

**JOINT STOCK COMMERCIAL BANK
UKRGAZBANK**

**Independent Auditors' Report and
Financial Statements for the Year
Ended 31 December 1999**

JOINT STOCK COMMERCIAL BANK UKRGAZBANK

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of
Ukrgazbank Joint Stock Company:

We have audited the accompanying balance sheet of Joint Stock Commercial Bank Ukrgazbank (the “Bank”) as at 31 December 1999 and the related profit and loss account, 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 2 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. The Bank has not determined the effect of not adopting this standard on the financial statements.

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 1999 and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

As discussed in the Note 1 to the financial statements, the Bank’s current financial condition and future operations could be affected by continued economic difficulties in Ukraine and the CIS.

21 April 2000

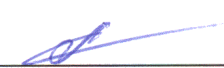
JOINT STOCK COMMERCIAL BANK UKRGAZBANK

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1999 (in Ukrainian Hryvnias)

	Notes	1999	1998
Interest income		10,948,456	5,281,381
Interest expense		<u>(4,026,120)</u>	<u>(3,014,872)</u>
NET INTEREST INCOME	3	6,922,336	2,266,509
Provision for losses on loans and advances	4	<u>(4,172,822)</u>	<u>(2,300,816)</u>
NET INTEREST INCOME/(LOSS) AFTER PROVISION FOR LOSSES		2,749,514	(34,307)
Fee and commission income		13,357,971	3,749,839
Fee and commission expense		<u>(1,619,575)</u>	<u>(362,161)</u>
Foreign exchange gains, net		1,892,576	1,939,048
Other income		<u>336,335</u>	<u>89,125</u>
NET NON-INTEREST INCOME		<u>13,967,307</u>	<u>5,415,851</u>
OPERATING INCOME		16,716,821	5,381,544
Operating expenses	5	<u>(11,695,263)</u>	<u>(3,703,728)</u>
INCOME BEFORE OTHER PROVISIONS AND INCOME TAXES		5,021,558	1,677,816
Provision for guaranties, investments, and doubtful debts	6	<u>(682,031)</u>	<u>(147,538)</u>
INCOME BEFORE INCOME TAXES		4,339,527	1,530,278
Income taxes	7	<u>(997,593)</u>	<u>(217,172)</u>
NET INCOME		<u><u>3,341,934</u></u>	<u><u>1,313,106</u></u>

On behalf of the Board


Vasiliy Gorbaliy, Chairman of the Board


Margarita Krupa, Chief Accountant

The notes on pages 6 to 20 form an integral part of these financial statements.


JOINT STOCK COMMERCIAL BANK UKRGAZBANK

BALANCE SHEET 31 DECEMBER 1999 (in Ukrainian Hryvnias)

	Notes	1999	1998
ASSETS			
Cash, cash equivalents and balances with the National Bank of Ukraine	8	13,731,720	18,256,519
Loans and advances to banks, net	9	22,760,872	13,201,158
Dealing securities, net	10	4,002,725	91,364
Loans and advances to customers, net	11	28,042,734	8,549,493
Investments, net	12	2,845,935	667,220
Fixed assets, net	13	6,161,361	1,415,849
Goodwill, net	14	1,879,427	-
Other assets, net	15	11,666,647	864,722
TOTAL ASSETS		<u>91,091,421</u>	<u>43,046,325</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Loans and advances from banks	16	4,808,567	11,881,129
Customer accounts	17	44,532,485	22,605,624
Deferred income tax	7	331,923	-
Other liabilities		1,337,925	667,705
Total liabilities		<u>51,010,900</u>	<u>35,154,458</u>
COMMITMENTS AND CONTINGENCIES	20		
SHAREHOLDERS' EQUITY:	19		
Share capital		33,820,730	6,974,000
Share premium		1,999,990	-
Fixed assets revaluation surplus		277,586	277,586
Retained earnings		3,982,215	640,281
Total shareholders' equity		<u>40,080,521</u>	<u>7,891,867</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>91,091,421</u>	<u>43,046,325</u>

