



NATIONAL BANK OF UKRAINE

ANNUAL REPORT

2 0 0 5



Dear Sirs,

We would like to offer for your attention the Annual Report of the National Bank of Ukraine for 2005 prepared in accordance with the Law of Ukraine "On the National Bank of Ukraine".

The major achievements of Ukraine's macroeconomic development in 2005 primarily were the households' real income growth, unemployment decrease, inflation rate lowering and acceleration in the rates of foreign capital attraction to Ukraine.

Ukrainian banks essentially increased crediting of the economy, and the individuals' deposits unprecedentedly grew. International reserves of the National Bank of Ukraine almost doubled.

The National Bank of Ukraine's monetary policy in 2005 was aimed at supporting the hryvnia stability as a monetary prerequisite for the economic growth, at reaching the long-term social, structural and institutional goals.

We consider that the publication of the information of the results of the National Bank of Ukraine activity for the reporting year will promote transparency of its work and retaining of confidence in the national monetary unit.

I would like to assure you that the National Bank of Ukraine will continue the weighed monetary policy directed towards restraining the inflation rate, ensuring the economic recovery and raising the people's welfare.

Sincerely,

**Governor
of the National Bank of Ukraine**

A handwritten signature in black ink, consisting of stylized, cursive letters that appear to be 'V. Stelmakh'.

Volodymyr Stelmakh

Council

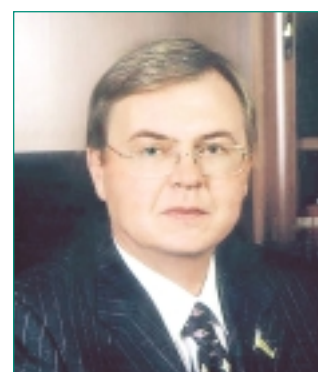
of the National Bank of Ukraine (as at 1 January 2006)



Valerii Heiets
Chairman of the Council
Director of the Economy
and Forecasting Institute
of the National Academy
of Sciences of Ukraine



Valerii Alioshyn
Deputy Chairman
of the Council
First Deputy Head of the
Pensioners, Veterans and Invalids
Committee of the Verkhovna
Rada of Ukraine



Serhii Buriak
Head of the Finance
and Banking Committee
of the Verkhovna Rada
of Ukraine



Anatolii Danylenko
Deputy Director
of the Economy
and Forecasting Institute
of the National Academy
of Sciences of Ukraine



Olexander Dubrov
President
of the "Keros-Kyiv" Ltd.,
Ukrainian - American Joint
Venture, Governor
of the "Keros" Group Board



Mykola Onischuk
First Deputy Head
of the Law Policy Committee
of the Verkhovna Rada
of Ukraine



Petro Poroshenko
Chairman
of the "Petro Poroshenko's
Charity Fund"



Petro Sabluk
Director of the National
Scientific Centre "Institute
for Agrarian Economy"
of the Ukrainian Academy
of Agrarian Sciences



Volodymyr Stelmakh
Governor
of the National Bank
of Ukraine



Yulia Tymoshenko
Head
of the political party
"All-Ukrainian Union
"Batkivshchyna"



Anatolii Fedorenko
Vice-President
of the Open Joint Stock
Company "KINTO"



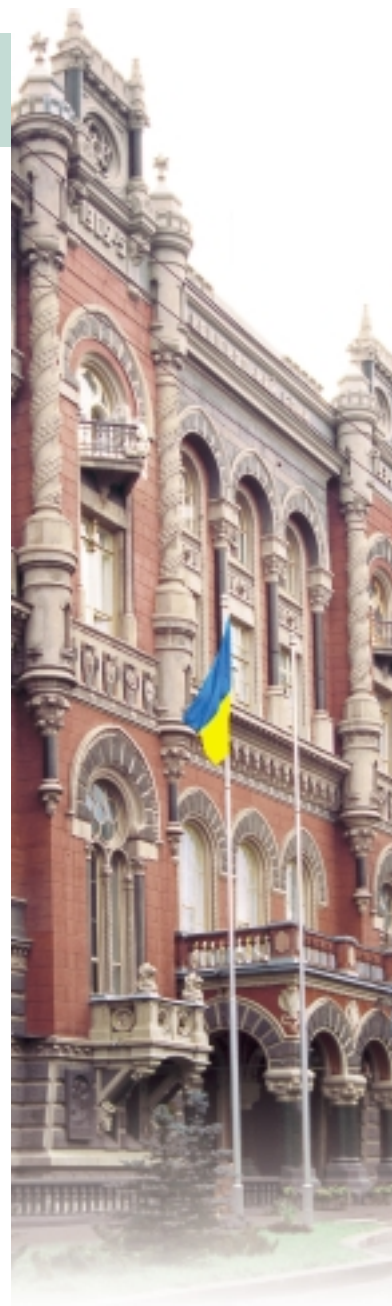
Hennadii Shemshuchenko
Deputy Director of the Banking
Law Centre attached to the
Koretskyi State and Law Institute
of the National Academy
of Sciences of Ukraine



Fedir Shpyh
Member of the Finance
and Banking Committee
of the Verkhovna Rada
of Ukraine



Ihor Yushko
Vice-President
of the "Interpipe" Corp.



Board

of the National Bank of Ukraine (as at 1 January 2006)



Volodymyr Stelmakh
Governor
of the National Bank
of Ukraine



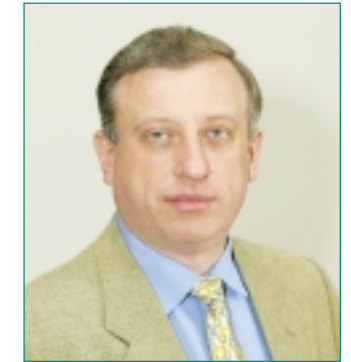
Anatolii Shapovalov
First Deputy Governor
of the National Bank
of Ukraine



Volodymyr Krotiuk
Deputy Governor
of the National Bank
of Ukraine



Olexander Savchenko
Deputy Governor
of the National Bank
of Ukraine



Pavlo Senysch
Deputy Governor
of the National Bank
of Ukraine



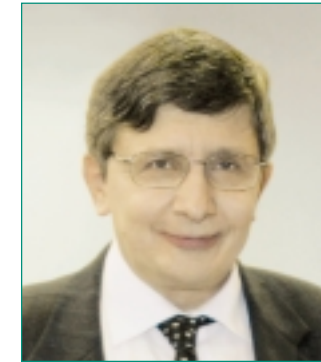
Viktor Kravets
Executive Director
on Payment Systems
and Settlements



Mykola Lavruk
Executive Director
on Administration



Olexander Tolstoi
Executive Director
on Cash Circulation



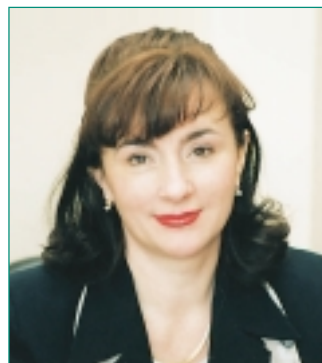
Ihor Shumylo
Executive Director
on the Economy



Natalia Hrebenyk
Director
of the Monetary Policy
Department



Ihor Ivaniuk
Director
of the Personnel
Department



Olha Kandybka
Director
of the Financial
Department



Vasyl Pasichnyk
Director
of the Legal
Department



Vira Rychakivska
Chief Accountant –
Director of the Accounting
Department



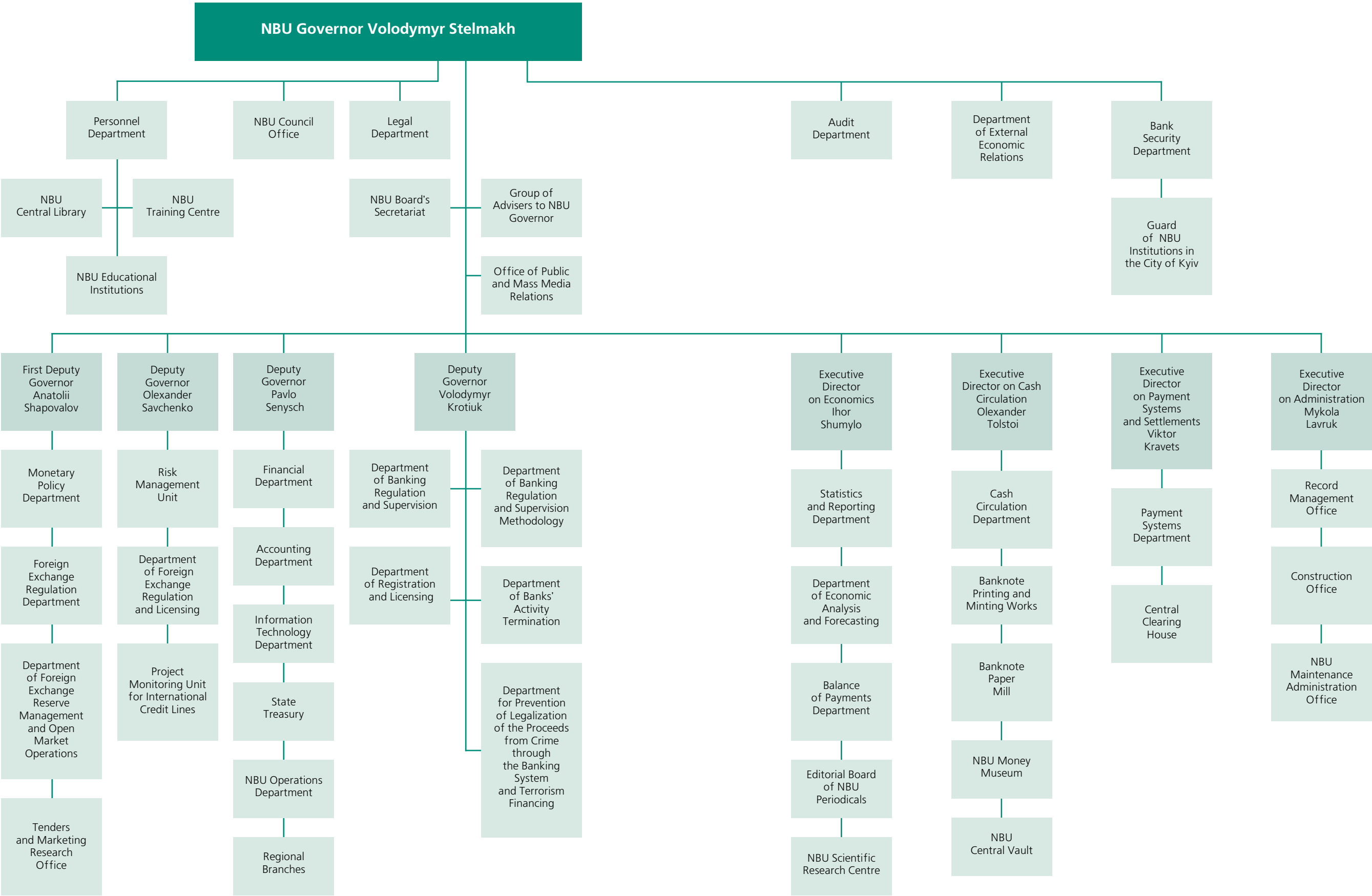
Anatolii Savchenko
Director
of the Information Technology
Department



Anatolii Stepanenko
Head
of the Main Branch
for the City of Kyiv
and Kyiv Region

Organization Chart

of the National Bank of Ukraine (as at 1 January 2006)



INTRODUCTION

Expectation of positive changes in consequence of new political and economic conditions in Ukraine determined the responsibility of the central authorities before both the population and the economic entities. In 2005, the "new wave" demographic processes started, which had a positive influence on the transparency of the Ukrainian economy acknowledged as the market economy by the EC and the USA. Under these conditions, homage should be done to the banking sector of Ukraine, which in 2005 showed higher quantitative and qualitative indicators of the development in Ukraine as compared with other economic sectors.

The reduction in the real GDP growth almost to one-fourth in 2005 was determined primarily by considerable structural transformations in the economy, as well as by dampening of the investment activity and worsening of the external conditions. The domestic demand increased mainly due to the increase in the household incomes supported in addition by the budget policy directed towards the current consumption.

The inflationary developments in 2005 in a great measure were determined by non-monetary factors. Among them remain a contemporary shortage of important commodities in the market of Ukraine (which caused price shocks in certain commodity markets), the growth of social expenditures (budgetary and pension ones), which outrun the GNP growth, and the energy carrier price increase under conditions of considerable power and material consumption of production.

The National Bank of Ukraine pursued the monetary policy in compliance with the Monetary Policy Guidelines for 2005, coordinated with the government economic policy. It was primarily directed towards restraining the inflation processes. To this end, the National bank of Ukraine followed the weighed policy in the foreign exchange market, permanently conducted the sterilization transactions through issuing the deposit certificates, strengthened requirements to the formation of required reserves and raised the discount rate to 9.5 per cent per annum.

One-time correction of the exchange rate of hryvnia against US dollar was an extra anti-inflation step of the monetary policy undertaken in April 2005 after the 5-year stability of the nominal exchange rate. This step was caused by a sharp increase in the foreign currency supply in the inter-bank foreign exchange market as a consequence of additional inflow of the speculative short-term capital due to the issue of government securities against the background of the undervalued national currency versus foreign currencies.

Therefore, keeping to the inflation benchmark was succeeded - the increase in consumer prices by the year results was less than in 2004 (10.3% against 12.3%).

The rise of money in circulation remained a standing pre-requisite of the economic growth. In 2005, the monetary base increased by 53.9% (in 2004 - by 34.1%). The total money supply in circulation increased by 54.3%, including in the national currency - by 55.4% (in 2004, by 32.4 and 26.8%, respectively). The money supply growth took place primarily due to transactions in the foreign exchange market as a result of considerable foreign exchange inflow with a necessary to maintain the hryvnia exchange rate stability. In 2005, the exchange rate of hryvnia against US dollar grew by 4.8%, the real effective exchange rate of hryvnia - by 15.3%, being the biggest increase after 2000. The main factor of the real strengthening of hryvnia in 2005 was its nominal strengthening against the US dollar, euro and Russian ruble.

During 2005, the National Bank of Ukraine took several fundamental steps towards further liberalization of certain transactions in the foreign exchange market. Among them, there were new rules of foreign currency trade, cancellation of the requirement of mandatory sale of receipts in foreign currency in favor of Ukrainian residents, removal of the restriction for the limit deviation of the sale/purchase rate under foreign currency transactions from the official exchange rate of hryvnia against foreign currencies etc.

The increase in social and other payments to the population in 2005 caused acceleration of the growth rate of cash outside the banks by 42.2% (in 2004 - by 27.9%). At the same time,

during 2005, the positive tendency of forming the money supply structure continued. As of the end of 2005, the share of cash within the money supply structure was 31.0% as compared with 33.7% in the beginning of the reporting year.

On the other hand, the rise of household incomes and renewal of confidence in the banking system, after the political instability at the end of 2004, contributed to high rates of the deposit growth in 2005.

The volume of banks' liabilities under the funds of economic entities and individuals, attracted to the banking system, in 2005 increased by 60.0% (in 2004 - by 34.6%). In 2005, the increase in bank liabilities under individuals' funds reached 75.9%, being the highest for the last 6 years. The increase in the individuals' deposits ensured 63.5% of the total deposit increase in 2005 and was a powerful restraining factor of inflation. Finances of economic entities increased during the reporting year by 44.0%. The majority of deposits were the funds in the national currency that increased during the year by 65.3%, their share in the deposit structure by currency types increased up to 65.7%, or by 2.1 percentage points. In 2005, the positive dynamics of growth of long-term deposit liabilities of the banks, whose volume increased by 62.4% during the year, continued. The current deposits of individuals in 2005 increased 2.2 times, including those in the national currency - 2.3 times. It should be mentioned, that almost half of the increase in the individuals' current account balances was caused by the rise of funds on the household card accounts.

The acting deposit insurance system also contributed to the deposits attraction. In accordance with the decision of the administrative council of the Individuals' Deposits Insurance Fund of April 21, 2005, No. 38, the compensation amount to depositors in case of bank's bankruptcy was increased up to UAH 5 thousand (in January 2006 - up to UAH 8 thousand).

Due to the essential growth of the resource base, banks continued to increase the volumes of crediting. Banks' claims under credits extended to the economy of Ukraine increased in 2005 by 61.9% (in 2004 - by 30.6%). The highest growth of banks' claims under extended credits ensured the increase in indebtedness under the credits extended to economic entities, whose volume in 2005 increased by 65.8% of the total growth of indebtedness under credits, extended to the economy of Ukraine. The positive dynamics of banks' credit deposits was influenced by considerable rates of growth of indebtedness under the credits extended to individuals (2.3 times), which caused the increase in its share within the total volume of credit deposits to the economy of Ukraine by 6.7 percentage points up to 23.4%. Within the structure of banks' claims under credits extended to the economy, like in the previous years, indebtedness under the credits in the national currency prevailed. As of the end of 2005, its share was 56.7% of the total credit investments to the economy. During 2005, the positive tendency of growth of the banks' long-term credit investments was preserved, the claims under which increased by 84.6% as compared with 2004. The positive tendency for 2005 was an essential growth of volumes of credits extended for the investment activity of economic entities, the indebtedness under which during the year increased 2.7 times (last year - 1.9 times). The crediting growth had a positive influence on the Ukrainian economy development. At this, the growth of crediting did not affect the quality of the banks' credit portfolio - the share of overdue and problem loans in the banks' general credit portfolio decreased during 2005 from 3.8% to 2.5%.

Despite the difficult start conditions in 2005, the negative consequences of worsening the situation at the end of 2004 were completely overcome already in the first quarter - the outflow of funds was not merely stopped, but the volumes of their attraction were resumed and the tendency of worsening the credit portfolio quality was overcome. In 2005, the qualitative characteristics of the banking sector development essentially improved - as of the end of 2005, the banks' capital was 5.8% of GDP, total assets - 50.2% of GDP and liabilities - 42.6% of GDP.

In 2005, the growth of the capital of Ukrainian banks continued. The balance capital of Ukrainian banks increased by 38.2% and as of January 01, 2006, was UAH 25.5 billion. The banks' regulative capital increased during 2005 up to UAH 26.4 billion (by 43.6%) or EUR 4.4 billion, where the main capital was 75.5%, and the additional one - 24.5%.

One of the most important tasks for Ukrainian banks was to ensure profitability and to increase efficiency of the banks' activity. Following the results of 2005, Ukrainian banks made a profit in the amount of UAH 2.2 billion, which exceeded the indicator of the previous year by 71.9%. The rates of growth of the banks' net profit during 2005 were considerably higher than their incomes (137.2%) and expenditures (134.9%). The ratio of banks' expenditures to their incomes was 92.1% (during 2004 – 93.7%). Profitability of assets increased up to 1.31% (from 1.07% in 2004), profitability of capital – up to 10.4% (from 8.4% respectively).

The dynamic growth of the banking operation volumes required activation of the work in perfecting the inter-bank settlements. In 2005, performed was the main part of technological work in creating the working draft of the electronic inter-bank transfer system of new generation (the code name is SEP-2). In September 2005, the research operation of the system started on the exhibition stand of the Central Accounting House.

The total amount of payment cards issued by Ukrainian banks (under which at least one operation was fulfilled during the year), in the reporting year increased by 45.0%. The amount of issued payment cards per one thousand citizens of Ukraine as of January 01, 2006, was about 528 cards, or increased during 2005 by 168 cards. As of January 01, 2006, the number of operations with payment cards issued by Ukrainian banks increased by 36.1% against 2004, and the number of operations during the year increased by 56.3%.

The creation of the National System of Mass Electronic Payments (NSMEP) was continued. As of January 01, 2006, 23 banks were its members. As of January 01, 2006, the total amount of NSMEP cards issued by Ukrainian banks reached 1.1 million. (in 2005 – 239.6 thousand cards were issued), the network of NSMEP card servicing amounted to 2.4 thousand units of the data terminal equipment (by 576 more, than in 2004). In 2005, the work was carried out in order to extend the field of application of NSMEP technologies and components owing to the development and realization of the "Transport Card", "Social Card", "Customs Card" and "Insurer's Card".

The foreign economic conditions continued to essentially influence the economy of Ukraine as a result of its increasing fusion into the world economy. The formal characteristic of the balance of payments in 2005 became a considerable inflow of foreign exchange by the items of the financial account, which compensated a decrease in the positive balance of the current account and allowed to double the level of the international reserves of the country. As of January 01, 2006, the NBU international reserves amounted to US\$ 19.4 billion, they increased by US\$ 9.9 billion during the year. The international reserve growth in 2005 was the highest for the years of Ukraine's independence.

The net inflow of direct foreign investment in 2005 amounted to US\$ 7.5 billion, which 4.4 times exceeded the 2004 indicator. The stated record volumes of the net inflow of direct foreign investments can be explained, first of all, by money receipts from the privatization of the VAT "Kryvorizhstal" metallurgical works in November 2005 and the sale of the Joint Stock Post Pension Bank "Aval" to the foreign investor.

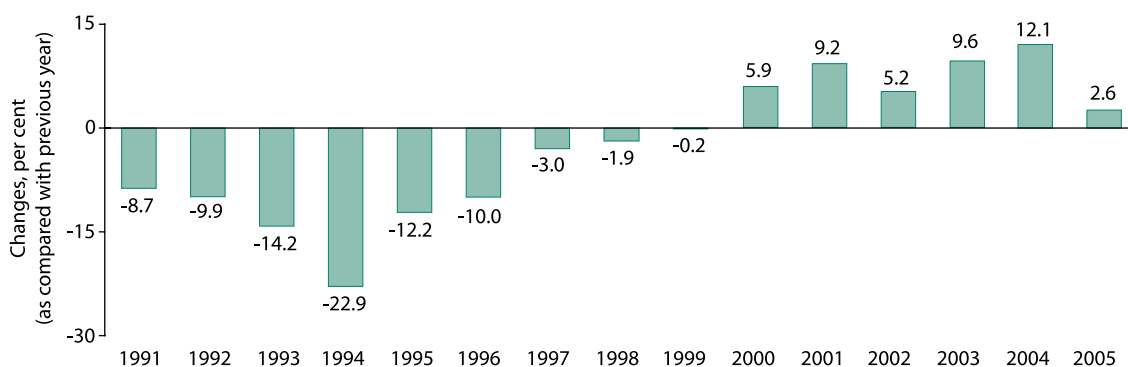
The Annual Report of the National Bank of Ukraine for 2005 presents the performance of the National Bank of Ukraine in the context of the analysis of internal and external economic conditions of the country development, which is an important element of transparency in the activity and the condition of growing trust in the central bank. The financial reporting confirmed by the auditor's conclusion is an integral part of this document.

Chapter 1
GENERAL ECONOMIC
SITUATION

1.1. GROSS DOMESTIC PRODUCT

In 2005, macroeconomic dynamics slumped as a real GDP growth decreased more than 5 times, as compared with 2004, and made up 2.6% that was the lowest rate in the five last years. During the year the highest and quite stable growth rate was observed in January. A slow economic growth was caused by an increase in social payments at the expense of investments; by aggravation of foreign economic conditions (as prices and demand for traditional Ukrainian exports fell on world markets); by a sharp rise in prices for imported gas and petroleum products, as well as by political uncertainty.

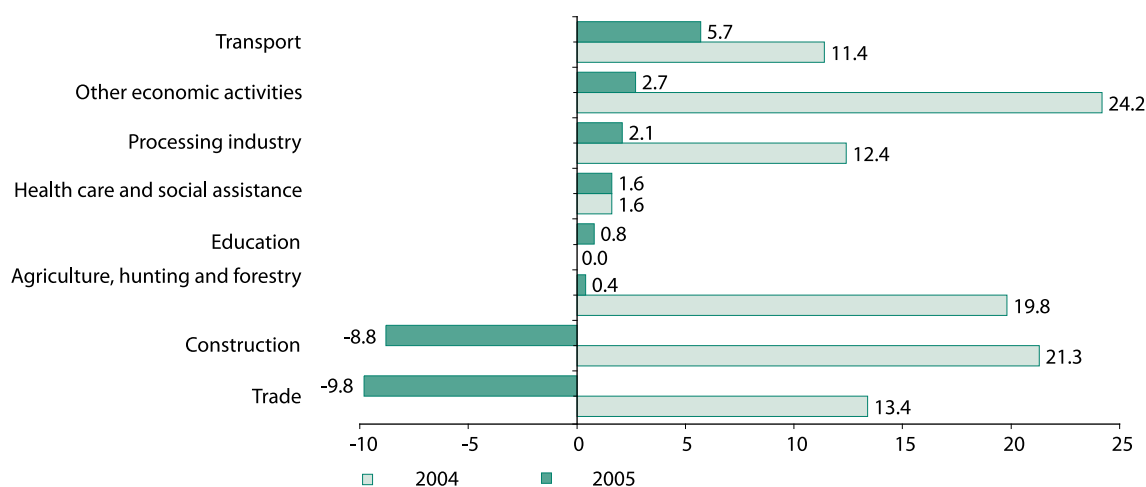
Ukraine's Real GDP in 1991–2005



In 2005, the nominal GDP totaled UAH 424.7 billion which was by 23.1% higher than in 2004. This growth is caused by a negative effect of price factor, the GDP deflator in 2005 making up 120.0%. The nominal GDP per capita reached UAH 9,017 (USD 1,760), which was by UAH 1,744 more than in 2004.

Slow annual rate of GDP growth in 2005 was a result of small increase in gross added value in processing industry (2.1% versus 14.7% in 2004), in agricultural sector, forestry and hunting (0.4% versus 19.5% in 2004), in transport industry (5.7% versus 10.3% in 2004) and in mining industry (3.9% versus 4.2% in 2004).

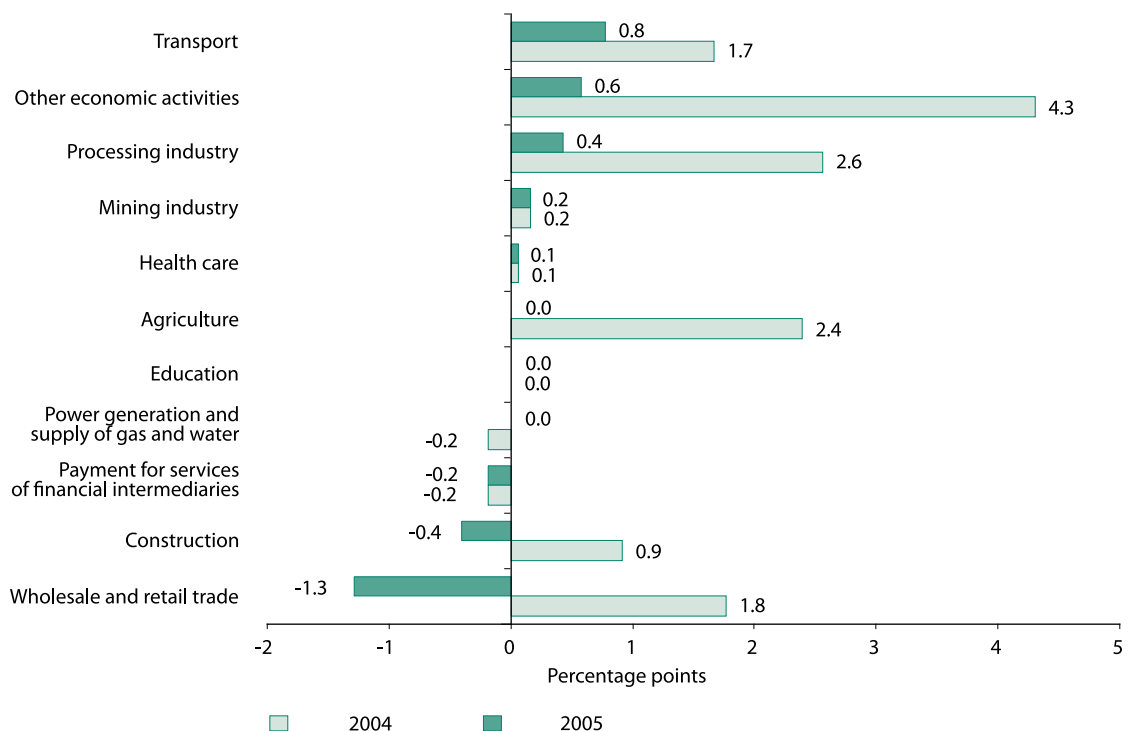
Gross Value Added by Main Economic Activities (% as compared with previous year)



¹ Based on average UAH/USD exchange rate in 2005.

In addition, in 2005, a negative gross added value was observed in wholesale and retail trade and in construction, (minus 9.8 and 8.8%, respectively). A slump in gross added value in trade was a result of, chiefly, removing the hidden patterns of interagency and declining wholesale trade in energy resources and petroleum products. A downward trend in gross added value in construction was caused by dropping investments and budget financing of investment projects, as well as by uncertainty as to property rights for previously privatized objects that resulted in fact that some nonresident investors suspended implementation of projects targeted towards the development of real sector.

Share of Individual Economic Activities within Total Growth of Gross Value Added (in comparable prices)



A share of production in the aggregated contribution of all economic industries in the economic growth amounted to only 0.2%, in 2005. In fact, the GDP growth was conditioned by a large increase in net product tax, its share in the GDP growth being 2.4 percentage points, that testifies to escalating tax pressure on the economy.

GDP STRUCTURE

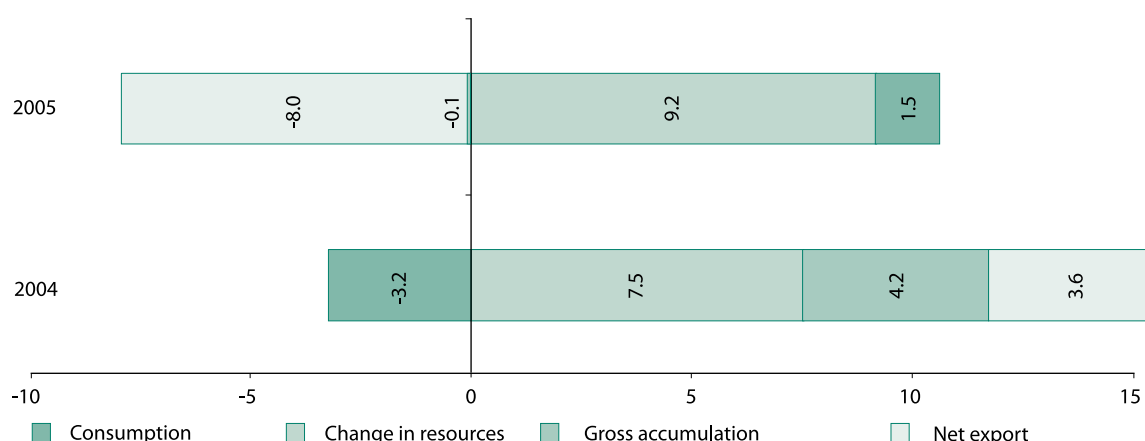
Indices	2005		<i>(in actual prices)</i> For information: 2004	
	Total value, UAH billion	Share in GDP, %	Total value, UAH billion	Share in GDP, %
GDP	424.7	100.0	345.1	100.0
including:				
Final consumer spendings	326.9	76.9	246.1	71.3
Gross accumulation	94.0	22.2	73.1	21.2
Net export of goods and services	3.7	0.9	25.9	7.5

The analysis of GDP structure by final consumption has showed that in 2005, the economic growth was chiefly stimulated by increasing consumer demand, the growth rate slowing down as compared with previous years and a share of state consumption and investments being small.

A share of final consumer spendings in the GDP structure in 2005 increased by 5.6 percentage points and accounted for 76.9%.

Households' consumer spendings grew by 16.6% and totaled 56.3% of GDP. This increment was provoked by rise in households' real income by 20.1% that was the principal factor of stimulating the domestic demand.

Share in GDP Growth by End Use (percentage points)*



* NBU calculations.

A share of consumer spendings in the government sector made up 19.3% which was by 1.7 percentage points higher than in 2004.

For the first time in last years an investment component had a negative share (minus 0.1 percentage points) in the GDP growth. In 2005, an increase in gross accumulation of fixed assets was negative (minus 0.3%).

Since the foreign economic conditions aggravated, net export had the largest negative contribution in the GDP growth (minus 8.0 percentage points), its share in the GDP structure by final consumption falling by 6.6 percentage points being equal to 0.9%. In 2005, goods and services export declined by 11.2%; import fell by 2.1%, as compared to 2004.

GDP STRUCTURE BY INCOME CATEGORIES

Indices	2005	2004
GDP	100.0	100.0
including:		
Salaries and wages of employees	47.0	45.6
Net taxes on production	13.5	10.2
Gross profit, mixed income	39.5	44.2

The GDP structure by income radically changed: as a result of escalating tax burden on enterprises (by 3.3 percentage points) and wage and salary rates (by 1.4 percentage points), a share of enterprises' gross profit materially decreased (by 4.7 percentage points) that led to slumping investment activities of enterprises.

1.2. DYNAMICS OF CONSUMER AND INDUSTRIAL PRODUCER PRICES. INFLATION AND ITS MAIN FACTORS

In 2005, inflation dynamics showed a downward trend, consumer price index being 110.3 against 112.3% in 2004.

PRICE INDICES	(% as compared with December 2004)	
	2005	For information: 2004
Consumer price index	110.3	112.3
Foodstuffs	110.7	115.3
Nonfoods	104.0	105.4
Services	115.8	107.9
Industrial producer price index	109.5	124.1
Mining industry	127.7	126.0
Processing industry	106.9	125.8
Power generation and supply of gas and water	113.1	113.0

The principal factors of consumer prices growth were "soft" fiscal policy of 2004 and an increase in households' income; contrary, slumping growth rate of producer price was a restrictive force.

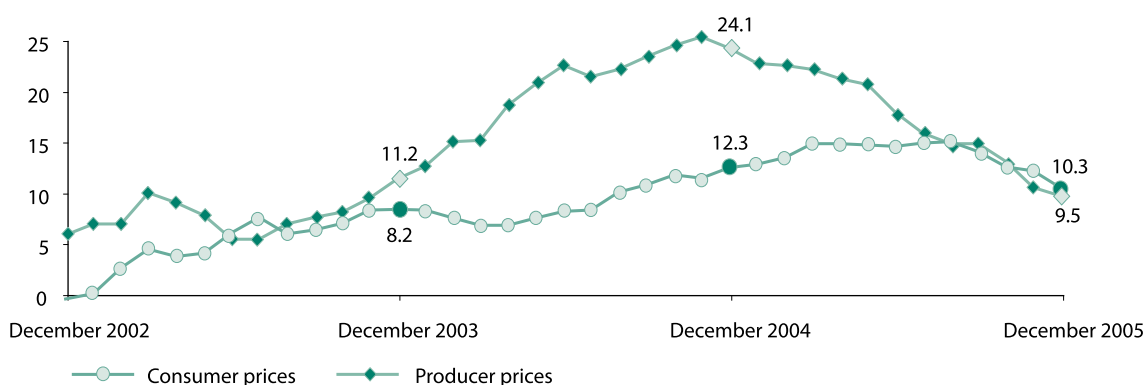
During the year inflation dynamics on the consumer market developed as follows:

– In the first quarter inflation pressure grew (12-month inflation increased from 12.3 to 14.7%), accelerated growth of producer prices (by 24.1%) in 2004 being among additional factors;

– In April-September, inflation pressure remained fixed due to rise in prices for foodstuffs (by 10.7% totally for the year), including, for meat and meat foods (in January-September by 19.8%, by 15.8% totally for the year) because of declining meat output, as well as for sugar in March-July (by 65.1%);

– In September-December inflation pressure weakened and made up 10.3% at the end of 2005, whereas prices for services grew.

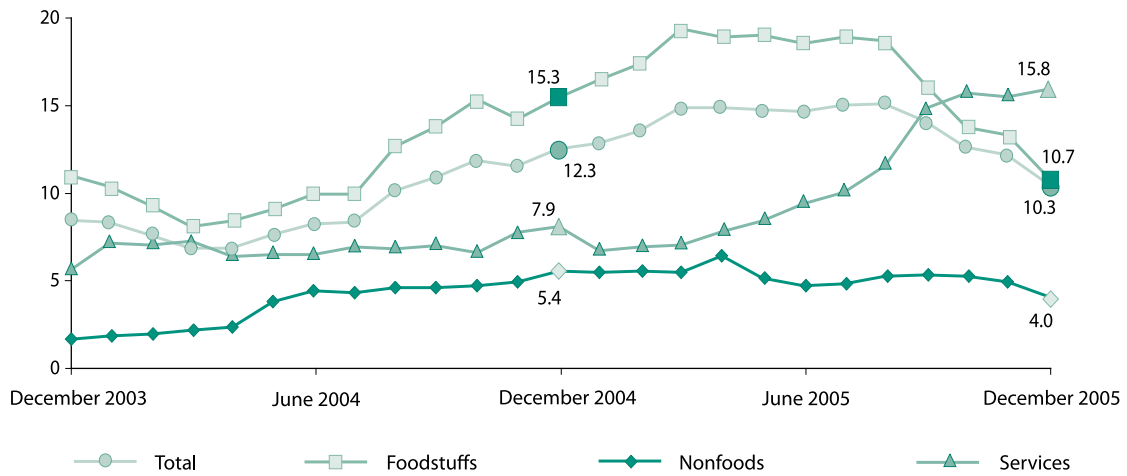
Price Dynamics in 2002–2005 (annual, %)



In 2005, prices for nonfoods increased by 4.0% (in 2004, by 5.4%), chiefly, for fuel and lubricants (by 24.5%), as a result of drastic rise in prices for fuel on the world market.

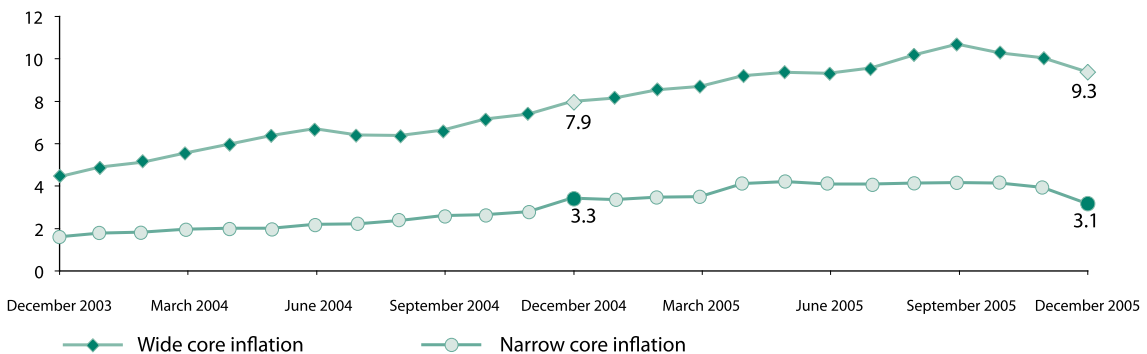
Average increase in prices for services made up 15.8% (in 2004, 7.9%), its growth rate being the highest for five last years; rise in prices for public utilities (by 10.1%) having the largest share in inflation. As a result of growing prices for real estate (by 38.0%) the rent fee increased. A rise in prices for transport services was provoked by growing prices for fuel.

Change in Price Level in 2003–2005 (annual, %)



During the year the core inflation grew, but in the fourth quarter it showed a downward trend. An increase in consumer demand stimulated by a material increase in real households' income (in 2005, by 20.1%), as a result of growing social payments, as well as negative inflation expectations caused rise in prices for consumer goods, that corresponds to ascending dynamics of 12-month wide core inflation (from 7.9 to 9.3%). However, at the end of the year the growth rate of total demand slowed down and so did core inflation dynamics.

Core Inflation Level (annual, %)

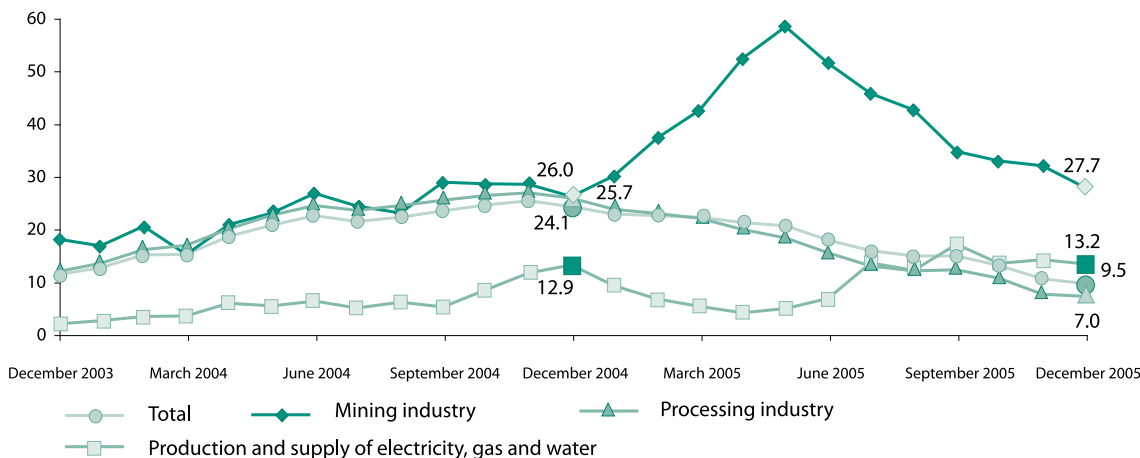


The NBU's sound monetary and currency policy promoted stabilization of price dynamics in Ukraine, including:

- Sharp revaluation of hryvnia in April (by 2.7%) and further stabilization of hryvnia exchange rate against U.S. dollar allowed the NBU to limit speculative capital inflow and to reduce inflation pressure;
- Regular operations on sterilization of broad money by issuing certificates of deposit;
- Strengthening of minimum reserve requirements for commercial banks;
- Increase in discount rate since August 10, 2005, from 9.0 to 9.5% annual.

In 2005, industrial producer prices increased by 9.5% (in 2004, by 24.5%). Such deceleration as compared with the previous year was a result of falling external demand for metal products, insofar as after the upward trend in 2002–2004 the world prices for steel decreased by 11.0%. However, a rapid slump in growth rate of producer prices was partially compensated by a substantial rise in prices in mining industry.

Dynamics of Producer Price Index in 2003–2005 (annual, %)

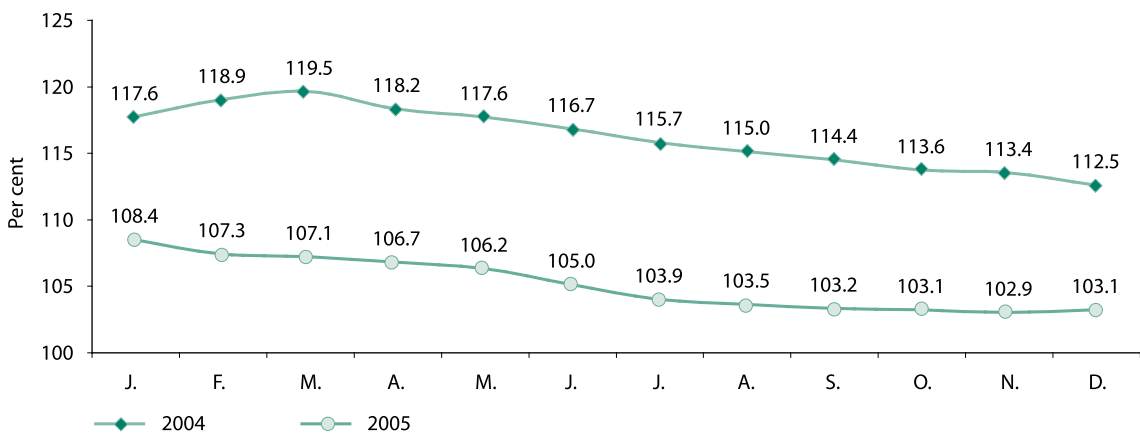


1.3. REAL ECONOMY SECTOR

1.3.1. Industrial Output

In 2005, the growth rate of industrial output continued to show a downward trend of the end of 2004, as a result of slumping investment activities, unfavorable external conditions (reduction of prices for traditional Ukrainian exports), high prices for energy resources, and fuel market crisis. The industrial output increment made up 3.1% that was 4 times less than in 2004. Consequently, industrial component in the GDP growth decreased from 28.3%, in 2004, to 21.3%, in 2005.

Growth of Industrial Output in Comparable Prices (as progressive total, % as compared with previous year)

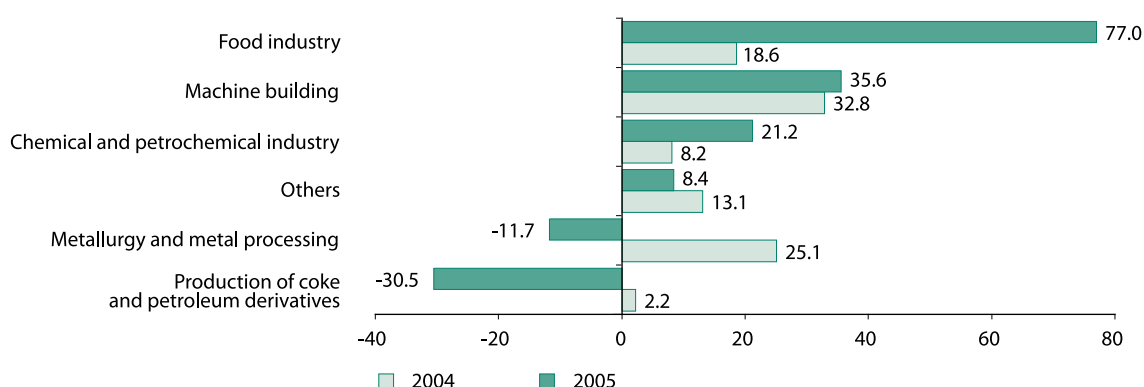


In the reporting year, Ukrainian industrial enterprises sold products worth UAH 385.4 billion, enterprises of processing industry having the lion's share of 77.5% in the total output, including metal manufacture and processing 25.2%, food industry and agricultural products processing 15.7%, machine-building 12.8%, coke and petroleum derivatives production 9.3%, chemical and petrochemical industry 6.7%.

BASIC INDUSTRIAL INDICES IN 2005²

Indices	Products sold, UAH billion	Share in the total products sold, %	Industrial output index, % as compared with previous year	
			For reference: 2005	2004
Industry	385.4	100.0	103.1	112.5
including:				
Mining industry	35.0	9.1	104.4	104.1
Processing industry	298.7	77.5	103.0	114.6
Production and supply of power, gas and water	51.7	13.4	102.9	98.9

During the year, positive dynamics of industrial output were provided chiefly by industries targeted towards meeting needs of domestic market, where demand stably grew as a result of a real increase in households' income. For instance, growth of output in food industry and processing of agricultural products reached 13.7% that provided 77.0% of the total industrial growth. Production of wood and wooden goods increased by 19.5%, its share in the total industrial output growth being 4.8%.

Share of Individual Industries in the Total Growth of Industrial Output, %

An increase in machine-building output by 7.1% stimulated positive dynamics of industrial output. Starting from the second quarter output rates in machine-building industry slowed down because of slumping export. However, in the fourth quarter demand for products of mechanical engineering improved so that at the end of the year machine-building industry had 35.6% in the total industrial output increment.

Output in chemical and petrochemical industry grew by 9.8% as compared with 2004 due to both an increase in chemical products export by 10.4%, and growth of domestic demand for some types of products, including fertilizers (an increase in production of potash fertilizers totaled 42.3%, nitrogen fertilizers 9.4%). As a result, in 2005, a share of chemical industry in the total industrial output increment made up 21.2%.

In September-December 2005, industrial output in the sphere of metal manufacture and processing showed an upward trend. In December, the growth rate reached 5.3%. However, it was not enough to compensate negative cumulative dynamics of output during the first half of

² According to preliminary data.

the year, as a result of substantial drop of external demand. Totally for the year, a decrease in output accounted for 1.5%. Output in the share of petroleum derivatives production also significantly dropped (by 13.4%), primarily, because of Odesa and Kherson Petroleum Refineries being under reconstruction and supply of Russian petroleum products to Ukraine's refineries falling. These two industries making up the one third of the total industrial output, the slump therein was the principal reason for general deceleration of output growth rates in 2005. Shares of these industries in the total output were negative and accounted for minus 11.7 and minus 30.6%, respectively.

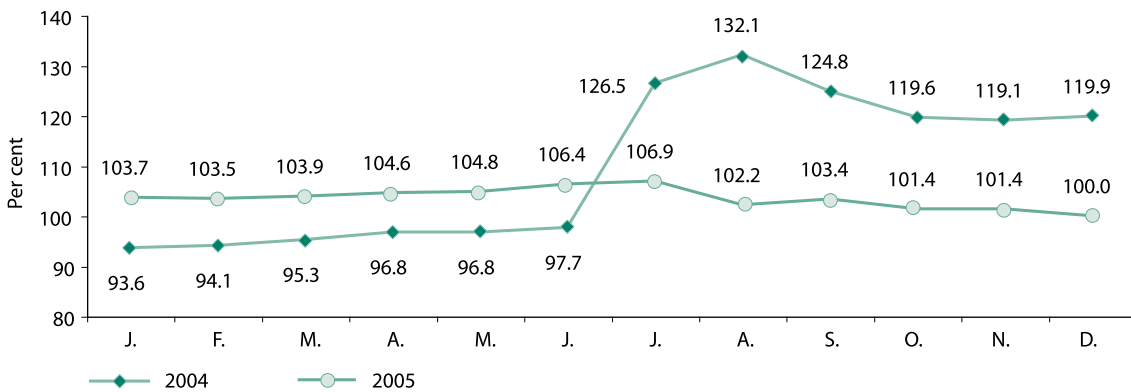
Some acceleration of output growth rate was observed in mining industry (4.4 versus 4.1% in 2004), that was provoked by an increase in growth rate of extraction of power-generating materials from 1.9%, in 2004, to 3.1%, in 2005, which compensated deceleration of growth rate in production of non-power-generating materials (from 7.6%, in 2004, to 5.7%, in 2005).

In the sphere of power generation and supply the output grew by 2.9% as a result of raising power generation rates by thermoelectric power stations and heat-and-power plants (by 1.7%), nuclear power plants (by 2.0%) and by hydroelectric power stations (by 5.1%). Totally, these plants generated 185.0 billion kWh, including 88.8 and 83.8 billion kWh produced by nuclear and thermoelectric power plants respectively, which was by 2.1% higher than in 2004.

1.3.2. Rural Economy

In 2005, the agricultural product output remained the same as in 2004 and amounted to UAH 92.5 billion (denominated in actual prices), farm enterprises and agricultural holdings raising the output by 1.5%, whereas private farms losing 1.0% versus previous year. Unlike in 2004, agricultural product output grew due to an increase in cattle-breeding output, a negative share of crop and plant production being caused by lingering drought and by high prices for fuel and lubricants.

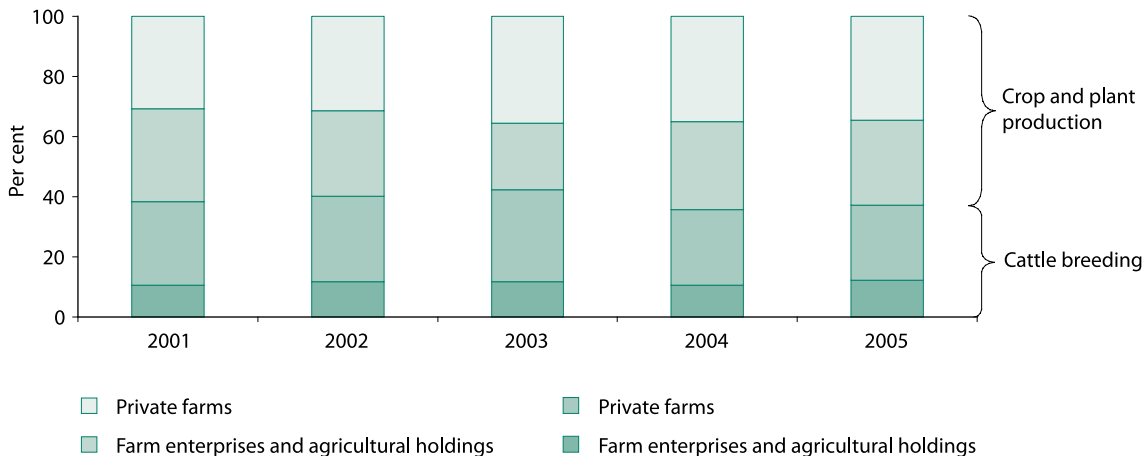
**Growth of Agricultural Output in Comparable Prices
(as progressive total in % as compared with previous year)**



Output in cattle-breeding rose by 4.4% as farm enterprises and agricultural holdings increased this index by 16.1%. At the same time, output in private farms decreased by 0.5%. Livestock yield grew by 22.3%, including poultry by 39.7% and pigs by 25.5%, whereas cattle dropped by 1.4%. A ratio of total livestock to cattle and poultry slaughtered was equal to 109.6, in 2005, versus 100.1%, in 2004. Pig livestock increased by 7.3%, mainly, due to its growth by 23.0% in farm enterprises and agricultural holdings. At the same time, it decreased by 0.2% in private farms. Poultry livestock increased by 6.6%, mainly, due to its growth by 29.9% in farm enterprises and agricultural holdings. At the same time, it decreased by 4.1% in private farms. Cattle livestock fell by 5.6% in all types of farms, the farm enterprises showing a more sub-

stantial decrease than private farms (7.5 and 1.1%, respectively). This reduction was caused by a lack of fodder in autumn and winter. As of January 1, 2006, the fodder stock amounted to 4.5 million tons that was by 9.9% less than at the beginning of 2005. Meat production dropped by 2.0% as a 10.8% growth in farm enterprises was not enough to compensate a 7.8% decrease in private farms. Eggs production increased by 9.0% due to its growth in both farm enterprises and private farms, by 16.4% and 2.6%, respectively.

Share of Main Categories of Farms in Gross Agricultural Output



For supporting poultry and cattle breeding the government granted subsidies to farm enterprises and agricultural holdings at the expense of VAT worth more than UAH 724.0 million, as well as extra charges for heavy-weight young cattle, graded pigs and broilers worth UAH 229.0 million.

Crop and plant output fell by 2.5% as compared with previous year, including in farm enterprises by 3.7%, and in private farms by 1.4%.

In 2005, grain production decreased by 9.1%, as a result of cutting fields (by 1.2%), as well as by reducing crop capacity (by 8.1%), fodder grain output dropping by 18.8%, that of bread grain increasing by 1.5%. Gross potato output reduced by 6.2% because of a 3.7% decrease in capacity, as a result of unfavorable weather conditions during the period of ripening, as well as because of cutting fields by 2.6%. Sugar-beet production fell by 5.9%, as a result of cutting fields by 10.2%, despite an increase in their capacity. Sunflower production grew 1.5 times due to increasing capacity of fields, an average capacity being 12.8 centners from hectare (in 2004, 8.8 centners from hectare) and expanding the fields by 7.6%.

The volume of agricultural products sold in 2005 added 7.0%, as a result of increase in crops and plants (by 8.0%), and cattle-breeding products sold (by 6.0%). Average prices for products of farm enterprises and agricultural holdings in 2005 enlarged by 9.0% due to rise in prices for cattle-breeding products by 2.0%. Prices for crops and plants decreased by 4.0%.

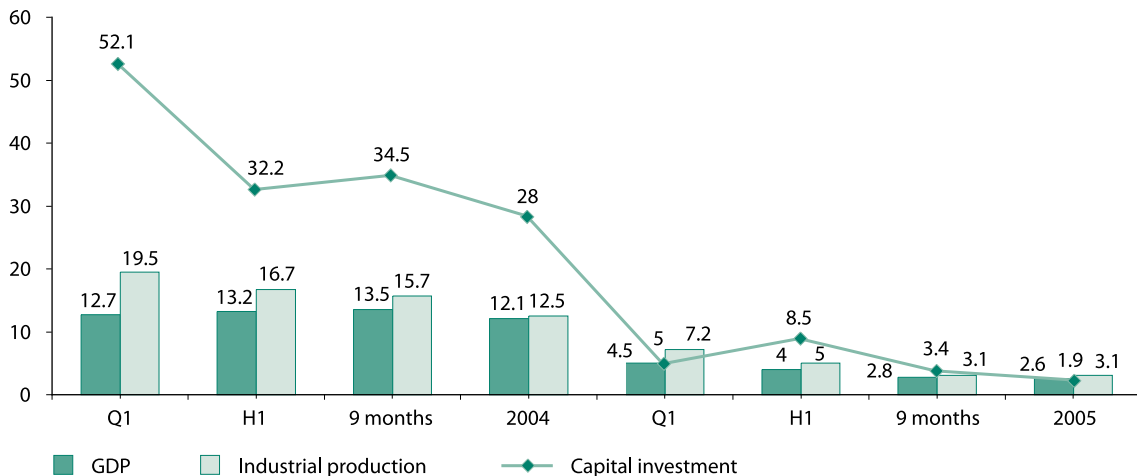
For supporting the agricultural complex through reducing prices for short-term and long-term loans at the expense of budget funds the government refunded interest rates worth UAH 221.6 million. Banks' claims for loans extended to agricultural, hunting and forestry firms increased by 56.0% as compared with the previous year; as of January 1, 2006, they totaled UAH 8.1 billion, including those on preferential loans UAH 4.9 billion³, including UAH 3.5 billion on short-term and UAH 1.4 billion on long-term loans. The largest share of short-term loans was used for purchasing seeds, fertilizers and means of plant protection, whereas that of long-term loans for purchasing agricultural equipment and facilities.

³Source: Ministry of Agrarian Policy of Ukraine.

1.3.3. Investments

In nine months of 2005, the investment climate in Ukraine notably aggravated. A substantial slump in investment activities was one of the most important factors of general economic stagnation.

Changes in Real GDP, Industrial Production and Capital Investment in 2005 (in % as compared with respective period of previous year)



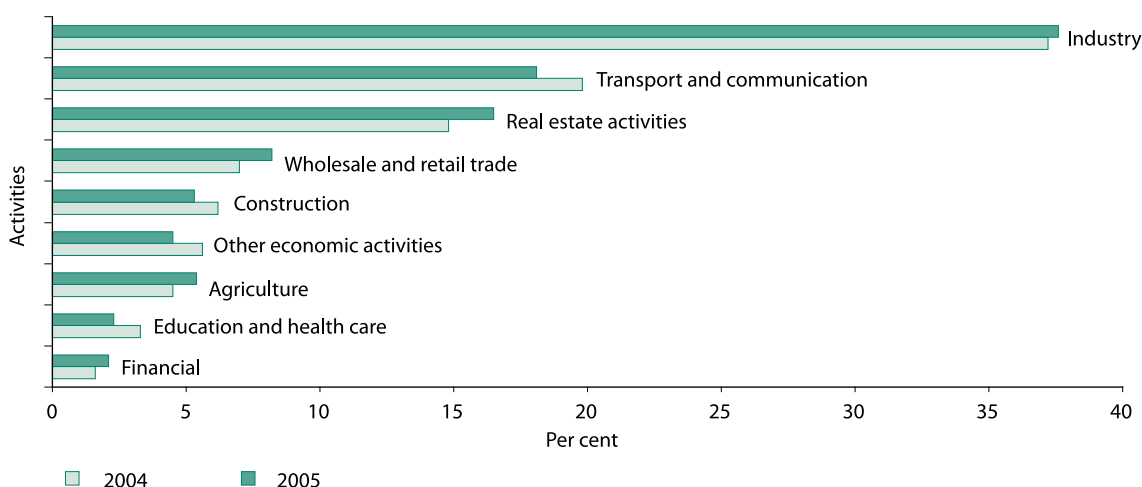
In 2005, capital investments for purchase and reconstruction of fixed assets totaled UAH 111.2 billion, including 83.7% (UAH 93.1 billion) for investing in fixed assets. Growth rate of investments in fixed assets of Ukrainian enterprises reached 1.9% (in 2004, 28.0%) and was lower than growth rate of real GDP by 0.8 percentage points, and growth rate of industrial output by 1.2 percentage points (in 2004, excess was 15.9 and 15.5 percentage points, respectively). In many regions of Ukraine capital investments fell rapidly, the largest decrease (48.3%) being observed in Rivne region. 16 regions showed increase in investments (25 in 2004). The most intensive investments activities were observed in Zhytomyr and Kyiv regions where capital investments grew 1.2 times.

The main sources of financing capital investments were enterprises' and institutions' own funds, their share in the total capital investments for the year being 57.4% (in 2004, 61.7%). A share of capital investments financed from all the budgets decreased almost 1.5 times as compared with 2004 (9.7% versus 15.5%, in 2004), whereas a share of capital investments financed from loans and credits grew up to 14.8% (in 2004, it made up 7.6%). A portion of investments made at the expense of foreign investors' funds increased to 5.0% from 3.6%, in 2004, due to Kryvorizhstal OJSC reprivatization. A share of households' funds used for individual residential construction remained nearly the same as in 2004 and accounted for 3.3%. A share of investment funds and other sources of financing in the total capital investments amounted to 9.8%.

In 2005, the priority spheres for investments were industry, as well as transport and communications: 37.6 and 18.1% of capital investments, respectively, flowed thereto. It should be noted that investments in industry added 4.1% as compared with the same period of 2004, whereas investments in transport and communications dropped by 5.6%.

Capital investments of wholesale and retail trade enterprises increased by 18.0%, each twentieth hryvnia of total investments being drawn therein.

Investment in Fixed Capital



Unfortunately, capital investments in key social spheres, health care and education, declined by 26.7 and 24.3%, respectively (in 2004, they increased by 22.6 and 27.2%, respectively), their shares in total capital investments accounting for 1.4 and 0.9% (in 2004, they made up 2.0 and 1.3%, respectively).

Investments in agriculture, hunting and forestry grew by 25.8%, however, their share in the total capital investments remained very small (5.4%).

1.3.4. Corporate Finance

In 2005, financial status of enterprises and institutions improved, financial results of ordinary business before taxation totaled UAH 57.6 billion (total profit reached UAH 72.4 billion, losses UAH 14.8 billion). As compared with 2004, it increased by 29.3%. Enterprises and institutions in all spheres of their activities, except for construction, education and collective, public and private services, improved their financial results, the industrial enterprises showing the best profit before tax (UAH 26.8 billion) which was by 41.3% more than in the previous year. However, the financial status of light-industry enterprises worsened: 43.0% of them incurred losses because of being strongly dependant on supply of raw materials and because of introducing avalized promissory notes for their customs clearance.

Financial discipline in the sphere of budget payments improved as profit tax revenues of the state budget of Ukraine grew by 45.2% as compared with 2004.

FINANCIAL STATUS AND FINANCIAL RESULTS OF ENTERPRISES AND INSTITUTIONS

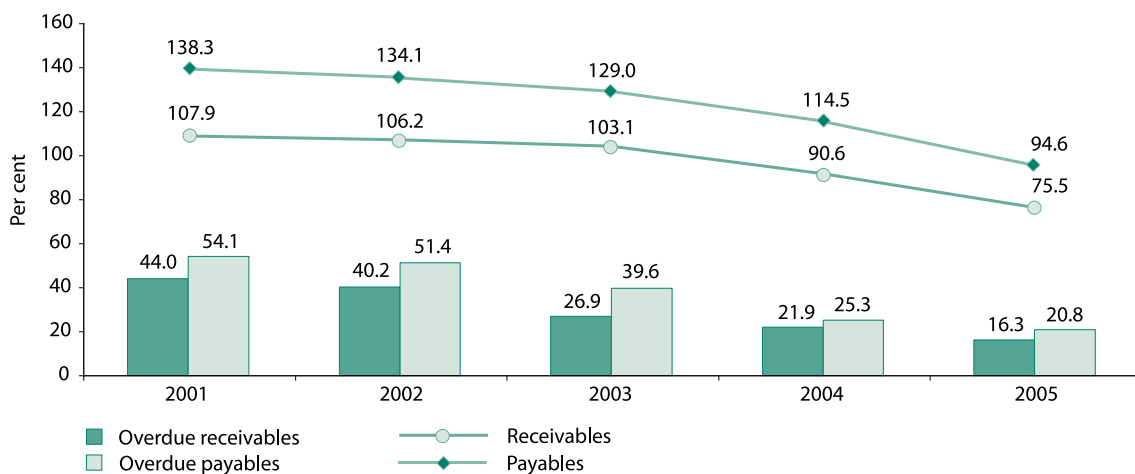
Indices	Change as compared with the previous year			For information: 2004, %
	2005, UAH billion	UAH billion	%	
Receivables, including overdue receivables	320.6	7.8	+2.5	+13.9
Payables, including overdue payables	401.9	6.8	+1.7	+14.6
Enterprises' profit	72.4	-1.3	-1.7	+67.9
Share of profitable enterprises, %	66.7	↑ 1.5 percentage points		↑ 2.4 percentage points

In 2005, 66.7% of enterprises gained profits (in 2004, 65.2%), the most profitable sphere being education (74.8% of the total institutions), wholesale and retail trade, trade in motor vehicles and repair services (74.1%), health care and social aid (73.3%), and financial sector (73.1%). In the industrial sector 61.2% of enterprises were profitable (in 2004, 62.5%), including in chemical and petrochemical industry (72.2% of the total enterprises), in pulp and paper industry and publishing (70.5%), metal manufacture and processing (68.2%), manufacture of non-metal mineral products (67.9%).

A share of barter operations declined: in 2005, 0.6% of the industrial products worth UAH 2.1 billion were bartered (in 2004, 0.9% (UAH 2.8 billion). Positive dynamics of barter reduction were observed in all industries, except for light industry (in the textile industry and custom tailoring a share of barter grew by 0.1 percentage points and accounted for 2.6%); in coke and petroleum derivatives production it remained fixed (0.2%). The smallest share of barter in products sold was registered in Dnipropetrovsk and Lviv regions (0.2%), the largest in Sumy region (2.3%).

At the end of 2005, for the first time in five years, both receivables and payables were less than nominal GDP (75.5 and 94.6% of GDP, respectively), receivables-to-GDP and payables-to-GDP ratios decreasing by 15.2 and 19.9 percentage points, respectively.

