

JOINT STOCK BANK UKRGAZBANK

**Financial Statements for the
Year Ended 31 December 2000 and
Independent Auditors' Report**

JOINT STOCK BANK UKRGAZBANK

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ZAT Deloitte & Touche USC
5 Prytysko-Mykilska St.
Kyiv 04070
Ukraine
Tel: +38 (044) 490 9000
Fax: +38 (044) 490 9001
www.deloitte.com.ua

**Deloitte
& Touche**

ЗАТ "Делойт і Туш ЮСК"
вул. Притисько-Микільська, 5
Київ 04070
Україна
Тел: +38 (044) 490 9000
Факс: +38 (044) 490 9001
www.deloitte.com.ua

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of
Joint Stock Bank Ukrzazbank:

We have audited the accompanying balance sheet of Joint Stock Commercial Bank Ukrzazbank (the "Bank") as at 31 December 2000 and the related profit and loss account and statements of cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1 to the financial statements, the Bank has not adopted International Accounting Standard No. 29, "Financial Reporting in Hyperinflationary Economies", which practice, in our opinion, is not in accordance with International Accounting Standards.

In our opinion, except for the effects on the financial statements of the matter referred to in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2000 and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.



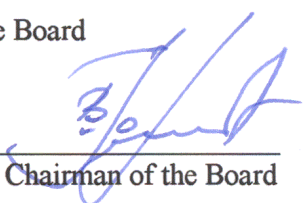
6 April 2001

JOINT STOCK BANK UKRGAZBANK


PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2000 (in Ukrainian Hryvnias)

	Notes	2000	1999
Interest income		31,326,245	10,948,456
Interest expense		<u>(9,384,420)</u>	<u>(4,026,120)</u>
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	2	21,941,825	6,922,336
Provision for loan losses	3	<u>(7,456,533)</u>	<u>(4,172,822)</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES		14,485,292	2,749,514
Fee and commission income		24,238,367	13,357,971
Fee and commission expense		(557,101)	(1,619,575)
Net profit/(loss) on dealing securities		4,654,242	(3,232)
Foreign exchange gains, net		4,253,514	1,895,808
Other income	4	<u>1,894,936</u>	<u>336,335</u>
NET NON-INTEREST INCOME		<u>34,483,958</u>	<u>13,967,307</u>
OPERATING INCOME		48,969,250	16,716,821
Operating expenses	5	<u>(39,662,554)</u>	<u>(11,695,263)</u>
INCOME BEFORE PROVISION FOR LOSSES ON OTHER TRANSACTIONS AND INCOME TAXES		9,306,696	5,021,558
Provision for losses on other transactions	6	<u>(599,151)</u>	<u>(682,031)</u>
INCOME BEFORE INCOME TAXES		8,707,545	4,339,527
Income taxes	7	<u>(2,893,281)</u>	<u>(997,593)</u>
NET INCOME		<u><u>5,814,264</u></u>	<u><u>3,341,934</u></u>

On behalf of the Board



Vasily Gorbaliy, Chairman of the Board



Margarita Krupa, Chief Accountant

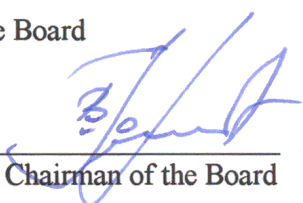
The notes on pages 6 to 22 form an integral part of these financial statements. Independent Auditors' Report is on page 1.


JOINT STOCK BANK UKRGAZBANK

BALANCE SHEET 31 DECEMBER 2000 (in Ukrainian Hryvnias)

	Notes	2000	1999
ASSETS			
Cash and balances with the National Bank of Ukraine	8	27,596,744	13,731,720
Loans and advances to banks, net	9	35,888,593	22,760,872
Dealing securities, net	10	10,120,513	4,002,725
Loans and advances to customers, net	11	86,229,671	28,042,734
Investments, net	12	1,548,590	2,845,935
Fixed assets, net	13	10,518,144	6,161,361
Goodwill, net	14	1,213,041	1,879,427
Other assets, net	15	17,856,312	11,666,647
TOTAL ASSETS		<u>190,971,608</u>	<u>91,091,421</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Loans and advances from banks	16	39,579,688	4,808,567
Customer accounts	17	93,462,612	44,532,485
Deferred income tax	7	-	331,923
Debt securities issued	10	7,648,136	-
Other liabilities	18	2,441,952	1,337,925
Total liabilities		<u>143,132,388</u>	<u>51,010,900</u>
COMMITMENTS AND CONTINGENCIES	20	-	-
SHAREHOLDERS' EQUITY:			
Share capital	19	35,765,308	33,820,730
Share premium		1,999,847	1,999,990
Fixed assets revaluation surplus		277,586	277,586
Retained earnings		9,796,479	3,982,215
Total shareholders' equity		<u>47,839,220</u>	<u>40,080,521</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>190,971,608</u>	<u>91,091,421</u>

On behalf of the Board


Vasily Gorbaliy, Chairman of the Board


Margarita Krupa, Chief Accountant

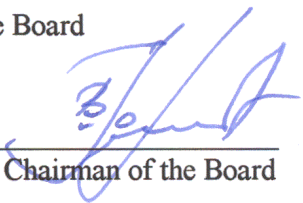
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JOINT STOCK BANK UKRGAZBANK


STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2000 (in Ukrainian Hryvnias)

	<u>Share Capital</u>	<u>Share Premium</u>	<u>Fixed Assets Revaluation Surplus</u>	<u>Retained Earnings</u>	<u>Total</u>
Shareholders' equity as at 31 December 1998	6,974,000	-	277,586	640,281	7,891,867
Increase in share capital and share premium	29,512,572	1,999,990	-	-	31,512,562
Shares repurchased	(2,665,842)	-	-	-	(2,665,842)
Net income	-	-	-	3,341,934	3,341,934
Shareholders' equity as at 31 December 1999	33,820,730	1,999,990	277,586	3,982,215	40,080,521
Treasury shares sold	1,944,578	(143)	-	-	1,944,435
Net income	-	-	-	5,814,264	5,814,264
Shareholders' equity as at 31 December 2000	<u>35,765,308</u>	<u>1,999,847</u>	<u>277,586</u>	<u>9,796,479</u>	<u>47,839,220</u>