On behalf of the Board


Vasily Gorbaliy, Chairman of the Board


Margarita Krupa, Chief Accountant

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JOINT STOCK COMMERCIAL BANK UKRGAZBANK


STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 1999 (in Ukrainian Hryvnias)

	<u>Share Capital</u>	<u>Share Premium</u>	<u>Fixed Assets Revaluation Surplus</u>	<u>Retained Earnings / (Deficit)</u>	<u>Total</u>
Shareholders' equity as at 31 December 1997	2,300,000	-	30,074	(672,825)	1,657,249
Increase in share capital	4,755,000	-	-	-	4,755,000
Shares repurchased	(81,000)	-	-	-	(81,000)
Increase in fixed assets revaluation surplus	-	-	247,512	-	247,512
Net profit	-	-	-	1,313,106	1,313,106
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 profit	-	-	-	3,341,934	3,341,934
Shareholders' equity as at 31 December 1999	<u>33,820,730</u>	<u>1,999,990</u>	<u>277,586</u>	<u>3,982,215</u>	<u>40,080,521</u>

On behalf of the Board



Vasily Gorbaliy, Chairman of the Board



Margarita Krupa, Chief Accountant

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JOINT STOCK COMMERCIAL BANK UKRGAZBANK

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 1999 (in Ukrainian Hryvnias)

	Notes	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income taxes		4,339,527	1,530,278
Adjustments for:			
Provision for losses		4,854,853	2,448,354
Depreciation and amortization expense		551,500	142,629
Change in net interest accruals		(4,599,296)	(132,686)
Operating profit before changes in operating assets and liabilities		<u>5,146,584</u>	<u>3,988,575</u>
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Reserve balances with National Bank of Ukraine		(2,567,516)	(2,974,641)
Loans and advances to banks		9,514,559	(11,552,083)
Dealing securities		(965,124)	318,588
Loans and advances to customers		(13,654,813)	(7,089,025)
Other assets		455,984	(166,001)
Increase/(decrease) in operating liabilities:			
Loans and advances from banks		(7,334,387)	6,288,474
Customer accounts		11,888,019	15,029,739
Other liabilities		17,614	261,768
Net cash provided by operating activities before income taxes		<u>2,500,920</u>	<u>4,105,394</u>
Income tax paid		(665,670)	(217,172)
Net cash provided by operating activities		<u>1,835,250</u>	<u>3,888,222</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of fixed assets		(1,496,229)	(1,125,074)
Disposals of fixed assets		22,014	56,597
Purchase of investments, net		(1,730,280)	(785,220)
Payment for purchase of banks, net of cash acquired	18	1,242,901	-
Net cash used in investing activities		<u>(1,961,594)</u>	<u>(1,853,697)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Share capital issued and registered		4,700,000	4,750,000
Share capital issued and not registered		-	5,000
Share premium received		1,999,990	-
Share capital repurchased		(545,410)	(81,000)
Net cash provided by financing activities		<u>6,154,580</u>	<u>4,674,000</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		<u>6,028,236</u>	<u>6,708,525</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8	<u>14,207,921</u>	<u>7,499,396</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	8	<u><u>20,236,157</u></u>	<u><u>14,207,921</u></u>

On behalf of the Board


Vasily Gorbaliy, Chairman of the Board


Margarita Krupa, Chief Accountant

The notes on pages 6 to 20 form an integral part of these financial statements.

JOINT STOCK COMMERCIAL BANK UKRGAZBANK

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1999 (in Ukrainian Hryvnias)

1. BASIS OF PRESENTATION AND OPERATING ENVIRONMENT

Ukrgazbank's (the "Bank") principal business activities are within Ukraine. Ukraine continues to experience economic difficulties following the financial crisis of 1998. Consequently, the Country's currency continues to devalue, prices of debt and equity securities are depressed, the rate of inflation has increased and confidence in the banking sector has yet to be fully restored. In addition, laws and regulations affecting businesses operating within Ukraine, as well as throughout the CIS, continue to change rapidly.

