	—	—	—	—	47,908
Guarantee deposits with the National Bank of Ukraine	—	79,581	36,087	—	—	115,668
Other assets	32,644	1,114	3,667	—	42,059	79,484
Premises, leasehold improvements and equipment	—	—	—	—	420,882	420,882
Total assets	**2,109,058**	**2,386,941**	**226,262**	**17,335**	**636,714**	**5,376,310**
Liabilities						
Due to other banks	3,605	137,701	33,740	1,651	—	176,697
Customer accounts	1,628,346	1,441,324	205,662	14,899	—	3,290,231
Due to the National Bank of Ukraine	390,052	—	—	—	—	390,052
Debt securities in issue	32,968	537,771	—	—	—	570,739
Subordinated debt	—	73,433	—	—	—	73,433
Other liabilities	57,901	3,311	813	106	2,686	64,817
Deferred tax liability	42,838	—	—	—	—	42,838
Total liabilities	**2,115,710**	**2,193,540**	**240,215**	**16,656**	**2,686**	**4,608,807**
Net balance sheet position	**(46,652)**	**193,401**	**(13,953)**	**679**	**634,028**	**767,503**
Credit related commitments	**157,231**	**218,083**	**48,611**	**9,806**	—	**433,731**

Operational and Legal Risk

The Bank's Internal Audit Service ensures that the Bank's policies conform to current legislation and regulation and professional norms and ethics. The system of internal controls for which the Internal Audit Service is responsible includes operations, accounting practices, taxation, regulatory compliance, documentary compliance, risk management and IT systems. The Internal Audit Service regularly inspects the integrity, reliability and legality of the operations conducted by the Bank's departments, analyses and reports on risks connected with the introduction of new services or products and reviews the reliability of the Bank's IT systems at least once per year. It also monitors the conformity of the Bank's accounting practices to Ukrainian accounting rules, and checks the conformity of aggregate accounting statistics with primary document data. The Internal Audit Service also monitors the Bank's internal controls and reporting procedures.

The Internal Audit Service monitors the observance of policies and procedures aimed at preventing the Bank from being used to conduct money-laundering activities. During 2003, the Bank updated and strengthened its anti-money laundering controls and "Know Your Customer" policies and procedures in accordance with changes in Ukrainian, U.S. and European regulations. Policies and procedures established centrally by the Management Board apply universally to the operations of all divisions of the Bank.

The head of the Internal Audit Service, who must be approved by the NBU, reports directly to the Supervisory Council. The Internal Audit Service comprises a Sub-Department for Conducting Audits and a Sub-Department for Organising Audits and has a staff of 23 people. In order to avoid any potential conflict of interest, the head of the Internal Audit Service is not authorised to sign any contractual, accounting or other legally binding document on behalf of the Bank or another entity of the Bank. The Internal Audit Service has regional departments based in certain branches of the Bank. Its employees in such branches report directly to the Internal Audit Service and not to the branch where they are based.

The purpose of the Internal Audit Service is to reduce the levels of operational and other risks, audit the Bank's internal control systems, and detect any infringements or errors on the part of the Bank's departments and divisions.

As part of its auditing procedures, the Internal Audit Service is responsible for the following:

- carrying out planned and random inspections of the Bank's branches and subdivisions and auditing its subsidiaries, at least once per year;
- developing internal auditing standards and methodologies;
- analysing the quality of the Bank's products;
- participating in external audits and inspections by the NBU;
- making recommendations to Management on the basis of external and internal audits to improve internal controls; and
- monitoring the implementation of auditors' recommendations.

Lending Policies and Procedures

Credit Committees

The Bank's Credit Committees are responsible for implementing the bank's lending strategy, coordinating the activities of the sub-committees and forming a balanced and diversified loan portfolio. Lending decisions are taken by the Head Office Credit Committee and the Branch Credit Committees within the limits of their respective authority.

Lending Decisions

The Bank's lending policies and established credit approval procedures are based on guidelines which are set in accordance with Ukrainian legislation, NBU regulations and the Bank's own internal regulations. For a summary description of the applicable legislation, see "Appendix A—Ukraine: The Banking Sector".

Corporate Lending

Loans to corporate customers are granted after the relevant Credit Committee has made a lending decision based on a borrower's solvency and creditworthiness. The terms on which loans are granted to each individual borrower (such as the amount, repayment period, security, etc.) are reviewed on each new loan application or when there is a deterioration in the borrower's circumstances, such as a deterioration in the borrower's financial condition or the quality of the security for the loan, or in the event of a risk that the borrower's obligations under the loan agreement will not be met in full or on time. In the latter case, the Bank takes steps to reduce the credit risk and/or increase its coverage, such as requiring additional collateral, reducing the amount of the loan or re-scheduling repayment terms.

In making its lending decisions, the Bank evaluates potential borrowers on the basis of their financial condition as reflected in their financial statements, their credit history with the Bank and other financial institutions and the amount of risk involved in lending to a particular borrower, using a rating scale which reflects certain aspects of the approach of international rating agencies. A lack of credit history with the Bank or lack of credit history in general is not an absolute bar to granting a loan, provided the Bank receives sufficient information to assess the borrower's business and financial condition. However, when the Bank lends to a borrower with no credit history, it sets conditions such as a requirement to transfer a certain part of the customer's banking operations to the Bank for a certain period and charging a higher interest rate, or requiring additional collateral or guarantees from such borrower.

In evaluating the risks associated with a particular borrower, the Bank takes into account the borrower's business and factors such as the quality of its management, its main business activities, its geographic location, suppliers, customers, other indebtedness, financial stability, turnover, likely return on the loan and the liquidity of the proposed collateral and whether it is sufficient in view of the credit risk. The Bank also considers the weighted average credit risk associated with the industry in which the borrower operates. Strategic customers may receive terms which are different to those available to ordinary customers.

The Bank's lending decisions are made in accordance with the procedure described below.

Level A (Initial Review). A credit officer in the Corporate Lending Sub-Department of the Head Office or relevant branch (the "Level A Credit Officer") carries out an initial review of the applicant and the proposed project to be financed and forms a preliminary conclusion on whether or not to grant the loan. If the decision is favourable, the Level A Credit Officer then forwards the preliminary conclusion and information on the borrower, the collateral and the project to be financed to the appropriate departments for analysis in accordance with their respective functions. These departments are the Corporate Banking Risk Sub-Department (which performs credit analysis), the Security Department (which checks the applicant's credit history and reputation) and the Legal Department (which reviews the applicant's legal documents, including its authority to enter into the loan agreement). The Level A Credit Officer must also obtain confirmation from the ALMC that the Bank has sufficient resources to grant the loan at the proposed interest rate. If the request is made by a Level A Credit Officer at branch level, the Corporate Banking Department at the Head Office and not the branch must provide such information before the loan is granted. The Level A Credit Officer must also obtain confirmation from the RMD that the loan can be granted in compliance with the Bank's economic standards. The ALMC and the RMD provide their conclusions to the Level A Credit Officer within the timeframe necessary in order to complete the analysis of the loan application. These conclusions are included in the loan application file which is required to be reviewed by the Credit Committee.

Level B (Detailed Assessment). Once the initial review has been completed, the RMD's Corporate Banking Risk Sub-Department, the Security Department and the Legal Department assess the borrower's solvency and creditworthiness and the liquidity and sufficiency of the collateral, perform a detailed analysis of the project, assess the risks and determine whether a loan should be granted in terms of the level of credit risk and the possibility that it will increase in the future. The Head Office Credit Committee is responsible for authorising loans in an amount equivalent to U.S.$500,000 and above. It also authorises loans which exceed the limit set for branches up to an amount equivalent to U.S.$500,000. Branch Credit Committees may authorise loans within the limits set for a given branch in terms of the amount, type and maximum term per loan and the total aggregate amount of all loans which the branch may grant. The Head Office Credit Committee is responsible for setting and changing branch lending limits.

Retail Lending

Loans to retail customers are subject to a standardised approval procedure. Credit officers in the relevant branches and banking units are required to obtain information and documentation from the applicant in accordance with specified criteria and parameters. Loans are subject to maximum limits depending on the applicant's financial standing, stability of future revenues, liquidity and quality of collateral. As part of the loan approval procedure, the credit officer verifies the authenticity of information furnished by the applicant, checks the applicant's credit history with the NBU's credit bureau and requests the Bank's in-house Security Department to perform a credit check on the applicant (see "—Security Department" below).

Security Department

There is no central credit bureau in Ukraine as at the date of this Offering Circular. Accordingly, the Bank has established its own in-house Security Department, which is responsible for the assessment of the assets, credit history and business reputation or personal history (including checking for any criminal record) of prospective retail and corporate borrowers (or their directors or shareholders, where appropriate) before a loan is granted.

Monitoring of Borrowers and Extensions of Maturity

The Bank monitors the financial condition of each borrower from the time of its loan application until repayment. See "—Credit Risk—Monitoring Credit Risk". Decisions on whether to extend the maturity of a loan upon a borrower's request are subject to the same procedure as lending decisions. A request from a borrower for an extension of the maturity of the loan will be rejected if there has been an apparent deterioration in the borrower's financial condition, unless necessary steps are taken to address the credit risk associated with such borrower.

Collateral

The Bank seeks different types of collateral for each loan. The most common forms of collateral accepted are property, equipment, vehicles and inventory. Collateral must meet the Bank's requirements as to liquidity and must be of sufficient market value to cover the credit risk. As collateral, the Bank may accept a pledge of moveable property (including equipment, vehicles, stock in trade and other liquid assets), immovable property (including entire property complexes, buildings and facilities) or securities; a bank guarantee or a suretyship; or a guarantee from a solvent individual or corporation. The Bank gives preference to the most liquid form of collateral with the highest re-sale value. At the commencement of the loan, the value of the collateral must exceed the principal amount of the loan, including interest accrued and other payments due from the borrower (such as commissions). For such purpose, loan cover ratios are set for various categories of collateral which are used in determining the liquidity and sufficiency of assets proposed by borrowers as collateral for loans. For details of the Bank's loan cover ratios, see "—Loan Classification and Allowances—Provisioning Policy for Statutory Reporting Purposes" below.

When granting loans, the Bank pays particular attention to the value and quality of collateral. The valuation is carried out by the relevant sub-department of the RMD. The Bank uses a net realisable value approach which allows it to accept only liquid collateral which adequately covers the risks of active operations and which is based on the liquidation value of the collateral. The Bank uses a variety of valuation methods, including both external sources of information and information which is available within the Bank when evaluating collateral (for example, information provided by the Bank's Investment Business Department will be used when determining the liquidity of securities proposed as collateral).

Any assets pledged to the Bank as loan collateral must be insured for the benefit of the Bank with an insurance company acceptable to the Bank. For certain types of loans, the Bank requires the risk of non-repayment to be insured. As at 31 December 2004, 96 per cent. of all of the Bank's loans were collateralised.

Two specialist collateral units monitor collateral throughout the term of the loan to verify that it is in existence and has not deteriorated in quality. These units are the Collateral Monitoring Unit of the Corporate Banking Risk Sub-Department (with respect to collateral for corporate loans) and the Credit Risk and Quality of Collateral Unit of the Retail Banking Risk Sub-Department (with respect to collateral for retail loans). In the case of a suretyship or guarantee, the relevant collateral unit carries out a financial check on the surety or guarantor on the basis of its financial statements. The frequency with which collateral is monitored varies in accordance with its type. For example, immovable property may be inspected up to three times per quarter while moveable property may be inspected up to four times per month.

The Bank's requirements with regard to collateral are established by the Bank's internal regulations, which are based on Ukrainian legislation and NBU regulations and are set out in Bank's Credit Procedures. Collateral is evaluated and analysed in accordance with these Credit Procedures as part of the process of making lending decisions.

Loan Classification and Allowances

The Bank's internal credit ranking system is based on the statutory NBU rating system. It has also developed its own rating system for evaluating the creditworthiness of borrowers using a more detailed rating scale. In addition, the Bank establishes credit risk provisions for loan impairment in accordance with IFRS for IFRS reporting purposes.

Provisioning Policy for Statutory Reporting Purposes

The Corporate Banking Risk Sub-Department and the Retail Banking Risk Sub-Department evaluate the level of credit risk and sets the amount of provisions for potential losses on, respectively, corporate and retail loans and advances, based on the following three risk evaluation factors:

- the borrower's current and future solvency and creditworthiness, having regard to its market position;
- the quality of the borrower's servicing of the current loan and its credit history (including its record with other banks); and
- the level of loan security.

The Bank's internal credit ranking system is based on the existing NBU rating system. However, the Bank has developed its own rating system for evaluating the creditworthiness of borrowers which uses a more detailed rating scale. The classification of the borrower's financial status and creditworthiness is based on a five-level credit rating system (from A to E in decreasing order). Similar systems are used in world practice by leading rating agencies, such as Standard & Poor's and Fitch. Loan servicing is rated in accordance with the length of delays in repaying principal and interest. The credit rating matrix currently in use is based on lowering the credit rating as the borrower descends to a lower class and the debt servicing index deteriorates.

The table below sets forth certain information relating to the Bank's provisioning policies in terms of risk categories and provisioning percentage rates prescribed by the NBU:

Class of borrower	Quality of Debt Servicing: Good[1]	Poor[2]	Unsatisfactory[3]
In terms of financial condition			
A (Best)	Standard (1%)	Controlled (5%)	Substandard (20%)
B	Standard (1%)	Substandard (20%)	Substandard (20%)
C	Substandard (20%)	Substandard (20%)	Doubtful (50%)
D	Doubtful (50%)	Doubtful (50%)	Bad (100%)
E (Worst)	Doubtful (50%)	Bad (100%)	Bad (100%)

1 Any payment including interest is less than 7 days overdue.

2 Any payment including interest is more than 7 days but less than 30 days overdue.

3 Any payment of interest is more than 30 days overdue or any payment of principal is more than 90 days overdue.

The percentage figures in brackets show the amount of provision that must be made for loans to a given category of borrower. For example, if the borrower falls from class A to class B in the "Poor" category, the Bank must increase the provision for that particular loan from 5 per cent. to 20 per cent.

The following table sets out information on the percentage of the value of the collateral used when calculating necessary loan loss provision(s) depending on the security category and the classification of the secured loan:

Lending operation classification	Titles to money deposits[1] and registered deposit certificates issued by the creditor bank	Precious metals	Govt. securities	Non-govt. securities	Real estate	Movable property, other property rights and precious metals
Standard	100%	80%	100%	50%	50%	50%
Controlled	100%	80%	80%	40%	50%	40%
Substandard	100%	60%	50%	20%	40%	20%
Doubtful	100%	20%	20%	10%	20%	10%
Bad	0%	0%	0%	0%	0%	0%

1 Includes UAH and foreign currency deposits

Assessment of Provision for Loan Impairment for IFRS Reporting Purposes

A credit risk provision for loan impairment is established if the Bank considers there is a risk that it will not be able to collect the amounts due according to original contractual terms. The amount of the provision is the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the instrument's original effective interest rate.

A loan impairment estimation exercise follows certain steps and procedures, as described below:

1. Identification of loans that are individually significant, i.e. those loans which, if fully impaired, would have a material impact on the Bank's financial results.

2. Determination of whether an individually significant loan shows objective evidence of impairment or not. Special emphasis is placed on the timing of the contractual cash flows from interest payments and principal repayments. If the Bank expects to collect all interest and principal due in full, but it is probable that those cash flows will be received later than the date agreed in the original contract, an impairment calculation is performed. Other impairment indicators include but are not limited to: any significant financial difficulty of the borrower; an actual breach of the loan contract; a high probability of bankruptcy or other financial reorganisation of the borrower; recognition of an impairment loss on that asset in a prior financial reporting period; or a historical pattern of collections of loans that indicates that the entire principal and interest amount of a loan portfolio will not be collected.

3. Review for impairment of individually significant loans that show objective evidence of impairment. An impairment review requires an estimate of the expected amounts of cash flows from interest and principal repayments and other cash flows, including amounts recoverable from guarantees and collateral, and discounting them at the loan's original effective interest rate. The loan is impaired if its carrying amount exceeds the estimated recoverable amount as defined above. A separate impairment loss on an impaired individually significant loan is recorded.

4. Individually significant loans that are not impaired are subject to the assessment of impairment on a group basis. Individually significant loans for which no specific evidence of impairment exists are sub-categorised into portfolios of assets with similar credit risk characteristics. A pool of loans may be identified by virtue of belonging to a particular industry or geographical area that is considered to have a different probability of being impaired than other categories of loans. Separate pools are created and tested for individually significant loans that are individually considered not impaired. These loans are not included in a pool with loans that are not individually significant.

5. All remaining loans that have not been identified as individually significant are assessed on a portfolio basis if there are signs that impairment is present in those portfolios. For the purpose of such a review, the portfolio of loans is grouped in pools, based on similar credit risks characteristics. Such pools are further assessed for impairment as if they were a single asset. Additionally, separate pools of loans may be identified that, for example, by virtue of belonging to a particular industry have more chances of being impaired than other categories of loans. The provision for loan impairment is raised where there is objective evidence that probable losses are present in components of the loan portfolio. These are estimated based upon historical patterns of losses in each component and the credit ratings assigned to the borrowers and reflect the current economic environment in which the borrowers operate.

Problem Loan Recovery

The Credit Committee has approved a series of internal regulations which set out a systematic approach involving a comprehensive set of procedures intended to enable the Bank to realise the highest possible level of repayment on non-performing loans.

If a borrower does not perform its obligations under a loan agreement, it is the responsibility of the relevant credit officer to take initial actions to determine the cause of late payments (whether of interest or principal). If the non-performance is due to a circumstance or event which indicates that the borrower may be unable to meet its obligations under the loan agreement, all relevant departments of the Bank are notified and the Bank: (i) checks that it has adequate collateral for the loan; (ii) verifies the sources of repayment of the loan; and (iii) works out a programme of further action to be taken with regard to the borrower, which may include accelerating the loan, where necessary. If all possible steps that can be taken to obtain repayment of the loan fail, the loan is classified as a "problem loan".

The Problem Loan Sub-Department, together with the Security Department, is responsible for recovering all loans issued by the Bank which are classified as "problem loans". The Problem Loan Sub-Department obtains and reviews all documents relating to the borrower, performs an analysis of the borrower and prepares a comprehensive report with a detailed business analysis, legal analysis, action plan and enforcement budget. Several approaches are available to the Problem Loan Sub-Department to enforce problem loans including negotiations, court proceedings or other legal action. In the vast majority of enforcement actions the Bank initiates court proceedings. The Problem Loan Sub-Department will often engage in negotiations with the borrower with the assistance of the Security Department over a problem loan either concurrent with, or prior to, initiating court proceedings. The Security Department assists the Problem Loan Sub-Department, if required, by carrying out further and more detailed background checks on the borrower and/or making personal visits to the borrower. Negotiations with the borrower usually aim at debt restructuring and include obtaining additional security, personal guarantees by shareholders and management, increased interest rates and revised repayment schedules, subject to the Credit Committee's approval of such actions as part of a debt recovery programme.

Other legal actions available to the Bank include bankruptcy proceedings, realisation of the security, co-operation with the criminal investigation authorities and appeals to other state bodies such as the Ministry of Internal Affairs in cases of fraud. The Problem Loan Sub-Department reports daily on the results and current status of problem loans to the Deputy Chairman of the Management Board, Heads of the Security Department and the Legal Department and to the Credit Committee, which meet to review the status of problem loans. The Credit Committee reviews the status of non-performing loans once per month and following such review decides on further action to be taken to recover such problem loans.

The following table sets out the Bank's outstanding gross loans to customers and the provision created against them at 31 December 2004 in UAH thousands:

	31 December 2004	**31 December 2003**
Current loans	3,457,243	2,388,939
Net investment in finance leases	43,313	12,257
Cash-covered loans	205,722	386,886
Overdue loans	90,520	17,130
Less: Provision for loan impairment	(264,325)	(190,539)
Total loans and advances to customers	**3,532,473**	**2,614,673**

The following table sets out details of changes in the provision for loan impairment in UAH thousands:

	Year ended 31 December 2004	**2003**
Provision for loan impairment as at 1 January	190,539	117,984
Charge for provision for loan impairment during the year	82,408	73,586
Loans and advances to customers written off during the year as uncollectible	(8,622)	(1,031)
Provision for loan impairment as at 31 December	**264,325**	**190,539**

SELECTED STATISTICAL AND OTHER INFORMATION

The following selected statistical and other financial information is derived, where applicable, from the Financial Statements of the Bank as at and for the years ended 31 December 2004, 2003 and 2002, which have been prepared in accordance with IFRS. This information should be read in conjunction with the Financial Statements included elsewhere in this Offering Circular.

Average Balance Sheets and Interest Rate Data

The table below presents the average balances for interest-earning assets and interest-bearing liabilities together with the related interest income and expense amounts, resulting in the presentation of the average yields and rates for the years ended 31 December 2004, 2003 and 2002 in UAH thousands (except percentages). Average balances are based on the Bank's balances as at the beginning and at the end of respective reporting periods. Interest income in the table below is shown before provision for loan impairment.

	Year ended 31 December								
	2004			2003			2002		
	Average Balance	Interest	Average Yield Rate	Average Balance	Interest	Average Yield Rate	Average Balance	Interest	Average Yield Rate
Interest-Earning Assets									
Due from other banks (gross)	227,702	14,375	6.3%	243,035	17,185	7.1%	159,490	8,030	5.0%
Loans and advances to customers (gross)	3,301,005	615,034	18.6%	2,039,605	342,190	16.8%	1,095,058	183,129	16.7%
Debt securities	303,087	31,234	10.3%	193,374	18,318	9.5%	66,351	6,676	10.1%
Total average interest earning assets before provision	**3,831,794**	**660,643**	**17.2%**	**2,476,013**	**377,693**	**15.3%**	**1,320,898**	**197,835**	**15.0%**
Less provision	(227,995)			(154,276)			(105, 104)		
Non-interest earning assets	930,577			474,084			323,955		
Total average assets	**4,534,376**			**2,795,821**			**1,539,749**		
Interest-bearing liabilities									
Due to other banks (including NBU)	522,877	25,185	4.8%	340,298	19,101	5.6%	126,004	6,008	4.8%
Customer accounts	2,756,637	267,658	9.7%	1,765,762	151,394	8.6%	939,446	90,322	9.6%
Debt securities in issue	314,065	53,316	17.0%	40,453	8,350	20.6%	23,888	5,584	23.4%
Subordinated debt	90,383	10,029	11.1%	95,096	5,720	6.0%	99,852	7,359	7.4%
Finance leases	11,991	1,397	11.7%	4,049	248	6.1%	–	–	–
Total average interest-bearing liabilities	**3,695,952**	**357,585**	**9.7%**	**2,245,657**	**184,813**	**8.2%**	**1,189,189**	**109,273**	**9.2%**
Other liabilities and minority interest	319,060			319,416			188,746		
Shareholder's equity	519,365			230,749			161,815		
Non-interest bearing liabilities	**838,424**			**550,164**			**350,560**		
Total average liabilities and shareholder's equity	**4,534,376**			**2,795,821**			**1,539,749**		

Average Net Interest Margin and Interest Spread

The following table shows the Bank's average interest-earning assets before provisions, average interest-bearing liabilities and net interest income before provision for loan impairment and illustrates the comparative net interest margin and net interest spread for each of the periods indicated in UAH thousands (except percentages). Net interest margin was calculated as net interest income before provision divided by total average interest-earning assets. Net interest spread was calculated as a difference between average yield rate of total average interest-earning assets and average yield rate of total average interest-bearing liabilities, as derived from the table of average balances and interest rates above.

	Year ended 31 December		
	2004	**2003**	**2002**
Total average interest-earning assets before provisions	3,831,794	2,476,013	1,320,898
Total average interest-bearing liabilities	3,695,952	2,245,657	1,189,189
Interest income before provision for loan impairment	660,643	377,693	197,835
Interest expense	357,585	184,813	109,273
Net interest spread	7.6%	7.0%	5.8%
Net interest margin	7.9%	7.8%	6.7%

Changes in Interest Income and Expense—Volume and Rate Analysis

The following table allocates the changes in the Bank's interest income and expense between changes in average volume and changes in the average rates for the period indicated in UAH thousands. Changes in volume have been calculated as change in volume times old rate and changes in rate have been calculated as change in rate times new volume. Volume variances have been calculated based on movements in average balances over the period and changes in interest rates on average interest-earning assets and average interest-bearing liabilities, as derived from the table of average balances and interest rates above.

	Year ended 31 December 2004/2003			Year ended 31 December 2003/2002		
	Increase/(decrease) due to changes in			Increase/(decrease) due to changes in		
	Volume	**Rate**	**Net change**	**Volume**	**Rate**	**Net change**
Interest Income						
Due from other banks	(1,084)	(1,726)	(2,810)	4,206	4,949	9,155
Loans and advances to customers	211,629	61,215	272,844	157,959	1,102	159,061
Debt securities	10,393	2,523	12,916	12,781	(1,139)	11,642
Total interest income	**220,937**	**62,013**	**282,950**	**174,946**	**4,912**	**179,858**
Interest Expense						
Due to other banks (including NBU)	10,248	(4,164)	6,084	10,218	2,875	13,093
Customer accounts	84,956	31,308	116,264	79,445	(18,373)	61,072
Debt securities in issue	56,478	(11,512)	44,966	3,872	(1,106)	2,766
Subordinated debt	(283)	4,592	4,309	(351)	(1,288)	(1,639)
Finance leases	486	663	1,149	–	248	248
Total interest expense	**151,885**	**20,887**	**172,772**	**93,185**	**(17,645)**	**75,540**
Net interest income	**69,052**	**41,126**	**110,178**	**81,761**	**22,557**	**104,318**

Average Deposits and Interest Rate Data

The following table sets out the average balances and average interest rates for each deposit type (excluding non-interest bearing accounts) for the years ended 31 December 2004, 2003 and 2002 in UAH thousands, except percentages.

	Year ended 31 December					
	2004		2003		2002	
	Average balance	Average rate paid	Average balance	Average rate paid	Average balance	Average rate paid
Due to other banks (including NBU)	522,877	4.82%	340,298	5.61%	126,004	4.77%
Customer accounts	2,756,637	9.71%	1,765,762	8.57%	939,446	9.61%

Customer Accounts by Maturity

The following table sets out information on customer accounts by maturity as 31 December 2004, 2003 and 2002 in UAH thousands.

Customer accounts	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total
As at 31 December 2004	1,216,552	455,762	1,410,380	207,537	3,290,231
As at 31 December 2003	965,330	492,917	1,039,875	209,834	2,707,956
As at 31 December 2002	555,133	83,821	444,541	255,234	1,338,729

Returns on Equity and Assets

The following table represents net profit as a percentage of average total assets and average total equity for the years ended 31 December 2004, 2003 and 2002.

	Year ended 31 December		
	2004	2003	2002
Return on average assets..	1.76%	1.48%	0.20%
Return on average equity	15.39%	17.88%	1.89%

Loan Portfolio

Loans to customers before provision for loan impairment were UAH 3.80 billion and UAH 2.81 billion or 71 per cent. and 76 per cent. of total assets as at 31 December 2004 and 2003, respectively. The Bank's provision for loan impairment for loans to customers totalled UAH 264 million and UAH 191 million as at 31 December 2004 and 2003, respectively. The size of the Bank's gross loan portfolio has grown by 191 per cent. from UAH 1.3 billion at 31 December 2002 to UAH 3.80 billion at 31 December 2004.

Maturity Profile of Loan Portfolio

The majority of the Bank's loans are short-term, as is customary in the Ukrainian domestic lending market. As at 31 December 2004, the "more than one year" category comprised 45 per cent. of total loans and represented loans to a number of the Bank's most creditworthy clients, including key and strategic clients. The Bank expects that as the Ukrainian economy becomes more stable, the "more than one year" category will grow.

The following table presents the maturity distribution of the Bank's loan portfolio as at 31 December 2004, 2003 and 2002 after provision for loan impairment, in UAH thousands (except percentages).

Loans and advances to customers	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**More than 1 year**	**Total**
As at 31 December 2004	288,026	538,226	1,108,276	1,597,945	3,532,473
Share of the loan portfolio	8%	15%	31%	45%	100%
As at 31 December 2003	427,170	674,733	821,251	691,519	2,614,673
Share of the loan portfolio	16%	26%	31%	26%	100%
As at 31 December 2002	247,507	208,144	489,133	242,340	1,187,124
Share of the loan portfolio	21%	18%	41%	20%	100%

Loan Concentrations by Size of Loans

As at 31 December 2004, the Bank had 14 borrowers with aggregated loan amounts above UAH 35 million (compared with 19 borrowers with aggregated loan amounts above UAH 35 million at 31 December 2003). The aggregate amount of these loans is UAH 867 million or 23 per cent. of the gross loan portfolio (31 December 2003: UAH 969 million or 35 per cent. of the gross loan portfolio).

The Bank's exposure to a single borrower or group of related borrowers is subject to statutory limits. The Bank's exposure to a single borrower may not exceed 25 per cent. of its regulatory capital (i.e., the Bank's capital as calculated for purposes of NBU reporting and capital adequacy purposes) and its exposure to a group of related borrowers may not exceed 800 per cent. of its regulatory capital.

Related Party Lending

Loans to related parties totalled UAH 323 million (net of provision for loan impairment), amounting to 9.1 per cent. of the Bank's loan portfolio at 31 December 2004. The Bank conducts its business with related parties predominantly on a commercial, arm's length basis. The Bank may occasionally be able to offer related parties (principally its employees) banking products at rates below prevailing market rates, reflecting the lower risk accorded to such customers as a result of the Bank's ability to assess and monitor their credit history and the availability of collateral, such as pledges over salaries in the case of employees. The Bank competes with other banking institutions for the business of these parties. Each loan request from a related party is subject to the same credit approval procedures as are applied by the Bank to unrelated parties. See "Risk Management—Lending Policies and Procedures—Lending Decisions" above and "Related Parties" below for further details of the Bank's policy regarding loans to related parties and transactions involving related parties.

Sectoral Analysis

The following table sets forth analysis of the Bank's gross loans to clients by industry sector as at 31 December 2004, 2003 and 2002, shown as a percentage of gross loan portfolio.

	31 December		
	2004	**2003**	**2002**
Commerce and finance	25%	22%	27%
Individuals	25%	14%	7%
Agriculture and food industry	15%	17%	15%
Oil and gas	9%	26%	18%
Chemical industry	8%	7%	7%
Motor vehicles trading	7%	5%	–
Property construction	4%	–	–
Manufacture and machine building	3%	2%	2%
Air and other transport services	1%	1%	2%
Metallurgy and mining	1%	4%	15%
Other	2%	2%	7%

While there is no statutory limit on exposure to borrowers in any given industry segment, the Bank aims to maintain a diversified loan portfolio.

Currency Analysis

The following table sets forth the Bank's loan portfolio by currency. Loans in "other currencies" mainly consist of loans in Russian Roubles.

Loans and advances to customers in UAH thousands	**UAH**	**USD**	**EUR**	**Other currencies**	**Total**
As at 31 December 2004	1,257,332	2,122,512	148,586	4,043	3,532,473
As at 31 December 2003	994,988	1,556,175	56,918	6,592	2,614,673
As at 31 December 2002	606,587	563,310	14,847	2,380	1,187,124

Loan Portfolio Quality

The following table sets forth information on the aggregate amount of current and overdue loans as at 31 December 2004, 2003 and 2002 in UAH thousands (except percentages).

	31 December		
	2004	**2003**	**2002**
Current loans	3,706,278	2,788,082	1,273,117
Overdue loans	90,520	17,130	31,991
Overdue loans/Current loans	2.44%	0.61%	2.51%

The following table sets out details of changes in the Bank's provision for loan impairment for loans to customers in UAH thousands.

	Year ended 31 December		
	2004	**2003**	**2002**
Provision for loan impairment as at 1 January	190,539	117,984	92,034
Charge for provision for loan impairment during the year	82,408	73,586	32,969
Loans and advances to customers written off during the year as uncollectible	(8,622)	(1,031)	(7,019)
Provision for loan impairment as at 31 December	**264,325**	**190,539**	**117,984**

Securities Portfolio

The following table sets forth information on the Bank's securities portfolio as at 31 December 2004, 2003 and 2002 in UAH thousands.

	31 December		
	2004	**2003**	**2002**
Trading securities	275,943	182,365	108,967
Investments available-for-sale	192,644	123,820	88,940
Investments held-to-maturity	47,908	75,696	-
Total	**516,495**	**381,881**	**197,907**

Maturity Profile of Securities Portfolio

The following table shows the maturity distribution of securities held by the Bank at 31 December 2004 in UAH thousands. The entire portfolio of trading securities is classified within demand and less than one month as the portfolio is of a trading nature.

	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**More than 1 year**	**No stated maturity**	**Total**
Trading securities	275,943	–	–	–	–	275,943
Investments available-for-sale	–	–	5,069	13,802	173,773	192,644
Investments held-to-maturity	2,754	4,762	21,457	18,935	–	47,908
Total	278,697	4,762	26,526	32,737	173,773	516,495

The following table shows the maturity distribution of securities held at 31 December 2003 in UAH thousands. The entire portfolio of trading securities is classified within demand and less than one month as the portfolio is of a trading nature.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	No stated maturity	Total
Trading securities.............	182,365	–	–	–	–	182,365
Investments available-for-sale	579	–	4,075	1,337	117,829	123,820
Investments held-to-maturity………………….	2,881	4,629	21,075	47,111	–	75,696
Total.................................	**185,825**	**4,629**	**25,150**	**48,448**	**117,829**	**381,881**

Before investing funds in securities, the Bank first analyses the financial position of the issuer, dynamics of its production activity, competitive environment, its prospects and the quality of its management. The Bank's total direct or indirect equity investment in single issuer or company may not exceed 15 per cent. of the Bank's capital and total investments in corporate equity may not exceed 60 per cent. of Bank's capital.

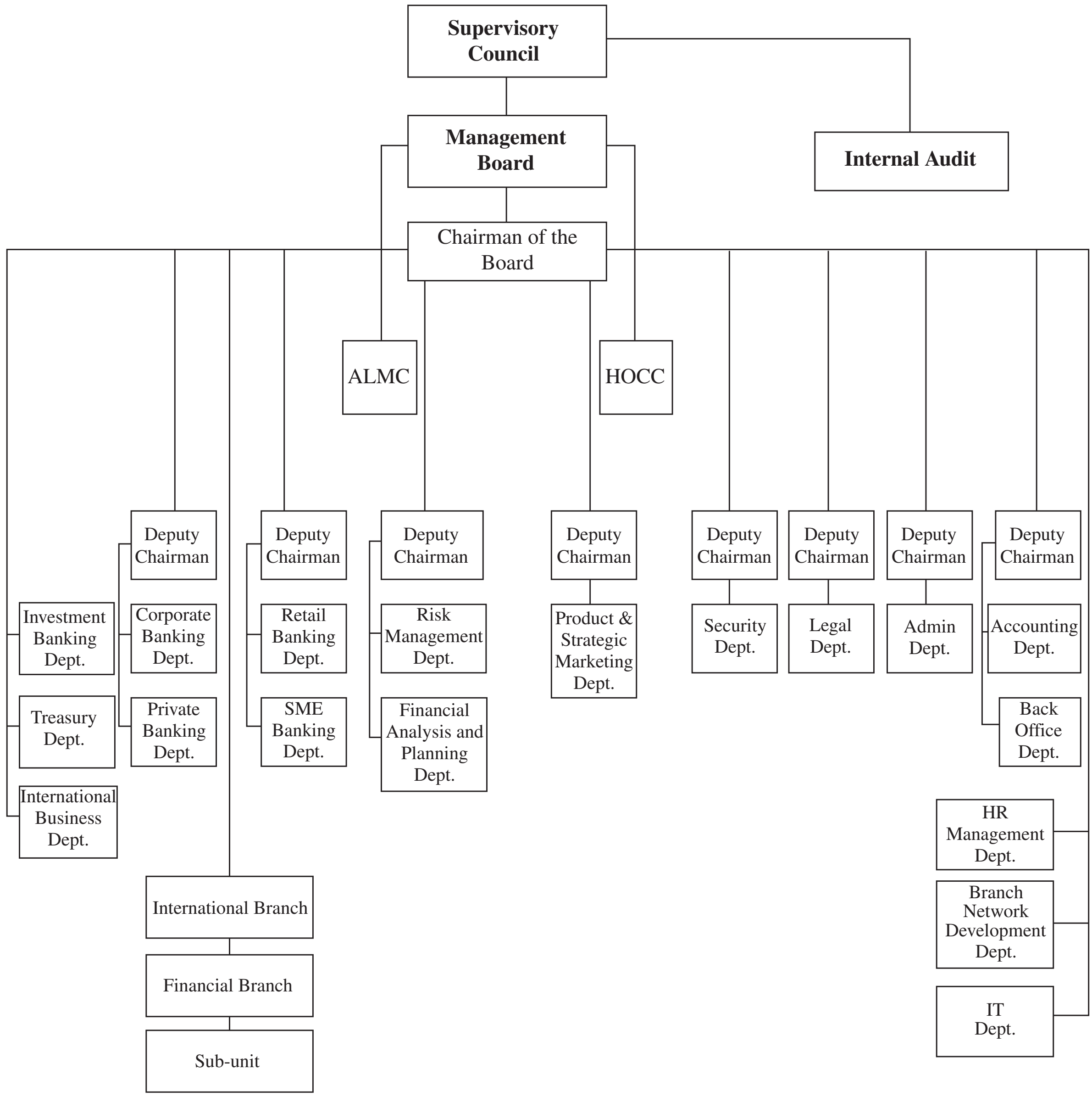
MANAGEMENT

Overview

The Bank's current charter was approved by the General Meeting of Shareholders of the Bank on 27 May 2004 and was registered with the NBU on 12 August 2004. The Bank adopted a new charter in 2004 to reflect certain amendments to the Ukrainian civil code and an increase in the Bank's share capital during 2004. The Bank's governing bodies are the General Meeting of Shareholders, the Management Board and the Supervisory Council. The General Meeting of Shareholders elects the members of Supervisory Council, and the Supervisory Council in turn elects the Management Board. The Management Board is responsible for the day-to-day management of the Bank. The Bank also has an Audit Commission which reports to the General Meeting of Shareholders on compliance matters.

Management Structure

The diagram below sets out the organisational structure of the Bank:



General Meeting of Shareholders

The authority of the General Meeting of Shareholders includes, inter alia:

- determining the main areas of operations within the Bank;
- approving amendments to the Bank's charter;
- approving changes to the share capital of the Bank;
- appointing and dismissing the Chairman and the members of the Supervisory Council and the Audit Commission of the Bank;
- approving annual results of the Bank (including its subsidiaries) and approving reports and conclusions drawn by the Audit Commission and external auditor;
- approving profit distribution and dividends;
- approving any reorganisation of the Bank; and
- terminating the business operations of the Bank.

The powers listed above lie within the exclusive scope of authority of the General Meeting of Shareholders and may not be delegated to the other governing bodies of the Bank. Decisions on (i) approving amendments to the Bank's charter and (ii) terminating the business operations of the Bank require a qualified majority of 75% of voting shares. Other matters are decided by a simple majority.

Management Board

The Management Board (the "Board") is an executive body of the Bank and is responsible for the day-to-day management of the Bank. It is accountable to the General Meeting of Shareholders and to the Supervisory Council of the Bank. The Board organises and manages the operations of the Bank, which includes implementing resolutions approved by the General Meeting of Shareholders and the Supervisory Council of the Bank.

The powers of the Board include, inter alia:

- organising the management of the operations of the Bank, its branches and representative offices;
- determining the general terms and procedures for the extension of loans;
- approving the utilization of the Bank's funds (with exception of covering losses);
- approving the Bank's internal documentation;
- approving the participation of the Bank in other enterprises, organizations and companies;
- approving establishment and terminating of operations of the Bank's units;
- approving the redemption of the Bank's shares;
- determining the terms and conditions of staff remuneration for the Bank, its branches and representative offices;
- organising the maintenance of the Bank's accounts and reports;
- approving the agenda of the General Meeting of Shareholders; and
- resolving any other issues relating to the Bank's activity delegated by the Supervisory Council (except those which are within exclusive scope of authority of the Supervisory Council).

The name, age, position, qualifications and certain other information for each member of the Board are set out below.

Name	Age	Position	Other Management Positions
Oleksandr Y. Adarich.............	33	Chairman	—
Irina V. Marianko...................	38	Deputy Chairman	Chief Accountant
Tetyana A. Vazheievska..........	43	Deputy Chairman	—
Roman V. Chumak.................	29	Deputy Chairman	—
Sergiy M. Panov	33	Deputy Chairman	Head of Legal Department
Valeriy O. Bogushov	44	Deputy Chairman	Head of Security Department

Oleksandr Yevgenovych Adarich has been Chairman of the Board of the Bank since November 2002. From February 2002, he served as Deputy Chairman and then, from March 2002, First Deputy Chairman of the Board of the Bank. From 1993, he held various positions at other Ukrainian commercial banks. He graduated from Kharkiv State University in 1999 and the Dnipropetrovsk Mining Institute in 1993.

Irina Villinovna Marianko has been Deputy Chairman of the Board of the Bank since January 2004. From September 1995, she successively served as Senior Economist, Deputy Head of Unit, Head of Unit, Head of Department, Acting Chief Accountant and Chief Accountant. From 1991, she held various positions at other Ukrainian commercial banks. She graduated from the Kyiv Institute of National Economy in 1987.

Tetyana Anatoliyovna Vazheievska, PhD has been Deputy Chairman of the Bank since 2002. From 2001, she was a Head of Internal Audit Department of the Bank. From 1992, she held the positions of Senior Economist, Head of Unit and Deputy Head of Department in the NBU. From 1983 to 1987, she worked in the State Bank of the USSR. From 1987 to 1990, she undertook post-graduate studies at the Institute of Economics of the Academy of Sciences of the USSR. She graduated from the Kyiv Institute of National Economy in 1983.

Roman Volodymyrovych Chumak has been Deputy Chairman of the Bank since 2002. From 1996, he held positions of Senior Expert, Head of Lending Operations Department, Deputy Head of Department, Head of Department, Head of Risk and Financial Engineering Department of the Bank. From 1994 he worked in another commercial bank in Ukraine. He graduated from Kharkiv State University in 1997.

Sergiy Mykolayovych Panov has been Deputy Chairman of the Bank since 2002. From 1994, he held positions of Senior Expert, Legal Counsel, Head of Legal Department in the Bank. He graduated from the National Law Academy of Ukraine in 1995.

Valeriy O. Bogushov has been Deputy Chairman of the Bank since 2002. He graduated from the Voroshilovgrad Pedagogical Institute in 1986 and from Kyiv Law University in 2005.

Supervisory Council

The Supervisory Council is not directly involved in the day-to-day management of the Bank but plays a significant oversight role in monitoring the business activities of the Bank. The Supervisory Council represents the interests of the Bank's Shareholders between meetings of the General Meeting of Shareholders, as well as carries on the monitoring and regulation of the Management Board's activity.

The responsibilities of the Supervisory Council include, among others, the following:

- supervising the actions of the Board;
- establishing procedure for the carrying out of audit and monitoring of the financial and economic activities of the Bank;
- approving the covering of losses;
- establishing, re-organising and liquidating subsidiaries, branches and representative offices of the Bank, and approving their charters/regulations;

- appointing and dismissing the Chairman and members of the Board;
- preparing suggestions with respect to the matters to be considered by the General Meeting of Shareholders;
- reviewing the matters relating to the imposition of material liability of the officers of the governing bodies of the Bank;
- determining the terms and conditions of the Board members' remuneration; and
- appointing the external auditor.

By resolution of the General Meeting of Shareholders, certain powers within the competence of the General Meeting of Shareholders, except those which are within exclusive authority of the General Meeting of Shareholders, may be delegated to the Supervisory Council.

The name, age, position, qualifications and certain other information for each member of the Supervisory Council are set out below.

Name	Age	Position	Other Bank and non-Bank Positions
Igor Y. Dalichuk......................	42	Chairman	Business Development Director of the Bank's General Representative Office
Olexandr V. Pogorelov............	34	Member	Financial Director of CJSC Energoresursy
Oleksiy P. Kolesnik	33	Member	Commercial Director of LLC Aventa

Igor Yevgenovych Dalichuk, PhD has been Chairman of the Supervisory Council since 2003. From September 2000, he has held the position of the Business Development Director of the General Representative Office of the Bank. From 2000, he was Chairman of the Board of a holding company. From 1996, he was General Director of a tobacco plant. From 1992, he was President of a financial investment company. He graduated from the Kyiv Institute of National Economy in 1984.

Oleksandr Volodymyrovych Pogorelov has been a member of the Supervisory Council since 2001. From May 2000, he has held the position of Consultant of the Bank. Between 1993 and 1996, he held various positions in another Ukrainian bank. From 1991 to 1994, he undertook post-graduate studies at Kharkiv State University. He graduated from Kharkiv State University in 1991.

Oleksiy Petrovych Kolesnik has been a member of the Supervisory Council since 2001. From 1998 to 2001, he was the Commercial Director of a Ukrainian public company. From 1992 to 1997, he held the position of Leading Expert of a real-estate agency. From 1994 to 1997, he undertook post-graduate studies at Kharkiv State Economic University. He graduated from Kharkiv State Economic University in 1994.

Audit Commission

The Bank's Audit Commission monitors the Bank's compliance with Ukrainian legislation and NBU regulations, reviews reports of internal and external auditors and makes recommendations to the General Meeting of Shareholders or the Supervisory Council regarding the financial security and stability of the Bank and protection of its customers.

SHAREHOLDING

As at 31 December 2004, the nominal value of the Bank's paid-in registered statutory capital, not taking into account IAS 29 adjustments for hyperinflation that were made up to 31 December 2000, was UAH 600 million. The Bank's statutory capital consisted of issued and placed common stock in the amount of 12 billion shares with a nominal value of UAH 0.05 per share. As at the date of this Offering Circular, the Bank's share capital comprises 12 billion ordinary shares with a par value of UAH 0.05 each.

The Bank's ultimate controlling shareholders are two Ukrainian nationals, Mr Oleksandr Yaroslavskyy and Mr Ernest Galiyev. Mr Yaroslavskyy and Mr Galiyev became shareholders of the Bank in 1998. In aggregate they control, directly or indirectly, over 75 per cent. of the Bank's share capital (as calculated in accordance with the methodology used to determine controlling shareholding under Ukrainian company law). Their respective shares are mostly held through a number of holding and operating companies, principally through their indirect controlling interest in CJSC Ukrainian Metallurgical Company, CJSC Redan, CJSC Ukrinvest, LLC Alternativa+ and LLC Nezavisimost1, which are the Bank's shareholders of record and which directly own 50.10 per cent., 6.74 per cent., 8.14 per cent., 8.17 per cent. and 9.70 per cent., respectively, of the Bank's ordinary voting shares. This shareholding structure was originally implemented (i) due to former restrictions on the maximum amount of shares in a Ukrainian bank that could be owned or controlled by a single shareholder, which are no longer in force, and (ii) for reasons of tax efficiency. Mr Yaroslavskyy and Mr Galiev are not involved in the day-to-day management of the Bank; however, they have representatives on the Bank's Supervisory Council who are responsible for ensuring that the shareholders' opinions and strategies are complied with, including with respect to the appointment of members of the Management Board. See "Risk Factors—Risks Relating to the Bank—Controlling Shareholders".

Each of Mr Oleksandr Yaroslavskyy and Mr Ernest Galiyev is a beneficial shareholder in JSC Cherkassky Chemical Filament, which is a significant corporate banking customer of the Bank. Each of Mr Yaroslavskyy and Mr Galiyev is also a member of the Ukrainian Parliament.

RELATED PARTY TRANSACTIONS

For the purposes of the Bank's consolidated financial statements, 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 as defined by IAS 24 "Related Party Disclosures". In considering each potential related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Banking transactions are entered into in the normal course of business with significant shareholders, directors, companies with which the Bank has significant shareholders in common and other related parties. These transactions include settlements, loans, deposit taking, guarantees, purchases and sales of securities, trade finance and foreign currency transactions.

The following table presents information on the Bank's related party transactions as at 31 December 2004, 2003 and 2002 (in UAH thousands, except percentages).

		31 December	
	2004	**2003**	**2002**
Loans and advances to customers			
Loans and advances at the year end	344,483	254,394	444,882
Provision for loan impairment at the year end	(21,717)	(10,381)	(58,233)
Interest income for the year	29,791	48,772	58,433
Weighted average interest rate for UAH denominated loans at the year end	17 – 23 %	20%	24%
Weighted average interest rate for USD denominated loans at the year end	10 – 17 %	15%	12%
Trading securities			
Corporate bonds at the year end	20,056	35,828	26,532
Interest income from corporate bonds for the year	1,630	6,671	1,125
Investments available-for-sale at the year end	31,622	25,267	51,593
Other assets			
Receivables on settlements for securities	5,682	800	5,500
Other receivables	—	225	—
Customer accounts			
Current accounts at the year end	58,856	35,379	31,688
Term deposits outstanding at the year end	529,446	639,443	140,225
Interest expense for the year	36,294	36,935	9,304
Weighted average interest rate for UAH denominated term deposits of legal entities at the year end	9%	14%	17%
Weighted average interest rate for USD denominated term deposits of legal entities at the year end	8%	9%	7%
Other liabilities			
Amounts payable for premises	—	2,675	1,257
Amounts payable for securities purchased	2,688	3,735	-
Payables for executed guarantees	—	—	11,297
Subordinated debt			
Balances outstanding at the year end	—	58,556	87,818
Interest expense for the year	3,852	5,720	7,359
Interest expense for the year (based on contractual rates)	3,339	5,524	—
Loss on change in terms of subordinated debt	(8,589)	—	—
Debt securities in issue held by related parties			
Balances outstanding at the year end	—	21,279	18,532
Interest expense for the year based on effective rates used for amortisation	4,821	5,107	5,107
Minority interest	9,382	3,020	—
Credit related commitments			
Commitments to extend credit outstanding at the year end	28,340	—	—
Import letters of credit at the year end (cash covered)	4,718	1,896	5,147
Import letters of credit (uncovered)	10,145	—	—
Guarantees issued (uncovered)	1,273	—	—
Gains less losses arising from trading securities and investments available for sale	4,436	1,618	10,937
Fee and commission income for the year	4,697	4,260	1,201
Due from other banks			
Term placements in USD at the year end (contractual interest rate: 2003: 14%)	—	20,504	—
Interest income for the year	98	5,770	—

While a significant portion of the Bank's assets have historically been due from related parties and a significant portion of the Bank's earnings have been derived from activities and transactions with related parties, and PricewaterhouseCoopers, the Bank's independent auditors, included an emphasis of matter paragraph in their audit report in respect of the Bank's financial statements for the years ended 31 December 2002 and 2001 in this regard, transactions with related parties are priced predominantly at market rates and are subject to the same loan approval procedures and limits as are applied by the Bank to transactions with unrelated parties. The Bank may occasionally be able to offer related parties (principally its employees) banking products at rates below prevailing market rates, reflecting the lower risk accorded to such customers as a result of the Bank's ability to assess and monitor their credit history and the availability of collateral, such as pledges over salaries in the case of employees.