Share of Receivables and Payables of Economic Entities in GDP

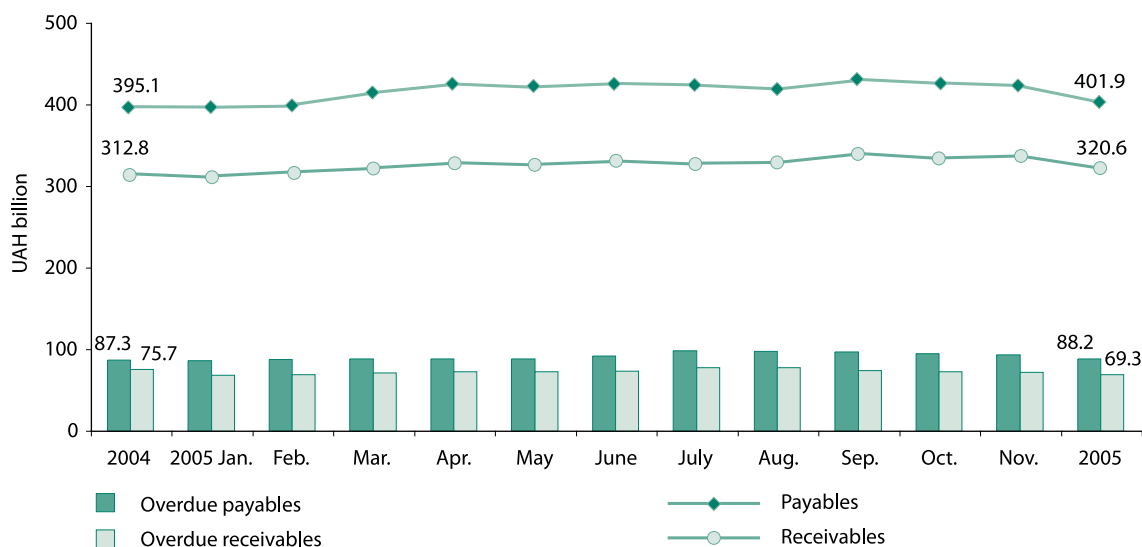


As of January 1, 2006, payables of economic entities of all types of ownership (except for small enterprises and budget institutions) totaled UAH 401.9 billion, receivables UAH 320.6 billion, i.e. increased by 1.7 and 2.5%, respectively. Payables exceeded receivables 1.3 times. Growth rate of receivables reduced 4.9 times as compared with 2004, that of payables 7.4 times.

In 2005, overdue receivables dropped by UAH 6.4 billion (8.4%) and as of January 1, 2006, amounted to UAH 69.3 billion. Overdue payables increased by UAH 0.9 billion (1.2%) and totaled UAH 88.2 billion. A share of overdue payments in the total receivables made up 21.6% (in 2004, 24.2%), in the total payables 22.0% (in 2004, 22.1%). As compared with the beginning of 2005 an excess of overdue payables over overdue receivables grew 1.6 times and as of January 1, 2006, totaled UAH 18.9 billion. As of January 1, 2005, overdue payables surpassed overdue receivables 1.2 times.

The largest past due was debts on settlements between domestic enterprises and institutions, whose share in the total receivables and payables made up 94.6 and 90.0%, respectively. In 2005, receivables between domestic enterprises increased by UAH 7.2 billion or by 2.4% (in 2004, by UAH 34.6 billion or by 13.5%), payables by UAH 8.9 billion or by 2.5% (in 2004, by UAH 47.4 billion or by 15.5%). In 2005, overdue receivables between domestic enterprises downed by UAH 5.6 billion or by 7.6% (in 2004, they grew by UAH 3.0 billion or by 4.3%), overdue payables by UAH 0.8 billion or by 1.0% (in 2004, by UAH 11.1 billion or by 11.6%).

Payments in Ukraine's Economy



Industrial enterprises have the largest share (41.9% or UAH 168.5 billion) in the total payables. In 2005, their payables added UAH 1.6 billion or by 1.0% (in 2004, by UAH 15.6 billion or by 10.3%). The largest non-payments were registered in processing industry (UAH 88.4 billion (52.4% of the total payables in the industry) and in power-generating and gas and water supply (UAH 60.0 billion or 35.6%). Overdue payables of industrial entities dropped by UAH 1.6 billion or by 2.4%, in 2005.

Receivables between domestic enterprises and institutions for goods (works, services) reached UAH 164.0 billion or 54.1% of the total due, payables UAH 187.8 billion or 52.0% and grew by UAH 0.9 billion or by 0.5% and by UAH 4.1 billion or by 2.2%, respectively. A share of past due in receivables dropped by 1.0 percentage point, in the payables by 1.7 percentage points and accounted for 24.5 and 28.5%, respectively.

As of January 1, 2006, the economic entities failed to pay UAH 20.0 billion (5.4% of due between domestic enterprises and institutions) to the budget, including 51.7% past due. In 2005, payables of economic entities dropped by UAH 0.8 billion or by 4.1% (in 2004, they grew by UAH 1.9 billion or by 10.5%). Past due to the budget decreased by UAH 1.1 billion or by 9.9%.

The industrial entities had the largest share (53.9%) in past due to the budget that as of January 1, 2006, totaled UAH 10.5 billion which was by 11.2% more than in previous year. Real estate agencies and consulting companies also had a considerable portion in the payables (24.5%) which was by 35.8% less than in 2004.

1.3.5. Situation in the Labor Market

In 2005, downward dynamics of unemployment continued and so did a number of persons per one free working place. Official unemployment calculated for able-bodied population made up 3.1% at the end of 2005 versus 3.5% at the end of 2004.

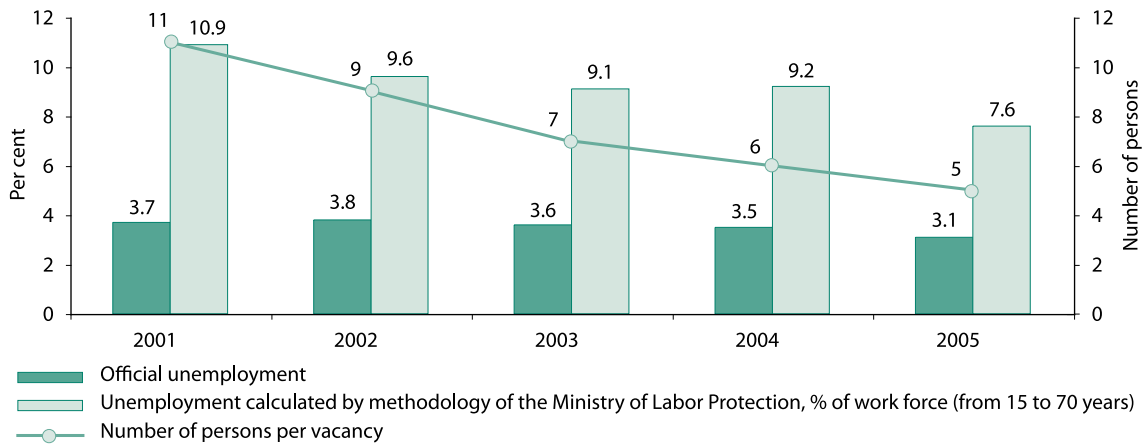
However, this index varied by regions from 6.6% in Ternopil region to 0.4% in the City of Kyiv. Number of registered unemployed people reduced by 11.2%, including by 3.0% in rural regions, unemployment in rural regions exceeding more than twice unemployment in cities: as of January 1, 2006, it accounted for 5.5 and 2.1%, respectively.

A number of free working places increased by 12.1% and totaled 186.6 thousand.

As of today, 2.9 million people have used services of the State Employment Center, 65.4% of them applied to the institution in 2005.

A number of unemployed people registered in the State Employment Center decreased by 9.6% and as of January 1, 2006, totaled 903.5 thousand; 97.6% of them had official status of unemployed person, more than two thirds of them were granted with dole.

Labor Market Dynamics

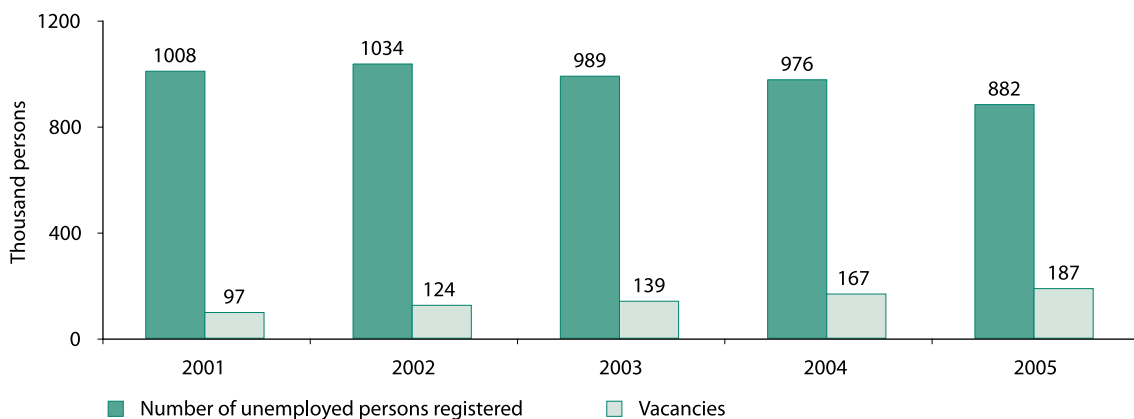


A number of unemployed able-bodied persons was calculated by methodology of the International Labor Organization and in January-September 2005 totaled, in average, 1.5 million or 7.6% of the total able-bodied population.

Among unemployed population seeking for job through the State Employment Center 45.4% were workers, 25.5% non-manual or office workers, the rest being persons without professional education or those who previously occupied places which did not require special training.

A number of unemployed persons who applied to the State Employment Center per free working place decreased from 6, in 2004, to 5, in 2005, including a number of employees per free working place (from 5 to 4), unqualified persons (from 18 to 12) and farmers and agricultural workers (from 31 to 27).

Dynamics of Unemployed Persons and Demand for Manpower



In addition to fulltime employment, another means of social protection of unemployed population is organization of part-time public works. As of January 1, 2006, a number of unemployed persons engaged in part-time public works amounted to 1.8 thousand or 0.2% of the registered unemployed persons.

Professional training and retraining is one of the principal directions of raising competitive abilities of unemployed persons on the labor market. As of January 1, 2006, 33 thousand persons (3.7% of registered unemployed persons) completed professional training in various educational establishments, upon assignment of the State Employment Center.

An average dole in December 2005 increased by 31.8% as compared with December 2004, and totaled UAH 192.89 or 58.1% of the official minimum wage (starting from September 1, 2005, the official minimum wage amounted to UAH 332.0).

1.3.6. Households' Income and Expenses

In 2005, nominal households' income grew by 35.1%, actual income used for purchasing consumer goods and services by 35.0%, real actual weighted for price index by 20.1%.

HOUSEHOLDS' INCOME IN 2005

Income	2005, UAH million	Share, %	% as compared with previous year	
			2005	For reference: 2004
Total nominal households' income, including:	370.6	100.0	135.1	127.2
Wage/salary	158.2	42.7	134.9	123.9
Profit and mixed income	54.9	14.8	125.2	120.6
Property income received	10.1	2.7	121.2	124.3
Social payments and other current transfers, including:	147.5	39.8	140.7	134.4
– social aid, subsidies	83.2	22.4	159.8	147.3
For information:				
Actual income	286.2	—	135.0	130.4
Real actual income	—	—	120.1	119.6

Nominal households' income in 2005 increased as social aid and other current transfers added 40.7% (including, social aid by 59.8%). Wage, salary, profit and mixed income grew at a lower rate than the total income (by 26.4%, 25.5 and 9.0%, respectively).

Households' Income Structure



For the first time during last years a share of social aid and other current transfers in the households' income exceeded a share of wage.

In 2005, upward dynamics of wage continued as nominal average monthly wage per one fulltime employee increased by 36.7% and reached UAH 806.19 that was 1.8 times higher than living wage (UAH 453) and 2.4 times higher than minimum wage (UAH 332).

Average real wage grew by 20.3%.

Dynamics of Nominal and Real Average Monthly Wages in 2005



Among leaders in average wage were aviation, financial institutions, supporting transport services; among industries the highest average wages were registered in coke and petroleum derivative production and metal manufacture and processing, it exceeded 1.5-2.0 times the average economic index. However, nominal wages in agriculture, fish industry, health care and public assistance, as well as in textile and clothes industry were materially lower and did not exceed 65% of the average economic index.

In 2005, wage growth was registered in all regions of Ukraine, the highest being in Volhynian (by 43.5%), Ternopil (by 42.5%), Chernivtsi (by 40.7%), Ivano-Frankivsk (by 40.6%), and Sumy (by 40.1%) regions.

Wages in industrial regions (Dnipropetrovsk, Zaporizhia, Donetsk regions) exceeded the average index by 13.3%, 6.7 and 19.3% and reached UAH 913.25, UAH 860.32 and UAH 961.62, respectively. In the City of Kyiv the average wage exceeded the average domestic index by 63.01% (UAH 1313.96).

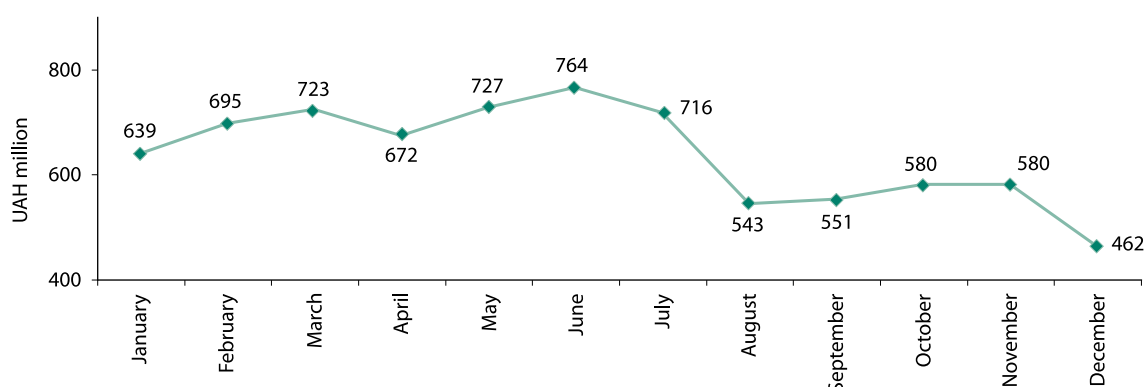
In 22 regions the average wage was lower than the average domestic index that was an evidence of large regional differentiation.

The total arrears of wage decreased by 13.6% (in 2004, by 50.2%) and amounted to UAH 960.3 million as of January 1, 2006.

Arrears of wages in operating enterprises made up 48.1% of the total arrears that was by 21.0% less than in previous year (in 2004, by 67.4%) and totaled UAH 461.4 million as of January 1, 2006, 62.7% being arrears for works done in January – November 2005.

There were no arrears of wages financed from local budgets as of January 1, 2006. Arrears of wages financed from the central budget totaled UAH 0.3 million or 0.1% of the arrears to operating enterprises.

Dynamics of Arrears of Wages on Operating Enterprises in 2005



In 2005, households' expenses and savings totaled UAH 370.6 billion that was by 35.1% higher than in previous year. This increase stimulated the growth of demand on domestic market. Retail trade turnover reached UAH 157.5 billion that was by 22.4% more than in previous year. A share of turnover on organized and non-organized markets in the retail trade accounted for 23.9%.

HOUSEHOLDS' EXPENSES AND SAVINGS

Indices	2005, UAH million	Share, %	% as compared with previous year	
			2005	For reference: 2004
Total nominal households' income,	370.6	100.0	135.1	127.2
Total households' expenses and savings,	370.6	100.0	135.1	127.2
including:				
Purchase of goods and services	294.5	79.5	132.5	123.0
Property income paid	3.5	0.9	188.3	2.1 times
Income tax, property tax and other transfers paid	25.4	6.8	133.3	107.1
Accumulation of non-financial assets	3.2	0.9	98.6	193.7
Financial assets growth	44.1	11.9	158.4	190.6

Structure of Households' Expenses and Savings



In 2005, households' expenses increased by 33.0%. Households' savings grew by UAH 16.2 billion or 52.1%.

The largest share of funds (79.5%) was used for purchase of consumer goods and services. The share of financial assets growth decreased by 1.8 percentage points, that of tax on income, property and other current transfers paid reduced by 0.1 percentage points, and the share of financial assets accumulation by 0.3 percentage points.

1.4. CENTRAL GOVERNMENT FINANCE

In 2005, the fiscal pressure on the economy strengthened significantly: according to the results of the year, a share of GDP redistribution through the Consolidated Budget of Ukraine made up 31.6% as compared with 26.5% in 2004.

PERFORMANCE OF CONSOLIDATED BUDGET OF UKRAINE

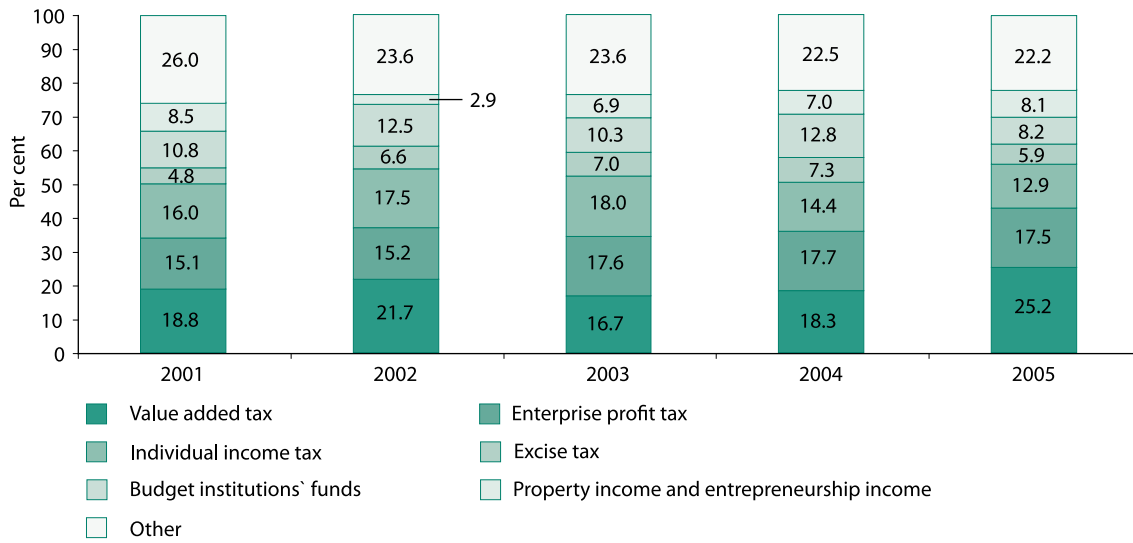
Indices	2005, UAH billion	In percentage with respect to the previous year	
		2005	For reference: 2004
Income	134 183	146.6	121.6
% of GDP	31.6	↑5.1 percentage points	↓1.6 percentage points
Including:			
Tax proceeds,	98 065	155.3	116.3
% of GDP	23.1	↑4.8 percentage points	↓2.0 percentage points
Expenditure,			
% of GDP	33.4	↑3.7 percentage points	↑1.4 percentage points
Including:			
Social expenditure,	85 668	163.2	132.3
% of GDP	20.2	↑5.0 percentage points	↑0.4 percentage points
Balance ("+" – surplus, "–" – deficit)	–7806	70.9	21.7 times
% of GDP	–1.8	The deficit decreased by 1.4 percentage points	The deficit decreased by 3.0 percentage points

Income of the Consolidated Budget of Ukraine grew by 46.6% (in real calculation – by 29.1%) and made up UAH 134,183 million (98.8% of the annual plan). The income was ensured mainly due to the following revenues:

- Value added tax (UAH 33,804 million or 25.2% of the total income);
- Tax on enterprises' profit (UAH 23,464 million or 17.5%);
- Tax on individuals' profit (UAH 17,325 million or 12.9%);
- Income from property and business activities (UAH 10,868 million or 8.1%);
- Own funds of budget institutions (UAH 10,946 million or 8.2%).

Proceeds from the tax value added grew as compared with the previous year more than twice (in real calculation by 78.0%), tax from enterprises profit by 45.2% (in real calculation by 27.9%) which resulted from the extension of taxation base, as well as from cancellation of privileges because of suspending the activity of free economic zones. In addition, proceeds from the tax on individuals' profit increased essentially (increase by 31.1 and 15.5%, respectively) that was caused by an increase in the current subsidies and transfers to the population.

Structure of Ukraine's Consolidated Budget Income



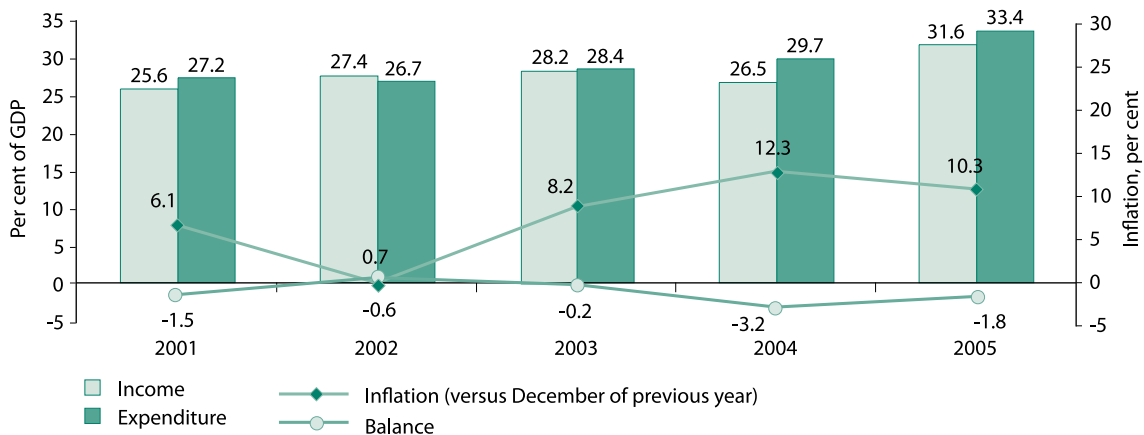
A percentage share of tax proceeds increased by 4.1 percentage points as compared with the previous year and accounted for 73.1%.

Expenditures of the Consolidated Budget of Ukraine (including crediting less reimbursement) made up UAH 141,990 million (95.2% of the annual plan) and grew as compared with 2004 by 38.5% (in real calculation by 22.0%). In 2005, neither of the basic expenditure items was financed in full. The least was the level of performing the expenditures on the economic activities (84.3% of the annual plan). The basic expenditure item during the year was the expenditures on the social protection and social security that in the structure of expenditures of Consolidated Budget of Ukraine at the end of the year made up 28.1 against 18.8% in 2004.

For the first time, during the recent five years the payroll expenditures were less than the current transfers to the population (UAH 25.7 billion as compared with UAH 38.9 billion in 2004).

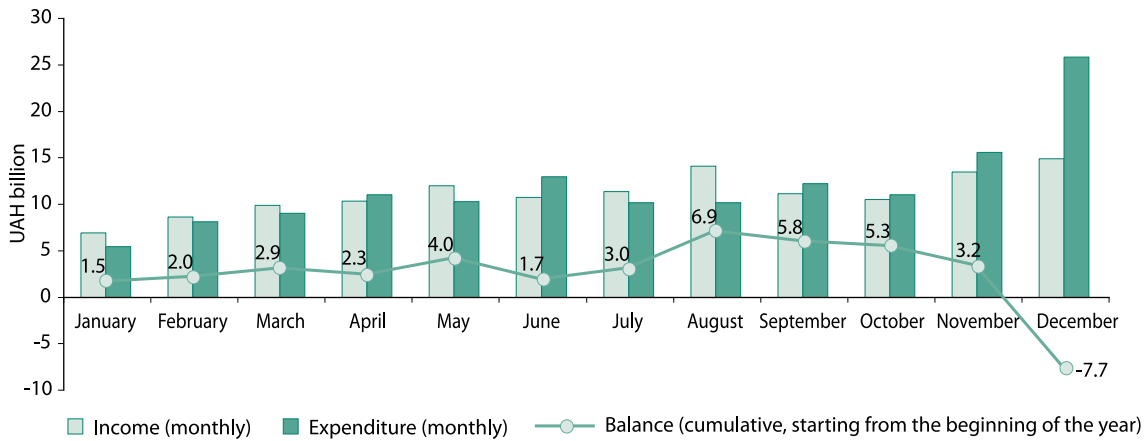
After the tight budget policy pursued during 2000–2003, one could observe an essential alleviation during 2004 and 2005. Trends of budget policy of the reporting year were dictated by the necessity of performing the social guarantees laid down in the previous year. However, the government managed to hold the deficit of the Consolidated Budget of Ukraine at the rate of 1.8% of GDP due to decline in the economic activities.

Ukraine's Consolidated Budget and Inflation in 2001–2005



During January-November of the reporting year the government managed to withhold surplus Consolidated Budget of Ukraine. Basic were the expenditures observed during the last month of the year (expenditures in December exceeded 2.5 times an average monthly income for eleven previous months). As a result, the deficit of Consolidated Budget of Ukraine came in January up to UAH 11.0 billion or 17.9% to GDP, and made up almost two thirds of the monthly income (73.3%).

Fulfillment of Ukraine's Consolidated Budget in 2005



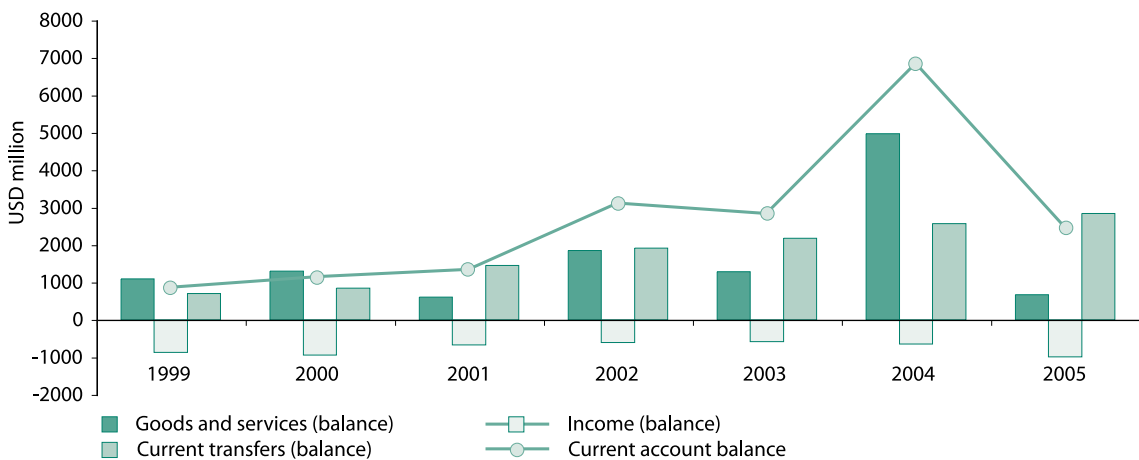
1.5. EXTERNAL SECTOR OF THE ECONOMY

1.5.1. Ukraine's Balance of Payment

In 2005, Ukraine's balance of payments (BOP) incorporated a material foreign currency inflow in financial items that compensated slumping current account surplus and allowed the NBU to double its foreign exchange reserves.

Current account balance. In 2005, the BOP current account balance reached USD 2.5 billion (3.1% of GDP) that was 2.7 times less than in 2004.

Dynamics of Ukraine's BOP Current Account Balance



Trade conditions worsened and world demand dropped, so import growth rate (21.8%) exceeded export one (4.8%) that resulted in import surplus worth USD 1.1 billion and in sharp decrease in export surplus of foreign trade balance (from USD 4.9 billion to USD 0.8 billion).

Export of goods. In 2005, growth rate of goods export slowed down largely from 40.8%, in 2004, to 4.8%, in 2005. Among causes of such dynamics were drop in export of machine-building products (by 18.0% or USD 1 billion).

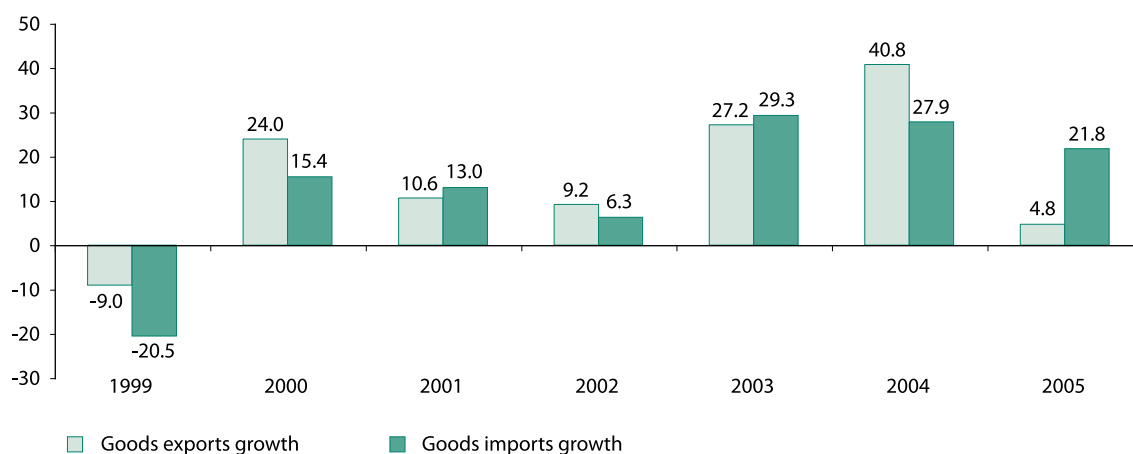
On the other hand, strengthening of competition on the world steel and metal markets, as a result of powerful expansion of Chinese producers (in 2005, manufacture of ferrous metals in China grew by 24.6%, whereas the world manufacture increased by 5.9% only), led to slowing down growth rate of metal products export from 53.5%, in 2004, to 7.6%, in 2005. Growth rate of export in terms of value was secured due to keeping high prices for ferrous metals in the first half of 2005, whereas actual export fell by 9.0%, in 2005.

Agricultural complex showed higher growth rate in 2005 (24.0% as compared with the previous year), chiefly, due to increasing export of crops, alcoholic and non-alcoholic beverages 1.6 times, in terms of value, milk products by 24.0% and due to resuming sunflower seeds and oil supplies.

Export of mineral products grew by 8.0%. A decline in petroleum refining as a result of suspending several refineries led to slumping physical petroleum products export, whereas petroleum export in terms of value increased by 21.0% due to rise in prices. Starting from July 2005, export of natural gas was suspended.

In 2005, export to CIS countries increased by 24.0%, its share in the total export growing from 27.1 to 32.1%. Export to the Russian Federation ascended by 27.3%, its share in the total export rising from 17.6 to 21.4%. A share of other countries in the total export slightly decreased and amounted to 67.9 versus 72.9%, in 2004, as a result of dropping export to American countries and to EU-25 by 28.1 and 5.8%, respectively. Export to Africa ascended by more than 30.0%, to Asia by 4.6%.

Growth Rates of Exports/Imports of Goods (% as compared with previous year)



Import of goods. Government's policy targeted towards growing households' real income and domestic consumption and strengthening struggle against smuggling, as well as reduction of customs tariffs and real hryvnia revaluation by 15.9% stimulated acceleration of growth rate of non-energy import as compared with 2004 (30.7 versus 26.5%).

About 60% of import growth was a result of importing machine-building and chemical products. Huge investments drawn in Ukraine's economy in 2004 stimulated growth of import of

machines, equipment and facilities (by 29.1%), including land transport (by 34.6%), and machines and equipment (by 33.8%).

In 2005, all other import groups and items also showed high growth rate, industrial products having the highest index (by 54.3%), as a result of an increase in officially registered import of shoes (6.9 times) and clothes (3.4 times). Reduction of import duty for individual agricultural products and foodstuffs provoked an increase in import of agricultural products at the rate of 40.7%. Chemical products import in terms of value grew by 37.2% due to an increase in physical volume of import.

At the same time, in 2005, growth rate of energy resources import in terms of value slowed down from 30.9%, in 2004, to 2.9%, as a result of a decrease in petroleum supply to Ukraine by 30%, natural gas by 3.1%, despite average rise in petroleum price by 42.0%. The fuel crisis (a sharp decrease in petroleum supply from the Russian Federation to Ukraine's refineries and suspension of some refineries for up-grading of production cycle) forced Ukraine's government to set zero customs tariff and to revise excise for individual type of petroleum derivatives that boosted a 1.6-time increase in petroleum products physical import.

Growth rate of import from CIS countries (11.7%) fell behind growth rate of import from other countries (32.0%). A share of import from other countries increased from 49.8 to 54.0% of the total import, chiefly, due to an increase in import from Asia (1.8 times) and from EU member states (by 27.7%).

Services⁴. In 2005, services account surplus amounted to USD 1.8 billion that was 1.5 times more than in 2004. Services export reached USD 9.2 billion that was by 19.0% higher than in the previous year, primarily, due to an increase in transportation services (nearly by 11.0%) and in tourism services (by 22.0%). In 2005, services import totaled USD 7.6 billion, that was by 14.0% more than in 2004. The highest growth rates were registered for import of financial services (twice), computer and information services, Royalties and license fees item (1.6 times). Insurance services import fell 3.5 times; construction services import decreased by 38.0%.

Revenues. Negative revenues balance in 2005 totaled USD 985 million, 1.5 times more than in 2004. A necessity to service growing private medium- and long-term loans, to increase dividend payments to foreign investors and a growth of payments to be made by Ukraine's government for direct and guaranteed debt resulted in 1.7-time increase in payments. At the same time, growing transfers for paying wages and salaries to Ukraine's residents who work abroad and enhancing foreign reserves resulted in double increase in revenues from income, in 2005.

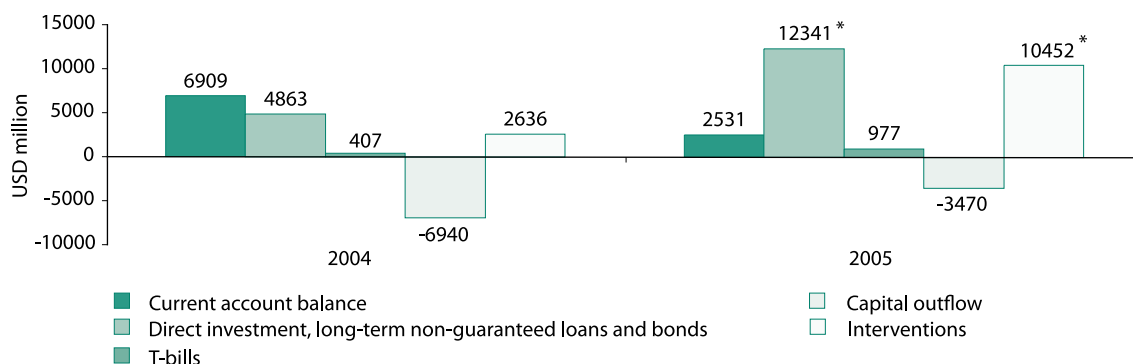
Current transfers. In 2005, upward dynamics of current transfers continued, their positive balance totaling USD 2.8 billion, by 10.4% more than in 2004. The main factor of its growth was an increase in private money transfers by 23.6% whose share in the total transfers received made up 68.4%.

In 2005, foreign currency inflow increased largely, including foreign direct investments, medium- and long-term non-guaranteed loans, whereas capital outflow decreased that allowed the NBU to enhance reserves up to USD 19.4 billion which were used for financing goods and services during 4.9 months.

In 2005, net foreign direct investments totaled USD 7.5 billion, 4.4 times more than in 2004. These incredible figures are result of, first of all, privatization of OJSC Kryvorizhstal by Mittal Steel, in November 2005, and sale of Aval Joint-Stock Mail and Pension Bank to the foreign investor.

⁴Export/import on Travel item in 2004 and 2005 were recalculated by new methodology based on quarter data on number of foreigners who entered Ukraine and a number of Ukrainians who departed from Ukraine (structured by countries and purpose of travel), on average expenses per one tourist and on average duration of travel. Sources of information on number of persons who entered or departed from Ukraine are data of statistical surveys of Administration of the State Border Service of Ukraine; information on average expenses and duration is obtained from legislative acts of the Cabinet of Ministers of Ukraine on compensation of travel expenses within Ukraine and abroad, data of statistical surveys of the State Committee of Statistics of Ukraine, data of the State Service for Tourism and Resorts of the Ministry of Culture and Tourism of Ukraine, as well as from mass media and Internet.

Dynamics of Individual BOP Items and Interventions

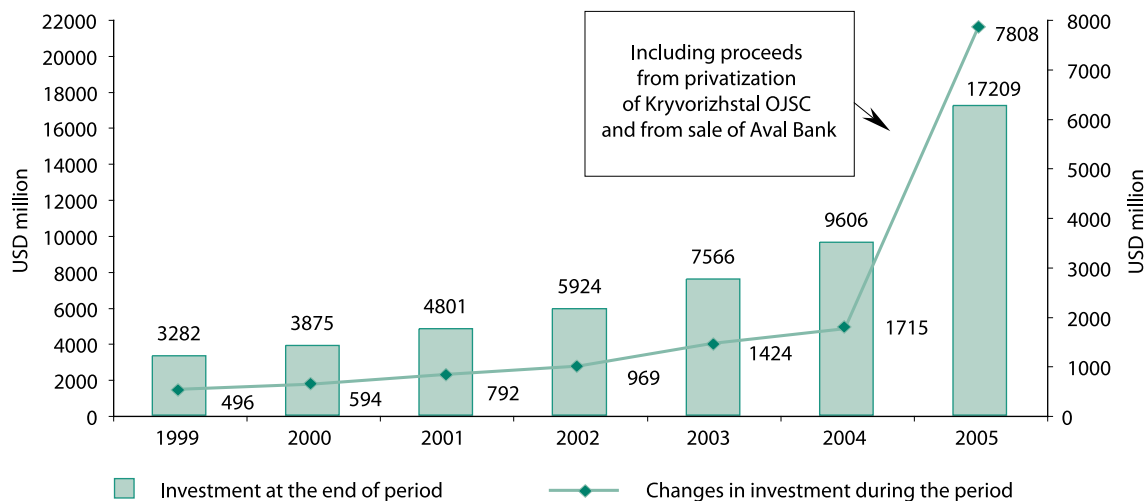


* Including proceeds from privatization of Kryvorizhstal OJSC

It should be noted that the above increase in foreign direct investments in Ukraine's economy in 2005 (USD 7.8 billion) has been the highest one in the history of Ukraine's BOP and made up 81.0% of the total FDI drawn during last ten years.

Total direct investments accumulated in Ukraine in 2005 reached USD 17.2 billion and grew by 79.2% from the beginning of the year, including authorized capital worth USD 16.4 billion; and loans and credits from direct investors worth USD 0.8 billion. Despite an increase in investments per capita by 80.5% they still have been scanty (USD 367).

Direct Investments in Ukraine



At the same time, Ukraine made direct investments abroad worth USD 275 million (in 2004, USD 4 million).

In 2005, net borrowings (medium- and long-term loans and bonds) of Ukraine's non-government sector totaled USD 4.8 billion (in 2004, USD 3.2 billion). It should be noted that 75.0% of the total borrowed funds or USD 3.6 billion flowed in Ukraine in the second half of the year.

Long-term external debt servicing ratio (cost of repayment of principal and interest thereon to export of goods and services) amounted to 14.7% that was by 4 percentage points higher than in 2004.

It should be noted that, in 2005, net short-term borrowings grew sharply and reached USD 1.4 billion, whereas, in 2004, they totaled only USD 369 million.

In 2005, net T-bills and T-bills-VAT purchased by nonresidents amounted to about USD 1 billion, more than 90% of them being purchased in January-April. Starting from May 2005, non-residents' interest in Ukraine's T-bills fell because of hryvnia revaluation. (in 2004, nonresidents purchased T-bills net worth USD 407 million).

The characteristic feature of the external sector of Ukraine's economy in 2005 was a drastic decrease in capital outflow from Ukraine; the capital outflow in 2005 totaled USD 3.5 billion that was twice less than in 2004 (USD 6.9 billion).

The BOP data show that in 2005, payments for import of goods and services did not exceed actual import (in 2004, this excess, as a result of residents' foreign economic operations on import of goods without their entry to Ukraine's customs territory was estimated as USD 4.8 billion). At the same time, capital outflow from operations with domestic securities that authorize share in capital increased almost twice⁵.

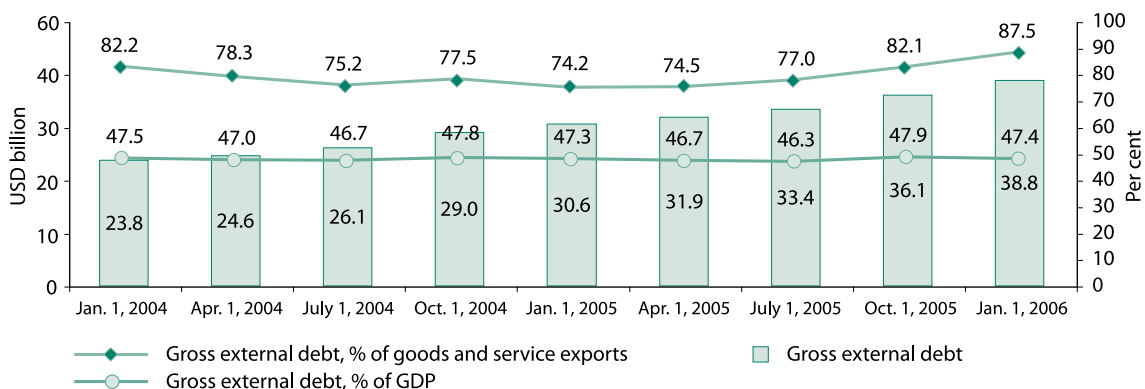
In 2005, cash foreign currency increasingly flowed from the banking sector to other sectors of Ukraine's economy. The cash outflow from the banking sector started in the second quarter of 2005, then ascending to the peak in the fourth quarter (USD 1.9 billion); the total outflow reaching USD 3.3 billion.

A large inflow of medium- and long-term loans and credits, as well as proceeds from privatization of Kryvorizhstal OJSC, in 2005, allowed the NBU to enhance reserves by USD 10.4 billion (in 2004, the reserves increased by USD 2.2 billion).

1.5.2. Gross External Debt of Ukraine

The gross external debt of Ukraine for 2005 increased by USD 8.2 billion (26.6%) and, as of January 1, 2006, made up USD 38.8 billion (47.4% of GDP). Growth of gross external debt was conditioned by a fair increase in private debt (USD 7.4 billion, including, EUR debt USD 1 billion) and a sufficient non-resident capital flow to the T-bills market (USD 1 billion).

Dynamics of Ukraine's Gross External Debt



During the reporting period the following sectors showed an increase in debt:

- state sector by USD 1.2 billion (14.7% of the total debt growth);

⁵ In compliance with recommendation of IMF Technical Mission on BOP statistics fictitious transactions with Ukrainian enterprises' shares made for withdrawing capital from Ukraine in 2004 and in 2005 were shifted from the Portfolio investments, domestic securities item to the Other investments, assets item.

- banking sector by USD 3.6 billion (43.5% of the total debt growth);
- other sectors of the economy by USD 3.8 billion (47.1% of the total debt growth).

During 2005, the indebtedness of monetary regulation bodies decreased by USD 0.4 billion (5.3% of the total debt growth).

As of the end of 2005, Ukraine's ratio of gross external debt to goods and services export made up 87.5%, while by the end of 2004 it was 74.2%.

The following changes occurred in the structure of Ukraine's external debt for the year 2005:

- by sectors of the economy:

a share of the banking sector increased from 8.7% to 16% with a simultaneous decrease in the shares of public management sectors from 36.6% to 31.9%, in particular in the share of the monetary regulation bodies from 5.5% to 3.2% and from 47.4% to 46.7% in the share of other sectors.

- by instruments:

A share of credits increased from 38.9% to 50.2%, debt securities – from 14.9% to 21.6%, whereas that of trade credits decreased from 19.5% to 18.3%.

- by initial maturity date:

a long-term debt made up USD 26.7 billion (68.9%), and short-term debt was equal USD 12.1 billion (31.1%).

In the structure of long-term debt as of January 1, 2006, by financial instruments credits (63.5%) and debt securities (31.3%) were determining, while other instruments made up only 5.2%.

During 2005, the external debt of state management sector increased by USD 1.2 billion (10.7%) and as of January 1, 2006, made up USD 12.4 billion (15.1% of GDP). Changes in the amount of indebtedness stemmed from the increase in debt because of:

- T-bills owned by non-residents (by USD 1 billion or 3.4 times more);
- Euro-bonds of local government (Kyiv State City Administration) – USD 0.2 billion or 1.7 times higher.

The monetary regulation bodies' debt as of January 1, 2006, made up USD 1.2 billion (3.2% of gross external debt of Ukraine). The total debt for the year 2005 declined by 25.8% (USD 436 million), mainly due to the reimbursement of the International Monetary Fund's credits.

During 2005, the debt amounts of the banking sector increased 2.3 times (during the year 2004 – 1.5 times) and as of the end of the reporting period were equal to USD 6.2 billion (16% of gross external debt). An absolute growth of debt of the banking sector to non-residents during 2005 made up USD 3.5 billion which was caused by the increase in debt due to:

- credits extended by non-residents (by USD 1.8 billion, 49.8% growth);
- nonresidents' deposits and balances on their accounts in the Ukrainian banks (by USD 0.9 billion, 25.1% growth);
- banks' Euro-bonds (by USD 0.7 billion, 20.2% growth);
- 4.3% of debt growth in the banking sector fell on corporate bonds and money market instruments.

By the end of 2005, indebtedness of other sectors of the economy to non-residents (including credits from a direct investor) made up USD 18.9 billion (23.1% of GDP) and increased during the reporting period by USD 3.8 billion (USD 3.9 billion in 2004). Such an absolute debt growth resulted from the increase of debt by:

- short-term and long-term non-guaranteed credits (by USD 3.3 billion, a 86.9% growth);

- companies' Euro-bonds (by USD 0.4 billion, 10.6%);
- other financial instruments (commercial credits, outstanding debt on the non-guaranteed and commercial credits, as well as corporate bonds by 2.5%).

Ukraine's short-term debt by the end of 2005 made up USD 12.1 billion (14.7% of GDP). During the period under report a sufficient absolute debt growth was noted relative to short-term debt USD 1.6 billion (19.9% of the total debt growth), mainly due to the increase of the following:

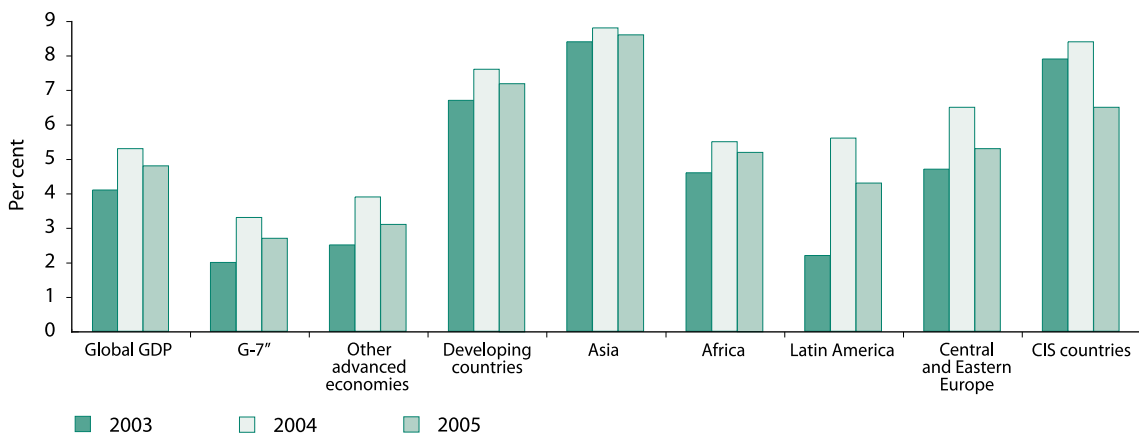
- indebtedness by interbank and non-guaranteed credits of other sectors of the economy (by USD 1.2 billion, a 71.6% growth);
- balances on the accounts of non-residents and short-term deposits of non-residents in Ukrainian banks (by USD 0.4 billion, a 25.6% growth);
- other promissory notes (by USD 0.5 billion, a 31.6% growth);
- a simultaneous decrease in debt by trade credits (by USD 0.5 billion, a 28.8% growth).

During 2005, a ratio of short-term debt to stand-by assets of the National Bank of Ukraine substantially improved as evidenced by decrease in the short-term debt to stand-by assets ratio from 1.1 at the beginning of the year to 0.6 by the end of 2005.

1.6. THE PROGRESSIVE DYNAMICS OF THE WORLD ECONOMY

Economic growth of the world economy sufficiently slowed down in 2005 after a rise in 2004. According to provisional data, the real gross product growth of the world economy in 2005 was nearly 3.0% that corresponds with an average index for the recent ten years. The USA economy still remains to be a locomotive of the world economy, however, a dynamic growth of China, India and other developing countries contributes greatly into the world product manufacture. In the majority of developing countries, on the contrary, economic growth rate declined in 2005 in comparison with 2004.

Real GDP Dynamics

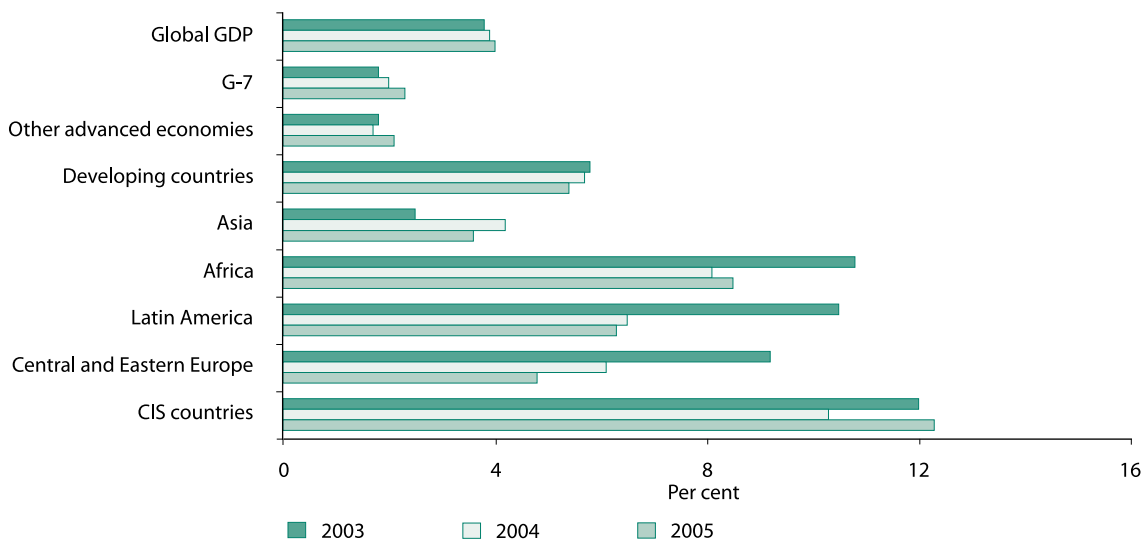


Economic growth rate in the majority of developing countries was higher than an average index throughout the world. Growth rate of developing countries averaged 5.6%, whereas China and India had the most dynamic economies of the region (growth by 9.9% and 7.1%, respectively), other countries of South-Eastern Asia increased in average by 5.0%. The countries of Latin America somewhat fell behind with a rate of nearly 3.9%, whereas economic growth in Africa was nearly 5.0%. The least developing countries demonstrated even higher level of activity and reached the highest rate of economic growth for the recent ten years by

6.6%. However, if it is granted that these high indices are supported, the growth of income per capita in the majority of countries will be insufficient for a rapid progress in reaching one of the objectives laid down in the Millennium Declaration which is to halve poverty until 2015. To a great extent, high economic activity of developing countries was caused by increase of export prices for raw materials. The same countries, net importers of fuel and agricultural products, endured hardships because of the increase in prices for petroleum, gas and foodstuff.

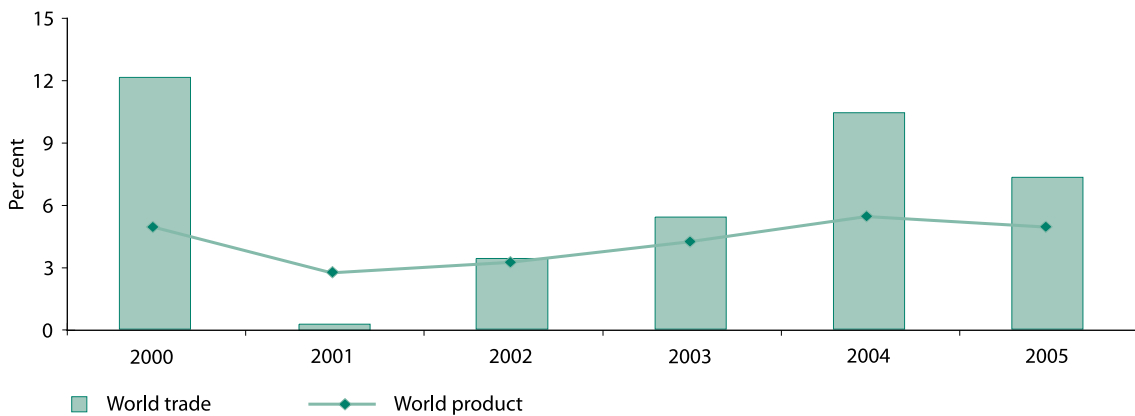
Growth of inflation rate, fixed in 2005, first of all, was caused by the increase of prices for petroleum. Core inflation that excluded such variable components as prices for petroleum and foodstuff, as a whole, remained more stable suggesting that high prices for energy resources had a limited effect on the general level of prices.

Consumer Price Dynamics



After the initial increase of prices for petroleum, many countries took measures to protect their domestic consumers, enhanced control over the prices for petroleum products or granted subsidies. However, a trend towards conservation of high prices for oil with time leveled these measures and required the improvement of productive efficiency and development of alternative energy sources.

World Trade Dynamics



Throughout the world regions

Economic boom of the European countries was less than it was expected at the beginning of 2005. Economic development was weakened by high prices for oil, prudent housekeeping expenses and discreet investments in business sector. In the European countries the export was a basic driving force. In 2005, the European countries' real gross domestic product increased by 1.5% as compared with the previous year. In "the Euro-zone" (12 countries) growth of real GDP made up 1.3% in 2005. Instability of real GDP growth indices of separate member countries of "Euro-zone" as compared with a general growth level was as follows: Germany (0.8%), Italy (0.1%) and France (1.5%). Sharp rise in prices for energy resources in 2005 was a basic reason for an increase in inflation up to 2.0% specified as limit rate in the countries of "Eurozone". Drastic money supply increase in the countries of "Eurozone" in the recent years was conditioned by a stable increase in consumer credits, especially individual housing loans. Low percentage rates and increased demand contributed to the increase of prices for real estate. However, dynamics of real estate market development contrasted with a discreet private consumption in other spheres.

The economic growth rate in the new member countries of the EU from the Central Europe and Baltic countries exceeded indices of the old member countries of the EU. The real GDP growth in 2005 made up 4.0% as compared with 5.1% in 2004. The slowing down was caused by a discreet development of the main economy of the region – Poland (by 3.0%). As a whole, the economic upturn during 2005 was due to a stable increase in the external demand and slackening of imports.

The economic growth rate in the CIS countries slowed down in 2005 after an extraordinary two-year economic growth. It occurred because of slowing down of economic development of two, the greatest countries of the region, namely Russia (up to 6.4%) and especially Ukraine where the fall was sufficiently great. Other CIS countries had better results in 2005, except for Kyrgyzstan. The CIS countries exports still remained a principal driving force of the development, especially as prices for petroleum and gas have become higher than ever before. In the world markets conditions deteriorated for metal exporters, especially steel and steel products, prices for the cotton greatly dropped which adversely effected the countries engaged in manufacturing these products. The domestic demand remained a stable factor of the CIS countries' economic growth playing a key role as long as investments in fixed capital remained at a low level. The imports remained stable due to domestic demand and real exchange rates ratio. The inflation rate increased in the majority of the CIS countries during 2005. The socially-directed fiscal-budget policy of the countries, sharp rise of domestic demand and increase in prices for the energy resources were the main factors of rise in prices. In the majority of the CIS countries the official inflation forecasts during 2005 were adjusted upwards, especially in Russia and Ukraine. The manufacturers' price index continued to increase during 2005, though at a lower pace as compared with a prior year.

Challenges

However, it should be noted that the main challenge for the world economy remained non-coordinated leveling of imbalances of the most developed countries of the world. The U.S. current account deficit increased by USA 800 billion, whereas in other regions, in particular in the Europe, Eastern Asia and in the petroleum exporting countries export surplus grew.

Probability of further rise in the prices for energy resources, first of all, for petroleum, remained the second challenge. The world production of petroleum, the main factor of the rise of prices, remained very sensitive to such external shocks as natural disasters and terrorism.

A potential fall in prices for housing in the countries with essential and long-term increase in the housing cost was also a risk for the stable development of the world economy.

Definite indicators relating to the housing market in these countries were at a historically high level and fixed the evident features of long-term speculative activities. Thus, decline in prices may result in slowing down of the total increase as it occurred in in the economies of Australia, Great Britain and in some other European countries. Fall in prices for housing increases a risk of default and may create definite problems for the banking system.

A possibility of "bird influenza pandemic" must not be ruled out. The recent outburst of "bird flu" in some countries resulted in great economic losses. In the global dimension the world is not ready for the outburst of pandemic scope and a possible macroeconomic outcome may be essential.

**Social and Economic Indices in CIS Countries,
Baltic States and in Other World Countries¹**

Table

Countries	% as compared with previous year				State budget deficit (-)/ surplus (+), % of GDP	Unemployment (%, at the end of period)	National currency exchange rate against U.S. dollar (at the end of period)
	GDP indices (in comparative prices)	Industrial output indices (in comparative prices)	Industrial producer price indices	Consumer price indices			

Advanced economies**USA**

2003	102.7	100.6	105.4	102.3	-4.6	6.0	—
2004	104.2	104.0	106.1	102.7	-5.1	5.5	—
2005	103.5	103.4	107.3	103.4	-2.5	5.1	—

Japan

2003	101.8	103.0	99.3	99.7	-7.4	5.3	107.10
2004	102.3	105.3	101.2	100.0	-7.9	4.7	104.12
2005	102.7	101.4	101.7	99.7	...	4.4	117.97

United Kingdom

2003	102.5	99.5	101.5	101.4	-3.3	3.1	0.5631
2004	103.1	100.7	102.5	101.3	-3.0	2.8	0.5178
2005	101.8	98.0	102.8	102.1	...	2.8	0.5808

Germany

2003	99.8	100.5	101.8	101.0	-3.8	11.7	0.7918
2004	101.6	103.0	101.6	101.8	-3.6	11.7	0.7342
2005	100.9	103.3	104.5	101.9	...	12.9	0.8477

EURO-zone countries

2003	100.7	100.3	101.5	102.1	-2.7	8.9	0.7918
2004	102.1	101.8	102.1	102.1	-2.9	8.9	0.7342
2005	101.3	101.4	104.1	102.2	...	9.0	0.8477

Central and Eastern Europe**Bulgaria**

2003	104.5	114.1	105.0	102.3	0.0	13.7	1.5486
2004	105.7	117.7	106.0	106.1	3.8	12.4	1.4359
2005	105.5	107.9	106.8	105.0	...	10.1	1.6579

Estonia

2003	106.7	109.8	100.3	101.3	2.6	10.0	12.410
2004	107.8	107.4	102.9	103.0	2.7	9.7	11.471
2005	109.8	...	102.0	104.1	...	...	13.221

Latvia

2003	107.2	106.5	103.1	102.9	-2.2	10.6	0.541
2004	108.5	106.0	108.6	106.3	-2.1	10.4	0.516
2005	110.2	...	107.8	106.7	-1.2	...	0.593

Lithuania

2003	110.5	113.9	99.7	98.8	-2.0	11.3	2.762
2004	107.0	111.5	107.7	101.2	-2.0	6.8	2.535
2005	107.3	108.4	113.2	102.6	...	4.8	2.910

Macedonia

2003	102.8	105.7	99.8	101.2	-5.8	...	49.050
2004	104.1	97.7	100.9	99.7	...	...	45.068
2005	103.8	107.1	103.4	100.5	...	...	51.859

Continued

Countries	% as compared with previous year				State budget deficit (-)/ surplus (+), % of GDP	Unemployment (% , at the end of period)	National currency exchange rate against U.S. dollar (at the end of period)
	GDP indices (in comparative prices)	Industrial output indices (in comparative prices)	Industrial producer price indices	Consumer price indices			
Poland							
2003	103.8	108.7	102.7	100.8	-5.5	19.9	3.7408
2004	105.3	112.7	107.0	103.5	-5.7	19.4	2.9904
2005	103.2	104.1	100.9	102.1	...	18.2	3.2613
Romania							
2003	105.2	103.3	119.5	115.3	-1.5	7.6	32595
2004	108.4	104.4	119.1	111.9	...	8.0	29067
2005	104.1	102.2	110.5	109.0	...	5.8	31078
Slovak Republic							
2003	104.5	105.1	108.4	108.5	-7.1	17.5	32.975
2004	105.5	103.9	103.4	107.5	...	18.1	28.496
2005	106.0	103.9	104.8	102.8	...	...	31.948
Slovenia							
2003	102.7	100.9	102.5	105.6	-2.3	10.9	189.37
2004	104.2	104.6	104.3	103.6	-1.5	10.3	176.24
2005	103.9	103.8	102.8	102.5	-1.2	10.2	202.43
Hungary							
2003	103.4	106.4	102.4	104.7	-3.0	5.9	207.92
2004	104.6	107.3	103.6	106.7	-0.7	6.1	180.29
2005	104.1	107.3	103.6	103.5	...	7.2	213.58
Croatia							
2003	104.3	104.1	99.7	101.8	-5.0	22.1	6.119
2004	103.8	103.6	103.4	102.1	...	21.7	5.637
2005	104.1	105.1	103.2	103.3	...	...	6.234
Czech Republic							
2003	103.2	105.8	99.7	100.1	-4.3	9.9	25.654
2004	104.7	109.9	105.6	102.8	-3.4	9.9	22.365
2005	106.0	106.0	103.1	101.8	-1.9	...	24.588
Commonwealth of Independent States (CIS)							
Azerbaijan							
2003	110.4	106.1	116.1	102.2	0.1	1.4	4923
2004	110.2	105.7	109.9	106.7	0.2	1.4	4903
2005	126.4	133.5	118.6	109.6	...	...	4592
Belarus							
2003	107.0	107.1	137.6	128.4	-1.6	3.1	2156
2004	111.4	115.6	124.2	118.1	1.2	2.5	2170
2005	109.2	110.4	112.1	110.3	...	1.8	2152
Armenia							
2003	113.9	115.0	108.3	104.7	-1.3	9.8	566.00
2004	110.1	102.1	121.7	107.0	-1.3	9.1	485.84
2005	113.9	107.5	107.7	100.6	...	...	450.19

Concluded

Countries	% as compared with previous year				State budget deficit (-)/ surplus (+), % of GDP	Unemployment (%, at the end of period)	National currency exchange rate against U.S. dollar (at the end of period)
	GDP indices (in comparative prices)	Industrial output indices (in comparative prices)	Industrial producer price indices	Consumer price indices			
Georgia							
2003	111.1	111.0	102.0	104.8	-1.7	11.5	2.075
2004	106.2	103.4	104.6	105.7	-1.2	11.7	1.825
2005	107.7	116.4	107.5	108.2	...	...	1.793
Kazakhstan							
2003	109.3	109.0	109.0	106.4	-0.4	8.8	144.22
2004	109.6	110.1	116.7	106.9	2.3	8.4	130.00
2005	109.2	104.6	123.7	108.2	0.8	8.1	133.98
Kyrgyzstan							
2003	107.0	117.0	104.6	103.1	-0.9	2.9	44.190
2004	107.0	103.7	109.0	104.1	-4.7	3.2	41.625
2005	99.4	87.9	102.8	104.3	0.2	...	41.301
Moldova							
2003	106.6	114.0	108.0	111.7	-1.8	8.0	13.2200
2004	107.3	106.9	105.6	112.5	-0.7	...	12.4611
2005	107.0	106.3	105.3	111.9	...	...	12.8320
Russian Federation							
2003	107.3	107.1	113.1	113.7	1.7	7.9	29.4545
2004	107.2	106.1	123.8	110.9	3.2	...	27.7487
2005	106.4	104.0	118.2	112.6	...	...	28.7825
Tajikistan							
2003	110.2	110.0	115.0	116.4	-1.8	2.7	2.957
2004	110.6	114.3	117.1	107.1	-3.5	2.1	3.037
2005	106.7	108.5	99.0	107.8	...	...	3.199
Turkmenistan							
2003	117.1	...	...	105.6	...	...	...
2004	117.2	...	...	105.9	...	...	...
2005	109.6	122.0	...	110.8	...	...	...
Uzbekistan							
2003	101.5	...	...	114.8	-2.2	...	980.00
2004	107.4	...	...	108.8	-1.1	...	1058.00
2005	107.0	107.7	...	121.0	...	...	...
Ukraine							
2003	109.6	115.8	111.1	108.2	-0.2	3.6	5.3315
2004	112.1	112.5	124.1	112.3	-3.4	3.5	5.3054
2005	102.6	103.1	109.5	110.3	-1.8	3.1	5.0500

¹ Sources: data from CIS countries, IMF International Financial Statistics, April 2006, Internet.

Chapter 2
ACTIVITIES OF THE NATIONAL
BANK OF UKRAINE

2.1 MONETARY POLICY

2.1.1. Implementation of the Monetary Policy Guidelines in 2005. Main Instruments of the Money and Credit Market Regulation

Under conditions of the economic growth slowing down and the inflation risk strengthening, during 2005, the monetary policy of the National Bank of Ukraine was directed towards counteracting the price increase processes and creating the conditions for the appropriate credit support of the economic development processes. The measures taken by the National Bank of Ukraine contributed to the balancing of money demand and supply, the decrease in inflation rate and the positive dynamics of the parameters of the money and credit market.

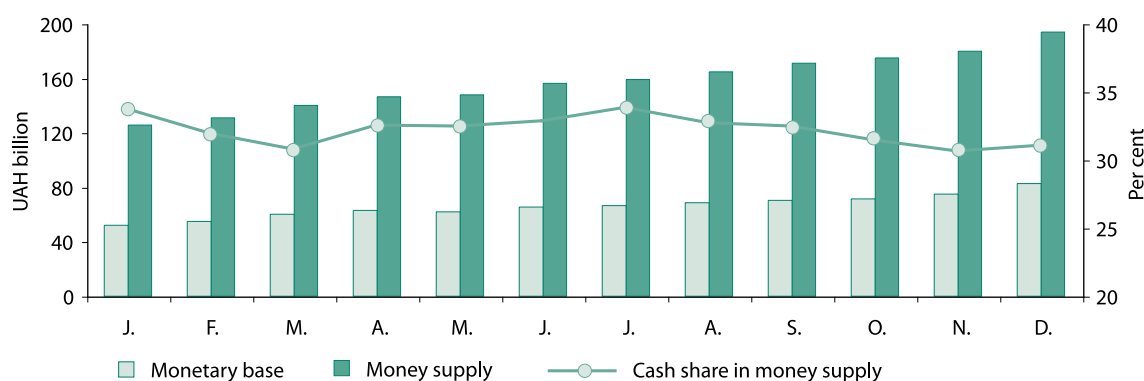
The National Bank of Ukraine has ensured keeping to the benchmarks with regard to the consumer price index, the average annual exchange rate of the hryvnia against the US dollar and the monetary base determined by the Monetary Policy Guidelines for 2005 (taking into account the changes of 18 November, 2005), which most fully characterize the fulfillment of the National Bank of Ukraine's main function: providing for the stability of the national monetary unit. In 2005, consumer prices increased by 10.3%, with the specified benchmarks of 10.5 – 12.0%.