Ukraine's return to 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.

The Bank's assets and operations could be at risk if there is any further significant adverse changes in the political and business environment. Because of the uncertainty of the impact, if any, of such conditions on the Bank, no adjustments have been included in the accompanying financial statements.

2. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Joint Stock Commercial 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 Transcarpathian region and Ukrnaftogazbank 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 9 branches in different regions of Ukraine.

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"). These financial statements have been prepared from these accounting records and have been adjusted to conform with IAS, except that IAS No. 29 "Financial Reporting in Hyperinflationary Economies" has not been adopted.

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 National bank of Ukraine (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:

	1999	1998
	UAH	
1 United States Dollar	5.2163	3.4270
1 German Mark	2.6793	2.0484
1 Russian Ruble	0.1932	0.1659

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 loans 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.

Investments – Investments represent the Bank’s participating interests and shares in affiliated and subsidiary undertakings and other investments in shares. All 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.

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. 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 change in 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	20%
Motor vehicles	25%
Fixtures and other	10%

Goodwill – Goodwill arising on 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 has elected to amortize goodwill arising in 1999 on acquisition of two banks during a three-year period on a straight-line basis.

Interest, Fees and Commissions – Interest, fees and commissions are recognized in the period they are earned or incurred.

Income 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.

Reclassifications – Certain amounts reported in the 1998 financial statements have been reclassified to conform to the 1999 presentation.

3. NET INTEREST INCOME

	1999	1998
Interest income		
Loans and advances to banks	2,658,733	721,949
Loans and advances to customers	8,053,815	2,808,003
Treasury bills and other securities	235,908	1,751,429
	<u>10,948,456</u>	<u>5,281,381</u>
Total interest income		
	<u>10,948,456</u>	<u>5,281,381</u>
Interest expense		
Loans and advances from banks	3,401,648	1,871,415
Customer accounts	624,472	1,143,457
	<u>4,026,120</u>	<u>3,014,872</u>
Total interest expense		
	<u>4,026,120</u>	<u>3,014,872</u>
Net interest income	<u>6,922,336</u>	<u>2,266,509</u>

4. PROVISION FOR LOSSES ON LOANS AND ADVANCES

	1999	1998
Provisions on loans and advances to banks (note 9)	135,113	262,011
Provisions on loans and advances to customers (note 11)	<u>4,037,709</u>	<u>2,038,805</u>
	<u>4,172,822</u>	<u>2,300,816</u>

The movements in the provision are as follows:

	Loans and advances to banks	Loans and advances to customers	Total
At 31 December 1997	24,044	1,389,333	1,413,377
- provision	262,011	2,038,805	2,300,816
At 31 December 1998	<u>286,055</u>	<u>3,428,138</u>	<u>3,714,193</u>
- provision	135,113	4,037,709	4,172,822
- loan write-offs	-	(2,344,000)	(2,344,000)
At 31 December 1999	<u>421,168</u>	<u>5,121,847</u>	<u>5,543,015</u>

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

5. OPERATING EXPENSES

	1999	1998
Financial risks insurance expense	2,500,000	-
Staff costs	2,406,263	1,471,109
Taxes other than income tax	1,685,307	299,729
Repairs and maintains	686,419	24,765
Communication	615,373	213,390
Security expenses	562,732	152,140
Advertising	445,194	220,665
Depreciation	431,772	142,629
Professional services fees	417,706	298,219
Leasing costs	366,715	33,609
Payments to Deposits Guaranty Fund	283,432	-
Amortization of goodwill	119,728	-
Other	<u>1,174,622</u>	<u>847,473</u>
	<u>11,695,263</u>	<u>3,703,728</u>

