



NATIONAL BANK OF UKRAINE

ANNUAL REPORT

2 0 0 6



Dear Ladies and Gentlemen,

In order to ensure transparency of the information about the activity of the National Bank of Ukraine, we would like to offer you the Annual Report of the National Bank of Ukraine for 2006.

In spite of complicated economic and political situation, the year 2006 was rather successful for the banking system of Ukraine. The growth of capital and resource base of the banks of Ukraine, crediting of the economy and international reserves continued. The analysis of the dynamics of the banking system indicators testifies to the growing contribution of the banking system to the development of the real sector of the economy of Ukraine.

Implementation of the monetary and foreign exchange policy by the National Bank of Ukraine in 2006 was ensuring stability of the national monetary unit and the exchange rate, development of the banking sector, and was aimed at curbing of inflation, economic growth and increase in the welfare of the population.

I would like to assure you that the National Bank of Ukraine will further aim all the efforts at securing the dynamic development of the banking sector, its competitiveness, improving the banking regulation and supervision to enhance protection of depositors' interests and to maintain trust of the population in the banking system.

With deepest respect,

**Governor of the
National Bank of Ukraine**

Volodymyr Stelmakh

COUNCIL OF THE

NATIONAL BANK OF UKRAINE (as at 1 January 2007)



**Valerii
Heiets**

Director of the state
institution "Economy
and Forecasting
Institute "



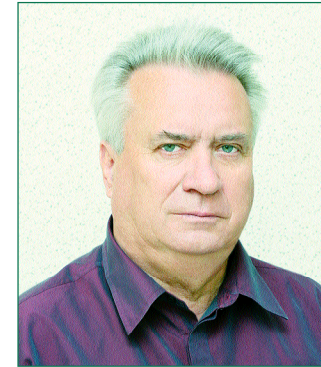
**Mykhailo
Honcharov**

Secretary of the Finance
and Banking Committee
of the Verkhovna Rada
of Ukraine



**Valerii
Horbal**

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



**Anatolii
Danylenko**

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of the state institution
"Economy and Forecasting
Institute "



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Kliuiev**

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of Ukraine



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Kolesnikov**

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of Ukraine



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Onischuk**

First Deputy Head
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of the Verkhovna Rada
of Ukraine



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Poroshenko**

Chairman of the Finance
and Banking Committee
of the Verkhovna Rada
of Ukraine



**Ihor
Prasolov**

Member of the Budget
Committee of the
Verkhovna Rada
of Ukraine



**Petro
Sabluk**

Director of the National
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of the Ukrainian Academy
of Agrarian Sciences



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Stelmakh**

Governor
of the National Bank
of Ukraine



**Yulia
Tymoshenko**

Member of the Legal
Committee of the
Verkhovna Rada
of Ukraine



**Anatolii
Fedorenko**

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



**Hennadii
Shemshuchenko**

Primal legal advisor
to the Chairman
of the Board
of Reiffeisen Bank Aval



**Arseniy
Yatsenyuk**

First Deputy Head of the
Secretariat of the President of
Ukraine – Representative of the
President of Ukraine in the
Cabinet of Ministers of Ukraine



BOARD OF THE

NATIONAL BANK OF UKRAINE (as at 1 January 2007)



**Volodymyr
Stelmakh**

Governor
of the National Bank of Ukraine



**Anatoli
Shapovalov**

First Deputy Governor
of the National Bank of Ukraine



**Volodymyr
Krotluk**

Deputy Governor
of the National Bank of Ukraine



**Olexandr
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



**Olexandr
Tolstol**

Executive Director
on Cash Circulation



**Ihor
Shumylo**

Executive Director
on the Economy



**Natalia
Hrebenyk**

Director of the Monetary Policy
Department



**Ihor
Ivanluk**

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



**Anatoli
Savchenko**

Director of the Information
Technology Department

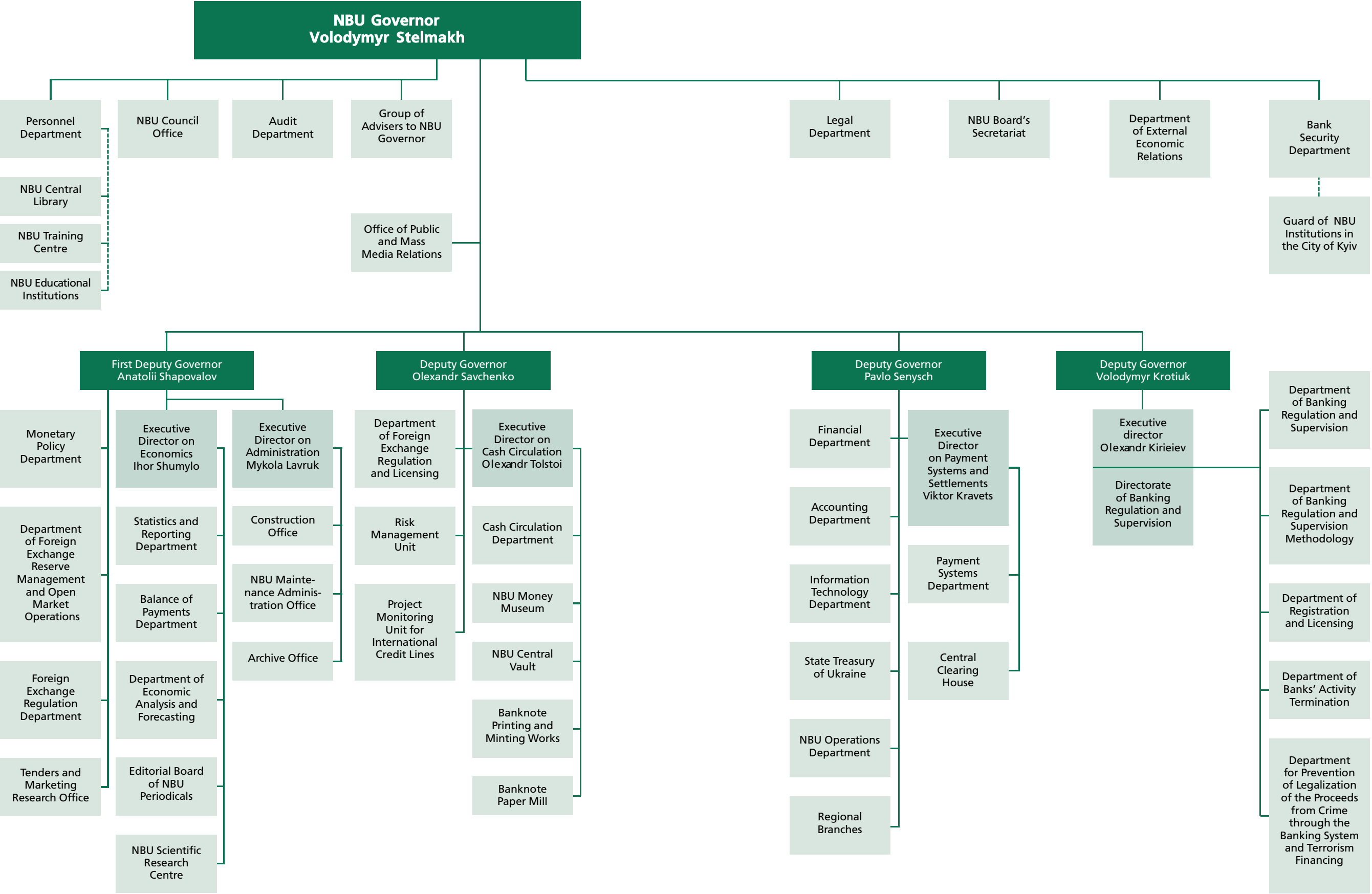


**Anatoli
Stepanenko**

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 2007)



INTRODUCTION

Acceleration of economic processes against the background of the essential political tension related to the parliamentary elections and division of powers became a distinction of 2006. Under such complicated conditions, the banking sector of Ukraine in 2006 exhibited essential improvement of both quantitative and qualitative indicators.

After considerable deceleration in 2005, the macroeconomic development of Ukraine featured significant recovery. The upward dynamics in the economic development in 2006 was determined by the domestic demand achieved due to high rates of growth of the real available household income with a decline in registered unemployment, as well as due to an increase in investments into fixed capital stock and essential inflow of direct foreign investments. The improvement of business conditions in the external markets contributed to acceleration of industrial production, whereas the growth of cost of imported energy carriers for enterprises at the beginning of the year resulted in a low-level financial shock and forced them to optimize production and sales of products.

The inflation processes accelerated in the year under review. Inflation was 11.6% versus 10.3% in 2005. Essential correctives to the dynamics of consumer price index, which during first eight months of 2006 was within acceptable limits and showed a tendency to a gradual decrease, were made by the administrative increase in tariffs for housing and communal services (on the average by 85.7%), which occurred in the second half of the year.

The tax pressure on the economy kept growing. At the year-end, the revenues of the Consolidated Budget of Ukraine were 32.1% of the GDP, the expenditures were 32.7% of the GDP and were the biggest during five preceding years. However, the deficit of the Consolidated Budget of Ukraine was rather moderate and amounted to 0.7% of the GDP as compared with the surplus of 1.8% of the GDP in 2005.

The National Bank of Ukraine pursued the monetary policy in compliance with the Monetary Policy Guidelines for 2006 coordinated with the government economic policy.

Moderate dynamics of monetary aggregates testifies to the lack of influence of a monetary index on inflation acceleration. Within the period after 1999, when economic growth processes recommenced, money supply growth in 2006 was among the smallest ones - at the level of 34.5% because of the decreased issue of money through the foreign exchange market.

Monetization of the economy increased in 2006 from 36.23% to 42.47%, which testifies to the real growth in provision of the economy with monetary funds.

In order to ensure the adequate level of banks' liquidity, the National Bank of Ukraine actively used the mechanism of reserve requirements, changing their norms for banks. In order to ensure the adequate level of money supply, the NBU used other monetary instruments and mechanisms, which helped to preserve equilibrium at the money-and-credit market and to strengthen positive tendencies in developing the real sector of the economy. In particular, starting from the 2nd quarter, the amount of operations, supporting the bank liquidity with the use of bank refinancing operations increased, whereas mobilization operations decreased.

The National Bank of Ukraine pursued the interest rate policy in accordance with the situation. For example, the average weighted refinance rate under all instruments during 2006 decreased permanently and totally for the year amounted to 11.53% per annum and for most of the year was positive as to both actual and forecasting inflation. This process was promoted when on June 10 the National Bank of Ukraine decreased a discount rate from 9.5% to 8.5% per annum.

The above measures specifically enabled banks to continue their active credit support of the economic development processes.

Rise of household income under the conditions of actual lack of alternative investments except investments in the real estate market, contributed to high growth rates of deposits in 2006.

Bank liabilities under the funds attracted to the banking system increased in 2006 by 38.8% (in

2005- by 60.0%). In 2006, the growth rates of bank liabilities under the individuals' funds reached 145.8%. This increase in the individuals' deposits ensured 65.1% of the total bank deposit increase and had a deterrent effect on the development of inflation processes. The economic entities' funds augmented by 30.2%. The majority of deposits were funds in the national currency, which grew by 30.8 % during the year and their share in the deposit structure by the types of currency decreased to 61.9%, or by 3.8 percentage points. An increase of banks' resource base by 54.0% in general primarily due to the growth of deposit funds in foreign currency under all depositors' categories was a characteristic feature of 2006. In 2006, a positive dynamics of growth of long-term deposit liabilities of banks continued, their volume increased by 57.4% during the year. The volume of the individuals' current deposits in 2006 augmented by 39.8%. Concentration of funds on the individuals' demand accounts in 2006 was caused by active development of card payment systems in Ukraine, since 63.5% of the growth of funds on the individuals' current accounts was achieved due to the growth of funds on the households' card accounts.

The current deposit guarantee system also encouraged attraction of deposit funds. By the decision of the Administrative Council of the Individual Deposit Guarantee Fund the amount of compensation to depositors in case of bank bankruptcy was increased in January 2006 to UAH 8 thousand and in May - to UAH 15 thousand (in February 2007 - to UAH 25 thousand).

Due to essential growth of the banks' resource base, its structure improvement and decrease in interest rates, the banks continued to augment the volumes of crediting. The banks' claims under credits extended to the economy of Ukraine increased in 2006 by 71.0% (in 2005 - by 61.9%). An absolute increase in the banks' claims under extended credits almost two times exceeded a similar increase in 2005. The indicator of the credits increase in 2006 was the highest during the years of independence of Ukraine. The highest growth of the banks' claims under extended credits ensured the increase in indebtedness under the extended to economic entities, whose volume in 2006 increased by 52.1% of the total growth of indebtedness under credits. The positive dynamics of banks' credits was influenced by considerable rates of growth of indebtedness under credits extended to individuals (2.3 times), which caused the increase of its share in the total volume of credits to the economy of Ukraine by 9.9 percentage points up to 32.0%. Within the structure of credits by types of currencies the share of claims under credits extended in the national currency decreased by 6.2 percentage points and for the first time during the years of independence almost equalled the share of claims in foreign currency (50.5% versus 49.5%). During 2006, the positive tendency towards the growth of banks' long-term credits preserved, the claims under which increased by 79.5% as compared with 2005. A positive tendency of 2006 was an essential growth of credits extended for the investment activity of economic entities, the indebtedness under which increased 2.2 times during the year (last year - 2.7 times). The growth of lending activities was an important factor of positive influence on the development of Ukraine's economy. In this case, the growth of lending activities did not affect the quality of the banks' credit portfolio, where the share of overdue and doubtful credits in the banks' general credit portfolio decreased during 2006 from 2.5 to 1.9%.

In 2006, the banking sector of Ukraine continued its dynamic development showing considerable rates of growth of main indicators of its activity, which was stimulated by the inflow of direct foreign investments to the banking sector, growth of household real incomes and preservation of public confidence in the banking system of Ukraine. As of the end of 2006, the banks' capital was 7.9% of GDP, total assets - 63.5% of GDP and liabilities - 55.5% of GDP.

In 2006, the capital of the banking sector of Ukraine continued to increase. Balance capital of Ukrainian banks in 2006 was UAH 42.6 billion, or increased by 67.2%. The banks' regulatory capital increased during 2006 by 56.0% up to UAH 41.1 billion, or EUR 6.2 billion, where the fixed capital amounted to 75 %, and the additional one - 25 %.

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 2006, Ukrainian banks received the highest profit during the years of the banking system existence amounting to UAH 4.1 billion (in 2005 - UAH 2.2. billion). The increment of the banks' net profit during 2006 was 91.0%, which was considerably

higher than their earnings and expenditures (51.2% and 47.8%, respectively). Return on assets increased up to 1.61% (in 2005 - 1.31%), return on equity - up to 13.5% (in 2005 - 10.4%).

The dynamic growth of the banking operation volumes required activation of work on perfecting the inter-bank settlements. The main event of 2006 in the sphere of electronic inter-bank settlements was commissioning of the system of electronic settlements of new generation (SEP-2), which superseded two systems - the system of electronic payments and the system of urgent transfers. SEP-2 is based on modern operational systems and industrial system of data base management.

The development of the National System of Mass Electronic Payments (NSMEP) continued. As of January 1, 2007, 32 banks were its members. As of January 01, 2007, the total amount of the NSMEP cards issued by Ukrainian banks reached 1.4 million (in 2006, 286.6 thousand cards were issued), the network of the NSMEP card servicing amounted to 3.2 thousand units of terminal equipment, or by 778 more, than in 2005. In the year under review, the production, issue and use of NSMEP cards of new generation started (NSMEP-2), and to this end the certified software was renewed by the NSMEP members and participants. In 2006, the work was carried out in order to extend the application field of the NSMEP technologies and components owing to the development and realization of the "Student's Card", "Social Card" and "Social and Transport Card".

The external economic conditions continued their essential influence on the economy of Ukraine as a result of its increasing integration into the world economy. In 2006, for the first time since 1999, deficit of the current account of the balance of payments was formed in Ukraine at the level of USD 1.6 billion (1.5% of GDP). However, a considerable inflow of the long-term capital caused formation of the surplus of the financial account amounting to USD 4 billion, which not only allowed to compensate the current account deficit but also to enlarge the international reserves. As of January 1, 2007, the international reserves made up USD 22.3 billion and augmented for the year by USD 2.9 billion. This ensured the financing of the import of goods and services for the future period during 4.4 months.

A determinant feature of the financial account of the balance of payments in 2006 became the highest over last six years volumes of receipts of long-term resources (direct foreign investments and medium- and long-term non-guaranteed credits) with a simultaneous increase in the capital outflow. In general, for the year the surplus of the financial account was estimated in USD 4.1 billion (for 2005 - USD 8.2 billion). Net inflow of direct foreign investments to Ukraine was USD 5.3 billion.

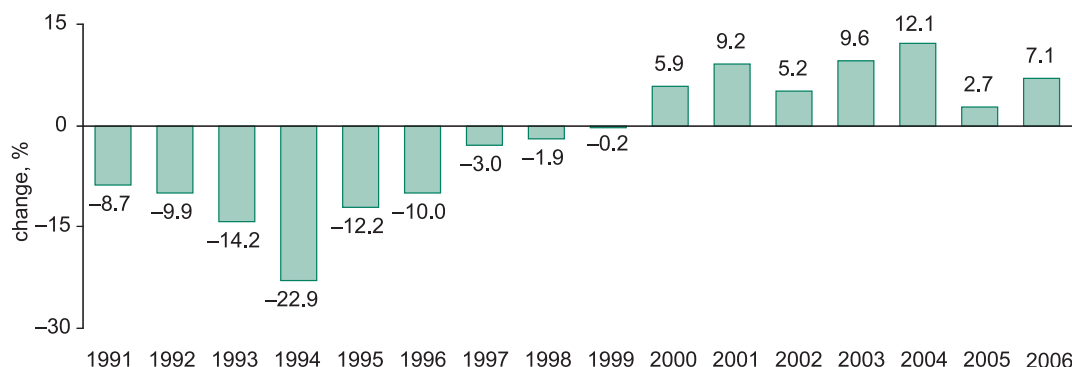
The Annual Report of the National Bank of Ukraine for 2006 presents the performance of the National Bank of Ukraine in the context of the analysis of internal and external economic conditions of the country development, being an important component of transparency in the activity and the condition for growing trust in the central bank. The financial reporting confirmed by the auditor's conclusion is an integral part of the annual report of the National Bank of Ukraine.

Chapter 1
GENERAL ECONOMIC
SITUATION

1.1 GROSS DOMESTIC PRODUCT

In 2006, Ukraine's macroeconomic indices, after a protracted slump, showed upward dynamics as the real GDP growth reached 107.1 per cent as compared with 102.7 per cent, in 2005. This ascending trend was stimulated by high domestic demand, as a result of accelerating growth rate of real households' income and investments in fixed assets, as well as by improving conditions on the foreign markets.

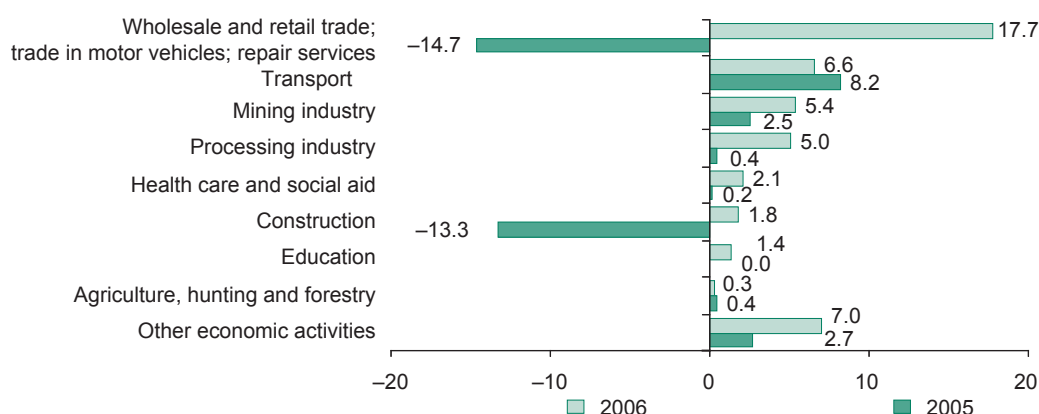
Real GDP of Ukraine in 1991–2006 (as compared with previous year)



In 2006, the nominal GDP totaled UAH 537.7 billion, i.e. by 21.8 per cent higher than in 2005. This growth was caused by a price factor effect, the GDP deflator in 2006 making up 113.3 per cent¹. The nominal GDP per capita reached UAH 11 453 (USD 2 268²), which was by UAH 2 081 more than in 2005.

In 2006, for the first time since 2000, the real GDP growth rate was higher than industrial productivity rate, mainly, as a result of large gross value-added in trade, transport and communication spheres. Unlike, value-added growth in energy-intensive economic activities was quite moderate, competitive advantages on both domestic and foreign markets being ensured at the expense of domestic borrowings. Nevertheless, in 2006, in all industries, except for agriculture (0.3 per cent), value-added growth showed a stable ascending trend, as compared with 2005.

Gross Value-Added Structure by Economic Activities (as compared with previous year)



The largest contribution in the real GDP growth was made by gross value-added increase in trade (by 17.7 per cent), and in transport and communications (by 6.6 per cent), as a result of growing industrial output and increasing households' income.

¹According to the NBU's estimates.

²Based on average UAH/USD exchange rate in 2006.

As compared with 2005, a share of industry in the real GDP growth increased. A gross value-added growth (by 5.4 per cent) in mining industry was caused by a high demand for raw materials from the metal manufacture sector, as well as by an increase in energy resources production. A gross value-added growth in the metal-processing industry (by 5.0 per cent) was provoked by an increase in output of metal products (due to a rise in prices and in demand for the metal products, in April 2006) and machine-building products (as a result of advancing demand on the domestic market and growing exports).

Industrial Structure of Real GDP Growth (p.p.)*



* Estimates of the National Bank of Ukraine

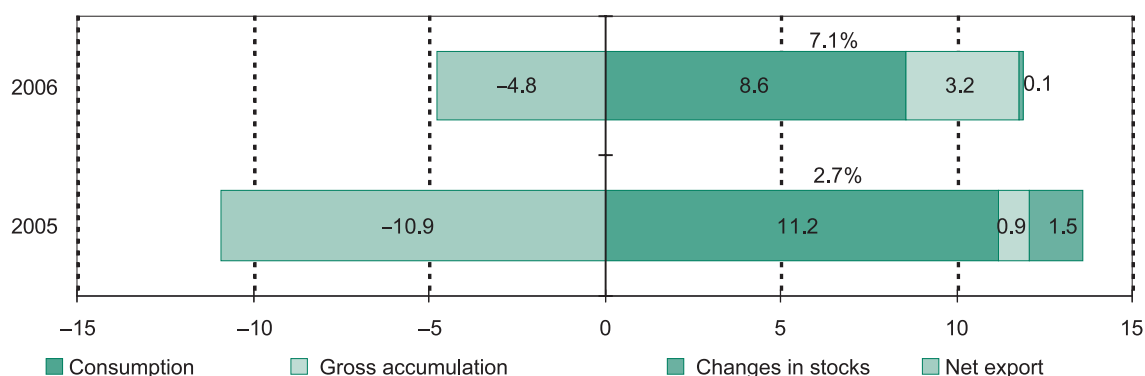
Two successive years, net product tax had a material share in the GDP growth that was an evidence of heavy tax burden. In 2006, an increase in the net product tax ensured one third of the GDP growth.

GDP STRUCTURE

| Indices | Total value, UAH billion | 2006 Share in GDP, % | (at actual prices) | |
|-------------------------------------|-----------------------------|----------------------------|--|--------------------|
| | | | For information: 2005 Total value, UAH billion | Share in GDP, % |
| GDP | 537.7 | 100.0 | 441.5 | 100.0 |
| Including | | | | |
| Final consumer spendings | 422.4 | 78.6 | 337.9 | 76.5 |
| Gross accumulation | 129.0 | 24.0 | 97.0 | 22.0 |
| Changes in stocks | 1.7 | 0.3 | 2.9 | 0.6 |
| Net export of goods and services | -15.4 | -2.9 | 3.7 | 0.9 |

The analysis of GDP structure by final consumption has showed that in 2006, the economic growth was chiefly stimulated by an increase in consumer demand and investments.

A share of final consumer spendings in the GDP structure, in 2006, increased by 2.1 p.p. and accounted for 78.6%. Households' consumer spendings grew by 14.2% and totaled 58.7% of GDP. This increment was provoked by a rise in households' real income by 16.1% and by a retail consumer lending boom that was the principal factor of stimulating the domestic demand. A share of consumer spendings in the government sector made up 18.9% which was by 0.7 p.p. higher than in 2005. The final consumer spendings of non-commercial organizations rendering services to households slightly decreased and accounted for 1.0 per cent of GDP.

Final Consumption Structure of Real GDP Growth (p.p.)*

* Estimates of the National Bank of Ukraine

In 2006, gross accumulation of fixed assets increased by 14.7 per cent (24.0% of GDP). A rise in gas prices provoked enhancing investment activities of enterprises, at the expense of bank loans.

Net export had the largest negative contribution in the GDP growth (minus 2.9 p.p.). On the one hand, it was caused, primarily, by aggravating conditions on the world ferrous metal market; on the other hand, the investment demand was met by imported machine-building products that also resulted in the current account deficit.

GDP STRUCTURE BY INCOME CATEGORIES

| Indices | 2006 | | (at actual prices) | |
|---------------------------------|--------------------|-------------------|--------------------|-------------------|
| | Total, UAH billion | share, % in total | Total, UAH billion | share, % in total |
| GDP | 537.7 | 100.0 | 441.5 | 100.0 |
| including: | | | | |
| Salaries and wages of employees | 265.5 | 49.4 | 216.6 | 49.1 |
| Net taxes on production | 72.8 | 13.5 | 56.1 | 12.7 |
| Gross profit, mixed income | 199.4 | 37.1 | 168.8 | 38.2 |

The GDP structure by income showed an upward trend towards escalating corporate tax burden (by 0.8 p.p.) and wage and salary rates (by 0.3 p.p.), a share of corporate gross profit decreasing (by 1.1 p.p.). That, in addition to a high investment demand, led to increasing corporate payables.

1.2. DYNAMICS OF CONSUMER AND INDUSTRIAL PRODUCER PRICES

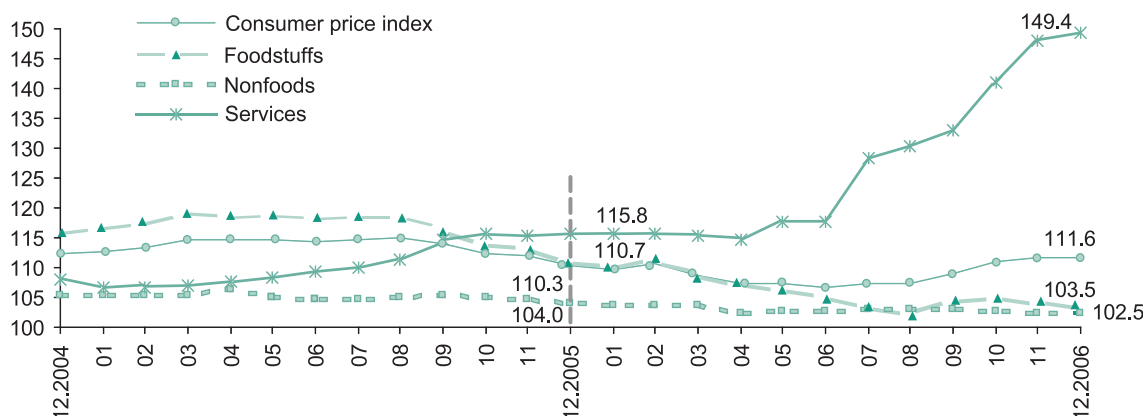
In 2006, inflation dynamics showed an ascending trend, consumer price index being 111.6 against 110.3% in 2005.

PRICE INDICES

| Indices | (% as compared with December 2005) | |
|--|------------------------------------|-----------------------|
| | 2006 | For information: 2005 |
| Consumer price index | 111.6 | 110.3 |
| Foodstuffs | 103.5 | 110.7 |
| Nonfoods | 102.9 | 104.0 |
| Services | 149.4 | 115.8 |
| Industrial producer price index | 114.4 | 109.5 |
| Mining industry | 120.6 | 127.7 |
| Processing industry | 111.5 | 106.9 |
| Power generation and supply of gas and water | 123.4 | 113.1 |

The driving force of inflation was a rise in prices (tariffs) for services rendered to households (by 49.4 per cent), as a result of upping prices for energy resources, including a 85.7 per cent increase in prices for communal services and a 42.1 per cent increase in transportation prices.

Consumer Price Index and Its Components (annual change, %)



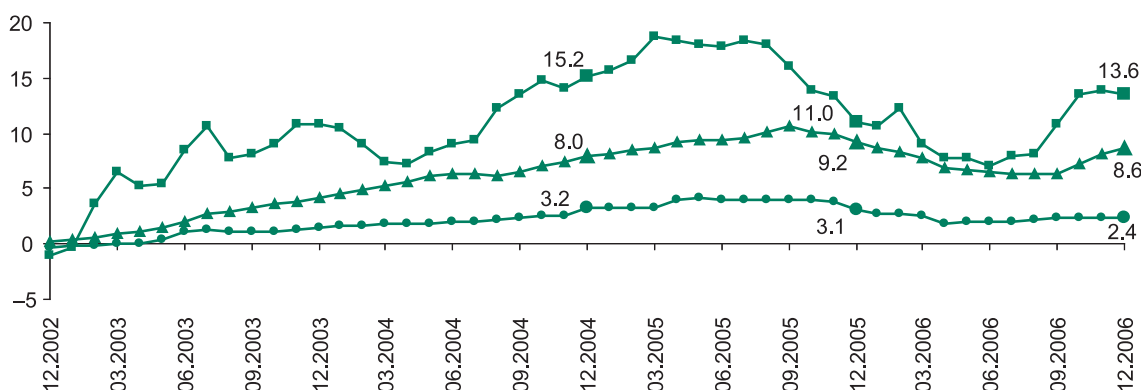
During the year inflation dynamics on the consumer market developed as follows:

- In January-February, consumer prices grew because of inflation expectations generated by uncertainty as regards gas price and gas supply, as well as because of political uncertainty before parliamentary elections. At the same time, as a result of strong frosts, prices for vegetables sharply increased by 37.1 per cent, including price for potato by 30.9 per cent. This rise was partially compensated by falling prices for poultry caused by avian influenza;
- In March-April, a drop in prices for meat and poultry (as a result of Russia's ban to import them from Ukraine), as well as for potato, and season reduction of heating price caused deflation;
- In May-August prices for communal services and passenger transport services grew, a CPI growth being neutralized by reducing foodstuff prices;
- Starting from September, a stable growth of prices for services was added with a foodstuff price increase.

In 2006, foodstuff prices grew by 3.5 per cent (against 10.7 per cent, in 2005). Having the largest share (64.9 per cent) in the total consumption structure, foodstuffs were the driving force of inflation in the second and third quarters of 2006. The largest jumps in prices were observed for fruits (39.9 per cent), cereals and legumes (17.2 per cent), bread and baked goods (16.7 per cent), and for wheat flour (12.5 per cent). During the year, price for cereals stably increased, as a result of a rise in gas price and an increase in minimum wage. At the same time, prices for vegetables, fats, and meat and poultry decreased by 15.0, 15.0 and 8.3 per cent respectively.

In 2006, prices for nonfoods increased by 2.5% (in 2005, by 4.0%), chiefly, for fuel and lubricants.

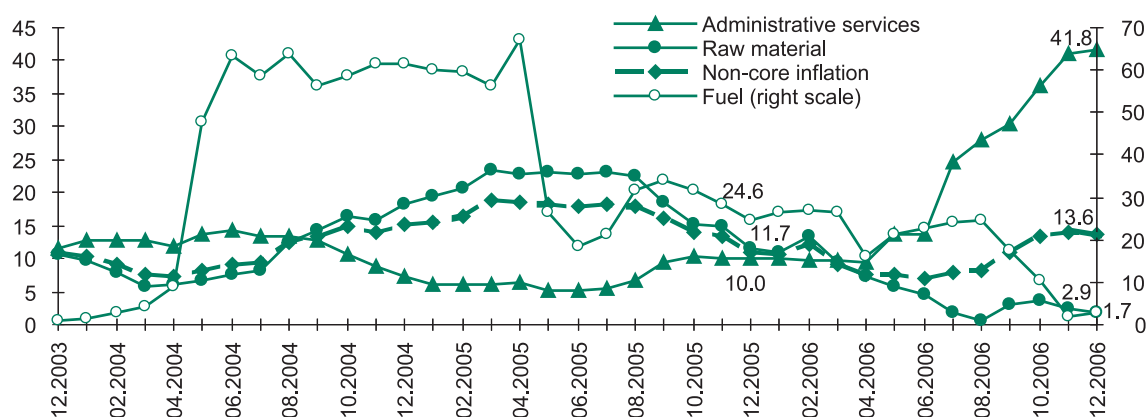
Core and Non-Core Inflation Dynamics (annual change, %)



In 2006, the broad core inflation (i.e. a rise in consumer price net of fuel price, regulated prices and non-processed foodstuffs) grew by 8.6 per cent. Prices for nonfoods, except for fuel (narrow core inflation) increased by 2.4 per cent. In the first half of the year the core inflation slowed down because of enhancing influence of real interest rates and real exchange rate on economic activities at the end of 2005-beginning 2006. The principal tool of the NBU's policy for keeping stability of exchange rate was sale of currency on the interbank market and respective gradual growth of money supply. In addition, in the first half of the year, the prices were restrained by instant revaluation of hryvnia against U.S. dollar in April 2005 (from January till April, narrow core inflation declined from 3.1 to 1.9 per cent, in annual dimension). However, an excess of GDP over the potential level³, starting with the second quarter of 2006, as well as aggravating inflation expectations after a sharp rise in prices for services stimulated consumer inflation in the second half of the reporting year as from September till December the annual broad core inflation grew up to 2.3 p.p.

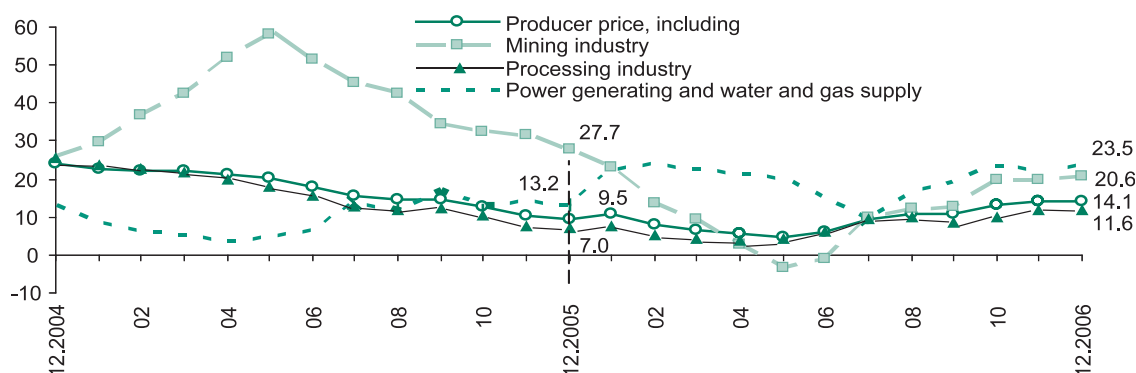
The main cause of dropping prices for raw materials, regulated services and fuel (non-core inflation)⁴ in the first half-year (from 11.0 to 7.0 per cent annual) was reduction of prices for non-processed foodstuffs (in January-August, from 11.7 to 0.6 per cent annual). An increase in non-core inflation in July-December of 2006 was associated with a rise in tariffs for regulated services.

Non-Core Inflation and Its Components (annual change, %)



In 2006, industrial producer price index reached 114.1% (in 2005, 109.5%). At the beginning of the year it declined from 109.5 to 104.7 per cent annual that affected consumer price index till the mid-year. Processing industry had the largest share (8.9 p.p.) in the industrial producer price index, including metallurgy and metal-processing (4.5 p.p.). A rise in producer prices for metal products was provoked by metal prices growth on the world markets. A rise in prices in the mining industry was primarily caused by increasing costs of non-power-generating material production, as a result of lifting demand from the metallurgic works. During the year prices for generation and supply of power, gas and water substantially increased (by 23.4 per cent; their share in IPPI by 3.1 p.p.), to large extent, as a result of a rise in gas price for industrial enterprises.

Producer Price Index (annual change, %)



³Potential GDP is an estimated level that does not entail market factors of price growth. Estimates of the National Bank of Ukraine.

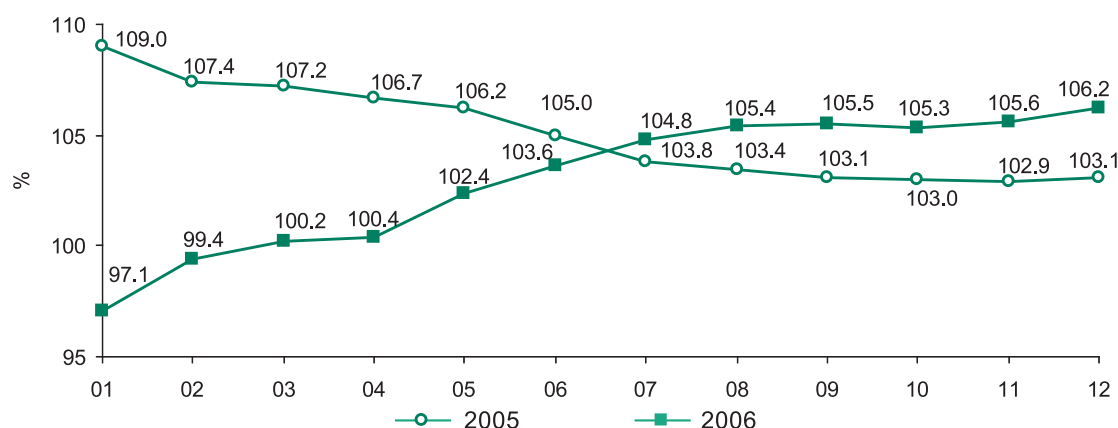
⁴Broad core inflation plus non-core inflation, both weighted, is equal to consumer inflation.

1.3. REAL ECONOMY SECTOR

1.3.1. INDUSTRIAL OUTPUT

In 2006, the growth rate of industrial output showed a gradually upward trend. The industrial output increment made up 6.2 per cent against 3.1 per cent in 2005. Consequently, industrial component in the GDP growth increased from 8.4%, in 2005, to 18.4%, in 2006.

Industrial Output Growth in Comparative Prices
(accumulated % as compared with previous year)



Slow dynamics of industrial output at the beginning of the year was associated with a rise in imported gas price. As a result, industrial output fell, first of all, in energy-intensive industries. Starting with the second quarter of 2006, the external demand improved (as prices for export of metal and chemical products grew) that encouraged the producers of export-targeted products to enhance the output. High domestic demand, including investment one, also promoted acceleration of industrial output growth.

In the reporting year, Ukrainian industrial enterprises sold products worth UAH 460.4 billion, enterprises of processing industry having the lion's share of 76.2% in the total output, including metal manufacture and processing 24.4%, food industry and agricultural products processing 14.8%, machine-building 12.9%, coke and petroleum derivatives production 9.2%, chemical and petrochemical industry 6.7%.

Enterprises of the following regions had the largest share in the products sold (50.9 per cent): Donetsk Oblast (20.5 per cent), Dnipropetrovsk Oblast (16.5 per cent), Luhansk Oblast (8.7 per cent), and Kyiv (5.2 per cent).

BASIC INDUSTRIAL INDICES IN 2006

| Indices | Products sold, UAH billion | Share in the total products sold, % | For information: Industrial output index % as compared with previos year | |
|---|----------------------------|-------------------------------------|---|-------|
| Industry | 460.4 | 100.0 | 106.2 | 103.1 |
| including: | | | | |
| Mining industry | 40.3 | 8.7 | 105.8 | 104.4 |
| Processing industry | 350.7 | 76.2 | 106.3 | 103.0 |
| Generation and supply of power, gas and water | 69.4 | 15.1 | 106.7 | 102.9 |

During the year, positive dynamics of industrial output were provided chiefly by metal manufacture and processing industry. It should be noted that, in the first quarter of 2006, unfavorable price

conditions on the market and a natural gas deficit at the metallurgical works, especially, in the period of strong frosts, caused a slump in metal products output. Starting with the second quarter the situation improved due to a rise in prices for steel on world markets and a high domestic demand from machine-building, construction and transport enterprises. Totally for the year, metal products output growth was higher than the average industrial output and reached 108.9 per cent (against 98.5 per cent, in 2005). Respectively, this industry had the lion's share of 35.9 per cent (versus minus 12.8 per cent in previous year) in the total industrial output growth for 2006.

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



The industrial output growth in machine-building, food industry and processing of agricultural products provided about a half of the total industrial output.

An increase in machine-building output by 11.8 per cent (as compared with 7.1 per cent, in 2005) was provoked by growing demand on both foreign (export of vehicles and road equipment grew by 26.3 per cent) and domestic markets (as domestic enterprises made investments in fixed assets and advanced know-how). Growing population income (by 16.1 per cent) and boosting consumer lending stimulated an increase in the car and household refrigerator output (by 36.6 and 39.2 per cent, respectively).

In 2006, stable ascending dynamics of output in the food and agriculture processing industry (a 10.0 per cent increase versus 13.7 per cent, in 2005) were determined by improving demand on the domestic market due to enhancing households' income and by rich harvest of sugar beets and sunflower seeds. Non-regulated trade relations with the Russian Federation as regards export of cattle-breeding products hampered the output growth in the food industry, in January-September 2006.

Another contributors in the industrial output growth were industries oriented towards meeting consumer demand of population, including wood-processing and manufacture of furniture (13.9 per cent), other non-metal mineral materials, including construction materials and glass works (12.8 per cent), pulp and paper industry, printing and publishing industries (10.3 per cent), chemical and petrochemical industry (3.2 per cent).

Negative trends in coke and petroleum derivatives production significantly restrained the industrial output growth (as in 2006 the output fell by 12.1%), primarily, because of reconstruction of Odesa and Kherson Petroleum Refineries and unstable supply of petroleum products to Ukraine's refineries. The light industry also showed slumping output (by 1.9 per cent), as a result of declining demand for home-made products and increasing import of clothing at a lower prices. These industries made a negative contribution in the total output growth (minus 18.1 and minus 0.3 per cent, respectively).

In mining industry the output growth accelerated by 5.8 per cent, that was provoked by an increase in production of non-power-generating materials (by 9.5%, including 9.4% in ore produc-

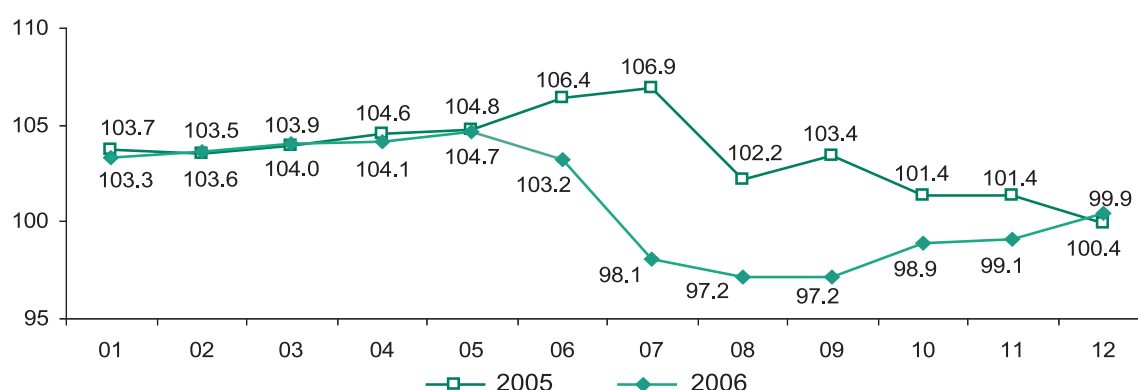
tion) due to high demand for ore from metallurgical enterprises. It should be noted despite a rise in gas prices extraction of power generating materials was not substantially intensified. Output of coal, petroleum and gas totally added 3.3 per cent, the coal having only 2.8 per cent.

In the sphere of power, gas and water generation and supply the output grew by 6.7 per cent as a result of raising demand for power from metallurgical plants consuming about one third of power produced. The high demand stimulated power generation output at the rate of 192.2 billion kW-year, by 3.8 per cent higher than in 2005, including 90.2 billion kW-year produced by nuclear and 89.0 billion kW-year by thermoelectric power plants.

1.3.2. RURAL ECONOMY

In 2006, the agricultural product output increased by 0.4% in comparable prices (in 2005, it decreased by 0.1 per cent) and amounted to UAH 94.3 billion (denominated in actual prices), farm enterprises and agricultural holdings raising the output by 4.2%, whereas private farms losing 2.1% versus previous year. In 2006, the situation in agriculture improved due to an increase in cattle-breeding output, a negative share of crop and plant production caused by poor harvest and cutting of areas under crops, as compared with 2005, being the main reason for unstable dynamics of agricultural output.

Growth Rate of Agricultural Output in Comparable prices (accumulated % as compared with previous year)



Output in cattle-breeding rose by 3.5% as farm enterprises and agricultural holdings increased this index by 14.1%. At the same time, output in private farms decreased by 1.8%. Meat and eggs production added 6.6% and 9.1%, respectively, due to a 23.8% and 18.1% growth in farm enterprises. Private farms showed an increase in eggs production (by 0.2%) and a decrease in meat production (by 2.7%). At the same time, total milk production fell by 3.2 per cent, including by 5.0 per cent at agricultural holdings and by 2.8 per cent by private farms. The meat production growth was stimulated by a 9.0 per cent growth of pig and 3.6 per cent growth of poultry livestock. Unfortunately, the downward trend in cattle livestock continued as it fell by 2.8%, including cows by 6.2 per cent in all types of farms. This reduction was caused by a lack of fodder in autumn and winter. As of January 1, 2007, the fodder stock amounted to 3.7 million tons that was by 17.3% less than at the beginning of 2006.

For supporting cattle breeding the government granted subsidies to farm enterprises and agricultural holdings at the expense of VAT worth more than UAH 810.7 million, as well as extra charges for heavy-weight young cattle, graded pigs and broilers worth UAH 286.8 million.

In 2006, crop and plant output fell by 1.3% as compared with previous year, including in farm enterprises by 0.1%, and in private farms by 2.4%. The situation in plant growing in 2006 was poor as grain production decreased by 9.9% and amounted to 34.3 million tons, as a result of cutting fields

(by 2.8% or 415 thousand hectares), as well as by reducing crop capacity (by 7.3% or by 1.9 centners from hectare). At the same time, in 2006, sugar-beet and sunflower production grew by 22.3 million tons (by 44.4 per cent more than in 2005) and 5.3 million tons (by 13.1 per cent more than in 2005), respectively, due to increasing capacity of fields and expanding the area of fields.

The volume of agricultural products sold in 2006 added 7.0%, as a result of increase in crops and plants (by 4.0%), and cattle-breeding products (by 12.0%) sold. Average prices for products of farm enterprises and agricultural holdings in 2006 enlarged by 2.0% due to rise in prices for crops and plants by 14.0 per cent. Prices for cattle-breeding products fell by 11.0%.

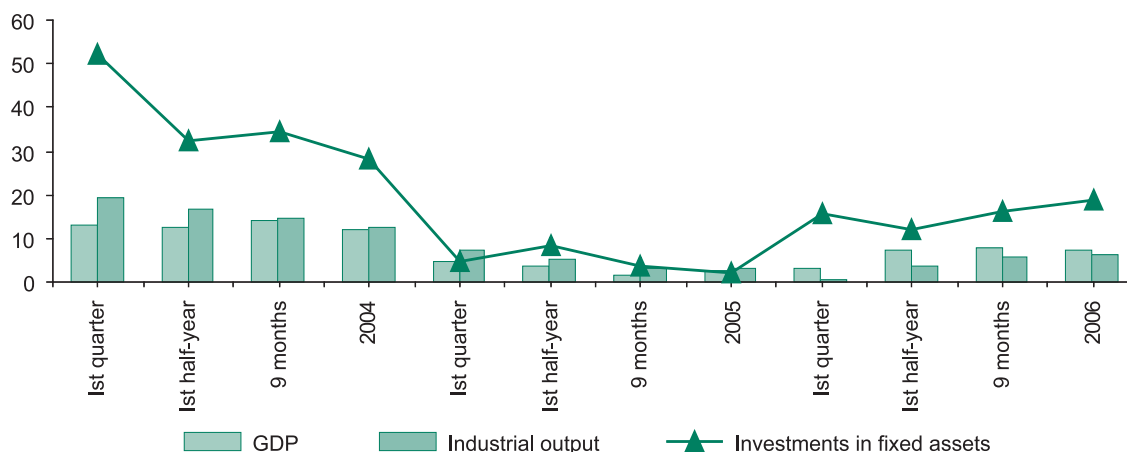
For supporting the agricultural complex through reducing prices for short-term and long-term loans at the expense of budget funds the government refunded interest rates worth UAH 192.4 million. Due to cheapening, banks' loans extended to agricultural, hunting and forestry firms increased by 36.0% as compared with the previous year; and totaled UAH 8.8 billion⁵, including UAH 6.25 billion on short-term and UAH 2.55 billion on long-term loans.

1.3.3. INVESTMENTS

In 2006, the enterprises notably intensified their investment activities. Enhancing financial results of enterprises and households' savings, as well as a boom in banking sector favorably effected amount and structure of investments. Capital investments in creating and upgrading of fixed assets continued to grow and reached UAH 149 billion, their share in capital investments making up 84.1 per cent (UAH 125.3 billion).

In 2006, a growth of investments in fixed assets (19.0 per cent) exceeded the real GDP growth (7.1 per cent) and industrial output growth (6.2 per cent). Such a situation was observed in 2003-2004. In 2005, growth rate of investments in capital amounted to 1.9 per cent. This excess a precondition for keeping high rates of economic growth in the future.

Changes in Real GDP and Capital Investments in 2004–2006
(%, as compared with respective period of previous year)



The main sources of financing capital investments were enterprises' and institutions' own funds, their share in the total capital investments for nine months being 57.8% (in 2005, 57.4%). Enterprises could not increase substantially investments at the expense of their own funds because of a rise in prices for energy resources, an increase in minimum wages, high tax pressure and an increase in expenses connected with harmonization of business standards with WTO requirements.

A share of capital investments financed from loans and credits grew up to 15.5% (in 2005, it made up 14.8%), as a result of accumulating retail deposits and decreasing interest rates on loans.

A portion of households' funds used for individual residential construction accounted for 4.1 per cent versus 3.3 per cent, in 2005.

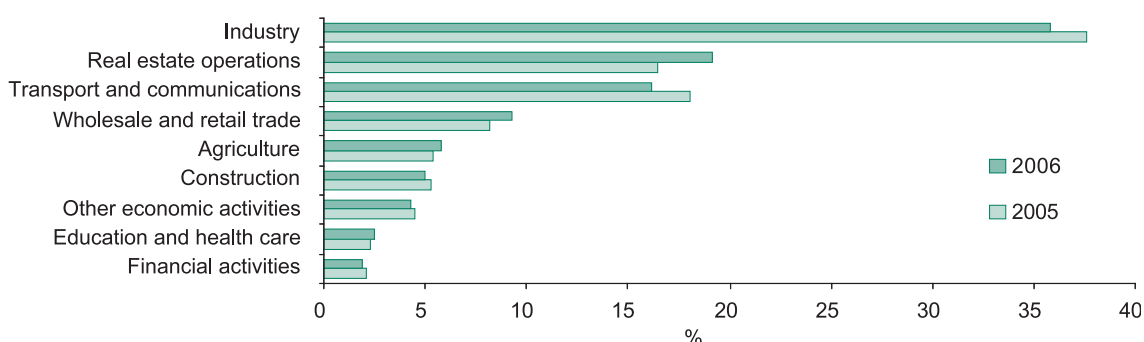
⁵Estimates of the Ministry of Agrarian Policy of Ukraine.

A decrease of social payments' share in government expenses affected growth of investment at the expense of budget funds which totaled 9.8 per cent (as compared to 9.7 per cent, in 2005).

A portion of investments made at the expense of foreign investors' funds declined from 5.0% to 3.7%. A share of investment funds and other sources of financing in the total capital investments amounted to 9.1%.

In 2005, the priority spheres for investments were industry, as well as transport and communications: 35.8 and 16.2% of the total capital investments, respectively, flowed thereto. It should be noted that investments in industry added 15.3% as compared with the same period of 2005, that promoted investment growth in transport and communications (107.2%).

Structure of Investments in Fixed Assets, by Economic Activities



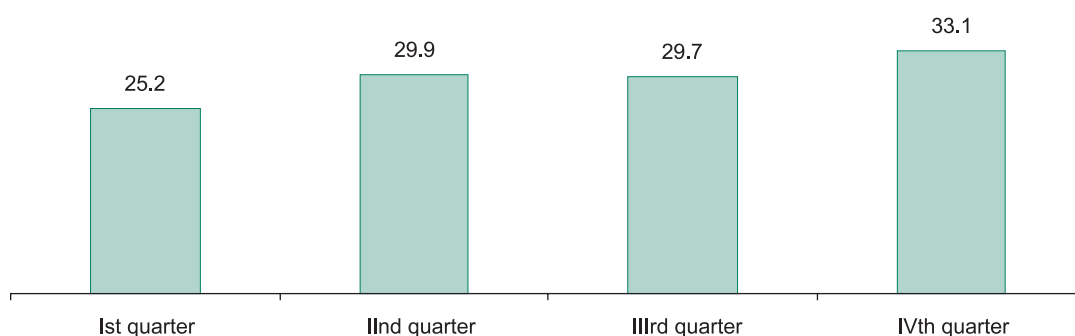
Capital investments of wholesale and retail trade enterprises increased by 34.9 per cent, their share in the total investments being 9.3 per cent.

In 2006, real estate operations remained very attractive from the standpoint of investments due to rapid capital turnover and extremely high profits. Investments in fixed assets in this sphere grew by about 31 per cent, their portion in the total making up 19.2 per cent.

Investments in agriculture, hunting and forestry continued to grow (133.9 per cent), each seventeenth hryvnia of the total being invested therein.

Twenty six of twenty seven regions showed investments increment (in 2005, only 16 regions), the highest dynamics being observed in Chernivtsi Oblast where investments grew by 66 per cent. A drop in investments was registered only in Sumy Oblast (by 7.3 per cent).

Expectations as Regards Growing Investments in Fixed Assets in 2006 (balance, %)



According to the results of the NBU's quarterly survey of investment expectations the investment activities are anticipated to flourish vigorously. During the year the expectation balance⁶ grew by 7.9 p.p to 33 per cent, including investments in tools and equipment (balance 33.7 per cent), a gradual progress of enterprises towards maximum load of their capacities and expected sales boom being encouraging factors, as 98.9 per cent of respondents who anticipate acceleration of sales rates plan to increase investments.

⁶Expectation balance is a difference between answers "improve/increase" (in per cent) and answers "aggravate/decrease" (in per cent).

1.3.4. CORPORATE FINANCE

In 2006, financial status of enterprises and institutions improved, but the rate of growth was slower than in the previous year because of a rise in prices for energy resources and unfavorable conditions on foreign metal product markets, at the beginning of the year. Financial results of ordinary business before taxation totaled UAH 70.2 billion. As compared with 2005, it increased by 14.3% (in 2005, by 44.4%). Despite material worsening of financial results in January-April the enterprises managed to improve them since May so that for eight months of 2006 they exceed the indices of previous year by 2.1 per cent.

The industrial enterprises had the best profit before tax (UAH 33.7 billion) which was by 19.3% more than in the previous year. Financial status of industrial enterprises improved mainly due to increasing financial results of power-generating and water and gas supplying enterprises (4 times, total UAH 5.4 billion), as a result of rise in prices for energy resources, growing demand from metallurgical enterprises and increase in energy export (by 58.1 per cent). A rise in prices for metal products on foreign markets, in the second half of 2006, stimulate a notable increase (by 23.9 per cent, up to UAH 12.5 billion) in financial results of metal manufacture and processing industry. Financial results of enterprises dealing with production of power-generating minerals grew almost twice (by 96.1 per cent, up to UAH 4.8 billion), whereas that of enterprises extracting non-power-generating minerals substantially dropped (by 34.6 per cent, down to UAH 2.4 billion), as a result of a rise in prices for energy resources and an increase in minimum wages (by 16.9 per cent annual). Enterprises of coke and petroleum derivatives industry showed a material decrease (by 57.3 per cent, down to UAH 0.6 billion) in their financial results because of declining output (by 17.8 per cent) and reconstruction of two refineries (in Odesa and Kherson). Like in the previous year, the financial status of light-industry enterprises was negative (minus UAH 56.6 million) as they incurred losses because of being strongly dependant on supply of raw materials, as well as because of a decline in the output.

A rise in prices for energy resources stimulated high demand of economic entities for loans which increased by 51.7 per cent (short-term loans by 52.5 per cent, including hryvnia-denominated loans by 46.0 per cent).

FINANCIAL STATUS AND FINANCIAL RESULTS OF ENTERPRISES AND INSTITUTIONS

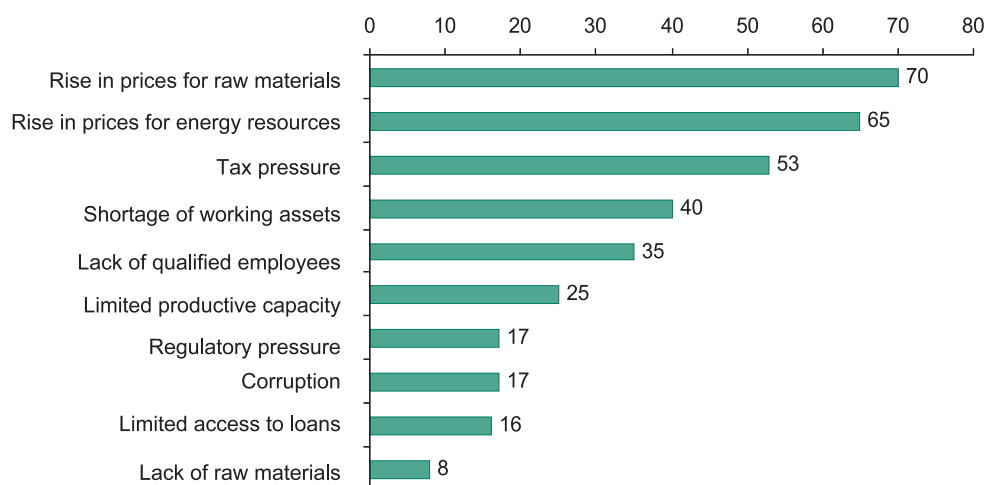
| Indicators | Change as compared with the previous year | | | For information, 2005 pik, % |
|---------------------------------------|---|-------------|-------|---------------------------------|
| | 2006, UAH billion | UAH billion | % | |
| Receivables, | 385.2 | 64.6 | 20.2 | 2.5 |
| including past due | 59.5 | -9.8 | -14.1 | -8.4 |
| Payables, | 463.2 | 61.3 | 15.3 | 1.7 |
| including past due | 71.8 | -16.4 | -18.6 | 1.1 |
| Enterprises' profit | 91.1 | 12.9 | 16.5 | -1.7 |
| Share of profitable enterprises, % | 69.1 | ↑ 4.2 p.p. | | ↑ 1.5 p.p. |

In 2006, 69.1% of enterprises gained profits worth UAH 91.1 billion (in 2005, 64.9%), the most profitable sphere being industry (47.0 per cent).

In 2006, 30.9 per cent of enterprises (in 2005, 35.1 per cent) incurred losses worth UAH 20.8 billion, by 25.0 per cent more than in the previous year. During the year a rate of losses growth passed ahead of profit growth rate in all economic activities. Among industries the most disadvantageous were coke and petroleum derivatives, as well as chemical and petrochemical industries where number of unprofitable enterprises increased by 4.9 and 1.3 p.p. (up to 33.9 and 31.0 per cent), respectively.

The most notable losses were registered in industries (46.6 per cent of the total losses). Upon results of the expectation survey among factors that restrained the profitability was limited productive capacities, especially in mining industry where majority of enterprises worked at the maximum load.

**Factors Preventing the Enterprises from Gaining Profits
in the Next 12 Months: Responses, %**

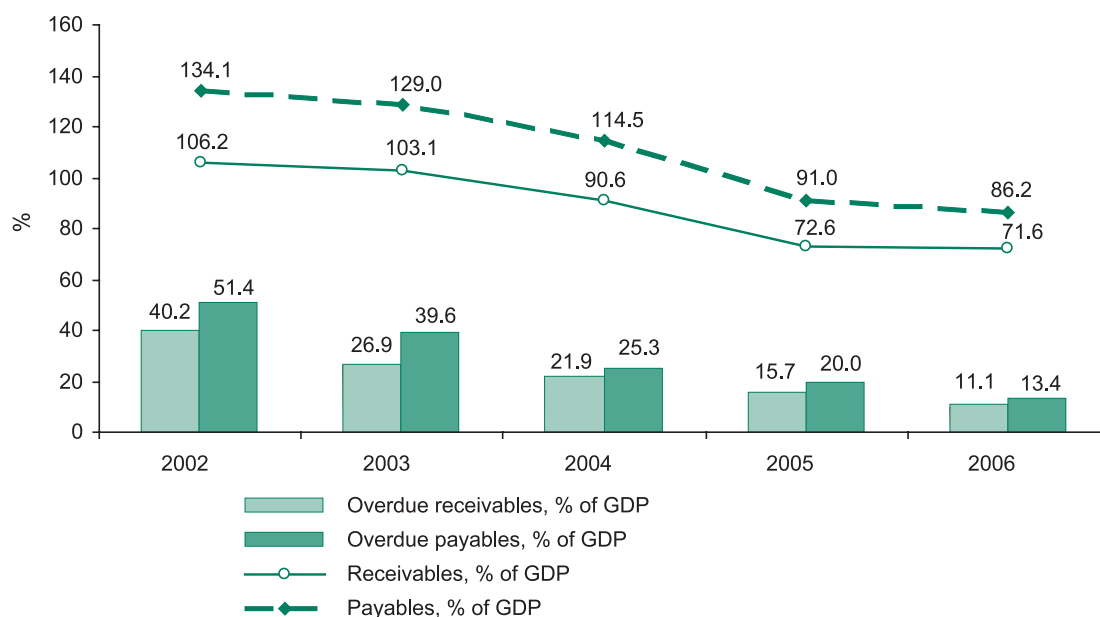


The principal restraining factors were also rise in prices for raw materials, energy resources and high taxes.

Two successive years both receivables and payables were less than nominal GDP (71.9 and 86.4% of GDP, respectively).

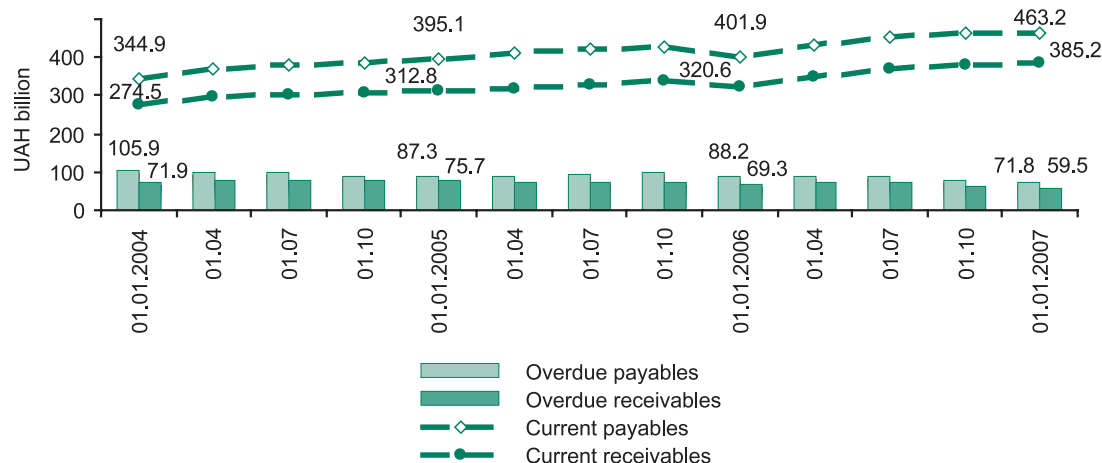
At the same time, in 2006, a magnitude of both short-term payables and receivables grew and this progress was the most impressive for five previous years. As of January 1, 2007, payables of economic entities of all types of ownership (except for small enterprises and budget institutions) totaled UAH 463.2 billion, receivables UAH 385.2 billion, i.e. increased by 15.3% (UAH 61.3 billion) and 20.2% (UAH 64.6 billion), respectively. The highest growth was observed in the first and second quarters, thereafter the growth rate slowed down.

