



ANNUAL REPORT OF UKRAINE

ANNUAL REPORT

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Dear Ladies and Gentlemen,

For the purpose of informing of the activity of the National Bank of Ukraine, I would like to offer you the Annual Report of the National Bank of Ukraine for 2007, which represents the results of the NBU activity. The financial report is an integral part of the Annual Report of the National Bank of Ukraine, which is confirmed by the auditor's conclusion.

The characteristic feature of 2007 was preservation of high rates of economic development against the background of political tension owing to the parliamentary elections. However, the banking system of Ukraine in 2007 was characterized by essential improvement of both qualitative and quantitative indicators of its development.

Inflationary processes accelerated under the influence of the global tendencies towards rise in prices for energy carriers and food. The consumer price index in 2007 was also affected by reduction of crop production output due to adverse weather conditions.

The National Bank of Ukraine pursued the monetary policy in compliance with the Monetary Policy Basic Guidelines for 2007. In the conditions of inflationary pressure amplification, the NBU actions were aimed at quantitative restriction of monetary offer as well as prevention of imbalances in the financial market by raising the attraction of operations in the national currency and by means of gradual restriction by economic methods of the funds attracted from non-residents. The National Bank of Ukraine assumed some measures to regulate liquidity in order to prevent monetary pressure on prices.

An increase by 52% in banks' liabilities under deposits in 2007 was achieved mainly due to natural persons. There was a positive dynamics of growth of deposits in the national currency with substantially higher rates than in foreign currency under all types of deposits. The structure of term deposits improved. More than 77 per cent of funds from natural persons was attracted by banks under term deposits.

Rate of funds inflow on demand accounts of natural persons increased in conditions of development of payment card systems in Ukraine. Salary, pension and other social cards dominated among card accounts of natural persons in the national currency, which were characterized by steady earnings.

The functioning system of deposit guaranteeing also contributed to the deposit fund attraction. By the decision of the administrative council of the Fund

of guaranteeing of natural persons' deposits in February 2007, the amount of reimbursement of funds to depositors in case of bank bankruptcy increased up to UAH 25 thousand and in August – up to UAH 50 thousand.

Due to essential growth of the resource base, the banks continued to increase the volumes of crediting. In 2007, volumes of bank claims on credits increased by 74 per cent. Absolute growth of credit deposits in 2007 was the biggest during the times of independence of Ukraine, which had a positive effect on the dynamics of economic growth in the country.

In the structure of credit deposits under categories of borrowers, the share of credits extended to economic entities remained predominant despite growing volumes of crediting of natural persons. The structure of banks' credit portfolio improved – the share of overdue and doubtful credits reduced.

In 2007, the banking sector of Ukraine continued its dynamic development showing considerable growth rates under the main indicators. As of end of 2007, bank capital was 10 per cent to GDP, total assets - 85 per cent to GDP and liabilities – 75 per cent to GDP. According to the results of 2007, Ukrainian banks received the biggest income during all years of the banking system existence.

The banking sector remained attractive from the point of view of investments, which was confirmed by the amount of agreements on sale of banks' control stock, particularly to foreign investors. During the year under review, the tendency towards increasing the foreign capital share in the banking sector of Ukraine continued. As of end of December 47 operating banks in Ukraine were created with participation of foreign capital, including 17 banks with 100-per cent foreign capital (as of the beginning of the year – 35 and 13 banks). The share of the market belonging to banks with foreign capital increased respectively.

Dynamic growth of the volume of banking operations required activation of work on improving the interbank settlements. The year that passed was the first full year of industrial exploitation of the e-Payment System of the national Bank of Ukraine of new generation.

Foreign economic conditions continued their essential influence on the economy of Ukraine as a result of its increasing integration into the world economy.

I would like to assure you that all efforts of the National Bank of Ukraine in the future will be directed at dynamic development of the banking sector, raising its competitiveness, improvement of banking regulation and supervision for strengthening the protection of interests of depositors and preservation of confidence of the people in the banking system.

Sincerely,

**Governor
National Bank of Ukraine**

A handwritten signature in black ink, consisting of stylized initials 'VSt' followed by a horizontal line.

Volodymyr Stelmakh

Members of the Council



**Petro
Poroshenko**

Resolution of the Verkhovna Rada of Ukraine of 11.01.2007 №560-V

Chairman of the Council of the National Bank of Ukraine

(Decision of the Council of the National Bank of Ukraine of 23.02.2007 №4)



**Ihor
Prasolov**

Resolution of the Verkhovna Rada of Ukraine of 11.01.2007 №560-V

Deputy Chairman of the Council of the National Bank of Ukraine

(Decision of the Council of the National Bank of Ukraine of 23.02.2007 №4)



**Anatoliy
Danylenko**

Decree of the President of Ukraine of 28.02.2005 №384/2005



**Serhiy
Kliuiev**

Resolution of the Verkhovna Rada of Ukraine of 11.01.2007 №560-V



**Volodymyr
Stelmakh**

Member of the Council of the National Bank of Ukraine by position, as Governor of the National Bank of Ukraine



**Anatoliy
Fedorenko**

Decree of the President of Ukraine of 28.02.2005 №384/2005

of the National Bank of Ukraine (as at 1 January, 2008)



**Valeriy
Heiets**

Decree of the President of Ukraine
of 28.02.2005 №384/2005



**Mykhailo
Honcharov**

Resolution of the Verkhovna Rada
of Ukraine of 11.01.2007 №560-V



**Vasyl
Horbal**

Resolution of the Verkhovna Rada
of Ukraine of 11.01.2007 №560-V



**Borys
Kolesnikov**

Resolution of the Verkhovna Rada
of Ukraine of 11.01.2007 №560-V



**Mykola
Onischuk**

Decree of the President of Ukraine
of 28.02.2005 №384/2005



**Petro
Sabluk**

Decree of the President of Ukraine
of 28.02.2005 №384/2005



**Hennadiy
Shemshuchenko**

Decree of the President of Ukraine
of 28.02.2005 №384/2005



**Arseniy
Yatseniuk**

Decree of the President of Ukraine
of 25.09.2006 №782/2006

Members of the Board



**Volodymyr
Stelmakh**
Governor
of the National Bank of Ukraine



**Anatoliy
Shapovalov**
First Deputy Governor
of the National Bank of Ukraine



**Viktor
Kravets**
Executive Director
on Payment Systems and Settlements



**Mykola
Lavruk**
Executive Director
on Administration



**Ihor
Ivaniuk**
Director
of the Personnel Department



**Olha
Kandybka**
Director
of the Financial Department



**Vasyl
Pasichnyk**
Director
of the Legal Department

of the National Bank of Ukraine (as at 1 January, 2008)



**Volodymyr
Krotiuk**

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



**Olexandr
Tolstoi**

Executive Director
on Cash Circulation



**Ihor
Shumylo**

Executive Director
on the Economy



**Natalia
Hrebenyk**

Director of the
Monetary Policy Department



**Vira
Rychakivska**

Chief Accountant –
Director of the Accounting Department



**Anatoliy
Savchenko**

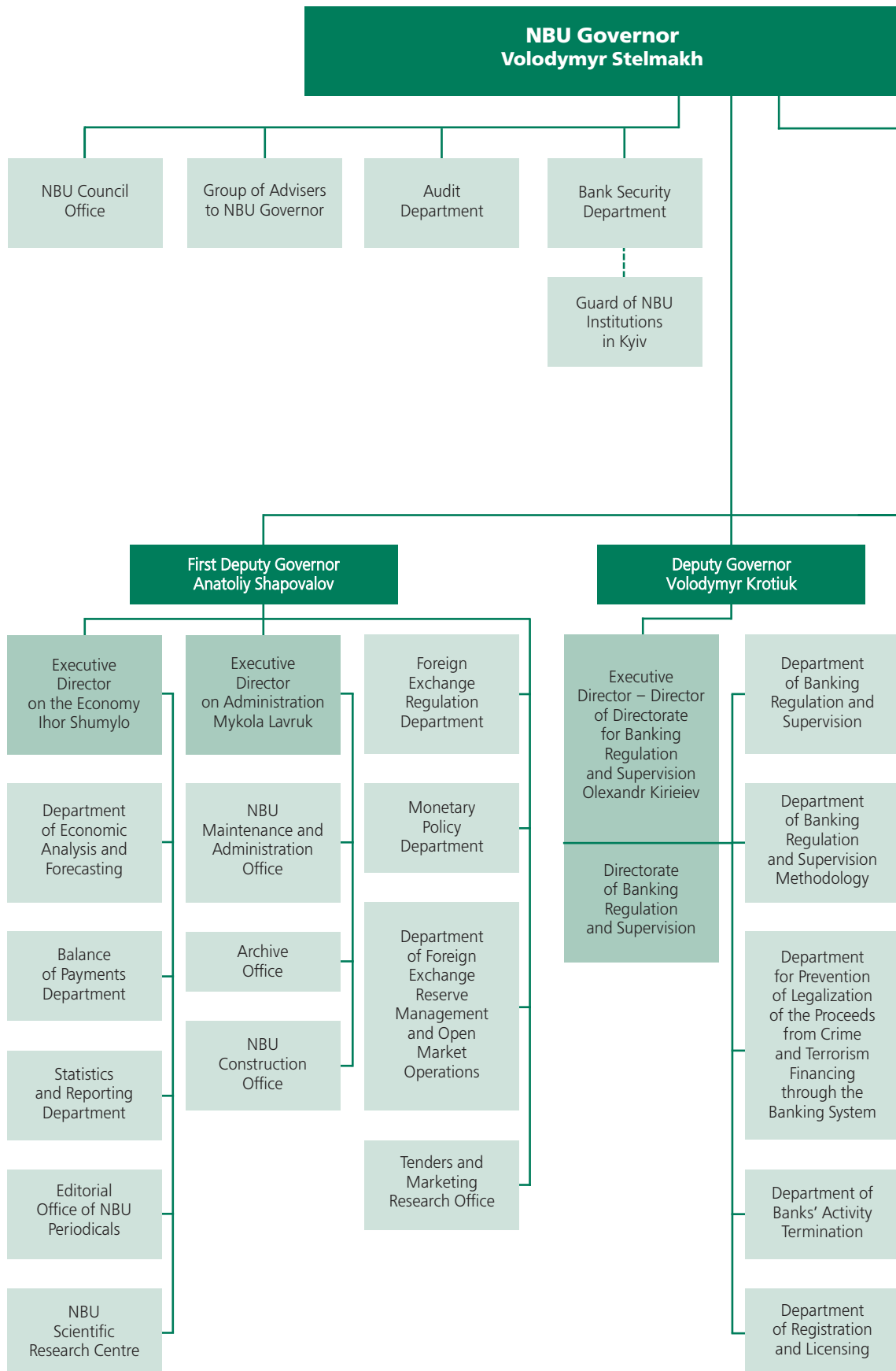
Director of the
Information Technology Department