EMPLOYEES

As at 31 December 2004, the Bank had 6,580 employees, compared to 3,363 employees at 31 December 2003 and 2,527 at 31 December 2002. The largest growth in that period was in the branches and banking units. As at 31 December 2004, the Bank had 794 employees at its head office and 5,786 employees at its branches and banking units.

Competition in the Ukrainian banking industry for personnel with relevant expertise is intense, due to the disproportionately low number of available qualified and/or experienced individuals compared to the demand for such personnel. Moreover, the Bank's need for qualified staff will increase as it expands its branch network. The Bank intends to hire approximately 3,000 additional employees in 2005 as it expands its branch network and operations. See "Risk Factors—Risks Related to the Bank—Dependence on Key Management and Qualified Personnel" above.

The Bank provides its employees with opportunities to develop their careers and professional qualifications through in-house training programmes, seminars and the opportunity to participate in conferences in Ukraine and abroad. The Bank has established a study centre in its Dnipropetrovsk branch which trains staff in skills such as negotiation, planning and customer relations through a mixture of classroom and practical sessions, home study, video courses and online training. It also intends to open personal development centres in nine regional centres to assist staff develop their professional qualifications. The Bank has so far opened six such personal development centres. In addition, the Bank cooperates with higher education establishments in providing financial education to students.

The Bank seeks to pay competitive salaries and, since 2003, it has operated a bonus system for its employees which is linked to the Bank's financial performance. Management considers that it has good relations with its employees and also considers that employee turnover is average for a Ukrainian bank of its size.

None of the Bank's employees belongs to a trade union. Instead, the Bank's employees belong to an Employees' Council, which is accepted practice for large Ukrainian employers. The Bank has entered into a collective agreement with the Employees' Council which sets out details of working conditions, pay and social benefits.

Following the reduction in the personal income tax rate in Ukraine with effect from 1 January 2004, the Bank reduced the gross amount of salaries for its staff while maintaining their net pay. This measure was taken in consultation with the Employees' Council.

THE ISSUER

Bayerische Hypo- und Vereinsbank Aktiengesellschaft ("HypoVereinsbank" or the "Issuer" and, together with its consolidated subsidiaries, "HVB Group"), formed by the merger of Bayerische Vereinsbank AG ("Bayerische Vereinsbank") and Bayerische Hypotheken- und Wechsel- Bank AG in 1998, is the parent company of HVB Group. Since December 2000, Bank Austria Aktiengesellschaft ("Bank Austria"), which had acquired Creditanstalt-Bankverein in 1997, combining Austria's two largest banks (together, "Bank Austria Creditanstalt"), has been part of HVB Group.

HVB Group is one of Europe's leading providers of banking and financial services. Based on consolidated assets of Euro 476 billion at 31 December 2004, HVB Group is the second largest listed bank in Germany.

HVB Group offers a comprehensive range of banking and financial products and services to a broad range of customer groups in the retail, corporate and public sectors. HypoVereinsbank is one of only three private sector banks in Germany with the status of a mixed mortgage bank, meaning it is allowed to engage in commercial banking as well as mortgage banking activities, including in particular the issuance of Pfandbriefe for the purpose of refinancing its mortgage and public sector loans.

HypoVereinsbank has its registered office at Am Tucherpark 16, 80538 Munich, Germany, and is registered in the Commercial Register of Munich under number HRB 42148. Bayerische Vereinsbank was established on 11 April 1869 under the laws of Germany.

Share Capital

The issued and fully paid capital stock of HypoVereinsbank as of 31 December 2004 was Euro 2,252,097,420 divided into:

(a) Euro 2,208,436,620 ordinary bearer shares, divided into 736,145,540 no-par value shares;

(b) Euro 43,660,800 registered preference shares without voting rights, divided into 14,553,600 no-par value shares.

Supervisory Board and Management Board

Like all German stock corporations, HypoVereinsbank has a two-tier board system. The Management Board (*Vorstand*) is responsible for the management of HypoVereinsbank and the representation of HypoVereinsbank with respect to third parties, while the Supervisory Board (*Aufsichtsrat*) appoints and removes the members of the Management Board and supervises the activities of the Management Board.

Management Board

Johann Berger
Dr. Stefan Jentzsch
Christine Licci
Michael Mendel
Dr. Michael Kemmer
Dieter Rampl (Spokesman)
Dr. Wolfgang Sprißler

The composition of the Supervisory Board and the Management Board of HypoVereinsbank and the primary occupations and residences of the members of its Supervisory Board are as follows:

Supervisory Board

Dr. Dr. h.c. Albrecht Schmidt, Chairman
Peter König, Deputy Chairman
Dr. Hans-Jürgen Schinzler, Deputy Chairman
Dr. Manfred Bischoff
Dr. Mathias Döpfner
Volker Doppelfeld
Klaus Grünewald
Anton Hofer
Max Dietrich Kley
Friedrich Koch
Hanns-Peter Kreuser
Dr. Lothar Meyer
Herbert Munker
Dr. Siegfried Sellitsch Professor
Dr. Wilhelm Simson
Professor Dr. Dr. h.c. Hans-Werner Sinn
Maria-Magdalena Stadler
Ursula Titze
Jens-Uwe Wächter
Helmut Wunder

Since the Issuer's sole obligation in respect of the Notes is to make certain payments as and when payments on the Loan are received pursuant to the Loan Agreement, financial information relating to the Issuer is not included in this Offering Circular.

THE LOAN AGREEMENT

The following is the text of the Loan Agreement which has been entered into between the Issuer as Lender and the Bank as Borrower:

THIS AGREEMENT is made on [●] 2005

BETWEEN:

(1) **JOINT-STOCK INNOVATION BANK "UKRSIBBANK",** a legal entity under the laws of Ukraine, whose principal office is at 60 Moscovsky Avenue, Kharkiv 61005, Ukraine (the "**Borrower**"); and

(2) **BAYERISCHE HYPO- UND VEREINSBANK AG**, a bank established under the laws of Germany and whose registered office is Am Tucherpark 16, 80538, Munich, Germany (the "**Lender**").

WHEREAS

The Lender has at the request of the Borrower agreed to provide financing to the Borrower in the form of a loan with a term of 1,111 calendar days subject to and in accordance with the terms and conditions set forth in this Agreement**.**

IT IS AGREED AS FOLLOWS:

1. **DEFINITIONS AND INTERPRETATION**

1.1 **Definitions**

In this Agreement the following terms have the meanings given to them in this Clause 1.1:

"**Acceleration Notice**" has the meaning set forth in Clause 15.13 (*Rights of Lender upon Occurrence of an Event of Default*).

"**Additional Amounts**" has the meaning set forth in Clause 8.1(b).

"**Affiliate**" of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person, (ii) any other Person who is a director or officer (A) of such specified Person, (B) of any Subsidiary of such specified Person, or (C) of any Person described in clause (i) above. For the purpose of this definition, "**control**" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise and the terms "**controlling**" and "**controlled**" have meanings correlative to the foregoing.

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory Person (whether autonomous or not) of any state.

"**Agreed Funding Source**" shall mean any Person to whom the Lender owes any Indebtedness (including securities), which Indebtedness was incurred solely and expressly to fund the Loan (including a designated representative of such Person).

"**Agreed Funding Source Agreements**" means the Trust Deed; the Notes; the subscription agreement dated [●] 2005 in respect of the Notes between the Lender, the Borrower, Deutsche Bank AG, London Branch and UBS Limited, as lead managers, and the managers referred to therein; the agency agreement to be dated on or about [●] 2005 among the Lender, JPMorgan Chase Bank, London Branch, as principal paying agent and paying agent, J.P. Morgan Luxembourg S.A. as Luxembourg paying agent, registrar and transfer agent, and J.P. Morgan Corporate Trustee Services Limited, as trustee; in each case as amended from time to time; and any other agreements entered into in connection with the Agreed Funding Source.

"**Auditors**" means PricewaterhouseCoopers or any internationally recognised firm of independent accountants approved by the Lender, such approval not to be unreasonably withheld.

"**Banking Business**" means, in relation to the Borrower or any of its Material Subsidiaries, any type of banking business (including, without limitation, any short term inter-bank operations with maturities of one year or less, factoring, consumer credit, mortgages, issuance of banking guarantees and letters of credit (and related cash cover provision), bills of exchange and promissory notes and payments under such guarantees, letters of credit and promissory notes, trading of securities, fund management and professional securities market participation business) which it conducts or may conduct pursuant to its licence issued by the appropriate authorities and accepted market practice and any applicable law.

"**BIS Guidelines**" means the guidelines on capital adequacy standards (including the constituents of capital included in the capital base, the risk weights by category for on-balance-sheet assets, the credit conversion factors for off-balance-sheet items, and the target standard ratio) for international banks contained in the July 1998 test of the Basel Capital Accord, published by the Basel Committee on Banking Supervision (as amended, updated or supplemented from time to time), without any amendment or other modification by any other Agency.

"**Business Day**" means any day (other than a Saturday or Sunday) on which banks generally are open for business (including dealings in foreign currencies) in New York City, Frankfurt am Main, London and Kyiv.

"**Capital**" means the Borrower's Capital as such term is defined in the BIS Guidelines.

"**Capital Adequacy Requirements**" means a request or requirement relating to the maintenance of capital, including one which makes any change to, or is based on any alteration in, the interpretation of the International Convergence of Capital Measurement and Capital Standards (a paper prepared by the Basle Committee on Banking Regulations and Supervision, dated July 1988, and amended in November 1991) or which increases the amounts of capital required thereunder, other than a request or requirement made by way of implementation of the International Convergence of Capital Measurement and Capital Standards in the manner in which it is being implemented at the date hereof.

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, participations, rights to purchase, warrants, options, or other equivalents (however designated) of capital stock of a corporation and any and all equivalent ownership interests in a Person other than a corporation, in each case whether now outstanding or hereafter issued.

"**Central Bank**" means the National Bank of Ukraine.

A "**Change of Control**" shall be deemed to have occurred at any time (whether or not approved by the management board of the Borrower) that the Existing Shareholders cease to own (directly or indirectly) in excess of 50 per cent. in aggregate of the issued and allotted ordinary share capital carrying voting rights of the Borrower and where such event has resulted in a Rating Decline.

"**Change of Control Payment Date**" means the date specified as such in the notice from the Borrower to the Lender pursuant to Clause 7.2 (*Prepayment in the event of a Corporate Restructuring or Change of Control*).

"**Change of Law**" means any of the enactment or introduction of any new law; the variation, amendment or repeal of an existing or new law; any ruling on or interpretation or application by a competent authority of any existing or new law; and the decision or ruling on, the interpretation or application of, or a change in the interpretation or application of, any law by any court of law, tribunal, central bank, monetary authority or agency or any Taxing Authority or fiscal or other competent authority or agency; which, in each case, occurs after the date hereof. For this purpose the word "law" means all or any of the following whether in existence at the date hereof or introduced hereafter and with which it is obligatory or customary for banks or other financial institutions or, as the case may be, companies in the relevant jurisdiction to comply:

(a) any statute, treaty, order, decree, instruction, letter, directive, instrument, regulation, ordinance or similar legislative or executive action by any national or international or local government or authority or by any ministry or department thereof and other agencies of state power and administration (including, but not limited to, taxation departments and authorities); and

(b) any letter, regulation, decree, instruction, request, notice, guideline, directive, statement of policy or practice statement given by, or required of, any central bank or other monetary authority, or by or of any Taxing Authority or fiscal or other authority or agency (whether or not having the force of law).

"**Collection Account**" means an account of the Lender with [JP Morgan Chase Bank London], Collection Account Number [●].

"**Conditions Precedent**" has the meaning set forth in Clause 3 *(Availability of the Loan).*

"**Corporate Restructuring**" means, in respect of the Group, the announcement or occurrence of any amalgamation, merger, division, spin-off, transformation or other reorganisation or restructuring under applicable Ukrainian legislation, or any other reorganisation or restructuring under the laws of any other relevant jurisdiction, and which has resulted in a Rating Decline.

"**Corporate Restructuring Payment Date**" means the date specified as such in the notice from the Borrower to the Lender pursuant to Clause 7.2 (*Prepayment in the event of a Corporate Restructuring or Change of Control*).

"**Disbursement Account**" means an account of the Borrower with [Deutsche Bank Trust Company Americas], Account Number [●].

"**Dispute**" has the meaning set forth in Clause 25.2 (*English Courts*).

"**Drawdown Date**" has the meaning set forth in Clause 3 (*Availability of the Loan*).

"**Event of Default**" has the meaning set forth in Clause 15 (*Circumstances which Constitute Events of Default*).

"**Existing Shareholders**" means the individuals referred to as the Borrower's ultimate controlling shareholders in the section entitled "Shareholding" in the Offering Circular

"**Exposure**" means:

(a) the aggregate principal or nominal amount (net of specific provisions for losses) owed to the Borrower, whether direct or contingent, by a counterparty and its Affiliates, in respect of money borrowed, equity or debt raised, guarantees, letters of credit or debt instruments issued or confirmed and other off-balance sheet engagements in the ordinary course of the Borrower's commercial and consumer lending business; less

(b) any such amount which is fully secured by rights of off-set against the Liquid Assets in equivalent amounts and comparable maturities placed with the Borrower.

"**Germany**" means the Federal Republic of Germany and any political sub-division or agency thereof or therein.

"**Group**" means the Borrower and its Subsidiaries from time to time taken as a whole.

"**Guarantee**" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(a) any obligation to purchase such Indebtedness;

(b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(c) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(d) any other agreement to be responsible for such Indebtedness.

"**IFRS**" means International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the International Accounting Standards Board (as amended, supplemented or re-issued from time to time);

"**IFRS Fiscal Period**" means any fiscal period for which the Borrower has produced consolidated financial statements in accordance with IFRS which have either been audited or reviewed by the Auditors;

"**Indebtedness**" means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(a) amounts raised by acceptance under any acceptance credit facility;

(b) amounts raised under any note purchase facility or through the issue of bonds, debentures, loan stock or any similar instrument;

(c) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;

(d) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and

(e) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

provided that, for the avoidance of doubt, such term shall not include any indebtedness owed to the state budget, local budgets and non-budgetary funds on account of taxes which are not overdue.

"**Independent Appraiser**" means an investment banking firm of international standing or any third party appraiser of international standing appointed by the Borrower pursuant to Clause 14.19 (*Appointment of Independent Appraiser*) and approved by the party designated as trustee under the Agreed Funding Source Agreements, provided, however, that such firm or third party appraiser is not an Affiliate of the Borrower.

"**Interest Payment Date**" means [●] [and [●]] of each year in which the Loan remains outstanding, being the last day of the corresponding Interest Period, or if such day is not a Business Day, the next succeeding Business Day, commencing on [●], and the last such date being the Repayment Date.

"**Interest Period**" means, except as otherwise provided herein, any of those periods mentioned in Clause 4 (*Interest Periods*).

"**Interest Rate**" means, except as otherwise provided herein, the interest rate specified in Clause 5.2 (*Calculation of Interest*).

"**law**" means any statute, treaty, order, decree, instruction, letter, directive, instrument, regulation, ordinance or similar legislative or executive action by any national or international or local government or authority or by any ministry or department thereof and other agencies of state power and administration (including, but not limited to, taxation departments and authorities), whether in existence at the date hereof or introduced hereafter.

"**Liquid Assets**" means the aggregate (as of the relevant date for calculation) of the Borrower's cash, demand and overnight deposits and other deposits with a maturity of not more than thirty (30) calendar days, and marketable securities with a final maturity of less than one year issued or guaranteed by the Ukraine, or an agency or subdivision thereof, and claims against the Central Bank with a final maturity of less than one year.

"**Loan**" has the meaning set forth in Clause 2 (*The Loan*).

"**Material Subsidiary**" means, at any given time, any Subsidiary of the Borrower (a) whose total assets or gross revenues (or, where the Subsidiary in question prepares consolidated accounts, whose total consolidated assets or gross consolidated revenues, as the case may be) represent at least 10 per cent. of the total assets, or, as the case may be, total revenues of the Borrower and its Subsidiaries and, for these purposes (i) the total assets and gross revenues of such Subsidiary shall be determined by reference to its then most recent audited financial statements (or, if none, its then most recent management accounts); and (ii) the total assets and gross revenues of the Borrower shall be determined by reference to the Borrower's then most recent audited financial statements (or, if none, its then most recent management accounts), in each case prepared in accordance with IFRS or (b) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Borrower which immediately before the transfer is a Material Subsidiary of the Borrower. A certificate by the directors of the Borrower, that in their opinion, a Subsidiary of the Borrower is or is not a Material Subsidiary, accompanied by a report by the Auditors addressed to the directors of the Borrower as to proper extraction of the figures used by the directors of the Borrower in determining the Material Subsidiaries of the Borrower and mathematical accuracy of the calculations shall, in the absence of manifest error, be conclusive and binding on all parties.

"**Notes**" means the U.S.$[●] [●] per cent. Loan Participation Notes due [●] of the Lender to be issued on or about [●] 2005 for the sole purpose of financing the Loan.

"**Offering Circular**" means the offering circular dated on or about the date of this Agreement, relating to the issuance of the Notes by the Lender to the Agreed Funding Source.

"**Officers' Certificate**" means a certificate signed by two duly authorised officers of the Borrower.

"Permitted Security Interest" means:

(1) Security Interests in existence on the date of this Agreement;

(2) Security Interests securing Indebtedness of a Person existing at the time that such Person is merged into or consolidated with the Borrower or becomes a Subsidiary of the Borrower; provided however, that such Security Interests were not created in contemplation of such merger or consolidation and do not extend to any assets or property of the Borrower or any Subsidiary of the Borrower other than those of the surviving Person and its Subsidiaries;

(3) Security Interests on assets or property acquired by the Borrower or a Subsidiary of the Borrower; provided that such Security Interests were not created in contemplation of such acquisition and do not extend to any other assets or property (other than proceeds of such acquired assets or property);

(4) Security Interests arising from operation of law;

(5) Security Interests arising in the ordinary course of Banking Business;

(6) Security Interests for *ad valorem*, income or property taxes or assessments and similar charges or otherwise arising in the ordinary course of business which either are not delinquent or are being contested in good faith by appropriate proceedings for which the Borrower has set aside on its books reserves to the extent required by IFRS;

(7) Security Interests granted by third parties in favour of the Borrower or any of its Subsidiaries;

(8) Security Interests to secure the performance of tenders, statutory obligations, surety or appeal bonds, bids, leases, governmental contracts, performance and return of money bonds or other obligations of a like nature (not including obligations for the payment of borrowed money) incurred in the ordinary course of business;

(9) Security Interests granted or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other type of statutory obligations;

(10) Security Interests upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any Repo transaction;

(11) any other Security Interests not otherwise described in the preceding paragraphs (1) through (10) *provided that* the aggregate value of assets subject to such Security Interests does not at any time exceed 15 per cent. of the Group's assets, determined by reference to the balance sheet for the Borrower's most recent IFRS Fiscal Period; or

(12) any renewal or substitution for any Security Interest permitted by any of the preceding paragraphs (1) through (11); provided, however, that, with respect to Security Interests incurred pursuant to Clause 14.5 (*Negative Pledge*) the principal amount secured has not increased and the Security Interests have not been extended to any additional property (other than proceeds of the property in question).

"**Person**" means any individual, corporation, partnership, association, joint venture, joint-stock company, limited liability company, trust, unincorporated organisation or government or any Agency or political subdivision thereof.

"**Potential Event of Default**" means any event which would become (with the passage of time, the giving of notice and/or the making of a determination under this Agreement) an Event of Default.

"**Proceedings**" has the meaning set forth in Clause 25.4 (*Right of Lender to Take Proceedings Outside England*).

"**Qualifying Jurisdiction**" means any jurisdiction which has a double taxation treaty with Ukraine under which the payment of interest by Ukrainian borrowers to lenders established in such jurisdiction is generally able to be made (upon completion of any necessary formalities required in relation thereto) without deduction or withholding of Ukrainian income tax or subject to deduction or withholding of such tax at a rate not exceeding 2 per cent.

"**Rating Agency**" means Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc., ("**S&P**") Moody's Investors Service Limited ("**Moody's**") or Fitch Ratings Ltd, or any of their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Borrower, from time to time with the prior written approval of the Lender (and the party designated as trustee under the Agreed Funding Source Agreements).

"**Rating Categories**" means (1) with respect to S&P, any of the following categories (any of which may or may not include a "+" or "-"): AAA, AA, A, BBB, BB, B, CCC, CC, C and D (or equivalent successor categories); (2) with respect to Moody's, any of the following categories (any of which may or may not include a "1", "2" or "3"): Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C and D (or equivalent successor categories); and (3) the equivalent of any such categories of S&P or Moody's used by another rating agency, if applicable.

"**Rating Decline**" means that at any time within 90 days (which period shall be extended so long as the corporate credit rating of the Borrower or the credit rating in respect of the Notes is under publicly announced consideration for possible downgrade by any Rating Agency) after:

(a) in the case of a Corporate Restructuring, the announcement or the occurrence of any amalgamation, merger, division, spin-off, transformation or other reorganisation or restructuring under applicable Ukrainian legislation, or any other reorganisation or restructuring under the laws of any other relevant jurisdiction, in respect of the Group; or

(b) in the case of a Change of Control, the announcement or the occurrence of the Existing Shareholders ceasing to own (directly or indirectly) in excess of 50 per cent. in aggregate of the issued and allotted ordinary share capital carrying voting rights of the Borrower; or

(c) in the case of a disposal in accordance with Clause 14.9 (*Disposals*), the announcement or occurrence of the relevant transaction or series of transactions, the corporate rating of the Borrower or the rating of the Notes is decreased or downgraded by a Rating Agency by one or more Rating Categories below the corporate rating of the Borrower or the rating of the Notes as of the date hereof (or if a Rating Agency has not assigned any such rating as of the date hereof, below the first such rating assigned to the Borrower or the Notes by that Rating Agency after the date hereof) as a result of such transaction or series of transactions, as specified by the relevant Rating Agency.

"**Regulatory Capital**" has the meaning set out in Chapter II of Regulation No. 368 of the Central Bank of 28 August 2001.

"**Relevant Event**" has the meaning set forth in the Trust Deed.

"**Repayment Date**" means [●], or if such day is not a Business Day, the next succeeding Business Day.

"**Repo**" means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities borrowing agreement or any agreement relating to securities which is similar in effect to any of the foregoing, and, for purposes of this definition, the term "securities" means any capital stock, share, debenture or other debt or equity instrument, or any derivative thereof, whether issued by any private or public company, any government or agency or instrumentality thereof or any supranational, international or multilateral organisation.

"**Risk Weighted Assets**" means the aggregate of the Group's consolidated balance sheet assets and off-balance sheet commitments, weighted for credit and market risk in accordance with the BIS Guidelines.

"**Rules**" has the meaning set forth in Clause 25.7 (*Arbitration*).

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest (but excluding any lien arising by operation of law), including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

"**Subsidiary**" means a company or corporation (A):

(a) which is controlled, directly or indirectly, by another company or corporation (B); or

(b) more than half the issued share capital of which is beneficially owned, directly or indirectly, by B,

and, for these purposes, A shall be treated as being controlled by B if B is able to direct A's affairs and/or to control the composition of A's board of directors or equivalent body.

"**Taxes**" has the meaning set forth in Clause 8.1 (*Additional Amounts*).

"**Tax Indemnity Amounts**" has the meaning set out in Clause 8.3 (*Tax Indemnity*).

"**Taxing Authority**" has the meaning set out in Clause 8.1 (*Additional Amounts*).

"**Transferred Rights**" has the meaning set forth in the Trust Deed.

"**Trust Deed**" means the trust deed to be dated on or about [●] 2005 between the Lender and J.P. Morgan Corporate Trustee Services Limited, as trustee.

"**Ukraine**" shall mean Ukraine and any province or political sub-division or Agency thereof or therein.

"**unpaid sum**" has the meaning set forth in Clause 16.1 (*Default Interest Periods*).

1.2 **Other Definitions**

the "**Lender**" shall be construed so as to include its and any subsequent successors, assignees and chargees in accordance with their respective interests;

the "**equivalent**" on any given date in one currency (the "first currency") of an amount denominated in another currency (the "second currency") is a reference to the amount of the first currency which could be purchased with the amount of the second currency at the spot rate of exchange quoted on the relevant Reuters page or, where the first currency is (i) hryvnia and the second currency is (ii) U.S. dollars or as the case may be euros (or vice versa), as quoted by the National Bank of Ukraine at or about noon (London time or Brussels time (as applicable) or, as the case may be, Kyiv time) on such date for the purchase of the first currency with the second currency;

"**repay**" (or any derivative form thereof) shall, subject to any contrary indication, be construed to include "prepay" (or, as the case may be, the corresponding derivative form thereof); and

"**VAT**" shall be construed as a reference to (a) any tax imposed in compliance with the Sixth Directive of the Council of the European Economic Communities (77/388/EEC) (including in relation to the United Kingdom, value added tax imposed by the Value Added Tax Act 1994 and any legislation supplemental thereto); and (b) any other tax of a similar fiscal nature whether imposed in a member state of the European Union in substitution for or in addition to such tax, or imposed elsewhere.

1.3 **Interpretation**

Unless the context otherwise requires,

(a) a term has the meaning assigned to it;

(b) "or" is not exclusive;

(c) words in the singular include the plural, and in the plural include the singular;

(d) provisions apply to successive events and transactions;

(e) references to "U.S.$" or "U.S. dollars" are to United States dollars and references to "hryvnia" are to Ukrainian hryvnia.

Any references to the rights of the Lender in this Agreement shall be read as references to rights of the party designated as trustee under the Agreed Funding Source Agreement pursuant to the charge and assignment referred to in Clause 21.3 except as in relation to the Reserved Rights as specified in Clause 4 of the Trust Deed.

1.4 **Statutes**

Any reference in this Agreement to a statute shall be construed as a reference to such statute as the same may have been, or may from time to time be, amended or re-enacted.

1.5 **Headings**

Clause and Schedule headings are for ease of reference only.

1.6 **Amended Documents**

Except where the contrary is indicated, any reference in this Agreement to this Agreement or any other agreement or document shall be construed as a reference to this Agreement or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, varied, novated or supplemented.

2. **THE LOAN**

The Lender grants to the Borrower, upon the terms and subject to the conditions hereof, a single disbursement term loan facility in the amount of U.S.$[●] (the "**Loan**"), funded by the Agreed Funding Source. In connection with the Loan and related transactions, the Borrower shall pay a financing arrangement fee to the Lead Managers and the Lender in accordance with the fee letter dated on or about the date of this Agreement among the Lead Managers, the Lender and the Borrower.

3. **AVAILABILITY OF THE LOAN**

The Loan will be available by way of a single advance that will be made by the Lender to the Disbursement Account, and the Borrower will draw down the Loan, on [●] 2005 (the "**Drawdown Date**"), or such later date as may otherwise be agreed by the parties to this Agreement, if:

(a) Deutsche Bank AG, London Branch and UBS Limited as lead managers, have received the condition precedent documents as listed in the Agreed Funding Source Agreements in form and substance satisfactory to them (the "**Conditions Precedent**");

(b) the Lender has received full funding of the Loan from the Agreed Funding Source; and

(c) no event has occurred or circumstance arisen which would, whether or not with the giving of notice and/or the passage of time and/or the fulfilment of any other requirement, constitute an event described under Clause 15 (*Events of Default*) and the representations set out in Clause 11 (*Representations and Warranties of the Borrower*) are true and accurate in all material respects on and as of the proposed date for the making of such Loan.

4. **INTEREST PERIODS**

The period for which the Loan is outstanding shall be divided into:

(i) a first period commencing on and including [●] 2005 and ending on and excluding [●] 2005 (the "**First Interest Period**"); and

(ii) successive semi-annual periods, ending on and excluding [●] and [●], each of which shall start on, and shall include, the last day of the preceding such period (each, together with the First Interest Period an "**Interest Period**").

5. **PAYMENT AND CALCULATION OF INTEREST**

5.1 **Payment of Interest**

Not later than noon (New York City time) two Business Days prior to each Interest Payment Date the Borrower shall pay to the Collection Account all accrued and unpaid interest calculated to the last day of each Interest Period on the outstanding principal amount of the Loan.

5.2 **Calculation of Interest**

The Loan shall bear interest at the rate of [●] per cent. per annum (the "**Interest Rate**"). The amount of interest payable on (i) the Interest Payment Date corresponding to the First Interest Period falling on [●] 2005 shall be U.S.$ [●] and (ii) each Interest Payment Date thereafter shall be calculated by applying the Interest Rate to the amount of the Loan, dividing the product by two, and rounding the resulting figure to the nearest cent, half a cent being rounded upwards. When interest is required to be calculated for any period other than an Interest Period, it shall be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each, and, in the case of an incomplete month, the actual number of days elapsed.

6. REPAYMENT

Subject to Clause 15.13 (*Rights of Lender upon Occurrence of an Event of Default*), not later than noon (New York City time) two Business Days prior to the Repayment Date, the Borrower shall repay in full the Loan and, to the extent not already paid in accordance with Clause 5.1 (*Payment of Interest*), all accrued and unpaid interest, any Additional Amounts and any Tax Indemnity Amounts calculated to the last day of the last Interest Period.

7. PREPAYMENT

7.1 Prepayment for Tax Reasons

If, as a result of the application of or any amendment to or change (including a change in interpretation or application) in the double taxation treaty between Ukraine and Germany (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) or the laws or regulations of Ukraine or Germany (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) or of any political sub-division thereof or any Agency therein, the Borrower would thereby be required to pay any Additional Amounts in respect of Taxes pursuant to Clause 8.1 (*Additional Amounts*) (other than Additional Amounts payable in respect of applicable Ukrainian withholding tax at a rate of up to 2 per cent.) or Tax Indemnity Amounts pursuant to Clause 8.3 (*Tax Indemnity*), then, provided that the Borrower cannot avoid the obligation to pay such Additional Amounts or Tax Indemnity Amounts by taking reasonable measures, the Borrower may (without premium or penalty), upon not less than 30 calendar days' written notice to the Lender (and to the party designated as trustee under the Agreed Funding Source Agreements), including or attaching an Officers' Certificate to the effect that the Borrower would be required to pay such Additional Amounts or Tax Indemnity Amounts, prepay the Loan in whole (but not in part) at any time together with all accrued and unpaid interest, any Additional Amounts and any Tax Indemnity Amounts. No such notice shall be given earlier than 90 calendar days prior to the earliest date on which the Borrower would be obligated to pay such Additional Amounts or Tax Indemnity Amounts, as the case may be.

7.2 Prepayment in the event of Corporate Restructuring or Change of Control

In the event of a Corporate Restructuring or Change of Control, the Borrower shall on the Corporate Restructuring Payment Date or Change of Control Payment Date, as the case may be, be required to prepay the Loan together with (i) all accrued and unpaid interest and (ii) any other amounts outstanding hereunder in either case to the extent and in the amount that the Lender is required to pay the holders of Notes as a result thereof as set forth in a written notice by the Lender to the Borrower (with a copy to the party designated as trustee under the Agreed Funding Source Agreements), including computation of such amount, given at least five (5) Business Days prior to the Corporate Restructuring Payment Date or Change of Control Payment Date, as the case may be.

Promptly, and in any event within fifteen (15) calendar days after the date of any Corporate Restructuring or Change of Control, as the case may be, the Borrower shall deliver to the Lender (and to the party designated as trustee under the Agreed Funding Source Agreements) a written notice in the form of an Officers' Certificate:

(i) stating that a Corporate Restructuring or Change of Control has occurred; and

(ii) specifying the Corporate Restructuring Payment Date or Change of Control Payment Date, as the case may be, which date shall be a Business Day falling not less that 30 calendar days nor more than 60 calendar days after the date such notice is delivered.

7.3 Notice of Prepayment

Without prejudice to any other requirement in this Agreement, any notice of prepayment given by the Borrower pursuant to Clause 7.1 (*Prepayment for Tax Reasons*) or Clause 7.2 (*Prepayment in the* *event of Corporate Restructuring or Change of Control*) hereof shall be irrevocable (except that, in respect of Clause 7.2(ii), such notice may be amended), shall specify the date upon which such prepayment is to be made and shall oblige the Borrower to make such prepayment two Business Days prior to such date.

7.4 **No Other Prepayments**

The Borrower shall not prepay the whole or any part of the amount of the Loan except at the times and in the manner expressly provided for in this Agreement.

7.5 **Costs of Prepayment**

The Borrower shall, on the date of prepayment, pay all accrued and unpaid interest, any Additional Amounts and any Tax Indemnity Amounts (each only with respect to the amount subject to such prepayment), as of such date of prepayment and all other amounts payable to the Lender hereunder in connection with such prepayment. The Borrower shall indemnify the Lender on demand against any administrative and legal costs and expenses reasonably incurred and properly documented by the Lender on account of any prepayment made in accordance with this Clause 7 (*Prepayment*).

7.6 **Reduction of Loan upon Cancellation of Notes**

The Borrower or any other member of the Group may from time to time purchase Notes in the open market or by tender or by a private agreement at any price. If such Notes are surrendered by the Borrower or any member of the Group to the Lender, as issuer of the Notes, for cancellation (together with an authorisation addressed to the registrar under the Agreed Funding Source Agreements to cancel such Notes), the Loan shall be deemed to have been prepaid in an amount corresponding to the aggregate principal amount of the Notes surrendered for cancellation, together with accrued interest and other amounts (if any) thereon and no further payment shall be made or required to be made by the Borrower in respect of such amounts.

8. **TAXES**

8.1 **Additional Amounts**

(a) All payments made by the Borrower in respect of the Loan shall be made free and clear of and without deduction or withholding for or on account of any present or future taxes, duties, assessments, fees or other governmental charges (collectively, "**Taxes**") imposed or levied by or on behalf of Ukraine or Germany (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes), or any political subdivision or taxing authority thereof or therein in each of the preceding jurisdictions (each, a "**Taxing Authority**"), unless the Borrower is required to withhold or deduct Taxes by law or by the interpretation or administration thereof. For the avoidance of doubt, this Clause 8.1 shall not apply to any Taxes on income payable by the Lender in Germany (or any Qualifying Jurisdiction).

(b) If at any time the Borrower is required to withhold or deduct any amount for or on account of Taxes imposed or levied by or on behalf of any Taxing Authority within Ukraine or Germany (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) from any payment made under or with respect to the Loan, the Borrower shall, on the due date for such payment, pay such additional amounts ("**Additional Amounts**") as may be necessary so that the net amount received by the Lender (including Additional Amounts) in U.S. dollars after such withholding or deduction will not be less than the amount the Lender would have received if such Taxes had not been withheld or deducted and free from liability in respect of such withholding or deduction; provided, however, that (i) for the avoidance of doubt, such Additional Amounts shall not be payable with respect to any Taxes on income payable by the Lender in Germany (or any Qualifying Jurisdiction) and (ii) such Additional Amounts (other than Additional Amounts payable in respect of applicable Ukrainian withholding tax at a rate of up to 2 per cent.) shall not be payable if and to the extent that such withholding or deduction is required following and on account of a Relevant Event.

(c) The Borrower will also:

(i) make such withholding or deduction; and

(ii) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law.

(d) At least 30 calendar days prior to each date on which any payment under or with respect to the Loan is due and payable, if the Borrower will be obligated to pay Additional Amounts (other than Additional Amounts payable in respect of applicable Ukrainian withholding tax at a rate of up to 2 per cent.) with respect to such payment, the Borrower will deliver to the Lender (and to the party designated as trustee under the Agreed Funding Source Agreements) an Officers' Certificate stating the fact that such Additional Amounts will be payable and the amounts so payable.

(e) If the Lender pays any amount in respect of such Taxes, the Borrower shall reimburse the Lender in U.S. dollars for such payment on demand.

(f) Whenever this Agreement mentions, in any context, the payment of amounts based upon the principal or premium, if any, interest or of any other amount payable under or with respect to the Loan, this includes, without duplication, payment of any Additional Amounts and Tax Indemnity Amounts that may be applicable.

The foregoing provisions shall apply, modified as necessary, to any Taxes imposed or levied by any Taxing Authority in any jurisdiction in which any successor obligor to the Borrower is organised.

8.2 Payments

The Borrower shall use all reasonable efforts to assist the Lender in ensuring that all payments made under this Agreement are exempt from deduction or withholding of Tax.

8.3 Tax Indemnity

Without prejudice to, and without duplication of, the provisions of Clause 8.1 (*Additional Amounts*),

(a) if at any time the Lender makes or is required to make any payment to a Person (other than to or for the account of the Agreed Funding Source) on account of Tax (other than Taxes on income payable by the Lender in Germany or any Qualifying Jurisdiction) in respect of the Loan or in respect of the Agreed Funding Source Agreements imposed by any Taxing Authority of or in Ukraine, Germany or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes, or any liability in respect of any such payment is asserted, imposed, levied or assessed against the Lender, the Borrower shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, written demand made by the Lender, indemnify the Lender against such payment or liability, together with any interest, penalties, costs and expenses payable or incurred in connection therewith; and

(b) if at any time a Taxing Authority imposes an obligation on the Lender to withhold or deduct any amount on any payment made or to be made by the Lender to or for the account of the Agreed Funding Source and the Lender is required by any Agreed Funding Source Agreements to pay additional amounts to such Agreed Funding Source in connection therewith, the Borrower shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, written demand made by the Lender, pay to the Lender an amount equal to such additional amounts as would be necessary to have been paid to such Agreed Funding Source so that the net amount received by the Agreed Funding Source (including such additional amounts) in U.S. dollars after such withholding or deduction will not be less than the amount such Agreed Funding Source would have received if such withholdings or deductions had not been made and free from liability in respect of such withholding or deduction.

Any payments required to be made by the Borrower under this Clause 8.3 are collectively referred to as "**Tax Indemnity Amounts**". For the avoidance of doubt, the provisions of this Clause 8.3 shall not apply to any withholding or deductions of Taxes with respect to the Loan which are subject to payment of Additional Amounts under Clause 8.1 (*Additional Amounts*).

8.4 **Tax Claims**

If the Lender intends to make a claim for any Tax Indemnity Amounts pursuant to Clause 8.3 (*Tax Indemnity*), it shall notify the Borrower thereof; provided that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its affairs.

8.5 **Tax Credits and Tax Refunds**

(a) If any Additional Amounts are paid under Clause 8.1 (*Additional Amounts*) or Tax Indemnity Amounts are paid under Clause 8.3 (*Tax Indemnity*) by the Borrower for the benefit of the Lender and the Lender, in its reasonable opinion, determines that it has received or been granted a credit against, a relief or remission for, or a repayment of, any Tax, then, if and to the extent that the Lender, in its opinion, determines that such credit, relief, remission or repayment is in respect of or calculated with reference to the deduction or withholding giving rise to such Additional Amounts or, in the case of Tax Indemnity Amounts, with reference to the liability, expense or loss to which the payment giving rise to such Tax Indemnity Amounts relates, the Lender shall, to the extent that it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, pay to the Borrower such amount as the Lender shall, in its opinion, have concluded to be attributable to such deduction or withholding or, as the case may be, such liability, expense or loss; provided that the Lender shall not be obliged to make any payment under this Clause 8.5 in respect of such credit, relief, remission or repayment until the Lender is in its opinion satisfied that its tax affairs for its tax year in respect of which such credit, relief, remission or repayment was obtained have been finally settled. Any such payment shall, in the absence of manifest error and subject to the Lender specifying in writing in reasonable detail the calculation of such credit, relief, remission or repayment and of such payment and providing relevant supporting documents evidencing such matters, be conclusive evidence of the amount due to the Borrower hereunder and shall be accepted by the Borrower in full and final settlement of its rights of reimbursement hereunder in respect of such deduction or withholding. Nothing contained in this Clause 8.5 shall interfere with the right of the Lender to arrange its tax affairs generally in whatever manner it thinks fit nor oblige the Lender to disclose any information relating to its tax affairs generally or any computations in respect thereof.

(b) If as a result of a failure to obtain relief from deduction or withholding of any Tax imposed by Ukraine or Germany (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) (i) such Tax is deducted or withheld by the Borrower and pursuant to Clause 8.1 (*Additional Amounts*) an increased amount is paid by the Borrower to the Lender in respect of such deduction or withholding, and (ii) following the deduction or withholding of Tax as referred to above, (A) the Borrower applies on behalf of the Lender to the relevant Ukrainian Taxing Authorities for a tax refund and such tax refund is credited by the Ukrainian Taxing Authorities to the Lender or (B) if such tax refund is otherwise credited by a relevant Taxing Authority to the Lender, pursuant to a final decision of such Taxing Authority, the Lender shall as soon as reasonably possible notify the Borrower of the receipt of such tax refund and promptly transfer the entire amount of the tax refund to a bank account of the Borrower specified for that purpose by the Borrower.

8.6 **Representation of the Lender**

The Lender represents that (a) it is a bank which at the date hereof is a resident of Germany, is subject to taxation in Germany on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Germany merely on income from sources in Germany or connected with property located in Germany; (b) it will account for the Loan on the date of closing on its balance sheet as an asset under “loans and advances to customers” and any arrangements in connection with the Agreed Funding Source as a liability under “certificated liabilities” and (c) at the date hereof, it does not have a permanent establishment in Ukraine for purposes of applicable Ukrainian tax legislation.

The Lender shall make reasonable and timely efforts to assist the Borrower to obtain relief from withholding of Ukrainian income tax pursuant to the double taxation treaty between Ukraine and the jurisdiction in which the Lender is incorporated, including its obligations under Clause 8.8 (*Delivery of Forms*). The Lender makes no representation as to the application or interpretation of any double taxation treaty between Ukraine and the jurisdiction in which the Lender is incorporated.

8.7 **Exceptions**

The Lender agrees promptly, upon becoming aware of such, to notify the Borrower if it ceases to be resident in Germany or a Qualifying Jurisdiction or if any of the representations set forth in Clause 8.6 (*Representations of the Lender*) are no longer true and correct. If the Lender ceases to be resident in Germany or a Qualifying Jurisdiction, then, except in circumstances where the Lender has ceased to be resident in Germany or a Qualifying Jurisdiction by reason of any Change of Law (including a change in a double taxation treaty or in such law or treaty’s application or interpretation), in each case taking effect after the date of this Agreement, the Borrower shall not be liable to pay to the Lender under Clause 8.1 (*Additional Amounts*) or Clause 8.3 (*Tax Indemnity*) any sum in excess of the sum it would have been obliged to pay if the Lender had not ceased to be resident in Germany or a Qualifying Jurisdiction.

8.8 **Delivery of Forms**

The Lender shall within 30 calendar days of the request of the Borrower, to the extent it is able to do so under applicable law including Ukrainian laws, deliver to the Borrower a certificate issued by the competent state authority in Germany (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) confirming that the Lender is a tax resident in Germany (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) and such other information or forms as may need to be duly completed and delivered by the Lender to enable the Borrower to apply to obtain relief from deduction or withholding of Ukrainian Tax after the date of this Agreement, including under the double taxation treaty, or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Ukrainian Tax has not been obtained. [The Lender shall, within [10] calendar days of receipt of a letter from the Borrower, substantially in the form set out in Annex A to this Agreement and setting out the net amount of interest payable after deduction or withholding of Ukrainian tax, counter-sign such letter and return it to the Borrower by international courier.] The Lender shall, within 30 calendar days of the request of the Borrower, to the extent it is able to do so under applicable law including Ukrainian laws, from time to time deliver to the Borrower any additional duly completed application forms as need to be duly completed and delivered by the Lender to enable the Borrower to apply to obtain relief from deduction or withholding of Ukrainian Tax or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Ukrainian Tax has not been obtained. The certificate and, if required, other forms referred to in this Clause 8.8 shall be duly signed by the Lender, if applicable, and stamped or otherwise approved by the competent state authority in Germany (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) and apostilled or otherwise legalised. If a relief from deduction or withholding of Ukrainian Tax under this Clause 8.8 has not been obtained and further to an application of the Borrower to the relevant Ukrainian Taxing Authorities the latter makes a tax refund to the Borrower, then, if and to the extent that the

Borrower has failed to make payment of Additional Amounts in relation to the payments under this Agreement from which no such relief as aforesaid was obtained, the Borrower shall promptly transfer to the Lender an amount in U.S. dollars equivalent to such refund. The Borrower shall pay all costs (including, but not limited to, currency conversion costs) associated with such transfer.

9. TAX RECEIPTS

9.1 Notifications of Requirement to Deduct Tax

If, at any time, the Borrower is required by law to make any deduction or withholding from any sum payable by it hereunder, or if thereafter there is any change in the rates at which or the manner in which such deductions or withholdings are calculated, the Borrower shall promptly notify the Lender.

9.2 Evidence of Payment of Tax

(a) The Borrower will make all reasonable endeavours to obtain certified copies, and translations into English, of tax receipts evidencing the payment of any Taxes so deducted or withheld from each Taxing Authority imposing such Taxes. The Borrower will furnish to the Lender (and to the party designated as trustee under the Agreed Funding Source Agreements), within 60 calendar days after the date the payment of any Taxes so deducted or withheld is due pursuant to applicable law, either certified copies of tax receipts evidencing such payment by the Borrower or, if such receipts are not obtainable, other evidence of such payments by the Borrower.

(b) The Lender will make all reasonable endeavours to obtain certified copies, and translations into English, of tax receipts evidencing the payment of any Taxes so deducted or withheld from each Taxing Authority imposing such Taxes. The Lender will furnish to the Borrower, within 60 calendar days after the date the payment of any Taxes so deducted or withheld is due pursuant to applicable law, either certified copies of tax receipts evidencing such payment by the Lender or, if such receipts are not obtainable, other evidence of such payments by the Lender.

10. CHANGES IN CIRCUMSTANCES

10.1 Increased Costs Claims

If, by reason of (i) any Change of Law, other than a Change of Law which relates only to the basis or rate of Tax on the net income of the Lender, and/or (ii) compliance with any Capital Adequacy Requirement, reserve or deposit requirement or any other request from or requirement of any central bank or other fiscal, monetary or other authority which has effect in Germany (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes):

(a) the Lender incurs an additional cost as a result of the Lender's entering into or performing its obligations, including its obligation to make the Loan, under this Agreement (excluding Taxes payable by the Lender on its overall net income); or

(b) the Lender becomes liable to make any additional payment on account of Tax or otherwise, not being a Tax imposed on its net income, on or calculated by reference to the amount of the Loan and/or to any sum received or receivable by it hereunder except where compensated under Clause 8.1 (*Additional Amounts*) or under Clause 8.3 (*Tax Indemnity*);

then the Borrower shall, from time to time within 30 calendar days of written demand of the Lender, pay to the Lender amounts sufficient to hold harmless and indemnify it from and against, as the case may be, such properly documented cost or liability; provided that the Lender will not be entitled to indemnification where such increased cost or liability arises as a result of the gross negligence, fraud or wilful default of the Lender; and provided that the amount of such increased cost or liability shall be deemed not to exceed an amount equal to the proportion of any cost or liability which is directly attributable to this Agreement.

10.2 **Increased Costs Claims**

If the Lender intends to make a claim pursuant to Clause 10.1 (*Increased Costs*), it shall notify the Borrower thereof and provide a written description in reasonable detail of the relevant Change of Law or Capital Adequacy Requirement, as the case may be, including a description of the relevant affected jurisdiction or country and the date on which the change in circumstances took effect; provided that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its or any other Person's affairs. The written description shall demonstrate the connection between the change in circumstance and the increased costs and shall be accompanied by relevant supporting documentation evidencing the matters described therein.

10.3 **Illegality**

If, at any time after the date of this Agreement, it is unlawful for the Lender to make, fund or allow to remain outstanding the Loan made or to be made by it hereunder or to maintain the Agreed Funding Source then the Lender shall, after becoming aware of the same, deliver to the Borrower a written notice, setting out in reasonable detail the nature and extent of the relevant circumstances, to that effect and:

(a) if the Loan has not then been made, the Lender shall not thereafter be obliged to make the Loan; and

(b) if the Loan is then outstanding and the Lender so requests, the Borrower shall, on the latest date permitted by the relevant law or such earlier day as the Borrower elects (as notified to the Lender upon not less than 30 calendar days' written notice prior to the date of repayment), repay the Loan together with accrued and unpaid interest thereon and all other amounts owing to the Lender hereunder.