Taking into consideration the development of the macroeconomic situation, the dynamics of foreign currency receipts, as well as in line with the decision of the Council of the National Bank of Ukraine of 30 June, 2005, the expected interval for the average annual exchange rate of the hryvnia against the US dollar has been revised from UAH 5.10 to UAH 5.15 per US \$1. The average annual exchange rate of the hryvnia against the US dollar was UAH 5.1237 per US \$1.

During 2005, the monetary base increased by 53.9% (for 2004 – 34.1%), or by UAH 29 billion, up to UAH 82.8 billion, with the benchmarks specified by the Monetary Policy Guidelines within 50-55%.

Yet, during the year, the volumes of the money supply expansion, which were specified by the Monetary Policy Guidelines for 2005, have been slightly exceeded and grew by 54.3% (for 2004 – 32.4%), or by UAH 69 billion, up to UAH 194.1 billion, with specified expansion benchmarks within 48-53%.

Dynamics of Major Monetary Indicators in 2005



Deviation of the money supply volume from the expected one (by UAH 1.6 billion) resulted from the adoption by the Verkhovna Rada of Ukraine, on 20 December, 2005, of the changes to the Law of Ukraine "On the State Budget of Ukraine for 2005" with respect to the budget deficit increase by UAH 1.6 billion in order to enlarge the pension payments for some categories of the population. The above-mentioned funds were actually paid (mainly in cash) during the last days of 2005, which arose an adequate increase in the money supply. In such a situation the National Bank of Ukraine had no opportunity to grade an additional growth of the money supply till the end of 2005.

The accelerated growth rate of the increment of the monetary indicators in 2005, compared to 2004, in the first place, is explained by the impact of political instability on the eve and during the presidential elections. In particular, during the last quarter of 2004, the monetary base and the money supply decreased by 2.9% and 3.4%, respectively, for reasons of capital outflow from the country, exchange of money by the households for foreign currency in cash, reduction of credit activity by banks and temporary outflow of deposits from the banking system.

At the beginning of 2005, a significant portion of funds was returned to the banking system by individuals, as well as by legal entities, that influenced, accordingly, the quantitative indicators of the monetary aggregates.

To ensure the effective management of the money and credit market, in 2005, the National Bank of Ukraine used a range of such instruments for the money and credit market regulation as the required reserves, interest rates, refinancing of banks, deposit operations and reverse REPO operations.

Required reserves

In order to determine an appropriate amount for the money supply in circulation, during 2005, the National Bank of Ukraine repeatedly strengthened the requirements for formation of the required reserves by banks.

Beginning from 15 April, 2005, the cash in the domestic currency accounted at the cashier's desks of banks was withdrawn from the cover of the specified required reserves of banks.

Depending on the situation in the money and credit market, the National Bank of Ukraine changed the required reserve level which was daily kept on the correspondent account with the National Bank of Ukraine at the operational day start. From 1 January, 2005, the magnitude of the mentioned ratio was imposed at the level of not less than 60%, from 15 April, 2005, – not less than 80%, from 1 September, 2005, – not less than 100%, from 1 October, 2005, – not less than 90% of the amount of the specified and formed required reserves for the previous reporting period.

By the results of the decisions taken, in 2005, the average calculated ratio of required reserves amounted to 6.6% and increased from 6.4% in January to 6.8% in December.

During 2005, the banking system has been ensuring a positive result in formation of the required reserves, whose volume amounted to UAH 2.5 billion for January 2005, and UAH 6.5 billion for December, 2005.

As at 1 January, 2006, the ratios of required reserves to be formed by banks were as follows:

- on term funds and deposits of legal entities and individuals in the national and foreign currency – 6%;
- on demand funds and deposits of legal entities and individuals in the national and foreign currency and on funds on the correspondent accounts – 8%, having been increased by one percentage point from 1 September, 2005.

Interest rates

During 2005, the interest rate policy of the National Bank of Ukraine was aimed at stabilization of the money and credit market and prevention of the inflationary processes development at the expense of a monetary factor, for which purpose, in order to create favourable conditions for attraction of the funds of households by banks, from 10 August, 2005, the discount rate of the National Bank of Ukraine was increased from 9% to 9.5% per annum.

The average weighted interest rate on the refinance credits, extended to banks in 2005, amounted to 14.1% annually in December, or decreased, on all the refinance instruments, by 4.7 percentage points, including on:

- overnight credits – by 5.0 percentage points (from 20.0% annually in January to 15.0% annually in December);
- refinance credits, extended by tender results – by 2.2 percentage points (from 15.0% annually in February to 12.8% annually in December);
- operations of direct REPO (estimated) – by 2.0 percentage points (from 14.0% annually in January to 12.0% annually in November).

The average weighted interest rate on stabilization credits, which were extended in January 2005 only, amounted to 15.0% annually.

It should be mentioned, that the interest rates on operations of the National Bank of Ukraine were positive as regards the actual inflation and its estimated level.

Refinancing of banks

During 2005, the National Bank of Ukraine has been ensuring the support of banks' liquidity through the refinancing operations (through the permanently acting refinancing line for provision of overnight credits, refinance credits for the period of up to 14 days and up to 365 days, direct REPO operations), as well as stabilization credits.

Taking into consideration a high liquidity level of banks during the 1st half of 2005, the demand for refinance credits was low at that time. Starting from August 2005, in the context of reduction of the liquidity level of the banking system and on account of changing the indicators of the balance of payments, the National Bank of Ukraine has enhanced the refinancing volumes of banks in an effort to ensure equilibrium in the money and credit market.

The total refinancing of banks in 2005 amounted to about UAH 12 billion (in 2004 – UAH 20.5 billion). Within the structure of credits extended to banks the amount of overnight credits made up 92.9%, or UAH 11.2 billion (in 2004 – UAH 14.8 billion), direct REPO operations – 5.1%, or UAH 613.3 million (in 2004 – UAH 3.4 billion), refinance credits through the tender – 1.9%, or UAH 232 million (in 2004 – UAH 1.0 billion), stabilization credits – 0.02%, or UAH 2.5 million (in 2004 – UAH 998.4 million).

Deposit operations

For the purpose to operatively regulate the banks liquidity and to maintain equilibrium in the money and credit market, during 2005, the National Bank of Ukraine has been performing deposit operations with banks through the issue of deposit certificates of the National Bank of Ukraine, deposit agreements and reverse REPO operations totaling UAH 17.2 billion.

During 2005, 528 auctions on deposit certificate allocation were announced. The total bank funds attracted through allocation of deposit certificates in 2005 amounted to UAH 14.8 billion (in 2004 – UAH 5.6 billion). The nominal value of a deposit certificate was UAH 1 million. The average weighted interest rate on deposit certificates in 2005 was 3.8% annually and it was set in accordance with the situation in the money and credit market with due regard for the interest rates in the interbank credit market of Ukraine. With the aim of regulating the banks' liquidity, in 2005, the advanced repayment of deposit certificates to the amount of UAH 1.4 billion was carried out.

Reverse REPO operations

During 2005, the National Bank of Ukraine, subject to the excess liquidity accumulation and in an effort to avoid influence of the monetary factor on the inflationary processes, has been regulating the money and credit market through reverse REPO operations with government securities.

In 2005, on reverse REPO operations UAH 2.3 billion (in 2004 – UAH 3.6 billion) with the average weighted interest rate of 1.2% annually was mobilized (as estimated).

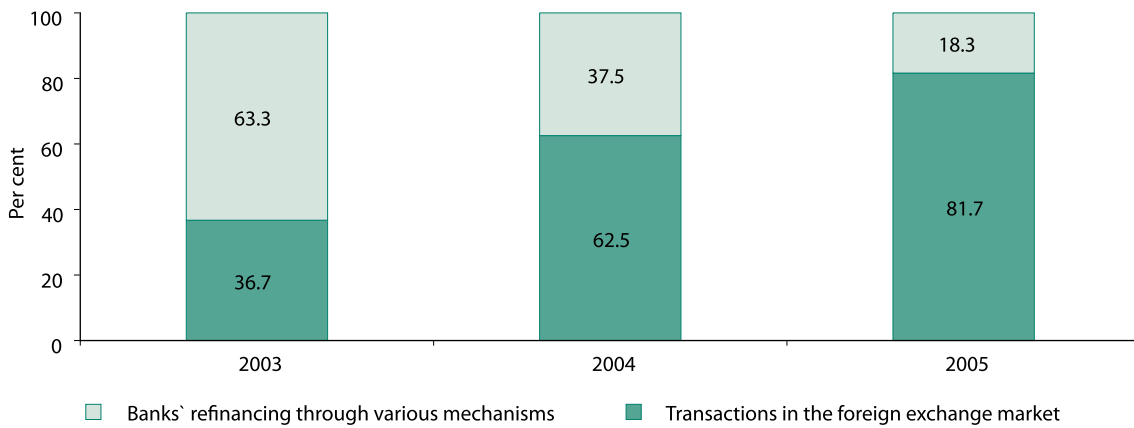
In the reporting year, the banks funds, attracted through deposit operations via deposit agreements, totaled UAH 157 million (in 2004 – UAH 2.1 billion) with the average weighted interest rate of 4.5% annually.

2.1.2. Non-Cash Emission by the National Bank of Ukraine

During 2005, the National Bank of Ukraine issued into circulation the funds totaling UAH 65.4 billion, which is UAH 10.6 billion, or by 19.3% more, than in 2004, including:

- UAH 53.4 billion (81.7%) for acquiring the foreign currency to form the gold and foreign currency reserve of the National Bank of Ukraine;
- UAH 12 billion (18.3%) for supporting the banks' liquidity through different refinancing mechanisms.

Non-Cash Issue by the National Bank of Ukraine



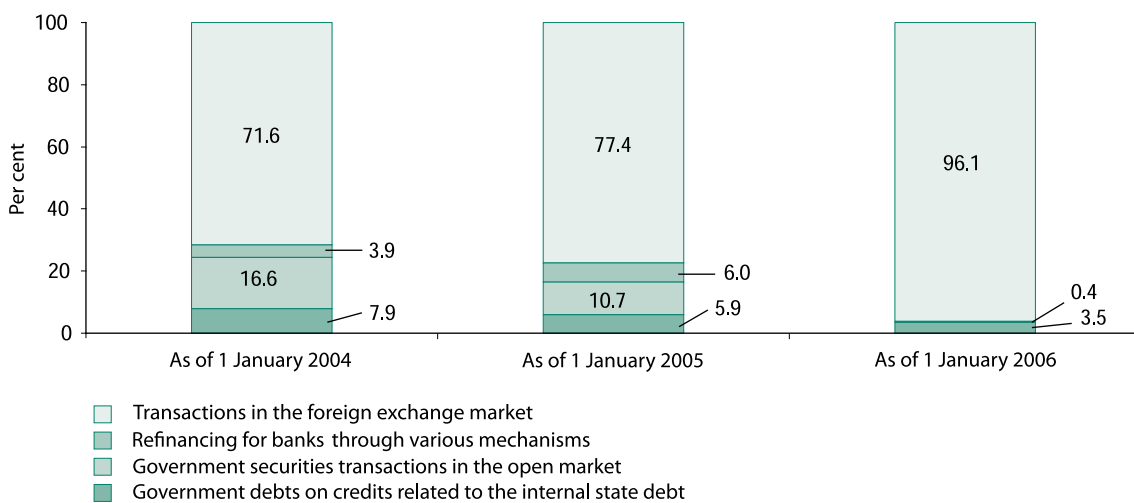
Within the structure of the cashless emission, made by the National Bank of Ukraine, in 2005, as in the previous year, the share of funds directed to the acquisition of foreign currency to form the gold and foreign currency reserve of the National Bank of Ukraine has increased (from 62.5 to 81.7%) which is due to the availability of free liquidity of banks over the 1st half of 2005 resulting from interventions of the National Bank of Ukraine in the foreign exchange market.

In 2005, the emission funds totaling UAH 24.1 billion, or 1.7 times less than in 2004, were withdrawn from circulation by the National Bank of Ukraine. The emission funds withdrawing was carried out by way of repayment by the banks of the refinance credits, extended earlier, to the amount of UAH 15.1 billion (62.8% of the total sum of funds withdrawn), at the expense of operations on repayment of the government securities worth UAH 6.4 billion (26.5%), as well as due to the sale of foreign currency by the National Bank of Ukraine to the amount of UAH 2.6 billion (10.7%).

Net cashless emission (difference between the funds put in circulation and those withdrawn from circulation) in 2005 equaled UAH 41.3 billion and was UAH 26.3 billion, or 2.8 times more than in 2004.

As at 1 January, 2006, the non-cash emission of the National Bank of Ukraine amounted to UAH 101.5 billion, which is UAH 41.3 billion, or 1.7 times more than as at 1 January, 2005.

Breakdown of NBU Non-Cash Issue



2.1.3. Money Circulation

As at 1 January, 2006, the monetary base equaled UAH 82.8 billion and, during 2005, it increased by 53.9% (in 2004 – by 34.1%).

The money supply in 2005 expanded mainly at the expense of repurchasing the foreign currency in the foreign exchange market. At the same time, it should be noted, that an essential share of emission, channeled through the foreign exchange market, took place in November 2005 and was related to repurchasing the foreign currency that had come in the country as a result of selling the "Kryvorizhstal" JSC. A substantial portion of funds in the national currency remained on the accounts of the Government and, accordingly, did not increase the money supply.

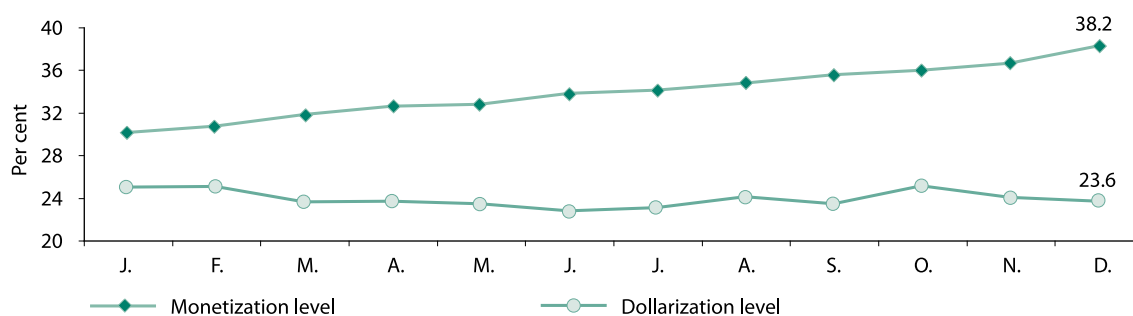
With a general growth of monetary base during 2005 by UAH 29.0 billion, the volume of net foreign currency interventions of the National Bank of Ukraine made up \$10.4 billion, or nearly UAH 53.0 billion (without taking into consideration the converting of funds received from the "Kryvorizhstal" JSC privatization).

The rest of channels influencing the monetary base had a reverse direction. The monetary base augmented due to the decrease of refinance funds balance by 87.6% (by UAH 3.2 billion) up to UAH 0.45 billion. During the year, the banks repaid stabilization credits (including ahead of schedule) to the total amount of UAH 1.0 billion. And vice versa, the balances on mobilization operations grew 14.3 times (by UAH 2.4 billion) up to UAH 2.5 billion. The Government of Ukraine has redeemed to the National Bank of Ukraine (including ahead of schedule) the government securities to the amount of about UAH 6.4 billion. The funds in the national currency on the accounts of the Government with the National Bank of Ukraine increased 3.4 times (by UAH 12.1 billion) up to UAH 17.0 billion.

The money supply as at 1 January, 2005, totaled UAH 194.1 billion and grew during 2005 by 54.3%, including in the national currency – by 55.4%, in the foreign currency – by 50.6% (in 2004 by 32.4%, 26.8% and 53.6% accordingly). This had an impact on the money supply structure by currency types. The share of money supply in the national currency from the beginning of 2005 increased by 0.6 percentage point and was 76.4% by the year end.

During 2005, in spite of slackening the economic growth pace, the money demand remained at a rather high level. The economy monetization in 2005 grew from 32.0 to 37.7%. The indicator of money velocity diminished from 3.1 to 2.7.

Dynamics of the Economy's Monetization Level and Dollarization Level in 2005



Under conditions of inflationary expectations, the National Bank of Ukraine has been ensuring, during the most part of the year, the dynamics of decreasing the monetary indicators. In particular, the average monthly growth rates of money supply in the 1st and 2nd quarters of 2005 amounted to 3.7%, and in the 3rd – 3%. However, in the 4th quarter the situation changed to some extent – average monthly growth rates of the monetary base were 5.8%, the money supply – 5.6%, which was due to the repayment in November by the Government of Ukraine of the funds to the previous "Kryvorizhstal" JSC's owners totaling UAH 4.26 billion and due to the budget expenditure growth in December.

MONEY SUPPLY BY AGGREGATES

Indicators	2005 (UAH billion)	For year	Growth rate, % Including by quarters			
			I	II	III	IV
Money outside the banks						
Cash (M0)	60.2	142.2	101.7	119.1	108.1	108.6
Money supply (M1)	98.6	146.9	109.5	114.0	107.5	109.4
Money supply (M2)	193.1	153.9	111.3	111.7	109.4	113.1
Money supply (M3)	194.1	154.3	111.4	111.6	109.4	113.5
For reference: monetary base	82.8	153.9	112.2	108.6	107.6	117.4

Note.

M1 minus M0 – transfer funds in the national currency

M2 minus M1 – transfer funds in the foreign currency and other funds

M3 minus M2 – securities of the banks' own debt

An increase in social and other payments to the households in 2005 resulted in speeding up the growth rate of cash outside the banks by 42.2% (in 2004 – by 27.9%) up to UAH 60.2 billion. Cash growth in the absolute value for 2005 made up UAH 17.9 billion and was the largest since 2001. However, during the reporting period a positive tendency of forming the money supply structure remained. As at 1 January, 2006, the share of cash within the money supply equaled 31.0% compared to 33.7% as at 1 January, 2005.

The transfer funds in the national currency as at 1 January, 2006, amounted to UAH 38.3 billion, or grew in 2005 by 54.9%.

The transfer funds in foreign currency and other funds increased in 2005 by 62.0%, and as at 1 January, 2006, they totaled UAH 94.6 billion.

The customer funds invested in acquisition of bank securities grew at a fast pace. During 2005, their volume increased 2.9 times and as at 1 January, 2006, made up UAH 0.9 billion.

GROWTH OF MONEY SUPPLY AND ITS STRUCTURE

Indicators	2005		2004
	In percent to the previous year	Share, %	Share, %
Money outside the banks			
Cash (M0)	142.2	31.0	33.7
Transfer funds in national currency	154.9	19.8	19.7
Transfer funds in foreign currency and other funds	162.0	48.7	46.4
Securities of banks' own debt	291.7	0.5	0.2
Money supply (M3)	154.3	100	100

The analysis of the money supply structure testifies that the largest share belonged to the transfer funds in foreign currency and other funds – 48.7%, the money outside the banks – 31.0%, the transfer funds in national currency – 19.8% and the rest (0.5%) – the customers' funds invested in acquisition of the banks' securities. The money supply structure somewhat changed compared with the previous year.

The share of transfer funds in foreign currency and other funds within the total money supply grew by 2.3 percentage points, funds used for acquiring the securities of banks' own debt – by 0.3 percentage point, transfer funds in national currency – by 0.1 percentage point.

STRUCTURE OF MONEY SUPPLY IN CIRCULATION, %

(by the end of the period)

Indicators	2004	2005 including by quarters			
		I	II	III	IV
Total	100.0	100.0	100.0	100.0	100.0
Money outside the banks					
cash (M0)	33.7	30.7	32.8	32.4	31.0
Transfer funds					
in national currency	19.7	21.7	20.8	20.2	19.8
Transfer funds in foreign currency and other funds	46.4	47.3	46.2	47.2	48.7
Securities of the banks' own debt	0.2	0.3	0.2	0.2	0.5

With increasing the money supply by 54.3%, in 2005, the funds of individuals (including the funds for acquisition of securities of the banks' own debt) augmented by 59.5% and as at 1 January, 2006, amounted to UAH 134.5 billion. The funds of economic entities for the year grew by 43.7% and equaled UAH 59.6 billion.

Within the money supply structure the share of funds of individuals (including the funds used to acquire securities of the banks' own debt) augmented during the year by 2.3 percentage points and as at 1 January, 2006, amounted to 69.3%. The rest were the funds of economic entities.

As at 1 January, 2006, savings of individuals (including the customers' funds invested in acquiring the banks' own debt securities) made up UAH 74.2 billion and grew during 2005 by 76.8%, including those in the national currency – by 92.3% and in the foreign currency – by 59.2%.

2.1.4. Cash Circulation

In 2005, a significant increase in social and other payments to the population had an impact on the cash growth outside the banks. As at 1 January, 2006, the cash outside the cashier's desks of the banks equaled UAH 60.2 billion and during the year it increased by UAH 17.9 billion, or by 42.2% (in 2004 the growth was of UAH 9.2 billion, or by 27.9%). Concurrently with the money supply growth, there occurred reduction of the share of cash within the total money supply (M3), which, by the end of December, amounted to 31.0%, that is by 2.7 percentage points less, than at the year start. The level of cash concentration outside the cashier's desks of banks, compared with 2004, grew from 3.3% to 4.6%.

Larger portion of regions of Ukraine (17 from 25) brought cash into circulation, the highest level of cash issue took place in the Donetsk region (18.3%), Sumy region (20.2%), Chernihiv region (20.4%), Mykolayiv region (26.3%), Kirovohrad region (30.1%) and Luhansk region (38.1%). In eight regions, about UAH 15.1 billion of cash was withdrawn from circulation.

During 2005, an intensive growth of money flows through the banking system was observed. Over the course of the reporting year, the cash was issued by 38.3% more than for 2004, at the same time, the cash returns increased by 36.4%, and at that the increase was observed by nearly all the items of the cash turnovers of banks.

In 2005, about UAH 372.0 billion of cash, or by UAH 99.3 billion more than in 2004, were received by the cashier's desks of banks. In the structure of returns to the cashier's desks of banks, 55% were receipts from the trade network enterprises and the enterprises providing all the paid services, whose volume, compared with the previous year, increased by UAH 50.6 billion, or by nearly one third (33.1%). Such growth of receipts by the cashier's desks of banks has been due to the increase in prices of some foodstuffs and prices (tariffs) of services. Moreover, grew the incomings to the accounts of individuals (1.6 times, or by UAH 15.7 billion), receipts on the sale of foreign currency (1.2 times, or by UAH 3.1 billion), as well as on the payment cards (1.8 times, or by UAH 3.1 billion).

Breakdown of Cash Receipts to Cashier's Desks in 2005



The issue of cash by the cashier's desks of banks in 2005 equaled about UAH 390 billion and augmented, compared with 2004, by UAH 107.9 billion. The largest was the growth (1.4 times, or by UAH 78 billion) of payments, related to the remuneration of labour and payment of pensions, as well as the payments from the accounts on deposits of individuals and on payment cards. Their volume amounted to UAH 259 billion, or 70% of the total payments. Furthermore, considerably grew (1.5 times, or by UAH 18.4 billion) the issues by banks of the cash for the acquired foreign currency, for purchase of agricultural products (1.4 times, or by UAH 5.7 billion.); for purchasing the goods and paying the services (by 10.7%, or by UAH 2.8 billion).

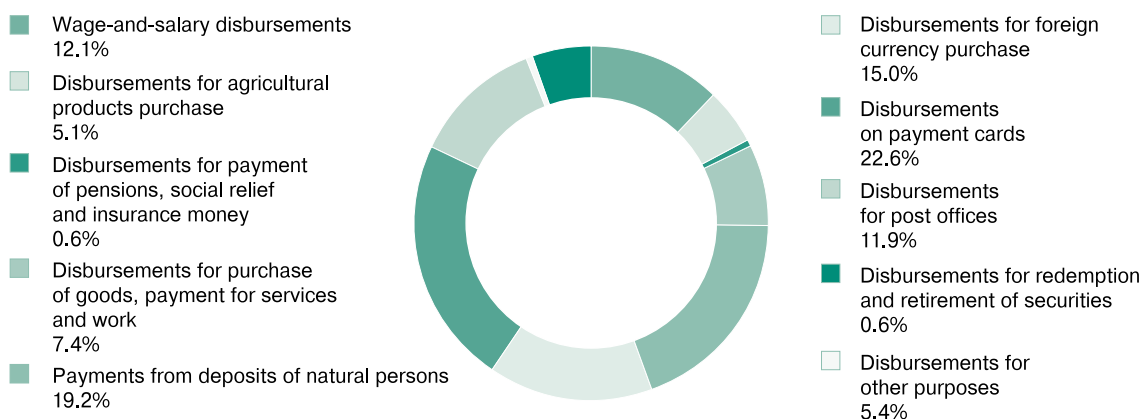
In the market of foreign currency transactions in January–August 2005, the issue of cash into circulation, totaling over UAH 600 million, was exhibited, however, in September–December a significant increase in the individuals' demand for foreign currency was seen and, therefore, the cash withdrawal on this operation only in September–December made up over UAH 7.8 billion, thus having an impact on the emission result of 2005.

A positive result of increase in the households' incomes was growth in 2005 of the individuals' deposits attracted by the banking system. At that, considerably grew both cashless incomings to the deposit accounts (1.6 times), and cashless settlements on payments for goods, services etc. (1.7 times). During 2005, nearly 79.0% of the total incomings of the households' deposits were non-cash entered in the accounts. At the same time, cashless settlements for goods, services and other transfers were developing much slower, only UAH 37.4 billion were paid for goods, services, securities and other transfers with the use of payment cards and other payment instruments.

During 2005, the National Bank of Ukraine ensured the needs of the economy in cash money within necessary volumes and optimal denomination composition of banknotes and coins. For this purpose, the continuous analysis and control of the cash supply at the regional branches' stocks (timely cash support and cash excess taking out) and reserve funds of the National Bank of Ukraine were carried out.

The support of the regional branches in 2005 with banknotes and coins from the reserve funds amounted to UAH 30.6 billion and decreased compared to 2004 by UAH 5.0 billion. In parallel with this, the support of the cash stock at the regional branches increased due to reallocation of cash between them. The total value of such supports in the reporting year made up UAH 4.5 billion.

Breakdown of Cash Outcoming from Cashier's Desks in 2005



As at 1 January, 2006, in circulation there were 1653.6 million banknotes and 4848.8 million coins, change and circulating ones (as at 1 January, 2005 – 1348.7 million pieces and 4113.5 million pieces, respectively). By the reporting date, there were 35 banknotes per head and 97 change and circulating coins per head of all denominations against 28 pieces and 82 pieces as at 1 January, 2005, respectively.

To maintain the proper view of the banknotes put in circulation the worn cash has been withdrawn from circulation. In 2005, withdrawn were the worn banknotes for the value of UAH 13.0 billion in the amount of 917.7 million banknotes.

Continued the work on improving the functioning of automated cash handling systems, integrated into a single data-processing network, which ensured a continuous remote control of the technological processes for handling the banknotes in the cashier's desks of the banks.

The bank institutions of Ukraine found out 4.7 thousand pieces (91% against 2004) of false banknotes of the national currency in circulation totaling over UAH 105 thousand (up 19% compared to 2004) with a prevailing share of banknotes of 20 and 10 hryvnia denominations amounting to 38.4% and 32.5%, respectively, in the total volume of banknotes revealed in circulation. Nearly all (95%) false banknotes were produced with the use of reproducing equipment – in jet and laser printers.

In 2005, 698 pieces of US dollar banknotes amounting to over US\$ 67 thousand and 136 pieces of banknotes of the European Central Bank for the value of nearly 24 thousand euro were acknowledged false and withdrawn from the banking system. Within the false foreign currency banknotes, US\$ 100 notes (94% of the total number of false US dollar banknotes) and EUR 200 notes (75% of the total number of false euro banknotes) prevailed. Over 90% of the false foreign currency banknotes withdrawn were produced by the printing technology.

In accordance with the approved plan for issuing commemorative and jubilee coins of Ukraine, in 2005, 31 names of commemorative and jubilee coins (37 types), including 1 gold, 11 silver and 25 non-precious metal coins were produced. Alongside, in the reporting year, a significant activity was arranged on realizing the commemorative and jubilee coins, totaling 787.47 thousand pieces for the value of UAH 32.0 million, or 31% more than in 2004. On the acting contractual agreements, in 2005, the oversea delivery was performed at the amount of 23.5 thousand silver coins and 5.6 thousand gold coins totaling US\$ 353 thousand and EUR 122.5 thousand, respectively (in 2004 – 19.6 thousand coins for the value of US\$ 244.5 thousand and EUR 72 thousand, respectively).

In 2005, the National Bank of Ukraine took a number of measures aimed at further improvement of the cash circulation administration and perfection of the legislative and normative ensuring of transactions with cash, namely:

- Draft Concept of Normative and Legal Regulation of Cash Transactions in Ukraine was worked out;
- Instruction for Organization of Producing, Bringing into Circulation and Realizing the Commemorative Coins of Ukraine and Souvenir Products was revised;
- Within the Program for Improving the Organization of Cash Circulation in Ukraine for 2004–2008, the National Bank of Ukraine organized a new design of 100 Hryvnia denomination banknote, being put into circulation on 20 February, 2006;
- At the regional branches of the National Bank of Ukraine the 2nd stage software "Automation of operations on putting into circulation, accounting and realizing the commemorative and jubilee coins, numismatic and accompanying products" was implemented.

2.2. EXCHANGE RATE POLICY

2.2.1. Dynamics of the Exchange Rate of Hryvnia.

Real Effective Exchange Rate

In 2005, the exchange rate policy of the National Bank of Ukraine was aimed at keeping the stability of the exchange rate of hryvnia in order to avoid its considerable fluctuations under conditions of slowing down of the economic growth and worsening of the external trade situation. During 2005, the National Bank of Ukraine secured a stable functioning of the foreign exchange market, as well as a positive dynamics of the international reserves and the exchange rate of hryvnia.

The foreign currency receipts in 2005 made up, in dollar equivalent, US\$ 11.9 billion, or rose by 22.2%, with the export revenue growth by 4.8%. The foreign currency incomings increased mainly due to the growth of external corporate borrowings and addition of direct foreign investments from the "Kryvorizhstal" JSC privatization.

In order to slow down an intense inflow of short-term capital and to bring the exchange rate of hryvnia in correspondence with the budget parameters approved by the Verkhovna Rada of Ukraine in March 2005, in April the National Bank of Ukraine revaluated the hryvnia against the US dollar by 2.7% that enabled to liquidate a negative potential of revaluation expectations and to avoid an artificial public excitement.

Starting from April 2005, the National Bank of Ukraine maintained the official rate of hryvnia against US dollar at the level of 5.05 hryvnias per 1 US dollar, except for a short period in June–July when the rate of hryvnia was 5.055 hryvnias per 1 US dollar. During 2005, the revaluation of hryvnia against US dollar amounted to 4.8%.

The unforeseen dynamics of foreign currency incomings reasoned the review of the forecast interval for possible fluctuations of the average rate of hryvnia against US dollar, which was changed by the Council of the National Bank of Ukraine from 5.27–5.31 to 5.10–5.15 hryvnia per 1 US dollar.

The average annual exchange rate of hryvnia against US dollar equaled 5.12 hryvnias per 1 US dollar, that was consistent with the adjusted exchange rate benchmarks of the monetary policy for 2005.

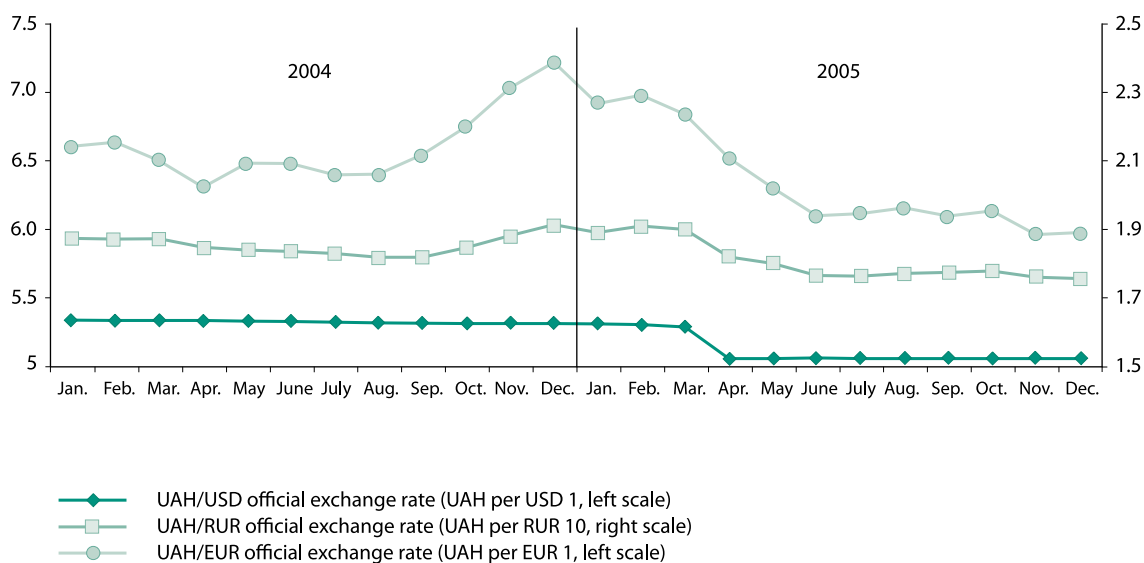
THE OFFICIAL EXCHANGE RATE OF HRYVNIA AGAINST FOREIGN CURRENCIES¹

Rate of hryvnia against foreign currencies:	2005	For reference: 2004
– against US dollar	505.00	530.54
nominal change (%)	+4.81	+0.49
real change (with respect to internal inflation – %)	+16.13	+11.39
– against euro	597.16	721.75
nominal change (%)	+17.26	–8.33
real change (with respect to internal inflation – %)	+27.1	+3.53
– against Russian ruble	17.541	19.119
nominal change (%)	+8.3	–5.62
real change (with respect to internal inflation – %)	+19.16	+5.94
For reference: inflation till December of the previous year (%)	10.3	12.3

*Rate by the end of the period – UAH per 100 units of currency, nominal and real changes: "–" – devaluation, "+" – revaluation.

The dynamics of the exchange rate of hryvnia against euro and Russian ruble, actively used in international settlements, was determined by the dynamics of their ratio to the US dollar. During 2005, the exchange rate of hryvnia against euro rose by 17.3% and against Russian ruble – by 8.3%.

Dynamics of the Official Exchange Rate of Hryvnia against Foreign Currencies in 2004–2005

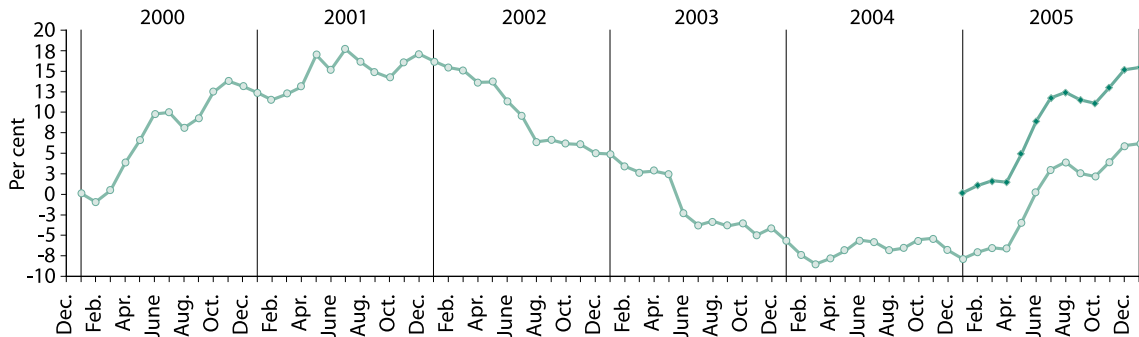


In order to prevent a material revaluation of hryvnia, the National Bank of Ukraine had to buy considerable foreign currency incomings in the first half of 2005. However, in the second half of the year, the difference between supply of foreign currency and demand for it in the inter-bank market gradually decreased. In October–December 2005, the purchase and sale volumes of foreign currency were practically balanced, allowing the National Bank of Ukraine to minimize the use of foreign currency interventions in the inter-bank market.

Real effective exchange rate

During 2005, the real effective exchange rate of hryvnia rose by 15.3%, being its largest growth since 2000, alongside with this, the competitive price advantages which had formed in 2003–2004 were leveled.

Dynamics of the Real Effective Exchange Rate of Hryvnia in 2000–2005 (versus December 1999) and in 2005 (versus December 2004)

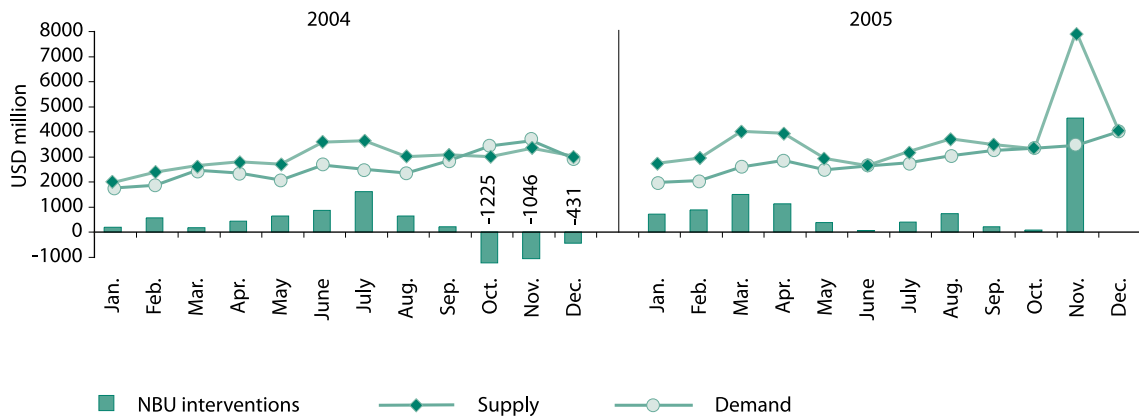


The main factors of the real strengthening of hryvnia in 2005 were the nominal strengthening of hryvnia¹ against the US dollar (by 3.7%), Russian ruble (by 1.9%) and euro (by 3.4%). On the other hand, there was higher average annual inflation in Ukraine (13.5%), than in the USA (3.4%), the Russian Federation (12.5%) and countries of the euro zone (2.2%).

2.2.2. DEVELOPMENT OF THE FOREIGN EXCHANGE MARKET OF UKRAINE

During 2005, in the foreign exchange market of Ukraine there was a material inflow of foreign currency due to the return, during the 1st quarter, of the share of foreign currency kept abroad during the presidential elections in Ukraine in 2004, the accelerated entering to the market of internal state borrowings of non-residents, active external borrowings of residents. At the same time, were increased the foreign currency purchases in the context of the households' income growth, acceleration of the inflationary processes and availability of a certain political tension, strengthened by the future parliamentary elections. At that, the volume of operations in the cash segment of the foreign exchange market was notable for volatility and increase in the share of total operations in the foreign exchange market.

Indicators of the Interbank Foreign Exchange Market (including the funds from the Kryvorizhstal JSC privatization)



¹Average annual.

The developments in the non-cash foreign exchange market could be symbolically divided into two periods. The first one (January–April) was characterized by a significant supply of foreign currency that exceeded the demand for it nearly 1.5 times. The foreign currency supply was mainly caused by a positive external trade balance due to the decrease in merchandise imports (by about 13% in the 1st quarter of 2005 compared to the 4th quarter of 2004), active attraction by residents of long-term loans from non-residents (US\$ 2.6 billion), as well as a material inflow in the country of the capital of non-residents to acquire T-bills and T-bills-VAT (about US\$ 1 billion).

The second period (May–December) was characteristic by the excess of the supply of foreign currency over the demand for it, however, the difference between them, starting from June, steadily decreased (without taking into account the funds from the sale of the "Kryvorizhstal" JSC), that contributed to balancing the non-cash foreign exchange market in the 4th quarter. At this time, there was the growth rate excess of merchandise imports over exports and significant trans-border migration of capital (external long-term borrowings in the second half of 2005 exceeded US\$ 7.0 billion), as well as extremely large inflow of foreign investments in November 2005, related to the "Kryvorizhstal" JSC's privatization and amounting to US\$ 4.4 billion in the dollar equivalent.

A steady trend to the equilibrium in the inter-bank foreign exchange market permitted the National Bank of Ukraine to minimize its presence there. Daily, during the Trade session, the National Bank of Ukraine announced, through the REUTERS system, indicative rates for the US dollar purchase and sale, at which any bank could carry out operations with the National Bank of Ukraine to satisfy their customers' requests.

Starting from 18 August, 2005, the National Bank of Ukraine bought out the US dollars at the rate of 5.00 hryvnias per 1 US dollar and sold at the rate of 5.06 hryvnias per 1 US dollar. These terms were applied to the operation with the authorized bank servicing the "Mittal Steel" Company in the settlements for the "Kryvorizhstal" JSC's block of shares.

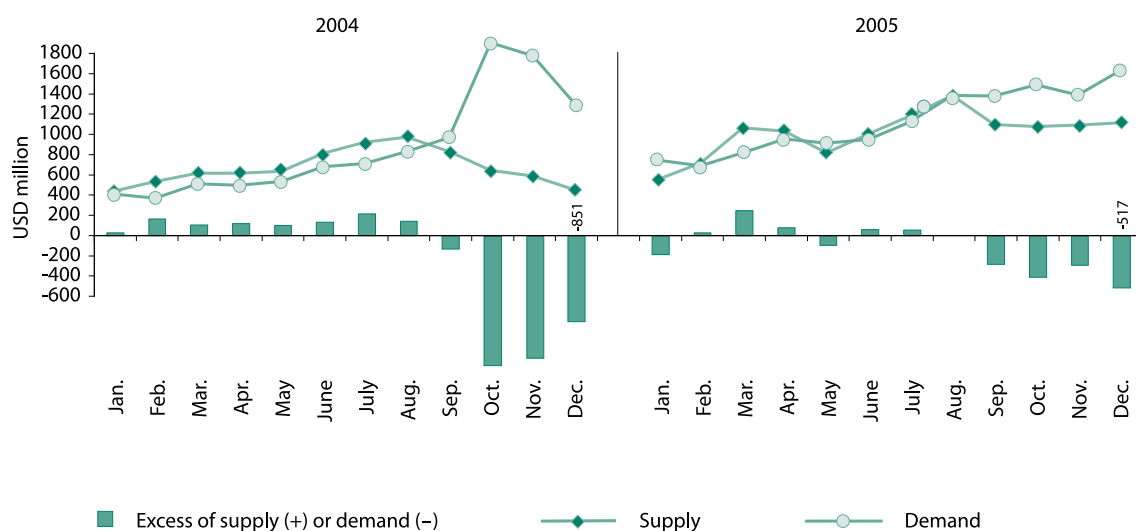
The balance of the foreign currency interventions of the National Bank of Ukraine in 2005 totaled US\$ 10.5 billion, being by US\$ 7.8 billion more than in 2004, including in the 4th quarter the net interventions equaled US\$ 0.2 million (without taking into consideration the funds received from the "Kryvorizhstal" JSC's privatization), and in December the National Bank of Ukraine entered the market only twice to buy out US\$ 8.1 million excess of foreign currency.

STRUCTURE OF THE FOREIGN EXCHANGE MARKET OF UKRAINE (%)

Period	Non-cash market	Cash market	Total
2001	96.0	4.0	100
2002	95.7	4.3	100
2003	86.5	13.5	100
2004	81.1	18.9	100
2005	78.4	21.6	100

In the cash foreign exchange market, the total excess of demand for foreign currency over its supply made up US\$ 1.3 billion, equaling 11% of the foreign currency sale by the population. Inconsistency between demand and supply was formed in the 2nd half of 2005, when the growth rate of demand for foreign currency nearly twice exceeded the dynamics of its supply. The direct reason for the mentioned tendencies was strengthening the inflationary expectations against a background of increase in social budgetary expenditures, resignation of the Government of Ukraine and uncertainty of the price of gas imported by Ukraine.

Indicators of the Cash Foreign Exchange Market



To meet a growing demand for foreign currency on the part of population, only during the 4th quarter of 2005, the authorized banks brought in US\$ 2.7 billion foreign currency in cash, or nearly a half of its total imports for the whole 2005. As a result, the share of a cash segment within the structure of the foreign exchange market rose for the year up to 21.6%, or grew by 2.7 percentage points. The total volume of operations with foreign currency in cash in 2005 increased by 39%, in particular, the demand augmented by 29% and supply – by 52%.

STRUCTURE OF THE FOREIGN EXCHANGE MARKET OF UKRAINE BY TRANSACTIONS ON THE FOREIGN CURRENCY SALE

(in dollar equivalent, %)

Year	Total, US\$ billion	US dollar	% of the total amount		
			Euro	Russian ruble	Other currencies
2001	18.5	73.7	5.5	19.7	1.1
2002	20.1	78.5	8.1	11.5	1.9
2003	30.3	81.4	8.0	9.4	1.2
2004	49.5	83.9	7.4	7.3	1.4
2005	59.0	83.0	9.0	7.1	0.9

In the structure of the foreign currency sale by the types of currencies compared to 2004 the share of transactions with euro grew.

2.2.3. The System of Foreign Exchange Regulation

To ensure the national currency stability in 2005 and taking into consideration the macroeconomic situation, the National Bank of Ukraine continued a gradual liberalization of the system of foreign exchange regulation. Based on the attained stability in the foreign exchange market of Ukraine, the requirement for mandatory sale of foreign currency receipts for benefit of residents of Ukraine, as well as 2 percent limitation for the boundary deviation of purchase and sale rates on foreign currency cash operations from the official exchange rate of hryvnia against foreign currencies were canceled.

A fundamental step of the National Bank of Ukraine aimed at further liberalization of the transactions

in the foreign exchange market was approval by the National Bank of Ukraine of the new "Rules for Trade in Foreign Currency", in whose accordance the banks are permitted to conduct arbitrage operations, i.e. to be both a seller and a buyer of a certain currency together during a Trade Session, as well as to convert foreign currencies of the 1st group of the Classifier into foreign currencies of the 2nd group of the Classifier and vice versa. It is allowed to perform forward foreign exchange transactions with foreign currency of the 1st group of the Classifier (for hryvnia or other foreign currency of the same group of the Classifier) under condition of registering such transactions during the Trade Session and for the term less than a year.

At the same time, the mechanisms for regulating the foreign exchange market of Ukraine and preventing the growth of the bank risks in general were changed and implemented. Thus, since 1 October, 2005, new limits for the open currency position were set, which prevented "untwisting" the unjustified demand for foreign currency in the foreign exchange market of Ukraine and enabled to avoid a many-fold increase in the speculative potential of the foreign exchange market.

The ratios for open currency position risks, set for the banks, were adjusted in order to minimize the foreign exchange risks.

In accordance with the revised Rules of Holding the Trade Session and Performing Some Transactions Related to Purchase-Sale of Foreign Currencies and Banking Metals, was concretely defined the right of the National Bank of Ukraine to regulation of the inter-bank foreign exchange market of Ukraine, namely:

- to stop a Trade Session announcing a technical break;
- to set a limit margin for which the rate of foreign currency sale and purchase can deviate from the official exchange rate;
- to establish for the entities of the foreign exchange market the limits of sale of foreign currency in cash to physical persons-residents.

In order to reorient the residents' external borrowing structure from short-term loans to long-term ones to implement investment projects in Ukraine, the National Bank of Ukraine temporarily (from September 2005 till March 2006) introduced one of the most widely used instruments in the international practice for regulating the capital movement – reserve requirements. This contributed to decrease in the short-term foreign capital inflow to the financial market of Ukraine, reducing the fluctuation amplitude of the exchange rate of hryvnia against foreign currencies.

In the reporting year, the National Bank of Ukraine implemented more transparent rules and procedures with regard to settlements related to investment activity. In particular, the requirement of a mandatory opening of investment accounts with the banks of Ukraine to invest from abroad was canceled by the Regulations on the Order of Foreign Investment in Ukraine. Non-resident investors were permitted to transfer the funds directly to the current accounts of residents. The mandatory conversion of foreign currency to hryvnia when investing it in Ukraine was canceled. Moreover, the order of returning the foreign investments and repatriating the profit by non-residents was adjusted.

For the purpose of speeding up the external economic settlements:

- canceled were the requirements to give by the customers to the bank, in the document package for buying the foreign currency, the reference of the state tax administration (inspection) and to form by the authorized banks the register of any transaction on the foreign currency purchase which had to be provided for the consideration by the tax authority, where the authorized bank is registered;
- simplified was the procedure for receiving the individual licenses to allocate by residents (legal entities and individuals) the foreign exchange values on the accounts outside Ukraine with canceling the requirements related to provision of a number of documents.

To improve the functioning of the cash segment of the foreign exchange market the National Bank of Ukraine made some changes to the Instruction on the Order of Organizing and Conducting Currency Exchange Transactions on the Territory of Ukraine, in whose accordance the banks have been permitted to sign a contract on opening the exchange offices only with the agent whose statutory capital equals not less than UAH 250 thousand and whose statutory documents envisage financial services on

exchange of currencies. This enabled to minimize risks on such transactions. Moreover, taking into consideration a general direction to shorten the circulation of foreign currency in cash in the territory of Ukraine, it was detailed that the commission on currency exchange transactions (on purchase-sale of travelers' checks, conversion of foreign currency in cash, taking for collection of the banknotes of foreign countries and personal checks) is charged in hryvnias.

To prevent purchasing the foreign currency in cash through the exchange offices for the needs of the "black" market, the National Bank of Ukraine introduced the requirement in whose accordance the individuals acquire the foreign currency in cash up to the amount of UAH 15 thousand at the exchange offices, and over UAH 15 thousand – at the cashier's desks of a bank (financial institution) with obligatory identification of a person.

In 2005, continued was the unification of norms for transfer of foreign exchange values through the customs border by individuals who depart from Ukraine on personal affairs or on business. Thus, since 20 October, 2005, the norms for import and export by resident and non-resident individuals of hryvnia, foreign currencies and banking metals were increased.

In order to improve the servicing of individuals when performing foreign exchange transactions by them, the National Bank of Ukraine took the following measures:

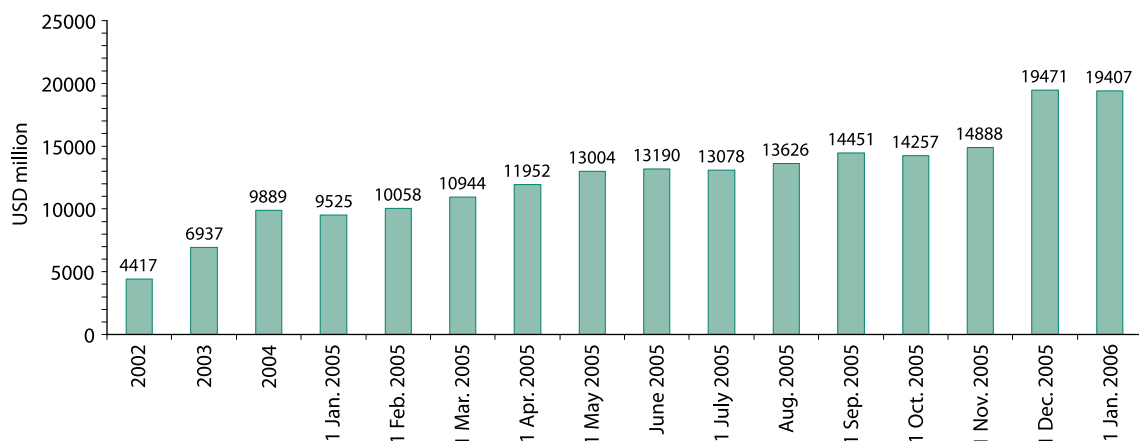
- in December 2005, the Ukrainian postal state enterprise "Ukrposhta" was granted a general license to perform foreign exchange transactions with the right to carry out international postal (money) transfers;
- adopted were "The Rules for Performing Foreign Exchange Transactions in International Postal Money Orders", which regulate the performance by the mail service operators of international postal (money) transfers in foreign currency by the order of individuals and payment to individuals of the foreign currency transferred in favour of them from abroad (foreign currency transfers without opening an account).

In the reporting year, the work continued on making changes to the effective Decree of the Cabinet of Ministers of Ukraine "On the System of Foreign Exchange Regulation and Control" and other laws related to the external economic activity of residents. Among such changes the most important are those enabling the National Bank of Ukraine, with due regard for the macroeconomic situation, to use the necessary instruments for foreign exchange regulation, including the ones aimed at weakening the requirements to foreign exchange transactions.

2.2.4. International Reserves

As at 1 January, 2006, the international reserves of the National Bank of Ukraine amounted to US\$ 19.4 billion and augmented for the year by US\$ 9.9 billion, or nearly doubled. The international reserve growth in 2005 was the largest during the years of Ukraine's independence.

International Reserves of the National Bank of Ukraine in 2002–2005 (at the current rate)



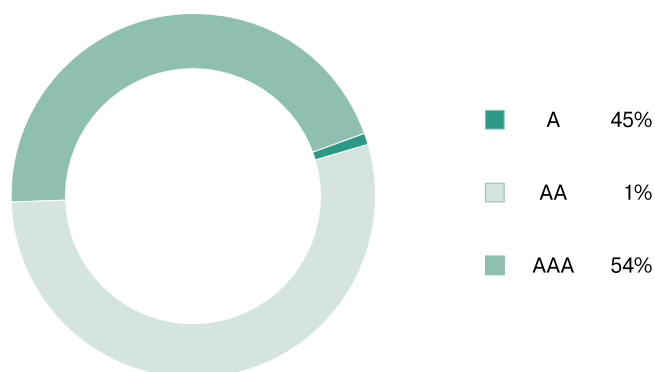
The main source of enlarging the international reserves of the National Bank of Ukraine remained foreign currency interventions of the National Bank of Ukraine (during 2005, US\$10.9 billion were bought and US\$ 0.41 billion were sold). The growth of international reserves of the National Bank of Ukraine was assisted by the increase in the incomings on the accounts of the Government of Ukraine (US\$ 1.14 billion), including the funds received from the allocation of T-bills (US\$ 0.72 billion) and loans, granted by the World Bank (US\$ 0.42 billion).

The decrease in foreign currency reserves in 2005 occurred due to the payments on repaying and servicing the external government debt, which were made by the Ministry of Finance of Ukraine to the amount of US\$ 1.43 billion and payments of the National Bank of Ukraine on repayment of the IMF credits amounting to US\$ 0.35 billion.

In 2005, the National Bank of Ukraine continued ensuring an effective management of international reserves, resulting in support of the external stability of the national monetary unit, improvement of Ukraine's creditworthiness, favourable conditions for external borrowings were created, the fulfillment by Ukraine of the obligations to international financial organizations and regulation of the balance of payments of Ukraine were secured, also foreign currency interventions of the National Bank of Ukraine were performed within the framework of its monetary policy.

The main principle of the international reserve management was ensuring an optimum relationship of the levels of international reserve security, liquidity and yield. In 2005, funds of the international reserves of the National Bank of Ukraine were allocated on the accounts and in the financial instruments of banks-counteragents whose long-term credit rating is not lower than A. The banks-counteragents were reliable banks of the USA and European countries.

Distribution of Banks-Counteragents according to Credit Rating for International Reserve Management



The basic instruments for international reserve management were short-time deposits and securities. Within the structure of international reserves in 2005, short-time deposits prevailed whose share decreased from 86% at the beginning of 2005 to 77% – by its end. In 2005, the international reserve portion allocated as deposits grew 1.8 times.

The share of the securities portfolio within the international reserve structure augmented for 2005 from 8.0% to 20.0%, and its volume increased 9 times. In 2005, the National Bank of Ukraine started to place the international reserve funds in securities issued by international financial organizations and agencies. Moreover, in the year under review the allocation of the international reserve funds in the Great Britain's securities started.

The larger portion of the monetary gold of the National Bank of Ukraine (70.0%) was kept at the State Vault, the rest was placed in the long-time deposits.

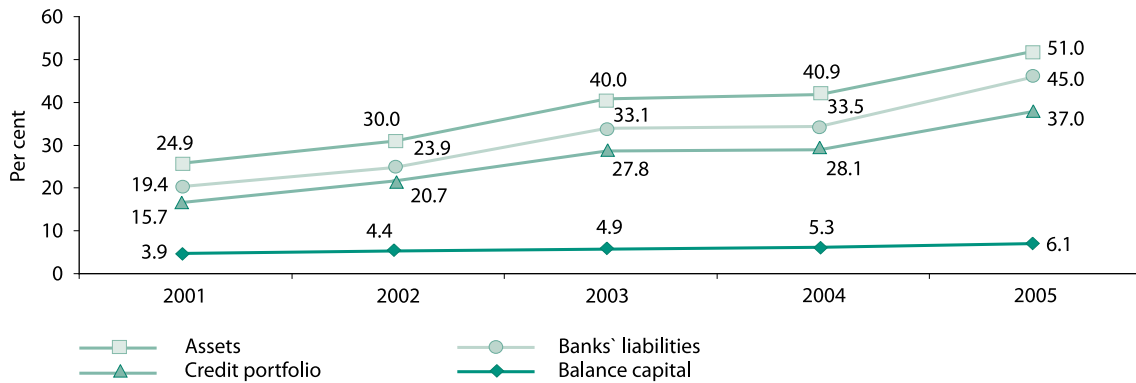
The total yield on the international reserve management for 2005 amounted to over US\$ 413 million, with the 2.98% average yield on the transactions of gold and foreign currency reserve management, or by 1.16 percentage points more, than in 2004.

2.3 DEVELOPMENT OF THE BANKING SECTOR OF UKRAINE

2.3.1 MAIN INDICATORS OF ACTIVITY OF THE BANKS OF UKRAINE

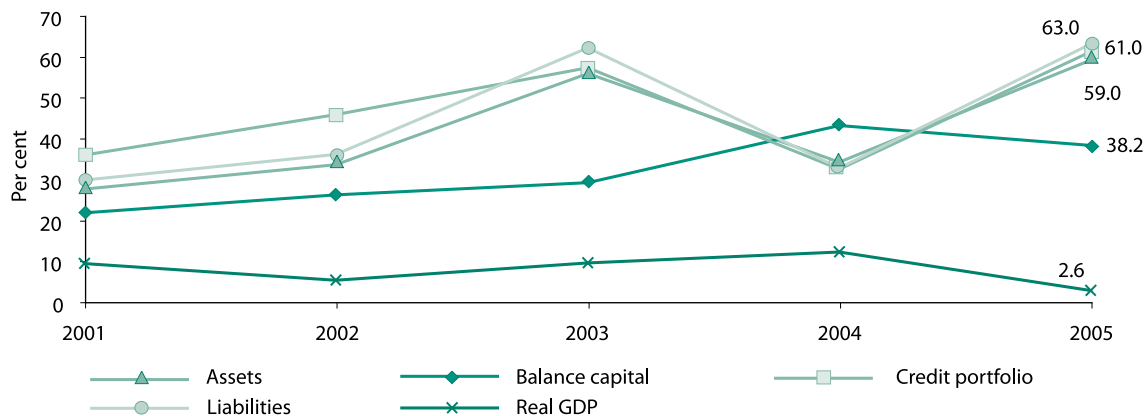
In 2005, a dynamic growth of the indicators of the banking sector relative to GDP, which had somewhat stopped in 2004, continued. As at 1 January, 2006, the relation of banks' assets to GDP amounted to 51% (as at 1 January, 2005 – 40.9%), credit portfolio – 37% (as at 1 January, 2005 – 28.1%), liabilities – 45% (as at 1 January, 2005 – 33.5%).

Ratio of Major Indicators of Activities of Ukrainian Banks to GDP



In 2005, there was a significant increase in the volume of the nominal asset and liability operations of the banks, having a positive effect on the development of the economy of Ukraine. By the year results, the banking sector was characterized by the highest rate of the activity indicators' rise for the last five years, being much larger than the indicators of the real GDP growth and the growth rates in the main types of economic activity. The growth of the Ukrainian banks' assets made up 159.0%, the credit portfolio – 161.0%, the liabilities – 163.0%, the balance capital – 138.2%.

Growth Rates of Activity Indicators of Ukrainian Banks and Real GDP



The assets growth rate was higher than in 2004 (134.0%) mainly at the expense of the increase in the credit portfolio by UAH 59.2 billion, or by 61.0%. The banks' highly liquid assets rose for the year by UAH 12.9 billion, or by 54.6%, investments in securities – by UAH 6.2 billion, or by 75.8%, the fixed assets and intangible assets – by UAH 2.9 billion, or by 32.3%.

Within the structure of the total assets of the banks as at 1 January 2006, the share of the credit

portfolio amounted to 70.1% (as at 1 January 2005 – 68.7%), highly liquid assets – 16.4% (as at 1 January, 2005 – 16.7%), fixed assets and intangible assets -5.3% (as at 1 January 2005 – 6.3%), investments in securities – 6.4% (as at 1 January 2005 – 5.8%), receivables – 0.5% (as at 1 January 2005 – 0.9%), accrued income to be received – 0.9% (as at 1 January 2005 – 1.0%) and other assets – 0.4% (as at 1 January 2005 – 0.6%).

Reserves under active operations were formed in full according to the calculated indicator and as at 1 January, 2006, amounted to UAH 9.4 billion, including – UAH 8.3 billion – to cover possible losses on the credit operations of the banks.

In the total sum of the banks' liabilities, prevailed the funds, attracted on the accounts of economic entities and individuals, whose volume was fully restored in the 1st quarter of 2005, after a material decrease at the end of 2004, and during the year they had a tendency toward a stable growth. As at 1 January 2006, the share of funds attracted on the accounts of economic entities made up 32.5% and individuals – 38.5%, credits, got from other banks – 14.7%, funds of non-banking institutions – 2.9%.

The total liabilities of banks during the year augmented by 43.2% due to the deposits of individuals, which grew in 2005 by 76.0%, including in the national currency – by 91.0%. The tendency for the leading increase in the individuals' deposits in the national currency testified to the continued trust of the population in the national currency.

In 2005, the banks' capital growth continued. The balance capital of banks for 2005 augmented by 38.2% (for 2004 – by 43%) and as at 1 January 2006, amounted to UAH 25.5 billion.

STRUCTURE OF BALANCE CAPITAL OF BANKS

Indicators	2005				For reference: 2004			
	UAH million	Share, %	Growth, UAH million	% to previous year	UAH million	Share, %	Growth, UAH million	% to previous year
Balance capital	25450.9	100.0	7029.4	138.2	18421.4	100.0	5539.5	143.0
<i>including:</i>								
Authorized capital	16110.7	63.3	4505.3	138.8	11605.4	63.0	3489.8	143.0
Issue differences	542.5	2.1	125.2	130.0	417.3	2.3	131.3	145.9
Total reserves	84.6	0.3	34.5	168.8	50.1	0.3	13.2	135.8
Reserve fund	1268.0	5.0	476.0	160.1	792.0	4.3	187.7	131.1
Other funds	1613.8	6.3	616.3	161.8	997.5	5.3	271.4	137.4
Results of previous years	1124.4	4.4	-135.1	89.3	1259.5	6.8	197.4	118.6
Result of the reporting year expected to be approved	—	—	-1.0	0.0	1.0	0.0	1.2	0.0
Result of the current year	2170.1	8.5	907.4	171.9	1262.7	6.9	435.8	152.7
Result of revaluating the fixed assets and intangible assets	2536.7	10.0	500.9	124.6	2035.8	11.1	811.8	166.3

Increase in the balance capital took place mainly at the expense of growth of the authorized capital (by UAH 4.5 billion or by 38.8%), reserve fund (by UAH 0.5 billion, or by 60.1%), current year result (by UAH 0.9 billion, or by 71.9%) and other bank funds (by UAH 0.6 billion, or by 61.8%).

In 2005, the statutory capital growth in the banking sector was secured due to the UAH 300 million increase in the authorized capital of the open joint stock company "State Export-Import Bank of Ukraine" and the UAH 400 million increase in the authorized capital of the open joint stock company "State Savings Bank of Ukraine".

The regulatory capital of the banks of Ukraine rose for 2005 by 43.6% and as at 1 January,

2006, amounted to UAH 26.4 billion, or EUR 4.4 billion, where the share of the fixed capital equaled 75.5%, and additional one – 24.5%.

Positive changes took place in the structure of banks by the regulatory capital amount.

GROUPING OF THE BANKS OF UKRAINE BY THE REGULATORY CAPITAL AMOUNT

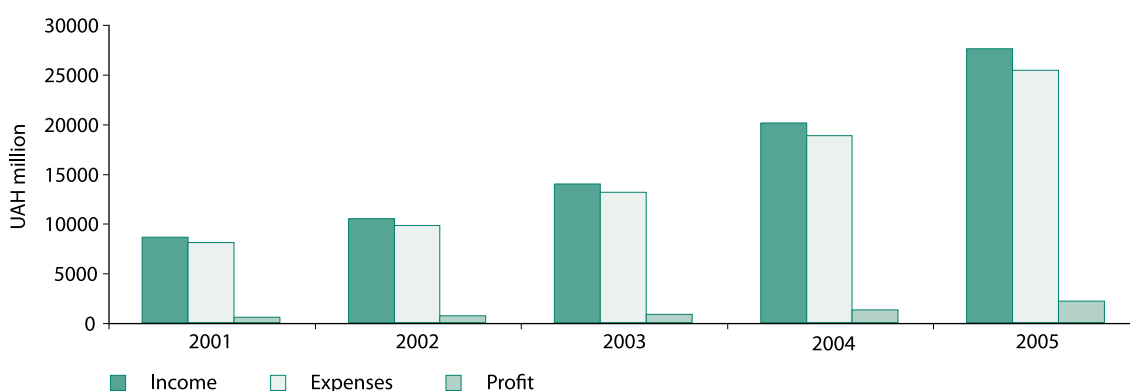
Amount of regulatory capital	Number of banks	2005		For reference: 2004	
		Share, %	Number of banks	Share, %	Number of banks
Up to EUR 1 million	1	0.6	1	0.6	0.6
From 1 to EUR 3 million	1	0.6	0	0.0	0.0
From 3 to EUR 5 million	4	2.5	29	18.1	18.1
From 5 to EUR 10 million	78	47.8	71	44.4	44.4
Over EUR 10 million	79	48.5	59	36.9	36.9
Operating banks, total number	163	100.0	160	100.0	100.0

For 2005, the number of banks with the regulatory capital over EUR 10 million rose from 59 to 79 banks, and their share in the total quantity of acting banks as at 1 January, 2006, grew from 36.9% to 48.5%.