**Current Receivables and Payables of Economic Entities
as a Share of GDP**



Since the second half of 2006, past due showed descending trend. Overdue receivables dropped by UAH 9.8 billion (14.1%) (in 2005, by UAH 6.4 billion or 8.4 per cent), including in the second half of the year by UAH 11.7 billion (16.5 per cent) and as of January 1, 2007, amounted to UAH 59.5 billion. Overdue payables decreased by UAH 16.4 billion (18.6%) (in 2005, they increased by UAH 1.0 billion or by 1.1 per cent), including in July-December by UAH 18.6 billion or by 20.6 per cent, and as of January 1, 2007, totaled UAH 71.8 billion. A share of past due in the total receivables made up 15.5% (in 2005, 21.6%), in the total payables 15.5% (in 2005, 22.0%), overdue payables exceeding overdue receivables 1.2 times.

Settlement Status in Ukraine's Economy



The largest past due was debts on settlements between domestic enterprises and institutions, whose share in the total receivables and payables made up 92.8% and 90.0%, respectively. In 2006, receivables between domestic enterprises increased by 17.9%, payables by 15.3% and as of January 1, 2007, totaled UAH 357.5 billion and UAH 416.8 billion, respectively. Overdue receivables between domestic enterprises downed by 14.4 per cent (in 2005, by 7.6%), overdue payables by 16.3 per cent (in 2005, by 1.0%) and at the end of the reporting year reached UAH 57.9 billion and UAH 70.1 billion, respectively.

Industrial enterprises have the largest share (38.2% or UAH 176.8 billion) in the total payables. In 2006, their payables added UAH 8.3 billion or by 4.9% (in 2005, by UAH 16.0 billion or by 1.0%). The largest non-payments were registered in processing industry (UAH 104.3 billion (59.0% of the total payables in the industry) and in power-generating and gas and water supply (UAH 49.4 billion or 27.9%). In 2006, overdue payables of industrial entities dropped by UAH 13.6 billion or by 21.0%, including by UAH 13.6 billion or 21.0 per cent, in the second half of the year.

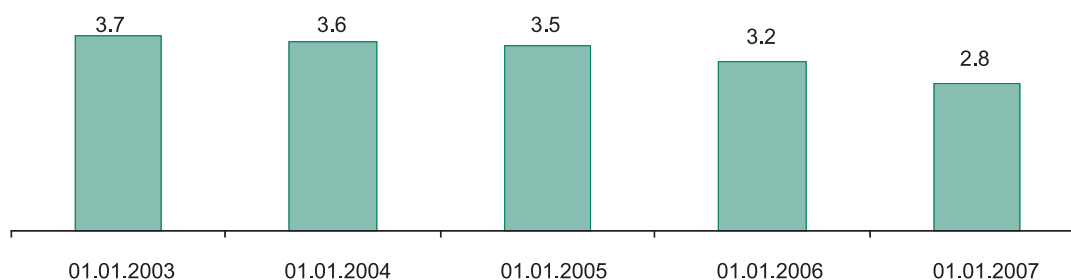
As of January 1, 2007, the economic entities failed to pay UAH 17.2 billion (4.1% of due between domestic enterprises and institutions) to the budget, including 35.2% past due. In 2006, current payables of economic entities dropped by UAH 2.3 billion or by 11.9% (in 2005, by UAH 0.8 billion or by 4.1%). Past due to the budget decreased by UAH 4.9 billion or by 39.9% (in 2005, by UAH 1.1 billion or by 9.9 per cent) and as of January 1, 2007, amounted to UAH 6.1 billion.

1.3.5. SITUATION ON THE LABOR MARKET

In 2006, the situation of the labor market improved due to favorable dynamics of the economy that resulted in raising employment and efficiency of utilization of working time.

Official unemployment calculated for able-bodied population downed from 3.2% to 2.8% and was the lowest for recent years.

Official Unemployment Rate
(% of able-bodied population)



A number of unemployed people registered in the State Employment Center decreased by 13.8% and as of January 1, 2007, totaled 759.5 thousand (in 2005, 881.5 thousand persons); 97.3% of them had official status of unemployed person, 73.5 per cent being granted with dole. Women and inhabitants of rural regions had the largest shares in the gender and geographical structure of unemployed persons, 459.1 thousand or 60.4 per cent and 405.6 thousand or 53.4 per cent, respectively. As regards the age structure, young people up to 35 years took the lead (288.5 thousand or 38.0 per cent).

For reference:

A number of unemployed able-bodied persons was calculated by methodology of the International Labor Organization and, in 2006, it reached 1.5 million or 7.4% of the total able-bodied population⁷.

In 2006, a number of long-term unemployed persons reduced, including those who were registered in State Employment Center for more than a year (by 22.8 per cent). As of January 1, 2007, it amounted to 84.8 thousand or 11.2 per cent of the total unemployed people.

In 2006, employment centers managed to employ 1070.8 thousand persons, or 39.7 per cent of unemployed people registered in 2006 (in 2005, 36.4 per cent) that was by 2.0 per cent more than in 2005, due to appearance of new and free job places.

A number of free working places at enterprises, institutions and organizations decreased by 8.7% and totaled 170.5 thousand as of January 1, 2007. Lowering demand for manpower was observed in rural economy, hunting and forestry (by 22.2 per cent), in industry (by 15.2 per cent), including in mining (by 40.3 per cent). At the same time the demand for labor force increased in wholesale and retail trade, trade in motor vehicles, repair services, hotels and restaurants, 1.2 times in each.

Labor force supply-demand ratio determined the conditions of labor market. In 2006, as compared with 2005, a number of unemployed persons applied to employment centers remained fixed, in average, and totaled 5 person for one free job place. At the same time there was a material geographical differentiation of this ratio, from 33 in Ternopil Oblast to 0.2 in Kyiv.

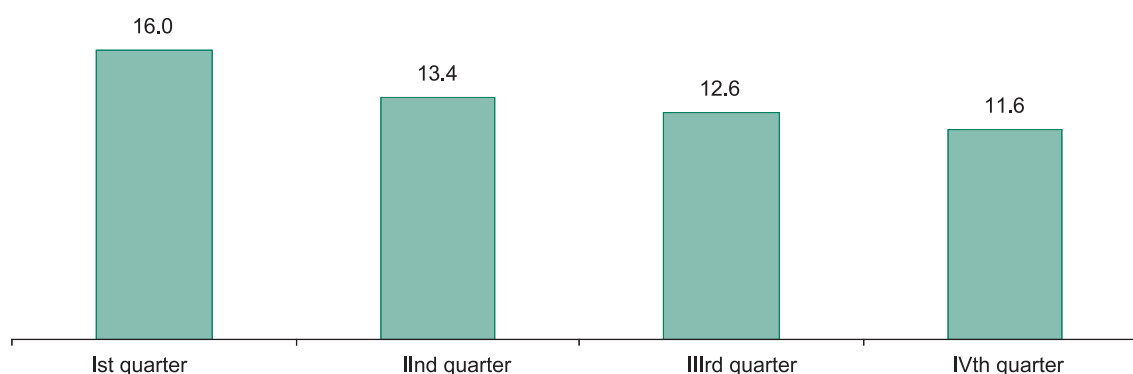
In December 2006, the total dole paid at the expense of the statutory unemployment insurance fund amounted to UAH 138.4 million, an average dole being UAH 251.48 or 62.9% of the official minimum wage (UAH 400.0).

Another trends of the labor market, in 2006, were decreasing rate of forced part-time employment and raising efficiency of working hours utilization. A number of employees who worked shortened working day (week), upon management's initiative, fell by 26.3 per cent, including by 20.6 per cent in the industrial sector. A number of administrative (forced) vacations also downed by 31.5 per cent totally, including by 34.2 in the industry. In average, each employee worked 1672 hours per year, i.e. 87.0 per cent of working hours as regulated by the labor code.

Despite improvements, the labor market still faced serious problems, including low price for manpower, high unemployment among youth and other socially vulnerable groups of population, including rural inhabitants, the manpower outflow, etc.

⁷ Data are based on results of households' sampling.

Expected Increase in Number of Working Places in 2006
(balance of responses, %)



According to results of the business survey an expectation balance⁸ as regards staff growth remained positive, but showed a downward trend during the third quarter. This fact is an evidence of descending dynamics of new job places. The main restraining factor is deceleration of output growth rate. Forty five and a half per cent of respondents who anticipated declining sales intend to reduce the staff, and so do 37.3 per cent of those who expected growing sales.

1.3.6. HOUSEHOLDS' INCOME AND EXPENSES

In 2006, nominal households' income grew by 25.7%, actual income used for purchasing consumer goods and services by 23.7%, real actual income weighted for price index by 13.4%.

HOUSEHOLDS' INCOME in 2006

| Income items | 2006 UAH billion | Share, % | % as compared with previous year | |
|--|---------------------|-------------|-------------------------------------|------------------------|
| | | | 2006 | For reference: 2005 |
| Total nominal households' income, | 479.3 | 100.0 | 125.7 | 139.1 |
| including: | | | | |
| Wage/salary | 206.5 | 43.1 | 128.5 | 137.0 |
| Profit and mixed income | 72.4 | 15.1 | 123.9 | 133.3 |
| Property income received | 14.6 | 3.0 | 132.0 | 132.8 |
| Social payments and other current transfers, | 185.8 | 38.8 | 122.8 | 144.3 |
| including: | | | | |
| – social aid, subsidies | 103.3 | 21.5 | 122.0 | 162.6 |
| For information: | | | | |
| Actual income | 369.0 | | 123.7 | 140.7 |
| Real actual income | | | 113.4 | 123.9 |

Nominal households' income in 2006 increased as wage, as well as social aid and other current transfers added 28.5% and 22.8 per cent, respectively.

A share of wage and income from property in the households' income grew by 1.0 p.p., portions of the rest components dropping respectively. It should be noted that a share of wage in the total was the largest since 2002.

⁸ Expectation balance is a difference between answers "improve/increase" (in per cent) and answers "aggravate/ decrease" (in per cent).

Households' Income Structure



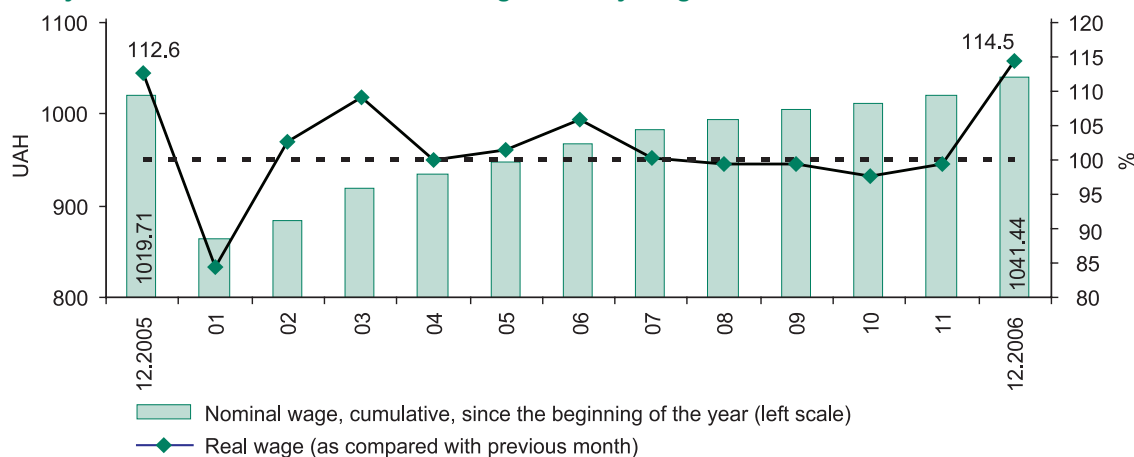
During the whole year, except for March and June, wage exceeded social aid and other current transfers.

An increase in nominal households' income boosted a lending boom as in 2006 the bank's retail loan portfolio grew 2.3 times, lending growth rates exceeding the rate of income growth.

In 2006, upward dynamics of wage continued as nominal average monthly wage per one full-time employee increased by 29.2% (versus 36.7 per cent, in 2005) and reached UAH 1041.44.

Average real wage grew by 18.3 per cent as compared with 20.3%, in 2005.

Dynamics of Nominal and Real Average Monthly Wage



Nominal wages upped in all economic sectors, the most substantial progress being observed in public administration (by 45.3 per cent), and the lowest in water transport sector (by 17.7%).

Among leaders in average wage were aviation (UAH 2052.79 or 197.1% of the average wage for the whole economy) and financial institutions (UAH 2049.71 or 196.8%); among industries the average wages accounted for 116.4% of the aggregated average wage, i.e. UAH 1212.09. However, nominal wages in agriculture, fish industry, health care and public assistance were materially lower and averaged 53.1%, 58.3%, and 63.2% of the aggregated average.

Among industries the highest average wages were registered in coke and petroleum derivative production (UAH 1697.35) and the lowest ones in textile and clothes industry (UAH 646.32).

In 2006, wage growth was registered in all regions of Ukraine, the highest being in Khmelnytskyi Oblast (by 35.8%), the lowest in Dnipropetrovsk Oblast (by 24.7%), the average 29.2%.

Wages in industrial regions (Dnipropetrovsk, Zaporizhzhia, Donetsk Oblasts) exceeded the average index by 9.4%, 4.8 and 15.4% and reached UAH 1139.24, UAH 1091.54 and UAH 1201.43, respectively. In Kyiv, the average wage exceeded the average index by 66.0% (UAH 1729.11).

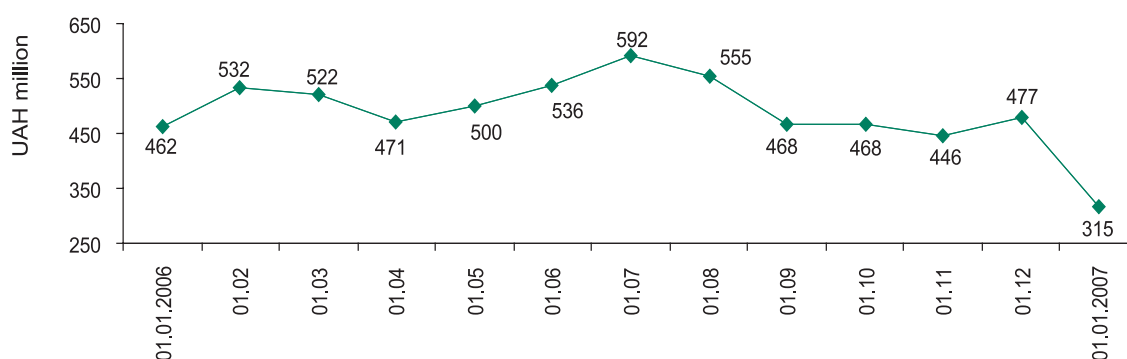
In 22 regions the average wage was lower than the average domestic index that was an evidence of large regional differentiation.

The total arrears of wage decreased by 16.0% (in 2005, by 13.6%) and amounted to UAH 806.4 million as of January 1, 2007. This reduction was ensured due to payments in December 2006, when UAH 189.7 million (19.0%) were paid.

Among regions, the largest arrears of wages were observed in Donetsk and Luhansk Oblasts, 22.1% and 10.1% of the total arrears, respectively. At the same time the amount of arrears decreased there by 21.7 and 4.0 per cent. In six regions the arrears increased, including Kharkiv (by 67.3%), Mykolaiv (by 31.9%), Kirovohrad (by 29.7%) Oblasts, the City of Kyiv (by 13.1%), the Autonomous Republic of the Crimea (by 5.9%) and Zakarpattia Oblast (by 2.1%). In the rest of regions the arrears downed, Sevastopol showing the best results (by 62.7%).

Arrears of wages in operating enterprises made up 39.1% of the total arrears (in 2005, 48.1%) that was by 31.8% less than in previous year (in 2005, by 21.0%) and totaled UAH 315.4 million, as of January 1, 2007; 68.0% of the sum being arrears for works done in January-November 2006.

Dynamics of Arrears of Wage at Operating Enterprises in 2006 (cumulative)



Arrears of wages financed from the central budget totaled UAH 0.2 million as of January 1, 2007; during the year it reduced by 27.2% of the arrears to operating enterprises. There were no arrears of wages financed from local budgets at the beginning of 2006, but at the end of the year it reached UAH 0.3 million.

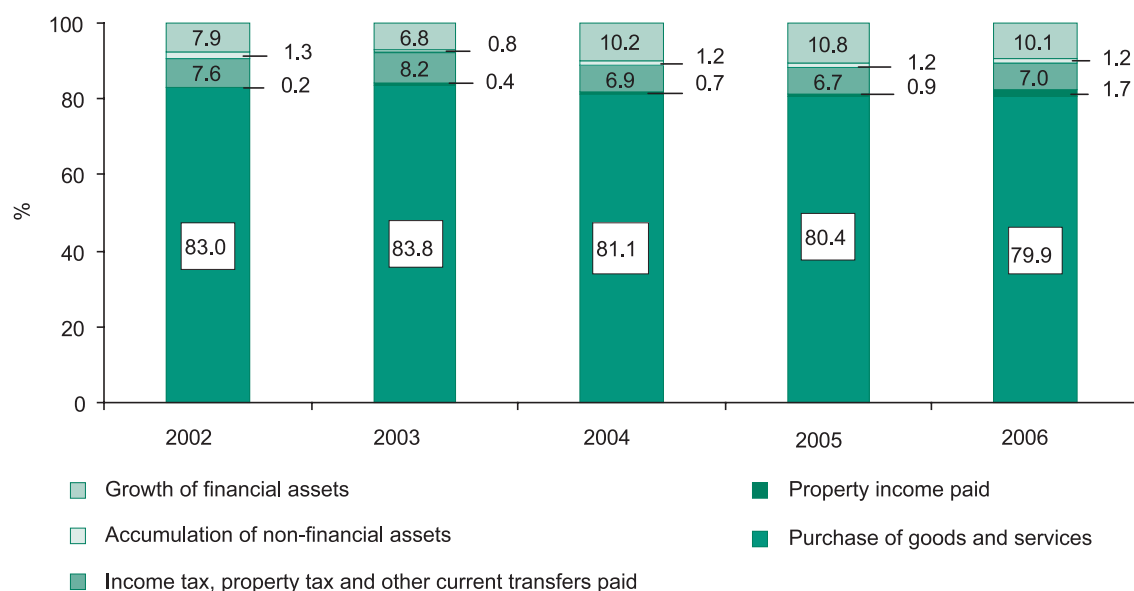
In 2006, households' expenses and savings totaled UAH 479.3 billion that was by 25.7% higher than in previous year. This increase stimulated the growth of demand on domestic market. Retail trade turnover reached UAH 226.9 billion that was by 24.8% more than in previous year.

HOUSEHOLDS' EXPENSES AND SAVINGS

| Indicators | 2006, UAH billion | Share, % | % as compared with previous year | |
|--|----------------------|-------------|-------------------------------------|--------------------------|
| | | | 2006 | For information: 2005 |
| Total households' expenses and savings, including: | 479.3 | 100.0 | 125.7 | 139.1 |
| Purchase of goods and services | 383.2 | 79.9 | 124.9 | 138.0 |
| Property income paid | 8.3 | 1.7 | 236.7 | 189.0 |
| Income tax, property tax and other transfers paid | 34.1 | 7.1 | 133.8 | 133.8 |
| Accumulation of non-financial assets | 5.5 | 1.2 | 124.1 | 136.6 |
| Financial assets growth | 48.2 | 10.1 | 117.0 | 148.1 |

The largest share of households' funds (79.9%) was used for purchase of consumer goods and services. As compared with the previous year it slightly decreased (by 0.5 p.p.). General downward trend continued from 2004. Income from property (paid) grew 2.4 times. A share of income from property (paid) increased by 0.8 p.p. A portion of financial assets growth decreased by 0.7 percentage points, that of paid income tax, property tax and other current transfers paid by 0.4 percentage points.

Structure of Households' Expenses and Savings



In 2006, the households showed tendency to accumulation of savings that resulted in growing households' deposits with banks.

1.4. PUBLIC FINANCE

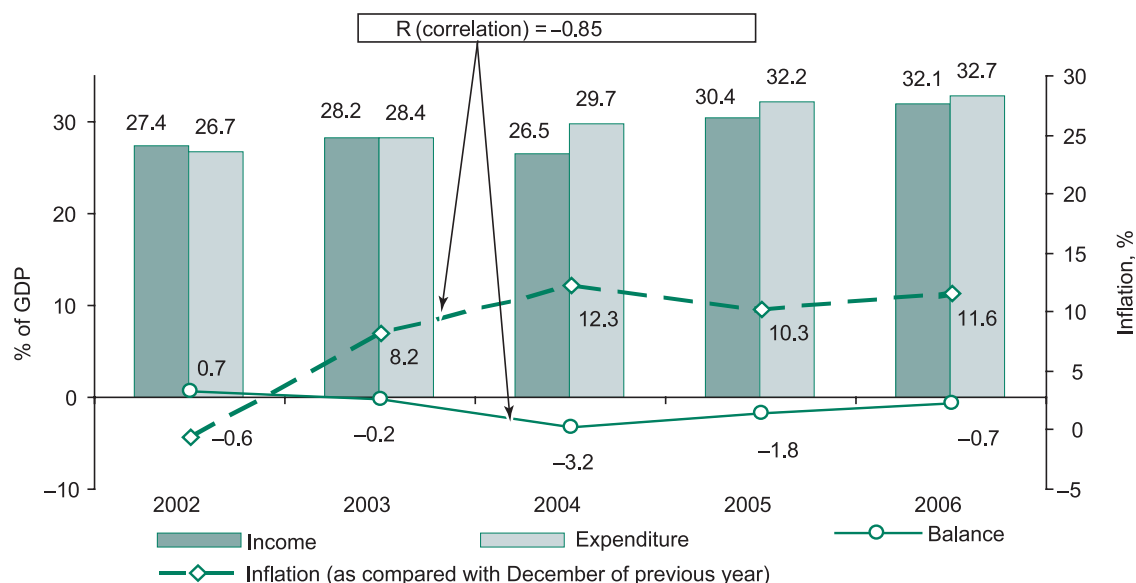
In 2006, the fiscal pressure on the economy strengthened significantly: according to the results of the year, revenues of the Consolidated Budget of Ukraine made up 32.0 per cent of GDP and expenditures 32.6 per cent of GDP, the highest for five last years.

PERFORMANCE OF CONSOLIDATED BUDGET OF UKRAINE

| Indices | 2006, UAH billion | In percentage with respect to the previous year | |
|---|----------------------|--|-----------------------------------|
| | | 2006 | For reference: 2005 |
| Revenues, of GDP | 171.8 | 128.0 | 146.6 |
| | 32.0 | ↑1.6 p.p. | ↑3.9 p.p. |
| including: | | | |
| Tax proceeds, | 125.7 | 128.2 | 155.3 |
| % of GDP | 23.4 | ↑1.2 p.p. | ↑3.9 p.p. |
| Expenditure, | 175.5 | 123.6 | 138.5 |
| % of GDP | 32.6 | ↑0.5 p.p. | ↑2.5 p.p. |
| including: | | | |
| Social expenditures, | 99.3 | 115.8 | 163.2 |
| % of GDP | 18.5 | ↓0.9 p.p. | ↑4.2 p.p. |
| Balance ("+" – surplus, "–" – deficit) | –3.7 | Deficit decreased by 47.6% | Deficit decreased by 70.9% |
| % of GDP | –0.7 | Deficit decreased by 1.1 p. p. | Deficit decreased by 1.4 p. p. |

After softening the budget policy in 2004-2005, in 2006, Ukraine's government returned to strict management of the state finance, the Consolidated budget deficit being kept at 0.7% of GDP (UAH 3.7 billion) versus 1.8% of GDP (UAH 7.8 billion), in 2005.

Indices of Ukraine's Consolidated Budget and Inflation in 2001–2005



Revenues of the Consolidated Budget of Ukraine grew by 28.0 per cent (with the CPI taken into account by 17.4 per cent) and made up UAH 171.8 billion (101.7 per cent of the annual plan). The state budget of Ukraine also was fulfilled over the plan (104.7%).

The principal source of the revenues was tax proceeds whose share in the total consolidated budget revenues made up 73.2 per cent (in 2005, 73.1%).

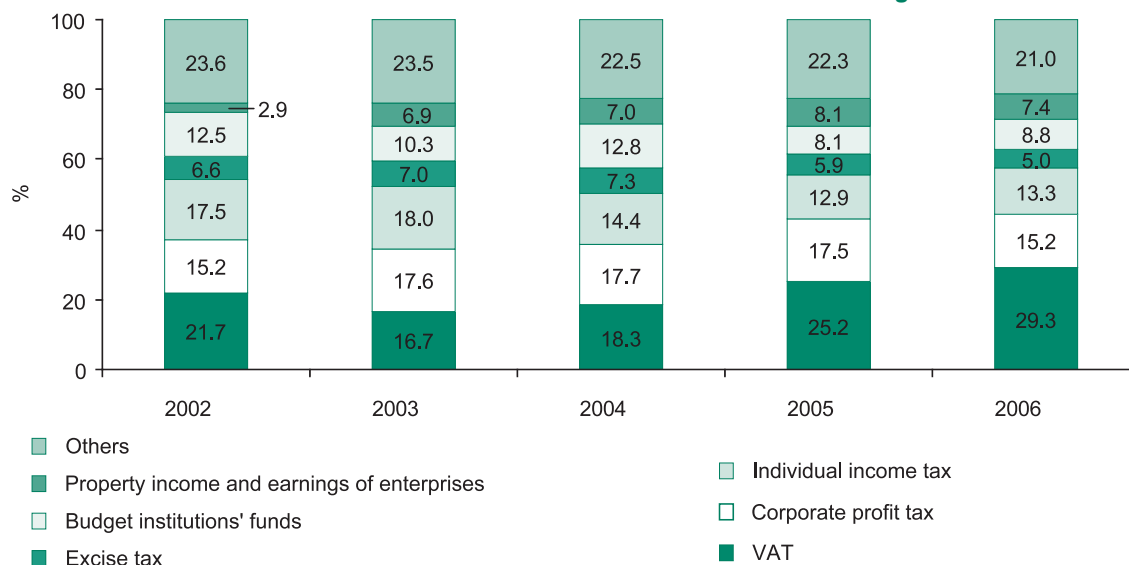
Proceeds from the value added tax grew as compared with the previous year by 49.1 per cent, and exceeded the plan upon results of eleven months, totally for the year they accounted for 112.1%; among the factors of over-fulfilled budget revenues was partial refund of excessive VAT from the State budget of Ukraine (94.8 of the planned amount).

Corporate profit tax added 11.5 per cent, however, the plan was fulfilled for 99.4 per cent.

Proceeds from individual income tax increased by 31.5 per cent, as a result of growing wages.

A percentage share of VAT proceeds increased by 4.1 p.p., that of individual income tax by 0.4 p.p., whereas a portion of corporate tax proceeds decreased by 2.3 p.p. as a result of worsening financial results in the first half of the year because of a rise in prices for energy resources.

Structure of Revenues of Ukraine's Consolidated Budget



Expenditures from the Consolidated Budget of Ukraine (including lending less repaid loans) made up UAH 175.5 billion and grew as compared with 2005 by 23.6 per cent (in real calculation by 13.3 per cent). The expenditures were not financed in full (94.8%), by 0.4 p.p. less than in 2005. In 2006, expenditures from the Consolidated Budget were made unevenly and selectively, expenditures for tourism and hotels being the mostly financed (for 152.7%), for the social protection of unemployed people the least financed (for 16.2%), including 3.3% from the State budget of Ukraine

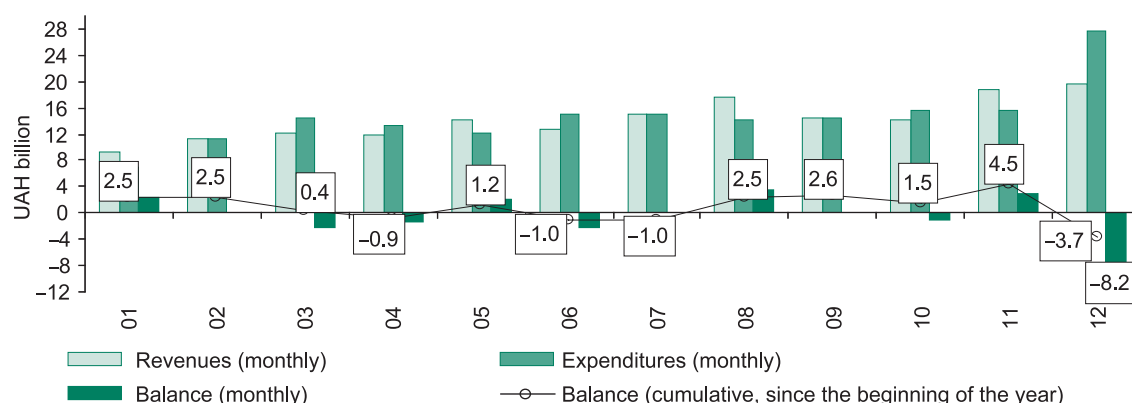
The principal expenditure item was expenses on social protection, whose share in the consolidated budget structure made up 23.6 per cent at the end of 2006 (in 2005, 28.1 per cent).

Like in the previous year, during the recent five years the payroll expenditures were less than the current transfers to the population (UAH 34.2 billion as compared with UAH 39.3 billion, respectively).

At the end of the year, deficit of Consolidated Budget of Ukraine totaled UAH 3.7 billion. At the expense of under-financing of expenditures during the longer part of the reporting year the government managed to withhold surplus of the Consolidated Budget of Ukraine.

Unlike the previous years, during January-August funds on General Fiscal Account gradually decreased because of a lack of borrowings on both foreign and domestic markets and low proceeds from privatization (only 26.3 per cent of the planned amount) till November, when they grew materially at the expense of borrowings on the foreign markets.

Fulfillment of Consolidated Budget of Ukraine in 2006



1.5. EXTERNAL SECTOR OF THE ECONOMY

1.5.1. UKRAINE'S BALANCE OF PAYMENT

In 2006, Ukraine's balance of payments (BOP) incorporated import surplus and current account deficit, but the largest for last six years long-term capital inflow compensated current account deficit and allowed the NBU to increase its foreign exchange reserves by USD 2 billion.

Current account balance

In 2006, for the first time since 1999, Ukraine had the current account deficit worth USD 1.6 billion (1.5% of GDP); in 2005, current account surplus reached USD 2.5 billion (2.9% of GDP).

Dynamics of Ukraine's BOP Current Account Balance



Import growth rate exceeding export by 8.8 p.p., in Ukraine, for the first time after seven years there was import surplus worth USD 3.1 billion; in 2005, export surplus of foreign trade balance amounted to USD 671 million.

Export of goods

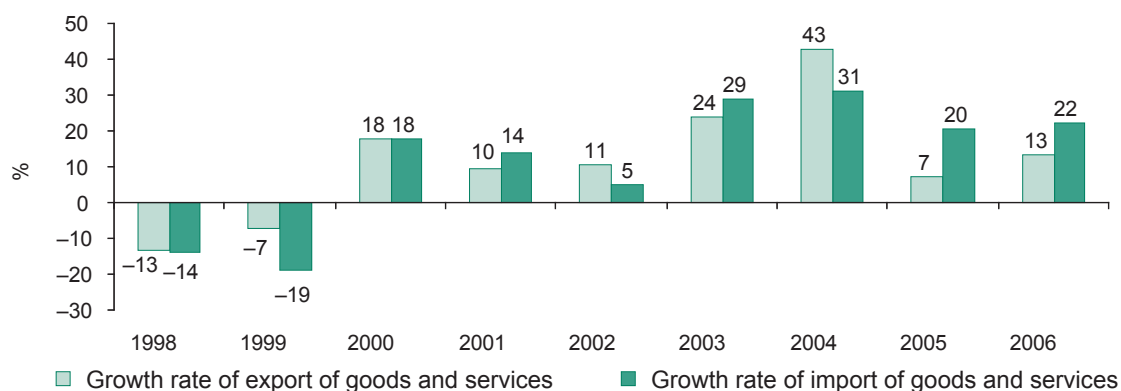
Due to favorable conditions on the world metal and chemical products markets in 2006, export of goods increased by 11.2% and amounted to USD 38.9 billion (in 2005, the export grew by 4.8 per cent). The export growth was caused by rise in value of exported metal products by 16.9%, machine-building products by 19.9% and chemical products by 18.4%.

The main factors of accelerating export growth in 2006 were improvement of conditions on ferrous metal markets in the second half of the year and successive export reorientation towards new markets. For example, a six-time drop in value of metal products exported to China was compensated as supplies to America increased 1.9 times, to Europe 1.4 times and to the CIS countries 1.3 times. As a whole, during the year, export of ferrous metals grew by 13.6 per cent, firstly, due to an increase in physical volume (by 9.7%), whereas prices rose by 3.6% only, in average.

Contrary to 2005, when export of machine-building products lost nearly 18%, in 2006, the export value in this sphere added 19.9%.

As a whole, in 2006, foodstuffs export grew at lower rates than in 2005 (109.4 versus 124%), as a result of grain export quota and Russia's restrictions on cattle-breeding products export (meat export fell 4.7 times, milk export 1.6 times). At the same time, oil seeds export increased 2.3 times, oil export 1.7 times.

Growth Rate of Export/Import of Goods and Services



Import of goods

In 2006, import of goods made up USD 44.1 billion which is by 22.1 per cent more compared to 2005 (in 2005, imports grew by 21.8 per cent). An intensive growth of imports was basically conditioned by the following:

- enhancing investment demand;
- growth of real income of population and increase in volume of consumer lending which resulted in the rise of demand for durable goods and cars;
- rapid rise in prices for energy resources.

Nearly two third imports growth was obtained due to the rise in supply of machine-building products (by 36.3 per cent) and products of chemical industry (by 26.8 per cent).

A share of machine-building products in the total volume of imports increased from 27.8 per cent to 31 per cent basically due to the increase of land transport facilities supply (1.6 times), as well as mechanical and electrical equipment (by 18.7 per cent).

In contrast to 2005, when a group "mineral products" ranked first by imports ratio (29 per cent) in the Ukrainian imports structure, in 2006, it occupied the second place immediately below machine-building products and its share reduced to 26.3 per cent. Despite the rapid growth of prices for energy resources, the main constituent of this group (average prices for oil were by 31 per cent higher as compared with the previous year and for gas by 45 per cent); a cost volume of imports by this group grew only by 12.8 per cent or by USD 1.3 billion. Such dynamics was accounted for the reduction of physical volume of imports of these goods (gas by 16.6 per cent, oil by 27 per cent).

Services

In 2006, services account surplus grew by 17.7 per cent as compared with 2005 and reached USD 2.1 billion.

Exports of services were equal to USD 11.3 billion. They rose compared to 2005 by 20.7 per cent. Growth was observed by all kinds of services. In the structure of transport services exports, a share of which made up 47.4 per cent of the total services export, the most important was a rise in the cost of pipeline transport services owing to the increased charge for gas transit from USD 1.09 to USD 1.6 per 1 thousand cubic meter/100 kilometers. Exports of legal and accounting services, as well as advertising and marketing services were rising during the year at a growing rate, 4 times and 2.3 times, respectively.

Imports of services made up USD 9.2 billion and grew by 21.4 per cent. By all kinds of services, except the governmental services, one could observe the increase in the volume of imports. Transport services were rising at a growing rate (1.6 times during the year) due to the increase in the transit fee. The most dynamic was the increase in the volume of residents' expenses for the transportation services by car and air (1.7 and 1.4 times, respectively) and financial services (1.6 times).

Revenues

A negative revenues balance in 2006 totaled USD 1.7 billion, 1.7 times more than in 2005 which resulted from considerable payments of dividends by direct investments and from a 1.5-time increase of computed interest by long-term credits.

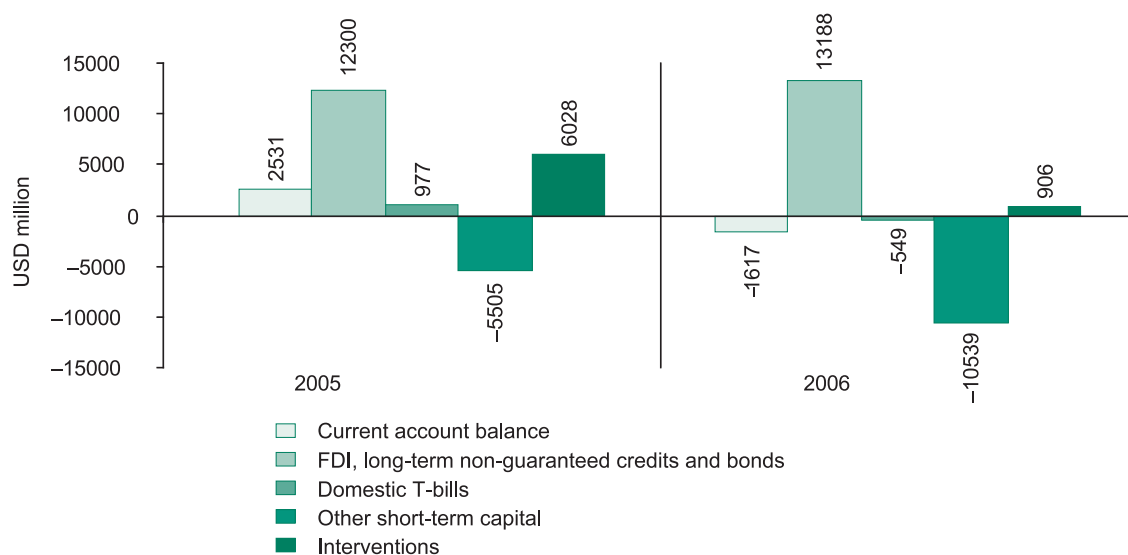
Current transfers

In 2006, an upward dynamics of current transfers continued, their positive balance grew by 11.5 per cent and totaled USD 3.2 billion. The main factor of its growth was an increase in private money transfers by 23.1 per cent whose share in the total transfers received made up 74.4 per cent.

Financial account

During 2006, the financial account balance (without reserves taken into account) amounted to USD 3.7 billion (USD 8.1 billion in 2005, with due regard for the proceeds of USD 4.8 billion from privatization of OJSC "Kryvorizhstal"). A distinctive peculiarity of the financial account in 2006 was the highest volume of proceeds of long-term resources for the recent six years (direct foreign investments, as well as medium-and long-term non-guaranteed credits and Eurobonds).

Dynamics of Individual BOP Items and Interventions of the National Bank of Ukraine

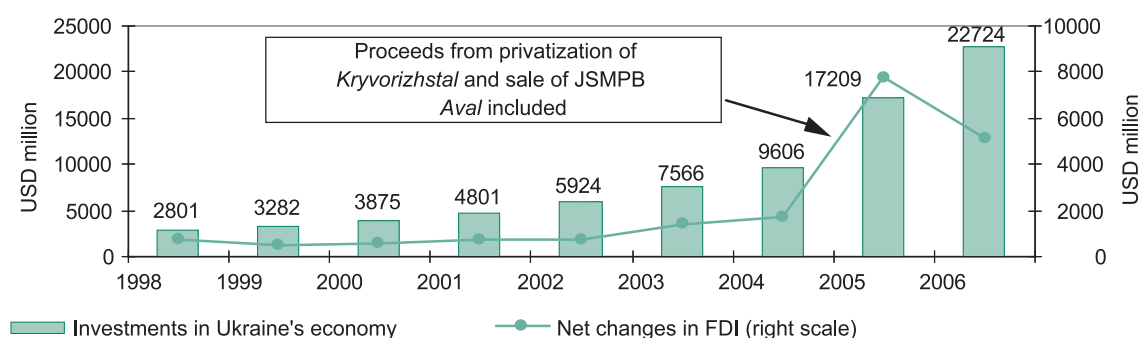


1.5.2. THE INTERNATIONAL INVESTMENT POSITION

In 2006, the inflow of foreign direct investments in Ukraine totaled USD 5.3 billion which was almost two times more as compared with 2005 (without considering the proceeds from privatization of OJSC "Kryvorizhstal").

The total volume of direct investments in Ukraine for 2006 showed a rise by 32 per cent compared to the beginning of the year and as of December 31, 2006, came to USD 22.7 billion, including USD 21.2 billion - authorized capital, USD 1.5 billion - credits granted by the direct investors. The direct foreign investments per capita rose compared to the beginning of the year by 32.8 per cent and amounted to USD 487 billion.

Direct Investments in the Economy of Ukraine*



* Since 2002, including loans from direct investor

In 2006, net investments by non-guaranteed long-term loans totaled USD 5.8 billion which 1.7 times more than in 2005. A share of banking sector in the total volume of borrowings increased from 22.2 per cent to 36.6 per cent.

The net investments by corporate, banking and municipal Eurobonds in 2006 were equal to USD 2.0 billion which 1.5 times more than in 2005. The greater part of borrowings were obtained in the forth quarter of 2006 and accounted for USD 1.3 billion or 64 per cent of the total volume of net borrowings for the year.

Considerable also were the government's borrowings by T-bills, their total volume in 2006 being equal to USD 1.9 billion (USD 0.7 billion in 2005), including USD 1.6 billion attracted in the forth quarter of 2006. Volume of foreign T-bills reimbursement made up USD 598 billion (USD 627.0 billion in 2005).

The banking sector of Ukraine widened borrowings not only by long-term, but also by short-term resources, i.e. 94 per cent of net short-term loans made up the banking sector borrowings (USD 3.5 billion against USD 1 billion in 2005).

In 2006, non-residents' interest in the Ukrainian T-bills and VAT-T-bills did not restore: balance on operations with these papers was negative (USD 549.0 million) whereas in 2005, the balance was positive (USD 1 billion).

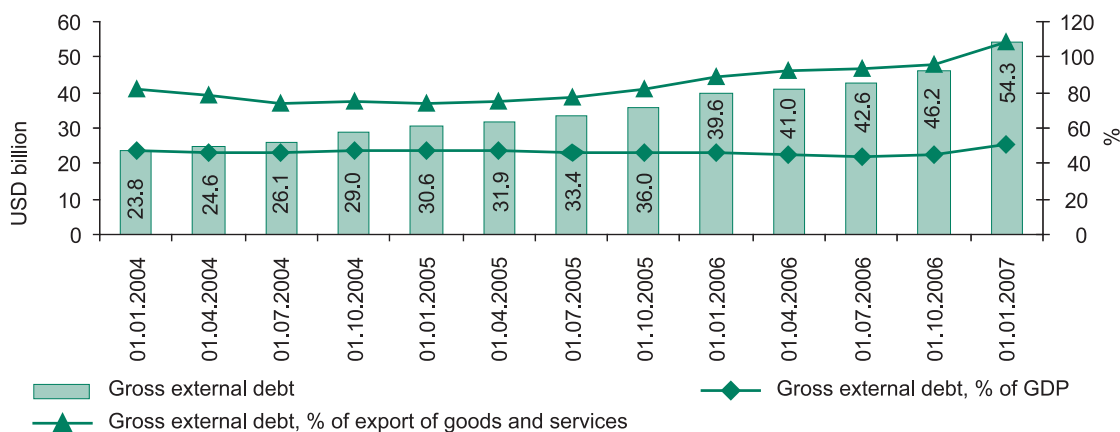
The essential inflow of long-term resources allowed to increase Ukraine's stand-by funds by USD 2.0 billion (USD 10.4 billion in 2005). The stand-by funds as of the end of December amounted to USD 22.3 billion which made it possible to provide financing of imports of goods and services deferred during 4.4 months.

1.5.3. GROSS EXTERNAL DEBT OF UKRAINE

The gross external debt of Ukraine increased during the year by USD 14.7 billion (37.0 per cent) as compared with USD 9 billion (29.3 per cent) in 2005 and, as of January 1, 2007, made up USD 54.3 billion (51.2 per cent of GDP).

Ukraine's ratio of gross external debt to exports of goods and services as of January 1, 2007, amounted to 108.1 per cent (89.3 per cent as of January 1, 2006).

Dynamics of Individual Indices of Ukraine's Gross External Debt



The debt of state sector of the economy increased during the year by USD 0.7 billion to USD 12.9 billion (12.2 per cent of GDP) since simultaneously with the debt growth in the foreign T-bills by USD 1.4 billion the debt by domestic T-bills decreased by USD 0.7 billion. The debt of monetary regulation sector reduced by USD 0.4 billion.

The banking sector debt for the year 2006 grew 2.3 times up to USD 13.9 billion (13.1 per cent of GDP) while other sectors of the economy showed an increase in debt 1.3 times up to USD 26.6 billion (25.1 per cent of GDP). The said sectors indebtedness by loans rose during the year by USD 10.9 billion and by T-bills by USD 2.4 billion (including EURO-bills by USD 2 billion).

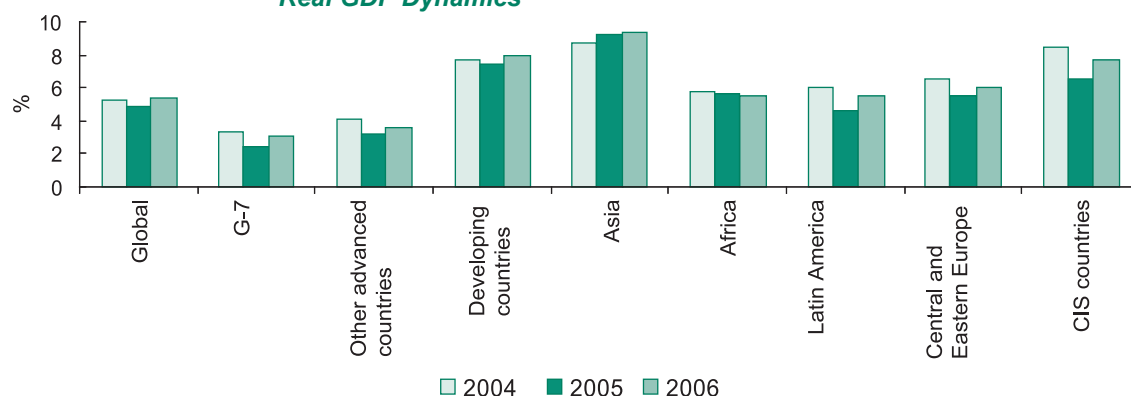
The gross external debt structure by the initial maturity terms during the reporting year changed slightly: almost three fourths or 72 per cent of gross external debt were long-term liabilities (USD 39.1 billion). As of the end of 2006, the short-term/long-term external debt ratio was equal 0.389 (0.382 as of the beginning of the year).

The ratio of short-term debt and international reserves by the end of 2006 made up 0.683 as compared with 0.564 at the beginning of the year.

1.6. TRENDS OF THE WORLD ECONOMY DEVELOPMENT

In 2006, growth of the world development slightly livened up as compared with 2005. According to the previous data, the increase in the real gross product of the world economy in 2006 made up nearly 5.4 per cent and exceeded the average index for the recent ten years. The USA economy remained as before a locomotive of the world economy, however, stable and dynamic growth of China, India and other developing countries every year made a larger contribution in the world production. In a majority of developing countries the economic growth ratio accelerated in 2006 as compared with 2005.

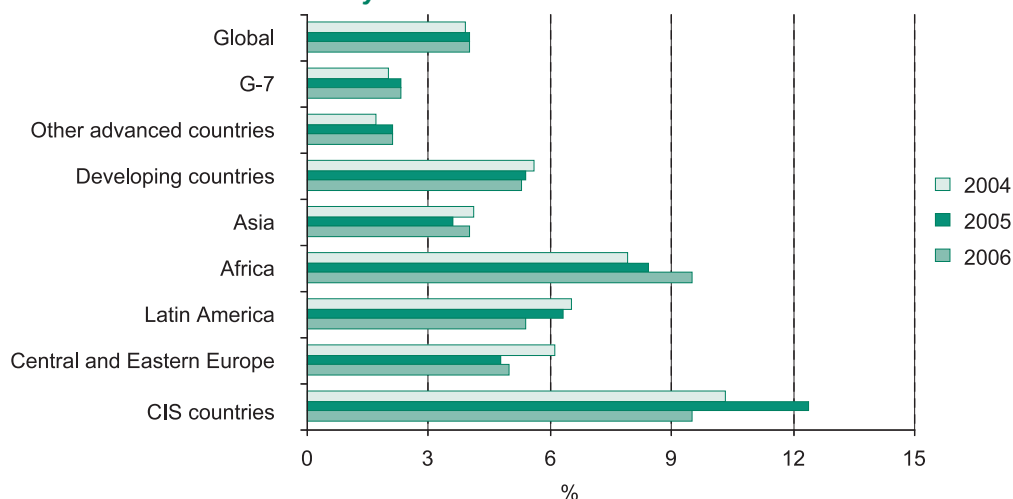
Real GDP Dynamics



The economic growth rate in the majority of developing countries exceeded the index throughout the world and was equal to 7.9 per cent, whereas China and India had the most dynamic economy of the region (increase by 10.7 and 9.2 per cent, respectively). Other countries of South-East Asia grew in average by 5.9 per cent. The countries of Latin America remained behind slightly with the rate nearly 5.5 per cent, while economic growth in Africa was nearly 5.5 per cent, as well. The most developed countries demonstrated even higher level of activity and achieved the highest rate of economic growth (7.1 per cent) for the recent ten years. High economic indicators of developing countries to a great extent were accounted for a stable demand for raw minerals (fuel and non-fuel) in the world markets and for the high world prices.

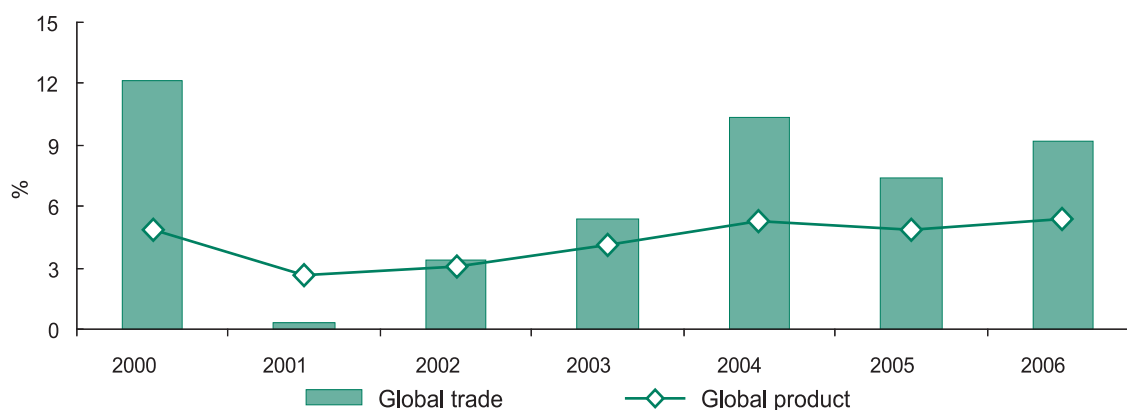
In 2006, rate of inflation increased in the majority of countries which, first of all, was brought about by the rise in prices for oil. The core inflation which leaves such variable components as prices for oil and foodstuff out of consideration, remained more stable, as a whole, suggesting that influence of high prices for energy resources on the general price level is of limited nature.

Consumer Price Dynamics



Among the developing countries the energy exporters had the highest economic indicators due to the growth of prices for the energy resources. Rise in the cost volume of imports because of increase in the prices for fuel resources (oil and gas) was compensated by high prices for non-fuel resources. However, for a particular circle of countries-energy importers with a low income, conditions of trade did not improve which adversely affected their economic results. These countries were forced to restrict the imports of non-fuel products and incurred on-budget expenditures, using subsidies to protect their consumers from high prices for energy resources.

Global Trade Dynamics



Expansion of the world trade, as before, remained an important factor of the world economy development. Trade flows continued to increase at a twofold rate compared to the increase in the world product which proved a further strengthening of the world economic integration. In 2006, increase in the world trade was conditioned by growth of trade flows in the market of oil, gas and non-fuel resources, as well as by high world prices. Volume of trade in the means of production increased also because of investments growth throughout the world. According to the preliminary estimate, a rise in the physical volume of the world exports exceeded 10 per cent, compared to 7.3 per cent in 2005, whereas the cost volume of exports grew by 16 per cent.

Volume of net private capital gain in the developing countries and countries in transition reduced in 2006 (as compared with 2005), but remained significant compared to the previous periods. Among the principal reasons of the reduction were unstable financial markets in the second quarter of 2006 and decrease in the amount of borrowings. At the same time, cost of external borrowings for developing countries remained low.

For the recent years the developing countries have assumed great importance as a source of global direct foreign investments. High rate of industrialization in such countries as India and China brought about the rise in foreign investments whose aim was to have approach to the natural resources. Direct investments flow from countries-exporters of energy resources rose due to a high rate of economic upturn and increasing revenues from trade in oil and gas. Under these conditions a significant share of direct foreign investments from the developing countries was directed to other developing countries, thus increasing a number of potential sources of financing, technology transfer and methods of corporate management in the countries that obtained the investments.

At the same time, the developing countries increased a net transfer of financial resources to the developed countries. The key mechanism owing to which the transfer took place was accumulation of foreign assets, which though impaired sensitivity of the developing countries to the external shocks, however, did not protect them against the influence of more systemic shocks, such as unexpected correction of external deficit in the USA and high devaluation of the US dollar.

A high level of activity in the world economy favored the improvement of situation in the labor market in the majority of countries. In 2006, a level of unemployment in the developing countries reduced. Despite an active economic growth in the majority of the developing countries a job growth was insufficient for the essential reduction in the level of employment.

Throughout the world regions

Economic boom of the European countries was notable in 2006. A real GDP growth achieved 2.6 per cent and was 1.2 basic point more than in 2005 and the highest, starting from 2000. Germany remained a basic locomotive of the European economy with GDP growth of 2.7 per cent. This was accounted for the increase of exports and domestic investments due to improving the indicators of corporate activities in the recent years. In 2006, consumption in Germany received a powerful impetus from conducting the world football championship. The growth of real GDP in France (2 per cent) and Italy (1.9 per cent) was lower and was mainly sustained by the consumption through the increase of the employment level. Improvement of situation in the labor market was evidenced throughout the region, and, as a whole, the employment level in the Euro-area declined to 7.6 per cent by the end of 2006, which was the least value of this indicator for the recent fifteen years. Meanwhile, in Great Britain where the growth of real GDP was equal to 2.7 per cent, the income of population and corporations rose which, first of all, sustained the internal demand, especially of consumption, whereas the investments and exports also remained at a considerable level.

Reduction of prices for oil since September 2006 had a positive effect on the inflation rate in the countries of the Western Europe making up less than 2 per cent by the end of 2006. Rise in wages and salaries remained at a low level, though situation in the labor market improved.

In the recent years, the rate of economic growth of Central and East-European countries exceeded the indicator of the West-European countries. Growth of real GDP in the region made up 6 per cent in 2006, compared to 5.5 per cent in 2005. The economic growth was accounted for the increase in exports due to the revival of economic growth in the West-European countries, especially in Germany, main trade partner, and due to opening of new motor-car factories. At the same time, the domestic demand increased due to the improvement of situation in the labor market and growth of real income of population, as well as due to the rise in the volume of crediting.

A current account deficit somewhat grew in the Central and East-European countries, but direct foreign investment funds allowed not only to compensate the current account deficit, but also to increase the international reserves. In 2006, the rate of inflation slightly reduced (3.2 per cent as compared with 3.5 per cent in 2005) and remained at a low, favorable level.

In average, throughout the CIS countries a growth rate of GDP (7.5 per cent) exceeded the growth rate of the world economy. However, a relatively high rate of economic growth in the CIS countries is explained by a low comparative base after the fall of production in 1990s. GDP growth in average by the CIS countries was slightly higher than in 2005 (7 per cent), but a shade lower than in 2003-2004 (8 per cent per year) because of slowing down the growth rate in the basic branches of the economy, typical for the majority of the CIS countries.

In 2006, GDP production throughout the CIS countries was in average by 2 per cent higher compared to the level of 1991. At the same time, GDP in Azerbaijan and Armenia was almost 1.5 times more than that in 1991; GDP in Belarus, Kazakhstan and Uzbekistan rose almost 1.4 times and in Russia by 2 per cent. In 2006, in Moldova the GDP production was lower compared to the level of 1991 approximately by 40 per cent, Tajikistan - by 33 per cent, Georgia and Ukraine - by 27-28 per cent; Kyrgystan - by 11 per cent.

A relatively high rate of economic growth of the CIS countries was achieved in 2006 (as in the recent years) due to the high world prices for raw materials (oil, gas, products of metallurgy industry) and a strong demand in the domestic markets.

In the majority of the CIS countries because of decline in the unemployment level, exertion in the labor market diminished.

The inflationary processes in the CIS countries in 2006, despite a holding back policy, were evident more than in the world, as a whole. Consumer prices in average throughout the CIS countries in 2006 compared to the previous year grew by 9 per cent. At the same time, their maximum growth was fixed in Moldova (12.7 per cent), Tajikistan (11.9 per cent) and Ukraine (11.6 per cent) with a minimum one in Armenia (2.9 per cent). The growth of consumer prices in the most developed countries during many years was at the level of 2 per cent.

The total cost volume of export operations in the CIS countries exceeded the volume of imports, however, imports grew at a higher rate than exports. Cost volume of trade with the CIS countries rose almost in all the countries of Commonwealth of Independent States, but at a lower rate than the volume of trade with other countries of the world. As a result, a share of mutual trade of the CIS countries in the total volume somewhat decreased as compared with 2005.

Growth rate of investments in the fixed capital, as in 2005, exceeded the GDP growth rate. At the same time, for the essential capital renewals, a wear rate of which continued to increase, these investments are lacking. The majority of enterprises were forced to finance the investment programs mainly at the expense of own funds since the bank lending remained unduly expensive.

Situation in the money markets of the CIS countries remained stable, strengthening of the majority of national currencies in relation to US dollar continued.

Despite stabilization of the financial state in the CIS countries, rise in the accounts receivable and accounts payable continued; in some countries a level of arrears in wages remained substantial.

Challenges

A basic 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 approached to USD 900 billions, whereas a positive balance by foreign trade operations was fixed in Germany, Japan and, what is important, in the developing countries and the largest countries-exporters of oil.

A majority of developing countries, despite the improvement of their internal economic situation and strengthening of regional relations, remained vulnerable to dynamics of economic development in the most developed countries, as well as to the changes in the world raw materials and financial markets.

Probability of further increase of prices for the energy resources, especially oil, remained the second challenge. Despite the recent decrease after a record-breaking high level in 2006, prices for oil remained high and non-stable. Fluctuation of prices for oil remained very vulnerable to such external shocks as disasters and geopolitical conflicts.

A possible drop in prices for real estate in countries with protracted upward dynamics of housing cost is also a challenge for stable development of the world economy. For the recent ten years prices for the real estate rose in the majority of countries and were one of the factors stimulating a high rate of economic growth. The real estate market indicators in some countries are at a historically high marks and fix evident features of long speculative activities. Thus, a reverse process may lead to the essential negative consequences for the growth of the whole world economy. Drop in prices for housing also may cause a crisis in the lending market, thereby increasing risks on the financial markets.

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

| Countries | | % as compared with previous year | | | | State budget deficit (-)/ sur- plus (+), % 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 | | | | | | | | |
| | 2004 | 103.9 | 102.5 | 106.1 | 102.7 | -3.3 | 5.5 | — |
| | 2005 | 103.2 | 103.2 | 107.3 | 103.4 | -2.5 | 5.1 | — |
| | 2006 | 103.3 | 104.0 | 104.7 | 103.3 | -1.8 | 4.6 | — |
| Japan | | | | | | | | |
| | 2004 | 102.7 | 105.3 | 101.2 | 100.0 | -6.2 | 4.7 | 104.12 |
| | 2005 | 101.9 | 101.2 | 101.7 | 99.7 | -4.8 | 4.4 | 117.97 |
| | 2006 | 102.2 | 104.4 | 103.1 | 100.3 | -4.3 | 4.1 | 118.95 |
| United Kingdom | | | | | | | | |
| | 2004 | 103.3 | 100.7 | 102.5 | 101.3 | -3.1 | 2.8 | 0.5178 |
| | 2005 | 101.9 | 98.2 | 102.8 | 102.1 | -3.0 | 2.8 | 0.5808 |
| | 2006 | 102.7 | 100.1 | 102.4 | 103.2 | -2.5 | 3.0 | 0.5094 |
| Germany | | | | | | | | |
| | 2004 | 101.2 | 103.0 | 101.6 | 101.8 | -3.7 | 9.2 | 0.7342 |
| | 2005 | 100.9 | 103.4 | 104.5 | 101.9 | -3.2 | 9.2 | 0.8477 |
| | 2006 | 102.7 | 105.5 | 105.6 | 101.8 | -1.7 | 8.1 | 0.7593 |
| EURO-area countries | | | | | | | | |
| | 2004 | 102.0 | 101.8 | 102.1 | 102.2 | -2.8 | 8.9 | 0.7342 |
| | 2005 | 101.4 | 101.6 | 104.1 | 102.1 | -2.4 | 9.0 | 0.8477 |
| | 2006 | 102.6 | 103.9 | 105.1 | 102.2 | -1.6 | 7.6 | 0.7593 |
| Central and Eastern Europe | | | | | | | | |
| Bulgaria | | | | | | | | |
| | 2004 | 106.6 | 117.0 | 105.1 | 104.0 | 1.7 | 12.2 | 1.4359 |
| | 2005 | 106.2 | 106.7 | 109.6 | 106.5 | 3.1 | 10.7 | 1.6579 |
| | 2006 | 106.1 | 105.8 | 108.0 | 106.5 | 3.6 | 9.1 | 1.4851 |
| Estonia | | | | | | | | |
| | 2004 | 108.1 | 110.5 | 102.9 | 103.0 | 1.6 | 9.7 | 11.471 |
| | 2005 | 110.5 | 110.9 | 102.1 | 104.1 | 1.6 | 7.9 | 13.221 |
| | 2006 | 111.4 | 107.0 | 104.5 | 104.4 | 3.3 | 5.9 | 11.882 |
| Latvia | | | | | | | | |
| | 2004 | 108.6 | 106.0 | 108.6 | 106.2 | -1.0 | 8.5 | 0.516 |
| | 2005 | 110.2 | 109.1 | 107.8 | 106.7 | -1.4 | 7.4 | 0.593 |
| | 2006 | 111.9 | 103.2 | 110.3 | 106.6 | -2.1 | 6.5 | 0.536 |
| Lithuania | | | | | | | | |
| | 2004 | 107.3 | 111.5 | 107.7 | 101.2 | -1.5 | 6.8 | 2.535 |
| | 2005 | 107.6 | 108.4 | 113.2 | 102.7 | -0.5 | 4.8 | 2.910 |
| | 2006 | 107.5 | 108.5 | 107.3 | 103.8 | -0.3 | 3.4 | 2.630 |
| Macedonia | | | | | | | | |
| | 2004 | 104.1 | 97.7 | 99.9 | 98.1 | 0.0 | 37.2 | 45.068 |
| | 2005 | 103.8 | 107.1 | 103.2 | 101.2 | 0.2 | 37.3 | 51.859 |
| | 2006 | 103.2 | ... | 102.9 | 102.9 | -0.6 | 35.9 | 46.450 |

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 | | | | | | | |
| 2004 | 105.3 | 112.7 | 107.0 | 103.5 | -4.7 | 19.6 | 2.9904 |
| 2005 | 103.5 | 104.1 | 100.9 | 102.1 | -3.5 | 18.2 | 3.2613 |
| 2006 | 105.8 | 112.0 | 102.2 | 101.1 | -2.9 | 16.2 | 2.9105 |
| Romania | | | | | | | |
| 2004 | 108.4 | 104.4 | 119.1 | 111.9 | -2.7 | 6.8 | 29067 |
| 2005 | 104.1 | 102.2 | 110.5 | 109.0 | -2.7 | 5.8 | 3.1078 |
| 2006 | 107.7 | 108.1 | 111.6 | 106.6 | -2.7 | 5.5 | 2.5676 |
| Slovak Republic | | | | | | | |
| 2004 | 105.4 | 103.9 | 103.4 | 107.5 | -6.3 | 14.3 | 28.496 |
| 2005 | 106.0 | 103.9 | 104.8 | 102.8 | -2.9 | 11.7 | 31.948 |
| 2006 | 108.2 | 109.8 | 108.3 | 104.4 | -2.5 | 10.4 | 26.246 |
| Slovenia | | | | | | | |
| 2004 | 104.4 | 104.6 | 104.3 | 103.6 | -1.5 | 10.3 | 176.24 |
| 2005 | 104.0 | 103.8 | 102.8 | 102.5 | -1.2 | 10.2 | 202.43 |
| 2006 | 105.2 | 107.7 | 102.3 | 102.5 | -0.6 | 9.4 | 181.93 |
| Hungary | | | | | | | |
| 2004 | 104.9 | 107.4 | 103.6 | 106.8 | -8.4 | 6.1 | 180.29 |
| 2005 | 104.2 | 107.0 | 103.6 | 103.6 | -6.8 | 7.2 | 213.58 |
| 2006 | 103.9 | 110.1 | 106.4 | 103.9 | -5.8 | 7.5 | 191.62 |
| Croatia | | | | | | | |
| 2004 | 104.3 | 103.7 | 103.5 | 102.1 | -4.9 | 18.5 | 5.637 |
| 2005 | 104.3 | 105.1 | 103.0 | 103.3 | -6.3 | 17.8 | 6.234 |
| 2006 | 104.8 | 104.5 | 102.9 | 103.2 | -7.6 | 16.7 | 5.578 |
| Czech Republic | | | | | | | |
| 2004 | 104.2 | 109.9 | 105.6 | 102.8 | -3.4 | 9.9 | 22.365 |
| 2005 | 106.1 | 106.0 | 103.1 | 101.8 | -1.9 | 8.9 | 24.588 |
| 2006 | 106.1 | 109.7 | 101.5 | 102.6 | -3.1 | 8.0 | 20.876 |
| <u>Commonwealth of Independent States (CIS)</u> | | | | | | | |
| Azerbaijan | | | | | | | |
| 2004 | 110.2 | 105.7 | 109.9 | 106.7 | 0.2 | 1.4 | 0.9806 |
| 2005 | 126.4 | 133.5 | 118.6 | 109.6 | 0.7 | ... | 0.9186 |
| 2006 | 134.5 | 136.6 | 117.7 | 108.3 | 0.5 | ... | 0.8714 |
| Belarus | | | | | | | |
| 2004 | 111.4 | 115.9 | 124.2 | 118.1 | 1.2 | 2.5 | 2170 |
| 2005 | 109.4 | 110.5 | 112.1 | 110.3 | -0.2 | 1.7 | 2152 |
| 2006 | 109.9 | 111.3 | 108.3 | 107.0 | 1.5 | 1.5 | 2140 |
| Armenia | | | | | | | |
| 2004 | 110.1 | 102.1 | 121.7 | 107.0 | -1.8 | 9.4 | 485.84 |
| 2005 | 113.9 | 107.5 | 107.7 | 100.6 | -1.7 | 8.1 | 450.19 |
| 2006 | 113.4 | 99.11 | 100.9 | 102.9 | -0.9 | 7.4 | 363.50 |

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 | | | | | | | |
| 2004 | 106.2 | 103.4 | 104.6 | 105.7 | -1.5 | 12.6 | 1.8250 |
| 2005 | 107.7 | 116.4 | 107.5 | 108.2 | -0.1 | 13.8 | 1.7925 |
| 2006 | 108.6 | ... | 110.9 | 109.2 | -0.3 | ... | 1.7135 |
| Kazakhstan | | | | | | | |
| 2004 | 109.6 | 110.1 | 116.7 | 106.9 | -0.3 | 8.4 | 130.00 |
| 2005 | 109.5 | 104.6 | 123.7 | 108.2 | 0.6 | 8.1 | 133.98 |
| 2006 | 110.6 | 107.0 | 118.4 | 108.6 | 0.6 | ... | 127.00 |
| Kyrgyzstan | | | | | | | |
| 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 |
| 2006 | 102.7 | 89.8 | 115.3 | 105.6 | ... | ... | 38.124 |
| Moldova | | | | | | | |
| 2004 | 107.4 | 108.2 | 105.6 | 112.5 | 0.4 | 7.9 | 12.4611 |
| 2005 | 107.5 | 107.0 | 105.3 | 111.9 | 1.5 | 8.1 | 12.8320 |
| 2006 | 104.0 | 93.1 | 112.2 | 112.7 | -0.3 | 7.3 | 12.9050 |
| Russian Federation | | | | | | | |
| 2004 | 107.2 | 106.1 | 123.8 | 110.9 | 3.2 | 8.2 | 27.7487 |
| 2005 | 106.4 | 104.0 | 118.2 | 112.6 | ... | 7.6 | 28.7825 |
| 2006 | 106.7 | 103.9 | 112.4 | 109.7 | ... | 6.9 | 26.3311 |
| Tajikistan | | | | | | | |
| 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 |
| 2006 | 107.0 | 104.9 | 122.0 | 111.9 | ... | ... | 3.427 |
| Turkmenistan | | | | | | | |
| 2004 | 117.2 | ... | ... | 105.9 | ... | ... | ... |
| 2005 | 109.6 | 122.0 | ... | 110.8 | ... | ... | ... |
| 2006 | ... | ... | ... | ... | ... | ... | ... |
| Uzbekistan | | | | | | | |
| 2004 | 107.4 | ... | ... | 108.8 | -1.1 | ... | 1058.00 |
| 2005 | 107.0 | 107.7 | ... | 121.0 | ... | ... | 1180.00 |
| 2006 | 107.3 | 110.2 | ... | ... | ... | ... | 1240.00 |
| Ukraine | | | | | | | |
| 2004 | 112.1 | 112.5 | 124.1 | 112.3 | -3.2 | 3.5 | 5.3054 |
| 2005 | 102.7 | 103.1 | 109.5 | 110.3 | -1.8 | 3.1 | 5.0500 |
| 2006 | 107.1 | 106.2 | 114.1 | 111.6 | -0.7 | 2.8 | 5.0500 |

¹ Sources: data from CIS countries, *IMF International Financial Statistics*, April 2007, Internet.