10.4 **Mitigation**

If circumstances arise which would result in:

(a) any payment falling due to be made by or to the Lender or for its account pursuant to Clause 10.3 (*Illegality*);

(b) any payment falling due to be made by the Borrower pursuant to Clause 8.1 (*Additional Amounts*); or

(c) a claim for indemnification pursuant to Clause 8.3 (*Tax Indemnity*) or Clause 10.1 (*Increased Costs*),

then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or the Borrower's obligations under any of the above mentioned provisions, the Lender shall, upon becoming aware of the same, notify the Borrower thereof and, in consultation with the Borrower and to the extent it can lawfully do so and without prejudice to its own position, take reasonable steps to remove such circumstances or mitigate the effects of such circumstances including, without limitation, by the change of its lending office or transfer of its rights or obligations under this Agreement to another bank; provided that the Lender shall be under no obligation to take any such action if, in its opinion, to do so might have any adverse effect upon its business, operations or financial condition or might be in breach of any arrangements which it may have made in connection with the Agreed Funding Source.

11. REPRESENTATIONS AND WARRANTIES OF THE BORROWER

The Borrower makes the following representations and warranties and acknowledges that the Lender has entered into this Agreement in reliance on those representations and warranties.

11.1 **Due Organisation, Capacity and Authorisation**

The Borrower is duly organised and validly existing under the laws of Ukraine with full power and capacity and lawful qualification to own or lease its property and assets and to conduct its business as currently conducted; the Borrower has full power and capacity to execute this Agreement and to undertake and perform the obligations expressed to be assumed by it herein, and the Borrower has taken all necessary corporate action to approve and authorise the same.

11.2 **Governmental Approvals**

All actions or things required to be taken, fulfilled or done by laws or regulations of Ukraine (including, without limitation, the obtaining of any consent, approval (including exchange control approval), authorisation, order, licence or qualification of or with any court or governmental agency), and all registrations, filings or notarisations required by laws or regulations of Ukraine (except for those referred to in Clause 14.1 (*Maintenance of Legal Validity*) below), in order to ensure (i) the due execution, delivery, validity and performance by the Borrower of this Agreement, (ii) the compliance by the Borrower with all the provisions of this Agreement and (iii) the consummation of all the transactions contemplated by this Agreement have been obtained, fulfilled or done and are in full force and effect.

11.3 ***Pari Passu* Obligations**

Under the laws of Ukraine in force at the date of this Agreement, the claims of the Lender against the Borrower under this Agreement will rank at least *pari passu* in right of payment with the claims of all its other unsecured creditors, save those whose claims are preferred by any bankruptcy, insolvency, liquidation, moratorium or similar laws of general application.

11.4 **Validity and Admissibility in Evidence**

All acts, conditions and things required to be done, fulfilled and performed (other than by the Lender) to make this Agreement admissible in evidence in Ukraine (whether in arbitration proceedings or otherwise) have been done, fulfilled and performed.

11.5 **Valid and Binding Obligations**

The obligations expressed to be assumed by the Borrower in this Agreement are legal, valid and binding and, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganisation, moratorium and other similar laws relating to or affecting creditors' rights generally and general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law), enforceable against it.

11.6 **No Deduction**

Under the laws of Ukraine in force at the date of this Agreement, in accordance with the terms of the agreement of 3 July 1995 between Germany and Ukraine for the Avoidance of Double Taxation with respect to Taxes on Income and Capital and subject to the due satisfaction by the Lender of certain conditions set forth therein and of certain requirements of applicable Ukrainian legislation, except for the deduction and withholding of repatriation tax on Ukrainian source income at the reduced rate of 2 per cent., payments of principal and/or interest by the Borrower to the Lender under this Agreement may be made without deduction on account of the generally applicable repatriation tax (at a rate of 15 per cent) established by applicable Ukrainian legislation.

11.7 **No Stamp Taxes**

Under the laws of Ukraine in force at the date hereof, it is not necessary that any stamp, registration or similar Tax be paid on or in relation to the execution and delivery of this Agreement.

11.8 **No Events of Default**

No event has occurred or circumstance arisen which would constitute an Event of Default or a Potential Event of Default.

11.9 **No Material Proceedings**

There are no lawsuits, litigation or other legal or administrative or arbitration proceedings current or pending or, to the best of the knowledge and belief of the Borrower, threatened before any court, tribunal, arbitration panel or Agency which might (a) prohibit the execution and delivery of this Agreement or the Borrower's compliance with its obligations hereunder or (b) adversely affect the right and power of the Borrower to enter into this Agreement or (c) have a material adverse effect on the business, financial condition or results of business operations of the Group or on the Borrower's ability to perform or comply with its obligations under this Agreement and which, in each case, might affect the investment decision of the Agreed Funding Source.

11.10 **No Material Adverse Change**

Since 31 December 2004 there has been no material adverse change or any development involving a prospective material adverse change of which the Borrower is or might reasonably be expected to be aware in the business, financial condition or results of business operations of the Group and which might affect the investment decision of the Agreed Funding Source.

11.11 **Financial Statements**

The Borrower's consolidated audited financial statements for its two financial years ended 31 December 2004 were prepared in accordance with IFRS consistently applied and present (in conjunction with the notes thereto) in accordance with IFRS the financial condition of the Group as at the date as of which they were prepared and the result of the operations of the Group during the periods then ended.

11.12 **Execution of Agreement**

Its execution and delivery of this Agreement and its exercise of its rights and performance of its obligations hereunder do not and will not:

(a) violate or conflict with any existing applicable law, rule, regulation, judgment, order, directive or decree of any government, governmental body or court in Ukraine binding upon the Borrower or any of its Subsidiaries; or

(b) conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, any material indenture, trust deed, mortgage or other material contract, agreement or instrument to which the Borrower or any of its Material Subsidiaries is a party or by which it or any of its Material Subsidiaries, or any of its or its Material Subsidiaries' properties or assets, is bound;

(c) give rise to any event of default or moratorium in respect of any of the obligations of the Borrower or any of its Material Subsidiaries or the creation of any lien, encumbrance or other security interest (howsoever described) in respect of any of the assets of the Borrower or any of its Material Subsidiaries which, in any case, could reasonably be expected to have a material adverse effect on the Borrower's ability to perform or comply with its obligations under this Agreement; or

(d) conflict with the provisions of its constitutive documents, its rules and regulations, or any resolution of its shareholders.

11.13 **Compliance with Laws**

Each of the Borrower and its Material Subsidiaries is in compliance with, in all material respects, all applicable provisions of the law and regulations of Ukraine.

11.14 **Repetition**

Each of the representations and warranties contained in Clause 11 (*Representations and Warranties of the Borrower*) shall be deemed to be repeated by the Borrower on the date for the making of the Loan and, in the case of Clauses 11.8 (*No Events of Default*), 11.9 (*No Material Proceedings*) and 11.10 (*No Material Adverse Change*), repeated as at the date thereof on each Interest Payment Date, by reference to the facts and circumstances then existing except that the words "or the passage of time" in Clause 11.8 (*No Events of Default*) shall be deemed deleted in relation to every such repetition.

12. **REPRESENTATIONS AND WARRANTIES AND AGREEMENT OF THE LENDER**

12.1 **Representations and Warranties**

In addition to the representations and warranties set forth in Clause 8.6 (*Representations of the Lender*), the Lender makes the representations and warranties set out in Clause 12.1.1 (*Status*) to Clause 12.1.4 (*No Conflicts*), inclusive, and acknowledges that the Borrower has entered into this Agreement in reliance on those representations and warranties.

12.1.1 S*tatus*

The Lender is duly incorporated under the laws of Germany and is resident for German taxation purposes in Germany and has full corporate power and authority to enter into this Agreement and any other agreements relating to the Agreed Funding Source, and to undertake and perform the obligations expressed to be assumed by it herein and therein.

12.1.2 *Authorisation*

Each of this Agreement and each of the Agreed Funding Source Agreements entered into by the Lender has been duly authorised, executed and delivered by the Lender, and is a legal, valid and binding obligation of the Lender, enforceable against the Lender in accordance with its terms, except that the enforcement thereof may be subject to bankruptcy, insolvency, fraudulent conveyance, reorganisation, moratorium and other similar laws relating to or affecting creditors' rights generally.

12.1.3 *Consents and Approvals*

All authorisations, consents and approvals required by the Lender for or in connection with the execution of this Agreement and any other agreements relating to the Agreed Funding Source and the performance by the Lender of the obligations expressed to be undertaken in such agreements have been obtained and are in full force and effect.

12.1.4 *No Conflicts*

The execution of this Agreement and any Agreed Funding Source Agreements to which the Lender is a party and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of Germany.

12.2 **Noteholder Meetings**

The Lender shall, promptly upon request by the Borrower, convene a meeting of holders of Notes in accordance with the terms and conditions of the Notes and the provisions of the Trust Deed.

13. INFORMATION

13.1 Delivery

The Borrower shall supply or procure to be supplied to the Lender, in sufficient copies as may reasonably be required by the Lender, all such information as the Luxembourg Stock Exchange (or any other or further stock exchange or stock exchanges or any other relevant authority or authorities on which the instruments issued to the Agreed Funding Source may, from time to time, be listed or admitted to trading) may require in connection with the listing or admittance to trading on such stock exchange or relevant authority of instruments issued to the Agreed Funding Source.

14. COVENANTS

14.1 Maintenance of Legal Validity

The Borrower shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents and make or cause to be made all registrations, recordings and filings required in or by the laws and regulations of Ukraine to enable it lawfully to enter into and perform its obligations under this Agreement and to ensure the legality, validity, enforceability or admissibility in evidence in Ukraine of this Agreement, including, but not limited to, the registration of this Agreement with the Central Bank.

14.2 Untrue Representations

Before the making of the Loan, the Borrower shall notify the Lender of the occurrence of any event which results in or may reasonably be expected to result in any of the representations contained in Clause 11 (*Representations and Warranties of the Borrower*) being untrue at or before the time of the making of such Loan.

14.3 Notification of Events of Default

The Borrower shall promptly on becoming aware thereof inform the Lender of the occurrence of any Event of Default or Potential Event of Default and, upon receipt of a written request to that effect from the Lender, confirm to the Lender that, save as previously notified to the Lender or as notified in such confirmation, no Event of Default or Potential Event of Default has occurred.

14.4 Claims *Pari Passu*

The Borrower shall ensure that at all times the claims of the Lender against it under this Agreement rank at least *pari passu* with the claims of all the other unsecured and unsubordinated creditors of the Borrower, except as otherwise provided by mandatory provisions of applicable law.

14.5 Negative Pledge

So long as the Loan or any part of it has not been repaid in full, the Borrower shall not, and the Borrower shall procure that none of its Material Subsidiaries will, create or permit to subsist any Security Interest, other than Permitted Security Interests, upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Indebtedness or any Guarantee of Indebtedness unless, at the same time or prior thereto, the obligations under this Agreement (i) are secured equally and rateably therewith or (ii) have the benefit of such other security or other arrangement which is equivalent in all material respects to such Security Interest and which shall be approved by the Lender.

14.6 Stay, Extension and Usury Laws

The Borrower covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Agreement; and the Borrower (to the extent it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it shall not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Lender (or granted to the party designated as trustee under the Agreed Funding Source Agreements by such Agreed Funding Source Agreements), but shall suffer and permit the execution of every such power as though no such law had been enacted.

14.7 **Use of Proceeds of the Loan**

The Borrower shall use the net proceeds of the Loan to prepay existing obligations, fund loans to corporate and/or individual customers and for general corporate purposes and, without affecting the obligations of the Borrower in any way the Lender shall not be obliged to concern itself with such application.

14.8 **Mergers**

The Borrower shall not, and shall ensure that none of its Material Subsidiaries will, without the prior written consent of the Lender (and the party designated as trustee under the Agreed Funding Source Agreements), enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation, as these terms are construed by applicable Ukrainian legislation), or participate in any other type of corporate reconstruction, if any such reorganisation or other type of corporate reconstruction would (i) have a material adverse effect on the business, financial condition or prospects of the Borrower or on the Borrower's ability to perform or comply with its obligations under this Agreement or (ii) result in a Rating Decline.

This Clause 14.8 shall not apply to any reorganisation or other type of corporate reconstruction which constitutes a Corporate Restructuring.

14.9 **Disposals**

Without prejudice to the provisions of Clause 14.10, the Borrower shall not, and shall ensure that none of its Material Subsidiaries will, sell, lease, transfer or otherwise dispose of, to a Person other than the Borrower or a Subsidiary of the Borrower, as the case may be, by one or more transactions or series of transactions (whether related or not), the whole or any part of its assets which in any 12-month period together constitute more than 10 per cent. of the gross assets of the Group on a consolidated basis determined by reference to the balance sheet for the Borrower's most recent IFRS Fiscal Period unless such transaction(s) (a) is/are on an arm's length basis and on commercially reasonable terms as determined in its sole discretion by an Independent Appraiser, (b) has/have been approved by a decision adopted by the competent governing body of the Borrower or, as the case may be, Material Subsidiary and (c) would not (i) have a material adverse effect on the business, financial condition or prospects of the Borrower or on the Borrower's ability to perform or comply with its obligations under this Agreement or (ii) result in a Rating Decline.

This Clause 14.9 shall not apply to any sale, lease, transfer or other disposition (i) of inventory, receivables or other current assets in the ordinary course of the Borrower's or, as the case may be, the relevant Material Subsidiary's business consistent with past practice, or (ii) which constitutes a Corporate Restructuring.

14.10 **Transactions with Affiliates**

The Borrower shall not, and shall ensure that none of its Subsidiaries, directly or indirectly, will, conduct any business, enter into or permit to exist any transaction or series of related transactions (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an "**Affiliate Transaction**") including intercompany loans, unless the terms of such Affiliate Transaction (a) are no less favourable to the Borrower or such Subsidiary, as the case may be, than those that could be obtained in a comparable arm's-length transaction with a Person that is not an Affiliate of the Borrower or any of its Subsidiaries, and (b) has/have been approved by a decision adopted by the competent governing body of the Borrower or, as the case may be, Subsidiary.

With respect to an Affiliate Transaction involving aggregate payments or value in excess of U.S.$15,000,000 the Borrower shall deliver to the Lender (and to the party designated as trustee under the Agreed Funding Source Agreements) a written opinion from an Independent Appraiser to the effect that such Affiliate Transaction is fair, from a financial point of view, to the Borrower.

The foregoing requirements of this Clause 14.10 shall not apply to any Affiliate Transaction made pursuant to a contract existing on the Drawdown Date (excluding any amendments or modifications thereof made after the Drawdown Date), provided, however, that in no event shall the aggregate amount of all Affiliate Transactions (including, for the avoidance of doubt, any Affiliate Transactions made pursuant to a contract existing on the Drawdown Date) exceed 25 per cent. of the Group's assets, determined by reference to the balance sheet for the Borrower's most recent IFRS Fiscal Period.

This Clause 14.10 shall not apply to any transaction or series of transactions (i) between or among all or any of the Borrower and/or its Subsidiaries, or (ii) which constitutes a Corporate Restructuring.

14.11 **Payment of Taxes**

The Borrower shall, and shall ensure that its Subsidiaries will, pay or discharge or cause to be paid or discharged, before the same shall become overdue all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of the Borrower and its Subsidiaries; provided, however, that none of the Borrower nor any Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment or charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS or other appropriate provision has been made.

14.12 **Financial Information**

So long as the Loan or any part of it has not been repaid in full, the Borrower shall deliver to the Lender (and to the party designated as trustee under the Agreed Funding Source Agreements):

(a) not later than 150 days after the end of each of its financial years, copies of the Borrower's audited consolidated financial statements for such financial year, prepared in accordance with IFRS;

(b) not later than 120 days after the end of the second quarter of each of its financial years, copies of the Borrower's unaudited consolidated financial statements for six months, prepared in accordance with IFRS; and

(c) without undue delay, such additional information regarding the financial position or the business of the Borrower as the Lender (and the party designated as trustee under the Agreed Funding Source Agreements) may reasonably request including for the purposes of providing certification to the trustee under the Agreed Funding Source Agreements.

14.13 **Maintenance of Capital Adequacy**

The Borrower shall not permit its ratio of Capital to Risk Weighted Assets to fall below 12 per cent. **provided however that** if the corporate credit rating of the Borrower is at least BB- by S&P, Ba3 by Moody's or the equivalent of such category by another Rating Agency, it shall not permit its ratio of Capital to Risk Weighted Assets to fall below 11 per cent.

14.14 Exposure to Single Borrower

The Borrower shall not, and shall ensure that each Subsidiary which carries on a banking business in Ukraine shall not, permit its ratio of Exposure to a single Person and its Affiliates to Regulatory Capital to rise above 25 per cent.

14.15 Restricted Payments

(a) Subject to Clause 14.15(b), the Borrower shall not, and shall not permit any of its Subsidiaries to, directly or indirectly:

  (i) declare or pay dividends, in cash or otherwise, or make any other distributions (whether by way of redemption, acquisition or otherwise) in respect of its share capital, in each case in accordance with applicable legislation (other than dividends or other distributions paid to the Borrower or any of its Subsidiaries); or

  (ii) voluntarily purchase, redeem or otherwise retire for value any Capital Stock or subordinated debt (other than Capital Stock or subordinated debt held by the Borrower or any of its Subsidiaries),

  any such action being referred to herein as a "**Restricted Payment**".

(b) The Borrower and any of its Subsidiaries may make a Restricted Payment if at the time of such payment no Event of Default has occurred or would result therefrom and the aggregate amount of all Restricted Payments in any fiscal year does not exceed 50 per cent. of the Group's consolidated net profit (calculated in accordance with IFRS) for such fiscal year.

14.16 Limitations on restrictions on distributions from Material Subsidiaries

Except as permitted under Clause 14.15 (*Restricted Payments*) above, the Borrower shall not and shall not permit any of its Material Subsidiaries to create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Material Subsidiary: (a) to pay dividends or make any other distributions on its share capital; (b) to make any loans or advances or pay any Indebtedness owed to the Borrower; or (c) to transfer any of its property or assets to the Borrower, other than encumbrances or restrictions existing under (i) applicable law, (ii) the Notes and/or the Agreed Funding Source Agreements and (iii) any other agreement in effect prior to the Drawdown Date and advised in writing to the Lender (or the party designated as trustee under the Agreed Funding Source Agreements).

14.17 Corporate Restructuring or Change of Control

Upon the occurrence of a Corporate Restructuring or Change of Control, the Borrower shall prepay the Loan, in whole or in part, pursuant to and subject to the conditions described in Clause 7.2 (*Prepayment in the event of Corporate Restructuring or Change of Control).*

14.18 Compliance Certificates

On each occasion the Borrower delivers a set of financial statements in accordance with Clause 14.12 (*Financial Information*), the Borrower shall also deliver to the Lender (and the party designated as trustee under the Agreed Funding Source Agreements), written notice in the form of an Officer's Certificate stating whether any Potential Event of Default or Event of Default has occurred and, if it has occurred and shall be continuing, what action the Borrower is taking or proposes to take with respect thereto.

14.19 Appointment of Independent Appraiser

The Borrower shall use its best endeavours to appoint an Independent Appraiser without delay and in any event within fifteen (15) days after becoming aware of the circumstance which gives rise to the need for such appointment. In the event that the Borrower fails to appoint an Independent Appraiser within such period the Borrower shall promptly notify the Lender (but, following the assignment of the Transferred Rights, the party designated as trustee under the Agreed Funding Source Agreement) of its failure to appoint.

15. EVENTS OF DEFAULT

15.1 Circumstances which Constitute Events of Default

Each of Clause 15.2 (*Failure to Pay*) to Clause 15.12 (*Authorisations*) inclusive, constitutes an "**Event of Default**" with respect to the Loan:

15.2 Failure to Pay

The Borrower fails to pay any amount of principal, interest, Additional Amounts or Tax Indemnity Amounts under the Loan, in the currency and in the manner specified herein, when the same becomes due and payable, and such failure is not remedied within 5 Business Days of the due date for payment.

15.3 Obligations

The Borrower defaults in the performance or observance of any of its obligations other than that set out in Clause 15.2 (*Failure to Pay*) under or in respect of this Agreement and such default (if capable of being remedied) is not remedied within 15 days after the Lender has given written notice thereof to the Borrower requiring the same to be remedied.

15.4 Cross Default

(a) any Indebtedness of the Borrower or any of its Subsidiaries is not paid when due or (as the case may be) upon the expiration of any originally applicable grace period;

(b) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Borrower or (as the case may be) the relevant Subsidiary or (provided that no event of default, howsoever described, has occurred) any person entitled to such Indebtedness; or

(c) the Borrower or any of its Subsidiaries fails to pay when due and called upon any amount payable by it under any Guarantee of any Indebtedness;

provided that the amount of Indebtedness referred to in sub-paragraph (a) and/or sub-paragraph (b) above and/or the amount payable under any Guarantee referred to in sub-paragraph (c) above, individually or in the aggregate, exceeds U.S.$7,000,000 (or its equivalent in any other currency or currencies).

15.5 Unsatisfied judgment

One or more judgment(s) or order(s) for the payment of an amount in excess of U.S.$7,000,000 (or its equivalent in any other currency or currencies), whether individually or in aggregate, is rendered against the Borrower or any of its Subsidiaries and continue(s) unsatisfied and unstayed for a period of 60 days after the date(s) of the entry into force thereof or, if later, the date therein specified for payment.

15.6 Security enforced

A secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or (in the opinion of the party designated as trustee of the Agreed Funding Source Agreements in accordance with the terms of the Agreed Funding Source Agreements) a substantial part of the undertaking and assets of the Borrower or any of its Material Subsidiaries.

15.7 **Insolvency, etc**

(i) the Borrower or any of its Material Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Borrower or any of its Material Subsidiaries or the whole or (in the opinion of the party designated as trustee of the Agreed Funding Source Agreements in accordance with the terms of the Agreed Funding Source Agreements) a substantial part of the undertaking and assets of the Borrower or any of its Material Subsidiaries is appointed (or application for any such appointment is made), (iii) the Borrower or any of its Material Subsidiaries makes a general assignment or a general arrangement or general composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it, (iv) the Borrower ceases or threatens to cease to carry on all or any substantial part (in the opinion of the party designated as trustee of the Agreed Funding Source Agreements in accordance with the terms of the Agreed Funding Source Agreements) of the principal business it carried on at the date hereof or (v) the general banking licence of the Borrower or, if applicable, any of its Material Subsidiaries is revoked.

15.8 **Winding Up, etc.**

An order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Borrower or any of its Material Subsidiaries (otherwise than, in the case of a Material Subsidiary of the Borrower, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent).

15.9 **Analogous Event**

Any event occurs which under the laws of Ukraine has an analogous effect to any of the events referred to in Clauses 15.5 (*Unsatisfied judgment*) to 15.8 (*Winding up, etc.*) above.

15.10 **Validity and Illegality**

(a) The validity of this Agreement is contested by the Borrower or the Borrower shall deny any of the Borrower's obligations under this Agreement; or

(b) it is, or will become, unlawful for the Borrower to perform or comply with any of its obligations under this Agreement; or

(c) any of such obligations shall become unenforceable or cease to be legal, valid and binding in a manner which has a material adverse effect on the rights or claims of the Lender under this Agreement.

15.11 **Government Intervention**

(i) all or (in the opinion of the party designated as trustee of the Agreed Funding Source Agreements in accordance with the terms of the Agreed Funding Source Agreements) a substantial part of the undertaking and assets of the Borrower or any of its Material Subsidiaries is condemned, seized or otherwise appropriated by any person acting under the authority of any Agency, national, regional or local government or (ii) the Borrower or any of its Material Subsidiaries is prevented by any such person from exercising normal control over all or (in the opinion of the party designated as trustee of the Agreed Funding Source Agreements in accordance with the terms of the Agreed Funding Source Agreements) a substantial part of its undertaking and assets.

15.12 **Authorisations**

Any regulation, decree, consent, approval, licence or other authority necessary to enable the Borrower to enter into or perform its obligations under this Agreement or for the validity or enforceability thereof shall expire or be withheld, revoked or terminated or otherwise cease to remain in full force and effect or shall be modified in a manner which has a material adverse effect upon the rights or claims of the Lender under this Agreement.

15.13 **Rights of Lender upon Occurrence of an Event of Default**

If an Event of Default occurs under this Agreement and is continuing, the Lender (if it receives instructions from the party designated as trustee of the Agreed Funding Source Agreements in accordance with the provisions of the Agreed Funding Source Agreements) and/or the party designated as trustee of the Agreed Funding Source Agreements in accordance with the terms of the Agreed Funding Source Agreements may, by written notice (an "**Acceleration Notice**") to the Borrower:

(a) declare the obligations of the Lender hereunder to be terminated, whereupon such obligations shall terminate; and

(b) declare the principal amount of, premium, if any, and accrued and unpaid interest, Additional Amounts and Tax Indemnity Amounts, if any, on the Loan to be immediately due and payable and the same shall become immediately due and payable,

pursuant to and in accordance with the terms of the Agreed Funding Source Agreements.

15.14 **Other Remedies**

If an Event of Default occurs and is continuing, the Lender (and the party designated as trustee under the Agreed Funding Source Agreements) may pursue any available remedy to collect the payment of principal or interest on the Loan or to enforce the performance of any provision of this Agreement. A delay or omission by the Lender (or the party designated as trustee under the Agreed Funding Source Agreements) in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default.

16. DEFAULT INTEREST AND INDEMNITY

16.1 **Default Interest Periods**

If any sum due and payable by the Borrower hereunder is not paid on the due date therefore in accordance with the provisions of Clause 19 (*Payments*) or if any sum due and payable by the Borrower under any judgment of any court in connection herewith is not paid on the date of such judgment, the period beginning on such due date or, as the case may be, the date of such judgment and ending on the date upon which the obligation of the Borrower to pay such sum (the balance thereof for the time being unpaid being herein referred to as an "**unpaid sum**") is discharged shall be divided into successive periods, each of which, other than the first, shall start on the last day of the preceding such period and the duration of each of which shall, except as otherwise provided in this Clause 16 (*Default Interest and Indemnity*), be selected by the Lender, but shall in any event not be longer than one month.

16.2 **Default Interest**

During each such period relating thereto as is mentioned in Clause 16.1 (*Default Interest Periods*) an unpaid sum shall bear interest at a rate per annum equal to the Interest Rate.

16.3 **Payment of Default Interest**

Any interest which shall have accrued under Clause 16.2 (*Default Interest*) in respect of an unpaid sum shall be due and payable and shall be paid by the Borrower at the end of the period by reference to which it is calculated or on such other dates as the Lender may specify by written notice to the Borrower.

16.4 **Borrower's Indemnity**

The Borrower undertakes to indemnify the Lender against any reasonably incurred and properly documented cost, claim, loss, expense (including legal fees) or liability, together with any VAT thereon, which it may sustain or incur as a consequence of the occurrence of any Event of Default or any default by the Borrower in the performance of any of the obligations expressed to be assumed by it in this Agreement.

16.5 **Unpaid Sums as Advances**

Any unpaid sum shall, for the purposes of this Clause 16 (*Default Interest and Indemnity*) and Clause 10.1 (*Increased Costs*), be treated as an advance and accordingly in this Clause 16 (*Default Interest and Indemnity*) and Clause 10.1 (*Increased Costs*) the term "Loan" includes any unpaid sum and the term "Interest Period," in relation to an unpaid sum, includes each such period relating thereto as is mentioned in Clause 16.1 (*Default Interest Periods*).

17. **AMENDMENTS TO AGREED FUNDING SOURCE AGREEMENTS**

Any amendment to, or waivers of any provision of, the Agreed Funding Source Agreements shall be prohibited without the prior express written consent of the Borrower, which consent shall not be unreasonably withheld (other than amendments or waivers that are made pursuant to any legal, regulatory or accounting requirements, with respect to which the Lender shall consult with the Borrower to the extent reasonably practicable).

18. **CURRENCY OF COLLECTION ACCOUNT AND CURRENCY INDEMNITY**

18.1 **Currency of Collection Account**

The U.S. dollar is the currency of account and payment for each and every sum at any time due from the Borrower hereunder.

18.2 **Currency Indemnity**

If any sum due from the Borrower under this Agreement or any order or judgment given or made in relation hereto has to be converted from the currency (the "**first currency**") in which the same is payable hereunder or under such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Borrower, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation hereto, the Borrower shall indemnify and hold harmless the Lender from and against any loss suffered or reasonably incurred as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which the Lender may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

19. **PAYMENTS**

19.1 **Payments to the Lender**

On each date on which this Agreement requires an amount denominated in U.S. dollars to be paid by the Borrower, the Borrower shall make the same available to the Lender by payment in U.S. dollars and in same day funds on such date, or in such other funds as may for the time being be customary in London for the settlement in London of international banking transactions in U.S. dollars, to the Collection Account. The Borrower shall procure that the bank effecting payment on its behalf confirms to the Lender, or to such Person as the Lender may direct, by tested telex or authenticated SWIFT message one Business Day prior to the date that such payment is required to be made under the terms of this Agreement, the payment instructions relating to such payment.

19.2 **Alternative Payment Arrangements**

If, at any time, it shall become impracticable, by reason of any action of any governmental authority or any Change of Law, exchange control regulations or any similar event, for the Borrower to make any payments hereunder in the manner specified in Clause 19.1 (*Payments to the Lender*), then the Borrower may agree with the Lender alternative arrangements for such payments to be made; provided that, in the absence of any such agreement, the Borrower shall be obliged to make all payments due to the Lender in the manner specified herein.

19.3 **No Set-Off**

All payments required to be made by the Borrower hereunder shall be calculated without reference to any set-off or counterclaim and shall be made free and clear of and without any deduction for or on account of any set-off or counterclaim.

20. **FEES, COSTS AND EXPENSES**

20.1 **Costs relating to Preservation of Rights**

The Borrower shall, from time to time on demand of the Lender, reimburse the Lender for all properly documented costs and expenses (including legal fees) together with any VAT incurred in or in connection with the preservation or the enforcement of any of the rights of the Lender under this Agreement.

20.2 **Stamp Taxes**

The Borrower shall pay all stamp, registration and other taxes to which this Agreement or any judgment given in connection with this Agreement is or at any time may be subject and shall, from time to time on demand of the Lender, indemnify the Lender against any liabilities, costs, claims and expenses resulting from any failure to pay or any delay in paying any such tax.

20.3 **Costs relating to Amendments and Waivers**

The Borrower shall, from time to time on demand of the Lender (and without prejudice to the provisions of Clause 20.1 (*Costs relating to Preservation of Rights*)) (and the party designated as trustee under the Agreed Funding Source Agreements) compensate the Lender (and, as the case may be, such trustee) at such daily and/or hourly rates as the Lender (or, as the case may be, such trustee) shall from time to time reasonably determine for all time expended by the Lender (or, as the case may be, such trustee), their respective directors, officers and employees, and for all properly documented costs and expenses (including telephone, fax, copying and travel costs) they may incur, in connection with the Lender (and, as the case may be, such trustee) taking such action as it may consider appropriate or in complying with any request by the Borrower in connection with:

(a) the granting or proposed granting of any waiver or consent requested under this Agreement by the Borrower;

(b) any actual, potential or suspected breach by the Borrower of any of its obligations under this Agreement;

(c) the occurrence of any event which is an Event of Default or a Potential Event of Default; or

(d) any amendment or proposed amendment to this Agreement requested by the Borrower.

21. ASSIGNMENTS AND TRANSFERS

21.1 Binding Agreement

This Agreement shall be binding upon and inure to the benefit of each party hereto and its or any subsequent successors and assigns.

21.2 No Assignments and Transfers by the Borrower

The Borrower shall not be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder.

21.3 Assignments by the Lender

The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement except (i) the charge by way of first fixed charge granted by the Lender in favour of the party designated as trustee under the Agreed Funding Source Agreements, of the Lender's rights and benefits under this Agreement, and (ii) the absolute assignment by way of security by the Lender to the party designated as trustee of the Agreed Funding Source Agreements of certain rights, interest and benefits under this Agreement, in each case, pursuant to Clause 4 of the Trust Deed.

22. CALCULATIONS AND EVIDENCE OF DEBT

22.1 Basis of Accrual of Interest

Interest shall accrue from day to day and shall be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

22.2 Evidence of Debt

The Lender shall maintain, in accordance with its usual practice, accounts evidencing the amounts from time to time lent by and owing to it hereunder; in any legal action or proceeding arising out of or in connection with this Agreement, in the absence of manifest error and subject to the provision by the Lender to the Borrower of written information describing in reasonable detail the calculation or computation of such amounts together with the relevant supporting documents evidencing the matters described therein, the entries made in such accounts shall be conclusive evidence of the existence and amounts of the obligations of the Borrower therein recorded.

22.3 Change of Circumstance Certificates

A certificate signed by two authorised signatories of the Lender describing in reasonable detail (a) the amount by which a sum payable to it hereunder is to be increased under Clause 8.1 (*Additional Amounts*) or (b) the amount for the time being required to indemnify it against any such cost, payment or liability as is mentioned in Clause 8.3 (*Tax Indemnity*) or Clause 10.1 (*Increased Costs*) shall, in the absence of manifest error, be prima facie evidence of the existence and amounts of the specified obligations of the Borrower.

23. REMEDIES AND WAIVERS, PARTIAL INVALIDITY

23.1 Remedies and Waivers

No failure by the Lender to exercise, nor any delay by the Lender in exercising, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law.

23.2 **Partial Invalidity**

If, at any time, any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

24. NOTICES

24.1 **Communications in Writing**

Each communication and document to be made or delivered hereunder shall be made in writing and, unless otherwise stated, shall be made by fax, by hand or by courier addressed as follows:

if to the Borrower:

Joint-Stock Innovation Bank "UkrSibbank"
2/12 Andriyivska Street
Kyiv 04070
Ukraine

Fax number: +380 44 5375059
Attention: Head of International Business

if to the Lender:

Bayerische HYPO- UND Vereinsbank AG
Arabellastrasse 12
D-81925 Munich
Germany

Fax number: +49 89 378 33 15964
Attention: Capital Markets Documentation (MRM5CM)

24.2 **Delivery**

Each communication and document to be made or delivered by one party to another pursuant to this Agreement shall, unless that other party has by 15 calendar days' written notice to the same specified another address or fax number, be made or delivered to that other party at the address or fax number specified in Clause 24.1 (*Communications in Writing*) and shall be effective upon receipt by the addressee on a business day in the city of the recipient; provided, however that (i) any such communication or document which would otherwise take effect after 4:00 p.m. on any particular day shall not take effect until 10:00 a.m. on the immediately succeeding business day in the city of the addressee and (ii) any communication or document to be made or delivered by one party to the other party shall be effective only when received by such other party and then only if the same is expressly marked for the attention of the department or officer identified with the such other party's signature below, or such other department or officer as such other party shall from time to time specify for this purpose.

25. LAW, JURISDICTION AND ARBITRATION

25.1 **Governing Law**

This Agreement and all matters arising from or connected with it are governed by, and shall be construed in accordance with, English law.

25.2 English Courts

The courts of England shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with this Agreement (including a Dispute regarding the existence, validity or termination of this Agreement or the consequences of its nullity).

25.3 Appropriate Forum

The parties agree that the courts of England are the most appropriate and convenient courts to settle Disputes between them and, accordingly, that they will not argue to the contrary.

25.4 Right of Lender to Take Proceedings Outside England

Clause 25.2 (*English Courts*) is for the benefit of the Lender only. As a result nothing in this Clause 25 (*Law, Jurisdiction and Arbitration*) prevents the Lender from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, the Lender may take concurrent Proceedings in any number of jurisdictions.

25.5 Service of Process (Borrower)

The Borrower agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Law Debenture Corporate Services Limited at its registered office (being, at the date hereof, Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom). If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Borrower, the Borrower shall, on the written demand of the Lender addressed to the Borrower and delivered to the Borrower appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Lender shall be entitled to appoint such a person by written notice addressed to the Borrower and delivered to the Borrower. Nothing in this paragraph shall affect the right of the Lender to serve process in any other manner permitted by law. This clause applies to Proceedings in England and to Proceedings elsewhere.

25.6 Service of Process (Lender)

The Lender agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Bayerische HYPO- UND Vereinsbank AG, London Branch, at 41 Moorgate, London, EC2R 6PP or at any address of the Lender in Great Britain at which service of process may be served on it in accordance with Part XXIII of the Companies Act 1985. Nothing in this paragraph shall affect the right of the Borrower to serve process in any other manner permitted by law. This clause applies to Proceedings in England and to Proceedings elsewhere.

25.7 Arbitration

If any Dispute arises from or in connection with this Agreement, or any supplement, modifications or additions thereto, the Lender may elect, by notice to the Borrower, to settle such claim by arbitration in accordance with the following provisions. The Borrower hereby agrees that (regardless of the nature of the Dispute) any Dispute may be settled by arbitration in accordance with the Rules of Arbitration of the International Chamber of Commerce (the "**Rules**") as at present in force by a panel of three arbitrators (or a sole arbitrator as the parties may agree) appointed in accordance with the Rules. The seat of arbitration shall be London, England. The procedural law of arbitration shall be English law. The language of any arbitral proceedings shall be English.

26. RIGHTS OF THIRD PARTIES

A Person who is not a party to this Agreement has no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

27. NATIONAL BANK OF UKRAINE REGISTRATION REQUIREMENT

This Agreement shall become effective on the date of its registration with the Central Bank.

28. ENGLISH LANGUAGE

28.1 Each communication and document to be made or delivered by one party to another pursuant to this Agreement shall be in the English language or accompanied by a translation into English certified (by an officer of the person delivering the same) as being a true and accurate translation. In the event of any discrepancies between the English and any Ukrainian versions of such communication or document, or any dispute regarding the interpretation of any provision in the English or any Ukrainian versions of such communication or document, the English version of such communication or document shall prevail, unless the document is a statutory or other official document.

28.2 This Agreement has been set forth and signed in both English and Ukrainian, provided, however, that in the event of any conflict or inconsistency or in case of doubt as to the proper interpretation or construction of this Agreement, the English text shall be controlling.

29. COUNTERPARTS

This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties.

AS WITNESS the hands of the duly authorised representatives of the parties hereto the day and year first before written.

ANNEX A

[*On the letterhead of the Borrower]*

Bayerische Hypo- und Vereinsbank AG
Arabellastrasse 12
81925 Munich
Germany

[Date]

Dear Sirs

Loan Agreement dated [●] 2005

In accordance with Clause 5.1 (*Payment of Interest*) and Clause 5.2 (*Calculation of Interest*) of the Loan Agreement dated [●] 2005 between Joint Stock Innovation Bank "UkrSibbank" and yourselves (the "**Loan Agreement**"), the amount of interest payable in respect of (i) the First Interest Period (as defined in the Loan Agreement) is US$[●] and is due for payment not later than noon (New York City time) two Business Days prior to the First Interest Payment Date, and (ii) each successive Interest Period is US$[●] and is due for payment not later than noon (New York City time) two Business Days prior to each Interest Payment Date. Payments of interest should be made to the following account:

Payment to:	JPMORGAN CHASE BANK, NEW YORK
SWIFT code:	CHASUS33
Account:	001 0 962009
Favour of:	JPMORGAN CHASE BANK, N.A., LONDON
SWIFT code:	CHASGB2L
For further credit to:	Bayerische Hypo-und Vereinsbank AG, Collection Account
Account:	32405601
Ref:	ATTN. INSTITUTIONAL TRUST SERVICES 380B

In accordance with Clause 8.1(b) of the Loan Agreement, the amount of interest payable under the Loan Agreement in respect of (i) the First Interest Period as set forth above shall be increased to US$[●] so that the net amount received by Bayerische Hypo- und Vereinsbank AG after deduction or withholding of Ukrainian tax will be US$[●], and (ii) each successive Interest Period as set forth above shall be increased to US$[●] so that the net amount received by Bayerische Hypo- und Vereinsbank AG after deduction or withholding of Ukrainian tax will be US$[●].

Please confirm that the above correctly sets out the amount of interest to be received by Bayerishe Hypo- und Verinsbank AG under the Loan Agreement by signing and returning to us an executed copy of this letter.

Yours faithfully

Oleksandr Adarich
Chairman of the Board
For and on behalf of
JOINT STOCK INNOVATION BANK "UKRISBBANK"

ACCEPTED AND AGREED
For and on behalf of
BAYERISCHE HYPO- UND VEREINSBANK AG

Signature: Seal:

Name:

Title:

Date:

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes, which will be endorsed on each Note in definitive form. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global Form" below.

The U.S.$[●] [●] per cent. Loan Participation Notes due [●] (the "**Notes**", which expression includes any further notes issued pursuant to Condition 13 (*Further Issues*) and forming a single series therewith) of Bayerische Hypo- und Vereinsbank AG (the "**Issuer**") are constituted by, are subject to, and have the benefit of, a trust deed dated [●] 2005 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and J.P. Morgan Corporate Trustee Services Limited as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of an agency agreement dated [●] 2005 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, J.P. Morgan Bank Luxembourg S.A. as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), JPMorgan Chase Bank, London Branch as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), the transfer agents named therein (the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes), the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the Trustee. References herein to the "**Agents**" are to the Registrar, the Principal Paying Agent, the Transfer Agents and the Paying Agents and any reference to an "**Agent**" is to any one of them. Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and subject to their detailed provisions. The Noteholders (as defined below) are entitled to the benefit of, bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee, being at the date hereof Trinity Tower, 9 Thomas More Street, London E1W 1YT and at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

The Issuer authorised the creation, issue and sale of the Notes for the sole purpose of financing the U.S.$1[●] loan (the "**Loan**") to Joint-Stock Innovation Bank "**UkrsibBank**" (the "**Borrower**"). The Issuer and the Borrower have recorded the terms of the Loan in an agreement dated [●] 2005 between the Issuer, as lender, and the Borrower (as amended and supplemented from time to time, the "**Loan Agreement**").

In each case where amounts of principal, interest and additional amounts, if any, due pursuant to Condition 6 (*Payments*) and Condition 7 (*Taxation*) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to pay to the Noteholders (as defined in Condition 2.1), on each date upon which such amounts of principal, interest and additional amounts, if any, are due in respect of the Notes, to the extent of the sums of principal, interest, Additional Amounts and Tax Indemnity Amounts (each as defined in the Loan Agreement), if any, actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights (as defined below). Noteholders must therefore rely solely and exclusively upon the covenant to pay under the Loan Agreement and the credit and financial standing of the Borrower. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer.

The Issuer (as lender) has:

(A) charged by way of security to the Trustee all of the Issuer's rights, interests and benefits in and to (i) principal, interest and other amounts now or hereafter paid and payable by the Borrower to the Issuer as lender under the Loan Agreement and (ii) all amounts now or hereafter paid or payable by the Borrower to the Issuer under or in respect of any claim, award or judgment relating to the Loan Agreement (in each case other than its right to amounts in respect of any rights, interests and benefits of the Issuer under the following clauses of the Loan Agreement: Clause 7.3 second sentence thereof (*Costs of Prepayment*); Clause 8.3(a) (*Tax Indemnity*); Clause 10 (*Changes in Circumstances*); Clause 11 (*Representations and Warranties of the Borrower*); Clause 16 (*Default Interest and Indemnity*); Clause 20 (*Fees, Costs and Expenses*); (to the extent that the Issuer's claim is in respect of one of the aforementioned clauses of the Loan Agreement) Clause 8.2 (*Payments*); Clause 18.2 (*Currency Indemnity*) and Clause 19.3 (*No Set-off*) (such rights are referred to herein as the "**Reserved Rights**"));

(B) charged by way of security to the Trustee all of the Issuer's rights, interest and benefits in and to all sums held on deposit from time to time, in the Collection Account (as defined in the Loan Agreement) with the Principal Paying Agent (as defined below), together with the debt represented thereby (except to the extent such debt relates to Reserved Rights) pursuant to the Trust Deed (this sub-clause (B), together with sub-clause (A) other than the Reserved Rights, the "**Charged Property**"); and

(C) assigned absolutely by way of security to the Trustee all of the Issuer's rights, interests and benefits whatsoever, both present and future, whether proprietary, contractual or otherwise under or arising out of or evidenced by the Loan Agreement (including, without limitation, the right to declare the Loan immediately due and payable and to take proceedings to enforce the obligations of the Borrower thereunder) other than the Charged Property and the Reserved Rights and amounts payable by the Borrower in relation to the Charged Property and the Reserved Rights (the "**Transferred Rights**"),

together, the "**Security Interests**".

In certain circumstances, the Trustee can (subject to it being indemnified and/or secured to its satisfaction) be required by Noteholders holding at least one-quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising in connection with the Security Interests).

1. FORM, DENOMINATION AND STATUS

1.1 Form and denomination

The Notes are in registered form, without interest coupons attached, in denominations of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof (each, an "**Authorised Holding**").

1.2 Status

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the obligation of the Issuer to apply an amount equal to the principal amount of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest, Additional Amounts and Tax Indemnity Amounts, if any, actually received by or for the account of the Issuer pursuant to the Loan Agreement (less any amounts in respect of Reserved Rights), the right to receive which is, *inter alia*, being charged by way of security to the Trustee by virtue of the Security Interests as security for the Issuer's payment obligations under the Trust Deed and in respect of the Notes.

Payments in respect of the Notes to the extent of the sums actually received by or for the account of the Issuer by way of principal, interest, Additional Amounts or Tax Indemnity Amounts, if any, pursuant to the Loan Agreement (less any amounts in respect of the Reserved Rights) will be made pro rata among all Noteholders (subject to Condition 7 (*Taxation*)), on the dates on which such payments are due in respect of the Notes subject to the conditions attaching to, and in the currency of, such payments under the Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. The Issuer shall be under no obligation to exercise in favour of the Noteholders any rights of set-off or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and the Borrower.

Noteholders are deemed to have accepted that:

(i) neither the Issuer nor the Trustee makes any representation or warranty in respect of, and shall at no time have any responsibility for, or (save as otherwise expressly provided in the Trust Deed and paragraph (vi) below) liability, or obligation in respect of the performance and observance by the Borrower of its obligations under the Loan Agreement or the recoverability of any sum of principal, interest, Additional Amounts or Tax Indemnity Amounts or other amounts, if any, due or to become due from the Borrower under the Loan Agreement;

(ii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial, operational or otherwise), creditworthiness, affairs, status, nature or prospects of the Borrower;

(iii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, any misrepresentation or breach of warranty or any act, default or omission of the Borrower under or in respect of the Loan Agreement;

(iv) neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Registrar, the Principal Paying Agent, any Transfer Agent or any Paying Agent of their respective obligations under the Agency Agreement;

(v) the financial servicing and performance of the terms of the Notes depend solely and exclusively upon performance by the Borrower of its obligations under the Loan Agreement, its covenant to pay under the Loan Agreement and its credit and financial standing. The Borrower has represented and warranted to the Issuer in the Loan Agreement that the Loan Agreement constitutes legal, valid and binding obligations of the Borrower. The representations and warranties given by the Borrower in Clause 11 (*Representations and Warranties of the Borrower*) of the Loan Agreement are given by the Borrower to the Issuer for the sole benefit of the Issuer and neither the Trustee nor any Noteholder shall have any remedies or rights against the Borrower that the Issuer may have with respect to such representations or warranties, other than any right the Trustee may have pursuant to the assignment of the Transferred Rights;

(vi) the Issuer (and, pursuant to the assignment of the Transferred Rights, the Trustee) will rely on self-certification by the Borrower and certification by third parties as a means of monitoring whether the Borrower is complying with its obligations under the Loan Agreement and shall not otherwise be responsible for investigating any aspect of the Borrower's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Security Interests and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the secured property represented by the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee will have no responsibility for the value of such security; and

(vii) if the Borrower is required by law to make any withholding or deduction for or on account of tax from any payment under the Loan Agreement or if the Issuer is required by law to make any withholding or deduction for or on account of tax from any payment in respect of the

Notes, the sole obligation of the Issuer will be to pay to the Noteholders sums equivalent to the sums actually received from the Borrower pursuant to the Loan Agreement in respect of such payment, including, if applicable, Additional Amounts or Tax Indemnity Amounts in respect of the tax required to be so withheld or deducted; the Issuer shall not be obliged to take any actions or measures as regards such deductions or withholdings other than those set out in Clause 8 (*Taxes*) and Clause 10.4 (*Mitigation*) of the Loan Agreement.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions in the Loan Agreement or have direct recourse to the Borrower except through action by the Trustee under the Security Interests. Neither the Issuer nor the Trustee pursuant to the Transferred Rights shall be required to take proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

As provided in the Trust Deed, the obligations of the Issuer are solely to make payments of amounts in aggregate equal to principal, interest, Additional Amounts, Tax Indemnity Amounts or other amounts, if any, actually received by or for the account of the Issuer pursuant to the Loan Agreement (less any amounts in respect of Reserved Rights), the right to which is being charged by way of security to the Trustee as aforesaid. Noteholders must therefore rely solely and exclusively upon the covenant to pay under the Loan Agreement and the credit and financial standing of the Borrower.

The obligations of the Issuer to make payments as stated in the previous paragraph constitute direct and general obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Payments made by the Borrower under the Loan Agreement to, or to the order of, the Trustee or (before such time that the Issuer has been required by the Trustee, pursuant to the terms of the Trust Deed, to pay to or to the order of the Trustee) the Principal Paying Agent will satisfy pro tanto the obligations of the Issuer in respect of the Notes.

2. REGISTER, TITLE AND TRANSFERS

2.1 Register

The Registrar will maintain outside the United Kingdom a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

2.2 Title

The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

2.3 Transfers

Subject to Condition 2.6 (*Closed periods*) and Condition 2.7 (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed (including any certificates as to compliance with restrictions on transfer included therein), at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Holdings. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

2.4 Registration and delivery of Note Certificates

Within five business days of the surrender of a Note Certificate in accordance with Condition 2.3 (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

2.5 No charge

The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

2.6 Closed periods

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

2.7 Regulations concerning transfers and registration

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee, the Registrar and the Borrower. A copy of the current regulations will be mailed (free of charge) by the Registrar and/or any Transfer Agent to any Noteholder who requests in writing a copy of such regulations. So long as any of the Notes are listed on the Luxembourg Stock Exchange, a copy of the current regulations will be publicly available at the Specified Offices of the Transfer Agent and the Paying Agent in Luxembourg.