Financial risks insurance expense represents amounts paid to an insurance company 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 GUARANTIES, INVESTMENTS AND DOUBTFUL DEBTS

	1999	1998
Provisions on investments and dealing securities (notes 10, 12)	587,644	118,000
Provisions on doubtful debts (note 15)	123,925	-
(Recovery) provision on guarantees	<u>(29,538)</u>	<u>29,538</u>
	<u>682,031</u>	<u>147,538</u>

The movements in the provision are as follows:

	Investments and dealing securities	Doubtful debts	Provision for guarantees issued	Total
At 31 December 1997	-	-	-	-
- provision	118,000	-	29,538	147,538
At 31 December 1998	118,000	-	29,538	147,538
- provision / (recovery)	587,644	123,925	(29,538)	682,031
At 31 December 1999	<u>705,644</u>	<u>123,925</u>	<u>-</u>	<u>829,569</u>

The provisions for doubtful debts and investments are deducted from the related asset.

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.

Major components of tax expense:

	1999	1998
Current tax expense	665,670	217,172
Deferred tax expense	<u>331,923</u>	<u>-</u>
Tax expense	<u>997,593</u>	<u>217,172</u>

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

	1999	1998
Income before provision for income taxes	<u>4,339,527</u>	<u>1,530,278</u>
Tax at the statutory tax rate of 30%	1,301,858	459,083
Tax effect of adjustments required in determining taxable profit:		
Non-deductible expenses	1,794,752	277,267
Tax exempt income	(1,832,868)	(372,420)
Change in valuation allowance	<u>(266,149)</u>	<u>(146,758)</u>
Tax expense	<u>997,593</u>	<u>217,172</u>

The deferred asset and liability comprises the following:

	1999	1998
Deferred tax asset:		
Allowance for loans and advances to banks and customers	-	173,249
Allowance for dealing securities	453,402	-
Allowance for equity investments	209,964	35,400
Allowance for guarantees	-	8,861
Accrued expenses not recognized until paid	41,484	48,639
	<u>704,850</u>	<u>266,149</u>
Deferred tax liability:		
Provision (calculated in compliance with Central Bank instructions) deducted for tax purposes to be reversed in future periods	(352,249)	-
Accrued income not recognised until paid	(684,524)	-
	<u>(1,036,773)</u>	<u>-</u>
Deferred tax (liability) asset	<u>(331,923)</u>	<u>266,149</u>

As at 31 December 1999 the Bank recognized its deferred tax liability in the amount of UAH 331,923. Deferred tax assets of UAH 266,149 as at 31 December 1998 have not been recorded due to the uncertainty of both future taxable income and the changing Ukrainian statutory tax regulations.

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 1999 and 1998, which amounted to UAH 7,412,669 and UAH 4,781,549, respectively.

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

	1999	1998
Cash on hand	5,229,387	1,299,368
Balances with the NBU	8,502,333	16,957,151
	<u>13,731,720</u>	<u>18,256,519</u>
Correspondent accounts in OECD banks (included in loans and advances to banks)	13,917,106	732,951
	<u>27,648,826</u>	<u>18,989,470</u>
Less minimum reserve deposit with the NBU	(7,412,669)	(4,781,549)
Total cash and cash equivalents	<u>20,236,157</u>	<u>14,207,921</u>

9. LOANS AND ADVANCES TO BANKS

	1999	1998
Advances to banks	14,549,846	765,271
Loans to banks	8,632,194	12,721,942
	<u>23,182,040</u>	<u>13,487,213</u>
Less allowance for loan losses	(421,168)	(286,055)
Loans and advances to banks	<u>22,760,872</u>	<u>13,201,158</u>

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

10. DEALING SECURITIES

	1999	1998
Ukrainian government treasury bills	3,134,136	91,364
Other	947,352	-
	<u>4,081,488</u>	<u>91,364</u>
Less allowance for losses	(78,763)	-
	<u>(78,763)</u>	<u>-</u>
Dealing securities	<u>4,002,725</u>	<u>91,364</u>

Treasury bills held by the Bank are recorded at cost less provision for impairment as of 31 December 1999 and 1998. 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.