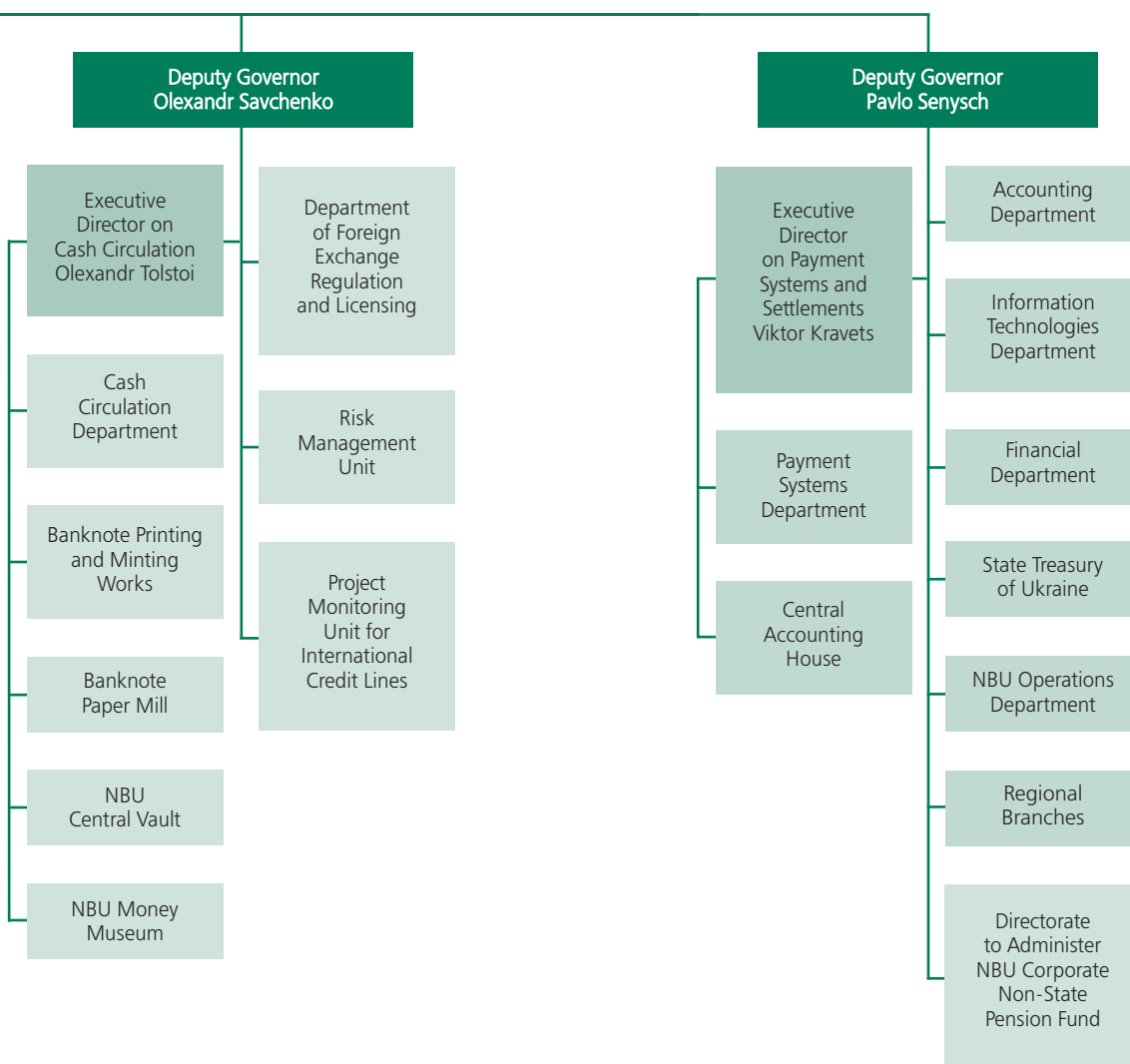
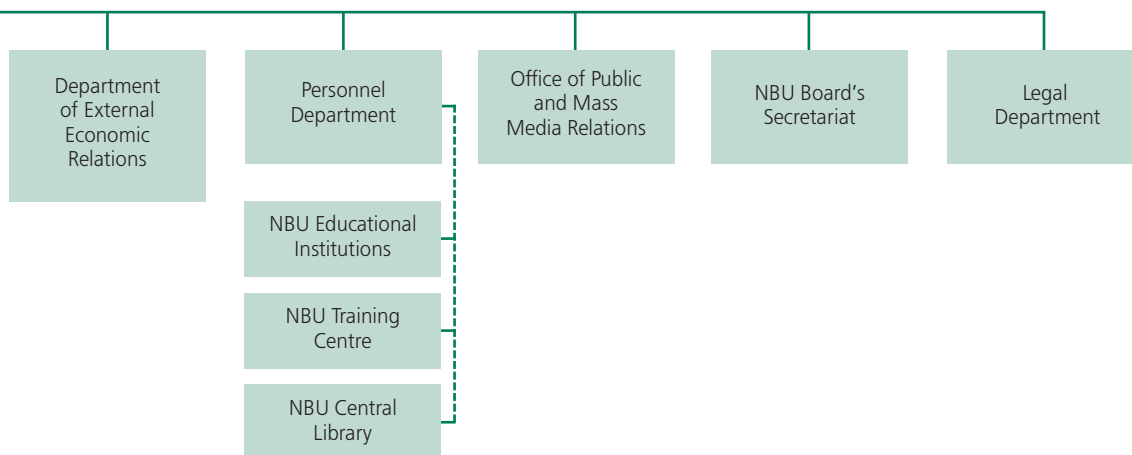
**Anatoliy
Stepanenko**

Head of the Main Department
for the City of Kyiv and Kyiv Region

Organizational Chart



of the National Bank of Ukraine (as at 1 January, 2008)



ABOUT THE NATIONAL BANK OF UKRAINE

The National Bank of Ukraine is a special central body of the state management, whose legal status, tasks, functions, powers and organization principles are determined by the Constitution of Ukraine, the Law of Ukraine "On the National Bank of Ukraine" and other Ukrainian laws. The governing bodies of the National Bank of Ukraine are the Council of the National Bank of Ukraine and the Board of the National Bank of Ukraine.

The National Bank of Ukraine is the issuing center of the country, the bank of banks, the bank of the Government, the banking regulation and supervision body and the organ of monetary and foreign exchange regulation. When performing appropriate functions and operations the National Bank of Ukraine has an effect on all sides of the country's economic life and above all assures the stability of the national monetary unit.

The National Bank of Ukraine is an economically independent body, which undertakes expenditures out of its own gains within the budget approved by the Council of the National Bank of Ukraine, however the task of its activity is not profit earning. The National Bank of Ukraine is a legal entity having its separated property, which belongs to the state ownership and is in its complete economic management. The authorized capital stock of the National Bank of Ukraine is the state ownership, its amount is determined by the Law of Ukraine "On the National Bank of Ukraine" as UAH 10 million. According to the Constitution of Ukraine (Art. 99), the main function of the National Bank of Ukraine activity is to guarantee stability of the national monetary unit – the hryvnia.

The National Bank of Ukraine issues legal and normative acts on the issues related to its authorities in the form of resolutions of the Board of the National Bank of Ukraine as well as directions, regulations and rules. These acts are mandatory for state authorities, banks, economic entities and natural persons irrespective of forms of ownership, which are subject to state registration at the Ministry of Justice of Ukraine. In order to assure stability of the national monetary unit, the National Bank of Ukraine as the central bank of the country regulates the amount of money supply using adequate instruments.

The National Bank of Ukraine cooperates closely with the International Monetary Fund, the World Bank and the European Bank for Reconstruction and Development, the European Central Bank, central banks of member countries of the European Union, the Bank for International Settlements in Basle and central banks of many countries on the issues of monetary policy, banking supervision organization, monetary and banking statistics, balance of payment preparation, introduction of settlement systems and international accounting standards used in international practice. The National Bank of Ukraine has correspondent relations with central banks of many countries as well as with leading commercial banks of Western Europe, the USA, Japan and Canada.

The organizational structure of the National Bank of Ukraine has a functional and territorial basis. It includes the Central Office functioning in the City of Kyiv, regional branches in the Autonomous Republic of the Crimea, City of Kyiv and Kyiv Region and 23 regional centers of Ukraine. The Central Office consists of functional departments, which in their turn have offices and divisions. A number of line department including the Operation Department, the Central Clearing House, the State Treasury, the Central Vault, the Banknote Printing and Minting Works and the Banknote Paper Mill are subordinated to the National Bank of Ukraine. The National Bank of Ukraine includes the following structural subdivisions: the Scientific Research Center, the Central Library, the Training Center and the Museum of Money. The National Bank of

Ukraine has the following educational institutions: the Banking University in the City of Kyiv, which includes the Lviv, Kharkiv and Cherkasy Banking Institutes, as well as the Ukrainian Banking Academy in the city of Sumy.

Creation of the Banknote Paper Mill and the Banknote Printing and Minting Works ensured functioning of the closed cycle of the national money (banknotes and coins) manufacture of the National Bank of Ukraine.