3. ISSUER'S COVENANT

As provided in the Trust Deed, so long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution or Written Resolution (as defined in the Trust Deed), agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed and the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*).

4. INTEREST

4.1 Accrual of Interest

The Notes bear interest from ● 2005 (the "**Issue Date**") at the rate of ● per cent. per annum, (the "**Rate of Interest**") payable:

4.1.1 on ● (the "**First Interest Payment Date**") in respect of the period from and including the Issue Date to but excluding the First Interest Payment Date (the "**First Interest Period**"); and

4.1.2 thereafter in two equal installments semi-annually in arrear on ● and ● in each year (each, together with the First Interest Payment Date, an "**Interest Payment Date**"),

subject as provided in Condition 6 (*Payments*). Each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next (or first) Interest Payment Date is herein called an "**Interest Period**".

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to accrue interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable in respect of a Note (i) for the First Interest Period shall be U.S.$ ● and (ii) for any Interest Period other than the First Interest Period shall be calculated by applying the Rate of Interest to the principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). Where interest is required to be calculated in respect of a period other than an Interest Period, it shall be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

4.2 Default Interest under the Loan Agreement

In the event that, and to the extent that, the Issuer actually receives any amounts in respect of interest on unpaid sums from the Borrower pursuant to Clause 16 (*Default Interest and Indemnity*) of the Loan Agreement (other than amounts so received forming part of the Reserved Rights), the Issuer shall account to the Noteholders for an amount equivalent to the amounts in respect of interest on unpaid sums actually so received. Any payments made by the Issuer under this Condition 4.2) will be made on the next following business day (as defined in Condition 6.4) after the day on which the Issuer receives such amounts from the Borrower and, save as provided in this Condition 4.2, subject as provided in Condition 6 (*Payments*).

5. REDEMPTION AND PURCHASE

5.1 Scheduled redemption

Unless previously prepaid pursuant to Clause 7 (*Prepayment*) of the Loan Agreement or repaid in accordance with Clause 10.3 (*Illegality*) of the Loan Agreement, the Borrower will be required to repay the Loan on its due date as provided in the Loan Agreement and, subject to such repayment, all the Notes will be redeemed at their principal amount on ●, subject as provided in Condition 6 (*Payments*).

5.2 **Redemption by the Issuer**

The Notes shall be redeemed by the Issuer in whole, but not in part, at any time, on giving not less than 25 days' nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable and shall specify a date for redemption, being the same date as that set forth in the notice of prepayment referred to in Condition 5.2.1 or 5.2.2 below) in accordance with Condition 14 (*Notices*) at the principal amount thereof, together with interest accrued and unpaid to the date fixed for redemption and any additional amounts in respect thereof pursuant to Condition 7 (*Taxation*), if, immediately before giving such notice, the Issuer satisfies the Trustee that:

5.2.1 the Issuer has received a notice of prepayment from the Borrower pursuant to Clause 7.1 (*Prepayment for Tax Reasons*) of the Loan Agreement; or

5.2.2 the Issuer has delivered a notice to the Borrower, the contents of which require the Borrower to repay the Loan, in accordance with the provisions of Clause 10.3 (*Illegality*) of the Loan Agreement.

The Issuer shall deliver to the Trustee a certificate signed by two officers of the Issuer stating that the Issuer is entitled to effect such redemption in accordance with this Condition 5.2. A copy of the Borrower's notice of prepayment or details of the circumstances contemplated by Clause 10.3 (*Illegality*) of the Loan Agreement and the date fixed for redemption shall be set forth in the notice.

The Trustee shall be entitled to accept any notice or certificate delivered by the Issuer in accordance with this Condition 5.2 as sufficient evidence of the satisfaction of the applicable circumstances in which event they shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice given by the Issuer to the Noteholders as is referred to in this Condition 5.2, the Issuer shall be bound to redeem the Notes in accordance with this Condition 5, subject as provided in Condition 6 (*Payments*).

5.3 **Redemption at the option of the Noteholders upon a Corporate Restructuring:**

5.3.1 Upon the occurrence of a Corporate Restructuring (as defined in the Loan Agreement), in accordance with Condition 14 (*Notices*) the Issuer will make an offer to purchase all or any part of the Notes pursuant to the offer described below (the "Corporate Restructuring Offer") at a price per Note in cash (the "Corporate Restructuring Payment") equal to the principal amount thereof plus accrued and unpaid interest thereon to the date of repurchase, plus Additional Amounts, if any, to the date of repurchase. Pursuant to Clause 7.2 (*Prepayment in the event of a Corporate Restructuring or Change of Control*) of the Loan Agreement, the Borrower is required to give notice to the Issuer and the Trustee promptly and in any event within 15 calendar days after the date of any Corporate Restructuring (the "Borrower Corporate Restructuring Notice") and thereafter to prepay the Loan to the extent of the aggregate principal amount of the Notes plus accrued and unpaid interest thereon to the date of prepayment, plus Additional Amounts, if any, thereon corresponding to the aggregate principal amount plus accrued and unpaid interest and Additional Amounts, if any, on the Notes to be repurchased in accordance with this Condition 5.3. The Issuer, upon receipt of the Borrower Corporate Restructuring Notice, shall give notice thereof to the Noteholders in accordance with Condition 14 (*Notices*) with a copy to the Agents and the Trustee, with the following information: (A) that a Corporate Restructuring Offer is being made pursuant to this Condition 5.3 and all Notes properly tendered pursuant to such Corporate Restructuring Offer will be accepted for payment; (B) the purchase price and the purchase date, which will be a Business Day (as defined in the Loan Agreement) falling not less than 30 calendar days nor more than 60 calendar days after the date of delivery to the Issuer of the Borrower Corporate Restructuring Notice (the "Corporate Restructuring Payment Date"); (C) that any Note not properly tendered or not tendered at all will remain outstanding and continue to accrue interest and Additional Amounts, if any; (D) that unless the Issuer defaults in the payment of the Corporate Restructuring Payment, all Notes accepted for payment pursuant to the Corporate

Restructuring Offer will cease to accrue interest and Additional Amounts, if any, on the Corporate Restructuring Payment Date; (E) that Noteholders electing to have any Notes repurchased pursuant to a Corporate Restructuring Offer will be required to surrender the Notes, with the form entitled "Option to Purchase Notice – Corporate Restructuring" set out in a schedule to the Agency Agreement completed, to the Paying Agent and at the address specified in the notice prior to the close of business on the eighth Business Day preceding the Corporate Restructuring Payment Date; and (F) that Noteholders will be entitled to withdraw their tendered Notes and their election to require the Issuer to repurchase such Notes *provided that* both the Paying Agents receive prior to the close of business on the seventh Business Day preceding the Corporate Restructuring Payment Date, a facsimile transmission or letter setting out the name of the Noteholder, the principal amount of Notes tendered for repurchase, and a statement that such Noteholder is withdrawing his tendered Notes and his election to have such Notes repurchased.

5.3.2 At least five (5) Business Days prior to the Corporate Restructuring Payment Date, the Issuer will provide a notice (the "Issuer Corporate Restructuring Notice") to the Trustee and the Borrower in accordance with Condition 14 (*Notices*) setting out the Corporate Restructuring Payment (including the computation thereof) required to be made by the Issuer for such Notes on the Corporate Restructuring Payment Date.

5.3.3 On the second Business Day prior to the Corporate Restructuring Payment Date, the Borrower will, pursuant to Clause 7.2 (*Prepayment in the event of Corporate Restructuring or Change of Control*) of the Loan Agreement, prepay the loan (together with all accrued interest and any other amounts outstanding thereunder) in an amount equal to the aggregate Corporate Restructuring Payment in respect of all Notes properly tendered and not properly withdrawn as set out in the Issuer Corporate Restructuring Notice. On the Corporate Restructuring Payment Date, the Issuer will, to the extent permitted by law and subject to such prepayment, (i) accept for payment all Notes properly tendered and not properly withdrawn pursuant to the Corporate Restructuring Offer and (ii) deliver, or cause to be delivered, to the Registrar for cancellation on behalf of the Issuer the Notes so accepted together with a certificate of two authorised officers of the Issuer stating that such Notes have been tendered to and purchased by the Issuer. In accordance with the instructions of the Noteholder set out in the Option to Purchase Notice – Corporate Restructuring, the Paying Agent will promptly pay to the Noteholder the Corporate Restructuring Payment for such Notes. The Issuer will publicly announce, and will provide notice to Noteholders in accordance with Condition 14 (*Notices*), the results of the Corporate Restructuring Offer on or as soon as practicable after the Corporate Restructuring Payment Date.

5.4 **Redemption at the option of the Noteholders upon a Change of Control:**

5.4.1 Upon the occurrence of a Change of Control (as defined in the Loan Agreement), in accordance with Condition 14 (*Notices*) the Issuer will make an offer to purchase all or any part of the Notes pursuant to the offer described below (the "Change of Control Offer") at a price per Note in cash (the "Change of Control Payment") equal to the principal amount thereof plus accrued and unpaid interest thereon to the date of repurchase and Additional Amounts, if any, to the date of repurchase. Pursuant to Clause 7.2 (*Prepayment in the event of a Corporate Restructuring or Change of Control*) of the Loan Agreement, the Borrower is required to give notice to the Issuer and the Trustee promptly and in any event within 15 calendar days after the date of any Change of Control (the "Borrower Change of Control Notice") and thereafter to prepay the Loan to the extent of the aggregate principal amount of the Notes plus accrued and unpaid interest thereon to the date of prepayment and Additional Amounts, if any, on the Notes to be repurchased in accordance with this Condition 5.4. The Issuer, upon receipt of the Borrower Change of Control Notice, shall give notice thereof to the Noteholders in accordance with Condition 14 (*Notices*) with a copy to the Agents and the Trustee, with the following information: (A) that a Change of Control Offer is being made pursuant to this Condition 5.4 and all Notes properly tendered pursuant to such Change of Control Offer will be accepted for payment; (B) the purchase price and the purchase date, which will be a Business Day (as defined in the Loan Agreement) falling not less than 30 calendar days nor more than 60 calendar days after the date of delivery to the Issuer of the Borrower Change of Control Notice (the "Change of Control Payment Date"); (C) that any Note not properly tendered or not tendered at all will remain outstanding and continue to accrue interest and Additional Amounts, if any; (D) that unless the Issuer defaults in the payment of the Change of Control Payment, all Notes accepted for payment pursuant to the Change of Control Offer will cease to accrue interest and Additional Amounts, if any, on the Change of Control Payment Date; (E) that Noteholders electing to have any Notes repurchased pursuant to a Change of Control Offer will be required to surrender the Notes, with the form entitled "Option to Purchase Notice – Change of Control" set out in a schedule to the Agency Agreement completed, to the Paying Agent and at the address specified in the notice prior to the close of business on the eighth Business Day preceding the Change of Control Payment Date; and (F) that Noteholders will be entitled to withdraw their tendered Notes and their election to require the Issuer to repurchase such Notes *provided that* both the Paying Agents receive prior to the close of business on the seventh Business Day preceding the Change of Control Payment Date, a facsimile transmission or letter setting out the name of the Noteholder, the principal amount of Notes tendered for repurchase, and a statement that such Noteholder is withdrawing his tendered Notes and his election to have such Notes repurchased.

5.4.2 At least five (5) Business Days prior to the Change of Control Payment Date, the Issuer will provide a notice (the "Issuer Change of Control Notice") to the Trustee and the Borrower in accordance with Condition 14 (*Notices*) setting out the Change of Control Payment (including the computation thereof) required to be made by the Issuer for such Notes on the Change of Control Payment Date.

5.4.3 On the second Business Day prior to the Change of Control Payment Date, the Borrower will, pursuant to Clause 7.2 (*Prepayment in the event of Corporate Restructuring or Change of Control*) of the Loan Agreement, prepay the loan (together with all accrued interest and any other amounts outstanding thereunder) in an amount equal to the aggregate Change of Control Payment in respect of all Notes properly tendered and not properly withdrawn as set out in the Issuer Change of Control Notice. On the Change of Control Payment Date, the Issuer will, to the extent permitted by law and subject to such prepayment, (i) accept for payment all Notes properly tendered and not properly withdrawn pursuant to the Change of Control Offer and (ii) deliver, or cause to be delivered, to the Registrar for cancellation on behalf of the Issuer the Notes so accepted together with a certificate of two authorised officers of the Issuer stating that such Notes have been tendered to and purchased by the Issuer. In accordance with the instructions of the Noteholder set out in the Option to Purchase Notice – Change of Control, the Paying Agent will promptly pay to the Noteholder the Change of Control Payment for such Notes. The Issuer will publicly announce, and will provide notice to Noteholders in accordance with Condition 14 (*Notices*), the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

5.5 No other redemption

Except where the Loan is accelerated pursuant to Clause 15.8 (*Rights of Lender Upon Occurrence of an Event of Default*) of the Loan Agreement, the Issuer shall not be entitled to redeem the Notes prior to that due date otherwise than as provided in Conditions 5.2 (*Redemption by the Issuer*), 5.3 (*Redemption at the option of the Noteholders upon a Corporate Restructuring*) and 5.4 (*Redemption at the option of the Noteholders upon a Change of Control*) above.

5.6 Purchase

The Issuer or any of its subsidiaries or the Borrower or any of its subsidiaries may at any time purchase Notes in the open market or otherwise and at any price. Such Notes may be held, reissued, resold or surrendered by the purchaser through the Issuer to the Registrar for cancellation.

Notes held by the Issuer and its subsidiaries will continue to carry the right to attend and vote at meetings of Noteholders and will be taken into account in determining how many Notes are outstanding for the purposes of these Conditions and the provisions of the Trust Deed. However, Notes held by the Borrower or any of its subsidiaries will cease to carry such rights and will not be taken into account, inter alia, for the purposes of Conditions 11 (Meetings of Noteholders; Modification and Waiver; Substitution) and 12 (Enforcement).

5.7 **Cancellation**

All Notes so redeemed or purchased and surrendered for cancellation by the Issuer shall be cancelled and all Notes purchased by the Borrower or any of its subsidiaries and surrendered to the Issuer pursuant to Clause 7.6 (*Reduction of Loan upon Cancellation of Notes*) of the Loan Agreement, together with an authorisation addressed to the Registrar, shall be cancelled.

6. PAYMENTS

6.1 **Principal**

Payments of principal shall be made by U.S. dollar cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City, and shall only be made upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

6.2 **Interest**

Payments of interest shall be made by U.S. dollar cheque drawn on, or upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City, and (in the case of interest payable on redemption) shall only be made upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

6.3 **Payments subject to fiscal laws**

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

6.4 **Payments on business days**

Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by U.S. dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 6 (*Payments*) arriving after the due date for payment or being lost in the mail. In this paragraph, "**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in New York City, Frankfurt am Main, London and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

6.5 Partial payments

If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

6.6 Record date

Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

6.7 Payment to the Collection Account

Save as the Trustee may otherwise direct at any time after the security created pursuant to the Trust Deed becomes enforceable, the Issuer will pursuant to the provisions of Clause 7.1 of the Agency Agreement require the Borrower to make all payments of principal, interest, Additional Amounts, Tax Indemnity Amounts or other amounts, if any, to be made pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights, to the Collection Account.

6.8 Payment obligations limited

Notwithstanding any other provisions to the contrary, the obligations of the Issuer to make payments under Conditions 5 (*Redemption and Purchase*) and 6 (*Payments*) shall constitute an obligation only to pay to the Noteholders on such date upon which a payment is due in respect of the Notes, to the extent of sums of principal, interest, Additional Amounts, Tax Indemnity Amounts or other amounts, if any, actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of the Reserved Rights.

7. TAXATION

All payments by the Issuer in respect of the Notes shall be made free and clear of and without deduction or withholding for or on account of any present or future taxes, duties, assessments, fees or other governmental charges ("**Taxes**") imposed or levied by or on behalf of Germany, Ukraine, any jurisdiction from or through which a payment is made, or any political subdivision or taxing authority thereof or therein in each of the preceding jurisdictions (each, a "**Taxing Jurisdiction**"), unless such withholding or deduction is required by law. In that event, the Issuer shall, subject as provided below, pay such additional amounts ("**additional amounts**") as will result in the receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them if no such withholding or deduction had been made or required to be made. The foregoing obligation to pay additional amounts, however, will not apply to any:

7.1.1 Taxes that would not have been imposed but for the existence of any present or former connection between such Noteholder and the relevant Taxing Jurisdiction other than the mere receipt of such payment or the ownership or holding of such Note;

7.1.2 Taxes that would not have been imposed but for the presentation by the Noteholder for payment on a date more than 30 days after the Relevant Date (as defined below);

7.1.3 Taxes required to be deducted or withheld by any Paying Agent from a payment on a Note, if such payment can be made without deduction or withholding by any other Paying Agent in a Member State of the European Union;

7.1.4 Taxes imposed on a payment to an individual and which are required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;

7.1.5 Taxes imposed or levied by or on behalf of the Federal Republic of Germany or any political subdivision or taxing authority thereof and withheld by the Issuer either in its capacity as Disbursing Agent (as defined in "Taxation — German Tax Considerations") or upon interest payments made upon the physical presentation to the Issuer in Germany of the Notes or coupons, if any; and

7.1.5 except in respect of applicable Ukrainian withholding tax at a rate of up to 2 per cent., Taxes imposed in connection with and on account of a Relevant Event.

Notwithstanding the foregoing provisions, the Issuer shall only make payments of additional amounts to the Noteholders pursuant to this Condition 7 (*Taxation*) to the extent and at such time as it shall have actually received an equivalent amount for such purposes from the Borrower under the Loan Agreement by way of Additional Amounts or Tax Indemnity Amounts or otherwise.

To the extent that the Issuer receives a lesser sum from the Borrower under the Loan Agreement, the Issuer shall account to each Noteholder entitled to receive such additional amount pursuant to this Condition 7 (*Taxation*) for an additional amount equivalent to a pro rata portion of such sum (if any) as is actually received by, or for the account of, the Issuer pursuant to the provisions of the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to such payment to the Issuer.

In these Conditions, "**Relevant Date**" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in London by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include, without duplication, any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 7 (*Taxation*) pursuant to the Trust Deed or the Loan Agreement.

8. PRESCRIPTION

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years, and claims for interest due other than on redemption shall become void unless made within five years, of the appropriate Relevant Date.

9. REPLACEMENT OF NOTE CERTIFICATES

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar and the Transfer Agent having its Specified Office in Luxembourg, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

10. TRUSTEE AND AGENTS

Under separate agreement between the Borrower and the Trustee, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and, under the Trust Deed, to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, the Borrower and any entity relating to the Issuer or the Borrower without accounting for any profit.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 7 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 7 (*Taxation*) pursuant to the Trust Deed.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders. Under separate agreement between the Borrower and the Agents, the Agents are entitled to be indemnified and relieved from certain responsibilities in certain circumstances.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent or registrar and additional or successor paying agents and transfer agents; provided, however, that the Issuer shall at all times maintain (a) a principal paying agent and a registrar, (b) a paying agent and a transfer agent in Luxembourg, and (c) a paying agent with a specified office in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced to conform to, such Directive.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 14 (*Notices*).

11. MEETINGS OF NOTEHOLDERS; MODIFICATION AND WAIVER; SUBSTITUTION

11.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of the Loan Agreement or any provision of these Conditions or the Trust Deed. Such a meeting may be convened on no less than 14 days' notice by the Trustee or the Issuer or by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, one or more persons holding or representing whatever the principal amount of the outstanding Notes held or represented, unless the business of such meeting includes consideration of proposals *inter alia*, (i) to change any date fixed for payment of principal or interest in respect of the Notes, (ii) to reduce the amount of principal or interest payable on any date in respect of the Notes, (iii) to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, (iv) to change the currency of payments under the Notes, (v) to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution, (vi) to alter the governing law of the Conditions, the Trust Deed or the Loan Agreement, (vii) to change any date fixed for payment of principal or interest under the Loan Agreement, (viii) to alter the method of calculating the amount of any payment under the Loan Agreement or (ix) to change the currency of payment or, without prejudice to the rights under Condition 11.2 (*Modification and Waiver*) below, change the definition of "Event of Default" under the Loan Agreement (each, a "**Reserved Matter**"), in which case the necessary quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

11.2 **Modification and waiver**

The Trustee may, without the consent of the Noteholders, agree to any modification of these Conditions or the Trust Deed or, pursuant to the Transferred Rights, the Loan Agreement (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed by the Issuer or, pursuant to the Transferred Rights, the Loan Agreement by the Borrower, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter and in accordance with Condition 14 (*Notices*).

11.3 **Substitution**

The Trust Deed contains provisions under which the Issuer may, without the consent of the Noteholders, transfer the obligations of the Issuer as principal debtor under the Trust Deed and the Notes to a third party *provided that* certain conditions specified in the Trust Deed are fulfilled. So long as any of the Notes are listed on the Luxembourg Stock Exchange, in the event of such substitution, the Luxembourg Stock Exchange will be informed of such substitution, a supplemental offering circular will be produced and will be made publicly available at the Specified Offices of the Transfer Agent and the Paying Agent in Luxembourg and such substitution shall be notified to the Noteholders as soon as practicable thereafter and in accordance with Condition 14 (*Notices*).

12. ENFORCEMENT

At any time after an Event of Default (as defined in the Loan Agreement) or a Relevant Event (as defined below) shall have occurred and be continuing, the Trustee may, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

12.1.1 it has been so requested in writing by the Holders of at least one-quarter in principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

12.1.2 it has been indemnified and/or provided with security to its satisfaction.

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

The Trust Deed also provides that, in the case of an Event of Default or a Relevant Event, the Trustee may, and shall if requested to do so by Noteholders of at least one-quarter in principal amount of the Notes outstanding or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction, (1) require the Issuer to declare all amounts payable under the Loan Agreement by the Borrower to be due and payable (where an Event of Default has occurred and is continuing), or (2) enforce the security created in the Trust Deed in favour of the Noteholders (in the case of a Relevant Event). Upon repayment of the Loan following an Event of Default, the Notes will be redeemed or repaid at the principal amount thereof together with interest accrued to the date fixed for redemption together with any additional amounts due in respect thereof pursuant to Condition 7 (*Taxation*) and thereupon shall cease to be outstanding.

For the purposes of these Conditions, "**Relevant Event**" means the earlier of (i) the failure by the Issuer to make any payment of principal or interest on the Notes when due to the extent it is obligated to do so pursuant to these Conditions; (ii) the filing of an application for the institution for insolvency proceedings over the assets of the Issuer in Germany; (iii) the filing of a notice of the Issuer with the Federal Authority for Financial Services Supervision (*Bundesanstalt für Finanzdienstleistungsaufsicht*) pursuant to Section 46b of the German Banking Act (*Kreditwesengesetz*); (iv) the issuance of any orders by the Federal Government with respect to the Issuer pursuant to Section 47 of the German Banking Act (*Kreditwesengesetz*), including a moratorium; or (v) the taking of any action in furtherance of the dissolution (*Auflösung*) of the Issuer.

For the avoidance of doubt, no additional amounts (other than additional amounts payable in respect of applicable Ukrainian withholding tax at a rate of up to 2 per cent.) shall be payable if and to the extent that such withholding or deduction is required following and on account of a Relevant Event.

13. FURTHER ISSUES

The Issuer may from time to time, with the consent of the Borrower and without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. Such further Notes shall be issued under a deed supplemental to the Trust Deed. In relation to such further issue, the Issuer will enter into a loan agreement supplemental to the Loan Agreement with the Borrower on the same terms as the original Loan Agreement (or on the same terms except for the first payment of interest) subject to any modifications which, in the sole opinion of the Trustee, would not materially prejudice the interests of the Noteholders. The Issuer will provide a further fixed charge and absolute assignment in favour of the Trustee of its rights under such supplemental loan agreement equivalent to the rights charged and assigned as Security Interests in relation to the Issuer's rights under the original Loan Agreement which will, together with the Security Interests referred to in the Conditions, secure both the Notes and such further Notes.

14. NOTICES

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, so long as Notes are listed on the Luxembourg Stock Exchange and the rules of that Exchange so require, notices to Noteholders will be published on the date of such mailing in a daily newspaper of general circulation in Luxembourg (which is expected to be d'Wort) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe.

15. GOVERNING LAW AND JURISDICTION

15.1 Governing law

The Notes and the Trust Deed and all matters arising from or connected with the Notes and the Trust Deed are governed by, and shall be construed in accordance with, English law.

15.2 **Jurisdiction**

The Issuer has in the Trust Deed (i) agreed for the benefit of the Trustee and the Noteholders that the courts of England shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the Notes; (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient; and (iii) designated a person in England to accept service of any process on its behalf. The Trust Deed also states that nothing contained in the Trust Deed prevents the Trustee or any of the Noteholders from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction and that, to the extent allowed by law, the Trustee or any of the Noteholders may take concurrent Proceedings in any number of jurisdictions.

There will appear at the foot of the Conditions endorsed on or (as the case may be) attached to each Individual Note Certificate the names and Specified Offices of the Registrar, the Paying Agents and the Transfer Agents as set out at the end of this Offering Circular.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Notes will be represented by a Global Note Certificate which will be registered in the name of Chase Nominees Limited as nominee for, and deposited with, a common depositary for Euroclear and Clearstream, Luxembourg.

The Global Note Certificate will become exchangeable in whole, but not in part, for individual note certificates ("Individual Note Certificates") if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) the Issuer fails to pay an amount in respect of the Notes within five days of the date on which such amount became due and payable under the Conditions; or (c) the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) which would not be suffered were the Notes evidenced by Individual Note Certificates and a certificate to such effect signed by two authorised signatories of the Issuer is delivered to the Trustee. Thereupon (in the case of (a) and (b) above) the Holder may give notice to the Issuer, and (in the case of (c) above) the Issuer may give notice to the Trustee and the Noteholders of its intention to exchange the Global Note Certificate for Individual Note Certificates.

Whenever the Global Note Certificate is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered Holder of the Global Note Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Holder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

In addition, the Global Note Certificate will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Note Certificate. The following is a summary of certain of those provisions:

Notices: Notwithstanding Condition 14 (*Notices*), so long as the Global Note Certificate is held on behalf of for Euroclear, Clearstream, Luxembourg or any other clearing system (an "Alternative Clearing System"), notices to Holders of Notes represented by the Global Note Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System; *provided, however, that*, so long as the Notes are listed on the Luxembourg Stock Exchange and its rules so require, notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be *d'Wort*).

Payment: To the extent that the Issuer has actually received the relevant funds from the Bank, payments in respect of Notes represented by a Global Note Certificate will be made against presentation for endorsement and, if no further payment of principal or interest is to be made in respect of the Notes, against presentation and surrender of such Global Note Certificate to or to the order of the Registrar. Upon payment of any principal, the amount so paid shall be endorsed by or on behalf of the Registrar on behalf of the Issuer on the schedule to the Global Note Certificate. Payment while Notes are represented by a Global Note Certificate will be made in accordance with the procedures of Euroclear and Clearstream, Luxembourg or any alternative clearing system as appropriate.

SUBSCRIPTION AND SALE

Deutsche Bank AG, London Branch, UBS Limited (each a "Lead Manager" and together, the "Lead Managers"), ● and ● (each a "Manager" and together with the Lead Managers, the "Managers") have, in a subscription agreement dated ● 2005 (the "Subscription Agreement") and made between the Issuer, the Bank and the Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe and pay for the Notes at their issue price of ● per cent. of their principal amount. The Bank will pay to the Lead Managers an issue fee of ● per cent. of the aggregate principal amount of the issue. The Bank has also agreed to reimburse the Lead Managers for certain of their expenses incurred in connection with the management of the issue of the Notes. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has further represented, warranted and undertaken that:

(a) *No offer to public*: It has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom prior to the expiry of a period of six months from the issue date of such Notes except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

(b) *Financial Promotion*: It has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(c) *General compliance*: It has complied with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Ukraine

Each Manager has agreed that the Notes shall not be offered by any of them for circulation, distribution, placement, sale, purchase or other transfer in the territory of Ukraine. Accordingly, nothing in this Offering Circular or any other documents, information or communications related to the Notes shall be interpreted as containing any offer or invitation to, or solicitation of, any such circulation, distribution, placement, sale, purchase or other transfer in the territory of Ukraine.

Russian Federation

Each Manager has represented and agreed that it has not offered or sold or otherwise transferred and will not offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter any Notes to or for the benefit of any person (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation, unless to the extent otherwise permitted by Russian laws or regulations.

Germany

Each Manager has confirmed that it is aware of the fact that no German sales prospectus (*Verkaufsprospekt*) within the meaning of the Securities Sales Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*) (the "Act") of the Federal Republic of Germany has been or will be published with respect to the Notes and that it will comply with the Act and any other laws and legal and regulatory requirements applicable in the Federal Republic of Germany with respect to the issue, sale and offering of securities. In particular, each of the Managers has represented that it has not engaged and agreed that it will not engage in a public offering (*öffentliches Angebot*) within the meaning of the Act with respect to any Notes otherwise than in accordance with the Act.

Republic of Italy

The offering of the Notes has not been registered pursuant to the Italian securities legislation and, accordingly, each of the Managers has represented and agreed that it has not offered or sold, and will not offer or sell, any Notes in the Republic of Italy in a solicitation to the public, and that sales of the Notes in the Republic of Italy shall be effected in accordance with all Italian securities, tax, exchange control and other applicable laws and regulations.

In any case, the Notes will not be sold, either in the primary or the secondary market, to individuals residing in the Republic of Italy.

Each of the Managers has represented that it will not offer, sell or deliver any Notes or distribute copies of the Offering Circular or any other document relating to the Notes in the Republic of Italy except to "Professional investors", as defined in Article 31.2 of CONSOB Regulation No. 11522 of 1 July 1998 ("Regulation No. 11522"), as amended, pursuant to Articles 30.2 and 100 of Legislative Decree No. 58 of 24 February 1998 ("Decree No. 58"), or in any other circumstances where an express exemption from compliance with the solicitation restrictions provided by Decree No. 58 or CONSOB Regulation No. 11971 of 14 May 1999 applies, provided however, that any such offer, sale or delivery of Notes or distribution of copies of the Offering Circular or any other document relating to the Notes in the Republic of Italy must be:

(a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1 September 1993 ("Decree No. 385"), Decree No. 58, Regulation No. 11522 and any other applicable laws and regulations:

(b) in compliance with Article 129 of Decree No. 385 and the implementing instructions of the Bank of Italy, pursuant to which the issue or placement of securities in Italy is subject to prior notification to the Bank of Italy, unless an exemption, depending *inter alia,* on the amount of the issue and the characteristics of the securities, applies;

(c) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy; and

(d) in compliance with the banking transparency requirements set forth in Decree No. 385 and the implementing regulations and decrees.

General

No action has been or will be taken in any jurisdiction by the Issuer, the Bank or any Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Issuer, the Bank and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at their own expense.

TAXATION

The following is a general description of certain Ukrainian and German tax consideration relating to the Notes. It does not purport to be a complete analysis of all tax consideration relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries.

This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

Ukrainian Tax Considerations

General

The following summary is included for general information only. Potential investors in and holders of the Notes should consult their own tax advisor as to the tax consequences under the laws of Ukraine of the acquisition, ownership and disposition of the Notes. This summary is based upon the Ukrainian tax laws and regulations as in effect on the date of this Offering Circular. Such laws and regulations are subject to change or varying interpretations, possibly with retroactive effect. As with other areas of Ukrainian legislation, tax law and practice in Ukraine is not as clearly established as that of more developed jurisdictions. It is possible, therefore, that the current interpretation of the law or understanding of the practice may change or that the law may be amended with retroactive effect. Accordingly, it is possible that payments to be made to the holders of the Notes could become subject to taxation or that rates currently in effect with respect to such payments could be increased in ways that cannot be anticipated as at the date of this Offering Circular.

Withholding Tax on Interest Payments and Principal Repayments under the Loan

The Law of Ukraine "On Taxation of Profits of Enterprises", dated 28 December 1994, as amended and restated (the "Profits Tax Law") envisages that income of legal entities which are non-residents of Ukraine derived from sources in Ukraine in the form of interest payments is subject to 15 per cent. withholding tax.

At the same time, paragraph 13.2 of Article 13 of the Profits Tax Law provides that this withholding tax may be reduced by the provisions of an applicable tax treaty on the avoidance of double taxation.

Germany and Ukraine have entered into such a treaty, signed on 3 July 1995, effective on 4 October 1996 ("the Taxation Treaty"), pursuant to which interest payments are subject to a 2 per cent. withholding tax on the gross amount of interest payments made by the Ukrainian borrower to the German bank or any other German financial institution on any loan of whatever kind, provided that such a bank or financial institution is the beneficial owner of the interest payments being received in Germany.

While the Bank believes the Issuer will be treated as the beneficial owner of the income in question under Article 11 of the Taxation Treaty, the notion of beneficial ownership is not well-defined, neither in Ukrainian nor in international law. As a consequence, different interpretations are possible and the position could be taken that the Issuer should not be viewed as the beneficial owner of the interest payments being received in Germany. However, the Bank believes that it is unlikely that the Ukrainian authorities will adopt this view.

Applicable Ukrainian legislation allows upfront relief under the Taxation Treaty when the German recipient provides the Ukrainian borrower with the tax residence certificate in the prescribed form, confirming the fact that the recipient of interest is resident of Germany for the purposes of the Taxation Treaty. The obtaining of this upfront relief does not require the payee or payor to apply for and/or obtain any transaction-specific prior clearance from the Ukrainian tax authorities. Instead, the Ukrainian payor directly applies the reduced rate of withholding tax under the Taxation Treaty, provided that it has received the necessary documentation from the recipient on or prior to the date of payment of the Ukrainian source income. Therefore, when making interest payments to the Issuer under the Loan Agreement, the Bank will directly apply the 2 per cent. withholding tax rate under the Taxation Treaty, provided that the Bank has received from the Issuer the tax residency certificate, renewable on an annual basis, on or prior to the date of payment, subject to the reservation mentioned above.

The Profits Tax Law does not expressly exempt principal repayments from Ukrainian withholding tax. More specifically, paragraph 13.1 of Article 13 of the Profits Tax Law contains a "catch-all" provision, under which "other income of a non-resident (a permanent establishment of such or other non-resident) from carrying out business activity on the territory of Ukraine" is subject to a 15 per cent. withholding tax, established by paragraph 13.2 of Article 13 of the Profits Tax Law. Absent a definition of "income" in the Profits Tax Law, there is a remote risk that the repayment of principal under the Loan Agreement may be regarded as Ukrainian-source income of the Issuer and, as such, subject to Ukrainian withholding tax at the rate of 15 per cent. Based on the professional advice it has received, the Bank is unaware of any situation in which the Ukrainian tax authorities have ever attempted to levy Ukrainian withholding tax on repayments of principal under a loan or credit transaction.

Consequences of Ukrainian Withholding

If any payments (including payments of interest) under the Loan Agreement are subject to any withholding (as a result of which the Issuer would reduce payments under the Notes in the amount of such withholding), the Bank may, in certain circumstances specified in the Loan Agreement and subject to certain exceptions relating to maintenance by the Issuer of its residence in a qualifying jurisdiction, become obliged to pay such additional amounts as may be necessary so that the net payments received by the Issuer will not be less than the amount the Issuer would have received in the absence of such withholding.

While there is doubt as to whether the gross-up clause contained in the Loan Agreement is enforceable under Ukrainian law, a failure by the Bank to pay additional amounts due under the Loan Agreement would be a default under the Loan Agreement. Also, in the event that the Bank would become obliged to pay additional amounts (other than in respect of applicable withholding tax at a rate of up to 2 per cent.), the Bank may prepay the Loan at its principal amount, together with accrued interest, and thereupon (subject to receipt of the relevant funds from the Bank) all outstanding Notes will be prepaid by the Issuer.

Tax on Issue of and Interest Payments under the Notes

No Ukrainian withholding tax will be applicable to the issue of the Notes or interest payments on the Notes because the Notes will not be issued by the Bank or from Ukraine and interest payments on the Notes will not be made by the Bank or from Ukraine.

Tax on Redemption of Notes

Principal payments on redemption of the Notes will not be subject to Ukrainian tax because such payments will not be made by a Ukrainian borrower, nor will there be any guarantee of any payments under the Notes by a Ukrainian borrower.

Ukrainian Holders

A Ukrainian resident Noteholder, i.e., a qualifying physical person or a legal person organised under Ukrainian law, is subject to all applicable Ukrainian taxes.

Transfers of Notes by Non-Ukrainian Investors to Ukrainian Investors

Ukrainian-source profits of non-resident legal persons derived from trading securities are generally subject to 15 per cent. withholding tax (while Ukrainian-source income of non-resident physical persons is, subject to certain exceptions, subject to 26 per cent. (30 per cent. from 1 January 2007) withholding tax), as may be reduced by an applicable treaty on the avoidance of double taxation.

Non-resident Noteholders are, therefore, likely to be subject to Ukrainian withholding tax on any gain (or the gross amount of the proceeds if the gain cannot be quantified) on the disposal of Notes where the proceeds of such disposal are received from a source within Ukraine.

Transfer Pricing Rules

Despite the fact that Ukrainian transfer pricing rules are not yet aggressively applied on a consistent basis by the Ukrainian tax authorities, the scope of these rules is broad enough to apply to cross-border transactions, irrespective of whether related parties are involved. For this reason, there is a risk that the Ukrainian tax authorities may attempt to apply transfer pricing rules to the amount of interest accrued and paid under the Loan, as a cross-border transaction, for the purposes of profits tax deductions. Interest is currently allowed as a deduction, subject to certain limitations of interest deductibility in any given tax reporting period, if the amount of interest incurred in respect of a debt obligation does not exceed the market value. The applicable Ukrainian corporate profits tax legislation does not provide any definitive test for determining the market rate of interest nor does it provide any "safe harbour" in case of the deviation from such market rate. For this reason, there is a slight risk that the interest rate under the Loan may be challenged by the Ukrainian tax authorities, which may result in the assessment of an additional tax liability to the Bank. If interest is increased due to gross-up provisions, this will increase the transfer pricing risk, as the gross-up can raise the interest rate above the market value.

German Tax Considerations

General

The following is a general discussion of certain German income tax consequences of the acquisition, ownership and disposition of the Notes to original purchasers of the Notes. This summary is based on the laws currently in force and as applied in practice on the date of this offering circular, which might be subject to change, possibly with retroactive effect.

The information provided below does not purport to be a complete, exhaustive or final summary of the tax law and practice currently applicable in the Federal Republic of Germany. Prospective purchasers of the Notes are advised to consult their own tax advisors as to the German or other tax consequences of the purchase, ownership and disposition of the Notes in light of their particular circumstances, including the effect of any state, local or other national laws.

Resident Holders

Noteholders whose residence, customary place of abode or, in case the Noteholder is a corporation, seat or place of management is in Germany (resident holders) are subject to an unlimited tax liability in Germany. Interest income (including "Accrued Interest" (*Stückzinsen*) stemming from a sale or a redemption of the Notes) earned by resident holders from the Notes is taxable as income from capital investment pursuant to section 20 of the German Income Tax Act (*Einkommensteuergesetz - EStG*). In case the Notes are held as business assets, however, the interest income is taxable as business income according to section 20 para. 3 and 15 para. 1 EStG.

The interest income from the Notes is, in principle, subject to German income tax (*Einkommensteuer*) or German corporate income tax (*Körperschaftsteuer*), both plus solidarity surcharge thereon (*Solidaritätszuschlag*). Additionally trade tax (*Gewerbesteuer*) will become due if the Notes are held by a trade business (including partnerships which run a trade business) located in Germany.

If (i) the Notes are held in custodial account by a German credit institution or financial services institution ("Disbursing Agent") (which term includes a German branch of a foreign credit or financial services institution (including the Issuer but excludes a foreign branch of a German credit or financial services institution)) and such Disbursing Agent pays or credits the interest payments or (ii) if the Issuer in its capacity as issuer of the Notes pays or credits the interest payments, interest payments and Accrued Interest in respect of the Notes are subject to a 30.0 per cent. withholding tax (Zinsabschlagsteuer) and a 5.5

per cent. solidarity surcharge thereon. As a result, such payments are subject to a total withholding tax charge of 31.65 per cent.

If interest is paid by a Disbursing Agent upon physical presentation of the Notes or coupons, if any (so-called "over-the-counter" (OTC) transaction), the withholding tax rate is 35.0 per cent. plus 5.5 per cent. solidarity surcharge thereon, leading to an aggregate tax burden of 36.93 per cent. The withholding tax and solidarity surcharge withheld from such payments is credited as prepayment against the personal income tax or corporate income tax bill (including the respective solidarity surcharge) of the Noteholder.

Individuals are entitled to a tax-free allowance for investment income not resulting from business assets according to section 20 para. 4 EStG. The amount of interest received that can be excluded from taxable income is EUR 1,370 (EUR 2,740 for married couples) for all investment income (interest on bonds, interest on bank deposits, dividends etc.). In combination with the lump-sum deduction for investment expenses (section 9a sentence 1 no. 2 EStG), the amount excludible from taxable income amounts to EUR 1,421 (EUR 2,842 for married couples). However, these allowances only apply to investment income not resulting from business assets. For commercial corporate taxpayers income from the interest on the Notes does not qualify as investment income but as business income; thus the allowances for investment income are not granted.

In case Notes do not qualify as business assets, capital gains, if any, realised in respect of the Notes are not subject to income tax unless the Notes are sold within one year of acquisition or issuance. The German tax authorities might take the view that a capital gain realised from a redemption of the Notes within a period of one year after acquisition or issuance is subject to tax. Capital gains realised in respect of Notes held as business assets are, however, subject to income or corporate income tax (plus solidarity surcharge thereon) and trade tax. The capital gain on any disposal of the Notes is, in principle, calculated as the difference between the disposal price of the relevant Note and its acquisition cost.

German withholding tax will not be levied on capital gains deriving from the sale or redemption of the Notes.

However, if the Notes should be classified as a financial innovations (*Finanzinnovationen*) within the meaning of the German Income Tax Act (which term includes, inter alia, discount notes, zero-coupon notes and floating rate notes), an amount equal to the difference between the issue or purchase price and the sales price or redemption amount to the extent attributable to the period over which the Noteholder has held such Notes (*Emissionsrendite*) or, alternatively, the difference between the proceeds from a sale or redemption and the purchase price or issue price of the notes (*Marktrendite*) will be subject to personal income tax or corporate income tax (in both cases plus solidarity surcharge thereon) as deemed interest income ("Deemed Interest"). In addition, where the Notes are held in custodial account by a Disbursing Agent an amount equal to the difference between issue or purchase price and the redemption amount or sales proceeds will be subject to withholding tax (plus solidarity surcharge thereon, i.e. 31.65 per cent. respectively 36.93 per cent. in aggregate as described above) if the Notes have been held in custodial account by such Disbursing Agent since the time of acquisition or issuance, respectively. Otherwise withholding tax and solidarity surcharge will apply at the rate described above calculated on a lump-sum basis of 30.0 per cent. of the proceeds received for partial or final redemption or sale of the Notes.

Non-Resident Holders

Noteholders whose residence, customary place of abode or, in case the Noteholder is a corporation, seat or place of management is outside Germany (non-resident holders) are subject to a limited tax liability in Germany with income deriving from German sources as defined in the German Income Tax Act. In particular income earned through a German "Permanent Establishment" (which term shall include a fixed place of business in Germany or a German permanent representative) has to be considered as income from German sources. The same applies to income earned through a direct investment of non-resident holders in a German partnership, which carries out a trade business in Germany. If a Noteholder is subject to limited tax liability, interest income from the Notes is either subject to German income tax or (in case the Noteholder is established as a corporation) German corporate income tax, both plus solidarity surcharge thereon. Additionally, German trade tax will become due.

Interest payments earned by non-resident holders are exempt from German withholding tax (and solidarity surcharge thereon). An exemption applies, inter alia, if either the Notes form part of a German Permanent Establishment or the interest payments, including Accrued Interest and Deemed Interest, are effected upon an OTC transaction.

Capital gains realised by non-resident holders from a sale or other disposal or redemption of Notes that are not held as business assets of a Permanent Establishment in Germany are not subject to tax in Germany.

Other Taxes

No stamp, issue, registration, or similar taxes or duties will be payable in Germany in connection with the issuance, delivery or execution of the Notes.

EU Directive on the Taxation of Interest Income

On June 3, 2003 the Council of the European Union approved a directive regarding the taxation of interest. Accordingly, each EU Member State must require paying agents (within the meaning of the directive) established within its territory to provide to the competent authority of this state details of the payment of interest made to any individual resident in another EU Member State as the beneficial owner of the interest. The competent authority of the EU Member State of the paying agent (within the meaning of the directive) is then required to communicate this information to the competent authority of the EU Member State of which the beneficial owner of the interest is a resident.

For a transitional period, Austria, Belgium and Luxembourg may opt instead to withhold tax from interest payments within the meaning of the directive at a rate of 15 per cent. for the first three years from application of the provisions of the directive, of 20 per cent. for the subsequent three years, and of 35 per cent. from the seventh year after application of the provisions of the directive.

On July 19, 2004 the Council of the European Union decided that the provisions to be enacted for implementation of the directive shall be applied by the member states as from July 1, 2005. This presupposes that (i) Switzerland, Liechtenstein, San Marino, Monaco and Andorra apply from that same date measures equivalent to those contained in the directive, in accordance with agreements entered into by them with the European Community and (ii) also all the relevant dependent or associated territories (the Channel Islands, the Isle of Man and the dependent or associated territories in the Caribbean) apply from that same date an automatic exchange of information or, during the transitional period described above, apply a withholding tax in the described manner.

By legislative regulations dated January 26, 2004 the Federal Government enacted the provisions for implementing the directive into German law. The entry into force of the legislative regulations depends, however, on a determination by the Council of the European Union to the effect that the conditions for the application of the directive have been fulfilled.

GENERAL INFORMATION

1. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg with Common Code of ●. The International Securities Identification Number for the Notes is ●.

2. In connection with the application for the Notes to be listed on the Luxembourg Stock Exchange, a copy of a legal notice relating to the issue of the Notes and a copy of the Bank's charter in the English language will be deposited prior to listing with the Registre de Commerce et des Sociétés, Luxembourg where it may be inspected and copies obtained upon request. Copies (and English translations where the documents in question are not in English) of the following documents may be inspected at and are available from the specified offices of the Paying Agents during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) so long as any of the Notes is listed on the Luxembourg Stock Exchange:

   (a) the Agency Agreement;

   (b) the Trust Deed, which includes the forms of the Global Notes and the definitive Notes;

   (c) the consolidated audited financial statements of the Bank in respect of each of the financial years ended 31 December 2004 and 2003. The Bank currently prepares audited consolidated accounts on an annual basis;

   (d) copies of the authorisations listed below; and

   (e) the Loan Agreement.

3. The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue of the Notes. The execution of the Loan Agreement by the Bank was approved and authorised by a resolution of the Management Board dated 30 March 2005 (Protocol No. 11 of the meeting of the Management Board dated 30 March 2005).

4. Save as disclosed in this Offering Circular, since 31 December 2004 there has been no material adverse change or any development involving a prospective material adverse change in the condition (financial or otherwise), general affairs or prospects of the Bank and its subsidiaries that is material in the context of the issue of the Notes.

5. The Bank has obtained all necessary consents, approvals and authorisations in Ukraine in connection with the Loan.

6. The Bank's IFRS Financial Statements as at and for the years ended 31 December 2004 and 2003 included in this document have been audited by LLC audit firm "PricewaterhouseCoopers (Audit)", independent auditors, who have expressed opinions on those statements, as stated in their reports appearing herein. LLC audit firm "PricewaterhouseCoopers (Audit)", independent auditors, were also the Bank's external auditors in 2002, 2001 and 2000 and included an emphasis of matter paragraph in their audit report for the years 2002 and 2001, drawing attention to the fact that a significant portion of the Bank's assets had historically been due from related parties and a significant portion of the Bank's earnings had been derived from activities and transactions with related parties.

7. No consents, approvals, authorisations or orders of any regulatory authorities are required by the Issuer under the laws of the Federal Republic of Germany for the maintaining of the Loan or for the issue and performance of the Notes.

8. There are no lawsuits, litigation or other legal or administrative or arbitration proceedings against or affecting the Bank and its subsidiaries, current or pending or, to the best of the knowledge and belief of the Bank, threatened before any court, tribunal, arbitration panel or agency which may have or have had in the 12 months preceding the date of this document, a significant effect on the financial position of the Bank and its subsidiaries and which might be material in the context of the issue of the Notes.

9. The Trust Deed will provide, inter alia, that the Trustee may act and/or rely on the opinion or advice of or a certificate or any information obtained from any lawyer, banker, valuer, surveyor, broker, auctioneer, accountant, auditor or other expert (whether or not addressed to the Trustee), notwithstanding that such opinion, advice certificate or information contains a monetary or other limit on any of the above-mentioned persons in respect thereof.