11. LOANS AND ADVANCES TO CUSTOMERS

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

Analysis by sector	1999	1998
Consumer loans	5,421,220	3,039,176
Trading and catering companies	5,151,389	3,247,000
Oil and gas industry	4,903,366	-
Retail trade	4,514,506	-
Agriculture	3,930,226	707,300
Pharmacy	1,590,836	-
Construction	1,256,884	-
Machine building	954,502	-
State bodies	819,556	2,119,034
Forestry	705,364	942,542
Metallurgy	795,418	-
Other	3,121,314	1,922,579
	<u>33,164,581</u>	<u>11,977,631</u>
Less allowance for loan losses	(5,121,847)	(3,428,138)
	<u>(5,121,847)</u>	<u>(3,428,138)</u>
Loans and advances to customers	<u>28,042,734</u>	<u>8,549,493</u>

As separately disclosed in Note 21, the Bank makes loans to related parties, including companies and employees of the Bank. At 31 December 1999, the Bank had a total of UAH 9,342,239 outstanding to these parties (1998 – UAH 1, 797,325).

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

	1999	1998
Private companies	26,917,477	6,819,421
Loans to employees and management (Note 21)	2,547,348	1,222,561
Loans to individuals	2,880,200	1,816,615
State organisations	819,556	2,119,034
	<u>33,164,581</u>	<u>11,977,631</u>
Less allowance for loan losses	(5,121,847)	(3,428,138)
	<u>(5,121,847)</u>	<u>(3,428,138)</u>
Loans and advances to customers	<u>28,042,734</u>	<u>8,549,493</u>

12. INVESTMENTS

	Sector	Ownership Interest	1999	1998
Investments in associated companies	Pharmacy	Up to 45%	1,374,833	286,480
Promissory notes	-	-	1,833,393	151,000
Non-consolidated subsidiary	Agriculture	-	-	18,000
Other investments	-	Up to 20%	264,590	329,740
			<u>3,472,816</u>	<u>785,220</u>
Less allowance for investment losses			(626,881)	(118,000)
			<u>2,845,935</u>	<u>667,220</u>

All investments are made in companies based in Ukraine.

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 less provision for permanent diminution in value. The current market value of these investments has been estimated in the absence of readily ascertainable market values. Based on this estimate, management believes no permanent impairment exists such that no additional allowance for losses is required. If a ready market did exist, the Bank’s recorded value may have been different.

13. FIXED ASSETS

	Buildings and Improvements	Furniture, Vehicles and Equipment	Other	Total
At cost				
At 1 January 1999	619,293	936,059	27,511	1,582,863
Acquisitions	1,107,048	2,473,127	122,894	3,703,069
Additions	239,336	1,207,945	48,948	1,496,229
Disposals	<u>-</u>	<u>(26,990)</u>	<u>-</u>	<u>(26,990)</u>
At 31 December 1999	<u>1,965,677</u>	<u>4,590,141</u>	<u>199,353</u>	<u>6,755,171</u>
Accumulated depreciation				
At 1 January 1999	4,451	150,721	11,842	167,014
Depreciation expense	13,892	400,461	17,419	431,772
Disposals	<u>-</u>	<u>(4,976)</u>	<u>-</u>	<u>(4,976)</u>
At 31 December 1999	<u>18,343</u>	<u>546,206</u>	<u>29,261</u>	<u>593,810</u>
Net book value				
At 31 December 1999	<u>1,947,334</u>	<u>4,043,935</u>	<u>170,092</u>	<u>6,161,361</u>
Net book value				
At 31 December 1998	<u>614,842</u>	<u>785,338</u>	<u>15,669</u>	<u>1,415,849</u>