The official publications of the National Bank of Ukraine "The Herald of the National Bank of Ukraine" (supplements to the edition "Legal and Normative Acts on Banking", "Banknotes and Coins of Ukraine"), "Bulletin of the National Bank of Ukraine" and "Balance of Payments and Foreign Debt of Ukraine" are prepared and published on a regular basis.

For more transparency and openness of the activity of the country's central bank, the web page of the National Bank of Ukraine functioned as well as the exposition "The National Bank of Ukraine" worked at the National Complex "Expocenter of Ukraine".

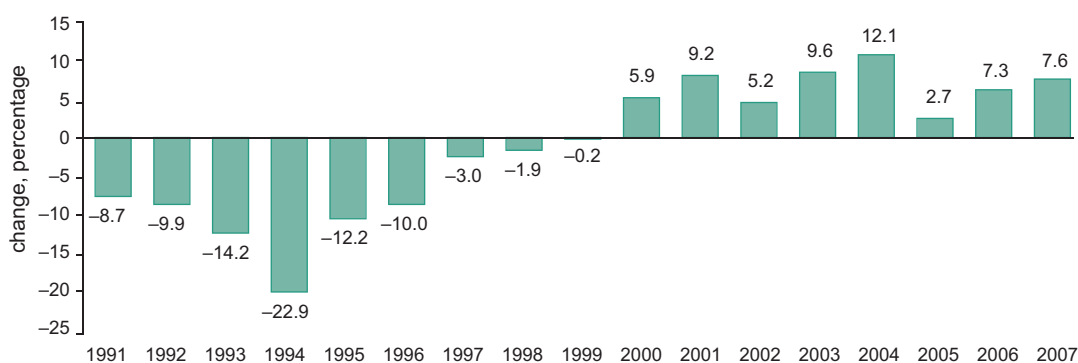
Section 1
GENERAL ECONOMIC
SITUATION

1.1. SOCIAL AND ECONOMIC DEVELOPMENT OF UKRAINE

1.1.1. Gross Domestic Product

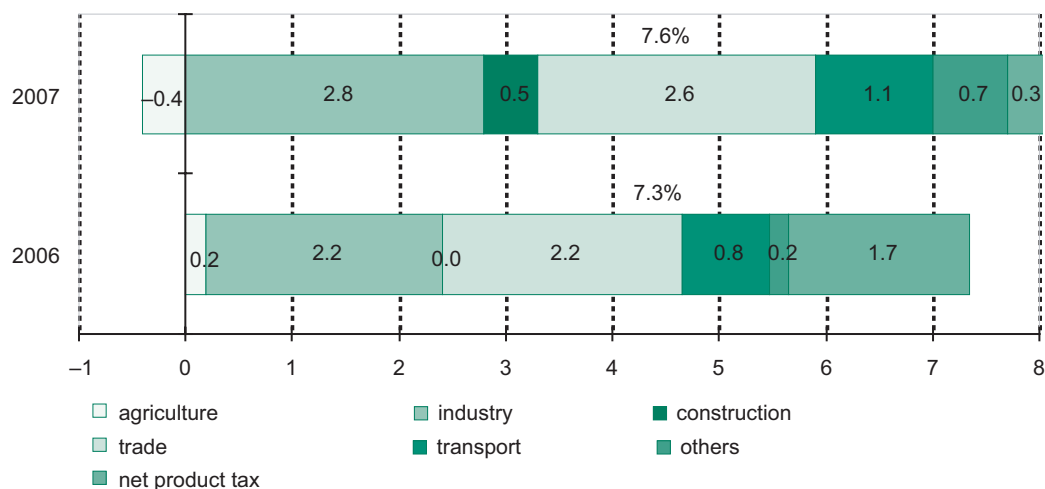
In 2007, Ukraine's real GDP pace slightly led the previous year dynamics and reached 107.6 per cent. This ascending trend was mainly driven by high domestic demand, as a result of enhancing investment and consumer demand.

Ukraine's real GDP in 1991–2007 (as compared with previous year)



In 2007, industry (2.8 p.p.), wholesale and retail trade (2.6 p.p.), transport (1.1 p.p.), and construction (0.5 p.p.) were the main contributors in the real GDP growth.

*Industrial structure of real GDP growth (p.p.)**



* Calculations of the National Bank of Ukraine.

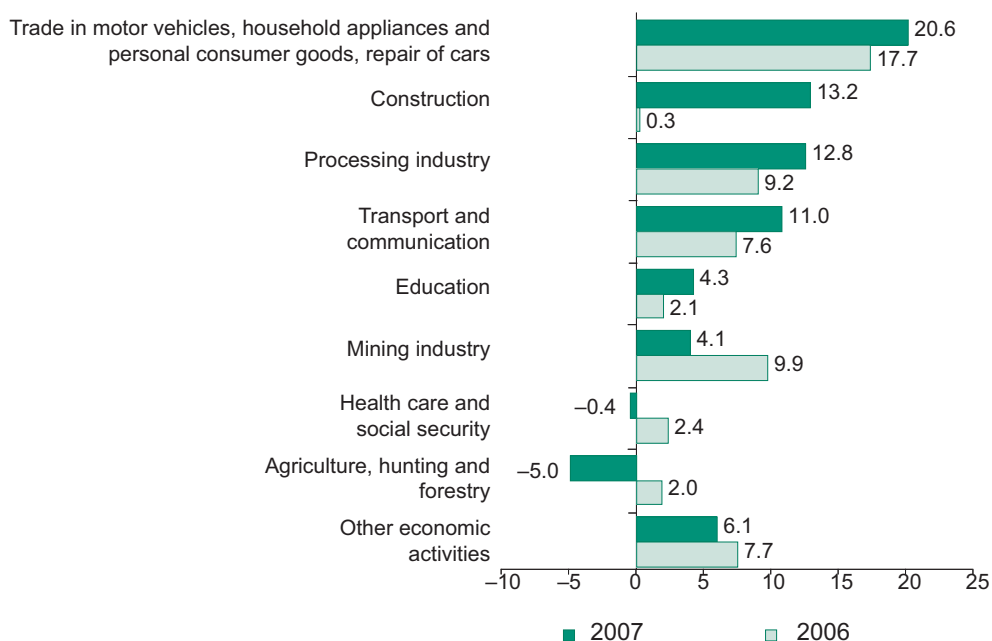
In 2007, the nominal GDP totaled UAH 712.9 billion; it grew by 31.0% as compared with 2006. Such an increase was stimulated by the price factor effect as GDP deflator reached 121.7 per cent, in 2007¹). The nominal GDP per capita amounted to UAH 15 329, by 31.8% (or UAH 3 699) more than in 2006.

The GDP growth in 2007 was driven by an increase in gross added value throughout all the industries, (except for agriculture, health care and social security), including the processing industry, mining industry, and construction. The growth of gross added value in the processing industry was stimulated by an increase in output of machine-building and metallurgy products. Favorable conditions on the world ferrous metal markets and enhancing demand for metallurgic, chemical

¹ According to estimates of the National Bank of Ukraine.

and machine-building products in the CIS countries pushed leading Ukraine's exporters to expand the output. High investment demand for construction of commercial and housing real estate provoked the construction growth. The ascending trend in industries was accompanied with a material increase in gross value added in related economic activities, including wholesale and retail trade, transport and communications. High output of industry and construction, in addition to accelerating export-import operations, entailed the upward dynamics of wholesale trade and an increase in cargo turnover of transport companies. Growing households' income plus lending boom stimulated the retail trade and lifted demand for services of communication providers, educational institutions and healthcare establishments, also boosted the passenger traffic.

Gross value-added structure by economic activities
(as compared with previous year, %)



Starting with September 2007, the agriculture, hunting and forestry suppressively affected the GDP growth as a result of unfavorable weather conditions that caused a decrease in output as compared with the previous year.

The GDP final consumption structure analysis shows that, in 2007, the economic growth was driven, mainly, by enhancing consumer demand and investments.

GDP STRUCTURE

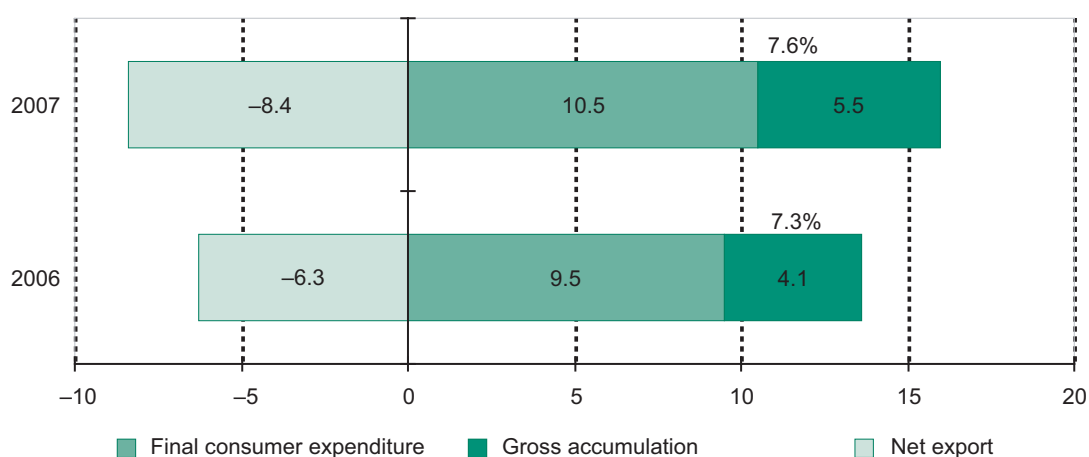
Indices	<i>(in actual prices)</i>			
	2007 Total value, UAH billion	2007 Share in GDP, %	For reference: 2006 Total value, UAH billion	For reference: 2006 Share in GDP, %
GDP	712.9	100.0	544.2	100.0
including:				
Final consumer expenditure	560.6	78.6	424.9	78.1
Gross accumulation	192.1	27.0	134.8	24.7
Net export of goods and services	-39.8	-5.6	-15.5	-2.8

Final consumer expenditure had the lion's share (78.6%) in the GDP consumption structure; as compared with 2006, it added 0.5 p.p., growing households' income and the lending boom being the main driving force of enhancing consumer demand.