Sources of information for the analytical part: *Global Economic Survey and Prospects for 2007*, United Nations Organization, 2007; *Global Economy and Finance Survey, Prospects for Global Economy Development*, International Monetary Fund, April 2007.

Chapter 2
ACTIVITIES OF THE
NATIONAL BANK OF UKRAINE

2.1. MONETARY POLICY

2.1.1. IMPLEMENTATION OF THE MONETARY POLICY GUIDELINES IN 2006. MAIN INSTRUMENTS OF THE MONEY AND CREDIT MARKET REGULATION

In 2006, the National Bank of Ukraine was pursuing the monetary policy with the use of appropriate mechanisms and instruments and it was aimed at achievement of the goals and tasks determined by the Monetary Policy Guidelines for 2006, taking the monetary actions adequate to the processes that were going on at the macroeconomic level and in the fiscal sphere. In 2006, the stability in the money and credit market, as well as the trust in the national monetary unit and the banking system were ensured.

The Guidelines for 2006 specified the following benchmarks: the consumer price index within 109-111.5% (estimated up to December of the previous year), the average annual exchange rate of the hryvnia against the US dollar – within UAH 5.0-5.2 per US\$ 1, the monetary base growth rate – within 22-27%, and the money supply – within 27-32%.

The consumer price increase in 2006 by 11.6% was primarily due to the growth, in the IV quarter of the reporting year, of the administratively regulated tariffs for services and it had not any essential monetary grounds.

The exchange rate of the hryvnia against the US dollar, during 2006, was held at the level of UAH 5.05 per US\$ 1, and the monetary base and money supply augmented by 17.5% and 34.5%, respectively.

In 2006, macroeconomic conditions were characterized by dynamic changes of the quantitative and qualitative indicators of development. In the 1st half of the year, there was an urgent need for overcoming the unfavourable trends of development in 2005, levelling an adverse effect on the economy of the worsening of the situation in the external markets and of the increase in prices for energy resources. To solve these tasks, starting from May 2006, much attention was given to the support of positive tendencies in the economy.

In this period, the monetary policy of the National Bank of Ukraine was directed towards ensuring stabilization in the money and credit market and it was pursued in a flexible and adequate way according to the macroeconomic situation.

In order to maintain the stability of the national currency, to restrain the inflation and devaluation expectations, in January-April 2006, the National Bank of Ukraine carried out currency interventions with foreign currency sale in the inter-bank market to the amount of US\$ 2.1 billion, taking over UAH 10.5 billion out of the circulation.

By the results of the measures taken, was evident the decrease in the amount of funds on the correspondent accounts of banks, since considerable budget expenditures in December 2005 were followed by some "overhang" of banks' liquidity that produced additional inflation risks.

The mentioned actions, taken by the National Bank of Ukraine, contributed to maintaining of the price and exchange rate stability of the national currency, as well as provided for the general balance in the money and credit market. The official exchange rate of the hryvnia kept to be unchangeable, and in the price area a strong tendency towards reduction in the inflationary pressure was formed that was preserved till September 2006 inclusively. In addition, already since mid-April of the reporting year, in the inter-bank market was observed the excess of supply of foreign currency over demand for it, and from the beginning of May to the year end it became a stable tendency.

Stabilization of the situation in the monetary sphere in line with other factors (improvement of the situation in the external economic sector, gradual lowering of the political tension) facilitated the activation of the economic development processes. Thus, starting from the 2nd quarter of 2006, the GDP growth rate essentially increased, that was respectively accompanied by growth of the economy's demand for money.

Since, at this period of time, the tendency towards decrease in liquidity had place in the money and credit market, in order to provide for the adequacy of supply of money and demand for it, the National Bank of Ukraine initiated more active monetary policy, using a range of such instruments for

regulation of the money and credit market as required reserves, interest rates, refinancing of banks and deposit operations.

Required reserves

In order to determine an optimal amount for the money supply in circulation, during 2006, the National Bank of Ukraine repeatedly strengthened the requirements for formation of the required reserves by banks.

In order to reduce the dollarization level of the economy, starting from 1 October 2006, differentiated ratios for formation of the required reserves by banks were imposed in relation to the term of attraction of funds and type of currency, and as at 1 January, 2007, they were as follows:

- on the term funds and deposits of legal entities and individuals in the national currency – 0.5%;
- on the term funds and deposits of legal entities and individuals in the foreign currency – 4%;
- on demand funds and deposits of legal entities and individuals in the national currency and on funds on the correspondent accounts – 1%;
- on demand funds and deposits of legal entities and individuals in the foreign currency and on funds on the correspondent accounts – 5%.

Depending on the situation in the money and credit market, the National Bank of Ukraine was changing the required reserve level which was daily kept on the correspondent account with the National Bank of Ukraine at the operational day start. As at 1 January, 2006, the magnitude of the mentioned ratio was imposed at the level of not less than 90%, from 1 March, 2006, – not less than 70%, from 1 October, 2006, – not less than 100% of the amount of the specified and formed required reserves for the previous reporting period of reserving (a month).

By the results of the decisions taken, in 2006, the average calculated ratio of required reserves amounted to 4.3%, or decreased from 6.8% in January to 2.1% in December (for 2005 it was 6.6% and increased from 6.4% in January to 6.8% in December).

During 2006, required reserve formation by the banking system grew, and their volume for January 2006 amounted to UAH 6.3 billion, and for December 2006 – UAH 9.7 billion. Average balances of funds on the correspondent accounts of banks during the year ranged from UAH 9.6 billion to UAH 16.1 billion.

Interest rates

During 2006, the interest rate policy of the National Bank of Ukraine was carried out in relation to the situation in the money and credit market. To consolidate the positive tendencies observed in the monetary and macroeconomic spheres, from 10 June, 2006, the discount rate of the National Bank of Ukraine was decreased from 9.5% to 8.5% per annum.

In order to strengthen the role of interest rate policy in regulation of the money and credit market, the National Bank of Ukraine, in accordance with the regulations On the Regulation by the National Bank of Ukraine of Liquidity of Banks of Ukraine approved by the decision of the Board of the National Bank of Ukraine of 26 September, 2006, № 378, being effected from 17 November, 2006, introduced daily announcement of rates on overnights with regard to support the banks' liquidity and to allocate deposit certificates of the National Bank of Ukraine.

The average weighted interest rate on the bank refinance credits amounted to 9.5% annually in December, or decreased, on all the refinance instruments, by 3.5 percentage points, including on:

- overnight credits – by 2.5 percentage points (from 13% annually in January to 10.5% annually in December);
- refinance credits, extended by tender results – by 2.9 percentage points (from 12.0% annually in February to 9.1% annually in December);
- operations of direct REPO (estimated) – by 1.5 percentage points (from 11.0 % annually in April to 9.5% annually in December).

The average weighted interest rate on the refinance credits, extended in August 2006 against property rights on the funds of a bank deposit placed with the National Bank of Ukraine, and on the operations of exchange of national currency for foreign currency (swap) amounted to 8.5% and 9.5% annually, respectively.

On the whole, for the year, the average weighted interest rate on all the instruments for refinancing of banks was 11.5% annually (for 2005 – 14.7% annually) and during the major portion of the year it was at the higher level regarding both actual and predictable inflation.

Refinancing of banks

During 2006, the National Bank of Ukraine was ensuring the support of banks' liquidity by way of providing overnight credits to banks through the permanently acting refinancing line, refinance credits for the period of up to 14 days and up to 365 days, as well as direct REPO operations with government securities and foreign currency.

With coming into force of the regulations On the Regulation by the National Bank of Ukraine of Liquidity of Banks of Ukraine, from 17 November, 2006, the spectrum of financial instruments, used to secure refinance credits, was expanded:

- the term for carrying out direct REPOs and the list of assets that may be an object of this kind of operation were enlarged;
- currency swap operations were introduced with types of free convertible currencies being enlarged;
- direct REPOs with foreign currency were canceled; etc.

To ensure stable activities of banks and create incentives for banks in respect of their active participation in crediting of the economic entities' long-term programs, the National Bank of Ukraine approved the regulations On the Order of Banks' Refinancing against Pledge of Property Rights on Funds of the Bank Deposit Placed with the National Bank of Ukraine. The mentioned regulations provided implementation of the mechanism of transforming a portion of the banks' short-term resources into long-term ones in order to assist in decreasing the gaps between the terms and volumes on the funds attracted by banks and those allocated into the economy.

The volume of operations on banks' refinancing in 2006 amounted to UAH 8.3 billion (in 2005 – about UAH 12 billion). Within the structure of credits extended to banks the amount of overnight credits made up 66.9% (in 2005 – 93.0%), direct REPO operations – 16.3% (in 2005 – 5.1%), refinance credits through the tender – 12.1% (in 2005 – 1.9%), through the currency swaps – 4.5%, credits against property rights to funds of bank deposits placed with the National Bank of Ukraine – 0.2%. In the reporting year, the banks were repaid the loans totaling UAH 7.6 billion (in 2005 – UAH 15.2 billion).

Deposit operations

In order to secure the balancing of supply and demand for money, from January to 17 November, 2006, the National Bank of Ukraine carried out deposit operations with banks through issue of the deposit certificates of the National Bank of Ukraine and signing of deposit agreements with banks. In addition, in August 2006, the National Bank of Ukraine concluded with banks agreements on the bank deposit, placed with the National Bank of Ukraine, the property rights under which were provided as security against refinance credits. The total volume of operations on mobilization of the banks' funds in 2006 amounted to UAH 6.8 billion (in 2005 – UAH 17.3 billion).

During 2006, 130 auctions on deposit certificate allocation were announced. The total bank funds attracted through allocation of deposit certificates in 2006 with the deposit certificate nominal value of UAH 1000 thousand amounted to UAH 610 million (in 2005 – UAH 14788 million). The average weighted interest rate on deposit certificates in 2006 was 0.95% annually (in 2005 – 3.8% annually).

The total funds of banks attracted through deposit operations by concluding the deposit agreements made up UAH 6135 million (in 2005 – UAH 157 million), the average weighted interest rate was 1.1% annually (in 2005 – 4.5% annually).

The bank deposits' funds, allocated with the National Bank of Ukraine, whose property rights were given as security against refinance credits, amounted to UAH 15 million, and the average weighted interest rate was 6.8% annually.

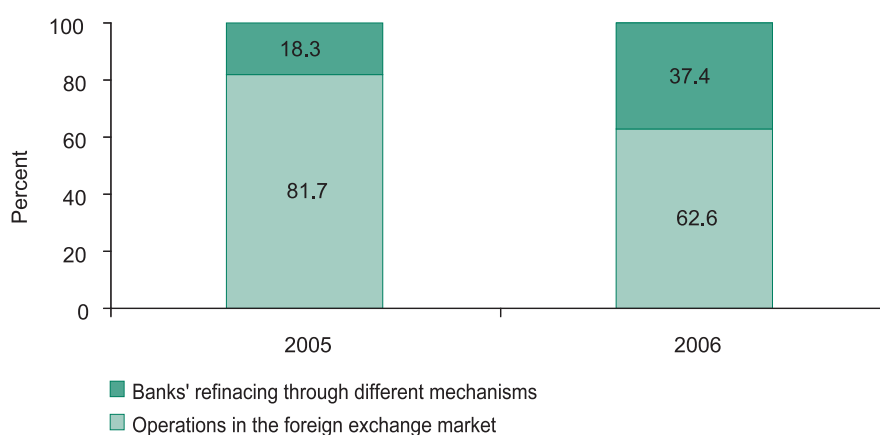
With the aim of regulating the banks' liquidity, in April 2006, the advanced repayment of deposit certificates to the amount of UAH 765 million was carried out (including advanced termination of deposit agreements to the amount of UAH 150 million).

2.1.2. NON-CASH EMISSION BY THE NATIONAL BANK OF UKRAINE

During 2006, the National Bank of Ukraine issued UAH 22.3 billion into circulation, which is UAH 43.1 billion, or 2.9 times less, than in 2005, including:

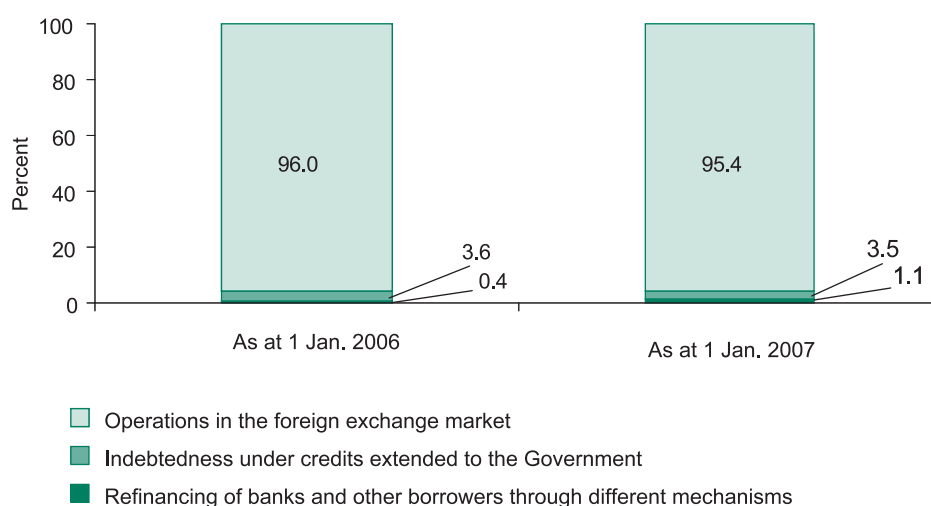
- UAH 13.9 billion, against UAH 53.4 billion in 2005, to acquire the foreign currency to form the gold and foreign currency reserve of the National Bank of Ukraine;
- UAH 8.4 billion, against UAH 12.0 billion in 2005, to support the banks' liquidity through different refinancing mechanisms.

Structure of Non-Cash Emission by the National Bank of Ukraine



Within the structure of the cashless emission, made by the National Bank of Ukraine, in 2006, unlike 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 decreased from 81.7% to 62.6%, which is due to the currency interventions of the National Bank of Ukraine on the sale of foreign currency in the inter-bank market in January-April 2006, whereas, for the respective period of 2005, the operations on purchasing the foreign currency were made by the National Bank of Ukraine.

Structure of Non-Cash Emission by the National Bank of Ukraine



In 2006, the emission funds totalling UAH 20.7 billion, or by 14.3% less than in 2005, were withdrawn by the National Bank of Ukraine from circulation. The emission funds withdrawing was carried out through the sale by the National Bank of Ukraine of foreign currency to the amount of UAH 13.1

billion (63.1% of the total funds withdrawn), repayment by banks of the refinance credits, extended earlier, to the amount of UAH 7.6 billion (36.8%), as well as due to the operations on repayment of the external government loan bonds to the amount of UAH 0.02 billion (0.1%).

Net cashless emission (difference between the funds put in circulation and those withdrawn from circulation) in 2006 equalled UAH 1.6 billion and was by UAH 39.7 billion, or nearly 26 times less than in 2005.

As at 1 January, 2007, the non-cash emission of the National Bank of Ukraine amounted to UAH 103.0 billion, which is by UAH 1.6 billion, or by 1.6% more than as at 1 January, 2006.

2.1.3. MONEY CIRCULATION

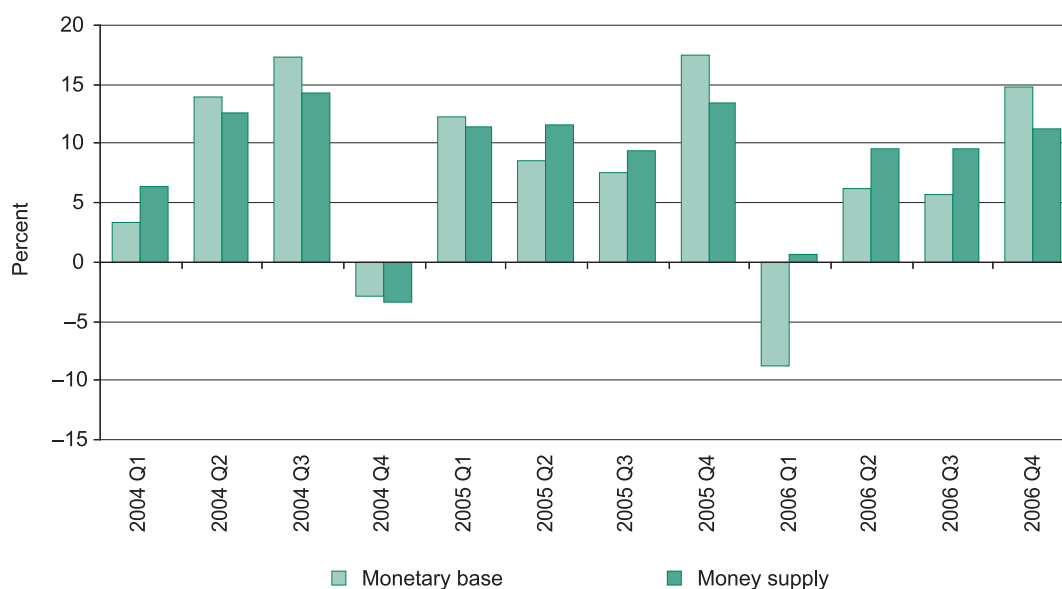
As at 1 January, 2007, the monetary base equalled UAH 97.2 billion, or, since the year start, it increased by 17.5% (for 2005 – by 53.9%).

Slowing-down of the monetary base growth rates in 2006 was mainly due to the increase in the demand for foreign currency. It was facilitated by the actions of the National Bank of Ukraine on adjustment of the requirements to form the required reserves by banks.

As at 1 January, 2007, the money supply in circulation (M3) totalled UAH 261.1 billion and augmented for 2006 by 34.5% (for 2005 – by 54.3%). The money supply growth rates for 2006 were the lowest, compared to those since 2000.

During 2006, the money supply, within currencies, increased by 28.6% in the national currency, by 53.8% – in the foreign currency. This had an impact on the money supply structure by currency types. The share of money supply in the national currency by the end of December 2006 equalled 73.0%, or diminished since the year start by 3.4 percentage points.

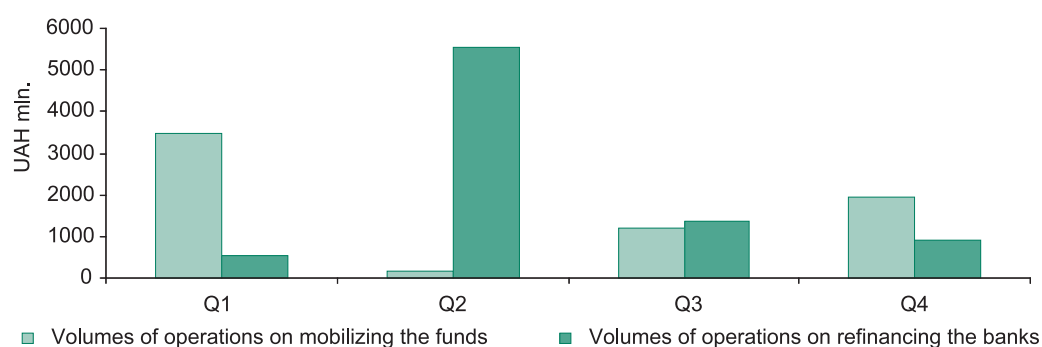
Dynamics of Main Monetary Indicators (change to the previous quarter)



Relatively low growth rates of monetary indicators in 2006 were primarily due to the decrease in the volumes of currency interventions of the National Bank of Ukraine. Thus, if during the last years operations in the foreign exchange market were the main channel for expanding the money supply, in 2006 the balance of currency interventions on the foreign currency purchase-sale only in October, cumulatively, had a positive value. However, this situation had not an adverse effect on the level of provision of the economy with money resources. Demand for money in 2006 was changing in relation to the dynamics of the macroeconomic situation in the

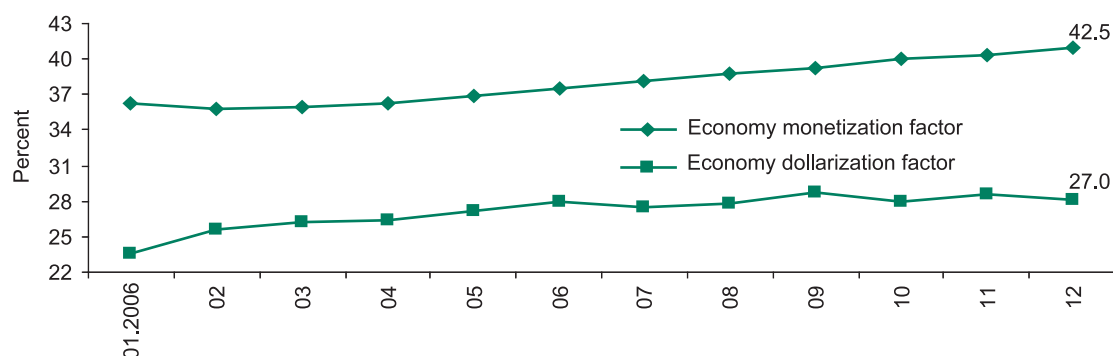
country – to the extent of activation of the economic growth rates, the increase in demand for money took also place. Thus, if in the 1st quarter of the reporting year the money supply augmented by 0.6%, being explained mainly due to a high comparative base of the 1st quarter of 2005, starting from the 2nd quarter of 2006, gradual acceleration of the economic growth was raising the demand for money. In the 2nd quarter the money supply augmented by 9.7%. The money supply was also facilitated by balancing of the situation in the foreign exchange market. Under conditions of retaining the positive tendencies of the macroeconomic development in the 3rd and 4th quarters of 2006, the money supply increased by 9.6% and 11.2%, respectively.

Dynamics of Volumes of Operations of the National Bank of Ukraine on Regulation of the Banks' Liquidity in 2006



In 2006, the National Bank of Ukraine ensured the necessary money supply through regulation of requirements for forming the required reserves by banks. In general, for the reporting year, the release of the funds subject to mandatory reserving to the amount of over UAH 10 billion took place. Moreover, to secure sufficient level of money supply, the National Bank of Ukraine used also other monetary instruments and mechanisms, in particular, starting from the 2nd quarter of 2006, the National Bank of Ukraine increased the volume of operations on support of the banks' liquidity. Operations on banks' refinancing in 2006 totalled over UAH 8.3 billion (93.6% – in II-IV quarters). At the same time, the volume of operations on mobilization of funds was diminished. Thus, if in the 1st quarter of the reporting year the banks' funds attracted through mobilization operations amounted to UAH 3.5 billion, in II-IV quarters of 2006 – only UAH 3.3 billion.

Dynamics of Factors of Monetization and Dollarization of the Economy of Ukraine in 2006



The adequate level of saturation of the economy with money was attested by a positive dynamics of monetary factors. Thus, the economy monetization for 2006 augmented from

36.2% to 42.5%. The economy remonetization process was promoted by reviving of the stock market, gradual renewal of the role of capital-intensive branches (metallurgy, mechanical engineering) within the structure of economic growth, that stipulated higher demand for credits, as well as a significant increase in prices of some types of investment assets (particularly, of fixed property and land), that needed more funds to perform operations in the stock market and the real estate market.

Under conditions of accelerated growth of the money supply compared to the monetary base, the money multiplier value, in 2006, materially grew – from 2.3 (at the beginning of the year) to 2.7. Though, taking into account a significant easing of requirements to the formation by banks of required reserves, this increase in the money multiplier had partly an artificial nature.

MONEY SUPPLY BY AGGREGATES

| Indicators | 2006 (UAH billion) | For year | Growth rate, % including by quarters | | | |
|------------------------------|-----------------------|----------|---|-------|-------|-------|
| | | | I | II | III | IV |
| Money out the banks | | | | | | |
| cash (M0) | 75.0 | 124.5 | 97.4 | 109.6 | 106.7 | 109.3 |
| Money supply (M1) | 123.3 | 125.1 | 97.6 | 108.9 | 107.9 | 109.1 |
| Money supply (M2) | 259.4 | 134.3 | 100.7 | 109.6 | 109.5 | 111.1 |
| Money supply (M3) | 261.1 | 134.5 | 100.6 | 109.6 | 109.6 | 111.2 |
| For reference: monetary base | 97.2 | 117.5 | 91.2 | 106.2 | 105.7 | 114.7 |

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.

As at 1 January, 2007, the cash outside the banks (M0) amounted to UAH 75.0 billion and augmented for the reporting year by 24.5%. In 2006, continued the positive changes in the structure of money supply (M3) – in particular, the share of cash diminished by 2.3 percentage points and it was 28.7% by the end of December.

The transfer funds in the national currency as at 1 January, 2007, amounted to UAH 48.3 billion, or grew in 2006 by 26.0%.

The transfer funds in foreign currency and other funds increased in 2006 by 44.0%, and as at 1 January, 2007, they totalled UAH 136.1 billion.

The customers' funds invested in acquisition of bank securities grew at a fast pace. During 2006, their volume increased by 78.3% and as at 1 January, 2007, it made up UAH 1.7 billion.

The largest share within the structure of money supply belonged to the transfer funds in foreign currency and other funds – 52.2% (in 2005 – 48.7%), the money outside the banks – 28.7% (in 2005 – 31.0%), the transfer funds in national currency – 18.5% (y 2005 – 19.8%), and the rest (0.6%) – the customers' funds invested in acquisition of the banks' securities.

With increasing the money supply in the reporting year by 34.5% the funds of individuals (including the funds for acquisition of securities of the banks' own debt) augmented by 36.5% and as at 1 January, 2007, amounted to UAH 183.5 billion. The funds of economic entities for the year grew by 30.1% and equalled UAH 77.5 billion.

Within the money supply allocation structure the share of funds of individuals (including the funds used to acquire securities of the banks' own debt) augmented during the year by 1 per-

centage point and as at 1 January, 2007, amounted to 70.3%. The rest were the funds of economic entities.

As at 1 January, 2007, savings of individuals (including the customers' funds invested in acquiring the banks' own debt securities) made up UAH 108.5 billion and grew during 2006 by 46.2%, including those in the national currency – by 38.1% and in the foreign currency – by 57.5%.

Within the total savings of individuals the main share were other funds – 76.2%, that grew for 2006 by 47.6%. Transfer funds of individuals that amounted to 22.3% of all the savings of the population augmented during 2006 by 40.1%. Savings into securities of banks equalled UAH 1.7 billion (1.5% of the individuals' total savings), that is by 22.6% more than in the previous year.

2.1.4. CASH CIRCULATION

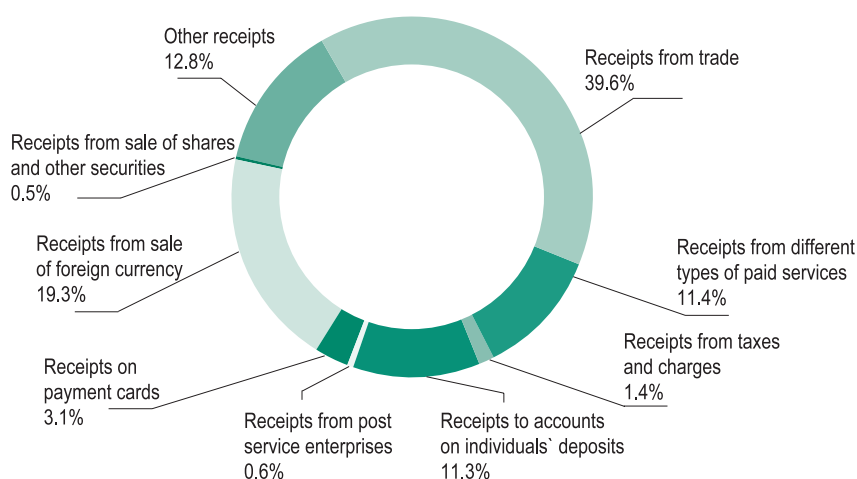
In 2006, the economic growth and increase in social payments to the population had an impact on the cash growth outside the banks.

As at 1 January, 2007, the cash outside the cashier's desks of the banks equalled UAH 75.0 billion and during the year it increased by UAH 14.7 billion, or by 24.5% (in 2005 – by UAH 17.9 billion, or by 42.2%). Concurrently there continued positive changes within the money supply (M3) – in particular, the share of cash decreased and by December end it equalled 28.7% against 31% at the year start. The level of cash concentration in circulation had a tendency towards decrease and reduced, compared to 2005, from 4.6% to 2.8%.

Larger portion of regions of Ukraine (16 from 25) brought cash into circulation, the highest level of cash issue took place in the Zhytomyr region (14.0%), Sumy region (16.1%), Chernihiv region (17.9%), Mykoliv region (25.1%), Kirovohrad region (26.0%) and Luhansk region (31.7%). In nine regions, UAH 19.9 billion of cash was withdrawn from circulation.

Under conditions of growing the incomes of population, the tendency towards increase had both the issue of cash from the cashiers' desks and its return. During 2006, the cash was issued by 34.5% more, than for 2005, at the same time, the cash returns grew by 37.0%, and at that the increase was observed by nearly all the items of the cash turnovers of banks.

Structure of Cash Receipts at the Cashiers' Desks of Banks in 2006

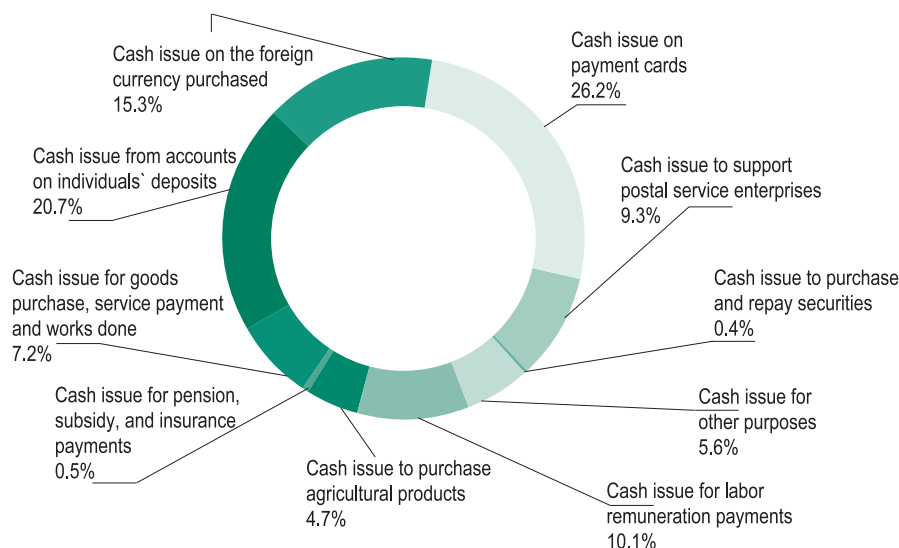


In 2006, the cash returns to the cashiers' desks amounted to UAH 509.7 billion and grew compared to 2005 by UAH 137.7 billion. In the structure of returns to the cashiers' desks of banks, 51% were receipts from the trade network enterprises and the enterprises providing all

the paid services, whose volume, compared to 2005, increased by UAH 56 billion, or by 27.5%. Moreover, increased the receipts from the sale of foreign currency (by 49.6%, or by UAH 32.6 billion), incomings to the accounts of individuals (by 36.9%, or by UAH 15.6 billion), as well as on the payment cards (2.3 times, or by UAH 8.9 billion).

The growth of social payments in 2006 had respectively an impact on the increase in the issues of cash from the cashiers' desks of banks of Ukraine, that totalled UAH 524.5 billion and augmented, compared to 2005, by UAH 134.6 billion, or by 34.5%. Essential was the growth (1.4 times, or by UAH 89.3 billion) of payments, related to the remuneration of labour, payment of pensions, as well as the payments from the accounts on deposits of individuals and on payment cards amounting to UAH 301.8 billion, or over 57% of the total payments. Furthermore, augmented the issues by banks of the cash for the acquired foreign currency (by 37.1%, or by UAH 21.8 billion), for purchasing the goods and paying the services (by 30.2%, or by UAH 8.8 billion), for purchase of agricultural products (by 24.7%, or by UAH 4.9 billion).

Structure of Cash Issues from the Cashiers of Banks in 2006



Due to a keen demand of the population for foreign currency in 2006, UAH 18.0 billion of cash was withdrawn from circulation (the difference between receipts and issues of cash on foreign currency operation), that had an effect on slowing down of the growth rate of cash outside the banks and on the emission result of 2006.

A positive consequence of increase in the households' incomes in 2006 was growth of the individuals' deposits. During the reporting year, the cash incomings on the individuals' accounts augmented by 36.9% and amounted to UAH 57.7 billion, or by 20.5% of the total incomings to the population deposits.

During 2006, the National Bank of Ukraine secured 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 2006 with banknotes and coins from the reserve funds totalled over UAH 35.3 billion, or by UAH 4.7 billion more than in the previous year. 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 over UAH 5.4 billion (in 2005 – UAH 4.5 billion).

As at 1 January, 2007, in circulation there were 1771.6 million banknotes and 5677.0 mil-

lion coins, change and circulating ones (as at 1 January 2006 – 1653.6 and 4848.8 million pieces, respectively). By the reporting date, there were 38 banknotes per head and 115 change and circulating coins per head of all denominations against 35 pieces and 97 pieces as at 1 January, 2006, respectively.

To maintain the proper view of the banknotes put in circulation, the worn cash has being withdrawn from circulation. In 2006, withdrawn were the worn banknotes to the amount of 830.5 million pieces for the value of UAH 12.9 billion.

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.

In 2006, the bank institutions of Ukraine found out and withdrew from circulation 4.2 thousand false banknotes of national currency (by 10% less than in 2005) for the total value of UAH 167 thousand (by 57% more compared to 2005), with a prevailing share of banknotes of 20 and 10 Hryvnia denominations (35% and 24% in the total amount of false banknotes revealed in circulation). Nearly all false banknotes (98%) were produced with the use of reproducing equipment – in jet and laser printers.

In 2006, 794 pieces of US dollar banknotes amounting to over US\$ 75 thousand and 40 pieces of banknotes of the European Central Bank for the value of nearly EUR 5 thousand were acknowledged false and withdrawn from the banking system. Within the false foreign currency banknotes, US\$ 100 notes (92% of the total number of false US dollar banknotes) and EUR 200 notes (42% 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 2006, 31 names of commemorative and jubilee coins (44 types), including 5 golden, 17 silver and 22 non-precious metal coins were produced. Alongside, in the reporting year, a significant activity was arranged on realizing the commemorative and jubilee coins, totalling 1.2 million pieces for the value of UAH 47.8 million, or 1.5 times more than in 2005, and the budget revenues from the value added tax totalled UAH 7.1 million.

In the reporting year, was issued the information and reference journal "Banknotes and Coins of Ukraine 2005", including the information about all the issues of legal tenders of Ukraine that had been put into circulation in 2005.

On the acting contractual agreements, in 2005, the oversea delivery was performed at the amount of 4220 silver and golden coins totalling EUR 75 thousand.

In 2006, 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:

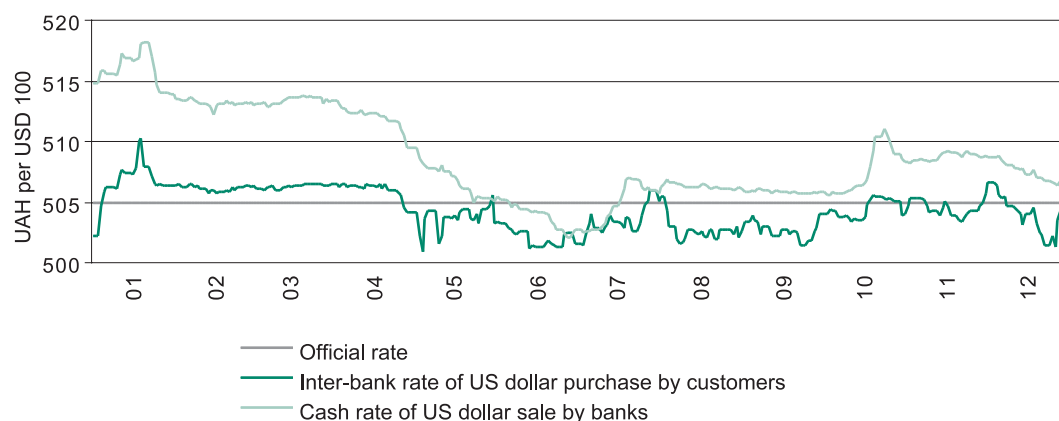
- Instruction on Organizing the Valuables Transportation and Money Collection in the Bank Institutions of Ukraine was worked out;

- based on the local data bases of the "Paper Currency Expertise" software complex, from 2 January, 2006, implemented was the network analytic system for the work with the centralized data base of false paper banknotes of the national currency – the "Analytic System of Results of Paper Currency Expertise" software complex;

- to improve the operations on determining the payment ability and exchange of banknotes and coins of the National Bank of Ukraine and to order proper relations between natural, legal persons and banks of Ukraine, made were the changes to the Rules of Determining of Payment Ability and Exchange of Banknotes and Coins of the National Bank of Ukraine;

- performed was the accompanying of nine software complexes and tasks to ensure the automation of cash transactions: "Issue Day of the Bank", "Accounting of Cash Transactions in the Vaults and in the Recalculation Cashiers' Desk", "Automation of Processing the Orders of Banks for Support with Cash, Transportation of its Excess and Banknotes and Coins Unfit for Circulation", "Automation of Operations on Putting into Circulation, Accounting and Realization

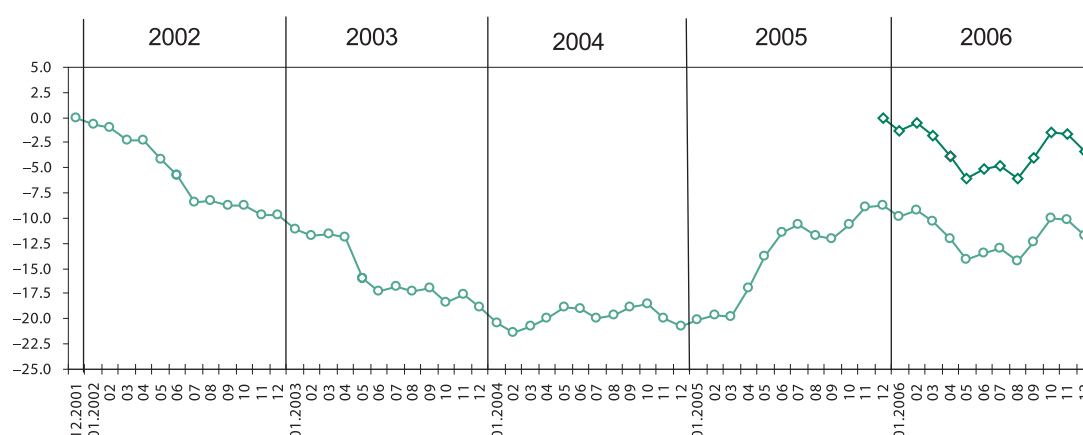
Dynamics of the Exchange Rate of Hryvnia Versus US Dollar in 2006



Real effective exchange rate (REER)

During 2006, the real effective exchange rate (REER) of the hryvnia decreased by 3.3%, that partially favoured to renew the competitive price advantages of domestic products lost in 2005, when it had increased by 15%.

Dynamics of the Real Effective Exchange Rate of Hryvnia in 2002–2006 (to December 2001) and in 2006 (To December 2005)



During 2006, the dynamics of the REER of the hryvnia was uneven. In January–August it decreased by 6.1% mainly due to depreciation of the US dollar in the world market, the hryvnia's pegging to it and relatively low inflation in Ukraine, and in September–November was growth of the REER of the hryvnia mostly due to acceleration of the price increase in Ukraine.

At that, different factors influenced the change of the REER of the hryvnia – both exchange rate and inflationary ones: the hryvnia's nominal weakening against the currencies of the countries – the main trade partners of Ukraine (by 8.2%) promoted decrease in the hryvnia's REER, though higher inflation in Ukraine (by 5 percentage points in average) stipulated its proper increase. In general, taking into account a decreasing trend, the previous year's dynamics of the REER of the hryvnia contributed to the increase in competitiveness of the domestic production.

of Commemorative, Jubilee Coins, Numismatic and Accompanying Products", "Paper Currency Expertise", "Accounting of 500 Hryvnia Denomination Banknotes of 2006 Pattern and Their Migration by Series and Numbers", "Cash Turnovers", "Detection of False and Counterfeit Hryvnia Banknotes and Coins", "Detection of False Banknotes of Foreign Currency".

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 of the stability of the exchange rate of hryvnia against the exchange rate forming currency – the US dollar, accumulation of the foreign exchange reserves and timely performance of external debt obligations of the state. At this, its realization took place under the complicated conditions of a sharp rise in prices of imported energy carriers and increase in demand for foreign currency at the beginning of the year due to the elections to the Verkhovna Rada of Ukraine.

In 2006, the official exchange rate of the hryvnia against the US dollar remained unchanged at the level of UAH 5.05 per 1 US dollar with the average value within 5.0-5.2 hryvnia per 1 US dollar determined by the Guidelines of the Monetary Policy for 2006. Dynamics of the official exchange rate of the hryvnia against the euro and the Russian ruble reflected the change in rates of all the currencies in the international markets.

THE OFFICIAL EXCHANGE RATE OF HRYVNIA AGAINST FOREIGN CURRENCIES

(per 100 units of currency, nominal and real changes: "-" – devaluation, "+" – revaluation)

| Rate of hryvnia against foreign currencies: | 2006 | For reference: 2005 |
|---|--------|------------------------|
| – against US dollar | 505.00 | 505.00 |
| nominal change (%) | 0 | +4.81 |
| real change (with respect to inflation – %) | +8.9 | +16.13 |
| – against euro | 665.09 | 597.16 |
| nominal change (%) | -11.4 | +17.26 |
| real change (with respect to inflation – %) | -1.9 | +27.1 |
| – against Russian ruble | 19.179 | 17.541 |
| nominal change (%) | -9.3 | +8.3 |
| real change (with respect to inflation – %) | -6.7 | +19.16 |
| <i>For reference: inflation to December of the previous year (%)</i> | 11.6 | 10.3 |

While maintaining a stable official exchange rate of the hryvnia against the US dollar, the National Bank of Ukraine did not resort to a rigid fixation of exchange rates that were formed in the foreign exchange market of Ukraine and reflected the changes in demand and supply. Thus, the exchange rate of the hryvnia against the US dollar in the foreign exchange market fluctuated within the band:

- on cashless transactions:
 - of purchasing the US dollar – from 5.10 to 5.01 hryvnia/US dollar;
 - of selling the US dollar – from 5.08 to 5.00 hryvnia/US dollar;
- on transactions with cash:
 - of purchasing the US dollar – from 5.18 to 5.02 hryvnia/US dollar;
 - of selling the US dollar – from 5.14 to 4.98 hryvnia/US dollar.

By and large, the dynamics of the exchange rate of hryvnia in 2006 played a key role in eliminating the negative inflationary and devaluation expectations, in establishing the general balance in the foreign exchange market in the 1st quarter, leveling the pessimistic moods during the increase in prices of imported gas, renewing the positive dynamics of augmentation of the international reserves and forming the favourable macroeconomic environment.

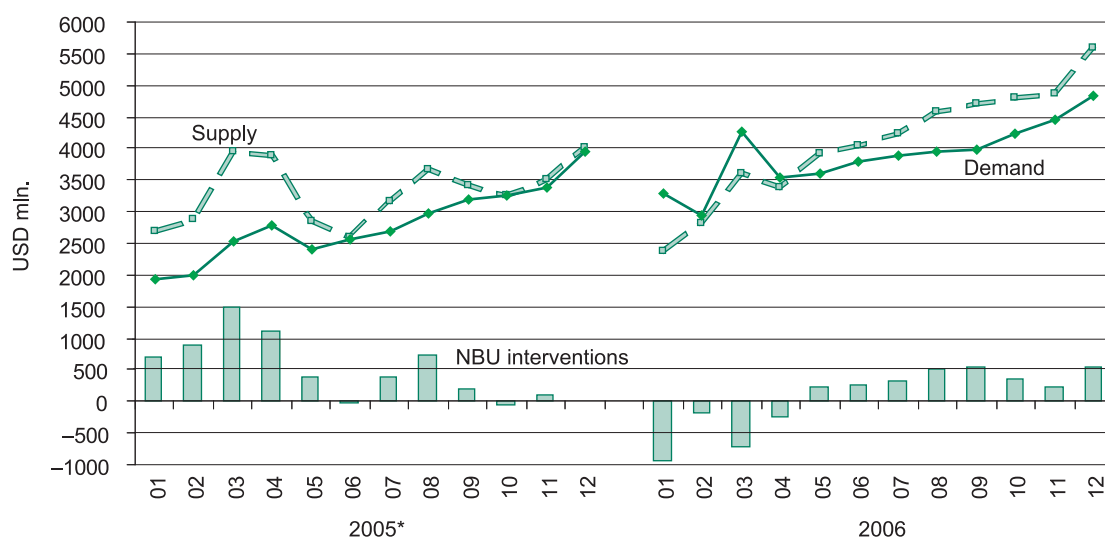
2.2.2. DEVELOPMENT OF THE FOREIGN EXCHANGE MARKET OF UKRAINE

Dynamics of demand and supply of foreign currency in the inter-bank market during 2006 was uneven. From the beginning of 2006, in the foreign exchange market there was a keen demand for foreign currency due to a number of factors mainly outside the monetary policy (elections to the Verkhovna Rada, uncertainty with regard to the price of imported gas, unfavourable conjuncture of external markets, etc.). As a result, the excess of demand over supply of foreign currency had place in the market.

Under such conditions, the National Bank of Ukraine had to level negative expectations of the participants of the inter-bank market, compensating in it the unsatisfied demand for foreign currency. The total foreign currency interventions on selling the foreign currency by the National Bank of Ukraine in the inter-bank market in the 1st quarter of 2006 equalled US\$ 1.8 billion.

The strategy chosen for the foreign exchange market stabilization proved to be efficient – the inter-bank market renewed a general currency balance and, starting from mid-April 2006, the volumes of foreign currency supply began to excess demand for it again. The total balance of foreign currency interventions of the National Bank of Ukraine in 2006 was positive and amounted to US\$ 0.9 billion.

Indicators of Dynamics of Inter-Bank Foreign Exchange Market



*Without funds received from "Kryvorizhstal" sales.

In the reporting year the international reserves were replenished at the expense of foreign currency interventions of the National Bank of Ukraine and at the expense of external borrowings of the Government.

The main result of the National Bank of Ukraine activity was maintaining the predictability of the foreign exchange market, dynamics of the exchange rate of the hryvnia and general macroeconomic environment.

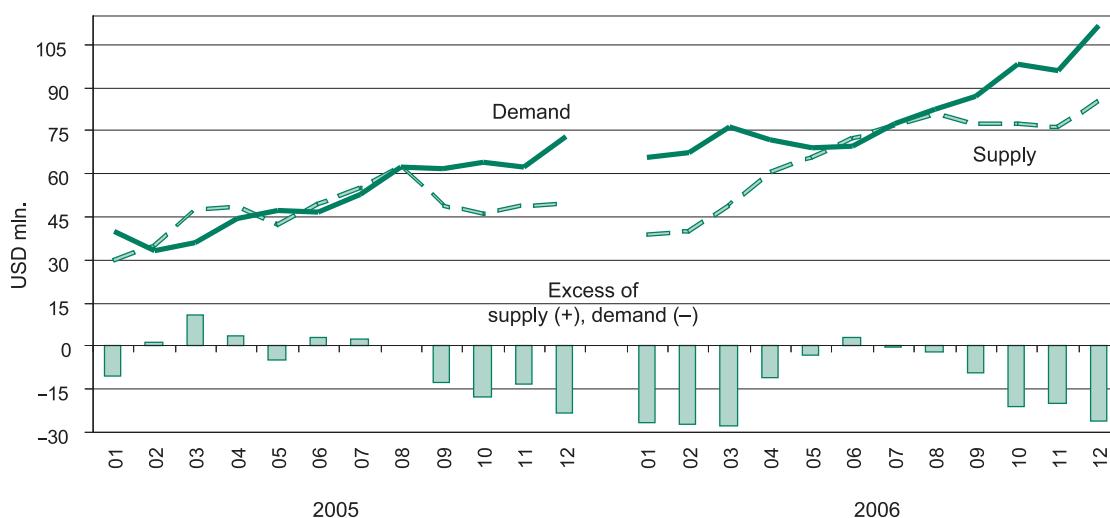
In 2006, compared to the previous year, the volume of transactions in the inter-bank market augmented by 23.0%. At that, the demand for cashless foreign currency was rising at a higher rate than its supply (39.2% and 10.7%, respectively). The net foreign currency supply in 2006 totalled US\$ 2.1 billion.

The increase in foreign currency supply in the inter-bank market was contributed to by its intensive inflow from abroad, that, compared to 2005, augmented by US\$ 12.5 billion, or by

19.0%. A considerable portion of the foreign currency growth was due to activation of the external borrowings that went up by 25.0%. The main way of foreign currency receipts, as well as in previous years, were proceeds from exports (54%).

In the cash segment of the foreign exchange market the demand for foreign currency prevailed. In the reporting year, the total balance of excess of demand for foreign currency over its supply equalled nearly US\$ 3.6 billion (in the dollar equivalent) against US\$ 1.3 billion in 2005. The key factors of the tendency mentioned were: increase in the economic uncertainty at the beginning of the year, appropriate sensitive reaction of the population on some worsening of devaluation and inflationary expectations, boom in credit activity of the households, relative insufficiency of the goods supply.

Average Daily Indicators of Cash Foreign Exchange Market of Ukraine



Due to the accelerated growth of demand for foreign currency in cash, the share of cash segment went up for the year to 26.7%, or rose by 5.1 percentage points, being evidence of maintaining the tendencies, observed during the last years.

STRUCTURE OF THE FOREIGN EXCHANGE MARKET OF UKRAINE (%)

| Year | Non-cash market | Cash market | Total |
|------|-----------------|-------------|-------|
| 2002 | 95.7 | 4.3 | 100 |
| 2003 | 86.5 | 13.5 | 100 |
| 2004 | 81.1 | 18.9 | 100 |
| 2005 | 78.4 | 21.6 | 100 |
| 2006 | 73.3 | 26.7 | 100 |

In 2006, in the cash and non-cash segments of the foreign exchange market there were alternate tendencies. Unlike the cash segment, where an increase in the portion of US dollar transactions took place, in the non-cash segment there was an increase in the share of transactions with euro, however, transactions with US dollar and other foreign currencies diminished.

CURRENCY STRUCTURE OF GENERAL OPERATIONS (PURCHASE AND SALE) OF FOREIGN CURRENCY IN THE INTER-BANK AND CASH SEGMENTS OF THE FOREIGN EXCHANGE MARKET OF UKRAINE

(in dollar equivalent)

| Year | Total, US\$ billion | Share, % | US\$ | in % to the total amount Euro | Russian ruble | Other currencies |
|------------------------------------|---------------------------|-------------|------|----------------------------------|------------------|---------------------|
| Inter-bank foreign exchange market | | | | | | |
| 2002 | 38.4 | 95.7 | 77.2 | 10.1 | 10.4 | 2.3 |
| 2003 | 52.7 | 86.5 | 76.5 | 13.7 | 7.5 | 2.3 |
| 2004 | 77.7 | 81.1 | 79.1 | 11.5 | 5.9 | 3.5 |
| 2005 | 91.4 | 78.4 | 80.6 | 12.5 | 5.8 | 1.1 |
| 2006 | 102.4 | 73.3 | 77.7 | 14.1 | 6.8 | 1.4 |
| Cash foreign exchange market | | | | | | |
| 2002 | 1.7 | 4.3 | 77.1 | 13.5 | 7.7 | 1.7 |
| 2003 | 8.2 | 13.5 | 81.1 | 13.0 | 4.6 | 1.3 |
| 2004 | 18.1 | 18.9 | 80.8 | 12.9 | 4.8 | 1.5 |
| 2005 | 25.2 | 21.6 | 79.6 | 14.0 | 4.7 | 1.7 |
| 2006 | 37.2 | 26.7 | 82.0 | 12.1 | 4.2 | 1.7 |

2.2.3. THE SYSTEM OF FOREIGN EXCHANGE REGULATION

In 2006, the main elements of the system of foreign exchange regulation, that contributed to the development of the money and credit market and ensuring of stability of the national monetary unit, were maintained.

In 2006, the Verkhovna Rada of Ukraine adopted changes to the Decree of the Cabinet of Ministers of Ukraine "On the System of Foreign Exchange Regulation and Control", in whose compliance the functions of the foreign exchange control were put on the national operator of postal communication and financial institutions. In case of non-fulfilment by them of these functions, the same enforcement measures on the part of the National Bank of Ukraine might be taken to them as those used to the authorized banks.

In the reporting year, the National Bank of Ukraine, on a par with other state institutions, actively participated in working out a number of draft laws aimed at improving the foreign exchange legislation.

At the same time, the work on improvement of the normative and legal base was carried out.

In the context of broadening the spectrum of services, provided by insurance companies-residents, have been improved the ratios that regulate purchasing by them of foreign currency in the foreign exchange market of Ukraine. Thus, these organizations have been empowered to buy foreign currency to ensure:

- payments of insurance payments to non-residents according to the agreements signed with residents about mandatory insurance of civil and legal responsibility or the insurance agreements whose action covers a foreign territory;

- insurance of responsibility of the members of the Association of International Carriers of Ukraine under the requirements of the Customs Convention On International Transportation of Goods.

Taking into account that the Ukrainian state enterprise of postal communication "Ukrposhta" from March 2006 started to provide the individuals the services of international postal transfers, as well as the fact that when providing this service can appear the need to perform foreign currency exchange operations with foreign currency in cash, the National Bank of Ukraine has determined the order of carrying out such operations by this institution.

In order to improve servicing the population and ensuring the efficient control by the authorized banks over performance of the operations of foreign currency purchase and sale in the currency exchange offices, the National Bank of Ukraine, in the 1st quarter of 2006, introduced new requirements to the activity of the currency exchange offices of agents, namely: to their

statutory capital (UAH 250 thousand), as well as to the location of the currency exchange offices. In line with the requirements, currency exchange offices both of banking institutions and agents should be located only in the premises of buildings.

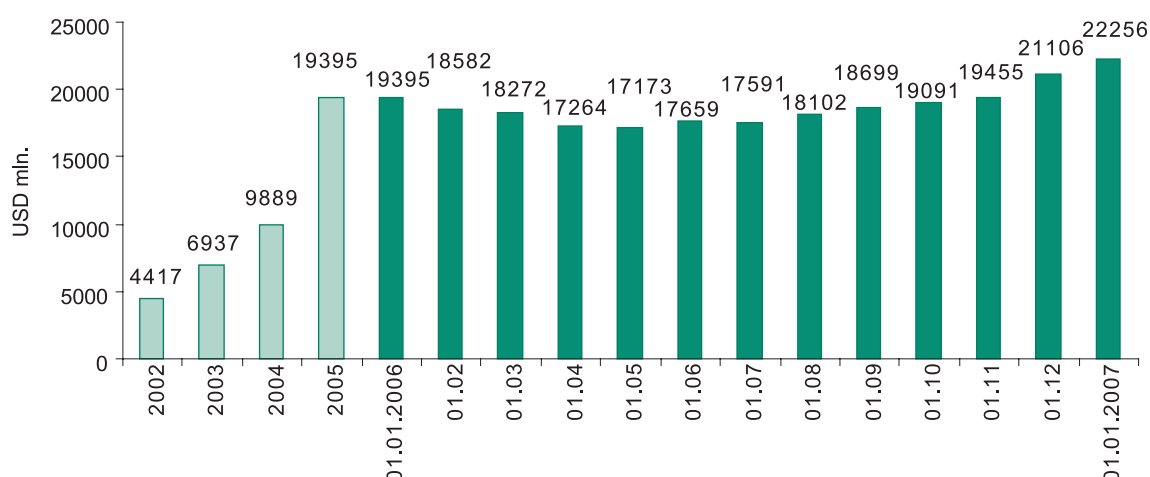
In 2006, the National Bank of Ukraine performed proactive measures with regard to the outflow of foreign currency funds abroad. Prompt actions on regulation of foreign currency operations were taken in terms of current tendencies in the foreign exchange market. Thus, in March 2006, the term of validity of the requirement of 20% reservation of the inflows of short-term credit capital to Ukraine, that had been introduced in September 2005 (for the term of six months)⁹ in order to limit the inflow of short-term capital in form of foreign credits and its destabilizing impact on the money and credit market, in particular, on the foreign exchange market.

During 2006, the National Bank of Ukraine was making an analysis of mechanisms, typical schemes, as well as the reasons that contributed to unproductive outflow of the capital outside Ukraine.

2.2.4. INTERNATIONAL RESERVES

As at 1 January, 2007, the international reserves amounted to US\$ 22.3 billion and augmented for the year by US\$ 2.9 billion, or by 14.8%.

International Reserves of the National Bank of Ukraine in 2002–2006
(at the current rate)



The international reserves in 2006 enlarged by US\$ 2.9 billion, but, in contrast to the previous years, the primary source of their growth were external borrowings of the government – US\$ 2.3 billion. As at 1 January 2007, the international reserves equalled US\$ 22.3 billion, permitting to provide financing of the goods imports and services for the future periods of 4.4 months.

In 2006, 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 2006, funds of the international reserves of the National Bank of Ukraine were allocated on the accounts, as well

⁹ Regulations on the Order of Mandatory Reservation of Funds on Foreign Currency Transactions Related to Attraction by Residents of Credits, Loans in Foreign Currency from Non-Residents approved by the Resolution of the Board of the National Bank of Ukraine of 12. 08.2005 № 291 and registered in the Ministry of Justice of Ukraine on 31.08.2005 № 967/11247.

as in the financial instruments of banks-counteragents whose long-term credit rating is not lower than A. The credit risk control was ensured through diversification of international reserves. The banks-counteragents were reliable banks of the USA, Switzerland and Great Britain.

The basic instruments for international reserve management were short-term deposits and securities. In 2006, allocation of the international reserves into securities issued in the euro was started. The share of the securities portfolio within the structure of the foreign currency and gold reserve augmented for 2006 from 20% to 38%.

The larger portion of the monetary gold of the National Bank of Ukraine was kept at the State Vault, the rest was placed in the long-term deposits.

The total yield on the international reserve management for 2006 amounted to over US\$ 745 million, with the 4% average yield on the transactions of gold and foreign currency reserve management, compared to US\$ 413 million and 1.16%, respectively, in 2005.

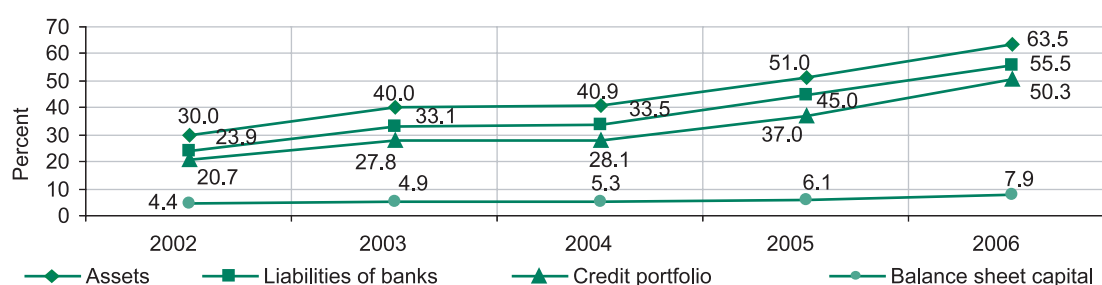
2.3. DEVELOPMENT OF THE BANKING SECTOR OF UKRAINE

2.3.1. RESULTS OF ACTIVITY OF THE BANKS OF UKRAINE

In 2006, the banking sector of Ukraine continued a dynamical development, demonstrating a significant rate of growth of the main indicators of its activity that was assisted by the inflow of direct foreign investments into the banking sector, the increase in the real income of the population and its trust in the banking system of Ukraine.