14. GOODWILL

	Total
Cost	
At 31 December 1998	-
Arising on acquisition of Service Bank	333,640
Arising on acquisition of Ukrnaftogazbank	<u>1,665,515</u>
At 31 December 1999	<u>1,999,155</u>
Accumulated amortization	
At 31 December 1998	-
Charge for the year	<u>119,728</u>
At 31 December 1999	<u>(119,728)</u>
Carrying amount	
At 31 December 1999	<u>1,879,427</u>

15. OTHER ASSETS

	1999	1998
Accounts receivable on securities	4,790,660	-
Interest receivable on T-Bills	2,972,848	-
Interest receivable on loans	2,256,898	630,450
Other accounts receivable	<u>1,770,166</u>	<u>234,272</u>
	11,790,572	864,722
Less allowance for losses	<u>(123,925)</u>	-
Other assets	<u>11,666,647</u>	<u>864,722</u>

16. LOANS AND ADVANCES FROM BANKS

	1999	1998
Advances from banks	5,052	11,881,129
Loans from banks	<u>4,803,515</u>	-
Loans and advances from banks	<u>4,808,567</u>	<u>11,881,129</u>

17. CUSTOMER ACCOUNTS

	1999	1998
Demand accounts	34,476,872	19,507,124
Term deposits	<u>10,055,613</u>	<u>3,098,500</u>
Customer accounts	<u>44,532,485</u>	<u>22,605,624</u>

18. ACQUISITIONS

On 14 January 1999 and 24 December 1999 the Bank acquired 100% of the outstanding share capital of Service Bank and Ukrnaftogazbank, respectively. The consideration was in the form of shares of Ukrgazbank: for Service Bank – 2,200,160 shares and for Ukrnaftogazbank – 20,496,980 shares with the nominal value of 1 UAH plus cash of UAH 500,000. The Bank accounted for these acquisitions by use of purchase method of accounting and recognized goodwill arising from those transactions (Note 14). After acquisition these two banks lost their legal status and became branches of the Bank.

Fair value of assets and liabilities acquired:	Service Bank	Ukrnaftogas- bank
Cash and correspondent account with NBU	63,443	1,742,901
Loans and advances to banks	-	6,025,231
Dealing securities	-	3,025,000
Loans and advances to customers	1,786,703	8,089,434
Investments	500	956,815
Property, plant and equipment	125,485	3,577,585
Other assets	79,043	6,673,957
Loans and advances from banks	-	(261,825)
Customer accounts	(148,244)	(9,890,598)
Other liabilities	(40,570)	(607,036)
	<u>1,866,360</u>	<u>19,331,464</u>
Total consideration	<u>2,200,000</u>	<u>20,996,979</u>
Goodwill (Note 14)	<u>333,640</u>	<u>1,665,515</u>
Net cash inflow arising on acquisition:		
Cash consideration	-	500,000
Cash and cash equivalents acquired	-	1,742,901
	<u>-</u>	<u>1,242,901</u>

At the date of acquisition Ukrnaftogazbank hold UAH 2,120,432 worth of shares of the Bank.

Management of the Bank believes that there is no other additional expenses to be incurred due to acquisitions and, therefore, no provisions for restructuring were recognized at the date of acquisition, nor in the period since that date until 31 December 1999.

19. SHAREHOLDERS' EQUITY

As described in a Note 18, on 14 January 1999 the bank acquired Service Bank. This acquisition was made through new emission the Bank's shares and their consequent exchange for shares of Service Bank outstanding as at the date of acquisition in proportion one-to-one. 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. Since shares of the acquired bank had a nominal value of UAH 1, in order to exchange the Bank's shares for shares of the Service Bank, the Bank changed nominal value of its shares from UAH 1 to UAH 10 through exchange of one existing shares for ten newly issued.