On behalf of the Board



Vasily Gorbaliy, Chairman of the Board

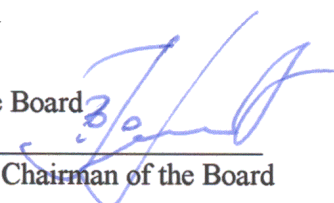



Margarita Krupa, Chief Accountant

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JOINT STOCK BANK UKRGAZBANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2000
(in Ukrainian Hryvnias)

	Notes	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes		8,707,545	4,339,527
Provision for losses		8,055,684	4,854,853
Depreciation and amortization expense		2,414,849	551,500
Write off of assets		(1,484,763)	-
Loss from fixed assets disposal		252,945	-
Change in net interest accruals		3,903,811	(4,599,296)
Operating profit before changes in operating assets and liabilities		<u>21,850,071</u>	<u>5,146,584</u>
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Reserve balances with National Bank of Ukraine		(8,189,337)	(2,567,516)
Loans and advances to banks		(11,067,065)	9,514,559
Dealing securities		(6,257,895)	(965,124)
Loans and advances to customers		(64,420,347)	(13,654,813)
Other assets		(9,908,677)	455,984
Increase/(decrease) in operating liabilities:			
Loans and advances from banks		34,771,121	(7,334,387)
Customer accounts		48,930,127	11,888,019
Other liabilities		(628,072)	17,614
Net cash provided by operating activities before income taxes		<u>5,079,926</u>	<u>2,500,920</u>
Income tax paid		(2,319,293)	(665,670)
Net cash provided by operating activities		<u>2,760,633</u>	<u>1,835,250</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of fixed assets		(7,161,567)	(1,496,229)
Disposals of fixed assets		803,376	22,014
Disposal/(Purchase) of investments, net		1,558,453	(1,730,280)
Cash obtained through acquisition of subsidiaries		-	1,242,901
Net cash used in investing activities		<u>(4,799,738)</u>	<u>(1,961,594)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Share capital issued and registered		-	4,700,000
Share premium (paid)/received		(143)	1,999,990
Debt securities issued		7,648,136	-
Treasury shares sold/(repurchased)		1,944,578	(545,410)
Net cash provided by financing activities		<u>9,592,571</u>	<u>6,154,580</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		7,553,466	6,028,236
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8	<u>20,236,157</u>	<u>14,207,921</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	8	<u>27,789,623</u>	<u>20,236,157</u>
Supplementary information:			
Interest received		19,242,047	21,936,289
Interest paid		3,757,373	9,109,961

On behalf of the Board

Vasiliy Gorbaliy, Chairman of the Board


Margarita Krupa, Chief Accountant

The notes on pages 6 to 22 form an integral part of these financial statements. Independent Auditors' Report is on page 1.

JOINT STOCK BANK UKRGAZBANK

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2000 (in Ukrainian Hryvnias)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Joint Stock Bank Ukrgazbank (the “Bank” or “Ukrgazbank”) was legally established as a closed joint stock company on 22 August 1995 under National Bank of Ukraine (“NBU”) license number 183, from the former closed joint stock bank “Hadjibei”. On 27 May 1997 the Bank changed its name from Intergazbank to Ukrgazbank. Subsequently, on 10 October 1997, Ukrgazbank was re-registered with the NBU as an open joint stock company. The Bank’s primary business consists of banking and financial services to commercial and private customers primarily located in Ukraine. In 1999, the Bank acquired two other Ukrainian banks – Service Bank located in Uzhgorod region and Ukrnaftogasbank which had a network of branches in different regions of Ukraine. Effective dates of acquisition are 14 January and 24 December 1999, respectively. Currently the Bank has 12 branches in different regions of Ukraine.

These financial statements have been authorized for issue on 15 March 2001 by the Bank’s Board of Directors.

Summary of Significant Accounting Policies

Accounting basis – The Bank maintains its accounting records in accordance with Ukrainian accounting standards based on the historical cost convention as modified by the revaluation of certain properties and equipment. Effective 1 January 1998, the NBU issued instructions introducing accounting reforms to the banking sector. These reforms have introduced accounting principles that are closer in line with International Accounting Standards (“IAS”).

Ukraine is currently experiencing high levels of inflation. Under International Accounting Standard No. 29, “Financial Reporting in Hyperinflationary Economies,” the accompanying financial statements should be adjusted to reflect the effects of the diminution of the purchasing power of the Ukrainian Hryvnia. This standard was not applied in the preparation of the accompanying financial statements. The rates of inflation were 25,8%, 19,2% and 20% for the years ended 31 December 2000, 1999 and 1998, respectively.

Management believes that the effect of the application of IAS No. 29 thereon would not have been significant. An adjustment should have been made to adjust net income and reserves.

These financial statements have been prepared from Ukrainian accounting records and have been adjusted to conform with IAS, except as discussed in the two paragraphs above.

Use of estimates – The preparation of financial statements in conformity with IAS requires management to make estimates and assumptions that affect the amounts reported therein. Due to inherent uncertainty in making those estimates, actual results reported in future periods might be based upon amounts that differ from those estimates.

Foreign currency transactions – Transactions denominated in foreign currencies are translated into Ukrainian hryvnia (“UAH”) at the official rate of exchange of the NBU on the date of the transaction. Monetary assets and liabilities are translated at the rate of exchange on the balance sheet date. All resulting gains and losses have been recorded as a component of the foreign exchange gain (loss) in the profit and loss account.