In 2007, gross accumulation increased by 22.1% and totaled 27.0% of GDP.

In 2007, import of goods and services materially exceeded export that resulted in strengthening import trade balance. High pace of import growth in 2007 was driven by growing households' income and lending boom, on the one hand, and by enhancing investment demand as a result of expansion and upgrade of production facilities, on the other hand. Another important factor was a rise in price for power and energy resources.

Final consumption structure of real GDP growth (p.p.)*



* Calculations of the National Bank of Ukraine.

Among principal contributors to the real GDP growth were final consumer expenditure (10.5 p.p.) and gross accumulation (5.5 p.p.), their shares in the GDP structure increasing as compared with 2006. Net export of goods and services had an adverse contribution in the real GDP growth, -8.4 p.p., in 2007.

GDP STRUCTURE BY INCOME CATEGORIES (PER CENT)

(at actual prices)

Indices	2007		For reference: 2006	
	Total value, UAH billion	Share in GDP, %	Total value, UAH billion	Share in GDP, %
GDP	712.9	100.0	544.2	100.0
including:				
Salaries and wages of employees	355.1	49.8	268.6	49.4
Net taxes on production and import	89.3	12.5	73.5	13.5
Gross profit, mixed income	268.5	37.7	202.1	37.1

The GDP income structure changed as gross profit and mixed income increased by 0.6 p.p. as a result of improving financial results of enterprises. This fact positively effected wages and salaries, its share growing by 0.4 p.p. Net production duty and import tax paced slower than taxes related to other kinds of income, its share dropping by 0.1. p.p. versus the previous year.

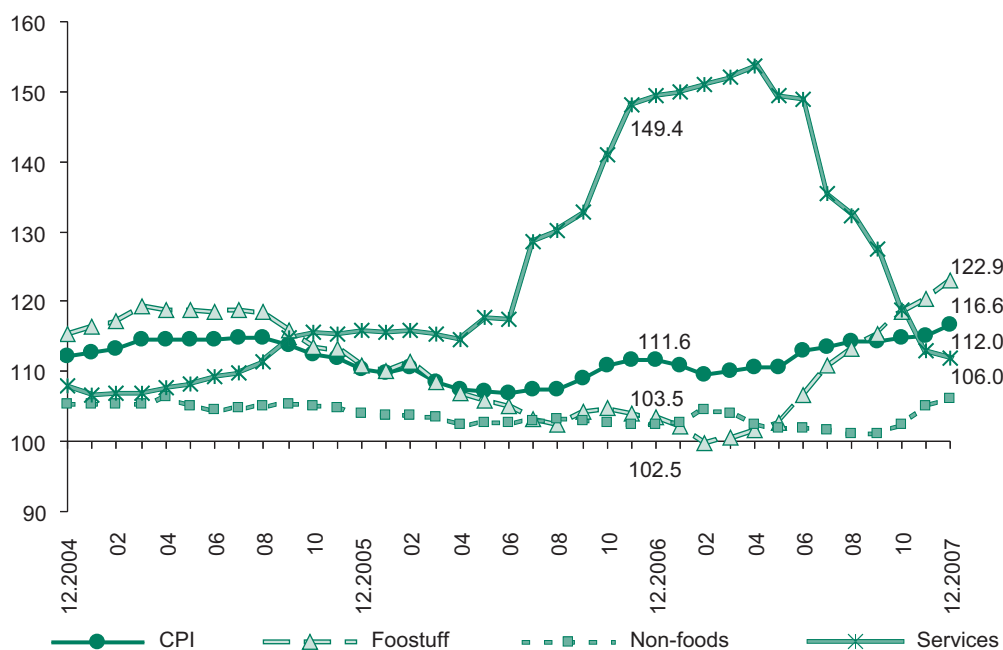
1.1.2. Consumer Market Price Dynamics and Producer Price Dynamics

In 2007, inflation speeded up as consumer price index (CPI) reached 116.6 versus 111.6%, in 2006, showing the highest pace for seven last years. The real inflation exceeded by 9.1 p.p. the forecast data.

PRICE INDICES		(% as compared with December 2006)	
Indices	2007	2006	
Consumer price index	116.6	111.6	
Foodstuffs	122.9	103.5	
Nonfoods	106.0	102.9	
Services	112.0	149.4	
Producer price index	123.3	114.1	
Mining industry	127.3	120.6	
Processing industry	123.4	111.5	
Power generation and supply of gas and water	120.9	123.4	

In 2007, the key factor of inflation growth was a rise in foodstuff prices as a result of unfavorable weather conditions and harvest expectations as distinguished from the previous year when inflation was driven by a rise in gas price for both industry and population. An increase in household income was among material contributors to the price growth as, on the one hand, it stimulated demand, and on the other hand, growing wages lifted the cost of products. The long-term political uncertainty was an additional factor of ascending inflation, whereas a direct effect of monetary factors on the CPI growth was relatively small (3.7 p.p.)².

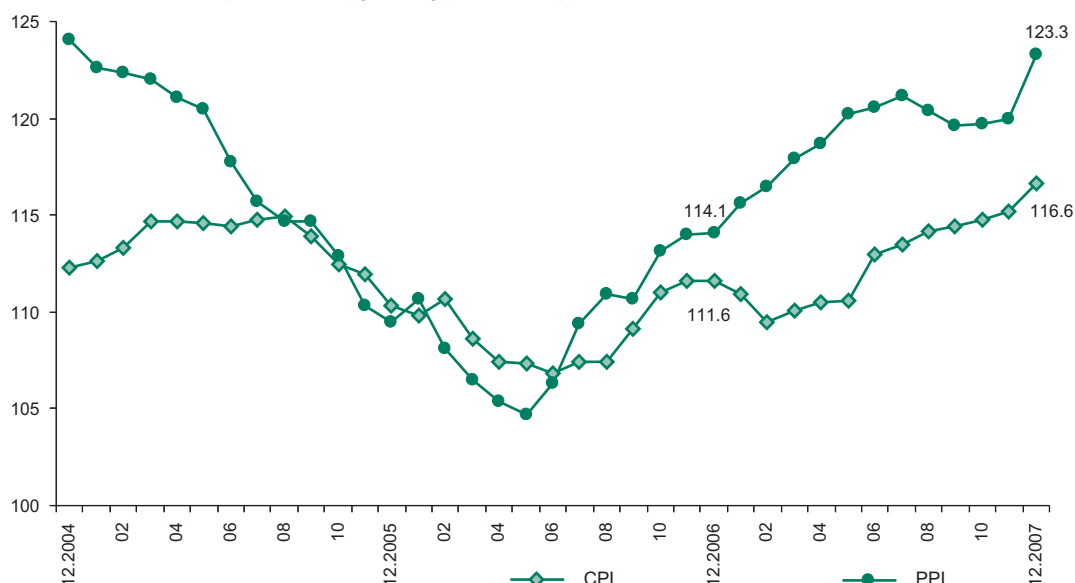
Consumer price index and its components (the current year dynamics, %)



A rapid rise in producer prices, including foodstuff producer prices, also materially contributed to CPI as it was passed to consumer prices.

² According to estimates of the National Bank of Ukraine.

**Consumer price index and producer price index
(the current year dynamics, %)**



In 2007, the consumer market underwent erratic inflation dynamics as:

- In January–February, inflation grew moderately, basically, as a result of rise in prices for housing maintenance and public utilities (106.4%), while prices for foodstuffs and non-alcoholic beverages added only 0.4% that preconditioned low CPI dynamics;
- In March–May, a slight rise in prices for foodstuffs and non-alcoholic beverages was leveled by seasonal drop in prices for housing and public utilities, power and fuels;
- In June–December, CPI showed a swift growth as a result of rise in prices for fruits and vegetables based on unfavorable expectations of poor harvest, as well as of populations' high inflation expectations during the political uncertainty period.

The highest rise in prices was registered for foodstuffs and non-alcoholic beverages³ (by 23.7 per cent) as compared with 3.2 per cent, in 2006, its share in the total inflation reaching 13.1 p.p. This component had the largest effect on CPI growth in the second half-year, inasmuch as foodstuffs and non-alcoholic beverages had a lion's share in the consumer basket (55.0%). Except for potato (the price downed by 4.6%), all foodstuffs got up, including cabbage (by 79.3%), sunflower oil (by 70.4%), fruits (by 60.3%), eggs (by 54.4%), milk (by 44.7%), and butter (by 42.6%). A rise in prices for milk products was caused by cutting cattle livestock and by growing export to the Russian Federation. Bread and cereal products also showed the upward price dynamics, as during the year they got up by 18.0%, as a result of dry weather at the end of spring-early summer and of global trends in prices for cereals, as well. Prices for meat foods grew by 13.9 per cent.

Prices for housing maintenance, water, power, and gas supply, and for other fuels grew, in average, by 12.3% (a share in the CPI growth makes up 1.4 p.p.), the housing rent adding mostly (23.1%).

Transport services got up by 14.1% (a share in the CPI growth makes up 0.6 p.p.), basically, due to rise in prices for fuels and lubricants (by 36.2%), as a result of the world rise in oil prices.

All other components of the consumer basket according to Target breakdown of individual consumption got up, except for communication services (as they went down by 2.8%), however, they not seriously affected the CPI.