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: new share emission and consequent exchange of shares issued for the shares of Ukrnaftogazbank outstanding as at the date of acquisition in proportion one-to-one. In addition, the Bank purchased for cash UAH 500,000 worth of shares of Ukrnaftogazbank with nominal value of UAH 1 on a secondary market. The emission of shares with relevant authorities relating to the Ukrnaftogazbank's acquisition was registered in 2000.

The Bank's class of ordinary of shares carries no right to fixed income and all ordinary shares have the same liquidation rights. Preferred shares carry no voting rights and are entitled to dividends of 50% of nominal value per annum to be paid in cash. Since acquisition of Ukrnaftogazbank took place at the end of the year, no dividends on preferred shares were accrued.

At 31 December 1999 and 1998, the Bank's share capital comprised the following number of shares, each having a nominal value of UAH 1 in 1999 and UAH 10 in 1998:

	1999 (nominal value UAH 1)	1998 (nominal value UAH 10)
Number of authorized and issued ordinary shares	<u>13,950,160</u>	<u>705,000</u>
Total value	<u><u>13,950,160</u></u>	<u><u>7,050,000</u></u>
Number of authorized, issued and fully paid ordinary shares	13,323,750	697,400
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>20,070,691</u>	<u>-</u>
Total value	<u><u>33,820,730</u></u>	<u><u>6,974,000</u></u>

20. COMMITMENTS AND CONTINGENCIES

As at 31 December 1999 and 1998, the Bank had UAH 289,612 and UAH 1,476,898 of outstanding commitments and contingencies including guaranties, letters of credit, foreign exchange commitments and lease obligations, respectively.

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. The total amount of claims against the Bank as at 31 December 1999 amounts to UAH 6,091 (1998 – no claims).

As of 31 December 1999, the Bank has made claims against third parties for UAH 1,466,277 (1998 – no claims) related to overdue loans to customers and promissory notes. Management plans to recognize these amounts when collectability is certain.

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.

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

	1999	1998
Within one year	2,696,743	8,302
In the second to fifth years inclusive	10,569,413	10,312
After five years	<u>1,717,743</u>	<u>2,664</u>
	<u>14,983,899</u>	<u>21,278</u>

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 the shares. The Bank is significantly involved in service and settlement operations in 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 is related to this company or to its subsidiaries and associates.

At 31 December 1999, the Bank had the following amounts outstanding to related parties:

- The Bank had loans totaling UAH 9,342,239 (1998 – UAH 1,797,325) to shareholders and related parties at market and lower than market rates;
- The Bank had an investment of UAH 155,479 with an indirect related party that leases premises to the Bank's branch in Odessa at lower than market price;
- The Bank had a promissory note from its related party in amount of UAH 151,000;
- The Bank had accounts receivable for amount of UAH 4,769,160 for equity shares sold to related parties;
- The Bank had balances on current and deposit accounts of its related parties in the amount of UAH 1,496,429.

Additionally, during 1999 the Bank has performed the following transaction with its related parties (immaterial for 1998):

- Sale of UAH 4,700,000 worth of newly issued shares to the Holding resulting in a share premium of UAH 1,999,990;
- Acquisition of Ukrnaftogazbank that was a related party (see Note 18);
- Sales of equity investments for the total amount of UAH 4,086,808;
- Purchases of equity investments for the amount of UAH 7,238,946.

During 1999 the Bank recorded income received and expenses incurred in respect of operations with related parties in the following amounts (immaterial for 1998)::

- Interest income – UAH 424 thousand;

- Fees and commission income – UAH 5,808 thousand, including UAH 5,715 thousand received from the Holding;
- Other income – UAH 700 thousand;
- Interest expense – UAH 27 thousand;
- Commission expenses – UAH 25 thousand;
- Other expenses – UAH 3,063 thousand, including payment of UAH 2,500 thousand for insurance of banking risks.

22. 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 1999 and 1998, the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

23. 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, judgement 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 1999 and 1998 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.

Loans and advances to banks – For these assets, 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 24, these securities have maturities up to 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 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.