The majority of the Bank's total assets are maintained in local currency. The official rates of exchange for major currencies as at 31 December were:

	2000	1999
	UAH	
1 United States Dollar (USD)	5.4345	5.2163
1 German Mark (DEM)	2.5855	2.6793
1 Russian Ruble (RUR)	0.1930	0.1932

Cash and cash equivalents – Cash and cash equivalents for the purposes of determining cash flows include cash, unrestricted balances with the NBU and correspondent accounts with banks in countries included in the Organization for Economic Cooperation and Development (“OECD”). The minimum reserve deposit required by the NBU is not included as a cash equivalent due to restrictions on its availability (see Note 8). Cash equivalents are considered to be short-term, highly liquid investments that are readily convertible to known amounts of cash.

Dealing securities – Dealing securities are stated at amortized cost, less provision for impairment (if any), which approximates market value.

Loans and advances to banks – In the normal course of business, the Bank lends or deposits funds for various periods of time with other banks. As these placements of funds are typically unsecured extensions of credit, management provides a general provision against the risk of possible losses. The Bank also makes specific provisions on a case by case basis.

Equity investments – Equity investments represent the Bank's participating interests and shares in affiliated and subsidiary undertakings and other investments in shares. All equity investments are stated at cost less any provision for permanent diminution in value.

The Bank's investments are not consolidated or accounted for on an equity basis as management does not consider these to be a significant part of the Bank's operations and considers control over those companies to be temporary.

Provisions for loan losses – The determination of the balance of the allowance for loan losses is based on an analysis of the loan portfolio and reflects the amount, which, in the judgment of management, is adequate to provide for losses inherent in the loan portfolio.

Specific provisions are made as a result of a detailed appraisal of risk assets. In addition, general provisions are carried to cover risks, which although not specifically identified, are present in any portfolio of banking assets. The total change in the allowance for loan losses is recorded in the profit and loss accounts. The allowance for loan losses is deducted in arriving at the balance sheet figures of loans and advances to banks and customers. Management's evaluation of the allowance is based on the Bank's past loss experience, requirements of the NBU, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions.

Estimates of loan losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain losses which are substantial relative to the allowance for loan losses, it is the judgment of management that the allowance for loan losses is adequate to absorb losses inherent in the loan portfolio.

Fixed assets – Fixed assets are recorded at historical cost as periodically revalued for the effects of the diminution of the purchasing power of the Ukrainian currency in accordance with Ministry of Finance (“MOF”) directives less accumulated depreciation. Depreciation is designed to write off assets over their estimated useful economic lives and is calculated on a straight-line basis at the following annual rates:

Buildings and improvements	2%
Leasehold improvements	20%
Office equipment	25%
Motor vehicles	20%
Intangibles	33%
Other	25%

Goodwill – Goodwill arising from an acquisition represents the excess of the cost of acquisition over the Bank’s interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognized as an asset and amortized on a systematic basis following an assessment of the foreseeable useful life of the asset. In 1999 the Bank elected to amortize the goodwill arising in 1999 from the acquisition of two banks over a three-year period on a straight-line basis.

Income and expense recognition – Interest income and expenses are recognized on an accrual basis. Commissions and other income are credited to income when the related transactions are completed. Non-interest expenses are recognized at the time the transaction occurs.

Fee and commission – Fee and commission includes all of the revenue derived from offering services to customers, including margins on foreign exchange operations performed for the account of customers.

Income and other taxes– The Bank determines income tax expense using the liability method of accounting for income taxes. Under the liability method, the expected tax effects of current timing differences are determined and reported as liabilities for taxes payable in the future or as assets representing advance payments of future taxes. Deferred tax assets are recorded to the extent that there is a reasonable expectation that the assets will be realized. Ukraine also has various taxes that are assessed on the Bank’s activities. These taxes are included as a component of operating expenses in the profit and loss account.

Risk management – Currency, liquidity, interest rate and cash flow risks are managed by the Assets and Liabilities Committee (ALCO) and Treasury.

The Bank’s credit risks are monitored by the Credit Committee. Feasibility studies to support loan applications are evaluated in the Credit Committee based on assessments within the Loan Department.

Reclassifications – Certain reclassifications were made to the 1999 balances to confirm with the 2000 presentation.

2.	NET INTEREST INCOME	2000	1999
	Interest income		
	Loans and advances to banks	3,813,656	2,658,733
	Loans and advances to customers	24,695,496	8,053,815
	Treasury bills and other securities	2,801,787	235,908
	Other interest income	15,306	-
	Total interest income	<u>31,326,245</u>	<u>10,948,456</u>
	Interest expense		
	Loans and advances from banks	4,369,910	3,401,648
	Customer accounts	4,935,711	624,472
	Other interest expense	78,799	-
	Total interest expense	<u>9,384,420</u>	<u>4,026,120</u>
	Net interest income before provision for loan losses	<u>21,941,825</u>	<u>6,922,336</u>
3.	PROVISION FOR LOAN LOSSES	2000	1999
	(Recovery)/provision on loans and advances to banks (note 9)	(182,877)	135,113
	Provisions on loans and advances to customers (note 11)	7,639,410	4,037,709
		<u>7,456,533</u>	<u>4,172,822</u>

The movements in the provision are as follows:

	Loans and advances to banks	Loans and advances to customers	Total
At 31 December 1998	286,055	3,428,138	3,714,193
- provision	135,113	4,037,709	4,172,822
- loan write-offs	-	(2,344,000)	(2,344,000)
At 31 December 1999	421,168	5,121,847	5,543,015
- (recovery) / provision	(182,877)	7,639,410	7,456,533
- loan write-offs	-	(1,406,000)	(1,406,000)
At 31 December 2000	<u>238,291</u>	<u>11,355,257</u>	<u>11,593,548</u>

The provisions for loans and advances to banks and customers are deducted from the related assets.