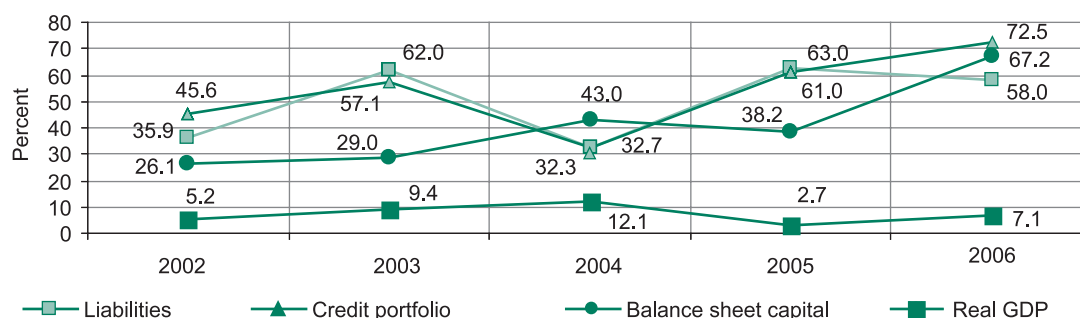
As at 1 January, 2007, the ratio of banks' assets to GDP equalled 63.5% (as at 1 January, 2006 – 51%), credits granted – 50.3% (as at 1 January, 2006 – 37%), liabilities – 55.5% (as at 1 January, 2006 – 45%).

Ratio of Main Indicators of Activity of Banks of Ukraine to GDP



By the results of 2006, the rate of the Ukrainian banks' assets growth amounted to 159.1%, at that, expansion of crediting by banks of the non-financial corporations was the basic factor of the assets growth. The rate of growth of the credits given equalled 172.5%, the liabilities of banks – 157.9%, and the balance sheet capital – 167.2%.

Growth Rates of Indicators of Activity of Banks of Ukraine and Real GDP



The growth of assets of banks in 2006 was primarily ensured by essential increase in the credits given – by UAH 113.3 billion (in 2005 – by UAH 59.2 billion), or by 72.5%. Highly liquid assets augmented for this period by UAH 8.4 billion, or by 22.9%, investments in securities – by UAH 0.1 billion, or by 0.9%, other fixed assets and intangible assets – by UAH 6.9 billion, or by 59.7%.

Within the structure of the total assets of the banks as at 1 January, 2007, the share of the credits granted amounted to 76.4% (as at 1 January, 2006 – 70.1%), highly liquid assets – 12.7% (as at 1 January, 2006 – 16.4%), fixed assets and intangible assets – 5.3% (as at 1 January, 2006 – 5.2%), investments in securities – 4.1% (as at 1 January, 2006 – 6.4%), receivables – 0.4% (as at 1 January, 2006 – 0.5%), accrued income to be received – 0.8% (as at 1 January, 2006 – 0.9%) and other assets – 0.4% (as at 1 January, 2006 – 0.5%).

Reserves under active operations were formed in full according to the calculated indicator as at 1 January, 2007, and amounted to UAH 13.3 billion, including UAH 12.2 billion – to cover possible losses on the credit operations of the banks.

In 2006, the total liabilities of banks augmented by 57.9%, primarily due to the funds attracted on the accounts of economic entities and individuals, whose share prevailed in the total amount of liabilities

The banks' activity on attraction of the funds of economic entities and individuals was characterized by somewhat lower rates of growth than in 2005. As at 1 January, 2007, the share of funds attracted on the accounts of economic entities equalled 25.8% (as at 1 January, 2006 – 32.5%), individuals – 35.6% (as at 1 January, 2006 – 38.5%). The share of credits received from other banks was 22.8% (as at 1 January, 2006 – 14.7%), and funds of non-banking institutions – 2.5% (as at 1 January, 2006 – 2.9%).

The total liabilities of banks during the year were by 30.7% due to the deposits of individuals, whose growth rate in 2006 made up 46.2%, including in the national currency – 37.3%, and in the foreign currency – 58.2%.

In the reporting year, grew the volume of borrowings of banks of Ukraine in the international capital markets through allocation of Eurobonds. The Eurobonds, allocated by banks of Ukraine in 2006, totalled US\$ 1.5 billion, being twice more than in 2005.

Among the main results of activity of the banking system in 2006 was a significant growth of the balance sheet capital, that augmented for 2006 by 67.2% (for 2005 – by 38.2%) and as at 1 January, 2007, amounted to UAH 42.6 billion. It was the highest growth of the balance sheet capital for the last five years.

DYNAMICS OF THE STRUCTURE OF BALANCE SHEET CAPITAL OF BANKS

(UAH million)

| Indicators | 2006 | | | | For reference: 2005 | | |
|--|-------------|----------|------------------|--------------------|---------------------|----------|--------------------|
| | UAH million | Share, % | Growth, UAH mln. | % to previous year | UAH million | Share, % | % to previous year |
| Balance capital | 42566.1 | 100.0 | 17115.3 | 167.2 | 25450.9 | 100.0 | 138.2 |
| including: | | | | | | | |
| Authorized capital | 26372.0 | 61.9 | 10261.3 | 163.7 | 16110.7 | 63.3 | 138.8 |
| Issue differences | 1198.4 | 2.8 | 655.9 | 220.9 | 542.5 | 2.1 | 130.0 |
| Total reserves | 237.2 | 0.6 | 152.6 | 280.4 | 84.6 | 0.3 | 168.8 |
| Reserve fund | 2285.8 | 5.4 | 1017.8 | 180.3 | 1268.0 | 5.0 | 160.1 |
| Other funds | 2169.0 | 5.1 | 555.2 | 134.4 | 1613.8 | 6.3 | 161.8 |
| Results of previous years | 713.3 | 1.7 | -411.1 | -36.6 | 1124.4 | 4.4 | 89.3 |
| Result of the reporting year expected to be approved | – | – | – | – | – | – | – |
| Result of the current year | 4144.5 | 9.7 | 1974.4 | 191.0 | 2170.1 | 8.6 | 171.9 |
| Result of revaluating the fixed assets and intangible assets | 5445.9 | 12.8 | 2909.2 | 214.7 | 2536.7 | 10.0 | 124.6 |

Positive changes occurred in the structure of the capital. Increase in the balance capital took place mainly at the expense of growth of the authorized capital (by UAH 10.3 billion, or by 59.9% of the total growth), the issue differences (by UAH 0.7 billion, or by 3.8%), the reserve fund (by UAH 1.0 billion, or by 5.9%), the current year result (by UAH 2.0 billion, or by 11.5%), other bank funds (by UAH 0.6 billion, or by 3.2%), the result of revaluation of fixed assets and intangible assets (by UAH 2.9 billion, or by 17.0% of the total growth).

In 2006, the statutory capital growth in the banking sector was also due to the increase in the amount of foreign capital in the registered statutory capital of banks of Ukraine by UAH 4.2 billion. As at 1 January, 2007, the foreign capital in the registered statutory capital of banks of Ukraine totalled UAH 7.4 billion.

The regulatory capital of the banks of Ukraine rose for 2006 by 56% and as at 1 January, 2007, amounted to UAH 41.1 billion, or EUR 6.2 billion. In the structure of regulatory capital the share of the fixed capital equalled 75%, and additional one – 25%.

GROUPING OF BANKS OF UKRAINE BY THE REGULATORY CAPITAL AMOUNT

| Amount of regulatory capital | 2006 | | For reference: 2005 | |
|-------------------------------|-----------------|--------------|---------------------|--------------|
| | Number of banks | Share, % | Number of banks | Share, % |
| Up to EUR 1 million | – | – | 1 | 0.6 |
| From EUR 1 to 3 million | – | – | 1 | 0.6 |
| From EUR 3 to 5 million | 2 | 1.2 | 4 | 2.5 |
| From EUR 5 to 10 million | 72 | 42.6 | 78 | 47.8 |
| From EUR 10 to 20 million | 39 | 23.1 | 79 | 48.5 |
| Over EUR 20 million | 56 | 33.1 | – | – |
| Operating banks, total | 169 | 100.0 | 163 | 100.0 |

For 2006, in response to the increase by the National Bank of Ukraine of requirements to the regulatory capital of banks, the number of banks with the regulatory capital over EUR 20 million rose to 56 banks, and their share in the total quantity of acting banks amounted to 33.1%.

Significant growth rates of the capital of banks in Ukraine in 2006 contributed to the increase in their level of capitalization that still remained inadequate to secure the banks' stable functioning and development, as well as to cover risks in their activity. The banks' capital/GDP ratio, as at 1 January, 2007, equalled 7.9% (as at 1 January 2006 – 6.1%).

CONCENTRATION OF ASSETS, CAPITAL AND LIABILITIES BY GROUPS OF BANKS AS AT 1 JANUARY 2007

| Indicators | (in %) | | | |
|-------------|---------|----------|-----------|----------|
| | I group | II group | III group | IV group |
| Assets | 62.2 | 19.1 | 8.6 | 10.1 |
| Capital | 54.0 | 16.7 | 10.7 | 18.7 |
| Liabilities | 63.4 | 19.4 | 8.3 | 8.9 |

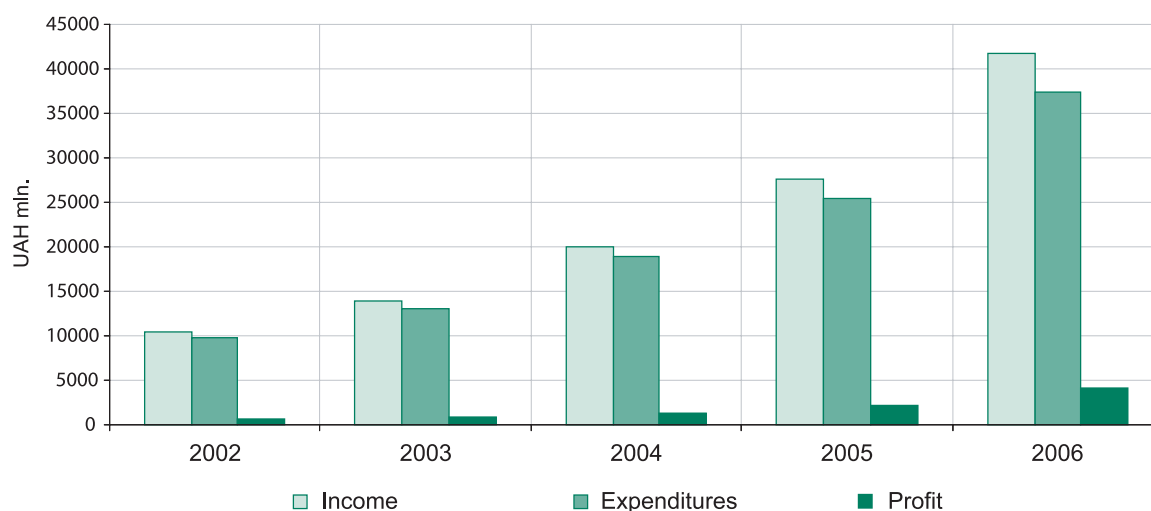
The banking sector of Ukraine was characterized by a high level of concentration of operations.

In 2006, continued the process of concentration of assets, capital and liabilities in the banks of I group, that played a key role in the banking system and social and economic development of Ukraine. In banks of I group (15 banks) concentrated was 62.2% of assets, 54% of capital and 63.4% of total liabilities of the banking sector of Ukraine.

The guarantee of financial soundness and precondition for development and increase in the competitiveness of banks was ensuring the profitability of banks and rising the effectiveness of

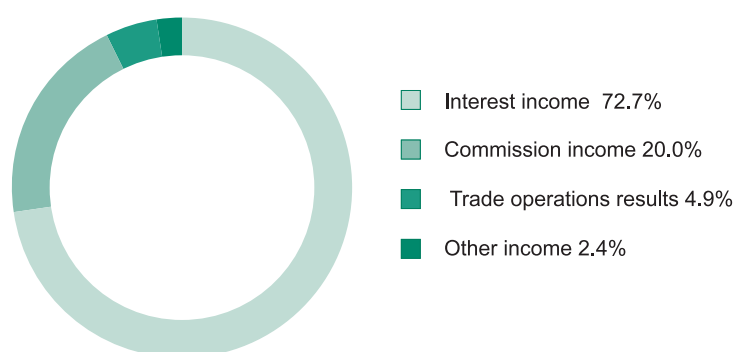
their activity. By the results of 2006, the banks of Ukraine got the largest profit compared to all the years of the banking system existence totalling UAH 4.1 billion (for 2005 – UAH 2.2 billion).

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



The income of the banks of Ukraine, compared to the proper period of the previous year, augmented by 51.2% and as at 1 January, 2007, equalled UAH 41.6 billion of the total income. Within the structure of the income of the banks, the interest income made 72.7% (UAH 30.3 billion.), the commission income – 20% (UAH 8.3 billion), the trade operation result – 4.9% (UAH 2.0 billion), other operational income – 1.9% (UAH 0.8 billion), other incomes – 0.4% (UAH 0.1 billion).

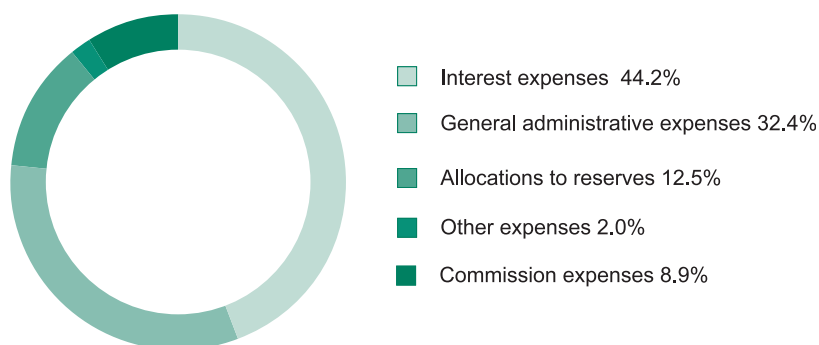
Share of Income of Banks of Ukraine in 2006



The income growth was due to the increase in the interest income by UAH 11.2 billion, or by 59.0%, the commission income – by UAH 2.5 billion, or by 44%, the trade operation result – by UAH 0.9 billion, or by 72.4%. Other operational incomes significantly decreased (by UAH 0.5 billion).

The expenses of banks of Ukraine, compared to the proper period of the previous year, increased by 47.8% and as at 1 January, 2007, made up UAH 37.5 billion (as at 1 January, 2006 – UAH 25.4 billion). The growth of the expenses of banks was due to the increase in interest expenses by UAH 5.7 billion, or by 52.0%, general administrative expenses – by UAH 3.4 billion, or by 39.6%, allocations to reserves – by UAH 1.9 billion, or by 67.9%.

Structure of Expenditures of Banks of Ukraine in 2006



A positive feature of 2006 was diminution of general administrative expenses within the structure of expenses to 32.4% against 34.4% in 2005.

The largest portion of the expenses of banks made up interest expenses – UAH 16.6 billion (44.2%) and general administrative expenses – UAH 12.2 billion (32.4% of total expenses). In 2006, banks of Ukraine increased allocations to reserves by 67.9%, their share in total expenses grew from 11.0% to 12.5% as at 1 January, 2007.

DYNAMICS OF STRUCTURE OF INCOME AND EXPENSES OF BANKS OF UKRAINE (UAH mln.)

| Indicators | 2006 | | | | For reference: 2005 | | |
|---------------------------------|----------------|--------------|----------------------|------------------------|---------------------|--------------|------------------------|
| | UAH million | Share, % | Growth, UAH, million | % to the previous year | UAH million | Share, % | % to the previous year |
| 1. Income | 41644.9 | 100.0 | 14107.9 | 151.2 | 27537.1 | 100.0 | 137.2 |
| <i>including:</i> | | | | | | | |
| Interest income | 30259.0 | 72.7 | 11229.9 | 159.0 | 19029.1 | 69.1 | 140.4 |
| Commission income | 8314.6 | 20.0 | 2539.9 | 143.9 | 5774.6 | 21.0 | 125.1 |
| Result of trade operations | 2046.5 | 4.9 | 859.7 | 172.4 | 1186.9 | 4.3 | 111.8 |
| Other operating income | 779.7 | 1.9 | -522.7 | – | 1302.4 | 4.7 | 176.0 |
| Other income | 149.3 | 0.3 | -81.4 | – | 230.7 | 0.8 | 3.7 times |
| Return of written-off assets | 95.8 | 0.2 | 84.0 | 7.1 times | 11.8 | 0.04 | 31.4 |
| Unforeseen income | 0 | – | -1.5 | – | 1.5 | 0.01 | 187.5 |
| 2. Expenses | 37500.5 | 100.0 | 12133.5 | 147.8 | 25367.0 | 100.0 | 134.9 |
| <i>including:</i> | | | | | | | |
| Interest income | 16578.7 | 44.2 | 5671.3 | 152.0 | 10907.4 | 43.0 | 140.6 |
| Commission income | 752.6 | 2.0 | 215.7 | 140.2 | 536.9 | 2.1 | 107.3 |
| Other operating expenses | 1919.0 | 5.1 | 315.3 | 119.7 | 1603.7 | 6.3 | 135.9 |
| General administrative expenses | 12161.5 | 32.4 | 3446.8 | 139.6 | 8714.7 | 34.4 | 133.1 |
| Allocation to reserve | 4683.6 | 12.5 | 1894.7 | 167.9 | 2788.9 | 11.0 | 115.4 |
| Incidental expenses | 0 | – | -0.8 | – | 0.8 | 0.003 | 114.3 |
| Profit tax | 1405.2 | 3.8 | 590.5 | 172.5 | 814.7 | 3.2 | 198.9 |
| Net profit (loss) | 4144.5 | – | 1974.4 | 191.0 | 2170.1 | – | 171.9 |

The expense to income ratio of banks equalled 90.0% (for 2005 – 92.1%). The return on assets of banks for 2006 grew from 1.31% to 1.61%, the return on capital – up to 13.5% against 10.4% in 2005.

For 2006, the share of banks that got incomes, within the number of acting banks, was 96.5% against 95.2% in 2005.

2.3.2. DEPOSIT MARKET

Ensuring the external and internal stability of the hryvnia, increasing the households' income and maintaining the trust of depositors in the banking system of Ukraine contributed to the growth of deposits in 2006.

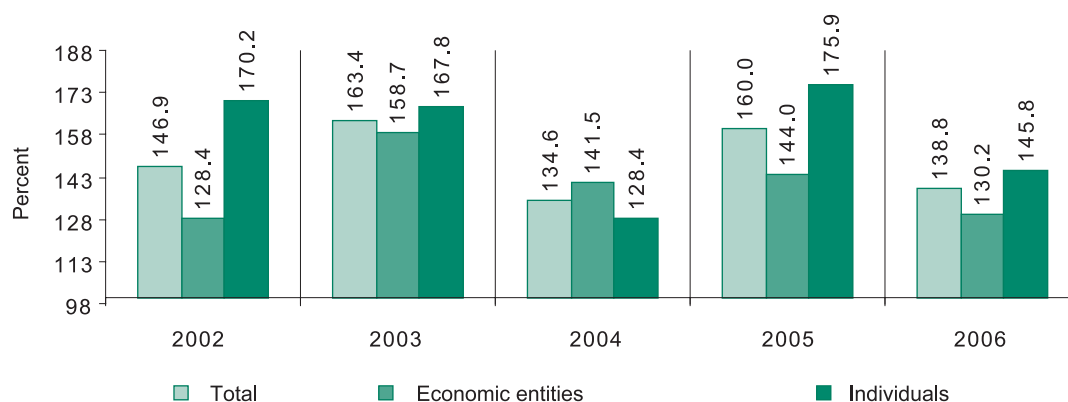
MAIN INDICATORS OF DEVELOPMENT OF THE DEPOSIT MARKET OF UKRAINE

| Indicators | 2006 | | | | For reference: 2005 | | | |
|------------------------------------|-----------------|-------------|---------------------------|--------------------------|---------------------|-------------|---------------------------|--------------------------|
| | UAH, billion | Share, % | Growth UAH, billion | % to previous year | UAH, billion | Share, % | Growth UAH, billion | % to previous year |
| Liabilities, total | 184.2 | 100 | 51.5 | 138.8 | 132.7 | 100 | 49.8 | 160.0 |
| (% to GDP) | (34.4%) | | | | (30.1%) | | | |
| including: | | | | | | | | |
| <i>By types of currencies</i> | | | | | | | | |
| – in national currency | 114.1 | 61.9 | 26.9 | 130.8 | 87.2 | 65.7 | 34.4 | 165.3 |
| – in foreign currency | 70.1 | 38.1 | 24.6 | 154.0 | 45.5 | 34.3 | 15.3 | 150.8 |
| <i>By terms</i> | | | | | | | | |
| – demand | 62.3 | 33.8 | 11.9 | 123.7 | 50.3 | 37.9 | 16.9 | 150.6 |
| – term, including: | 121.9 | 66.2 | 39.5 | 148.0 | 82.4 | 62.1 | 32.9 | 166.4 |
| – long-term | 80.6 | 66.1 | 29.4 | 157.4 | 51.2 | 62.1 | 19.7 | 162.4 |
| <i>By categories of depositors</i> | | | | | | | | |
| – for funds of economic entities | 77.5 | 42.1 | 18.0 | 130.2 | 59.5 | 44.9 | 18.2 | 144.0 |
| – for funds of individuals | 106.7 | 57.9 | 33.5 | 145.8 | 73.2 | 55.1 | 31.6 | 175.9 |

For 2006, liabilities of banks for funds of economic entities and individuals, attracted to the banking system, rose by 38.8% (for 2005 – by 60.0%) and as at 1 January, 2007, amounted to UAH 184.2 billion. In the nominal terms, they increased more than in 2005 (by UAH 51.5 and 49.8 billion, respectively). During the year, there was a tendency towards acceleration of the growth rate (in the 1st quarter liabilities of banks for deposits went up by 2.2%, in the 2nd quarter – by 9.6%, in the 3rd quarter – by 10.8%, in the 4th quarter – by 11.9%), being in line with the dynamics of development of the real sector of the economy.

The most dynamic changes in the deposit structure were observed: in the direction of increasing – by the funds, attracted on the long-term accounts of individuals in foreign currency (their portion for the year grew by 2.9 percentage points); in the direction of decreasing – by the funds attracted on the demand accounts of economic entities in the national currency (diminished by 3.2 percentage points).

Growth Rates of Banks' Liabilities for Funds Attracted on Accounts of Economic Entities and Individuals (in % to the beginning of the year)

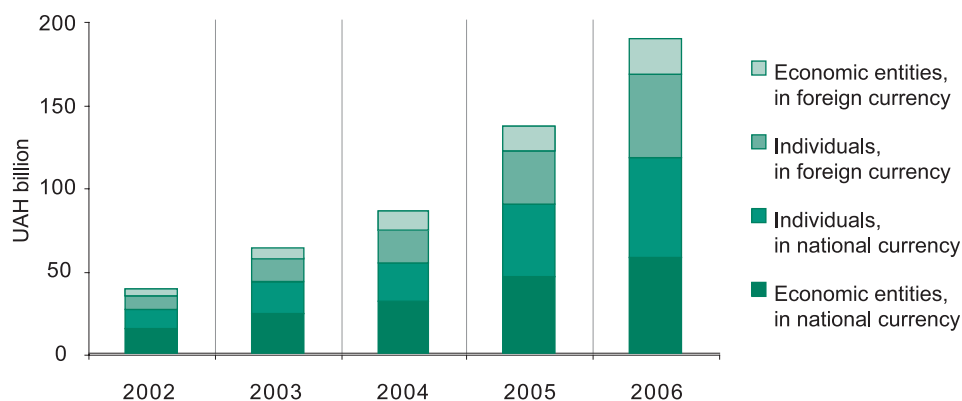


In 2006, the increase in the banks' liabilities for deposits took place primarily due to the growth of individuals' deposit funds – by 45.8% (by UAH 33.5 billion) against 75.9% (by UAH 31.6 billion) in 2005. The individuals' deposit growth made up 65.1% of the total deposit increase for 2006, and it had a restraining effect on the inflationary process development. Maintaining the depositors' activity was also attested by the positive tendency towards excess of the growth rate of the banks' liabilities for the attracted funds of individuals over the growth rate of cash in circulation. The individuals' deposits growth was mainly due to the increase in the actual income of households. The deposit funds of economic entities augmented less – by 30.2%, or by UAH 18.0 billion. As a result, in the deposit structure by categories of depositors the individuals' portion of deposits for the year grew by 2.8 percentage points up to 57.9% (UAH 106.7 billion).

The larger portion (UAH 114.1 billion) in the banks' liabilities were funds in the national currency, that increased for the year by 30.8% (by UAH 26.9 billion), primarily due to the increase in the deposits of individuals in the national currency (by 37.1%). However, the share of the funds mentioned in the structure of deposits by types of currencies decreased to 61.9%, or by 3.8 percentage points.

The peculiarity of 2006 was growth of the resource base of banks mainly due to the increase in deposit funds in the foreign currency by all the deposit types – in total by 54.0% (by UAH 24.6 billion), including of the individuals' ones – by 46.4% (by UAH 6.7 billion).

Dynamics of Banks' Liabilities for Funds Attracted on Accounts of Economic Entities and Individuals (by types of currency)

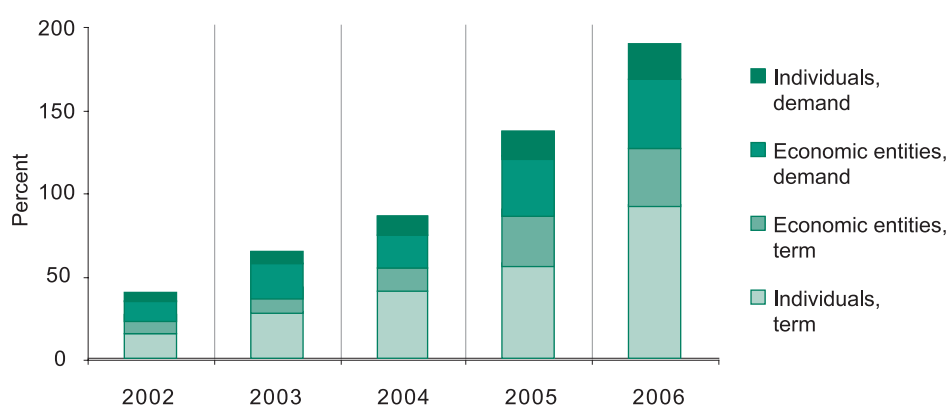


General growth in the demand of economic entities for foreign currency during 2006 and appropriate reallocation of funds from their accounts in the national currency on the accounts in foreign currency (especially term ones) were first of all determined by the uncertainty of economic entities with regard to the future development of the economy. In the 1st quarter, the outflow of funds from the accounts in the national currency to those in the foreign currency, being reasoned to some extent by elections to the Verkhovna Rada of Ukraine, increased in response to the deficit of the balance of trade. Further, the increase in the economic entities' deposits in foreign currency was influenced by the necessity to service the rising imports, as well as by a significant growth of foreign borrowings, that entered to the accounts of economic entities. The dominant increase during the year in the individuals' deposits just in foreign currency was primarily due to maintaining the inflationary expectations and active purchasing by the population of the foreign currency in cash during the year. On their part, the banks were interested in growing their resource base in foreign currency in order to service the increasing claims of banks for credits in foreign currency. The stable exchange rate of the hryvnia against the US dollar levelled the impact of differences in the exchange rates on the growth of deposits in foreign currency (increase in the exchange rate of the euro during the year had not significant impact due to a small size of the share of deposits in euro in the banks' deposit portfolio).

The largest amount of deposits in foreign currency, belonging to economic entities and individuals, were attracted in the US dollars and the euros, whose shares as at 1 January, 2007, amounted to 83.6% and 14.7%, respectively. The growth rate of deposits in the euro (180.3%) during the year exceeded the growth rate of deposits in the US dollar (150.1%).

During 2006, the tendency towards increase in the portion of time deposits within total deposits continued. For 2006, the share of time deposits augmented from 62.1% at the year start to 66.2%, and their volume for the year grew up to UAH 121.9 billion (by 39.5%). Within the time deposits, deposits in the national currency as at 1 January, 2007, made up 53.4% (as at January, 2006 – 57.2%).

Dynamics of Banks' Liabilities for Funds Attracted on Accounts of Economic Entities and Individuals (by terms)

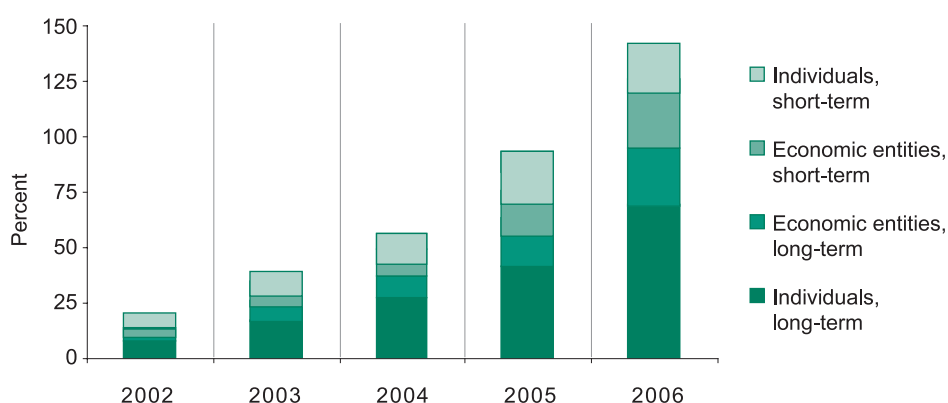


Growth of time deposits was mainly due to the increase (by 67.5%) in time deposits of individuals, that constituted the majority (67.8%) in the structure of time deposits. Their volume from the year start augmented by 47.6% (including in foreign currency – by 55.8%) and as at 1 January, 2007, amounted to UAH 82.7 billion. Time deposit funds of economic entities for 2006 rose by 48.8%, including in foreign currency – by 80.3%.

In 2006, a positive dynamics of augmenting the long-term deposit liabilities of banks preserved, with the increase for the year by 57.4% (including in foreign currency – by 69.0%) and

as at 1 January, 2007, amounted to UAH 80.6 billion. Long-term deposits of individuals (whose share in the total long-term deposits equalled 74.4%) increased by 61.8%, including in the foreign currency – by 69.3%. The active attraction of the mentioned funds was contributed to some extent by the expansion in 2006 of the size of the compensation amount for the individuals under deposits, in case of a bank's bankruptcy: in February – from 5000 to 8000 hryvnias, in May – from 8000 to 15000 hryvnias (in accordance with the decision of the Administrative Council of the Fund for Guaranteeing the Individuals' Deposits). The long-term liabilities of banks on the funds attracted from the economic entities rose by 45.9% (including those in the national currency – by 67.5%) to UAH 20.6 billion. That was the evidence of the fact that depositors preferred more profitable long-term deposits, and, when allocating the funds for the term over a year, foreign currency was preferable.

Dynamics of Banks' Time Liabilities for Funds Attracted on Accounts of Economic Entities and Individuals



The growth of the share of long-term deposits within the total time deposits during 2006 ensured more fully the long-term credits of banks with their own resource base and reduced to some extent the risks in their activity. Moreover, this had a positive influence on fulfilment by banks of the ratios of required reserves and liquidity.

Liabilities of banks under the funds attracted on the current (demand) accounts for 2006, augmented by 23.7% (including in foreign currency – by 30.1%) and as at 1 January, 2007, made up UAH 50.4 billion.

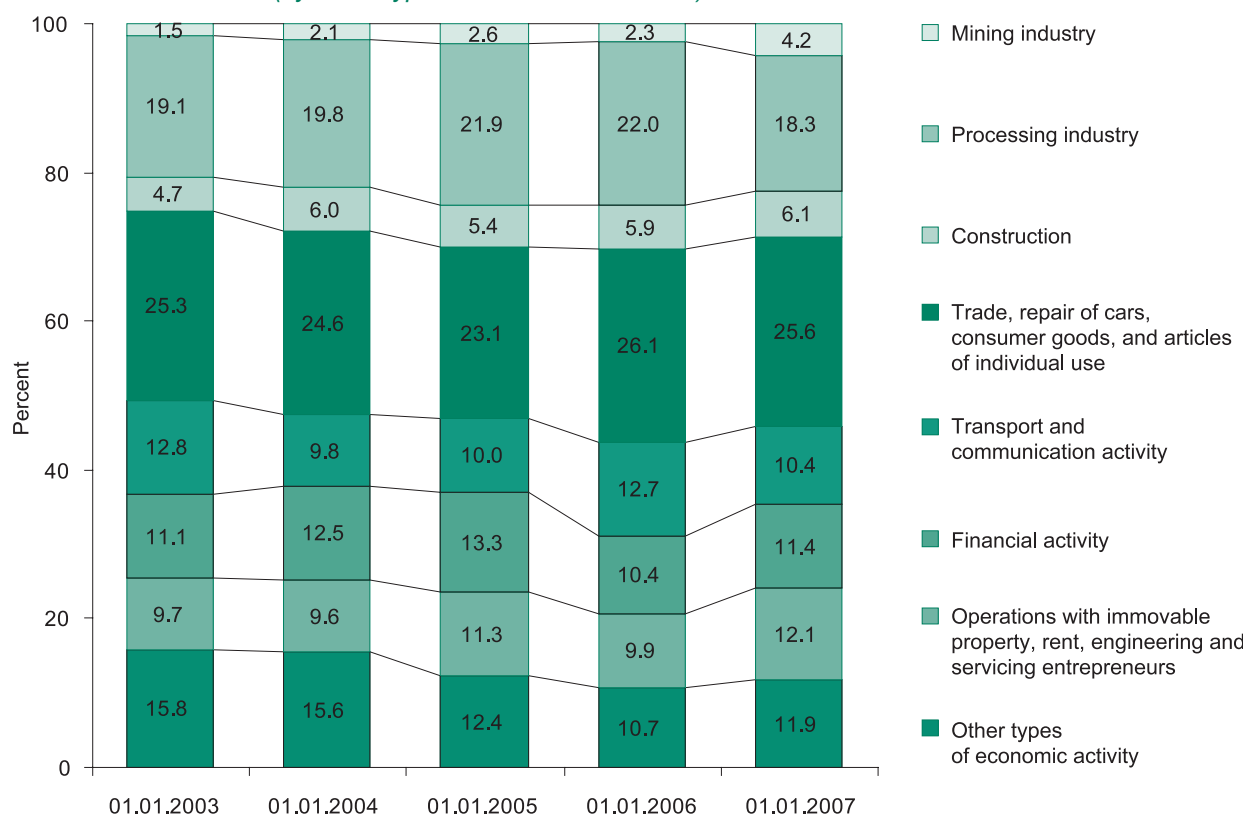
Within the structure of demand deposits the largest share were deposits of economic entities – 61.4%, being by 4.5 percentage points less compared to the previous year. As at 1 January, 2007, the mentioned deposits amounted to UAH 38.3 billion, or augmented by 15.4%, including those in the national currency – by 16.6%. The current deposits of individuals as at 1 January, 2007, made up UAH 24.0 billion, or for 2005 rose by 39.8%, including in the national currency – by 32.2%.

The increase in the level of funds concentration on the demand accounts (in particular, of individuals) in 2006 was favoured by an active development of the card payment systems in Ukraine. For 2006, the share of funds on the payment card accounts within demand funds grew from 16.4% to 20.3%, including of individuals – from 46.2% to 51.1%. A considerable portion (63.5%) 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. This indicator in the national currency was 79.2%.

As at 1 January, 2007, in the structure of the deposit liabilities of banks under the funds attracted on the accounts of economic entities, by types of economic activities, the largest was the share of funds on the accounts of economic entities of trade (25.6%), processing industry (18.3%), economic entities involved in operations with immovable property (12.1%), financial activity (11.4%), transport and communication (10.4%), construction (6.1%), mining industry (4.2%). Traditionally the largest portion of deposits of banks in the national currency were the

deposit funds of economic entities engaged in trade (27.4% of the total deposits of economic entities in the national currency), in foreign currency – funds of economic entities of the processing industry (30.1% of the total deposits of economic entities in foreign currency). During the year, in the total deposits of economic entities, augmented the portion of funds of economic entities engaged in operations with immovables – by 2.2 percentage points, mining industry – by 1.1 percentage points; the share of funds of processing industry enterprises decreased by 3.7 percentage points, transport and communication – by 0.9 percentage point.

Structure of Banks' Liabilities for Funds Attracted on Accounts of Economic Entities (by some types of economic activities)



By forms of ownership, as at 1 January, 2007, the largest share within deposit liabilities of banks (95.9%, or UAH 176.8 billion) were the funds of economic entities with private ownership and of individuals, that rose for the year by 2.8 percentage points. The share of funds of economic entities with state communal and communal corporative forms of ownership decreased somewhat and made up 3.5% and 0.5%, respectively.

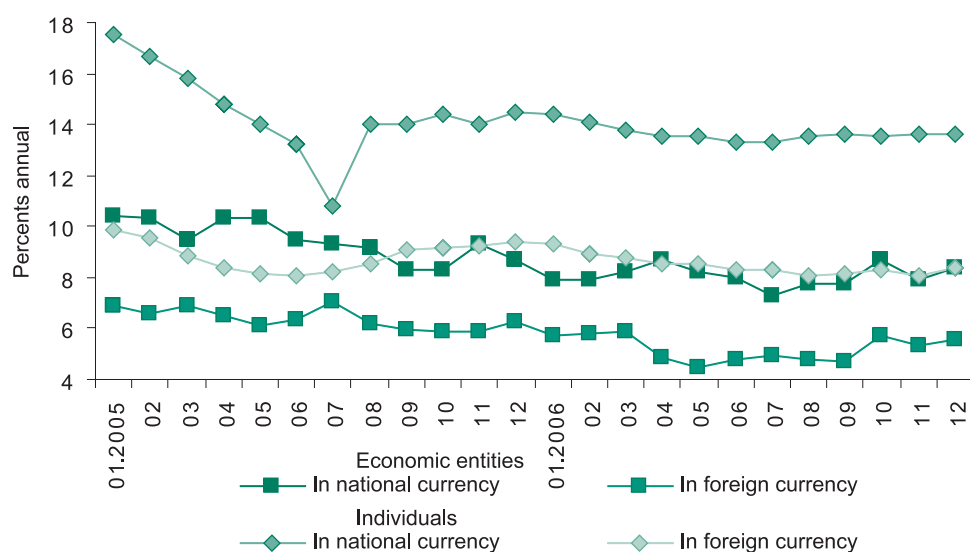
During 2006, the highest growth rates were on the accounts of economic entities with private ownership and of individuals (143.0%). The funds of economic entities with state and state corporate property reduced by 22.0% to UAH 6.5 billion.

As at 1 January 2007, within the regions, the largest deposit volumes were attracted by the banking institutions of the city of Kyiv (38.8%), the Dnipropetrovsk region (10.6%) and the Donetsk region (9.7%). Funds of economic entities and individuals on the bank accounts in the mentioned regions amounted to 59.1% of all the deposit liabilities of the banks. Deposits of economic entities as at 1 January, 2007, prevailed only in the deposit portfolios of banking institutions of the city of Kyiv (51.5%) and Donetsk region (51.5%), being explained by density of the industrial production location and a developed network of banking institutions in the regions mentioned. In other regions the funds of individuals prevailed within the deposit liabilities of banks.

During 2006, observed was a general tendency towards reduction of the cost of the deposits attracted by banks from economic entities and individuals (from 7.7% annually in

December 2005 to 7.2% annually in December 2006) with insignificant fluctuations during the year. Thus, during January – July 2006, there was a gradual decrease in the cost of deposits. Starting from August, average weighted interest rates on the deposits started to rise, being directed to stimulation of depositors to grow the deposit funds for servicing of the dynamically growing claims of banks under credits. The general level of interest rates on the funds attracted by banks from economic entities and individuals for 2006 was 6.8% annually, or reduced by 1.2 percentage points compared to 2005. Interest rates on the deposits in the national currency made up 7.6% annually, in the foreign currency – 5.8% annually, or decreased for the year by 0.9 and 1.0 percentage point. Interest rates on time deposits of economic entities fluctuated compared to the mainly decreasing interest rates on time deposits of individuals.

Dynamics of Average Weighted Interest Rates on Time Deposits Attracted by Banks from Economic Entities and Individuals



2.3.3. CREDIT MARKET

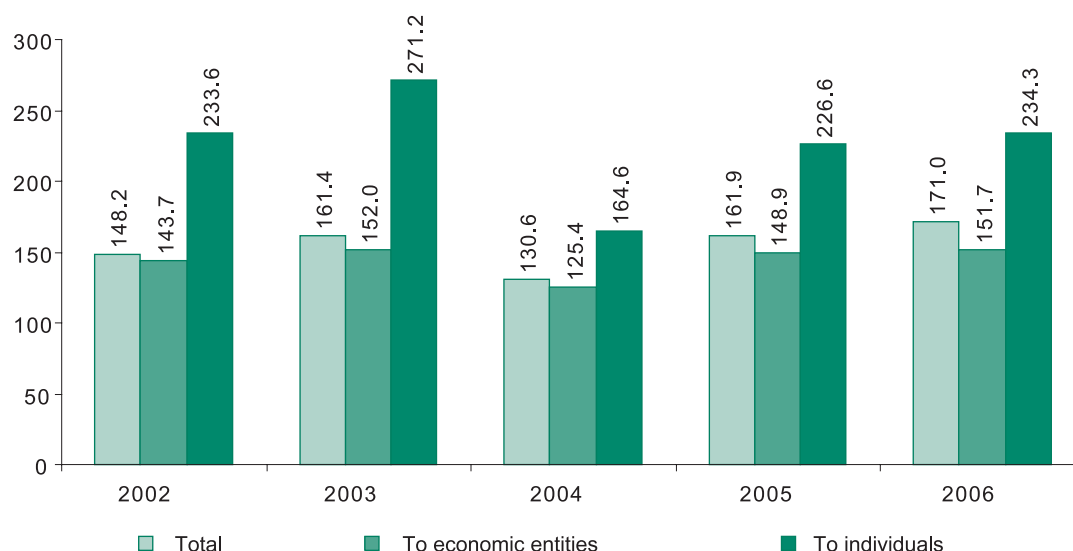
High growth rates of the credits extended to the economy of Ukraine in 2006 were promoted by the dynamic increase in the resource base, improvement of its term structure, reduction of interest rates, as well as significant expansion of the individuals' crediting volumes.

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

| Indicators | 2006 | | | | For reference: 2005 | | | |
|--|--------------|---------|----------------------|--------------------|---------------------|---------|----------------------|--------------------|
| | 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 | 245.2 | 100.0 | 101.8 | 171.0 | 143.4 | 100.0 | 54.8 | 161.9 |
| (% to GDP) | 45.8% | | | | 32.5% | | | |
| By type of currency | | | | | | | | |
| in national currency | 123.8 | 50.5 | 42.5 | 152.3 | 81.3 | 56.7 | 30.1 | 158.7 |
| in foreign currency | 121.4 | 49.5 | 59.3 | 195.4 | 62.1 | 43.3 | 24.8 | 166.3 |
| By terms of repayment | | | | | | | | |
| short-term | 86.2 | 35.1 | 31.4 | 157.2 | 54.8 | 38.2 | 14.2 | 135.1 |
| long-term | 159.0 | 64.9 | 70.4 | 179.5 | 88.6 | 61.8 | 40.6 | 184.6 |
| By category of borrowers | | | | | | | | |
| to economic entities | 166.7 | 68.0 | 56.8 | 151.7 | 109.9 | 76.6 | 36.1 | 148.9 |
| to individuals | 78.5 | 32.0 | 45.0 | 2.3 times | 33.5 | 23.4 | 18.7 | 2.3 times |

As at 1 January, 2007, claims of banks under the credits extended to economic entities and individuals amounted to UAH 245.5 billion and augmented for the year by 71.0% (for 2005 – by 61.9%). The absolute increase in the banks' claims under the credits granted exceeded nearly 2 times the increase for 2005. The indicator of credits growth in 2006 was the largest for the years of Ukraine's independence.

Rates of Growth of Banks' Claims under Credits to Economic Entities and Individuals (in % to the beginning of the year)



The indebtedness under the credits, extended by banks, relative to the GDP augmented for 2006 from 32.5% to 45.6%.

The rising dynamics of credits granted by banks was primarily due to the significant growth rate of indebtedness under the credits extended to individuals (2.3 times, including in the foreign currency – 2.5 times) related to essential increase in the consumer and mortgage credits. At that, nominal incomes of households were rising at a lower rate, creating some risks with regard to timely repayment of credits received.

However, in spite of activation of the individuals' crediting, over a half of the total increase in the banks' claims was due to the growth of claims under the credits extended to economic entities (UAH 56.8 billion).

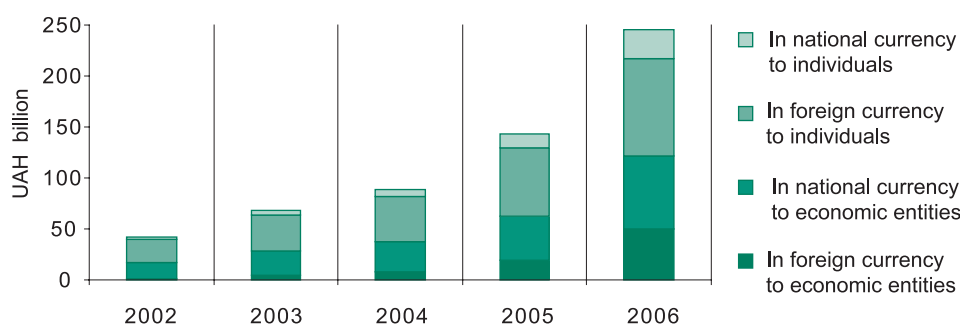
Larger portion (UAH 123.8 billion) within the claims of banks under the credits granted was indebtedness under credits in the national currency, that augmented for 2006 by 52.3%. The share of the mentioned indebtedness in the structure of credits by types of currencies reduced for the year and as at 1 January, 2007, made up 50.5%.

During 2006, the structure of the banks' claims under the credits extended was changing within currencies. Reallocation of credits to the side of increasing the share of credits in foreign currency from 43.3% at the beginning of 2006 to 49.5% at its end, due to:

- lower interest rates under the credits in foreign currency compared to the credits in national currency in conditions of the stable exchange rate of the hryvnia against the US dollar;
- accelerated growth of deposits in foreign currency in the internal market and active attraction by banks of funds in the international financial markets, as well as activation of the importers that formed the demand for credits in foreign currency;
- preservation of the inflationary expectations;
- enlargement of the number of banks with foreign capital participation.

Within indebtedness under the credits in foreign currency, credits extended in US dollars traditionally prevailed, the banks' claims under which as at 1 January, 2007, amounted to UAH 105.5 billion, or 86.9% of the total claims under the credits in foreign currency, being by 2.4 percentage points less than at the year start. At the same time, the share of credits in euros for 2006 incremented by 0.9 percentage point to 11.0%, in Russian rubles and other currencies – by 1.5 percentage points to 2.1% of the total claims under the credits in foreign currency.

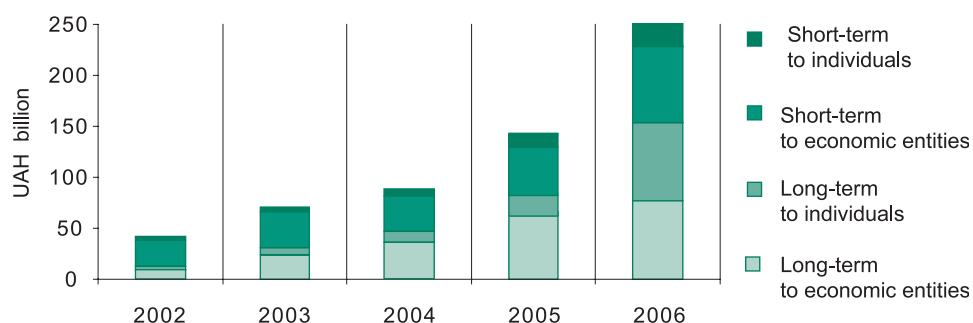
Dynamics of the Banks' Claims on Credits to the Economy of Ukraine (by types of currencies)



During 2006, continued a positive tendency towards increasing the long-term credits of banks in the structure of the banks' claims under the credits granted that started since 2001. As at 1 January, 2007, the share of long-term credits amounted to 64.9% against 61.8% at the beginning of the year, and the banks' claims under these credits augmented for 2006 up to UAH 159.0 billion, or by 79.5%, including in foreign currency – 2.0 times. Increase in the claims under long-term credits was mainly due to the growth (2.4 times) of the banks' claims under the long-term credits granted to individuals.

The banks' claims under short-term credits during the reporting period were further growing but at lower rates – by 57.2% (by UAH 31.4 billion), including in foreign currency – by 70.0% (by UAH 10.7 billion). Indebtedness of economic entities under credits for the period of up to one year increased for 2006 by 52.5%, including in foreign currency – by 69.3%. The banks' claims under short-term credits extended to individuals augmented for this period by 95.3%, including in foreign currency – 2.0 times.

Dynamics of Banks' Claims under Credits Extended (by terms)

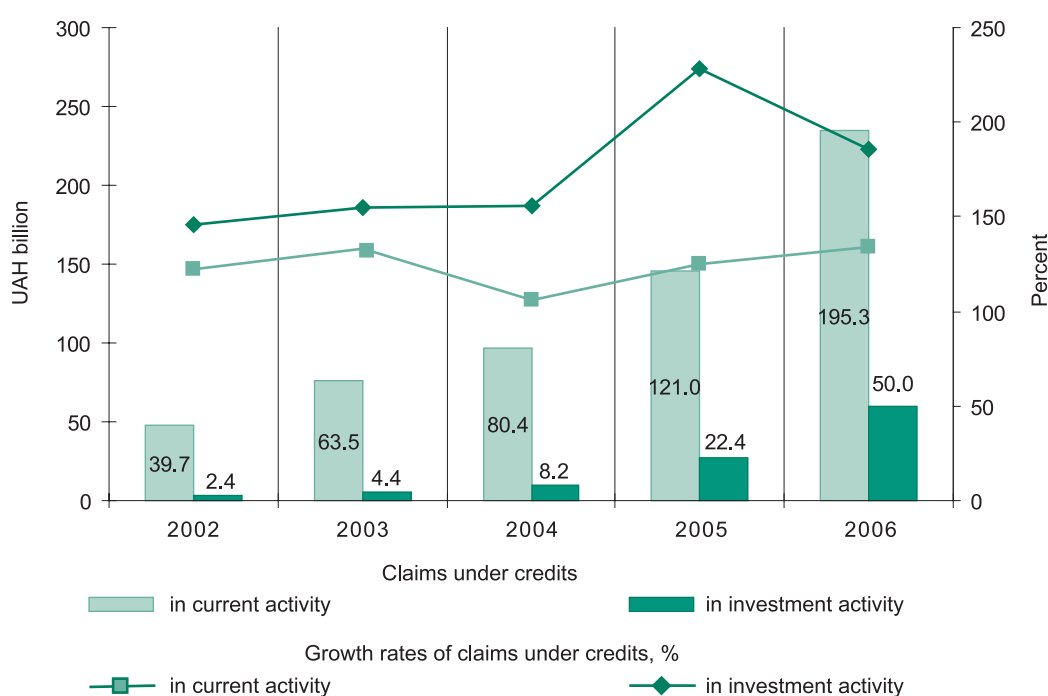


Traditionally in the structure of the banks' claims under the credits granted prevailed the credits directed to the current activity of the economic entities and individuals, indebtedness under which as at 1 January, 2007, totalled UAH 195.3 billion, or increased for the year by

61.3%. However, the portion of these credits in the total claims was permanently decreasing and for 2006 reduced by 4.8 percentage points up to 79.6% annually.

A positive tendency of 2006 was increase in the credits for the investment activity of economic entities and individuals, the claims under which for the year augmented 2.2 times (for the previous year – 2.7 times) up to UAH 50 billion. Slower growth rates, compared to 2005, of claims under the credits extended for development of the economic activity were reasoned by the rising comparing base from year to year (absolute growth of these claims was nearly 2 times higher than in 2005). Their portion in the total claims of banks for the year augmented from 15.6% to 20.4%. The major part of these credits (73.8%) were the credits in foreign currency, claims under which for the year rose 2.6 times up to UAH 36.9 billion.

Dynamics of Banks' Claims under Credits to the Economy of Ukraine (by purposes)

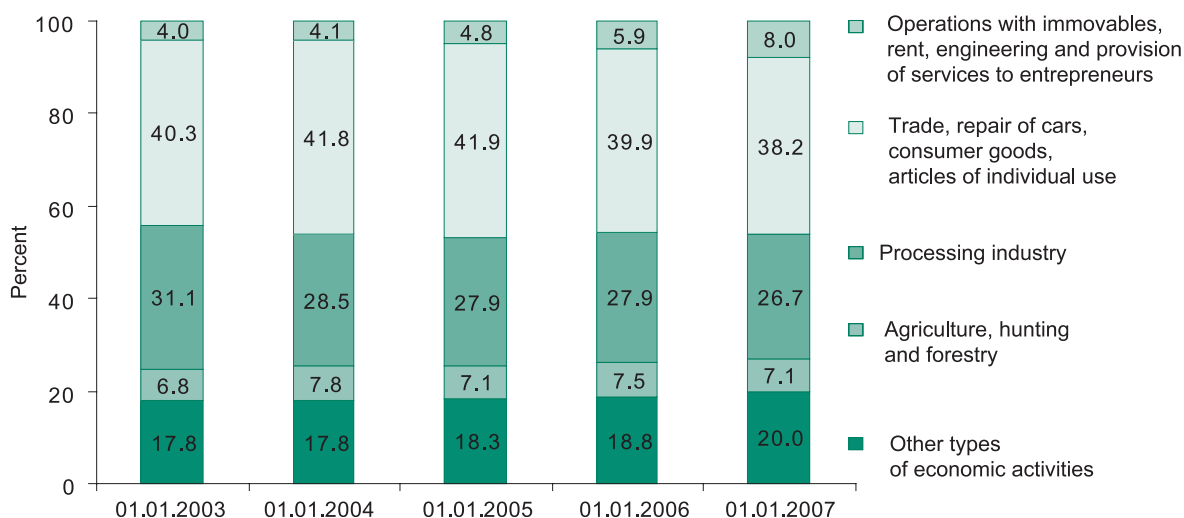


Over half (54.1%) of the total claims of banks under the credits, directed to the investment purposes, constituted mortgage credits. Within the banks' claims under the credits extended to the economy of Ukraine, the share of mortgage credits during 2006 augmented from 7.3% to 11.0% as at 1 January, 2007. Indebtedness under the mortgage credits for this period grew 2.6 times (by UAH 16.6 billion) up to UAH 27.0 billion. As at 1 January, 2007, 74.4% of claims under the mortgage credits were the credits extended to individuals. Mortgage credits in foreign currency constituted 81.6%. Among the mortgage credits extended to individuals this indicator was even higher – 88.8%.

The mortgage crediting growth is due to the improvement of the financial state of households and the increase in supply of long-term credits.

In the structure of claims by types of economic activity the largest share belonged to the claims under credits extended to the economic entities of trade, repair of cars, consumer goods and articles of individual use (38.2%), processing industry (26.7%), economic entities, involved in operations with immovables, rent, engineering and providing of the services to entrepreneurs (8.0%), enterprises of agriculture, hunting and forestry (7.1%), construction (6.3%), that had respectively the largest influence on the dynamics of credits into the real sector of the economy.

Structure of Banks' Claims for Credits to Economic Entities
(by some types of economic activity)



The portions of indebtedness under credits given to enterprises of other basic types of economic activity were insignificant, in particular: to enterprises of transport – 4.4%, mining industry – 2.4%.

For 2006, the level of concentration of credits to trade, repair of cars, consumer goods and articles of individual use within the total claims under credits reduced by 1.7 percentage points, processing industry – by 1.2 percentage points, agriculture, hunting and forestry – by 0.4 percentage point, mining industry – by 0.2 percentage point. At the same time, the peculiarity of 2006 was augmentation of the portion of the banks' claims under the credits extended to the economic entities involved in operation with immovables, rent, engineering and providing of the services to entrepreneurs (from 5.9% to 8.0%) and construction (from 5.4% to 6.3%), being related primarily to the stable increase in prices of immovables.

In the structure of credits by forms of ownership the share of claims under the credits given to economic entities of private ownership for 2006 rose by 0.6 percentage point up to 94.7%, of municipal ownership – by 0.1 percentage point up to 0.6%, and under the credits extended to state-owned enterprises – reduced from 5.4% to 4.7%.

By the end of 2006, within the regions, the largest were the shares of claims under the credits given by the banking institutions of the town of Kyiv (39.1%), the Dnipropetrovsk region (12.4%) and the Donetsk region (7.9%). Indebtedness under the credits extended to economic entities and individuals by the banking institutions of the mentioned regions amounted to 59.4% of the total credits, the rest of credits (40.6%) were given by the banking institutions of other regions. The claims under the credits extended to individuals prevailed in the banking institutions of six regions, namely: the Autonomous Republic of the Crimea (53.0%), Trans-Carpathian region (61.9%), Kirovohrad region (51.4%), Khmelnytsky region (53.3%), Chernivtsi region (55.0%) and Kyiv region (52.3%). In the banks of other regions the claims under credits to economic entities prevailed.

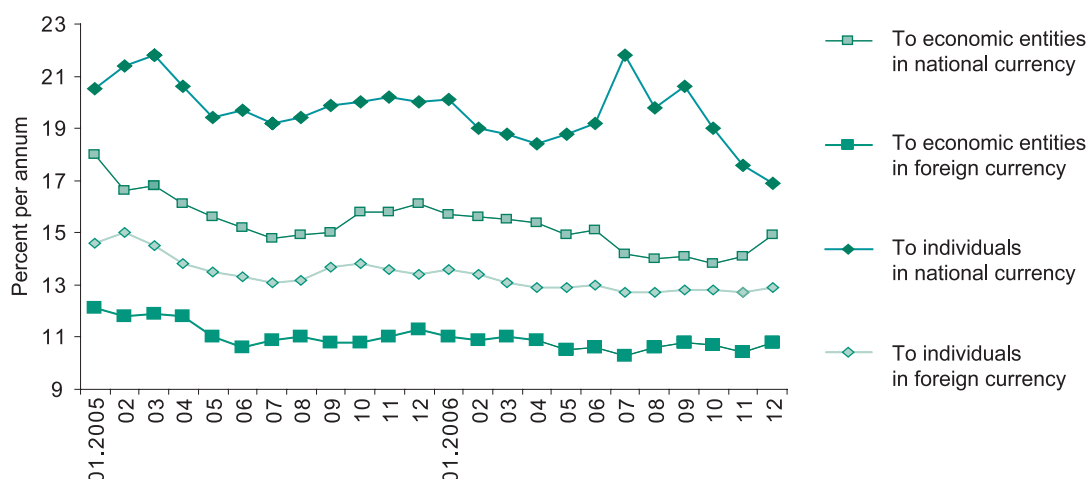
Improvement of the financial condition and solvency of the economic entities contributed to the improvement of the structure of indebtedness under the credits to the economy of Ukraine. The share of problem credits (overdue and doubtful ones) reduced for 2006 from 2.5% to 1.9% (for 2005 – from 3.8% to 2.5%), in particular, indebtedness under the overdue credits decreased by 0.2 percentage point to 1.1%, under the doubtful ones – by 0.4 percentage point to 0.8%.

During 2006, significant expansion of the crediting took place against a background of general tendency towards reduction of the interest rates under credits (from 14.6% to 13.7% per annum in December 2006), due to emerging new banks in the market, primarily with the foreign capital participation. Only at the end of the year, starting from November, as a result of essential demand on the part of borrowers for credit resources, the increase in the average cost of credits was observed.

A general level of average weighted interest rate under the credits extended to economic entities and individuals for 2006 amounted to 13.6 against 14.2% per annum for 2005. The average interest rate on credits in the national currency equalled 15.1% annually, in foreign currency – 11.3% annually, or reduced for the year by 0.9 and 0.3 percentage point, respectively.

The average weighted rate on credits in the national currency to the economic entities, compared to 2005, decreased by 1.0 percentage point to 14.7% annually for 2005, and in foreign currency – by 0.6 percentage point to 10.7% annually. The average cost of credits in the national currency granted to individuals decreased for this period from 20.0% to 19.0% annually, and in foreign currency – from 13.6 to 12.9% annually.

Dynamics of Average Weighted Interest Rates on Credits to Economic Entities and Individuals



2.3.4. REGULATION OF THE BANKING ACTIVITIES IN UKRAINE

In 2006, the National Bank of Ukraine continued its work aimed at bringing to compliance the legislative, normative and legal framework in the banking regulation and supervision issues with the requirements of the European Union laws and Core Principles of the effective banking supervision developed by the Basle Committee for Banking Supervision.

Major efforts in regulating the activities of banks were directed at further capitalization of the banking system; improvement of the banking supervision; introduction of the non-cash payments for goods and services to be made by individuals by means of the plastic cards of the National System for Mass Electronic Payments, and improvement of the mechanism for attraction of funds in the banking system. Regulative measures of the National Bank of Ukraine were turned to encouraging the balance between innovation and traditions, establishing the optimal system of relationships with partners which (system) should be flexible in reaction to the market processes and aspire to the universality in providing services.

The National Bank of Ukraine has taken a number of measures related to prevention of the risks threatening the banking sector stability. There have been introduced more stringent standards for the bank capital quality, tightened minimum requirements to the capitalization, implemented the

differentiated requirements to establishing provisions and also stipulated for the higher provisions under the active transactions in case of the foreign exchange borrowers non-hedged.

In order to ensure the appropriate level of the bank liquidity, the National Bank of Ukraine actively applied the mechanism of mandatory provisioning. In general, taking into account all measures on the adjustment of requirements to establishing the bank mandatory provisions, about UAH 10 billion of mandatory provisions were released in 2006.

In order to provide for the development of the financial markets the National Bank of Ukraine initiated a number of amendments to the laws of Ukraine which regulated the following:

- entitling the foreign banks to open their branches on the territory of Ukraine and setting the terms and conditions for such opening. The specified procedure regulates the banking activities to be carried out by the foreign bank branches and comprises the exclusive list of terms and conditions according to which the foreign bank is entitled to open its branch in Ukraine. Adoption of the law is an important condition for Ukraine to settle the issue of joining the WTO as well as the Ukraine membership in the European Union;
- setting the regulation on the bank establishment only in the form of the open joint-stock companies or cooperative banks with the authorized capital minimum of no less than 10 million euro at the time of registration. The above ratios ensure favorable conditions for further development of the stock market, transparent establishment of the bank authorized fund and attraction to this process of the wide circle of people that finally would promote the capitalization of banks to speed up.

The National Bank of Ukraine has elaborated and submitted for consideration by the Verkhovna Rada (Parliament) of Ukraine a number of draft laws on amending and modifying certain laws of Ukraine purposed to regulate the following issues:

- improvement of the procedure for the state registration of banks;
- identification of the real bank owners;
- peculiarities of bank audits and also regulation of the relationships between the bank supervision authorities and the external auditors of banks;
- cancellation of benefits in entering the agreements for performing the banking transactions with related parties (persons);
- ensuring the internal financial monitoring in order to prevent from using the banks for laundering proceeds obtained from crimes.

Upon the proposal of the Working Group consisting of the representatives from the National Bank of Ukraine, the Association of Ukrainian Banks, the "Ukrainian Credit Bank Union" Association and the commercial banks, and taking into account the new document on the corporate governance issued by the Basle Committee for Banking Supervision in 2006, the amendments to the Law of Ukraine "On Banks and Banking Activities" were made as regards the improvement of the corporate governance in the banks, applying the effective methods for the risk management.

In order to bring the banking supervision to the world standard practice, to improve the system of risk management in the Ukrainian banks and to comply with the Law of Ukraine "On Banks and Banking Activities", the closed joint-stock company "International Credit History Bureau" was established which should collect information on the credit histories of the economic entities and individuals.

In order to increase the period of using the funds attracted, to reduce the general cost of the resources and to optimize their structure the following was made:

- regulation of the procedure for the establishment of provisions under the treasury (securities) transactions of the Ukrainian banks has been approved which improves the bank asset quality, promotes the treasury transactions to be carried out by banks in the organized market,

ensures the establishment of the bank provisions under the active treasury transactions in compliance with the Basle Committee standards and the International Accounting and Financial Reporting Standards;

- regulative bank capital minimum in Hryvnia being equivalent to the normative ratio in Euro was determined to be followed by banks since December 30, 2006 and during 2007.

By the end of 2006, the National Bank of Ukraine increased the boundary value of assets for the four groups of banks specified. Group I consists of the banks with the balance sheet assets of over UAH 5 billion, having increased this ratio by UAH 1.1 billion; for Group II consisting of the banks with the balance sheet assets of over UAH 2 billion, Group III consisting of the banks with the balance sheet assets of over UAH 0.7 billion and Group IV consisting of the banks with the balance sheet assets of less than UAH 0.7 billion the ratios have been raised by UAH 0.2 billion as compared with the previous values.

The amendments made to the Law of Ukraine "On Deposit Insurance Fund for Individuals" (effective in Ukraine since 1999) favoured strengthening of its role in the development of the banking system, broadening of the sources for the Fund establishment, the step-by-step growth of the secured amount for reimbursement (compensation) and forming the situation to prevent the bank liquidation at the stage of the temporary administration operation, etc.

In 2006, the activities of the banking supervision authorities of the National Bank of Ukraine were turned to solve the banking problems through the effecting measures of supervision and control over the activities of banks as well as through their methodological and normative/legal support.