24. 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	21,428,019	1,171,630	521,630	-	60,761	(421,168)	22,760,872
Dealing securities, net	947,352	105,933	-	3,028,203	-	(78,763)	4,002,725
Loans and advances to customers, net	9,817,814	13,109,253	5,092,296	2,261,696	2,883,522	(5,121,847)	28,042,734
Interest earning assets	32,193,185	14,386,816	5,613,926	5,289,899	2,944,283	(5,621,778)	54,806,331
Cash and balances with the National Bank of Ukraine	13,731,720	-	-	-	-	-	13,731,720
Investments, net	-	-	-	-	3,472,816	(626,881)	2,845,935
Fixed assets, net	-	-	-	-	6,161,361	-	6,161,361
Goodwill, net	-	-	-	-	1,879,427	-	1,879,427
Other assets, net	4,219,444	780,975	-	6,269,068	521,085	(123,925)	11,666,647
TOTAL ASSETS	50,144,349	15,167,791	5,613,926	11,558,967	14,978,972	(6,372,584)	91,091,421
LIABILITIES AND SHAREHOLDERS' EQUITY							
Loans and advances from Banks	905,052	3,903,515	-	-	-	-	4,808,567
Customer accounts	37,935,927	293,483	2,673,054	1,784,917	1,845,104	-	44,532,485
Interest bearing liabilities	38,840,979	4,196,998	2,673,054	1,784,917	1,845,104		49,341,052
Deferred income tax	-	-	-	331,923	-	-	331,923
Other liabilities	1,286,532	-	745	4,469	46,179	-	1,337,925
Share capital	-	-	-	-	33,820,730	-	33,820,730
Share premium	-	-	-	-	1,999,990	-	1,999,990
Fixed assets revaluation surplus	-	-	-	-	277,586	-	277,586
Retained earnings	-	-	-	-	3,982,215	-	3,982,215
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	40,127,511	4,196,998	2,673,799	2,121,309	41,971,804	-	91,091,421
Interest Rate Sensitivity Gap	(6,647,794)	10,189,818	2,940,872	3,504,982	1,099,179		
Cumulative Interest Rate Sensitivity Gap	(6,647,794)	3,542,024	6,482,896	9,987,878	11,087,057		
Cumulative Interest Rate Sensitivity Gap as a Percentage of Total Assets	(7%)	3%	7%	10%	12%		

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.

25. CURRENCY ANALYSIS

	UAH	Freely convertible currencies	Non-convertible currencies	Allowance for losses	Total
ASSETS					
Cash and balances with the National Bank of Ukraine	11,590,836	2,118,899	21,985	-	13,731,720
Loans and advances to banks, net	6,907,086	15,911,817	363,137	(421,168)	22,760,872
Dealing securities, net	4,081,488	-	-	(78,763)	4,002,725
Loans and advances to customers, net	31,506,351	1,658,230	-	(5,121,847)	28,042,734
Investments, net	3,472,816	-	-	(626,881)	2,845,935
Fixed assets, net	6,161,361	-	-	-	6,161,361
Goodwill, net	1,879,427	-	-	-	1,879,427
Other assets, net	11,706,901	83,671	-	(123,925)	11,666,647
TOTAL ASSETS	77,306,266	19,772,617	385,122	(6,372,584)	91,091,421
LIABILITIES AND SHAREHOLDERS' EQUITY					
Loans and advances from banks	3,905,052	903,515	-	-	4,808,567
Customer accounts	30,661,050	13,619,983	251,452	-	44,532,485
Deferred income tax	331,923	-	-	-	331,923
Other liabilities	1,119,802	218,123	-	-	1,337,925
Share capital	33,820,730	-	-	-	33,820,730
Share premium	1,999,990	-	-	-	1,999,990
Fixed assets revaluation surplus	277,586	-	-	-	277,586
Retained earnings	3,982,215	-	-	-	3,982,215
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	76,098,348	14,741,621	251,452	-	91,091,421

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.