4. OTHER INCOME

Included in other income for the year ended 31 December 2000 is the amount of UAH 1,254,354 that represents realized gain on loans and advances to banks and customers, investments and other receivables previously recorded at fair market value.

5. OPERATING EXPENSES	2000	1999
Staff costs	11,376,381	2,406,263
Financial risks insurance expense	8,935,766	2,500,000
Leasing costs	4,519,700	366,715
Communication	2,237,330	615,373
Depreciation	1,748,463	431,772
Repairs and maintenance	2,035,439	686,419
Taxes other than income tax	1,141,304	1,685,307
Security expenses	927,936	562,732
Advertising	845,725	445,194
Amortization of goodwill	666,386	119,728
Professional services fees	151,438	417,706
Payments to Deposits Guaranty Fund	40,737	283,432
Charity	624,389	80,285
Penalties paid	816,018	124,378
General bank expenses	1,630,843	905,523
Business trip expenses	213,433	26,239
Write off of securities	275,652	-
Other	1,475,614	38,197
	<u>39,662,554</u>	<u>11,695,263</u>

Financial risks insurance expense represents amounts paid to an insurance company which is a related party to the Bank for insurance of transactions on settlements between one of the main shareholders of the Bank and gas and energy suppliers in Russia.

6. PROVISION FOR LOSSES ON OTHER TRANSACTIONS

	2000	1999
(Recovery)/provisions on investments (note 12)	(261,108)	508,881
Provision on dealing securities (note 10)	218,870	78,763
Provisions on doubtful debts (note 15)	182,144	123,925
Provision/(recovery) on guarantees	459,245	(29,538)
	<u>599,151</u>	<u>682,031</u>

The movements in the provision are as follows:

	Investments	Dealing securities	Doubtful debts	Provision for guarantees issued	Total
At 31 December 1998	118,000	-	-	29,538	147,538
- provision/(recovery)	508,881	78,763	123,925	(29,538)	682,031
At 31 December 1999	626,881	78,763	123,925	-	829,569
- (recovery)/provision	(261,108)	218,870	182,144	459,245	599,151
- write-offs	-	(78,763)	-	-	(78,763)
At 31 December 2000	<u>365,773</u>	<u>218,870</u>	<u>306,069</u>	<u>459,245</u>	<u>1,349,957</u>

The provisions for investments, dealing securities and doubtful debts are deducted from the related assets. Provision for guarantees is included in other liabilities.

7. INCOME TAX

Ukrainian corporation tax is levied at a rate of 30% on income less allowable expenses. Tax liabilities calculated in accordance with Ukrainian tax laws may differ significantly from amounts calculated based on IAS income and expense.

Major components of tax expense:

	2000	1999
Current tax expense	2,893,281	665,670
Deferred tax expense	-	331,923
	<u>2,893,281</u>	<u>997,593</u>

The following is a reconciliation of the income before tax and income tax expense:

	2000	1999
Income before provision for income taxes	8,707,545	4,339,527
Tax at the statutory tax rate of 30%	2,612,264	1,301,858
Tax effect of adjustments required in determining taxable profit:		
Non-deductible expenses	761,822	1,794,752
Tax exempt income	(1,678,473)	(1,832,868)
Change in valuation allowance	1,197,668	(266,149)
	<u>2,893,281</u>	<u>997,593</u>

The deferred asset and liability comprises the following:

	2000	1999
Deferred tax asset:		
Allowance for assets	929,580	311,117
Additional depreciation for IAS purposes	279,929	-
Write-off of assets	443,168	-
Accrued expenses not recognised until paid	587,686	41,484
	<u>2,240,363</u>	<u>352,601</u>
Deferred tax liability:		
Accrued income not recognised until paid	(1,042,695)	(684,524)
	<u>(1,042,695)</u>	<u>(684,524)</u>
Deferred tax asset/(liability), net	1,197,668	(331,923)
Valuation allowance	(1,197,668)	-
	<u>-</u>	<u>-</u>

Deferred tax asset of UAH 1,197,668 as of 31 December 2000 has not been recorded due to the uncertainty of both future taxable income and the changing Ukrainian tax regulations. As at 31 December 1999 the Bank recognized its deferred tax liability in the amount of UAH 331,923.

8. CASH, CASH EQUIVALENTS AND BALANCES WITH THE NATIONAL BANK OF UKRAINE

The Bank is required to maintain obligatory minimum cash resources with the NBU. The minimum reserve deposits were computed based on the balance of demand and deposit accounts in accordance with NBU regulations. The Bank met the NBU minimum requirements as at 31 December 2000 and 1999, which amounted to UAH 15,602,006 and UAH 7,412,669, respectively.

Cash and cash equivalents as presented in the preparation of the statements of cash flows include the following:

	2000	1999
Cash on hand	5,792,733	5,229,387
Balances with the NBU	<u>21,804,011</u>	<u>8,502,333</u>
	27,596,744	13,731,720
Correspondent accounts in OECD banks (included in Note 9)	15,794,885	13,917,106
	<u>43,391,629</u>	<u>27,648,826</u>
Less minimum reserve deposit with the NBU	<u>(15,602,006)</u>	<u>(7,412,669)</u>
Total cash and cash equivalents	<u>27,789,623</u>	<u>20,236,157</u>

9. LOANS AND ADVANCES TO BANKS

	2000	1999
Advances to banks	20,594,170	14,549,846
Loans to banks	<u>15,532,714</u>	<u>8,632,194</u>
	36,126,884	23,182,040
Less allowance for loan losses	<u>(238,291)</u>	<u>(421,168)</u>
Loans and advances to banks, net	<u>35,888,593</u>	<u>22,760,872</u>

The Bank has advances with Western, Russian and Ukrainian counterparts, as well as amounts with banks in other countries in the CIS.

Majority of advances to banks are non-interest bearing. As at 31 December 2000, the average interest rate for loans to banks is 17% (1999 – 5.6%).