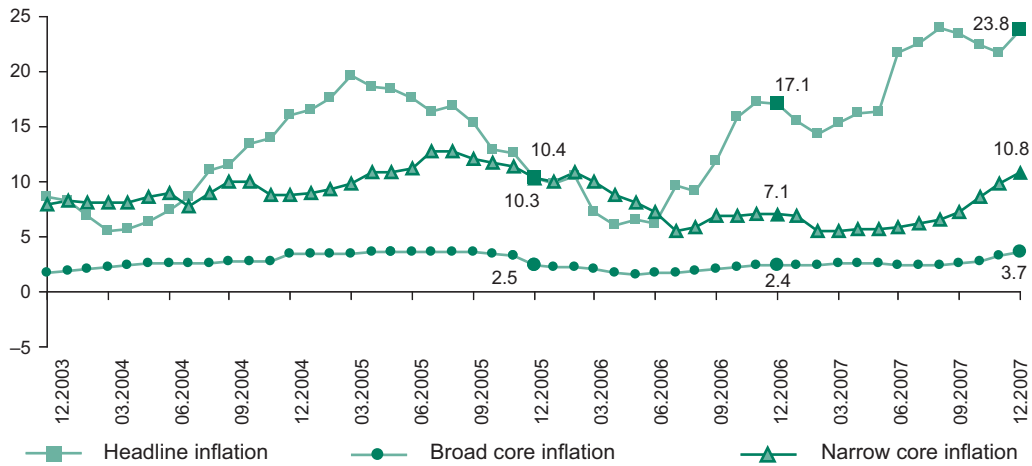
The twelve-month "broad" core inflation as an indicator of long-term underlying inflation (consumer price growth minus certain items which face volatile price movements such as fuel, administrative and regulated services, and non-processed foodstuffs) increased from 7.1⁴ to 10.8%.

³ Starting with January 2007, the National Committee of Statistics of Ukraine has been publishing data on consumer price index based on Target Breakdown of Individual Consumption (TBIC). The target breakdown of individual consumption is one of four functional classifiers of the System of National Accounts starting with 1993, for dividing the households' expenditure on goods and services into groups used for CPI calculation. According to TBIC prices for housing maintenance, water, gas and power supply and for other fuels do not include the real estate price.

⁴ The historical data on core inflation, headline inflation and its components are calculated in compliance with officially approved methods for calculation of core CPI.

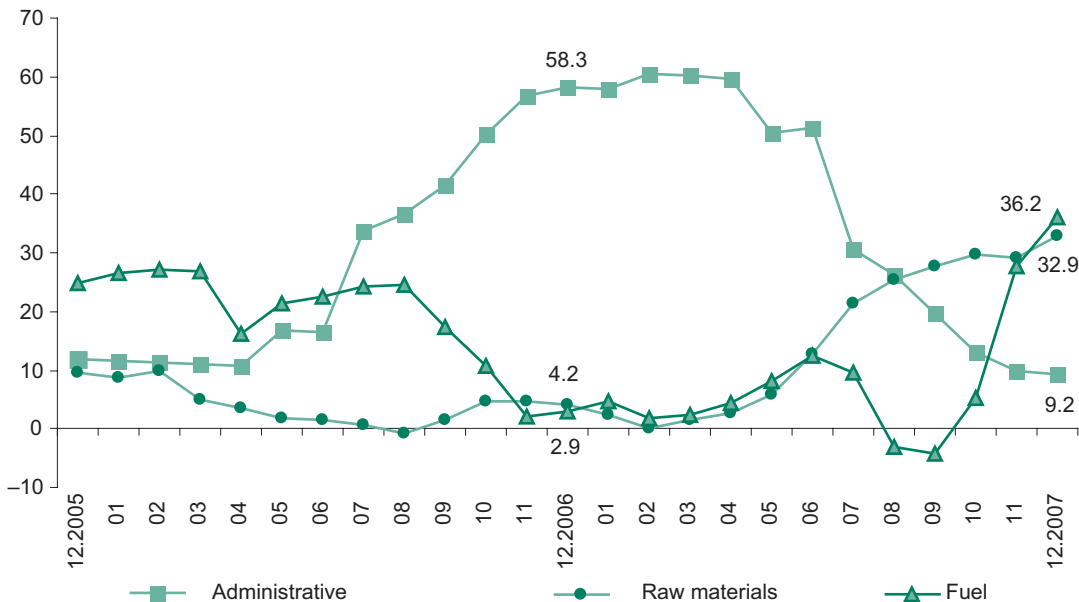
Secondary effects from supply shocks (an increase in cost of high-processed products as a result of rise in prices for raw materials), as well as inflation expectations drove a swift jump in core inflation, at the end of 2007. The so-called narrow core inflation also showed an uptrend from 2.4 to 3.7%.

Price indices (the current year dynamics, %)



Basically, the CPI dynamics were escalated by supply factors. Accelerating pace of price growth for non-processed foodstuffs from 4.2 to 32.9 per cent annually and for fuel (from 2.9 to 36.2 per cent annually) resulted in the growth of headline inflation (by 23.8 per cent). Inflation of administratively regulated goods and services decreased from 58.3 to 9.2% annually, as a result of administrative control of tariffs irrespective of imported gas.

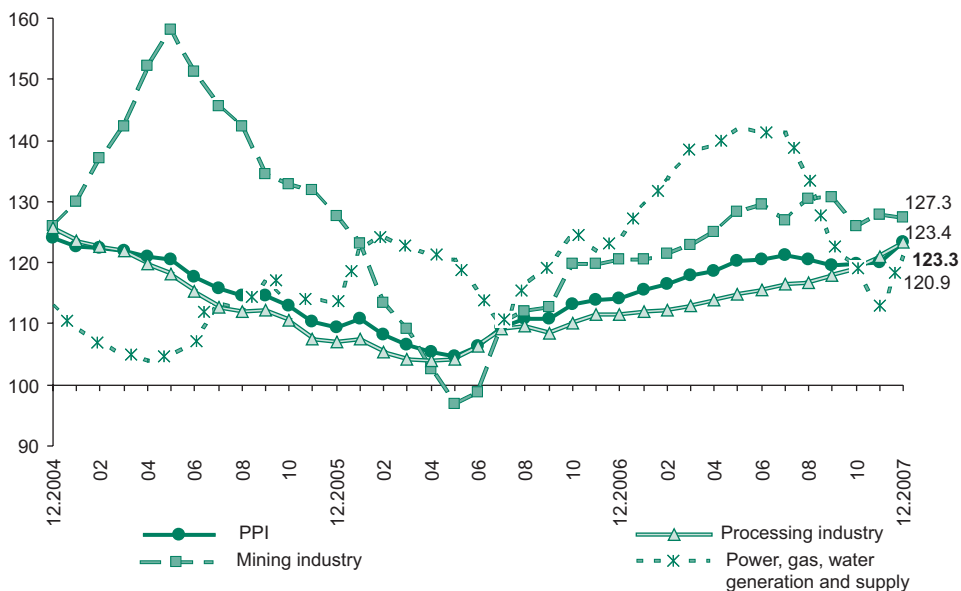
Headline inflation and its components (the current year dynamics, %)



In 2007, price producer index (PPI) reached 123.3% versus 114.1%, in 2006. The uptrend of world prices for oil, metal products and grain, increase in wage and salary, as well as rise in prices for agricultural products were the driving force of the PPI growth. The mining industry showed the highest increment (by 27.3%), as producers of fuel and energy minerals increased prices by

28.4%, while producers of other minerals by 26.2%. In the processing industry prices added 23.4%, in power, water and gas generation and supply 20.9%.

Producer price index (the current year dynamics,%)



The largest share in the PPI growth belongs to processing industry (17.8 p.p.), including rise in prices for metallurgic products and ready-made metal products (5.4 p.p.), coke and petroleum products (4.6 p.p.), and food, beverages and tobacco goods (3.7 p.p.).

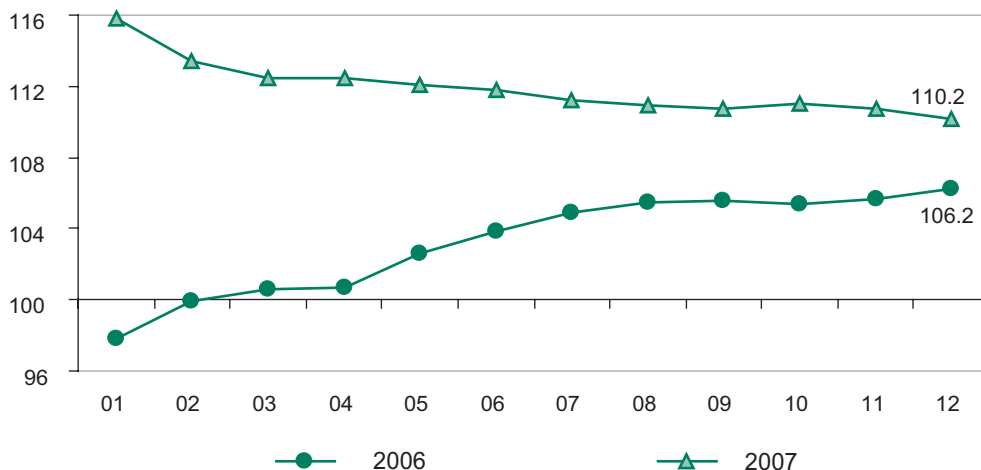
Starting with July 2006, the PPI growth rate has been leaving CPI growth behind, and from June 2007, producer prices have been pressing the consumer market.

1.1.3. Development of Industry, Agriculture, Trade and Construction

Industrial output

In 2007, industrial output grew by 10.2% (in 2006, by 6.2%). At the beginning of the year, Ukraine's industry stagnated, mainly because of stabilized prices for exports and high statistics of the previous year.

Industrial output in 2006–2007 (% as compared with the respective period of previous year, cumulative)



In 2007, the industrial enterprises sold products worth UAH 599.1 billion, the processing industry having a share of 76.7% of the total output, including metallurgy 24.7%, machine-building industry 14.4%, food industry 14.3%, coke and petroleum industry 8.2%, and chemical industry 6.4%.