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PRICEWATERHOUSECOOPERS

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AUDITORS' REPORT

To the Shareholders and Board of Directors of JSIB UkrSibbank:

1 We have audited the accompanying consolidated balance sheet of JSIB UkrSibbank (the "Bank", as defined in Note 1 to the consolidated financial statements) as at 31 December 2004, and the related consolidated statements of income, of cash flows and of changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Bank's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

PricewaterhouseCoopers

Kyiv, Ukraine
27 April 2005

Auditor L. Pakhucha
Certificate No 0000025 issued by the National Bank of Ukraine

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

	Note	31 December 2004	31 December 2003
Assets			
Cash and cash equivalents and mandatory reserve	5	618,213	361,552
Trading securities	6	275,943	182,365
Due from other banks	7	93,095	148,670
Loans and advances to customers	8	3,532,473	2,614,673
Investments available-for-sale	9	192,644	123,820
Investment securities held-to-maturity	10	47,908	75,696
Guarantee deposits with the National Bank of Ukraine	15	115,668	-
Other assets	11	79,484	40,860
Premises, leasehold improvements and equipment	12	420,882	144,806
Total assets		**5,376,310**	**3,692,442**
Liabilities			
Due to other banks	13	176,697	400,151
Customer accounts	14	3,290,231	2,707,956
Due to the National Bank of Ukraine	15	390,052	85,729
Debt securities in issue	16	570,739	57,390
Subordinated debt	17	73,433	114,537
Other liabilities	18	64,817	26,193
Deferred tax liability	23	42,838	16,858
Total liabilities		**4,608,807**	**3,408,814**
Minority interest		9,382	3,020
Shareholders' equity			
Share capital	19	1,543,684	1,146,124
Share premium		2,060	2,060
Additional capital	17	6,974	6,974
Revaluation reserve	12	3,958	3,958
Accumulated deficit		(798,555)	(878,508)
Total shareholders’ equity		**758,121**	**280,608**
Total liabilities, minority interest and shareholders' equity		**5,376,310**	**3,692,442**

Approved for issue by the Board of Directors and signed on its behalf on “27” April 2005.

Oleksandr Adarich
Chairman of the Board

Iryna Maryanko
Chief Accountant

The notes set out on pages F-6 to F-47 form an integral part of these consolidated financial statements.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

	Note	2004	2003
Interest income	20	660,643	377,693
Interest expense	20	(357,585)	(184,813)
Net interest income		**303,058**	**192,880**
Provision for loan impairment	7, 8	(83,533)	(73,586)
Net interest income after provision for loan impairment		**219,525**	**119,294**
Fee and commission income	21	99,574	83,021
Fee and commission expense	21	(8,169)	(6,787)
Gains less losses arising from trading securities		20,706	710
Gains less losses arising from investments available-for-sale		4,165	10,789
Gains less losses arising from trading in foreign currencies		61,374	38,163
Foreign exchange translation gains less losses/ (losses net of gains)		2,692	(1,359)
Losses net of gains on origination of financial instruments at rates above and below market	8, 10, 15	(435)	(604)
Loss on change in terms of subordinated debt	17	(8,589)	-
Provision for losses on credit related commitments	27	(3,062)	(3,723)
Other operating income		13,809	3,122
Operating income		**401,590**	**242,626**
Staff costs		(123,333)	(81,169)
Other operating expenses	22	(162,293)	(89,691)
Profit before tax		**115,964**	**71,766**
Income tax expense	23	(35,361)	(30,508)
Profit after tax		**80,603**	**41,258**
Minority interest		(650)	-
Net profit		**79,953**	**41,258**
Basic and diluted earnings per share (expressed in UAH per share)	24	**0.0089**	**0.0146**

The notes set out on pages F-6 to F-47 form an integral part of these consolidated financial statements.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

	Note	2004	2003
Cash flows from operating activities			
Interest received on loans and placements		634,046	338,292
Interest received on securities		8,378	17,155
Interest paid		(323,586)	(161,473)
Income received from trading in trading securities		15,984	1,410
Income received from trading in foreign currencies		61,374	38,164
Fees and commissions received		99,574	83,021
Fees and commissions paid		(13,738)	(6,787)
Other operating income received		25,129	2,221
Staff costs paid		(123,333)	(81,169)
Other operating expenses paid		(128,841)	(65,026)
Income tax paid		(9,381)	(7,348)
Cash flows from operating activities before changes in operating assets and liabilities		**245,606**	**158,460**
Changes in operating assets and liabilities			
Net increase in mandatory reserve balances		(48,949)	(82,901)
Net increase in trading securities		(84,087)	(73,224)
Net decrease in due from other banks		54,440	41,189
Net increase in loans and advances to customers		(982,107)	(1,447,752)
Net increase in guarantee deposits with the National Bank of Ukraine		(115,668)	-
Net increase in other assets		(18,595)	(7,181)
Net (decrease)/ increase in due to other banks		(256,951)	153,070
Net increase in customer accounts		482,313	1,354,517
Net increase in due to the National Bank of Ukraine		304,127	80,753
Net (decrease)/ increase in debt securities in issue		(22,658)	30,972
Net increase/ (decrease) in other liabilities		4,008	(10,019)
Net cash (used in) / from operating activities		**(438,521)**	**197,884**
Cash flows from investing activities			
Acquisition of investments available-for-sale		(118,899)	(109,210)
Proceeds from disposal of investments available-for-sale		71,076	52,204
Acquisition of investments held-to-maturity		-	(77,416)
Proceeds from redemption of investments held-to-maturity		29,016	-
Acquisition of premises, leasehold improvements and equipment		(329,374)	(57,120)
Proceeds from disposal of premises and equipment		5,384	6,444
Net cash used in investing activities		**(342,797)**	**(185,098)**
Cash flows from financing activities			
Contributions received for new share issue	19	397,560	62,440
Issue of long-term debt securities	16	532,930	-
Payments to shareholders	19	-	(15,560)
Issue of subordinated debt		47,964	33,591
Net cash from financing activities		**978,454**	**80,471**
Effect of exchange rate changes on cash and cash equivalents		**10,576**	**(1,626)**
Net increase in cash and cash equivalents		**207,712**	**91,631**
Cash and cash equivalents at the beginning of the year		191,878	100,247
Cash and cash equivalents at the end of the year	5	**399,590**	**191,878**

As disclosed in Note 17, during 2004 deposits received under subordinated debt agreements totalling UAH 90,545 thousand were re-arranged as term deposits and included in term deposits of customers and due to other banks. The decrease in the subordinated debt balance and respective increase in customer accounts and due to other banks balances as a result of this transaction were not included in the above statement of cash flows.

The notes set out on pages F-6 to F-47 form an integral part of these consolidated financial statements.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

	Note	Share capital	Share premium	Additional Capital	Revaluation reserve	Accumulated deficit	Total shareholders' equity
Balance at 1 January 2003		**1,083,684**	**2,060**	**-**	**4,019**	**(908,874)**	**180,889**
Net profit for the year		-	-	-	-	41,258	41,258
Distributions to shareholders, net of tax effect	19	-	-	-	-	(10,892)	(10,892)
Share issue	19	62,440	-	-	-	-	62,440
Revaluation of the aircraft, net of tax effect		-	-	-	(61)	-	(61)
Gain on origination of subordinated debt, net of tax effect	17	-	-	6,974	-	-	6,974
Balance at 31 December 2003		**1,146,124**	**2,060**	**6,974**	**3,958**	**(878,508)**	**280,608**
Net profit for the year		-	-	-	-	79,953	79,953
Share issue	19	397,560	-	-	-	-	397,560
Balance at 31 December 2004		**1,543,684**	**2,060**	**6,974**	**3,958**	**(798,555)**	**758,121**

The notes set out on pages F-6 to F-47 form an integral part of these consolidated financial statements.

1 Principal Activities

These consolidated financial statements include the financial statements of Joint-Stock Innovation Bank UkrSibbank, its subsidiaries and special purpose entities. The Bank, its subsidiaries and special purpose entities together are referred to as the "Bank".

Joint-Stock Innovation Bank UkrSibbank (the "Bank") was formed in 1990 as Commercial Innovation Bank Kharkovincomebank and registered by Gosbank of USSR. In 1991 the Bank was reorganised as an open-type joint-stock company and registered by the National Bank of Ukraine (the "NBU"). In 1992 the Bank was renamed as UkrSibbank. As at 31 December 2004 the major shareholders of the Bank are six Ukrainian companies and two individuals, which together own over 97% of the outstanding registered shares (31 December 2003: nine Ukrainian companies owned over 99% of the outstanding registered shares).

The Bank operates under a banking license issued by the National Bank of Ukraine. The Bank's principal business activity is commercial and retail banking operations within Ukraine.

As at 31 December 2004 the Bank has 22 branches and 502 outlets in Ukraine (31 December 2003: 22 branches and 197 outlets). Additionally, the Bank has representative offices in Kyiv and Kharkiv (Ukraine). The Bank's registered office is located at the following address:

60 Moskovsky Ave.
61005, Kharkiv
Ukraine.

The number of the Bank's employees as at 31 December 2004 was 6,580 (as at 31 December 2003: 3,363).

A list of consolidated subsidiaries and special purpose entities is disclosed in Note 30.

2 Operating Environment of the Bank

Whilst there have been improvements in economic trends in the country, Ukraine continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of Ukraine, restrictive currency controls, and inflation of 12.3% for the year ended 31 December 2004 (2003: 8.2%). The tax, currency and customs legislation within Ukraine is subject to varying interpretations and changes, which can occur frequently.

The future economic direction of Ukraine is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

The banking sector in Ukraine is particularly sensitive to adverse fluctuations in confidence and economic conditions. Furthermore, the need for further developments in the anti-money laundering legislation, bankruptcy laws, formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in Ukraine.

In addition, economic conditions continue to limit the volume of activity in the financial markets. Market quotations in generally illiquid markets may not be reflective of the values for financial instruments, which would be determined in an efficient, active market involving many willing buyers and willing sellers.

3 Basis of Presentation

Basis of Presentation. These consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Bank maintains its accounting records in accordance with Ukrainian banking and accounting regulations. These consolidated financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with IFRS.

These consolidated financial statements have been measured and presented in the national currency of Ukraine, hryvnia ("UAH").

3 Basis of Presentation (Continued)

The preparation of these consolidated financial statements requires the use of estimates and assumptions that effect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current period. Mandatory reserves, due from other banks and customer accounts which were previously classified as non-interest bearing in re-pricing analysis, were reclassified as demand according to their maturity dates.

4 Significant Accounting Policies

Consolidated financial statements. Subsidiary undertakings (including special purpose entities) are those companies and other entities in which the Bank, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to exercise control over financial and operating policies. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Bank controls another entity. Subsidiaries are consolidated from the date on which effective control is transferred to the Bank and are removed from consolidation from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the consideration given in form of assets given up, shares issued or assumed liabilities at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

Minority interest is that part of the net results of operations and of the net assets of a subsidiary or a special purpose entity attributable to interests which are not owned, directly or indirectly, by the Bank. Minority interest in the consolidated balance sheet is recorded separately from liabilities and shareholders' equity. Minority interest related to results of the current period is recorded in the consolidated statement of income.

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash at short notice and which are subject to an insignificant risk of changes in value. All short term interbank placements, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Mandatory reserve balances. Mandatory reserve balances represent mandatory reserve assets which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated cash flow statement.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Bank classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within 3 months.

Trading securities are initially recorded at cost (which includes transaction costs) and subsequently remeasured at fair value based on their market value or after the application of various valuation methodologies, including assumptions as to the future realisability of these securities. In determining market value, all trading securities are valued at the last trade price if quoted on a market or, if traded over-the-counter, at the last bid price.

All related realised and unrealised gains and losses are recorded within gains less losses arising from trading securities in the consolidated statement of income in the period in which the change in fair value occurs or is realised. Interest earned on trading securities is reflected in the consolidated statement of income as interest income on securities. Dividends received are included in dividend income within other operating income.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at settlement date, which is the date when the ownership right for securities is transferred to/by the Bank.

4 Significant Accounting Policies (Continued)

Sale and repurchase agreements. Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included into trading securities or investments available-for-sale as appropriate. The corresponding liability is presented within due to other banks. Securities purchased under agreements to resell ("reverse repo") are recorded as due from other banks or loans and advances to customers as appropriate. The difference between the sale and repurchase price including the respective coupon interest to be received by the counterparty during the term of a repo agreement is treated as interest and accrued over the life of repo agreements using the effective yield method.

Originated loans and advances and provisions for loan impairment. Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at draw down, other than those that are originated with the intent of being sold immediately or in the short-term which are recorded as trading assets, are categorised as originated loans.

Originated loans and advances are recorded when cash is advanced to borrowers. Initially, originated loans and advances are recorded at cost, which is the fair value of the consideration given, and subsequently are carried at amortised cost less provision for loan impairment. Amortised cost is the amount at which the financial asset was measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount, and minus any write-down (directly or through the use of an allowance account) for impairment or uncollectability. Amortised cost also includes accrued interest, if any. Third party expenses, such as legal fees incurred in securing a loan, are treated as part of the origination cost and are included in the initial measurement of the financial asset.

Loans originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans. The difference between the fair value and the nominal value at origination is credited or charged to the consolidated statement of income as gains on origination of assets at rates above market or losses on origination of assets at rates below market. Subsequently, the carrying amount of such loans is adjusted for amortisation of the gains/losses on origination and the related income is recorded as interest income within the consolidated statement of income using the effective yield method.

A credit risk provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect the amounts due according to original contractual terms. The amount of the provision is the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the instrument's original effective interest rate.

The provision for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to the borrowers and reflect the current economic environment in which the borrowers operate.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the consolidated statement of income.

Reversals of provisions for loan impairment due to events occurring after the writedown are credited to the provision for loan impairment in the consolidated statement of income.

The Bank does not enter into transactions for purchases of loans with third parties.

Other credit related commitments. In the normal course of business, the Bank enters into other credit related commitments including commitments to extend credit, underwriting commitments, letters of credit, guarantees and promissory note endorsements. Specific provisions are recorded against other credit related commitments when losses are considered probable.

Promissory notes purchased. Promissory notes purchased are included in trading securities, investments available-for-sale or in loans and advances to customers, depending on Management intentions and are recognised and subsequently remeasured and accounted in accordance with the accounting policies for these categories of assets.

4 Significant Accounting Policies (Continued)

Investments available-for-sale. This classification includes investments which Management intends to hold for an indefinite period of time, that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Management determines the appropriate classification of its investments at the time of purchase.

Investments available-for-sale are initially recorded at cost (which includes transaction costs) and subsequently remeasured to fair value based on quoted market prices. Certain investments available-for-sale for which there is no available external independent quotation have been fair valued by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies. Realised and unrealised gains and losses arising from changes in the fair value of investments available-for-sale are included in the consolidated statement of income in the period in which they arise. Interest earned on investments available-for-sale is reflected in the consolidated statement of income as interest income on debt securities. Dividends received are included in dividend income within other operating income in the consolidated statement of income.

All regular way purchases and sales of investments available-for-sale are recognised at settlement date, which is the date when the ownership right for securities is transferred to/by the Bank.

Investment securities held to maturity. This classification includes investment securities with fixed maturity which Management has both the intent and the ability to hold to maturity. Management determines the appropriate classification of its investment securities at the time of the purchase.

Investment securities held to maturity are initially recorded at cost (which includes transaction costs) and subsequently are carried at amortised cost using the effective yield method, less any provision for impairment, calculated as the difference between the carrying amount and the present value of expected future cash flows discounted at the instrument's original effective interest rate.

Investment securities held-to-maturity originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar investments. The difference between the fair value and the nominal value at origination is credited or charged to the consolidated statement of income as gains on origination of assets at rates above market or losses on origination of assets at rates below market. Subsequently, the carrying amount of such investment securities held-to-maturity is adjusted for amortisation of the gains/losses on origination and the related income is recorded as interest income within the consolidated statement of income using the effective yield method.

Interest earned whilst holding investment securities held-to-maturity is recorded in the consolidated statement of income as interest income on securities.

All regular way purchases of investment securities held-to-maturity are recognised at settlement date, which is the date when the ownership right for investment securities is transferred to the Bank.

Premises, leasehold improvements and equipment. Premises, leasehold improvements and equipment are stated at cost, restated to the equivalent purchasing power of the Ukrainian hryvnia at 31 December 2000 for assets acquired prior to 1 January 2001, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

The aircraft, included in premises, leasehold improvements and equipment of the Bank, is subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair value of the asset being revalued. The revaluation reserve included in the consolidated statement of shareholders' equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset.

Construction in progress is carried at cost less provision for impairment, where required. Upon completion, assets available for use are transferred to premises or leasehold improvements at the carrying amount of related construction in progress. Construction in progress is not depreciated.

4 Significant Accounting Policies (Continued)

At each reporting date the Bank assesses whether there is any indication of impairment of premises, leasehold improvements and equipment. If any such indication exists, the Bank estimates the recoverable amount, which is determined as the higher of an asset's net selling price or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the consolidated statement of income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Gains and losses on disposal of premises, leasehold improvements and equipment determined as the difference between the disposal proceeds and the carrying amount at the time of disposal are charged to profit or loss. Repairs and maintenance are charged to the consolidated statement of income when the expenditure is incurred.

Depreciation. Depreciation is applied on a straight-line basis over the estimated useful lives of the assets as follows:

Premises	30 years
Office and computer equipment	5-15 years
Motor vehicles	8 years
Aircraft	25 years
Intangible assets	3 years
Leasehold improvements	Over the term of the lease

Operating leases. Where the Bank is the lessee, the total lease payments, including those on expected termination, are charged by the lessee to the consolidated statement of income on a straight-line basis over the period of the lease.

Finance leases. Where the Bank is the lessor, upon inception of a finance lease, the present value of the lease payments ("net investment in leases") is recorded within loans and advances to customers. Lease income is recorded over the term of the lease using the net effective yield method.

The inception of a lease is considered to be the date of the lease agreement, or commitment if earlier. For purposes of this definition, a commitment should be in writing, signed by the parties with an interest in the transaction, and should specifically set forth the principal terms of the transaction. Any advance payments made by the lessee prior to commencement of the lease reduces the net investment in the leases.

Finance income from leases is recorded within interest income in the consolidated statement of income.

When impaired, provisions against net investment in leases are created. A finance lease is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate of the finance lease receivable.

Computer software development costs. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Bank which will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 3 years.

Borrowings. Borrowings are recorded initially at 'cost', being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the consolidated statement of income over the period of the borrowings using the effective yield method.

Borrowings originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar borrowings. The difference between the fair value and the nominal value at origination is credited or charged to the consolidated statement of income as gains on origination of liabilities at rates below market or losses on origination of liabilities at rates above market. Subsequently, the carrying amount of such borrowings is adjusted for amortisation of the gains/losses on origination and the related expense is recorded as interest expense within the consolidated statement of income using the effective yield method.

4 Significant Accounting Policies (Continued)

Debt securities in issue. Debt securities in issue include Eurobonds, domestic bonds, promissory notes and certificates of deposit issued by the Bank. Debt securities in issue are recognised initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, debt securities in issue are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the consolidated statement of income over the period of the security issue using the effective yield method. If the Bank purchases its own debt securities in issue, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in net income.

Subordinated debt. Subordinated debt represents long-term borrowing agreements that, in case of the Bank's default, would be secondary to the Bank's primary debt obligations. Subordinated debt is recognised initially at cost, being the issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, subordinated debt is stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the consolidated statement of income using the effective yield method.

Insurance reserves. Insurance reserves include provision for unearned premiums, outstanding claims provision, provision for losses incurred but not yet reported and unexpired risk provision. Provision for unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force as at the balance sheet date, calculated on a time apportionment basis. Outstanding claims provision is recorded in respect of material claims reported, but not settled as at the balance sheet date. The estimation is made on the basis of information received by the Bank during investigation of insurance cases after the balance sheet date. Provision for losses incurred but not yet reported includes assumptions based on prior years' claims and claims handling experience. Outstanding claims provision and provision for losses incurred but not yet reported represent the accumulation of estimates for ultimate losses and are estimated on an undiscounted basis due to the relatively quick pattern of claims notification and payment. The methods of determining such estimates and establishing the resulting provisions are continually reviewed and updated. Resulting adjustments are reflected in the consolidated statement of income as they arise. Unexpired risk provision is recognised when unearned premiums are insufficient to meet claims and expenses, which may be incurred after the end of the financial year. To estimate the unexpired risk provision the Bank uses historical experience and forward looking assumptions of ultimate loss ratios (including claims handling expenses) and the level of in-force portfolio maintenance expenses. The expected claims are calculated having regard to events that have occurred prior to the balance sheet date.

Accrued interest income and accrued interest expense. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount, are included in the carrying values of related balance sheet items.

Share premium. Share premium represents the excess of capital contributions over the nominal value of the shares issued.

Treasury shares. Where the Bank or its subsidiaries purchase the Bank's equity share capital, the consideration paid including any attributable incremental external costs net of income taxes is deducted from total consolidated shareholders' equity as treasury shares until they are cancelled or disposed of. Where such shares are subsequently disposed or reissued, any consideration received is included in the shareholders' equity in the consolidated balance sheet. The effect of the disposal is presented in the statement of changes in equity.

Distributions to shareholders. Distributions to shareholders are recorded in equity in the period in which an obligation to transfer cash to shareholders is incurred. Dividends are recorded as a liability and reduction of equity when declared.

Income taxes. Taxation has been provided for in the consolidated financial statements in accordance with Ukrainian legislation currently in force. The income tax charge in the consolidated statement of income for the period comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the period, using the tax rates enacted at the balance sheet date. Taxes, other than on income, are recorded within other operating expenses.

Income tax is recognised in the consolidated statement of income except to the extent that it relates to items recognised directly in equity.

Deferred income tax is provided, using the balance sheet liability method, for temporary differences arising between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes, unless an initial recognition exemption applies. Deferred taxes are not recorded for temporary differences arising on initial recognition of an asset or a liability without affecting accounting and taxable profits in a transaction other than a business combination. Deferred tax assets are recorded to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

4 Significant Accounting Policies (Continued)

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are netted only within individual companies.

Income and expense recognition. Interest income and expense are recorded in the consolidated statement of income for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment option) but does not consider future credit losses. The calculation includes all fees and points paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. When loans become impaired, they are written down to their recoverable amounts and interest income is thereafter recorded based on the original effective interest rate which was used to discount the expected future cash inflows for the purpose of measuring the recoverable amount.

Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recorded as an adjustment to the effective yield on the loan. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recorded on completion of the underlying transaction. Portfolio and other management advisory and service fees are recorded on an accruals basis based on stage of completion of the service in accordance with the applicable service contracts. Asset management fees related to investment funds are recorded proportionately over the period the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

Foreign currency translation. Transactions denominated in foreign currency are recorded at the exchange rate ruling on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the consolidated statement of income using the exchange rate ruling on that date.

Monetary assets and liabilities denominated in foreign currency are translated into Ukrainian hryvnias at the official exchange rate of the NBU at the balance sheet date. Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange translation gains less losses in the statement of income. Translation differences on non-monetary items such as equities held for trading or available-for-sale are recorded as part of the fair value gain or loss.

The principal rates of exchange used for translating foreign currency balances were:

	31 December 2004, UAH	31 December 2003, UAH
1 USD	5.305400	5.331500
1 EUR	7.217466	6.662242

Exchange restrictions and controls exist relating to converting Ukrainian hryvnia into other currencies. At present, Ukrainian hryvnia is not a freely convertible currency outside Ukraine.

Derivative financial instruments. Derivative financial instruments including foreign exchange contracts and forward securities contracts are initially recorded in the consolidated balance sheet at cost (including transaction costs) when the Bank becomes party to the derivative contract and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices or using the spot rate at the year end. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivative instruments are included in gains less losses arising from trading in foreign currency and gains less losses arising from trading securities depending on the nature of the related derivative contracts.

Fiduciary activities. Assets and liabilities held by the Bank in its own name, but for the account of third parties, are not reported on the consolidated balance sheet. Commissions received from such business are shown in fee and commission income within the consolidated statement of income.

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

4 Significant Accounting Policies (Continued)

Accounting for the effects of hyperinflation. Prior to 2001 Ukraine experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). In accordance with IAS 29, when an economy ceases to be hyperinflationary and an enterprise is not required to prepare and present financial statements in accordance with IAS 29, it should treat the amounts expressed in the measuring unit current at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements. Those non-monetary items that arose in the periods of hyperinflation or earlier periods need to be restated in terms of the purchasing power of Ukrainian hryvnia at the end of the reporting period preceding the period in which hyperinflation ceased.

This restatement was prepared by indexing the historical balances by changes in the general price index up to 31 December 2000.

Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at the period end. Non-monetary assets and liabilities (items which are not expressed in terms of the monetary unit current at the period end) are restated by applying the relevant conversion factor. The effect of inflation on the Bank's net monetary position in 2000 and prior years is included in accumulated deficit.

Premises, leasehold improvements and equipment purchased prior to 31 December 2000 have been indexed by the change in the general price index from the date of purchase up to 31 December 2000. Where indexation is applied, an assessment has been made of the potential impairment and diminution in the carrying value of these assets and, where applicable, such assets have been reduced to their recoverable amounts.

The components of shareholders' equity, except retained earnings and revaluation surplus, were restated by applying a general price index from the dates the components were contributed to 31 December 2000. Retained earnings are restated as a consequence of restating all other amounts in the balance sheet.

Provisions. Provisions are recorded when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Staff costs and related contributions. The Bank's contributions to Ukrainian State pension, social insurance and employment funds in respect of its employees are expensed as incurred and included in the staff costs line item in the consolidated statement of income. The Bank's contributions to Ukrainian State pension fund amount to 32% of employees' gross salaries.

Segment reporting. A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten per cent or more of all the segments are reported separately. The Bank operates in one geographical segment.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

5 Cash and Cash Equivalents and Mandatory Reserve

	31 December 2004	31 December 2003
Cash on hand	173,264	82,797
Cash balances with the NBU	332,038	167,172
Correspondent accounts and overnight placements with other banks		
- Ukraine	1,362	295
- other countries	111,549	111,288
Total cash and cash equivalents and mandatory reserve	**618,213**	**361,552**

As at 31 December 2004 the mandatory reserve balance is calculated on the basis of a simple average over a monthly period (2003: monthly period) and should be maintained at the level of 6 to 7 per cent (31 December 2003: 0 to 12 per cent) of certain obligations of the Bank. As such, the balance can vary from day-to-day. As at 31 December 2004 the Bank's mandatory reserve balance was UAH 218,623 thousand (31 December 2003: UAH 169,674 thousand). As at 31 December 2004 the Bank may satisfy its mandatory reserve requirement with a combination of its balance on account with the NBU and up to 40% of UAH cash on hand (31 December 2003: balance on account with the NBU, up to 40% of UAH cash on hand and up to 20% of foreign currency cash on hand).

As at 31 December 2004, in accordance with the NBU regulations, the Bank was required to maintain a balance on account with the NBU at a level not less than 60% of the mandatory reserve balance for the preceding month.

As the respective liquid assets are not freely available to finance the Bank's day-to-day operations, for the purposes of the cash flow statement, the mandatory reserve balance is excluded from cash and cash equivalents.

The Bank's cash and cash equivalents for the purposes of cash flow statement were as follows:

	31 December 2004	31 December 2003
Total cash and cash equivalents and mandatory reserve	618,213	361,552
Less: mandatory reserve balance	(218,623)	(169,674)
Cash and cash equivalents for the purposes of cash flow statement	**399,590**	**191,878**

Cash balance with the NBU in the amount of UAH 7,717 thousand (31 December 2003: UAH 7,717 thousand) has been pledged as collateral in respect of loans received from the NBU. Refer to Notes 15 and 27.

Geographical and currency analyses of cash and cash equivalents and mandatory reserve are disclosed in Note 26.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

6 Trading Securities

	31 December 2004	31 December 2003
Bonds issued by central and local government	147,723	-
Corporate bonds	122,916	174,862
Bank bonds	5,304	4,580
Promissory notes	-	2,923
Total trading securities	**275,943**	**182,365**

Corporate bonds are interest bearing securities denominated in UAH, issued by Ukrainian companies. Corporate bonds and bonds issued by central and local government have maturity dates from January 2005 to July 2009, coupon rates from 9% to 18% per annum in 2004 and yield to maturity from 9% to 22% per annum at 31 December 2004 (31 December 2003: maturity dates from January 2004 to November 2008, coupon rates from 12% to 17% per annum in 2003 and yields to maturity from 12% to 17% per annum), depending on the credit rating of the issuer and maturity of the bonds. These bonds are traded on the Ukrainian over-the-counter market (PFTS). Fair value of these bonds was determined based on quoted bid prices.

As at 31 December 2003 trading securities included securities pledged under sale and repurchase agreements whose fair value at 31 December 2003 was UAH 44,776 thousand. Refer to Notes 13 and 27.

In addition, as at 31 December 2004 trading securities with a fair value of UAH 14,714 thousand (31 December 2003: UAH 15,044 thousand) have been pledged to third parties as collateral against guarantees issued by the Bank. As at 31 December 2003 trading securities with fair value of UAH 19,911 thousand have been pledged to another bank as collateral against letters of credit. Refer to Note 27.

As at 31 December 2003 trading securities with a fair value of UAH 16,169 thousand were pledged to third parties as collateral with respect to term placements of other banks. Refer to Notes 13 and 27.

The geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 26. The Bank holds trading securities issued by related parties. The relevant information on related party balances is disclosed in Note 29.

7 Due from Other Banks

	31 December 2004	31 December 2003
Term placements with other banks	84,846	79,428
Guarantee deposits with other banks	9,374	20,105
Reverse sale and repurchase agreements with other banks	-	49,137
Less: Provision for impairment	(1,125)	-
Total due from other banks	**93,095**	**148,670**

Due from other banks includes accrued interest income in the amount of UAH 6 thousand (31 December 2003: UAH 598 thousand).

As at 31 December 2004 term placements and guarantee deposits with other banks totalling UAH 26,576 thousand represent UAH deposits pledged against USD deposits received for the same term from the same counterparty banks totalling UAH 26,527 thousand. The respective assets and liabilities have not been offset, as there is no legal right to offset. Refer to Note 13 and 27.

As at 31 December 2003 term placements with other banks totalling UAH 50,067 thousand represent UAH deposits placed against USD deposits received for the same term from the same counterparty banks totalling UAH 50,649 thousand. The respective assets and liabilities have not been offset, as there is no legal right to offset. Refer to Note 13.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

7 Due from Other Banks (Continued)

Guarantee deposits include balances placed with other banks as cover for letters of credit placed on behalf of the Bank's customers totalling UAH 4,049 thousand (31 December 2003: UAH 7,179 thousand). The Bank does not have the right to use these funds for the purposes of funding its own activities. In addition, guarantee deposits include balances placed with other banks as cover for guarantees issued by the Bank and for international payments in the amount of UAH 5,325 thousand (31 December 2003: UAH 12,926 thousand). Refer to Note 27.

Movements in the provision for impairment of due from other banks are as follows:

	2004	2003
Provision for impairment of due from other banks as at 1 January	**-**	**29**
Provision for impairment of due from other banks during the year	1,125	-
Placements with other banks written off during the year as uncollectible	-	(29)
Provision for impairment of due from other banks as at 31 December	**1,125**	**-**

As at 31 December 2004 the estimated fair value of due from other banks was UAH 93,095 thousand (31 December 2003: UAH 148,670 thousand). Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 26.

8 Loans and Advances to Customers

	31 December 2004	31 December 2003
Current loans	3,457,243	2,388,939
Net investment in finance leases	43,313	12,257
Cash-covered loans	205,722	386,886
Overdue loans	90,520	17,130
Less: Provision for loan impairment	(264,325)	(190,539)
Total loans and advances to customers	**3,532,473**	**2,614,673**

Loans and advances to customers include accrued interest income in the amount of UAH 54,672 thousand (31 December 2003: UAH 51,731 thousand).

Overdue loans include outstanding loans that matured before 31 December 2004 and loan instalments due but not paid. Loan instalments not yet due are included in current loans.

During 2004 a loss on origination of loans at rates below market in the amount of UAH 435 thousand (2003: UAH 3,854 thousand) has been recorded in the consolidated statement of income.

Movements in the provision for loan impairment are as follows:

	2004	2003
Provision for loan impairment as at 1 January	**190,539**	**117,984**
Charge for provision for loan impairment during the year	82,408	73,586
Loans and advances to customers written off during the year as uncollectable	(8,622)	(1,031)
Provision for loan impairment as at 31 December	**264,325**	**190,539**

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

8 Loans and Advances to Customers (Continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

	31 December 2004		31 December 2003	
	Amount	**%**	**Amount**	**%**
Commerce and finance	961,964	25	622,617	22
Individuals	954,115	25	399,167	14
Agriculture and food industry	559,251	15	485,808	17
Oil and gas	349,496	9	716,327	26
Chemical industry	304,105	8	207,684	7
Motor vehicles trading	260,114	7	127,686	5
Property construction	160,333	4	13,936	-
Manufacture and machinery building	92,093	3	61,628	2
Air and other transport services	50,520	1	36,637	1
Metallurgy and mining	22,597	1	101,849	4
Other	82,210	2	31,873	2
Total loans and advances to customers (aggregate amount)	**3,796,798**	**100**	**2,805,212**	**100**

At 31 December 2004 the Bank has 14 borrowers with aggregated loan amounts above UAH 35,000 thousand (31 December 2003: 19 borrowers with aggregated loan amounts above UAH 35,000 thousand). The aggregate amount of these loans is UAH 867,492 thousand or 23% of the gross loan portfolio (31 December 2003: UAH 969,282 thousand or 35% of the gross loan portfolio).

Loans to customers with carrying value of UAH 382,806 thousand (31 December 2003: UAH 62,742 thousand) have been pledged as collateral against short-term loans received from the National Bank of Ukraine in the amount of UAH 233,000 thousand (31 December 2003: UAH 20,003 thousand). Refer to Notes 15 and 27.

The loans and advances to customers include finance lease receivables, which are analysed as follows:

	31 December 2004	31 December 2003
Gross investment in finance leases, receivable:		
- Not later than 1 year	25,883	6,938
- Later than 1 year and not later than 5 years	29,364	8,367
- Later than 5 years	-	-
Less: unearned finance income	(11,934)	(3,048)
Net investment in finance leases	**43,313**	**12,257**

Net investment in finance leases are analysed as follows:

	31 December 2004	31 December 2003
Net investment in finance leases, receivable:		
- Not later than 1 year	20,266	5,096
- Later than 1 year and not later than 5 years	23,047	7,161
- Later than 5 years	-	-
Net investment in finance leases	**43,313**	**12,257**

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

8 Loans and Advances to Customers (Continued)

As at 31 December 2004 the estimated fair value of loans and advances to customers was UAH 3,534,727 thousand (31 December 2003: UAH 2,609,794 thousand). Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 26. The information on related party balances is disclosed in Note 29.

9 Investments Available-for-Sale

	31 December 2004	31 December 2003
Unquoted corporate shares	114,932	59,596
Quoted corporate shares	58,841	58,233
Corporate bonds	18,871	-
Promissory notes	-	5,991
Total investments available-for-sale	**192,644**	**123,820**

The movements in investments available-for-sale are as follows:

	2004	2003
Carrying amount at the beginning of the year	**123,820**	**88,940**
Unrealised losses less gains from changes in fair value of investments available-for-sale during the year	(1,187)	(5,339)
Acquisition of investments available for sale	130,402	99,768
Disposal of investments available for sale	(60,391)	(59,549)
Carrying amount at the end of the year	**192,644**	**123,820**

Corporate shares are shares of Ukrainian companies. Quoted shares are reflected at year-end market value, which has been determined by the Management using last trade prices or bid prices obtained from over-the-counter market. However, the volume of activity on the organised market for most of these shares has been insignificant, and therefore the prices used may not reflect the value of these shares that could be obtained in a transaction between a willing buyer and a willing seller. External independent market quotations were not available for certain investments available-for-sale. The fair value of these assets was determined by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees.

At 31 December 2003 investments available-for-sale included corporate shares with a fair value of UAH 40,147 thousand pledged as collateral under loans received from a local bank in the amount of UAH 21,589 thousand. Refer to Notes 13 and 27.

Geographical, currency, maturity and interest rate analyses of investments available-for-sale are disclosed in Note 26. The information on related party investments available-for-sale is disclosed in Note 29.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

10 Investment Securities Held-to-Maturity

Investment securities held-to-maturity are interest bearing corporate bonds denominated in UAH, issued by two Ukrainian state-owned companies. These bonds have maturity dates from May to September 2006, coupon rates of 12% per annum and yield to maturity of 14% per annum at 31 December 2004 (31 December 2003: maturity dates from May to September 2006, coupon rates of 12% per annum and yield to maturity of 14% per annum). These investment securities were purchased by the Bank during the year ended 31 December 2003.

At 31 December 2004 held-to-maturity corporate bonds with a carrying value of UAH 47,908 thousand (31 December 2003: UAH 75,696 thousand) are pledged as collateral against long-term loans received from the National Bank of Ukraine with carrying value of UAH 42,237 thousand (31 December 2003: UAH 65,726 thousand). Refer to Notes 15 and 27.

During the year ended 31 December 2003 a loss in the amount of UAH 2,297 thousand was recorded with respect of investment securities held-to-maturity originated at rates below market and included in losses net of gains on origination of financial instruments at rates above and below market in the consolidated statement of income.

As at 31 December 2004 the estimated fair value of investment securities held-to-maturity was UAH 48,362 thousand (31 December 2003: UAH 77,500 thousand). Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of investment securities held-to-maturity are disclosed in Note 26.

11 Other Assets

	31 December 2004	31 December 2003
Prepayments for premises and equipment	35,472	3,948
Receivables from sale of securities	10,097	21,600
Prepaid expenses	9,001	1,667
Amounts in the course of settlements	7,397	3,563
Restricted cash	3,545	3,737
Other prepayments, sundry debtors and accruals	23,106	7,917
Less: Provision for impairment of sundry debtors	(9,134)	(1,572)
Total other assets	**79,484**	**40,860**

Restricted cash represents balance on the correspondent account with the NBU in EUR and EUR cash in hand held for the purposes of making payments to Nazi victims under the agency agreement with the Ukrainian National Fund “Vzayemorozuminnia i Prymyrennia”. The Bank does not have the right to use these funds for the purposes of funding its own activities.

Movements in the provision for impairment of sundry debtors are as follows:

	Note	2004	2003
Provision for impairment of sundry debtors as at 1 January		1,572	1,067
Charge for provision for impairment of sundry debtors during the year	22	7,637	1,124
Sundry debtors written off during the year as uncollectable		(75)	(619)
Provision for impairment of sundry debtors as at 31 December		**9,134**	**1,572**

Geographical, currency and maturity analyses of other assets are disclosed in Note 26. The information on related party balances is disclosed in Note 29.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

12 Premises, Leasehold Improvements and Equipment

	Note	Premises	Leasehold improve-ments	Office and computer equipment	Aircraft and motor vehicles	Intangible assets	Construc-tion in progress	Total
Net book amount at 31 December 2003		**32,271**	**8,420**	**50,966**	**19,080**	**5,450**	**28,619**	**144,806**
Book amount at cost or valuation								
Opening balance		36,740	15,109	74,263	22,723	11,579	28,619	189,033
Additions		-	35	44,970	9,569	1,990	253,392	309,956
Transfers		71,625	3,743	-	-	-	(75,368)	-
Disposals		(5,171)	(98)	(483)	(1,346)	(46)	-	(7,144)
Closing balance		**103,194**	**18,789**	**118,750**	**30,946**	**13,523**	**206,643**	**491,845**
Accumulated depreciation and amortisation								
Opening balance		4,469	6,689	23,297	3,643	6,129	-	44,227
Charge for the year	22	1,947	3,065	16,448	2,861	3,686	-	28,007
Disposals		(294)	(13)	(245)	(676)	(43)	-	(1,271)
Closing balance		**6,122**	**9,741**	**39,500**	**5,828**	**9,772**	**-**	**70,963**
Net book amount at 31 December 2004		**97,072**	**9,048**	**79,250**	**25,118**	**3,751**	**206,643**	**420,882**

The aircraft has been independently valued in 2003. The valuation was performed on the basis of an appraisal carried out by an independent valuer, Universal Commodity Exchange "Ukraina". The basis used for the appraisal was market value. Revaluation surplus recorded in respect of this item totalled UAH 5,277 thousand at 31 December 2004 (31 December 2003: UAH 5,277 thousand). The deferred tax liability in the amount of UAH 1,319 thousand (31 December 2003: UAH 1,319 thousand) calculated in respect of this valuation adjustment has been recorded directly to equity in accordance with the applicable accounting standards. At 31 December 2004 the carrying amount of the aircraft would have been UAH 932 thousand (31 December 2003: UAH 974 thousand) had the asset been carried at cost less depreciation.

As at 31 December 2004 premises with the total carrying value of UAH 58,735 thousand (2003: none) have been pledged to the NBU as collateral against the stabilisation loan. Refer to Notes 15 and 27.

At 31 December 2004 premises, leasehold improvements and equipment include assets totalling UAH 7,365 thousand at cost, which are fully depreciated (31 December 2003: UAH 4,803 thousand). These assets are still used by the Bank.

Construction in progress consists mainly of construction of the Bank's new premises in Kyiv.

Included in premises, leasehold improvements and equipment are assets leased to other parties under operating lease agreements with total cost of UAH 6,082 thousand (31 December 2003: UAH 9,597 thousand), accumulated depreciation of UAH 945 thousand (31 December 2003: UAH 1,004 thousand) and a depreciation charge for the year of UAH 310 thousand (year ended 31 December 2003: UAH 372 thousand).

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

13 Due to Other Banks

	31 December 2004	31 December 2003
Correspondent accounts and overnight placements of other banks	25,902	7,291
Guarantees deposits of other banks	2,586	-
Loans received from other banks	148,209	322,428
Amounts payable under sale and repurchase agreements	-	70,432
Total due to other banks	**176,697**	**400,151**

Due to other banks includes accrued interest expense in the amount of UAH 1,363 thousand (31 December 2003: UAH 1,258 thousand).

As at 31 December 2003 securities sold under sale and repurchase agreements were corporate bonds with a fair value of UAH 44,776 thousand and bonds issued by one of the Bank's special purpose entities with par value of UAH 24,757 thousand. Refer to Notes 6 and 27.

As at 31 December 2003 loans from another local bank totalling UAH 15,995 thousand were secured by corporate bonds with fair value of UAH 16,169 thousand included in trading securities. Refer to Notes 6 and 27.

As at 31 December 2003 loans from another bank in the amount of UAH 21,589 thousand were secured by corporate shares included in investments available-for-sale with a fair value of UAH 40,147 thousand. Refer to Notes 9 and 27.

As at 31 December 2003 included in loans received from other banks was a USD denominated syndicated loan in the amount of UAH 53,315 thousand from a UK-based bank, collateralised by corporate eurobonds provided by one of the Bank's related parties. The loan was originally granted for the period of 6 months and was extended for another 6-month period. The loan was fully repaid in October 2004.

As disclosed in Note 7, loans received from other banks as at 31 December 2004 totalling UAH 26,527 thousand represent funds in USD pledged against UAH placements and guarantee deposits totalling UAH 26,576 thousand placed by the Bank for the same term with the same counterparties. Refer to Note 27.

As at 31 December 2003 term placements of other banks totalling UAH 50,649 thousand represent funds in USD received against UAH placements and guarantee deposits totalling UAH 50,067 thousand placed by the Bank with the same counterparties. Refer to Note 7.

As at 31 December 2004 loans received from other banks totalling UAH 24,607 thousand represent long-term loans received from German banks for the purposes of financing purchase of import equipment by the Bank's customers. These loans carry interest rate of 3% per annum.

As at 31 December 2004 the estimated fair value of due to other banks was UAH 176,697 thousand (31 December 2003: UAH 398,392 thousand). Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 26.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

14 Customer Accounts

	31 December 2004	31 December 2003
Legal entities		
- Current accounts	636,481	459,971
- Term and guarantee deposits	1,200,547	1,360,385
Individuals		
- Current accounts	101,999	87,722
- Term deposits	1,351,204	799,878
Total customer accounts	**3,290,231**	**2,707,956**

Customer accounts includes accrued interest expense in the amount of UAH 63,214 thousand (31 December 2003: UAH 37,870 thousand).

Economic sector concentrations within customer accounts are as follows:

	31 December 2004		31 December 2003	
	Amount	**%**	**Amount**	**%**
Individuals	1,453,203	44	887,600	33
Commerce and trade	839,821	26	1,040,211	38
Manufacturing	382,255	12	271,860	10
Transport and communication	232,247	7	207,431	8
Financial services	69,757	2	81,626	3
Cultural and educational services	38,119	1	72,801	3
Other	274,829	8	146,427	5
Total customer accounts	**3,290,231**	**100**	**2,707,956**	**100**

At 31 December 2004 the Bank has 17 customers (31 December 2003: 13 customers) with balances above UAH 20,000 thousand. The aggregate balances of these customers total UAH 1,027,553 thousand or 31% of total customer accounts (31 December 2003: UAH 1,039,065 thousand or 38% of total customer accounts).

Included in customer accounts are balances totalling UAH 347,002 thousand (31 December 2003: UAH 568,120 thousand) placed by customers as collateral for loans to customers totalling UAH 205,722 thousand (31 December 2003: UAH 386,886 thousand) and commitments under guarantees, promissory note endorsements and letters of credit totalling UAH 54,240 thousand (31 December 2003: UAH 39,851 thousand). Refer to Notes 8 and 27.

As at 31 December 2004 the estimated fair value of customer accounts was UAH 3,285,915 thousand (31 December 2003: UAH 2,703,244 thousand). Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 26. The information on related party balances is disclosed in Note 29.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

15 Due to the National Bank of Ukraine

	31 December 2004	31 December 2003
Short-term loans	347,815	20,003
Long-term loans	42,237	65,726
Total due to the National Bank of Ukraine	**390,052**	**85,729**

Due to the NBU includes accrued interest expense in the amount of UAH 196 thousand (31 December 2003: nil).

As at 31 December 2004 short-term loans from the NBU include a stabilisation loan of UAH 233,000 thousand (31 December 2003: nil). The loan was granted by the NBU as part of liquidity support to the banking sector provided by the NBU during the political crisis in November-December 2004. This loan was secured by loans to the Bank's borrowers with a carrying value of UAH 382,806 thousand and the Bank's premises with the carrying value of UAH 58,735 thousand. Refer to Notes 8, 12 and 27. The loan was provided for the period to June 2005. The stabilisation loan was repaid in January 2005.

Other short-term loans from the NBU in the amount of UAH 114,815 thousand as at 31 December 2004 were secured by USD and EUR guarantee deposits placed with the NBU totalling UAH 115,668 thousand. Refer to Note 27.

As at 31 December 2003 short-term loans from the NBU in the amount of UAH 20,003 were secured by loans to the Bank's borrowers with a carrying value of UAH 62,742 thousand. Refer to Notes 8 and 27.

Long-term loans from the NBU mature in 3 years after origination and carry a nominal interest rate of 7% per annum. These loans were provided against collateral of corporate bonds with a carrying value of UAH 47,908 thousand as at 31 December 2004 (31 December 2003: corporate bonds with a carrying value of UAH 75,696 thousand) included in investment securities held-to-maturity and against cash balances on account with the NBU in the amount of UAH 7,717 thousand (31 December 2003: UAH 7,717 thousand) included in mandatory reserve balances. Refer to Notes 5, 10 and 27.

During the year ended 31 December 2003 a gain totalling UAH 5,547 thousand was recognised in respect of long-term loans originated at non-market interest rates and included in losses net of gains on origination of financial instruments at rates above and below market in the consolidated statement of income.

As at 31 December 2004 the estimated fair value of due to the NBU was UAH 390,034 thousand (31 December 2003: UAH 84,891 thousand). Refer to Note 28.

Currency, maturity and interest rate analyses of due to the National Bank of Ukraine are disclosed in Note 26.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

16 Debt Securities in Issue

	31 December 2004	31 December 2003
Eurobonds	537,766	-
Deposit certificates	32,971	36,109
Domestic bonds	-	21,279
Promissory notes	2	2
Total debt securities in issue	**570,739**	**57,390**

Debt securities in issue includes accrued interest expense in the amount of UAH 16,452 thousand (31 December 2003: UAH 2,903 thousand).

In April 2004 the Bank issued eurobonds with a par value of USD 100,000 thousand (UAH 532,930 thousand at the exchange rate at the time of issue). The bonds carry a fixed coupon rate of 10.5% per annum, effective interest rate of 11.4% per annum and mature in April 2007. The eurobonds are listed on the Luxembourg Stock Exchange.

As at 31 December 2003 domestic bonds issued by the Bank matured in December 2004 and carried fixed coupon interest rate of 16% per annum and yield to maturity of 23% per annum. All domestic bonds were redeemed in December 2004.

As at 31 December 2004 the estimated fair value of debt securities in issue was UAH 555,113 thousand (31 December 2003: UAH 59,256 thousand). Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 26. The information on debt securities in issue held by related parties is disclosed in Note 29.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

17 Subordinated Debt

Issuer	Currency	Year of issue	Year of maturity	31 December 2004	31 December 2003
EFG Private Bank	USD	2004	2009	48,359	-
EFG Private Bank	USD	2002	2009	25,074	23,992
EFG Private Bank	USD	2000	2006	-	31,989
Burnham Investment Limited	USD	2003	2010	-	24,851
Burnham Investment Limited	UAH	2000	2006	-	14,308
Burnham Investment Limited	USD	2000	2006	-	14,907
Burnham Investment Limited	USD	2000	2006	-	4,490
Total subordinated debt				**73,433**	**114,537**

Included in subordinated debt is accrued interest expense in the amount of UAH 1,810 thousand (31 December 2003: UAH 7,204 thousand).

In accordance with the Law of Ukraine on Banks and Banking Activities, subordinated debt cannot be withdrawn from a bank for at least five years from the date of receipt. However, the subordinated debt agreement does have a provision that allows to change the terms of the debt including its maturity based on mutual agreement with the Bank.

The subordinated debt was issued in instalments during 2000, 2002, 2003 and 2004.

During the year ended 31 December 2003 a subordinated debt deposit in the amount of USD 6,300 thousand (UAH 33,591 thousand at the exchange rate at the date of receipt) was received from Burnham Investment Limited. A gain on origination in the amount of UAH 9,299 thousand was made in respect of this subordinated debt deposit originated in 2003 at a rate below market. The gain of UAH 6,974 thousand net of taxation of UAH 2,325 thousand, calculated as the difference between the nominal value of subordinated debt and the fair value of consideration received, was credited to equity in the form of additional capital, as in substance the subordinated debt issue was a transaction with shareholders.