There have been developed the methodical recommendations on inspecting the credit risk and liquidity risk, both subject to the mandatory assessment in compliance with requirements of the Basle Committee for Banking Supervision, namely, the indicative numerical criteria for the assessment of the credit risk quantitative parameters were specified that should be used as the benchmarks to assess the underlying risk.

With that end in view in 2006, the National Bank of Ukraine elaborated four new normative/legal acts and made up 12 amendments to 7 norms and regulations.

The following have been amended and modified:

- Regulation on applying by the National Bank of Ukraine of the enforcement measures for infringement of the banking legislature that was purposed for improvement of the bank liquidation procedure; requirements to the liquidator were made more precise; procedure concerning the bank assets to be transferred at the end of the liquidation period to the legal entity determined by the National Bank of Ukraine was clarified; also, there were made more precise the reasons to appoint the temporary administration; there were determined criteria (evidence) of the material threatening to the bank solvency under which the National Bank of Ukraine should be obliged to appoint the temporary administration;

- Regulation on the enforcement measures to be applied by the National Bank of Ukraine for violation of the banking laws;

- Draft temporary regulation concerning the bank curators and agreement between the National Bank of Ukraine and a commercial bank on cooperation in supervising the bank activities;

- Regulation concerning the Bank Auditor Certification Committee as regards the regulation of the Committee powers to determine the bank auditor certification procedure and the decision-making procedure for the Committee;

- Regulation concerning the Bank Auditor Certification as regards its bringing to compliance with the requirements of the laws of Ukraine as well as arranging the organization procedure to receive the bank auditor certificates and duplicates;

- Regulation concerning the procedure for the establishment and state registration of banks, opening their branches, representative offices and stations (units): it permits to open the units (offices) in the premises of small architectural forms;

- Regulation concerning the procedure for granting banking licenses, written permits and licenses to banks in order to perform particular transactions with the purpose to improve requirements to the bank business-plans and standardize the approaches to their drawing up.

There have been developed:

- procedure for reviewing (analyzing) the financial situation of a bank and compiling the report on monitoring a bank being a legal entity;

- methodical recommendations for determination of the insecurity (non-reliability) criteria in the bank activities;

- Temporary procedure for cooperation of the Banking Regulation and Supervision Department with regional banking supervision units in the regional branches of the National Bank of Ukraine concerning the on-site inspections of banks and their institutions; the procedure provides with all details of the banking supervision work during the bank inspections;

- Plan of Measures for ensuring the banking system stability and protection of the bank customers' interests in case of contingency.

Working out of the recommendations on improvement of the corporate governance for banks advanced.

2.3.5. SUPERVISION OVER THE BANKING ACTIVITIES

The rates of economic growth and new high-grade level of the customer servicing remained the primary strategic task of the banking sector in Ukraine in 2006. Supervision over the bank activities was carried out in compliance with major factors of their development, taking into account the rapid increase of money supply, growth of the GDP and active development of the retail service market, and it was purposed to provide stability of the banking system and prevent the negative events to occur in the banking activities through conducting the on-site and off-site supervision.

The National Bank of Ukraine arranged and provided supervision over 170 banks which have licenses for performing the banking transactions and also the NBU effected control over the supervisory functions executed by the regional branches of the National Bank of Ukraine. In the course of prudential supervision over keeping by banks the requirements of the laws, norms and regulations of the National Bank of Ukraine and the commitments taken by banks as regards the improvement of the activities and reduction of the risks available, there was used the statistical reporting of banks, reports of inspecting, opinions of the regional branches and auditor opinions with applying AIS software products "Bank Dossier", "Unified Report of the Bank Activities", "Monitoring of the Bank Activities", "Early Response Factors", etc.

Based upon results of the analysis, the monthly "Passport of the Bank Supervision" has been prepared and the supervision strategy has been determined for every bank; in view of the above mentioned:

- three resolutions of the Board of the National Bank of Ukraine as regards the particular issues of the bank activities have been approved;

- letters, demanding to enhance control and apply measures on complying by banks with the capital adequacy ratio, liquidity ratio, credit and foreign exchange risk ratios were sent to the banks and regional branches;

- enforcement measures, namely, appointment of the temporary administration was applied to four banks which missed their creditworthiness;

- five decisions related to determination of the period for banks to satisfy the ratio of credit, warranty and guarantee maximum granted to one insider, were adopted by the Commission on Supervision and Regulation of the Bank Activities of the National Bank of Ukraine;

- banks were sent the letters, demanding to take measures on eliminating the shortcomings and violations in their operation and to provide the National Bank of Ukraine with the esti-

mated bank performances and with the plans of measures for improvement of the financial situation, in particular, increasing the level of bank capitalization, improvement of the asset quality, raising efficiency and profitability, perfection of the asset and liability management.

Particular attention was focused at the bank liquidity situation:

- letters were forwarded to 15 banks as regards the gap available between the periods of fund attraction and fund allocation; the bank management was obliged to take measures for adjusting the asset and liability maturity, in particular, during the long-term period;

- regional branches were recommended to enhance work with the banks characteristic of a substantial lack of liquidity and to oblige those banks to provide with the plans of actions for adjusting (balancing) the asset and liability maturity and to control realization of the plans;

- regional branches were forwarded letters demanding to arrange meetings with the bank management in order they apply urgent measures aimed at settling the problems and, if necessary, to initiate the out-of-plan inspections in particular issues of the bank activities;

- regional branches of the National Bank of Ukraine were visited by the head-office experts in order to give them advices on effecting supervision over the banks and on applying the enforcement measures in case of violation of the operational standards determined for the banks;

- weekly control over the banks being under the intensified supervision was introduced;

- business meetings in the problem issues of the bank activities have been conducted with the bank management including those with participation of the banking supervision officers from regional branches.

During 2006, monthly control was conducted over following the commitments taken by the banks against the capitalization programs, developed to meet the requirements of the resolution of the National Bank of Ukraine' Board:

- Commission in supervision and regulation of the bank activities in the National Bank of Ukraine considered and approved 42 decisions on granting permits to the banks to account in capital the funds attracted under the subordinate debt conditions and 11 decisions related to withdrawal of such permits;

- Commission in supervision and regulation of the bank activities in the National Bank of Ukraine considered and approved 28 decisions on granting permits to the banks to account in capital the fixed asset revaluations and 7 decisions on prohibiting to include the fixed asset revaluation in the bank capital;

- 27 letters were forwarded to the banks and regional branches of the National Bank of Ukraine as regards the establishment of provisions within the amounts specified by the law in order to increase the bank capital level, recommending to turn the retained profit of the previous years to the bank reserves;

- financial statements of 39 banks were forwarded to the State Property Fund to review the property assessment;

- Commission in supervision and regulation of the bank activities in the National Bank of Ukraine approved four decisions on appointment of the internal audit heads with the banks.

Growth of the authorized funds in the "State Export/Import Bank of Ukraine" and "State Savings Bank of Ukraine" favored the realization of the national investment/innovation program and projects, in particular, granting credits to the energy supply market and the joint projects of the state-owned bank consortium.

Realization of the above measures provided with the possibility to substantially increase the regulative capital of the banking system including the authorized funds. As of January 1, 2007, all banks observed the regulative capital minimum specified.

According to the Law of Ukraine "On Banks and Banking Activities" the National Bank of Ukraine controlled the banks as regards their compliance with the legislature on prevention of

money laundering. In order to strengthen this work in 2006, the appropriate line unit was established in the National Bank of Ukraine at the head office level. Its responsibilities cover the arrangement of inspections of Group I and Group II banks which are the largest banks of Ukraine by the amount of their assets.

In order to improve the supervisory functions over the bank activities in 2006, the methods combining the Risk Assessment System and CAMELS were introduced step by step, and those methods allowed to make a deeper insight in the financial situation of the bank, organization and quality of its risk management, other issues, while providing with the possibility to analyze the bank operation and determine the nature of further supervision over such bank. Methods and approaches to the bank inspections are constantly improved in order to provide more careful and adequate assessment of the bank activities upon the inspection results.

During 2006, the banking supervision authority of the National Bank of Ukraine conducted 525 planned and out-of-plan inspections including 239 inspections of the banks being legal entities and 286 inspections of the branches. In addition, 94 out-of-plan inspections were made concerning some particular issues of the activities including 72 inspections of the banks being legal entities.

Results of 18 examinations that could evidence of the criminal activities of banks or their customers were forwarded to the law-enforcement authorities.

Upon analyzing the financial state of banks and their adhering to the banking legislature and norms and regulations of the National Bank of Ukraine in 2006, the following enforcement measures were applied:

- banking licenses and permits for carrying out the banking transactions were withdrawn from three banks;
- temporary administrations were appointed for two banks;
- written agreement on financial recovery was concluded with one bank;
- written cautions were sent to 22 banks;
- penalties were imposed on seven banks.

Commission of Appeals of the National Bank of Ukraine considered 10 appeals of the banks related to the enforcement measures applied to those banks.

Upon analyzing the agreements concluded by banks concerning the financial statements' audit and review of the annual consolidated reports and audit reports, the letters demanding to finish them off have been sent to 42 banks. During inspections the meetings with external auditors were arranged and at such meetings the issues of verifying the reliability of the bank financial statements and the relevant response of banks to the external auditor remarks were discussed.

In order to improve the professional level of the banking supervision officers from the regional branches of the National Bank of Ukraine, the one-week seminar "Determination of the credit portfolio quality" was arranged on the base of the Cherkasy Institute in Banking where the risk-based assessment supervision issues were highlighted.

In view of better transparency of the banks to the public and for improvement of public relations between the banking system, people and the National Bank of Ukraine, the latter:

- arranged numerous interviews with the leading experts of the National Bank of Ukraine;
- processed information requests of the mass-media;
- provided with the information on the most pressing issues of the development of the banking system in Ukraine in the mass-media.

Press-service of the National Bank of Ukraine arranged the journalists to participate in the round-table meeting of the Credit History Bureau members.

Advices and information in response to the inquiries of journalists and public on the most pressing issues of the banking system were daily provided by phone or through e-mail.

2.3.6. BANK REGISTRATION AND LICENSING

The number of banks of Ukraine registered in the State Register of Banks continues to increase: from 186 in 2005 to 193 as of January 1, 2007, among which 153 (79%) appear to be the joint-stock companies (104 are in the form of public corporations and 49 – in the form of closed joint-stock companies); 40 banks (21%) operated in the form of companies with limited responsibility.

Increase of banks by seven units in 2006 took place due to 13 newly established banks which were registered and included in the State Register, while six banks were withdrawn from the State Register of Banks because of finalizing the liquidation procedure.

170 banks possessed the licenses of the National Bank of Ukraine for carrying out the banking transactions (in 2005 there were 165 banks possessing the licenses), including 168 banks having the written permits for effecting transactions, out of which 167 banks having permits for effecting transactions with foreign exchange valuables.

As of January 1, 2007, there were two banks having 100% state ownership in the authorized (statutory) fund, namely, public corporations "State Export/Import Bank of Ukraine" and "State Savings Bank of Ukraine".

Number of banks established with foreign capital share amounted to 35, including 13 banks with 100% foreign capital. By the end of the year, the foreign capital share in the registered statutory fund of the banks of Ukraine was equal to 28.0% or during the year it grew by 8.5 percentage points.

Share of the total bank assets with 100% state ownership in the statutory capital amounted to 8.9%.

The largest investments in the banking system of Ukraine were made by Austria, France, Russian Federation, Poland and the Netherlands.

By the amount of assets there were three leaders of the banking market, namely: closed joint-stock company "PrivatBank" (UAH 33.8 billion), public corporation "Rieffeizen Bank Aval" (UAH 27.8 billion) and the commercial innovation joint-stock bank "UkrSybBank" (UAH 22.4 billion) and their share in the total banking assets amounted to 9.9%, 8.1% and 6.6%, respectively. Share of the above three banks formed 24.7% in the total assets of the banking system.

During 2006, the banking licenses and permits for conducting transactions were granted to 11 newly established banks; the list of banking operations to be carried out upon the written permits was enlarged for 28 banks; banking licenses and permits for conducting banking transactions were replaced for 12 banks in view of changing the banks' names; also, the written permits were replaced for six banks because of changes made in their lists of operations permitted.

66 amendments and modifications were registered and made in the State Register of Banks, including 43 amendments caused by the authorized capital increase. 447 appointments for the management positions in banks were approved.

QUANTITATIVE STRUCTURE OF THE BANKING SECTOR OF UKRAINE

| Indicators | As of: | | | | |
|---|----------------|----------------|----------------|----------------|----------------|
| | 01.01. 2003 | 01.01. 2004 | 01.01. 2005 | 01.01. 2006 | 01.01. 2007 |
| Number of banks in the State Register of Banks | 182 | 179 | 181 | 186 | 193 |
| Number of banks having licenses for performing banking operations | 157 | 158 | 160 | 165 | 170 |
| Including joint-stock companies | 136 | 133 | 132 | 133 | 135 |
| Among them: | | | | | |
| Public corporations | 94 | 94 | 92 | 92 | 91 |
| Of closed type | 42 | 39 | 40 | 41 | 44 |
| State-owned | 2 | 2 | 2 | 2 | 2 |
| With limited responsibilities | 20 | 25 | 28 | 32 | 35 |
| Cooperative | 1 | 0 | 0 | 0 | 0 |
| Number of banks with foreign capital | 20 | 19 | 19 | 23 | 35 |
| Including 100% foreign capital | 7 | 7 | 7 | 9 | 13 |
| Banks registered during the reporting year | 5 | 5 | 6 | 6 | 13 |
| Decision on bank liquidation | 1 | 3 | 3 | 1 | 3 |
| Withdrawn from the State Register for the reporting year | 12 | 8 | 4 | 1 | 6 |
| Including those because of | | | | | |
| Liquidation | 10 | 7 | 3 | 1 | 4 |
| Reorganization | 2 | 1 | 1 | 0 | 2 |
| Banks in the course of liquidation | 24 | 20 | 20 | 20 | 19 |
| Including those by | | | | | |
| the NBU decision | 11 | 12 | 13 | 14 | 16 |
| Economic court judgment | 12 | 8 | 6 | 5 | 3 |
| Shareholders' decision | 1 | 0 | 1 | 1 | 0 |

Differentiation of regions by the number of banking institutions and their branches depended upon their social and economic development, population, development of the market infrastructure, production and resource potentials available. As of 1 January 2007, the average number of banking institutions per each 100 000 persons was 3.5 units.

Operating banks as legal entities locate only in 15 regions of Ukraine, primarily, in the eastern and western parts of the country.

By the level of development, the banking sector of Ukraine is divided into four groups:

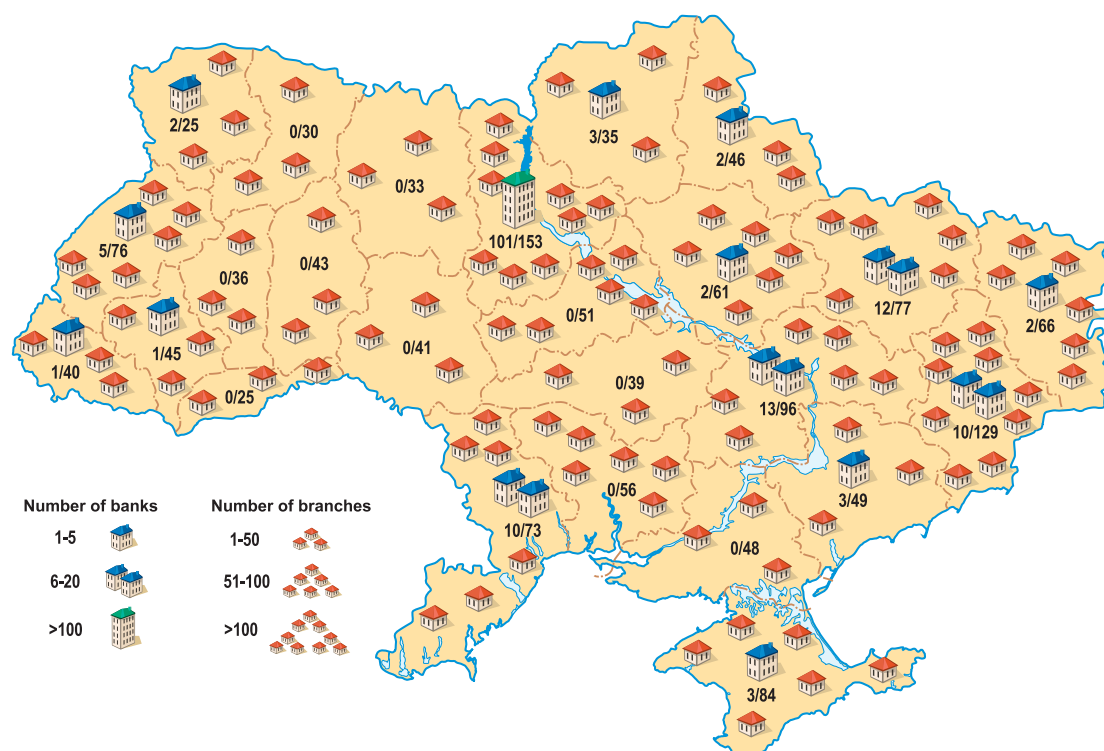
- high concentration group is presented by Kyiv-city and Kyiv region, where more than half of the banks possessing the licenses locate: 101 banks (59.4%) and 153 bank branches (10.5%). There are 5.7 banking institutions per each 100 000 persons. Share of the banking system assets amounts to 47.7%;

- average concentration group includes eight industrially developed regions (Dnipropetrovsk, Donetsk, Kharkiv, Odesa, L'viv, Zaporizhzhia, Poltava and the Autonomous Republic of the Crimea) where more than one third of the Ukrainian banks locate: 58 (34.1%) banks and 645 bank branches (44.3%). There are 3.3 banking institutions per each 100 000 persons. Share of the banking system assets amounts to 37.5%;

- non-essential concentration group includes nine regions (Ivano-Frankivsk, Luhansk, Mykolaiv, Volyn, Vinnytsia, Zakarpattia, Cherkasy, Kherson and Chernihiv), nine banks (5.3%) and 407 branches (27.9%). There are 3.3 banking institutions per each 100 000 persons. Share of the banking system assets amounts to 10.0% of the total banking sector;

– low concentration group includes seven regions (Rivne, Sumy, Zhytomyr, Khmelnytskyi, Ternopil, Kirovohrad and Chernivtsi) where two banks (1.2%) and 252 bank branches (17.3%) locate. There are 3.1 banking institutions per each 100 000 persons. Share of the banking system assets amounts to 4.8%.

NUMBER OF BANKS AND THEIR BRANCHES WITHIN REGIONS AS OF 1 JANUARY 2007



In 2006, the network of bank branches decreased by 48 units amounting to 1457; 55 new branches were included in the State Register of Banks while 103 branches were withdrawn that could be attributed to the active reorganization of branches into the bank units. Traditionally, public corporation "State Savings Bank of Ukraine" has the widest branch network of 424 units (29.1%).

Foreign banks went on to establish actively their representative offices and during 2006 there were five offices registered in Ukraine.

In order to widen services for customers and obtain access to the cheap resources, three banks of Ukraine opened their five representative offices abroad with the location in London, Moscow, Minsk, Vienna and Cape Town.

In 2006, the National Bank of Ukraine granted nine permits to the banks to establish their representative offices in London, Peking, Moscow, New York, Riga, Prague, Budapest and Almaty.

The representative office is not anticipated to carry out the banking activities, however, this is a simple and efficient entry to the other country market. Geography of the representative offices of the Ukrainian banks is rather wide. In addition to the countries mentioned, the representative offices function in Kyshynev, Singapore, China and Kazakhstan.

In order to increase the network of representative offices of the Ukrainian banks abroad which promotes the integration of the Ukrainian banks into the international financial sector and the improvement of the customer servicing, the National Bank of Ukraine establishes more favorable conditions for their opening. There has been cancelled the requirement to establish a

subsidiary bank or a branch upon the bank authorized capital available of no less than 10 million Euro and 5 million Euro for a representative office to be opened. The most important thing for a bank is to adhere to the operational standards specified and to the business plan of the bank foreign structures' activities. The representative office is occupied with the attraction of syndicated loans, searching for the new customers, marketing researches, monitoring of the laws and support of the customer agreements.

The geographic network of the subsidiary banks was presented by Cyprus, Russian Federation and Macedonia. As a rule, the subsidiary bank structure complies with the parent bank model of development which appears to be the best factor for attraction of customers in Ukraine.

During 2006, the National Bank of Ukraine granted 51 permits for the banks to acquire or increase a substantial share with the banks; preliminary permits to obtain the status of a foreign capital bank were given to 13 operating banks and the permit to establish a foreign capital bank was given to two banks.

2.3.7. TERMINATION OF THE BANKS' ACTIVITIES

As of 1 January 2006, 19 banks were in the process of liquidation, including 16 banks liquidated according to the decision of the National Bank of Ukraine and three banks – according to the judgment of administration courts. Banks, the activities of which were terminated, formed 9.8% of the banks registered in the State Register of Banks, and their share amounted to 1.6% of the total banking sector assets.

During 2006, six banks were withdrawn from the State Register of Banks (in 2005 there was a single bank) including four banks being liquidated because of completing the liquidation procedure (commercial joint-stock bank "DENDI", joint-stock "META-BANK", commercial joint-stock bank of the food industry of Ukraine "UkrKharchoPromBank", joint-stock bank "Credit Swiss First Boston, Ukraine") and two banks – because of reorganization through merger as a branch to the successor bank (commercial joint-stock bank "MT-Bank" merged with the JSC "IndustrialBank" while "European Bank for Development and Savings" Co. Ltd merged with the public corporation "United Commercial Bank").

During 2006, the National Bank of Ukraine revoked the banking licenses and initiated the liquidation procedure for three banks, namely: public corporation JSB "GUARANT", commercial JSB "InterContinentBank" and "Kyiv Universal Bank" Co. Ltd. (in 2005 there was a single bank). During a long time the financial situation with the above banks was becoming worse, there were violations of the banking laws and normative/legal acts of the National Bank of Ukraine as regards complying with the economic ratios, keeping the authorized fund minimum specified, following the procedure for the establishment and use of the loan loss provisions, mandatory provisions (reserves) on the correspondent account with the National Bank of Ukraine, compiling and presentation of the financial and statistical reporting, etc.

In 2006, the Liquidators (Liquidation Commissions) realized (repaid) UAH 50.4 million of assets which amounted to 4.6% of the total realized (returned) assets for the period of bank liquidation, and this was by 56.4% more as compared with 2005. Creditor claims (payables) satisfied by the liquidators amounted to UAH 13.8 which was 0.4% of the payables recognized and 12.6% of the total payables met.

As of 01.01.2007, the balance of accrued accounts to be used for further settlements with the creditors amounted to UAH 34.7 million, or 1.5% of the payables not satisfied. Acknowledged payables of the banks reduced by UAH 13.2 million, or by 0.4%. Payables, satisfied by the liquidator, grew by UAH 13.8 million, or by 1.6% which was by 6.5 percentage points less than in 2005.

MAJOR PERFORMANCE INDICATORS OF BANKS UNDER LIQUIDATION

(UAH million)

| Indicators | 01.01.2004 | 01.01.2005 | As of: 01.01.2006 | 01.01.2007 |
|---|------------|------------|----------------------|------------|
| Number of banks | 20 | 20 | 20 | 19 |
| Assets | 5062.4 | 4280.6 | 3431.0 | 1579.5 |
| Assets of banks under liquidation in the total assets of the banking sector, % | 5.0 | 3.2 | 1.6 | 0.5 |
| Assets realized (returned) | 2915.3 | 1017.3 | 1049.5 | 1099.9 |
| Share of assets returned, % | 57.6 | 23.8 | 30.6 | 69.6 |
| Payables recognized | 2126.8 | 3079.1 | 3278.0 | 3264.8 |
| Including those of individuals | 329.0 | 318.1 | 421.3 | 756.1 |
| Payables (creditor claims) satisfied by liquidator | 788.7 | 820.0 | 886.7 | 900.5 |
| Including those of individuals | 229.8 | 225.2 | 243.0 | 309.9 |
| Depositor claims paid by the Deposit Insurance Fund for Individuals | 43.0 | 46.9 | 66.9 | 177.5 |
| Creditor claims satisfied, % | 37.1 | 26.6 | 27.1 | 27.6 |
| Including those of individuals | 69.8 | 70.8 | 57.7 | 41.0 |

As of 01.01.2007, creditor claims were satisfied by 27.6% (compared to 27.1% on 01.01.2006), including the share of individuals equal to 41.0% (compared to 57.7% in 2005).

The Deposit Insurance Fund for Individuals introduced in Ukraine was of great importance, for its tasks consisted in the protection of rights and legal interests of depositors, preserving confidence in the banking system of Ukraine and promoting the attraction of the individuals' deposits which was of the highest importance for accumulation of the resources by banks to be invested in the economy of the country.

The Deposit Insurance Fund for Individuals has a double purpose: it protects the depositors being natural persons from the risk and maintains confidence in the banking system of Ukraine. In view of the above mentioned, the measures aimed at the improvement of satisfying the depositor claims of individuals were taken. In 2006, the secured amounts to be paid for the depositors being natural persons were increased twice from UAH 5 000 to UAH 8 000 and to UAH 15 000.

During 2006, the Deposit Insurance Fund for Individuals reimbursed UAH 110.6 million to the individual depositors (in 2005, it was UAH 20 million). Level of compensation covered by the Deposit Insurance Fund for Individuals in 2006 amounted to 36.4% which was higher of 2005 (21.6%) by 14.8 percentage points.

The liquidation procedure of the bank "Ukraina" initiated in 2001, was keeping on. During 2006, UAH 8.4 million were transferred on the accumulated account of the liquidator (in 2004 there were UAH 13.8 mln., in 2005 – UAH 22.6 mln.); creditor claims of the third succession were paid of UAH 9.1 million. As of 01.01.2007, the balance on the accumulated account was equal to UAH 7.4 million which was by UAH 8.9 million less as compared with 2005.

During the liquidation period, UAH 960.3 million were transferred to the accumulated account of the liquidator, of which UAH 789.6 million (82.2%) were used to satisfy the creditor claims of the first, second and third order.

Out of 19 banks under the liquidation, the liquidation procedure of more than three years long was observed with 10 banks which was 52.6% of the total banks that terminated their activities.

2.4. FOREIGN EXCHANGE CONTROL AND LICENSING SYSTEM

During 2006, the National Bank of Ukraine granted 1650 individual licenses, general licenses special permissions and approvals.

Banking institutions were given 37 individual licenses for conducting transactions with currency valuables.

Legal entities being the non-banking institutions and natural entities were given 1613 individual licenses, general licenses, approvals and special permissions, including the following:

- 538 individual licenses for conducting operations with currency valuables;
- 1044 individual licenses allowing to prolong the period of settlements specified by the law as regards the external economic transactions;
- 6 general licenses given to the non-banking financial institutions for conducting foreign exchange operations;
- 16 approvals to transfer funds by the residents outside Ukraine against agreements that stipulate for works and services to be rendered by the non-residents;
- 9 special permits to import currency valuables in Ukraine.

Alongside with the above mentioned, during 2006, 208 amendments were made to the individual licenses previously granted; 29 individual licenses and 3 general licenses were cancelled.

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

- conducting in-site and paper (off-site) inspections of the authorized banks and non-banking institutions;
- control over the relevancy of conclusions of the regional departments 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 elaboration of the conclusions (opinions) for the Commission of Appeals of the National Bank of Ukraine concerning the appropriateness to call the authorized banks to account for infringement of the foreign exchange legislature of Ukraine.

1719 examinations of the banking institutions have been conducted, including 623 scheduled and 1096 out of the plan. 364 examinations were of the complex nature.

Proceeding from the facts of violating the foreign exchange laws, 617 resolutions on calling 86 authorized banks to account for infringement 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 20.8 million have been approved.

Among the violations of the foreign exchange legislature, 61.3% related to delayed information, concealing or distortion of the reporting on the foreign exchange transactions of the banking institutions; 28.5% were connected with failure to perform the agent functions of the foreign exchange control; 8.3% related to using the foreign currency as a legal tender on the territory of Ukraine with no individual license of the National Bank of Ukraine; 1.1% resulted from violation of the procedure and terms of foreign currency trades in the inter-bank foreign exchange market; 0.8% resulted from failure to meet the terms and procedure to declare the currency valuables that belonged to the residents of Ukraine and were outside Ukraine.

Penalties charged against major part of the resolutions (524) on calling to account for violation by banks of the foreign exchange legislature, amounted to UAH 344.9 thousand.

In 2006, the National Bank of Ukraine conducted 2436 checks of the exchange centers (their total number 1516), including 1061 checks of the exchange centers belonging to banks and 1375 checks of the exchanges which operate according to the agent agreements with banks.

During the above examinations of exchange centers, 399 cases of violation of the banking laws were revealed, including 204 violations made by the exchanges belonging to banks and 195 violations fell on the exchange points which operated according to the agent agreements with banks.

In order to improve the system of the foreign exchange control in 2006, the number of amendments were made to the normative and legal acts of the National Bank of Ukraine which clarified the following: procedure and terms and conditions for granting to the non-banking institutions of the general licenses for conducting currency transactions; procedure to transfer funds in the domestic and foreign currencies against certain transactions in favor of the non-residents; procedure for the authorized banks to effect control over timely payments for export, import and leasing operations and procedure for effecting the foreign exchange control; also, the Regulation on the foreign exchange control was brought to compliance with the Decree of the Cabinet of Ministers "On the System of Foreign Exchange Regulation and Foreign Exchange Control".

In order to control the area of the external economic activities in 2006, the regular verification, processing and distribution of the information as regards the 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", were carried out.

2.5. PAYMENT SYSTEM OF UKRAINE. CURRENT SITUATION AND TRENDS OF ITS DEVELOPMENT

During the reporting year, the System of Electronic Payments (SEP) of the National Bank of Ukraine successfully fulfilled its functions of the national system of inter-bank payments and fully satisfied the needs of its participants on transferring funds providing the maximum speed, transparency, high level of security and reliability in effecting payments.

The primary event of 2006 in the area of electronic inter-bank settlements appeared to be the System of electronic payments of the new generation (SEP-2) that was put into commercial operation since 10 November and replaced two systems including that of the System of Electronic Payments (SEP) and the System of Express Transfers (SET) which, on the whole, formed the System of Electronic Inter-bank Transfers (SEIT) of the National Bank of Ukraine. SEP-2 is based on the up-to-date operational systems and on the commercial system of database management.

Specific features of the SEP-2 operation were as follows:

- centralized maintenance of the technical account of the SEP members (processing of payment and technological information), made in the SEP Processing Center located in the Central Clearing House of the National Bank of Ukraine;
- reduction of the number of models for servicing the consolidated correspondent account in the SEP;
- providing the information exchange with the participants in the file mode and in the real time mode through the NBU common automatic work station of the SEP member;
- possibility to effect the real time payments to any SEP participant address with no dependence on the working time of the receiver;
- introduction of the new information security system.

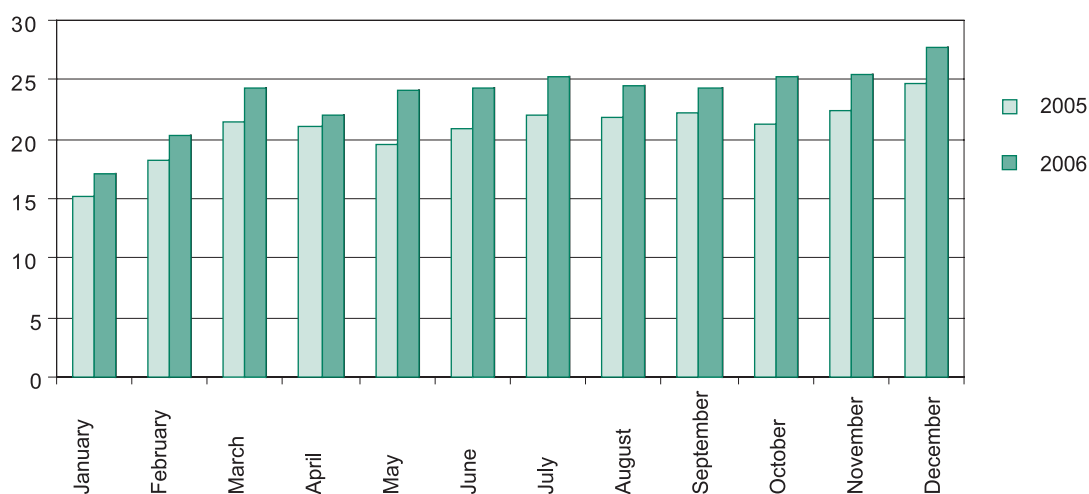
During the year, the test operation of SEP-2 was made; software/hardware SEP complex was completed with providing the appropriate technical base; SEP members were given the equipment produced for the cryptographic security of information.

During 2006, the quantitative and qualitative changes in the membership of banks, participating in the SEP, were immaterial and resulted from the appearance of some new banks and transformation of branches into the bank units not compiling the balance sheets, and thus, they were no longer the SEP participants.

As of 01.01.2007, the SEP members 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 169 banks-legal entities together with their branches (totaling 1576 institutions). As of 01.01.2007, the total number of institutions being the SEP members formed 1639 (or it decreased by 53 units as compared with 2005 owing to reduction of the bank branches), including 654 institutions to be the direct SEP members, and the rest of 985 institutions, having the indirect access to SEP, effected through the inter-bank payment system of their parent banks. As of 01.01.2007, the number of the correspondent accounts used for effecting payments by means of the SEP totaled 328. The SEP services in the real time mode (the SET analogue) were used by 558 institutions (by 374 units more than in 2005), namely: the National Bank of Ukraine with its branches, offices and training institutions (totaling 21 institutions), the State Treasury of Ukraine together with the regional departments (28 institutions) and 162 banks-legal entities together with their branches (totaling 509 banking institutions).

Utilized capacity of the system of electronic payments constantly rose. Thus, in 2006, 284.5 million of initial payments and electronic settlements, totaling UAH 4053.8 billion, were processed in the SEP, which was by 14% and 30% respectively more, than in the previous year. Out of that amount, 284.3 million payments totaling UAH 4040.3 billion were effected in the file mode and 142.9 thousand of payments totaling UAH 13.5 billion were made in the real time mode. Major portion of payments in the real time mode was made in November – December (94.3% of the yearly payments) upon the SEP-2 was put into operation.

**Loading of SEP in File Mode by Number of Initial Payments
(in mln.)**



EFFECTING PAYMENTS IN THE REAL TIME MODE

| Year | Number of payments | Amount, UAH, mln. |
|-------------------------|--------------------|-------------------|
| 2001 (March – December) | 1434 | 53 |
| 2002 | 1789 | 66 |
| 2003 | 1265 | 34 |
| 2004 | 466 | 114 |
| 2005 | 36498 | 5752 |
| 2006 | 142925 | 13546 |
| including: | | |
| SEP-1 | 8493 | 2302 |
| SEP-2 | 134432 | 11244 |

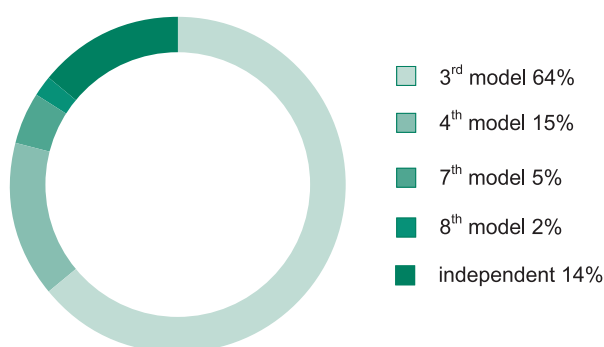
During the reporting period, the average daily amount of payment transactions and turnovers constantly tended to grow. In 2006, the average daily capacity of SEP amounted to 1.1 million initial payments of UAH 16.1 million in the file mode and to 569 payments of almost UAH 54 million in the real time mode. As a rule, by the end of month the SEP capacity exceeded 1.5 million payments per day. Maximum number of payments effected per day amounted to 1.56 million payments, including 7634 in the real time mode. Among the initial payments, 72.9% were the payments of up to UAH 1000.

The average daily balance on the accounts of the SEP members fluctuated from UAH 21.7 billion to 34.1 billion, and the average daily turnover coefficient on the accounts was equal to 0.6.

In 2006, similar to the previous years, the process of bringing the banks and their branches to using in the SEP one of the models for servicing of the consolidated correspondent account of the bank, went on. It should be noted, that each year this process became slower because major part of the banks have already chosen the convenient method of governing the branches in the SEP.

In view of the SEP new generation installed, the 1st, 2nd, 5th and 6th models of the consolidated correspondent accounts which failed to be much in demand, have been withdrawn from operation.

Distribution of SEP Participants by Models of Servicing the Consolidated Correspondent Account as at 1 January, 2007



As of 01.01.2007, 73 banks (or 1410 banking institutions) operated under the consolidated correspondent account that formed 86% of the total SEP members. Model 3 was of the highest demand and it was preferred by 47 banks (or 1057 institutions) that amounted to 64% of the total SEP participants. During the year, they made 125.8 million of initial payments amounting to UAH 1682.6 billion, which was by 24% and 42%, respectively more, than in 2005. The SEP members operating with other models of servicing the consolidated correspondent account in 2006 effected 132.2 million payments of UAH 1520.4 billion, or by 6% and 24% more, respectively, as compared with 2005. 96 banks (or 229 banking institutions) operated with the independent correspondent accounts which was 14% of the total SEP participants. In 2006, they performed 26.5 million initial payments amounting to UAH 850.9 billion.

In order to support the normative base of the SEP of the new generation the following documents have been adopted:

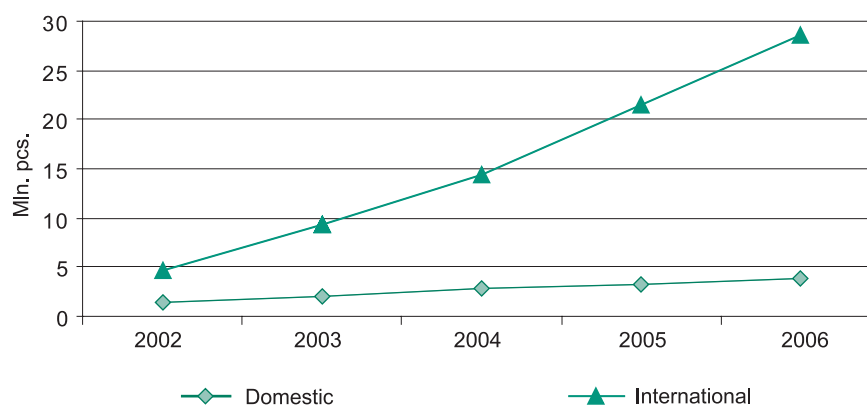
- Instruction on the inter-bank transfer of the domestic currency funds in Ukraine;
- Accounting rules for transactions of the National Bank of Ukraine within the system of electronic payments.

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

As of 01.01.2007, 111 banks (65% of the total banks possessing the banking licenses) were the members of the domestic and international payment card systems which issued and acquired the payment cards. In 2006, 10 more new banks became the members of the relevant payment systems and started the issuance and servicing of the payment cards.

Total number of the payment cards¹⁰ issued by the banks of Ukraine in the reporting year grew by 31% amounting to 32.5 million pieces. Number of payment cards issued per one thousand people of Ukraine as of 01.01.2007 amounted to about 696 pieces, or it increased by 168 units during 2006. Among the payments cards the share of personal payment cards was 99%; the magnetic tape cards formed 93.2%; debit (function) cards formed 81.3% and those with payment and cash supply functions – 94.9%.

Dynamics of the Total Number of Payment Cards Issued by the National Bank of Ukraine



Number of the automatic telling machines servicing the payment cards during the year increased by 30% up to 14.7 thousand units; the number of payment terminals grew by 46% amounting to 62.0 thousand units and the number of imprinters reduced by 11% amounting to 39.1 thousand units (because of their replacement by the payment terminals). Rapid growth of the commercial terminals (by 53% as compared with 2005) was characteristic of 2006.

Infrastructure of Accepting Cards within the Payment Systems

| Payment systems | ATM, units | | | Payment terminals, units | | | Imprinters, units | | |
|-----------------|-------------|-------------|----------|--------------------------|-------------|----------|-------------------|-------------|----------|
| | 01.01. 2006 | 01.01. 2007 | Incr., % | 01.01. 2006 | 01.01. 2007 | Incr., % | 01.01. 2006 | 01.01. 2007 | Incr., % |
| Total | 11325 | 14718 | 30 | 42361 | 62045 | 46 | 43930 | 39064 | -11 |
| Including | | | | | | | | | |
| Domestic | 2204 | 2793 | 27 | 7433 | 9759 | 31 | 4713 | 6496 | 38 |
| International | 10652 | 14039 | 32 | 39587 | 58868 | 49 | 43928 | 39062 | -11 |

As of 01.01.2007, number of operations with applying the payment cards issued by the banks amounted to 458.6 million of UAH 152.6 billion which was by 41% and 53% more, respectively, than in 2005. The structure of operations made with the payment cards in 2006 did

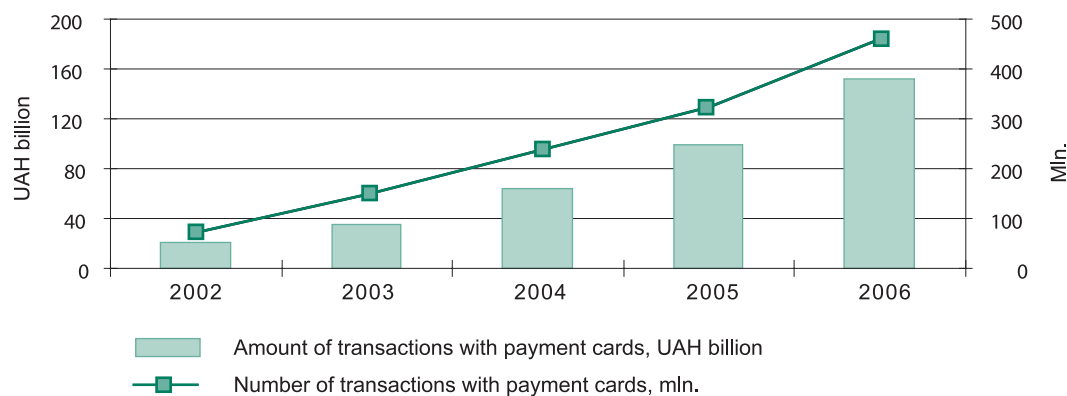
¹⁰ Payment cards with the help whereof at least one transaction was performed during the year.

not essentially changed. Thus, as of 01.01.2007, cash supply operations formed UAH 147.6 billion (97% of the total operations with payment cards) or they grew by 53% as compared with the previous year; non-cash payments were equal to over UAH 5 billion (3% of the total), or increased by 1.6%.

The average annual turnover per one payment card in all payment systems as of 01.01.2007 amounted to UAH 5332 and it grew by 11.9% as compared with 2005.

As of 01.01.2007, the balance of payment card accounts amounted to UAH 12.7 billion (or it grew by 53.5% for the reporting period), including funds on the payment card accounts of individuals forming UAH 12.3 billion (grew by 54.6%) and on the payment card accounts of legal entities – UAH 392 million (grew by 24.8%). At the same time, the balance on the payment card accounts of individuals in the domestic currency formed 82%, in the foreign exchange -18%, while the balance on the payment card accounts of the economic entities were 91% and 9%, respectively.

Dynamics of Operations with Payment Cards



In 2006, the banks and non-banking institutions of Ukraine were the members or participants of 22 international payment systems, including the following:

- five international payment card systems (Visa International, MasterCard International, American Express, Union Card, Gold Crown);
- 17 international systems for transfer of funds between the natural persons with no need to open the account.

As of 01.01.2007, the National Bank of Ukraine registered 227 agreements concluded by the institutions of Ukraine on the membership or participation in the international payment systems.

Among the international payment systems the participants of which appear to be the institutions of Ukraine the leading place belongs to the international systems for transfer of funds between the natural persons with no opening of the account. In 2006, the trans-border transfers by means of using of the above systems were made by more than 140 banks of Ukraine, JSC "Ukrainian Financial Group" and Ukrainian State Post/Pension Associate "UkrPost".

The amount of funds transferred by the individuals to Ukraine from other countries increases from year to year. Thus, in 2004, total international transfers to Ukraine grew by 7% as compared with the previous year, in 2005 – by 25%, in 2006 – by 32% amounting to USD 1.53 billion in the equivalent. Funds transferred outside Ukraine through the international fund transfer systems grew by 46% in 2006 and ran up to USD 139 million in the equivalent.

Total funds transferred in 2006 through the international fund transfer systems within the territory of Ukraine fell 1.7 times as compared with 2005 and amounted to USD 9.9 million in the equivalent.

Similar to the previous years, the Western Union (USA) was the leader in the market of international transfers in Ukraine. In 2006, more than USD 882 million or 59% of the total fund transfers came in Ukraine through this system. The second and third places belong to the Unistream (Russian Federation) and MoneyGram (USA). With their help USD 209 million and USD 100 million in the equivalent, respectively, came in Ukraine, forming 13% and 7% of the total transfers in Ukraine.

2006 was the third year of the commercial operation of the National System for Mass Electronic Payments (hereinafter, NSMEP).

As of 01.01.06, 32 banks were the members of the National System for Mass Electronic Payments including the National Bank of Ukraine. During the reporting year, seven more banks joined the NSMEP, as well as the "UkrPost" as an acquirer and two bank processing centers.

By the end of 2006, 34 automated payment card systems have been working with NSMEP member banks and their branches, including 30 that operated in the inter-bank mode.

Total number of the NSMEP payment cards issued by banks as of January 1, 2007 amounted to 1.4 million pcs. (in 2006 – 286.8 thousand); the network of NSMEP card servicing numbered 3.2 thousand units of the terminal equipment (by 778 units more than in 2005). By the year results, the leaders of NSMEP payment card issuance remained the JS "Express Bank" (611.9 thousand pcs.), JS "ImexBank" (533.9 thousand pcs.) and OJS "MegaBank" (107.6 thousand pcs.).

PERFORMANCE INDICATORS OF NSMEP IN 2001–2006

| Year | Number of payment cards issued, thous. pieces | Number of terminal equipment, units | Annual turnover, UAH million | Including the inter-bank turnovers, UAH thousand |
|-------|---|-------------------------------------|------------------------------|--|
| 2001 | 4 | 41 | 42.0 | 0.2 |
| 2002 | 119 | 430 | 426.8 | 535.7 |
| 2003 | 367 | 524 | 3912.8 | 35549.3 |
| 2004 | 373 | 846 | 6931.1 | 77569.5 |
| 2005 | 240 | 576 | 9739.2 | 115552.3 |
| 2006 | 287 | 778 | 12472.9 | 168739.6 |
| Total | 1390 | 3195 | 33524.8 | 397946.7 |

In 2006, turnover volumes against the NSMEP payment cards formed UAH 12.5 billion (by 22% more as compared with 2005), including 485.4 thousand inter-bank operations totaling UAH 168.7 million (by 73% more than in 2005).

In the reporting year, the production, issuing and applying of the new generation of the NSMEP payment cards (NSMEP-2) was launched. In view of that, the NSMEP members and participants renewed the software certified. The banks were given the possibility to work in the NSMEP under different models: as issuer with information authorizations, as acquirer with information authorizations, etc. Moreover, due to applying the non-financial additions of the NSMEP-2 cards, the following concomitant projects were realized:

- "Student payment card" (in 2006 at the stage of pilot project realization the NSMEP member banks issued 10 637 student cards for seven universities in the cities of Kyiv, Kharkiv, L'viv, Sumy and Cherkasy);
- "Social payment card";
- "Social/transport card" (taking into account the social component).

In 2006, realization of the pilot project on implementation of the mobile payment instrument was launched which gave possibility to control and manage the banking account through the mobile phone (closed JS company "Service Center of Mobile Payments" operates as a pro-

cessing center of the mobile payment instruments); information support and advertising was provided within the Internet network as well as the practical conference and seminar for experts of the state-owned institutions, banks and developers (providers) of the software and services were arranged.

The National Bank of Ukraine determined the prospects and possible directions in the NSMEP development in Ukraine for the nearest future. The Program for advancement of the National System of Mass Electronic Payments for 2006-2008 was approved. There was continued the work on improvement and development of the normative and legal framework for the NSMEP and in view of the above mentioned the methodic document "NSMEP Regulation" for the NSMEP Payment institutions as well as the normative documents and specifications for realization of the concomitant projects were developed and approved.

In 2006, the joint resolution of the Cabinet of Ministers of Ukraine and the National Bank of Ukraine approved the Concept of expansion of the non-cash settlements applying special payment instruments, which stipulated the measures on extension of the non-cash settlements with applying the payment cards.

2.7. CASH PERFORMANCE OF THE BUDGETS OF UKRAINE

In 2006, the budget organizations finalized their transition to the treasury form of servicing in compliance with the Budget Code of Ukraine.

Fund servicing of the state and local budgets recorded on the State Treasury accounts with the National Bank of Ukraine was realized through the Unified Treasury Account functioning within the System of Electronic Payments (SEP) of the National Bank of Ukraine with applying the internal payment system of the State Treasury of Ukraine. Terms and procedures for servicing funds of the State Budget of Ukraine were determined by the agreement concluded between the National Bank of Ukraine and the State Treasury of Ukraine.

Functioning of the Unified Treasury Account within the SEP of the National Bank of Ukraine provided the following:

- high reliability and security of payments against the budget funds;
- essential shortening of the payment transfer periods (payment maturity) and, thus, the growth in the budget fund turnover;
- compilation of the daily reporting from accounting of incomings to the State Budget of Ukraine;
- more effective management of the general residual of money resources.

According to Article 33 of the Law of Ukraine "On the State Budget of Ukraine for 2006" the payment of services for processing of the electronic payment documents and information within the system of electronic transfers with the National Bank of Ukraine was not performed. At the same time, the number of payments effected by the State Treasury of Ukraine and its bodies through the SEP 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 IN THE STOCK MARKET. SERVICING OF THE INTERNAL (DOMESTIC) DEBTS OF UKRAINE

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

During 2006, in order to allocate the state treasury bills (domestic T-bills) 78 auctions on the allocation of T-bills were arranged and only 37 were realized. As regards the other auctions, the Ministry of Finance of Ukraine took the decision not to realize the T-bills because of the dis-

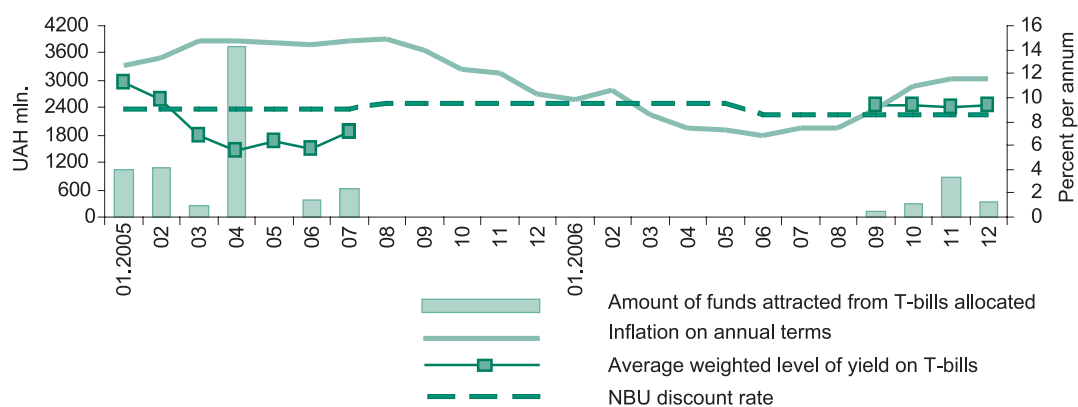
parity between the price proposals (bids) of the potential buyers and the real value of money or because of the absolute lack of bids for T-bills. UAH 1.6 billion were attracted to the State Budget of Ukraine (all that owing to allocation of the middle-term T-bills), which was 4.5 times more as compared with 2005. In 2005, the allocation of T-bills started only in September (prior to that the last auction on the T-bills allocation took place in July 2005).

SOME INDICATORS OF THE T-BILLS MARKET

| Indicators | Year of 2006 | Change against previous year | Information: 2005, change vis-a-vis previous year |
|--|--------------|------------------------------|---|
| Number of auctions | 78 | 41 | -65 |
| Realized | 37 | 12 | -25 |
| Non-realized | 41 | 29 | -40 |
| Funds attracted to State Budget, UAH billion | 1.6 | -5.6 | 5.0 |
| T-bill payment (principal amount + %), UAH billion | 4.8 | -4.5 | 5.5 |
| Net fund attraction (balance), UAH billion | -3.2 | -1.4 | -0.5 |
| Average weighted yield level, % | 9.26 | 2.01 percentage point | -3.99 percentage point |
| Average maturity, days | 985 | -54 | 287 |

Turnover period of the middle-term T-bills allocated in 2006 amounted to 985 days and it shortened by 54 days as compared with 2005.

Dynamics of Funds Attracted and Yield on T-bills



Along with shortening the average turnover period of the T-bills, their average weighted yield increased by 2.01 percentage points as compared with the previous year and amounted to 9.26% which was lower than the annual inflation level. Government securities were acquired primarily by the domestic investors. In 2006, the non-resident interest in acquiring T-bills essentially fell notwithstanding the high level of their reliability as compared with other financial instruments. Thus, in 2006, the amount of T-bills with the non-resident possession reduced by UAH 3.4 billion (in 2005 it increased by UAH 4.2 billion).

During 2006 the Ministry of Finance of Ukraine redeemed the T-bills and repaid yield to their

holders totaling UAH 4.8 billion, including the principal debt redemption of UAH 3.9 billion and the yield payment of UAH 0.9 billion and, thus, fulfilled all its commitments against different types of government bonds.

As a result of the fact that the amount of T-bills redeemed was higher than the amount of T-bills allocated, the indebtedness of the Government of Ukraine against the public bonds in 2006 (at face value) reduced by UAH 2.3 billion and by the year-end it amounted to UAH 7.7 billion.

2.9. LEGAL ENVIRONMENT OF THE BANKING SYSTEM

In the reporting year, the improvement of banking legislature went on.

In 2006, the activities of the National Bank of Ukraine were directed at the elaboration of the draft laws and their submission to the Verkhovna Rada of Ukraine through such legal subjects of initiative as the President of Ukraine, Cabinet of Ministers of Ukraine and the people's deputies.

During the year, the National Bank of Ukraine elaborated and passed to the legal subjects of initiative 12 draft laws including the following:

- adopted in full and signed by the President of Ukraine two draft laws "On Amendments to the Law of Ukraine "On Banks and Banking Activities" (on entitling the foreign banks to establish their branches on the territory of Ukraine) and "On Amendments to Some Legislative Acts of Ukraine as regards the Forms of Banks Established and the Amount of Authorized Capital";
- adopted in full and forwarded to be signed by the President of Ukraine the draft law "On Extension of the Liquidation Procedure of the commercial agricultural/industrial JS bank "Ukraina";
- adopted in the first reading the draft law "On Amendments to Some Laws of Ukraine (on regulation of the banking activities) which is aimed at the improvement of the banking supervision, arrangement of the external audit of banks, providing the internal financial monitoring in order to prevent using the banks for laundering the proceeds obtained from crimes;
- rejected (failed to receive the majority votes) the draft law "On Amendments to Article 18 of the Law of Ukraine "On the organizational and legal principles to fight against the organized crime" (to make easy the procedure for licensing the foreign exchange transactions and cancel requirements to the obligations of the National Bank of Ukraine conflicting with the Ukrainian legislature or those being pointless);
- remained under consideration the draft laws "On amendments to the Law of Ukraine "On the National Bank of Ukraine", "On amendments to some legislative acts of Ukraine as regards adhering to provisions of the bank deposit agreements" and "On amendments to some laws of Ukraine on the deposit insurance system for individuals".

More over, under consideration of the Verkhovna Rada of Ukraine there was the draft law "On amendments to the laws of Ukraine related to financing the Deposit Insurance Fund for Individuals" which was adopted by the Verkhovna Rada of Ukraine in the first reading in 2005. On the whole, six draft laws elaborated by the National Bank of Ukraine were under consideration of the Verkhovna Rada of Ukraine.

The following draft laws were given to the President of Ukraine:

- "On amendments to some laws of Ukraine" (related to regulation of issues on purchasing of goods, works and services against the public funds). Provisions of this draft law were partially accounted in the Law of Ukraine "On amendments to some legislative acts of Ukraine on purchasing of goods, works and services against the public funds" adopted by the Verkhovna Rada of Ukraine;
- "On amendments to the Law of Ukraine "On Entry of Ukraine into the International Monetary Fund, International Bank for Reconstruction and Development, International Financial Corporation, International Association for Development and Multilateral Agency in Investment

Insurance" according to which norms the National Bank of Ukraine was proposed to be appointed as a financial agent in the relationships with the IMF and obliged to perform all financial operations in compliance with articles of the agreement. The draft law was sent by the Secretariat of the President of Ukraine to be considered by the Cabinet of Ministers of Ukraine which determined this law to be unsuitable.

The draft laws given to the Cabinet of Ministers of Ukraine were as follows:

- "On amendments to Article 1 of the Law of Ukraine "On restructuring of the debt commitments of the Cabinet of Ministers of Ukraine before the National Bank of Ukraine". The draft law is under completing by the Ministry of Finance of Ukraine;

- "On amendments to some legislative acts of Ukraine as regards the moratorium for bank customer servicing to be introduced";

- "On amendments to Article 21 of the Law of Ukraine "On privatization of the state property" as regards allowing the purchasers being foreign investors to pay the value of the object privatized in the free convertible currency upon approval of the National Bank of Ukraine. The draft law was determined to be unsuitable because of the elaboration of another draft law by the State Property Fund "On amendments to some laws of Ukraine in the privatization issues" which intended to regulate the issue mentioned.

Proposals of the National Bank of Ukraine were taken into account in the following laws of Ukraine having adopted:

- "On amendments to the Decree of the Cabinet of Ministers of Ukraine "On the system of foreign exchange regulation and foreign exchange control";

- "On securities and the stock market";

- "On amendments to the Law of Ukraine "On the Enforcement of Law" and some other legislative acts on enforcement of court judgments";

- "On amendments to the Law of Ukraine "On the State Registration of Legal Entities and Natural Persons as Entrepreneurs";

- "On amendments to the Law of Ukraine "On the Audit Activities";

- "On amendments to some legislative acts of Ukraine in purchasing of goods, works and services against the public funds";

- "On Ukraine Joining in the UNIDRUA Convention on the international financial leasing";

- "On Ukraine Joining in the UNIDRUA Convention on the international financial factoring, etc.

On the whole, during 2006 the National Bank of Ukraine submitted to the Verkhovna Rada and its committees, the Cabinet of Ministers of Ukraine and executive bodies 92 amendments to the draft laws purposed for the legal support of the banking activities and development of the banking area.

In the reporting year, the amendments and modifications to the Law of Ukraine "On Banks and Banking Activities" were prepared which stipulated for introduction of the new approaches to the corporate government and improvement of standards on the establishment and operation of the risk management systems with banks as well as the improvement of bank supervision on the consolidated basis. The elaboration of the draft law resulted from the necessity to bring the laws of Ukraine in compliance with the international standards.

Within the context of realizing the National program for adjustment of the laws of Ukraine to the laws of the European Union, the National Bank of Ukraine was providing the work on harmonization of the banking laws with the European standards. As a result, the laws of Ukraine "On amendments to the Law of Ukraine "On Banks and Banking Activities" (related to the foreign bank branches) and "On amendments to the Law of Ukraine "On the National Bank of Ukraine" (related to enhancement of the independence of the National Bank of Ukraine) have been adopted.

Also, more than 60 draft norms and regulations of the National Bank of Ukraine were reviewed as regards their compliance with the European Union legislature. Upon the results of

such review the provisions of the European Union were implemented in the NBU norms and regulations connected with amount of the initial capital of any credit institution, minimum of provisions established, confidential information to be used for prevention of money laundering and terrorism financing, etc.

During 2006, the comparative analysis of the laws of Ukraine and laws of the European Union was conducted in such issues as the legal support of the trans-border non-cash transfers, realization of the principle of independence with central banks of the European countries, legal regulation of the credit institution activities, legal support for free capital movement and legal regulation of the bank holding.

In the reporting year, the National Bank of Ukraine adopted 141 normative and legal acts including resolutions, instructions, regulations and rules; out of that number 65 normative and legal acts were registered in the Ministry of Justice of Ukraine. Other normative and legal acts did not subject to the state registration in the Ministry of Justice of Ukraine. No rejections on the state registration of the National Bank of Ukraine' acts with the Ministry of Justice of Ukraine took place in 2006.

In 2006, the National Bank of Ukraine kept on to submit claims and complaints in order to protect the rights and legal interests broken or claimed; in particular, the NBU participated in 299 court hearings, among which:

- decisions in favor of the National Bank of Ukraine were taken in 160 cases of UAH 5167.4 thousand;
- decisions unfavorable for the National Bank of Ukraine were taken in five cases of UAH 21.3 thousand.

In the reporting year, the National Bank of Ukraine submitted:

– 82 claims (by 54.9% less than in 2005) of UAH 213.2 thousand (30 claims of UAH 127.7 thousand were recognized in full; 43 claims of UAH 28.7 thousand were partially recognized; 3 claims of UAH 3.6 thousand were rejected and 6 claims of UAH 53.2 thousand remain under consideration);

– 107 complaints of UAH 38.1 million (by 10.1% less than in 2005); out of those, 29 complaints of UAH 3.1 million were satisfied; five cases of UAH 21.3 thousand were rejected; nine complaints of UAH 227.3 remained with no consideration; 19 cases of UAH 13.0 million were stopped to consider; 11 complaints of UAH 3500 were withdrawn and 34 cases of UAH 21.6 million are under consideration).

In 2006 the National Bank of Ukraine was claimed as follows:

- five claims of UAH 27.3 thousand (all rejected);
- 192 complaints of UAH 3.0 million (including 19 satisfied in which the National Bank of Ukraine was involved as the third party with no property claims; 61 cases of UAH 1.2 mln. were refused; 4 cases of UAH 11.1 thousand remained with no consideration; 53 cases of UAH 759.0 thousand were stopped to consider; 2 cases of UAH 13.2 thousand were withdrawn and 53 complaints of UAH 1.0 million are under consideration).

Within the system of the National Bank of Ukraine, 7551 contracts on the economic activities were concluded in 2006.

2.10. RISK MANAGEMENT IN THE NATIONAL BANK OF UKRAINE

During 2006, the National Bank of Ukraine realized management of the credit risk, the exchange rate risk, the interest rate risk, operational risk and the risk of liquidity.

Risk management in the National Bank, on the whole, was realized by the Board of the National Bank of Ukraine; risk management of the NBU line departments was carried out by the department management and the Risk Management Division, while risk management of the very transactions was effected by the internal control units.

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 Committee in Assets and Liabilities Management:

- allocation of funds of the gold and foreign exchange reserves of the National Bank of Ukraine with the counteragent banks, having credit rating not less than minimum amount permitted ensuring the best possible diversification through fixing the long-term credit limits on the amount of funds allocated in the financial instruments of the counteragent foreign banks and security issuers and, also, through restriction of the standard duration (average maturity) of allocation per each currency and financial instruments;
- foreign exchange interventions made in the domestic foreign exchange market through fixing the short-term credit limits for the counteragent banks of Ukraine;
- refinancing of banks of Ukraine and performance of transactions in the open market carried out under the constant monitoring of the bank creditworthiness through secured credit operations, repo-operations and swaps;
- control over complying by the credit line participants with the requirements determined by the relevant credit agreements between the National Bank of Ukraine and the European Bank for Reconstruction and Development on extending loans within the EBRD credit lines.

Transactions carried out by the National Bank of Ukraine on the allocation of gold and foreign exchange reserve resulted in the open foreign exchange positions available and, consequently, foreign exchange rate risk occurred under those operations.

Foreign exchange risk management was performed through its assessment with applying Value-at-Risk (VAR) method by calculation of the value at risk as the possible change in the value of gold and foreign exchange reserve with 95% probability during one working day, 10 working days and during a month.

In order to constrain the foreign exchange risk, the National Bank of Ukraine determined the normative structure of foreign currencies within the gold and foreign exchange reserve in the form of the possible fluctuation range for each foreign currency component.

During 2006, in the course of assessing the value at risk of the gold and foreign exchange reserve the National Bank of Ukraine conducted 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 the currencies involved; volatility of the exchange rates; correlation of the exchange rate fluctuations and the high volatile to low volatile currency ratio.

During the year, stress-testing was performed which gave the possibility to examine the level of influence on changing the value of gold and foreign exchange reserve resulted from the possible whirl allegedly emerged in the financial markets due to the crisis.

The interest rate risk took place when the National Bank of Ukraine carried out the transactions on attraction and allocation of funds, and this risk was attributed to changes of the interest rates in the financial markets and imbalance of the assets and liabilities sensitive to the interest rate changes in certain time (term) bands. During 2006, the level of interest rate risk was assessed through the analysis of gaps between the relevant bank assets and liabilities within the time ranges specified by comparison of the average weighted interest rates of assets and liabilities within the currencies and financial instruments and also with the help of indicators of modified and key rate durations.