Notwithstanding the fact that in 2005 the tendency towards the capital growth preserved, the capitalization level of the banks of Ukraine remained inadequate, being testified by the capital to GDP ratio that increased for the year by 0.8 percentage point and as at 1 January, 2006, amounted to 6.1%.

One of the most important tasks for the banks of Ukraine was to ensure the profitability and to rize the effectiveness of their activity. By the results of 2005, the banks of Ukraine got the profit of UAH 2.2 billion (for 2004 – UAH 1.3 billion), or by 71.9% more with the growth of income and expenses of banks by 37.2% and 34.9%, respectively.

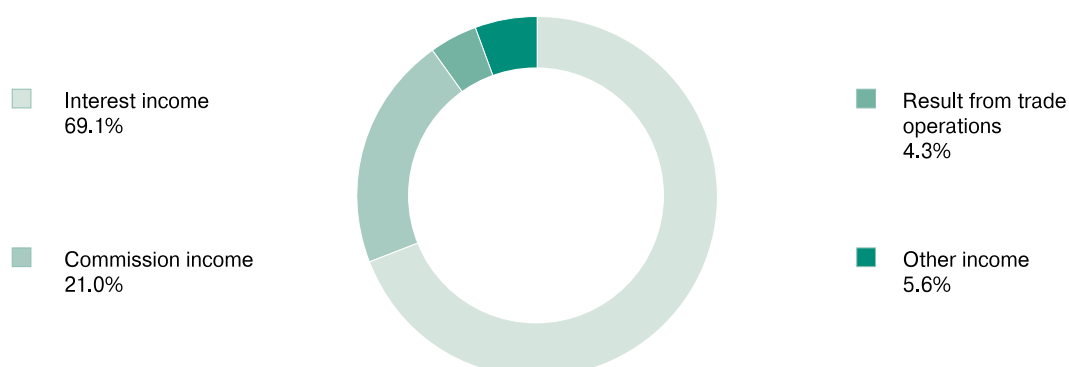
Dynamics of Income, Expenses and Profit of the Banking Sector of Ukraine



The income of the banks of Ukraine as at 1 January, 2006, amounted to UAH 27.5 billion.

The income growth in 2005 by 37.2% was due to the increase in the interest income by UAH 5.5 billion, or by 40.4%, the commission income by UAH 1.2 billion, or by 25.1%, the trade operation result by UAH 0.1 billion, or by 11.8%. Thus, the main source of banking income was the interest one. The share of commission income was at the level of 25% – nearly optimal for the banking sector of transition economies.

Breakdown of Income of Ukrainian Banks in 2005



Within the income structure of banks the interest income made up 69.1% (UAH 19.0 billion), commission income – 21.0% (UAH 5.8 billion), result of trade operations – 4.3% (UAH 1.2 billion), other operating income – 4.7% (UAH 1.3 billion) and other income – 0.8%. (UAH 0.2 billion).

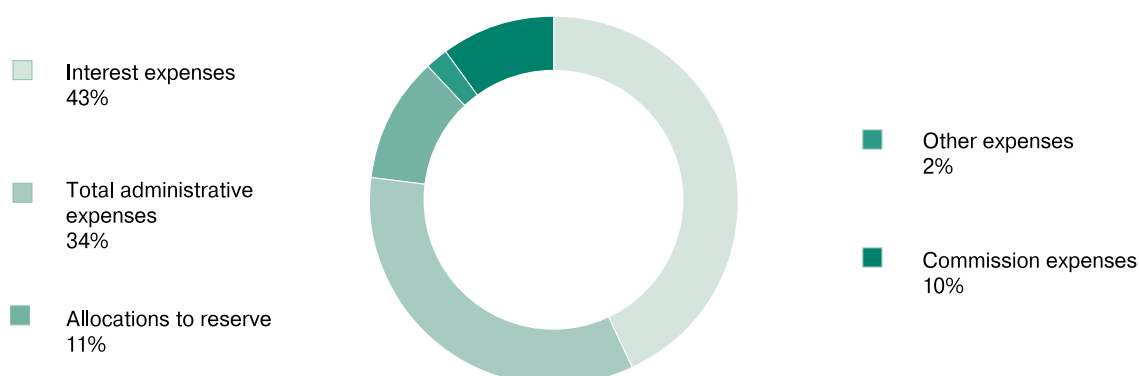
STRUCTURE OF INCOME AND EXPENSES OF BANKS OF UKRAINE

(UAH, million)

Indicators	2005				For reference: 2004			
	UAH million	Share, %	Growth, UAH million	% to the previous year	UAH million	Share, %	Growth, UAH million	% to the previous year
1. Income	27537.1	100.0	7464.8	137.2	20072.3	100.0	6123.4	143.9
<i>including:</i>								
Interest income	19029.1	69.1	5473.3	140.4	13555.8	67.5	4063.0	142.8
Commission income	5774.6	21.0	1160.0	125.1	4614.6	23.0	1151.1	133.2
Result of trade operations	1186.9	4.3	125.0	111.8	1061.9	5.3	321.5	143.4
Other operating income	1302.4	4.7	562.3	176.0	740.1	3.7	584.8	4.8 t.
Other income	230.7	0.8	169.1	3.7 t.	61.6	0.3	21.6	153.9
Return of written-off assets	11.8	0.04	-25.8	31.4	37.6	0.2	-17.6	68.1
Unforeseen income	1.5	0.01	0.7	187.5	0.8	0.004	-1.0	46.4
2. Expenses	25367	100.0	6557.4	134.9	18809.6	100.0	5687.6	143.3
<i>including:</i>								
Interest expenses	10907.4	43.0	3151.6	140.6	7755.8	41.2	2839.3	157.8
Commission expenses	536.9	2.1	36.7	107.3	500.2	2.7	116.0	130.2
Other operating expenses	1603.7	6.3	423.8	135.9	1179.9	6.3	377.7	147.0
General administrative expenses	8714.7	34.4	2168.4	133.1	6546.3	34.8	1704.0	135.2
Allocation to reserve	2788.9	11.0	371.7	115.4	2417.2	12.9	691.9	140.1
Incidental expenses	0.8	0.003	0.1	114.3	0.7	0.004	-1.0	41.3
Profit tax	814.7	3.2	405.2	198.9	409.5	2.2	-40.3	91.0
Profit (loss)	2170.1	—	907.4	171.9	1262.7	—	435.8	152.7

In 2005, compared to the previous year, the bank expenses increased by 34.9% and as at 1 January, 2006, amounted to UAH 25.4 billion (as at 1 January, 2005 – UAH 18.8 billion). The growth of the expenses of banks was due to the increase in interest expenses by UAH 3.2 billion, or by 40.6%, general administrative expenses by UAH 2.2 billion, or by 33.1% and commission expenses by UAH 0.04 billion, or by 7.3%.

Breakdown of Expenses of Ukrainian Banks in 2005



The largest portion of the expenses of banks made up interest expenses – UAH 10.9 billion (43%) and general administrative expenses – UAH 8.7 billion (34.4%). Despite the increase in allocations to reserve by 15.4%, their share in total expenses diminished from 12.9% to 11.0%.

The expense to income ratio of banks equaled 92.1% (for 2004 – 93.7%). The return on assets of banks for 2005 grew from 1.07% to 1.31%, the return on capital amounted to 10.4% against 8.4% in 2004.

The highest level of ensuring a region with banking services remained in the City of Kyiv and Kyiv region (98 banks and 155 branches of banks), in the Kharkiv region (12 banks and 73 branches of banks), the Dnipropetrovsk region (11 banks and 96 branches of banks) and the Donetsk region (10 banks and 128 branches of banks), accounting for 73.1% assets of the banking sector of Ukraine.

2.3.2. Deposit Market

A high deposit growth rate in 2005 was contributed to the ensuring of the external and internal stability of hryvnia, the increase in the incomes of population and the renewal of trust in the banking system after political instability at the end of 2004.

MAIN INDICATORS OF DEVELOPMENT OF THE DEPOSIT MARKET OF UKRAINE

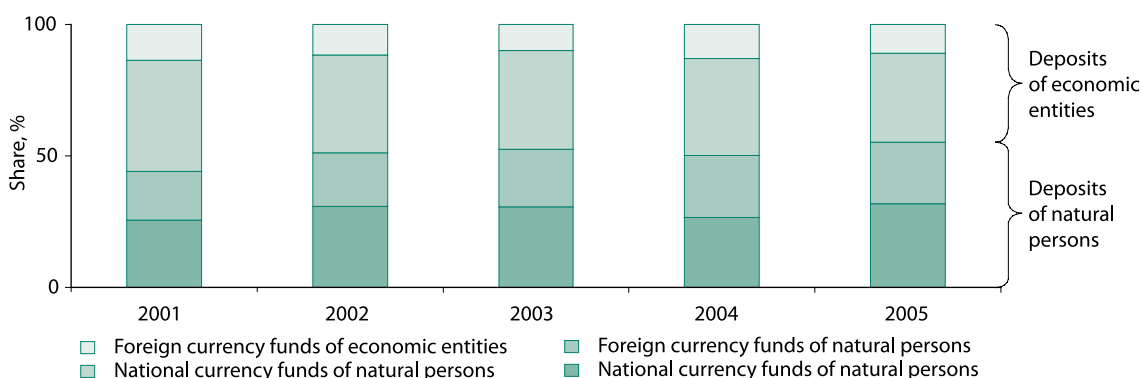
Indicators	2005				For reference: 2004			
	UAH billion	Share, %	Growth, UAH billion	% to previous year	UAH billion	Share, %	Growth, UAH billion	% to previous year
Liabilities, total (% to GDP)	132.745 (31.3%)	100	49.786	160.0 ↑7.7 percentage points	82.959 (24.0%)	100	21.342	134.6 ↑1.0 percentage points
including:								
<i>By types of currencies</i>								
– in national currency	87.198	65.7	34.439	165.3	52.759	63.6	10.805	125.8
– in foreign currency	45.546	34.3	15.346	150.8	30.200	36.4	10.537	153.6
<i>By terms</i>								
– demand	50.350	37.9	16.912	150.6	33.438	40.3	7.932	131.1
– term, including:	82.395	62.1	32.873	166.4	49.522	59.7	13.410	137.1
– long-term	51.198	62.1	19.675	162.4	31.523	63.7	11.696	159.0
<i>By categories of depositors</i>								
– for funds of economic entities	59.542	44.9	18.194	144.0	41.348	49.8	12.127	141.5
– for funds of individuals	73.202	55.1	31.591	175.9	41.611	50.2	9.215	128.4

For 2005, liabilities of banks for funds of economic entities and individuals, attracted to the banking system, rose by 60.0% (for 2004 – by 34.6%) and as at 1 January, 2006, amounted

to UAH 132.7 billion. Within the banks' liabilities the larger portion (UAH 87.2 billion) made up the funds in the national currency, that grew for the year by 65.3%. The share of the mentioned funds in the deposit structure by types of currency rose up to 65.7%, or by 2.1 percentage points. The deposits in foreign currency increased for 2005 by 50.8% and at December-end amounted to UAH 45.5 billion.

The largest amount of foreign currency deposits of economic entities and individuals were attracted in the US dollars and euro, whose share as at 1 January, 2006, amounted to 83.6% and 14.7%, respectively.

Breakdown of Deposit Liabilities of Banks by Depositors in 2001–2005



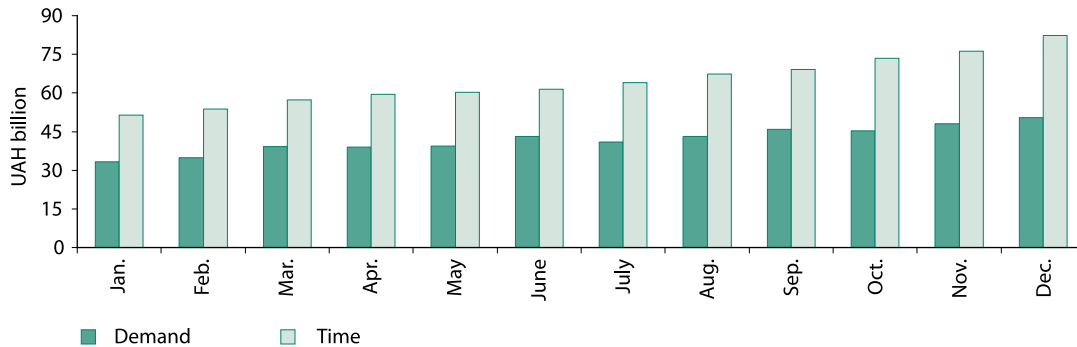
In 2005, the increase in liabilities of banks on the funds of individuals amounted to 75.9% against 28.4% in 2004, and was the biggest for the last six years. The individuals' deposits growth supplied with 63.5% of the total deposit rise for 2005 and had a restraining effect on the inflationary process development. The funds of economic entities augmented for the reporting year by 44.0%.

In the deposit structure by the depositor category, the share of deposits of individuals for the year increased by 4.9 percentage points up to 55.1% (UAH 73.2 billion). This was favoured by the timely measures taken by the National Bank of Ukraine at the end of 2004 on stabilizing the situation in the banking system and stopping the outflow of the individuals' funds from the banking system. Among other things, the banks were recommended to decide the issue of changing the terms and conditions on deposit agreements (interest rates, terms etc.), as the economic situation requires. Already in February 2005, the amount of individuals' deposits was by 6.2% larger than the sum of individuals' funds, attracted by the banking system in September of the previous year before the situation worsening in the financial market.

During 2005, the currency structure of the individuals' deposits gradually changed. The attracted money reallocated towards an increase in the share of the national currency deposits from 53.1% at the start of 2005 to 57.6% by its end. This was primarily due to the growth in 2005 of the incomes of the population by 36.4% and to the revaluation of the hryvnia against the US dollar by 4.8%.

In 2005, the tendency for an increase in the share of time deposits within the total deposits preserved. As at 1 January 2006, the time deposit share augmented from 59.7% at the beginning of the year to 62.1%, and their amount grew for the year up to UAH 82.4 billion, or by 66.4%. The time deposit growth was primarily ensured by the augmentation (by 67.9%) of time deposits of individuals. The deposits in national currency amounted to 57.2% within the total time deposits.

Dynamics of Banks' Liabilities on Deposits of Economic Entities and Natural Persons in 2005 (by maturity)

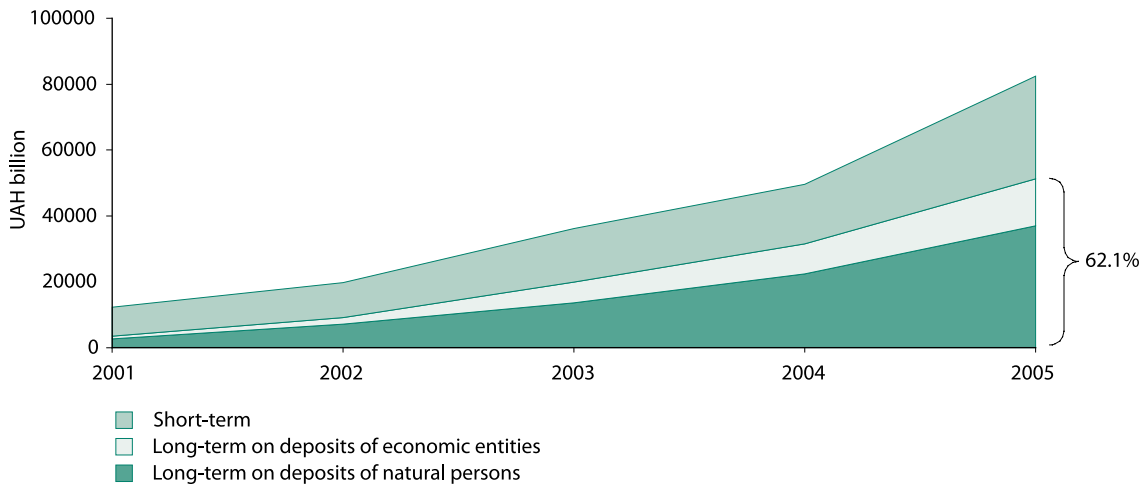


In the time deposit structure, the majority (68.0%) belonged to the individuals' deposits whose amount since the year start grew by 66.2% (including in the national currency – by 74.8%) and as at 1 January, 2006, they made up UAH 56.0 billion.

The economic entities' time deposits for 2005 rose by 66.7%, including those in the national currency – by 74.0%.

In 2005, a positive dynamics of augmenting the long-term deposit liabilities of banks preserved, with the increase for the year by 62.4%, and as at 1 January, 2006, they amounted to UAH 51.2 billion.

Dynamics of Time Deposit Liabilities of Banks in 2001–2005



Within the total long-term deposits, the funds of individuals made up 72.4%. As at 1 January, 2006, they amounted to UAH 37.0 billion (including in the national currency – UAH 19.2 billion) and grew for the year by 65.7%, testifying to the fact that the depositors preferred more expensive long-term deposits. The attraction of the mentioned funds was contributed to some extent by the effective system of guaranteeing the deposits in view of the increase in the compensation amount for the depositors, in case of a bank's bankruptcy, to 5000 hryvnias.

For 2005, the long-term liabilities of banks on the funds attracted to the economic entities' accounts rose by 54.5% (including those in the national currency – by 67.4%) to UAH 14.2 billion.

The liabilities of banks on the funds attracted to the current (demand) accounts, for 2005, increased by 50.6% and as at 1 January, 2006, made up UAH 50.4 billion.

Within the structure of demand deposits the largest share were deposits of economic entities – 65.9%. They decreased by 10.4 percentage points compared to the previous year. As at 1 January, 2006, the mentioned deposits amounted to UAH 33.2 billion, or augmented by 29.9%, including those in the national currency – by 32.0%.

The current deposits of individuals as at 1 January, 2006, made up UAH 17.2 billion, or for 2005 rose 2.2 times, including in the national currency – 2.3 times. Nearly a half of the fund increase on the current accounts of individuals was due to the growth of funds on the payment card accounts of the population, promoted by the growth of social and other payments, that were transferred to the individuals' current accounts.

During 2005, there was an increase in the funds on the accounts of enterprises and organizations of all forms of ownership, and the highest rate of growth (172.0%) was characteristic for the economic entities with communal and communal corporate forms of ownership, which as at 1 January, 2006, amounted to UAH 0.7 billion. The fund balances on the accounts of economic entities with private ownership and of individuals augmented for the year by 62.4%, with state and state corporate forms of ownership – by 31.3% and as at 1 January, 2006, made up UAH 123.6 billion and UAH 8.4 billion, respectively.

As at 1 January, 2006, by the form of ownership, the largest share within deposits (93.1%) was made up by the funds of private economic entities and individuals, of state and state corporate ones – 6.3%, of those with communal and communal corporate property – 0.6%. The share of funds of private economic entities and individuals grew for the year by 1.3 percentage point, and funds of those with state and state corporate ownership decreased by 1.4 percentage points.

As at 1 January, 2006, within the regions, the largest deposit volumes were attracted by the banking institutions of the City of Kyiv (40.1%), the Donetsk region (10.5%) and the Dnipropetrovsk region (10.3%). Deposits on the accounts in the mentioned regions amounted to 60.0% of all the deposit liabilities of the banks of Ukraine.

For 2005, the general level of interest rates on the funds attracted by the banks from the economic entities and individuals equaled 8.0% annually, or rose by 0.6 percentage point. Interest rates on deposits in the national currency amounted to 8.5% annually, in the foreign currency – 6.8% annually, or increased for the year by 0.7 and 0.6 percentage point, respectively.

The most changeable was the dynamics of the interest rates on time deposits of individuals in the national currency. The average value of the mentioned deposits in January 2005 was 17.5% annually, in July it decreased to 10.8% annually, and in December of the reporting year it grew to 14.5% annually.

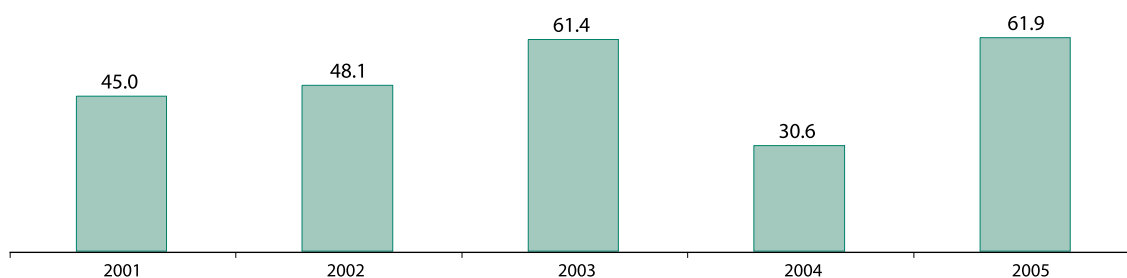
2.3.3. Credit Market

Claims of the banks on the credits extended to the economy of Ukraine, as at 1 January, 2006, amounted to UAH 143.4 billion. The 61.9% increase in the claims of the banks on credits was the largest for the last 5 years. A high level of credit activity of the banking institutions was promoted by a dynamic growth of the resource base, improvement of its term structure and reduction of interest rates on the credits granted.

The indebtedness under the credits, extended to the economy of Ukraine, relative to the GDP augmented for 2005 from 25.7 to 33.8%.

The largest increase in the claims of the banks on the credits extended (65.8% of the total increase in the indebtedness under credits) was due to the augmentation of the indebtedness under the credits given to economic entities, whose volume amounted to UAH 109.9 billion and grew for 2005 by UAH 36.1 billion.

Increase in Banks' Claims under Credits to the Economy of Ukraine (to the year beginning, %)

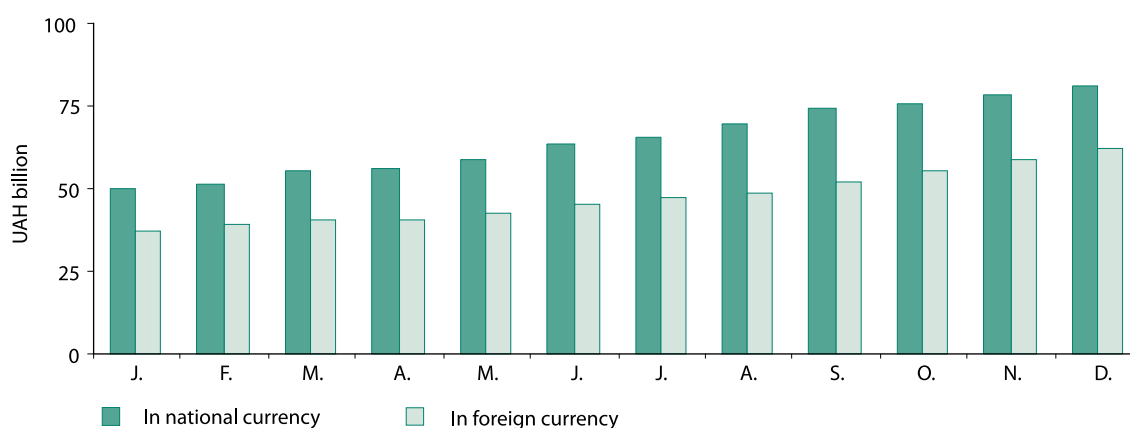


A positive dynamics of the credit investments of banks was also governed by considerable growth of indebtedness under the credits extended to individuals (2.3 times, including in the foreign currency – 2.4 times), resulting in the augmentation of its share within total credits in the economy of Ukraine by 6.7 percentage points up to 23.4%.

STRUCTURE OF CLAIMS OF BANKS UNDER CREDITS TO THE ECONOMY OF UKRAINE

Indicators	2005				For reference: 2004			
	UAH billion	Share, %	Growth, UAH billion	% to previous year	UAH billion	Share, %	Growth, UAH billion	% to previous year
Claims of banks under credits extended, total (% to GDP)	143.418	100.0	54.839	161.9	88.579	100.0	20.744	130.6
	33.8%			↑8.6 percentage points	25.7%			↑0.3 percentage points
<i>By type of currency</i>								
– in national currency	81.274	56.7	30.067	158.7	51.207	57.8	11.644	129.4
– in foreign currency	62.144	43.3	24.772	166.3	37.372	42.2	9.100	132.2
<i>By terms of repayment</i>								
– short-term	54.819	38.2	14.244	135.1	40.575	45.8	3.294	108.8
– long-term	88.599	61.8	40.596	184.6	48.003	54.2	17.450	157.1
<i>By category of borrowers</i>								
– to economic entities	109.895	76.6	36.110	148.9	73.785	83.3	14.936	125.4
– to individuals	33.523	23.4	18.729	2.3 times	14.794	16.7	5.808	164.6

Dynamics of Banks' Claims on Credits to the Economy of Ukraine in 2005



In the structure of the banks' claims under the credits extended to the economy, as in the previous years, indebtedness in national currency prevailed, whose share amounted to 56.7% and decreased for the year by 1.1 percentage point. The growth of the indebtedness under credits in foreign currency were 166.3%, or surpassed the growth of the claims of banks under credits granted in the national currency (158.7%).

The higher growth rates of the claims of banks under the credits in foreign currency were reasoned by lower interest rates and stability of the exchange rate of hryvnia against the US dollar. Moreover, the foreign currency crediting remained for banks a reliable instrument of insurance against inflationary and exchange rate risks.

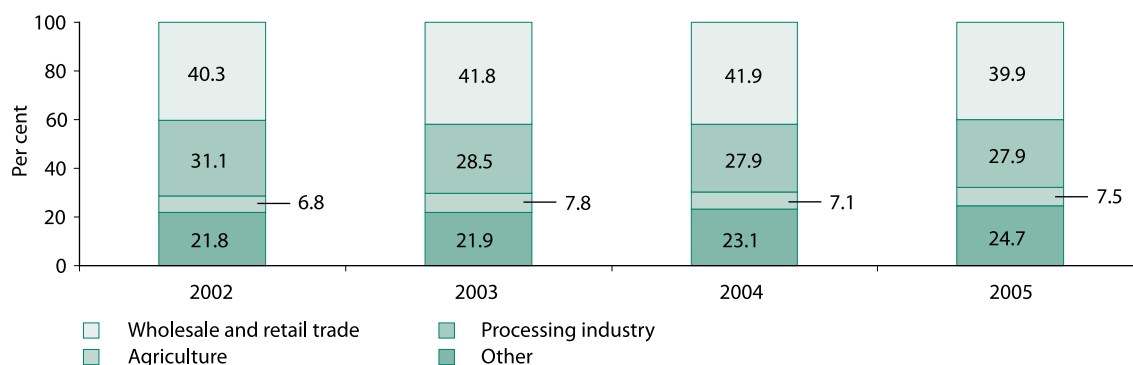
Credits in foreign currency were extended to the Ukrainian economy in the US dollars (89.3%), in Euro (10.1%), and in Russian rubles and other currencies (0.6%).

Within the claims of banks under the credits, the largest share (76.6%) was the indebtedness of economic entities, whose portion, due to activation of individuals' crediting, had a tendency towards reduction during 2005.

The increase in the claims of banks under credits to economic entities by 48.9% was ensured by the growth of the indebtedness under credits to construction 2.2 times, to operations with real estate, leasing and services to legal entities – by 83.1%, to production of energy, gas and water – by 69.1%, to agriculture, hunting and forestry – by 57%, to manufacturing industry – by 48.8% and to enterprises of wholesale and retail trade, trade in vehicles, repair services – by 41.9%. The major share (nearly 60%) of the mentioned indebtedness was indebtedness in the national currency.

The risk of credit concentration by the main types of economic activity decreased to some extent. The share of indebtedness under credits to enterprises of wholesale and retail trade, trade in vehicles and repair services, which were the largest consumers of credit resources, reduced for the year by 2.0 percentage points up to 39.9%. At the same time, the portion of indebtedness under the credits extended to agrarians augmented for this period from 7.1 to 7.5%, to construction – from 3.6 to 5.4%.

Breakdown of Banks' Claims on Credits to Economic Entities (by economic activities)



During 2005, a positive tendency towards increasing the long-term credits of banks continued, the claims for which amounted to UAH 88.6 billion and augmented for the year by 84.6%, in foreign currency – by 98.3%. The share of these credits in the total claims of the banks under the credits to the economy compared to the beginning of the year rose by 7.6 percentage points up to 61.8%.

The economic entities' indebtedness under the long-term credits received, which constituted the majority (68.9%) in the structure of long-term credits of the banks, for 2005 grew by 66.4%, including those in foreign currency – by 73.9%. The growth of the banks' claims for the credits extended to individuals for the period over one year were much higher and made up 2.4 times (in foreign currency – 2.5 times), and their portion in the total long-term credits equaled 31.1% against 23.5% at the year start.

The banks' claims for short-term credits as at 1 January, 2006 amounted to UAH 54.8 billion, or augmented for 2005 by 35.1%, including in the national currency – by 46.9%. The indebtedness under

the credits extended to economic entities for the term up to 1 year, whose share within the total claims of banks for short-term credits equaled 89%, during the year grew by 31.7%, including in the national currency – by 44.3%. The banks' claims for short-term credits granted by banks to individuals increased for this period by 71.1%, including in the national currency – by 72.1%.

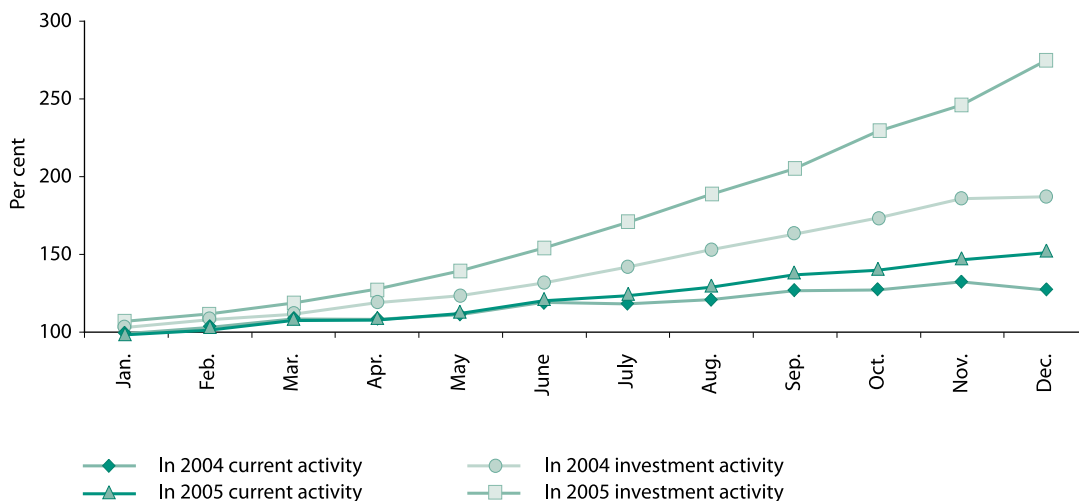
Thus, while the growth of indebtedness under short-term credits in 2005 was due to the augmentation of indebtedness mainly in the national currency, the banks' claims for long-term credits increased primarily at the expense of the growth of its foreign currency portion.

In 2005, a positive tendency was an essential increase in the credits extended for the economic entities' investment activity, the indebtedness under which for the year grew 2.7 times (the previous year – 1.9 times) up to UAH 22.4 billion. However, their share within the credit investments in the real sector of the economy, though augmented by 6.4 percentage points, remained at a low level (15.6%). Within the indebtedness under credits given for investment purposes the indebtedness of economic entities prevailed and as at 1 January, 2006, its share amounted to 60.5%, being reduced for 2005 by 14.5 percentage points.

In the structure of the banks' claims for the credits for investment activity there was a positive dynamics of growing the share of indebtedness under mortgage credits, being 46.6% at the end of 2005. Within these claims, the majority (66.4%) were the claims for credits granted to individuals, including the indebtedness in foreign currency – 83.6%.

The indebtedness under credits extended for ensuring the current activity as at 1 January, 2006, amounted UAH 121 billion, or grew for the year by 50.5%, equaling 84.4% of the total credits to the real sector of the economy. The banks' claims for credits granted to the economic entities for current needs made up UAH 96.4 billion (79.6% of the total credits for current activity), and increased for 2005 by 42.4%, including in the national currency by 46.8%. The indebtedness of individuals under the credits received for the mentioned purposes made up UAH 24.6 billion and augmented for this period 1.9 times, including in the national currency – 2 times.

Growth of Banks' Claims on Credits to the Economy of Ukraine (by earmarked investment) in 2004–2005 (to the year start)



During 2005, the indebtedness under overdrafts, REPO operations, discounted bills and factoring operations was increasing at a high rate, but their share within the structure of credits for the current activity was small (3.7%).

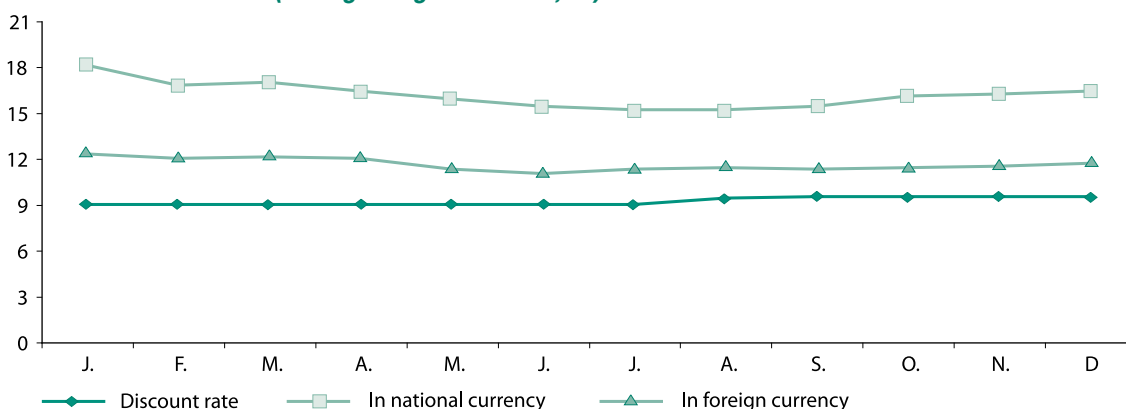
By the end of 2005, within the regions, the largest were the shares of claims for credits given to the banking institutions of the City of Kyiv (40.7%), the Dnipropetrovsk region (11.4%), the Donetsk region (8.2%) and the Kharkiv region (5.1%), where the industrial potential of the country has been concentrated, and their share amounted to 64.7% of the total credits to the economy of Ukraine.

During 2005, the banking institutions of all the regions of Ukraine augmented the volume of crediting the real sector of the economy. The largest growth of claims for credits was in the banking institutions of the Kyiv region (2.3 times), the Kherson and Khmenllytsky regions (by 88.0%), the Poltava region (by 86.1%) and the Chernivtsi region (by 83.9%), and the lowest increase was in the Kirovohrad and Kharkiv regions, 45.9% and 44.1%, respectively.

It should be mentioned, that the lending activation was favoured by improvement of the financial condition and solvency of the economic entities, and this, in turn, caused improvement of the indebtedness structure under the credits extended to the economy of Ukraine. The share of problem credits ("bad" debt) decreased for 2005 from 3.8% to 2.5%.

The growth in crediting by banks of the real sector of the economy was contributed by the cost reduction of credit resources. The average weighted interest rate on credits in the national currency extended by the banks to the real sector of the economy for 2005 equaled 16.0% per annum, being by 1.3 percentage points lower than for 2004, and in foreign currency – 11.6% annually, or decreased, compared to 2004, by 0.7 percentage point.

Dynamics of Interest Rates on Credits Extended in 2005 (average weighted annual, %)



The average weighted rate on credits in the national currency to the economic entities, compared to 2004, decreased by 1.5 percentage points to 15.7% annually for 2005, and in foreign currency – by 0.9 percentage point to 11.3% annually. The average cost of credits in the national currency granted to individuals grew for this period by 0.6 percentage point to 20.0% annually, and in foreign currency – decreased by 0.9 percentage point and equaled 13.6% annually.

2.3.4. Regulation of the Banking Activities in Ukraine

Regulation of the banking activities in Ukraine was aimed at stabilizing the banking system and restoring confidence in it, as well as at improving efficiency of the activities of banks and ensuring their reliability and financial stability.

Establishment and improvement of the legislative, normative, legal and methodological framework for the banking regulation in Ukraine has been carried out within the context of adjustment to the requirements of the European Union laws and Basle Principles for sound banking supervision.

According to the assessment of the joint mission of the International Monetary Fund and the World Bank within the Financial Sector Assessment Program (FSAP) it has been stated the remarkable approximation of the banking system of Ukraine to fully observing the requirements of the Core Principles of the Basle Committee for Banking Supervision. As it was estimated, 22 principles out of 30 Basle Principles were observed in full or for the most part.

According to the specified procedure, the National Bank of Ukraine has prepared modifications and amendments to the Law of Ukraine "On Banks and Banking Activities" which stipulate for the increased

level of corporate governance in the banks and establishment of the most optimal procedure for satisfying requirements of depositors and creditors of a bank at the stage of liquidation. In addition, the amendments to the laws of Ukraine that regulate financing for the Individuals' Deposit Insurance Fund have been prepared.

In 2005, in order to improve the normative and legal base for regulation of the banks' activities, some amendments were made to the regulations and normative acts of the National Bank of Ukraine.

A particular attention was focused on the increase in the bank capital concentration and improvement of its quality in order to raise the efficiency of the banking system of Ukraine.

Amendments made to the Instruction on Regulation of the Banks' Activities provided for the better procedure to calculate the regulatory bank capital with the purpose to determine its true amount.

The requirements to the regulatory capital of banks have been enhanced in relation to performing by banks the specific foreign exchange transactions and banking metal deals, investments in the authorized funds and actions of the legal entities and operations in the trust asset management.

In order to reduce the active operations' risks, higher economic ratios regulating credit operations with insiders have been set up, namely:

- maximum amount of credits, guaranties and warranties for one insider and for all insiders shall be calculated in relation to the authorized capital of bank instead of the regulatory capital;

- total maximum credits, guaranties and warranties for insiders shall not exceed 30% in case of the universal banks (instead of 40% earlier) and not more than 20% or 10% for the specialized savings banks, depending upon the amount of assets classified as negative, by 7% less, and within 7%–10%, respectively (instead of 20% earlier).

Modifications and amendments to the Procedure for granting banking licenses, written permissions and licenses for conducting specific transactions appeared to strengthen the licensing requirements to the capital level of banks.

The procedure for establishing provisions under the foreign exchange credits has been improved. Resolutions of the Board of the National Bank of Ukraine amended the procedure for the establishment and use of possible loan loss provisions, and these resolutions:

- introduced more strict requirements to the establishment of provisions under the foreign exchange credits by means of provisioning factor to be increased under the foreign exchange credits for borrowers having no source of the foreign exchange earnings;

- reduced percentage of collateral value accounted for calculation of the provisions under the foreign exchange credits, depending upon the type of collateral;

- determined particular types of collateral under the credits granted to natural persons in the foreign currency that could be accounted for calculation of the provisions;

- limited the list of collateral to be accounted for calculation of the provisions under the credits extended to non-residents (which are not banking institutions);

- made more accurate the procedure for calculation of credit risk provisions under the foreign currency credits made by non-residents being non-banking institutions.

There has been improved the procedure for establishing provisions on accounts payable through the amendments made to the Procedure for the bank establishment and use of possible loss provisions under the accounts payable in the part concerning classification of the accounts payable by the type of risk depending upon the period of registration (duration) in the balance sheet and taking into account the number of overdue days and types of transactions that resulted in the accounts payable.

The modifications and amendments have been made to the Procedure for granting to banks of the banking licenses, written permissions and licenses for conducting specific transactions, as well as to the Procedure for the establishment and state registration of banks, establishment of their branches, representative offices and offices; and these amendments improved the procedure for both registration and licensing of banks and also certain rules for the bank registration and licensing related to satisfying the requirements of the Law of Ukraine "On Individuals' Deposit Insurance Fund" in part of the reporting to be submitted in conformity with the requirements of the normative and legislative acts of the Individuals'

Deposit Insurance Fund and of available software and communications that are necessary to keep data base on the depositors being natural persons.

The procedure for conducting inspections and off-site supervision has been improved. Modifications and amendments made to the Procedure for planning and conducting the inspections and to the Procedure for conducting the in-site examinations over observation by banks of the foreign exchange legislature requirements, resulted in the following:

- the organizational issues related to preparing and conducting the inspections were settled;
- the procedure for compiling and providing the bank with information and reports on the results of inspections became more accurate;
- settled were the issues as regards bringing outside the bank the copies of documents which testify to the violation by the bank of banking and foreign exchange laws and/or normative and legislative acts of the National Bank of Ukraine .

The amendments have been made to the Procedure for determining the CAMELS ratings which provided the banks with the possibility to get to know the CAMELS ratings they received upon the inspection results and to use the information of their ratings at their own discretion.

In order to improve the transparency of the banking system and public relations, the amendments have been made to the Instruction on the compilation and disclosure of the financial statements of the banks of Ukraine; according to such amendments, the banks shall disclose the following information: capital adequacy, profitability of assets and capital, amount and share of bad credits, etc., as well as the list of bank members (shareholders) having in their direct or indirect ownership 10% or more of the authorized capital of the bank.

Measures have been taken to improve the quality of the external audit of the financial statements of a bank in compliance with the International Auditing Standards and, thus, this raised the official status of the Bank Auditor Certification Committee (headed by the Deputy Governor of the National Bank of Ukraine); the procedure for certifying the bank auditors has been developed; together with the Auditors' House the plan of actions on certifying auditors and training program for bank certified auditors in 2005–2006 have been developed.

2.3.5. Banking Supervision

Activity of the Banking Supervision Office has been aimed at providing stability of the banking sector and prevention of the crisis situations to occur with the banks through the in-site and off-site supervision.

During 2005, Banking Supervision Office of the National Bank of Ukraine carried out control over 165 banks of Ukraine and controlled performance of the supervisory functions by the regional branches of the National Bank of Ukraine.

In order to maintain the necessary capital level by banks, the National Bank of Ukraine was engaged in the following:

- conducted monthly control over commitments taken by banks against the written cautions and capitalization programs that were developed in order to follow the requirements of the Resolution of the Board of the National Bank of Ukraine "On Establishing Bank Regulatory Capital Minimum in Hryvnia";
- prepared the decision of the Board of the National Bank of Ukraine and the NBU Commission for Supervision and Regulation of the banks' activities related to granting to banks (or withdrawal) the permission to account in their capital the funds attracted under conditions of the subordinate debt;
- prepared 9 decisions of the NBU Commission for Supervision and Regulation of the banks' activities in respect to 9 banks on granting them permission to account in their capital the results of revaluation of fixed assets;
- prepared 4 decisions of the NBU Commission for Supervision and Regulation of the banks' activities in respect to 4 banks on imposing a ban to account in their capital the results of revaluation of fixed assets;
- forwarded the reports on property assessment concerning 10 banks to be considered by the State Property Fund of Ukraine;

– sent 19 letters to the regional branches of the National Bank of Ukraine in Chernihiv, Kharkiv, Poltava, Zaporizhzhia, Volyn and Lviv regions and the Main Department for City of Kyiv and Kyiv region, as well as to banks having the retained earnings for the previous years to form an essential share of their regulatory capital, and in the letters the NBU recommended to settle at the nearest meeting of shareholders the issue concerning transfer of the previous years' earnings to the establishment of the general reserves or to paying dividends with their further capitalization.

As a result of the measures adopted, the regulatory capital of the banking sector has grown by 43.6%, including the authorized fund by 38.8%.

During the reporting period there was a constant control over fulfilling by the banks, being under the intensified supervision, the commitments taken under written agreements and financial recovery programs, and over observing by banks the economic ratios; also there was weekly control over their financial state.

During 2005, the Department of Banking Regulation and Supervision of the National Bank of Ukraine conducted 30 inspections of banks, including 18 ones planned and 12 not provided by the plan. Among the planned inspections there were 13 comprehensive examinations of banks and 5 connected with financial monitoring issues. In respect to issues of risk assessment and making more clear the functions of control over bank compliance with legislative, normative and legal acts and internal rules, the NBU's supervisors together with representatives of the National Bank of Poland during the complex inspection of the Joint-Stock company "Credit Bank (Ukraine)" in the Lviv-city became acquainted with approaches of the National Bank of Poland to some specific features of supervising the banks as related to monitoring, review, preparing for survey and preparing a report upon the survey, approaches to training and specializing the inspectors, etc. Moreover, 5 comprehensive and 2 extraordinary examinations have been performed.

Upon the results of the examinations, 60 reports were forwarded to the law-enforcement authorities informing about operations that could be evidence of criminal activities.

In 2005, the operation of the Banking Supervision Office of the National Bank of Ukraine was primarily focused at settling the problems related both to their methodological and normative and legal arrangement and also to undertaking practical measures in supervision and control over the banks' activities.

Thus, certain new rules have been developed, while current normative and legal acts, regulating the banking activities, have been amended, and all these were purposed to settle the following issues:

- determination of the procedure for coordination of work between the Banking Supervision Office and supervisory units of the NBU's Regional Branches concerning the in-site inspections of banks and their institutions;
- preparing regulations for elaboration, approval and delivery of the yearly scheduled and quarterly plans of examinations of banks and financial institutions to be received by the line departments of the National Bank of Ukraine and by the regional branches of the National Bank of Ukraine;
- development of a new format for the yearly plan of inspections of banks and banking institutions conducted by the line departments of the National Bank of Ukraine;
- settling organization issues related to preparing and conducting an examination of a bank being a legal entity and examination of the bank branches;
- specifying the criteria of non-sound (unreliable) performance of banks;
- development of the criteria matrix for applying enforcement measures to banks that require the intensified supervision.

The Regulation has been elaborated for the supervisory cycle taking into account the Basle Committee for Banking Supervision papers on a sound practice of risk management.

The Banking Supervision Office together with the World Bank experts elaborated papers on preparing the following drafts:

- "Development Policies Loan-2" (public corporation "Savings Bank");
- "Export Development Project-2" (public corporation "UkrEximBank");

– "Enhanced Access to Financial Service Markets" (participation of banks in tenders and in the meetings of Bid (tender) Commission);

– Grant of the Netherlands Government (advices and consultations as regards public corporations "Savings Bank" and "UkrEximBank").

In 2005, within the framework of the Comprehensive training program for employees of the Banking Supervision Office two seminars dedicated to "Present-day problems of implementing the risk-based supervision" were arranged; also there were regional seminars in Odesa, Donetsk and Kharkiv Regional Branches of the National Bank of Ukraine and training courses on the shortcomings occurring in the work of the regional branches of the National Bank of Ukraine when they supervised banks in the Donetsk, Luhansk, Kharkiv, Poltava, Chernihiv and Sumy Regional Branches of the National Bank of Ukraine.

For non-compliance with the requirements of the banking legislature and violation of the requirements of the normative and legal acts of the National Bank of Ukraine the following enforcement measures were applied to the banks in 2005:

- 20 warning letters were sent to 13 banks;
- fines were imposed to 3 banks;
- decision of the Commission on concluding the written agreement with 1 bank was adopted and the amendments were made to current agreements with 5 banks being under intensified supervision;
- temporary administration was appointed for JSB "InterContinentBank" and public corporation JSB "Guarant".

2.3.6. Bank Registration and Licensing

In 2005, the National Bank of Ukraine reinforced control over observing the requirements to the state registration of banks and granting licenses for conducting banking activities, in order to restrict the possible establishment and expansion of the activities of banks which failed to provide financial stability and lacked grounds to substantiate their future outlook.

INFORMATION ON THE QUANTITATIVE STRUCTURE OF THE BANKING SYSTEM OF UKRAINE

Indicators	<i>(units)</i>				
	1 January 2002	1 January 2003	1 January 2004	1 January 2005	1 January 2006
Number of banks in the State Register of Banks	189	182	179	181	186
Including state-owned ones	2	2	2	2	2
Number of banks having licenses for performing banking operations	152	157	158	160	165
Including joint-stock companies	136	136	133	132	133
Among them:					
public corporations		94	94	92	92
of closed type		42	39	40	41
With limited responsibilities	16	20	25	28	32
Cooperative	0	1	0	0	0
Number of banks with foreign capital	21	20	19	19	23
Including with 100% foreign capital	6	7	7	7	9
Banks registered during the reporting year	3	5	5	6	6
Withdrawn from the State Register for the reporting year	9	12	8	4	1

As of 1 January 2006, the State Register of Banks consisted of 186 banks among which 165 banks possessed licenses of the National Bank of Ukraine for conducting banking activities including 162 banks authorized to carry out operations with currency valuables.

Out of the total number of acting banks, 133 banks operated as joint-stock companies, including 92 banks (or 56%) in the form of public corporations, 41 banks (or 25%) in the form of closed joint-stock companies and 32 banks (or 19%) in the form of companies with limited responsibility.

In the market of banking services there were two banks having 100% state ownership in the statutory fund; those were public corporations "State-owned Export/Import Bank of Ukraine" and "State-owned Savings Bank of Ukraine".

As of 1 January 2006, the number of banks with foreign capital participation amounted to 23, including 9 banks having 100% foreign capital.

During 2005, 6 newly established banks were registered in the State Register, 1 bank was withdrawn from the Register, 4 representative offices of the foreign banks were registered; two preliminary permissions for the establishment of bank with foreign capital participation were given; 5 newly established banks were granted written permissions for performance of specific banking operations and 32 banks were given the enlarged list of banking operations authorizing the performance of specific banking operations in accordance with the written permit.

Intensive development of the network of branches appeared to be one of the conditions to broaden the area of banking activities that provided banks with the possibility to essentially increase their return. In 2005, the enlargement of the bank branch network tended to preserve; for the year their number increased to 1505 or by 34 units more as compared with the previous year, which can be explained by broadening of the banking system and bringing banking services near to the customers.

2.3.7. Termination of the Banks' Activities

In order to provide security and stable financial development of the banking sector and to protect the interests of depositors and creditors in 2005, the National Bank of Ukraine supervised over the liquidation procedure for banks and applied to the insolvent banking institutions the extraordinary enforcement measure for violation of the banking legislature, i.e. liquidation of a bank.

As of 1 January 2006, 20 banks were in the process of liquidation, among which 14 banks were in the course of liquidation according to the decisions of the National Bank of Ukraine, 5 banks – according to the decisions of the administration courts and 1 bank – according to the decision of the meeting of shareholders.

In 2005, the liquidation procedure as regards the commercial JS bank "Crimea-Bank" was completed and it was withdrawn from the State Register of Banks; payment of creditor claims according to the liquidation procedure was equal to 34% of the claims acknowledged. During the previous year (2004), 4 banks were withdrawn from the State Register of Banks.

In 2005, the National Bank of Ukraine withdrawn the banking license and launched the liquidation procedure concerning the commercial joint-stock bank "PremierBank". The decision resulted from the essential loss of assets and earnings and the insolvency features of the bank to occur and that was caused by the numerous violations of the banking legislature and normative and legal acts of the National Bank of Ukraine. During 2004, the mentioned enforcement measure was applied to 3 banks.

**PERFORMANCE INDICATORS OF BANKS UNDER LIQUIDATION AND
PERFORMANCE INDICATORS OF LIQUIDATORS APPOINTED TO
CARRY OUT THE LIQUIDATION PROCEDURE**

Indicators	<i>(UAH million)</i>		
	1 January 2004	As of: 1 January 2005	1 January 2006
Number of banks	20	20	20
Assets	5062.4	4280.6	3431
Assets of banks under liquidation to total assets of the banking sector ratio, %	5.0	3.2	1.6
Assets realized (returned)	2915.3	1017.3	1049.5
Borrowers' funds	1815.3	1615.4	1614.0
Receivables recognized	2126.8	3079.1	3278.0
Creditor claims satisfied	788.7	820.0	886.7
Including creditor claims paid by the Individuals' Deposit Insurance Fund	43.0	46.9	66.9

In 2005, performance indicators in effecting the bank liquidation procedure substantially improved as compared with the previous year.

Assets of banks under liquidation to general assets of the banking sector ratio reduced by 1.6 percentage points and amounted to 1.6%.

Amount of the paid creditor claims grew by 8.1% and equaled UAH 886.7 million; claims covered by the Deposit Insurance Fund of Individuals increased by 42.6%, those covered by the Liquidator – by 6.0%.

Acknowledged receivables of banks under liquidation amounted to UAH 3278 million; 27% of the creditor claims were satisfied which was by 0.4 percentage point more than in the previous year.

The amount of bank assets realized (returned) in 2005 grew by 3.2% and was equal to UAH 32.2 million, which was 0.9% of the total assets of banks as of the date of termination of their activities.

In 2005, assets of the "Ukraina" bank were realized for the amount of UAH 22.6 million as compared with 13.8 mln. in 2004; assets of the commercial JS bank "Rostok-Bank" were sold for UAH 4.6 million as compared with 1.9 million in the previous year; assets of the public corporation "UkrSpetsimpexBank" – for UAH 0.7 million as compared with 0.4 million in 2004 and assets of the JSC "Credit Swiss First Boston (Ukraine)" were sold for the amount of UAH 0.5 million as compared with UAH 1.3 million in 2004.

The amount of deposit compensation including interest that was secured by the Deposit Insurance Fund for Individuals in 2005 was equal to UAH 5000 that was 2000 hryvnia more than in 2004.

During 2005, the process of the "Ukraina" Bank liquidation launched in 2001, still continued. During the bank liquidation period, the funds accumulated on the Liquidator's account formed UAH 947.0 million which was 50.1% of the bank assets recognized; out of this amount 83.3%, or UAH 789.2 million were used to satisfy creditor claims of the first, second and partly third order. Balance of the accumulated account as of 1 January, 2006, was UAH 16.3 million, or 1.8% of the outstanding creditor claims.

The funds received in 2005 on the accumulated account of the Liquidator amounted to UAH 22.6 million (as compared with 593.2 mln. in 2003 and 13.7 million in 2004).

In 2005, repayments of creditor claims of the third order were UAH 4.1 million while the total amount required to cover in full the creditor claims of the third order formed about UAH 886 million.

2.4. FOREIGN EXCHANGE CONTROL AND LICENSING

During 2005, the National Bank of Ukraine granted 1475 individual licenses, special permissions and authorizations.

Banking institutions were given 38 individual licenses and special permissions, including the following:

- 37 individual licenses for conducting operations with currency valuables;
- 1 special permission for transfer of the Ukrainian cash funds outside Ukraine;

Legal entities being non-banking institutions and natural entities were given 1437 individual licenses, authorizations, special permissions and general licenses, including the following:

- 496 individual licenses for conducting operations with currency valuables;
- 917 individual licenses allowing to prolong the period of settlements specified by the law as regards the external economic transactions;
- 8 authorizations to transfer funds by residents in the domestic and foreign currencies outside Ukraine against agreements that stipulate for works and services to be rendered by non-residents;
- 14 special permissions for import in Ukraine of banking metals and foreign currency;
- 2 general licenses for conducting foreign exchange operations.

Alongside with the above, during 2005, 151 amendments were made to the individual licenses previously granted; 22 individual licenses were revoked; 2 withdrawals of the individual licenses were cancelled and 1 amendment to the individual license was called off.

The National Bank of Ukraine effected control over observing by the authorized banks and non-banking institutions the requirements of the foreign exchange legislature by means of the following:

- in-site and paper (off-site) examinations of the authorized banks and non-banking institutions;
- control over the relevancy of the regional branches' opinions (conclusions) to the results of examinations of the authorized banks;
- applying penalties to banks for the revealed facts of violations of the foreign exchange legislature;
- participation in review of the appeals from the authorized banks and drawing up the opinions for the Commission of Appeals of the National Bank of Ukraine concerning the appropriateness to call the authorized banks to account for violations of requirements of the foreign exchange legislature of Ukraine.

1786 examinations of the banking institutions have been conducted, including 443 scheduled and 1343 out of the plan (75.2% of the total examinations). 294 examinations were of the complex nature.

Proceeding from the facts revealed, 432 resolutions on calling 84 banks to account for violation of the requirements of the foreign exchange legislature (in particular, Decree of the Cabinet of Ministers of Ukraine "On the system of foreign exchange regulation and foreign exchange control") in the amount totaling UAH 587 thousand.

Among the violations of the foreign exchange legislature, 51.4% were related to untimely presentation, concealing or distortion of the reporting on foreign exchange operations of the banking institutions; 36.1% were connected with failure to perform the agent functions of the foreign exchange control; 8.6% resulted from violation of the procedure and terms of foreign cur-

rency trades in the inter-bank foreign exchange market; 3.2% resulted from failure to meet the terms and procedure to declare the currency valuables that belonged to residents of Ukraine and were outside Ukraine; and 0.7% resulted from using foreign currency on the territory of Ukraine as a legal tender with no individual license available from the National Bank of Ukraine.

The amount of penalties charged under major part of resolutions (373) on calling to account for violation of the foreign exchange legislature, was UAH 238.5 thousand.

In 2005, the National Bank of Ukraine conducted 3310 checks of the exchange centers (their total number 1758), including 1178 checks of centers belonging to banks and 2132 checks of exchanges which operate according to the agent agreements with banks.

During the above examinations of exchange centers, 579 cases of violation of the banking laws were revealed, including 259 violations made by the exchanges belonging to banks and 320 violations fell on the exchange points which operated according to the agent agreements with banks.

In order to improve the system of foreign exchange control, the amendments to the Procedure for carrying out the in-site examinations on observing by banks and financial institutions the requirements of the foreign exchange legislature of Ukraine have been made, and these amendments stipulate for the possibility to controllers to bring outside the bank (financial institution) the copies of papers that could testify to violation of the foreign exchange laws by the bank in order to attach them to the examination file.

In order to realize control in the area of the external economic activities in 2005, regular verification, processing and distribution of the information as regards special sanctions applied by the Ministry of the Economy of Ukraine to entities of the external economic activities of Ukraine and to foreign economic entities according to Article 37 of the Law of Ukraine "On the External Economic Activities", was conducted.

In order to coordinate and efficiently cooperate with other government authorities in the area of foreign exchange control, the constant cooperation between the National Bank of Ukraine, the State Tax Administration, the State Customs of Ukraine and also law-enforcement authorities was supported during the year.

2.5. PAYMENT SYSTEM OF UKRAINE. CURRENT SITUATION AND FUTURE TRENDS

The year of 2005 was the twelfth year of the industrial operation of the System of Electronic Payments (hereinafter, SEP) of the National Bank of Ukraine and the second year of the industrial operation of the System of Express Transfers (RTGS system providing the money transfer between the banks of Ukraine in the real time mode with the immediate placing of funds on the account of a receiving bank (hereinafter, SET)), and these two systems on the whole formed the System of Electronic Inter-bank Transfers of the National Bank of Ukraine (SEIT). Similar to the previous years, the SEIT successfully managed with the functions of the national system of inter-bank payments, satisfying in full the needs of banks in the transfer of funds, providing maximum speed, quality and reliability of making payments and ensuring a high level of security of the banking information.

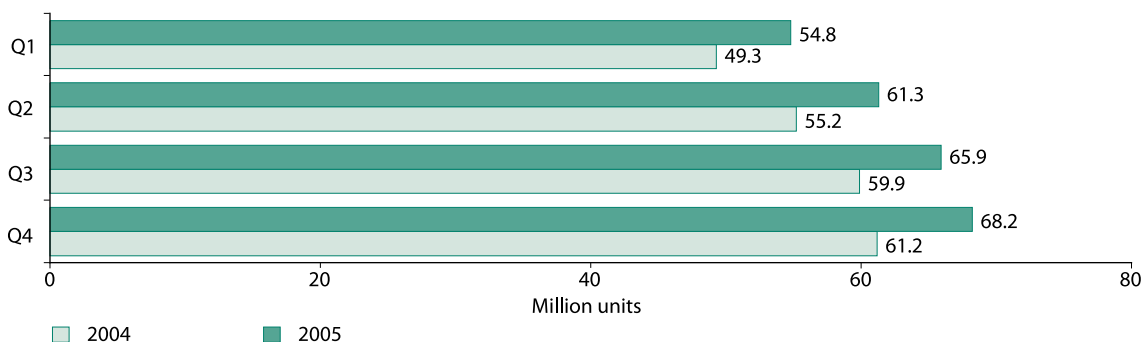
During 2005, quantitative and qualitative changes in the membership of banks, participating in the SEIT, were immaterial and resulted from the appearance of some new banks, from a small increase in the number of bank branches and owing to transformation of the branches into the units not compiling the balance sheet, and thus, they were no longer the SEIT participants.

As of 01.01.2006, the participants of the SEP included the National Bank of Ukraine with its branches, offices and training institutions (totaling 35 institutions), the State Treasury of Ukraine together with the regional departments (28 institutions) and 165 banks-legal entities together with their branches (totaling 1629 institutions). As of 1 January, 2006, the total num-

ber of institutions being SEP members formed 1692 (or it increased by 20 units as compared with 2004), including 644 institutions to be direct participants of the SEP, and the rest of them – 1048 institutions, had an indirect access to the SEP, effected through the inter-bank payment system of their parent banks. SET services on the transfer of funds were applied by 13 banks-legal entities together with their branches (totaling 184 banking institutions). The total number of correspondent accounts that were used for effecting payments by means of the SEP, as of 1 January, 2006, was 321.

Functioning of the system of electronic payments and of the system of express transfers constantly rose. Thus, in 2005, 250.2 million payments were processed in the SEP, (including 1.6 million of the electronic payment notices consisting of the information on transfer of funds) totaling more than UAH 3112.5 billion, which was by 11% and 32% more, respectively, than in the previous year. 36.5 thousand payments were processed in the SEP totaling UAH 5.7 billion, that was 78 and 50 times more, respectively, than in 2004.

Dynamics of Effecting Initial Payments in 2004–2005



During the reporting period, the average daily amount of payment transactions and turnovers constantly tended to grow. Starting from February 2005, the average daily capacity of SEP amounted to about a million of initial payments, which appeared to be the highest amount during the whole history of the SEIT functioning. As a rule, by the end of month it exceeded 1.2 million payments per day. Maximum number of payments effected per day was fixed by the end of the year, forming 1.5 million payments. On average, daily capacity of SEP grew by 12% as regards the number of payments and amounted to UAH 12 billion which was by 33% more as compared with 2004. Among the initial payments, 74% were the payments of up to UAH 1000.

The average daily balance on the accounts of SEIT participants fluctuated from UAH 14.2 to UAH 39.4 billion, and the average daily turnover coefficient on the accounts was from 0.4 to 0.8.

The period of time to transfer funds between the banks by means of the SEP took from 20 minutes to 2 hours.

In 2005, similar to the previous years, the process of bringing banks and their branches to using in the SEP one of the models for servicing the consolidated correspondent account of the bank, went on (on the whole, 8 models have been developed which provided the bank with the possibility to combine its funds on that very account in order to use them more effectively). It should be noted, that each year this process became slower because major part of banks have already chosen the method of governing the branches in the SEP convenient for them. Therefore, essential changes in distribution of the number of banking institutions by the models of servicing the consolidated correspondent account did not take place in 2005.

SEP Subscribers Operating with Consolidated and Independent Correspondent Accounts as at 1 January, 2006



As of 1 January, 2006, 76 banks (or 1473 banking institutions) operated with the consolidated correspondent account. Model 3 was of the highest demand and it was preferred by 49 banks (or 682 institutions) that amounted to 40% of the total SEP participants. During the year, they made 101.6 million initial payments amounting to UAH 1183.8 billion, which was by 21% and 27% more, respectively, than in the previous year. SEP members, operating with other models of servicing of the consolidated correspondent account, in 2005 made 124.3 thousand payments amounting to UAH 1228.2 billion, or by 8% and 41% more, respectively, as compared with 2004. 89 banks (or 219 banking institutions) operated with the independent correspondent accounts, which was 13% of the total SEP subscribers. In 2005, they performed 24.4 million initial payments amounting to UAH 706.3 billion.

The main task in advancing the system of express transfers in the reporting period consisted in the attraction to the work as much banks of Ukraine as possible. During 2005, "Prominvestbank" together with its wide network of branches was connected to the system of express transfers which resulted both in the considerable increase in SEP participating banks and in the number of payments effected through the SEP. Also, 6 banks-legal entities became linked to the SEP, and though they did not belong to the big banks, however, they broadened the list of regions in which the direct SEP members were located, namely: banks of the cities of Kyiv, Dnipropetrovsk, Donetsk and Odesa.

Further tasks of the SET advancement consisted in a wide attraction to the interbank online settlements of the regional branches of the National Bank of Ukraine and, actually, all banks of Ukraine, and this would provide with the possibility to introduce fundamentally new mechanisms of non-cash payments directed solely to the operation of banks in the real time.

PERFORMANCE INDICATORS OF SET-SYSTEM IN 2001-2005

Year	Number of payments	Amount, UAH, million
2001 (March-December)	1434	53.5
2002	1789	66.5
2003	1265	34.3
2004	466	114.5
2005	36498	5752.3

The basic lines of development and improvement of the system of inter-bank transfers in 2005 included the following:

- improving the reliability and capacity of the system;
- finishing up the SEP in order for the National Bank of Ukraine to perform the functions of the clearing (settlement) bank for the National System of Mass Electronic Payments.

In addition, in order to separate the SEIT information flow from the other tasks of the information network of the National Bank of Ukraine, in 2005, "ARM (automatic working place) – NBU – information" was developed and put into operation in order to provide exchange with the non-payment information. It was introduced in all banking institutions of Ukraine – the members of SEP (including the branches of internal bank payment systems, State Treasury of Ukraine and its regional departments) and in the institutions, the banks of Ukraine exchange information with, i.e., the State Tax Administration, the State Customs, the Individuals' Deposit Insurance Fund, State Committee for Financial Monitoring, Central Election Commission, etc.

In 2005, the major part of works on elaboration of the working draft for the new generation of the system of electronic inter-bank transfers was fulfilled (prearranged name: SEP-2).

The description of SEIT member interface with SEP-2 was developed and distributed to all the SEIT members; there were also developed software applications for processing of the payment and technological information and for fulfillment of the main order of business actions; measures aimed at ensuring the reliable information security in the SEP-2 were taken; elaboration of the backup and recovery system and providing the SEP-2 interaction with other information and analytic systems of the National Bank of Ukraine was launched.

In September 2005, the test running of the system was launched in the Central Accounting House (CAH); during such running, the software and hardware solutions were tested and a wide range of the system control according to the needs of the CAH operators was adjusted; the capacity of the system was checked and guiding papers (instructions) were drawn up; complex testing of the SEP-2 operation together with the SEP members involved was prepared.