During the year ended 31 December 2004, after changes in the NBU regulations, the Bank increased the interest rate on this debt from LIBOR +4% to 10% per annum. As this change in the terms of subordinated debt represents a substantial modification of the terms of the existing financial liability, this transaction was accounted for as an extinguishment of the original subordinated debt and recognition of a new debt instrument in accordance with the requirements of IAS 39 “Financial Instruments: Recognition and Measurement”. The loss of UAH 8,589 thousand, arising as a result of this transaction, was charged to the consolidated statement of income in accordance with the requirements of IAS 39. Refer to Note 29.

During the year ended 31 December 2004 subordinated debt deposits received in prior years totalling UAH 90,545 thousand as at 31 December 2003, were re-arranged as term deposits and included in term deposits of legal entities and due to other banks. Upon re-arrangement interest rate on these borrowings remained unchanged but maturities were reduced to 12 months and 6 months from the date of the re-arrangement, respectively.

From April 2004, under the new NBU regulations, the interest rate on UAH denominated subordinated debt should not exceed 12% per annum and the interest rate on USD denominated subordinated debt should not exceed 10% per annum. Previously the interest rate on UAH denominated subordinated debt was limited to the official NBU discount rate and the interest rate on USD denominated subordinated debt was limited to LIBOR +4%.

As at 31 December 2004 the estimated fair value of subordinated debt was UAH 72,856 thousand (31 December 2003: UAH 107,507 thousand). Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of subordinated debt are disclosed in Note 26. The relevant information on related party balances is disclosed in Note 29.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

18 Other Liabilities

	Note	31 December 2004	31 December 2003
Present value of minimum finance lease payments		15,884	8,098
Insurance reserves		14,115	-
Settlements for securities transactions		9,384	4,051
Payables for purchased premises and equipment		9,263	4,943
Provision for losses on credit related commitments	27	8,465	5,403
Taxes payable		1,551	893
Other		6,155	2,805
Total other liabilities		**64,817**	**26,193**

Finance lease payables relate to the lease of automatic teller machines by the Bank. Minimum finance lease payments are analysed as follows:

	31 December 2004	31 December 2003
Gross minimum finance lease payments:		
- Not later than 1 year	3,261	1,600
- Later than 1 year and not later than 5 years	13,043	6,302
- Later than 5 years	7,013	4,304
Less: future finance charges	(7,433)	(4,108)
Present value of minimum finance lease payments	**15,884**	**8,098**

Net minimum finance lease payments are analysed as follows:

	31 December 2004	31 December 2003
Net minimum finance lease payments:		
- Not later than 1 year	1,530	716
- Later than 1 year and not later than 5 years	8,192	3,702
- Later than 5 years	6,162	3,680
Present value of minimum finance lease payments	**15,884**	**8,098**

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 26. The information on related party balances is disclosed in Note 29.

19 Share Capital

Issued and paid share capital of the Bank comprises:

	31 December 2004			31 December 2003		
	Number of shares' thousands	**Nominal amount**	**Inflation adjusted amount**	**Number of shares' thousands**	**Nominal amount**	**Inflation adjusted amount**
Ordinary shares – paid in and registered	12,000,000	600,000	1,543,684	2,800,000	140,000	1,083,684
Contributions for new share issues – paid in but not registered	-	-	-	1,248,790	62,440	62,440
Total share capital	**12,000,000**	**600,000**	**1,543,684**	**4,048,790**	**202,440**	**1,146,124**

All ordinary shares have a nominal value of UAH 0.05 per share, rank equally and carry one vote.

In 2001 Ukraine ceased to be a hyperinflationary economy. Therefore the inflation adjusted share capital balance as at 31 December 2000 is the basis for the carrying amount in subsequent years. Share capital contributions after 31 December 2000 have not been inflated.

During 2003 the Bank issued 1,400 million shares totalling UAH 70,000 thousand. The placement of shares commenced on 10 November 2003 and was completed in December 2003. The shareholders meeting of 26 December 2003 approved the results of the share issue and decided to make the respective changes to the Bank's Charter. On 25 February 2004 the NBU registered an increase in the share capital of the Bank in the amount of UAH 70,000 thousand. As at 31 December 2003 UAH 62,440 thousand were paid in respect of this share issue. The remaining contributions to share capital totalling UAH 7,560 thousand were paid in January and February 2004.

During the year ended 31 December 2004 the shareholders of the Bank took a decision to issue 4,200,000 thousand additional shares totalling UAH 210,000 thousand. The placement of shares commenced in May 2004 and was completed in May 2004. In total 7,800,000 thousand shares were placed for a total nominal value of UAH 390,000 thousand. The shareholders meeting of 27 May 2004 approved the results of the share issue and decided to make the respective changes to the Bank's Charter. On 30 June 2004 the NBU registered the increase in the share capital of the Bank in the amount of UAH 390,000 thousand. As at 31 December 2004 UAH 390,000 thousand were paid in respect of the new share issue.

During the year ended 31 December 2003 the Bank has made distributions to certain shareholders in the amount of UAH 10,892 thousand net of tax effect of UAH 4,668 thousand.

Movements in the number of shares (in thousands) are as follows:

	2004	**2003**
Number of shares outstanding as at 1 January	**4,200,000**	**2,800,000**
Shares issued during the year	7,800,000	1,400,000
Number of shares outstanding as at as at 31 December	**12,000,000**	**4,200,000**
Less number of shares outstanding but not fully paid	-	(151,210)-
Number of shares issued and fully paid as at 31 December	**12,000,000**	**4,048,790**

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

20 Interest Income and Expense

	2004	2003
Interest income		
Loans and advances to customers	615,034	342,190
Debt securities	31,234	18,318
Due from other banks	14,375	17,185
Total interest income	**660,643**	**377,693**
Interest expense		
Term deposits of individuals	133,092	69,343
Term deposits of legal entities	117,757	72,302
Debt securities in issue	53,316	8,350
Current accounts	16,809	9,749
Due to other banks	13,215	14,776
Due to the National Bank of Ukraine	11,970	4,325
Subordinated debt	10,029	5,720
Finance leases	1,397	248
Total interest expense	**357,585**	**184,813**
Net interest income	**303,058**	**192,880**

Information on interest income and expense from transactions with related parties is disclosed in Note 29.

21 Fee and Commission Income and Expense

	2004	2003
Fee and commission income		
Commission on cash and settlement transactions	68,583	47,975
Commission on foreign exchange transactions	21,562	22,045
Commission on transactions with securities and trade finance operations	7,620	6,854
Commission on factoring transactions	-	4,664
Other	1,809	1,483
Total fee and commission income	**99,574**	**83,021**
Fee and commission expense		
Commission on cash and settlement transactions	6,018	4,874
Other	2,151	1,913
Total fee and commission expense	**8,169**	**6,787**
Net fee and commission income	**91,405**	**76,234**

Information on fee and commission income from transactions with related parties is disclosed in Note 29.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

22 Other Operating Expenses

	Note	2004	2003
Depreciation and amortisation	12	28,007	17,546
Rent		22,953	14,770
Mail and telecommunication		16,907	10,003
Advertising and marketing		12,014	6,130
Maintenance of premises and equipment		11,528	7,806
Taxes other than on income		9,130	1,057
Security		8,034	5,476
Provision for impairment of sundry debtors	11	7,637	1,124
Individuals Deposits Guarantee Fund		5,465	2,872
Insurance of property and equipment		4,863	3,759
Professional services		3,139	2,618
Business trip expenses		2,918	1,653
Charity		1,874	2,710
Other		27,824	12,167
Total other operating expenses		**162,293**	**89,691**

23 Income Taxes

Income tax expense comprises the following:

	Note	2004	2003
Current tax charge		9,381	8,214
Deferred taxation movement due to origination and reversal of temporary differences		25,980	22,513
Less: Effect of change in tax rate		-	(2,583)
Add: Tax effect of distributions recognised directly in equity	19	-	4,668
Less: Deferred tax charged directly to equity		-	(2,304)
Income tax expense for the year		**35,361**	**30,508**

In the year ended 31 December 2003 the Bank transferred funds to certain shareholders that are treated as distributions to shareholders for the purposes of these consolidated financial statements. The tax effect of these distributions have been recognised directly in equity as required by IAS 12 “Income Taxes”.

During the year ended 31 December 2004 the income tax rate applicable to the majority of the Bank’s income is 25% (2003: 30%). The income tax rate applicable to the majority of subsidiaries income is 25% (2003: 30%), except for income arising from insurance activities which is taxed at 3%.

A reconciliation between the expected and the actual taxation charge is provided below.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

23 Income Taxes (Continued)

	2004	2003
IFRS profit before taxation	**115,964**	**71,766**
Theoretical tax charge at the applicable statutory rate	28,991	21,530
Effect of change in tax rate	-	(2,583)
Non deductible expenses	12,193	11,561
Income taxed at different rates	(5,823)	-
Income tax expense for the year	**35,361**	**30,508**

Differences between IFRS and Ukrainian statutory taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of the movement in these temporary differences is recorded at the rate of 25% (2003: at the rate of 30% for those differences that reverse prior to 1 January 2004 and at the rate of 25% for those differences that reverse after 1 January 2004), except for income from insurance operations which is taxed at 3%. From 1 January 2004, the corporate tax rate decreased to 25%.

	31 December 2002	Movements recorded directly to equity	Movements recognised in the statement of income	31 December 2003	Movements recorded directly to equity	Movements recognised in the statement of income	31 December 2004
Tax effect of deductible temporary differences							
Accrued interest expense	111	-	254	365	-	(365)	-
Accrued interest income	(1,627)	-	58	(1,569)	-	1,668	99
Gains less losses on origination of financial instruments	-	(2,325)	249	(2,076)	-	2,318	242
Gross deferred tax asset	**(1,516)**	**(2,325)**	**561**	**(3,280)**	**-**	**3,621**	**341**
Tax effect of taxable temporary differences							
Premises, leasehold improvements and equipment	(2,642)	21	724	(1,897)	-	(1,876)	(3,773)
Trading securities, investments available-for-sale and investment securities held-to-maturity	(2,121)	-	(7,869)	(9,990)	-	(5,660)	(15,650)
Provision for credit related commitments	304	-	(1,431)	(1,127)	-	(728)	(1,855)
Finance leases receivable	-	-	(568)	(568)	-	(55)	(623)
Provision for loan impairment	9,662	-	(11,453)	(1,791)	-	(11,959)	(13,750)
Other liabilities	137	-	1,812	1,949	-	(3,913)	(1,964)
Other assets	(752)	-	598	(154)	-	(5,410)	(5,564)
Gross deferred tax liability	**4,588**	**21**	**(18,187)**	**(13,578)**	**-**	**(29,601)**	**(43,179)**
Total net deferred tax (liability)/ asset	**3,072**	**(2,304)**	**(17,626)**	**(16,858)**	**-**	**(25,980)**	**(42,838)**

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

24 Earnings per Share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of shares purchased by the Bank and held as treasury shares.

The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equals basic earnings per share.

	2004	2003
Net profit attributable to shareholders	79,953	41,258
Weighted average number of ordinary shares in issue (thousands)	9,014,038	2,835,403
Basic and diluted earnings per share (expressed in UAH per share)	**0.0089**	**0.0146**

25 Analysis by Segment

The Bank operates in one geographical segment. For disclosure of geographical concentration of the Bank's assets and liabilities refer to Note 26. The Bank's primary format for reporting segment information is business segments. The Bank is organised on a basis of three main business segments:

- Corporate banking – representing legal entities' current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and trading finance products;
- Retail banking – representing private banking services, private customer current accounts, savings, deposits, credit and debit cards, consumer loans and mortgages; and
- Investment banking – includes debt and equity capital markets, securities, foreign exchange and banknote trading and corporate finance.

Transactions between the business segments are on normal commercial terms and conditions. Funds are reallocated between the segments, resulting in funding cost transfers disclosed as the revenues from other segments. Interest charged for these funds is based on the calculation of the Bank's cost of capital. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding items such as taxation. Internal charges and transfer pricing adjustments have been reflected in the performance of each business.

	31 December 2004	31 December 2003
Assets		
Corporate banking	3,152,949	2,473,289
Retail banking	1,277,028	523,054
Investment banking	876,702	665,497
Unallocated assets	69,631	30,602
Total assets	**5,376,310**	**3,692,442**
Liabilities		
Corporate banking	1,963,929	1,975,197
Retail banking	1,468,011	893,945
Investment banking	1,108,979	507,585
Unallocated liabilities	67,888	32,087
Total liabilities	**4,608,807**	**3,408,814**

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

25 Analysis by Segment (Continued)

Segment information for the main reportable business segments of the Bank for the year ended 31 December 2004 is set out below:

Year ended 31 December 2004	Corporate banking	Retail banking	Investment banking	Other	Eliminiations	Total
External revenue	627,733	141,962	75,354	17,914	-	862,963
Interest income from other segments		74,704	9,683	-	(84,387)	-
Revenue	**627,733**	**216,666**	**85,037**	**17,914**	**(84,387)**	**862,963**
Provisions for loan impairment and losses on credit related commitments	(73,093)	(12,377)	(1,125)	-	-	(86,595)
Interest expense	(142,971)	(140,627)	(72,817)	(1,170)	-	(357,585)
Interest expense from other segments	(84,371)	-	-	(16)	84,387	-
Fee and commission expense	(2,396)	(4,570)	(1,203)	-	-	(8,169)
Losses net of gains on origination of financial instruments	(435)	-	-	-	-	(435)
Loss on change in terms of subordinated debt	(8,589)	-	-	-	-	(8,589)
Operating expenses	(100,685)	(150,958)	(19,669)	(14,314)	-	(285,626)
Segment result	**215,193**	**(91,866)**	**(9,777)**	**2,414**	**-**	**115,964**
Income tax						(35,361)
Net profit						**80,603**
Other segment items						
Capital expenditure	(117,600)	(170,546)	(21,655)	(155)	-	(309,956)
Depreciation expense	(10,006)	(14,511)	(1,843)	(1,647)	-	(28,007)

Segment information for the main reportable business segments for the year ended 31 December 2003:

Year ended 31 December 2004	Corporate banking	Retail banking	Investment banking	Other	Eliminiations	Total
External revenue	408,246	36,410	64,310	3,173	-	512,139
Interest income from other segments		70,360	-	49	(70,409)	-
Revenue	**408,246**	**106,770**	**64,310**	**3,222**	**(70,409)**	**512,139**
Provisions for loan impairment and losses on credit related commitments	(73,354)	(3,955)	-	-	-	(77,309)
Interest expense	(88,912)	(71,848)	(24,053)	-	-	(184,813)
Interest expense from other segments	(43,165)	-	(27,244)	-	70,409	-
Fee and commission expense	(1,491)	(1,013)	(4,283)	-	-	(6,787)
Losses net of gains on origination of financial instruments	(3,854)	-	3,250	-	-	(604)
Operating expenses	(65,298)	(97,417)	(5,933)	(2,212)	-	(170,860)
Segment result	**132,172**	**(67,463)**	**6,047**	**1,010**	**-**	**71,766**
Income tax						(30,508)
Net profit						**41,258**
Other segment items						
Capital expenditure	(23,080)	(33,462)	(2,081)	(1,543)	-	(60,166)
Depreciation expense	(6,384)	(9,256)	(576)	(1,330)	-	(17,546)

26 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Bank takes on exposure to credit risk which is the risk that a counterparty 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 geographical and industry segments. Such risks are monitored on a revolving basis and subject to regular review. Limits on the level of credit risk by product, borrower and industry sector are approved regularly by the Credit Committee of the Bank.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

The Bank's maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the consolidated balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant, except for term placements and guarantee deposits with other banks and from other banks, as disclosed in Notes 7 and 13 and loans to customers covered by deposits placed by customers, as disclosed in Notes 8 and 14.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Asset/ Liability Committee sets limits on the value of risk that may be accepted. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

26 Financial Risk Management (Continued)

Geographical risk. The geographical concentration of the Bank's assets and liabilities as at 31 December 2004 is set out below:

	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents and mandatory reserve	506,664	99,881	11,668	618,213
Trading securities	275,943	-	-	275,943
Due from other banks	86,126	6,969	-	93,095
Loans and advances to customers	3,532,473	-	-	3,532,473
Investments available-for-sale	192,644	-	-	192,644
Investment securities held-to-maturity	47,908	-	-	47,908
Guarantee deposits with the National Bank of Ukraine	115,668	-	-	115,668
Other assets	79,465	19	-	79,484
Premises, leasehold improvements and equipment	420,882	-	-	420,882
Total assets	**5,257,773**	**106,869**	**11,668**	**5,376,310**
Liabilities				
Due to other banks	45,320	107,888	23,489	176,697
Customer accounts	2,854,989	3,042	432,200	3,290,231
Due to the National Bank of Ukraine	390,052	-	-	390,052
Debt securities in issue	32,973	537,766	-	570,739
Subordinated debt	-	73,433	-	73,433
Other liabilities	64,785	32	-	64,817
Deferred tax liability	42,838	-	-	42,838
Total liabilities	**3,430,957**	**722,161**	**455,689**	**4,608,807**
Net balance sheet position	**1,826,816**	**(615,292)**	**(444,021)**	**767,503**
Credit related commitments (Note 27)	**433,731**	**-**	**-**	**433,731**

OECD assets and liabilities mainly include balances with counterparties in Germany, USA and Switzerland.

Non-OECD concentrations mainly represent balances with counterparties in the Russian Federation, Cyprus and the Baltic States.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

26 Financial Risk Management (Continued)

The geographical concentration of the Bank's assets and liabilities as at 31 December 2003 is set out below:

	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents and mandatory reserve	250,264	107,493	3,795	361,552
Trading securities	182,365	-	-	182,365
Due from other banks	141,285	7,385	-	148,670
Loans and advances to customers	2,614,673	-	-	2,614,673
Investments available-for-sale	123,820	-	-	123,820
Investments held-to-maturity	75,696	-	-	75,696
Other assets	40,860	-	-	40,860
Premises, leasehold improvements and equipment	144,806	-	-	144,806
Total assets	**3,573,769**	**114,878**	**3,795**	**3,692,442**
Liabilities				
Due to the National Bank of Ukraine	85,729	-	-	85,729
Due to other banks	257,560	131,895	10,696	400,151
Debt securities in issue	57,390	-	-	57,390
Customer accounts	2,114,798	69,527	523,631	2,707,956
Subordinated debt	-	55,981	58,556	114,537
Other liabilities	23,490	-	2,703	26,193
Deferred tax liability	16,858	-	-	16,858
Total liabilities	**2,555,825**	**257,403**	**595,586**	**3,408,814**
Net balance sheet position	**1,017,944**	**(142,525)**	**(591,791)**	**283,628**
Credit related commitments (Note 27)	**336,006**	**-**	**-**	**336,006**

OECD assets and liabilities mainly include balances with counterparties in Germany, USA and UK.

Non-OECD concentrations mainly represent balances with counterparties in the Russian Federation, Cyprus and the Baltic States.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

26 Financial Risk Management (Continued)

Currency risk. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Asset/ Liability Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2004. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency. At 31 December 2004, the Bank has the following positions in currencies:

	UAH	USD	Euro	Other currencies	Non-monetary items	Total
Assets						
Cash and cash equivalents and mandatory reserve	408,125	160,021	36,775	13,292	-	618,213
Trading securities	275,943	-	-	-	-	275,943
Due from other banks	68,235	23,713	1,147	-	-	93,095
Loans and advances to customers	1,257,332	2,122,512	148,586	4,043	-	3,532,473
Investments available-for-sale	18,871	-	-	-	173,773	192,644
Investment securities held-to-maturity	47,908	-	-	-	-	47,908
Guarantee deposits with the National Bank of Ukraine	-	79,581	36,087	-	-	115,668
Other assets	32,644	1,114	3,667	-	42,059	79,484
Premises, leasehold improvements and equipment	-	-	-	-	420,882	420,882
Total assets	**2,109,058**	**2,386,941**	**226,262**	**17,335**	**636,714**	**5,376,310**
Liabilities						
Due to other banks	3,605	137,701	33,740	1,651	-	176,697
Customer accounts	1,628,346	1,441,324	205,662	14,899	-	3,290,231
Due to the National Bank of Ukraine	390,052	-	-	-	-	390,052
Debt securities in issue	32,968	537,771	-	-	-	570,739
Subordinated debt	-	73,433	-	-	-	73,433
Other liabilities	57,901	3,311	813	106	2,686	64,817
Deferred tax liability	42,838	-	-	-	-	42,838
Total liabilities	**2,155,710**	**2,193,540**	**240,215**	**16,656**	**2,686**	**4,608,807**
Net balance sheet position	**(46,652)**	**193,401**	**(13,953)**	**679**	**634,028**	**767,503**
Credit related commitments (Note 27)	**157,231**	**218,083**	**48,611**	**9,806**	**-**	**433,731**

Included in trading securities in UAH financial position are corporate bonds with fair value of UAH 29,244 thousand (31 December 2003: UAH 68,891 thousand) which are denominated in UAH, but with yield linked to the UAH to USD exchange rate.

Other currencies mainly include the Russian Rouble.

The Bank has extended loans and advances denominated in foreign currencies. Depending on the revenue stream of the borrower, the appreciation of the currencies against Ukrainian hryvnia may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

26 Financial Risk Management (Continued)

At 31 December 2003, the Bank had the following positions in currencies:

	UAH	USD	Euro	Other currencies	Non-monetary items	Total
Assets						
Cash and cash equivalents and mandatory reserve	223,181	114,853	18,942	4,576	-	361,552
Trading securities	182,365	-	-	-	-	182,365
Due from other banks	108,173	35,562	4,935	-	-	148,670
Loans and advances to customers	994,988	1,556,175	56,918	6,592	-	2,614,673
Investments available-for-sale	5,991	-	-	-	117,829	123,820
Investments held-to-maturity	75,696	-	-	-	-	75,696
Other assets	31,053	1,944	3,911	4	3,948	40,860
Premises, leasehold improvements and equipment	-	-	-	-	144,806	144,806
Total assets	**1,621,447**	**1,708,534**	**84,706**	**11,172**	**266,583**	**3,692,442**
Liabilities						
Due to the National Bank of Ukraine	85,729	-	-	-	-	85,729
Due to other banks	144,374	254,882	554	341	-	400,151
Debt securities in issue	56,879	511	-	-	-	57,390
Customer accounts	1,259,311	1,354,907	85,470	8,268	-	2,707,956
Subordinated debt	14,308	100,229	-	-	-	114,537
Other liabilities	23,216	2,824	151	2	-	26,193
Deferred tax liability	16,858	-	-	-	-	16,858
Total liabilities	**1,600,675**	**1,713,353**	**86,175**	**8,611**	**-**	**3,408,814**
Net balance sheet position	**20,772**	**(4,819)**	**(1,469)**	**2,561**	**266,583**	**283,628**
Credit related commitments (Note 27)	**217,767**	**113,039**	**5,200**	**-**	**-**	**336,006**

Liquidity risk. Liquidity risk is defined as the risk that the Bank will not be able to settle liabilities when due because the maturity of assets and liabilities does not match. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns and guarantees. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The liquidity risk is managed by the Asset/Liability Committee of the Bank.

The table below shows assets and liabilities as at 31 December 2004 by their remaining contractual maturity, unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement is used. Some of the assets and liabilities, however, may be of a longer term nature; for example, loans and deposits are frequently renewed and accordingly short term loans and deposits can have a longer term duration.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

26 Financial Risk Management (Continued)

The liquidity position of the Bank as at 31 December 2004 is set out below.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents and mandatory reserve	618,213	-	-	-	-	618,213
Trading securities	275,943	-	-	-	-	275,943
Due from other banks	-	43,501	36,540	13,054	-	93,095
Loans and advances to customers	288,026	538,226	1,108,276	1,597,945	-	3,532,473
Investments available-for-sale	-	-	5,069	13,802	173,773	192,644
Investment securities held-to-maturity	2,754	4,762	21,457	18,935	-	47,908
Guarantee deposits with the National Bank of Ukraine	115,668	-	-	-	-	115,668
Other assets	37,300	32,760	4,889	4,535	-	79,484
Premises, leasehold improvements and equipment	-	-	-	-	420,882	420,882
Total assets	**1,337,904**	**619,249**	**1,176,231**	**1,648,271**	**594,655**	**5,376,310**
Liabilities						
Due to other banks	42,282	59,173	50,779	24,463	-	176,697
Customer accounts	1,216,552	455,762	1,410,380	207,537	-	3,290,231
Due to the National Bank of Ukraine	117,279	4,795	252,895	15,083	-	390,052
Debt securities in issue	43	539	45,694	524,463	-	570,739
Subordinated debt	-	1,810	-	71,623	-	73,433
Other liabilities	49,053	245	1,164	14,355	-	64,817
Deferred tax liability	-	-	-	-	42,838	42,838
Total liabilities	**1,425,209**	**522,324**	**1,760,912**	**857,524**	**42,838**	**4,608,807**
Net liquidity gap	**(87,305)**	**96,925**	**(584,681)**	**790,747**	**551,817**	**767,503**
Cumulative liquidity gap at 31 December 2004	**(87,305)**	**9,620**	**(575,061)**	**215,686**	**767,503**	**-**
Cumulative liquidity gap at 31 December 2003	**(78,770)**	**(3,201)**	**(331,038)**	**37,851**	**283,628**	**-**

The entire portfolio of trading securities is classified within demand and less than one month as the portfolio is of a trading nature and Management believe this is a fairer portrayal of the Bank's liquidity position.

Debt investments available-for-sale are classified according to their contractual maturity irrespectively of the intentions as to their disposal before maturity.

The Bank has a cumulative maturity mismatch of the assets and liabilities maturing within 12 months. This liquidity mismatch arises due to the fact that the major source of finance for the Bank at 31 December 2004 was customer accounts being on demand and maturing in less than 12 months. Management believes that in spite of a substantial portion of customers accounts maturing in less than 12 months, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customers accounts provide a long-term and stable source of funding for the Bank.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

26 Financial Risk Management (Continued)

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

The liquidity position of the Bank as at 31 December 2003 is set out below.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents and mandatory reserve	361,552	-	-	-	-	361,552
Trading securities	182,365	-	-	-	-	182,365
Due from other banks	116,545	7,659	13,090	11,376	-	148,670
Loans and advances to customers	427,170	674,733	821,251	691,519	-	2,614,673
Investments available-for-sale	579	-	4,075	1,337	117,829	123,820
Investments held-to-maturity	2,881	4,629	21,075	47,111	-	75,696
Other assets	37,420	1,786	531	1,123	-	40,860
Premises, leasehold improvements and equipment	-	-	-	-	144,806	144,806
Total assets	**1,128,512**	**688,807**	**860,022**	**752,466**	**262,635**	**3,692,442**
Liabilities						
Due to the National Bank of Ukraine	9,927	3,895	29,894	42,013	-	85,729
Due to other banks	216,635	82,217	93,301	7,998	-	400,151
Debt securities in issue	9	33,202	24,179	-	-	57,390
Customer accounts	965,330	492,917	1,039,875	209,834	-	2,707,956
Subordinated debt	-	590	-	113,947	-	114,537
Other liabilities	15,381	417	610	9,785	-	26,193
Deferred tax liability	-	-	-	-	16,858	16,858
Total liabilities	**1,207,282**	**613,238**	**1,187,859**	**383,577**	**16,858**	**3,408,814**
Net liquidity gap	**(78,770)**	**75,569**	**(327,837)**	**368,889**	**245,777**	**283,628**
Cumulative liquidity gap at 31 December 2003	**(78,770)**	**(3,201)**	**(331,038)**	**37,851**	**283,628**	**-**

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

26 Financial Risk Management (Continued)

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities can be renegotiated to reflect current market conditions, thus mitigating the interest rate risks for the Bank.

The Asset/ Liability Committee sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored on a regular basis. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**More than 1 year**	**Non-interest bearing**	**Total**
Assets						
Cash and cash equivalents and mandatory reserve	618,213	-	-	-	-	618,213
Trading securities	275,943	-	-	-	-	275,943
Due from other banks	-	43,501	36,540	13,054	-	93,095
Loans and advances to customers	287,808	560,172	1,106,308	1,578,185	-	3,532,473
Investments available-for-sale	-	-	5,069	13,802	173,773	192,644
Investment securities held-to-maturity	2,754	4,762	21,457	18,935	-	47,908
Guarantee deposits with the National Bank of Ukraine	115,668	-	-	-	-	115,668
Other assets	-	-	-	-	79,484	79,484
Premises, leasehold improvements and equipment	-	-	-	-	420,882	420,882
Total assets	**1,300,386**	**608,435**	**1,169,374**	**1,623,976**	**674,139**	**5,376,310**
Liabilities						
Due to other banks	42,282	59,173	75,242	-	-	176,697
Customer accounts	1,241,597	446,621	1,394,476	207,537	-	3,290,231
Due to the National Bank of Ukraine	117,279	4,795	252,895	15,083	-	390,052
Debt securities in issue	43	539	32,386	537,771	-	570,739
Subordinated debt	-	1,810	-	71,623	-	73,433
Other liabilities	121	245	1,164	14,354	48,933	64,817
Deferred tax liability	-	-	-	-	42,838	42,838
Total liabilities	**1,401,322**	**513,183**	**1,756,163**	**846,368**	**91,771**	**4,608,807**
Net gap	**(100,936)**	**95,252**	**(586,789)**	**777,608**	**582,368**	**767,503**
Cumulative gap at 31 December 2004	**(100,936)**	**(5,684)**	**(592,473)**	**185,135**	**767,503**	**-**
Cumulative gap at 31 December 2003	**(242,160)**	**(138,300)**	**(463,632)**	**15,110**	**283,628**	**-**

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

26 Financial Risk Management (Continued)

Placements and borrowings carrying interest rates which are subject to regular repricing, were classified in the above table within "demand and less than one month" category.

The table below summarises the effective interest rates by major currencies for major monetary financial instruments. The analysis has been prepared using year-end effective rates used for amortisation of the respective assets and liabilities as adjusted for remeasurement of the effect of non market interest rates at origination.

	31 December 2004		31 December 2003	
	UAH	**USD**	**UAH**	**USD**
Assets				
Term placements with other banks	17%	16%	11%	10%
Loans and advances to corporate customers	18%	12%	20%	14%
Loans and advances to individuals	19%	13%	20%	13%
Finance lease	25%	-	21%	-
Trading securities – bonds	14%	-	14%	-
Trading securities – promissory notes	-	-	5%	-
Investments available for sale – promissory notes	-	-	8%	-
Investment securities held-to-maturity – corporate bonds	14%	-	14%	-
Liabilities				
Term placements of other banks	-	8%	13%	6%
Term deposits of legal entities	15%	7%	13%	9%
Term deposits of individuals	16%	10%	15%	9%
Due to the National Bank of Ukraine	15%	-	12%	-
Bonds issued by the Bank	-	11%	23%	-
Certificates of deposit and promissory notes	16%	18%	13%	9%
Subordinated debt	-	10%	7%	7%
Finance leases	12%	-	12%	-

The sign "-" in the table above means that the Bank does not have the respective assets or liabilities in corresponding currency.

27 Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank are received. On the basis of own estimates and internal professional advice the Management is of the opinion that no material losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

At 31 December 2004 the Bank was not engaged in any material litigation proceedings except for proceedings against delinquent borrowers (31 December 2003: no material litigation proceedings). As the outcome of these proceedings is uncertain, no contingent asset has been recognised by the Bank.

Tax legislation. Ukrainian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant local and central authorities. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The tax consequence of transactions for Ukrainian taxation purposes is frequently determined by the form in which transactions are documented and the underlying accounting treatment prescribed by statutory accounting rules. Accordingly, the Bank structures certain transactions so as to take advantage of such form driven determinations to reduce the overall effective tax rate of the Bank. The consolidated statement of income as presented in these consolidated financial statements includes reclassifications to reflect the underlying economic substance of those transactions. The effect of these reclassifications does not have an effect on the Bank's profit before taxation or the tax charge recorded in these consolidated financial statements.

The Bank's Management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax position will be sustained. Accordingly, as at 31 December 2004 no provision for potential tax liabilities had been recorded (2003: no provision).

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

27 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Capital commitments. As at 31 December 2004 the Bank has capital commitments in respect of purchasing and implementing "SAP Banking" software totalling UAH 32,899 thousand and in respect of purchasing equipment and construction of premises totalling UAH 31,323 thousand (31 December 2003: UAH 44,149 thousand and UAH 28,451 thousand, respectively). The Bank's Management has already allocated the necessary resources in respect of these commitments. The Bank's Management believes that future net revenues and funding will be sufficient to cover these and any similar such commitments.

Operating lease commitments. Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2004	31 December 2003
Not later than 1 year	28,116	15,229
Later than 1 year and not later than 5 years	86,383	45,124
Later than 5 years	53,668	20,328
Total operating lease commitments	**168,167**	**80,681**

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Promissory notes endorsements represent guarantees undertaken by the Bank in respect of promissory notes issued by the Bank's clients.

Commitments arising in respect of underwriting activity represent commitments of the Bank arising from the Bank's acting as underwriter from placement of corporate bonds.

Outstanding credit related commitments are as follows:

	Note	31 December 2004	31 December 2003
Commitments to extend credit		288,579	188,709
Commitments arising in respect of underwriting activity		5,000	49,990
Import letters of credit (cash covered)		43,117	38,297
Import letters of credit (uncovered)		45,711	3,442
Guarantees issued (cash covered)		10,984	1,280
Guarantees issued (uncovered)		38,650	79,308
Promissory notes endorsements (cash covered)		139	274
Promissory notes endorsements (uncovered)		64,256	19,960
Less: cash covered credit related commitments	14	(54,240)	(39,851)
Less: provision for losses on credit related commitments	18	(8,465)	(5,403)
Total credit related commitments		**433,731**	**336,006**

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

27 Contingencies, Commitments and Derivative Financial Instruments (Continued)

The total outstanding contractual amount of commitments to extend credit, commitments arising in respect of underwriting activities, letters of credit, promissory notes endorsements and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

As at 31 December 2004 guarantees issued in the amount of UAH 11,861 thousand (31 December 2003: UAH 12,534 thousand) are collateralised with trading securities pledged to another bank with a fair value of UAH 14,714 thousand (31 December 2003: UAH 15,044 thousand). In addition, as at 31 December 2003 import letters of credit in the amount of UAH 8,791 thousand were collateralised with trading securities pledged to another bank with a fair value of UAH 19,911 thousand. Refer to Note 6.

Movements in the provision for losses on credit related commitments are as follows:

	Note	2004	2003
Provision for losses on credit related commitments as at 1 January		**5,403**	**1,680**
Provision for losses on credit related commitments during the year		3,062	3,723
Provision for losses on credit related commitments as at 31 December	18	**8,465**	**5,403**

Fiduciary assets. These assets are not included in the Bank's consolidated balance sheet as they are not assets of the Bank. Nominal values disclosed below are normally different from the fair values of the respective securities.

	31 December 2004 Nominal value	31 December 2003 Nominal value
Shares in domestic companies held in custody	1,728,227	1,276,986
Domestic corporate bonds held in custody	34,698	69,547
Domestic treasury bills held in custody	23,693	3,041
Notes of exchange held in custody	1,201	-
Investment certificates held in custody	19,642	-
Assets managed by the Bank (Note 30)	11,922	-

Derivatives. Foreign exchange and securities-based derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions.

The principal amounts of certain types of financial instruments provide a basis for comparison with instruments recorded on the consolidated balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market prices or foreign exchange rates relative to their terms. The aggregate contractual or principal amount of derivative financial instruments on hand, the extent to which instruments have favourable or unfavourable conditions and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The principal or agreed amounts and fair values of derivative instruments held are set out in the following table. This table reflects gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2004. Major part of contracts outstanding as at 31 December 2004 were entered into during September-November 2004 and are short term in nature. Contracts for sale of securities outstanding as at 31 December 2003 were entered into in May 2003 and matured in February 2004.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

27 Contingencies, Commitments and Derivative Financial Instruments (Continued)

	Domestic deals at 31 December 2004			Domestic deals at 31 December 2003		
	Principal or agreed amount	**Negative fair value**	**Positive fair value**	**Principal or agreed amount**	**Negative fair value**	**Positive fair value**
Deliverable forwards						
Foreign currency						
- sale of foreign currency for UAH	3,633	-	59	-	-	-
- purchase of foreign currency for UAH	3,647	(60)	-	-	-	-
Securities						
- sale of securities	-	-	-	6,766	(104)	-
Total	**7,280**	**(60)**	**59**	**6,766**	**(104)**	**-**

At 31 December 2004 the Bank had outstanding commitments in respect of foreign exchange contracts with banks to purchase EUR 1,200 thousand and sell USD 1,512 thousand. As at year-end the contracts have been fair valued and the unrealised gain of UAH 639 thousand included in gains less losses arising from dealing in foreign currencies. The Bank had settled the outstanding contracts in January 2005.

Assets pledged and restricted. At 31 December 2004 the Bank has the following assets pledged as collateral:

		31 December 2004		31 December 2003	
	Notes	**Asset pledged**	**Related liability/ commitment**	**Asset pledged**	**Related liability/ commitment**
Cash and cash equivalents and mandatory reserve	5,15	7,717	42,237	7,717	65,726
Investment securities held-to-maturity	10,15	47,908	-	75,696	-
Trading securities	6,13,27	14,714	11,861	95,900	81,930
Due from other banks	7,13	35,950	32,280	20,105	21,430
Investments available-for-sale	9,14	-	-	40,147	21,589
Guarantee deposits with the NBU	15	115,668	114,815	-	-
Loans and advances to customers	8,15	382,806	233,000	62,742	20,003
Premises	12,15	58,735		-	-
Total		**663,498**	**434,193**	**302,307**	**210,678**

In addition, mandatory reserve balances in the amount of UAH 218,623 thousand (31 December 2003: UAH 169,674 thousand) represent mandatory reserve assets which are not available to finance the Bank's day to day operations.

28 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between unrelated willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. As described in more detail in Note 2, Ukraine continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in its financial markets.

Financial instruments carried at fair value. Cash and cash equivalents, trading securities and investments available-for-sale are carried on the consolidated balance sheet at their fair value. As set out in Note 9, external independent market quotations were not available for certain investments available-for-sale. The fair value of these assets were determined by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

28 Fair Value of Financial Instruments (Continued)

Loans originated carried at amortised cost less provision for impairment. The fair value of floating rate instruments is generally approximated by their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 7 and 8 for the estimated fair value of due from other banks and loans and advances to customers, respectively.

Investment securities held-to-maturity. Fair value for investment securities held-to-maturity is based on quoted bid prices on over-the-counter market. Refer to Note 10 for the estimated fair value of investment securities held to maturity.

Liabilities carried at amortised cost. The fair value of instruments with a quoted market price is based on quoted market prices. The estimated fair value of liabilities with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest rate instruments without a quoted market price is based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 13, 14, 15, 16 and 17 for the estimated fair values of due to other banks, customer accounts, due to the National Bank of Ukraine, debt securities in issue and subordinated debt.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of derivative financial instruments is disclosed in Note 27.

29 Related Party Transactions

For the purposes of these consolidated financial statements, 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 as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Banking transactions are entered into in the normal course of business with significant shareholders, directors, companies with which the Bank has significant shareholders in common and other related parties. These transactions include settlements, loans, deposit taking, guarantees, purchases and sales of securities, trade finance and foreign currency transactions. These transactions are priced predominantly at market rates.

Majority of the related party transactions and balances disclosed below are entered into with the entities controlled by the Bank's majority shareholders.

The outstanding balances at the year end and income and expense items as well as other transactions for the year with related parties are as follows:

	2004	2003
Trading securities		
Trading securities (corporate bonds) as at the year end	20,056	35,828
Interest income on trading securities for the year	1,630	6,671
Gains less losses arising from trading securities for-the year	1,023	1,618
Due from other banks		
Term placements in USD at the year end (contractual interest rate: 2003: 14%)	-	20,504
Interest income for the year	98	5,770
Loans and advances to customers		
Loans and advances to related legal entities in UAH at the year end (contractual interest rate: 2004: 17-23%; 2003: 19-30%)	177,996	152,395
Loans and advances to related legal entities in USD at the year end (contractual interest rate: 2004: 13-17%; 2003: 13-16%)	108,813	94,672

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

29 Related Party Transactions (Continued)

	2004	2003
Loans and advances to related legal entities in EUR at the year end (contractual interest rate: 2004: 9-14%; 2003: 14-16%)	42,446	6,171
Loans and advances to related individuals in UAH at the year end (contractual interest rate: 2004: 18%; 2003: none)	1,324	-
Loans and advances to related individuals in USD at the year end (contractual interest rate: 2004: 10-16%; 2003: 8-12%)	13,784	1,155
Loans and advances to related individuals in EUR at the year end (contractual interest rate: 2004: 10%; 2003: none)	120	-
Provision for loan impairment at the year end	(21,717)	(10,381)
Interest income for the year	29,791	48,772
Investments available-for-sale		
Investments available-for-sale (shares and notes of exchange) at the year end	31,622	25,267
Gains less losses arising from investments available-for-sale for the year	3,413	-
Other assets as at the year end		
Receivables on settlements for securities	5,682	800
Other receivables	-	225
Customer accounts		
Current accounts as at the year end	58,856	35,379
Term deposits in UAH outstanding as at the year end (contractual interest rate: 2004: 10-20%; 2003: 2-18%)	23,840	5,651
Term deposits in USD outstanding as at the year end (contractual interest rate: 2004: 3-13%; 2003: 4-12%)	503,966	626,871
Term deposits in EUR outstanding as at the year end (contractual interest rate: 2004: 7%-12%; 2003: 9%)	1,640	6,921
Weighted average interest rate for UAH denominated term deposits of legal entities at the year end	9%	14%
Weighted average interest rate for USD denominated term deposits of legal entities at the year end	8%	9%
Interest expense for the year	36,294	36,935
Debt securities in issue		
Debt securities in issue held by related parties at the year end	-	21,279
Interest expense for the year	4,821	5,107
Subordinated debt		
Subordinated debt outstanding at the year end	-	58,556
Interest expense for the year (based on contractual rates)	3,339	5,524
Interest expense for the year (based on effective rates used for amortisation)	3,852	5,720
Loss on change in terms of subordinated debt (Note 17)	(8,589)	-
Other liabilities		
Amounts payable for premises at the year end	-	2,675
Amounts payable for securities purchased at the year end	2,688	3,735
Minority interest as at the year end	9,382	3,020
Credit related commitments as at the year end		
Commitments to extend credit	28,340	-
Import letters of credit (cash covered)	4,718	1,896
Import letters of credit (uncovered)	10,145	-
Guarantees issued (uncovered)	1273	-
Fee and commission income for the year	4,697	4,260

In 2004 the total remuneration of members of the Board, including pension and social security contributions, amounts to UAH 1,526 thousand (2003: UAH 1,739 thousand).

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

30 Principal Consolidated Subsidiaries and Special Purpose Entities

As at 31 December 2004 the Bank consolidated the following subsidiaries:

Name	Nature of business	Percentage of ownership	Country of registration
Limited Liability Company "Ukrainian Leasing Company"	Leasing	99.97%	Ukraine
Closed Joint-Stock Company "Asset Management Company" "Ukrsib Asset Management"	Asset management	99.74%	Ukraine
Closed Joint-Stock Insurance Company "Ukrainian Insurance Alliance"	Insurance	92.23%	Ukraine
Open Joint-Stock Company Closed Non-diversified Corporate Investment Fund "UKRSIB Stabilny Dohod"	Investment Fund	97.74%	Ukraine

The Bank's Management consolidated two special purpose entities ("SPE") disclosed below. These SPEs were created to serve and constitute an integral part of the Bank's business. The Bank's Management has governed the financial and operating policies of the SPEs during the year.

The following special purpose entities have been consolidated in these financial statements:

Name	Nature of business	Percentage of ownership directly held by the Bank	Country of registration
Limited Liability Company "UkrSib-Finance"	Finance	9.9%	Ukraine
Limited Liability Company "Universal Leasing Company"	Leasing	-	Ukraine

In addition, during the year ended 31 December 2004 the Bank established two unincorporated investment funds: non-diversified venture capital investment fund "Venture Capital" and non-diversified investment fund "Ukrsib Stabilny Investitsii". Investment certificates issued by these investment funds are intended to be sold to external investors. As at 31 December 2004 the Bank held 71% of investment certificates of "Ukrsib Stabilny Investitsii" and the assets and liabilities of this investment fund were consolidated into these financial statements. All investment certificates of "Venture Capital" investment fund were held by external parties. Assets of the investment fund managed by the Bank are included in fiduciary assets. Refer to Note 27.

31 Subsequent Events

In August 2004 the Bank entered into agreement for the purchase of a share in a Russian bank. The respective licence has been received by the Bank from the National Bank of Ukraine in November 2004. Permissions from Federal Antimonopoly Service and from the Central Bank of Russian Federation in respect of the acquisition were obtained by the Bank in December 2004. The deal was completed in February 2005 when the counterparties settled the transaction. The Bank paid RUR 60,000 thousand (UAH 11,424 thousand at the exchange rate at the date of payment) for 40% share in the statutory capital of the Russian bank. At the date of acquisition the total assets of the Russian bank amounted to RUR 283,713 thousand (UAH 54,130 thousand at the exchange rate at the date of acquisition). As at 31 December 2004 the Bank had balances with this Russian bank of UAH 1,612 thousand included in cash and cash equivalents and UAH 9,678 thousand included in due to other banks.

In February 2005 the Bank received syndicated trade finance facility amounting to USD 37,000 thousand at LIBOR +3.95% per annum maturing in February 2006.

As disclosed in Note 15, in January 2005 the Bank repaid the stabilisation loan from the National Bank of Ukraine totalling UAH 233,000 thousand.

On 21 April 2005 the official exchange rate of Ukrainian hryvnia to foreign currencies sharply appreciated. In particular, the exchange rate of Ukrainian hryvnia to USD appreciated from UAH 5.19 per USD 1 as at 20 April 2005 to UAH 5.05 per USD 1 as at 21 April 2005. The total cumulative appreciation since the year-end was approximately 5%.

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AUDITORS’ REPORT

To the Shareholders and Board of Directors of JSIB UkrSibbank:

1 We have audited the accompanying consolidated balance sheet of JSIB UkrSibbank (the “Bank”, as defined in Note 1 to the consolidated financial statements) as at 31 December 2003, and the related consolidated statements of income, of cash flows and of changes in shareholders’ equity for the year then ended. These consolidated financial statements are the responsibility of the Bank’s Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at 31 December 2003 and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Kyiv, Ukraine
29 April 2004

Auditor L. Pakhucha
Certificate B issued by Auditors’ Chamber of Ukraine # 000222

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

	Note	31 December 2003	31 December 2002
Assets			
Cash and cash equivalents and mandatory reserve	5	361,552	187,020
Trading securities	6	182,365	108,967
Due from other banks	7	148,670	189,115
Loans and advances to customers	8	2,614,673	1,187,124
Investments available-for-sale	9	123,820	88,940
Investments held-to-maturity	10	75,696	-
Other assets	11	40,860	22,793
Premises, leasehold improvements and equipment	12	144,806	112,168
Deferred tax asset	23	-	3,072
Total assets		**3,692,442**	**1,899,199**
Liabilities			
Due to the National Bank of Ukraine	13	85,729	9,900
Due to other banks	14	400,151	237,481
Debt securities in issue	15	57,390	23,934
Customer accounts	16	2,707,956	1,338,729
Subordinated debt	18	114,537	87,818
Other liabilities	17	26,193	20,448
Deferred tax liability	23	16,858	-
Total liabilities		**3,408,814**	**1,718,310**
Minority interest		3,020	-
Shareholders' equity			
Share capital	19	1,146,124	1,083,684
Share premium		2,060	2,060
Additional capital	18	6,974	-
Revaluation reserve	12	3,958	4,019
Accumulated deficit		(878,508)	(908,874)
Total shareholders' equity		**280,608**	**180,889**
Total liabilities, minority interest and shareholders' equity		**3,692,442**	**1,899,199**

Approved for issue by the Board of Directors and signed on its behalf on "29" April 2004.