In order to manage the interest rate risk, the time variance of funds allocated in the interest bearing financial instruments was applied with taking into account the investment period specified by the normative documents and estimated changes of the market interest rates as well as the appropriate set of the normative benchmarks to manage the portfolio of securities with modified duration restricted.

With the purpose of managing the liquidity risk that was characteristic of operations on the management of the gold and foreign exchange reserve, primarily, due to the changeable for-

eign exchange interventions made in the domestic foreign exchange market, certain amount of the gold and foreign exchange reserve was held in cash on the correspondent accounts "nostro" (as required by the necessary minimum and permissible maximum of daily balances in the foreign currency on the correspondent accounts "nostro" of the National Bank of Ukraine in compliance with the normative documents). Gold and foreign exchange reserve was secured by the high liquidity securities available (in basic currencies) while maintaining the permissible currency portion specified in the normative documents; also, the uniform reimbursement of time deposit funds have been provided.

During 2006, regular management of the operational risk being typical for the NBU operations, was conducted in the National Bank of Ukraine. In order to improve the effective management of this risk, the generalized description of all processes in all line departments was introduced and level of the operational process risk was assessed by applying the method of scenario analysis.

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

During 2006, the National Bank of Ukraine took measures with the purpose to prevent using the banking system for legalization of proceeds obtained from crimes and terrorism financing.

With participation of the National Bank of Ukraine and the State Committee in Financial Monitoring of Ukraine there was developed and became valid since January 1, 2006 the Law of Ukraine "On amendments to some laws of Ukraine on improving the legal regulation of the international cooperation concerning prevention of the terrorism financing". In compliance with this law, the state authorities responsible for supervision of the financial institution activities were authorized to exchange information with the foreign supervisory agencies in order to supervise and prevent money laundering; also, the legal grounds to restrain the transactions of persons connected with terrorism financing were set (as per list of the UN Security Council).

In 2006, in order to follow the above law, the National Bank of Ukraine elaborated and submitted amendments to the Regulation on performance of the financial monitoring by banks. Those amendments regulate the bank procedures on revealing and restricting the financial operations in which the operation participant or beneficiary appears to be a person included in the list of those connected with the terrorist activities.

With participation of the Cabinet of Ministers of Ukraine the Plan of Measures for 2006 on prevention and counteraction of legalization (laundering) of proceeds obtained from crimes and terrorism financing was realized.

The measures applied by the Government of Ukraine with participation of the National Bank of Ukraine provided the FATF Group with the possibility to terminate the procedure of active monitoring for Ukraine in February 2006.

In 2006, the National Bank of Ukraine actively participated in preparing amendments and modifications to the laws of Ukraine which regulated the prevention of legalization of proceeds obtained from crimes and terrorism financing. The said amendments are aimed at the implementation in the laws of Ukraine of the FATF Forty Recommendations and Nine Special Recommendations in their current edition, norms of the III Directive of the European Parliament "On prevention of using the financial system for money laundering including terrorism financing" (2005/60/EC) and Convention of the European Council "On laundering, search, seizure and confiscation of proceeds obtained from crimes and on terrorism financing" (CETS 198).

In order to prevent opening of the accounts under the non-valid passports, the National Bank of Ukraine initiated the provision on ensuring by the Ministry of Internal Affairs of Ukraine the bank access to the database on the passports lost by the citizens of Ukraine to be included in the Decree of the President of Ukraine "On measures to enhance protection of rights of

the citizens being the bank depositors and other bank customers and to ensure stability of the banking system".

There were regularly traced the resolutions of the UN and other relevant foreign state authorities related to the legal entities and natural persons whose activities were connected with laundering of the criminal proceeds and terrorism financing. Banks were provided with the appropriate information.

According to the Law of Ukraine "On Banks and Banking Activities" the banks were examined as regards their compliance with the legislature in the area of preventing money laundering and terrorism financing.

During the year, 506 inspections of the banking institutions were performed concerning their compliance with requirements of the laws in financial monitoring issues, including 199 inspections of the banks and 307 inspections of the bank branches. By results of the inspections 2955 cases of violation of the laws in force were revealed. The National Bank of Ukraine applied 125 measures of enforcement to the banks and bank officials, namely:

- written warnings sent (19);
- bank penalties imposed (63);
- administrative fees imposed on the bank managers and officials (38);
- some particular high risk transactions were stopped (restricted) in three cases;
- written agreements concluded with two banks according to which the banks committed to take measures to correct violations, including those related to financial monitoring issues.

The officers of the National Bank of Ukraine took part in the work of the Permanent Working Group on researching the trends and methods used for laundering of proceeds obtained from crimes.

2.12. INTERNATIONAL COOPERATION

2.12.1. RELATIONSHIPS OF THE NATIONAL BANK OF UKRAINE WITH OTHER CENTRAL BANKS OF THE WORLD COUNTRIES AND BANKING INSTITUTIONS OF OTHER COUNTRIES

In 2006, within the framework of further cooperation with the central banks of other countries, the National Bank of Ukraine provided the elaboration and entering of the Memorandum of Understanding between the National Bank of Ukraine and the Bank of Lithuania on cooperation in the credit institution supervision as well as the Memorandum on cooperation in the credit institution supervision between the National Bank of Ukraine and the Banking Regulation Commission of China.

The draft Measures for the Inter-state Program of the long-term economic cooperation between Ukraine and the Republic of Tajikistan for 2003-2012 have been worked through.

In May 2006, the NBU participated in the regular meeting of the Central Bank Governors Club of the Black Sea, Asia and Balkan countries.

In November, the tenth meeting of the Working group "Banks" within the top level Group for economic cooperation between Ukraine and the Federative Republic of Germany was arranged.

In order to strengthen and intensify the bilateral relationships in 2006, the business visits of the National Bank of Ukraine management to the Republic of Finland and Republic of Estonia took place within the official delegation headed by the President of Ukraine; also, there were visits to the Financial Market Supervisory Authorities of Austria where the banking supervisions issues have been discussed and to the Republic of Belarus to participate in the fifth meeting of the Central Bank Advisory Board.

In order to clarify the investment environment in Ukraine there were meetings arranged with

the representatives of the Nordic Investment Bank and Citibank (Ukraine), JP Morgan, Japan Bank for International Cooperation and Merrill Lynch.

2.12.2. COOPERATION OF THE NATIONAL BANK OF UKRAINE WITH THE INTERNATIONAL FINANCIAL AND OTHER ORGANIZATIONS

In 2006, similar to the previous years, the international activities of the National Bank of Ukraine were aimed at the intensification of cooperation with the international organizations. In 2006, the National Bank of Ukraine promoted the realization of the Strategy of cooperation with the international financial organizations for 2006-2008 approved by the Cabinet of Ministers of Ukraine.

Cooperation with the International Monetary Fund

In 2006, the cooperation between the National Bank of Ukraine and the International Monetary Fund kept on with no credit extension, but through attracting the IMF experts for the advisory support.

During 2006, the experts of the IMF missions from different departments worked with the NBU officers, in particular, the European Department, Fiscal Department and Statistics Department which investigated the influence of the monetary and foreign exchange policy on the inflation processes; also, they focused at the risks threatening the banking sector stability.

The effective work of the experts from the Monetary Policy and Capital Market Department of the IMF with the NBU officers took place in the strategy of public debts and internal debt market management, in the information policy strategy of the National Bank of Ukraine on its way to the inflation targeting transition.

By results of the technical missions of experts from the International Monetary Fund the Ukrainian party was given the memos with appropriate recommendations. The cooperation went on with the IMF advisors who provided the advisory support in such directions of the NBU activities as preparing to the inflation targeting transition, forecasting and analysis of the macro-economic policies, introduction of more flexible foreign exchange rate, accounting and internal audit.

There was arranged the participation of the NBU management in the meeting of Governors of the International Monetary Fund and the World Bank (20-23 April, Washington), the annual meetings of the IMF and WB Constituency Group Governors (17-18 June, Yerevan, Armenia), the annual meetings of the International Monetary Fund and the World Bank Governors (16-21 September, Singapore) and special meeting of the IMF Constituency Group (13 November, Amsterdam, the Netherlands).

According to Article IV of the IMF Agreement, on 12-25 October 2006 the annual mandatory consultations with the IMF European Department were arranged in the key issues of the monetary policy, foreign exchange regulation and macro-economic policy.

Cooperation with the World Bank

In 2006, the cooperation between the National Bank of Ukraine and the World Bank went on and it was aimed at reforming of the banking system through a number of joint investment projects, namely:

- "Development Policy Loan" (DPL);
- "Project Adjustment Loan" (PAL);
- "Enlarged access policy to the markets of financial services";
- "Development of the State Statistics System for Monitoring of Social and Economic Transformations";
- "Export Development – II"
- "Public Finance Modernization".

The NBU participated in reviewing the project portfolio of the World Bank in Ukraine.

In 2006, in order to implement the "Development Policy Loan" aimed at the financial support of the State Budget of Ukraine, the National Bank of Ukraine kept on to introduce the second stage of the Development Policy Loan (hereinafter, DPL-2). Together with the Government of Ukraine the National Bank of Ukraine provided the fulfillment of the Plan of Measures on following the provisions of the World Bank project DPL-2 taking into account the commitments of Ukraine specified in the letter of the Government of Ukraine to the World Bank concerning the development policy and the Matrix of the institutional and strategic results within the DPL-2, and also participated in the working negotiations of the Ukrainian party with the IBRD to agree positions on assessment of the DPL-2 performing.

The draft Report on introducing and completing of the World Bank "Project Adjustment Loan" has been worked through. In order to provide the project fulfillment monitoring, the appropriate monthly and quarterly information was given to the World Bank.

Within the World Bank project "Improvement of the Social Assistance System" in order to improve the efficiency of attracting and using funds of the international financial organizations, the National Bank of Ukraine launched the practice of foreign currency accounts to be maintained for servicing the credit agreements between the World Bank and Ukraine.

Within the framework of non-credit activities of the World Bank and under its support, in 2006, the National Bank of Ukraine was realizing the Dutch Government Grant of 1.5 million euro for implementation of the second Program for restructuring of the financial sector of Ukraine launched in the 1st quarter of 2006. Funds disbursed under this Grant are directed primarily at financing of the advisory and training services for the National Bank of Ukraine and the State Commission in regulating the markets of financial services with the purpose of advancement and improvement of the supervisory function of the said institutions, rendering assistance in the transition to the Basle-II standards and restructuring of the state-owned banks. Within the technical assistance program in 2006, there were elaborated and approved by the special tender committee the technical tasks for advisors in the risk-assessment supervision and for a translator of the analytical and normative/legal documentation; prepared technical tasks on the selection of advisors in accounting of the financial instruments and work with the problem banks; financed the probation training and participation in the international conferences for the officers of the State Commission in regulating the markets of financial services as well as the contract for the long-term resident advisor to the National Bank of Ukraine in the risk-based banking supervision issues.

During 2006, the National Bank of Ukraine kept on monitoring of servicing the debts to the Ministry of Finance of Ukraine under the credit lines of the World Bank. During 2006, funds of the member banks of USD 3.8 million and funds of the local executive authorities of USD 350 thousand came on the correspondent accounts of the Ministry of Finance of Ukraine.

Cooperation with the European Bank for Reconstruction and Development

During 2006, the National Bank of Ukraine kept on to implement the second credit line opened by the European Bank for Reconstruction and Development and aimed at financing of the small- and medium-sized private enterprises (SME-2) in the amount of US \$ 88.2 million.

In 2006, six loan projects of US \$ 7.7 million were approved. During 2006, the amount of micro-credits extended to the final borrowers grew by US \$ 106 million and was equal to US \$ 746 million.

In 2006, the National Bank of Ukraine repaid in full its liabilities to the European Bank for Reconstruction and Development at the regular maturities, and as of 01.01.2007 the outstanding credits under SME-2 amounted to US \$ 50.5 million. Outstanding debts of the member banks to the National Bank of Ukraine reduced to US \$ 44.8 million.

Cooperation on extending loans and attracting funds in Hryvnia by the European Bank for Reconstruction and Development went on.

The draft agreement elaborated by the Romanian party on the introduction of the alternating chairmanship principle within the EBRD Group of Ukraine, Romania, Moldova, Georgia and Armenia has been considered.

During the year, the representatives of the National Bank of Ukraine participated in elaboration of the draft Program of cooperation for 2007-2008 between the Government of Ukraine and the European Bank for Reconstruction and Development targeted for support of the priority trends in the social and economic development of Ukraine. At the same time, with the purpose of legal regulation of the status and activities of the EBRD Resident Representative Office in Ukraine, finalizing of the draft Agreement between the Government of Ukraine and the European Bank for Reconstruction and Development on cooperation and activities of the EBRD Resident Representative Office in Ukraine was in progress.

Cooperation with the CIS Inter-state Bank

In 2006, the National Bank of Ukraine went on to trace the situation on reforming the Inter-state Bank. In compliance with the official position of Ukraine the NBU representatives took part in the meetings of the Bank Council.

During 2006, the National Bank of Ukraine participated in working out the concept of future activities of the Inter-state Bank and elaboration of the draft papers that would determine the underlying policy of the financial institution and the basic rules for providing resources in realization of the investment activities, namely: "On the Credit Policy of the Inter-state Bank" and Regulation "On the Procedure for the Inter-state Bank Participation in the Investment Projects". Also, there was considered the issue on the trust management of the central bank assets by the Inter-state Bank.

Cooperation with the German/Ukrainian Fund

In 2006, the National Bank of Ukraine kept on the monitoring of the German/Ukrainian Fund (GUF), a special financial institution, established for the introduction in Ukraine of the micro-credit program as per the Grant Agreement signed by the National Bank of Ukraine and the German Credit Institution for the reconstruction (KfW).

During 2006, under this program 5.2 million euro were disbursed to the banks from the GUF funds.

Within the agreements concluded by the banks participating in the GUF micro-credit program, 56 494 loans of 249.4 million euro were extended. By the end of the year, the current portfolio amounted to 48 246 loans of 165.5 million euro.

In view of the successful realization of the program, KfW proposed to appoint the German/Ukrainian Fund to be the executor of the credit lines extended by the German Government to Ukraine under the projects "Finance for the agricultural enterprises and private entities in the rural area of Ukraine" (of up to 4 million euro) and "Rural Area Development in Ukraine" (of up to 3 million euro).

Within the inter-governmental agreement on the financial cooperation concluded between Ukraine and the Federative Republic of Germany, the Cabinet of Ministers of Ukraine, KfW and the German/Ukrainian Fund in September 2006 entered a number of agreements within the project "Refinancing program to support rural area credits", the executor of which was the German/Ukrainian Fund.

In October 2006, the Sub-credit agreement was concluded between the German/Ukrainian Fund and the Government of Ukraine on transferring the loan and grant to finance the project "Refinancing program to support rural area credits". In order to fulfill the agreements concluded, the National Bank of Ukraine together with KfW worked out the draft Consulting agreement to be entered with an Advisor selected upon the international tender; the Advisor will support the project and shall be financed from the Grant funds. The Advisor will be selected by results of the international tender arranged by KfW on behalf of the German/Ukrainian Fund.

Cooperation with other international institutions

Integration of Ukraine to the European Union (hereinafter, EU) remains one of the basic priorities of the national policy. During 2006, similar to the previous years, the National Bank of Ukraine adhered to the provisions of the Agreement on partnership and cooperation between Ukraine and EU and actively participated in the elaboration of the new draft master agreement that should replace the Agreement on partnership and cooperation between Ukraine and EU; also, the NBU took part in determination of the basic cooperation goals and priorities within the agreement to be concluded between Ukraine and the European Union on the establishment of the free trade area, in particular, establishing a special unit responsible for financial service trading.

Representatives of the National Bank of Ukraine participated in the regular meetings of the Committee in the cooperation between Ukraine and the European Union, Sub-committee #2 "Economic and social issues, finance and statistics".

The National Bank of Ukraine was attracted to work out the issues related to the establishment of free trade area (zone) and entering the new master agreement between Ukraine and the European Union to replace the Agreement on partnership and cooperation.

In order to realize the strategic course on joining Ukraine into the World Trade Organization (WTO), the National Bank of Ukraine fulfilled the tasks put within its competence. Thus, the NBU provided the reasoned details to the requests of the countries-participants of the Working Group on reviewing the Ukraine application as regards its entering the WTO; made analysis of the prospects for development of the banking sector in Ukraine and drawn out the measures aimed at neutralization of the possible adverse effect after joining the World Trade Organization.

In 2006, in order to realize the Euro-Atlantic integration, the National Bank of Ukraine ensured the realization of measures of the Ukraine – NATO Target Plan for 2006 in the part applied to the National Bank of Ukraine.

During 2006, the National Bank of Ukraine took part in elaborating a number of the international agreements on formation of the Unified Economic Area between Republic of Belarus, Republic of Kazakhstan, Russian Federation and Ukraine which (agreements) regulated the benchmarks for the monetary and foreign exchange policies and for the investment activities.

In 2006, the foundation for dynamic progress of the relationships with the Northern Investment Bank and the European Investment Bank were laid. Thus, frame agreements between Ukraine and the Northern Investment Bank, Ukraine and the European Investment Bank, worked out with the NBU participation, became valid. The above agreements provide with the possibility to intensify cooperation of the said institutions with the private sector of the economy in Ukraine. The work on establishment of the Baltic/Caspian/Black Sea Bank for Development was arranged.

2.13. BASIC DIRECTIONS OF THE ECONOMIC ACTIVITY

During 2006, the National Bank of Ukraine carried out the economic activity aimed at fulfillment of the tasks in complying with the Law of Ukraine "On the National Bank of Ukraine" in the following directions:

- analysis and forecasting of the macro-economic and monetary indicators;
- compilation of the monetary and banking statistics;
- analysis of the bank claims against credits invested in the economy of Ukraine and of the bank liabilities against funds attracted;
- analysis of the interest rates on the deposit funds mobilized by banks and on the credits granted;
- preparing of information, analytical and presentation materials on the situation and trends of development of the economy and the banking system;
- compilation and assessment of the balance of payments;

- forecasting of the balance of payments;
- forming and analyzing the international investment position;
- composing and analyzing the external debts of the country;
- monitoring of following the decrees and orders of the President of Ukraine in the economic issues.

In cooperation with the Secretariat Office of the President of Ukraine and the Cabinet of Ministers of Ukraine the National Bank of Ukraine provided the decrees and orders of the President of Ukraine to be fulfilled as regards the development of the banking system and raising its role in the development of the national economy.

During the year, official editions of the National Bank of Ukraine – "Bulletin of the National Bank of Ukraine" and "Gerald of the National Bank of Ukraine" were published monthly and the "Balance of Payments and External Debts of Ukraine" was issued quarterly.

In 2006, the optimization of the statistical reporting submitted to the National Bank of Ukraine for compiling the monetary statistics, statistics of the balance of payments, international investment position and external debts and for carrying out the regulative and supervisory functions kept on. In the reporting year, three amendments to the Rules of organizing the statistical reporting were prepared, and by their results the modifications and amendments were made to 58 forms, three new forms were introduced and 10 forms of the statistical reporting were canceled. In order to improve the monetary and banking statistics, the methods and algorithm for calculation of the statistical reporting indicators to be provided by banks were made more precise; also, revised were the terms and periodicity (intervals) for providing some particular reporting forms. In order to comply with the provisions of the Basle Committee for banking supervision, the new statistical reporting forms on the bank risk concentration have been introduced; they were necessary to realize the tasks on strengthening the supervisory function and using the effective instrument of banking supervision on the particular and consolidated basis, in particular, monitoring of the creditworthiness, liquidity and large exposures.

Work on making up the financial passport of the regions was continued; the passport was formed on the basis of indicators of the general economic development, development of the financial and banking sectors of the economy, etc. Forming and updating of the dynamic rows according to the indicators of the financial passport of the regions was provided. The above information was used for making the economic analysis of the regions and for the economic researches.

During the reporting year, the compilation of monetary and banking statistics was performed, the statistical reporting was submitted to the IMF, monetary statistics was made public through the official issues of the National Bank of Ukraine, Internet, etc.

The National Bank of Ukraine was preparing and making public the information on the indicators of the financial and external sectors of the economy in compliance with recommendations of the Special Standard on Information Dissemination of the International Monetary Fund. In 2006, dissemination of information of the "Interest rates" category was launched as regards the T-bill yields in the primary market.

In 2006, the International Monetary Fund was provided with the statistical reporting of the monetary and banking statistics on the new standardized reporting forms in compliance with the international standards on compiling the statistics; starting from September 2006, the standards are being published in the new attachment to the IMF "International Finance Statistics" issue.

In the reporting year, the National Bank of Ukraine realized a number of measures through taking part in the coordinated project of the International Monetary Fund on compilation and publication of the financial stability indicators. Within that project the work on preparing the meta-data and data on the financial stability indicators for the deposit corporations was finalized; the data have been compiled according to the IMF methodology including 12 basic indicators of the deposit corporations and 10 deposit corporation indicators as recommended by

the International Monetary Fund. Information on the financial stability indicators of Ukraine was given to the International Monetary Fund to be presented in the web-site.

During 2006, the National Bank of Ukraine cooperated with the Government of Ukraine at the plan of actions for 2006 concerning realization of the Strategy for the state statistics development for the period of up to 2008.

The National Bank of Ukraine elaborated and submitted to the State Statistics Committee the information on the financial assets and liabilities of the commercial banks and of the National Bank of Ukraine to ensure formation of the financial account and making up the annual national accounts at the sub-sector level within realization of the Program for development of the national account system for the period of up to 2010.

In the reporting year, in order to realize the "Ukraine – European Union" Plan of Actions, the National Bank of Ukraine made a review on the major mismatches between the classification of the institutional sectors of the economy in the European System of Accounts (ESA 1995) and the System of National Accounts (OOH 1993), which were taken as a basis for compilation of the monetary statistics indicators, and also on the mismatches in the monetary statistics indicators of the European System of Central Banks and the National Bank of Ukraine in the part related to the monetary aggregates, the bank claims against credits, the bank liabilities against the funds attracted, the interest rates, etc.

Realization of the World Bank project "Development of the state statistics for monitoring of the social and economic transformations" went on. Within the said project there were developed and agreed with the World Bank the technical tasks on rendering advisory services in the sub-components C.7 "Monetary and banking statistics" and C.8.2 "Statistics of the balance of payments".

Economic activities in the regional branches of the National bank of Ukraine were entrusted with the economic operation and monetary relationships' divisions. In their work the NBU regional economic divisions were guided by the Regulation concerning branches (regional departments) of the National Bank of Ukraine, the laws of Ukraine "On the National Bank of Ukraine" and "On the Banks and Banking Activities" as well as by other normative documents of the National Bank of Ukraine.

The Internet web-site of the National Bank of Ukraine took one of the leading places in the information dissemination; number of requests to the NBU web-site exceeded a million and a half which was by 22% more than in 2005. In the reporting year, the quality of web-site data was improved. Primarily, this refers to the amount of daily information provided and the Special Standard for Information Dissemination, analytical and research materials that would promote the information transparency on the activities of the National Bank of Ukraine and the banking system of Ukraine. Up-to-date web-site of the National Bank of Ukraine as the NBU Internet representative office was under development; its introduction shall be made upon completing the technical mode of operation.

In order to improve the public knowledge about the banking system, the constant exposition "The National Bank of Ukraine" within the National complex "ExpoCenter of Ukraine" has been reconstructed; it demonstrated to the countrymen and the world public the achievements and potentials of the National Bank of Ukraine, innovative and progressive banking technologies and the actual events in the banking system of Ukraine.

"The National Bank of Ukraine" exposition locates in Hall #1 of the National complex "ExpoCenter of Ukraine"; this is the sole constantly working exhibition which comprehensively highlights the activities of the National Bank of Ukraine.

Its design, photos, illustrations, letter and number texts, the exhibits, video and information materials are acknowledged to be among the best in the National complex, and the National Bank of Ukraine was awarded with the diploma of the State Administration Department of the National complex "ExpoCenter of Ukraine".

Officers of the National Bank of Ukraine kept a constant eye on the activities of the inter-

national financial organizations. Particular interest was aroused by the researches in finance and banking area, by recommendations, assessments and forecasts of the International Monetary Fund and the World Bank, which contributed to the higher quality of the analytical documents of the National Bank of Ukraine and their approaching to the world standards. Therefore, in 2006, providing the NBU management and line department managers with the necessary IMF and WB information and analytical materials was in further progress.

Within that work, the monitoring of different sources of information was made; the reports, periodical issues, analytical notes and working documents of the International Monetary Fund and the World Bank were analyzed and on the basis of the most important papers the information was prepared; the materials were translated into Ukrainian and presented in brief as resumes. Learned were the documents of the Executive Managers of the International Monetary Fund to which access the National Bank of Ukraine has been specially authorized. Also, the search of materials for satisfying the direct requests of the NBU management and the line department managers took place.

During the year, over 80 documents in different areas have been selected and reviewed including the key issues of the monetary policy, current challenges of the financial sector, assessment of the financial stability, economic progress and international integration, economic forecasts, reforming the quota system of the International Monetary Fund, and the like.

Particular attention was paid to the work of the IMF missions and information support for delegations of the National Bank of Ukraine during preparing to the talks with representatives of the international financial organizations. Regular cooperation with the official representative of Ukraine to the International Monetary Fund was maintained.

Information and analytical materials were placed in the database and could be accessed by any officer of the National Bank of Ukraine directly from his working place. The Internet page was constantly maintained and improved to satisfy the needs of the users and to make easier the access to the database; in particular, new means for the document search and keeping the statistics of visits were introduced.

In 2006, announcements of publications, economic news, financial position of Ukraine in the International Monetary Fund, information on the activities of the international financial organizations, and the like were started to be additionally placed in the web-site.

2.14. ECONOMIC RESEARCHES AND FORECASTING

During 2006, the elaboration of macro-economic forecasts used to determine the directions of the monetary policy to be pursued by the National Bank of Ukraine was in progress. Basic components for the analytical/forecasting system have been formed, and the quarterly forecasting model became the most important; it was used to simulate the monetary policy effect on the real sector of the economy and enabled to analyze the different scenarios of pursuing the monetary policy in order to achieve the targets declared, in particular, the inflation targets.

Economic forecasting results were shown in the monthly "Macro-economic Review" (effective results of the economic development and expectations of further economic situation for the next two quarters) and the quarterly "Macro-economic Forecast" covering the details of the monetary aspect, real sector, state (public) finance and the external environment and focusing at the indicators and events of the last quarter and the economic development forecasts for the next eight quarters and emphasizing the development of the inflation processes. Based upon the "Macro-economic Forecast", the "Inflation Report" edition is planned to be prepared which would become one of the main links of the communication system between the National Bank of Ukraine and the public.

In the reporting year, a number of economic researches were conducted and their results contributed to the more reasonable decision-making in the monetary and foreign exchange policy issues.

Within the measures realized by the National Bank of Ukraine for transition to the monetary arrangement based on the price stability there shall be launched the quarterly interrogation of the enterprise business expectations intended to provide the information concerning the situation in the economy and the additional data for macro-economic forecasting (inflation and exchange rate expectations, assessment of the current and future business activities, changes in the economic situation in the country) which also appear to be the indicators of the economic agents' confidence in the monetary policy of the National Bank of Ukraine.

Results of the interrogation have been used in the decision-making on the monetary policy by the National Bank of Ukraine and by the commercial banks for assessing the risk of investments made in the economy. Analytical documents and results of interrogation were placed in the official NBU web-site for the free access; they were given to the participating enterprises (to raise their interest in future interrogations) and to the state authorities. The information was received through the voluntary questioning of over 1200 entities selected to present the regional and industrial structures of the economy. During analyzing the confidentiality of the particular entity information was observed.

In 2006, there were four interrogations of the enterprises. In order to highlight the tasks and goals of the interrogations, the National Bank of Ukraine arranged the training seminars with the officers of the regional branches responsible for the interrogation; there were meetings with representatives from the business area and the executive authorities. Upon results of the first interrogation the press-conference was arranged. Finally, the number of entities willing to participate in the above interrogations grew.

During the year, working out of the common position of the Government and the National Bank of Ukraine as regards the possible trajectory of the inflation processes and their effect on the development of the economic situation both in the current year and for the middle-term outlook kept on. Regular consultations between the experts of the National Bank of Ukraine and the Cabinet of Ministers of Ukraine took place in the forecasting of social and economic development of Ukraine. The agreement on cooperation to achieve the price stability goal was agreed. The draft Strategy for development of the financial sector for the period of up to 2015, the Plan of Actions to realize the Basic Trends of Stock Market Development in Ukraine for 2006-2010 and determination of the ways and forecasting of the development of the banking system of Ukraine for 2006-2011 were made up.

Realizing the Plan of measures for the inflation targeting transition, the National Bank of Ukraine arranged the training seminars in the inflation targeting issues; the draft booklet "Inflation targeting: prospects for Ukraine" was made up for the public to clarify the point; it included the comparison of the monetary regimes existing in the world, basic characteristics of the inflation targeting mode and consequences of its introduction in Ukraine.

2.15. SCIENTIFIC RESEARCHES OF THE NATIONAL BANK OF UKRAINE

During 2006, the NBU Center of Scientific Researches conducted a number of scientific researches related, in particular, to the following:

- challenges in reforming the national banking system within the context of Ukraine integration in the EU;
- correlation of the macro-economic variables through the basic channels of the transmission mechanism in Ukraine and elaboration of the scientifically reasonable proposals to improve the transmission mechanism of the monetary policy;
- different aspects of regulation and forecasting of the banking system liquidity in Ukraine and their influence on the efficiency of the monetary policy pursued by the National Bank of Ukraine;
- international experience in reducing the short-term "speculative" capital inflow into the

country economy and working out the practical recommendations on the instruments of managing and decreasing its adverse effect on the monetary and foreign exchange markets of Ukraine;

- influence of the fixed and flexible exchange rates on the trade flows and competitiveness;
- effect of the valid tariffs of the National Bank of Ukraine on the cash flows (turnovers) and cash quality in circulation;
- nature of electronic money, principles of e-money issuers' activities, revealing the rules of electronic money functioning, modeling the post-effects of using the electronic money for the monetary and payment systems.

In 2006, the investigations were completed and recommendations were worked out as regards the introduction of the inflation targeting in Ukraine.

The analytical, scientific and methodical papers related to the problems of banking activity taxation and analysis of the factors affecting the inflation dynamics in Ukraine have been prepared. Also, the Matrix of services provided by the financial institutions of Ukraine was composed and information on the systemic risk indicators in the banking system as reported by the Fitch rating agency was presented.

During the year, the National Bank of Ukraine together with the international financial organizations, concerned ministries, authorities and associations arranged the scientific conferences, seminars and round-tables, where the challenges of the scientific researches, proposals and practical recommendations regarding the trends of development for the competitive banking system of Ukraine have been discussed.

2.16. IMPROVEMENT IN ACCOUNTING AND FINANCIAL REPORTING

In 2006, in order to regulate the accounting in the banks, the National Bank of Ukraine turned its efforts to introduction of the revised international standards on financial reporting in the banking practice and to adaptation of the normative/legal framework in compliance with the European Union laws.

Within realization of the tasks specified, the activity of the National Bank of Ukraine was aimed at the following:

- improvement of the financial instrument accounting and ensuring reliability and transparency in the financial statements of the banks of Ukraine;
- harmonization of the methodological accounting principles with the basic norms of the European Union laws;
- intensification of the requirements to internal control arrangements with banks of Ukraine.

The above tasks have been realized through the development of new norms and regulations and the improvement of those in force, in particular:

- information disclosure mechanism for the annual and consolidated financial statements of the banks as regards the long-term assets for sale was introduced;
- requirements to apply in the consolidated financial reporting the common accounting policies in order to show the similar transactions and other events occurring under the similar circumstances were set; also, there was taken into account the potential vote influence that could be realized or converted to the financial and operational policies of another economic entity;
- responsibilities of the chairmen of boards and the chief accountants of banks were enhanced for adhering to the requirements of the laws of Ukraine and the normative/legal acts of Ukraine; approaches to the management accounting based upon the specific activities of banks were outlined;
- methodological principles were improved to recognize and account the interest-bearing

gains (losses) against the financial instruments through applying the real interest rates which would promote the implementation of the up-to-date risk management methods in banks and provide the real value of banking products to be determined.

In 2006, the National Bank of Ukraine, together with other state authorities worked at the improvement of the tax laws, in particular, on bringing together the tax accounting of transactions with foreign currencies, securities, loans, insurance provisioning and the like.

2.17. AUDIT OF THE NATIONAL BANK OF UKRAINE

The internal audit of the National Bank of Ukraine was carried out according to the plan approved for the line departments of the head-office and institutions of the National Bank of Ukraine.

Internal audit was primarily focused at the reliability of the financial and statistical reporting, verification of accuracy and trustworthiness of accounting and reporting, assessment of risk factors in the activities of the NBU line departments and compliance with the laws and norms and regulations of the National Bank of Ukraine.

In 2006, according to the plan, 204 audits were conducted including 162 audits of the regional branches of the National Bank of Ukraine, 21 – of the line units, 12 – of the line divisions in the NBU head-office and nine audits of the training institutions. In the course of audits, 29 inspections of valuables with cash offices and vaults were conducted.

In conformity with recommendations provided by the PriceWaterHouseCoopers (Audit) the measures to eliminate the shortcomings revealed by the auditor have been worked out.

In 2006, according to the "Strategic Program for applying the IT within the system of the National Bank of Ukraine for 2004-2006" the "Audit" complex was created.

By results of the internal audits the line departments of the National Bank of Ukraine started to realize 1862 recommendations, or 94% of those given.

2.18. FINANCIAL PERFORMANCE. RECEIPTS AND EXPENSES, THEIR DYNAMICS AND STRUCTURE

In the financial statements of the National Bank of Ukraine for 2006 the receipts and expenses are accounted on the accrued basis.

The revenue of the National Bank of Ukraine for 2006 totaled UAH 4203 million and in comparison with 2005 it grew by 42.9%.

Interest receipts formed the major portion in the structure of proceeds equaling to 68.3% (in 2005 – 80.9%).

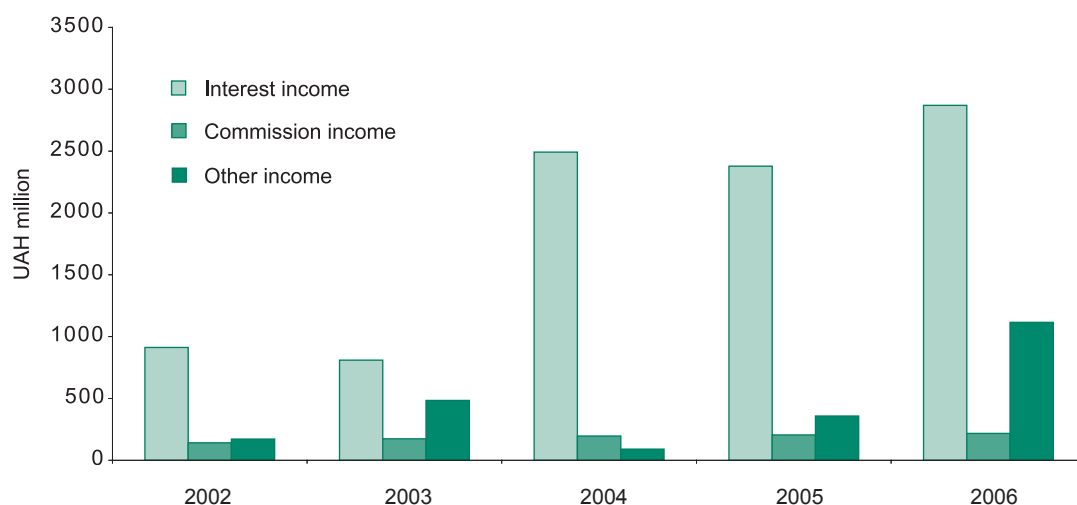
Within the interest receipts, 96.8% fell on the deposits attracted, 3.0% – on the loans extended and 0.1% – on the T-bills transactions (in 2005 – 79.6%, 4.2% and 16.1%, respectively). An essential growth of receipts (by UAH 1262 million) resulted from the increase of interest receipts, namely, the increase of gold and foreign exchange reserve thanks to the foreign exchange interventions performed by the National Bank of Ukraine in the inter-bank foreign exchange market and to allocation of the external T-bills.

Share of the commission receipts in the reporting year amounted to 5.2% (in 2005 – 7%). Portion of other receipts within the total proceeds grew from 12.2% to 26.5%. Other receipts increased, primarily, thanks to the higher revaluation of securities accounted at the fair value and recognized in the financial indicators comprising of the security income of non-residents.

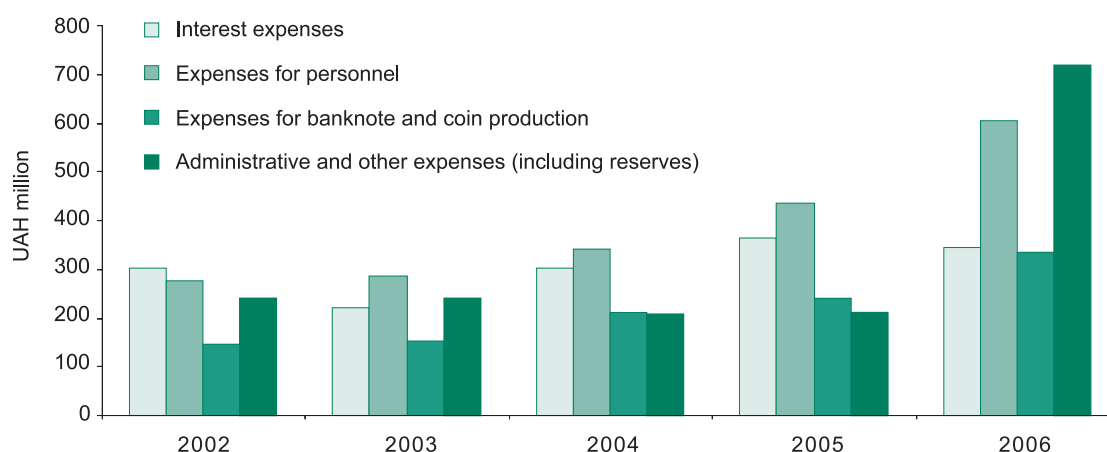
Current expenses of the National Bank of Ukraine for 2006 totaled UAH 2002 million, or they grew by 59.5% as compared with 2005.

In the reporting year, the portion of the interest expenses amounted to 17.2% (in 2005 – 29.0%), the banknote and coin production costs were 16.8% (in 2005 – 19.3%), the administrative and other costs including provisions were equal to 35.8% (in 2005 – 17.0%).

Dynamics of Income of the National Bank of Ukraine in 2002–2006



Dynamics of Expenses of the National Bank of Ukraine in 2002–2006



The general growth of expenses was conditioned, primarily, on the increase of the banknote supply orders and putting in circulation the banknotes of 500 Hryvnia denomination, establishing provisions (of higher amount) against the internal public debts and the increase of labor remuneration.

2.19. BANKNOTE AND COIN PRODUCTION

2.19.1. ACTIVITIES OF THE BANKNOTE PRINTING AND MINTING WORKS OF THE NATIONAL BANK OF UKRAINE

In 2006, the production and economic activity of the Banknote Printing and Minting Works was aimed at fulfilling the tasks of the National Bank of Ukraine in manufacture of money and contractual obligations with governmental institutions and other organizations.

Total production volume (excluding services) was UAH 237.2 million, which exceeded the figure of 2005 by 38.9%. It was primarily caused by:

- increase in volumes of small coin minting by 20.2%;
- increase in volumes of commemorative coin minting by 47.4%;
- increase in value of banknote production and in printing of banknotes of higher denominations (in particular, 50 million banknotes of 500 hryvnia denomination of 2006 issue were printed).

In 2006, the Banknote Printing and Minting Works of the National Bank of Ukraine realized products (services) for the total amount of UAH 239.9 million (by UAH 59.8 million more than in 2005) including:

- to the order of the National Bank of Ukraine – UAH 235.4 million (by UAH 92.0 million more than in 2005);
- to the order of governmental institutions and other organizations - UAH 4.5 million (by UAH 32.2 million less than in 2005).

In the course of fulfilling the production program, the Banknote Printing and Minting Works produced 1150.0 million banknotes and 757.0 million small coins of different denominations (the majority of the manufactured small coins were of 10 kopeck denomination – 250.0 million coins, 1 kopeck denomination – 145.0 million coins, 25 kopeck denomination – 100.0 million coins), 1169.8 thousand commemorative coins and 146.0 thousand securities forms. Such coin series as "Signs of the Zodiac" and "Oriental Calendar" were originated and found a ready market among the collectors. The jubilee silver coins "10 Years of Ukrainian Constitution", "10 Years of Ukrainian Monetary Unit - Hryvnia Revival", "750 Years of Lviv", "Epiphany", "St. Cyril Church" as well as silver souvenir banknotes of different denominations were in great demand.

Fulfilled were the tasks to manufacture 27.5 thousand awards, departmental medals and signs including 370 orders and medals for the State Administration of the President of Ukraine.

The unique character of the enterprise allowed to use 84.8% of the Mint manufacturing workshops' capacity (subject to one-shift work) against 83.0% in 2005 due to increased volume (by 5.6%) of printed pages. As compared with 2005, the workload of the small coin minting shop (subject to double-shift work) increased from 62.1 to 70.0%, of the shop of commemorative coin minting (subject to one-shift work) - from 72.0 to 91.6%. The workload of the shop of orders and medals considerably decreased amounting to 14.2% (in 2005 - 80.0%).

In order to raise the production efficiency, the working technological processes of developing the polygraphic facilities of metalworking were improved. In this direction, in order to prepare the Banknote Factory for fulfilling the most important government orders, the long-term agreement to supply two systems of banknote quality control "BPS-2000" was concluded with "Giesecke & Devrient GmbH".

Particular attention was paid to improving the existing system of control of materials, raw materials, semi-finished products and the quality of end printing products. For this purpose the following equipment was purchased: the device to measure the oxygen and nitrogen content and the attachment for spark sampling for direct chemical analysis of leading samples to the spectrometer with inductively coupled plasma of "SRIS Intrepid II" model. The packaging line was outfitted with the equipment of block packing of coin packs and logistics system.

The measures aimed at fulfilling the complex program of energy saving were taken, which saved almost UAH 0.5 million for the Banknote Printing and Minting Works.

During 2006, the auditors of the state-owned enterprise All-Ukrainian State Scientific and Production Center of Standardization, Metrology, Certification and Protection of Consumers' Rights (Ukrmetrteststandart) carried out technical examination, and their conclusion witnessed that "The system managing the quality of the Banknote Printing and Minting Works of the National Bank of Ukraine" met the requirements of DCTY ISO 9001-2001.

In 2006, the Banknote Printing and Minting Works as a national strategic object continued work aimed at improving the existing systems of security, regime and access to the Banknote Printing and Minting Works, at strengthening the information protection.

2.19.2. ACTIVITY OF THE BANKNOTE PAPER MILL

The Banknote Paper Mill of the National Bank of Ukraine, located in the town of Malyn, Zhytomyr Region, is the only enterprise in Ukraine producing high quality banknote and secured paper. In 2006, due to the use of up-to-date equipment and advanced technology, more than 1100 tons of banknote and 1000 tons of secured paper were manufactured, which allowed to load production facilities by 52.5 and 47.5% respectively. In 2006, banknote paper was sold for the amount of UAH 36770 thousand, whereas secured paper for UAH 13930 thousand. The orders of the National Bank of Ukraine were fulfilled in full volume and in due time.

A consequent cycle of technological processing of cotton hair, the main raw material for paper production, with wide use of materials and chemicals of leading world manufacturers guaranteed a high level of mechanical fastness of banknote and secured paper and its workability and durability.

Balanced use of opportunities of the modern technology of security features (twelve security features) and numerous successful paper qualification tests allowed to include the enterprise among potential suppliers of highly secured papers of many countries, which considerably improved the image of the National Bank of Ukraine and Ukraine itself in the business world.

Certification of the quality management system, introduced and maintained in compliance with the ISO 9001 requirements, became an important component at the enterprise, and many-stage quality control at all phases of the production process, from receiving the raw materials to packing the finished products, is fulfilled by the technological laboratory.

Implemented was the technology of pulping-bleaching of high-quality cellulose during one stage instead of two-stage production of cellulose, which considerably curtailed the time of this technological operation and reduced costs for about UAH 600 during manufacture of one ton of banknote paper.

In 2006, the enterprise supplied high-quality products to the consumers due to imposition of paper into sheets of required format on the newest "Pasadan" equipment with the unique laser system of quality control of the "Lasor" Company coupled with manual paper sorting.

The complex security system was formed at the enterprise aimed at ensuring of secrecy in the process of manufacture, processing, keeping and issue of products to the customer. Control of the observance by all the factory employees of the requirements of the normative documents regulating the fulfillment of operations with banknotes and other types of secured paper, is directed at guaranteeing their secrecy by means of modern complex automated security systems.

In 2006, in order to improve the technology of banknote paper production the system of paper sizing in pulp based on epichlorohydrin resin and sodium carboxy-methylcellulose was used instead of ecologically dangerous melamine-formaldehyde resin containing carcinogen – free formaldehyde.

The enterprise organized proper ecological safety with modern complex of purification and treatment facilities. In 2006, sewage water treatment services for the town of Malyn communal enterprises were rendered for UAH 2080 thousand, or in the volume of 1325 thousand cubic meters. During 2006, the program of efficient replacement of dangerous components of paper production was successfully implemented and the work in order to give biocidal properties to paper was carried out.

2.20. STAFFING AND PERSONNEL TRAINING

As of January 1, 2007, the personnel of the National Bank of Ukraine numbered 11209 persons, including 6323 civil servants and 4886 other employees.

The qualitative composition of the personnel of the National Bank of Ukraine system during two last years has been as follows:

QUALITATIVE INDICATORS OF THE NATIONAL BANK OF UKRAINE PERSONNEL

| Indicators | 2005 | 2006 |
|---|------|------|
| Specialists (chiefs, professionals, experts) with complete higher education (persons) | 6116 | 6353 |
| Doctors and candidates of sciences (persons) | 320 | 334 |
| Specialists with work experience (%) | | |
| – up to 5 years | 21.7 | 19.7 |
| – 5 years and more | 78.3 | 80.3 |
| Staffing level (%): | | |
| – in the National Bank of Ukraine | 97.3 | 96.6 |
| – in the central office | 91.7 | 93.9 |
| Average age of employees: | | |
| – in the National Bank of Ukraine | 41.8 | 42.1 |
| – in the central office | 39.7 | 40.1 |
| Employees of retirement age (persons) | 374 | 484 |
| Dismissed (%) | 7.8 | 7.6 |
| Resigned at personal request (%) | 3.8 | 4.0 |

CIVIL SERVANTS OF THE NATIONAL BANK OF UKRAINE BY POSITION CATEGORIES

As of January 1, 2007

| Indicators | Total Persons | Men | Women |
|------------------------------------|---------------|------|-------|
| Recorded number | 6323 | 2446 | 3877 |
| Chiefs, | 1714 | 809 | 905 |
| among them: | | | |
| 1 st category | 5 | 5 | 0 |
| 2 nd category | 114 | 78 | 36 |
| 3 rd category | 521 | 213 | 308 |
| 4 th category | 1062 | 501 | 561 |
| 5 th category | 12 | 12 | 0 |
| Professionals, experts, employees, | | | |
| among them: | 4609 | 1637 | 2972 |
| 2 nd category | 7 | 5 | 2 |
| 3 rd category | 417 | 132 | 285 |
| 4 th category | 398 | 119 | 279 |
| 5 th category | 3787 | 1381 | 2406 |

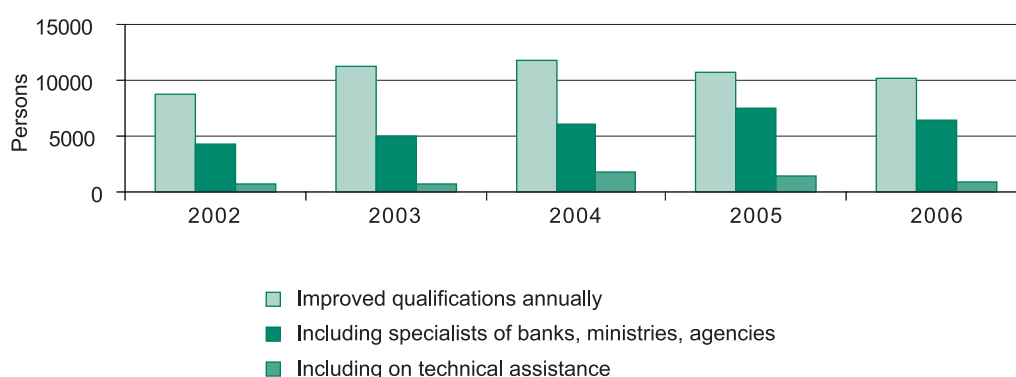
After considering the results of the previous year, in January – February 2006, the National Bank of Ukraine made annual assessment of the fulfillment by civil servants of the National Bank of Ukraine of imposed tasks and obligations. Assessed were 4848 civil servants, which amount to 77.7% of their total number. After considering the results of the assessment, 97% of the employees have high and good quality level of fulfilling their obligations and tasks. Based on the results of the annual assessment and provided recommendations, the personnel reserve for civil servant positions was reviewed and respective thematic seminars and training events were planned.

In order to determine the level of vocational preparation and adequacy for the job of civil servants, during October – November 2006, 4924 civil servants of the National Bank of Ukraine

were certified (77.4% of their total number), among them 4874 civil servants (99%) were well qualified for their positions and 48 civil servants (1%) were qualified for their positions in restrained terms. The certifying commission gave 482 additional recommendations to the civil servants well qualified for their positions in order to improve their work and to plan their career in the future and 281 persons were enlisted in the personnel reserve for higher positions.

During 2006, for the purpose of refresher training of employees from the system of the National Bank of Ukraine and Ukrainian banking and financial institutions, 1102 training events were organized (seminars, conferences, courses, "round tables", training on probation etc.), 923 of them were held in Ukraine and 179 – abroad, with more than 10.2 thousand participants (6.4 thousand persons represented the system of the National Bank of Ukraine and 3.8 thousand – banking and financial institutions, ministries and organizations of Ukraine).

Dynamics of Qualification Improvement in 2002–2006



Total number of employees of the system of the National Bank of Ukraine who raised their qualification in the year under review was more than 3.2 thousand persons (29.3% of the total number of employees).

The training took place at the Training Center and training classes of the National Bank of Ukraine, at the Ukrainian Banking Academy and its branches – the Kharkiv, Cherkasy and Lviv Banking Institutes, at the Regional Branches and structural units of the National Bank of Ukraine, at other institutions and organizations of Ukraine and abroad within the framework of technical assistance and on contract basis.

Main directions of the NBU personnel training in 2006 were monetary policy, macroeconomic forecasting, information technologies, banking supervision, financial monitoring, foreign exchange regulation, bookkeeping and financial accounting and reporting, banking security, cash circulation, payment systems, public purchasing, personnel management, auditing, clerical work, legal support of banks' activity, public relations and other important aspects of the central bank and all banking system activities.

Regional centers of training institutions of the National Bank of Ukraine organized and conducted 20 training events under professional programs of civil servants' skill improvement and 9 events in advance training on the themes "Transportation of valuables and collection" and "Fundamentals of network technologies" with 417 participants and 107 attendees from the National Bank of Ukraine.

As of January 1, 2007, there were 7906 persons studying at subordinate educational institutions under all directions and specialties, among them 4411 persons were full-time students and 3495 – part-time students. At the expense of the National Bank of Ukraine budget, 1666 persons studied (1518 full-time students and 148 employees of the National Bank of Ukraine – part-time students).

Structure of Topics of Training Events in 2006



In 2006, 1739 persons graduated from higher educational institutions of the National Bank of Ukraine with the qualification level of a "specialist" and "master", 770 persons of them were full-time students and 969 – part-time students.

With a view to put in order the network of higher educational institutions of the National Bank of Ukraine, in the year under review their reorganization started. The Banking University of the National Bank of Ukraine was founded in the City of Kyiv, which included the Lviv, Kharkiv and Cherkasy Banking Institutes.

The stock of the NBU Central Library numbered 102 058 editions, among them 40338 were books, 33320 newspapers and 22374 magazines. In 2006, the Library had 1828 registered readers. Number of visits was 19541 against 22973 in 2005.

2.21. MATERIAL AND TECHNICAL BASE DEVELOPMENT

The capital investment plan for 2006, which forecasted to channel UAH 88.6 million for further development and strengthening of the material and technical base of the National Bank of Ukraine system and creation of appropriate labor conditions, was fulfilled by 133.0%.

In the year under review, 35 objects and 1 sub-object were put into operation. Total amount of fixed capital put into operation was UAH 144.5 million (last year – UAH 65.4 million, or 2.2 times more).

CAPITAL CONSTRUCTION OF THE NATIONAL BANK OF UKRAINE PROJECTS IN 2006

| Indicators | 2006 | 2005 | In percent against previous year |
|--|-------|------|----------------------------------|
| Volume of capital investment for construction sites of the National Bank of Ukraine (in UAH million), including: | 71.3 | 54.4 | 131.1 |
| – of the central office | 8.1 | 2.8 | 29 times |
| – of regional branches | 31.1 | 37.5 | 82.9 |
| – of educational establishments and institutions | 27.4 | 11.9 | 2.3 times |
| Fulfilled at the expense of amortization, including: | 4.7 | 2.1 | 2.2 times |
| – Banknote Printing and Minting Works | 3.0 | 1.0 | 300 |
| – Banknote Paper Mill | 1.7 | 1.1 | 154.5 |
| Projects and sub-projects put into operation within main sites (in UAH million), including: | 144.5 | 65.4 | 2.2 times |
| – of the central office | 8.2 | 2.8 | 2.9 times |
| – of regional branches | 118.0 | 57.0 | 2.0 times |
| – of educational establishments and institutions | 14.1 | 1.8 | 7.8 |
| Sites put into operation at the expense | | | |

| | | | |
|---|------|------|-------|
| of amortization, including: | 4.2 | 3.8 | 110.5 |
| – Banknote Printing and Minting Works | 3.0 | 3.8 | 78.9 |
| – Banknote Paper Mill | 1.2 | 0 | – |
| Uncompleted construction of the National Bank of Ukraine sites as of January 1, 2007 (in UAH million), including: | 53.7 | 89.3 | 60.1 |
| – of the central office | 13.2 | 13.4 | 98.5 |
| – of regional branches | 6.4 | 63.5 | 10.1 |
| – of educational establishments and institutions | 26.8 | 5.6 | 478.6 |
| – at the expense of amortization | 7.3 | 6.8 | 107.4 |

In 2006, the following reconstruction and construction works were performed:

- reconstruction of the premises in the building No. 2 of the National Bank of Ukraine Department in Poltava Region;
- reconstruction with overhaul of administrative buildings of the National Bank of Ukraine in Lviv and Kharkiv Regions;
- reconstruction of the hostels No. 1 and 2 of the Ukrainian Banking Academy (city of Sumy), and the roof of the economic building;
- construction of the above-ground passage between economic and administrative buildings;
- installation of the complex automated safety system and fire alarm system, the warning system of the building of the National Bank of Ukraine in Ternopil Region;
- reconstruction with structural addition of the administrative building of the National Bank of Ukraine in Dnipropetrovsk Region;
- reconstruction of the administrative building of the National Bank of Ukraine in Luhansk Region;
- construction of the garage and the premises for the service of valuables transportation and collection of the National Bank of Ukraine in Odesa Region;
- construction of a separate module boiler-house in the training building No. 1 of the Ukrainian Banking Academy (city of Sumy);
- installation of the automated fire alarm system in the premises of buildings No. 4, 5, 5-a, 6 and 7 and the gas fire-fighting system in the server premises of the National Bank of Ukraine Department in Zhytomyr Region;
- repair of the roof of the training building No 2 of the Lviv Banking Institute of the National Bank of Ukraine.

Fulfilled were the works of technical re-equipment of baggage elevators in the Central Vault and the fire alarm system in the State Treasury of the National Bank of Ukraine, the fire alarm system in the buildings of the National Bank of Ukraine (7 and 9, Nauky Avenue), installation of ventilation and air-condition systems in the premises of the administrative building of the National Bank of Ukraine, arrangement of the parking area of the training building No. 3 and medical and sanitary section of the Ukrainian Banking Academy of the National Bank of Ukraine (city of Sumy).

During the accounting year, the projects of the NBU Banknote Printing and Minting Works were modernized and re-equipped.

**Governor of the
National Bank of Ukraine**



Volodymyr Stelmakh

CALENDAR OF IMPORTANT EVENTS IN 2006

- January**
- Putting into circulation the 5 hryvnia commemorative coin "Year of the Dog" (silver).
 - Putting into circulation the 5 hryvnia commemorative coin "10 Years of Academician Vernadsky Antarctic Station" (German silver).
 - Increase in the amount of reimbursement to individuals for their deposits in case of bank bankruptcy from UAH 5 to 8 thousand.
- February**
- Putting into circulation the 2 hryvnia commemorative coin "Oleg Antonov" (German silver).
 - Putting into circulation the 100 hryvnia banknote of 2005 issue.
 - Putting into circulation the 10 hryvnia commemorative coin "Winter Olympic Games of 2006" (silver).
- March**
- Approval of the Regulation on the procedure of creation and state registration of banks, their branches, representative offices and departments.
 - Approval of the procedure of calculating the hryvnia official exchange rate against foreign currencies.
 - Approval of the Regulation on the procedure of reserve requirements formation for Ukrainian banks.
 - Putting into circulation the 2 hryvnia commemorative coin "Georhiy Narbut" (German silver).
 - Putting into circulation the commemorative coin "Aries" of 2 hryvnia denomination (gold) and 5 hryvnia denomination (silver).
 - Putting into circulation the commemorative coin "100 Years of Kyiv National Economic University" of 5 hryvnia denomination (silver) and 2 hryvnia denomination (German silver).
- April**
- Approval of the Regulation on establishing a Ukrainian bank's subsidiary, branch and representative office on the territory of foreign countries.
 - Putting into circulation the 2 hryvnia commemorative coin "Viacheslav Prokopovych" (German silver).
 - Putting into circulation the 2 hryvnia commemorative coin "Hedgehog" (gold).
 - Putting into circulation the 2 hryvnia (gold) and 5 hryvnia (silver) commemorative coin "Taurus".
 - Putting into circulation the 5 hryvnia commemorative coin "750 Years of Lviv" (German silver).
 - Putting into circulation the 2 hryvnia commemorative coin "Mykola Strazhesko" (German silver).
- May**
- Introduction of reserve requirements and keeping of funds on the bank correspondent account with the National Bank of Ukraine.
 - Approval of the Regulation on the requirements to the inventory of operation processes of the National Bank of Ukraine.
 - Putting into circulation the 10 hryvnia commemorative coin "Chyhyryn" (silver).
 - Putting into circulation the 1 hryvnia banknote of 2006 issue.
 - Putting into circulation the 2 hryvnia (gold) and 5 hryvnia (silver) commemorative coin "Gemini".

June

- Approval of the rating procedure under the risk groups of the countries determined by international rating agencies.
- Decrease in the discount rate up to 8.5% per annum.
- Putting into circulation the 2 hryvnia (German silver) and 10 hryvnia (silver) commemorative coin "Poecilimon Ukrainicus (Ukrainian Bush Cricket)".
- Approval of the alterations to the Regulation on the National Bank of Ukraine interest-bearing policy.
- Putting into circulation the 10 hryvnia commemorative coin "10 Years of Ukraine's Constitution" (silver).

July

- Putting into circulation the 2 hryvnia commemorative coin "Mykola Vasylenko" (German silver).
- Putting into circulation the 2 hryvnia commemorative coin "Volodymyr Chekhivsky" (German silver).
- Approval of the Rules of keeping, protection, use and disclosure of bank secrecy.
- Putting into circulation the 5 hryvnia commemorative coin "10 Years of Ukraine's Constitution" (German silver).

August

- Foundation of the Banking University of the National Bank of Ukraine (city of Kyiv).
- Putting into circulation the 20 hryvnia (silver) and 5 hryvnia (German silver) commemorative coin "15 Years of Ukraine's Independence".
- Putting into circulation the 10 hryvnia banknote of 2004 issue.
- Putting into circulation the 5 hryvnia (silver) and 2 hryvnia (German silver) commemorative coin "Ivan Franko".
- Approval of the Regulation on interbank money transfer in Ukraine in the national currency.
- Putting into circulation the 100 hryvnia (silver) and 5 hryvnia (German silver) commemorative coin "10 Years of Revival of Ukrainian Monetary Unit – Hryvnia".

September

- Putting into circulation the 5 hryvnia (silver) and 2 hryvnia (German silver) commemorative coin "Dmytro Lutsenko".
- Approval of alterations to the Regulation on the procedure of bank refinancing against pledge of property rights to bank deposits at the National Bank of Ukraine.
- Putting into circulation the 500 hryvnia banknote of 2006 issue.
- Putting into circulation the 10 hryvnia commemorative coin "10 Years of the Accounts Chamber" (silver).
- Putting into circulation the 2 hryvnia (German silver) and 5 hryvnia (silver) commemorative coin "Mykhaylo Hrushevsky".
- Approval of the Regulation on regulating the Ukrainian banks' liquidity by the National Bank of Ukraine.
- Approval of the Regulation on the procedure of forming, keeping and annihilation of electronic archives at the National Bank of Ukraine and Ukrainian banks.

October

- Approval of the accounting rules of the National Bank of Ukraine operations with precious metals.
- Putting into circulation the 2 hryvnia commemorative coin "Mykhaylo Lysenko" (German silver).
- Putting into circulation the 2 hryvnia commemorative coin "Serhiy Ostapenko" (German silver).

November

- Putting into circulation the 10 hryvnia (silver) and 5 hryvnia (German silver) commemorative coin "St. Cyril Church".
- Approval of the Regulation on accounting of the National Bank of Ukraine credit and deposit operations.
- Putting into circulation the 2 hryvnia commemorative coin "Kharkiv National Economic University" (German silver).
- Approval of the Regulation on preparation and disclosure of the National Bank of Ukraine financial reporting.

December

- Approval of alterations to the Regulation on cash operations in the national currency of Ukraine.
- Putting into circulation the 5 hryvnia (German silver) and 10 hryvnia (silver) commemorative coin "Epiphany".
- Putting into circulation the 5 hryvnia commemorative bimetal coin "The Dulcimer".
- Putting into circulation the 50 hryvnia commemorative coin "Nestor the Chronicler" (gold).

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 values 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, and 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 the first 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 national currency or in foreign currency, entered by a bank to the depositors' accounts on a contract basis for a cer-

tain 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 a 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.

Key rate duration of a financial instrument characterizes a degree of influence of the interest rates' change in some key ranges of the yield curve on the general modified duration of the financial instrument, and it is estimated as distribution of the general modified duration by the key ranges of interest rates of the yield curve.

Modified duration of a financial instrument characterizes a degree of influence of the interest rate's change on the change of the present value of the financial instrument as a discounted value of its flows of payments; it is estimated as the ratio of standard duration to the current market interest rate increased by one.

Standard duration of a financial instrument is an average weighted term of repayment of the funds on the financial instrument with taking into account the volumes and terms of repayment of cash flows on this instrument through discounting the volumes of its cash flows; it is estimated as a sum of discounted payments on the financial instrument weighted by the term of each payment and divided by its present value.

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.

Consolidated budget of Ukraine are the aggregate indicators of the state budget of Ukraine, the budget of the Autonomous Republic of the Crimea and local consolidated budgets of regions and the towns of Kyiv and Sevastopol.

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.

Core inflation is a price indicator, reflecting the dynamics of the inflationary pressure from demand.

Narrow core inflation – prices of nonfoods, except the fuel.

Broad core inflation – consumer prices, except the price of fuel, administratively regulated services and foods that are not industrially processed. The weighted sum of broad core inflation and non-core inflation is consumer inflation.

Non-core inflation is inflation of raw materials, services regulated administratively and fuel.

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.

Instant liquidity of a bank is an economic indicator of a bank's activity defined as the ratio of funds on the correspondent account and at the cashiers' of the bank to the customers' current accounts.

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 other 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.

Models for servicing a bank's consolidated correspondent account in the SEP are the models enabling a bank to pool the funds on the consolidated correspondent account for their efficient use. As at 1 January, 2007, four models were left:

- 3 model – with the use of intra-bank payment system;
- 4 model – branches are direct participants of the SEP;
- 7 model – branches are direct participants of the SEP though additional mechanisms of governing the branches are available;
- 8 model – designed for large volumes of payments, branches are direct participants.

Official exchange rate of the hryvnia against foreign currencies is the rate of the national monetary unit, the hryvnia, officially specified by the National Bank of Ukraine against every of the foreign currencies. It is set on the basis of exchange rate quotations in the inter-bank foreign exchange market of Ukraine for the previous day, as well as based on other indicators.

The exchange rate of the hryvnia, average for the period, against foreign currencies is estimated for the monthly data – as the average weighted value of the foreign currency in hryvnias per month; for a quarter and a year – as the arithmetic average of monthly values.

Interest income 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.