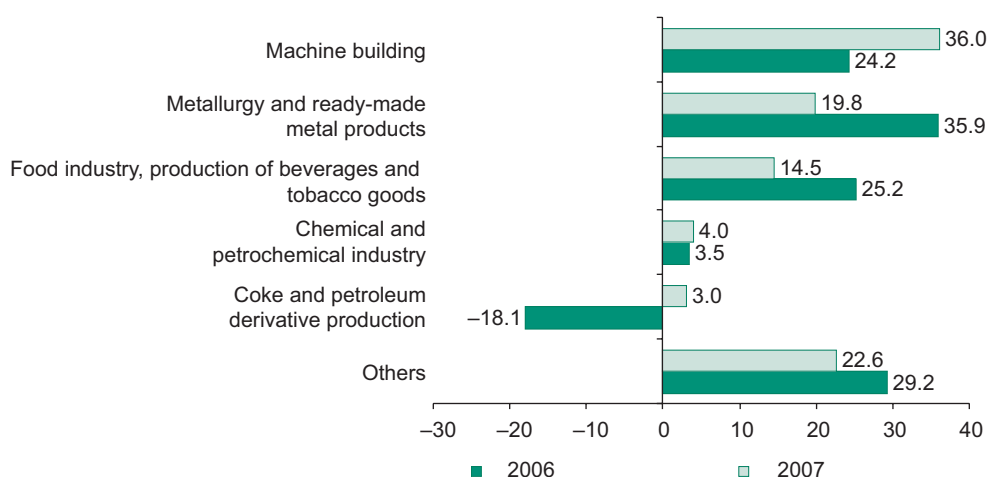
Growing investment demand was among the key factors that encouraged the spike of industrial output in 2007. It had a positive effect on the structure of the total products sold, as a share of investment-related products increased from 13.7 to 15.4%, while a share of primary products decreased from 67.0 to 66.5%.

PRINCIPAL INDUSTRIAL INDICES IN 2007

Indices	Products sold UAH billion	Share in the total products sold, %	Industrial output index, % as compared with previous year	
			2007	2006
Industry	599.1	100.0	110.2	106.2
including:				
Mining industry	50.9	8.5	102.7	105.8
Processing industry	459.4	76.7	111.7	106.3
Generation and supply of power, gas and water	88.8	14.8	103.2	106.7

All processing activities made positive contribution in the industrial output growth. Starting with the second half of 2007, the machine-building industry has been taking the lead over other industries, as its growth reached 28.6% (against 11.8%, in 2006) due to a swift progress in production of motor vehicles and equipment (42.3% versus 19.1%, in 2006), as a result of high domestic demand (including high demand for cars from individuals) and low interest rates on loans. Another important factors contributing to the development of the machine-building industry were enhanced capital investments in upgrade of facilities; high foreign demand for products, especially in CIS countries. In 2007, a share of the machine-building industry in the industrial output growth rose to 36.0 per cent as compared with 24.2%, in 2006.

Industrial breakdown of the total output growth, %



During the year the output growth in metallurgy and production of ready-made metal products showed a downward trend as throughout the year they added only 8.3%. Basically, this was caused by low dynamics on the world steel market in the first half-year, as well as by irregular supply of coking coal, as a result of disaster at the Zasiadko Mine that supplied about 30% of raw materials for

the industry. Hence, its share in the industrial output growth fell to 19.8 versus 35.9%, in 2006. However, starting with the 3rd quarter, the situation on the world metal product market has been improving that boosted the industry development.

At the beginning of the year, the food industry and production of beverages and tobacco goods paced with a stable rate, but starting with September they stagnated with a decline in supply of agricultural products to be processed, as a result of poor harvest. In 2007, the output growth made up 10.0% and was driven by an increase in households' income, domestic consumer demand and favorable conditions on foreign markets.

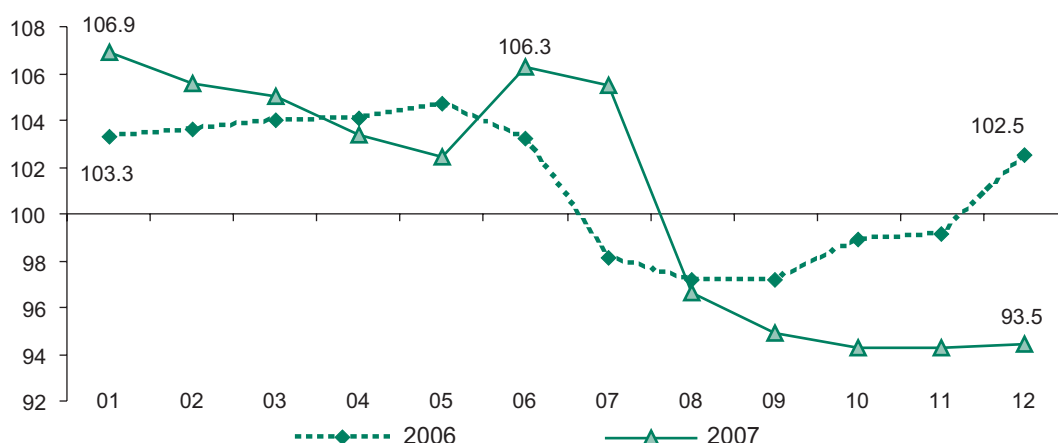
The coke and petroleum derivative industry slumped because of dropping oil supply to domestic oil refineries, low technology and lack of coking coal (its total growth for the year accounted for 3.3%) and thereby hampered the industrial output growth.

Power generation and supply enterprises, as well as water and gas supply companies expanded the output by 3.2% (as compared with 6.7%, in 2006) due to a spiking demand for power from metallurgic plants spending about one third of the power generated.

The agricultural sector

Upon results of 2007, the agricultural output in absolute prices totaled UAH 109.9 billion and decreased in comparative prices by 6.5% as compared with 2006.

Agricultural output dynamics (cumulative sum from the beginning of the year, % as compared with respective period of previous year)



In 2007, the agricultural output showed irregular dynamics, as at the beginning of the year, the output growth exceeded results of 2006 due to the uptrend in private farming, but slumping dynamics of agricultural holdings adversely affected the agriculture development. From January till June 2007, the output increased by 6.3% due to earlier reaping of crops, as compared with 2006.

Among the key factors of the agriculture stagnation was a decline in plant growing by 9.5%, as gross harvest of crops decreased with reducing area under crops by 5.4% and with falling crop yield per one ha (by 2.3 centners or by 9.5%), as a result of unfavorable weather conditions.

According to estimates, in 2007, the all types of agricultural firms produced 29.3 million ton crops (as weighted after processing) that made up 86% of the total output, in 2006.

The cattle breeding showed a slump in output since the beginning of the year; the total output declining by 0.4%, as compared with 2006. Falling prices for cattle and poultry in the first half-year, in addition to an increase in price for crops as the major feed, resulted in stagnation of the cattle breeding.

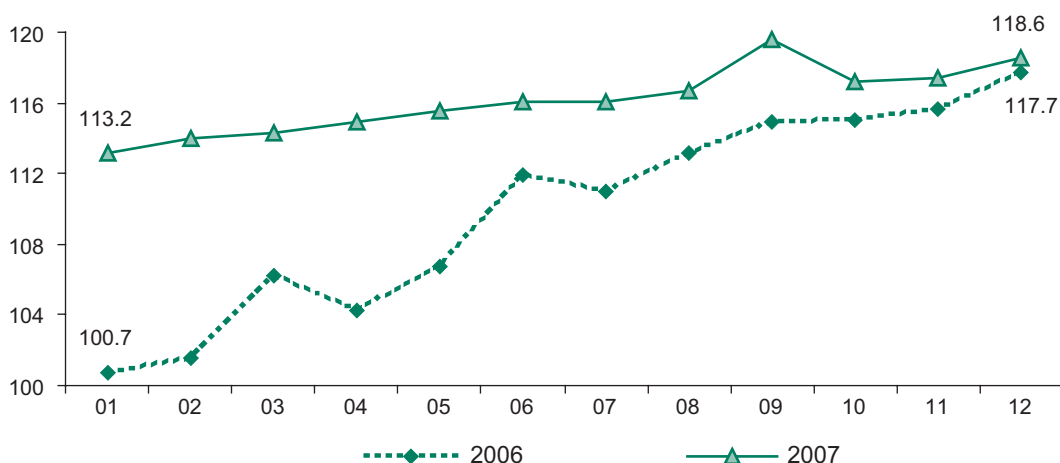
Trade

In 2007, gross value added paced-up fast and reached 118.6%. The ascending trend was stimulated, mainly, by an increase in wholesale trade (by 11.9%) due to growing import and industrial and construction output. The wholesale sector's turnover amounted to UAH 864 billion.

Growing wholesale and retail turnover (including the market sales and turnover of self-employed traders) was driven by an increase in households' income (major part of which was spent for consumer goods), simplified lending process, expansion of retail network (including, foreign companies), and implementation of new commercial know-how. The retail trade turnover totaled UAH 318.7 billion, by 28.8% more than in 2006, a share of both regulated and non-regulated markets accounting for 30.1% in the total turnover.

In 2007, retail companies and restaurants turnover amounted to UAH 178.2 billion, in comparative prices, by 29.5% more than in 2006.

Growth rate of gross value added in trade sector, in comparative prices (cumulative sum, from the beginning of the year, % as compared with the respective period of the previous year)



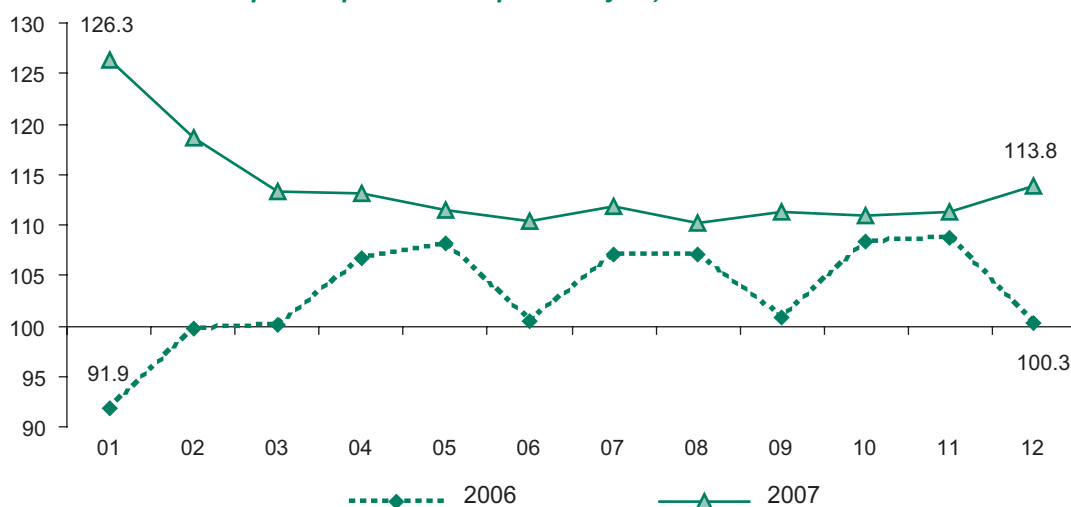
Construction

In 2007, construction showed a very fast growth, as output increased by 15.8%, and added gross value by 13.8%. Enhancing capital investments plus financing from the national budget for improving the infrastructure, as well as increasing population's investments in housing construction were the chief contributors to the construction development.