As of 31 December 2000, the bank had 4 banks where the outstanding amount of credit risks for each bank exceeded 10 % of the Bank's equity, and accounted for 63 % of the Bank's gross loans and advances to banks (1999 – 1 bank represented 53 % of the total amount of gross loans and advances to banks).

10. DEALING SECURITIES

	2000	1999
Ukrainian government treasury bills	48,425	3,134,136
Promissory notes and other securities	10,290,958	947,352
	<u>10,339,383</u>	<u>4,081,488</u>
Less allowance for losses	(218,870)	(78,763)
	<u>(218,870)</u>	<u>(78,763)</u>
Dealing securities, net	<u>10,120,513</u>	<u>4,002,725</u>

Treasury bills held by the Bank are recorded at amortized cost as of 31 December 2000 and 1999. These bills are paying interest and also are traded at a discount to their nominal value. Income is recognized as discount amortization over the life of the bills and the nominal value is repaid on maturity.

Included in the promissory notes as of 31 December 2000 is the note of one of the major Bank's customers for UAH 10,057,613. The Bank has issued promissory notes to the same customer for UAH 7,648,136, which are included in Debt Securities issued.

11. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers are made principally within Ukraine and comprise:

Analysis by sector	2000	1999
Consumer loans	6,333,440	5,421,220
Trading and catering companies	7,029,942	5,151,389
Oil and gas industry	31,935,491	4,903,366
Retail trade	2,322,677	4,514,506
Agriculture	16,124,446	3,930,226
Pharmacy	2,000,000	1,590,836
Construction	2,513,046	1,256,884
State bodies	3,812,707	819,556
Forestry	199,371	705,364
Metallurgy	8,377,264	795,418
Other	16,936,544	4,075,816
	<u>97,584,928</u>	<u>33,164,581</u>
Less allowance for loan losses	(11,355,257)	(5,121,847)
	<u>(11,355,257)</u>	<u>(5,121,847)</u>
Loans and advances to customers, net	<u>86,229,671</u>	<u>28,042,734</u>

As separately disclosed in Note 21, the Bank makes loans to related parties, including companies and employees of the Bank. At 31 December 2000, the Bank had a total of UAH 10,249,510 outstanding to these parties (1999 – UAH 9,342,239).

The Bank's loan portfolio consists of loans extended to the following types of enterprises:

	2000	1999
Private companies	86,330,320	26,917,477
Loans to employees and management (Note 21)	1,600,017	2,547,348
Loans to individuals	5,095,240	2,880,200
State organisations	4,559,351	819,556
	<u>97,584,928</u>	<u>33,164,581</u>
Less allowance for loan losses	(11,355,257)	(5,121,847)
	<u>(11,355,257)</u>	<u>(5,121,847)</u>
Loans and advances to customers, net	<u>86,229,671</u>	<u>28,042,734</u>

The Bank's loan portfolio is extended under the following pledges:

	2000	1999
Securities	23,812,951	-
Not collateralized	19,596,425	21,549,280
Real estate	10,917,918	5,332,601
Inventories	17,285,778	4,903,320
Accounts receivable	7,525,500	-
Movable assets	4,991,396	1,379,380
Cash deposits	9,527,360	-
Other	3,927,600	-
	<u>97,584,928</u>	<u>33,164,581</u>
Less allowance for loan losses	<u>(11,355,257)</u>	<u>(5,121,847)</u>
Loans and advances to customers, net	<u>86,229,671</u>	<u>28,042,734</u>

Most of the loans to customers outstanding as at 31 December 2000 bear interest of 12%-26% per annum for USD or other OECD currency denominated loans (1999 – 24%-26%) and 5%-50% per annum for UAH denominated loans (1999 – 1%-75%).

As of 31 December 2000, the Bank had 5 borrowers where the outstanding amount of credit risk for each borrower exceeded 10% of the Bank's equity, and accounted for 37% of the Bank's gross loans and advances to customers (1999 – no such loans).

12. INVESTMENTS

	Sector	Ownership Interest	2000	1999
Non-consolidated subsidiary	Insurance	64%	700,000	-
Investments in associated companies	Pharmacy	Up to 45%	276,979	1,374,833
Promissory notes			283,827	1,833,393
Other investments		Up to 20%	653,557	264,590
			<u>1,914,363</u>	<u>3,472,816</u>
Less allowance for investment losses			<u>(365,773)</u>	<u>(626,881)</u>
Investments, net			<u>1,548,590</u>	<u>2,845,935</u>

All investments are made in companies based in Ukraine.

As at 31 December 2000 the non-consolidated subsidiary represents an insurance company, which is actively engaged in the insurance of the Bank's risks. The Bank has 64% of the company's shares. The management of the Bank considers control over this company to be temporary and, therefore, consolidation of the company was not performed.

Overall impact of the associated companies on the state of the affairs of the Bank is not considered to be material by the management of the Bank and the "equity method" of accounting has not been applied.

The above investments are recorded at cost. The current market value of these investments has been estimated in the absence of readily ascertainable market values. Based on such estimate, management believes no permanent impairment on most investments exists such that no additional allowance for losses is required.