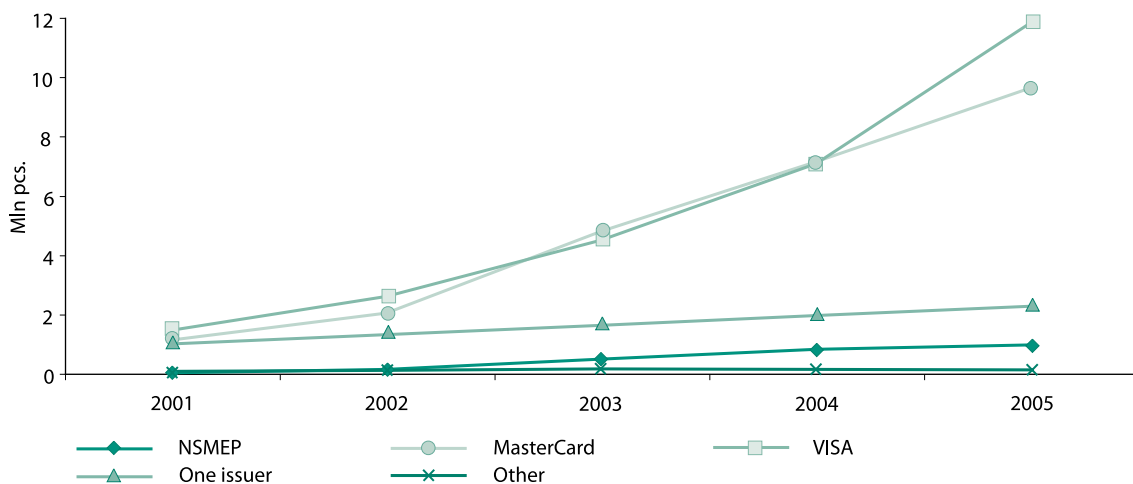
Putting of the SEP-2 into operation is planned for 2006.

2.6. SETTLEMENT SITUATION IN UKRAINE, WAYS TO IMPROVE THE SYSTEM OF SETTLEMENTS

As of 1 January, 2006, members of the domestic and international systems of payment cards that issued and acquired the payment cards, included 101 banks (63% of the total number). In 2005, 8 new banks became members of the relevant payment systems and started the issue and servicing of the payment cards.

Total number of the payment cards issued by the banks of Ukraine (at least, one operation was performed with every such card during the year) in the reporting period grew by 45% amounting to 24.8 million pieces. Number of payment cards issued per one thousand people of Ukraine as of 1 January, 2006, amounted to 528 pieces, or it increased by 168 cards in 2005.

Dynamics of Total Number of Payment Cards Issued by Ukrainian Banks



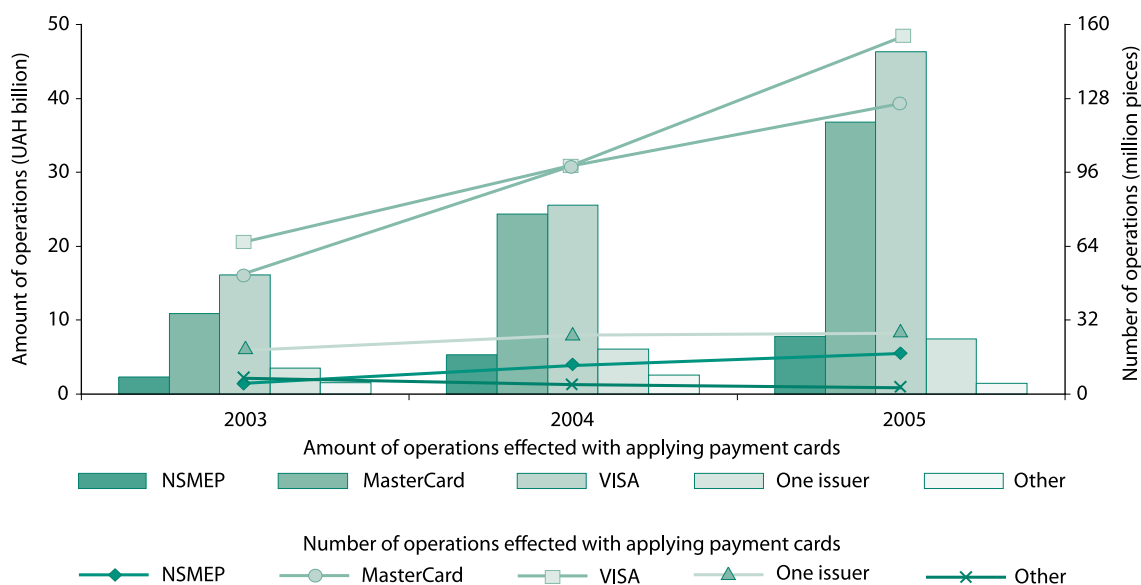
Number of automatic telling machines that serviced the payment cards increased during the year by 39% amounting to 11.3 thousand units; number of payment terminals grew by 27% amounting to 42.4 thousand units and number of imprinters – by 18% amounting to 43.9 thousand units.

INFRASTRUCTURE OF ACCEPTING THE PAYMENT CARDS WITHIN THE PAYMENT SYSTEMS

Payment system	Automatic telling machines, units			Payment terminals, units			Imprinters, units		
	1 January 2005	1 January 2006	Incram., %	1 January 2005	1 January 2006	Incram., %	1 January 2005	1 January 2006	Incram., %
Total,									
Including:	8104	11325	40	33411	42361	27	37338	43930	18
NSMEP	268	367	37	1356	1798	33	—	—	—
One issuer	1538	1837	19	5382	5635	5	5023	4713	—
MasterCard	6909	9879	43	30630	38983	27	37175	43779	18
VISA	6334	9289	47	29333	37243	27	35517	41902	18
UkrCard	407	778	91	622	1229	98	—	—	—
Other	10	6	—	321	515	60	411	478	16

As of 1 January, 2006, the number of operations with applying the payment cards, issued by banks, equaled to 324.4 million (or by 36.3% more as compared with 2004), amounting to UAH 99.7 billion (that is, grew by 56.4% during the year). Structure of operations effected through the payment cards in 2005 did not change considerably. In particular, as of 1 January, 2006, volume of operations in cash receiving was UAH 96.5 billion (96.8% of the total payment card operations), or it grew by 60% in comparison with the previous year; non-cash payments amounted to UAH 3.2 billion (3.2% of the total payment card operations), or it reduced by 6.5%.

Dynamics of Operations Effected with Applying Payment Cards



The average annual turnover per one payment card in all payment systems as of 1 January, 2006, amounted to UAH 4765.4 and it grew by 6.9% as compared with 2004.

As of 1 January, 2006, the balance of payment card accounts amounted to UAH 8.3 billion (or it grew 2.2 times for the reporting period), including the funds on the payment card accounts of individuals forming UAH 7.9 billion (or they increased 2.3 times) and on the payment card accounts of legal entities – UAH 314 million (grew by 80.5%). At the same time, the balance on the payment card accounts of individuals in the domestic currency formed 81%, in the foreign currency -19%, while the balances on the payment card accounts of the economic entities were 89% and 11%, respectively.

The year of 2005 was the second year of the industrial operation of the National System of Mass Electronic Payments (hereinafter, NSMEP).

As of 1 January, 2006, 23 banks were the members of the National System of Mass Electronic Payments. During 2005, 4 more banks joined the NSMEP.

By the end of 2005, 30 automated payment card systems worked with the banks-members of the NSMEP and their branches, including 27 banks operating in the inter-bank mode; 3 processing centers were established.

As of 1 January, 2006, the total number of the NSMEP payment cards issued by the banks of Ukraine was 1.1 million pcs. (in 2005, 239.6 thousand cards were issued); the network of servicing the NSMEP payment cards amounted to 2.4 thousand units of the terminal equipment (576 units more than in 2004). Among the five leading banks as regards the number of the NSMEP payment cards issued there were the following banks: JS "Express-Bank" (529.4 thousand cards); "Imexbank" (394.0 thousand cards); "Demark" Bank (45.7 thousand cards); "Megabank" (82.2 thousand cards) and "Grant" Bank (13.9 thousand cards).

PERFORMANCE INDICATORS OF THE NSMEP IN 2001–2005

Year	Number of payment cards issued, thous. pieces	Number of terminal equipment, units	Annual turnover, UAH thousand	Including the interbank turnovers, UAH thousand
2001	4	41	41964.5	0.2
2002	119	430	426796.1	535.7
2003	367	524	3912837.0	35549.3
2004	373	846	6931085.2	77569.5
2005	240	576	9739154.2	115552.3
Total	1103	2417	21051837.1	229207.1

In 2005, turnovers on the NSMEP payment cards formed UAH 9.7 billion, including 374.4 thousand inter-bank operations that totaled to UAH 115.6 million.

The National Bank of Ukraine is a member of the NSMEP. By the end of 2005, the payment card system applying the NSMEP payment cards operated within the Main Department of the National Bank of Ukraine for Kyiv-city and Kyiv Region, the regional branches of the National Bank of Ukraine in Odesa, Kharkiv, Donetsk, Chernihiv, Vinnytsia and in the head office of the National Bank of Ukraine.

As of 1 January, 2006, the National Bank of Ukraine issued 8.2 thousand payment cards and installed 51 units of the terminal equipment; also, 5 automated payment card systems were working.

In 2005, the scope of applying the NSMEP technology and its components broadened owing to the development and realization of "Transport card (including the social component)", "Social card", "Customs card", "Insurer card", etc.

During the reporting period, the improvement of the organizational structure and information technologies of the NSMEP continued. The production capacity and issuance of the new generation of the NSMEP payment cards (with and without contact interface available) have been provided. In order to expand applying the NSMEP, a new terminal equipment was tested.

With the purpose to maintain the appropriate actualized level of the normative and legal framework for effecting non-cash payments by the economic entities and individuals, the National Bank of Ukraine developed and the NBU Board approved in 2005 the following papers:

- "Procedure for the issue of payment cards and performance of operations with applying the payment cards";
- "Rules (instruction) for the National System of Mass Electronic Payments";
- "Regulations for the Payment organization board of the National System of Mass Electronic Payments";
- "Regulations on effecting by the National Bank of Ukraine the mutual settlements under operations with payment cards of the National System of Mass Electronic Payments";
- Draft program for the development of the NSMEP in 2006–2008.

2.7. CASH PERFORMANCE OF THE BUDGETS OF UKRAINE

During 2005, the banking system of Ukraine continued to effect cash servicing of the budgets of Ukraine.

Funds of the State budget of Ukraine and off-budget funds were held on the accounts of the State Treasury of Ukraine with the National Bank of Ukraine; terms and conditions of the cash servicing were specified by the agreement between the State Treasury of Ukraine and the National Bank of Ukraine.

According to the Agreement on terms and conditions of functioning of the State Treasury account with the National Bank of Ukraine and on cash servicing that was concluded between the National Bank of Ukraine and the State Treasury of Ukraine, servicing of the budget funds was carried out through the system of inter-bank electronic transfers (SEIT) of the National Bank of Ukraine which provided with the following:

- further functioning of the internal payment system of the State Treasury of Ukraine;
- high quality of settlements against the budget funds in the SEIT of the National Bank of Ukraine;
- reliable functioning of the Unified Treasury Account opened by the State Treasury of Ukraine with the National Bank of Ukraine;
- timely adoption of the management decisions related to the effective use of the State Budget of Ukraine funds and local budgets.

Number of payments effected by the State Treasury of Ukraine and its bodies through the SEIT of the National Bank of Ukraine amounted to over 20% of the total payments of the system.

2.8. ACTIVITIES OF THE NATIONAL BANK OF UKRAINE AND BANKS OF UKRAINE IN THE STOCK MARKET. SERVICING OF THE INTERNAL (DOMESTIC) DEBT OF UKRAINE

According to the laws in force the National Bank of Ukraine continued to perform operations in servicing of the public debt related to allocations of the government securities, their redemption and payment of the income on them.

In 2005, in order to allocate the treasury bills (further – T-bills) 37 auctions on the allocation of T-bills were arranged and only 25 were realized; in respect to other 12 the Ministry of

Finance of Ukraine took the decision not to realize the T-bills because of the disparity between the price proposals (bids) of the potential buyers and the real value of money or because of the absolute lack of bids for T-bills. UAH 7.2 billion were attracted to the State Budget of Ukraine (all that owing to allocation of the middle-term T-bills), which was 3.3 times more as compared with 2004. In 2005, the allocation of T-bills was carried out only in the 1st half of the year, which was connected with the limits exhausted for realization of the domestic T-bills in the current year and issue of external T-bills planned by the end of the year.

T-BILLS MARKET			
Indicators	2005	Change against previous year	For reference: 2004, change against previous year
Number of auctions	37	-65	-70
Realized	25	-25	-19
Non-realized	12	-40	-51
Funds attracted to State Budget, UAH, billion	7.2	5	1.0
T-bill payment (principal amount + %), UAH, billion	9.3	5.5	1.5
Net fund attraction (balance), UAH, billion	-2.1	-0.5	-0.5
Average weighted yield, %	7.3	-3.9	1.4
		percentage point	percentage point
Average maturity, days	1039	287	311

As long as in 2005, the Ministry of Finance of Ukraine allocated only medium-term T-bills, the average maturity of T-bills sold at the auctions grew by 287 days as compared with 2004 and formed 1039 days, and, thus, ensured slackening of pressure on the State Budget of Ukraine in 2005–2006.

During the reporting period, T-bills were much in demand of both residents and non-residents and their motives were stipulated by a high reliability of T-bills in comparison with other financial instruments. Despite the increase in average maturity of the domestic T-bills, their average weighted return reduced almost by 4 percentage points as compared with 2004 and amounted to 7.3% annually.

In order to restrain the inflation rates within the specified level and to make cheaper servicing of the public debt, the Ministry of Finance of Ukraine paid in full in 2005 the Ukrainian Government debt, related to the interest-bearing T-bills, to the National Bank of Ukraine in the amount of UAH 6.4 billion, including their early redemption totaling UAH 5.5 billion (per nominal value), in particular, at the expense of funds received from the allocation of cheaper domestic government liabilities. This allowed to reduce the debt burden on the state budget both in the current year and in subsequent years and also changed the structure of T-bills holders. The National Bank of Ukraine ceased to be a monopolist in the market of government securities; instead, the portion of T-bills belonging to non-residents, substantially increased.

The highest rates of T-bills acquired by non-residents were observed from January to May last year, having increased for this period from UAH 1.7 billion as of 1 January, 2005, to UAH 6.9 billion as of 1 May, 2005, or more than four times. Taking into consideration such growth of T-bills in the possession of non-residents, the National Bank of Ukraine introduced certain measures aimed at reduction of the foreign investor demands for T-bills. Due to the measures adopted on the appreciation of Hryvnia in April, introduction in September of provisioning by banks the medium-term funds attracted from non-residents, as well as termination of the transactions on allocation of the T-bills, the volume of internal government liabilities in the ownership of foreign investors decreased to some extent by the end of the year, being equal to UAH 6.1 billion as of 1 January, 2006.

During 2005, the Ministry of Finance of Ukraine redeemed the government T-bills and paid income to their holders totaling UAH 9.3 billion, including the repayment of principal amount of UAH 8 billion and income of UAH 1.2 billion, having fulfilled all its commitments under different types of T-bills including early redemption of the internal government liabilities being in the ownership of the National Bank of Ukraine.

Owing to the fact that volumes of T-bills redeemed were higher than volumes of T-bills allocated, the indebtedness of the Government of Ukraine for the government T-bills (per nominal value) fell by UAH 1.2 billion in 2005 and by the end of the year amounted to UAH 10 billion.

2.9. LEGAL ENVIRONMENT OF THE BANKING SYSTEM

In the reporting year, the improvement of banking legislature went on. In 2005, the Verkhovna Rada (Parliament) of Ukraine adopted the Law of Ukraine "On the Establishment and Circulation of Credit Histories", whose draft has been submitted by the National Bank of Ukraine as a legal subject of initiative.

With an active promotion by the National Bank of Ukraine and taking into consideration its proposals as a basis of the law, the Verkhovna Rada approved the following laws of Ukraine which were determined by the National Bank of Ukraine as priorities:

- "On Amendments to Article 96 of the Law of Ukraine "On Banks and Banking Activities" as regards the Bank Liquidation Procedure";
- "On Amendments to Certain Laws of Ukraine concerning the Improvement of Legal Regulation of the International Cooperation in the Area of Prevention of Terrorism Financing";
- "On Mortgage Bonds".

During the reporting period, the National Bank of Ukraine submitted to the Verkhovna Rada and its Committees 42 legislative proposals to the draft laws, the norms of which were directed at the legal support of the activities and development of the banking area. Almost 70% of the presented proposals have been taken into account in full or partially.

With the aim of legal adjustment of the banking sector problems, the National Bank of Ukraine, as a legal subject of initiative, submitted for consideration to the Verkhovna Rada 5 following draft laws:

- "On Amendments to Certain Laws of Ukraine" (on bringing the procedure for state registration of banks in conformity with special legislature in the area of state registration; improvement of banking supervision through disclosure real bank owners and setting special requirements to them; organization of external bank audit; ensuring internal financial monitoring in order to prevent banks to be used for money laundering);
- "On Amendments to Certain Legislative Acts of Ukraine in respect to Introducing Moratorium on the Bank Customer Servicing";
- "On Amendments to Article 18 of the Law of Ukraine "On Organizational and Legal Aspects of Fight against the Organized Criminality";
- "On Amendments to Certain Legislative Acts of Ukraine" (as regards specifying the functions of the National Bank of Ukraine on keeping statistics of the external sector of economy; enlargement of the list of transactions performed by the institutions of the National Bank of Ukraine, etc.);
- "On Amendments to the Law of Ukraine "On Banks and Banking Activities" as regards authorizing the foreign banks to establish their branches on the territory of Ukraine.

On the whole, 12 draft laws developed and submitted by the National Bank of Ukraine as a legal subject of initiative were under consideration of the Verkhovna Rada in 2005. However, because of the fact that in January 2006 the National Bank of Ukraine was deprived of the right to be a legal subject of initiative, the draft laws submitted by the NBU that failed to be considered by the Verkhovna Rada, should be considered as rejected and they were forwarded back to the National Bank of Ukraine.

The draft law "On Amendments to the Laws of Ukraine relative to Financing the Individuals' Deposit Insurance Fund" which was approved in the first reading, remained under consideration of the Verkhovna Rada of Ukraine.

In 2005, the National Bank of Ukraine submitted to the President of Ukraine the following draft laws developed by the NBU:

- "On Amendments to Article 21 of the Law of Ukraine "On Privatization of the State Property" (as regards effecting payments for the privatization objects acquired by customers in Ukraine); it was submitted by the President of Ukraine for consideration by the Verkhovna Rada and approved by the latter in the first reading;

- "On Amendments to the Law of Ukraine "On the National Bank of Ukraine" (under consideration in the Secretariat of the President of Ukraine).

During 2005, the National Bank of Ukraine maintained close cooperation with the Cabinet of Ministers of Ukraine, ministries and other central authorities on working out the draft laws of Ukraine that were developed by the Cabinet of Ministers of Ukraine as a legal subject of initiative or were planned to be submitted to the Verkhovna Rada, and on the draft laws of other bodies as legal subjects of initiative, including the following:

- "On the System of Foreign Exchange Regulation and Foreign Exchange Control";
- "On Amendments to the Civil Code of Ukraine";
- "On Amendments to the Certain Laws of Ukraine" (as regards the amendments to the Civil Code of Ukraine);
- "On Applying Settlement Recorders";
- "On Amendments to the Certain Laws of Ukraine" (amendments to Article 96 of the Law of Ukraine " On Banks and Banking Activities");
- "On Financial System Management in case of Force Majeure";
- "On Mortgage Bonds".

On the whole, during 2005, the National Bank of Ukraine submitted 81 legislative proposals to the draft laws of other subjects of initiative as regards legal support for banking sector activities and development to the Cabinet of Ministries of Ukraine, ministries and other central executive authorities.

In the reporting year, the NBU passed 188 legislative acts as regards the guidelines of banking activities (resolutions, instructions, regulations, rules), 105 legislative acts whereof having been registered by the Ministry of Justice of Ukraine. During 2005, there were no the acts of the National Bank of Ukraine rejected by the Ministry of Justice of Ukraine.

In 2005, the National Bank of Ukraine continued to work with claims and complaints. In particular, it participated in 269 legal investigations, of which:

- decisions in favour of the National Bank of Ukraine were taken in 153 cases amounting to UAH 8342.9 thousand;

- decisions against favour of the National Bank of Ukraine were taken in 21 cases amounting to UAH 41.3 thousand;

In 2005, the National Bank of Ukraine made:

- 182 claims (or by 52% less than in 2004) in the amount of UAH 20.7 million (164 claims of UAH 86.7 thousand were acknowledged);

- 119 complaints (or by 29% less than in 2004) amounting to UAH 12.6 million (85 complaints of UAH 5.2 million were satisfied; 14 complaints of UAH 40.7 thousand were rejected).

In 2005, claims and complaints made against the National Bank of Ukraine were 60% and 25% less, respectively, as compared with 2004; those were 4 claims in the amount of UAH 211.3 thousand (2 claims of UAH 1.6 thousand were satisfied) and 150 complaints amounting to UAH 25.2 million (7 complaints of UAH 554 satisfied, 68 complaints of UAH 3.2 million rejected).

In 2005, within the system of the National Bank of Ukraine, 6404 agreements and additional agreements were entered, including 4812 agreements related to the NBU performance of its functions and 1592 agreements on the economic activities.

2.10. RISK MANAGEMENT IN THE NATIONAL BANK OF UKRAINE

The function of risk management in the National Bank of Ukraine is realized through the following:

- strategy and policies of the risk management (determination of the list of risks, level of risk tolerance, risk management criteria, risk limitation norms);
- risk management methodology (methods, techniques, algorithms and procedures used to measure risks; analysis of their level and development of measures for risk management);
- infrastructure of risk management (combination of managerial and collective bodies and line departments of the head office through which the risk management function is realized).

Risk management in the National Bank of Ukraine is performed by:

- the Board of the National Bank of Ukraine which determines the strategy and policies of the bank process risk management;
- Assets and Liabilities Committee which takes decisions related to the establishment and realization of the policies for the effective management of assets and liabilities and, in particular, for ensuring the risk monitoring of transactions with assets and liabilities of the National Bank of Ukraine;
- Risk Management Unit whose responsibilities include the realization of methodical, functional and organizational support for risk management of the transactions performed by the National Bank of Ukraine.

Risk management in the National Bank of Ukraine is realized at three levels, namely:

- operations (transactions): by internal control units;
- line departments: by the line department management and by the Risk Management Unit;
- organization as a whole: by the Board of the National Bank of Ukraine and the Assets and Liabilities Committee.

During 2005, the National Bank of Ukraine was engaged in management of credit risk, exchange rate risk, interest rate risk, operational risk and liquidity risk.

Credit risk management was implemented through observing the requirements specified by the normative and legal acts of the National Bank of Ukraine and decisions of the Assets and Liabilities Committee regarding the operations on:

- allocation of funds of the gold and foreign exchange reserves of the National Bank of Ukraine with the counteragent banks, having a credit rating not less than permissible minimum ones, through setting the long-term credit limits on the amount of funds allocated, as well as limitation of the standard duration (average life) for the funds allocation per each currency and financial instruments;
- foreign exchange interventions in the domestic foreign exchange market through setting the short-term credit limits for the counteragent banks of Ukraine;
- refinancing of banks of Ukraine and in the open market through a permanent monitoring of banks' creditworthiness, credit operations under collateral and REPO-operations;
- control over meeting by the credit line participants of the requirements determined by the relevant credit agreements between the National Bank of Ukraine and the EBRD on extending the loans within the EBRD credit lines.

Foreign exchange risk for the National Bank of Ukraine emerged from the open foreign exchange positions due to the management of the gold and foreign exchange reserve.

Measurement of the foreign exchange risk of the National Bank of Ukraine was conducted by applying the VAR method through calculation of the value at risk as a possible change in the value of the gold and foreign exchange reserve, with 95% probability during one working day, ten working days and during a month.

In order to constrain the foreign exchange risk, the National Bank of Ukraine specified the normative foreign exchange structure of the gold and foreign exchange reserve in the form of a range of possible fluctuations of each currency share within the gold and foreign exchange reserve of the National Bank of Ukraine.

During the year, in the course of assessing the value at risk of the gold and foreign exchange reserve the National Bank of Ukraine conducted a monthly analysis of influence on the value at risk within the gold and foreign exchange reserve that resulted from changes in the physical volumes and exchange rates of currencies involved; volatility of exchange rates; correlation of the exchange rate fluctuations and the high volatile to low volatile currencies ratio.

During the year, stress-tests were performed in order to research the level of influence on changing the value of gold and foreign exchange reserve of a possible turbulence emerged in the financial markets in a crisis situation.

The interest rate risk took place when the National Bank of Ukraine carried out operations on the attraction and allocation of funds and it was attributed to the imbalance of assets and liabilities sensitive to the interest rate changes in certain time (term) bands. The level of interest rate risk was measured through the analysis of gaps between the relevant bank assets and liabilities within the time bands specified; through the comparison of the average weighted interest rates on assets and liabilities by currencies and financial instruments; and also with the help of indicators of modified and ranged durations.

Liquidity risk was characteristic for operations on the management of funds of the gold and foreign exchange reserve of the National Bank of Ukraine. With the purpose of liquidity risk management, certain amount of the gold and foreign exchange reserve was held in a money form on the "nostro" correspondent accounts (according to the necessary minimum and permissible maximum daily balances in the foreign currency on the nostro correspondent accounts of the National Bank of Ukraine that were determined in the normative documents) and was secured by the high liquidity securities available within the gold and foreign exchange reserve (by basic currencies) while maintaining their permissible share specified in the normative documents; also, time deposit funds have been repaid during the uniform intervals.

During 2005, regular management of the operational risk, being typical for all the operations, was conducted in the National Bank of Ukraine. To ensure the effective management of this risk, a generalized description of all processes in all the line departments was introduced and level of the operational risk was assessed by applying the scenario analysis method.

2.11. FINANCIAL MONITORING FOR PREVENTION OF USING THE BANKING SYSTEM FOR LEGALIZATION (LAUNDERING) OF THE PROCEEDS FROM CRIME

During the year, the work on prevention of using the banking system for legalization of the proceeds from crime and terrorism financing went on.

In August 2005, the joint resolution (together with the Government of Ukraine) "On Approval of the Plan of Actions on Prevention and Fight against Legalization (Laundering) of the Proceeds from Crime and Terrorism Financing in 2005" was adopted and "Concept for the Development of the System of Prevention and Counteraction of the Legalization (Laundering) of the Proceeds from Crime and Terrorism Financing for 2005–2010" was approved.

In order to implement into the legislature of Ukraine the international standards on prevention of legalization (laundering) of the proceeds received in a criminal way and terrorism financing by the banking system, and to introduce the provisions of the new edition of "Forty Recommendations of the FATF", the National Bank of Ukraine adopted a number of the normative and legal acts according to which:

- banks were obliged to conduct quarterly analysis of operations under all accounts of the customer and during the registration of agreements on the partnership or participation in the international payment systems; to provide documents confirming that rules of the payment arrangement of the international payment system on prevention of legalization of criminal gains and terrorism financing meet the relevant international standards in this area;
- it was prohibited to exchange foreign currency in the amount of more than UAH 15 thousand without prior identification of the person;
- bank statistical reporting as regards financial monitoring made by the banks was introduced;

– methodic recommendations on conducting the bank (branch) inspection in the above issues have been approved.

The draft law "On Amendments to Certain Laws of Ukraine regarding the Improvement of Legal Regulation of the International Cooperation in the Area of Prevention of Terrorism Financing" was adapted and became valid since 1 January, 2006. This law determines, in particular, the following:

- banks are obliged to terminate the financial operation if its participant or beneficiary is a person included in the list of persons connected with the terrorist activities;
- the National Bank of Ukraine is authorized to exchange information with the appropriate state authorities of the foreign countries in the issues of regulation and supervision of the banks' activities in the area of prevention of legalization (laundering) of the proceeds from crime and terrorism financing.

Banks were given advices and recommendations as regards observing the requirements of the appropriate laws in force and they were informed on modifications in the list of persons and organizations involved in the terrorist activities proceeding from the data received from the official channels.

The system of prevention of "dirty" money laundering in the banking sector of Ukraine established by the National Bank of Ukraine provided banks with the possibility to forward to the State Financial Monitoring Committee of Ukraine nearly 750 thousand reports on the suspicious financial operations in 2005.

The cooperation with the State Financial Monitoring Committee of Ukraine, State Commission on Regulation of Financial Service Markets of Ukraine and State Commission on Securities and Stock Market of Ukraine continued. During the year, the representatives of the National Bank took part in the interdepartmental Working group on investigation of methods and trends of criminal proceeds laundering and in revealing the facts of applying new mechanisms for legalization (laundering) of the proceeds.

The inspections of banks (branches) have been performed concerning compliance with the requirements of the legislature regulating relationships in the area of prevention and fight against legalization (laundering) of the proceeds from crime and terrorism financing. By the results of the inspections, certain infringements were revealed and, thus, the appropriate enforcement measures have been applied.

Measures undertaken by the Government of Ukraine with participation of the National Bank of Ukraine enabled the FATF with the possibility to terminate active monitoring procedures for Ukraine since February 2006.

2.12. INTERNATIONAL COOPERATION

2.12.1. Relationships of the National Bank of Ukraine with Central Banks of the Countries all over the World and with other International Institutions

In 2005, within the framework of cooperation with central banks of other countries, the National Bank of Ukraine entered the Memorandum of Agreement with the Central Bank of Egypt and the Reserve Bank of South Africa.

Draft agreement on cooperation with the National Bank of Bulgaria has been elaborated.

During the reporting period, the National Bank of Ukraine arranged the proper work on establishing the bilateral relations with the Central Bank of Cyprus proceeding from the fact that Republic of Cyprus was attributed by Ukraine to the list of the off-shore areas. In addition, it was initiated for the Cabinet of Ministers of Ukraine to revise the reasons of ascribing Cyprus to the mentioned list.

The work on learning experience obtained by the central banks of the East European countries in reforming and improvement of the organization of collection and also transportation of banknotes, coins and other valuables has been conducted.

In order to strengthen and intensify the bilateral relations, in 2005, the top management of the National Bank of Ukraine visited the Central Bank of Turkmenistan and the Reserve Bank of the Republic of South Africa and also there was a counter-visit of the delegation from the National Bank of Poland.

In May 2005, the Governor of the National Bank of Ukraine participated in the regular meeting of the Central Banks Governors' Club of the Black Sea Region, Middle Asia and Balkan countries.

During negotiations with delegation of the Iran Bank for Export Development concerning the establishment of the Iranian bank in Ukraine, the Irani party was given advices as regards the legislative requirements to establishing in Ukraine the bank with foreign capital.

2.12.2. Cooperation of the National Bank of Ukraine with International Financial and other Organizations

In 2005, the international activity of the National Bank of Ukraine was directed at the intensification of cooperation with the international financial organizations in order to strengthen the banking system of Ukraine, to learn and implement the world experience in settlement of the economic challenges and also to elucidate the abroad activities of the National Bank of Ukraine.

Cooperation with the International Monetary Fund

The National Bank of Ukraine kept on cooperation with the International Monetary Fund taking into account the decision approved by the Cabinet of Ministers of Ukraine on further cooperation with not taking credits but attracting experts for the advisory support.

The seminars have been arranged with participation of the IMF and the National Bank of Ukraine representatives and attraction of experts from the foreign banks in the issues of exchange risk management, capital inflows and gradual transition to the floating exchange rate, prevention of financial crimes, etc.

During the reporting period, in the National Bank of Ukraine numerous discussions took place both with the IMF management (executive managers of the IMF, in April 2005), with the Managing Director Mr. Rodrigo de Rato (in August 2005) and with the experts. A range of problems covered macroeconomic issues, primarily, high inflation rates, advantages and shortcomings of the fiscal policy, advisable change of the monetary and foreign exchange policies, exchange risk management, applying measures in case of capital inflow and transition to other currency regimes, strategy for public debt management and further development of the market of domestic government liabilities, foreign exchange regulation, etc. Also, the officers of the National Bank of Ukraine kept close cooperation with the IMF resident expert to the National Bank of Ukraine in the inflation targeting issue.

In addition, in November 2005, the IMF Executive Board majority approved the first steps of the National Bank of Ukraine towards liberalization of the foreign exchange market and its higher flexibility.

During 2005, the National Bank of Ukraine promptly provided the International Monetary Fund with the appropriate reporting.

Cooperation with the World Bank

In 2005, the cooperation between the National Bank of Ukraine and the World Bank went on and it was aimed at reforming the banking system through a number of joint projects, namely:

- "Programmatic Adjustment Loan" (PAL);
- "Development Policy Loan" (DPL);
- "Enlarged access to the markets of financial services";
- "Development of the State Statistic System for Monitoring the Social and Economic Transformation Project";
- "Export Development Project – II".

Support from the World Bank within the joint project "Programmatic Adjustment Loan" (hereinafter – PAL) was pointed toward the improvement of the operation of the State-owned Savings

Bank, implementation of the Basle Core Principles for Banking Supervision, improvement of reporting and external audit of the banks of Ukraine. Observing requirements of the second tranche of PAL provided Ukraine with the possibility to receive the loan of US \$ 172.5 million in 2005.

Upon completion of the number of measures within the Programmatic Adjustment Loan, the parties agreed to prepare the new program "Development Policy Loan" (hereinafter, DPL) which, similarly to PAL, appeared to be a key element of the World Bank Strategy on rendering assistance to Ukraine for 2004-2007. After negotiations held in April 2005, in accordance with the resolution of the Board of Directors of the World Bank, Ukraine received the first disbursement of DPL-I (of US \$ 251.3 million). During 2005, in order to follow the terms of the second tranche of DPL, the National Bank of Ukraine has been working at the elaboration of the Plan for development of the banking supervision and participated in finishing the Memorandum on the development of the State-owned Savings Bank of Ukraine.

Taking into account the common purpose of the projects "Rural Finance Project" and "Municipal Development Fund of Ukraine", the World Bank proposed to combine these projects into the single project "Enhanced Access to the Markets of Financial Services". In 2005, the National Bank of Ukraine was involved in establishing the mechanism for determination of the final eligibility criteria and selection of banks to be allowed to take part in the credit line and in the project component directed at the institutional development.

The "Development of the State Statistic System for Monitoring the Social and Economic Transformation Project" aims at improvement of the effective work of the state statistics system through bringing its organizational, institutional and technologic elements in line with the up-to-date international standards and needs of the state governance and economy in the market conditions. One of the Project lines includes plans to realize the subcomponent C.7 "Monetary and Banking Statistics" and C.8.2 "Balance of Payments", and the National Bank of Ukraine appears to be the main executive of this work. Implementation of the subcomponents will promote the improvement of the methodological aspect of the monetary and balance of payments' statistics and ensure its compliance with the international standards.

In order to broaden the scope of services and instruments supporting the export development and taking into account the effectiveness of the "Export Development Project", the public corporation "UkrEximBank" initiated to continue its cooperation with the World Bank and to launch the project "Export Development-II". This initiative has been supported by the World Bank, the Government of Ukraine and the National Bank of Ukraine.

Within the framework of non-credit activities of the World Bank and under its support, the National Bank of Ukraine completed realization of the Dutch Government Grant of 1.8 million euro in February 2005. Funds disbursed under this Grant were used to proceed with the reforms in the area of banking supervision and institutional development of the banking sector. In view of further realization of the tasks stated the World Bank rendered the financial support to Ukraine in 2005 in order to implement the Financial Sector Adjustment Program II for restructuring the financial sector of Ukraine. The main goals of the Program covered promotional development of the reliable and competitive markets of financial services and enhanced access to financing for customers and regions of Ukraine that were "short of financing".

During 2005, the National Bank of Ukraine took part in the talks and in the elaboration of papers on receiving the next grant under the project of the World Bank in order to realize the Financial Sector Adjustment Program II for restructuring the financial sector. According to the project, funds of the grant will be aimed primarily at financing the advisory and training services for the National Bank of Ukraine and for the State Commission on regulation of the markets of financial services in view of development and improvement of the supervisory function of these institutions, rendering assistance in transition to applying Basle-II standards and restructuring the state-owned banks.

In 2005, the World Bank financed the SME sub-projects to support micro-, small and medium enterprises (MSME) in the amount of USD 3.1 million. During the project realization period, USD 31.1 million were extended to finance 34 sub-projects under the MSME credit line and USD 5.3 million to realize 21 municipal projects. By the end of 2005, the outstanding amounts under the credit lines were USD 14.2 and 0.8 million, respectively.

Similar to the previous years, the National Bank of Ukraine provided the World Bank with the prompt reporting on the external long-term secured and unsecured debt of the country in accordance with the requirements of the World Bank Debtor Reporting System.

Cooperation with the European Bank for Reconstruction and Development

During 2005, the National Bank of Ukraine kept on implementing the credit lines opened by the European Bank for Reconstruction and Development that were aimed at financing of the small- and medium-size private enterprises (SME-1 and SME-2) in the amount of USD 121.2 million and US \$ 88.3 million, respectively.

In 2005, the National Bank of Ukraine repaid in full the first credit line (SME-1) that was extended by the European Bank for Reconstruction and Development to credit small and medium enterprises and to support the capacities of banks.

By the end of 2005, 240 projects of US \$ 210.6 million were approved, including 7 projects approved in 2005 of USD 7 million. The amount of credits paid under the SME-1 was USD 117.9 million, under the SME-2 was USD 37.7 million. As related to the micro-credit component, 27 credit agreements were entered with the participating banks within the framework of two credit lines (SME-1 and SME-2) totaling USD 46.3 million; they include 6 credit lines of USD 7.4 million under the SME-1 credit line and 21 credit agreements of USD 38.9 million under the SME-2; out of these remained acting were 9 agreements of USD 11.5 million. USD 34.8 million within 18 credit agreements were returned by the participating banks.

During the whole effective period of the Micro-credit Program (component), the banks extended 95.5 thousand credits of USD 638.1 million, including 48.6 thousand credits of USD 334.1 million given in 2005 to the final borrowers.

Cooperation with European Investment Bank

In 2005, the National Bank of Ukraine was active in approving the draft Master Agreement between Ukraine and the European Investment Bank. The Agreement was concluded in June 2005 and ratified in February 2006.

Cooperation with Northern Investment Bank

In 2005, the National Bank of Ukraine took an active part in approval of the draft Master Agreement between Ukraine and the Northern Investment Bank. The Agreement was concluded in February 2005.

Cooperation with Interstate Bank of CIS

In 2005, the National Bank of Ukraine participated in further elaboration of the new constituent draft papers of the Interstate Bank, in particular, the Statute and amendments to the agreement on its establishment. Also, worked out were the issues related to the development and implementation of the payment and settlement system of this Bank.

Cooperation with German-Ukrainian Fund

In 2005, the National Bank of Ukraine kept on monitoring the funds of the German-Ukrainian Fund (GUF).

During 2005, within the agreements with the German-Ukrainian Fund, micro-credits to the final borrowers were extended by the Joint-Stock Post and Pension Bank "Aval", "PrivatBank", Joint-Stock Commercial Bank "Forum", Commercial Bank "Nadra", Closed Joint-Stock Company "ProCreditBank" and Public Corporation "Credit PromBank". In 2005, the banks were given 10.5 million euro from the GUF funds; against the earlier entered agreements completed, the banks repaid 7.1 million euro to the GUF (principal amount within the scope of 7 credit agreements). During 2001 – 2005, 25 credit agreements totaling 25.8 million euro were concluded between the GUF and participating banks, among which 10 credit agreements of 14.6 million euro remained active.

During the whole effective period of the GUF Program, the participating banks extended over 36 thousand micro-credits of 130.4 million euro, including over 28 thousand micro-credits of 96.9 million euro given in 2005 to the final borrowers.

Concerning the establishment of the Ukrainian Promotional Bank

Following the earlier agreements of the Government of Ukraine and the Federal Government of Germany on establishment, within the "TRANSFORM" Program, of the German-Ukrainian Fund (at the first stage) and the Promotional Bank (at the second stage), the National Bank of Ukraine kept on its discussions with the Cabinet of Ministers of Ukraine on the draft law of Ukraine "On Ukrainian Promotional Bank".

The draft law of Ukraine "On Ukrainian Promotional Bank" was discussed with experts from the Ministry of Finance of Ukraine, the Ministry of Economy and on the Issues of European Integration of Ukraine, Ministry of Justice of Ukraine and the State Commission on regulation of financial markets of Ukraine, and the draft law was consequently finished off by the National Bank of Ukraine.

Cooperation with other international institutions

According to the strategic course of our country on integration into the European Union (hereinafter, the EU), the National Bank of Ukraine in 2005 provided fulfilment of the appropriate provisions of the Partnership and Cooperation Agreement between Ukraine and the EU and of the Ukraine-EU Action Plan for 2005.

The National Bank of Ukraine took part in the regular meetings of the Sub-Committees on trade and investments, on finance, economy and statistics; Committee on Ukraine's Cooperation with European Union and also in the 8th meeting of the mentioned Committee.

Measures have been taken as regards implementation of the technical assistance of the European Commission on development of the banking sector and its adaptation to the EU legislature, standards and principles; thus, in 2005, realization of the TACIS technical assistance project "Reforming of the banking sector" and of the BISTRO "Promotion of adaptation processes in the banking sector of Ukraine to the legislature, standards and principles of the European Union: program proposals".

In order to realize the Euro-Atlantic integration in 2005, the National Bank of Ukraine provided implementation of the Ukraine-NATO Target Plan measures for 2005 in the part concerned the National Bank of Ukraine.

In order to fulfill tasks on Ukraine's joining the World Trade Organization (WTO), the National Bank of Ukraine efficiently responded to the requests of the countries-participants of the Working Group on reviewing Ukraine's application as regards its entering the WTO. In addition, during 2005, the National Bank of Ukraine participated in the meetings of the Working Group on reviewing Ukraine's application as regards its entering the WTO, in the bilateral talks on providing an access to the market of services and also in elaborating the draft report of the Working Group on reviewing the Ukraine application related to its entering the WTO as a final document in Ukraine's joining the WTO.

The main task on the path to the WTO within the competence of the National Bank of Ukraine is to grant authorization to the foreign banks on establishing their branches on the territory of Ukraine. In order to settle this issue, the National Bank of Ukraine worked out the draft law "On Amendments to the Law of Ukraine "On Banks and Banking Activities" and on 1 April, 2005, submitted it to the Verkhovna Rada for consideration.

During 2005, the National Bank of Ukraine took part in elaboration of the package of documents on forming the Unified Economic Area between Ukraine, Russia, Belarus and Kazakhstan and also analyzed the consequences of such area formation.

2.13. MAIN DIRECTIONS OF ECONOMIC WORK

The National Bank of Ukraine ensured handling of economic work directed towards fulfilling the entrusted functions in compliance with the Law of Ukraine "On the National Bank of Ukraine" of May 20, 1999, No. 679-XIV with amendments and other laws of Ukraine under the following directions:

- development of the money and credit, foreign exchange and stock markets;
- issuing activity;
- analysis and forecasting of macroeconomic and monetary indicators;
- compilation and estimation of the balance of payments;
- forecasting of the balance of payments;
- compilation of monetary and banking statistics;
- analysis of banks' claims under credits extended to the economy of Ukraine;
- analysis of banks' liabilities under attracted funds;
- analysis of interest rates under deposit facilities mobilized by banks and credits extended;
- preparation of information, analytical and presentation materials as regards the situation and tendencies of the economy and banking system development;
- analysis of the state gross external debt;
- ensuring the enhancement of the banking supervision efficiency;
- monitoring of performing the measures aimed at fulfillment of decrees and orders of the President of Ukraine on economic issues.

In cooperation with the Secretariat of the President of Ukraine and the Cabinet of Ministers of Ukraine, the National Bank of Ukraine ensured fulfillment of the decrees and orders of the President of Ukraine concerning the development of the banking system and raising its role in the development of the state economy.

Over the year, the official periodicals – the "Bulletin of the National Bank of Ukraine" and the "Visnyk (Herald) of the National Bank of Ukraine" were issued monthly and the "Balance of Payments of Ukraine" was issued quarterly.

During 2005, the draft memorandum was worked out between the National Bank of Ukraine and the Cabinet of Ministers of Ukraine on cooperation aimed at reaching the price stability in order to ensure a sustained economic growth. The National Bank of Ukraine initiated the formulation of the document, which would determine the inflation target, regulate the limits of responsibility for its attainment, as well as transparency and accountability of the both authorities. Currently, after preliminary discussion with the Ministry of Economy of Ukraine, the Ministry of Finance of Ukraine and the Ministry of Justice of Ukraine, the draft memorandum has been at the final stage of approval by the Cabinet of Ministers of Ukraine.

In 2005, continued the work aimed at improving the methodology and optimizing the statistical reporting to be submitted to the National Bank of Ukraine, which contributed to compilation, according to the international standards, of monetary statistics, balance of payments statistics, international investment position, as well as gross external debt and fulfillment by the National Bank of Ukraine of duly entrusted regulative and supervisory functions. During the reporting period, four amendments to the Rules of Statistical Reporting were prepared, according to which the amendments were made in 35 forms, 2 new forms were added and 1 active form of statistical reporting, presented by Ukrainian banks, was cancelled. In the course of carrying out the above work, the attention was paid to the issues urgent for banks on expediency and range of the statistical reporting given to the National Bank of Ukraine. In order to decrease bank expenditures for preparation of statistical reporting, the working group on statistical reporting optimization, created in September 2005 of specialists of the NBU central office, considered and supported the proposals of banks concerning cancellation, combination and alteration of the active reporting forms, change of frequency and terms of the reporting submission, as well as timely software alterations. The banks' proposals were taken into consideration in the Alterations to the Rules of Statistical Reporting submitted to the National Bank of Ukraine.

In order to improve the analytical, research and forecasting work of the National Bank of Ukraine and to estimate the financial and economic situation in the regions, it was approved and introduced to make out the financial passports of the regions of Ukraine. The indices of the

financial passport of the regions include the data related to the general economic development and the situation in the financial and banking sector of the regional economy.

Taking into account the international standards, the alterations were made in the Rules of Preparing and Submitting the Reporting to the International Monetary Fund, approved by the Resolution of the NBU Board of February 11, 2005, No. 41.

During the reporting year, the information was prepared according to the indicators of the financial and external sectors of the economy in order to disseminate it in compliance with the recommendations of the Special Data Dissemination Standard of the International Monetary Fund.

A range of measures were taken by the National Bank of Ukraine relating to its participation in the coordinated training by the International Monetary Fund in compiling and disseminating the financial stability indicators.

The National Bank of Ukraine participated in the events aimed at carrying out the Program of Developing the National Accounts System for the period until 2010.

During the reporting year, the work was carried out aimed at fulfilling the agreement between Ukraine and the International Bank for Reconstruction and Development "Development of the System of State Statistics for Monitoring of Social and Economic Transformations", in the part of sub-components "Money, credit and banking statistics" and "Foreign trade and balance of payments".

The presentation of the European Bank for Reconstruction and Development "2004 Transition Process Report" was prepared and held, which permitted to be familiarized with the results and methodology of the EBRD estimation of the transition to the market economy of the Commonwealth of Independent States countries with the emphasis on Ukraine.

With the purpose of discussing the urgent issues concerning the monetary and foreign exchange policy, development of the banking system and raising its role in assuring the economic growth, the meetings were held with participation of Ukrainian banks.

The work continued, on a regular basis, aimed at preparation of analytical materials of the banking system development, certain economic issues in order to inform the management and specialists of the National Bank of Ukraine.

Arrangement of economic work at the regional branches of the National Bank of Ukraine was entrusted on the divisions of economic work and money and credit relations (hereinafter referred to as the divisions). The divisions of the regional branches of the National Bank of Ukraine were guided in their work by the Regulations on Branches (Regional Branches) of the National Bank of Ukraine, Laws of Ukraine "On the National Bank of Ukraine" and "On Banks and Banking" and other regulatory documents of the National Bank of Ukraine.

The divisions fulfilled the entrusted tasks in touch with other structural units of regional branches and respective departments of the NBU central office.

During 2005, all divisions of the National Bank of Ukraine regional branches analyzed the general economic situation and the development of the banking sector of the region, credit and deposit markets, the structure and quality of the banks' credit portfolios etc. Banks presented reports required for preparation of monetary and banking statistics. Preparation was made of the materials for holding the conferences and seminars on the problems of development of the economy and the banking sector of the region.

The Internet page of the National Bank of Ukraine continued to be an integral part of the information policy of the National Bank of Ukraine. During 2005, the number of access to the page information increased by half.

Performed was the work for modernization of the NBU Internet page, which contributed to the extension of information content, raising the immediacy of presented information, introduction of new technologies for the NBU Internet page contents. Developed was the structure of the NBU representation in the Internet on the grounds of reorganization and improvement of the available NBU Internet page, created were data bases of monetary and banking statistics,

statistics of the balance of payments, international investment position and external debt of Ukraine, of banknotes and coins of Ukraine, Ukrainian banks and regulatory legal acts of the National Bank of Ukraine.

The National Bank of Ukraine participated in the 2nd International Forum "Bank-Development-2005" and prepared materials related to the activity of the Ukrainian banking system, which were exhibited during the forum.

The part was taken in arranging the nationwide show "Colorful Ukraine" at the main pavilion of the National Complex "Eksposentr of Ukraine", aimed at disclosure of the state policy in the development of the banking system of Ukraine. For the participation in the nationwide show "Colorful Ukraine" the National Bank of Ukraine was awarded with the diploma of the State Administration of the National Complex "Eksposentr of Ukraine" for the best design and form of display of the theme "Banking System of Ukraine".

In order to provide the NBU management and departments with information and analytical materials required for decision making, to work out and to use in work the clear and reasoned position during negotiations of official delegations of Ukraine with representatives of international financial organizations in 2005, the National Bank of Ukraine continued the monitoring and fundamental analysis of the research, recommendations, forecasts and policy of the International Monetary Fund.

Within this work, the informing of the management and departments of the National Bank of Ukraine was carried out by means of preparing, on a periodic basis, the analytical documents in urgent issues, the information messages concerning the new research with review of some of them. Monitoring of the materials of the International Monetary Fund also covered the documents placed on the web-site of the IMF Executive Directors, with the exclusive right of access for the National Bank of Ukraine. The cooperation with the official representative of Ukraine in the International Monetary Fund was permanently maintained. Placement on the web-site of the NBU internal network of analytical and reviewing documents, selected publications and references to information resources enabled the employees to have on-line access to information and analytical materials.

A systematic analysis of the IMF documents raised the level of awareness of the National Bank of Ukraine employees about world and regional development trends, their influence on Ukrainian economy, estimates and forecasts of international financial organizations. Important was to study the experience of implementing the IMF recommendations in other countries. The acquaintance with the advanced materials of the International Monetary Fund contributed to introduction into working practice of the NBU departments of the standards of analytical documents of international financial organizations.

2.14. IMPROVEMENT OF ACCOUNTING AND FINANCIAL REPORTING

Carrying out the function of regulating the procedure of accounting and financial reporting in the banking system, the National Bank of Ukraine proceeded with its work directed towards improvement of methodological tools in order to give to the users, for decision making, the complete, true and impartial information about financial situation, results of activities and cash flow.

In the framework of fulfilling the determined tasks, the work of the National Bank of Ukraine was directed towards:

- improvement of the methodologies of accounting the financial instruments with the aim to raise the quality and reliability of accounting information of the National Bank of Ukraine and Ukrainian banks taking into account the requirements of the international standards of financial reporting;
- harmonization of the requirements to disclosure of information in financial reporting of the National Bank of Ukraine and Ukrainian banks with legal norms of the European Union;
- strengthening of the requirements to organization of internal controls aimed at risk mini-

mization;

- coordination of the methods of recognition and measurement of assets and liabilities, incomes and expenditures in financial reporting with the norms of tax legislation of Ukraine and the Basle Committee requirements etc.

The above tasks were fulfilled by means of developing the new and improving the existing regulatory legal acts, namely:

- provided was the disclosure of information about fair value of assets, liabilities and own capital by means of recognition of incomes and expenses using the method of effective interest rate;

- introduced was the mechanism of disclosure of information in the financial reporting by the segments and taking into account the inflation influence in order to estimate efficiency of banks' activity;

- changed were the approaches to classification of securities by portfolios and their accounting was improved, which favored to more reliable determination of the results of the activity and capital value of the bank;

- worked out were clear and transparent methods of accounting of new payment instruments, which promoted improvement of settlement procedure etc.

2.15. ECONOMIC RESEARCH AND FORECASTING

During 2005, the National Bank of Ukraine carried out some economic research, as well as developed macroeconomic prognoses, which were used in determining the directions of the monetary policy of the National Bank of Ukraine. The fulfilled research work promoted more grounded decision making on monetary and foreign exchange policies.

The research and analytical work was concentrated on the following issues:

- research of inflation processes and the real sector, as well as analysis of the monetary policy influence on their development;

- study of the world experience of using the regime of inflation targeting and perspectives of its introduction in Ukraine;

- study and research of transmission mechanism channels of the monetary policy;

- macroeconomic analysis of the state and development of the Ukrainian economy and its separate branches;

- monitoring of the dynamics of the hryvnia real effective exchange rate in cooperation with the indicators of the activity of real and external sectors of the Ukrainian economy;

- study of the experience of central banks of the leading countries and the European Central Bank in order to use it in Ukraine;

- research of the main tendencies of international development and the situation in the world markets in order to determine the possibility of their influence on the economic development of Ukraine.

The work of the National Bank of Ukraine in economic forecasting in the reporting year was directed towards fulfillment of the following tasks:

- development of the Macroeconomic Forecasting of the National Bank of Ukraine and preparation of the recommendations as to the monetary policy;

- building of the small structural model for the transmission mechanism of the monetary policy.

In the process of carrying out the economic analysis, estimation and forecasting of the development of monetary indicators and the situation in the balance of payments of Ukraine, the National Bank of Ukraine closely cooperated with state authorities, maintained business contacts with leading national and foreign research centers in the issues of economic research, forecasting and building of macroeconomic models for the Ukrainian economy development.

2.16. SCIENTIFIC RESEARCH OF THE NATIONAL BANK OF UKRAINE

During 2005, the National Bank of Ukraine carried out some economic research, in particular:

- methodological approaches to determination of indicative numerical criteria of risk measurement under individual factors of evaluation (concerning credit, foreign exchange, market, operational, technological and liquidity risks, as well as risk of interest rate changing);
- inflation targeting, determination of problems and conceptual framework for implementing this type of the monetary strategy in Ukraine;
- organizational and methodological approaches to forming the system of financial soundness evaluation and prevention of financial crises as an initial stage in developing the methodology of evaluation of financial system soundness. Such a work was carried out in Ukraine for the first time. Within the research, determined were the main tasks of building the system of evaluation of Ukraine's financial system soundness, developed were the recommendations as regards the adjustment of the state policy in order to prevent financial crises and to raise transparency of the state financial policy.

Made was the assessment of the situation and the perspectives of the development of the Ukrainian financial sector, determined were the place and the role of the banking system therein, given were the proposals as to the ways of eliminating the eventual distortions in its structure.

Completed was the research and worked out were practical recommendations as to improving the coordination between the fiscal and monetary policy.

Prepared were the analytical, scientific and methodical materials concerning the presence of foreign capital in the banking sector and its influence thereupon; analyzed was the world experience of the reasons, development and consequences of the banking crisis in the 1990ies; studied was the world experience in bank profit taxation etc. Developed were the methods, as well as software and informational measures of the internal audit automation.

In 2005, the National Bank of Ukraine developed the draft Strategy of Development of the Banking System of Ukraine for 2006–2010, which determined the main goals of developing the banking system of Ukraine, gave the assessment of its current state, outlined the problems in the development and the main tasks and ways of their overcoming.

During the year, the National Bank of Ukraine, in partnership with representatives of international financial organizations, interested ministries, administrations and associations, organized conferences, seminars and round tables in order to discuss problem questions of the research studies, proposals and practical recommendations as to the directions in the development of the Ukrainian banking system competitiveness.

2.17. AUDIT OF THE NATIONAL BANK OF UKRAINE

The internal audit of the National Bank of Ukraine was carried out in compliance with the approved plan of auditing the structural units of the central office and institutions of the National Bank of Ukraine.

When carrying out the internal audit, main attention was paid to the adequacy of financial and statistical reporting, testing of accuracy and reliability of accounting and reporting data, estimation of risk factors in the activity of structural units of the National Bank of Ukraine, introduction of international standards of internal audit and observance of laws and regulatory legal acts of the National Bank of Ukraine.

In 2005, implemented was the audit plan, according to which 221 audits were conducted, among them 170 audits of the NBU regional branches' activity, 11 audits of structural units and 28 – of structural units of the NBU central office, 6 audits of educational institutions, 3 audits of specialized enterprises, 3 surprise inspections of cash in cash offices and depositories, 9 thematic audits concerning information technologies. On the instructions of the management of the National Bank of Ukraine 8 off-schedule audits were conducted.

In compliance with the recommendations of the LLC audit firm PricewaterhouseCoopers (Audit) more attention was paid to auditing under the International professional standards on internal audit.

In order to improve the regulatory and legal framework of the audit, the Regulations on the Audit Department was renewed taking into account the proposals of the NBU departments and the Instruction on arrangement and procedure of internal audit within the National Bank of Ukraine. Updated and approved was the "Exemplary program of auditing the NBU regional branches' activity".

A significant work was carried out in compliance with the Regulations on the Procedure of Assessing Risk Factors of the National Bank of Ukraine Activity. Completed was the work on the analysis of the Charts of risk factor assessment of the NBU structural units' activity.

According to the results of the performed internal audits, the structural units of the National Bank of Ukraine accepted for execution 1951 recommendations, or 93.9% of the submitted ones.

2.18. RESULTS OF THE NATIONAL BANK OF UKRAINE FINANCIAL ACTIVITY

The consolidated report of the National bank of Ukraine of the financial results for 2005 displays income and expenditure by the accrual method.

Total volume of income of the National Bank of Ukraine for 2005 increased as compared with 2004 by 5.9% and amounted to UAH 2,941 million.

Dynamics of NBU Income in 2001–2005



Within the structure of the National Bank of Ukraine income, the biggest share belonged to the interest income – 89.0% (last year – 89.7%).

Within the framework of interest income, 72.3% was the income under the deposits placed, 23.8% – under operations with securities, and 3.9% – under the credits extended (in 2004 – 39.4, 26.4 and 34.2% respectively). The increase in interest income under placed deposits was caused by growth of the international reserves of the National Bank of Ukraine, whereas the decrease in interest income under extended credits took place due to the redemption by the Cabinet of Ministers of Ukraine of debt liabilities as to the payment of accrued interest for using the credit in 2004.

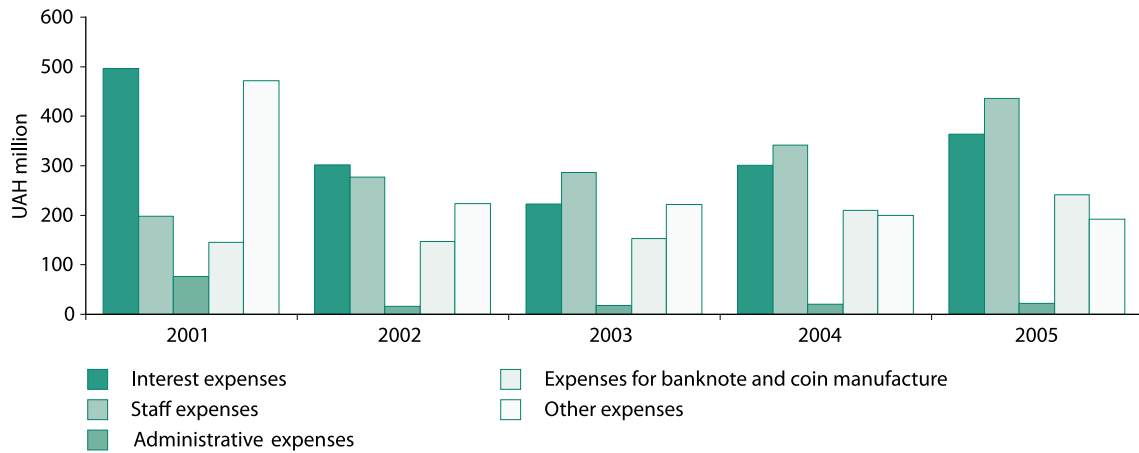
The commission income share in the reporting year remained at the level of 2004, amounting to 7.0%. The share of other incomes in the total incomes increased from 3.2 to 4.0%.

The total current expenditures of the National Bank of Ukraine in 2005 were UAH 1255 million, or grew as compared with 2004 by 18.3%.

Within the total volume of expenditures, the personnel costs were 34.7%, interest costs – 29.0%, expenses for banknote and coin production – 19.3%, administration costs – 1.8% (in

2004, 32.2, 28.4, 19.8 and 2.0% respectively). Other expenditures of the National Bank of Ukraine came to 15.2% of the total expenditures (in 2004 – 17.6%).

Dynamics of NBU Expenses in 2001–2005



The total increase in expenditures was primarily caused by the increase in interest expenses under deposit certificates issued by the National Bank of Ukraine and the increase in expenditures for labor remuneration.

2.19. ACTIVITY OF THE BANKNOTE PRINTING AND MINTING WORKS OF THE NATIONAL BANK OF UKRAINE

The plan of production and sale of the goods by the Banknote Printing and Minting Works by order of the National Bank of Ukraine according to the results of the work in 2005 was fulfilled in full.

Actual production volumes of the Banknote Printing and Minting Works of the National Bank of Ukraine (services are not included) in 2005 amounted to UAH 170.7 million (or by 21.3% more as compared with 2004), which is primarily connected with:

- increase in banknote output by 17.9%;
- increase in the volumes of circulation coin minting by 9.4%;
- fulfillment of the state order for the medal "60 Years of Victory in the Second World War".

The workload of the Banknote factory's printing shop in 2005 was 83% against 90% in 2004, when voting papers were printed for the presidential elections in Ukraine. The loading level of the Mint's shops grew considerably, including the shop of small coin minting – up to 144% (in 2004 – up to 112%), the shop of order and medal manufacture – up to 80% (in 2004 – up to 44%), whereas the loading level of the shop of commemorative and jubilee coin minting decreased as compared with 2004 up to 72% against 90% in 2004.

In 2005, the Banknote Printing and Minting Works of the National Bank of Ukraine sold products (services) totaling UAH 180.0 million (or by UAH 36.1 million more than in 2004), including:

- by order of the National Bank of Ukraine – UAH 143.4 million (or more than by UAH 27.6 million);
- by order of state institutions and other organizations – UAH 36.7 million (or more than by UAH 8.5 million).

In 2005, performed were the works on improving the functioning of the quality control system at the Banknote Printing and Minting Works of the National bank of Ukraine, including:

- performed were two internal audits and two technical supervisions by the auditors of the Ukrmetrteststandart, who confirmed the compliance of the quality control system with the requirements of ДСТУ ISO 9001-2001;

- certified was the medal "60 Years of Victory in the Second World War";

- fulfilled was the incoming quality inspection of raw materials and blanks, as well as the operation monitoring of the performance of fabrication processes and quality of end products both at the Banknote factory and the Mint.

During 2005, the technical department of the Banknote Printing and Minting Works developed more than 5 projects for the equipment, appliances and irregular items for shops, including the line of packing the coins into paper rolls; the banknote punch machine; the circles for holding the forms for "Super-Numerota 212" machines. In addition, worked out was the construction documentation under one-time orders of subdivisions of the Banknote Printing and Minting Works. More than 22 such orders were performed.

In 2005, renewed was the work directed towards implementation of the complex information system, developed were the strategic plan of its introduction and technical specifications with full description of business processes and requirements to its functional content. During the year, conducted was the work on strengthening the information protection, implemented was the virus protection server.

During 2005, carried out was the control and revision, as well as pretension work and arranged was the work on agreements management.

Taking into account the development perspectives, worked out was the Program of the Main Directions of the Banknote Printing and Minting Works' Activity for 2006–2010, whose realization would improve the performance of the Banknote Printing and Minting Works of the National Bank of Ukraine.

2.20. DEVELOPMENT OF MATERIAL AND TECHNICAL BASIS

The capital investments plan for 2005 provided for the funds worth of UAH 64.6 million to be used for the further development and strengthening of infrastructure of the National Bank of Ukraine system and for the creation of adequate labor conditions. The plan was completed only for 80.5 per cent.

EXECUTION OF WORKS ON CAPITAL CONSTRUCTION BY OBJECTS OF THE NATIONAL BANK OF UKRAINE IN 2005

Indicators	2005	2004	Pere cent as compared with the previous year
Capital investments made by construction objects of the National Bank of Ukraine (UAH million), including:			
– Central Office	54.4	54.8	99.2
– regional branches	2.8	13.6	20.6
– educational establishments and institutions	37.5	30.3	123.8
Performed due to depreciation charges, including:	11.9	6.4	185.9
– The Mint	2.1	4.5	46.7
– The Banknote Printing and Minting Works	1.0	4.4	22.2
Objects and sub-objects in the structure of basic objects (UAH million) placed in operation, including:	1.1	0.1	1100
– Central Office	65.4	83.0	78.8
	2.8	20.4	13.7

Indicators	200	2004	Pere cent as compared with the previous year
– regional branches	57.0	46.6	122.3
– educational establishments and institutions	1.8	8.7	20.7
Objects placed in operation due to depreciation charges, including:	3.8	7.3	52.1
– The Mint	3.8	7.2	52.8
– The Banknote Printing and Minting Works	0	0.1	0
Uncompleted construction of the NBU's objects as of January 1, 2006, including:	89.3	109.0	81.9
– Central Office	13.4	14.3	93.7
– regional branches	63.5	74.1	85.7
– educational establishments and institutions	5.6	11.3	49.6
– performed due to depreciation charges	6.8	9.3	73.1

During the reporting year, after completing construction, reconstruction and technical re-equipment, sixteen objects and one sub-object were placed in operation. The total value of capital assets brought into use amounted to UAH 65.4 million (last year – UAH 83.0 million, or by 21.2% less).

Fulfillment of Capital Investment Plan in 2004–2005



During 2005, the reconstruction works were carried out in the premises of the NBU's Central Office and administrative buildings in Volyn, Donetsk, Lviv, Mykolaiv, Odesa, Kherson, Cherkasy, as well as in the Autonomous Republic of the Crimea. The reconstruction works were fulfilled in the premises of the Ukrainian Banking Academy (City of Sumy); a fire alarm system was re-equipped in the NBU's administrative building №1 (9, Instytutska St.) and a wall along the perimeter of territory with the NBU's administrative buildings was reconstructed (7, Nauky Avenue, Kyiv).