Revaluation is an increase in the exchange rate of the national monetary unit against foreign currencies.

Dollarization 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 banks. The banks' 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.

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.

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).

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.

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.

Chapter 3
FINANCIAL STATEMENTS
for the year ended
31 December 2006

NATIONAL BANK OF UKRAINE
Balance Sheet as at 31 December 2006

(in UAH million)

| Items | Note | 2006 | 2005 |
|---|------|----------------|----------------|
| Assets | | | |
| Foreign currency funds and deposits | 6 | 70,716 | 78,734 |
| Foreign securities | 7 | 43,187 | 20,260 |
| SDR Holdings | | 8 | 5 |
| Monetary gold | | 1,806 | 1,393 |
| State securities of Ukraine | 8 | 411 | 439 |
| Loans to banks and other borrowers | 9 | 1,391 | 698 |
| Internal State debt | 10 | 8,524 | 9,225 |
| IMF quota contributions | 11 | 10,423 | 9,903 |
| Fixed assets and intangible assets | 12 | 2,119 | 2,147 |
| Other assets | 13 | 768 | 558 |
| Total assets | | 139,353 | 123,362 |
| Liabilities | | | |
| Banknotes and coins in circulation | | 82,133 | 65,409 |
| Accounts of banks | 14 | 15,506 | 17,783 |
| Accounts of State institutions | 15 | 18,650 | 18,559 |
| Profits payable to the State Budget | 19 | 1,889 | 1,065 |
| Deposit certificates issued by the National Bank of Ukraine | 16 | 180 | 2,427 |
| Loans received | | 255 | 335 |
| Liabilities to the IMF | 17 | 14,657 | 15,943 |
| Other liabilities | 18 | 201 | 121 |
| Total liabilities | | 133,471 | 121,642 |
| Capital employed | | | |
| Statutory capital | 20 | 10 | 10 |
| Funds and other reserves | | 1,756 | 1,664 |
| Revaluation reserve for foreign currency and bank metals | | 3,357 | (716) |
| Revaluation reserve for fixed assets | | 759 | 762 |
| Total capital employed | | 5,882 | 1,720 |
| Total liabilities and capital employed | | 139,353 | 123,362 |

Acting Governor

Chief Accountant – Director of
Accounting Department


P.M. Senyshch

V.I. Rychakivska

The notes set out on pages 135 to 172 form an integral part of these financial statements.

NATIONAL BANK OF UKRAINE
Statement of Income for the year ended 31 December 2006

(in UAH million)

| Items | Note | 2006 | 2005 |
|--|------|--------------|-------|
| Interest income | 22 | 2,870 | 2,378 |
| Interest expense | 2 | (344) | (364) |
| Net interest income | 22 | 2,526 | 2,014 |
| Fee and commission income | 23 | 218 | 205 |
| Fee and commission expense | 23 | (3) | (11) |
| Net fee and commission income | 23 | 215 | 194 |
| Results from operations with debt securities at fair value through profit or loss | | 1,008 | 235 |
| Other income | 24 | 107 | 123 |
| Total net income | | 3,856 | 2,566 |
| Staff costs | 25 | (604) | (436) |
| Expenses for production of banknotes, coins and other products | | (336) | (242) |
| Administrative and other expenses | 26 | (284) | (244) |
| Net (increase)/decrease in provisions | 27 | (431) | 42 |
| Profit available for distribution | 19 | 2,201 | 1,686 |

Acting Governor

P.M.Senyshch

Chief Accountant - Director of
Accounting Department

V.I.Rychakivska

Director of Finance
Department

O.M.Kandybka

The notes set out on pages 135 to 172 form an integral part of these financial statements.

NATIONAL BANK OF UKRAINE
Statement of Cash Flows for the year ended 31 December 2006

(in UAH million)

| Items | Note | 2006 | 2005 |
|--|------|-----------------|-----------------|
| Operating activities | | | |
| Profit available for distribution | | 2,201 | 1,686 |
| Adjustments to reconcile profit available for distribution to cash provided by operations: | | | |
| Depreciation and amortisation | 12 | 212 | 147 |
| Net increase/(decrease) in provisions for assets | | 431 | (42) |
| Accrued income | | (740) | (605) |
| Accrued expense | | (17) | 8 |
| Other non-cash movements | | 80 | 4 |
| Net cash inflow before changes in operating assets and liabilities | | 2,167 | 1,198 |
| Net increase in foreign securities | | (21,705) | (16,414) |
| Net (increase)/decrease in loans to banks and other borrowers | | (674) | 3,284 |
| Net increase in other assets | | (39) | (104) |
| Net (decrease)/increase in other liabilities | | (2) | 17 |
| Transfer of profit to the State Budget | 19 | (1,288) | (955) |
| Net cash used in operating activities | | (21,541) | (12,974) |
| Investment activities | | | |
| Net decrease/(increase) in term deposits placed | | 4,104 | (25,496) |
| Redemption of State securities | | 30 | 6,407 |
| Purchase of monetary gold | | (89) | (54) |
| Acquisition of fixed assets and intangible assets | | (226) | (169) |
| Proceeds from disposal of fixed assets | | 5 | 3 |
| Net cash from/(used in) investment activities | | 3,824 | (19,309) |

The notes set out on pages 135 to 172 form an integral part of these financial statements.

NATIONAL BANK OF UKRAINE**Statement of Cash Flows for the year ended 31 December 2006**

(in UAH million)

| Items | Note | 2006 | 2005 |
|---|------|-----------------|----------|
| Financing activities | | | |
| Issue of banknotes and coins in circulation | | 16,724 | 19,740 |
| Repayment of internal State debt | 10 | 253 | 253 |
| Repayment of liabilities to the IMF | 17 | (2,072) | (1,537) |
| Net increase/(decrease) in term deposits received | | 276 | (1,210) |
| (Repayment)/issue of deposit certificates | | (2,235) | 2,246 |
| EBRD loans received | | – | 12 |
| EBRD loans repaid | | (80) | (79) |
| Net cash from financing activities | | 12,866 | 19,425 |
| Effect of changes in exchange rates on cash and cash equivalents | | 874 | (3,187) |
| Net decrease in cash and cash equivalents | | (3,977) | (16,045) |
| Cash and cash equivalents | | | |
| Cash and cash equivalents at the beginning of the year | | (6,438) | 9,607 |
| Cash and cash equivalents at the end of the year | 21 | (10,415) | (6,438) |

Acting Governor

Chief Accountant - Director of
Accounting Department


P.M.Senyshch**V.I.Rychakivska**

The notes set out on pages 135 to 172 form an integral part of these financial statements.

NATIONAL BANK OF UKRAINE**Statement of Changes in Capital Employed for the year ended 31 December 2006**

(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 2004 | | 10 | 1,596 | 4,328 | 62 | 5,996 |
| Revaluation of foreign currency and bank metals | | – | – | (5,044) | – | (5,044) |
| Realised revaluation of fixed assets | | – | 25 | – | (25) | – |
| Unrealised revaluation of fixed assets | 12 | – | – | – | 725 | 725 |
| Net income/(loss) recognised directly in capital employed | | – | 25 | (5,044) | 700 | (4,319) |
| Profit available for distribution | | – | 1,686 | – | – | 1,686 |
| Total recognised income/(loss) for 2005 | | – | 1,711 | (5,044) | 700 | (2,633) |
| Excess of budgeted income over budgeted expenditure for the year to be transferred to the State budget | 19 | – | (1,643) | – | – | (1,643) |
| Balance as at 31 December 2005 | | 10 | 1,664 | (716) | 762 | 1,720 |
| Revaluation of foreign currency and bank metals | | – | – | 4,073 | – | 4,073 |
| Realised revaluation of fixed assets | | – | 3 | – | (3) | – |
| Net income/(loss) recognised directly in capital employed | | – | 3 | 4,073 | (3) | 4,073 |
| Profit available for distribution | | – | 2,201 | – | – | 2,201 |
| Total recognised income/(loss) for 2006 | | – | 2,204 | 4,073 | (3) | 6,274 |
| Excess of budgeted income over budgeted expenditure for the year to be transferred to the State budget | 19 | – | (2,112) | – | – | (2,112) |
| Balance as at 31 December 2006 | | 10 | 1,756 | 3,357 | 759 | 5,882 |

Acting Governor

P.M. SenyshchChief Accountant – Director of
Accounting DepartmentV.I. RychakivskaDirector of Finance
DepartmentO.M. Kandybka

The notes set out on pages 135 to 172 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 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 main functions of the NBU are the following:

- 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 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, sells commemorative coins made of precious and non-precious metals on domestic and foreign markets, performs servicing of the State debt in respect of placement of State securities, their redemption and interest payments, maintains accounts of international organisations and conducts other operations necessary for the performance of its functions. The NBU also performs functions of a depository for State securities of Ukraine.

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, the 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 Banking University (Kyiv), both of which are 100% owned by the NBU. The structure of the Banking University includes Lviv, Kharkiv and Cherkasy Banking Institutes.

Registered address and place of business of the NBU's central office is 9, Institutska St., 01009, Kyiv, Ukraine.

2. Basis of Presentation and Accounting Policies

The NBU's accounting policies are defined in accordance with the NBU regulations and are developed based on International Financial Reporting Standards ("IFRS") and the "National Accounting Regulations (Standards)", except for the cases when the NBU applies specific accounting policies to comply with the requirements of the current Ukrainian legislation, including the Law of Ukraine On the National Bank of Ukraine. Management of the NBU believes this is an appropriate and robust accounting framework which can be, and has been, consistently applied. Major differences between the NBU's accounting policies and IFRS are as follows:

the result 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, including the realised revaluation result, are posted directly to revaluation reserve in the capital employed section. This differs from the requirements of IAS 21 "Effect of Changes in Exchange Rates" in respect of recognition of the revaluation result as income and expenses in the statement of income;

internal State debt and State securities of Ukraine are accounted for at cost less provision for impairment. Provision for impairment is raised in the amounts approved by the NBU's Council or as stipulated by the current Ukrainian legislation. This is different from the requirements of IAS 39 "Financial Instruments: Recognition and Measurement" in respect of assessment of provisions, interest recognition and carrying value of these assets respectively. Refer to Notes 8, 10 and 35).

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 and revised standards and interpretations

Certain new or amended IFRS and interpretations are mandatory for application from 1 January 2006. Listed below are those amended IFRS which are relevant to the NBU's operations:

IAS 39 "Financial Instruments: Recognition and Measurement" (Amendment) in respect of the fair value option. IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value through profit or loss. The amendment to IAS 39 changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category. The NBU amended its policies and management of the NBU now designates financial instruments as part of this category only if a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by management of the NBU. The NBU applies the amendment retrospectively in accordance with the transitional provisions of the Fair Value Option amendment to IAS 39;

IFRIC 4 "Determining whether an Arrangement Contains a Lease". The NBU has reviewed its contracts. Those contracts that are required to be accounted for as leases in accordance with IAS 17 "Leases" are already accounted for by the NBU as leases.

Additionally, other new and revised standards and interpretations that are effective from 1 January 2006, are not relevant to the NBU's operations:

Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 4 "Financial Guarantee Contracts" in respect of financial guarantee contracts;

Amendment to IAS 19 "Employee Benefits" in respect of actuarial gains and losses, group plans and disclosures;

Amendment to IAS 21 "The Effect of Changes in Foreign Exchange Rates " in respect of net investment in a foreign operation;

Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" in respect of cash flow hedge accounting of forecast intragroup transactions;

IFRS 6 "Exploration for and Evaluation of Mineral Resources";

IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds";

IFRIC 6 "Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment".

As at the date of approval of these financial statements certain new standards, changes to

standards and interpretations have been published that did not become effective for the year ended 31 December 2006.

Standards effective for annual periods beginning on 1 January 2007 which the NBU intends applying in subsequent reporting periods:

IFRS 7 "Financial Instruments: Disclosures and a complementary Amendment to IAS 1 "Presentation of Financial Statements" in respect of capital disclosures. The NBU assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risks, credit risks and capital disclosures required by the amendment of IAS 1.

Standards that are not relevant to the NBU's operations:

IFRS 8 "Operating Segments", effective for annual periods beginning on or after 1 January 2009;

IFRIC 7 "Applying the Restatement Approach under IAS 29", effective for annual periods beginning on or after 1 March 2006;

IFRIC 8 "Scope of IFRS 2", effective for annual periods beginning on or after 1 May 2006;

IFRIC 9 "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1 June 2006;

IFRIC 10 "Interim Financial Reporting and Impairment", effective for annual periods beginning on or after 1 November 2006;

IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions", effective for annual periods beginning on or after 1 March 2007;

IFRIC 12 "Service Concession Arrangements", effective for annual periods beginning on or after 1 January 2008.

Key measurement terms. Depending on their classification financial instruments are carried at fair value, cost or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

In other than active markets, the most recent arm's length transactions are the basis of current fair values. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale.

Valuation techniques such as discounted cash flows models and consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial

recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium, are not presented separately and are included in the carrying values of related balance sheet items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

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 the official exchange rate.

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 of hryvnia to foreign currencies 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 a 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 (accounting) 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 2006 | 31 December 2005 |
|----------------------|-------------------------|------------------|
| | (UAH) | (UAH) |
| USD 1 | 5.050000 | 5.050000 |
| SDR 1 | 7.597229 | 7.217791 |
| EUR 1 | 6.650850 | 5.971625 |
| 1 troy ounce of gold | 3,210.285 | 2, 610.850 |

* The official exchange rate of hryvnia to US dollar is set based on the currency quote on interbank foreign exchange and considering information on the NBU actual official exchange rate and transactions on purchase and sale of foreign currencies performed by the NBU as well as on data on foreign exchange and price changes on international and commodity markets and other indicators which, if change, can influence the foreign currency market. 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.

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 Ukraine 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 the 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 the 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, as appropriate, 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 NBU manages a group of these financial instruments and evaluates its performance on a fair value basis in accordance with a documented investment declaration, and information on that basis is regularly provided to and reviewed by management of the NBU. The fair value of these securities is determined by reference to market quotations. Securities from this category may not 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 an indefinite period of time.

Securities held to maturity are debt securities with fixed or determinable payments and fixed maturity which the NBU has both the intent and ability to hold to maturity.

Loans to banks and other borrowers. Loans to banks and other borrowers are recorded when the NBU advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable.

Financial instruments are recognised as follows:

transactions with financial instruments are recorded in the balance sheet 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;

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. The result from changes in fair value is recognised in the statement of income in the period in which it arises;

equity investments available for sale whose fair value cannot be reliably determined are recorded at cost less provision for impairment, if any;

debt securities held to maturity and loans to banks and other borrowers are recorded at amortised cost using effective interest method.

Impairment of financial assets (other than internal State debt)

Impairment losses are recognised in the statement of income when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the NBU determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Losses from impairment are recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows discounted at the effective interest rate of the asset.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

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 and decisions of the NBU Council (Note 10).

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 the 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 10).

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.

Fixed assets

Fixed assets are stated at cost, or revalued amounts, as described below, less accumulated depreciation.

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.

Costs of enhancement of any item of property, plant and equipment which increases the expected economic benefits embodied in this item of property, plant and equipment increase

the asset's historical cost or revalued amount. 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 a definite useful life and primarily include capitalised computer software and licences.

Historical cost of acquired intangible assets includes costs incurred to acquire and bring them to use. Acquired intangible assets are amortised on a straight line basis over expected useful lives of 4 to 8 years.

Consolidation of subsidiaries

Subsidiaries are those companies in which the NBU has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. Subsidiaries are consolidated from the date on which control is transferred to the NBU (acquisition date) and are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The NBU and its subsidiaries use uniform accounting policies.

Investments in associates

Associates are entities over which the NBU has between 20% and 50% of the voting rights.

Investments in associates are accounted for under the equity method and recognised in other assets. The NBU's share of the post-acquisition profits or losses of associates is recorded in the statement of income as other income.

Bank metals and other precious metals

Bank metals include stocks of gold which is not monetary, silver, platinum and palladium held in the State Treasury-House of Ukraine. 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 2006 (UAH) | 31 December 2005 (UAH) |
|---------------------------|----------------------------------|---------------------------|
| 1 troy ounce of gold | 3,210.285 | 2,610.850 |
| 1 troy ounce of silver | 65.145 | 44.970 |
| 1 troy ounce of platinum | 5,640.850 | 4,888.400 |
| 1 troy ounce of palladium | 1,636.200 | 1,313.000 |

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 and commemorative 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 banknotes and coins in circulation are recorded as a liability when cash is issued by the NBU to banks and clients of the NBU. Cash in national currency 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 fair value and subsequently are measured at amortised cost using effective interest method. Upon repayment of deposit certificates issued by the NBU, the difference between the consideration paid and amortised cost is included in interest expenses in the statement of income.

Loans received

Loans received are carried at amortised cost using effective interest method. Loans received represent long-term loans granted under credit lines of the European Bank for Reconstruction and Development ("EBRD") for the purposes of providing financing to banks for support of small and medium enterprises ("SME").

Income and expense recognition

Interest income and expense are recorded in the income statement on an accrual basis using the effective interest method for all debt instruments, except for debt securities at fair value through profit or loss. 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. Expenses associated with the banknotes and coins production (excluding commemorative coins made of precious metals) 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 and other production costs.

Expenses associated with the production of commemorative coins made of precious metals 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

The result arising from revaluation 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, including realised revaluation surplus, is charged or credited to the revaluation reserve for foreign currency and bank metals in the capital employed section of the balance sheet and is 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.

3. Changes in Accounting Policies and Presentation

In 2006 the NBU changed its accounting policy for recognition of results from operations with debt securities measured at fair value through profit or loss.

In previous accounting periods interest income from these securities was recognised using effective interest method and included in interest income.

Starting from 2006 the NBU includes all results from operations with these financial assets in results from operations with debt securities at fair value through profit or loss in the statement of income.

The effect of the above change in accounting policies is as follows:

| | <i>(in UAH millions)</i> 2005 |
|---|----------------------------------|
| Increase in | |
| Results from operations with debt securities at fair value through profit or loss | 239 |
| Decrease in | |
| Interest income | (239) |

In addition, during 2006 the NBU changed classification of the balance sheet item "Banknotes and coins in circulation" for the purposes of liquidity risk analysis. Previously this amount was included in "no maturity" category. In these financial statements this item was included in "demand and up to 1 month" category as the NBU believes that such presentation better reflects the nature of the balance. Comparative information as at 31 December 2005 was adjusted to conform with changes in the presentation of the current year accounts.

4. 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 to banks and other borrowers. The NBU regularly reviews its loan portfolio (excluding internal State debt) 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. To the extent that the net present value of estimated cash flows differs by +/-5 percent, the provision would be estimated UAH 17 million higher or UAH 17 million lower.

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. As at 31 December 2006 the NBU held unquoted equity investments with the total carrying value of UAH 121 million (refer Note 7). For these equity securities fair value cannot be reliably determined, and they are carried at cost less impairment. For the purposes of assessment of impairment of those equity securities for which fair value cannot be reliably determined, the NBU has considered financial data of the investees and the NBU's share in net assets.

Related party transactions. In the normal course of business the NBU enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-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.

5. Effect of Economic Conditions in Ukraine on the Financial Position and Results of Operations of the NBU

In 2006 the economic growth rate in Ukraine accelerated. Significant domestic (consumer) demand, high level of investment activity and an increase in external demand for metal products are the principal factors for this ascending trend. The level of inflation remained relatively high at 11.6% for the year ended 31 December 2006 compared to 10.3% for the year ended 31 December 2005. In this situation the monetary policy of the NBU was aimed at maintaining price stability and support of economic activities. The NBU discount rate decreased by 1.0% compared to 31 December 2005 and was 8.5% as at 31 December 2006. The official exchange rate of hryvnia to USD did not change and amounted to UAH 5.0500 per USD 1 as at 31 December 2006. In 2006 monetary gold and foreign currency reserves grew from USD 19.4 billion as at 31 December 2005 to USD 22.3 billion as at 31 December 2006.

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 the budget deficit in foreign currency, which are included in the internal State debt, was scheduled to commence in 2002. However, repayment of the internal State debt in foreign currency commenced only in 2005. According to the Law of Ukraine On

State Budget of Ukraine for 2006, the Government of Ukraine repaid a certain part of the outstanding balance of loans in foreign currency amounting to USD 50 million (UAH 253 million at the official exchange rate at the date of transaction) in 2006 (refer to Note 10).

The Government-related balance sheet items are summarised in the table below.

| | Note | (in UAH millions) | |
|-----------------------------|------|-------------------|-------|
| | | 2006 | 2005 |
| State securities of Ukraine | 8 | 411 | 439 |
| Internal State debt | 10 | 8,524 | 9,225 |

The estimated fair value of amounts due from Government is disclosed in Note 35.

6. Foreign Currency Funds and Deposits

| | (in UAH millions) | |
|--|-------------------|---------------|
| | 2006 | 2005 |
| Foreign currency cash | 75 | 73 |
| Demand deposits | 1,585 | 1,825 |
| Term deposits: | | |
| in foreign currency | 67,219 | 75,110 |
| in gold | 498 | 641 |
| in bank metals | 1,339 | 1,085 |
| Total foreign currency funds and deposits | 70,716 | 78,734 |

The amount of demand deposits includes balances on special purpose accounts totalling UAH 55 million (2005: UAH 98 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.

The geographical analysis of foreign currency funds and deposits is disclosed in Note 29, analysis of credit risk of foreign currency funds and deposits is disclosed in Note 30, currency risk analysis is presented in Note 31, interest rate risk analysis is presented in Note 32 and liquidity risk analysis is disclosed in Note 33.

7. Foreign Securities

| | 2006 | (in UAH millions) 2005 |
|---|---------------|---------------------------|
| Debt securities at fair value through profit or loss: | | |
| Coupon US Treasury bills | 18,898 | 12,287 |
| Coupon UK Government bonds | 6,941 | 3,948 |
| Other EU State bonds | 7,476 | – |
| Bonds of Bank for International Settlements: | | |
| denominated in US dollars | 1,852 | 2,563 |
| denominated in British pounds | 99 | 405 |
| Bonds of other issuers: | | |
| denominated in US dollars | 5,821 | 936 |
| denominated in British pounds | 1,311 | – |
| denominated in Euro | 668 | – |
| Total debt securities at fair value through profit or loss | 43,066 | 20,139 |

| | | |
|---|---------------|---------------|
| Equity securities available for sale: | | |
| shares of Black Sea Trade and Development Bank | 120 | 120 |
| investment in Inter-State Bank | 1 | 1 |
| Total equity securities available for sale | 121 | 121 |
| Total foreign securities | 43,187 | 20,260 |

Coupon US Treasury bills

As at 31 December 2006 the total nominal value of coupon US Treasury bills was USD 3,700 million (UAH 18,685 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2006) (2005: USD 2,433 million or UAH 12,285 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2005).

As at 31 December 2006 US Treasury bills had yield to maturity from 4.7% to 5.07% per annum, coupon at the rate from 2.25% to 6.625% per annum payable every 6 months and maturity from 1 month to 19 years (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 2006 the total nominal value of coupon UK Government bonds was GBP 687 million (UAH 6,801 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2006) (2005: GBP 437 million or UAH 3,787 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2005).

As at 31 December 2006 UK Government coupon bonds had yield to maturity from 5.04% to 5.27% per annum, coupon at the rate from 4% to 9% per annum payable every 6 months and maturity from 2 months to 4.5 years (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).

Other EU State bonds

As at 31 December 2006 the total nominal value of Euro-denominated EU State bonds was EUR 1,097 million (UAH 7,299 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2006).

As at 31 December 2006 EU State bonds had yield to maturity from 3.6% to 4.1% per annum, coupon at the rate from 2% to 8.5% per annum payable one or two times a year and maturity from 1 month to 1 year.

Bonds of Bank for International Settlements

As at 31 December 2006 the total nominal value of USD denominated bonds of Bank for International Settlements was USD 369 million (UAH 1,863 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2006) (2005: USD 510 million or 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 10 million (UAH 99 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2006) (2005: GBP 47 million or UAH 408 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2005).

As at 31 December 2006 bonds of Bank for International Settlements had yield to maturity from 4.94% to 5.26% per annum, coupon at the rate from 3% to 4.9% per annum payable every 6 months and maturity from 2.5 months to 2 years (2005: yield to maturity was 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 2006 total nominal value of USD-denominated bonds of other issuers was USD 1,140 million (UAH 5,758 million at the exchange rate of hryvnia to foreign currencies as at 31 December 2006) (2005: USD 184 million or UAH 929 million at the official exchange rate as at 31 December 2005).

As at 31 December 2006 USD-denominated bonds of other issuers had yield to maturity from 4.9% to 5.5% per annum, coupon at the rate from 2.4% to 6.6% per annum payable every 6 months and maturity from 1.5 month to 10 years (2005: yield to maturity was 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).

As at 31 December 2006 the total nominal value of GBP-denominated bonds of other issuers was GBP 133 million (UAH 1 323 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2006).

As at 31 December 2006 GBP-denominated bonds of other issuers had yield to maturity from 5.2% to 5.4% per annum, coupon rate from 4.25% to 5.375% per annum payable annually and maturity from 11 months to 6 years.

As at 31 December 2006 the total nominal value of Euro-denominated bonds of other issuers was EUR 101 million (UAH 672 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2006).

As at 31 December 2006 Euro-denominated bonds of other issuers had yield to maturity from 3.9% to 5.2% per annum and maturity from 15 days to 2 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 2006 the amount of the NBU's contribution into share capital of BSTDB was SDR 24 million (UAH 120 million at the official rate of hryvnia to SDR as at the date of acquisition) (2005: SDR 24 million or UAH 120 million). The NBU's share in the share capital of BSTDB was 8% (2005: 8%).

Investment in Inter-State Bank

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 contribution of Ukraine to the share capital of ISB is UAH 1 million and the NBU's share in equity equals 20.70%. The NBU does not have actual influence on decisions of ISB and does not earn income. In 2006 the NBU categorised the investment in the share capital of ISB as an equity instrument available-for-sale, which is stated at cost less impairment.

The geographical analysis of foreign securities is disclosed in Note 29, the credit risk analysis is disclosed in Note 30, currency risk analysis is presented in Note 31, interest rate risk analysis is presented in Note 32 and liquidity risk analysis is disclosed in Note 33.

8. State Securities of Ukraine

| | 2006 | (in UAH millions) 2005 |
|---|------------|---------------------------|
| Debt securities held to maturity: | | |
| State debt securities in national currency: | | |
| promissory notes of the State Treasury of Ukraine | 395 | 395 |
| State debt securities in foreign currency: | | |
| external State debt securities issued in 2000 | 16 | 44 |
| Total State securities of Ukraine | 411 | 439 |

In accordance with the Law of Ukraine "On the National Bank of Ukraine" the NBU performs operations with State securities only on the secondary market.

State debt securities denominated in national currency

As at 31 December 2006 held-to-maturity debt securities denominated in national currency held by the NBU represent promissory notes of the State Treasury of Ukraine 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 amounts 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 of UAH 199 million in 2010.

State debt securities denominated in foreign currency

State 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 been fully repaid in March 2007. Coupon on the bonds is payable on a quarterly basis. During 2006 bonds issued in 2000 totalling EUR 5 million (UAH 30 million at the exchange rate of hryvnia to Euro at the date of payment) have been redeemed (2005: EUR 5 million or UAH 32 million at the exchange rate of hryvnia to Euro at the date of payment).

The NBU did not perform operations in respect of sales or purchases of State bonds of Ukraine during 2006.

The credit risk analysis of State securities is disclosed in Note 30, currency risk analysis is presented in Note 31, interest rate risk analysis is presented in Note 32 and liquidity risk analysis is disclosed in Note 33. Information on the estimated fair value of State securities is presented in Note 35.

9. Loans to Banks and Other Borrowers

| | 2006 | (in UAH millions) 2005 |
|--|--------------|---------------------------|
| Loans to banks and other borrowers: | | |
| current loans | 1,438 | 761 |
| overdue loans | 287 | 288 |
| Provision against loans to banks and other borrowers | (334) | (351) |
| Total loans to banks and other borrowers | 1,391 | 698 |

As at 31 December 2006 the total amount of non-performing loans for which interest is not accrued was UAH 187 million (2005: UAH 189 million). These loans are provided against in full.

As at 31 December 2006 loans to banks and other borrowers are analysed by type of loan as follows:

| | 2006 | (in UAH millions) 2005 |
|---|-------|---------------------------|
| Loans granted to banks to support their liquidity: | | |
| short-term | 1,159 | 117 |
| long-term | 15 | 345 |
| Loans granted under EBRD credit lines for support of SME: | | |
| loans to banks | 341 | 371 |
| loans to other borrowers | 53 | 55 |
| Other loans: | | |
| loans to banks | 54 | 58 |

| | | |
|---|--------------|------------|
| loans to other borrowers | 103 | 103 |
| Provision against impaired loans to: | | |
| banks | (184) | (198) |
| other borrowers | (150) | (153) |
| Total loans to banks and other borrowers | 1,391 | 698 |

Loans to banks to support liquidity (except for overnight unsecured loans) were collateralised by State bonds of Ukraine, claims under agreements in respect of loans granted by banks to businesses, municipal bonds, corporate bonds, foreign currency deposits. During 2006 the NBU also granted loans in national currency to commercial banks for 3 years secured by deposits in national currency placed for one month with compulsory monthly prolongation.

Movements in provision against impaired loans to banks and other borrowers are as follows:

| | 2006 | (in UAH millions) 2005 |
|--|------------|---------------------------|
| Provision against loans to banks and other borrowers at the beginning of the year | 351 | 392 |
| Reduction in provision during the year (Note 27) | (17) | (41) |
| Provision against loans to banks and other borrowers at the end of the year | 334 | 351 |

The geographical analysis of loans to banks and other borrowers is disclosed in Note 29, analysis of credit risk is disclosed in Note 30, currency risk analysis is presented in Note 31, interest rate risk analysis is presented in Note 32 and liquidity risk analysis is disclosed in Note 33. The estimated fair value of loans to banks and other borrowers is presented in Note 35.

10. Internal State Debt

| | 2006 | (in UAH millions) 2005 |
|--|--------------|---------------------------|
| 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 | 3,010 | 3,262 |
| 1996 | 2,464 | 2,464 |
| Total internal State debt in foreign currency | 5,474 | 5,726 |
| Provision against internal State debt in respect of loans to Government in national currency | (198) | (69) |
| Provision against internal State debt in respect of loans to Government in foreign currency | (320) | – |
| Total internal State debt | 8,524 | 9,225 |

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 5,474 million at the exchange rate of hryvnia to USD as at 31 December 2006) 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.

During 2006 in accordance with the Law of Ukraine on State budget of Ukraine for 2006, a part of the 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 (2005: a part of the debt was repaid in respect of loans in foreign currency totalling USD 50 million or UAH 253 million at the official exchange rate at the date of payment).

The Law of Ukraine on State budget of Ukraine for 2007 provides for repayment in 2007 of a part of the debt in respect of loans in foreign currency totalling UAH 255 million.

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.

Movements in provision against internal State debt in respect of loans to Government are as follows:

| | 2006 | (in UAH millions) 2005 |
|---|------------|---------------------------|
| Provision against internal State debt in respect of loans to Government at the beginning of the year | 69 | 69 |
| Increase in the provision during the year | 449 | – |
| Provision against internal State debt in respect of loans to Government at the end of the year | 518 | 69 |

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.

During 2006 a provision against loans to Government in national and foreign currencies was raised by the NBU according to decisions taken by the NBU Council as follows:

in amount of UAH 129 million against internal State debt in respect of loans to Government in national currency granted in 1991-1993 as the terms of repayment of this debt and its servicing were not regulated by legislation;

in amount of UAH 320 million against internal State debt in respect of loans to Government in foreign currencies granted in 1995-1996 as the past history of the debt repayment causes uncertainties about the possibility of its settlement within timeframes set by the Law.

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.

The credit risk analysis of internal State debt is disclosed in Note 30, currency risk analysis is presented in Note 31, interest rate risk analysis is presented in Note 32 and liquidity risk analysis is disclosed in Note 33. Estimated fair value of internal State debt is disclosed in Note 35.

11. 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 IMF accounts No 1 and No 2 (Note 17). As at 31 December 2006 Ukraine's quota in the IMF amounted to SDR 1,372 million or UAH 10,423 million at the year-end official exchange rate of hryvnia to SDR (2005: SDR 1,372 million or UAH 9,903 million at the year-end official exchange rate of hryvnia to SDR). The quota does not earn interest.

12. Fixed Assets and Intangible Assets

| | <i>(in UAH millions)</i> | | | | | | | |
|--|-----------------------------------|--|-------------------------------|-----------------------------|--------------------------|----------------------------------|---------------------------|--------------|
| | Buildings and constructions | Motor- vehicles and transport | Machinery and equipment | Fixtures and fittings | Other fixed assets | Construc- tion in progress | Intan- gible assets | Total |
| Net book value at | | | | | | | | |
| 1 January 2006 | 1,504 | 44 | 401 | 35 | 34 | 97 | 32 | 2,147 |
| Cost or valuation at | | | | | | | | |
| 1 January 2006 | 1,549 | 79 | 824 | 88 | 78 | 97 | 63 | 2,778 |
| Accumulated depreciation as at 1 January 2006 | 45 | 35 | 423 | 53 | 44 | – | 31 | 631 |
| Additions | 27 | 10 | 76 | 8 | 32 | 31 | 5 | 189 |
| Disposals: | (4) | – | – | – | – | (1) | – | (5) |
| Cost | (6) | (4) | (11) | (1) | (14) | (1) | (3) | (40) |
| Accumulated depreciation | 2 | 4 | 11 | 1 | 14 | – | 3 | 35 |
| Transfer to other category: | 59 | – | 10 | – | 5 | (70) | (4) | – |
| Cost | 62 | – | 22 | (13) | 6 | (70) | (7) | – |
| Accumulated depreciation | (3) | – | (12) | 13 | (1) | – | 3 | – |
| Depreciation (amortisation) charge for the year | 43 | 8 | 110 | 11 | 25 | – | 15 | 212 |
| Cost or valuation at | | | | | | | | |
| 31 December 2006 | 1,632 | 85 | 911 | 82 | 102 | 57 | 58 | 2,927 |
| Accumulated depreciation at 31 December 2006 | 89 | 39 | 534 | 50 | 56 | – | 40 | 808 |
| Net book value at | | | | | | | | |
| 31 December 2006 | 1,543 | 46 | 377 | 32 | 46 | 57 | 18 | 2,119 |

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. The revaluation was performed based on the reports of independent appraisers, who hold relevant professional qualifications 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.

Management of the National Bank of Ukraine believes that no significant changes in the fair values of the NBU's premises and constructions occurred in 2006.

At 31 December 2006 fixed assets and intangible assets include assets totalling UAH 274 million at cost or valuation, which are fully depreciated (2005: UAH 138 million). These assets are still used by the NBU.

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 (2005: UAH 28 million). The carrying value of these assets is not higher than fair value less costs to sell.

The carrying amount of fixed assets includes revaluation surplus of UAH 759 million (2005: UAH 762 million).

| | <i>(in UAH millions)</i> | | | | | | | |
|--|-----------------------------|------------------------------|-------------------------|-----------------------|--------------------|--------------------------|-------------------|--------------|
| | Buildings and constructions | Motor-vehicles and transport | Machinery and equipment | Fixtures and fittings | Other fixed assets | Construction in progress | Intangible assets | Total |
| Net book value at 1 January 2005 | 770 | 27 | 353 | 44 | 75 | 107 | 31 | 1,407 |
| Cost or valuation at 1 January 2005 | 924 | 59 | 675 | 96 | 138 | 107 | 59 | 2,058 |
| Accumulated depreciation as at 1 January 2005 | 154 | 32 | 322 | 52 | 63 | – | 28 | 651 |
| Additions | 6 | 21 | 70 | 4 | 18 | 41 | 9 | 169 |
| Disposals: | (1) | – | (1) | – | – | – | – | (2) |
| Cost | (1) | (4) | (14) | – | (12) | – | (5) | (36) |
| Accumulated depreciation | – | 4 | 13 | – | 12 | – | 5 | 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 | 29 | 6 | 77 | 9 | 18 | – | 8 | 147 |
| Cost or valuation at 31 December 2005 | 1,549 | 79 | 824 | 88 | 78 | 97 | 63 | 2,778 |
| Accumulated depreciation at 31 December 2005 | 45 | 35 | 423 | 53 | 44 | – | 31 | 631 |
| Net book value at 31 December 2005 | 1,504 | 44 | 401 | 35 | 34 | 97 | 32 | 2,147 |

13. Other Assets

| | 2006 | (in UAH millions) 2005 |
|--|------------|---------------------------|
| Bank metals | 326 | 241 |
| Accounts receivable | 207 | 106 |
| Inventory | 141 | 119 |
| Precious metals | 61 | 63 |
| Investments in associates | 29 | 24 |
| Commemorative coins and other numismatic products | 9 | 12 |
| Deferred expenses | 1 | 1 |
| Other | 1 | – |
| Provision against other assets | (7) | (8) |
| Total other assets | 768 | 558 |

Movements in provision against other assets were as follows:

| | 2006 | (in UAH millions) 2005 |
|--|----------|---------------------------|
| Provision against other assets at the beginning of the year | 8 | 9 |
| Recovery of provision during the year (Note 27) | (1) | (1) |
| Provision against other assets at the end of the year | 7 | 8 |

At 31 December 2006 investments in associates included the following:

| Name | Country of registration | Type of activity | (in UAH millions) | | | |
|--------------------------|----------------------------|--|-------------------|-----------|-----------|-------|
| | | | Amount | | Share (%) | |
| | | | 2006 | 2005 | 2006 | 2005 |
| German-Ukrainian Fund | Ukraine | Financial institution of special type | 29 | 24 | 31,25 | 31,25 |
| Total | | | 29 | 24 | | |

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. The profit of GUF is allocated to increasing the lending pool for SME.

Movements in investments in GUF were as follows:

| | 2006 | (in UAH millions) 2005 |
|---|-----------|---------------------------|
| Carrying amount of investment at the beginning of the year | 24 | 24 |
| Share in profits earned before 2006 | 3 | – |
| Share profits for 2006 | 2 | – |
| Carrying amount of investment at the end of the year | 29 | 24 |

Information on total assets and liabilities of the associate as at 31 December 2006 and its revenues and profits for the year ended 31 December 2006 is provided below:

| | 2006 | (in UAH millions) 2005 |
|-------------------------|------|---------------------------|
| Total assets | 127 | 109 |
| Total liabilities | 1 | 1 |
| Total revenue | 8 | 4 |
| Total expense | 2 | 2 |
| Net profit for the year | 6 | 2 |

The geographical analysis of other assets is disclosed in Note 29, analysis of credit risk is disclosed in Note 30, currency risk analysis is presented in Note 31 and liquidity risk analysis is disclosed in Note 33.

14. Accounts of Banks

| | 2006 | (in UAH millions) 2005 |
|--|---------------|---------------------------|
| Correspondent accounts: | | |
| in national currency | 14,899 | 17,252 |
| in foreign currency | 121 | 38 |
| Term deposits: | | |
| in foreign currency | 379 | – |
| in national currency | 15 | 117 |
| Accounts of banks with special use conditions: | | |
| in national currency | 89 | 367 |
| in foreign currency | 3 | 9 |
| Total accounts of banks | 15,506 | 17,783 |

Correspondent accounts in national currency include mandatory reserves of Ukrainian banks with the NBU. As at 31 December 2006 the mandatory reserve balance is calculated on the basis of a simple average over a monthly period (2005: monthly period) and should be maintained at the level of 0.5 to 5 per cent (31 December 2005: 6 to 8 per cent) of certain obligations of commercial banks.

In accordance with the NBU regulations, as at 31 December 2006 banks were required on a daily basis to maintain on correspondent account with the NBU at least 100 per cent of the amount of mandatory reserves for the preceding "reserve" period, i.e. for the preceding month (as at 31 December 2005: 90%). Correspondent accounts are non-interest bearing.

During 2006 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.

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 29, currency risk analysis is presented in Note 31, interest rate risk analysis is presented in Note 32 and liquidity risk analysis is disclosed in Note 33.

15. Accounts of State Institutions

| | 2006 | (in UAH millions) 2005 |
|---|---------------|---------------------------|
| Budget funds | 18,624 | 18,459 |
| Other | 26 | 100 |
| Total accounts of State institutions | 18,650 | 18,559 |

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 29, currency risk analysis is presented in Note 31, interest rate risk analysis is presented in Note 32 and liquidity risk analysis is disclosed in Note 33.

16. 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 of one day (overnight deposits) and from 14 to 365 days (2005: from 31 to 365 days).

As at 31 December 2006 the nominal value of deposit certificates issued by the NBU was UAH 1 million each, initial term of placement was 14 days, and weighted average rate was 1.1% per annum (2005: weighted average rate of 5.6% per annum and the initial term of placement varied from 49 to 270 days). Weighted average interest rate for deposit certificates placed during 2006 was 0.95% per annum, and the initial term of placement varied from 1 to 152 days.

The currency risk analysis of deposit certificates is disclosed in Note 31, interest rate risk analysis is presented in Note 32 and liquidity risk analysis is disclosed in Note 33.

17. Liabilities to the IMF

| | 2006 | (in UAH millions) 2005 |
|---|---------------|---------------------------|
| IMF accounts No 1 and No 2 | 27 | 25 |
| Liabilities to the IMF in settlement of Quota | 10,397 | 9,878 |
| Liabilities to the IMF in respect of purchases of SDR | 4,233 | 6,040 |
| Total liabilities to the IMF | 14,657 | 15,943 |

Liabilities to the IMF include the liability of the Ministry of Finance of Ukraine to the IMF in settlement of quota contribution totalling UAH 2,511 million (2005: UAH 2,741 million).

During 2006 there was a repurchase of IMF funds of SDR 279 million (UAH 2,072 million at the official exchange rate at the date of payment) (2005: SDR 203 million or UAH 1,537 million at the official exchange rate at the date of payment).

The interest rate risk analysis of liabilities to the IMF is presented in Note 32 and maturity analysis is disclosed in Note 33.

18. Other Liabilities

| | 2006 | (in UAH millions) 2005 |
|--------------------------------|------------|---------------------------|
| Current accounts of employees | 168 | 88 |
| Accounts payable | 27 | 28 |
| Deferred income | 6 | 5 |
| Total other liabilities | 201 | 121 |

The geographical analysis of other liabilities is disclosed in Note 29, currency risk analysis is presented in Note 31 and maturity analysis is disclosed in Note 33.

19. 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 2006 amounted to UAH 2,112 million (2005: UAH 1,643 million).

The calculation of the profit payable to the State budget of Ukraine is presented below:

| | 2006 | (in UAH millions) 2005 |
|---|--------------|---------------------------|
| Profit available for distribution per the statement of income | 2,201 | 1,686 |
| Allocation to funds of the NBU | (89) | (43) |
| Excess of budgeted income over budgeted expenditure for the year to be transferred to the State budget, including: | 2,112 | 1,643 |
| Advance payment of profits to the State budget | (223) | (578) |
| Profits payable to the State Budget | 1,889 | 1,065 |

During 2006 the NBU transferred to the State budget of Ukraine balance in the amount of UAH 1,065 million in respect of excess of income over expenditure for the year ended 31 December 2005. 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 223 million as partial settlement of liability to transfer excess of income over expenditure for 2006.

In March 2007 the NBU transferred to the State Budget UAH 469 million as partial settlement of liability to transfer excess of income over expenditure for 2006.

20. 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 source of formation of the NBU's statutory capital are profits of the NBU.

21. Cash and Cash Equivalents

| | Note | (in UAH millions) 2006 | 2005 |
|---|------|---------------------------|----------|
| Foreign currency cash | 6 | 75 | 73 |
| Demand deposits (excluding restricted funds) | 6 | 1,530 | 1,727 |
| Short-term deposits maturing within three months (excluding gold, bank metals and restricted funds) | | 21,929 | 28,095 |
| SDR Holdings | | 8 | 5 |
| Demand accounts of banks | 14 | (15,112) | (17,666) |
| Accounts of State institutions | 15 | (18,650) | (18,559) |
| IMF accounts No 1 and No 2 | 17 | (27) | (25) |
| Current accounts of employees | 18 | (168) | (88) |
| Total cash and cash equivalents | | (10,415) | (6,438) |

22. Interest Income and Expense

| | | (in UAH millions) |
|---|--------------|-------------------|
| | 2006 | 2005 |
| Interest income | | |
| On foreign currency funds and deposits | 2,778 | 1,892 |
| On loans to banks and other borrowers | 86 | 100 |
| On State securities of Ukraine | 3 | 384 |
| On SDR holdings | 1 | – |
| Other | 2 | 2 |
| Total interest income | 2,870 | 2,378 |
| Interest expense | | |
| On liabilities to the IMF | (261) | (251) |
| On deposit certificates issued by the NBU | (38) | (84) |
| On loans received | (19) | (16) |
| On accounts of banks | (4) | (4) |
| Other | (22) | (9) |
| Total interest expense | (344) | (364) |
| Net interest income | 2,526 | 2,014 |

23. Fee and Commission Income and Expense

| | | (in UAH millions) |
|---|------------|-------------------|
| | 2006 | 2005 |
| Fee and commission income | | |
| On services of electronic payments system and electronic mail | 115 | 102 |
| On cash and settlement services | 76 | 73 |
| On valuables transportation services | 26 | 27 |
| On operations with financial instruments | 1 | 3 |
| Total fee and commission income | 218 | 205 |
| Fee and commission expense | | |
| On operations with IMF | – | (8) |
| On operations with financial instruments | (3) | (3) |
| Total fee and commission expense | (3) | (11) |
| Net fee and commission income | 215 | 194 |

24. Other Income

| | | (in UAH millions) |
|--|------------|-------------------|
| | 2006 | 2005 |
| Income from sale of banknote paper, commemorative and jubilee coins and other products | 54 | 78 |
| Income from activities of educational institutions | 17 | 16 |
| Income from registration and licensing | 7 | 6 |
| Income from monitoring of credit lines | 3 | 3 |
| Fines and penalties received | 2 | 2 |
| Other | 24 | 18 |
| Total other income | 107 | 123 |

Income from the sale of other products includes income from the sale of packages for coins, souvenir banknotes, printed materials, and income from social and consumer services.

25. Staff Costs

| | | (in UAH millions) |
|--|------------|-------------------|
| | 2006 | 2005 |
| Wages and salaries | 285 | 220 |
| Social assistance and other social payments | 148 | 88 |
| Mandatory State pension scheme and social security contributions | 135 | 104 |
| Other | 36 | 24 |
| Total staff costs | 604 | 436 |

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.

26. Administrative and Other Expenses

| | | (in UAH millions) |
|--|------------|-------------------|
| | 2006 | 2005 |
| Depreciation and amortisation | 139 | 104 |
| Utilities and household expenses | 40 | 35 |
| Expenses for maintenance of fixed assets and intangible assets | 40 | 48 |
| Telecommunication services and maintenance | 9 | 9 |
| Business trip expenses | 8 | 7 |
| Taxes, duties and charges | 2 | 8 |
| Other | 46 | 33 |
| Total administrative and other expenses | 284 | 244 |

The depreciation charge for 2006 excludes depreciation of UAH 73 million (2005: UAH 43 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 to 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.

27. Net (Increase)/Decrease in Provisions

| | | (in UAH millions) | |
|--|------|-------------------|-----------|
| | Note | 2006 | 2005 |
| (Provision)/recovery of provision: | | | |
| against internal State debt | 10 | (449) | — |
| against loans to banks and other borrowers | 9 | 17 | 41 |
| against other assets | 13 | 1 | 1 |
| Total net (increase)/decrease in provisions | | (431) | 42 |

28. 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 the 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 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 managed through ensuring compliance with the standard currency composition of the NBU's gold and foreign currency reserve. This composition is defined every 6 month by the decision of the NBU Board. However, the nature of the NBU's operations as a central bank leads to significant open positions in foreign currency.

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 29 to 33.

29. Geographical Analysis of Assets and Liabilities

The geographical analysis of the NBU's assets and liabilities as at 31 December 2006 is set out below:

| | <i>(in UAH millions)</i> | | | | |
|-------------------------------------|--------------------------|----------------|---------------|-----------|----------------|
| | Ukraine | OECD countries | IMF | Other | Total |
| Assets | | | | | |
| Foreign currency funds and deposits | 75 | 70,641 | – | – | 70,716 |
| Foreign securities | – | 43,157 | – | 30 | 43,187 |
| SDR Holdings | – | – | 8 | – | 8 |
| Monetary gold | 1,806 | – | – | – | 1,806 |
| State securities of Ukraine | 411 | – | – | – | 411 |
| Loans to banks and other borrowers | 1,391 | – | – | – | 1,391 |
| Internal State debt | 8,524 | – | – | – | 8,524 |
| IMF Quota contributions | – | – | 10,423 | – | 10,423 |
| Fixed assets and intangible assets | 2,119 | – | – | – | 2,119 |
| Other assets | 711 | 57 | – | – | 768 |
| Total assets | 15,037 | 113,855 | 10,431 | 30 | 139,353 |

Liabilities

| | | | | | |
|---|------------------|----------------|----------------|-----------|----------------|
| Banknotes and coins in circulation | 82,133 | – | – | – | 82,133 |
| Accounts of banks | 15,506 | – | – | – | 15,506 |
| Accounts of State institutions | 18,650 | – | – | – | 18,650 |
| Profits payable to the State Budget | 1,889 | – | – | – | 1,889 |
| Deposit certificates issued by the National Bank of Ukraine | 180 | – | – | – | 180 |
| Loans received | – | 255 | – | – | 255 |
| Liabilities to the IMF | – | – | 14 657 | – | 14,657 |
| Other liabilities | 186 | 15 | – | – | 201 |
| Total liabilities | 118,544 | 270 | 14,657 | – | 133,471 |
| Net balance sheet position | (103,507) | 113,585 | (4,226) | 30 | 5,882 |
| Commitments | | | | | |
| Commitments to extend credit | 4 | – | – | – | 4 |
| Net off-balance sheet position (Note 34) | 4 | – | – | – | 4 |
| Net position | (103,511) | 113,585 | (4,226) | 30 | 5,878 |

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 6,533 million. Foreign securities balance sheet item includes bonds issued by Bank for International Settlements totalling UAH 1,951 million.

The total amount of funds placed with Bank for International Settlements is UAH 8,484 million or 7.5% of the total assets placed in OECD countries (2005: UAH 30,129 million, or 30% of the total assets placed in OECD countries).

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 | – | 1 | 20,260 |
| SDR Holdings | – | – | 5 | – | 5 |
| Monetary gold | 1,393 | – | – | – | 1,393 |
| State securities of Ukraine | 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 | – | – | 558 |
| 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 State institutions | 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 the 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 | | | | | |
| Commitments to extend credit | 11 | – | – | – | 11 |
| Net off-balance sheet position (Note 34) | 11 | – | – | – | 11 |
| Net position | (90,837) | 98,580 | (6,035) | 1 | 1,709 |

30. 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.

| <i>(in UAH millions)</i> | | | | | |
|-------------------------------------|----------------------|---------------|---------------------------------------|------------------------|------------------------------|
| | Credit rating | Amount | 2006 % in financial assets | 2005 Amount | % in financial assets |
| Foreign currency funds and deposits | AAA+ | 6,533 | 4.8 | 27,161 | 22.8 |
| | AAA | 34 | 0.1 | 180 | 0.1 |
| | AA+ | 3,614 | 2.7 | 2,657 | 2.2 |
| | AA | 28,533 | 21.2 | 15,646 | 13.1 |
| | AA– | 29,229 | 21.7 | 28,967 | 24.2 |
| | A+ | 733 | 0.5 | 1,867 | 1.6 |
| | A | 1,958 | 1.4 | 2,182 | 1.8 |
| | A– | 7 | 0.0 | 1 | 0.0 |
| | No rating | 75 | 0.1 | 73 | 0.1 |
| Foreign securities | AAA+ | 1,951 | 1.4 | 2,968 | 2.5 |
| | AAA | 39,217 | 29.0 | 16,973 | 14.2 |
| | AA+ | 1,003 | 0.7 | – | – |
| | AA | 74 | 0.1 | 76 | 0.1 |
| | AA– | – | – | 122 | 0.1 |
| | A+ | 821 | 0.6 | – | – |
| | BBB+ | 120 | 0.1 | – | – |
| | BBB | – | – | 120 | 0.1 |
| | No rating | 1 | 0.0 | 1 | 0.0 |
| SDR Holdings | AAA+ | 8 | 0.0 | 5 | 0.0 |
| State securities of Ukraine | B+ | 411 | 0.3 | 439 | 0.4 |
| Loans to banks and other borrowers | B | 440 | 0.3 | 255 | 0.2 |
| | B– | 744 | 0.6 | 108 | 0.1 |
| | No rating | 207 | 0.2 | 335 | 0.3 |

| | | | | | |
|-------------------------------|-----------|----------------|--------------|---------|-------|
| Internal State debt | B+ | 8,524 | 6.3 | 9,225 | 7.7 |
| IMF Quota contributions | AAA+ | 10,423 | 7.7 | 9,903 | 8.3 |
| Other assets | AA | 1 | 0.0 | – | – |
| | AA– | – | – | 1 | 0.0 |
| | No rating | 229 | 0.2 | 121 | 0.1 |
| Total financial assets | | 134,890 | 100.0 | 119,386 | 100.0 |

State securities of Ukraine, 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.

31. 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 2006, the NBU had the following positions in currencies:

| | UAH | USD | EUR | SDR | GBP | Other | (in UAH millions) Non-monetary items | Total |
|---|------------------|---------------|---------------|----------------|---------------|--------------|---|----------------|
| Assets | | | | | | | | |
| Foreign currency funds and deposits | – | 38,425 | 21,361 | – | 3,588 | 7,342 | – | 70,716 |
| Foreign securities | – | 26,571 | 8,145 | – | 8,350 | – | 121 | 43,187 |
| SDR Holdings | – | – | – | 8 | – | – | – | 8 |
| Monetary gold | – | – | – | – | – | 1,806 | – | 1,806 |
| State securities of Ukraine | 395 | – | 16 | – | – | – | – | 411 |
| Loans to banks and other borrowers | 1,157 | 234 | – | – | – | – | – | 1,391 |
| Internal State debt | 3,370 | 5,154 | – | – | – | – | – | 8,524 |
| IMF Quota contributions | – | – | – | 10,423 | – | – | – | 10,423 |
| Fixed assets and intangible assets | – | – | – | – | – | – | 2,119 | 2,119 |
| Other assets | 94 | – | – | – | – | 327 | 347 | 768 |
| Total assets | 5,016 | 70,384 | 29,522 | 10,431 | 11,938 | 9,475 | 2,587 | 139,353 |
| Liabilities | | | | | | | | |
| Banknotes and coins in circulation | 82,133 | – | – | – | – | – | – | 82,133 |
| Accounts of banks | 15,003 | 382 | 121 | – | – | – | – | 15,506 |
| Accounts of State institutions | 9,125 | 4,519 | 908 | – | – | 4,098 | – | 18,650 |
| Profits payable to the State Budget | 1,889 | – | – | – | – | – | – | 1,889 |
| Deposit certificates issued by the National Bank of Ukraine | 180 | – | – | – | – | – | – | 180 |
| Loans received | – | 255 | – | – | – | – | – | 255 |
| Liabilities to the IMF | – | – | – | 14,657 | – | – | – | 14,657 |
| Other liabilities | 186 | 1 | 8 | – | – | 6 | – | 201 |
| Total liabilities | 108,516 | 5,157 | 1,037 | 14,657 | – | 4,104 | – | 133,471 |
| Net balance sheet position | (103,500) | 65,227 | 28,485 | (4,226) | 11,938 | 5,371 | 2,587 | 5,882 |

Assets and liabilities in other currencies mainly include positions in monetary gold, Swiss francs, yens and bank metals.

As at 31 December 2005, the NBU had the following positions in currencies:

| | UAH | USD | EUR | SDR | GBP | Other | Non-monetary items | Total |
|---|--------------------------|---------------|---------------|----------------|--------------|--------------|--------------------|----------------|
| | <i>(in UAH millions)</i> | | | | | | | |
| Assets | | | | | | | | |
| Foreign currency funds and deposits | — | 53,119 | 20,313 | — | 3,072 | 2,230 | — | 78,734 |
| Foreign securities | — | 15,786 | — | — | 4,353 | — | 121 | 20,260 |
| SDR Holdings | — | — | — | 5 | — | — | — | 5 |
| Monetary gold | — | — | — | — | — | 1,393 | — | 1,393 |
| State securities of Ukraine | 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 | 218 | 558 |
| 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 State institutions | 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 the 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 |

32. 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 2006 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 | Total weighted average interest rate |
|-------------------------------|---------------|------|------|-----|------|-------|--------------------------------------|
| | <i>(in %)</i> | | | | | | |
| Assets | | | | | | | |
| Term deposits with OECD banks | — | 5.32 | 3.34 | — | 5.02 | 1.79 | 4.33 |
| Foreign securities | — | 4.97 | 3.85 | — | 5.18 | — | 4.80 |

| | | | | | | | |
|------------------------------------|------|------|-------|------|---|---|-------|
| SDR Holdings | – | – | – | 4.07 | – | – | 4.07 |
| State securities of Ukraine | – | – | 10.00 | – | – | – | 10.00 |
| Loans to banks and other borrowers | 9.87 | 7.39 | – | – | – | – | 9.26 |

Liabilities

| | | | | | | | |
|---|------|------|---|------|---|---|------|
| Term deposits of banks | 6.80 | 1.50 | – | – | – | – | 1.70 |
| Deposit certificates issued by the National Bank of Ukraine | 1.06 | – | – | – | – | – | 1.06 |
| Loans received | – | 6.37 | – | – | – | – | 6.37 |
| Liabilities to the IMF in respect of purchases of funds | – | – | – | 5.48 | – | – | 5.48 |

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 2005 the NBU had the following interest rates on assets and liabilities:

| | 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 |
| State securities of Ukraine | – | – | 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 |

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.

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 repricing position.

As at 31 December 2006 interest rate repricing analysis of the NBU's assets and liabilities is presented below:

| | <i>(in UAH millions)</i> | | | | | | |
|---|--------------------------------|------------------|-------------------|-----------------|-----------------|-----------------------------|----------------|
| | 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 | 11,211 | 13,417 | 45,537 | 84 | – | 467 | 70,716 |
| Foreign securities | 43,066 | – | – | – | – | 121 | 43,187 |
| SDR Holdings | 8 | – | – | – | – | – | 8 |
| Monetary gold | – | – | – | – | – | 1,806 | 1,806 |
| State securities of Ukraine | – | 16 | – | – | – | 395 | 411 |
| Loans to banks and other borrowers | 478 | 56 | 841 | 15 | – | 1 | 1,391 |
| Internal State debt | – | – | – | – | – | 8,524 | 8,524 |
| IMF Quota contributions | – | – | – | – | – | 10,423 | 10,423 |
| Fixed assets and intangible assets | – | – | – | – | – | 2,119 | 2,119 |
| Other assets | – | – | 1 | 53 | 37 | 677 | 768 |
| Total assets | 54,763 | 13,489 | 46,379 | 152 | 37 | 24,533 | 139,353 |
| Liabilities | | | | | | | |
| Banknotes and coins in circulation | – | – | – | – | – | 82,133 | 82,133 |
| Accounts of banks | 412 | – | – | – | – | 15,094 | 15,506 |
| Accounts of State institutions | 13 | – | – | – | – | 18,637 | 18,650 |
| Profits payable to the State Budget | – | – | – | – | – | 1,889 | 1,889 |
| Deposit certificates issued by the National Bank of Ukraine | 180 | – | – | – | – | – | 180 |
| Loans received | – | – | 255 | – | – | – | 255 |
| Liabilities to the IMF | 4,234 | – | – | – | – | 10,423 | 14,657 |
| Other liabilities | 170 | – | – | – | – | 31 | 201 |
| Total liabilities | 5,009 | – | 255 | – | – | 128,207 | 133,471 |
| Net gap | 49,754 | 13,489 | 46,124 | 152 | 37 | (103,674) | 5,882 |
| Cumulative gap | 49,754 | 63,243 | 109,367 | 109,519 | 109,556 | 5,882 | – |

Included in loans to banks and other borrowers in category "1 to 5 years" is the loan of UAH 15 million granted for 3 years against the deposit placed by the counterparty for one month. The terms of loan agreement require monthly renewal of deposit and the counterparty's failure to comply with this condition results in immediate repayment of the loan.

As at 31 December 2005 interest rate repricing analysis of the NBU's assets and liabilities is presented below:

| | <i>(in UAH millions)</i> | | | | | | |
|---|--------------------------------|------------------|-------------------|-----------------|-----------------|-----------------------------|----------------|
| | 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 | — | — | — | — | 121 | 20,260 |
| SDR Holdings | 5 | — | — | — | — | — | 5 |
| Monetary gold | — | — | — | — | — | 1,393 | 1,393 |
| State securities of Ukraine | — | 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 | — | 490 | 558 |
| 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 the 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 | — |

33. 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.

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 the NBU's liquidity position.

The liquidity position of the NBU as at 31 December 2006 is set out below.

| | <i>(in UAH millions)</i> | | | | | | |
|--|--------------------------------|------------------|-------------------|-----------------|-----------------|----------------|----------------|
| | 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 | 11,678 | 13,417 | 45,537 | 87 | – | – | 70,716 |
| Foreign securities | 43,065 | – | – | – | – | 122 | 43,187 |
| SDR Holdings | 8 | – | – | – | – | – | 8 |
| Monetary gold | 1,806 | – | – | – | – | – | 1,806 |
| State securities of Ukraine | – | 16 | – | 395 | – | – | 411 |
| Loans to banks and other borrowers | 478 | 56 | 708 | 148 | – | 1 | 1,391 |
| Internal State debt | – | – | 255 | 1,759 | 3,105 | 3,405 | 8,524 |
| IMF Quota contributions | – | – | – | – | – | 10 423 | 10,423 |
| Fixed assets and intangible assets | – | – | – | – | – | 2 119 | 2,119 |
| Other assets | 159 | 40 | 59 | 61 | 37 | 412 | 768 |
| Total assets | 57,194 | 13,529 | 46,559 | 2,447 | 3 142 | 16,482 | 139,353 |
| Liabilities | | | | | | | |
| Banknotes and coins in circulation | 82,133 | – | – | – | – | – | 82,133 |
| Accounts of banks | 15,506 | – | – | – | – | – | 15,506 |
| Accounts of State institutions | 18,650 | – | – | – | – | – | 18,650 |
| Profits payable to the State Budget | – | – | 1,889 | – | – | – | 1,889 |
| Deposit certificates issued by the National Bank of Ukraine | 180 | – | – | – | – | – | 180 |
| Loans received | – | – | 100 | 155 | – | – | 255 |
| Liabilities to the IMF | 82 | 684 | 1,421 | 2,073 | – | 10,397 | 14,657 |
| Other liabilities | 184 | 10 | 6 | – | – | 1 | 201 |
| Total liabilities | 116,735 | 694 | 3,416 | 2,228 | – | 10,398 | 133,471 |
| Net liquidity gap | (59,541) | 12,835 | 43,143 | 219 | 3,142 | 6,084 | 5,882 |
| Cumulative liquidity gap | (59,541) | (46,706) | (3,563) | (3,344) | (202) | 5,882 | – |

The liquidity position of the NBU as at 31 December 2005 is set out below:

| | <i>(in UAH millions)</i> | | | | | | |
|---|--------------------------------|------------------|-------------------|-----------------|-----------------|----------------|----------------|
| | 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 | – | – | – | – | 121 | 20,260 |
| SDR Holdings | 5 | – | – | – | – | – | 5 |
| Monetary gold | 1,393 | – | – | – | – | – | 1,393 |
| State securities of Ukraine | – | 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 | 308 | 558 |
| 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 the IMF | 77 | 655 | 1,350 | 3,983 | – | 9,878 | 15,943 |
| Other liabilities | 114 | 5 | 1 | – | – | 1 | 121 |
| Total liabilities | 102,044 | 1,911 | 3,572 | 4,236 | – | 9,879 | 121,642 |
| Net liquidity gap | (68,216) | 17,437 | 44,105 | (337) | 3,265 | 5,466 | 1,720 |
| Cumulative liquidity gap | (68,216) | (50,779) | (6,674) | (7,011) | (3,746) | 1,720 | – |

34. Commitments, Contingencies and Derivative Financial Instruments

(a) Credit commitments

Credit commitments include the following:

| | 2006 | 2005 <i>(in UAH millions)</i> |
|--|------|----------------------------------|
| Commitments to extend credits under international credit lines | 4 | 11 |
| Total credit commitments | 4 | 11 |

(b) Capital commitments

As at 31 December 2006 the NBU had capital commitments in respect of fixed asset purchases, construction and improvements and intangible assets purchases totalling UAH 107 million (2005: UAH 48 million).

(c) Derivative financial instruments

During 2006 the NBU did not perform operations with derivative financial instruments including forward and option contracts for purchase and sale of foreign currency.

(d) 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.

35. Fair Value of Financial Instruments

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 5, 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, accounts of banks, accounts of State institutions, loans received and liabilities to the IMF.