In 2007, Ukraine's construction companies performed works worth UAH 53.5 billion, the output growing in all categories of construction activities, including construction of buildings and facilities by 16.1%, (its share in the total output accounted for 85.8%). Works related to mounting of engineering facilities and preparation of building sites added 19.7 and 3.5%, respectively.

The construction works were structured as follows: construction of new buildings, reconstruction and re-equipment made up 78.5% of the total output, overhaul and routing repair 16.7 and 4.8%, respectively.

Growth rate of gross value added in construction, in comparative prices (cumulative sum, from the beginning of the year, % as compared with the respective period of the previous year)



1.1.4. Corporate Finance

In 2007, the financial status of economic entities improved due to the favorable situation on foreign markets for metal products, machine-building and chemical products and low reference data of the previous year. At the end of 2007, corporate profit-before-tax from ordinary business totaled UAH 121.4 billion, by 72.9% more than in 2006 (in 2006, the growth accounted for 14.3%).

Industrial enterprises gained the largest profit-before tax (UAH 42.1 billion), by 25.2% more than in 2006, but, contrary to previous years, their share in the total profit-before-tax made up only 34.7% against about 50 per cent in the previous years. Companies dealing with real estate, leasing and engineering, as well as providers of services to corporate entities increased their financial results 6.7 times, as compared with 2006, and earned UAH 28.2 billion. Profit-before-tax of financial corporations amounted to UAH 17.0 billion that was by 38.7% higher than in the previous year; wholesale companies and agents made UAH 13.4 billion or 2.7 times more than in 2006. A share of the above economic activities in the total profit-before-tax made up 82.9%.

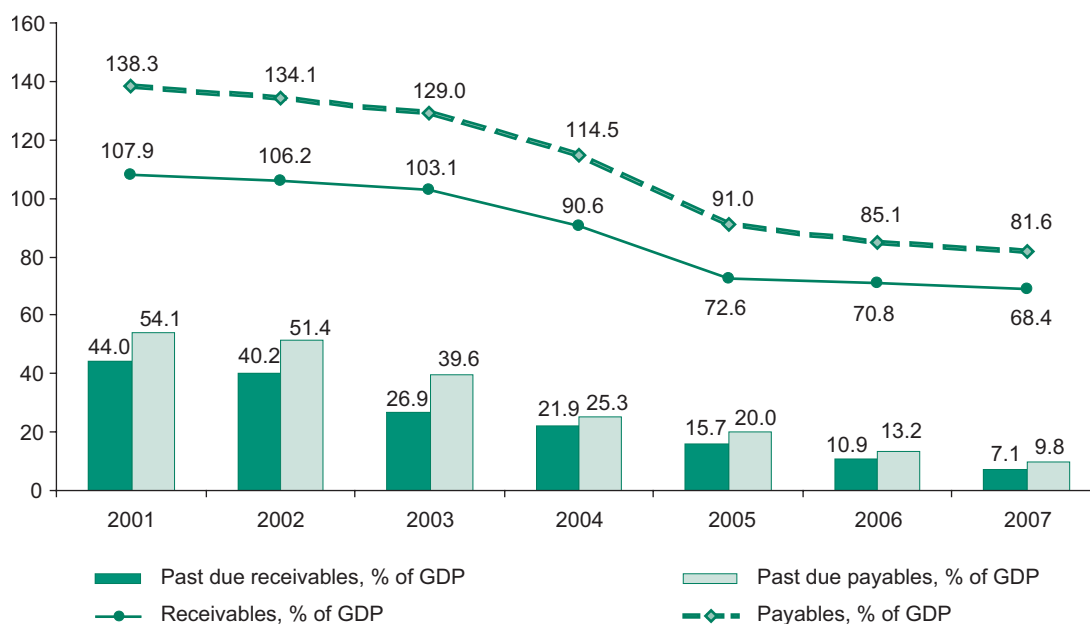
Improvement of financial results of metallurgic plants and producers of ready-made metal products (by 29.1%) stimulated an increase in profit of industrial enterprises (42.8% of the total growth) despite a downward trend, as a result of stabilization of price dynamics on the world market and high statistics of the previous year. During 2007, mining companies, except for fuel and power-generating ones, succeeded in swiftly escalating (2.8 times) their profit due to a high demand for their products from metallurgical and construction sectors. Machine-building companies improved their financial results 2.5 times (UAH 4.5 billion), due to growing domestic demand and raising competitiveness of their products on foreign markets. At the same time, producers of fuels and power-generating companies showed worsening profit by 71.4% (UAH 1.4 billion), as a result of a decline in production of coal and gas.

CORPORATE FINANCE AND SETTLEMENT STATUS IN 2007

Indices	Change as compared with the previous year			For information: 2006, %
	2007 UAH billion	UAH billion	%	
Corporate profit	147.3	36.6	33.1	24.1
Share of profitable enterprises, %	71.1		↑ 4.6 p.p.	↑ 0.7 p.p.
Receivables, including past due	487.6	102.4	26.6	20.2
Payables, including past due	582.0	118.8	25.7	15.3
	69.7	-2.2	-3.0	-18.6

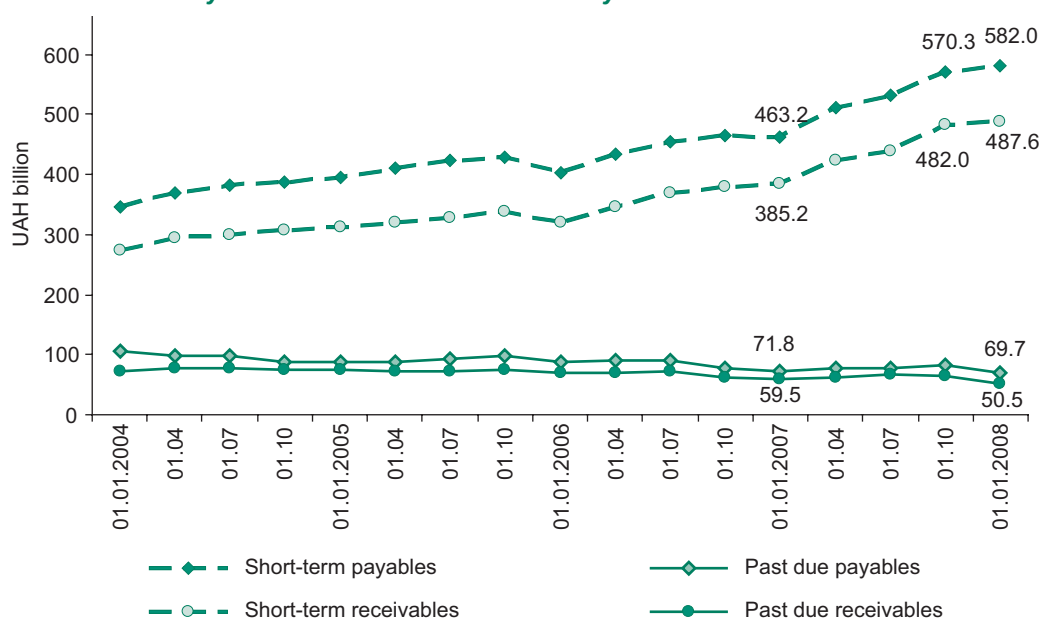
In 2007, a share of profitable enterprises accounted for 71.1% (versus 66.5%, in 2006); in total, they gained profit worth UAH 147.3 billion, 1.5 times more than in 2006; unprofitable companies (28.9%) (in 2006, 33.5%) lost UAH 25.8 billion, 1.1 times more than in the previous year.

The third consecutive year receivables and payables as percentage of GDP continued to decline. Both short-term receivables and short-term payables were less than nominal GDP and made up 68.4 and 81.6% of GDP, respectively.

Short-term receivables and payables of economic entities, % of GDP

At the same time, in 2007, both receivables and payables grew. As of January 1, 2008, short-term receivables of economic entities of all types of ownership, except for SME and budget institutions, reached UAH 487.6 billion, whereas short-term payables UAH 582.0 billion, by 26.6% or by UAH 102.4 billion and by 25.7% or by UAH 118.8 billion more than in 2006, respectively. The largest growth was registered in the 1st and 3rd quarters.

Payment status of Ukraine's economy



At the same time, in 2007, past due decreased, as short-term receivables downed by UAH 9.1 billion or by 15.2% and as of January 1, 2008, totaled UAH 50.5 billion. Short-term past due payables fell by UAH 2.2 billion or by 3.0%, and as of the end of the reporting year amounted to UAH 69.7 billion. Hence, a share of past due in the total short-term receivables, in 2007, made up 10.4% (in 2006, 15.5%), a share of past due in the total payables 12.0% (in 2006, 15.5%), the past due payables 1.4 times exceeding past due receivables (last year, 1.2 times).

The due between enterprises and institutions of Ukraine has the largest share in the due structure, as a share of short-term receivables accounted for 93.5%, short-term payables 91.7%.

From the point of view of industrial breakdown, receivables and payables of economic entities dealing with trade and repair of cars, household appliances and consumer goods had the largest share in the total due, 39.5 and 40.6% (or UAH 192.4 and 236.4 billion), respectively. In 2007, short-term receivables of the above economic entities increased by UAH 68.2 billion or by 66.6%, short-term payables by UAH 81.3 billion or by 52.5% (in 2006, by UAH 28.0 and 33.4 billion, respectively).