During the reporting year, the objects of the NBU's Mint were modernized and re-equipped.

2.21. MANPOWER SUPPLY, PERSONNEL TRAINING AND RE-TRAINING

In 2005, a qualitative staff of the system of the National Bank of Ukraine improved and was characterized by the following indices:

Qualitative Staff Indices of the NBU's Personnel

Indices	2003	2004	2005
Specialists (heads, professionals, specialists) having higher education (persons)	5690	5988	6116
Doctors and candidates of science (persons)	274	296	320
Specialists with a length of service of (%):			
– up to 5 years;	24.2	28.8	21.7
– 5 years and longer.	75.8	71.2	78.3
Making up of the staff (%):			
– in the National Bank of Ukraine	95.9	96.5	97.3
– in the Central Office	93.2	90.7	91.7
Middle age of the employees:			
– in the National Bank of Ukraine	39.0	41.4	41.8
– in the Central Office	39.6	39.3	39.7
Employees of pension age (persons)	344	377	374
Dismissed (%)	11.3	11.7	7.8
Dismissed at one's own desire (%)	4.9	5.0	3.8

**DISTRIBUTION OF THE NBU'S STATE EMPLOYEES NUMBER
BY CATEGORIES OF POSITIONS
as of 1 January, 2006**

Indices	Total number	Men	Women
Accounting strength	6265	2417	3848
Heads	1695	809	886
including:			
1st category	5	5	0
2nd category	111	76	35
3rd category	491	204	287
4th category	1075	511	564
5th category	13	13	0
Professionals, specialists, servants	4570	1608	2962
including:			
2nd category	7	5	2
3rd category	389	119	270
4th category	383	118	265
5th category	3791	1366	2425

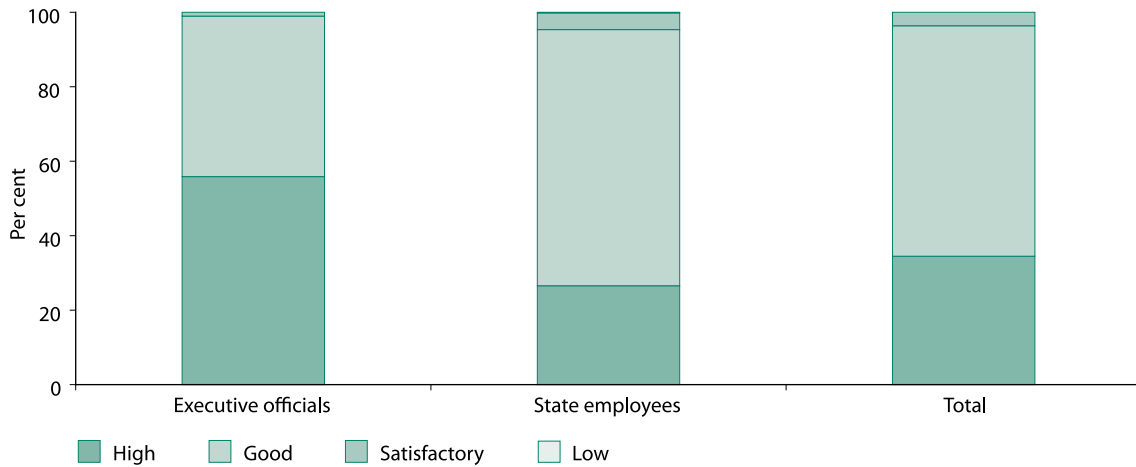
For the first time, during March – April 2005, the National Bank of Ukraine with a help of information system of scoring, attestation and personnel upgrade made an assessment of fulfilling the obligations and tasks assumed by the NBU's state employees according to results of work for the past year (further – annual assessment).

The annual assessment was given to 4,677 state employees of the National Bank system, or 75.2% of the total number, including 1,262 heads of different level.

When making the annual assessment, the structural unit heads marked the most successful operations performed by the state employees, and those having shortcomings, as well as what deductions from salary or incentives were applied to them; what recommendations were given to improve the work, their needs in training and opportunities of further carrier growth.

As of 1 January, 2006, the number of the NBU's staff accounted for 11 181 persons.

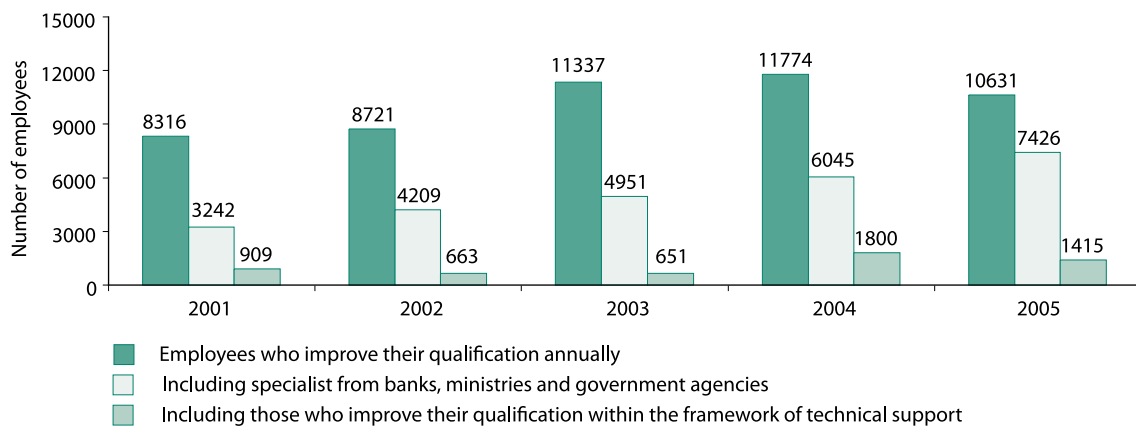
Distribution of the NBU's State Employees Which Were Graded in 2005 by Their Appointment and Quality of Their Work



The total number of the NBU's system employees who raised the level of their skills made up more than 3.3 thousand persons or 29.7 per cent of the total number of employees in the NBU's system.

For a purpose of raising the level of skills of the NBU's system and banking-financial institutions' employees, during 2005, 1146 studies (seminars, conferences, courses, work on probation) were conducted, including 985 studies held in Ukraine and 161 – abroad, number of participants being more than 10.6 thousand listeners, of which 7.4 thousand were the employees of the NBU's system and 3.2 thousand – of the Ukrainian banking and financial institutions, ministries and organizations.

Dynamics of Qualification Improvement in 2001–2005

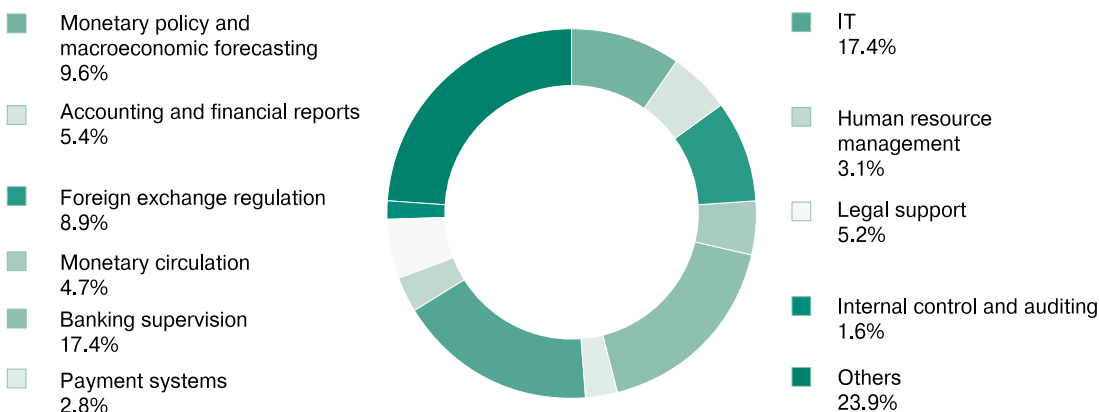


Training was conducted at the NBU's Training Center and training class, in the Ukrainian Banking Academy and in its subsidiaries – Kharkiv and Cherkasy Banking Institutes, the NBU's regional branches and structural units, in other Ukrainian institutions and organizations, as well as abroad in the area of technical assistance and on a contractual basis.

The basic line of the NBU's personnel training in 2005 was banking supervision, including supervision on the risk-value basis, combating "dirty" money laundering, information technologies, monetary policy, legal support of the banks' activities, foreign exchange regulation, monetary policy and money circulation, accounting and financial reporting, statistics, payment sys-

tem, auditing, state purchases, other aspects of activities both of the central bank and of the whole banking system functioning.

Breakdown of Directions of Training in 2005



The regional centers of the NBU's educational institutions organized and conducted 22 educational studies for raising the level of state employees skills and 9 extension courses on the theme "Values Transportation and Collection", the number of the NBU's participants amounting to 459 and 120, respectively.

As of January 1, 2006, by all directions and specialist fields there were 8,435 persons studying at the lower educational institutions, of which 4,515 persons -full-time education and 3,920 – remote education; 1,644 persons studied at the expense of the NBU (1,479 persons – full-time education and 165 (the NBU's employees) – remote education).

In 2005, 1,543 specialists graduated from the higher educational institutions of the National Bank of Ukraine (skill level "specialist" and "master's degree", including 476 persons – full-time education and 1,076 persons – remote education. Among the graduates having remote education were 184 persons studying through the re-training program.

In 2005, 3,228 persons entered the higher educational institutions of the National Bank of Ukraine, including 1,696 persons – full-time education, of which 620 persons studied at the expense of the NBU; 1,532 persons – remote education, of which 86 persons being the NBU's employees.

The NBU's Central Library stock accounted for 95,372 copies of printed editions, including 37,881 books, 31,412 newspapers and 21,583 magazines. During 2005, 1,800 readers were registered at the library. The number of visits amounted to 22,973 against 29,188 in 2004.

**Governor
of the National Bank of Ukraine**

Volodymyr Stelmakh

28 April, 2006

CALENDAR OF MAJOR EVENTS HELD IN 2005

- January**
- Removal of restrictions as to entering the cash in the banks' cashiers' to cover the required reserves.
 - Putting into circulation the 2 hryvnia commemorative coin "Borys Liatoshynskiy" (German silver).
 - Putting into circulation the 2 hryvnia commemorative coin "Volodymyr Filatov" (German silver).
 - Putting into circulation the 2 hryvnia commemorative coin "Ulas Sumchuk" (German silver).
 - Approval of Regulations on Handling Cash Operations in the National Currency of Ukraine.
 - Approval of Instruction on organization of issuing and realizing the Ukrainian commemorative coins and souvenir products.
 - Approval of Amendments to Regulations on the procedure of reserve formation and use to reimburse the potential losses for credit operations of the banks.
- February**
- Approval of Amendments to Instruction on the procedure of organizing and handling the currency exchange transactions on the territory of Ukraine.
 - Approval of Amendments to Regulations on Foreign Exchange Control.
 - Approval of Amendments to Regulations on handling transactions in the Ukrainian interbank foreign exchange market.
 - Putting into circulation the 2 hryvnia commemorative coin "Pavlo Virskiy" (German silver).
 - Putting into circulation the 2 hryvnia commemorative coin "Maksym Rylskiy" (German silver).
 - Approval of Amendments to Regulations on the procedure of estimating the ratings according to the CAMELS rating system.
 - Approval of Amendments to Regulations on the procedure of obtaining by residents of credits, loans from non-residents denominated in foreign currency and extending by residents of loans denominated in foreign currency to non-residents.
- March**
- Putting into circulation the 2004 1 hryvnia banknote.
 - Abolition of mandatory sales of foreign exchange earnings in favor of residents.
 - Approving amendments to Regulations on handling transactions in the Ukrainian inter-bank foreign exchange market relating to restriction of the bank's foreign exchange transactions.
 - Approving Amendments to Regulations on opening and functioning the correspondent accounts of resident and non-resident banks in foreign currency and correspondent accounts of non-resident banks in Hryvnias.
 - Approving Amendments to Regulations on the NBU's control over the Ukrainian banks liquidity by re-financing, deposit and other operations.
 - Approving Amendments to Regulations on extending by the Ukrainian banks of information relating to agreements on purchase and sales of credit resources denominated in the national currency in the inter-bank credit market.
- April**
- Putting into circulation the 2004 5 hryvnia banknote.
 - Approving Amendments to Regulations on the procedure of opening, use and closing the accounts denominated in the national and foreign currencies.
 - Approving the accounting rules for operations using payment cards in the Ukrainian banks.

- Approving Amendments to the Method of calculating the economic standards to regulate the Ukrainian banks' activities.
- Approving Regulations on the procedure of registering agreements on the membership or participation in the international payment systems.
- Approving Amendments to Instruction on cashless settlement in the national currency of Ukraine.
- Putting into circulation the 2 hryvnia commemorative coin "Serhii Vsekhsviatskyi" (German silver).
- Putting into circulation the 2 hryvnia commemorative coin "Scythian Gold" (gold).
- Putting into circulation the 20 hryvnia commemorative coin "60 years of Victory in the Second World War" (1941-1945) (silver).
- Putting into circulation of the 1 hryvnia current coin "60 years of Victory in the Second World War" (aluminum bronze).
- Approving Regulations on the procedure of issuing payment cards and handling operations on their use.
- Approving Amendments to Regulations on the procedure of establishing and formation of the required reserves for the Ukrainian banks.
- Simultaneous revaluation of hryvnia against US dollar (on 21 April, by 2.7 per cent) up to UAH 5.05 per 1 USD.

May

- Putting into circulation the 2 hryvnia commemorative coin "50 years of "Kyivmiskbud" (German silver).
- Putting into circulation the 10 hryvnia commemorative coin "60 years of Ukraine's membership in the UN" (silver).
- Putting into circulation the 2 hryvnia commemorative coin "75 years of the Zhukovskiy Kharkiv National Aerospace University" (German silver).
- Approving Amendments to Rules of organizing statistical reporting to be submitted to the NBU (amended as to form of reporting).

June

- Putting into circulation the 2 hryvnia commemorative coin "Olexander Korniichuk" (German silver).
- Putting into circulation the 5 and 20 hryvnia commemorative coins "Airplane AN-124 "Ruslan" (German silver and silver respectively).
- Putting into circulation the 2003–2004 2 hryvnia banknote.
- Approving Amendments in the List and rate of services on registering the banks' institutions, obtaining licenses (permits) for handling bank operations and operations with currency values and other services rendered by the NBU and its territorial departments.
- Approving Amendments to Regulations on the procedure of establishing and registering the banks, opening their subsidiaries, representative offices and branches.
- Putting into circulation the 2 and 10 hryvnia commemorative coins "Arenaceous Mole-Rat" (German silver and silver respectively).
- Approving Amendments to Regulations on the procedure of reserve formation and use to reimburse potential losses for credit operations of banks.
- Approving Amendments to Rules of organizing statistical reporting to be submitted to the NBU.
- Approving Amendments to Instruction on organizing minting, putting into circulation and realizing the Ukrainian commemorative coins and souvenirs.
- Approving Amendments to Instruction on cash operations in the Ukrainian banks.
- Approving Amendments to Rules of determining the NBU's banknote and coin paying capacity.
- Approving Rules of analytical accounting in the Ukrainian banks.

July

- Putting into circulation the 2003–2004 10 hryvnia banknote.
- Approving Amendments to Rules on organizing statistical reporting to be submitted to the NBU under exceptional conditions.

August

- Putting into circulation the 2003–2004 20 hryvnia banknote.
- Putting into circulation the 20 and 5 hryvnia commemorative coins "Sorochyntsi Fair" (silver and German silver respectively).
- Putting into circulation the 10 hryvnia commemorative coin "National Anthem" (silver).
- Putting into circulation the 5 hryvnia commemorative coin "1300 Years of the Town of Korosten" (silver).
- Increase in discount rate of up to 9.5% annual.
- Approving Amendments to Regulations on handling cash operations in the national currency of Ukraine.
- Approving Regulations on the procedure of making foreign investments in Ukraine.
- Approving Amendments to Regulations on the procedure of determining and forming the required reserves for Ukrainian banks.
- Approving Amendments to Regulations on the procedure of organizing and handling foreign exchange operations on the territory of Ukraine.
- Approving Regulations on the procedure of reserving the required funds for foreign exchange transactions connected with the attraction by residents of credits, loans denominated in foreign currency from non-residents.
- Approving Amendments to Provisions on the NBU's regulation of the Ukrainian banks' liquidity by refinancing, deposit and other operations.
- Approving Amendments to Regulations on the procedure of on-site inspections relating to complying the Ukrainian foreign exchange legislation by banks and financial institutions.
- Approving Amendments to Instruction on organizing the currency values transportation and funds collection in the Ukrainian banks institutions.

September

- Putting into circulation the 5 hryvnia commemorative coin "350 Years of the City of Sumy" (German silver).
- Putting into circulation the 2 hryvnia commemorative coin "100 Years of the V.Ye.Tairov Viticulture and Viniculture Institute" (German silver).
- Putting into circulation the 2 hryvnia commemorative coin "300 Years of David Guramishvili" (German silver).
- Putting into circulation the 2 hryvnia commemorative coin "Dmytro Yavornytskyi" (German silver).
- Approving Amendments to Regulations on the procedure of performing financial monitoring by the banks.
- Approving Amendments to Regulations on the procedure of organizing issue and cash operations in the NBU's system.
- Putting into circulation the 5 and 10 hryvnia commemorative coins "Pokrova of the Holy Virgin" (German silver and silver respectively).
- Approving Amendments to Regulations on taking by the NBU of enforcement measures for the infringement of banking law.

October

- Putting into circulation the 10 hryvnia commemorative coin "100th Anniversary of the Olha Kobylanska Music and Drama Theatre in Chernivtsi" (silver).
- Approving Instruction on accounting securities operations.
- Approving Amendments to Regulations on the procedure of issuing to banks of banking licenses for handling specific operations.
- Putting into circulation the 10 hryvnia commemorative coin "Sviatohirsk Holy Assumption Laura Monastery" (silver).
- Approving Rules on international money transfers.
- Approving Amendments to Rules on organizing statistical reporting to be submitted to the NBU.

November

- Approving Amendments to Instruction on the procedure of regulating the Ukrainian banks activities.
- Putting into circulation the 5 hryvnia commemorative coin "Sviatohirsk Holy Assumption Laura Monastery" (German silver).
- Approving Regulations on effecting by the NBU of mutual settlements by operations using payment cards of the National System of Mass Electronic Payments.
- Approving Regulations on the order and conditions of storing jewelry and other wares made of gold, silver, platinum and of platinum group metals, precious stones and pearls, as well as scrap and separate parts of such goods being under arrest.
- Putting into circulation the 10 hryvnia commemorative coin "Baturyn" (silver).
- Putting into circulation the 10 hryvnia commemorative coin "The Symyrenko Family" (silver).
- Approving Amendments to Regulations on organizing accounting and reporting at Ukrainian banking institutions.
- Putting into circulation the 2 hryvnia commemorative coin "Volodymyr Vynnychenko" (German silver).
- Approving Amendments to Instruction on the procedure of opening, use and closing of accounts in the national and foreign currency.
- Approving Amendments to Regulations on the procedure of forming and using by banks of reserve to reimburse potential losses from receivables.

December

- Putting into circulation the 2004 50 hryvnia banknote.
- Putting into circulation the 2 hryvnia commemorative coin "Vsevolod Holubovych" (German silver).
- Approving Amendments to methods of calculating economic standards for the Ukrainian banks activities regulation.
- Approving Amendments to Instruction on the procedure of opening, use and closing of accounts in the national and foreign currency.
- Putting into circulation the 5 hryvnia commemorative coin "500 Years of Cossack Settlements. Kalmius Palanka" (German silver).
- Approving Amendments to Regulations on regulating by the NBU of the Ukrainian banks liquidity by re-financing, deposit and other operations.
- Approving Instruction on accounting of fixed assets and intangible assets of the Ukrainian banks.
- Approving Amendments to Regulations on the procedure of determining and forming of the required reserves for Ukrainian banks.
- Putting into circulation the 2 hryvnia commemorative coin "Oleksii Alchevskiy" (German silver).
- Approving Amendments to Regulations on the procedure of drawing up and publication of the Ukrainian banks' financial reports.
- Putting into circulation the 2 hryvnia commemorative coin "Illia Mechnykov" (German silver).

METHODOLOGICAL COMMENTS ON THE ANNUAL REPORT

Core inflation is a price indicator, reflecting the dynamics of the inflationary pressure from demand. To calculate the broad core inflation index, a set of consumer goods, except the raw materials, fuel and goods and services, whose prices are administratively regulated, is used, and nonfoods, except the fuel, are used for calculation of the narrow core inflation.

Gross Domestic Product (GDP) is one of the most important macroeconomic indicators, featuring the final performance result of economic entities – residents in the reporting period. It can be measured using three methods: a production approach, a generated income approach and an expenditure approach.

According to the production approach, the GDP is measured as a difference between the output and intermediate consumption or as a sum of gross value added across the sectors of the economy and taxes on goods less subsidies for goods.

Based on the generated income, the GDP is characterized by the following indicators: the employees' labour remuneration, other production related taxes, other production related subsidies and gross (net) profit.

In terms of expenditures, the value of GDP is measured as the sum of expenditures of the sectors of the economy for the end consumption of goods and services, gross accumulation, net exports of goods and services.

Nominal GDP is represented at current prices and implies that the value of the production and direct consumption are estimated in actual prices at the time of production.

Real GDP is measured at comparative prices relative to the given (base) period and shows the market value of production in real prices.

Foreign exchange position of a bank is a ratio (difference) of a bank's claims and liabilities in foreign currency and banking metals.

Open foreign exchange position is a disbalance between claims and liabilities of a bank in foreign currency. The open position is short if the volume of liabilities on the sold currency and banking metals exceeds that of the claims, it is long if the claims for the purchased currency and banking metals exceeds that of the liabilities. The open foreign exchange position is associated with additional risk in case of changing the exchange rate.

Base money (monetary base) is the sum of liabilities of the National Bank of Ukraine in the national currency that ensures growth of money supply and crediting of the economy. It is regulated through the transactions of the National Bank of Ukraine with government securities, transactions in the foreign exchange market, refinancing of banks, as well as through the changes in crediting the government. The base money growth is subject to control in order to avoid a spontaneous rise of money in circulation and inflationary pressure.

Base money includes: cash money in circulation outside the banks, banks' reserves and other funds in the national currency on the accounts with the National Bank of Ukraine.

Money supply (M3) is the sum of funds, both in cash and non-cash forms in the national and foreign currencies, being in circulation on a certain date. The monetary aggregate M3 comprises: cash money in circulation outside the banks, transfer funds, and other funds and own debt securities. Transfer funds include the funds to be exchanged on demand for cash at the nominal value and used for a direct payment. Other funds mean other funds on demand which are not used directly for payment, term funds and funds on name savings (deposit) certificates issued by banks.

Devaluation is the decrease in the exchange rate of the national currency against foreign currencies.

Deposits are the funds, both in cash and non-cash forms, in the currency of Ukraine or in foreign currency, entered by a bank to the depositors' accounts on a contract basis for a certain term of storage or without indication of such a term, and be repaid to the depositor in accordance with the law of Ukraine and the contract terms.

Time deposits are the deposits placed for a specified term and repaid after the prior notice foreseen by the contract between a deposit owner and a bank.

Demand deposits are the deposits that may be withdrawn by the depositor or transferred to any other person in parts or in full at any time without a prior notice.

Budget deficit is an excess of budget expenditures over its revenues.

GDP deflator is an index that reflects the general trend of changes in prices in the economy. It is calculated as the ratio of the GDP in actual prices to the GDP in comparative prices.

Consolidated budget of Ukraine are the aggregate indicators of the state budget of Ukraine, the budget of the Autonomous Republic of the Crimea and other local budgets.

Overall liquidity of a bank is an economic normative indicator of a bank's activity which is defined as the ratio of total assets to total liabilities of a bank.

Consumer price index (CPI) is one of the indicators that characterizes the inflation or changes in the overall level of prices and tariffs for the goods and services purchased by households for the nonproductive consumption. The CPI calculation is made on the basis of two traffics of information:

- data on the changes in prices collected by means of monthly registration of prices and tariffs in the consumer market;
- data on the structure of actual consumption expenditures by the urban population, collected through sampling the household living standards.

Producer price index is an indicator of price changes in the industrial production. It is calculated monthly based on the product prices (less the value-added tax and excises) through the sampling within certain enterprises. The weighting base are the data about the industrial output in value terms.

Conversion of T-bills is a change in conditions of redeeming the government loan with regard to the term and (or) yield of the securities.

Credit emission is an excess of the means of payment issued by the National Bank of Ukraine over those withdrawn from circulation.

Liquidity of a bank is a bank's ability to ensure timely fulfillment its money liabilities to customers-creditors.

International liquidity is a country's ability to fulfill its international liabilities, to repay debts.

International reserves (reserve assets) are external assets under control of the National Bank of Ukraine, worldwide recognized as international ones and intended for international settlements.

International reserves comprise: monetary gold (placed with foreign banks and held at the State Treasury of the National Bank of Ukraine), special drawing rights (SDR) that belong to Ukraine (holdings in SDRs on the account of the National Bank of Ukraine with the IMF Treasury), reserve position of Ukraine in the International Monetary Fund, foreign currency (banknotes and coins) and funds on the accounts abroad, securities issued by non-residents and other liquid reserve assets at the disposal of the National Bank of Ukraine.

Monetary gold is high-fine gold in the form of coins, bullions, or bars of not less than 995 fineness, belonging to the National Bank of Ukraine, or under its control. The weight of gold is defined in troy ounces. One troy ounce equals 31.103480 g.

The reserve position in the IMF are claims of an IMF member on the IMF determined as a difference between the quota and IMF holdings in its (member's) currency minus the IMF holdings received by the member country as IMF loans and balances on the IMF account #2 which does not exceed 0.1% of the member's quota. The reserve position in the IMF is a part of the member's international reserves.

SDRs are Ukraine's assets within the special drawing rights (SDR) that are held in the International Monetary Fund and form a part of its international reserves.

The foreign currency comprises cash in hard currency and claims of the National Bank of Ukraine on the non-residents in the form of short-term deposits in gold and hard currency, T-bills, short- and long-term securities of foreign countries, as well as claims that are used for the purposes of the balance of payments. The data (except the gold and SDRs) are estimated in the US dollars based on the cross rates of foreign currencies against the US dollar, which are calculated with the use of the official exchange rate of the hryvnia against foreign currencies, specified by the National Bank of Ukraine at the end of the period.

Instant liquidity of a bank is an economic indicator of a bank's activity defined as a ratio of funds on the correspondent account and at the cashiers' of the bank to the customers' current accounts.

Official exchange rate of hryvnia against US dollar is the rate of the national monetary unit, the hryvnia, officially specified by the National Bank of Ukraine against the US dollar. It is determined on the basis of currency quotations in the foreign exchange market of Ukraine and calculated as an average weighted rate on transactions of the authorized banks in the inter-bank foreign exchange market.

For a period, the average exchange rate of hryvnia against US dollar is estimated for the monthly data – as the average weighted value of the US dollar per month; for a quarter and a year – as the arithmetic average of monthly values.

Revaluation is an increase in the exchange rate of the national monetary unit against foreign currencies.

Dolarization of the economy is the ratio of deposits in foreign currency in the banking system to the total money supply (M3) available.

Monetization of the economy is the ratio of the available money supply (M3) to the nominal GDP.

Interest rates. The system of interest rate indicators comprises the main types of rates used in the economy of Ukraine. The interest rates are subdivided in the interest rates of the National Bank of Ukraine and the interest rates of the banking sector. The banking sector's interest rates are given for credits and deposits in the national currency according to the statistical reporting data of the banks operating in the territory of Ukraine.

In Ukraine the interest rates are calculated in percents per annum. Monthly indicators are estimated according to the compound percent scheme (data on the credits extended and the deposits attracted serve as the weight base). Quarterly and annual values are defined as the arithmetic average of the monthly values.

Rates of the National Bank of Ukraine

Discount rate is a monetary instrument whereby the National Bank of Ukraine sets a price benchmark of money for the entities of the money and credit market and is a main interest rate that depends on the trends of the general economic development, macroeconomic and budgetary processes, as well as on the situation in the money and credit market.

Refinancing rate is the interest rate at which the National Bank of Ukraine extends refinancing credits to the banks for a particular term. The refinancing rate is estimated

on the basis of the discount rate depending on the term and type of refinancing and cannot be lower than the discount rate.

Overnight rate is determined by the National Bank of Ukraine based on the discount rate and taking into account the current situation in the money and credit market, the analysis of interest rates in the inter-bank credit market, as well as the demand and possible supply with regard to the issue of money into circulation by the National Bank of Ukraine. The overnight rate may be differentiated depending on the credit security. Credits are granted for one working day on the collateral of government securities or without collateral (blank ones).

Rate on a REPO operation is the interest income set by the National Bank of Ukraine through a direct agreement with banks regarding purchase/sale of government securities and through a tender of banks' applications for participation in REPO operations with government securities. In case of the tender holding, those applications are accepted which are most suitable with respect to transaction volumes and price parameters.

Rates of the banking sector

Interest rate for credits granted and deposits attracted by banks is the average weighted rate with consideration for actual volumes under contracts between banks and economic entities, individuals and state authorities.

Interest rate for credits granted and deposits attracted in the inter-bank market is the average weighted rate with consideration for the actual volumes under the agreements between the banks.

Chapter 3
FINANCIAL STATEMENTS
for the year ended
31 December 2005

NATIONAL BANK OF UKRAINE
Balance Sheet as at 31 December 2005

(in UAH million)

Items	Note	2005	2004
Assets			
Foreign currency funds and deposits	4	78,734	48,588
Foreign securities	5	20,259	4,045
SDR Holdings		5	6
Monetary gold		1,393	1,180
Government securities	6	439	6,871
Loans to banks and other borrowers	7	698	3,982
Internal State debt	8	9,225	9,780
IMF quota contributions	9	9,903	11,304
Fixed assets and intangible assets	10	2,147	1,407
Other assets	11	559	455
Total assets		123,362	87,618
Liabilities			
Banknotes and coins in circulation		65,409	45,669
Accounts of banks	12	17,783	9,600
Accounts of Government and other clients	13	18,559	5,430
Profits payable to the State Budget	18	1,065	377
Deposit certificates issued by the National Bank of Ukraine	14	2,427	173
Loans received	15	335	421
Liabilities to IMF	16	15,943	19,869
Other liabilities	17	121	83
Total liabilities		121,642	81,622
Capital employed			
Statutory capital	19	10	10
Funds and other reserves		1,664	1,596
Revaluation reserve for foreign currency and bank metals		(716)	4,328
Revaluation reserve for fixed assets		762	62
Total capital employed		1,720	5,996
Total liabilities and capital employed		123,362	87,618

Governor



V.S. Stelmakh

Chief Accountant – Director of
Accounting Department


V.I. Rychakivska

The notes set out on pages 127 to 163 form an integral part of these financial statements.

NATIONAL BANK OF UKRAINE
Statement of Income for the Year Ended 31 December 2005

(in UAH million)

Items	Note	2005	2004
Interest income	21	2,617	2,492
Interest expense	21	(364)	(301)
Net interest income	21	2,253	2,191
Fee and commission income	22	205	196
Fee and commission expense	22	(11)	(8)
Net fee and commission income	22	194	188
Results from operations with debt securities at fair value through profit or loss		(4)	(11)
Other income	23	123	101
Total net income		2,566	2,469
Staff costs	24	(436)	(342)
Expenses for production of banknotes, coins and other products		(242)	(210)
Administrative and other expenses	25	(244)	(201)
Net decrease in provisions	26	42	1
Profit available for distribution	18	1,686	1,717

Governor



V.S. Stelmakh

Chief Accountant – Director of
Accounting Department


V.I. Rychakivska

Director of Finance
Department


O.M. Kandybka

The notes set out on pages 127 to 163 form an integral part of these financial statements.

NATIONAL BANK OF UKRAINE
Statement of Cash Flows for the Year Ended 31 December 2005

(in UAH million)

Items	Note	2005	2004
Operating activities			
Net profit for the year		1,686	1,717
Adjustments to reconcile net profit to cash provided by operations:			
Depreciation	10	147	124
Net decrease in provisions for assets		(42)	(1)
Accrued income		(605)	(279)
Accrued expense		8	16
Other non-cash movements		4	5
Net cash inflow before changes in operating assets and liabilities		1,198	1,582
Net increase in foreign securities		(16,414)	(1,070)
Net decrease / (increase) in loans to banks and other borrowers		3,284	(1,876)
Net (increase) / decrease in other assets		(104)	165
Net increase / (decrease) in other liabilities		17	(715)
Transfer of profit to the State Budget	18	(955)	(1,300)
Net cash used in operating activities		(12,974)	(3,214)
Investment activities			
Net increase in term deposits placed		(25,496)	(15,672)
Redemption of Government securities		6,407	1,094
Purchase of monetary gold		(54)	(32)
Acquisition of fixed assets and intangible assets		(169)	(155)
Proceeds from disposal of fixed assets and intangible assets		3	5
Net cash used in investment activities		(19,309)	(14,760)

The notes set out on pages 127 to 163 form an integral part of these financial statements.

NATIONAL BANK OF UKRAINE
Statement of Cash Flows for the Year Ended 31 December 2005

(in UAH million)

Items	Note	2005	2004
Financing activities			
Issue of banknotes and coins in circulation		19,740	9,621
Repayment of internal State debt	8	253	708
Repayment of liabilities to IMF	16	(1,537)	(1,579)
Net (decrease) / increase in term deposits received		(1,210)	1,176
Issue of deposit certificates		2,246	169
EBRD loans received		12	123
EBRD loans repaid		(79)	(87)
Net cash from financing activities		19,425	10,131
Effect of change in exchange rates on cash and cash equivalents		(3,187)	626
Net decrease in cash and cash equivalents		(16,045)	(7,217)
Cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		9,607	16,824
Cash and cash equivalents at the end of the year	20	(6,438)	9,607

Governor



V.S. Stelmakh

Chief Accountant – Director of
Accounting Department


V.I. Rychakivska

The notes set out on pages 127 to 163 form an integral part of these financial statements.

NATIONAL BANK OF UKRAINE
Statement of Changes in Capital Employed for the Year Ended 31 December 2005

(in UAH million)

Items	Note	Statutory capital	Funds and other reserves	Revaluation reserve for foreign currency and bank metals	Revaluation reserve for fixed assets	Total capital employed
Balance as at 31 December 2003		10	1,534	2,977	64	4,585
Revaluation of foreign currency and bank metals		–	–	1,351	–	1,351
Net profit		–	1,717	–	–	1,717
Realised revaluation of fixed assets		–	2	–	(2)	–
Excess of budgeted income over budgeted expenditure for the year to be transferred to the State budget	18	–	(1,657)	–	–	(1,657)
Balance as at 31 December 2004		10	1,596	4,328	62	5,996
Revaluation of foreign currency and bank metals		–	–	(5,044)	–	(5,044)
Net profit		–	1,686	–	–	1,686
Realised revaluation of fixed assets		–	25	–	(25)	–
Unrealised revaluation of fixed assets	10	–	–	–	725	725
Excess of budgeted income over budgeted expenditure for the year to be transferred to the State budget	18	–	(1,643)	–	–	(1,643)
Balance as at 31 December 2005		10	1,664	(716)	762	1,720

Governor



V.S. Stelmakh

Chief Accountant – Director of Accounting Department



V.I. Rychakivska

Director of Finance Department



O.M. Kandybka

The notes set out on pages 127 to 163 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Principal Activities

The National Bank of Ukraine ("the NBU") is the central bank of Ukraine and operates in accordance with the Constitution of Ukraine, the Law of Ukraine "On the National Bank of Ukraine" and other laws of Ukraine. In accordance with the Ukrainian legislation the primary function of the NBU is ensuring the stability of the national currency of Ukraine. The NBU's objectives are also to ensure the stability of the banking system and, within the scope of its power, price stability.

The NBU does not aim to earn profits. The financial results of the NBU's activities, as well as the structure of its assets, liabilities and capital are defined by the functions of the NBU as a special central government authority.

In accordance with the Law of Ukraine "On the National Bank of Ukraine" the NBU carries out the following functions:

in accordance with the main principles of monetary policy developed by the NBU Council, to determine and carry out monetary policy;

in a monopoly capacity, to carry out the issue of national currency of Ukraine and to organise its circulation;

to ensure accumulation and maintenance of foreign exchange and gold reserves and perform operations with foreign exchange and gold reserves and bank metals;

to be a lender of the last resort for banks and to organise a system of refinancing;

to exercise banking regulation and supervision;

to maintain accounts of the State Treasury of Ukraine;

to represent Ukraine in other central banks, international banks and other credit institutions where co-operation is maintained between the central banks;

to perform other functions in financial and credit areas within the competence defined by the Law.

According to the Law of Ukraine "On the National Bank of Ukraine", the NBU provides loans to banks to support their liquidity, buys and sells securities on the secondary market, buys and sells foreign currency valuables, precious metals, commemorative and investment coins made of precious metals on domestic and foreign markets, performs servicing of the State debt in respect of placement of Government securities, their redemption and interest payments, maintains accounts of international organisations and conducts other operations necessary for the performance of the functions listed above. The NBU also performs functions of a depository for domestic Treasury bills.

The capital of the NBU is owned by the State.

The NBU has 25 regional offices throughout Ukraine. Additionally, the NBU's structure includes Operating Department, Household and Maintenance Department, the Central Vault, the State Treasure-House of Ukraine, Project Monitoring Unit for International Credit Lines, the Central Clearing House, Printing and Minting Works and Banknote Paper Mill. The NBU's subsidiaries are Ukrainian Banking Academy (Sumy) and Lviv Banking Institute, both of which are 100% owned by the NBU.

The NBU's central office is located at the following address: 9, Institutska St., 01009, Kyiv, Ukraine. The number of NBU employees as at 31 December 2005 was 11,181 (2004: 11,103).

2. Basis of Presentation and Accounting Policies

The NBU's accounting policies are defined in accordance with the NBU regulations and are based on International Financial Reporting Standards ("IFRS") and the National Accounting Regulations (Standards), except for the cases when the NBU applies its own accounting policies to comply with the requirements of the current Ukrainian legislation and to take into account its functions as a central bank. Major departures of the NBU's accounting policies from IFRS are as follows:

gains and losses from the revaluation of assets and liabilities denominated in foreign currency, monetary gold and bank metals resulting from changes in official exchange rate of Ukrainian hryvnia to foreign currencies, monetary gold and bank metals, are posted directly to revaluation reserve in the capital employed section, which is not in compliance with the requirements of IAS 21 "Effect of Changes in Exchange Rates" in respect of recognition of revaluation gains and losses as income and expenses in the income statement;

the NBU is not applying IAS 39 "Financial Instruments: Recognition and Measurement" to amounts receivable from Government. Non-application of IAS 39 impacts the amount of provisions raised against receivables from Government, interest recognition on receivables from Government and carrying value of Government securities.

The functional and presentation currency of the NBU is the national currency of Ukraine, the Ukrainian hryvnia ("UAH"). The financial statements of the NBU are prepared in millions of Ukrainian hryvnia.

Adoption of New or Revised Standards

Certain new IFRSs became effective from 1 January 2005. Listed below are those new or amended standards which are or in the future could be relevant to the NBU's operations and the nature of their impact on the NBU's financial statements.

IAS 1 "Presentation of Financial Statements" (revised 2003). Additional disclosures required by the revised standard were made in these financial statements. Changes in the standard did not impact the NBU's accounting policy.

IAS 16 "Property, Plant and Equipment" (revised 2003). The revised standard requires to derecognise the carrying amount of a component of premises and equipment which has been replaced and to capitalise the cost of the replacement. The NBU's accounting policy has been changed to take account of the revised Standard requirement. Also the revised standard requires not to cease depreciating assets during temporary periods when the assets are idle. The NBU's accounting policy has not been changed to address this requirement, however this change would not have had a significant effect on the NBU's financial statements.

IAS 24 "Related Party Disclosures" (revised 2003). The definition of related parties was extended and additional disclosures are required by the revised standard (in particular, the revised standard does not provide exemption for entities under state control). The revised standard also requires disclosure of the compensation of key management personnel. Certain additional disclosures required by the revised standard were made in these financial statements.

IAS 28 "Investments in Associates" (revised 2003). The revised standard does not provide exemption for application of equity method in case of long-term restrictions on transfer of funds to investor. The NBU's accounting policy has not been changed to take account of the revised Standard requirements. Additional disclosures required by the revised standard were made in these financial statements.

IAS 32 "Financial Instruments: Disclosure and Presentation" (revised 2003). Additional disclosures required by the revised standard were made in these financial statements. Changes in the standard did not impact the NBU's accounting policy.

IAS 39 "Financial Instruments: Recognition and Measurement" (revised 2003). The definition of "originated loans and receivables" was amended to become "loans and receivables". This cat-

egory now comprises originated or purchased loans and receivables that are not quoted in an active market. The revised standard provides for new category of assets and liabilities, "financial asset or financial liability at fair value through profit or loss". Any financial asset can be designated to this category at the initial recognition and subsequent reclassifications into or out of this category are prohibited. At the date of initial application of the revised standard the NBU changed its accounting policy and has redesignated foreign securities with carrying value of UAH 3,908 million as at 1 January 2005, to the category "debt securities at fair value through profit or loss".

IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" (issued 2004). IFRS 5 should be applied prospectively in accordance with its transitional provisions to non-current assets (or disposal groups) that meet the criteria to be classified as 'held for sale' and operations that meet the criteria to be classified as 'discontinued' after 1 January 2005. Subject to certain exceptions, for example for financial assets, assets or disposal groups that are classified as 'held for sale' are now measured at the lower of carrying amount and fair value less costs to sell.

The effect of adoption of the above new or revised standards on the NBU's financial position at 31 December 2005 and 31 December 2004 was not significant.

Transactions in foreign currency and monetary gold

Monetary assets and liabilities denominated in foreign currency and monetary gold are initially recorded at the official exchange rates of hryvnia to foreign currencies at the date of settlement – the date of initial recognition of assets and liabilities. Subsequently they are revalued after each change in official exchange rate.

The official exchange rate of hryvnia to US dollar is set based on currency quote on inter-bank foreign exchange, information on volume of the NBU interventions and data on foreign exchange and price changes on international and commodity markets. The official exchange rate of hryvnia to other foreign currencies is set based on the official exchange rate of hryvnia to US dollar and cross-rates of respective currencies on international markets.

Monetary assets and liabilities in foreign currency and monetary gold are recorded at the official exchange rates of hryvnia to foreign currencies at the balance sheet date.

Non-monetary assets and liabilities denominated in foreign currency are recorded at historical cost (at the official exchange rate at the settlement date).

Monetary gold consists of the stocks of gold bars of international standard held in the State Treasury-House of Ukraine. Monetary gold represents part of gold and foreign currency reserve. Monetary gold is recorded in physical weight in troy ounces and is valued at the official (accounting) exchange rate of the NBU. The official exchange rate of the NBU is calculated based on the fixing of the London Bullion Market in US dollars translated into UAH at the NBU official UAH/US dollar exchange rate.

Interest-bearing gold placements with foreign banks are included in foreign currency funds and deposits.

The principal official exchange rates of hryvnia to foreign currencies and monetary gold used for translating monetary balance sheet items were:

	31 December 2005 (UAH)	31 December 2004 (UAH)
USD 1	5.050000	5.305400
SDR 1	7.217791	8.239325
EUR 1	5.971625	7.217466
1 troy ounce of gold	2,610.850	2,308.645

Operations with International Monetary Fund

The NBU acts as the depository and fiscal agent of Ukraine in the relationship of Ukraine with the International Monetary Fund (IMF). All claims of the State on and liabilities to the IMF are recorded in the financial statements of the NBU. The IMF asset balances include holdings of Special Drawing Rights (SDR) and quota contributions. Liabilities to IMF include securities issued to the IMF by the Ministry of Finance of Ukraine and the NBU as a fiscal agent and balances on IMF accounts No. 1 and No. 2. IMF account No. 1 is used for IMF transactions including subscription payments, purchase and repurchase of funds. Account No. 2 is used for settlements with IMF in Ukrainian currency.

Assets and liabilities denominated in SDRs are translated into hryvnia at the NBU official exchange rate of hryvnia to SDR at the balance sheet date. The official exchange rate of hryvnia to SDR is calculated based on information on the exchange rate of SDR to USD set by the IMF and the NBU official UAH/USD exchange rate.

Interest received in respect of SDR holdings is disclosed as interest income and charges paid in respect of use of the IMF funds are disclosed as interest and fee expense in the statement of income.

Operations with financial instruments

Financial instruments of the NBU are classified depending on intentions of their acquisition as follows:

Debt securities at fair value through profit or loss. This category includes securities which the NBU intends to hold for the purposes of managing foreign currency and gold reserves and which are designated at initial recognition into this category. The fair value of these securities is determined by reference to market quotations. Securities from this category cannot be reclassified to securities available for sale or held to maturity.

Investments available for sale are equity investments (investments into share capital of companies which are not associated or subsidiaries), which the NBU intends to hold for indefinite period of time.

Securities held to maturity are debt securities with fixed or determinable payments and fixed maturity which the NBU has both intent and ability to hold to maturity. Securities from this category may be reclassified to securities available for sale.

Loans to banks and other borrowers. Loans to banks and other borrowers are recorded when the NBU advances money to counterparty banks or other borrowers with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates.

Transactions with financial instruments are recorded at settlement date, the date when the ownership right for these assets is transferred to (from) the NBU.

Debt securities at fair value through profit or loss are initially recorded at fair value. Costs associated with acquisition of these securities are recognised as fee expense.

Investments available for sale, debt securities held to maturity and loans to banks and other borrowers are initially recorded at fair value plus transaction costs.

Subsequent measurement of the NBU's financial instruments is as follows:

debt securities at fair value through profit or loss are revalued to fair value after each change in market price;

debt securities held to maturity and loans to banks and other borrowers are recorded at amortised cost using effective interest method;

equity investments available for sale whose fair value cannot be reliably determined are recorded at cost less provision for impairment, if any.

Income on debt securities is recognised under effective interest method. Interest earned on

debt securities is recognised as interest income in the income statement, gains and losses on disposal and revaluation to market price are included in result from operations with securities.

Impairment of investments available for sale, debt securities and loans to banks and other borrowers is recognised when incurred as a result of one or more events that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the cash flows of the financial instrument. Impairment losses are recognized in profit or loss.

Expenses associated with disposal of financial instruments are recognised as fee expenses.

Sale and repurchase agreements

Funds paid under agreements for purchase and sale of securities ("repo") are recorded as loans to banks. The differences between the purchase and resale prices are treated as interest income and accrued evenly over the life of the repo agreement.

Funds received under sale and repurchase agreements are included in accounts of banks. Securities sold under sale and repurchase agreements are retained as the assets of the NBU. The differences between the sale and repurchase prices are treated as interest expense and accrued evenly over the life of the repo agreement.

Internal State debt

Internal State debt includes loans granted to Government in national and foreign currencies. The loans are stated at the principal amounts outstanding net of provisions created.

Provisions against internal State debt are raised in accordance with the requirements of the current Ukrainian legislation (Note 8).

The Law of Ukraine "On Restructuring the Debt of the Cabinet of Ministers of Ukraine to the National Bank of Ukraine" of 20 April 2000 (hereinafter referred to as "the Law on Restructuring") provides for interest payment on loans to Government in national currency. However, the Law does not clearly specify when interest payment period should commence in respect of historical debt. Additionally, the Law does not contain any provision in respect of interest payment on loans to Government in foreign currency and so no interest has been accrued to date (see Note 8).

Credit related commitments

In the normal course of business, the NBU enters into commitments to extend credit. Provisions are recorded against credit related commitments when losses are considered more likely than not.

Fixed assets

Fixed assets are stated at cost, or revalued amounts, as described below, less accumulated depreciation charged on cost or revalued amounts and provision for impairment.

Premises and constructions of the NBU are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises and constructions being revalued. The revaluation reserve for premises and constructions is included in capital employed. The revaluation reserve is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset.

Premises and constructions of the NBU have been revalued to market value in 2005. The revaluation was performed based on the reports of independent appraisers, who hold relevant professional qualification and who have recent experience in valuation of assets of similar category. The basis used for the appraisal of the major part of the NBU's premises and constructions was comparative sales method. For specialised premises or premises that are architectural monuments, the basis used for valuation was depreciated replacement cost or discounted cash flow method.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

If impaired, fixed assets are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in capital employed. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Construction in progress is carried at cost. Upon completion, assets are transferred to buildings and constructions at cost. Construction in progress is not depreciated until the asset is available for use.

Depreciation

Depreciation of fixed assets commences after the assets are put into use and is calculated based on the straight-line method over the estimated useful lives of the assets as follows:

buildings and constructions	20–50 years;
motor vehicles and transport	8–28 years;
machinery and equipment	4–30 years;
fixtures and fittings	4–10 years;
other	2–10 years.

Intangible assets

All of the NBU's intangible assets have definite useful life and primarily include capitalised computer software and licences.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the NBU are recorded as intangible assets if inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software and licences are amortised on a straight line basis over expected useful lives of 4 to 8 years.

Investments in associates

Associates are entities over which the NBU has between 20% and 50% of the voting rights. The NBU's investments in associates include German-Ukrainian Fund (the "GUF") and Inter-State Bank (the "ISB"). As the GUF is not paying dividends to its founders and the NBU is not able to exercise significant influence on the ISB's activities, these investments are not accounted for under the equity method but are recorded at cost (refer to Note 11).

Investments in associates are included in other assets.

Bank metals and other precious metals

Bank metals include stocks of gold which is not monetary, silver, platinum and palladium held in the State Treasure-House of Ukraine. Bank metals are held by the NBU as assets available for sale and for earning income from metals lending. Bank metals are recorded in physical weight in troy ounces and are valued at the official (accounting) exchange rate of the NBU. The official (accounting) exchange rate is calculated based on price of the London Bullion Market in USD translated into UAH at the NBU official UAH/USD exchange rate.

The official exchange rates of bank metals to UAH at which bank metals are stated in the balance sheet were as follows:

	31 December 2005 (UAH)	31 December 2004 (UAH)
1 troy ounce of gold	2,610.850	2,308.645
1 troy ounce of silver	44.970	35.918
1 troy ounce of platinum	4,888.400	4,557.339
1 troy ounce of palladium	1,313.000	976.194

Interest-bearing placements in bank metals with foreign banks are included in foreign currency funds and deposits.

Other precious metals include gold and other scrap metal and bars which are not of a recognised standard. Other precious metals are carried at historical cost.

Bank metals and other precious metals are included in other assets item.

Banknotes and coins in circulation

The amount of banknotes and coins in circulation includes the nominal value of banknotes and coins (small change, circulating, commemorative and jubilee coins) that can be used as payment instruments and were issued into circulation by the NBU after the introduction of hryvnia into circulation in September 1996. The nominal value of banknotes and coins issued represents a liability of the NBU. The banknotes and coins in circulation are recorded as a liability when cash is issued by the NBU to banks and clients of the NBU. Hryvnia cash held in the NBU's vaults and cash offices is not included in banknotes and coins in circulation.

Deposit certificates issued by the NBU

Deposit certificates issued by the NBU are initially recorded at cost which represents the value of funds received. Subsequently deposit certificates issued by the NBU are recorded at amortised cost using effective interest method.

Income and expense recognition

Interest income and expense are recorded in the income statement for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Expenses for money issuance

The NBU produces national currency banknotes and coins (including commemorative and jubilee coins made of precious and other metals). Expenses associated with the banknotes and coins production (excluding commemorative and jubilee coins) are charged to the NBU's expenses when produced banknotes and coins are transferred by Printing and Minting Works to the Central Vault of the NBU. Expenses for money issuance include depreciation of plant and machinery, staff costs, other production costs, costs for transportation of banknotes and circulating coins to the Central Vault.

Expenses associated with the production of commemorative and jubilee coins are recorded as an asset within other assets line item of the NBU balance sheet and are charged to expenses in the period when the coins are sold.

Expenses for contributions into obligatory State social funds

The NBU contributes to the obligatory State social funds including pension fund, social security for temporary disability, obligatory State social security fund for unemployment and accident social security fund. Contributions into obligatory State social funds are expensed as incurred.

Revaluation reserve for foreign currency, monetary gold and bank metals

Gains and losses arising as a result of changes in the valuation of monetary assets and liabilities denominated in foreign currency, monetary gold and bank metals due to changes in exchange rates of hryvnia to foreign currency, monetary gold and bank metals, are charged or credited to the revaluation reserve for foreign currency and bank metals in the capital employed section of the balance sheet and are not taken into account when calculating the net profit or loss.

Cash and cash equivalents

For the purposes of reporting cash flows reflecting changes in both foreign and domestic liquidity, cash and cash equivalents include financial assets which are on demand or maturing within three months and which are available for use at short notice and are subject to insignificant risk of changes in value, as well as liabilities which are on demand. As the NBU is the issuer of national currency, the source of liquidity in the national currency is represented by liabilities which are on demand (correspondent accounts of banks, accounts of Government, IMF accounts and other).

Financial assets that cannot be freely converted into cash due to insufficient liquidity or due to restrictions on their use are excluded from cash and cash equivalents.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The NBU makes estimates, assumptions and judgements that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most significant estimates and judgements include:

Impairment of loans. The NBU regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded, the NBU makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

Impairment of available for-sale equity investments. The NBU determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is "significant" or "prolonged" requires judgement.

Impairment of other assets. Assets that are subject to amortisation and depreciation are reviewed for impairment. The NBU estimates the recoverable amount of the asset based on estimated cash flows that the asset is expected to generate, discounted at the market rate of interest. The estimated cash flows may be different from the actual cash flows that the asset will generate.

Related party transactions. In the normal course of business the NBU enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

3. Effect of Economic Conditions in Ukraine on the Financial Position and Results of Operations of the NBU

In 2005 the economic growth in Ukraine has slowed down. However, income of population significantly increased and the level of inflation decreased to 10.3% compared to 12.3% for the year ended 31 December 2004. In this situation the monetary policy of the NBU was aimed at maintaining price stability and support of economic activities. The NBU discount rate increased by 0.5% compared to 31 December 2004 and was 9.5% as at 31 December 2005. The official exchange rate of hryvnia to USD strengthened from UAH 5.3054 per USD 1 as at 31 December 2004 to UAH 5.0500 per USD 1 as at 31 December 2005. In 2005 monetary gold and foreign currency reserves grew significantly, from USD 9.5 billion as at 31 December 2004 to USD 19.4 billion as at 31 December 2005.

The Ukrainian economy continued to display characteristics of an emerging market. These characteristics include the existence of a national currency that is not freely convertible outside the country, a relatively high level of inflation, a low level of liquidity in the public and private debt and equity markets, and budgetary constraints that impact on the ability of Government to repay amounts due to the NBU.

In accordance with the Law on Restructuring, repayment of restructured loans provided to the Government for financing of budget deficit in foreign currency was scheduled to commence in 2002. However, repayment of the internal State debt in foreign currency commenced only in 2005 (see Note 8).

At the same time, during 2005 the Government of Ukraine repaid in full interest bearing domestic Government bonds issued in 2000, with the total nominal value of UAH 6,375 million.

The prospects for future economic stability in Ukraine are largely dependent upon the effectiveness of economic measures undertaken by the Government, including its willingness to adopt a balanced fiscal policy and other factors, such as legal and regulatory changes.

The Government-related balance sheet items are summarised in the table below.

		<i>(in UAH millions)</i>	
	Note	2005	2004
Government securities	6	439	6,871
Internal State debt	8	9,225	9,780

The estimated fair value of amounts due from Government is disclosed in Note 34.

4. Foreign Currency Funds and Deposits

The amount of demand deposits includes balances on special purpose accounts totalling UAH 98 million (2004: UAH 56 million) maintained by the NBU under credit lines received from an international financial institution.

The term deposits denominated in bank metals include platinum and palladium deposits. These deposits and deposits of gold earn interest paid in USD.

	2005	(in UAH millions) 2004
Foreign currency cash	73	783
Demand deposits	1,825	2,989
Term deposits:		
in foreign currency	75,110	43,255
in gold	641	567
in bank metals	1,085	994
Total foreign currency funds and deposits	78,734	48,588

The geographical analysis of foreign currency funds and deposits is disclosed in Note 28, analysis of credit risk of foreign currency funds and deposits is disclosed in Note 29, currency risk analysis is presented in Note 30, interest rate risk analysis is presented in Note 31 and liquidity analysis is disclosed in Note 32.

5. Foreign Securities

	2005	(in UAH millions) 2004
Debt securities at fair value through profit or loss:		
Coupon US Treasury bills	12,287	3,908
Coupon UK Government bonds	3,948	–
Bonds of Bank for International Settlements:		
denominated in US dollars	2,563	–
denominated in British pounds	405	–
Bonds of other issuers denominated in US dollars	936	–
Total debt securities at fair value through profit or loss	20,139	3,908
Equity securities available for sale:		
Shares of Black Sea Trade and Development Bank	120	137
Total foreign securities	20,259	4,045

Starting from 2005 the NBU categorises foreign securities into debt securities at fair value through profit or loss and equity securities available for sale. Previously foreign securities were categorised into trading securities and equity securities available for sale.

Coupon US Treasury bills

As at 31 December 2005 the total nominal value of coupon US Treasury bills was USD 2,433 million (UAH 12,285 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2005) (2004: USD 734 million or UAH 3,894 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2004).

The coupon bills have a nominal value of USD 1,000 each. As at 31 December 2005 US Treasury bills had yield to maturity from 3.7% to 4.5% per annum, coupon at the rate from 1.5% to 7.0% per annum payable every 6 months and maturity from 1 to 35 months.

Coupon UK Government bonds

As at 31 December 2005 the total nominal value of coupon UK Government bonds was GBP 437 million (UAH 3,787 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2005).

As at 31 December 2005 UK Government coupon bonds had yield to maturity from 4.0% to 4.2% per annum, coupon at the rate from 4.5% to 8.5% per annum payable every 6 months and maturity from 8 to 26 months.

Bonds of Bank for International Settlements

As at 31 December 2005 the total nominal value of USD denominated bonds of Bank for International Settlements was USD 510 million (UAH 2,576 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2005). The total nominal value of GBP denominated bonds of Bank for International Settlements was GBP 47 million (UAH 408 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2005).

As at 31 December 2005 bonds of Bank for International Settlements had yield to maturity from 4.3% to 4.6% per annum, coupon at the rate from 0% to 4.9% per annum payable every 6 months and maturity from 2 to 33 months.

Bonds of other issuers

Bonds of other issuers include debt securities issued by Governments of countries – members of Organisation for Economic Co-operation and Development (OECD), foreign investment banks and other issuers. As at 31 December 2005 total nominal value of bonds of other issuers was USD 184 million (UAH 929 million at the exchange rate as at 31 December 2005).

As at 31 December 2005 bonds of other issuers had yield to maturity from 3.7% to 4.7% per annum, coupon at the rate from 0% to 5.9% per annum payable every 6 months and maturity from 1 to 36 months.

Shares of Black Sea Trade and Development Bank (BSTDB)

Investment into the share capital of BSTDB was made in accordance with the Agreement on establishment of BSTDB dated 30 June 1994.

As at 31 December 2005 the amount of the NBU's contribution into share capital of BSTDB was SDR 24 million or UAH 120 million (2004: SDR 27 million or UAH 137 million).

During 2005 the amount invested in BSTDB decreased by SDR 3 million (UAH 17 million at the exchange rate of hryvnia to SDR as at the date of acquisition) as a result of a partial purchase of the NBU's share in BSTDB by the Ministry of Finance of Ukraine.

As at 31 December 2005 the NBU's share in the share capital of BSTDB was 8%.

The geographical analysis of foreign securities is disclosed in Note 28, analysis of credit risk is disclosed in Note 29, currency risk analysis is presented in Note 30, interest rate risk analysis is presented in Note 31 and liquidity analysis is disclosed in Note 32.

6. Government Securities*(in UAH millions)*

	Total Government securities	
	2005	2004
Debt securities available for sale:		
Government debt securities denominated in national currency:		
interest bearing domestic Government bonds issued in 2000	–	6,388
Debt securities held to maturity:		
Government debt securities denominated in national currency:		
promissory notes of the State Treasury of Ukraine	395	395
Government debt securities denominated in foreign currency:		
external State debt securities issued in 2000	44	88
Total debt securities held to maturity:	439	483
Total Government securities	439	6,871

Government securities include bonds and promissory notes issued by the Ministry of Finance of Ukraine on behalf of the Government of Ukraine and, accordingly, carry the guarantee of the Ukrainian Government.

In accordance with the Law of Ukraine "On the National Bank of Ukraine" the NBU performs operations with Government securities only on the secondary market.

Government debt securities denominated in national currency

1. Interest bearing domestic Government bonds (hereinafter referred as "POVDP") were received by the NBU as a result of a restructuring in October 2000 of current and overdue portfolio of Government securities issued in 1998–2000. POVDP were fully redeemed by Government during 2005.

The NBU did not perform operations in respect of sales or purchases of POVDP during 2005.

2. Promissory notes of the State Treasury of Ukraine were received by the NBU in September 2000 from the Ministry of Finance of Ukraine as part of the restructuring of accrued income on domestic Government bonds due in 2000–2004. The total nominal value of promissory notes amount to UAH 395 million. The promissory notes of the State Treasury are non-interest bearing. Promissory notes of UAH 196 million are repayable in 2009 with the balancing payment in 2010.

Government debt securities denominated in foreign currency

Government debt securities denominated in foreign currency include external State debt securities issued in 2000, denominated in EUR with coupon interest of 10% per annum received as a result of restructuring external State debt securities issued in 1995. These bonds have nominal value EUR 1,000 each and are to be redeemed in instalments twice a year up to 2007. Coupon on the bonds is payable on a quarterly basis. During 2005 bonds totalling EUR 5 million (UAH 32 million at the exchange rate of hryvnia to euro at the date of payment) have been redeemed.

The credit risk analysis of Government securities is disclosed in Note 29, currency risk analysis is presented in Note 30, interest rate risk analysis is presented in Note 31 and liquidity analysis is disclosed in Note 32. Information on the estimated fair value of Government securities is presented in Note 34.

7. Loans to Banks and Other Borrowers*(in UAH millions)*

	2005	2004
Loans to banks and other borrowers:		
current loans	761	4,066
overdue loans	288	309
Provision against loans to banks and other borrowers	(351)	(393)
Total loans to banks and other borrowers	698	3,982

As at 31 December 2005 the total amount of non-performing loans was UAH 189 million (2004: UAH 206 million). These loans are provided against in full.

As at 31 December 2005 loans to banks and other borrowers are analysed by type of loan as follows:

	2005	2004
Loans granted to banks to support their liquidity:		
short-term	117	2,932
long-term	345	710
Loans granted under European Bank for Reconstruction and Development (EBRD) credit lines for support of small and medium enterprises (SME):		
loans to banks	371	497
loans to other borrowers	55	61
Other loans:		
loans to banks	58	67
loans to other borrowers	103	108
Provision against loans to:		
banks	(198)	(229)
other borrowers	(153)	(164)
Total loans to banks and other borrowers	698	3,982

Loans to banks to support liquidity (except for overnight unsecured loans) were collateralised by Government securities, discounted bills of exchange of businesses, claims under agreements in respect of loans granted by banks to businesses and funds in foreign currency.

Movements in provision against loans to banks and other borrowers are as follows:

	2005	2004
Provision against loans to banks and other borrowers at the beginning of the year	393	394
Reduction in provision during the year	(42)	(1)
Provision against loans to banks and other borrowers at the end of the year	351	393

The geographical analysis of loans to banks and other borrowers is disclosed in Note 28, analysis of credit risk is disclosed in Note 29, currency risk analysis is presented in Note 30, interest rate risk analysis is presented in Note 31 and liquidity analysis is disclosed in Note 32. The estimated fair value of loans to banks and other borrowers is presented in Note 34.

8. Internal State Debt

	2005	(in UAH millions) 2004
Internal State debt in respect of loans to Government in national currency:		
1991–1993	129	129
1994–1996	3,439	3,439
Total internal State debt in national currency	3,568	3,568
Internal State debt in respect of loans to Government in foreign currency:		
1995	3,262	3,693
1996	2,464	2,588
Total internal State debt in foreign currency	5,726	6,281
Provision against internal State debt in respect of loans to Government in national currency	(69)	(69)
Total internal State debt	9,225	9,780

Loans in national currency and foreign currency were granted by the NBU in 1991–1996 for financing State budget deficits.

The amount due in respect of loans to Government in national currency granted in 1991–1993 totalling UAH 129 million, was included in the internal State debt following the decision of Verkhovna Rada (the Parliament) of Ukraine and the President of Ukraine in 1992–1994. At the time of issuing these financial statements, the terms of repayment of this debt and its servicing were not regulated by legislation.

In accordance with the Law on Restructuring loans in national currency granted in 1994–1996 totalling UAH 3,439 million and loans granted in foreign currency totalling USD 1,184 million (UAH 5,979 million at the exchange rate of hryvnia to USD as at 31 December 2005) were restructured and included into the internal State debt.

In accordance with the Law, the amount of internal State debt in foreign currency was supposed to be repaid in equal quarterly instalments starting from 2002 to 2009. In accordance with the Law, the amount of the internal State debt of Ukraine in respect of loans granted in 1994–1996 in the national currency, is due to be repaid by equal quarterly instalments, with an interest payment of 5% per annum for debt servicing, from 2010 to 2035. However, the Law does not clearly state the period of interest accrual. As such, interest income on loans to Government in the national currency is not recognised in the statement of income. The NBU prepared and submitted to Parliament a draft Law on changes to the Law. This draft Law provides for 5% interest payment in respect of the total debt outstanding starting from 2010 together with repayment of principal amount. However, this draft Law has not yet been considered by the Parliament.

In accordance with the Law, in 2000 the NBU raised a provision of 2% of the amount outstanding in respect of loans to Government in the national currency granted in 1994–1996. Starting from 2001 the Laws of Ukraine on the State budget of Ukraine for 2001–2006 suspended this requirement in respect of provisioning. As a result, no further provision was raised after 2000 against internal State debt in the national currency.

In November 2005 in accordance with the Law of Ukraine on State budget of Ukraine for 2005 part of debt in respect of loans in foreign currency totalling USD 50 million (UAH 253 million at the official exchange rate at the date of payment) was repaid.

The Law of Ukraine on State budget of Ukraine for 2006 provides for repayment in 2006 of part of debt in respect of loans in foreign currency totalling UAH 253 million.

During preparation of draft Law of Ukraine on State budget of Ukraine for 2006 the NBU made suggestions to change the schedule of debt servicing by Government as provided by the Law and to resolve the issue of interest accrual and payment in respect of loans in foreign cur-

rency. However, these suggestions were not taken into account.