Alexander Ye. Adarich
Chairman of the Board

Irina V. Marianko
Chief Accountant

The notes set out on pages F-53 to F-90 form an integral part of these consolidated financial statements.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

	Note	2003	2002
Interest income	20	377,693	197,835
Interest expense	20	(184,813)	(109,273)
Net interest income		**192,880**	**88,562**
Provision for loan impairment	7, 8	(73,586)	(32,837)
Net interest income after provision for loan impairment		**119,294**	**55,725**
Fee and commission income	21	83,021	36,711
Fee and commission expense	21	(6,787)	(2,353)
Gains less losses arising from trading securities		710	7,171
Gains less losses arising from investments available-for-sale		10,789	19,021
Gains less losses arising from trading in foreign currencies		38,163	16,320
Foreign exchange translation losses net of gains		(1,359)	(255)
Gains less losses on origination of assets and liabilities at rates below market	10, 13	3,250	-
Losses on origination of loans at rates below market	8	(3,854)	-
Provision for losses on credit related commitments	27	(3,723)	(438)
Other operating income		3,122	1,443
Operating income		**242,626**	**133,345**
Staff costs		(81,169)	(64,321)
Other operating expenses	22	(89,691)	(62,412)
Profit before taxation		**71,766**	**6,612**
Income tax expense	23	(30,508)	(3,543)
Net profit		**41,258**	**3,069**
Basic and diluted earnings per share (expressed in UAH per share)	24	**0.0146**	0.0015

The notes set out on pages F-53 to F-90 form an integral part of these consolidated financial statements.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

	Note	2003	2002
Cash flows from operating activities			
Interest received on loans and placements		338,292	175,143
Interest received on securities		17,155	7,313
Interest paid		(161,473)	(97,341)
Income received from trading in trading securities		1,410	7,265
Income received from trading in foreign currencies		38,164	16,320
Fees and commissions received		83,021	44,785
Fees and commissions paid		(6,787)	(2,353)
Other operating income received		2,221	1,443
Staff costs paid		(81,169)	(64,321)
Other operating expenses paid		(65,026)	(42,056)
Income tax paid		(7,348)	(5,384)
Cash flows from operating activities before changes in operating assets and liabilities		**158,460**	**40,814**
Changes in operating assets and liabilities			
Net increase in mandatory reserve balances		(82,901)	(4,466)
Net increase in trading securities		(73,224)	(102,198)
Net decrease/ (increase) in due from other banks		41,189	(142,172)
Net increase in loans and advances to customers		(1,447,752)	(357,526)
Net increase in other assets		(7,181)	(3,008)
Net increase/(decrease) in due to the National Bank of Ukraine		80,753	(1,265)
Net increase in due to other banks		153,070	186,135
Net increase in customer accounts		1,354,517	450,082
Net increase/ (decrease) in debt securities in issue		30,972	(745)
Net (decrease)/increase in other liabilities		(10,019)	6,439
Net cash from operating activities		**197,884**	**72,090**
Cash flows from investing activities			
Acquisition of investments available-for-sale		(109,210)	(52,041)
Proceeds from disposal of investments available-for-sale		52,204	38,567
Acquisition of investments held-to-maturity		(77,416)	-
Acquisition of premises, leasehold improvements and equipment		(57,120)	(53,608)
Proceeds from disposal of premises and equipment		6,444	343
Net cash used in investing activities		**(185,098)**	**(66,739)**
Cash flows from financing activities			
Contributions received for new share issue	19	62,440	50,000
Payments to shareholders		(15,560)	(21,703)
Disposal of treasury shares		-	4
Issue of subordinated debt	18	33,591	31,981
Net cash from financing activities		**80,471**	**60,282**
Effect of exchange rate changes on cash and cash equivalents		**(1,626)**	**(80)**
Net increase in cash and cash equivalents		**91,631**	**65,553**
Cash and cash equivalents at the beginning of the year		100,247	34,694
Cash and cash equivalents at the end of the year	5	**191,878**	**100,247**

The notes set out on pages F-53 to F-90 form an integral part of these consolidated financial statements.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

	Note	Share Capital	Treasury shares	Share premium	Additional capital	Revaluation reserve	Accumulated deficit	Total shareholders' equity
Balance at 1 January 2002		**1,033,684**	**(482)**	**2,538**	**-**	**3,751**	**(896,751)**	**142,740**
Net profit for the year		-	-	-	-	-	3,069	3,069
Share issue	19	50,000	-	-	-	-	-	50,000
Distributions to shareholders, net of tax effect	19	-	-	-	-	-	(15,192)	(15,192)
Effect of changes in tax rates	23	-	-	-	-	268	-	268
Disposal of treasury shares		-	482	(478)	-	-	-	4
Balance at 31 December 2002		**1,083,684**	**-**	**2,060**	**-**	**4,019**	**(908,874)**	**180,889**
Net profit for the year		-	-	-	-	-	41,258	41,258
Distributions to shareholders, net of tax effect	19	-	-	-	-	-	(10,892)	(10,892)
Share issue	19	62,440	-	-	-	-	-	62,440
Revaluation of the aircraft, net of tax effect	12	-	-	-	-	(61)	-	(61)
Gain on origination of subordinated debt, net of tax effect	18	-	-	-	6,974	-	-	6,974
Balance at 31 December 2003		**1,146,124**	**-**	**2,060**	**6,974**	**3,958**	**(878,508)**	**280,608**

The notes set out on pages F-53 to F-90 form an integral part of these consolidated financial statements.

1 Principal Activities

These consolidated financial statements include the financial statements of Joint-Stock Innovation Bank UkrSibbank, its subsidiaries and special purpose entities. The Bank, its subsidiaries and special purpose entities together are referred to as the "Bank".

Joint-Stock Innovation Bank UkrSibbank (the "Bank") was formed in 1990 as Commercial Innovation Bank Kharkovincomebank and registered by Gosbank of USSR. In 1991 the Bank was reorganised as an open-type joint-stock company and registered by the National Bank of Ukraine (the "NBU"). In 1992 the Bank was renamed as UkrSibbank. As at 31 December 2003 major shareholders of the Bank are nine Ukrainian companies, which together own over 99% of the outstanding registered shares (31 December 2002: nine Ukrainian companies owned over 93% of the outstanding shares).

The Bank operates under a banking license issued by the National Bank of Ukraine. The Bank's principal business activity is commercial and retail banking operations within Ukraine.

As at 31 December 2003 the Bank has 22 branches and 197 sales points in Ukraine (31 December 2002: 20 branches and 148 sales points). Additionally, the Bank has a representative office in Kyiv (Ukraine). During the year ended 31 December 2003 the Bank closed its representative office in Simferopol (Ukraine). The Bank's registered office is located at the following address:

60 Moskovsky Ave.
61005, Kharkiv
Ukraine.

The number of the Bank's employees as at 31 December 2003 was 3,363 (as at 31 December 2002: 2,527).

A list of consolidated subsidiaries and special purpose entities is disclosed in Note 31.

2 Operating Environment of the Bank

Ukraine continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of Ukraine, restrictive currency controls, and inflation at the rate of 8.2% in 2003. The tax, currency and customs legislation within Ukraine is subject to varying interpretations and changes, which can occur frequently.

Additionally, the banking sector in Ukraine is particularly impacted by adverse currency fluctuations, political instability and economic conditions. Furthermore, the need for further developments in the anti-money laundering legislation, bankruptcy laws, in formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in Ukraine.

Whilst there have been improvements in the economic trends, the future economic direction of Ukraine is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

In addition, economic conditions continue to limit the volume of activity in the financial markets. Market quotations may not be reflective of the values for financial instruments, which would be determined in an efficient, active market involving willing buyers and willing sellers.

3 Basis of Presentation

Basis of Presentation. These consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board, including International Accounting Standards ("IAS") issued by the International Accounting Standards Committee and Interpretations issued by the Standing Interpretations Committee. The Bank maintains its accounting records in accordance with Ukrainian banking and accounting regulations. These consolidated financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with IFRS.

These consolidated financial statements have been measured in the national currency of Ukraine, hryvnia ("UAH").

3 Basis of Presentation (Continued)

The preparation of these consolidated financial statements requires the use of estimates and assumptions that effect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current year.

4 Significant Accounting Policies

Consolidated financial statements. Subsidiary undertakings (including special purpose entities) are those companies and other entities in which the Bank, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over financial and operating policies. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Bank controls another entity. Subsidiaries are consolidated from the date on which effective control is transferred to the Bank and are removed from consolidation from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the consideration given in form of assets given up, shares issued or assumed liabilities at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

Minority interest is that part of the net results of operations and of the net assets of a subsidiary or a special purpose entity attributable to interests which are not owned, directly or indirectly, by the Bank. Minority interest in the consolidated balance sheet is recorded separate from liabilities and shareholders' equity. Minority interest related to results of the current year is recorded in the consolidated statement of income.

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash at short notice and which are subject to an insignificant risk of changes in value. All short term interbank placements, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Mandatory reserve balances. Mandatory reserve balances represent mandatory reserve assets which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated cash flow statement.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Bank classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within 1 to 3 months.

Trading securities are initially recorded at cost (which includes transaction costs) and subsequently remeasured at fair value based on their market value or after the application of various valuation methodologies, including assumptions as to the future realisability of these securities. In determining market value, all trading securities are valued at the last trade price if quoted on a market or, if traded over-the-counter, at the last bid price.

4 Significant Accounting Policies (Continued)

All related realised and unrealised gains and losses are recorded within gains less losses arising from trading securities in the consolidated statement of income in the period in which the change occurs. Interest earned on trading securities is reflected in the consolidated statement of income as interest income on securities. Dividends received are included in dividend income within other operating income.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at settlement date, which is the date when the ownership right for securities is transferred to/by the Bank.

Sale and repurchase agreements. Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included into trading securities or investments available-for-sale as appropriate. The corresponding liability is presented within due to other banks. Securities purchased under agreements to resell ("reverse repo") are recorded as due from other banks or loans and advances to customers as appropriate. The difference between the sale and repurchase price including the respective coupon interest to be received by the counterparty during the term of a repo agreement is treated as interest and accrued over the life of repo agreements using the effective yield method.

Originated loans and advances and provisions for loan impairment. Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at draw down, other than those that are originated with the intent of being sold immediately or in the short-term which are recorded as trading assets, are categorised as originated loans.

Originated loans and advances are recorded when cash is advanced to borrowers. Initially, originated loans and advances are recorded at cost, which is the fair value of the consideration given, and subsequently are carried at amortised cost less provision for loan impairment. Amortised cost is the amount at which the financial asset was measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount, and minus any write-down (directly or through the use of an allowance account) for impairment or uncollectability. Amortised cost is based on the fair value of cash consideration given to originate those loans determinable by reference to market prices at origination date.

Loans originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans. The difference between the fair value and the nominal value at origination is credited or charged to the consolidated statement of income as gains on origination of assets at rates above market or losses on origination of assets at rates below market. Subsequently, the carrying amount of such loans is adjusted for amortisation of the gains/losses on origination and the related income is recorded as interest income within the consolidated statement of income using the effective yield method.

A credit risk provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect the amounts due according to original contractual terms. The amount of the provision is the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the instrument's original effective interest rate.

The provision for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to the borrowers and reflect the current economic environment in which the borrowers operate.

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the consolidated statement of income.

If the amount of the provision for loan impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for loan impairment in the consolidated statement of income.

The Bank does not enter into transactions for purchases of loans with third parties.

4 Significant Accounting Policies (Continued)

Other credit related commitments. In the normal course of business, the Bank enters into other credit related commitments including commitments to extend credit, underwriting commitments, letters of credit, guarantees and promissory note endorsements. Specific provisions are recorded against other credit related commitments when losses are considered probable.

Promissory notes purchased. Promissory notes purchased are included in trading securities, investments available-for-sale or in loans and advances to customers, depending on Management intentions and are recognised and subsequently remeasured and accounted in accordance with the accounting policies for these categories of assets.

Investments available-for-sale. This classification includes investments which Management intends to hold for an indefinite period of time, that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Management determines the appropriate classification of its investments at the time of purchase.

Investments available-for-sale are initially recorded at cost (which includes transaction costs) and subsequently remeasured to fair value based on quoted market prices. Certain investments available-for-sale for which there is no available external independent quotation have been fair valued by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies. Realised and unrealised gains and losses arising from changes in the fair value of investments available-for-sale are included in the consolidated statement of income in the period in which they arise. Interest earned on investments available-for-sale is reflected in the consolidated statement of income as interest income on debt securities. Dividends received are included in dividend income within other operating income in the consolidated statement of income.

All regular way purchases and sales of investments available-for-sale are recognised at settlement date, which is the date when the ownership right for securities is transferred to/by the Bank.

Investments held-to-maturity. Investments with fixed maturity where Management has both the intent and the ability to hold to maturity are classified as investments held-to-maturity. Management determines the appropriate classification of its investments at the time of the purchase.

Investments held-to-maturity are initially recorded at cost (which includes transaction costs) and subsequently carried at amortised cost using the effective yield method, less any provision for impairment, calculated as the difference between the carrying amount and the present value of expected future cash flows discounted at the instrument's original effective interest rate.

Investments held-to-maturity originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar investments. The difference between the fair value and the nominal value at origination is credited or charged to the consolidated statement of income as gains on origination of assets at rates above market or losses on origination of assets at rates below market. Subsequently, the carrying amount of such investments held-to-maturity is adjusted for amortisation of the gains/losses on origination and the related income is recorded as interest income within the consolidated statement of income using the effective yield method.

Interest earned whilst holding investments held-to-maturity is recorded in the consolidated statement of income as interest income on securities.

All regular way purchases and sales of investments held-to-maturity are recognised at settlement date, which is the date when the ownership right for investments is transferred to/by the Bank.

Premises, leasehold improvements and equipment. Premises, leasehold improvements and equipment acquired after 31 December 2000 are stated at cost less accumulated depreciation and provision for impairment, where required. Premises, leasehold improvements and equipment acquired prior to 31 December 2000 are stated at cost, restated to the equivalent purchasing power of the Ukrainian hryvnia at 31 December 2000 or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

The aircraft included in premises, leasehold improvements and equipment of the Bank, is subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair value of the asset being revalued. The revaluation reserve included in the consolidated statement of shareholders' equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset.

4 Significant Accounting Policies (Continued)

Construction in progress is carried at cost less provision for impairment, where required. Upon completion, assets are transferred to premises or leasehold improvements at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

At each reporting date the Bank assesses whether there is any indication of impairment of premises, leasehold improvements and equipment. If any such indication exists, the Bank estimates the recoverable amount, which is determined as the higher of an asset's net selling price or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the consolidated statement of income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Gains and losses on disposal of premises, leasehold improvements and equipment are determined by reference to their carrying amount and are taken into account in determining profit. Repairs and maintenance are charged to the consolidated statement of income when the expenditure is incurred.

Depreciation. Depreciation is applied on a straight-line basis over the estimated useful lives of the assets as follows:

Premises	30 years
Office and computer equipment	5-15 years
Motor vehicles	8 years
Aircraft	25 years
Intangible assets	3 years
Leasehold improvements	Over the term of the lease

Operating leases. Where the Bank is the lessee, the total lease payments, including those on expected termination, are charged by the lessee to the consolidated statement of income on a straight-line basis over the period of the lease.

Finance leases. Where the Bank is the lessor, upon inception of a finance lease, the present value of the lease payments ("net investment in leases") is recorded within loans and advances to customers. Lease income is recorded over the term of the lease using the net effective yield method.

The inception of a lease is considered to be the date of the lease agreement, or commitment if earlier. For purposes of this definition, a commitment should be in writing, signed by the parties with an interest in the transaction, and should specifically set forth the principal terms of the transaction. Any advance payments made by the lessee prior to commencement of the lease reduce the net investment in the leases.

Finance income from leases is recorded within interest income in the consolidated statement of income.

When impaired, provisions against net investment in leases are created. A finance lease is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate of the finance lease receivable.

Computer software development costs. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Bank and will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 3 years.

Borrowings. Borrowings are recorded initially at 'cost', being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the consolidated statement of income over the period of the borrowings using the effective yield method.

4 Significant Accounting Policies (Continued)

Borrowings originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar borrowings. The difference between the fair value and the nominal value at origination is credited or charged to the consolidated statement of income as gains on origination of liabilities at rates below market or losses on origination of liabilities at rates above market. Subsequently, the carrying amount of such borrowings is adjusted for amortisation of the gains/losses on origination and the related expense is recorded as interest expense within the consolidated statement of income using the effective yield method.

Debt securities in issue. Debt securities in issue include bonds, promissory notes and certificates of deposit issued by the Bank. Debt securities in issue are recognised initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, debt securities in issue are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the consolidated statement of income over the period of the security issue using the effective yield method. If the Bank purchases its own debt securities in issue, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in net income.

Subordinated debt. Subordinated debt represents long-term borrowing agreements that, in case of the Bank's default, would be secondary to the Bank's primary debt obligations. In accordance with the Law of Ukraine on Banks and Banking Activities, subordinated debt cannot be withdrawn from a bank for at least five years from the date of receipt. Subordinated debt is recognised initially at cost, being the issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, subordinated debt is stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the consolidated statement of income using the effective yield method.

Share premium. Share premium represents the excess of contributions over the nominal value of the shares issued.

Treasury shares. Where the Bank or its subsidiaries purchase the Bank's equity share capital, the consideration paid including any attributable incremental external costs net of income taxes is deducted from total consolidated shareholders' equity as treasury shares until they are cancelled or disposed of. Where such shares are subsequently disposed or reissued, any consideration received is included in the shareholders' equity in the consolidated balance sheet.

Distributions to shareholders. Distributions to shareholders are recorded in equity in the period in which cash was transferred to shareholders.

Income taxes. Taxation has been provided for in the consolidated financial statements in accordance with Ukrainian legislation currently in force. The income tax charge in the consolidated statement of income for the period comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year, using the tax rates enacted at the balance sheet date. Taxes, other than on income, are recorded within other operating expenses.

Income tax is recognised in the consolidated statement of income except to the extent that it relates to items recognised directly in equity.

Deferred income tax is provided, using the balance sheet asset and liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recorded to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are netted only within the individual companies of the Bank.

Income and expense recognition. Interest income and expense are recognised in the consolidated statement of income for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income securities and accrued discount and premium on promissory notes and other discount instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recorded based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

4 **Significant Accounting Policies (Continued)**

Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recorded as an adjustment to the effective yield on the loan. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recorded on completion of the underlying transaction. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts.

Foreign currency translation. Transactions denominated in foreign currency are recorded at the exchange rate ruling on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the consolidated statement of income using the exchange rate ruling on that date.

Monetary assets and liabilities denominated in foreign currency are translated into Ukrainian hryvnias at the official exchange rate of the NBU at the balance sheet date. Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange translation gains less losses. Translation differences on non-monetary items such as equities held for trading or available-for-sale are recorded as part of the fair value gain or loss.

The principal rates of exchange used for translating foreign currency balances were:

	31 December 2003, UAH	31 December 2002, UAH
1 USD	5.331500	5.332400
1 EUR	6.662242	5.532898

Exchange restrictions and controls exist relating to converting Ukrainian hryvnia into other currencies. At present, Ukrainian hryvnia is not a freely convertible currency outside Ukraine.

Derivative financial instruments. Derivative financial instruments including forward securities contracts are initially recorded in the consolidated balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivative instruments are included in gains less losses arising from trading securities.

Fiduciary activities. Assets and liabilities held by the Bank in its own name, but for the account of third parties, are not reported on the consolidated balance sheet. Commissions received from such business are shown in fee and commission income within the consolidated statement of income.

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

Accounting for the effects of hyperinflation. Prior to 2001 Ukraine experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). In accordance with IAS 29, when an economy ceases to be hyperinflationary and an enterprise is not required to prepare and present financial statements in accordance with IAS 29, it should treat the amounts expressed in the measuring unit current at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements. Those non-monetary items that arise in the periods of hyperinflation need to be restated in terms of the purchasing power of Ukrainian hryvnia at the end of the reporting period.

This restatement was prepared by indexing the historical balances by changes in the general price index up to 31 December 2000.

Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at the period end. Non-monetary assets and liabilities (items which are not expressed in terms of the monetary unit current at the period end) are restated by applying the relevant conversion factor. The effect of inflation on the Bank's net monetary position in 2000 and prior years is included in accumulated deficit as a monetary gain or loss.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

4 Significant Accounting Policies (Continued)

Premises, leasehold improvements and equipment purchased prior to 31 December 2000 have been indexed by the change in the general price index from the date of purchase. Where indexation is applied, an assessment has been made of the potential impairment and diminution in the carrying value of these assets and, where applicable, such assets have been reduced to their recoverable amounts.

The components of shareholders' equity, except retained earnings and revaluation surplus, were restated by applying a general price index from the dates the components were contributed to 31 December 2000. Retained earnings are restated as a consequence of restating all other amounts in the balance sheet.

Provisions. Provisions are recorded when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Staff costs and related contributions. The Bank contributes to Ukrainian State pension, social insurance and employment funds in respect of its employees. The Bank's pension scheme contributions amount to 32% of employees' gross salaries up to a maximum of UAH 851 per employee per month, and are expensed as incurred. Such costs are included in the staff costs line item in the consolidated statement of income.

Segment reporting. A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten per cent or more of all the segments are reported separately. The Bank operates in one geographical segment.

5 Cash and Cash Equivalents and Mandatory Reserve

	31 December 2003	31 December 2002
Cash on hand	82,797	33,992
Cash balances with the NBU	167,172	79,830
Correspondent accounts and overnight placements with other banks	111,583	73,198
Total cash and cash equivalents and mandatory reserve	**361,552**	**187,020**

During the year ended 31 December 2003 the mandatory reserve balance is calculated on the basis of a simple average over a monthly period (2002: monthly period) and should be maintained at the level of 0 to 12 per cent (31 December 2002: 0 to 12 per cent) of certain obligations of the Bank. As such, the balance can vary from day-to-day. As at 31 December 2003 the Bank's mandatory reserve balance was UAH 169,674 thousand (31 December 2002: UAH 86,773 thousand). The Bank may satisfy its mandatory reserves requirement with a combination of its balance on account with the NBU, up to 40% of UAH cash on hand and up to 20% of foreign currency cash on hand (31 December 2002: balance on account with the NBU and up to 50% of total cash on hand).
As the respective liquid assets are not freely available to finance the Bank's day-to-day operations, for the purposes of the cash flow statement, the mandatory reserve balance is excluded from cash and cash equivalents. The Bank's cash and cash equivalents for the purposes of cash flow statement were as follows:

	31 December 2003	31 December 2002
Total cash and cash equivalents and mandatory reserve	361,552	187,020
Less: mandatory reserve balance	(169,674)	(86,773)
Cash and cash equivalents for the purposes of cash flow statement	**191,878**	**100,247**

Cash balance with the NBU in the amount of UAH 7,717 thousand (31 December 2002: nil) has been pledged as collateral in respect of loans received from the NBU. Refer to Notes 13 and 27.

Geographical and currency analyses of cash and cash equivalents and mandatory reserve are disclosed in Note 26.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

6 Trading Securities

	31 December 2003	31 December 2002
Corporate bonds	179,442	67,875
Promissory notes	2,923	25,981
Corporate shares	-	15,111
Total trading securities	**182,365**	**108,967**

Corporate bonds are interest bearing securities denominated in UAH, issued by Ukrainian companies, and are freely tradable in Ukraine. These bonds have maturity dates from January 2004 to November 2008, coupon rates from 12% to 17% in 2003 and yields to maturity from 12% to 17% at 31 December 2003, depending on the credit rating of the issuer and maturity of the bonds. These bonds are traded on the Ukrainian over-the-counter market (PFTS). Fair value of these bonds was determined based on quoted bid prices.

Corporate shares held in trading portfolio as at 31 December 2002 were shares of Ukrainian companies. These shares are traded on the Ukrainian over-the-counter market. Fair value of quoted corporate shares was determined based on quoted bid prices.

Included in trading securities are securities pledged under sale and repurchase agreements whose fair value at 31 December 2003 is UAH 44,776 thousand (31 December 2002: UAH 21,223 thousand). Refer to Notes 14 and 27.

In addition, trading securities with a fair value of UAH 15,044 thousand (31 December 2002: UAH 16,342 thousand) have been pledged to third parties as collateral against guarantees issued and trading securities with fair value of 19,911 thousand (31 December 2002: nil) have been pledged to another bank as collateral against letters of credit. Refer to Note 27.

As at 31 December 2003 trading securities with a fair value of UAH 16,169 thousand (31 December 2002: UAH 39,239 thousand) were pledged to third parties as collateral with respect to term placements of other banks. Refer to Notes 14 and 27.

The geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 26. The Bank holds trading securities issued by related parties. The relevant information on related party balances is disclosed in Note 30.

7 Due from Other Banks

	31 December 2003	31 December 2002
Term placements with other banks	79,428	116,028
Guarantee deposits with other banks	20,105	44,613
Earmarked placements	-	20,628
Reverse sale and repurchase agreements with other banks	49,137	7,875
Less: Provision for impairment	-	(29)
Total due from other banks	**148,670**	**189,115**

Due from other banks include accrued interest income in the amount of UAH 598 thousand (31 December 2002: UAH 172 thousand).

As at 31 December 2003 term placements with other banks totalling UAH 50,067 thousand represent UAH deposits placed against USD deposits received for the same term from the same counterparty banks totalling UAH 50,649 thousand. As at 31 December 2002 term placements and guarantee deposits with other banks totalling UAH 118,474 thousand represented UAH deposits placed against USD and EUR deposits received for the same term from the same counterparty banks totalling UAH 118,199 thousand. The respective assets and liabilities have not been offset, as there is no legal right to offset. Refer to Note 14.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

7 Due from Other Banks (Continued)

Guarantee deposits include balances placed with other banks as cover for letters of credit placed on behalf of the Bank's customers totalling UAH 7,179 thousand (31 December 2002: UAH 14,037 thousand). The Bank does not have the right to use these funds for the purposes of funding its own activities. In addition, guarantee deposits include balances placed with other banks as cover for guarantees issued by the Bank and for international payments in the amount of UAH 12,926 thousand (31 December 2002: UAH 18,892 thousand). Refer to Note 27.

In addition, as at 31 December 2002 guarantee deposits totalling UAH 11,684 thousand were pledged against term deposits of other banks. Refer to Note 27.

Earmarked placements as at 31 December 2002 represent funds placed with Russian banks to service operations of the Bank's loro account holders.

Movements in the provision for impairment are as follows:

	2003	2002
Provision for impairment as at 1 January	**29**	**161**
Recovery of provision for impairment during the year	-	(132)
Placements with other banks written off during the year as uncollectable	(29)	-
Provision for impairment as at 31 December	**-**	**29**

At 31 December 2003 the Bank had placements with 7 counterparties with exposures exceeding UAH 7,500 thousand. The aggregate amount of these placements is UAH 138,129 thousand or 93% of total balances due from other banks.

As at 31 December 2003 the estimated fair value of due from other banks was UAH 148,670 thousand (31 December 2002: UAH 189,115 thousand). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 26. The information on related party balances is disclosed in Note 30.

8 Loans and Advances to Customers

	31 December 2003	31 December 2002
Current loans	2,388,939	1,147,517
Net investment in finance leases	12,257	-
Cash-covered loans	386,886	125,600
Overdue loans	17,130	31,991
Less: Provision for loan impairment	(190,539)	(117,984)
Total loans and advances to customers	**2,614,673**	**1,187,124**

Loans and advances to customers include accrued interest income in the amount of UAH 51,731 thousand (31 December 2002: UAH 31,111 thousand).

Movements in the provision for loan impairment are as follows:

	2003	2002
Provision for loan impairment as at 1 January	**117,984**	**92,034**
Charge for provision for loan impairment during the year	73,586	32,969
Loans and advances to customers written off during the year as uncollectable	(1,031)	(7,019)
Provision for loan impairment as at 31 December	**190,539**	**117,984**

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

8 Loans and Advances to Customers (Continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

	31 December 2003		31 December 2002	
	Amount	**%**	**Amount**	**%**
Commerce and finance	750,303	27	355,326	27
Oil and gas	716,327	26	237,652	18
Agriculture and food	485,808	17	196,502	15
Individuals	399,167	14	83,141	7
Chemical industry	207,684	7	89,271	7
Metallurgy and mining	101,849	4	194,315	15
Manufacture and machinery building	61,628	2	29,321	2
Air and other transport services	36,637	1	27,979	2
Other	45,809	2	91,601	7
Total loans and advances to customers (aggregate amount)	**2,805,212**	**100**	**1,305,108**	**100**

At 31 December 2003 the Bank has 33 borrowers with aggregated loan amounts above UAH 20,000 thousand (31 December 2002: 17 borrowers with aggregated loan amounts above UAH 20,000 thousand). The aggregate amount of these loans is UAH 1,395,568 thousand or 50% of the gross loan portfolio (31 December 2002: UAH 594,283 thousand or 46% of the gross loan portfolio).

Loans to customers with carrying value of UAH 62,742 thousand (31 December 2002: nil) have been pledged as collateral against short-term loans received from the National Bank of Ukraine in the amount of UAH 20,003 thousand. Refer to Notes 13 and 27.

Loans to individuals mainly include loans for purchases of motor vehicles, real estate, consumer goods and loans to the Bank's employees.

The loans and advances to customers include finance lease receivables, which are analysed as follows:

	31 December 2003	31 December 2002
Gross investment in finance leases, receivable:		
- Not later than 1 year	6,938	-
- Later than 1 year and not later than 5 years	8,367	-
- Later than 5 years	-	-
Less: unearned finance income	(3,048)	-
Net investment in finance leases	**12,257**	**-**

Net investment in finance leases are analysed as follows:

	31 December 2003	31 December 2002
Net investment in finance leases, receivable:		
- Not later than 1 year	5,096	-
- Later than 1 year and not later than 5 years	7,161	-
- Later than 5 years	-	-
Net investment in finance leases	**12,257**	**-**

At 31 December 2003 the allowance for uncollectable finance lease receivables included into provision for loan impairment amounted to UAH 986 thousand (31 December 2002: nil).

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

8 Loans and Advances to Customers (Continued)

During the year ended 31 December 2003 a loss on origination of loans at rates below market in the amount of UAH 3,854 thousand has been recorded within "Losses on origination of loans at rates below market" in the consolidated statement of income.

As at 31 December 2003 the estimated fair value of loans and advances to customers was UAH 2,609,794 thousand (31 December 2002: UAH 1,187,281 thousand). Refer to Note 29. Whilst the carrying amount of loans and advances to customers exceeds their fair value by UAH 4,879 thousand, Management believes that the carrying amount would be recovered. In assessing the recoverability of the carrying amount, Management has taken account of the fact that the difference mainly relates to cash covered loans which are provided at lower rates, as they are collateralised by customer deposits provided at similarly lower rates.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 26. The information on related party balances is disclosed in Note 30.

9 Investments Available-for-Sale

	31 December 2003	**31 December 2002**
Unquoted corporate shares	59,596	34,807
Quoted corporate shares	58,233	24,694
Promissory notes	5,991	29,439
Total investments available-for-sale	**123,820**	**88,940**

The movements in investments available-for-sale are as follows:

	2003	**2002**
Carrying amount as at 1 January	**88,940**	**56,578**
Unrealised (losses less gains)/gains less losses from changes in fair value of investments available-for-sale during the year	(5,339)	4,720
Acquisition of investments available for sale	99,768	52,041
Disposal of investments available for sale	(59,549)	(24,399)
Carrying amount as at 31 December	**123,820**	**88,940**

Corporate shares are shares of Ukrainian companies. They are reflected at year-end market value, which has been determined by the Management using last trade prices or bid prices obtained from over-the-counter market. However, the volume of activity on the organised market for most of these shares has been insignificant, and therefore the prices used may not reflect the value of these shares that could be obtained in a transaction between a willing buyer and a willing seller. External independent market quotations were not available for certain investments available-for-sale. The fair value of these assets was determined by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees.

At 31 December 2003 investments available-for-sale include corporate shares with a fair value of UAH 40,147 thousand pledged as collateral under loans received from a local bank in the amount of UAH 21,589 thousand. Refer to Notes 14 and 27. At 31 December 2002 investments available-for-sale included promissory notes with a fair value of UAH 14,243 thousand pledged as collateral under a loan agreement with the NBU in the amount of UAH 9,900 thousand. Refer to Notes 13 and 27.

Geographical, currency, maturity and interest rate analyses of investments available-for-sale are disclosed in Note 26. The information on related party investments available-for-sale is disclosed in Note 30.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

10 Investment Securities Held-to-Maturity

Investments held-to-maturity are interest bearing corporate bonds denominated in UAH, issued by two Ukrainian state-owned companies. These bonds have maturity dates from May to September 2006, coupon rates of 12% and yield to maturity of 14% at 31 December 2003.

Corporate bonds held-to-maturity with a carrying value of UAH 75,696 thousand are pledged as collateral against long-term loans received from the National Bank of Ukraine with carrying values of UAH 65,726 thousand. Refer to Notes 13 and 27.

During the year ended 31 December 2003 a loss in the amount of UAH 2,297 thousand was recorded with respect of investments held-to-maturity originated at rates below market and included in "Gains less losses on origination of assets and liabilities at rates below market" in the consolidated statement of income.

As at 31 December 2003 the estimated fair value of investments held-to-maturity was UAH 77,500 thousand (31 December 2002: nil). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of investments held-to-maturity are disclosed in Note 26.

11 Other Assets

	31 December 2003	31 December 2002
Receivables on settlements for securities	21,600	12,158
Receivables on purchase and transfer of premises and equipment	3,948	1,380
Restricted cash	3,737	1,229
Amounts in the course of settlements	3,563	2,069
Prepaid expenses	1,667	1,319
Other prepayments, sundry debtors and accruals	7,917	5,705
Less: Provision for impairment of sundry debtors	(1,572)	(1,067)
Total other assets	**40,860**	**22,793**

Restricted cash represents balance on the correspondent account with the NBU in EUR and EUR cash in hand held for the purposes of making payments to Nazi victims under the agency agreement with the Ukrainian National Fund "Vzayemorozuminnia i Prymyrennia". The Bank does not have the right to use these funds for the purposes of funding its own activities.

Movements in the provision for impairment of sundry debtors are as follows:

	Note	2003	2002
Provision for impairment of sundry debtors as at 1 January		**1,067**	**700**
Charge for provision for impairment of sundry debtors during the year	22	1,124	367
Sundry debtors written off during the year as uncollectable		(619)	-
Provision for impairment of sundry debtors as at 31 December		**1,572**	**1,067**

Geographical, currency and maturity analyses of other assets are disclosed in Note 26. The information on related party balances is disclosed in Note 30.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

12 Premises, Leasehold Improvements and Equipment

	Note	Premises	Leasehold improvements	Office and computer equipment	Aircraft and motor vehicles	Intangible assets	Construction in progress	Total
Net book amount at 31 December 2002		**30,971**	**7,440**	**39,530**	**13,355**	**4,375**	**16,497**	**112,168**
Book amount at cost or valuation								
Opening balance		35,089	11,906	53,352	16,862	7,994	16,497	141,700
Additions		312	-	22,153	8,314	3,616	25,771	60,166
Consolidation of special purpose entities		3,301	-	-	560	-	-	3,861
Transfers		8,978	3,866	-	-	-	(12,844)	-
Revaluation		-	-	-	(1,005)	-	-	(1,005)
Disposals		(10,940)	(663)	(1,242)	(2,008)	(31)	(805)	(15,689)
Closing balance		**36,740**	**15,109**	**74,263**	**22,723**	**11,579**	**28,619**	**189,033**
Accumulated depreciation and amortisation								
Opening balance		4,118	4,466	13,822	3,507	3,619	-	29,532
Charge for the year	22	1,071	2,545	9,741	1,656	2,533	-	17,546
Revaluation		-	-	-	(924)	-	-	(924)
Disposals		(720)	(322)	(266)	(596)	(23)	-	(1,927)
Closing balance		**4,469**	**6,689**	**23,297**	**3,643**	**6,129**	**-**	**44,227**
Net book amount at 31 December 2003		**32,271**	**8,420**	**50,966**	**19,080**	**5,450**	**28,619**	**144,806**

The aircraft has been independently valued in 2000 and in 2003. The valuation in 2003 was performed on the basis of an appraisal carried out by an independent valuer, Universal Commodity Exchange "Ukraina". The basis used for the appraisal was market value. Revaluation surplus recorded in respect of this item totalled UAH 5,277 thousand at 31 December 2003 (31 December 2002: UAH 5,359 thousand). The deferred tax liability in the amount of UAH 1,319 thousand (31 December 2002: UAH 1,340 thousand) calculated in respect of this valuation adjustment has been recorded directly to equity in accordance with the applicable accounting standards. At 31 December 2003 the carrying amount of the aircraft would have been UAH 974 thousand (31 December 2002: UAH 1,020 thousand) had the asset been carried at cost less depreciation.

At 31 December 2003 premises, leasehold improvements and equipment include assets totalling UAH 4,803 thousand at cost, which are fully depreciated (31 December 2002: UAH 4,583 thousand). These assets are still used by the Bank.

Construction in progress consists mainly of construction of the Bank's new premises in Kyiv.

Included in premises, leasehold improvements and equipment are assets leased to other parties under operating lease agreements with total cost of UAH 9,597 thousand (31 December 2002: UAH 16,730 thousand), accumulated depreciation of UAH 1,004 thousand (31 December 2002: UAH 1,448 thousand) and a depreciation charge for the year of UAH 372 thousand (year ended 31 December 2002: UAH 724 thousand).

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

13 Due to the National Bank of Ukraine

	31 December 2003	31 December 2002
Short-term loans	20,003	9,900
Long-term loans	65,726	-
Total due to the National Bank of Ukraine	**85,729**	**9,900**

As at 31 December 2003 short-term loans from the NBU in the amount of UAH 20,003 were secured by loans to the Bank's borrowers with carrying value of UAH 62,742 thousand. Refer to Note 8. Short-term loans from the NBU as at 31 December 2002 were secured with promissory notes with a fair value of UAH 14,243 thousand, included in investments available-for-sale. Refer to Note 9.

Long-term loans from the NBU mature in 3 years after origination and carry a nominal interest rate of 7%. These loans were provided against collateral of corporate bonds with a carrying value of UAH 75,696 thousand included in investments held-to-maturity and against cash balances on account with the NBU in the amount of UAH 7,717 thousand included in mandatory reserve balances. Refer to Notes 5 and 10.

During the year ended 31 December 2003 a gain totalling UAH 5,547 thousand was recognised with respect of these long-term loans originated at non-market interest rates and reported within "Gains less losses on origination of assets and liabilities at rates below market" in the consolidated statement of income.

As at 31 December 2003 the estimated fair value of due to the NBU was UAH 84,891 thousand (31 December 2002: UAH 9,900 thousand). Refer to Note 29.

Currency, maturity and interest rate analyses of due to the National Bank of Ukraine are disclosed in Note 26.

14 Due to Other Banks

	31 December 2003	31 December 2002
Correspondent accounts and overnight placements of other banks	7,291	45,473
Term placements of other banks	322,428	170,568
Sale and repurchase agreements with other banks	70,432	21,440
Total due to other banks	**400,151**	**237,481**

Due to other banks include accrued interest expense in the amount of UAH 1,258 thousand (31 December 2002: UAH 317 thousand).

Securities sold under sale and repurchase agreements are corporate bonds with a fair value of UAH 44,776 thousand at 31 December 2003 (31 December 2002: UAH 21,223 thousand) and bonds issued by one of the Bank's special purpose entities with par value of UAH 24,757 thousand. As at 31 December 2003 corporate bonds were recorded in the consolidated balance sheet within trading securities. Refer to Notes 6, 15 and 27.

At 31 December 2003 placements from another local bank totalling UAH 15,995 thousand (31 December 2002: UAH 32,000 thousand) were secured by corporate bonds with fair value of UAH 16,169 thousand (31 December 2002: UAH 39,239 thousand) included in trading securities. Refer to Notes 6 and 27.

As at 31 December 2003 term placements from another bank in the amount of UAH 21,589 thousand (31 December 2002: nil) were secured by corporate shares included in investments available-for-sale with a fair value of UAH 40,147 thousand. Refer to Notes 9 and 27.

As at 31 December 2003 included in term placements of other banks is a USD denominated syndicated loan in the amount of UAH 53,315 thousand at the year end UAH to USD exchange rate from a UK-based bank, collateralised by corporate Eurobonds provided by one of the Bank's related parties. The loan is granted for the period of 6 months with a possibility of extension for another 6-month period and carries a variable interest rate of LIBOR + 4% per annum. In addition, the Bank received USD-denominated loans totalling UAH 69,310 thousand at the year end UAH to USD from two Swiss banks. These loans mature in 3-6 months and carry interest rates of 8 to 10% per annum.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

14 Due to Other Banks (Continued)

As disclosed in Note 18, term placements of other banks as at 31 December 2003 include long-term deposits totalling USD 1,500 thousand (UAH 7,997 thousand at the year end exchange rate) originally received as subordinated debt and re-arranged in 2002 and 2003 as long-term deposits, due to restrictions on the amount of subordinated debt which can be included in the regulatory capital under Ukrainian banking regulations.

As disclosed in Note 7, term placements of other banks totalling UAH 50,649 thousand (31 December 2002: UAH 118,199 thousand) represent funds in USD received against UAH placements and guarantee deposits totalling UAH 50,067 thousand (31 December 2002: UAH 118,474 thousand) placed by the Bank with the same counterparties.

As at 31 December 2003 the estimated fair value of due to other banks was UAH 398,392 thousand (31 December 2002: UAH 237,481 thousand). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 26.

15 Debt Securities in Issue

	31 December 2003	31 December 2002
Deposit certificates	36,109	5,204
Bonds	21,279	18,728
Promissory notes	2	2
Total debt securities in issue	**57,390**	**23,934**

Debt securities in issue include accrued interest expense in the amount of UAH 2,903 thousand (31 December 2002: UAH 419 thousand).

Bonds issued by the Bank mature in December 2004, carry fixed coupon interest rate of 16% and yield to maturity of 23% (31 December 2002: fixed coupon interest rate of 16% and yield to maturity of 21%).

The amount of bonds issued by the Bank excludes bonds totalling UAH 50,000 thousand (31 December 2002: nil) that were issued by one of the Bank's special purpose entities, purchased by the Bank directly or placed through repo transactions as at 31 December 2003. The financial liability relating to these bonds have been derecognised in these consolidated financial statements and the difference between the carrying amount and the amount paid was included in net profit for the year.

As at 31 December 2003 the estimated fair value of debt securities in issue was UAH 59,256 thousand (31 December 2002: UAH 26,772 thousand). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 26. The information on debt securities in issue held by related parties is disclosed in Note 30.

16 Customer Accounts

	31 December 2003	31 December 2002
Legal entities		
- Current accounts	459,971	422,252
- Term and guarantee deposits	1,360,385	450,822
Individuals		
- Current accounts	87,722	55,143
- Term deposits	799,878	410,512
Total customer accounts	**2,707,956**	**1,338,729**

Customer accounts include accrued interest expense in the amount of UAH 37,870 thousand (31 December 2002: UAH 21,018 thousand).

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

16 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

	31 December 2003		31 December 2002	
	Amount	**%**	**Amount**	**%**
Commerce and trade	1,040,211	38	387,411	29
Individuals	887,600	33	465,655	35
Manufacturing	271,860	10	119,648	9
Transport and communication	207,431	8	99,076	7
Financial services	81,626	3	107,428	8
Cultural and educational services	72,801	3	65,832	5
Other	146,427	5	93,679	7
Total customer accounts	**2,707,956**	**100**	**1,338,729**	**100**

At 31 December 2003 the Bank has 13 customers (31 December 2002: 9 customers) with balances above UAH 20,000 thousand. The aggregate balances of these customers total UAH 1,039,065 thousand or 38% of total customer accounts (31 December 2002: UAH 342,011 thousand or 26% of total customer accounts).

As disclosed in Note 18, customer deposits as at 31 December 2003 include long-term deposits totalling USD 11,000 thousand (UAH 58,646 thousand at the year end exchange rate) originally received as subordinated debt and re-arranged in 2002 as long-term deposits due to restrictions on the amount of subordinated debt which can be included in the regulatory capital under Ukrainian banking regulations.

Included in customer accounts are balances totalling UAH 568,120 thousand (31 December 2002: UAH 143,619 thousand) placed by customers as collateral for loans to customers totalling UAH 386,886 thousand (31 December 2002: UAH 125,600 thousand) and commitments under guarantees, promissory note endorsements and letters of credit totalling UAH 39,851 thousand (31 December 2002: UAH 17,758 thousand). Refer to Notes 8 and 27.

As at 31 December 2003 the estimated fair value of customer accounts was UAH 2,703,244 thousand (31 December 2002: UAH 1,328,155 thousand). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 26. The information on related party balances is disclosed in Note 30.

17 Other Liabilities

	Note	31 December 2003	31 December 2002
Present value of minimum finance lease payments		8,098	-
Provision for losses on credit related commitments	27	5,403	1,680
Payables in respect of purchased premises and equipment		4,943	1,897
Settlements for securities transactions		4,051	135
Taxes payable		893	26
Derivative financial instruments	27	104	-
Payables in respect of executed guarantees		-	11,297
Other		2,701	5,413
Total other liabilities		**26,193**	**20,448**

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

17 Other liabilities (Continued)

Other liabilities include finance lease payables which relate to finance lease of automatic teller machines by the Bank. Minimum finance lease payments are analysed as follows:

	31 December 2003	31 December 2002
Gross minimum finance lease payments:		
- Not later than 1 year	1,600	-
- Later than 1 year and not later than 5 years	6,302	-
- Later than 5 years	4,304	-
Less: finance charges	(4,108)	-
Present value of minimum finance lease payments	**8,098**	**-**

Net minimum finance lease payments are analysed as follows:

	31 December 2003	31 December 2002
Net minimum finance lease payments:		
- Not later than 1 year	716	-
- Later than 1 year and not later than 5 years	3,702	-
- Later than 5 years	3,680	-
Present value of minimum finance lease payments	**8,098**	**-**

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 26. The information on related party balances is disclosed in Note 30.

Issuer	Currency	Year of issue	Year of maturity	31 December 2003	31 December 2002
EFG Private Bank	USD	2000	2006	31,989	-
Suntrust Capital Limited	USD	2000	2006	-	31,994
Burnham Investment Limited	USD	2003	2010	24,851	-
Burnham Investment Limited	UAH	2000	2006	14,308	13,510
Burnham Investment Limited	USD	2000	2006	14,907	14,052
Burnham Investment Limited	USD	2000	2006	4,490	4,266
Uni Capital (UK) Limited	USD	2002	2009	-	23,996
EFG Private Bank	USD	2002	2009	23,992	-
Total subordinated debt				**114,537**	**87,818**

Included in subordinated debt is accrued interest expense in the amount of UAH 7,204 thousand (31 December 2002: UAH 4,959 thousand).

The subordinated debt was issued in instalments during 2000, 2002 and 2003. During 2002 the funds received from Uni Capital (UK) Limited in 2000 totalling USD 11,000 thousand (UAH 58,647 thousand at the year end UAH to USD exchange rate) were re-arranged as a long term deposit which is included in customer accounts. Refer to Note 16. A new deposit of USD 6,000 thousand (UAH 31,981 thousand at the exchange rate at the date of receipt) was received from Uni Capital (UK) Limited under a subordinated debt agreement during 2002. Part of this deposit amounting to USD 1,500 thousand was also rearranged as a long-term deposit due to restrictions on the amount of subordinated debt which can be included in regulatory capital under Ukrainian banking regulations. In November 2003 this deposit of USD 1,500 thousand was re-assigned to EFG Private Bank and included in due to other banks. Refer to Note 14.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

18 Subordinated Debt (Continued)

During the year ended 31 December 2003 a new subordinated debt deposit in the amount of USD 6,300 thousand (UAH 33,591 thousand at the exchange rate at the date of receipt) was received from Burnham Investment Limited. A gain on origination in the amount of UAH 9,299 thousand was made in respect of a new subordinated debt deposit originated in 2003 at a rate below market. The gain of UAH 9,299 thousand net of taxation of UAH 2,325 thousand, calculated as the difference between the nominal value of subordinated debt and the fair value of consideration received, was credited to equity in the form of additional capital, as in substance the subordinated debt issue was a transaction with shareholders.

In November 2003 part of the subordinated debt was rearranged so that Uni Capital (UK) Limited and Suntrust Capital Limited, who are related parties of the Bank, sold their subordinated debt loans in the amount of USD 10,500 thousand to EFG Private Bank SA, Switzerland. The terms and conditions of subordinated debt loans did not change as a result of this rearrangement.

Under the subordinated debt agreements, the interest rate on both UAH and USD denominated debt issued in 2000 should not exceed the official NBU discount rate. The interest rate on debt issued in 2002 and 2003 should not exceed LIBOR +4%. As such, the interest rate on subordinated debt is revised on a monthly basis in line with changes in LIBOR.

As at 31 December 2003 the estimated fair value of subordinated debt was UAH 107,507 thousand (31 December 2002: UAH 81,650 thousand). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of subordinated debt are disclosed in Note 26. The relevant information on related party balances is disclosed in Note 30.

19 Share Capital

Issued and paid share capital of the Bank comprises:

	31 December 2003			31 December 2002		
	Number of shares, thousands	**Nominal amount**	**Inflation adjusted amount**	**Number of shares, thousands**	**Nominal amount**	**Inflation adjusted amount**
Ordinary shares – paid in and registered	2,800,000	140,000	1,083,684	1,800,000	90,000	1,033,684
Contributions for new share issues – paid in but not registered	1,248,790	62,440	62,440	1,000,000	50,000	50,000
Total share capital	**4,048,790**	**202,440**	**1,146,124**	**2,800,000**	**140,000**	**1,083,684**

All ordinary shares have a nominal value of UAH 0.05 per share, rank equally and carry one vote.

In 2001 Ukraine ceased to be a hyperinflationary economy. Therefore the inflation adjusted share capital balance as at 31 December 2000 is the basis for the carrying amount in subsequent years, which has not been subsequently inflated.

In accordance with the decision of Shareholders' meetings of 28 December 2001 and 12 April 2002, during the year ended 31 December 2002 the Bank conducted a placement of new share issue. 1,000 million shares have been placed for a total nominal value of UAH 50,000 thousand. Shares placed were fully paid up by November 2002. The shareholders meeting of 17 December 2002 approved the results of the share issue and decided to make the respective changes to the Bank's Charter. On 9 April 2003 the NBU registered this increase in the share capital of the Bank in the amount of UAH 50,000 thousand. The new shares issued have a nominal value of UAH 0.05 per share, rank equally and carry one vote.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

19 Share Capital (Continued)

In September 2003 the shareholders of the Bank took a decision to issue an additional 1,400 million shares totalling UAH 70,000 thousand. The placement of shares commenced on 10 November 2003 and was completed in December 2003. The shareholders meeting of 26 December 2003 approved the results of the share issue and decided to make the respective changes to the Bank's Charter. On 25 February 2004 the NBU registered the increase in the share capital of the Bank in the amount of UAH 70,000 thousand. As at 31 December 2003 UAH 62,440 thousand were paid in respect of the new share issue. The remaining contributions to share capital were paid in January and February 2004. The new shares have a nominal value of UAH 0.05 per share, rank equally and carry one vote.

During the year ended 31 December 2003 the Bank has made distributions to certain shareholders in the amount of UAH 10,892 thousand net of tax effect of UAH 4,668 thousand (year ended 31 December 2002: UAH 15,192 thousand net of tax effect of UAH 6,511 thousand).