13. FIXED ASSETS

	Buildings and Improvements	Furniture, Vehicles and Equipment	Other	Total
At cost				
At 1 January 2000	1,965,677	4,590,141	199,353	6,755,171
Additions	202,210	4,962,031	1,997,326	7,161,567
Transfers	(26,408)	26,408	-	-
Disposals	<u>(238,504)</u>	<u>(470,181)</u>	<u>(488,312)</u>	<u>(1,196,997)</u>
At 31 December 2000	<u>1,902,975</u>	<u>9,108,399</u>	<u>1,708,367</u>	<u>12,719,741</u>
Accumulated depreciation				
At 1 January 2000	18,343	546,206	29,261	593,810
Depreciation expense	38,686	1,608,077	101,700	1,748,463
Transfers	(11,457)	13,612	(2,155)	-
Disposals	<u>(12,189)</u>	<u>(114,448)</u>	<u>(14,039)</u>	<u>(140,676)</u>
At 31 December 2000	<u>33,383</u>	<u>2,053,447</u>	<u>114,767</u>	<u>2,201,597</u>
Net book value				
At 31 December 2000	<u><u>1,869,592</u></u>	<u><u>7,054,952</u></u>	<u><u>1,593,600</u></u>	<u><u>10,518,144</u></u>
Net book value				
At 31 December 1999	<u><u>1,947,334</u></u>	<u><u>4,043,935</u></u>	<u><u>170,092</u></u>	<u><u>6,161,361</u></u>

14. GOODWILL

	Total
Cost	
At 31 December 1999	1,999,155
At 31 December 2000	<u>1,999,155</u>
Accumulated amortization	
At 31 December 1999	(119,728)
Charge for the year	<u>(666,386)</u>
At 31 December 2000	<u>(786,114)</u>
Carrying amount	
At 31 December 2000	<u>1,213,041</u>
At 31 December 1999	<u>1,879,427</u>

15. OTHER ASSETS

	2000	1999
Accounts receivable from sale of securities	15,308,299	4,790,660
Interest receivable on treasury bills	-	2,972,848
Interest receivable on loans	1,692,878	2,256,898
Other accounts receivable	<u>1,161,204</u>	<u>1,770,166</u>
	18,162,381	11,790,572
Less allowance for losses	<u>(306,069)</u>	<u>(123,925)</u>
Other assets, net	<u><u>17,856,312</u></u>	<u><u>11,666,647</u></u>

16. LOANS AND ADVANCES FROM BANKS	2000	1999
Advances from banks	3,538,727	5,052
Loans from banks	<u>36,040,961</u>	<u>4,803,515</u>
Loans and advances from banks	<u>39,579,688</u>	<u>4,808,567</u>

The majority of advances from banks bear no interest. The effective interest rate on the loans from banks is 11.6% (1999 – 68.3%).

17. CUSTOMERS ACCOUNTS	2000	1999
Demand accounts	62,711,936	34,476,872
Term deposits	<u>30,750,676</u>	<u>10,055,613</u>
Customer accounts	<u>93,462,612</u>	<u>44,532,485</u>

Majority of demand deposits are non-interest bearing. Term deposits accounts in USD or other OECD currency outstanding at 31 December 2000 bear interest of 3%-16% per annum (1999 – 7%-18 %) and 13%-45% per annum for deposits denominated in UAH (1999 – 20%-45%).

18. OTHER LIABILITIES

Other liabilities were as follows at 31 December:

	2000	1999
Taxes payable	1,127,482	507,093
Accrued interest	552,622	185,680
Other payables and accruals	302,603	645,152
Provision on letters of credit	<u>459,245</u>	<u>-</u>
Other liabilities	<u>2,441,952</u>	<u>1,337,925</u>

19. SHARE CAPITAL

At 31 December 2000 and 1999, the Bank's share capital comprised the following number of shares, each having a nominal value of UAH 1:

	2000	1999
Number of authorized and issued preferred shares	477,078	-
Number of authorized and issued ordinary shares	<u>36,090,493</u>	<u>13,950,160</u>
Total value	<u>36,567,571</u>	<u>13,950,160</u>
Number of authorized, issued and fully paid preferred shares	477,078	-
Number of authorized, issued and fully paid ordinary shares	35,288,230	13,323,750
Number of preferred shares of Ukrnaftogazbank to be converted into own preferred shares	-	426,289
Number of ordinary shares of Ukrnaftogazbank to be converted into own ordinary shares	<u>-</u>	<u>20,070,691</u>
Total value	<u>35,765,308</u>	<u>33,820,730</u>

On 14 January 1999 the Bank acquired Service Bank. This acquisition was made through a new emission of the Bank's shares and their consequent exchange for shares of Service Bank outstanding as at the date of acquisition in a one-to-one proportion. This share emission was also aimed to bring in additional working capital to the Bank: out of 6,900,000 newly issued shares, 2,200,000 were used for acquisition purposes, the rest were sold to the Bank's existing shareholder for cash with a share premium of UAH 1,999,990.

On 24 December 1999 the Bank acquired another bank – Ukrnaftogazbank. Ukrnaftogazbank is a related party to the Bank since both have the same major shareholders – companies operating in gas and energy supply industry.

For acquisition of Ukrnaftogazbank, the Bank applied the same procedures as for acquisition of Service Bank: a new share emission and consequent exchange of shares issued for the shares of Ukrnaftogazbank outstanding as at the date of acquisition in a one-to-one proportion. In addition, as at 24 December 1999 the Bank had already purchased for cash 500,000 shares of Ukrnaftogazbank with nominal value of UAH 1 on a secondary market. Because of late effective date of the acquisition in 1999, the Bank did not register the new emission of shares with relevant authorities. Since all assets and liabilities of the Ukrnaftogazbank have been effectively transferred to the Bank as at 31 December 1999, the Bank considered it prudent to show share capital of the bank acquired as its own.

The Bank's class of ordinary shares carries no right to fixed income and all ordinary shares have the same liquidation rights. Preferred shares carry no voting rights.

20. COMMITMENTS AND CONTINGENCIES

Commitments – As at 31 December 2000 and 1999, the Bank had UAH 9,665,190 and UAH 289,612 of outstanding commitments and contingencies including guaranties, letters of credit and foreign exchange commitments.

Legal – In the ordinary course of business, the Bank is subject to legal actions and complaints. The management of the Bank believes that the ultimate liability, if any, arising from such legal actions or complaints will not have a material effect on the financial condition or results of future operations of the Bank. There were no claims against the Bank as at 31 December 2000 (1999 –UAH 6,091).