The Law does not provide for payment of interest on loans to Government in foreign currency included in the internal State debt. As a result, no interest income is recognised in the statement of income.

The current Ukrainian legislation does not envisage raising provisions against loans to Government in foreign currency included in the internal State debt.

The credit risk analysis of internal State debt is disclosed in Note 29, currency analysis is presented in Note 30, interest rate risk analysis is presented in Note 31 and liquidity analysis is disclosed in Note 32. Estimated fair value of internal State debt is disclosed in Note 34.

9. IMF Quota Contributions

The quota balance represents Ukraine's subscription as a member of the International Monetary Fund (IMF). Quotas vary based on the economic size and circumstances of each member and are determined by the Board of Governors of the IMF. The quota determines a member's voting power in the Fund, the limits of access to the financial resources of the Fund and a participant's share in the allocation of Special Drawing Rights (SDRs), the Fund's unit of account. The major part of Ukraine's quota was paid in the form of non-interest-bearing promissory notes, the remainder being credited to the IMF accounts No 1 and No 2 (Note 16). As at 31 December 2005 Ukraine's quota in the IMF amounted to SDR 1,372 million or UAH 9,903 million at the year-end official exchange rate of hryvnia to SDR (2004: SDR 1,372 million or UAH 11,304 million at the year-end official exchange rate of hryvnia to SDR). The quota does not earn interest.

10. Fixed Assets and Intangible Assets

	<i>(in UAH millions)</i>							
	Intan- gible assets	Buildings and construction	Motor vehicles and transport	Machinery and equipment	Fixtures and fittings	Other fixed assets	Construc- tion in progress	Total
Net book value at 1 January 2005	31	770	27	353	44	75	107	1,407
Cost or valuation at 1 January 2005	59	924	59	675	96	138	107	2,058
Accumulated depreciation as at 1 January 2005	28	154	32	322	52	63	–	651
Additions	9	6	21	70	4	18	41	169
Disposals:	–	(1)	–	(1)	–	–	–	(2)
Cost	(5)	(1)	(4)	(14)	–	(12)	–	(36)
Accumulated depreciation	5	–	4	13	–	12	–	34
Transfer to other category:	–	38	2	56	(4)	(41)	(51)	–
Cost	–	33	3	93	(12)	(66)	(51)	–
Accumulated depreciation	–	5	(1)	(37)	8	25	–	–
Revaluation:	–	725	–	–	–	–	–	725
Revaluation of cost	–	592	–	–	–	–	–	592
Elimination of accumulated depreciation on revaluation	–	133	–	–	–	–	–	133
Impairment:	–	5	–	–	–	–	–	5
Impairment on cost	–	5	–	–	–	–	–	5
Depreciation (amortisation) charge for the year	8	29	6	77	9	18	–	147
Cost or valuation at 31 December 2005	63	1,549	79	824	88	78	97	2,778
Accumulated depreciation at 31 December 2005	31	45	35	423	53	44	–	631
Net book value at 31 December 2005	32	1,504	44	401	35	34	97	2,147

The carrying amount of fixed assets includes revaluation surplus of UAH 762 million (2004: UAH 62 million).

At 31 December 2005 fixed assets and intangible assets include assets totalling UAH 138 million at cost or valuation, which are fully depreciated (2004: UAH 124 million). These assets are still used by the NBU.

Included in fixed assets are assets totalling UAH 22 million (2004: UAH 6 million) which are currently under reconstruction or not in use and as such they are not depreciated. In addition, the NBU management took a decision to dispose of assets with the total carrying value of UAH 28 million included in buildings and constructions category and other fixed assets category. The carrying value of these assets is not higher than fair value less costs to sell.

During 2005 the NBU performed revaluation of premises and constructions to adjust the net book value (carrying value) of assets included into this category, to their fair value.

	<i>(in UAH millions)</i>							
	Intan- gible assets	Buildings and construction	Motor vehicles and transport	Machinery and equipment	Fixtures and fittings	Other fixed assets	Construc- tion in progress	Total
Net book value at 1 January 2004	29	733	23	314	61	90	136	1,386
Cost or valuation at 1 January 2004	49	869	55	556	114	157	136	1,936
Accumulated depreciation as at 1 January 2004	20	136	32	242	53	67	–	550
Additions	10	23	9	50	5	30	28	155
Disposals:	–	(8)	(1)	–	–	–	(1)	(10)
Cost	–	(10)	(6)	(6)	(1)	(9)	(1)	(33)
Accumulated depreciation	–	(2)	(5)	(6)	(1)	(9)	–	(23)
Transfer to other category:	–	42	1	48	(10)	(25)	(56)	–
Cost	–	42	1	75	(22)	(40)	(56)	–
Accumulated depreciation	–	–	–	27	(12)	(15)	–	–
Depreciation (amortisation) charge for the year	8	20	5	59	12	20	–	124
Cost or valuation at 31 December 2004	59	924	59	675	96	138	107	2,058
Accumulated depreciation at 31 December 2004	28	154	32	322	52	63	–	651
Net book value at 31 December 2004	31	770	27	353	44	75	107	1,407

11. Other Assets

	2005	<i>(in UAH millions)</i> 2004
Bank metals	241	195
Accounts receivable	106	103
Inventory	119	86
Precious metals	63	37
Investments in associates	25	25
Commemorative and jubilee coins and other numismatic products	12	18
Deferred expenses	1	–
Provision against other assets	(8)	(9)
Total other assets	559	455

Movements in provision against other assets were as follows:

	2005	<i>(in UAH millions)</i> 2004
Provision against other assets at the beginning of the year	9	10
Recovery of provision during the year	(1)	–
Assets written off against provision as uncollectible	–	(1)
Provision against other assets at the end of the year	8	9

At 31 December 2005 investments in associates included the following:

Name	Country of registration	Type of activity	Amount		Share (%)	
			2005	2004	2005	2004
German-Ukrainian Fund	Ukraine	Financial institution of special type	24	24	31.25	31.25
Inter-State Bank	Russia	Financial institution	1	1	20.70	20.70
Total			25	25		

German-Ukrainian Fund (GUF) was established by the Cabinet of Ministers of Ukraine represented by the Ministry of Finance, the NBU and Kreditanstalt für Wiederaufbau (KfW). According to the Charter, the GUF does not have an objective of generating profit and does not distribute dividends among its founders. The profit of GUF is allocated to increasing the lending pool for small and medium enterprises.

Inter-State Bank (ISB) was established under multi-lateral agreement of countries-members of Commonwealth of Independent States in 1993. ISB is an international settlement and credit and finance institution. The NBU does not have actual influence on decisions of ISB.

Information on total assets and liabilities of associates as at 31 December 2005 and their revenues and profits for the year ended 31 December 2005 is provided below:

	ISB	<i>(in UAH millions)</i> GUF
Total assets	2,157	109
Total liabilities	1,625	1
Total revenue	119	4
Net profit for the year	62	2

The geographical analysis of other assets is disclosed in Note 28, analysis of credit risk is disclosed in Note 29, currency risk analysis is presented in Note 30 and liquidity analysis is disclosed in Note 32.

12. Accounts of Banks

	2005	(in UAH millions) 2004
Correspondent accounts:		
in national currency	17,252	8,018
in foreign currency	38	58
Term deposits:		
in foreign currency	–	251
in national currency	117	–
guarantee deposits	–	1,093
Accounts of banks with special use conditions:		
in national currency	367	57
in foreign currency	9	123
Total accounts of banks	17,783	9,600

Correspondent accounts in national currency include mandatory reserves of Ukrainian banks with the NBU. In accordance with the NBU regulations, as at 31 December 2005 banks were required on a daily basis to maintain on correspondent account with the NBU at least 90 per cent of the amount of mandatory reserves for the preceding "reserve" period, i.e. for the preceding month (as at 31 December 2004: 60%). Correspondent accounts are non-interest bearing.

During 2005 the NBU conducted deposit operations for the purposes of regulating monetary market. The operations were performed through attraction of funds from banks into deposit accounts for the respective period.

Starting from 2004 the NBU provides loans to banks to support their liquidity against collateral of foreign currency deposits. Guarantee deposits (provided as collateral) are non-interest bearing.

Accounts of banks with special use conditions include funds placed for the purposes of formation of statutory capital of newly established banks in the process of registration, accounts for settlements of liquidation committees of banks under the process of liquidation and accounts opened for other purposes provided in the law of Ukraine and the NBU regulations.

The geographical analysis of accounts of banks is disclosed in Note 28, currency risk analysis is presented in Note 30, interest rate risk analysis is presented in Note 31 and liquidity analysis is disclosed in Note 32.

13. Accounts of Government and Other Clients

	2005	(in UAH millions) 2004
Budget funds	18,459	5,261
Other	100	169
Total accounts of Government and other clients	18,559	5,430

The NBU services accounts of the State budget and local budgets of Ukraine consolidated under one treasury account.

In accordance with the Law of Ukraine "On the National Bank of Ukraine" all budget accounts are non-interest bearing.

The geographical analysis of accounts of Government and other clients is disclosed in Note 28, currency risk analysis is presented in Note 30, interest rate risk analysis is presented in Note 31 and liquidity analysis is disclosed in Note 32.

14. Deposit Certificates Issued by the National Bank of Ukraine

Deposit certificate issued by the NBU is one of its monetary instruments. This is a debt security issued by the NBU in non-documentary form evidencing placement of funds with the NBU and the right of banks to receive at maturity the funds placed together with accrued interest.

Transactions with placement of deposit certificates are performed under agreements with banks for the term varying from one day (overnight deposits) and from 31 to 365 days.

As at 31 December 2005 the nominal value of deposit certificates issued by the NBU was UAH 1 million each, yield to maturity varied from 3.0% to 8.5% per annum (weighted average rate of 5.6% per annum) and the initial term of placement varied from 49 to 270 days.

The currency risk analysis of deposit certificates is disclosed in Note 30, interest rate risk analysis is presented in Note 31 and liquidity analysis is disclosed in Note 32.

15. Loans Received

This item represents long-term loans received under credit lines of EBRD for financing of banks to support small and medium enterprises (SME).

The currency analysis of loans received is presented in Note 30, interest rate risk analysis is presented in Note 31 and maturity analysis is disclosed in Note 32.

16. Liabilities to IMF

	2005	<i>(in UAH millions)</i> 2004
IMF accounts No 1 and No 2	25	28
Notes issued to the IMF in settlement of Quota	9,878	11,276
Notes issued to the IMF in respect of purchases of funds	6,040	8,565
Total liabilities to IMF	15,943	19,869

During 2005 there was a repurchase of IMF funds of SDR 203 million (UAH 1,537 million at the official exchange rate at the date of payment) (2004: SDR 202 million or UAH 1,579 million at the official exchange rate at the date of payment). Decrease in the amount of liability was also due to revaluation of balances.

Liabilities to IMF include two promissory notes issued by the Ministry of Finance of Ukraine to the IMF in settlement of quota contribution totalling UAH 2,741 million.

The interest rate risk analysis of liabilities to IMF is presented in Note 31 and maturity analysis is disclosed in Note 32.

17. Other Liabilities

	2005	<i>(in UAH millions)</i> 2004
Current accounts of employees	88	40
Promissory notes issued by the NBU	–	28
Accounts payable	28	10
Deferred income	5	5
Total other liabilities	121	83

In March 2005 promissory notes issued by the NBU in favour of BSTDB were fully paid by the Ministry of Finance of Ukraine as contribution into the statutory capital of BSTDB in the amount of SDR 3 million (UAH 28 million at the exchange rate as at 31 December 2004).

The geographical analysis of other liabilities is disclosed in Note 28, currency risk analysis is presented in Note 30 and maturity analysis is disclosed in Note 32.

18. Profits Payable to the State Budget

In accordance with the Law of Ukraine "On the National Bank Ukraine", the NBU is obliged to distribute the excess of budgeted income over budgeted expenditure to the State budget of Ukraine based on the results for the preceding year. Budgeted expenditure should ensure the NBU's ability to perform its functions and includes both expenses presented in the statement of income and expenditure for financing capital investments and formation of funds. The amount of profit payable to the State budget is calculated as the amount of profit earned less funds used for financing capital investments and formation of funds.

The actual excess of budgeted income over budgeted expenditure for the year ended 31 December 2005 amounted to UAH 1,643 million (2004: UAH 1,657 million).

The calculation of the profit payable to the State budget of Ukraine is presented below:

	2005	<i>(in UAH millions)</i> 2004
Profit available for distribution per statement of income	1,686	1,717
Allocation to funds of the NBU	(43)	(60)
Excess of budgeted income over budgeted expenditure for the year to be transferred to the State budget, including:	1,643	1,657
Advance payment of profits to the State budget	(578)	(1,280)
Profits payable to the State Budget	1,065	377

During 2005 the NBU transferred to the State budget of Ukraine balance in the amount of UAH 377 million in respect of profits for the year ended 31 December 2004. In accordance with the Law of Ukraine "On the State Budget of Ukraine for 2006" during 2006 the NBU transferred to the State budget of Ukraine UAH 643 million as partial settlement of liability to transfer excess of income over expenditure for 2005.

19. Statutory Capital

In accordance with the Law of Ukraine "On the National Bank of Ukraine" the amount of statutory capital shall be UAH 10 million. The amount of statutory capital may be increased under the decision of the Council of the NBU. The source of formation of the NBU's statutory capital are profits of the NBU and, if necessary, the State budget of Ukraine. The statutory capital was formed as a result of distribution of the NBU's profits for 1994 in the amount of UAH 5 million and the NBU's profits for 2000 in the amount of UAH 5 million.

20. Cash and Cash Equivalents

	Note	2005	<i>(in UAH millions)</i> 2004
Foreign currency cash	4	73	783
Demand deposits (excluding restricted funds)	4	1,727	2,933
Short-term deposits maturing within three months (excluding gold, bank metals and restricted funds)		28,095	19,639
SDR Holdings		5	6
Demand accounts of banks	12	(17,666)	(8,256)
Accounts of Government and other clients	13	(18,559)	(5,430)
IMF accounts No 1 and No 2	16	(25)	(28)
Current accounts of employees	17	(88)	(40)
Total cash and cash equivalents		(6,438)	9,607

21. Interest Income and Expense

	2005	(in UAH millions) 2004
Interest income		
On foreign currency funds and deposits	1,892	982
On Government securities	384	595
On foreign securities	239	62
On loans to banks and other borrowers	100	144
On internal State debt	–	708
Other	2	1
Total interest income	2,617	2,492
Interest expense		
On liabilities to IMF	(251)	(247)
On deposit certificates issued by the NBU	(84)	(35)
On loans received	(16)	(11)
On accounts of banks	(4)	(5)
On accounts of Government and other clients	–	(1)
Other	(9)	(2)
Total interest expense	(364)	(301)
Net interest income	2,253	2,191

22. Fee and Commission Income and Expense

	2005	(in UAH millions) 2004
Fee and commission income		
On services of electronic payments system and electronic mail	102	94
On cash and settlement services	73	63
On valuables transportation services	27	36
On operations with financial instruments	3	2
Other	–	1
Total fee and commission income	205	196
Fee and commission expense		
On operations with IMF	(8)	–
On operations with financial instruments	(3)	(4)
Other	–	(4)
Total fee and commission expense	(11)	(8)
Net fee and commission income	194	188

23. Other Income

	2005	(in UAH millions) 2004
Income from sale of banknote paper, commemorative and jubilee coins and other products	78	60
Income from activities of educational institutions	16	14
Income from registration and licensing	6	6
Income from monitoring of credit lines	3	4
Fines and penalties received	2	2
Profit from disposal of fixed assets, intangible assets and inventory	1	–
Other	17	15
Total other income	123	101

Income from the sale of other products includes income from the sale of packages for coins, souvenir banknotes and other products.

Other income includes income from social and consumer services and sale of printed materials and inventory.

24. Staff Costs

	2005	(in UAH millions) 2004
Wages and salaries	220	170
Mandatory State pension scheme and social security contributions	104	76
Social assistance and other social payments	88	71
Other	24	25
Total staff costs	436	342

Other staff costs include staff training costs, expenditure for special clothes, footwear and other means of protection, the NBU employees housing expenses and other costs.

25. Administrative and Other Expenses

	2005	(in UAH millions) 2004
Depreciation and amortisation	104	83
Utilities and household expenses	35	32
Expenses for maintenance of fixed assets and intangible assets	48	31
Telecommunication services and maintenance	9	8
Business trip expenses	7	6
Loss from disposal of fixed assets, intangible assets and inventory	–	5
Taxes, duties and charges	8	7
Other	33	29
Total administrative and other expenses	244	201

The depreciation charge for 2005 excludes depreciation of UAH 43 million (2004: UAH 41 million) in respect of fixed assets used in the production of banknote paper, banknotes, coins and other products. This part of the depreciation charge is included in expenses for production of banknotes, coins and other products (refer Note 2).

Other expenses include expenses for purchase of exhibits for museum, post and mail, stationery, representation, audit, marketing and advertising, sponsorship and other expenses.

26. Net Decrease in Provisions

	Note	2005	(in UAH millions) 2004
Recovery of provision:			
against loans to banks and other borrowers	7	41	1
against other assets	11	1	–
Total net decrease in provisions		42	1

27. Financial Risk Management

Principal types of financial risks inherent in the NBU's activities are credit, currency, interest rate and liquidity risk. The acceptable level of financial risks in the NBU's operations is defined by the Board of the NBU and the Asset and Liability Management Committee. Control over compliance with set level of risk is performed by management of structural divisions and Risk Control Division of the NBU.

Credit risk. Credit risk is controlled through compliance with rules established by the NBU internal regulations, in particular:

in the area of the NBU's gold and foreign currency reserve placements:

the NBU's counterparties in operations related to placement of funds of gold and foreign currency reserve should have ratings set by international rating agencies Fitch IBCA and Moody's, not lower than A rating as prescribed by the Law of Ukraine "On the National Bank of Ukraine" and ratings set by the NBU's Board decision;

placement of funds of gold and foreign currency reserve of the NBU should comply with the norms of investment structure of the NBU's gold and foreign currency reserve approved by the NBU's Board decision;

the amounts of placement of funds of gold and foreign currency reserve of the NBU with each counterparty bank should not exceed overall credit limit defined for the bank in accordance with the internal regulations of the NBU;

in the area of supporting banking system liquidity:

banks requesting liquidity support through the NBU refinancing operations, should comply with the requirements set by the NBU's procedures for regulating of Ukrainian banks liquidity;

in the area of lending under the EBRD credit lines:

participating banks should comply with the eligibility criteria defined by the credit agreements between the NBU and EBRD.

Currency risk. Currency risk is controlled through compliance with the standard currency structure of the NBU's gold and foreign currency reserve defined by the decision of the NBU Board. It also takes into account the net currency position of the NBU.

Interest rate risk. The major technique of interest rate risk control is calculation and analysis of changes in weighted average multi-currency interest margin (spread) between interest rates on assets and liabilities of the NBU, as well as interest rate repricing analysis of assets and liabilities.

Liquidity risk. Liquidity risk is controlled using the method of maturity mismatch analysis of assets and liabilities and through calculation of the sufficient level of balances on correspondent accounts at the time of payments to be made in respect of the NBU's liabilities.

Detailed analysis of the above risks is presented in Notes 28 to 32.

28. Geographical Analysis of Assets and Liabilities

The geographical analysis of the NBU's assets and liabilities as at 31 December 2005 is set out below:

	<i>(in UAH millions)</i>				
	Ukraine	OECD countries	IMF	Other	Total
Assets					
Foreign currency funds and deposits	73	78,661	–	–	78,734
Foreign securities	–	20,259	–	–	20,259
SDR Holdings	–	–	5	–	5
Monetary gold	1,393	–	–	–	1,393
Government securities	439	–	–	–	439
Loans to banks and other borrowers	698	–	–	–	698
Internal State debt	9,225	–	–	–	9,225
IMF Quota contributions	–	–	9,903	–	9,903
Fixed assets and intangible assets	2,147	–	–	–	2,147
Other assets	545	13	–	1	559
Total assets	14,520	98,933	9,908	1	123,362
Liabilities					
Banknotes and coins in circulation	65,409	–	–	–	65,409
Accounts of banks	17,783	–	–	–	17,783
Accounts of Government and other clients	18,543	16	–	–	18,559
Profits payable to the State Budget	1,065	–	–	–	1,065
Deposit certificates issued by the National Bank of Ukraine	2,427	–	–	–	2,427
Loans received	–	335	–	–	335
Liabilities to IMF	–	–	15,943	–	15,943
Other liabilities	119	2	–	–	121
Total liabilities	105,346	353	15,943	–	121,642
Net balance sheet position	(90,826)	98,580	(6,035)	1	1,720
Commitments and contingencies					
Commitments to extend credit	11	–	–	–	11
Net off-balance sheet position (Note 33)	11	–	–	–	11
Net position	(90,837)	98,580	(6,035)	1	1,709

Included in the balances with OECD countries (foreign currency funds and deposits) are demand and term deposits with the Bank for International Settlements and accrued interest on these deposits, totalling UAH 27,161 million. Foreign securities balance sheet item includes bonds issued by Bank for International Settlements totalling UAH 2,968 million. The total amount of funds placed with Bank for International Settlements is UAH 30,129 million or 30% of the total assets placed in OECD countries (2004: UAH 24,456 million, or 47% of the total assets placed in OECD countries).

The geographical analysis of the NBU's assets and liabilities as at 31 December 2004 is set out below:

	<i>(in UAH millions)</i>				
	Ukraine	OECD countries	IMF	Other	Total
Assets					
Foreign currency funds and deposits	783	47,805	–	–	48,588
Foreign securities	–	4,045	–	–	4,045
SDR Holdings	–	–	6	–	6
Monetary gold	1,180	–	–	–	1,180
Government securities	6,871	–	–	–	6,871
Loans to banks and other borrowers	3,982	–	–	–	3,982
Internal State debt	9,780	–	–	–	9,780
IMF Quota contributions	–	–	11,304	–	11,304
Fixed assets and intangible assets	1,407	–	–	–	1,407
Other assets	433	12	9	1	455
Total assets	24,436	51,862	11,319	1	87,618
Liabilities					
Banknotes and coins in circulation	45,669	–	–	–	45,669
Accounts of banks	9,600	–	–	–	9,600
Accounts of Government and other clients	5,401	29	–	–	5,430
Profits payable to the State Budget	377	–	–	–	377
Deposit certificates issued by the National Bank of Ukraine	173	–	–	–	173
Loans received	–	421	–	–	421
Liabilities to IMF	–	–	19,869	–	19,869
Other liabilities	52	31	–	–	83
Total liabilities	61,272	481	19,869	–	81,622
Net balance sheet position	(36,836)	51,381	(8,550)	1	5,996
Commitments and contingencies					
Commitments to extend credit	227	–	–	–	227
Net off-balance sheet position (Note 33)	227	–	–	–	227
Net position	(37,063)	51,381	(8,550)	1	5,769

29. Credit Risk

Credit risk is the risk to incur losses as a result of counterparty failing to perform its financial liabilities to the NBU.

Financial assets of the NBU are classified by the lowest out of ratings assigned to the NBU's counterparties by three international rating agencies Fitch IBCA, Moody's and Standard & Poor's. Ratings are listed below as per the coding of rating agency Fitch IBCA using the rating correspondence table of Bloomberg information system.

	Credit rating	2005		(in UAH millions) 2004	
		Amount	% in financial assets	Amount	% in financial assets
Foreign currency funds and deposits	AAA+	27,161	22.8	24,456	28.9
	AAA	180	0.1	2,797	3.3
	AA+	2,657	2.2	4,007	4.7
	AA	15,646	13.1	4,085	4.8
	AA-	28,967	24.2	10,200	12.0
	A+	1,867	1.6	598	0.7
	A	2,182	1.8	–	–
	A-	1	0.0	1,662	2.0
	No risk	73	0.1	783	0.9
Foreign securities	AAA+	2,968	2.5	–	–
	AAA	16,973	14.2	3,908	4.6
	AA	76	0.1	–	–
	AA-	122	0.1	–	–
	No rating	120	0.1	137	0.2
SDR Holdings	AAA+	5	0.0	6	0.0
Government securities	B+	439	0.4	6,871	8.1
Loans to banks and other borrowers	B	255	0.2	1,012	1.2
	B-	108	0.1	1,249	1.5
	No rating	335	0.3	1,721	2.1
Internal State debt	B+	9,225	7.7	9,780	11.6
IMF Quota contributions	AAA+	9,903	8.3	11,304	13.3
Other assets	AAA+	–	–	9	0.0
	AA-	1	0.0	–	–
	No rating	122	0.1	110	0.1
Total financial assets		119,386	100.0	84,695	100.0

Government securities, internal State debt and accrued income on these assets are classified in accordance with the lowest long-term rating of Ukraine out of ratings assigned by three rating agencies.

Rating AAA+ is the rating used for identification of highly reliable international financial institutions such as Bank for International Settlements and International Monetary Fund.

30. Currency Risk

Currency risk is the risk of incurring losses as a result of unfavourable changes in exchange rates of hryvnia to foreign currencies.

As at 31 December 2005, the NBU had the following positions in currencies:

	<i>(in UAH millions)</i>							
	UAH	USD	EUR	SDR	GBP	Other	Non-monetary items	Total
Assets								
Foreign currency funds and deposits	–	53,119	20,313	–	3,072	2,230	–	78,734
Foreign securities	–	15,786	–	–	4,353	–	120	20,259
SDR Holdings	–	–	–	5	–	–	–	5
Monetary gold	–	–	–	–	–	1,393	–	1,393
Government securities	395	–	44	–	–	–	–	439
Loans to banks and other borrowers	445	253	–	–	–	–	–	698
Internal State debt	3,499	5,726	–	–	–	–	–	9,225
IMF Quota contributions	–	–	–	9,903	–	–	–	9,903
Fixed assets and intangible assets	–	–	–	–	–	–	2,147	2,147
Other assets	98	–	–	–	–	242	219	559
Total assets	4,437	74,884	20,357	9,908	7,425	3,865	2,486	123,362
Liabilities								
Banknotes and coins in circulation	65,409	–	–	–	–	–	–	65,409
Accounts of banks	17,736	13	27	–	–	7	–	17,783
Accounts of Government and other clients	17,074	44	1,441	–	–	–	–	18,559
Profits payable to the State Budget	1,065	–	–	–	–	–	–	1,065
Deposit certificates issued by the National Bank of Ukraine	2,427	–	–	–	–	–	–	2,427
Loans received	–	335	–	–	–	–	–	335
Liabilities to IMF	–	–	–	15,943	–	–	–	15,943
Other liabilities	119	1	1	–	–	–	–	121
Total liabilities	103,830	393	1,469	15,943	–	7	–	121,642
Net balance sheet position	(99,393)	74,491	18,888	(6,035)	7,425	3,858	2,486	1,720
Commitments and contingencies								
Commitments to extend credit	–	11	–	–	–	–	–	11
Net off-balance sheet position (Note 33)	–	11	–	–	–	–	–	11
Net position	(99,393)	74,480	18,888	(6,035)	7,425	3,858	2,486	1,709

Assets and liabilities in other currencies mainly include positions in monetary gold, Swiss francs and bank metals.

As at 31 December 2004, the NBU had the following positions in currencies:

	<i>(in UAH millions)</i>						
	UAH	USD	EUR	SDR	Other	Non-monetary items	Total
Assets							
Foreign currency funds and deposits	–	25,793	12,477	–	10,318	–	48,588
Foreign securities	–	3,908	–	–	–	137	4,045
SDR Holdings	–	–	–	6	–	–	6
Monetary gold	–	–	–	–	1,180	–	1,180
Government securities	6,783	–	88	–	–	–	6,871
Loans to banks and other borrowers	3,620	362	–	–	–	–	3,982
Internal State debt	3,499	6,281	–	–	–	–	9,780
IMF Quota contributions	–	–	–	11,304	–	–	11,304
Fixed assets and intangible assets	–	–	–	–	–	1,407	1,407
Other assets	26	–	24	9	195	201	455
Total assets	13,928	36,344	12,589	11,319	11,693	1,745	87,618
Liabilities							
Banknotes and coins in circulation	45,669	–	–	–	–	–	45,669
Accounts of banks	8,075	1,149	376	–	–	–	9,600
Accounts of Government and other clients	5,036	297	97	–	–	–	5,430
Profits payable to the State Budget	377	–	–	–	–	–	377
Deposit certificates issued by the National Bank of Ukraine	173	–	–	–	–	–	173
Loans received	–	421	–	–	–	–	421
Liabilities to IMF	–	–	–	19,869	–	–	19,869
Other liabilities	51	2	1	28	1	–	83
Total liabilities	59,381	1,869	474	19,897	1	–	81,622
Net balance sheet position	(45,453)	34,475	12,115	(8,578)	11,692	1,745	5,996
Commitments and contingencies							
Commitments to extend credit	207	20	–	–	–	–	227
Net off-balance sheet position (Note 33)	207	20	–	–	–	–	227
Net position	(45,660)	34,455	12,115	(8,578)	11,692	1,745	5,769

31. Interest Rate Risk

Interest rate risk is the risk of incurring losses as a result of unfavourable changes in interest rates. The interest rate risk arises, principally as a result of investing in financial instruments at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates, as well as a result of investing in financial instruments or attracting funds at variable interest rates.

As at 31 December 2005 the NBU had the following structure of weighted average interest rates by major currencies for monetary financial interest-bearing instruments. The analysis has been prepared using the weighted-average contractual rates at the balance sheet date.

	UAH	USD	EUR	SDR	GBP	Other	(in %) Total weighted average interest rate
Assets							
Term deposits with OECD banks	-	4.13	2.19	-	4.80	1.09	3.57
Foreign securities	-	4.26	-	-	4.27	-	4.26
SDR Holdings	-	-	-	3.03	-	-	3.03
Government securities	-	-	10.00	-	-	-	10.00
Loans to banks and other borrowers	8.51	6.65	-	-	-	-	7.62
Liabilities							
Term deposits of banks	5.68	-	-	-	-	-	5.68
Deposit certificates issued by the National Bank of Ukraine	5.55	-	-	-	-	-	5.55
Loans received	-	5.59	-	-	-	-	5.59
Liabilities to the IMF in respect of purchases of funds	-	-	-	4.25	-	-	4.25

The sign "-" in the table above means that the NBU does not have the respective interest bearing assets or liabilities in corresponding currency.

Interest is accrued at floating rates on the following assets and liabilities: on SDR holdings and liabilities to IMF the interest rate changes on a weekly basis; on loans to banks and other borrowers granted under EBRD credit line and loans received from EBRD, the interest rate is LIBOR +3% and LIBOR +1% respectively which is revised twice per year.

As at 31 December 2004 the NBU had the following interest rates on assets and liabilities:

	UAH	USD	EUR	SDR	Other	(in %) Total weighted average interest rate
Assets						
Term deposits with OECD banks	-	1.86	2.22	-	4.27	2.5
Foreign securities	-	1.98	-	-	-	1.98
SDR Holdings	-	-	-	2.22	-	2.22
Government securities	11.04	-	10.00	-	-	11.03
Loans to banks and other borrowers	12.99	4.82	-	-	-	11.92
Liabilities						
Term deposits of banks	-	1.34	1.17	-	-	1.32
Deposit certificates issued by the National Bank of Ukraine	11.49	-	-	-	-	11.49
Loans received	-	3.56	-	-	-	3.56
Liabilities to the IMF in respect of purchases of funds	-	-	-	3.12	-	3.12

Interest rate repricing analysis of assets and liabilities

The table below summarises concentration of interest rate repricing risk categorised by the earlier of contractual repricing or maturity dates.

For assets and liabilities with fixed interest rates, classification is determined based on contractual maturity date. For assets and liabilities with variable interest rates, classification was determined taking into account the earlier repricing term or maturity dates.

As at 31 December 2005 interest rate repricing analysis of the NBU's assets and liabilities is presented below:

(in UAH millions)

	Demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non- interest bearing	Total
Assets							
Foreign currency funds and deposits	11,983	19,259	47,001	405	–	86	78,734
Foreign securities	20,139	–	–	–	–	120	20,259
SDR Holdings	5	–	–	–	–	–	5
Monetary gold	–	–	–	–	–	1,393	1,393
Government securities	–	14	15	15	–	395	439
Loans to banks and other borrowers	68	53	577	–	–	–	698
Internal State debt	–	–	–	–	–	9,225	9,225
IMF Quota contributions	–	–	–	–	–	9,903	9,903
Fixed assets and intangible assets	–	–	–	–	–	2,147	2,147
Other assets	–	1	–	67	–	491	559
Total assets	32,195	19,327	47,593	487	–	23,760	123,362
Liabilities							
Banknotes and coins in circulation	–	–	–	–	–	65,409	65,409
Accounts of banks	144	–	–	–	–	17,639	17,783
Accounts of Government and other clients	20	–	–	–	–	18,539	18,559
Profits payable to the State Budget	–	–	–	–	–	1,065	1,065
Deposit certificates issued by the National Bank of Ukraine	102	1,251	1,074	–	–	–	2,427
Loans received	–	–	335	–	–	–	335
Liabilities to IMF	6,040	–	–	–	–	9,903	15,943
Other liabilities	89	–	–	–	–	32	121
Total liabilities	6,395	1,251	1,409	–	–	112,587	121,642
Net gap	25,800	18,076	46,184	487	–	(88,827)	1,720
Cumulative gap	25,800	43,876	90,060	90,547	90,547	1,720	–

As at 31 December 2004 interest rate repricing analysis of the NBU's assets and liabilities is presented below:

(in UAH millions)

	Demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non- interest bearing	Total
Assets							
Foreign currency funds and deposits	13,057	10,518	23,504	507	–	1,002	48,588
Foreign securities	3,908	–	–	–	–	137	4,045
SDR Holdings	6	–	–	–	–	–	6
Monetary gold	–	–	–	–	–	1,180	1,180
Government securities	88	195	6,140	53	–	395	6,871
Loans to banks and other borrowers	1,866	286	1,448	382	–	–	3,982
Internal State debt	–	–	–	–	–	9,780	9,780
IMF Quota contributions	–	–	–	–	–	11,304	11,304
Fixed assets and intangible assets	–	–	–	–	–	1,407	1,407
Other assets	–	–	–	48	–	407	455
Total assets	18,925	10,999	31,092	990	–	25,612	87,618
Liabilities							
Banknotes and coins in circulation	–	–	–	–	–	45,669	45,669
Accounts of banks	251	–	–	–	–	9,349	9,600
Accounts of Government and other clients	47	–	–	–	–	5,383	5,430
Profits payable to the State Budget	–	–	–	–	–	377	377
Deposit certificates issued by the National Bank of Ukraine	47	126	–	–	–	–	173
Loans received	–	18	403	–	–	–	421
Liabilities to IMF	8,565	–	–	–	–	11,304	19,869
Other liabilities	40	–	–	–	–	43	83
Total liabilities	8,950	144	403	–	–	72,125	81,622
Net gap	9,975	10,855	30,689	990	–	(46,513)	5,996
Cumulative gap	9,975	20,830	51,519	52,509	52,509	5,996	–

32. Liquidity Risk

Liquidity risk is defined as the risk when the entity does not have usable funds for servicing current liabilities. For the purposes of liquidity risk calculation assets and liabilities are analysed by remaining contractual maturity at the balance sheet date.

The liquidity position of the NBU as at 31 December 2005 is set out below.

(in UAH millions)

	Demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	No maturity	Total
Assets							
Foreign currency funds and deposits	12,069	19,259	47,001	405	–	–	78,734
Foreign securities	20,139	–	–	–	–	120	20,259
SDR Holdings	5	–	–	–	–	–	5
Monetary gold	1,393	–	–	–	–	–	1,393
Government securities	–	14	15	410	–	–	439
Loans to banks and other borrowers	68	53	401	176	–	–	698
Internal State debt	–	–	253	2,866	3,240	2,866	9,225
IMF Quota contributions	–	–	–	–	–	9,903	9,903
Fixed assets and intangible assets	–	–	–	–	–	2,147	2,147
Other assets	154	22	7	42	25	309	559
Total assets	33,828	19,348	47,677	3,899	3,265	15,345	123,362
Liabilities							
Banknotes and coins in circulation	–	–	–	–	–	65,409	65,409
Accounts of banks	17,783	–	–	–	–	–	17,783
Accounts of Government and other clients	18,559	–	–	–	–	–	18,559
Profits payable to the State Budget	–	–	1,065	–	–	–	1,065
Deposit certificates issued by the National Bank of Ukraine	102	1,251	1,074	–	–	–	2,427
Loans received	–	–	82	253	–	–	335
Liabilities to IMF	77	655	1,350	3,983	–	9,878	15,943
Other liabilities	114	5	1	–	–	1	121
Total liabilities	36,635	1,911	3,572	4,236	–	75,288	121,642
Net liquidity gap	(2,807)	17,437	44,105	(337)	3,265	(59,943)	1,720
Cumulative liquidity gap	(2,807)	14,630	58,735	58,398	61,663	1,720	–

Internal State debt with no maturity classification includes the amount due from Government totalling UAH 129 million with maturity and terms of repayment not regulated by the legislation (refer to Note 8), as well as part of internal State debt in foreign currency which was due to be repaid in 2002–2005.

Monetary gold and bank metals, excluding silver, were classified within "Demand and up to 1 month" category as these assets can be realized at their carrying values during this time-frame.

Foreign securities at fair value through profit or loss have been classified within demand and up to 1 month category as Management believe this is a fairer portrayal of its liquidity position. The liquidity position of the NBU as at 31 December 2004 is set out below.

(in UAH millions)

	Demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	No maturity	Total
Assets							
Foreign currency funds and deposits	14,059	10,518	23,504	507	-	-	48,588
Foreign securities	3,908	-	-	-	-	137	4,045
SDR Holdings	6	-	-	-	-	-	6
Monetary gold	1,180	-	-	-	-	-	1,180
Government securities	102	195	814	4,498	1,262	-	6,871
Loans to banks and other borrowers	1,866	286	1,213	617	-	-	3,982
Internal State debt	-	-	264	3,661	3,370	2,485	9,780
IMF Quota contributions	-	-	-	-	-	11,304	11,304
Fixed assets and intangible assets	-	-	-	-	-	1,407	1,407
Other assets	121	38	2	30	19	245	455
Total assets	21,242	11,037	25,797	9,313	4,651	15,578	87,618
Liabilities							
Banknotes and coins in circulation	-	-	-	-	-	45,669	45,669
Accounts of banks	9,600	-	-	-	-	-	9,600
Accounts of Government and other clients	5,430	-	-	-	-	-	5,430
Profits payable to the State Budget	-	-	377	-	-	-	377
Deposit certificates issued by the National Bank of Ukraine	47	126	-	-	-	-	173
Loans received	-	18	66	310	27	-	421
Liabilities to IMF	87	347	1,313	6,846	-	11,276	19,869
Other liabilities	47	3	5	-	-	28	83
Total liabilities	15,211	494	1,761	7,156	27	56,973	81,622
Net liquidity gap	6,031	10,543	24,036	2,157	4,624	(41,395)	5,996
Cumulative liquidity gap	6,031	16,574	40,610	42,767	47,391	5,996	-

33. Commitments, Contingencies and Derivative Financial Instruments

(a) Guarantees issued

Guarantees were issued by the NBU in 1992 in accordance with a decree of the Parliament of Ukraine after issue of respective guarantees by the Cabinet of Ministers of Ukraine to cover repayment of loans received by Ukrainian borrowers from foreign creditors. Loans outstanding covered by these guarantees were partially repaid and partially restructured.

Restructured loans are repaid by the Ministry of Finance of Ukraine from funds of the State budget of Ukraine in accordance with the Agreement between the Government of Ukraine and Government of the Federal Republic of Germany entered into in December 2001. During 2005

amounts due in respect of this debt were repaid by the Government of Ukraine according to the schedule defined by the Agreement.

No provisions have been raised to cover possible losses under these guarantees as the debts covered by these guarantees are serviced by the Cabinet of Ministers of Ukraine.

(b) Credit commitments

Credit commitments include the following:

	2005	(in UAH millions) 2004
Commitments to extend credit to support liquidity	–	207
Commitments to extend credit under international credit lines	11	20
Total credit commitments	11	227

(c) Capital commitments

As at 31 December 2005 the NBU had capital commitments in respect of fixed asset purchases, construction and improvements and intangible assets purchases totalling UAH 48 million (2004: UAH 38 million).

(d) Derivative financial instruments

During 2005 the NBU did not perform operations with derivative financial instruments including forward and option contracts for purchase and sale of foreign currency.

(e) Legal proceedings

From time to time and in the normal course of business, claims against the NBU are received. On the basis of own estimates and internal professional advice the Management is of the opinion that no material losses will be incurred by the NBU and accordingly no provision has been made in these financial statements.

34. Fair Value of Financial Instruments

Fair value of financial assets and liabilities is the amount at which an asset can be exchanged or liability settled in a transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial assets and liabilities have been determined by the NBU using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. As disclosed in Note 3, the economy of Ukraine displays characteristics of an emerging market, and the level of activity in financial markets of Ukraine is low. As such, the estimates may not be fully reflective of the value that could be realised by the NBU in the current circumstances.

Financial assets and liabilities carried at fair value. Debt securities at fair value through profit or loss are recorded in the balance sheet at their fair value. The NBU has estimated that the fair value of certain financial assets and liabilities is not materially different from their carrying values. These financial instruments include funds and deposits in foreign currency, SDR holdings, banknotes and coins in circulation, accounts of banks, accounts of Government and other clients, loans received and liabilities to IMF.

Fair value of Government securities denominated in foreign currency has been estimated using quoted market prices for Ukrainian external debt in the same currency, with similar maturity and yield characteristics.

Fair values of those financial instruments for which no active market exists have been calculated by the NBU using discounted cash flow techniques. This model takes into account future interest payments and principal repayments, the repayment period and the discount factor. As the determination of the discount factor is subjective, the NBU has used a range of discount factors which resulted in a range of fair values calculated for the same category of

assets. The discounted cash flows method was used by the NBU to estimate fair values of Government securities denominated in national currency, internal State debt and loans to banks and other borrowers. The following methods and assumptions were used for the purposes of discounted cash flow calculations:

Fair value of Government securities denominated in the national currency (promissory notes of the State Treasury of Ukraine). To estimate the upper fair value the NBU used as a discount factor 6.5% per annum, being the yield on domestic Government bonds (maturing on 30 December 2009) realised on 28 December 2005 on organised secondary market (in 2004 the NBU used discount factor of 11.65% per annum, i.e. the yield on medium-term domestic Government bonds realised on 17 December 2004 on secondary market).

To estimate the lower fair value the NBU used as a discount factor 9.5% per annum, being the NBU discount rate effective at the end of 2005 (in 2004 the NBU used as a discount factor 11.7% per annum, i.e. average yield on medium-term domestic Government bonds sold by the Ministry of Finance of Ukraine on 14 December 2004 at the last primary auction in 2004).

For the purposes of calculating fair value of promissory notes of the State Treasury of Ukraine the NBU did not take into account any interest income, as no interest accrual is envisaged by effective legislation.

The fair value of internal State debt in respect of loans to Government in foreign currency (USD). To estimate both the upper and the lower fair value the NBU used as the discount factor the rate of 6.24% per annum, i.e. the yield on external Government bonds denominated in USD with similar maturity dates (in 2004 the NBU used as the discount factor the rate of 6.33% per annum, i.e. the yield on external Government bonds denominated in USD with similar maturity dates).

Repayment of USD 50 million (UAH 253 million at the year-end official exchange rate of hryvnia to USD) is provided in the State Budget of Ukraine for 2006. Due to uncertainty of the schedule of repayment of the remaining part of this debt, to estimate the upper value the cash flows were split proportionately from 2007 to 2009 (by equal quarterly instalments). To estimate the lower value the total amount of debt except for the portion to be repaid in 2006, was included in cash flows for 2009.

The fair value of internal State debt in respect of loans to Government granted in the national currency in 1991–1993 was not calculated due to the uncertainty about repayment terms or terms of debt servicing.

The fair value of internal State debt in respect of national currency denominated loans to Government granted in 1994–1996. To estimate the upper fair value, the NBU used the discount factor of 6.5%, i.e. the yield on medium-term domestic Government bonds realised on 28 December 2005 on secondary market of state debt (in 2004 the NBU used the discount factor of 11.65%, i.e. the yield on medium-term domestic Government bonds realised on 17 December 2004 on secondary market of state debt).

To estimate the lower fair value the NBU used as a discount factor 9.5% per annum, being the NBU discount rate effective at the end of 2005 (in 2004 the NBU used as a discount factor 11.7% per annum, i.e. average yield on medium-term domestic Government bonds sold by the Ministry of Finance of Ukraine on 14 December 2004 at the last primary auction in 2004).

At the end of 2005 cash flows for the purposes of calculating fair value of loans to Government in national currency include the amount of interest at 5% for servicing the loans starting from 2010.

Fair value of loans to banks and other borrowers. To estimate the upper fair value, the NBU used the discount factor of 10.45% per annum being the actual interest rate on deposits of businesses placed or extended with banks in national currency as at 30 December 2005 (in 2004 the NBU used the discount factor of 10.36% per annum being the actual interest rate on long-term deposits of businesses and individuals in national currency as at 31 December 2004).

To estimate the lower fair value, the NBU used the discount factor of 12.84% per annum being the average weighted interest rate on medium-term refinancing loans granted to banks at auction on 14 December 2005.

The cash flows for the purposes of calculating fair value of loans to banks and other borrowers include the amount of interest for servicing the loans.

The following table summarises the carrying amounts and estimated fair values of those financial assets not presented on the NBU's balance sheet at their fair value:

	Carrying value	2005 Estimated fair value		Carrying value	(in UAH millions) 2004 Estimated fair value	
		Upper value	Lower value		Upper value	Lower value
		Government securities in foreign currency, including accrued interest income:				
EUR denominated OZDP issued in 2000	44	46	46	88	95	94
Total Government securities denominated in foreign currency	44	46	46	88	95	94
Government securities in national currency, including accrued interest income:						
POVDP issued in 2000	–	–	–	6,388	6,327	6,320
Promissory notes of the State Treasury of Ukraine	395	300	266	395	217	217
Total Government securities in national currency	395	300	266	6,783	6,544	6,537
Total Government securities	439	346	312	6,871	6,639	6,631
Internal State debt on loans in foreign currency	5,726	4,914	4,535	6,281	5,228	4,676
Internal State debt in national currency arising in 1991–1993	129	Not calculated		129	Not calculated	
Internal State debt in national currency arising in 1994–1996	3,370	2,382	1,715	3,370	1,204	1,197
Total internal State debt	9,225	7,296	6,250	9,780	6,432	5,873
Loans to banks and other borrowers, including accrued interest income	698	695	692	3,982	3,963	3,941

Taking into account the fact that the calculations of the estimated fair value are based on certain assumptions, it should be noted that the information provided above may not be fully reflective of the value that could be realised.

35. Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship,

attention is paid to the substance of the relationship, not merely the legal form. Related parties of the NBU include Government, state-controlled entities, key management personnel and other related parties.

In the normal course of business the NBU enters into transactions with related parties. The outstanding balances at the year end are as follows:

	<i>(in UAH millions)</i>			
	2005 Government and State- controlled entities	Other related parties	2004 Government and State- controlled entities	Other related parties
Government securities	439	–	6,871	–
Loans to banks and other borrowers				
Loans to banks in UAH at the year end (contractual interest rate: 31 December 2005: 7%; 31 December 2004: 7%–14%)	58	–	617	–
Internal State debt	9,225	–	9,780	–
Accounts of banks	1,308	–	503	–
Accounts of Government and other clients	18,513	30	5,318	83
Profits payable to the State Budget	1,065	–	377	–
Deposit certificates issued by the National Bank of Ukraine	1,734	–	–	–

In 2005 the remuneration of key management personnel amounted to UAH 4.0 million (2004: UAH 3.6 million).

36. Concentration of Assets and Liabilities

As at 31 December 2005 8% (2004: 22%) of the total NBU assets, excluding IMF Quota, were represented by amounts due from Government in respect of internal State debt and Government securities and 27% (2004: 32%) were represented by funds and deposits placed with Bank for International Settlements and bonds of Bank for International Settlements. 59% (2004: 64%) of the total NBU's liabilities (excluding promissory notes issued to the IMF in settlement of Quota) are represented by banknotes and coins in circulation, 5% (2004: 12%) is represented by liabilities to the IMF, 17% (2004: 7%) is represented by funds of the State Treasury of Ukraine and 16% (2004: 14%) is represented by accounts of banks.

25 April 2006

Kyiv, Ukraine



LLC audit firm
"PricewaterhouseCoopers (Audit)"
 38 Turgenevska Street
 Kyiv, 01054, Ukraine
 Telephone +380 44 4906777
 Facsimile +380 44 2164558

AUDITOR'S REPORT

To the Members of the Council and the Board of the National Bank of Ukraine

1. We have audited the accompanying balance sheet of the National Bank of Ukraine (the "NBU") as at 31 December 2005 and the related statements of income, of cash flows and of changes in capital employed for the year then ended. These financial statements, set out on pages 127 to 163, are the responsibility of the NBU's Management and have been prepared in accordance with accounting policies adopted by the Board of the NBU and set out in Note 2 on pages 128 to 135. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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.
3. As disclosed in Note 8, current Ukrainian legislation does not contain any regulations regarding repayment or servicing of internal State debt which originated in 1991–1993 in the amount of UAH 129 million. In addition, we were unable to obtain confirmation of this debt from the Government as at 31 December 2005 and it is not clear which Government authority would accept responsibility for repaying this obligation.
4. In our opinion, except for the effect on the financial statements of the matter referred to in paragraph 3 above, the accompanying financial statements have been properly prepared in all material respects to present the financial position of the NBU as at 31 December 2005 and the results of its operations for the year then ended, in accordance with the accounting policies adopted by the Board of the NBU and set out in Note 2 to the financial statements.
5. Without further qualifying our opinion, we draw attention to the following:
 - 5.1. As disclosed in Note 2 to the financial statements, the NBU applies its own accounting policies to certain areas in order to comply with the requirements of the current Ukrainian legislation. Major departures in the NBU's accounting policies from International Financial Reporting Standards (IFRS) arising as a result of these requirements, are described in Note 2.
 - 5.2. The NBU has created provisions against internal State debt in national currency in accordance with the requirements of the relevant legislation and the NBU's accounting policy. Had the NBU created provisions against internal State debt in accordance with IFRS requirements and not been restricted by the provisions of the current legislation, the carrying value of receivables from Government would be different. Note 34 discloses the NBU's estimates of the current fair value of the internal State debt, which is significantly lower than its carrying value. The estimated fair value of the internal State debt in foreign currency as calculated by the NBU assumes the full repayment of the debt by 2009. Had the repayment schedule reflected the actual historical pattern of debt servicing, the internal State debt in foreign currency would not be repaid until well beyond 2009, resulting in a lower fair value estimate.

PricewaterhouseCoopers

Kyiv, Ukraine
 25 April 2006

L. Pakhucha

Auditor

L. Pakhucha



Audit certificate issued by the National Bank of Ukraine №0000025

Chapter 4

TABLES

**MAIN INDICATORS OF THE ECONOMIC
AND SOCIAL SITUATION IN UKRAINE**

Indicators	1991	1992	1993	1994	1995	1996	1997
Gross domestic product	0.3	5	148	1204	5452	81519	93365
Growth rates versus previous year in comparable prices, %	91.3	90.1	85.8	77.1	87.8	90.0	97.0
Industrial output	0.33	6	177	1310	5882	73321	75061
Growth rates versus previous year in comparable prices, %	95.2	93.6	92.0	72.7	88.0	94.9	99.7
Agricultural output	0.1	1.4	58	363	1698	26746	30032
Growth/decrease rates versus previous year in comparable prices, %	86.8	91.7	101.5	83.5	96.4	90.5	98.2
Consumer goods production ¹	0.2	2	76	445	1938	22939	22669
Growth/decrease rates versus previous year in comparable prices, %	94.9	90.6	84.1	75.0	82.2	82.2	88.1
Capital investment	0.05	0.9	29	228	938	12557	12401
Growth/decrease rates versus previous year in comparable prices, %	92.9	63.1	89.6	77.5	71.5	78.0	91.2
Retail turnover	0.1	1.5	44	337	1196	17344	18933
Growth/decrease rates versus previous year in comparable prices, %	90.3	82.0	65.0	86.4	86.1	94.9	100.2
Paid services rendered to individuals	0.02	0.1	4	56	370	7635	9279
Growth/decrease rates versus previous year in comparable prices, %	73.4	78.0	77.1	96.7	67.7	85.8	94.9
Income	0.1	3	93	515	1881	14418	13868
Growth/decrease rates versus previous year at actual prices, %	2.1 t.	23.2 t.	36.5 t.	5.5 t.	4 t.	76.7	96.2
Share of unprofitable enterprises, %	...	9.5	8.3	11.4	22.2	43.0	45.0
Consumer price index, % versus December of previous year	3.9 t.	21.0 t.	102.6 t.	5.0 t.	2.8 t.	139.7	110.1
Industrial producers' price index, % versus December of previous year	2.6 t.	42.3 t.	97.7 t.	8.7 t.	2.7 t.	117.3	105.0

(at actual prices; from 1991 to 1995, in billions of Ukrainian karbovanets; from 1996, in millions of hryvnias)

1998	1999	2000	2001	2002	2003	2004	2005	Indicators
102593	130442	170070	204190	225810	267344	345113	424741	Gross domestic product
98.1	99.8	105.9	109.2	105.2	109.6	112.1	102.6	Growth rates versus previous year in comparable prices, %
82889	107537	160755	184276	202687	259502	×	×	Industrial output
99.0	104.0	113.2	114.2	107.0	115.8	112.5	103.1	Growth rates versus previous year in comparable prices, %
32758	37683	54259	65218	65253	64780	83900	92536	Agricultural output
90.4	93.1	109.8	110.2	101.2	89.0	119.9	100.0	Growth/decrease rates versus previous year in comparable prices, %
17538	20996	29762	33524	37933	48336	×	×	Consumer goods production ¹
100.0	107.2	124.5	117.7	108.4	120.4	×	×	Growth/decrease rates versus previous year in comparable prices, %
13958	17552	23629	32573	37178	51011	75714	93096	Capital investment
106.1	100.4	114.4	120.8	108.9	131.3	128.0	101.9	Growth/decrease rates versus previous year in comparable prices, %
19317	22151	28757	34417	39691	49993	67556	94332	Retail turnover
93.4	92.9	108.1	113.7	115.0	120.5	121.9	123.4	Growth/decrease rates versus previous year in comparable prices, %
9845	11625	26487 ²	37822	46400	56121	72933	90794	Paid services rendered to individuals
96.2	93.8	...	142.8	122.7	120.9	130.0	124.5	Growth/decrease rates versus previous year in comparable prices, %
3419	7427	13933 ³	18741	14641	19643	44578	57619	Income
24.7	2.2 t.	187.6	134.5	78.1	134.2	2.3 t.	129.3	Growth/decrease rates versus previous year at actual prices, %
54.5	55.7	37.7	38.2	38.8	37.2	34.8	33.3	Share of unprofitable enterprises, %
120.0	119.2	125.8	106.1	99.4	108.2	112.3	110.3	Consumer price index, % versus December of previous year
135.3	115.7	120.8	100.9	105.7	111.1	124.1	109.5	Industrial producers' price index, % versus December of previous year

¹ In 1991–1997, at release prices; from 1998, at actual prices.² From 2000, the volume of rendered services, growth rates at actual prices.³ From 2000, financial result from usual activity before taxation.

Indicators	1991	1992	1993	1994	1995	1996	1997
Average monthly nominal salary/wage of employees, Ukr KRB thou	0.5	6.5	162.8	1427.7	7342.0	125.84 ¹	143.13
Growth rates versus previous year, %	...	13.6 t.	25.0 p.	8.8 t.	5.2 t.	171.4	113.7
December versus December of previous year	...	...	...	4.2 t.	3.7 t.	121.8	108.9
Index of real average monthly salary/wage of employees, %	...	...	...	...	110.6	96.6	96.6
Growth/decrease rates versus previous year, %	...	61.3	48.5	85.4	128.1	86.2	97.6
December versus December of previous year	...	...	...	...	...	...	...
Money income of individuals	0.2	2	63	539	2650	40311	50069
Growth rates versus previous year, at actual prices, %	1.9 t.	11.6 t.	26.5 t.	8.6 t.	4.9 t.	152.1	124.2
Money expenditures and savings of individuals	0.19	2	51	475	2478	38961	47933
Growth rates versus previous year, at actual prices, %	1.8 t.	9.9 t.	27.0 t.	9.3 t.	5.2 t.	157.2	123.0
Unemployment rate (end of period), %	...	0.03	0.25	0.3	0.29	1.27	2.33
Number of unemployed individuals registered by the State Service of Employment, thou persons	...	618.4	557.5	569.2	640.1	982.6	1455.1
Number of citizens registered as unemployed, thou persons	...	128.0	180.9	216.0	257.7	558.5	1027.8
Minimum salary/wage of individuals end of period, Ukr. KRB	...	967	13642	60000	60000	15.0 ¹	15.0
Average monthly subsistence level per person, Ukr. KRB ⁴	—	—	359	2258.7	6809.5	95.03 ¹	76.10

Continued

1998	1999	2000	2001	2002	2003	2004	2005	Indicators
153.49	177.52	230.13	311.08	376.38	462.27	589.62	806.19	Average monthly nominal salary/wage of employees, Ukr KRB thou
107.2	115.7	129.6	135.2	121.0	122.8	127.5	136.7	Growth rates versus previous year, %
105.6	124.3	135.4	127.7	117.0	124.4	127.7	144.9	December versus December of previous year
96.2	91.1	99.1	119.3	118.2	115.2	123.8	120.3	Index of real average monthly salary/wage of employees, %
87.1	103.4	103.6	120.4	115.6	113.8	120.8	131.5	Growth/decrease rates versus previous year, %
								December versus December of previous year
54379	61865	86911	109391	185073 ²	215672	274241	370636	Money income of individuals
108.6	113.8	140.5	125.9	117.1	116.5	127.2	135.1	Growth rates versus previous year, at actual prices, %
53376	59518	83777	102835	185073 ³	215672	274241	370636	Money expenditures and savings of individuals
111.4	111.5	140.8	122.7	117.1	116.5	127.2	135.1	Growth rates versus previous year, at actual prices, %
3.69	4.30	4.22	3.68	3.8	3.6	3.5	3.2	Unemployment rate (end of period), %
2036.7	2475.9	2744.1	2760.2	2799.2	2835.2	2900.6	2887.7	Number of unemployed individuals registered by the State Service of Employment, thou persons
1588.8	2056.3	2272.1	2229.4	2236.9	2258.7	2251.4	2203.9	Number of citizens registered as unemployed, thou persons
55.0	74.0	118.0	118.0	165.0	205.0	237.0	310.0	Minimum salary/wage of individuals end of period, UAH
84.99	128.17	156.42	315.15	317.73	334.35	385.9	453.95	Average monthly subsistence level per person, UAH ⁴

¹ From 1996, in hryvnias.

² From 2002, income of individuals.

³ From 2002, expenditures of individuals.

⁴ In 1993–2000, insufficient subsistence level for unable-bodied individuals; in 1997–2000, with housing subsidies taken into account.

Indicators	1991	1992	1993	1994	1995	1996	1997
Exports of goods and services, USD mln	...	8045	7817	16641	17090	20346	20355
Growth/decrease rates versus previous year, %	97.2	2.1 t.	102.6	119.1	100.0
Imports of goods and services, USD mln	...	7099	9533	18007	18280	21468	21891
Growth/decrease rates versus previous year, %	134.3	1.9 t.	101.5	117.4	102.0
Gross external debt, USD million ⁴	—	—	—	—	—	—	—
Service ratio of the long-term credit and debt liabilities, % ⁵	—	—	—	11.2	8.0	6.6	7.3
International reserves, months of future period imports	—	—	—	0.4	0.6	1.1	1.5
in % of GDP							
Consolidated Budget revenues	...	24.4	33.5	43.5	38.0	37.1	30.1
Consolidated Budget expenditures	...	38.1	38.6	52.4	44.6	41.9	36.8
Consolidated Budget deficit	—	13.8	5.1	8.9	6.6	4.9	6.6
Current Balance of Payments	—	—	—	- 2.4	- 3.2	- 2.7	- 2.7
Gross external debt	—	—	—	—	—	—	—
Public external debt ⁴	—	—	—	—	—	—	—
Exports of goods and services	—	—	—	—	—	—	—
Imports of goods and services	—	—	—	—	—	—	—

Concluded

1998	1999	2000	2001	2002	2003	2004 ³	2005	Indicators
17621	16332 ¹	19248 ²	21086	23351	28953	41291	44378	Exports of goods and services, USD mln.
86.6	92.7	117.9	109.5	110.7	124.0	142.6	107.5	Growth/decrease rates versus previous year, %
18828	15237	17947	20473	21494	27665	36313	43707	Imports of goods and services, USD mln.
86.0	80.9	117.8	114.1	105.0	128.7	131.3	120.4	Growth/decrease rates versus previous year, %
—	20500	19100	20400	21645	23811	30647	38814	Gross external debt, USD mln. ⁴
12.5	16.0 ¹	14.5 ²	14.6	12.0	11.8	10.7	14.7	Service ratio of the long-term credit and debt liabilities, % ⁵
0.6	0.7	0.9	1.7	1.9	2.4	2.6	4.9	International reserves, International reserves, period imports
								in % of GDP
28.2	25.2	28.9	26.9	27.4	28.2	26.5	31.6	Consolidated Budget revenues
30.4	26.7	28.3	27.2	26.7	28.4	29.4	33.4	Consolidated Budget expenditures
2.2	1.5	0.6 ⁶	0.3	0.7 ⁶	0.2	3.2	1.8	Consolidated Budget deficit
- 3.0	3.0 ¹	3.9 ²	3.7	7.5	5.8	10.6	3.1	Current Balance of Payments
—	66.2	61.1	53.6	51.1	47.5	47.2	47.4	Gross external debt
—	40.4	33.3	26.7	—	21.3	19.3	15.9	Public external debt ⁴
—	53.1	62.4	55.4	55.1	57.8	63.6	54.2	Exports of goods and services
—	49.5	57.4	53.8	50.7	55.2	56.0	53.4	Imports of goods and services

¹ Excluding reciprocal payments with Russia according to the Black Sea Fleet Agreement.

² Excluding the value of the goods handed over to Russia for payment of debts to the Open Joint-Stock Company "Gazprom".

³ Volumes of 2004 exports/imports of services were corrected due to recalculation of the volumes in the Travel item according to the new methodology.

⁴ According to IMF methodology.

⁵ External debt service costs (according to schedule) pertaining to exports of goods and services.

⁶ Surplus.

According to the data of the State Statistics Committee of Ukraine, excluding data on exports and imports of goods and services, current balance of payments, external debt service ratio, gross international reserves calculated by the NBU since 1994 and data on unemployment, number of unemployed persons and social security calculated by the State Centre of Employment and Ministry of Labour and Social Policy of Ukraine.

AVAILABLE MONEY SUPPLY IN CIRCULATION IN UKRAINE AND ITS DISTRIBUTION IN 1991–1997

(end of period, UAH mln)

Indicators	1991*	1992	1993	1994	1995	1996	1997
Available money supply in circulation							
Cash	0.3	5	128	793	2623	4041	6132
Money outside banks (M0)	0.3	5	128	793	2623	4041	6132
Money on settlement and current accounts in national currency	1.4	16	206	1067	2059	2275	2918
Money supply (M1)	1.7	21	334	1860	4682	6315	9050
Time funds in national currency and foreign exchange funds	0.7	4	148	1356	2164	2708	3398
Money supply (M2)	2.4	25	482	3216	6846	9023	12448
Customers' funds held in trust	—	—	—	—	84	341	93
Money supply (M3)	—	—	—	—	6930	9364	12541
Money supply distribution							
Funds held by enterprises and organizations	0.8	15	223	1173	2117	2257	2946
including:							
<i>time deposits</i>	0.1	2	40	207	327	322	522
<i>demand deposits</i>	0.7	13	183	966	1789	1868	2309
<i>others</i>	—	—	—	—	—	67	115
Funds held by households	1.5	8	159	1021	3153	5049	7830
of which savings	1.2	3	31	228	529	1008	1698
including:							
<i>time deposits</i>	0.5	1	8	127	260	601	1088
<i>demand deposits</i>	0.7	2	23	101	269	407	609
Savings in foreign currency	—	2	99	1021	1577	1718	1672
Customers' funds held in trust	—	—	—	—	84	341	93
including:							
<i>of legal entities</i>	—	—	—	—	83	337	85
<i>of natural persons</i>	—	—	—	—	1	4	8
Note							
Monetary base	0.4	6	269	1523	3538	4882	7058

*IMF calculations.