Fair value of State securities of Ukraine 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 estimated 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 State securities of Ukraine 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 State securities of Ukraine denominated in the national currency (promissory notes of the State Treasury of Ukraine). To estimate the upper value, the NBU discount rate of 8.5% per annum effective as at 31 December 2006 was used (2005: a discount factor of 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).

To estimate the lower value, the NBU used as a discount factor the average yield on domestic Government bonds of 9.4% per annum maturing on 2 September 2009, placed on 11 December 2006 on primary market (2005: the NBU used a discount rate of 9.5% per annum effective as at the end of 2005).

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. To estimate the upper value, the NBU used the yield rate of 6.073% per annum being the yield on USD-denominated external Government bonds on the Ukrainian external debt securities market as at 1 January 2007 with the maturity dates which approximate maturity dates of the

internal State debt, i.e. the yield on external Government bonds issued in 2007 and maturing in 2011 (coupon rate of 6.875%) (2005: the NBU used the discount factor of 6.24% per annum, i.e. the yield on USD-denominated external Government bonds on the Ukrainian external debt securities market with similar maturity dates).

The discounted cash flows have been estimated since 2007 given that the repayment will be regulated by the Law of Ukraine On State Budget of Ukraine for 2007 in the amount equivalent to UAH 253 million, which equals USD 50 million, and after 2008 – by equal quarterly instalments in accordance with the Law of Ukraine On Restructuring.

To estimate the lower value, the NBU used the yield rate of 6.58% per annum as at 1 January 2007 representing the yield on USD-denominated external Government bonds on the Ukrainian external debt securities market with the longest maturity, i.e. the yield on external Government bonds issued in 2007 and maturing in 2016 (coupon rate of 6.58%) (2005: the NBU used the discount factor of 6.24% per annum, i.e. the yield on USD-denominated external Government bonds on the Ukrainian external debt securities market with similar maturity dates).

The discounted cash flows have been estimated since 2007 given the repayment will be regulated by the Law of Ukraine On State Budget of Ukraine for 2007 in the amount equivalent to UAH 253 million, which equals USD 50 million, and subsequently – by USD 50 million instalments until the final settlement of the debt in accordance with the Law of Ukraine On State Budget of Ukraine.

The fair value of internal State debt in respect of loans to Government granted in the national currency in 1991–1993. As the legislation of Ukraine does not govern the settlement of this debt, it has a zero fair value (2005: the fair value of these loans 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 value, the NBU used the discount rate of 8.5% effective as at the end of 2006 (2005: 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 maturing on 30 December 2009).

To estimate the lower value of loans the NBU used as a discount factor the weighted-average yield on domestic Government bonds of 9.5% per annum maturing on 28 September 2001, which were realised on primary market on 26 November 2006 (2005: the NBU used as a discount factor 9.5% per annum, being the NBU discount rate effective at the end of 2005).

As at the end of 2006 cash flows for the purposes of calculating the fair value of loans to Government in national currency include the amount of interest at 5% per annum for servicing the loans starting from 2010.

Fair value of loans to banks and other borrowers equals their respective carrying values as the exposure is assessed as minimum due to highly liquid collateral for these loans and due to the fact that the interest rate on these loans approximates market interest rate (in 2005, to estimate the upper 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; to estimate the lower 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 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 | 2006 Estimated fair value | | Carrying value | (in UAH millions) 2005 Estimated fair value | |
|---|-------------------|---------------------------------|----------------|-------------------|--|----------------|
| | | Upper value | Lower value | | Upper value | Lower value |
| State securities of Ukraine in foreign currency | 16 | 16 | 16 | 44 | 46 | 46 |
| State securities of Ukraine in national currency | 395 | 301 | 292 | 395 | 300 | 266 |
| Total State securities of Ukraine | 411 | 317 | 308 | 439 | 346 | 312 |
| Internal State debt on loans in foreign currency | 5,154 | 4,847 | 2,871 | 5,726 | 4,914 | 4,535 |
| Internal State debt in national currency arising in 1991–1993 | – | – | – | 129 | Not calculated | |
| Internal State debt in national currency arising in 1994–1996 | 3,370 | 2,068 | 1,878 | 3,370 | 2,382 | 1,715 |
| Total internal State debt | 8,524 | 6,915 | 4,749 | 9,225 | 7,296 | 6,250 |
| Loans to banks and other borrowers | 1,391 | 1,391 | 1,391 | 698 | 695 | 692 |

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.

36. 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:

| | 2006 | | (in UAH millions) 2005 | |
|---|--|-----------------------------|--|-----------------------------|
| | Government and State- controlled entities | Other related parties | Government and State- controlled entities | Other related parties |
| State securities of Ukraine | 411 | – | 439 | – |
| Loans to banks in national currency (contractual interest rate: 31 December 2005: 7%) | – | – | 58 | – |
| Internal State debt | 8,524 | – | 9,225 | – |
| Accounts of banks | 896 | – | 1,360 | – |
| Accounts of State institutions | 18,636 | 10 | 18,513 | 30 |
| Profits payable to the State Budget | 1,889 | – | 1,065 | – |
| Deposit certificates issued by the National Bank of Ukraine | 100 | – | 1,734 | – |

In 2006 the remuneration of key management personnel amounted to UAH 4.5 million (2005: UAH 3.4 million). As at 31 December 2006 outstanding balance of loans totals UAH 3 million (2005: UAH 3 million).

37. Concentration of Assets and Liabilities

As at 31 December 2006 7% (2005: 8%) of the total NBU assets, excluding IMF Quota, were represented by amounts due from Government in respect of internal State debt and State securities of Ukraine, 7% (2005: 27%) were represented by funds and deposits placed with Bank for International Settlements and bonds of Bank for International Settlements and 15% (2005: 11%) were represented by US Treasury bills. 68% (2005: 59%) 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, 15% (2005: 17%) is represented by funds of the State Treasury of Ukraine and 13% (2005: 16%) is represented by accounts of banks.

12 April 2007
Kyiv, Ukraine

A handwritten signature in black ink, appearing to be a stylized cursive script, possibly reading 'L. H. H.' or similar, with a long horizontal stroke extending to the left.

AUDITOR'S REPORT

To the Members of the Council and the Board of the National Bank of Ukraine:

1. We have audited the accompanying financial statements of the National Bank of Ukraine (the "NBU") which comprise the balance sheet as of 31 December 2006 and the statements of income, of cash flows and of changes in capital employed for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2. Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis set out in Note 2. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

6. In 2005 our audit opinion included a qualification in respect of recoverability of internal State debt which originated in 1991-1993 in the amount of UAH 129 million due to uncertainty as to which Government authority, if any, would accept responsibility for repaying this debt. During the year ended 31 December 2006 this amount was fully provided for along with other amounts in accordance with the NBU's policy for provisioning against internal State debt, as described in Note 10. In our opinion, this provision reflects events which occurred prior to 2006. As such, this provision should have been raised in 2005, which would result in a decrease in the opening balance of capital employed as at 1 January 2006 and the profit available for distribution for the year ended 31 December 2005 by UAH 129 million and an increase in the profit available for distribution for the year ended 31 December 2006 by UAH 129 million. This matter has no impact on the balance of capital employed as at 31 December 2006.

Qualified Opinion

7. In our opinion, except for the effect on the financial statements of the matter described in paragraph 6 above, the accompanying financial statements have been prepared, in all material respects, to present the financial position of the NBU as at 31 December 2006 and the results of its operations and its cashflows for the year then ended, in accordance with the basis set out in Note 2 to the financial statements.

Emphasis of Matter

8. Without further qualifying our opinion, we draw attention to Note 2 to the financial statements. The NBU applies specific accounting policies to certain items of financial statements in order to comply with the requirements of the current Ukrainian legislation. Those policies differ from those that would be required if International Financial Reporting Standards (IFRS) were followed by the NBU. Major differences between the NBU's accounting policies and IFRS are described in Note 2.

LLC PricewaterhouseCoopers (Audit)

Kyiv, Ukraine
12 April 2007



Auditor

Audit certificate issued by the National Bank of Ukraine №0000025

L. Pakhucha

Chapter 4

TABLES

**MAIN INDICATORS OF THE ECONOMIC
AND SOCIAL SITUATION IN UKRAINE**

| Indicators | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|--|--------|---------|----------|--------|--------|-------|-------|--------|
| Gross domestic product | 0.3 | 5 | 148 | 1204 | 5452 | 81519 | 93365 | 102593 |
| Growth rates versus previous year in comparable prices, % | 91.3 | 90.1 | 85.8 | 77.1 | 87.8 | 90.0 | 97.0 | 98.1 |
| Industrial output | 0.33 | 6 | 177 | 1310 | 5882 | 73321 | 75061 | 82889 |
| Growth rates versus previous year in comparable prices, % | 95.2 | 93.6 | 92.0 | 72.7 | 88.0 | 94.9 | 99.7 | 99.0 |
| Agricultural output | 0.1 | 1.4 | 58 | 363 | 1698 | 26746 | 30032 | 32758 |
| Growth/decrease rates versus previous year in comparable prices, % | 86.8 | 91.7 | 101.5 | 83.5 | 96.4 | 90.5 | 98.2 | 90.4 |
| Capital investment | 0.05 | 0.9 | 29 | 228 | 938 | 12557 | 12401 | 13958 |
| Growth/decrease rates versus previous year in comparable prices, % | 92.9 | 63.1 | 89.6 | 77.5 | 71.5 | 78.0 | 91.2 | 106.1 |
| Retail turnover | 0.1 | 1.5 | 44 | 337 | 1196 | 17344 | 18933 | 19317 |
| Growth/decrease rates versus previous year in comparable prices, % | 90.3 | 82.0 | 65.0 | 86.4 | 86.1 | 94.9 | 100.2 | 93.4 |
| Paid services rendered to individuals | 0.02 | 0.1 | 4 | 56 | 370 | 7635 | 9279 | 9845 |
| Growth/decrease rates versus previous year in comparable prices, % | 73.4 | 78.0 | 77.1 | 96.7 | 67.7 | 85.8 | 94.9 | 96.2 |
| Income | 0.1 | 3 | 93 | 515 | 1881 | 14418 | 13868 | 3419 |
| 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 | 24.7 |
| Share of unprofitable enterprises, % | ... | 9.5 | 8.3 | 11.4 | 22.2 | 43.0 | 45.0 | 54.5 |
| 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 | 120.0 |
| 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 | 135.3 |

| 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | Indicators |
|--------|--------------------|--------|--------|--------|--------|--------|---------------------|---|
| 130442 | 170070 | 204190 | 225810 | 267344 | 345113 | 424752 | 537667 | Gross domestic product |
| 99.8 | 105.9 | 109.2 | 105.2 | 109.6 | 112.1 | 102.7 | 107.1 | Growth rates versus previous year in comparable prices, % |
| 107537 | 160755 | 184276 | 202687 | 259502 | × | × | × | Industrial output |
| 104.0 | 113.2 | 114.2 | 107.0 | 115.8 | 112.5 | 103.1 | 106.2 | Growth rates versus previous year in comparable prices, % |
| 37683 | 54259 | 65218 | 65253 | 64780 | 83900 | 92536 | 94300 | Agricultural output |
| 93.1 | 109.8 | 110.2 | 101.2 | 89.0 | 119.9 | 99.9 | 100.4 | Growth/decrease rates versus previous year in comparable prices, % |
| 17552 | 23629 | 32573 | 37178 | 51011 | 75714 | 93096 | 125254 | Capital investment |
| 100.4 | 114.4 | 120.8 | 108.9 | 131.3 | 128.0 | 101.9 | 119.0 | Growth/decrease rates versus previous year in comparable prices, % |
| 22151 | 28757 | 34417 | 39691 | 49993 | 67556 | 94332 | 129952 | Retail turnover |
| 92.9 | 108.1 | 113.7 | 115.0 | 120.5 | 121.9 | 123.4 | 126.4 | Growth/decrease rates versus previous year in comparable prices, % |
| 11625 | 26487 ² | 37822 | 46400 | 56121 | 72933 | 90794 | 103812 ² | Paid services rendered to individuals |
| 93.8 | ... | 142.8 | 122.7 | 120.9 | 130.0 | 124.5 | 127.2 | Growth/decrease rates versus previous year in comparable prices, % |
| 7427 | 13933 ³ | 18741 | 14641 | 19643 | 44578 | 64371 | 70237 | Income |
| 2.2 t. | 187.6 | 134.5 | 78.1 | 134.2 | 2.3 t. | 144.4 | 114.3 | Growth/decrease rates versus previous year at actual prices, % |
| 55.7 | 37.7 | 38.2 | 38.8 | 37.2 | 34.8 | 34.2 | 30.9 | Share of unprofitable enterprises, % |
| 119.2 | 125.8 | 106.1 | 99.4 | 108.2 | 112.3 | 110.3 | 111.6 | Consumer price index, % versus December of previous year |
| 115.7 | 120.8 | 100.9 | 105.7 | 111.1 | 124.1 | 109.5 | 114.1 | Industrial producers' price index, % versus December of previous year |

¹ From 2006, the volume of produced services.

² From 2000, the volume of rendered services.

³ Decrease rates in comparable prices.

⁴ From 2000, pre-tax financial result from usual activity.

| Indicators | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|--|--------|---------|---------|--------|--------|---------------------|--------|--------|
| 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 | 153.49 |
| Growth rates versus previous year, % | ... | 13.6 t. | 25.0 t. | 8.8 t. | 5.2 t. | 171.4 | 113.7 | 107.2 |
| December versus December of previous year | ... | ... | ... | 4.2 t. | 3.7 t. | 121.8 | 108.9 | 105.6 |
| Index of real average monthly salary/wage of employees, % | ... | ... | ... | ... | 110.6 | 96.6 | 96.6 | 96.2 |
| Growth/decrease rates versus previous year, % | ... | ... | ... | ... | 110.6 | 96.6 | 96.6 | 96.2 |
| December versus December of previous year | ... | 61.3 | 48.5 | 85.4 | 128.1 | 86.2 | 97.6 | 87.1 |
| Money income of individuals | 0.2 | 2 | 63 | 539 | 2650 | 40311 | 50069 | 54379 |
| 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 | 108.6 |
| Money expenditures and savings of individuals | 0.19 | 2 | 51 | 475 | 2478 | 38961 | 47933 | 53376 |
| 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 | 111.4 |
| Unemployment rate (end of period), % | ... | 0.03 | 0.25 | 0.3 | 0.29 | 1.27 | 2.33 | 3.69 |
| 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 | 2036.7 |
| Number of citizens registered as unemployed, thou persons | ... | 128.0 | 180.9 | 216.0 | 257.7 | 558.5 | 1027.8 | 1588.8 |
| Minimum salary/wage of individuals, end of period, Ukr. KRB | ... | 967 | 13642 | 60000 | 60000 | 15.0 ¹ | 15.0 | 55.0 |
| Average monthly subsistence level per person, Ukr. KRB ⁴ | — | — | 359 | 2258.7 | 6809.5 | 95.03 ¹ | 76.10 | 84.99 |

Continued

| 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | Indicators |
|--------|--------|--------|---------------------|--------|--------|--------|---------|--|
| 177.52 | 230.13 | 311.08 | 376.38 | 462.27 | 589.62 | 806.19 | 1041.44 | Average monthly nominal salary/wage of employees, Ukr KRB thou |
| 115.7 | 129.6 | 135.2 | 121.0 | 122.8 | 127.5 | 136.7 | 129.2 | Growth rates versus previous year, % |
| 124.3 | 135.4 | 127.7 | 117.0 | 124.4 | 127.7 | 144.9 | 125.2 | December versus December of previous year |
| 91.1 | 99.1 | 119.3 | 118.2 | 115.2 | 123.8 | 120.3 | 118.3 | Index of real average monthly salary/wage of employees, % |
| 103.4 | 103.6 | 120.4 | 115.6 | 113.8 | 120.8 | 131.5 | 111.7 | Growth/decrease rates versus previous year, % |
| 61865 | 86911 | 109391 | 185073 ² | 215672 | 274241 | 381404 | 479309 | December versus December of previous year |
| 113.8 | 140.5 | 125.9 | 117.1 | 116.5 | 127.2 | 139.1 | 125.7 | Money income of individuals |
| 59518 | 83777 | 102835 | 185073 ³ | 215672 | 274241 | 381404 | 479309 | Growth rates versus previous year, at actual prices, % |
| 111.5 | 140.8 | 122.7 | 117.1 | 116.5 | 127.2 | 139.1 | 125.7 | Money expenditures and savings of individuals |
| 4.30 | 4.22 | 3.68 | 3.8 | 3.6 | 3.5 | 3.1 | 2.8 | Growth rates versus previous year, at actual prices, % |
| 2475.9 | 2744.1 | 2760.2 | 2799.2 | 2835.2 | 2900.6 | 2887.7 | 2700.4 | Unemployment rate (end of period), % |
| 2056.3 | 2272.1 | 2229.4 | 2236.9 | 2258.7 | 2251.4 | 2203.9 | 1997.6 | Number of unemployed individuals registered by the State Service of Employment, thou persons |
| 74.0 | 118.0 | 118.0 | 165.0 | 205.0 | 237.0 | 310.0 | 400.0 | Number of citizens registered as unemployed, thou persons |
| 128.17 | 156.42 | 315.15 | 317.73 | 334.35 | 385.9 | 453.95 | ... | Minimum salary/wage of individuals, end of period, UAH |
| | | | | | | | | 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 | 1998 |
|--|------|------|-------|--------|-------|-------|-------|-------|
| Exports of goods and services, USD mln | ... | 8045 | 7817 | 16641 | 17090 | 20346 | 20355 | 17621 |
| Growth/decrease rates versus previous year, % | ... | ... | 97.2 | 2.1 t. | 102.6 | 119.1 | 100.0 | 86.6 |
| Imports of goods and services, USD mln | ... | 7099 | 9533 | 18007 | 18280 | 21468 | 21891 | 18828 |
| Growth/decrease rates versus previous year, % | ... | ... | 134.3 | 1.9 t. | 101.5 | 117.4 | 102.0 | 86.0 |
| Gross external debt, USD million ³ | — | — | — | — | — | — | — | — |
| Service ratio of the long-term external debt, % ⁴ | — | — | — | 11.2 | 8.0 | 6.6 | 7.3 | 12.5 |
| International reserves, months of future period imports | — | — | — | 0.4 | 0.6 | 1.1 | 1.5 | 0.6 |
| in % of GDP | | | | | | | | |
| Consolidated Budget revenues | ... | 24.4 | 33.5 | 43.5 | 38.0 | 37.1 | 30.1 | 28.2 |
| Consolidated Budget expenditures | ... | 38.1 | 38.6 | 52.4 | 44.6 | 41.9 | 36.8 | 30.4 |
| Consolidated Budget deficit | — | 13.8 | 5.1 | 8.9 | 6.6 | 4.9 | 6.6 | 2.2 |
| Current Balance of Payments | — | — | — | - 2.4 | - 3.2 | - 2.7 | - 2.7 | - 3.0 |
| Gross external debt | — | — | — | — | — | — | — | — |
| Public external debt ³ | — | — | — | — | — | — | — | — |
| Exports of goods and services | — | — | — | — | — | — | — | — |
| Imports of goods and services | — | — | — | — | — | — | — | — |

Concluded

| 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | Indicators |
|--------------------|--------------------|-------|------------------|-------|-------|-------|-------|--|
| 16332 ¹ | 19248 ² | 21086 | 23351 | 28953 | 41291 | 44378 | 50239 | Exports of goods and services, USD mln. |
| 92.7 | 117.9 | 109.5 | 110.7 | 124.0 | 142.6 | 107.5 | 113.2 | Growth/decrease rates versus previous year, % |
| 15237 | 17947 | 20473 | 21494 | 27665 | 36313 | 43707 | 53307 | Imports of goods and services, USD mln. |
| 80.9 | 117.8 | 114.1 | 105.0 | 128.7 | 131.3 | 120.4 | 122.0 | Growth/decrease rates versus previous year, % |
| 20500 | 19100 | 20400 | 21645 | 23811 | 30647 | 39619 | 54286 | Gross external debt, USD mln. ³ |
| 16.0 ¹ | 14.5 ² | 14.6 | 12.0 | 11.8 | 10.7 | 14.7 | 17.3 | Service ratio of the long-term external debt, % ⁴ |
| 0.7 | 0.9 | 1.7 | 1.9 | 2.3 | 2.6 | 4.4 | 4.4 | International reserves, International reserves, period imports |
| in % of GDP | | | | | | | | |
| 25.2 | 28.9 | 26.9 | 27.4 | 28.2 | 26.5 | 30.4 | 32.0 | Consolidated Budget revenues |
| 26.7 | 28.3 | 27.2 | 26.7 | 28.4 | 29.4 | 32.1 | 32.6 | Consolidated Budget expenditures |
| 1.5 | 0.6 ⁵ | 0.3 | 0.7 ⁵ | 0.2 | 3.2 | 1.8 | 0.7 | Consolidated Budget deficit |
| 3.0 ¹ | 3.9 ² | 3.7 | 7.5 | 5.8 | 10.6 | 2.9 | -1.5 | Current Balance of Payments |
| 66.2 | 61.1 | 53.6 | 51.1 | 47.5 | 47.2 | 45.8 | 51.2 | Gross external debt |
| 40.4 | 33.3 | 26.7 | — | 21.3 | 19.3 | 14.9 | 12.4 | Public external debt ³ |
| 53.1 | 62.4 | 55.4 | 55.1 | 57.8 | 63.6 | 51.3 | 47.3 | Exports of goods and services |
| 49.5 | 57.4 | 53.8 | 50.7 | 55.2 | 56.0 | 50.6 | 50.2 | 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 According to IMF methodology.

⁴ External debt service costs (according to schedule) pertaining to exports of goods and services.

⁵ 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, and data on public external debt calculated by the Ministry of Finance 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: | | | | | |
| time funds: | 1039 | 1534 | 2700 | 4051 | 5501 |
| in national currency | 600 | 850 | 1315 | 2540 | 3681 |
| in foreign currency | 439 | 685 | 1385 | 1511 | 1820 |
| demand funds: | 4146 | 6314 | 9314 | 10400 | 13120 |
| in national currency | 2593 | 3767 | 6753 | 8292 | 10356 |
| in foreign currency | 1553 | 2546 | 2561 | 2108 | 2764 |
| funds held in trust: | 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: | | | | | |
| time funds: | 2255 | 3032 | 4661 | 8175 | 14301 |
| in national currency | 1243 | 1423 | 2222 | 4458 | 8076 |
| in foreign currency | 1012 | 1608 | 2439 | 3717 | 6226 |
| demand funds: | 834 | 1251 | 2070 | 3094 | 4966 |
| in national currency | 581 | 744 | 1210 | 2039 | 3492 |
| in foreign currency | 253 | 507 | 860 | 1055 | 1475 |
| funds held in trust: | 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: | | | | | |
| time funds: | 7 | 7 | 8 | 9 | 8 |
| in national currency | 4 | 4 | 4 | 6 | 6 |
| in foreign currency | 3 | 3 | 4 | 3 | 3 |
| demand funds: | 26 | 29 | 29 | 23 | 20 |
| in national currency | 17 | 17 | 21 | 18 | 16 |
| in foreign currency | 10 | 12 | 8 | 5 | 4 |
| funds held in trust: | — | — | — | — | — |
| in national currency | — | — | — | — | — |
| in foreign currency | — | — | — | — | — |
| Funds of natural persons | 65 | 63 | 61 | 67 | 70 |
| of which savings | 20 | 20 | 21 | 25 | 30 |
| including: | | | | | |
| time funds: | 14 | 14 | 14 | 18 | 22 |
| in national currency | 8 | 6 | 7 | 10 | 12 |
| in foreign currency | 6 | 7 | 8 | 8 | 10 |
| demand funds: | 5 | 6 | 6 | 7 | 8 |
| in national currency | 4 | 3 | 4 | 4 | 5 |
| in foreign currency | 2 | 2 | 3 | 2 | 2 |
| funds held in trust: | — | — | — | — | — |
| 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 2003–2006

(end of period, UAH mln)

| Indicators | 2003 | 2004 | 2005 | 2006 |
|--|-------|--------|--------|--------|
| Available money supply in circulation | | | | |
| Cash | 33119 | 42345 | 60231 | 74984 |
| Money outside banks (M0) | 33119 | 42345 | 60231 | 74984 |
| National currency transferred funds | 18421 | 24745 | 38341 | 48292 |
| Money supply (M1) | 51541 | 67090 | 98573 | 123276 |
| Foreign currency transferred funds and other funds | 43315 | 58393 | 94573 | 136138 |
| Money supply (M2) | 94855 | 125483 | 193145 | 259413 |
| Securities of banks' own liabilities | 188 | 317 | 925 | 1650 |
| Money supply (M3) | 95043 | 125801 | 194071 | 261063 |
| Money supply distribution | | | | |
| Funds of economic entities | 29307 | 41487 | 59623 | 77545 |
| <i>transferred:</i> | 16090 | 23822 | 31017 | 37145 |
| in national currency | 13168 | 18705 | 24249 | 29604 |
| in foreign currency | 2921 | 5116 | 6769 | 7542 |
| <i>other:</i> | 13217 | 17665 | 28606 | 40400 |
| in national currency | 9920 | 11974 | 20783 | 26664 |
| in foreign currency | 3298 | 5691 | 7823 | 13736 |
| Funds of natural persons | 65548 | 83996 | 133522 | 181868 |
| of which savings | 32429 | 41652 | 73291 | 106885 |
| <i>transferred:</i> | 7222 | 7951 | 17267 | 24186 |
| in national currency | 5253 | 6040 | 14092 | 18688 |
| in foreign currency | 1969 | 1911 | 3175 | 5498 |
| <i>other:</i> | 25207 | 33701 | 56023 | 82698 |
| in national currency | 13655 | 16116 | 28173 | 39319 |
| in foreign currency | 11552 | 17585 | 27851 | 43380 |
| Securities of banks' own liabilities | 188 | 317 | 925 | 1650 |
| in national currency | 142 | 225 | 766 | 1402 |
| in foreign currency | 46 | 93 | 160 | 248 |
| For reference | | | | |
| Monetary base | 40089 | 53763 | 82760 | 97214 |
| including | | | | |
| money outside banks (M0) | 33119 | 42345 | 60231 | 74984 |
| reserves of banks | 6928 | 11378 | 22440 | 22061 |
| other fund with NBU | 42 | 40 | 89 | 170 |
| Money supply (M3) | | | | |
| in national currency | 75258 | 95405 | 148294 | 190660 |
| in foreign currency | 19786 | 30396 | 45777 | 70404 |
| Multiplier | 2.37 | 2.34 | 2.34 | 2.69 |
| Money velocity | 3.34 | 3.13 | 2.76 | 2.36 |

Continued

(% of previous year)

| Indicators | 2003 | 2004 | 2005 | 2006 |
|--|-------|-------|-------|-------|
| Available money supply in circulation | | | | |
| Cash | 125.3 | 127.9 | 142.2 | 124.5 |
| Money outside banks (M0) | 125.3 | 127.9 | 142.2 | 124.5 |
| National currency transferred funds | 146.8 | 134.3 | 154.9 | 126.0 |
| Money supply (M1) | 132.2 | 130.2 | 146.9 | 125.1 |
| Foreign currency transferred funds and other funds | 170.5 | 134.8 | 162.0 | 144.0 |
| Money supply (M2) | 147.3 | 132.3 | 153.9 | 134.3 |
| Securities of banks' own liabilities | 39.6 | 168.7 | 291.7 | 178.3 |
| Money supply (M3) | 146.5 | 132.4 | 154.3 | 134.5 |
| Money supply distribution | | | | |
| Funds of economic entities | 157.4 | 141.6 | 143.7 | 130.1 |
| transferred: | 139.0 | 148.1 | 130.2 | 119.8 |
| in national currency | 145.4 | 142.0 | 129.6 | 122.1 |
| in foreign currency | 116.0 | 175.1 | 132.3 | 111.4 |
| other: | 187.6 | 133.7 | 161.9 | 141.2 |
| in national currency | 199.1 | 120.7 | 173.6 | 128.3 |
| in foreign currency | 159.7 | 172.6 | 137.5 | 175.6 |
| Funds of natural persons | 143.2 | 128.1 | 159.0 | 136.2 |
| of which savings | 167.7 | 128.4 | 176.0 | 145.8 |
| transferred: | 145.4 | 110.1 | 217.2 | 140.1 |
| in national currency | 150.5 | 115.0 | 233.3 | 132.6 |
| in foreign currency | 133.5 | 97.1 | 166.2 | 173.2 |
| other: | 175.4 | 133.7 | 166.2 | 147.6 |
| in national currency | 167.6 | 118.0 | 174.8 | 139.6 |
| in foreign currency | 185.5 | 152.2 | 158.4 | 155.8 |
| Securities of banks' own liabilities | 39.6 | 168.7 | 291.7 | 178.3 |
| in national currency | 50.5 | 157.9 | 341.0 | 183.1 |
| in foreign currency | 23.7 | 202.0 | 172.2 | 155.7 |
| For reference | | | | |
| Monetary base | 130.1 | 134.1 | 153.9 | 117.5 |
| including: | | | | |
| money outside banks (M0) | 125.3 | 127.9 | 142.2 | 124.5 |
| reserves of banks | 159.7 | 164.2 | 197.2 | 98.3 |
| other funds with NBU | 117.5 | 96.5 | 219.6 | 191.2 |
| Money supply M3: | | | | |
| in national currency | 143.6 | 126.8 | 155.4 | 128.6 |
| in foreign currency | 158.6 | 153.6 | 150.6 | 153.8 |
| Multiplier | 112.3 | 98.7 | 100.2 | 114.7 |
| Money velocity | 81.9 | 93.4 | 83.2 | 90.1 |

Concluded

(weight in the total money supply, %)

| Indicators | 2003 | 2004 | 2005 | 2006 |
|--|-------|-------|-------|-------|
| <i>Available money supply in circulation</i> | | | | |
| Cash | 34.8 | 33.7 | 31.0 | 28.7 |
| Money outside banks (M0) | 34.8 | 33.7 | 31.0 | 28.7 |
| National currency transferred funds | 19.4 | 19.7 | 19.8 | 18.5 |
| Money supply (M1) | 54.2 | 53.3 | 50.8 | 47.2 |
| Foreign currency transferred funds and other funds | 45.6 | 46.4 | 48.7 | 52.1 |
| Money supply (M2) | 99.8 | 99.7 | 99.5 | 99.4 |
| Securities of banks' own liabilities | 0.2 | 0.3 | 0.5 | 0.6 |
| Money supply (M3) | 100.0 | 100.0 | 100.0 | 100.0 |
| <i>Money supply distribution</i> | | | | |
| Funds of economic entities | 30.8 | 33.0 | 30.7 | 29.7 |
| <i>transferred:</i> | 16.9 | 18.9 | 16.0 | 14.2 |
| in national currency | 13.9 | 14.9 | 12.5 | 11.3 |
| in foreign currency | 3.1 | 4.1 | 3.5 | 2.9 |
| <i>other:</i> | 13.9 | 14.0 | 14.7 | 15.5 |
| in national currency | 10.4 | 9.5 | 10.7 | 10.2 |
| in foreign currency | 3.5 | 4.5 | 4.0 | 5.3 |
| Funds of natural persons | 69.0 | 66.8 | 68.8 | 69.7 |
| of which savings | 34.1 | 33.1 | 37.8 | 40.9 |
| <i>transferred:</i> | 7.6 | 6.3 | 8.9 | 9.3 |
| in national currency | 5.5 | 4.8 | 7.3 | 7.2 |
| in foreign currency | 2.1 | 1.5 | 1.6 | 2.1 |
| <i>other:</i> | 26.5 | 26.8 | 28.9 | 31.7 |
| in national currency | 14.4 | 12.8 | 14.5 | 15.1 |
| in foreign currency | 12.2 | 14.0 | 14.4 | 16.6 |
| Securities of banks' own liabilities | 0.2 | 0.3 | 0.5 | 0.6 |
| in national currency | 0.1 | 0.2 | 0.4 | 0.5 |
| in foreign currency | 0.0 | 0.1 | 0.1 | 0.1 |

AVAILABLE MONEY SUPPLY IN CIRCULATION AND ITS DISTRIBUTION IN 2006

(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 | 58640 | 64298 | 68611 | 74984 | 97.4 | 106.8 | 113.9 | 124.5 |
| Money outside banks (M0) | 58640 | 64298 | 68611 | 74984 | 97.4 | 106.8 | 113.9 | 124.5 |
| National currency transferred funds | 37537 | 40428 | 44360 | 48292 | 97.9 | 105.4 | 115.7 | 126.0 |
| Money supply (M1) | 96176 | 104726 | 112972 | 123276 | 97.6 | 106.2 | 114.6 | 125.1 |
| Foreign currency transferred funds | 98245 | 108425 | 120440 | 136138 | 103.9 | 114.6 | 127.4 | 144.0 |
| Money supply (M2) | 194422 | 213151 | 233412 | 259413 | 100.7 | 110.4 | 120.8 | 134.3 |
| Securities of bank own liabilities | 882 | 986 | 1359 | 1650 | 95.4 | 106.5 | 146.8 | 178.3 |
| Money supply (M3) | 195304 | 214136 | 234770 | 261063 | 100.6 | 110.3 | 121.0 | 134.5 |
| Money supply distribution | | | | | | | | |
| Funds of economic entities | 58274 | 64530 | 72354 | 77545 | 97.7 | 108.2 | 121.4 | 130.1 |
| transferred: | 30996 | 33303 | 36499 | 37145 | 99.9 | 107.4 | 117.7 | 119.8 |
| in national currency | 23533 | 25006 | 27419 | 29604 | 97.0 | 103.1 | 113.1 | 122.1 |
| in foreign currency | 7462 | 8296 | 9080 | 7542 | 110.2 | 122.6 | 134.1 | 111.4 |
| other: | 27279 | 31227 | 35855 | 40400 | 95.4 | 109.2 | 125.3 | 141.2 |
| in national currency | 18192 | 19458 | 22281 | 26664 | 87.5 | 93.6 | 107.2 | 128.3 |
| in foreign currency | 9087 | 11769 | 13574 | 13736 | 116.2 | 150.4 | 173.5 | 175.6 |
| Funds of natural persons | 136147 | 148621 | 161057 | 181868 | 102.0 | 111.3 | 120.6 | 136.2 |
| of which savings: | 77507 | 84323 | 92446 | 106885 | 105.8 | 115.1 | 126.1 | 145.8 |
| transferred: | 17633 | 19690 | 21692 | 24186 | 102.1 | 114.0 | 125.6 | 140.1 |
| in national currency | 14003 | 15422 | 16941 | 18688 | 99.4 | 109.4 | 120.2 | 132.6 |
| in foreign currency | 3630 | 4269 | 4751 | 5498 | 114.3 | 134.5 | 149.6 | 173.2 |
| other: | 59874 | 64632 | 70754 | 82698 | 106.9 | 115.4 | 126.3 | 147.6 |
| in national currency | 28843 | 30477 | 32715 | 39319 | 102.4 | 108.2 | 116.1 | 139.6 |
| in foreign currency | 31031 | 34156 | 38038 | 43380 | 111.4 | 122.6 | 136.6 | 155.8 |
| Securities of bank own liabilities | 882 | 986 | 1359 | 1650 | 95.4 | 106.5 | 146.8 | 178.3 |
| in national currency | 696 | 749 | 1087 | 1402 | 90.9 | 97.8 | 142.0 | 183.1 |
| in foreign currency | 186 | 237 | 271 | 248 | 116.6 | 148.5 | 170.1 | 155.7 |
| For reference | | | | | | | | |
| Money supply | 75495 | 80188 | 84777 | 97214 | 91.2 | 96.9 | 102.4 | 117.5 |
| including: | | | | | | | | |
| money outside banks (M0) | 58640 | 64298 | 68611 | 74984 | 97.4 | 106.8 | 113.9 | 124.5 |
| reserves of banks | 16763 | 15752 | 16017 | 22061 | 74.7 | 70.2 | 71.4 | 98.3 |
| other funds with NBU | 92 | 138 | 149 | 170 | 103.4 | 155.3 | 168.0 | 191.2 |
| Money supply M3 by currencies: | | | | | | | | |
| in national currency | 143908 | 155409 | 169055 | 190660 | 97.0 | 104.8 | 114.0 | 128.6 |
| in foreign currency | 51396 | 58727 | 65715 | 70404 | 112.3 | 128.3 | 143.6 | 153.8 |
| Multiplier | 2.59 | 2.67 | 2.77 | 2.69 | 110.4 | 113.9 | 118.1 | 114.7 |
| Money supply velocity | 1.91 | 2.02 | 2.18 | 2.36 | 72.9 | 77.1 | 83.2 | 90.1 |

NBU INTEREST RATE ON REFINANCING FOR BANKS (by dates)

| Date | | NBU discount rate, % |
|------|-------------------|----------------------|
| 1992 | from 25 June | 30.0 |
| | from 16 November | 80.0 |
| 1993 | from 1 March | 100.0 |
| | from 1 May | 240.0 |
| 1994 | from 1 July | 190.0 |
| | from 1 August | 175.0 |
| | from 15 August | 140.0 |
| | from 25 October | 300.0 |
| | from 12 December | 252.0 |
| 1995 | from 10 March | 204.0 |
| | from 29 March | 170.0 |
| | from 7 April | 150.0 |
| | from 1 May | 96.0 |
| | from 7 June | 75.0 |
| | from 15 July | 60.0 |
| | from 21 August | 70.0 |
| | from 10 October | 95.0 |
| | from 1 December | 110.0 |
| 1996 | from 1 January | 105.0 |
| | 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 2 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 |
| 2006 | from 10 June | 8.5 |

Note. From 5 December 2002 to 9 June 2004, the discount rate did not change.

**NBU INTEREST RATES ON REFINANCING FOR BANKS
IN 1992–2001**

(average weighted annual rates, %)

| Period | NBU discount rate | average weighted interest rate on all instruments | credit auctions | through tender | including lombard loans | overnight credits | REPO transactions | other mechanisms |
|--------|-------------------|---|-----------------|----------------|-------------------------|-------------------|-------------------|------------------|
| 1992 | 80.0* | ... | — | — | — | — | — | ... |
| 1993 | 240.0 | 68.5 | — | — | — | — | — | 68.5 |
| 1994 | 252.0 | 124.9 | 264.0 | — | — | — | — | 115.2 |
| 1995 | 110.0 | 82.1 | 83.0 | — | 110.0 | — | — | 60.4 |
| 1996 | 40.0 | 51.8 | 52.6 | — | 64.4 | — | — | 41.0 |
| 1997 | 35.0 | 25.2 | 21.7 | — | 31.4 | — | 21.8 | 19.7 |
| 1998 | 60.0 | 52.7 | — | — | 54.4 | — | 54.1 | 47.8 |
| 1999 | 45.0 | 44.0 | — | — | 61.1 | — | 59.7 | 33.0 |
| 2000 | 27.0 | 29.6 | — | — | 30.9 | — | 28.0 | — |
| 2001 | 12.5 | 20.2 | — | 16.5 | — | 20.4 | 22.0 | 21.0 |

* At year end.

**NBU INTEREST RATES ON REFINANCING FOR BANKS
IN 2002–2006**

(average weighted annual rates, %)

| Period | NBU discount rate* | average weighted on all instruments | credits, granted through tender | overnight credits | REPO transactions | including credits granted for support of long-term bank liquidity | stabilization credits | swap transactions | refinancing credits on collateral of property rights on bank deposit placed with the NBU |
|--------------|--------------------|-------------------------------------|---------------------------------|-------------------|-------------------|---|-----------------------|-------------------|--|
| 2002 | 7.0 | 9.2 | 9.2 | 10.7 | 11.7 | 8.0 | — | — | — |
| 2003 | 7.0 | 8.0 | 8.3 | 8.0 | 8.0 | 7.0 | — | — | — |
| 2004 | 9.0 | 16.1 | 13.0 | 17.1 | 13.5 | 7.0 | 14.9 | — | — |
| 2005 | 9.5 | 14.7 | 12.9 | 14.9 | 12.0 | — | 15.0 | — | — |
| 2006 | 8.5 | 11.5 | 10.4 | 12.1 | 10.7 | — | — | 9.5 | 8.5 |
| January | 9.5 | 13.0 | — | 13.0 | — | — | — | — | — |
| February | 9.5 | 13.0 | 12.0 | 13.0 | — | — | — | — | — |
| March | 9.5 | 12.3 | 11.5 | 13.0 | — | — | — | — | — |
| April | 9.5 | 12.5 | 11.5 | 12.7 | 11.0 | — | — | — | — |
| May | 9.5 | 12.2 | 11.5 | 13.0 | 11.0 | — | — | — | — |
| from 10 June | 8.5 | — | — | — | — | — | — | — | — |
| June | 8.5 | 10.7 | — | 11.0 | 10.4 | — | — | — | — |
| July | 8.5 | 10.0 | 10.0 | 10.1 | — | — | — | — | — |
| August | 8.5 | 9.9 | 9.8 | 10.0 | — | — | — | — | 8.5 |
| September | 8.5 | 9.8 | 9.8 | 9.8 | — | — | — | — | — |
| October | 8.5 | 9.7 | 10.0 | 9.7 | 9.5 | — | — | — | — |
| November | 8.5 | 10.6 | 10.7 | 10.5 | — | — | — | — | — |
| December | 8.5 | 9.5 | 9.2 | 10.5 | 9.5 | — | — | 9.5 | — |

* At period end.

**CHANGES IN CONSUMER AND INDUSTRIAL PRODUCER PRICES,
NBU DISCOUNT RATE AND INTEREST RATES OF BANKS**

(%)

| Period | Changes in price level versus previous month | | NBU discount rate | Average weighted monthly interest rate | |
|-----------|---|----------------------------------|-------------------------|---|----------------------|
| | consumer prices | industrial producer prices | | on credits granted by banks* | on bank deposits* |
| 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 |
| October | 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 |
| October | 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 |
| 2006 | | | | | |
| January | 1.2 | 1.2 | 0.8 | 1.3 | 0.7 |
| February | 1.8 | 0.3 | 0.8 | 1.3 | 0.6 |
| March | -0.3 | 0.4 | 0.8 | 1.3 | 0.6 |
| April | -0.4 | 1.4 | 0.8 | 1.3 | 0.6 |
| May | 0.5 | 1.0 | 0.8 | 1.3 | 0.6 |
| June | 0.1 | 0.7 | 0.7 | 1.3 | 0.6 |
| July | 0.9 | 1.2 | 0.7 | 1.2 | 0.6 |
| August | 0.0 | 2.1 | 0.7 | 1.2 | 0.6 |
| September | 2.0 | 1.7 | 0.7 | 1.2 | 0.6 |
| October | 2.6 | 2.2 | 0.7 | 1.2 | 0.7 |
| November | 1.8 | 0.7 | 0.7 | 1.2 | 0.6 |
| December | 0.9 | 0.5 | 0.7 | 1.3 | 0.7 |

* Interest rates of banks on national currency credits and deposits excluding the interbank market.

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* | 2005* |
| 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 | 18.1 |
| 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 | 16.8 |
| 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 | 17.0 |
| 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 | 16.4 |
| 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 | 15.9 |
| 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 | 15.4 |
| 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 | 15.2 |
| 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 | 15.2 |
| 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 | 15.4 |
| 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 | 16.1 |
| 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 | 16.2 |
| 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 | 16.4 |
| 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 | 16.0 |

| Period | Deposits | | | | | | | | | | | | |
|-----------|----------|-------|-------|------|------|------|------|------|------|------|------|------|------|
| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
| 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 | 9.9 |
| 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 | 10.0 |
| 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 | 9.3 |
| 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 | 9.1 |
| 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 | 8.3 |
| 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 | 7.6 |
| 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 | 8.7 |
| 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 | 8.3 |
| 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 | 7.7 |
| 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 | 7.7 |
| 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 | 8.2 |
| 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 | 8.0 |
| 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 | 8.5 |

*Excluding overdraft.

INTEREST RATES OF UKRAINIAN BANKS ON NATIONAL CURRENCY CREDITS AND DEPOSITS IN 2006
(average weighted annual, %)

| Period | Credits | | Deposits |
|-----------|---------------------|---------------------|----------|
| | including overdraft | excluding overdraft | |
| January | 16.1 | 16.0 | 8.1 |
| February | 16.1 | 15.9 | 7.8 |
| March | 16.0 | 15.8 | 7.3 |
| April | 15.9 | 15.7 | 7.8 |
| May | 15.6 | 15.3 | 7.8 |
| June | 15.7 | 15.5 | 7.2 |
| July | 15.3 | 15.0 | 7.0 |
| August | 15.2 | 14.6 | 7.3 |
| September | 15.1 | 14.6 | 7.4 |
| October | 14.9 | 14.3 | 7.9 |
| November | 14.9 | 14.4 | 7.4 |
| December | 15.4 | 15.1 | 7.9 |
| Year | 15.4 | 15.1 | 7.6 |

NBU CLAIMS ON GRANTED CREDITS
(excluding refinancing for banks)

(end of period, UAH million)

| Period | Total | total | to the Government | | total | to economic entities | |
|--------|-------|-------|----------------------|---------------------|-------|----------------------|---------------------|
| | | | including | including | | including | including |
| | | | in national currency | in foreign currency | | in national currency | 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 |
| 2006 | 9274 | 9042 | 3568 | 5474 | 233 | 91 | 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 | 29 t. | 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 |
| 2006 | 98 | 97 | 100 | 96 | 111 | 133 | 100 |

CLAIMS OF BANKS ON CREDITS GRANTED TO THE ECONOMY OF UKRAINE
(by currencies and maturity)

(end of period, UAH million)

| Period | Total | by currencies | | total | including | | total | by credits | | | |
|-------------------------------------|--------|----------------------------|---------------------------|-------|------------|---|--------|--|-----------|---|--|
| | | in national currency | in foreign currency | | short-term | including in national currency | | including in foreign currency | long-term | including in national currency | including 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 | | |
| 2006 | 245226 | 123783 | 121443 | 86193 | 60101 | 26092 | 159033 | 63681 | 95351 | | |
| 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 | | |
| 2006 | 171 | 152 | 195 | 157 | 152 | 170 | 179 | 152 | 204 | | |
| 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 | | |
| 2006 | 100 | 50.5 | 49.5 | 35.1 | 24.5 | 10.6 | 64.9 | 26.0 | 38.9 | | |

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 HRYVNIA 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 |
| 1000 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 | 2003 | 2004 | 2005 | 2 0 0 6 | | | | | | | |
|-----------------------------|--------|--------|--------|---------|----------|--------|--------|--------|--------|--------|--------|
| | | | | January | February | March | Q1 | April | May | June | H1 |
| 100 Australian Dollar | 347.14 | 391.63 | 390.88 | 377.38 | 374.84 | 368.68 | 373.63 | 370.34 | 385.49 | 373.99 | 375.12 |
| 100 Pound Sterling | 871.28 | 973.91 | 933.76 | 888.66 | 883.61 | 880.92 | 884.40 | 889.93 | 939.57 | 931.53 | 902.37 |
| 10000/100* Azerbaijan Manat | 10.86 | 10.83 | 10.83 | 461.82 | 552.45 | 554.25 | 522.84 | 557.12 | 560.06 | 562.90 | 541.44 |
| 10 Belarussian Ruble | 0.03 | 0.02 | 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 | 85.75 | 81.77 | 80.88 | 81.28 | 81.31 | 82.82 | 86.20 | 85.77 | 83.12 |
| 100 US Dollar | 533.27 | 531.92 | 512.47 | 505.00 | 505.00 | 505.00 | 505.00 | 505.00 | 505.00 | 505.00 | 505.00 |
| 100 Estonian Kroon | 38.50 | 42.24 | 40.84 | 38.99 | 38.58 | 38.76 | 38.78 | 39.50 | 41.08 | 40.88 | 39.63 |
| 100 Icelandic Krona | 6.96 | 7.58 | 8.16 | 8.17 | 7.89 | 7.30 | 7.79 | 6.75 | 7.01 | 6.80 | 7.32 |
| 100 Canadian Dollar | 380.93 | 409.10 | 422.89 | 435.18 | 439.26 | 437.01 | 437.15 | 440.13 | 454.00 | 453.55 | 443.19 |
| 100 Kazakh Tenge | 3.57 | 3.91 | 3.86 | 3.79 | 3.84 | 3.92 | 3.85 | 3.98 | 4.12 | 4.21 | 3.98 |
| 100 Latvian Lats | 933.76 | 984.96 | 909.94 | 869.28 | 859.61 | 863.00 | 863.96 | 884.86 | 923.43 | 918.88 | 886.51 |
| 100 Lithuanian Litas | 174.54 | 191.50 | 185.20 | 176.96 | 174.98 | 175.72 | 175.89 | 178.85 | 186.16 | 185.23 | 179.65 |
| 100 Moldovan Leu | 38.27 | 43.17 | 40.68 | 39.31 | 39.04 | 38.87 | 39.07 | 38.80 | 38.71 | 38.10 | 38.80 |
| 100 Norwegian Krone | 75.40 | 78.99 | 79.67 | 75.87 | 74.90 | 75.96 | 75.57 | 78.69 | 82.46 | 81.43 | 78.22 |
| 100 Polish Zloty | 137.09 | 146.22 | 158.76 | 159.62 | 159.01 | 156.75 | 158.46 | 157.49 | 165.24 | 159.27 | 159.56 |
| 10 Russian Ruble | 1.74 | 1.85 | 1.81 | 1.78 | 1.79 | 1.81 | 1.79 | 1.83 | 1.86 | 1.87 | 1.82 |
| 100 Singapore Dollar | 306.03 | 314.69 | 308.03 | 308.70 | 309.89 | 311.55 | 310.05 | 314.93 | 320.02 | 317.40 | 313.75 |
| 100 Slovak Koruna | 14.53 | 16.51 | 16.55 | 16.25 | 16.14 | 16.21 | 16.20 | 16.52 | 17.11 | 16.82 | 16.51 |
| 10000/100** Turkish Lira | 0.04 | 0.04 | 380.29 | 377.81 | 380.64 | 378.95 | 379.13 | 377.33 | 355.45 | 315.54 | 364.29 |
| 10000 Turkmen Manat | 10.26 | 10.23 | 9.86 | 9.71 | 9.71 | 9.71 | 9.71 | 9.71 | 9.71 | 9.71 | 9.71 |
| 1000 Hungarian Forint | 23.78 | 26.26 | 25.78 | 24.33 | 24.00 | 23.34 | 23.89 | 23.22 | 24.49 | 23.64 | 23.84 |
| 100 Uzbek Sum | 0.55 | 0.52 | 0.46 | 0.43 | 0.42 | 0.42 | 0.42 | 0.42 | 0.41 | 0.41 | 0.42 |
| 100 Czech Koruna | 18.92 | 20.72 | 21.44 | 21.22 | 21.25 | 21.19 | 21.22 | 21.66 | 22.72 | 22.55 | 21.76 |
| 100 Swedish Krona | 66.07 | 72.45 | 68.96 | 65.45 | 64.69 | 64.50 | 64.88 | 66.19 | 68.86 | 69.22 | 66.49 |
| 100 Swiss Franc | 396.14 | 428.18 | 412.75 | 393.54 | 387.62 | 386.65 | 389.27 | 392.36 | 412.47 | 409.94 | 397.10 |
| 100 RNB (China) | — | 64.28 | 62.53 | 62.60 | 62.71 | 62.84 | 62.72 | 62.99 | 62.99 | 63.06 | 62.87 |
| 1000 Japanese Yen | 46.03 | 49.21 | 46.68 | 43.67 | 42.80 | 43.09 | 43.19 | 43.02 | 45.01 | 44.08 | 43.61 |
| 100 Euro | 602.44 | 660.94 | 638.99 | 610.12 | 603.68 | 606.43 | 606.75 | 618.02 | 642.76 | 639.56 | 620.10 |
| 100 SDR | 746.82 | 787.82 | 758.02 | 730.03 | 725.27 | 726.71 | 727.34 | 732.07 | 750.64 | 747.24 | 735.33 |

* From 2006, 100 Azerbaijan Manat.

** From January 2005, 100 Turkish Lira.

Concluded

| Currencies | 2 0 0 6 | | | | | | | |
|-----------------------------|---------|--------|-----------|----------|---------|----------|----------|--------|
| | July | August | September | 9 months | October | November | December | Year |
| 100 Australian Dollar | 378.75 | 385.41 | 382.37 | 377.47 | 380.21 | 389.36 | 397.01 | 380.32 |
| 100 Pound Sterling | 930.15 | 954.92 | 953.39 | 916.97 | 946.13 | 963.16 | 991.43 | 929.45 |
| 10000/100* Azerbaijan Manat | 566.25 | 570.05 | 574.66 | 551.06 | 577.56 | 578.65 | 579.15 | 557.91 |
| 10 Belarussian Ruble | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 |
| 100 Danish Krone | 85.81 | 86.70 | 86.25 | 84.17 | 85.44 | 87.04 | 89.49 | 84.96 |
| 100 US Dollar | 505.00 | 505.00 | 505.00 | 505.00 | 505.00 | 505.00 | 505.00 | 505.00 |
| 100 Estonian Kroon | 40.91 | 41.34 | 41.12 | 40.13 | 40.71 | 41.48 | 42.64 | 40.50 |
| 100 Icelandic Krona | 6.78 | 7.17 | 7.21 | 7.23 | 7.38 | 7.30 | 7.29 | 7.25 |
| 100 Canadian Dollar | 448.16 | 450.58 | 453.04 | 445.66 | 447.49 | 444.63 | 438.83 | 445.16 |
| 100 Kazakh Tenge | 4.27 | 4.12 | 4.00 | 4.03 | 3.96 | 3.95 | 3.95 | 4.01 |
| 100 Latvian Lats | 919.77 | 929.47 | 924.45 | 899.19 | 915.19 | 931.23 | 956.23 | 907.95 |
| 100 Lithuanian Litas | 185.41 | 187.36 | 186.36 | 181.89 | 184.50 | 187.95 | 193.22 | 183.56 |
| 100 Moldovan Leu | 37.99 | 37.89 | 37.93 | 38.52 | 38.10 | 38.24 | 38.62 | 38.47 |
| 100 Norwegian Krone | 80.68 | 81.08 | 78.09 | 78.80 | 75.95 | 78.68 | 81.80 | 78.80 |
| 100 Polish Zloty | 159.93 | 165.86 | 162.42 | 160.62 | 163.04 | 169.56 | 175.02 | 162.77 |
| 10 Russian Ruble | 1.88 | 1.89 | 1.89 | 1.84 | 1.88 | 1.90 | 1.92 | 1.86 |
| 100 Singapore Dollar | 318.74 | 320.59 | 320.03 | 315.76 | 319.74 | 324.25 | 327.88 | 317.81 |
| 100 Slovak Koruna | 16.69 | 17.17 | 17.15 | 16.67 | 17.29 | 18.06 | 19.08 | 17.04 |
| 10000/100** Turkish Lira | 323.53 | 344.64 | 341.60 | 355.05 | 341.31 | 346.36 | 352.53 | 352.97 |
| 10000 Turkmen Manat | 9.71 | 9.71 | 9.71 | 9.71 | 9.71 | 9.71 | 9.71 | 9.71 |
| 1000 Hungarian Forint | 23.02 | 23.58 | 23.44 | 23.67 | 23.82 | 25.06 | 26.27 | 24.02 |
| 100 Uzbek Sum | 0.41 | 0.41 | 0.41 | 0.42 | 0.41 | 0.41 | 0.41 | 0.41 |
| 100 Czech Koruna | 22.50 | 22.94 | 22.68 | 22.08 | 22.51 | 23.15 | 24.02 | 22.37 |
| 100 Swedish Krona | 69.46 | 70.27 | 69.45 | 67.57 | 68.83 | 71.25 | 73.85 | 68.50 |
| 100 Swiss Franc | 408.19 | 410.15 | 406.37 | 400.81 | 400.68 | 407.64 | 417.75 | 402.78 |
| 100 RNB (China) | 63.19 | 63.34 | 63.64 | 63.04 | 63.89 | 64.20 | 64.56 | 63.33 |
| 1000 Japanese Yen | 43.62 | 43.65 | 43.15 | 43.57 | 42.57 | 43.02 | 43.10 | 43.40 |
| 100 Euro | 640.17 | 646.91 | 643.46 | 627.90 | 637.04 | 648.97 | 667.14 | 633.69 |
| 100 SDR | 745.86 | 751.00 | 748.57 | 739.71 | 744.19 | 751.00 | 761.53 | 742.83 |

* From 2006, 100 Azerbaijan Manat.

** From January 2005, 100 Turkish Lira.

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 HRYVNIA 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 | 2003 | 2004 | 2005 | 2 0 0 6 | | | | | |
|-----------------------------|--------|---------|--------|---------|----------|--------|--------|--------|--------|
| | | | | January | February | Q1 | April | May | H1 |
| 100 Australian Dollar | 397.94 | 411.51 | 368.69 | 378.55 | 372.40 | 360.13 | 378.89 | 384.83 | 368.29 |
| 100 Pound Sterling | 946.88 | 1018.27 | 867.59 | 892.48 | 878.83 | 879.42 | 900.99 | 946.94 | 915.52 |
| 10000/100* Azerbaijan Manat | 10.83 | 10.82 | 11.00 | 551.79 | 553.12 | 555.37 | 558.88 | 561.30 | 563.80 |
| 10 Belarussian Ruble | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.2 |
| 100 Danish Krone | 89.49 | 97.03 | 80.06 | 81.75 | 80.23 | 81.86 | 84.03 | 86.94 | 84.83 |
| 100 US Dollar | 533.15 | 530.54 | 505.00 | 505.00 | 505.00 | 505.00 | 505.00 | 505.00 | 505.00 |
| 100 Estonian Kroon | 42.58 | 46.13 | 38.17 | 39.00 | 38.25 | 39.04 | 40.07 | 41.44 | 40.44 |
| 100 Icelandic Krona | 7.43 | 8.62 | 7.93 | 8.13 | 7.61 | 7.17 | 6.74 | 7.00 | 6.56 |
| 100 Canadian Dollar | 406.73 | 437.87 | 432.85 | 441.30 | 440.42 | 432.98 | 446.42 | 458.60 | 451.13 |
| 100 Kazakh Tenge | 3.70 | 4.08 | 3.77 | 3.82 | 3.88 | 3.93 | 4.07 | 4.16 | 4.25 |
| 100 Latvian Lats | 987.31 | 1028.18 | 851.60 | 869.19 | 851.60 | 867.70 | 900.60 | 931.70 | 909.07 |
| 100 Lithuanian Litas | 193.02 | 209.33 | 173.53 | 177.07 | 173.44 | 176.32 | 181.56 | 187.78 | 183.25 |
| 100 Moldovan Leu | 40.33 | 42.58 | 39.36 | 39.14 | 38.97 | 38.84 | 38.80 | 38.21 | 38.00 |
| 100 Norwegian Krone | 79.11 | 87.55 | 74.49 | 75.07 | 74.57 | 76.58 | 80.41 | 82.86 | 80.27 |
| 100 Polish Zloty | 142.11 | 177.16 | 154.70 | 159.78 | 158.84 | 155.58 | 161.84 | 164.88 | 155.01 |
| 10 Russian Ruble | 1.81 | 1.91 | 1.75 | 1.80 | 1.80 | 1.82 | 1.85 | 1.87 | 1.86 |
| 100 Singapore Dollar | 313.10 | 323.87 | 303.36 | 309.62 | 311.18 | 311.83 | 318.19 | 320.55 | 315.87 |
| 100 Slovak Koruna | 16.19 | 18.65 | 15.77 | 16.33 | 16.06 | 16.22 | 16.76 | 17.20 | 16.51 |
| 10000/100** Turkish Lira | 0.04 | 0.04 | 374.09 | 380.15 | 383.42 | 375.10 | 380.40 | 326.06 | 314.55 |
| 10000 Turkmen Manat | 10.25 | 10.20 | 9.71 | 9.71 | 9.71 | 9.71 | 9.71 | 9.71 | 9.71 |
| 1000 Hungarian Forint | 25.46 | 29.38 | 23.65 | 24.25 | 23.70 | 23.02 | 23.62 | 24.79 | 22.34 |
| 100 Uzbek Sum | 0.54 | 0.50 | 0.43 | 0.42 | 0.42 | 0.42 | 0.41 | 0.41 | 0.41 |
| 100 Czech Koruna | 20.46 | 23.75 | 20.58 | 21.49 | 21.12 | 21.35 | 22.04 | 22.99 | 22.20 |
| 100 Swedish Krona | 73.40 | 80.06 | 63.46 | 66.13 | 63.38 | 64.87 | 67.17 | 69.92 | 68.50 |
| 100 Swiss Franc | 427.23 | 467.45 | 383.16 | 392.25 | 382.76 | 387.94 | 396.43 | 416.02 | 404.45 |
| 100 RNB (China) | – | 64.10 | 62.57 | 62.65 | 62.80 | 62.91 | 62.96 | 62.90 | 63.12 |
| 1000 Japanese Yen | 49.82 | 51.18 | 42.83 | 42.97 | 43.44 | 43.05 | 43.93 | 45.01 | 43.34 |
| 100 Euro | 666.22 | 721.75 | 597.16 | 610.14 | 598.53 | 610.85 | 626.91 | 648.37 | 632.71 |
| 100 SDR | 792.25 | 823.93 | 721.78 | 729.93 | 724.69 | 727.63 | 738.95 | 754.56 | 747.08 |

* From 2006, 100 Azerbaijan Manat.

** From January 2005, 100 Turkish Lira.

Concluded

| Currencies | 2 0 0 6 | | | | | |
|-----------------------------|---------|--------|----------|---------|----------|--------|
| | July | August | 9 months | October | November | Year |
| 100 Australian Dollar | 384.06 | 385.53 | 378.56 | 388.23 | 395.49 | 398.47 |
| 100 Pound Sterling | 937.04 | 960.33 | 948.10 | 961.39 | 985.36 | 990.45 |
| 10000/100* Azerbaijan Manat | 568.31 | 572.63 | 576.35 | 578.27 | 578.86 | 579.46 |
| 10 Belarussian Ruble | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 |
| 100 Danish Krone | 85.71 | 86.77 | 86.06 | 86.15 | 89.13 | 89.20 |
| 100 US Dollar | 505.00 | 505.00 | 505.00 | 505.00 | 505.00 | 505.00 |
| 100 Estonian Kroon | 40.87 | 41.37 | 41.03 | 41.04 | 42.46 | 42.51 |
| 100 Icelandic Krona | 6.90 | 7.28 | 7.23 | 7.39 | 7.33 | 7.14 |
| 100 Canadian Dollar | 444.52 | 456.17 | 454.29 | 450.51 | 444.34 | 435.24 |
| 100 Kazakh Tenge | 4.26 | 4.03 | 3.97 | 3.95 | 3.95 | 3.98 |
| 100 Latvian Lats | 918.87 | 930.04 | 922.42 | 922.45 | 952.18 | 953.94 |
| 100 Lithuanian Litas | 185.22 | 187.47 | 185.94 | 186.00 | 192.43 | 192.62 |
| 100 Moldovan Leu | 37.92 | 37.92 | 37.99 | 38.17 | 38.29 | 39.13 |
| 100 Norwegian Krone | 81.13 | 80.26 | 78.07 | 77.06 | 80.52 | 80.73 |
| 100 Polish Zloty | 162.62 | 163.52 | 161.37 | 165.05 | 173.74 | 173.61 |
| 10 Russian Ruble | 1.88 | 1.89 | 1.89 | 1.89 | 1.92 | 1.92 |
| 100 Singapore Dollar | 318.60 | 320.78 | 318.19 | 323.45 | 326.77 | 329.22 |
| 100 Slovak Koruna | 16.80 | 17.15 | 17.18 | 17.64 | 18.70 | 19.31 |
| 10000/100** Turkish Lira | 335.80 | 343.31 | 335.64 | 346.20 | 343.73 | 356.81 |
| 10000 Turkmen Manat | 9.71 | 9.71 | 9.71 | 9.71 | 9.71 | 9.71 |
| 1000 Hungarian Forint | 23.54 | 23.43 | 23.49 | 24.43 | 25.84 | 26.42 |
| 100 Uzbek Sum | 0.41 | 0.41 | 0.41 | 0.41 | 0.41 | 0.41 |
| 100 Czech Koruna | 22.47 | 22.91 | 22.58 | 22.65 | 23.74 | 24.20 |
| 100 Swedish Krona | 69.21 | 69.96 | 69.31 | 69.75 | 73.17 | 73.57 |
| 100 Swiss Franc | 406.70 | 410.52 | 405.36 | 404.36 | 418.17 | 413.89 |
| 100 RNB (China) | 63.36 | 63.45 | 63.95 | 64.14 | 64.49 | 64.70 |
| 1000 Japanese Yen | 43.63 | 43.13 | 42.92 | 43.05 | 43.42 | 42.38 |
| 100 Euro | 639.53 | 647.31 | 642.01 | 642.21 | 664.43 | 665.09 |
| 100 SDR | 749.35 | 751.71 | 747.23 | 747.42 | 761.40 | 759.72 |

* From 2006, 100 Azerbaijan Manat.

** From January 2005, 100 Turkish Lira.

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