As of 31 December 2000 and 1999, the Bank has made claims against third parties for UAH 8,323,259 and UAH 1,466,277, respectively, related to overdue loans to customers. Management plans to recognize these amounts when collected.

Ukrainian tax authorities are increasingly directing their attention to the business community as a result of the overall economic Ukrainian environment. In respect of this, the local and national tax environment in Ukraine is constantly changing and subject to inconsistent application, interpretation and enforcement. Non-compliance with Ukrainian laws and regulations can lead to the imposition of severe penalties and interest. Future tax examinations could include taxes, penalties and interest, and these amounts could be material. While the Bank believes it has complied with local tax legislation, there have been many new tax and foreign currency laws and related regulations introduced in recent years, which are not always clearly written.

Management believes that the Bank is in compliance with the tax laws affecting its operations, however, the risk remains that relevant authority could take a different position with regard to interpretive issues and the effect could be significant.

Operating commitments – At the balance sheet date, the Bank had outstanding commitments under operating leases for cars and premises, which fall due as follows:

	2000	1999
Within one year	6,383,912	2,696,743
In the second to fifth years inclusive	21,020,131	10,569,413
After five years	<u>2,233,422</u>	<u>1,717,743</u>
	<u>29,637,465</u>	<u>14,983,899</u>

Operating environment – The Bank’s principal business activities are within Ukraine. Over recent years, Ukraine has undergone substantial political and economic change. As an emerging market Ukraine does not possess a well-developed commercial infrastructure which generally exists in more mature business markets. Laws and regulations affecting businesses operating within the country, as well as throughout the CIS, are subject to rapid change. In addition, continued economic stability is dependent to a large extent on the efficacy of fiscal measures taken by the government, decisions of international lending organizations, and other actions beyond the Bank’s control.

Although recently there have been positive economic signs in Ukraine, including a slower rate of devaluation of the Hryvnia, the long-term prospects for the Ukrainian economy remain uncertain. As a result, the Banks’s assets and operations could be at risk if there are any adverse changes in the political and business environment.

21. RELATED PARTY TRANSACTIONS

Related parties include shareholders, members of the Management Board, other employees and companies in which the Bank's investment is in excess of 10% of its shares. During 1999 and in the first half of 2000, the Bank was significantly involved in service and settlement operations on the gas and energy supply market dominated by one state owned holding company (the “Holding”) which is a major shareholder of the Bank. A significant part of the Bank’s operations was related to that company or to its subsidiaries and associates.

At 31 December 2000 and 1999, the Bank had the following amounts outstanding to or from related parties:

- The Bank had loans totaling UAH 10,249,510 (1999 – UAH 9,342,239) to shareholders and related parties at market and lower than market rates, including UAH 1,600,017 outstanding to employees and management of the Bank (1999 – UAH 2,547,348);
- The Bank had an investment of UAH 155,479 (1999 – UAH 155,479) with an indirect related party that leases premises to the Bank’s branch in Odessa at a lower than market price;
- The Bank had a promissory note from its direct related party in amount of UAH 151,000 at 31 December 1999;
- The Bank had accounts receivable for the amount of UAH 4,769,160 for equity shares sold to related parties and purchased from related parties at 31 December 1999;
- The Bank had balances on current and deposit accounts of its related parties in the amount of UAH 2,118,371 (1999 – UAH 1,496,429).

Additionally, during 2000 and 1999 the Bank has performed the following transaction with its related parties:

- Sale of UAH 4,700,000 worth of shares to the Holding with share premium of UAH 1,999,990 in 1999;
- Acquisition of Ukrnaftogazbank that was a related party in 1999;
- Sales of equity investments for the total amount of UAH 4,086,808 in 1999;
- Purchases of equity investments for the amount of UAH 700,000 (1999 – UAH 7,238,946).

During 2000 and 1999, the Bank recorded income received and expenses incurred in respect of operations with related parties in the following amounts:

- Interest income – UAH 7,274,000 (1999 – UAH 424,000);
- Fees and commission income – UAH 1,116,000 (1999 – UAH 5,808,000);
- Other income – UAH 5,000 (1999 – UAH 700,000);
- Interest expense – UAH 706,000 (1999 – UAH 27,000);
- Commission expenses – UAH 17,000 (1999 – UAH 25,000);
- Other expenses – UAH 10,034,000, including UAH 8,935,700 for insurance of banking risks (1999 – UAH 3,063,000, including payment of UAH 2,500,000 for insurance of banking risks).

22. NON CASH TRANSACTIONS

During 1999 the Bank acquired two other banks. These transactions were only partially settled in cash.

23. PENSIONS AND RETIREMENT PLANS

Employees receive pension benefits from the Ukrainian government in accordance with the laws and regulations of Ukraine. As at 31 December 2000 and 1999, the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

24. CAPITAL ADEQUACY

The National Bank of Ukraine requires banks to maintain a capital adequacy ratio of 8% of risk weighted assets, computed on the basis of UAH. As at 31 December 2000, the Bank's capital adequacy ratio on the basis exceeded the statutory minimum.

The Bank's international risk based capital adequacy ratio as at 31 December 2000 was 31.26% (1999 – 61%), which exceeds the limit ratio of 8% recommended by the Basle Accord.

The ratio is calculated in accordance with the rules set forth in the Basle Accord, using the following risk weightings:

Weighting	Description of item
0%	Cash and due from the National bank of Ukraine
0%	Securities issued by the Government of Ukraine
20%	Loans and advances to OECD credit institutions
20%	Loans and advances to non-OECD credit institutions maturing within one year
100%	Loans and advances to customers
100%	Undrawn loan commitment, letters of credit and guarantees
100%	Tangible fixed and other assets

Capital is calculated as the total of restricted and unrestricted components of equity, plus the Bank's provision for general banking risks, to the extent that the general provisions for loan losses do not exceed 1.25% of risk weighted assets.