Concluded
(versus previous year)

Indicators	1992	1993 times	1994	1995	1996 percent	1997
Available money supply in circulation						
Cash	16	26	6	331	154	152
Money outside banks (M0)	16	26	6	331	154	152
Money on settlement and current accounts in national currency	11	13	5	193	110	128
Money supply (M1)	12	16	6	252	135	143
Time funds in national currency and foreign exchange funds	7	33	9	160	125	125
Money supply (M2)	11	19	7	213	132	138
Customers' funds held in trust	—	—	—	—	406	27
Money supply (M3)	—	—	—	—	135	134
Money supply distribution						
Funds held by enterprises and organizations	19	14	5	180	107	131
including:						
<i>time deposits</i>	17	17	5	158	98	162
<i>demand deposits</i>	19	14	5	185	104	124
<i>others</i>	—	—	—	—	—	171
Funds held by households	5	21	6	309	160	155
of which savings	2	12	7	232	191	168
including:						
<i>time deposits</i>	1.2	13	16	204	231	181
<i>demand deposits</i>	3	12	4	267	151	150
Savings in foreign currency	—	46	10	154	109	97
Customers' funds held in trust	—	—	—	—	406	27
including:						
<i>of legal entities</i>	—	—	—	—	406	25
<i>of natural persons</i>	—	—	—	—	667	207
Note						
Monetary base	14	45	6	232	138	145

AVAILABLE MONEY SUPPLY IN CIRCULATION IN UKRAINE AND ITS DISTRIBUTION IN 1998–2002

(end of period, UAH mln)

Indicators	1998	1999	2000	2001	2002
Available money supply in circulation					
Cash	7158	9583	12799	19465	26434
Money outside banks (M0)	7158	9583	12799	19465	26434
Funds on current accounts in national currency	3174	4511	7936	10331	13847
Money supply (M1)	10331	14094	20762	29796	40281
Time funds in national currency and foreign exchange funds	5100	7620	10782	15390	24040
Money supply (M2)	15432	21714	31544	45186	64321
Customers' funds held in trust and securities of banks' own liabilities	274	355	709	569	548
Money supply (M3)	15705	22070	32252	45755	64870
Money supply distribution					
Funds of economic entities	5213	7869	12020	14456	18623
including:					
<i>time funds:</i>	1039	1534	2700	4051	5501
in national currency	600	850	1315	2540	3681
in foreign currency	439	685	1385	1511	1820
<i>demand funds:</i>	4146	6314	9314	10400	13120
in national currency	2593	3767	6753	8292	10356
in foreign currency	1553	2546	2561	2108	2764
<i>funds held in trust:</i>	28	21	6	5	3
in national currency	23	19	6	5	3
in foreign currency	5	3	0	0	0
Funds of natural persons	10276	13903	19590	30822	45771
of which savings	3119	4319	6791	11357	19337
including:					
<i>time funds:</i>	2255	3032	4661	8175	14301
in national currency	1243	1423	2222	4458	8076
in foreign currency	1012	1608	2439	3717	6226
<i>demand funds:</i>	834	1251	2070	3094	4966
in national currency	581	744	1210	2039	3492
in foreign currency	253	507	860	1055	1475
<i>funds held in trust:</i>	30	37	60	88	70
in national currency	30	36	60	88	70
in foreign currency	—	0	0	0	0
Securities of banks' own liabilities	216	298	642	477	475
including:					
in national currency	138	110	386	295	282
in foreign currency	78	188	257	181	194
For reference					
Monetary base	8625	11988	16780	23055	30808
Multiplier	1.82	1.84	1.92	1.98	2.11
Money velocity	7.26	6.91	6.26	5.24	4.08

Continued

(in percent versus previous year)

Indicators	1998	1999	2000	2001	2002
Available money supply in circulation					
Cash	117	134	134	152	136
Money outside banks (M0)	117	134	134	152	136
Funds on current accounts in national currency	109	142	176	130	134
Money supply (M1)	114	136	147	144	135
Time funds in national currency and foreign exchange funds	150	149	140	143	156
Money supply (M2)	124	141	145	143	142
Customers' funds held in trust and securities of banks' own liabilities	294	130	196	80	97
Money supply (M3)	125	141	145	142	142
Money supply distribution					
Funds of economic entities	133	151	153	120	129
including:					
<i>time funds:</i>	109	148	175	150	136
in national currency	191	142	153	194	145
in foreign currency	140	156	202	109	120
<i>demand funds:</i>	139	152	147	112	126
in national currency	112	145	179	123	125
in foreign currency	231	164	101	82	131
<i>funds held in trust:</i>	33	75	28	80	66
in national currency	27	83	32	81	66
in foreign currency	—	60	3	0	—
Funds of natural persons	121	135	140	158	148
of which savings	131	138	154	168	170
including:					
<i>time funds:</i>	140	134	150	176	175
in national currency	114	114	151	204	181
in foreign currency	195	159	150	152	167
<i>demand funds:</i>	108	150	163	150	160
in national currency	95	128	159	170	171
in foreign currency	153	200	169	123	140
<i>funds held in trust:</i>	356	123	165	145	80
in national currency	375	120	165	145	80
in foreign currency	—	355	119	0	—
Securities of banks' own liabilities	—	138	212	74	100
including:					
in national currency	—	80	348	76	96
in foreign currency	—	241	132	70	108
For reference					
Monetary base	122	139	140	137	134
Multiplier	102	101	104	104	123
Money velocity	85	95	91	83	77

Concluded

(weight in the total money supply, percent)

Indicators	1998	1999	2000	2001	2002
Available money supply in circulation					
Cash	46	43	40	43	41
Money outside banks (M0)	46	43	40	43	41
Funds on current accounts in national currency	20	20	25	23	21
Money supply (M1)	66	64	65	65	62
Time funds in national currency and foreign exchange funds	32	35	33	33	37
Money supply (M2)	98	98	98	99	99
Customers' funds held in trust and securities of banks' own liabilities	2	2	2	1	1
Money supply (M3)	100	100	100	100	100
Money supply distribution					
Funds of economic entities	33	36	37	32	29
including:					
<i>time funds:</i>	7	7	8	9	8
in national currency	4	4	4	6	6
in foreign currency	3	3	4	3	3
<i>demand funds:</i>	26	29	29	23	20
in national currency	17	17	21	18	16
in foreign currency	10	12	8	5	4
<i>funds held in trust:</i>	—	—	—	—	—
in national currency	—	—	—	—	—
in foreign currency	—	—	—	—	—
Funds of natural persons	65	63	61	67	70
of which savings	20	20	21	25	30
including:					
<i>time funds:</i>	14	14	14	18	22
in national currency	8	6	7	10	12
in foreign currency	6	7	8	8	10
<i>demand funds:</i>	5	6	6	7	8
in national currency	4	3	4	4	5
in foreign currency	2	2	3	2	2
<i>funds held in trust:</i>	—	—	—	—	—
in national currency	—	—	—	—	—
in foreign currency	—	—	—	—	—
Securities of banks' own liabilities	1	1	2	1	1
including:					
in national currency	1	—	1	1	—
in foreign currency	—	1	1	—	—

AVAILABLE MONEY SUPPLY IN CIRCULATION IN UKRAINE AND ITS DISTRIBUTION IN 2003–2005

(end of period, UAH mln)

Indicators	2003	2004	2005
Available money supply in circulation			
Cash	33119	42345	60231
Money outside banks (M0)	33119	42345	60231
National currency transferred funds	18421	24745	38341
Money supply (M1)	51541	67090	98573
Foreign currency transferred funds and other funds	43315	58393	94573
Money supply (M2)	94855	125483	193145
Securities of banks' own liabilities	188	317	925
Money supply (M3)	95043	125801	194071
Money supply distribution			
Funds of economic entities	29307	41487	59623
transferred:	16090	23822	31017
in national currency	13168	18705	24249
in foreign currency	2921	5116	6769
other:	13217	17665	28606
in national currency	9920	11974	20783
in foreign currency	3298	5691	7823
Funds of natural persons	65548	83996	133522
of which savings	32429	41652	73291
transferred:	7222	7951	17267
in national currency	5253	6040	14092
in foreign currency	1969	1911	3175
other:	25207	33701	56023
in national currency	13655	16116	28173
in foreign currency	11552	17585	27851
Securities of banks' own liabilities	188	317	925
in national currency	142	225	766
in foreign currency	46	93	160
<u>For reference</u>			
Monetary base	40089	53763	82760
including			
money outside banks (M0)	33119	42345	60231
reserves of banks	6928	11378	22440
other fund with NBU	42	40	89
Money supply (M3)			
in national currency	75258	95405	148294
in foreign currency	19786	30396	45777
Multiplier	2.37	2.34	2.34
Money velocity	3.34	3.13	2.66

Continued

(% of previous year)

Indicators	2003	2004	2005
Available money supply in circulation			
Cash	125.3	127.9	142.2
Money outside banks (M0)	125.3	127.9	142.2
National currency transferred funds	146.8	134.3	154.9
Money supply (M1)	132.2	130.2	146.9
Foreign currency transferred funds and other funds	170.5	134.8	162.0
Money supply (M2)	147.3	132.3	153.9
Securities of banks' own liabilities	39.6	168.7	291.7
Money supply (M3)	146.5	132.4	154.3
Money supply distribution			
Funds of economic entities	157.4	141.6	143.7
transferred:	139.0	148.1	130.2
in national currency	145.4	142.0	129.6
in foreign currency	116.0	175.1	132.3
other:	187.6	133.7	161.9
in national currency	199.1	120.7	173.6
in foreign currency	159.7	172.6	137.5
Funds of natural persons	143.2	128.1	159.0
of which savings	167.7	128.4	176.0
transferred:	145.4	110.1	217.2
in national currency	150.5	115.0	233.3
in foreign currency	133.5	97.1	166.2
other:	175.4	133.7	166.2
in national currency	167.6	118.0	174.8
in foreign currency	185.5	152.2	158.4
Securities of banks' own liabilities	39.6	168.7	291.7
in national currency	50.5	157.9	341.0
in foreign currency	23.7	202.0	172.2
<u>For reference</u>			
Monetary base	130.1	134.1	153.9
including:			
money outside banks (M0)	125.3	127.9	142.2
reserves of banks	159.7	164.2	197.2
other funds with NBU	117.5	96.5	219.6
Money supply M3:			
in national currency	143.6	126.8	155.4
in foreign currency	158.6	153.6	150.6
Multiplier	112.3	98.7	100.2
Money velocity	81.9	93.4	83.2

Concluded

(weight in the total money supply, %)

Indicators	2003	2004	2005
Available money supply in circulation			
Cash	34.8	33.7	31.0
Money outside banks (M0)	34.8	33.7	31.0
National currency transferred funds	19.4	19.7	19.8
Money supply (M1)	54.2	53.3	50.8
Foreign currency transferred funds and other funds	45.6	46.4	48.7
Money supply (M2)	99.8	99.7	99.5
Securities of banks' own liabilities	0.2	0.3	0.5
Money supply (M3)	100.0	100.0	100.0
Money supply distribution			
Funds of economic entities	30.8	33.0	30.7
transferred:	16.9	18.9	16.0
in national currency	13.9	14.9	12.5
in foreign currency	3.1	4.1	3.5
other:	13.9	14.0	14.7
in national currency	10.4	9.5	10.7
in foreign currency	3.5	4.5	4.0
Funds of natural persons	69.0	66.8	68.8
of which savings	34.1	33.1	37.8
transferred:	7.6	6.3	8.9
in national currency	5.5	4.8	7.3
in foreign currency	2.1	1.5	1.6
other:	26.5	26.8	28.9
in national currency	14.4	12.8	14.5
in foreign currency	12.2	14.0	14.4
Securities of banks' own liabilities	0.2	0.3	0.5
in national currency	0.1	0.2	0.4
in foreign currency	0.0	0.1	0.1

AVAILABLE MONEY SUPPLY IN CIRCULATION AND ITS DISTRIBUTION IN 2004–2005

Indicators	end of year, UAH mln		2005 in % of 2004	share within total money supply, %	
	2004	2005		2004	2005
Available money supply in circulation					
Cash	42345	60231	142	34	31
Money outside banks (M0)	42345	60231	142	34	31
National currency transferred funds	24745	38341	155	20	20
Money supply (M1)	67090	98573	147	53	51
Foreign currency transferred funds and other funds	58393	94573	162	46	49
Money supply (M2)	125483	193145	154	100	100
Securities of banks' own liabilities	317	925	292	0	0
Money supply (M3)	125801	194071	154	100	100
Money supply distribution					
Funds of economic entities	41487	59623	144	33	31
transferred:	23822	31017	130	19	16
in national currency	18705	24249	130	15	12
in foreign currency	5116	6769	132	4	3
other:	17665	28606	162	14	15
in national currency	11974	20783	174	10	11
in foreign currency	5691	7823	137	5	4
Funds of natural persons	83996	133522	159	67	69
of which savings	41652	73291	176	33	38
transferred:	7951	17267	217	6	9
in national currency	6040	14092	233	5	7
in foreign currency	1911	3175	166	2	2
other:	33701	56023	166	27	29
in national currency	16116	28173	175	13	15
in foreign currency	17585	27851	158	14	14
Securities of banks' own liabilities	317	925	292	0	0
in national currency	225	766	341	0	0
in foreign currency	93	160	172	0	0
<u>For reference</u>					
Monetary base	53763	82760	154	—	—
including:					
money outside banks (M0)	42345	60231	142	—	—
reserves of banks	11378	22440	197	—	—
other funds with NBU	40	89	220	—	—
Money supply M3:					
in national currency	95405	148294	155	—	—
in foreign currency	30396	45777	151	—	—
Multiplier	2.34	2.34	100	—	—
Money velocity	3.13	2.66	83	—	—

Note. The monetary aggregate (M1) component *National currency transferred funds* includes national currency funds drawable on demand. The monetary aggregate (M2) component *Foreign currency transferred funds* comprises foreign currency funds drawable on demand. The monetary aggregate (M2) component *Other funds* includes non-transferred demand funds, time funds and funds on registered certificates of deposit issued by banks.

AVAILABLE MONEY SUPPLY IN CIRCULATION AND ITS DISTRIBUTION IN 2005

(end of period, UAH mln)

Indicators	Q1	H1	9 months	Year	Q1	Growth rates versus year star, %		
						H1	9 months	Year
Available money supply in circulation								
Cash	43062	51304	55465	60231	101.7	121.2	131.0	142.2
Money outside banks (M0)	43062	51304	55465	60231	101.7	121.2	131.0	142.2
National currency transferred funds	30423	32496	34607	38341	122.9	131.3	139.9	154.9
Money supply (M1)	73485	83800	90072	98573	109.5	124.9	134.3	146.9
Foreign currency transferred funds and other funds	66232	72302	80647	94573	113.4	123.8	138.1	162.0
Money supply (M2)	139718	156102	170719	193145	111.3	124.4	136.0	153.9
Securities of banks' own liabilities	390	237	292	925	122.8	74.6	92.1	291.7
Money supply (M3)	140107	156339	171011	194071	111.4	124.3	135.9	154.3
Money supply distribution								
Funds of economic entities	46539	49133	53591	59623	112.2	118.4	129.2	143.7
transferred:	27434	27739	29691	31017	115.2	116.4	124.6	130.2
in national currency	22803	22221	23258	24249	121.9	118.8	124.3	129.6
in foreign currency	4631	5518	6433	6769	90.5	107.8	125.7	132.3
other:	19105	21394	23900	28606	108.2	121.1	135.3	161.9
in national currency	13411	14628	16564	20783	112.0	122.2	138.3	173.6
in foreign currency	5694	6766	7336	7823	100.1	118.9	128.9	137.5
Funds of natural persons	93179	106969	117128	133522	110.9	127.3	139.4	159.0
of which savings	50117	55665	61663	73291	120.3	133.6	148.0	176.0
transferred:	9921	13070	14405	17267	124.8	164.4	181.2	217.2
in national currency	7621	10275	11349	14092	126.2	170.1	187.9	233.3
in foreign currency	2300	2795	3056	3175	120.4	146.3	159.9	166.2
other:	40196	42595	47258	56023	119.3	126.4	140.2	166.2
in national currency	20068	22275	24266	28173	124.5	138.2	150.6	174.8
in foreign currency	20128	20320	22992	27851	114.5	115.6	130.8	158.4
Securities of banks' own liabilities	390	237	292	925	122.8	74.6	92.1	291.7
in national currency	168	121	170	766	74.9	53.7	75.8	341.0
in foreign currency	221	116	122	160	238.8	125.3	131.7	172.2
For reference								
Monetary base	60297	65508	70471	82760	112.2	121.8	131.1	153.9
including:								
money outside banks (M0)	43062	51304	55465	60231	101.7	121.2	131.0	142.2
reserves of banks	17192	14138	14936	22440	151.1	124.3	131.3	197.2
other funds with NBU	43	66	70	89	105.3	163.2	173.1	219.6
Money supply M3:								
in national currency	107132	120824	131072	148294	112.3	126.6	137.4	155.4
in foreign currency	32975	35515	39939	45777	108.5	116.8	131.4	150.6
Multiplier	2.32	2.39	2.43	2.34	99.1	102.1	103.8	100.2
Money velocity	2.39	2.46	2.60	2.66	76.6	78.8	83.3	83.2

NBU INTEREST RATE ON REFINANCING FOR BANKS (by dates)

	Date	NBU discount rate, %	
1992	from 25 June	30	
	from 16 November	80	
1993	from 1 March	100	
	from 1 May	240	
1994	from 1 July	190	
	from 1 August	175	
	from 15 August	140	
	from 25 October	300	
	from 12 December	252	
1995	from 10 March	204	
	from 29 March	170	
	from 7 April	150	
	from 1 May	96	
	from 7 June	75	
	from 15 July	60	
	from 21 August	70	
	from 10 October	95	
	from 1 December	110	
	1996	from 1 January	105
from 4 March		98.0	
from 26 March		90.0	
from 1 April		85.0	
from 8 April		75.0	
from 25 April		70.0	
from 22 May		63.0	
from 7 June		50.0	
from 1 July		40.0	
1997		from 10 January	35.0
	from 8 March	25.0	
	from 26 May	21.0	
	from 8 July	18.0	
	from 5 August	16.0	
	from 1 November	17.0	
	from 15 November	25.0	
	from 24 November	35.0	
	1998	from 6 February	44.0
		from 18 March	41.0
from 21 May		45.0	
from 29 May		51.0	
from 7 July		82.0	
from 21 December		60.0	
1999	from 5 April	57.0	
	from 28 April	50.0	
	from 24 May	45.0	
2000	from 1 February	35.0	
	from 24 March	32.0	
	from 10 April	29.0	
	from 15 August	27.0	
2001	from 10 March	25.0	
	from 7 April	21.0	
	from 11 June	19.0	
	from 9 August	17.0	
	from 10 September	15.0	
	from 10 December	12.5	
2002	from 11 March	11.5	
	from 4 April	10.0	
	from 5 July	8.0	
	from 5 December	7.0	
2004	from 9 June	7.5	
	from 7 October	8.0	
	from 9 November	9.0	
2005	from 10 August	9.5	

Note. From 5 December 2002 to 9 June 2004, the interest rate did not change.

**NBU INTEREST RATES ON REFINANCING FOR BANKS
IN 1992–2001**

(average weighted annual rates, %)

Period	NBU discount rate	total	Actual rate on instruments					REPO transactions	other mechanisms
			credit auctions	through tender	lombard loans	including overnight credits	including overnight credits		
1992	80.0*	...	—	—	—	—	—	...	
1993	190.0	68.5	—	—	—	—	—	68.5	
1994	225.9	124.9	264.0	—	—	—	—	115.2	
1995	131.0	82.1	83.0	—	110.0	—	—	60.4	
1996	62.3	51.8	52.6	—	64.4	—	—	41.0	
1997	24.6	25.2	21.7	—	31.4	—	21.8	19.7	
1998	61.6	52.7	—	—	54.4	—	54.1	47.8	
1999	50.0	44.0	—	—	61.1	—	59.7	33.0	
2000	30.6	29.6	—	—	30.9	—	28.0	—	
2001	19.7	20.2	—	16.5	—	20.4	22.0	21.0	

* At year end.

**NBU INTEREST RATES ON REFINANCING FOR BANKS
IN 2002–2005**

(average weighted annual rates, %)

Period	NBU discount rate	total	credits granted through tender	Actual rate on instruments			
				overnight credits	including REPO transactions	credits granted for support of long-term bank liquidity	stabilization credits
2002	9.5	9.2	9.2	10.7	11.7	8.0	—
2003	7.0	8.0	8.3	8.0	8.0	7.0	—
2004	7.5	16.1	13.0	17.1	13.5	7.0	14.9
2005	9.2	14.7	12.9	14.9	12.0	—	15.0
January	9.0	18.8	—	20.0	14.0	—	15.0
February	9.0	15.0	15.0	—	—	—	—
March	9.0	—	—	—	—	—	—
April	9.0	13.0	13.0	—	—	—	—
May	9.0	15.0	—	15.0	—	—	—
June	9.0	15.0	—	15.0	—	—	—
July	9.0	15.0	—	15.0	—	—	—
from 10 August	9.5	—	—	—	—	—	—
August	9.4	14.7	13.5	14.9	12.0	—	—
September	9.5	14.4	9.5	14.9	12.0	—	—
October	9.5	14.9	14.0	14.9	12.0	—	—
November	9.5	14.7	12.0	14.8	12.0	—	—
December	9.5	14.1	12.8	15.0	—	—	—

**CHANGES IN CONSUMER AND INDUSTRIAL PRODUCER PRICES,
NBU DISCOUNT RATE AND INTEREST RATES OF BANKS**

(%)

Period	Changes in price level versus previous month		Average weighted monthly interest rate		
	consumer prices	industrial producer prices	NBU discount rate	on credits granted by banks*	on bank deposits*
2003					
January	1.5	0.5	0.6	1.6	0.6
February	1.1	0.7	0.6	1.5	0.6
March	1.1	2.1	0.6	1.5	0.6
April	0.7	0.3	0.6	1.5	0.6
May	0.0	0.3	0.6	1.5	0.6
June	0.1	0.0	0.6	1.4	0.6
July	-0.1	1.0	0.6	1.5	0.5
August	-1.7	1.0	0.6	1.5	0.6
September	0.6	0.9	0.6	1.4	0.6
October	1.3	0.7	0.6	1.5	0.6
November	1.9	1.5	0.6	1.5	0.7
December	1.5	1.7	0.6	1.5	0.7
2004					
January	1.4	1.6	0.6	1.5	0.7
February	0.4	2.9	0.6	1.5	0.7
March	0.4	2.2	0.6	1.4	0.7
April	0.7	3.3	0.6	1.5	0.7
May	0.7	2.1	0.6	1.4	0.6
June	0.7	1.5	0.6	1.4	0.8
July	0.0	0.1	0.6	1.4	0.6
August	-0.1	1.6	0.6	1.4	0.5
September	1.3	1.9	0.6	1.4	0.6
September	2.2	1.6	0.7	1.4	0.5
November	1.6	2.2	0.7	1.5	0.6
December	2.4	1.0	0.8	1.5	0.7
2005					
January	1.7	0.2	0.8	1.5	0.8
February	1.0	2.7	0.8	1.4	0.8
March	1.6	1.9	0.8	1.4	0.8
April	0.7	2.5	0.8	1.4	0.8
May	0.6	1.6	0.8	1.3	0.7
June	0.6	- 0.8	0.8	1.3	0.6
July	0.3	- 1.6	0.8	1.3	0.7
August	0.0	0.7	0.8	1.3	0.7
September	0.4	1.9	0.8	1.3	0.6
September	0.9	0.0	0.8	1.3	0.6
November	1.2	- 0.1	0.8	1.3	0.7
December	0.9	0.3	0.8	1.4	0.7

* Interest rates of banks on national currency credits and deposits excluding the interbank market.

**AVERAGE WEIGHTED INTEREST RATES OF UKRAINIAN BANKS
ON NATIONAL CURRENCY CREDITS AND DEPOSITS**

(average weighted annual, %)

Period	Credits											
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003*	2004*
January	76.6	310.2	205.3	110.5	63.6	43.8	55.3	56.2	37.4	29.7	18.6	17.8
February	88.2	383.4	198.8	110.9	62.6	48.7	58.4	49.4	35.6	29.4	17.6	18.0
March	87.1	389.8	182.6	102.5	53.2	48.9	68.0	42.5	33.8	27.6	18.0	17.2
April	110.5	327.9	136.1	91.2	52.4	47.7	66.9	41.9	33.0	27.1	18.3	18.1
May	144.3	299.4	117.0	85.7	53.7	47.1	54.5	39.8	31.7	26.1	17.9	17.4
June	231.3	254.7	86.1	73.4	50.3	48.0	47.4	39.7	32.1	25.0	17.2	16.6
July	223.3	192.5	78.8	66.2	47.0	53.0	46.5	39.0	31.1	24.9	18.2	17.0
August	204.4	151.3	73.6	63.6	42.2	57.4	50.7	35.6	31.7	24.0	18.2	17.1
September	224.2	141.6	78.5	63.2	41.6	63.8	54.3	39.7	30.6	23.5	17.2	17.0
October	246.3	141.4	93.4	63.7	38.2	71.5	50.8	39.0	30.5	22.9	17.8	17.3
November	279.2	201.4	116.4	66.3	42.0	63.7	54.7	38.3	30.2	22.4	17.8	17.8
December	295.1	204.7	105.8	61.4	42.7	60.4	51.9	37.3	29.6	21.8	17.7	17.5
Year	221.1	201.7	107.1	77.0	49.1	54.5	53.4	40.3	31.9	24.8	17.9	17.3

Period	Deposits											
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003*	2004*
January	62.1	224.0	158.8	56.8	23.7	19.6	22.8	21.4	11.7	10.1	6.8	8.2
February	84.9	284.8	129.4	45.1	22.5	18.4	21.3	16.7	9.3	9.2	6.8	8.2
March	70.2	328.5	118.7	44.2	20.6	18.9	27.2	13.7	8.2	8.6	7.4	8.5
April	83.4	329.1	95.8	32.5	19.1	19.9	22.3	12.3	11.3	8.1	6.8	8.6
May	107.6	276.2	68.1	35.8	19.3	19.8	18.5	11.9	8.6	7.8	6.8	7.7
June	162.5	220.6	44.9	32.3	17.8	22.1	20.5	11.6	13.0	8.2	6.7	9.9
July	225.8	179.7	36.7	25.4	17.9	22.7	15.9	11.3	11.3	7.9	6.3	7.5
August	170.1	140.2	30.4	27.4	13.5	23.1	20.1	10.1	14.2	7.6	6.7	6.5
September	186.5	126.8	30.6	26.4	14.8	27.2	17.4	17.9	10.4	7.6	6.7	6.8
October	183.0	108.1	33.4	27.5	15.5	28.5	20.0	17.6	12.7	7.0	6.9	6.5
November	231.7	146.0	42.2	26.0	15.0	27.0	21.7	10.9	10.2	6.1	8.0	7.3
December	215.8	139.5	50.9	24.2	18.9	23.6	20.7	9.2	10.8	6.9	8.0	7.9
Year	187.3	171.0	61.2	34.3	18.2	22.3	20.7	13.5	11.2	7.8	7.1	7.8

*Excluding overdraft.

INTEREST RATES OF UKRAINIAN BANKS ON NATIONAL CURRENCY CREDITS AND DEPOSITS
(average weighted annual, %)

Period	Credits		Deposits
	including overdraft	excluding overdraft	
2005			
January	18.3	18.1	9.9
February	17.4	16.8	10.0
March	17.4	17.0	9.3
April	16.9	16.4	9.1
May	16.4	15.9	8.3
June	15.7	15.4	7.6
July	15.6	15.2	8.7
August	15.6	15.2	8.3
September	15.8	15.4	7.7
October	16.3	16.1	7.7
November	16.4	16.2	8.2
December	16.4	16.4	8.0
Year	16.4	16.0	8.5

NBU CLAIMS ON GRANTED CREDITS
(excluding refinancing for banks)

(end of period, UAH million)

Period	Total	to the Government			to economic entities		
		total	including in national currency	including in foreign currency	total	including in national currency	including in foreign currency
1991	1	1	1	—	—	—	—
1992	18	18	18	—	0	0	—
1993	130	129	129	—	1	1	—
1994	1416	1411	1411	—	5	5	—
1995	4393	4393	3144	1249	0	0	—
1996	5805	5804	3568	2236	1	1	—
1997	5851	5816	3568	2248	35	1	34
1998	7732	7625	3568	4057	107	4	103
1999	9908	9743	3568	6176	164	15	150
2000	10904	10726	3568	7158	178	20	159
2001	10725	10547	3568	6979	179	27	152
2002	10778	10591	3568	7023	187	34	153
2003	10780	10590	3568	7022	190	38	152
2004	10050	9849	3568	6281	201	50	151
2005	9504	9294	3568	5726	210	68	142

in percent versus previous period

1992	34 t.	34 t.	34 t.	—	—	—	—
1993	7 t.	7 t.	7 t.	—	60 t.	60 t.	—
1994	11 t.	11 t.	11 t.	—	7 t.	7 t.	—
1995	310	311	223	—	2	2	—
1996	132	132	113	179	12 t.	12 t.	—
1997	101	100	100	101	2975	116	—
1998	132	131	100	180	305	310	304
1999	128	128	100	152	154	344	146
2000	110	110	100	116	102	134	99
2001	98	98	100	97	100	138	95
2002	100	100	100	101	104	125	101
2003	100	100	100	100	102	113	99
2004	93	93	100	89	106	131	99
2005	95	94	100	91	105	138	94

CLAIMS OF BANKS ON THE CREDITS GRANTED TO THE ECONOMY OF UKRAINE
(by currencies and maturity)

(end of period, UAH million)

Period	Total	by currencies		including						
		in national currency	in foreign currency	total	short-term		by credits		long-term	
					in national currency	in foreign currency	total	in national currency	in foreign currency	total	in national currency	in foreign currency
1991	1	1	—	1	1	—	0	0	—	
1992	27	24	3	26	23	3	1	1	—	
1993	406	385	21	396	374	21	11	11	—	
1994	1558	1199	359	1381	1022	359	176	176	—	
1995	4078	3029	1049	3643	2664	980	434	365	69	
1996	5452	4102	1350	4845	3653	1192	607	449	158	
1997	7295	5195	2100	6522	4682	1840	773	513	260	
1998	8873	5117	3756	7240	4438	2801	1633	679	954	
1999	11787	5716	6071	9142	4714	4428	2645	1002	1643	
2000	19574	10568	9006	16060	8903	7157	3514	1665	1848	
2001	28373	15845	12528	22218	13034	9184	6156	2811	3344	
2002	42035	24463	17572	30185	18689	11497	11849	5774	6076	
2003	67835	39563	28272	37282	24737	12545	30553	14826	15727	
2004	88579	51207	37372	40575	26864	13711	48003	24343	23660	
2005	143418	81274	62144	54819	39474	15346	88599	41801	46798	
in percent versus previous year										
1992	28 t.	25 t.	—	30 t.	27 t.	—	10 t.	10 t.	—	
1993	15 t.	16 t.	8 t.	15 t.	16 t.	8 t.	9 t.	9 t.	—	
1994	4 t.	3 t.	17 t.	3 t.	3 t.	17 t.	16 t.	16 t.	—	
1995	262	253	292	264	261	273	246	207	—	
1996	134	135	129	133	137	122	140	123	228	
1997	134	127	156	135	128	154	127	114	165	
1998	122	99	179	111	95	152	211	132	366	
1999	133	112	162	126	106	158	162	148	172	
2000	162	179	147	172	183	160	129	160	111	
2001	145	150	139	138	146	128	175	169	181	
2002	148	154	140	136	143	125	192	205	182	
2003	161	162	161	124	132	109	258	257	259	
2004	131	129	132	109	109	109	157	164	150	
2005	162	159	166	135	147	112	185	172	198	
weight within total volume, percent										
1992	100	90.6	9.4	95.4	86.1	9.3	4.6	4.6	—	
1993	100	94.8	5.2	97.4	92.2	5.2	2.6	2.6	—	
1994	100	77.0	23.0	88.7	65.6	23.0	11.3	11.3	—	
1995	100	74.3	25.7	89.3	65.3	24.0	10.7	8.9	1.7	
1996	100	75.2	24.8	88.9	67.0	21.9	11.1	8.2	2.9	
1997	100	71.2	28.8	89.4	64.2	25.2	10.6	7.0	3.6	
1998	100	57.7	42.3	81.6	50.0	31.6	18.4	7.7	10.8	
1999	100	48.5	51.5	77.6	40.0	37.6	22.4	8.5	13.9	
2000	100	53.5	46.5	82.1	45.1	37.0	17.9	8.4	9.5	
2001	100	55.5	44.5	78.3	45.8	32.6	21.7	9.8	11.9	
2002	100	58.0	42.0	71.7	44.3	27.3	28.3	13.7	14.6	
2003	100	58.3	41.7	55.0	36.5	18.5	45.0	21.9	23.2	
2004	100	57.8	42.2	45.8	30.3	15.5	54.2	27.5	26.7	
2005	100	56.7	43.3	38.2	27.5	10.7	61.8	29.1	32.6	

**OFFICIAL EXCHANGE RATE OF UKRAINIAN KARBOVANETS AGAINST FOREIGN CURRENCIES
ESTABLISHED BY THE NBU (end of period*)**

(Ukr KRB)

Currencies	1992	1993	1994	1995
Ist group				
1 Australian Dollar	440	8588	81040	133330
1 Austrian Shilling	56	1052	9400	17790
1 Pound Sterling	961	18797	161210	277020
10 Belgian Franc	192	3563	32190	60930
1 Deutsche Mark	394	7398	66130	125150
1 Netherlands Guilder	350	6607	59080	111800
1 Danish Krone	102	1893	16860	32310
100 Italian Lira	43	756	6350	11320
1 Canadian Dollar	503	9375	74460	131230
1 Norwegian Krone	93	1705	15150	28360
1 US Dollar	638	12610	104200	179400
1 Finnish Markka	121	2207	21790	41200
1 French Franc	116	2172	19130	36610
1 Swedish Krona	90	1514	13910	26900
1 Swiss Franc	435	8706	78330	155860
10 Japanese Yen	51	1132	10390	17410
1 ECU	771	14309	126230	235820
10 Spanish Peseta	56	902	7830	14760
10 Greek Drachma	30	516	4280	7560
1 Irish Pound	1040	17969	159130	286530
1 Icelandic Krona	—	175	1510	2760
10 Portuguese Escudo	44	724	6430	12000
1 SDR	—	17476	151140	266740
IInd group				
100 Russian Ruble	—	456	2940	3870
1 Azerbaijan Manat	—	1	50	40
1000 Belarussian Ruble	—	4	9160	15080
1 Armenian Dram	—	1	250	450
1 Estonian Kroon	49	925	8270	15640
1 Kazakh Tenge	—	1796	1720	2830
1 Kyrgyz Som	—	1566	9740	16380
1 Latvian Lats	—	21158	190490	335330
1 Lithuanian Litas	—	3231	26050	44850
1 Moldovan Leu	—	3417	24360	39520
1 Turkmen Manat	—	—	10420	70
1 Uzbek Sum	—	2	4170	5180
1 Georgian Lari	—	—	—	—

* Established at last calendar day.

**OFFICIAL EXCHANGE RATE OF HRYVNYIA AGAINST FOREIGN CURRENCIES
ESTABLISHED BY THE NBU (end of period*)**

(UAH)

Currencies	1996	1997	1998	1999	2000	2001	2002
100 Australian Dollar	150.71	124.18	209.45	339.79	301.54	270.23	299.95
100 Austrian Shilling	17.27	15.06	29.12	38.08	36.75	33.94	—
100 Pound Sterling	319.13	315.99	573.15	842.90	810.26	767.39	853.84
10000 Azerbaijan Manat	4.61	4.88	8.84	11.93	11.91	11.12	10.90
1000 Belgian Franc	58.97	51.37	99.31	129.90	125.35	115.76	—
10 Belarussian Ruble	0.82	0.46	—	0.06	0.04	0.03	0.03
1000 Greek Drachma	7.64	6.72	12.17	15.87	14.84	13.70	—
100 Danish Krone	31.76	27.81	53.79	70.40	67.76	62.79	74.50
100 US Dollar	188.90	189.90	342.70	521.63	543.45	529.85	533.24
100 Estonian Kroon	15.19	13.25	25.60	33.49	32.32	29.84	35.36
100 Icelandic Krona	2.83	2.65	4.94	7.26	6.42	5.10	6.52
100 Irish Pound	316.06	273.23	508.72	665.38	642.08	592.91	—
1000 Spanish Peseta	14.42	12.52	24.08	31.49	30.39	28.06	—
10000 Italian Lira	12.36	10.78	20.69	27.06	26.12	24.12	—
100 Canadian Dollar	137.97	131.87	220.61	358.73	362.11	331.72	339.98
100 Kazakh Tenge	2.56	2.50	4.09	3.77	3.76	3.53	3.43
100 Latvian Lats	337.32	321.86	602.28	894.73	879.37	830.49	897.71
100 Lithuanian Litas	47.23	47.48	85.68	130.41	135.86	132.46	158.59
100 Moldovan Leu	40.62	40.75	41.18	45.01	43.89	40.47	38.55
100 Netherlands Guilder	108.23	94.03	181.80	237.79	229.47	211.90	—
100 Deutsche Mark	121.49	105.97	204.84	267.93	258.55	238.75	—
100 Norwegian Krone	29.30	25.81	45.33	64.88	61.42	58.73	75.73
100 Polish Zloty	66.08	54.30	98.46	126.46	131.35	133.60	138.60
100 Portuguese Escudo	1.21	1.04	2.00	2.61	2.52	2.33	—
10 Russian Ruble	3.40	3.19	1.66	1.93	1.93	1.76	1.68
100 Singapore Dollar	134.97	113.61	207.07	312.73	313.58	286.37	306.55
100 Slovak Koruna	5.94	5.50	9.39	12.32	11.51	10.92	13.24
10000 Turkish Lira	0.18	0.09	0.11	0.10	0.08	0.04	0.03
10000 Turkmen Manat	4.64	4.56	6.59	10.03	10.45	10.19	10.25
1000 Hungarian Forint	11.74	9.39	15.85	20.70	19.08	19.05	23.47
100 Uzbek Sum	3.45	2.37	3.12	3.73	1.67	0.77	0.55
100 Finnish Markka	40.65	35.02	67.38	88.14	85.05	78.54	—
100 French Franc	36.01	31.67	61.08	79.89	77.09	71.19	—
100 Czech Koruna	6.90	5.55	11.38	14.60	14.43	14.61	17.65
100 Swedish Krona	27.50	24.03	42.41	61.20	57.26	50.20	60.44
100 Swiss Franc	139.72	130.60	250.32	326.48	331.99	314.89	379.82
1000 Japanese Yen	16.29	14.66	29.71	51.01	47.30	40.49	44.46
100 Euro (ECU up to '99)	236.26	209.59	401.33	524.03	505.68	466.96	553.29
100 SDR	271.66	255.10	481.62	714.55	708.07	665.29	720.64

*Established at last calendar day.

Continued

Currencies	2 0 0 5							
	2003	2004	January	February	March	April	May	June
100 Australian Dollar	397.94	411.51	410.38	414.65	407.08	392.80	384.37	384.97
100 Pound Sterling	946.88	1018.27	998.29	1011.40	993.88	962.21	919.54	913.67
10000 Azerbaijan Manat	10.83	10.82	10.82	10.83	10.87	10.50	10.60	10.73
10 Belarussian Ruble	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
100 Danish Krone	89.49	97.03	92.90	93.74	91.75	87.51	84.62	81.80
100 US Dollar	533.15	530.54	530.39	529.90	528.08	505.00	505.00	505.50
100 Estonian Kroon	42.58	46.13	44.19	44.59	43.68	41.65	40.25	38.94
100 Icelandic Krona	7.43	8.62	8.56	8.69	8.62	7.92	7.82	7.71
100 Canadian Dollar	406.73	437.87	427.64	426.47	435.76	402.98	401.71	409.94
100 Kazakh Tenge	3.70	4.08	4.07	4.07	3.98	3.83	3.81	3.74
100 Latvian Lats	987.31	1028.18	984.03	996.05	972.52	930.02	900.18	867.07
100 Lithuanian Litas	193.02	209.33	200.22	202.55	198.19	189.00	183.20	176.26
100 Moldovan Leu	40.33	42.58	42.49	42.23	41.86	40.07	40.07	40.18
100 Norwegian Krone	79.11	87.55	83.80	84.44	83.50	80.01	79.14	77.16
100 Polish Zloty	142.11	177.16	170.58	177.81	166.23	152.58	151.99	150.37
10 Russian Ruble	1.81	1.91	1.89	1.91	1.90	1.82	1.80	1.76
100 Singapore Dollar	313.10	323.87	324.36	324.17	319.78	306.68	303.97	299.96
100 Slovak Koruna	16.19	18.65	18.03	18.43	17.58	16.35	16.09	15.87
10000/100* Turkish Lira	0.04	0.04	397.86	409.40	383.00	364.22	367.59	374.65
10000 Turkmen Manat	10.25	10.20	10.20	10.19	10.16	9.71	9.71	9.72
1000 Hungarian Forint	25.46	29.38	28.20	28.79	27.66	25.85	24.80	24.60
100 Uzbek Sum	0.54	0.50	0.50	0.50	0.49	0.46	0.46	0.45
100 Czech Koruna	20.46	23.75	22.88	23.47	22.72	21.35	20.67	20.29
100 Swedish Krona	73.40	80.06	76.08	76.89	74.84	71.29	68.63	64.59
100 Swiss Franc	427.23	467.45	447.17	452.23	440.59	423.27	407.74	393.85
100 RNB (China)	—	64.10	64.08	64.02	63.80	61.02	61.02	61.08
1000 Japanese Yen	49.82	51.18	51.33	50.28	49.13	47.70	46.77	45.80
100 Euro	666.22	721.75	691.36	697.61	683.49	651.70	629.84	609.33
100 SDR	792.25	823.93	806.45	811.80	797.84	765.97	744.85	736.32

* From January 2005, 100 Turkish Lira.

Concluded

Currencies	2 0 0 5					
	July	August	September	October	November	December
100 Australian Dollar	382.48	377.41	384.80	380.40	373.78	368.69
100 Pound Sterling	884.68	900.97	892.44	900.23	870.30	867.59
10000 Azerbaijan Manat	10.77	10.91	11.00	10.99	10.99	11.00
10 Belarussian Ruble	0.02	0.02	0.02	0.02	0.02	0.02
100 Danish Krone	81.90	82.48	81.63	82.15	79.88	80.06
100 US Dollar	505.00	505.00	505.00	505.00	505.00	505.00
100 Estonian Kroon	39.05	39.31	38.93	39.18	38.06	38.17
100 Icelandic Krona	7.85	7.95	8.05	8.33	7.97	7.93
100 Canadian Dollar	409.00	420.52	430.36	431.33	431.96	432.85
100 Kazakh Tenge	3.72	3.73	3.77	3.77	3.77	3.77
100 Latvian Lats	867.70	878.26	866.21	872.19	850.17	851.60
100 Lithuanian Litas	176.35	178.76	176.47	177.11	173.09	173.53
100 Moldovan Leu	40.14	40.17	40.13	40.05	39.45	39.36
100 Norwegian Krone	77.36	77.52	77.94	78.50	74.92	74.49
100 Polish Zloty	149.43	152.14	156.16	153.65	152.56	154.70
10 Russian Ruble	1.76	1.77	1.77	1.78	1.76	1.75
100 Singapore Dollar	303.24	299.38	299.18	298.54	298.73	303.36
100 Slovak Koruna	15.63	15.86	15.67	15.69	15.73	15.77
10000/100 Turkish Lira	377.84	372.07	374.42	373.65	372.12	374.09
10000 Turkmen Manat	9.71	9.71	9.71	9.71	9.71	9.71
1000 Hungarian Forint	24.93	25.10	24.49	24.39	23.68	23.65
100 Uzbek Sum	0.45	0.45	0.44	0.44	0.43	0.43
100 Czech Koruna	20.24	20.81	20.57	20.65	20.54	20.58
100 Swedish Krona	65.01	65.87	65.00	64.32	62.68	63.46
100 Swiss Franc	391.07	396.56	391.05	396.51	384.82	383.16
100 RNB (China)	62.28	62.37	62.40	62.47	62.50	62.57
1000 Japanese Yen	44.93	45.29	44.82	43.77	42.37	42.83
100 Euro	611.05	615.14	609.18	612.97	595.55	597.16
100 SDR	733.19	737.22	731.98	730.13	719.19	721.78

* From January 2005, 100 Turkish Lira.

**OFFICIAL EXCHANGE RATE OF UKRAINIAN KARBOVANETS AGAINST FOREIGN CURRENCIES
ESTABLISHED BY THE NBU (period average)**

(Ukr. KRB)

Currencies	1992	1993	1994	1995
Ist group				
1 Australian Dollar	138	2872	23684	109268
1 Austrian Shilling	20	388	2851	14641
1 Pound Sterling	346	6834	49356	232150
10 Belgian Franc	65	1467	9745	50017
1 Deutsche Mark	135	2731	20250	102886
1 Netherlands Guilder	120	2433	17886	91858
1 Danish Krone	35	691	5118	26336
100 Italian Lira	16	287	1979	9057
1 Canadian Dollar	168	3479	23158	107551
1 Norwegian Krone	33	633	4601	23271
1 US Dollar	208	4539	31700	147463
1 Finnish Markka	44	793	6378	33854
1 French Franc	40	795	5852	29564
1 Swedish Krona	35	571	4197	20777
1 Swiss Franc	150	3096	23833	124999
10 Japanese Yen	17	420	3145	15663
1 ECU	267	5270	38487	192790
10 Spanish Peseta	20	347	2413	11853
10 Greek Drachma	8	158	1318	6352
1 Irish Pound	345	6571	48477	236271
1 Icelandic Krona	3	53	460	2279
10 Portuguese Escudo	15	275	1960	9828
1 SDR	—	5259	45929	223233
IInd group				
100 Russian Ruble	—	456	1257	3244
1 Azerbaijan Manat	—	—	39	34
1000 Belarussian Ruble	—	—	3903	12745
1 Armenian Dram	—	—	215	363
1 Estonian Kroon	15	341	2531	12861
1 Kazakh Tenge	—	—	834	2390
1 Kyrgyz Som	—	—	2980	13689
1 Latvian Lats	—	5657	57384	277690
1 Lithuanian Litas	—	863	7924	36828
1 Moldovan Leu	—	—	7635	32850
1 Turkmen Manat	—	—	4124	5360
1 Uzbek Sum	—	—	1208	5040
1 Georgian Lari	—	—	—	—

**OFFICIAL EXCHANGE RATE OF HRYVNYIA AGAINST FOREIGN CURRENCIES
ESTABLISHED BY THE NBU (period average)**

	(UAH)						
Currencies	1996	1997	1998	1999	2000	2001	2002
100 Australian Dollar	143.14	138.17	153.82	266.50	316.89	278.16	289.63
100 Austrian Shilling	17.29	15.29	20.00	31.93	36.55	34.98	—
100 Pound Sterling	285.64	305.08	406.89	668.45	824.99	773.94	799.84
10000 Azerbaijan Manat	4.11	4.66	6.33	10.04	12.19	11.56	10.97
1000 Belgian Franc	59.11	52.15	68.20	108.91	124.66	119.33	—
10 Belarussian Ruble	1.18	0.55	0.39	0.13	0.06	0.04	0.03
1000 Greek Drachma	7.60	6.83	8.36	13.48	14.95	14.13	—
100 Danish Krone	31.56	28.25	36.95	59.09	67.47	64.59	67.70
100 US Dollar	182.95	186.17	244.95	413.04	544.02	537.21	532.66
100 Estonian Kroon	15.20	13.45	17.59	28.08	32.14	30.76	32.15
100 Icelandic Krona	2.75	2.63	3.46	5.71	6.94	5.54	5.84
100 Irish Pound	292.76	282.72	352.14	557.85	638.53	611.20	—
1000 Spanish Peseta	14.45	12.74	16.57	26.40	30.22	28.93	—
10000 Italian Lira	11.85	10.95	14.25	22.69	25.97	24.86	—
100 Canadian Dollar	134.13	134.50	164.34	278.21	366.48	347.12	339.33
100 Kazakh Tenge	2.71	2.46	3.10	3.54	3.83	3.66	3.48
100 Latvian Lats	332.82	320.65	416.80	706.54	898.66	855.96	862.33
100 Lithuanian Litas	45.73	46.54	61.24	103.26	136.01	134.30	145.40
100 Moldovan Leu	39.84	40.26	45.94	39.43	43.77	41.80	39.27
100 Netherlands Guilder	108.56	95.62	124.81	199.37	228.20	218.43	—
100 Deutsche Mark	121.64	107.61	140.69	224.63	257.12	246.11	—
100 Norwegian Krone	28.33	26.38	32.49	52.90	61.97	59.78	67.10
100 Polish Zloty	68.02	57.18	70.13	104.42	125.53	131.24	130.60
100 Portuguese Escudo	1.19	1.07	1.37	2.19	2.51	2.40	—
10 Russian Ruble	3.58	3.22	2.87	1.67	1.94	1.84	1.70
100 Singapore Dollar	129.43	126.22	146.94	243.99	315.98	300.00	297.51
100 Slovak Koruna	5.97	5.54	6.93	10.01	11.86	11.11	11.79
10000 Turkish Lira	0.23	0.13	0.09	0.10	0.09	0.05	0.04
10000 Turkmen Manat	5.58	4.49	5.00	7.94	10.46	10.33	10.24
1000 Hungarian Forint	12.29	10.06	11.42	17.43	19.43	18.75	20.72
100 Uzbek Sum	4.64	2.86	2.57	3.31	2.59	1.35	0.70
100 Finnish Markka	39.84	35.95	46.30	73.89	84.58	80.96	—
100 French Franc	35.80	31.96	41.96	66.98	76.67	73.38	—
100 Czech Koruna	6.73	5.92	7.71	11.99	14.16	14.13	16.34
100 Swedish Krona	27.27	24.43	30.83	49.92	59.57	52.09	54.91
100 Swiss Franc	148.25	128.45	171.01	274.53	322.46	318.71	342.88
10000 Japanese Yen	16.84	15.41	19.03	36.61	50.52	44.27	42.59
100 Euro (ECU up to '99)	232.19	211.29	276.76	439.33	502.89	481.36	503.01
100 SDR	265.58	256.19	333.90	564.43	717.59	684.20	689.82

Continued

Currencies	2 0 0 5									
	2003	2004	January	February	March	I st quarter	April	May	June	I st half
100 Australian Dollar	347.14	391.63	406.15	413.47	415.25	411.63	401.14	387.84	387.20	401.84
100 Pound Sterling	871.28	973.91	998.52	999.11	1007.98	1001.87	982.26	940.51	919.91	974.71
10000 Azerbaijan Manat	10.86	10.83	10.82	10.82	10.86	10.83	10.74	10.55	10.67	10.74
10 Belarussian Ruble	0.03	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
100 Danish Krone	81.07	88.84	93.94	92.63	93.77	93.45	90.16	86.39	82.63	89.92
100 US Dollar	533.27	531.92	530.46	530.00	529.20	529.89	519.20	505.00	505.48	519.89
100 Estonian Kroon	38.50	42.24	44.67	44.06	44.63	44.45	42.93	41.10	39.31	42.78
100 Icelandic Krona	6.96	7.58	8.49	8.53	8.81	8.61	8.35	7.79	7.75	8.29
100 Canadian Dollar	380.93	409.10	433.78	427.19	434.30	431.75	420.94	402.16	406.78	420.86
100 Kazakh Tenge	3.57	3.91	4.08	4.07	4.06	4.07	3.95	3.84	3.78	3.96
100 Latvian Lats	933.76	984.96	998.44	981.08	995.80	991.77	955.95	915.74	875.44	953.74
100 Lithuanian Litas	174.54	191.50	202.80	199.75	202.35	201.63	194.66	186.41	178.41	194.06
100 Moldovan Leu	38.27	43.17	42.55	42.39	42.00	42.31	41.17	40.09	40.14	41.39
100 Norwegian Krone	75.40	78.99	85.04	82.85	85.26	84.38	82.10	79.50	77.86	82.10
100 Polish Zloty	137.09	146.22	171.22	172.71	173.70	172.55	162.15	153.82	151.41	164.17
10 Russian Ruble	1.74	1.85	1.90	1.89	1.92	1.90	1.87	1.81	1.77	1.86
100 Singapore Dollar	306.03	314.69	323.72	323.20	324.47	323.80	314.19	306.01	302.54	315.69
100 Slovak Koruna	14.53	16.51	18.10	18.12	18.23	18.15	17.16	16.46	15.95	17.34
10000/100 Turkish Lira	0.04	0.04	391.27	402.40	403.03	398.90	381.45	368.75	371.13	386.34
10000 Turkmen Manat	10.26	10.23	10.20	10.19	10.18	10.19	9.98	9.71	9.72	10.00
1000 Hungarian Forint	23.78	26.26	28.38	28.28	28.51	28.39	27.10	25.55	24.67	27.08
100 Uzbek Sum	0.55	0.52	0.50	0.50	0.49	0.50	0.48	0.46	0.46	0.48
100 Czech Koruna	18.92	20.72	23.04	23.00	23.43	23.16	22.32	21.28	20.47	22.26
100 Swedish Krona	66.07	72.45	77.30	75.87	76.85	76.67	73.31	70.01	66.47	73.30
100 Swiss Franc	396.14	428.18	451.93	444.62	450.71	449.08	433.91	416.37	399.99	432.92
100 RNB (China)	—	64.28	64.09	64.04	63.94	64.02	62.73	61.02	61.07	62.82
1000 Japanese Yen	46.03	49.21	51.29	50.47	50.32	50.69	48.34	47.42	46.58	49.07
100 Euro	602.44	660.94	698.98	689.42	698.26	695.55	671.69	643.14	615.13	669.44
100 SDR	746.82	787.82	810.93	804.47	807.82	807.74	784.12	757.53	741.97	784.47

* From January 2005, 100 Turkish Lira.

Concluded

Currencies	2 0 0 5							
	July	August	September	9 months	October	November	December	Year
100 Australian Dollar	380.67	385.08	386.44	395.92	381.18	371.72	374.40	390.88
100 Pound Sterling	886.82	905.67	914.55	950.59	890.98	877.97	880.89	933.76
10000 Azerbaijan Manat	10.75	10.83	11.00	10.78	10.99	10.99	11.00	10.83
10 Belarussian Ruble	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
100 Danish Krone	81.65	83.22	83.13	87.50	81.36	79.90	80.27	85.75
100 US Dollar	505.32	505.00	505.00	514.96	505.00	505.00	505.00	512.47
100 Estonian Kroon	38.92	39.67	39.62	41.66	38.80	38.10	38.24	40.84
100 Icelandic Krona	7.76	7.92	8.12	8.17	8.27	8.18	7.94	8.16
100 Canadian Dollar	412.92	418.22	427.94	420.47	429.29	426.97	434.23	422.89
100 Kazakh Tenge	3.73	3.73	3.76	3.89	3.77	3.77	3.77	3.86
100 Latvian Lats	866.37	883.71	882.01	928.28	864.37	849.04	851.38	909.94
100 Lithuanian Litas	176.35	179.93	179.51	188.91	175.93	172.90	173.39	185.20
100 Moldovan Leu	40.17	40.15	40.18	40.98	40.10	39.89	39.35	40.68
100 Norwegian Krone	76.88	78.42	79.42	80.81	77.51	76.22	75.02	79.67
100 Polish Zloty	148.60	153.48	158.03	160.57	154.69	150.04	155.22	158.76
10 Russian Ruble	1.76	1.77	1.78	1.83	1.77	1.76	1.75	1.81
100 Singapore Dollar	300.38	304.07	300.49	311.01	298.64	297.38	301.31	308.03
100 Slovak Koruna	15.67	16.05	16.13	16.87	15.60	15.39	15.80	16.55
10000/100 Turkish Lira	377.07	375.74	376.70	383.06	371.42	371.47	373.04	380.29
10000 Turkmen Manat	9.72	9.71	9.71	9.90	9.71	9.71	9.71	9.86
1000 Hungarian Forint	24.70	25.40	25.26	26.43	24.11	23.76	23.67	25.78
100 Uzbek Sum	0.45	0.45	0.44	0.47	0.44	0.44	0.43	0.46
100 Czech Koruna	20.18	20.97	21.15	21.76	20.46	20.34	20.65	21.44
100 Swedish Krona	64.61	66.46	66.42	70.81	64.53	62.30	63.38	68.96
100 Swiss Franc	391.18	399.79	400.32	420.98	391.75	385.87	386.60	412.75
100 RNB (China)	61.34	62.33	62.41	62.55	62.42	62.47	62.53	62.53
1000 Japanese Yen	45.21	45.66	45.55	47.87	44.05	42.72	42.61	46.68
100 Euro	608.97	620.76	619.98	651.81	607.14	596.06	598.33	638.99
100 SDR	733.25	740.97	740.97	769.12	730.18	721.43	722.60	758.02

* From January 2005, 100 Turkish Lira.

CONTENTS

GOVERNOR'S FOREWORD	3
COUNCIL OF THE NATIONAL BANK OF UKRAINE	4
BOARD OF THE NATIONAL BANK OF UKRAINE	6
ORGANIZATION CHART OF THE NATIONAL BANK OF UKRAINE	8
INTRODUCTION	11
CHAPTER 1. GENERAL ECONOMIC SITUATION	15
1.1. GROSS DOMESTIC PRODUCT	16
1.2. DYNAMICS OF CONSUMER AND INDUSTRIAL PRODUCER PRICES. INFLATION AND ITS MAIN FACTORS	19
1.3. REAL ECONOMY SECTOR	21
1.3.1. INDUSTRIAL OUTPUT	21
1.3.2. RURAL ECONOMY	23
1.3.3. INVESTMENTS	25
1.3.4. CORPORATE FINANCE	26
1.3.5. SITUATION IN THE LABOR MARKET	28
1.3.6. HOUSEHOLDS' INCOME AND EXPENSES	30
1.4. CENTRAL GOVERNMENT FINANCE	33
1.5. EXTERNAL SECTOR OF THE ECONOMY	35
1.5.1. UKRAINE'S BALANCE OF PAYMENTS	35
1.5.2. GROSS EXTERNAL DEBT OF UKRAINE	39
1.6. THE PROGRESSIVE DYNAMICS OF THE WORLD ECONOMY	41
CHAPTER 2. ACTIVITIES OF THE NATIONAL BANK OF UKRAINE	47
2.1. MONETARY POLICY	48
2.1.1. IMPLEMENTATION OF THE MONETARY POLICY GUIDELINES IN 2005. MAIN INSTRUMENTS OF THE MONEY AND CREDIT REGULATION	48
2.1.2. NON-CASH EMISSION BY THE NATIONAL BANK OF UKRAINE ..	50
2.1.3. MONEY CIRCULATION	52
2.1.4. CASH CIRCULATION	54
2.2. EXCHANGE RATE POLICY	57
2.2.1. DYNAMICS OF THE EXCHANGE RATE OF HRYVNIA. REAL EFFECTIVE EXCHANGE RATE	57
2.2.2. DEVELOPMENT OF THE FOREIGN EXCHANGE MARKET OF UKRAINE	59
2.2.3. THE SYSTEM OF FOREIGN EXCHANGE REGULATION	61
2.2.4. INTERNATIONAL RESERVES	63
2.3. DEVELOPMENT OF THE BANKING SECTOR OF UKRAINE	65
2.3.1. MAIN INDICATORS OF ACTIVITIES OF THE BANKS OF UKRAINE	65
2.3.2. DEPOSIT MARKET	69
2.3.3. CREDIT MARKET	72
2.3.4. REGULATION OF THE BANKING ACTIVITIES IN UKRAINE	76
2.3.5. BANKING SUPERVISION	78
2.3.6. BANK REGISTRATION AND LICENSING	80
2.3.7. TERMINATION OF THE BANKS' ACTIVITIES	81

CONTENTS

2.4. FOREIGN EXCHANGE CONTROL AND LICENSING	.83
2.5. PAYMENT SYSTEM OF UKRAINE. CURRENT SITUATION AND FUTURE TRENDS	.84
2.6. SETTLEMENT SITUATION IN UKRAINE, WAYS TO IMPROVE THE SYSTEM OF SETTLEMENTS	.87
2.7. CASH PERFORMANCE OF THE BUDGETS OF UKRAINE	.90
2.8. ACTIVITIES OF THE NATIONAL BANK OF UKRAINE AND BANKS OF UKRAINE IN THE STOCK MARKET. SERVICING OF THE INTERNAL (DOMESTIC) DEBT OF UKRAINE	.90
2.9. LEGAL ENVIRONMENT OF THE BANKING SYSTEM	.92
2.10. RISK MANAGEMENT IN THE NATIONAL BANK OF UKRAINE	.94
2.11. FINANCIAL MONITORING FOR PREVENTION OF USING THE BANKING SYSTEM FOR LEGALIZATION (LAUNDERING) OF THE PROCEEDS FROM CRIME	.95
2.12. INTERNATIONAL COOPERATION	.96
2.12.1. RELATIONSHIP OF THE NATIONAL BANK OF UKRAINE WITH CENTRAL BANKS OF THE COUNTRIES ALL OVER THE WORLD AND WITH OTHER INTERNATIONAL INSTITUTIONS	.96
2.12.2. COOPERATION OF THE NATIONAL BANK OF UKARINE WITH INTERNATIONAL FINANCIAL AND OTHER ORGANIZATIONS	.97
2.13. MAIN DIRECTIONS OF ECONOMIC WORK	.100
2.14. IMPROVEMENT OF ACCOUNTING AND FINANCIAL REPORTING	.103
2.15. ECONOMIC RESEARCH AND FORECASTING	.104
2.16. SCIENTIFIC RESEARCH OF THE NATIONAL BANK OF UKRAINE	.105
2.17. AUDIT OF THE NATIONAL BANK OF UKRAINE	.105
2.18. RESULTS OF THE NATIONAL BANK OF UKRAINE FINANCIAL ACTIVITY	.106
2.19. ACTIVITY OF THE BANKNOTE PRINTING AND MINTING WORKS OF THE NATIONAL BANK OF UKARINE	.107
2.20. DEVELOPMENT OF MATERIAL AND TECHNICAL BASIS	.108
2.21. MANPOWER SUPPLY, PERSONNEL TRAINING AND RE-TRAINING	.109
CALENDAR OF MAJOR EVENTS HELD IN 2005	.113
METHODOLOGICAL COMMENTS ON THE ANNUAL REPORT	.117
CHAPTER 3. FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005	.120
BALANCE SHEET	.122
STATEMENT OF INCOME	.123
STATEMENT OF CASH FLOWS	.124
STATEMENT OF CHANGES IN CAPITAL EMPLOYED	.126

CONTENTS

NOTES TO THE FINANCIAL STATEMENTS	127
1. PRINCIPAL ACTIVITIES	127
2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES	128
3. EFFECT OF ECONOMIC CONDITIONS IN UKRAINE ON THE FINANCIAL POSITION AND RESULTS OF OPERATIONS OF THE NBU	135
4. FOREIGN CURRENCY FUNDS AND DEPOSITS	135
5. FOREIGN SECURITIES	136
6. GOVERNMENT SECURITIES	138
7. LOANS TO BANKS AND OTHER BORROWERS	139
8. INTERNAL STATE DEBT	140
9. IMF QUOTA CONTRIBUTIONS	141
10. FIXED ASSETS AND INTANGIBLE ASSETS	141
11. OTHER ASSETS	142
12. ACCOUNTS OF BANKS	144
13. ACCOUNTS OF GOVERNMENT AND OTHER CLIENTS	144
14. DEPOSIT CERTIFICATES ISSUED BY THE NATIONAL BANK OF UKRAINE	145
15. LOANS RECEIVED	145
16. LIABILITIES TO IMF	145
17. OTHER LIABILITIES	145
18. PROFITS PAYABLE TO THE STATE BUDGET	146
19. STATUTORY CAPITAL	146
20. CASH AND CASH EQUIVALENTS	146
21. INTEREST INCOME AND EXPENSE	147
22. FEE AND COMMISSION INCOME AND EXPENSE	147
23. OTHER INCOME	147
24. STAFF COSTS	148
25. ADMINISTRATIVE AND OTHER EXPENSES	148
26. NET DECREASE IN PROVISIONS	148
27. FINANCIAL RISK MANAGEMENT	149
28. GEOGRAPHICAL ANALYSIS OF ASSETS AND LIABILITIES	150
29. CREDIT RISK	152
30. CURRENCY RISK	153
31. INTEREST RATE RISK	154
32. LIQUIDITY RISK	158
33. COMMITMENTS, CONTINGENCIES AND DERIVATIVE FINANCIAL INSTRUMENTS	159
34. FAIR VALUE OF FINANCIAL INSTRUMENTS	160
35. RELATED PARTY TRANSACTIONS	162
36. CONCENTRATION OF ASSETS AND LIABILITIES	163
AUDITOR'S REPORT	164

CONTENTS

Annual Report of the National Bank of Ukraine for 2005

Editorial staff:

Anatolii Shapovalov (Head)

Vira Hal (Deputy Head)

Natalia Hrebenyk

Vira Rychakivska

Mykola Melnychuk

Nina Dorofieieva

Tetiana Halchynska

Compiled by the NBU
Statistics and Reporting Department

Translated by
Halyna Holubieva
Liudmyla Patenko
Valentyna Kravchenko
Olha Zahorodniaia

Proof-readers:
Kristina Zasypkina
Olena Marchenko

Responsible for the publication,
Head of the Division for Issue
of NBU Statistic Publications
of the Editorial Board of NBU Periodicals:
Mylena Boichuk

Photographs: by **Vladyslav Nehrebetskyi**

Address of the Editorial Board of NBU Periodicals:

7 Nauky Avenue,
Kyiv, 03028, Ukraine
Telephone: (38 044) 527 3014
Telephone and fax: (38 044) 524 9625
E-mail: litvinova@bank.gov.ua

Laid out and printed by the NBU
Maintenance Administration Office

Made up by
Olexander Yurkin
Mykhailo Vasyichenko

Artistically designed by
Olena Horbatovska

Authorized publication:
31 August 2006

Format: 60×84/8 Offset
Circulation: 200 copies
Order № 6-0707

CHAPTER 4. TABLES	165
MAIN INDICATORS OF THE ECONOMIC AND SOCIAL SITUATION IN UKRAINE	166
AVAILABLE MONEY SUPPLY IN CIRCULATION IN UKRAINE AND ITS DISTRIBUTION IN 1991–1997	172
AVAILABLE MONEY SUPPLY IN CIRCULATION IN UKRAINE AND ITS DISTRIBUTION IN 1998–2002	174
AVAILABLE MONEY SUPPLY IN CIRCULATION IN UKRAINE AND ITS DISTRIBUTION IN 2003–2005	177
AVAILABLE MONEY SUPPLY IN CIRCULATION AND ITS DISTRIBUTION IN 2004–2005	180
AVAILABLE MONEY SUPPLY IN CIRCULATION AND ITS DISTRIBUTION IN 2005	181
NBU INTEREST RATE ON REFINANCING FOR BANKS (BY DATES)	182
NBU INTEREST RATES ON REFINANCING FOR BANKS IN 1992–2001	183
NBU INTEREST RATES ON REFINANCING FOR BANKS IN 2002–2005	183
CHANGES IN CONSUMER AND INDUSTRIAL PRODUCER PRICES, NBU DISCOUNT RATE AND INTEREST RATES OF BANKS	184
AVERAGE WEIGHTED INTEREST RATES OF UKRAINIAN BANKS ON NATIONAL CURRENCY CREDITS AND DEPOSITS	185
INTEREST RATES OF UKRAINIAN BANKS ON NATIONAL CURRENCY CREDITS AND DEPOSITS	185
NBU CLAIMS ON GRANTED CREDITS	186
CLAIMS OF BANKS ON THE CREDITS GRANTED TO THE ECONOMY OF UKRAINE	187
OFFICIAL EXCHANGE RATE OF UKRAINIAN KARBOVANETS AGAINST FOREIGN CURRENCIES ESTABLISHED BY THE NBU (END OF PERIOD)	188
OFFICIAL EXCHANGE RATE OF HRYVNIA AGAINST FOREIGN CURRENCIES ESTABLISHED BY THE NBU (END OF PERIOD)	189
OFFICIAL EXCHANGE RATE OF UKRAINIAN KARBOVANETS AGAINST FOREIGN CURRENCIES ESTABLISHED BY THE NBU (PERIOD AVERAGE)	192
OFFICIAL EXCHANGE RATE OF HRYVNIA AGAINST FOREIGN CURRENCIES ESTABLISHED BY THE NBU (PERIOD AVERAGE)	193