20 Interest Income and Expense

	2003	2002
Interest income		
Loans and advances to customers	342,190	183,129
Due from other banks	18,318	8,030
Debt securities	17,185	6,676
Total interest income	**377,693**	**197,835**
Interest expense		
Term deposits of legal entities	72,302	34,892
Term deposits of individuals	69,343	52,226
Due to other banks	14,776	5,187
Current accounts	9,749	3,204
Debt securities in issue	8,350	5,584
Subordinated debt	5,720	7,359
Due to the National Bank of Ukraine	4,325	821
Finance leases	248	-
Total interest expense	**184,813**	**109,273**
Net interest income	**192,880**	**88,562**

Information on interest income and expense from transactions with related parties is disclosed in Note 30.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

21 Fee and Commission Income and Expense

	2003	2002
Fee and commission income		
Commission on settlement transactions	47,975	28,332
Commission on foreign exchange transactions	22,045	6,038
Commission on transactions with securities and trade finance operations	6,854	1,433
Commission on factoring transactions	4,664	-
Other	1,483	908
Total fee and commission income	**83,021**	**36,711**
Fee and commission expense		
Commission on settlement transactions	4,874	2,083
Other	1,913	270
Total fee and commission expense	**6,787**	**2,353**
Net fee and commission income	**76,234**	**34,358**

Information on fee and commission income from transactions with related parties is disclosed in Note 30.

22 Other Operating Expenses

	Note	2003	2002
Expenses relating to premises and equipment		25,809	13,532
Administrative expenses		21,887	16,437
Depreciation and amortisation	12	17,546	14,653
Advertising and marketing		6,130	4,684
Individuals Deposits Guarantee Fund		2,872	1,489
Charity		2,710	3,906
Professional services		2,618	2,584
Provision for impairment of sundry debtors	11	1,124	367
Taxes other than on income		1,057	1,730
Other		7,938	3,030
Total other operating expenses		**89,691**	**62,412**

Expenses relating to premises and equipment consist of rent and other expenses relating to owned and leased premises and equipment, including rates, insurance costs and other charges.

Information on other operating expenses arising from transactions with related parties is disclosed in Note 30.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

23 Income Taxes

Income tax expense comprises the following:

	Note	2003	2002
Current tax charge		8,214	5,009
Deferred taxation movement due to origination and reversal of temporary differences		22,513	(7,456)
Add: Effect of change in tax rate		(2,583)	(789)
Add: Tax effect of distributions recognised directly in equity	19	4,668	6,511
Less: Deferred tax charged directly to equity	12, 18	(2,304)	-
Less: Deferred tax resulting from change in tax rates recorded directly to equity		-	268
Income tax expense for the year under IFRS		**30,508**	**3,543**

In the years ended 31 December 2002 and 31 December 2003 the Bank transferred funds to certain shareholders that are treated as distributions to shareholders for the purposes of these consolidated financial statements. The tax effect of these distributions have been recognised directly in equity as required by IAS 12 “Income Taxes”.

The income tax rate applicable to the majority of the Bank’s income is 30% (31 December 2002: 30%).

A reconciliation between the expected and the actual taxation charge is provided below.

	2003	2002
IFRS profit before taxation	**71,766**	**6,612**
Theoretical tax charge at the applicable statutory rate	21,530	1,984
Effect of change in tax rate	(2,583)	(789)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible expenses	11,561	2,348
Income tax expense for the year under IFRS	**30,508**	**3,543**

Differences between IFRS and Ukrainian statutory taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of the movement in these temporary differences is recorded at the rate of 25% (31 December 2002: at the rate of 30% for those differences that will reverse prior to 1 January 2004 and at the rate of 25% for those differences that will reverse after 1 January 2004). According to the Law of Ukraine on Amendments to Corporate Profit Tax Law dated 24 December 2002, the corporate tax rate will decrease to 25% from 1 January 2004.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

23 Income Taxes (Continued)

	2001	Movements recorded directly to equity	Movements recognised in the statement of income	2002	Movements recorded directly to equity	Movements recognised in the statement of income	2003
Tax effect of deductible temporary differences							
Accrued interest expense	570	-	(459)	111	-	254	365
Other liabilities	33	-	104	137	-	1,812	1,949
Gross deferred tax asset	**603**	**-**	**(355)**	**248**	**-**	**2,066**	**2,314**
Tax effect of taxable temporary differences							
Premises, leasehold improvements and equipment	(671)	268	(2,239)	(2,642)	21	724	(1,897)
Trading securities and investments available-for-sale and held-to-maturity	(1,434)	-	(687)	(2,121)	-	(7,869)	(9,990)
Gains less losses arising on origination of financial instruments	-	-	-	-	(2,325)	249	(2,076)
Finance leases receivable	-	-	-	-	-	(568)	(568)
Provision for loan impairment	1,674	-	7,988	9,662	-	(11,453)	(1,791)
Provision for credit related commitments	373	-	(69)	304	-	(1,431)	(1,127)
Accrued interest income	(5,621)	-	3,994	(1,627)	-	58	(1,569)
Other assets	(97)	-	(655)	(752)	-	598	(154)
Gross deferred tax liability	**5,776**	**268**	**8,332**	**2,824**	**(2,304)**	**(19,692)**	**(19,172)**
Total net deferred tax (liability)/ asset	**(5,173)**	**268**	**7,977**	**3,072**	**(2,304)**	**(17,626)**	**(16,858)**

24 Earnings per Share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of shares purchased by the Bank and held as treasury shares.

The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal basic earnings per share.

	2003	2002
Net profit attributable to shareholders	41,258	3,069
Weighted average number of ordinary shares in issue (thousands)	2,835,403	2,078,692
Basic and diluted earnings per share (expressed in UAH per share)	**0.0146**	**0.0015**

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

25 Analysis by Segment

The Bank operates in one geographical segment. For disclosure of geographical concentration of the Bank's assets and liabilities refer to Note 26. The Bank's primary format for reporting segment information is business segments. The Bank is organised on a basis of two main business segments:

- Commercial banking - representing corporate and retail banking operations which include deposit taking and commercial lending in UAH and foreign currencies, settlements and cash operations. Commercial banking services also include trade finance, foreign currency products and a range of banking card products.
- Investment banking - includes debt and equity capital markets, securities, foreign exchange and banknote trading and corporate finance.

Transactions between the business segments are on normal commercial terms and conditions. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding items such as taxation. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Segment breakdown of the Bank's assets and liabilities is set out below:

	31 December 2003	31 December 2002
Assets		
Commercial banking	2,987,623	1,423,022
Investment banking	687,027	451,243
Unallocated assets	17,792	24,934
Total assets	**3,692,442**	**1,899,199**
Liabilities		
Commercial banking	2,874,806	1,436,925
Investment banking	508,102	267,332
Unallocated liabilities	25,906	14,053
Total liabilities	**3,408,814**	**1,718,310**

Segment information for the main reportable business segments of the Bank for the year ended 31 December 2003 is set out below:

Year ended 31 December 2003	Commercial banking	Investment banking	Other	Eliminations	Total
External revenue	446,506	67,540	1,343	-	515,389
Revenue	**446,506**	**67,540**	**1,343**	**-**	**515,389**
Provisions	(73,586)	-	-	-	(73,586)
Interest expense	(160,761)	(24,052)	-	-	(184,813)
Net expense from other segments	(5,076)	(8,052)	-	13,128	-
Fee and commission expense	(923)	(5,864)	-	-	(6,787)
Losses on origination of financial instruments	(3,854)	-	-	-	(3,854)
Operating expenses	(162,750)	(5,748)	(6,085)	-	(174,583)
Segment result	**39,556**	**23,824**	**(4,742)**	**13,128**	**71,766**
Income tax					(30,508)
Net profit					**41,258**
Other segment items					
Capital expenditure	56,543	2,081	1,542	-	60,166
Depreciation expense	(15,282)	(562)	(1,702)	-	(17,546)

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

25 Analysis by Segment (Continued)

Segment information for the main reportable business segments for the year ended 31 December 2002:

Year ended 31 December 2002	Commercial banking	Investment banking	Other	Eliminations	Total
External revenue	235,414	42,422	665	-	278,501
Net revenue from other segments	696	-	-	(696)	-
Revenue	**236,110**	**42,422**	**665**	**(696)**	**278,501**
Provisions	(29,280)	(3,557)	-	-	(32,837)
Interest expense	(98,107)	(11,166)	-	-	(109,273)
Net expense from other segments	-	(9,196)	-	9,196	-
Fee and commission expense	(260)	(2,093)	-	-	(2,353)
Operating expenses	(111,270)	(9,328)	(6,828)	-	(127,426)
Segment result	**(2,807)**	**7,082**	**(6,163)**	**8,500**	**6,612**
Income tax					(3,543)
Net profit					**3,069**
Other segment items					
Capital expenditure	42,071	3,589	7,948	-	53,608
Depreciation expense	(12,397)	(1,058)	(1,198)	-	(14,653)

26 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Bank takes on exposure to credit risk which is the risk that a counterparty 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 geographical and industry segments. Such risks are monitored on a revolving basis and subject to regular review. Limits on the level of credit risk by product, borrower and industry sector are approved regularly by the Credit Committee of the Bank.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

The Bank’s maximum exposure to credit risk is primary reflected in the carrying amounts of financial assets on the consolidated balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant, except for term placements and guarantee deposits with other banks and from other banks, as disclosed in Notes 7 and 14 and loans to customers covered by deposits placed by customers, as disclosed in Notes 8 and 16.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

26 Financial Risk Management (Continued)

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Asset/ Liability Committee sets limits on the value of risk that may be accepted. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Geographical risk. The geographical concentration of the Bank's assets and liabilities as at 31 December 2003 is set out below:

	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents and mandatory reserve	250,264	107,493	3,795	361,552
Trading securities	182,365	-	-	182,365
Due from other banks	141,285	7,385	-	148,670
Loans and advances to customers	2,614,673	-	-	2,614,673
Investments available-for-sale	123,820	-	-	123,820
Investments held-to-maturity	75,696	-	-	75,696
Other assets	40,860	-	-	40,860
Premises, leasehold improvements and equipment	144,806	-	-	144,806
Total assets	**3,573,769**	**114,878**	**3,795**	**3,692,442**
Liabilities				
Due to the National Bank of Ukraine	85,729	-	-	85,729
Due to other banks	257,560	131,895	10,696	400,151
Debt securities in issue	57,390	-	-	57,390
Customer accounts	2,114,798	69,527	523,631	2,707,956
Subordinated debt	-	55,981	58,556	114,537
Other liabilities	23,490	-	2,703	26,193
Deferred tax liability	16,858	-	-	16,858
Total liabilities	**2,555,825**	**257,403**	**595,586**	**3,408,814**
Net balance sheet position	**1,017,944**	**(142,525)**	**(591,791)**	**283,628**
Credit related commitments (Note 27)	**336,006**	**-**	**-**	**336,006**

OECD assets and liabilities mainly include balances with counterparties in Germany, USA and UK.

Non-OECD concentrations mainly represent balances with counterparties in the Russian Federation, Cyprus and the Baltic States.

The geographical concentration of the Bank's assets and liabilities as at 31 December 2002 is set out below:

	Ukraine	OECD	Non-OECD	Total
Net balance sheet position	**290,182**	**(48,913)**	**(60,380)**	**180,889**
Credit related commitments (Note 27)	**160,863**	**-**	**-**	**160,863**

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

26 Financial Risk Management (Continued)

Currency risk. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Asset/ Liability Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2003. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency. At 31 December 2003, the Bank has the following positions in currencies:

	UAH	USD	Euro	Other currencies	Non-monetary items	Total
Assets						
Cash and cash equivalents and mandatory reserve	223,181	114,853	18,94	4,576	-	361,552
Trading securities	182,365	-	-	-	-	182,365
Due from other banks	108,173	35,562	4,93	-	-	148,670
Loans and advances to customers	994,988	1,556,175	56,91	6,592	-	2,614,673
Investments available-for-sale	5,991	-	-	-	117,829	123,820
Investment securities held-to-maturity	75,696	-	-	-	-	75,696
Other assets	31,053	1,944	3,91	4	3,948	40,860
Premises, leasehold improvements and equipment	-	-	-	-	144,806	144,806
Total assets	**1,621,447**	**1,708,534**	**84,70**	**11,172**	**266,583**	**3,692,442**
Liabilities						
Due to the National Bank of Ukraine	85,729	-	-	-	-	85,729
Due to other banks	144,374	254,882	55	341	-	400,151
Debt securities in issue	56,879	511	-	-	-	57,390
Customer accounts	1,259,311	1,354,907	85,47	8,268	-	2,707,956
Subordinated debt	14,308	100,229	-	-	-	114,537
Other liabilities	23,216	2,824	15	2	-	26,193
Deferred tax liability	-	-	-	-	16,858	16,858
Total liabilities	**1,583,817**	**1,713,353**	**86,17**	**8,611**	**16,858**	**3,408,814**
Net balance sheet position	**37,630**	**(4,819)**	**(1,46)**	**2,561**	**249,725**	**283,628**
Credit related commitments (Note 27)	**217,767**	**113,039**	**5,20**	**-**	**-**	**336,006**

Included in trading securities in UAH financial position are corporate bonds with fair value of UAH 68,891 thousand which are denominated in UAH, but with yield linked to the UAH to USD exchange rates.

Other currencies mainly include the Russian Rouble.

At 31 December 2002, the Bank had the following positions in currencies:

	UAH	USD	Euro	Other currencies	Non-monetary items	Total
Net balance sheet position	**(20,490)**	**25,112**	**49**	**1,033**	**174,741**	**180,889**
Credit related commitments (Note 27)	**98,031**	**49,864**	**9,31**	**3,656**	**-**	**160,863**

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

26 Financial Risk Management (Continued)

The Bank has extended loans and advances denominated in foreign currencies. Depending on the revenue stream of the borrower, the appreciation of the currencies against Ukrainian hryvnia may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns and guarantees. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The liquidity risk is managed by the Asset/Liability Committee of the Bank.

The table below shows assets and liabilities as at 31 December 2003 by their remaining contractual maturity. Some of the assets and liabilities, however, may be of a longer term nature; for example, loans and deposits are frequently renewed and accordingly short term loans and deposits can have a longer term duration.

The liquidity position of the Bank as at 31 December 2003 is set out below.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents and mandatory reserve	361,552	-	-	-	-	361,552
Trading securities	182,365	-	-	-	-	182,365
Due from other banks	116,545	7,659	13,090	11,376	-	148,670
Loans and advances to customers	427,170	674,733	821,251	691,519	-	2,614,673
Investments available-for-sale	579	-	4,075	1,337	117,829	123,820
Investments held-to-maturity	2,881	4,629	21,075	47,111	-	75,696
Other assets	37,420	1,786	531	1,123	-	40,860
Premises, leasehold improvements and equipment	-	-	-	-	144,806	144,806
Total assets	**1,128,512**	**688,807**	**860,022**	**752,466**	**262,635**	**3,692,442**
Liabilities						
Due to the National Bank of Ukraine	9,927	3,895	29,894	42,013	-	85,729
Due to other banks	216,635	82,217	93,301	7,998	-	400,151
Debt securities in issue	9	33,202	24,179	-	-	57,390
Customer accounts	965,330	492,917	1,039,875	209,834	-	2,707,956
Subordinated debt	-	590	-	113,947	-	114,537
Other liabilities	15,381	417	610	9,785	-	26,193
Deferred tax liability	-	-	-	-	16,858	16,858
Total liabilities	**1,207,282**	**613,238**	**1,187,859**	**383,577**	**16,858**	**3,408,814**
Net liquidity gap	**(78,770)**	**75,569**	**(327,837)**	**368,889**	**245,777**	**283,628**
Cumulative liquidity gap at 31 December 2003	**(78,770)**	**(3,201)**	**(331,038)**	**37,851**	**283,628**	**-**
Cumulative liquidity gap at 31 December 2002	**(69,694)**	**39,365**	**98,017**	**6,148**	**180,889**	**-**

26 Financial Risk Management (Continued)

Overdue assets are fully provided against, and thus, have no impact on the above table.

The entire portfolio of trading securities is classified within demand and less than one month as the portfolio is of a trading nature and Management believe this is a fairer portrayal of its liquidity position.

Debt investments available-for-sale are classified according to their contractual maturity irrespectively of the intentions as to their disposal before maturity.

The Bank has a cumulative maturity mismatch of the assets and liabilities maturing within 12 months. This liquidity mismatch arises due to the fact that the major source of finance for the Bank at 31 December 2003 was customer accounts being on demand and maturing in less than 12 months. Management believes that in spite of a substantial portion of customers accounts maturing in less than one year, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customers accounts provide a long-term and stable source of funding for the Bank.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities can be renegotiated to reflect current market conditions, thus mitigating the interest rate risks for the Bank.

The Asset/ Liability Committee sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored on a regular basis. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

26 Financial Risk Management (Continued)

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Non-interest bearing	Total
Assets						
Cash and cash equivalents and mandatory reserve	107,570	-	-	-	253,982	361,552
Trading securities	182,365	-	-	-	-	182,365
Due from other banks	108,578	7,659	13,090	11,376	7,967	148,670
Loans and advances to customers	388,247	693,228	805,130	682,124	45,944	2,614,673
Investments available-for-sale	581	-	4,073	1,337	117,829	123,820
Investments held-to-maturity	2,281	4,629	21,075	47,111	600	75,696
Other assets	-	-	-	-	40,860	40,860
Premises, leasehold improvements and equipment	-	-	-	-	144,806	144,806
Total assets	**789,622**	**705,516**	**843,368**	**741,948**	**611,988**	**3,692,442**
Liabilities						
Due to the National Bank of Ukraine	9,927	3,895	29,894	42,013	-	85,729
Due to other banks	209,828	82,148	93,301	7,998	6,876	400,151
Debt securities in issue	5	30,609	23,872	-	2,904	57,390
Customer accounts	511,230	484,893	1,021,107	205,813	484,913	2,707,956
Subordinated debt	107,333	-	-	-	7,204	114,537
Other liabilities	55	111	526	7,382	18,119	26,193
Deferred tax liability	-	-	-	-	16,858	16,858
Total liabilities	**838,378**	**601,656**	**1,168,700**	**263,206**	**536,874**	**3,408,814**
Net gap	**(48,756)**	**103,860**	**(325,332)**	**478,742**	**75,114**	**283,628**
Cumulative gap at 31 December 2003	**(48,756)**	**55,104**	**(270,228)**	**208,514**	**283,628**	**-**
Cumulative gap at 31 December 2002	**(239,461)**	**(138,554)**	**(63,631)**	**(94,119)**	**180,889**	**-**

Placements and borrowings carrying interest rates which are subject to regular repricing, were classified in the above table within "demand and less than one month" category.

Accrued interest income and expense was classified in the above table within "non-interest bearing" category.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

26 Financial Risk Management (Continued)

The table below summarises the effective interest rates by major currencies for major monetary financial instruments. The analysis has been prepared using period-end effective rates used for amortisation of the respective assets and liabilities.

	31 December 2003		31 December 2002	
	UAH	**USD**	**UAH**	**USD**
Assets				
Term placements with other banks	11%	10%	6%	2%
Loans and advances to customers	20%	14%	21 %	14%
Trading securities - corporate bonds	14%	-	16%	-
Trading securities – promissory notes	5%	-	4%	-
Investments available for sale – promissory notes	8%	-	11%	-
Investment held-to-maturity – corporate bonds	14%	-	-	-
Liabilities				
Due to the National Bank of Ukraine	12%	-	10%	-
Term placements of other banks	13%	6%	8%	3%
Term deposits of legal entities	13%	9%	13%	6%
Term deposits of individuals	15%	9%	17%	9%
Bonds issued by the Bank	23	-	21%	-
Certificates of deposit and promissory notes	13%	9%	18%	9%
Finance leases	12%	-	-	-
Subordinated debt	7%	7%	7%	7%

The sign "-" in the table above means that the Bank does not have the respective assets or liabilities in corresponding currency.

27 Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank are received. On the basis of own estimates and internal professional advice the Management is of the opinion that no material losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

At 31 December 2003 the Bank was not engaged in any material litigation proceedings except for proceedings against delinquent borrowers (31 December 2002: no material litigation proceedings). As the outcome of these proceedings is uncertain, no contingent asset has been recognised by the Bank.

As disclosed in Note 28, the Bank is also involved in litigation in respect of companies under management.

Tax legislation. Ukrainian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant local and central authorities. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2003 management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax positions will be sustained.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

27 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Capital commitments. As at 31 December 2003 the Bank has capital commitments in respect of purchasing and implementing "SAP Banking" operating system totalling UAH 44,149 thousand and in respect of purchasing equipment and construction of premises totalling UAH 28,451 thousand (31 December 2002: UAH 7,004 thousand). The Bank's Management has already allocated the necessary resources in respect of these commitments. The Bank's Management believes that future net revenues and funding will be sufficient to cover these and any similar such commitments.

Operating lease commitments. Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2003	31 December 2002
Not later than 1 year	15,229	9,933
Later than 1 year and not later than 5 years	45,124	28,635
Later than 5 years	20,328	9,915
Total operating lease commitments	**80,681**	**48,483**

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Promissory notes endorsements represent guarantees undertaken by the Bank in respect of promissory notes issued by the Bank's clients.

Commitments arising in respect of underwriting activity represent commitments of the Bank arising from the Bank's acting as underwriter from placement of corporate bonds.

Outstanding credit related commitments are as follows:

	Note	31 December 2003	31 December 2002
Commitments to extend credit		188,709	71,239
Commitments arising in respect of underwriting activity		49,990	-
Import letters of credit (cash covered)		38,297	16,930
Import letters of credit (uncovered)		3,442	12,571
Guarantees issued (cash covered)		1,280	785
Guarantees issued (uncovered)		79,308	31,733
Promissory notes endorsements (cash covered)		274	43
Promissory notes endorsements (uncovered)		19,960	47,000
Less: cash covered credit related commitments	16	(39,851)	(17,758)
Less: provision for losses on credit related commitments	17	(5,403)	(1,680)
Total credit related commitments		**336,006**	**160,863**

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

27 Contingencies, Commitments and Derivative Financial Instruments (Continued)

The total outstanding contractual amount of commitments to extend credit, commitments arising in respect of underwriting activities, letters of credit, promissory notes endorsements and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Guarantees issued in the amount of UAH 12,534 thousand are collateralised with trading securities pledged to another bank with a fair value of UAH 15,044 thousand. In addition, import letters of credit in the amount of UAH 8,791 thousand are collateralised with trading securities pledged to another bank with a fair value of UAH 19,911 thousand. Refer to Note 6.

Movements in the provision for losses on credit related commitments are as follows:

	Note	2003	2002
Provision for losses on credit related commitments as at 1 January		**1,680**	**1,242**
Provision for losses on credit related commitments during the year		3,723	1,680
Recovery of provision for losses on credit related commitments during the year		-	(1,242)
Provision for losses on credit related commitments as at 31 December	17	**5,403**	**1,680**

Fiduciary assets. These assets are not included in the Bank's consolidated balance sheet as they are not assets of the Bank. Nominal values disclosed below are normally different from the fair values of the respective securities.

	31 December 2003 Nominal value	**31 December 2002 Nominal value**
Shares in domestic companies held in custody	1,276,986	772,029
Domestic corporate bonds held in custody	69,547	-
Domestic treasury bills held in custody	3,041	-

Derivatives. Securities-based derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties.

The principal amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or principal amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The principal or agreed amounts and fair values of derivative instruments held are set out in the following table. This table reflects gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2003. These contracts were entered into in May 2003 and mature in February 2004.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

27 Contingencies, Commitments and Derivative Financial Instruments (Continued)

	Domestic deals at 31 December 2003		
	Principal or agreed amount	**Negative fair value**	**Positive fair value**
Deals entered into in 2003:			
Deliverable forwards in respect of securities			
- sale of securities	6,766	(104)	-
Total	**6,766**	**(104)**	**-**

For these deals the Bank has recorded a net loss of UAH 104 thousand which is included in gains less losses arising from trading securities in the consolidated statement of income.

Derivative with negative fair value has been included in other liabilities. Refer to Note 17.

There were no forward, option or other derivative contracts outstanding as at 31 December 2002.

Assets pledged. At 31 December 2003 the Bank has the following assets pledged as collateral:

		31 December 2003		31 December 2002	
	Notes	**Asset pledged**	**Related liability/ commitment**	**Asset pledged**	**Related liability/ commitment**
Cash and cash equivalents and mandatory reserve	5, 13	7,717	7,717	-	-
Trading securities	6, 14, 27	95,900	81,930	76,804	66,609
Due from other banks	7, 27	20,105	21,430	44,613	37,534
Loans and advances to customers	8, 13	62,742	20,003	-	-
Investments available-for-sale	9, 14	40,147	21,589	14,243	9,900
Investments held-to-maturity	10, 13	75,696	58,009	-	-
Total		**302,307**	**210,678**	**135,660**	**114,043**

In addition, mandatory reserve balances in the amount of UAH 169,674 thousand (31 December 2002: UAH 86,773 thousand) represent mandatory reserve assets which are not available to finance the Bank's day to day operations.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

28 Companies under Management

In 1999, the Bank was appointed to manage the shareholdings of the State (Ukraine) in the following companies: JSC North Ore Mining and Processing enterprise (North GOK) and JSC Dniprovsky Metallurgical Plant named after F.E. Dzerzhinsky (DMKD). Respective agreements were signed with the State Joint Stock Company Ukrrudprom ("Ukrrudprom") and the State Property Fund of Ukraine. The State's shareholdings in these companies transferred under management of the Bank are described below:

Name	Nature of business	Country of registration	Percentage of equity managed
North GOK	Ore mining and processing	Ukraine	50% + 1 share
DMKD	Metallurgy	Ukraine	98.8%

As a condition for obtaining these rights, the Bank has paid in 2000 an insurance fee to insure the risk associated with non-compliance with the terms of the agreement for management of DMKD amounting to UAH 1,765 thousand. For the right to manage North GOK the Bank was required to pay monthly fees of UAH 25 thousand starting from the date of agreement signing. On 5 April 2002 the terms of the agreement for management of North GOK were renegotiated, resulting in an increase in monthly fees. Starting from 5 April 2002 the Bank was required to pay a monthly fee of UAH 80 thousand for the right to manage North GOK.

In managing the State's corporate rights, the Bank has the right to execute shareholder's rights and participate in operating decision-making process subject to certain limitations. As such, the Bank is able to retain key corporate clients and to reduce the risks associated with lending to these clients. The entities also hold their current and deposit accounts with the Bank. Transactions with the two companies were included in related party transactions (Note 30) until 2003, when the Bank lost significant influence over the companies, as further described below.

The outstanding balances at the year end and interest income for the year on transactions with these entities are as follows:

	2003	2002
Loans and advances		
Loans and advances at the year end	38,979	133,133
Provision for loan impairment at the year end	(780)	(36,527)
Interest income for the year	12,942	42,328
Current accounts and guarantee deposits at the year end	198	4,671

The contracts were signed for the period of approximately 5 years with an option for further extension of 1 year. However, the Bank's ability to hold these rights depends largely on the Government policy towards management of State owned companies.

In January 2003 the President of Ukraine authorised the Cabinet of Ministers and the State Property Fund to terminate all management arrangements in respect of shares owned by the State. Accordingly, Ukrrudprom started the process of termination of the management arrangement in respect of North GOK. The Bank filed a suit in court challenging this decision. In June 2003 the Higher Commercial Court of Ukraine rejected the Bank's claim and took a decision in favour of Ukrrudprom.

In September 2003 Ukrrudprom filed another claim against the Bank alleging that the Bank violated provisions of the original agreement for management of North GOK. In September 2003 and December 2003 the Kharkov Region Commercial Court and Kharkov Appellate Commercial Court took a decision supporting Ukrrudprom's claims. The Bank challenged this decision in higher court. At 31 December 2003 UkrSibbank was removed from the list of managers of share rights in North GOK.

In March 2003 the State Property Fund sent a request to the Bank to terminate the agreement for management of DMKD. The Bank did not agree to terminate the agreement and filed a suit in Kiev City Commercial Court, which issued a decision in favour of the Bank in June 2003. In July 2003 a decision in favour of the Bank was also taken by the Kiev Appellate Court. After that, the State Property Fund did not take any more legal action to terminate the agreement for management of DMKD. However, in December 2003 the State Property Fund committed itself to sell 98.8% shareholding in DMKD to a local company.

28 Companies under Management (Continued)

The Management of the Bank intends to perform the early termination of management arrangements in respect of North GOK and DMKD in 2004. The Management believes that the early termination will not result in losses to the Bank and, accordingly, no provision has been made in these consolidated financial statements.

29 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. As described in more detail in Note 2, Ukraine continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in its financial markets. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Financial instruments carried at fair value. Cash and cash equivalents, trading securities and investments available-for-sale are carried on the consolidated balance sheet at their fair value. As set out in Note 9, external independent market quotations were not available for certain investments available-for-sale. The fair value of these assets were determined by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies.

Loans originated carried at amortised cost less provision for impairment. The fair value of floating rate instruments is their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 7 and 8 for the estimated fair value of due from other banks and loans and advances to customers, respectively.

Investments held-to-maturity. Fair value for investments held-to-maturity is based on quoted bid prices on over-the-counter market. Refer to Note 10 for the estimated fair value of investments held to maturity.

Liabilities carried at amortised cost. The fair value of instruments with a quoted market price is based on quoted market prices. The estimated fair value of liabilities with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest rate instruments without a quoted market price is based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 13, 14, 15, 16 and 18 for the estimated fair values of due to the National Bank of Ukraine, due to other banks, debt securities in issue, customer accounts and subordinated debt.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of derivative financial instruments is disclosed in Note 27.

30 Related Party Transactions

For the purposes of these consolidated financial statements, 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 as defined by IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Banking transactions are entered into in the normal course of business with significant shareholders, directors, companies with which the Bank has significant shareholders in common and other related parties. These transactions include settlements, loans, deposit taking, guarantees, purchases and sales of securities, trade finance and foreign currency transactions. These transactions are priced predominantly at market rates.

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

30 Related Party Transactions (Continued)

The outstanding balances at the year end and income and expense arising from transactions with related parties for the year are as follows:

	2003	2002
Due from other banks		
Term placements at year end	20,504	-
Weighted average interest rate for USD denominated placements at year end	14%	-
Interest income for the year	5,770	-
Loans and advances to customers		
Loans and advances at the year end	254,394	444,882
Provision for loan impairment at the year end	(10,381)	(58,233)
Weighted average interest rate for UAH denominated loans at year end	20%	24%
Weighted average interest rate for USD denominated loans at year end	15%	12%
Interest income for the year	48,772	58,433
Trading securities and investments available-for-sale		
Trading securities (corporate bonds) at the year end	35,828	26,532
Investments available-for-sale (shares and notes of exchange) at year end	25,267	51,593
Interest income on trading securities for the year	6,671	1,125
Gains less losses arising from trading securities and investments available-for-sale for the year	1,618	10,937
Other assets		
Receivables on settlements for securities	800	5,500
Other receivables	225	-
Customer accounts		
Current accounts at the year end	35,379	31,688
Term deposits outstanding at the year end	639,443	140,225
Weighted average interest rate for UAH denominated term deposits of legal entities at the year end	14%	17%
Weighted average interest rate for USD denominated term deposits of legal entities at the year end	9%	7%
Interest expense for the year	36,935	9,304
Other liabilities		
Amounts payable for premises at the year end	2,675	1,257
Amounts payable for securities purchased at the year end	3,735	-
Payables for executed guarantees at the year end	-	11,297
Debt securities in issue		
Debt securities in issue held by related parties at the year end	21,279	18,532
Interest expense for the year	5,107	5,107
Subordinated debt		
Subordinated debt outstanding at the year end	58,556	87,818
Interest expense on subordinated debt for the year	5,720	7,359

(in thousands of Ukrainian hryvnias unless otherwise stated - Note 3)

30 Related Party Transactions (Continued)

	2003	2002
Minority interest	3,020	-
Import letters of credit at the year end (cash covered)	1,896	5,147
Fee and commission income for the year	4,260	1,201
Other operating expenses for the year	1,015	764

Loans to related parties have been significantly reduced in 2003 as a number of borrowers, including companies under management (Note 28), ceased to be related to the Bank. These parties ceased to be related as the Bank is no longer participating in the decision making structures of these borrowers.

As disclosed in Note 18, during the year ended 31 December 2003 the difference of UAH 9,299 thousand, net of taxation of UAH 2,325 thousand, between the nominal value of subordinated debt originated in 2003 at a rate below market and the fair value of consideration received was credited to equity, as in substance the subordinated debt issue was a transaction with shareholders.

31 Principal Consolidated Subsidiaries and Special Purpose Entities

As at 31 December 2003 the Bank consolidated the following subsidiaries:

Name	Nature of business	Percentage of ownership	Country of registration
Limited Liability Company “Ukrainian Leasing Company”	Leasing	99.9	Ukraine
Closed Joint-Stock Company “Asset Management Company” “Ukrsib Asset Management”	Asset management	99.5	Ukraine

The Bank’s Management considers it appropriate to consolidate two special purpose entities, “UkrSib-Finance” and “Universal Leasing Company” into the Bank’s financial statements under the provisions of the Standing Interpretation Committee of the International Accounting Standards Committee “Consolidation - Special Purpose Entities” (SIC 12). Those two special purpose entities were created to serve the Bank’s business needs and constitute an integral part of the Bank’s business. The Bank’s Management has governed the financial and operating policies of “UkrSib-Finance” and “Universal Leasing Company” during the year.

The following special purpose entities have been consolidated in these financial statements:

Name	Nature of business	Percentage of ownership directly held by the Bank	Country of registration
Limited Liability Company “UkrSib-Finance”	Finance	9.9%	Ukraine
Limited Liability Company “Universal Leasing Company”	Leasing	-	Ukraine

32 Subsequent Events

In March 2004 the shareholders of the Bank made a decision to issue 4,200,000 thousand new shares totalling UAH 210,000 thousand. The new shares will have a nominal value of UAH 0.05 per share, rank equally and carry one vote. The placement of shares will start in May 2004.

In April 2004 the Bank placed Eurobonds with par value of USD 100,000 thousand. The bonds carry a coupon rate of 10.5% per annum and mature in 3 years. The Eurobonds were placed at par on the Luxembourg Stock Exchange.

APPENDIX A — UKRAINE: THE BANKING SECTOR

The following statistical information and other data contained in this Appendix A has been extracted from publicly available data (such as information contained on official websites and in publications of governmental agencies of Ukraine, including the NBU and from other government or mass media sources), and the Bank accepts responsibility for accurately extracting such data but accepts no further responsibility in respect of such information. See "Risk Factors – Risks Relating to Ukraine – Official Statistics".

The Ukrainian Banking Sector

The Ukrainian banking system consists of a two-tier system made up of commercial banks and the NBU.

Role of the NBU

The NBU is the central bank of Ukraine. Established in 1991 pursuant to the Law on "Banks and Banking Activity" of 20 March 1991 and governed in accordance with Law of Ukraine "On the National Bank of Ukraine" (the "National Bank Law"), dated 20 May 1999, the NBU is a specialised state institution whose principal objective is ensuring the external and internal stability of the national currency. It has broad regulatory and supervisory functions over the banking sector. The NBU Governor is nominated by the President of Ukraine and appointed by Parliament for a five-year term. The NBU is also empowered to develop and conduct monetary policy, organise banking settlements and the foreign exchange system with a view to integrating Ukraine into the international economy, ensure stability of the monetary, financial and banking systems, and protect the interests of commercial bank depositors. The NBU can also propose legislation. The principal governing bodies of the NBU are the Council and the Board. The Council was introduced by the new National Bank Law in May 1999. The Council, being the highest governing body of the NBU, consists of 15 members, seven of whom are appointed by Parliament and seven of whom are appointed by the President. The Governor of the NBU acts ex officio as the fifteenth member of the Council.

Monetary Policy

The NBU is charged with implementing monetary policy. Currently, the NBU implements monetary policy through instruments such as mandatory reserve requirements for banks, interest rates, open market transactions and lending to commercial banks. With signs of the economy beginning to stabilise after the Russian financial crisis in 1998 and ensuing economic instability in the region, the NBU reduced the discount rate from 45 per cent. at the beginning of 2000 to 12.5 per cent. by the end of 2001, and 7.0 per cent. in December 2002. Since then the NBU has gradually increased the discount rate to 9.0 per cent., the last increase being in November 2004. As at 29 April 2005, the discount rate remained 9.0 per cent.. The Lombard rate was decreased from 50 per cent. at the beginning of 2000 to 30 per cent. at the end of 2000, 15 per cent. by the end of 2001, and 8.0 per cent. in December 2002. Since 1 March 2004, the NBU has been separately determining interest rates on overnight unsecured loans (15 per cent. as at 29 April 2005) and overnight loans secured by state securities (12 per cent. as at 29 April 2005), and setting four separate short-term interest rates (from 22 to 70 days) on deposits from banks, which, as at 29 April 2005, ranged from 1.0 per cent. to 3.5 per cent.. In 2004, the main goals of NBU's monetary policy were to support macroeconomic stability by increasing, or at least maintaining, foreign currency reserves, staying within the forecasted inflation levels, ensuring the stability of the exchange rate and creating conditions that foster positive structural changes. The main goals of the NBU's monetary policy in 2005, as declared by NBU, are to maintain the hryvnia's stability as a prerequisite for Ukraine's transition from extensive economic growth to economic expansion through the development of innovative investment-based arrangements and the achievement of long-term social, structural and institutional goals.

Regulation

Banking activities in Ukraine are broadly governed by the National Bank Law and the Law of Ukraine "On Banks and Banking Activity" of 7 December 2000 as amended from time to time (the "Banking Law"; the National Bank Law and the Banking Law are referred to collectively as the "Banking Laws"). The NBU oversees compliance with Ukrainian banking laws, regulations and legislation and imposes appropriate sanctions for violations of those laws and regulations. The NBU, in accordance with the authority granted to it under the Banking Laws, adopted the Banking Regulation Directive which establishes capital adequacy, liquidity and other ratios. The NBU also sets accounting, reporting, auditing and other requirements for commercial banks in Ukraine. A banking license must be obtained from the NBU in order to conduct any "banking activity" as defined in the Banking Laws.

Reporting Requirements

Banks are required to submit an annual report that contains audited financial statements, or consolidated financial statements if a bank has affiliates under its control, as well as a general description of the bank. Financial statements include a balance sheet, income statement, and shareholders' equity and cash flow statements. The general description section describes the basic features of a bank's activity and its organisation and management. Interim financial statements are submitted by banks on a quarterly basis and consist of a balance sheet, income statement, off-balance sheet liabilities statement, trust management accounts and a cover letter. The purpose of the cover letter is to describe and explain events and operations, which are important for a fair presentation of the financial position of a bank and which are material. Banks are also required to submit to the NBU statistical data on a daily, weekly, monthly and other basis so as to enable the continuous review by the NBU of the bank's performance and financial position.

Securing Deposits of Individuals

The Law of Ukraine "On Fund for Guaranteeing Deposits to Individuals" of 20 September 2001 No. 2740-III (the "Deposits Securing Law") introduced a system of securing deposits held by individuals with Ukrainian banks modifying the same established in 1998 by the Presidential Decree "On Measures on Securing Rights of Individuals - Depositors of Commercial Banks of Ukraine" of 10 September 1998 No. 996/98 (the "Decree"). Pursuant to the Deposits Securing Law, commercial banks of Ukraine are obliged to remit to the Fund for Guaranteeing Deposits of Individuals (the "Fund") established under the Decree and functioning according to the Deposits Securing Law, a one-time payment in the amount of 1 per cent. of their registered statutory capital after obtaining a banking license, a regular contribution in the amount of 0.25 per cent. of the aggregate amount of deposits, including interest accrued, payable twice a year and further contributions upon the occurrence of certain events. The Fund, in its turn, guarantees to each depositor reimbursement of his deposits including interest accrued up to the date when his deposits become unavailable, but no more than UAH 1,200 per deposit. On 22 April 2004, the Fund's Administrative Council approved the increase of the maximum reimbursement to up to UAH 3,000 per deposit. On 21 April 2005, the maximum reimbursement amount was increased to UAH 5,000 per deposit, which increase will come into force 10 days after registration of the Funds Administrative Council's decision with the Ministry of Justice of Ukraine. Deposits are deemed unavailable when a depositor is unable to withdraw his deposit after the appointment of a bank's liquidator. The Deposits Securing Law does not apply to Oschadny (Savings) Bank. As of 22 April 2005, the Fund had 157 member banks and 3 temporary member banks. As of 20 April 2005, the total accumulated by the Fund was UAH 509.7 million.

Reserve and Liquidity Requirements

In 2001, the NBU adopted regulations relating to mandatory reserves of commercial banks which provide that the NBU will impose sanctions for the failure to maintain prescribed amounts of mandatory reserves. Such sanctions are payable from a bank's profits. Currently, commercial banks are required to annually maintain reserves of no less than 5 per cent. of their profits, provided such reserves are at least equal to 25 per cent. of their regulatory capital. The NBU may require commercial banks to increase their mandatory reserve amounts. The NBU has established a mandatory reserve requirement to maintain the liquidity of the banking system and the stability of the Ukrainian hryvnia. Banks are required to meet certain reserve requirements, which since 25 December 2004 are as follows: 7 per cent. for settlement accounts of individuals and corporate entities and 6 per cent. for deposits of individuals and corporate customers. The NBU has also established three separate liquidity requirements. A bank must have an instant liquidity ratio of at least 20 per cent. (i.e., the ratio of a bank's correspondent account funds and cash to its current liabilities), a minimum liquidity ratio of 40 per cent. (i.e., a bank's primary and secondary liquid assets to liabilities with corresponding due dates) and a short-term liquidity ratio of at least 20 per cent. (i.e., the ratio of liquid assets to short-term liabilities (with maturities under one year)). The NBU has defined liquid assets so as to include cash funds, bank metals, funds in correspondent accounts and short-term interbank deposits and loans. Short-term liabilities are defined so as to include demand liabilities, budget funds, short-term loans from the NBU and other banks, short-term interbank and customer deposits, short-term debt instruments issued by a bank and liabilities under guarantees and committed credit lines to banks and customers.

Capital Requirements

The NBU has established requirements for a number of capital adequacy and similar ratios, as well as various limits on diversification risk and foreign currency risk. The value of the assets of a bank is assessed by categorising these assets by type into one of five groups characterised by relative risks and applying risk ratios assigned to each category. The minimum statutory capital requirements are established as of the date of banks' registration depending on the type of bank. The minimum statutory capital requirement is currently €5 million for national banks, €3 million for regional banks and €1 million for cooperative banks. The regulatory capital of a bank (i.e. the sum of principal and additional capital) cannot be less than the minimum statutory capital requirement and the minimum regulatory capital requirements established by the NBU. From 1 May 2004, the NBU calculates the minimum regulatory capital requirement in UAH in an amount equivalent to the Euro amounts set forth by the Banking Regulation Directive. As of 1 January 2005, the minimum regulatory capital requirements for 'newly established' banks (i.e. those which have been in existence for less than one year) are UAH 33.3 million (Euro 5 million,) UAH 20.0 million (Euro 3 million) and UAH 6.7 million (Euro 1 million) for national banks, regional banks and cooperative banks, respectively; while requirements for banks that existed before 1 January 2002 are UAH 40.0 million (Euro 6 million), UAH 26.7 million (Euro 4 million) and UAH 8.7 million (Euro 1.3 million), respectively. These regulatory capital requirements are subject to periodic increases. The regulatory capital adequacy ratio of existing banks should not be currently less than 10 per cent.. For banks that have been operating for less than 12 months, such ratio is required to be no less than 15 per cent.. The Tier 1 capital adequacy ratio of a Ukrainian bank must be at least 4 per cent..

Loan Provisioning

Banks must meet mandatory requirements to cover net loan risks and review those provisions on a monthly basis. Some loan operations, such as so-called "budget loans", real-estate backed leasing transactions, subordinated loans and uncommitted off-balance sheet credit lines, do not require any provisioning measures. Loans are classified into five major categories to which respective provisioning requirements are determined: standard loans (1 per cent. provisioning requirement), controlled loans (5 per cent.), substandard loans (20 per cent.), doubtful loans (50 per cent.) and bad loans (100 per cent.). Changes to NBU regulations on loan provisioning passed in September 2004, extended the number and scope of loan operations requiring mandatory provisioning. Banks were required to meet these requirements by 1 April 2005 for loan operations in domestic currency, and by 1 July 2005 for loan operations in foreign currencies.

Recent Developments in the Banking Sector

The banking sector has suffered from a number of significant weaknesses, which have included, among others, under capitalisation, weak corporate governance and management, poor asset quality and excessive political intervention in some banks. Since 1997, Ukraine has been implementing a series of banking sector reforms under the IMF reform programme with the aim of supporting commercial banks that undertake structural reforms and demonstrating long-term stability of their activities. Since the beginning of 1998, the NBU require banks to prepare accounts that are based in many respects on International Financial Reporting Standards. As a part of the IMF programme, on banking sector reform, on 7 December 2000. Parliament adopted the Banking Law which was signed by the President of Ukraine on 11 January 2001. The law provides a legal basis for strengthening the regulation of the banking system. In addition, in line with IMF recommendations, the law aims at reforming second tier banks and modifying the deposit insurance scheme to include provisions that would allow exclusion of problem banks (including, in particular, any of the large banks if they should fail to comply with restructuring agreements), so that any costs of the scheme will first be funded by the scheme itself and then by the Government, but not the NBU. Under the terms of the IMF programme on banking sector reform, the NBU undertook to monitor and audit the seven largest banks in Ukraine, including the two state-owned banks. The NBU oversees the activities of commercial banks using both off-site and on-site inspections and through a system of audits. On 27 June 2001, the Board of the NBU approved a resolution which sets new reserve requirements based on the economic situation and the amount of monetary supply. In August 2001, the NBU approved new regulations regarding capital, liquidity and other ratios, and the formation of a surplus fund for incidental expenses. On 1 January 2004, the laws "On Mortgage Lending, Transactions with Consolidated Mortgage Debt and Mortgage-Backed Certificates" came into force, allowing for, among other things, mortgage backed financial instruments and their trading on securities markets.

The NBU is responsible for the reorganisation or closure and liquidation of insolvent banks to strengthen confidence in the banking sector. In 2001, one of Ukraine's large banks, Bank Ukraina, was declared insolvent by the NBU, the representative of which was appointed liquidator of Bank Ukraina. As at 1 April 2005, 21 banks or 11.4 per cent.. of all banks, were under liquidation. Notwithstanding the improvements noted over the recent past, the financial intermediation work of Ukraine's financial sector remains limited. Despite rising by 31.4 per cent. and 38.6 per cent. in nominal terms in 2003 and 2004 respectively, the total capitalisation of the banking sector is still low (i.e. UAH 18.4 billion, in terms of regulatory capital). Despite the NBU's rate cutting policies, the average annual lending rate of the commercial banks as of 1 March 2005 stood at 16.8 per cent. for loans in hryvnia and 12.0 per cent. for loans in US Dollars.

In order to further develop the banking sector, the NBU has proposed an integrated programme of development of the banking system for 2003-2005 with the following goals:

(a) to strengthen the banking system of Ukraine, in order to increase its resistance to any potential crises;

(b) to increase public trust in the banking system;

(c) to encourage bank activities, the purpose of which is to attract funds and to use them for lending to the production sector of the economy; and

(d) to increase the integration of the Ukrainian banking system into the international financial community.

As part of the programme, the NBU is working with advisors from international organisations to improve banking supervision, through regular planned inspections and monitoring of banks' risk management.

As a result of the political instability and uncertainty regarding the outcome of the disputed Ukrainian presidential election in late 2004, corporate and private depositors began actively withdrawing funds from Ukrainian banks, including the Bank, in November 2004. In response, in December 2004, the NBU provided short-term stabilisation loans to 17 Ukrainian banks, including the Bank, to support their liquidity during the political crisis and also introduced restrictions on withdrawals of deposits by private depositors in Ukraine. Such restrictions on withdrawals remained in force from November 2004 until the end of December 2004. See "Summary—Recent Developments—NBU Stabilisation Loan".

Competition

As at 1 May 2005, 185 commercial banks were registered in Ukraine, out of which 162 banks had been granted licences by the NBU to perform banking transactions. These banks have total regulatory capital of UAH 20.2 billion, which represents an 11 per cent. increase in total regulatory capital as compared to 1 January 2005. As at 1 May 2005, the total assets of all commercial banks in Ukraine amounted to UAH 159.7 billion, their total credit portfolio amounted to UAH 107.3 billion, their total balance capital amounted to UAH 19.9 billion, total corporate deposits and current accounts amounted to UAH 48.5 billion and total retail deposits and current accounts amounted to UAH 51.4 billion. The 162 commercial banks in Ukraine having new licences as at 1 May 2005 were divided by the NBU into four groups according to their size. The ten major banks with total assets of more than UAH 2.5 billion were classified in the first group. The second group consists of 14 banks with total assets of UAH 1.3 billion to UAH 2.5 billion, the third group consists of 31 banks with total assets of UAH 0.4 billion to UAH 1.3 billion, and the fourth group consists of 106 banks with total assets of less than UAH 0.4 billion. Two of the largest banks in Ukraine, namely Ukreximbank and OschadBank, are state-owned. As at 1 May 2005, twenty one banks in Ukraine, of which nine were fully foreign-owned, have some foreign capital. Banks with foreign capital comprise approximately one-tenth of the total statutory capital of banks in Ukraine. These banks almost exclusively service corporate clients and develop investment programmes.

According to the NBU, in 2004, the statutory capital of banks with licences to perform banking transactions increased by 43.0 per cent., amounting to UAH 11.6 billion as at 1 January 2005, whilst the regulatory capital of such banks increased by 37.1 per cent. during 2004 amounting to UAH 18.2 billion as at 1 January 2005. The balance sheet capital of banks having licenses to perform banking transactions increased by 43.0 per cent. during 2004 and amounted to UAH 18.4 billion as at 1 January 2005.

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