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS 32. As no readily available market exists for a large part of the Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

At 31 December 2000 and 1999 the following methods and assumptions were used by the Bank to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and balances with the National Bank of Ukraine – For these short-term instruments the carrying amount is a reasonable estimate of fair value.

Dealing securities – As set out in Note 10, debt securities held by the Bank are stated at cost and adjusted for accretion and amortization of premiums and discounts, respectively, less any provision for permanent diminution in value. As shown in Note 26, these securities have maturities ranging from three months to less than one year.

In the absence of liquid markets for these instruments, it is not possible to determine a precise fair value. However, it is management's intention to hold these securities until maturity, which as described above is short-term.

Loans and advances to banks – For these assets, the carrying amount is a reasonable estimate of fair value.

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

Investments – Unlisted securities are stated at cost unless there has been any permanent diminution in value. Market quotes are not available for these securities.

Loans and advances from banks – The carrying amount is a reasonable estimate of fair value.

Customer accounts – The carrying amount is a reasonable estimate of fair value.

Debt securities issued – Debt securities issued are stated at cost, adjusted for amortization of premium and discounts.

26. MATURITY ANALYSIS

	Up to 1 month	1 to 3 months	3 – 6 months	6 months to 1 year	More than 1 year	Allowance for losses	Total
ASSETS							
Loans and advances to banks, net	34,962,986	-	348,723	815,175	-	(238,291)	35,888,593
Dealing securities, net	126,000	-	48,425	10,164,958	-	(218,870)	10,120,513
Loans and advances to customers, net	29,811,467	20,124,220	10,430,396	23,933,134	13,285,711	(11,355,257)	86,229,671
Interest earning assets	64,900,453	20,124,220	10,827,544	34,913,267	13,285,711	(11,812,418)	132,238,777
Cash and balances with the National Bank of Ukraine	27,596,744	-	-	-	-	-	27,596,744
Investments, net	-	-	-	-	1,914,363	(365,773)	1,548,590
Fixed assets, net	-	-	-	-	10,518,144	-	10,518,144
Goodwill, net	-	-	-	-	1,213,041	-	1,213,041
Other assets, net	17,600,866	5,898	4,719	99,091	451,807	(306,069)	17,856,312
TOTAL ASSETS	110,098,063	20,130,118	10,832,263	35,012,358	27,383,066	(12,484,260)	190,971,608
LIABILITIES AND SHAREHOLDERS' EQUITY							
Loans and advances from banks	32,113,229	-	7,466,459	-	-	-	39,579,688
Customer accounts	63,593,521	6,587,664	8,824,421	7,014,203	7,442,803	-	93,462,612
Interest bearing liabilities	95,706,750	6,587,664	16,290,880	7,014,203	7,442,803	-	133,042,300
Securities issued	7,648,136	-	-	-	-	-	7,648,136
Other liabilities	1,831,931	8,802	-	2,272	139,702	459,245	2,441,952
Share capital	-	-	-	-	35,765,308	-	35,765,308
Fixed assets revaluation reserve	-	-	-	-	277,586	-	277,586
Share premium	-	-	-	-	1,999,847	-	1,999,847
Retained earnings	-	-	-	-	9,796,479	-	9,796,479
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	105,186,817	6,596,466	16,290,880	7,016,475	55,421,725	459,245	190,971,608
Interest Rate Sensitivity Gap	(30,806,297)	13,536,556	(5,463,336)	27,899,064	5,842,908		
Cumulative Interest Rate Sensitivity Gap	(30,806,297)	(17,269,741)	(22,733,077)	5,165,987	11,008,895		
Cumulative Interest Rate Sensitivity Gap as a Percentage of Total Assets	(16.1%)	(9.0%)	(11.9%)	2.7%	5.8%		

The majority of the Bank's interest earning assets and interest bearing liabilities are at fixed rates of interest.

The maturity of the loan portfolio as presented above shows the remaining period from the balance sheet date to the contractual maturity. Long term loans are generally not available in Ukraine, however many short-term loans are granted with the expectation of renewing the loans at maturity. Accordingly, the effective maturity of the loan portfolio may be longer than indicated by the analysis based on the contractual terms.

27. CURRENCY ANALYSIS

	UAH	Freely convertible currencies	Non-convertible currencies	Allowance for losses	Total
ASSETS					
Cash and balances with the National Bank of Ukraine	25,979,715	1,576,244	40,785	-	27,596,744
Loans and advances to banks, net	298,282	35,454,695	373,907	(238,291)	35,888,593
Dealing securities, net	10,339,383	-	-	(218,870)	10,120,513
Loans and advances to customers, net	68,453,173	29,131,755	-	(11,355,257)	86,229,671
Investments, net	1,851,396	-	62,967	(365,773)	1,548,590
Fixed assets, net	10,518,144	-	-	-	10,518,144
Goodwill, net	1,213,041	-	-	-	1,213,041
Other assets, net	17,287,556	874,825	-	(306,069)	17,856,312
TOTAL ASSETS	135,940,690	67,037,519	477,659	(12,484,260)	190,971,608
LIABILITIES AND SHAREHOLDERS' EQUITY					
Loans and advances from banks	19,706,275	19,873,413	-	-	39,579,688
Customer accounts	68,620,981	24,538,635	302,996	-	93,462,612
Securities issued	7,648,136	-	-	-	7,648,136
Other liabilities	2,300,437	141,515	-	-	2,441,952
Share capital	35,765,308	-	-	-	35,765,308
Fixed assets revaluation reserve	277,586	-	-	-	277,586
Share premium	1,999,847	-	-	-	1,999,847
Retained earnings	9,796,479	-	-	-	9,796,479
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	146,115,049	44,553,563	302,996	-	190,971,608
NET POSITION	(10,174,359)	22,483,956	174,663		

Freely convertible currencies above represent mainly USD amounts, but also include currencies of other OECD countries. Non convertible amounts relates to currencies of other CIS countries.