In 2007, short-term payables to budget grew by 3.6% and as of January 1, 2008, reached UAH 17.8 billion (3.3% of the domestic due), including past due 14.5%. At the same time, short-term past due to budget downed by 56.5% and as of January 1, 2008, amounted to UAH 2.6 billion. Short-term receivables from budget grew by 36.5% and as of January 1, 2008, totaled UAH 27.6 billion, whereas past due payables added 10.4% and was equal to UAH 1.2 billion on the reporting date.

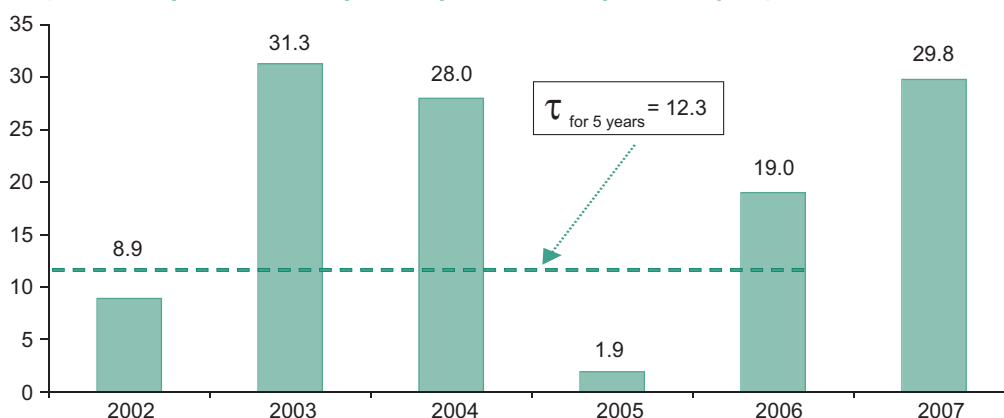
As regards the regional structure of receivables and payables the leader was Kyiv (7.0 and 27.7% of the total due in Ukraine, respectively), short-term receivables Dnipropetrovsk Oblast (15.3%) and short-term payables Donetsk Oblast (14.9%).

At the end of 2007, long-term receivables reached UAH 21.7 billion, long-term payables UAH 77.5 billion. Since the beginning of the year they grew by 21.2 and 41.2%, respectively; their share in the total due accounting for 4.3 and 11.8%.

1.1.5. Investment

In 2007, the favorable conditions on the world markets and improving financial status of economic entities together with growing households' income and huge cash inflow to the real economy sector from the lending boom in Ukraine boosted an increase in investments. In 2007, investments in fixed assets grew by 29.8% as compared with 19.0%, in 2006, and averaged 12.3% for 2002–2006. As of January 1, 2008, they totaled UAH 188.5 billion.

Growth rate of investments in fixed assets in 2002–2007
(% as compared with respective period of the previous year)

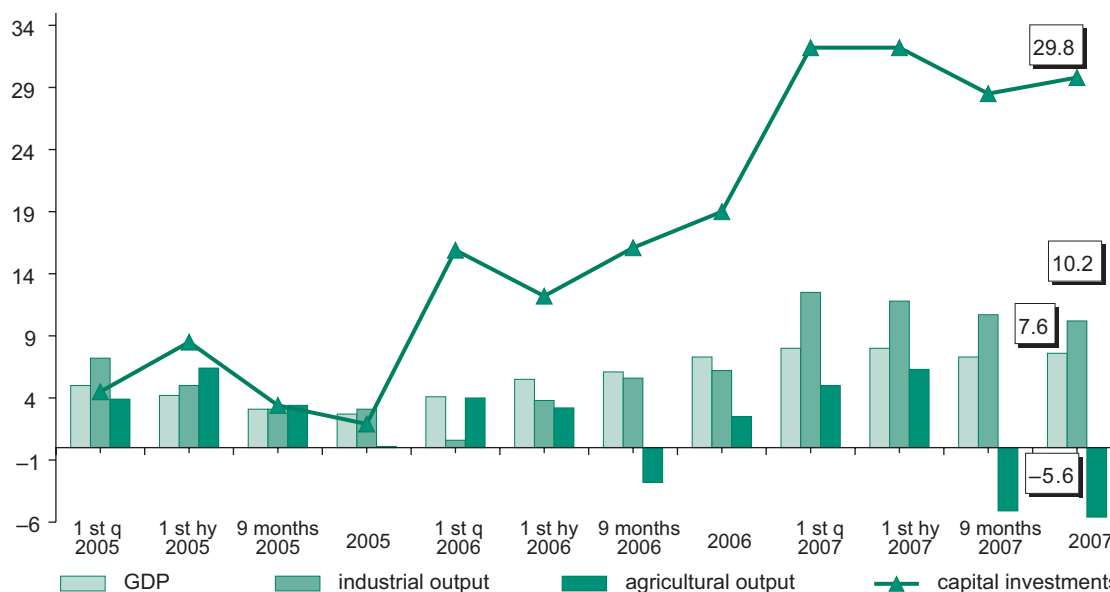


A share of investments in fixed assets in the total capital investments grew by 0.5 p.p. as compared with 2006 and made up 84.6%.

In the reporting year, the growth of investments in fixed assets exceeded the growth of real GDP (7.6%) and industrial output (10.2%). This factor will stimulate rapid ascending dynamics of the economy development in the future.

The capital investments are mainly financed from enterprises' own capital (56.5% of the total investments against 57.8%, in 2006). The main restraining factors were rise in prices for energy resources, increase in minimum wage and the tax pressure.

Dynamics of real GDP, industrial output, agricultural output and capital investments in 2005–2007
(% as compared with respective period of the previous year)



STRUCTURE OF INVESTMENTS IN FIXED ASSETS BY SOURCES OF FINANCING

Indices	UAH million	2007		2006
		%		%
Investments in fixed capital	188486.1	100.0		100.0
Own capital	106519.7	56.5		57.8
Borrowed funds	81966.4	43.5		42.2
<i>Internal sources</i>	75306.8	40.0		38.5
including:				
Loans from banks and other loans	31182.3	16.6		15.5
Budget funds	17782.0	9.5		9.8
Investment funds and other sources	4177.5	2.2		1.7
22165.0		11.7		11.5
<i>External sources</i>				
Foreign investments	6659.6	3.5		3.7

A share of investments at the expense of loans from banks and other loans grew to 16.6% (in 2006, it amounted to 15.5%) due to an increase in households' deposits and borrowings from foreign markets accompanying with dropping interest rates on loans.

A share of households' investments in housing construction increased to 4.5% (in 2006, 4.1%), as a result of growing households' income and availability of mortgage lending (as of January 1, 2008, a share of mortgage loans granted to individuals made up 78.0% of the total mortgage loans).

Nine and a half per cent of the total capital investments were financed from budget (in 2006, 9.8%). Financing of social expenditure being the Government's priority over capital investments, a share of budget funds in CI decreased.

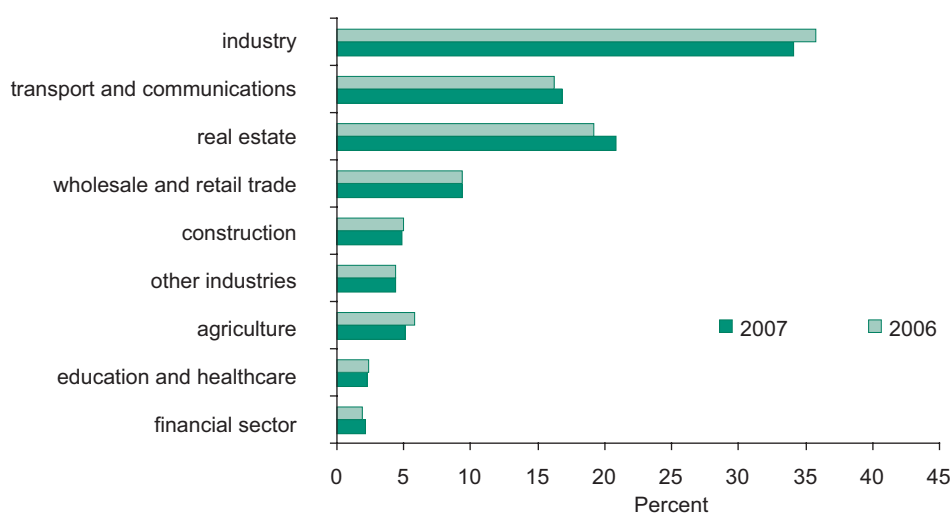
As compared with 2006, a share foreign capital in the capital investments descended from 3.7 to 3.5%. In 2007, about 10.0% of the total foreign direct investments were either spent for investing in working and fixed tangible and intangible assets or made in-kind (equipment).

Nearly fourteen (13.9) percent of the total capital investments were financed from investment funds and other sources.

The priority spheres for investments were industry, real estate, transport and communications (34.1, 20.9, and 16.8% of the total investments in fixed assets, respectively). Investments in industry grew by 27.0%, in real estate by 33.4%, in transport and communications by 33.5%.

In 2007, companies with quick capital turnover continued to expand their share in the structure of capital investments, non-high-tech industries being more attractable for investments.

Industrial structure of investments in fixed assets



1.1.6. Labor Market

In 2007, the labor market showed a positive trend, as a number of retired or dismissed employees decreased and so did the unemployment rate both in cities and rural regions; a pressure on vacancies released whereas the employment rate went up.

Monthly number of people 15–70 years old averaged 22.5 million, 21.1 million being employed. The rest (1.4 million) were unemployed. Employment rate among 15–70 years old people accounted for 59.1%, that among able-bodied population 67.2%.

As of January 1, 2008, the State Employment Service registered 660.3 thousand unemployed people, about 50 per cent were women or inhabitants of rural regions, more than one-third people under 35 years. Number of newly registered unemployed people decreased by 15.4% and as of January 1, 2008, totaled 642.3 thousand. Among unemployed people about every second was former worker, every fourth was former officer or unqualified employee.

As of January 1, 2008, the official unemployment rate in Ukraine was estimated as 2.3% of the able-bodied population, by 0.4 p.p. less than on January 1, 2007, and by 0.2 p.p. more than on December 1, 2007. The December growth of official unemployment was driven by unemployment in rural regions, where this index increased by 0.6 p.p. and reached 4.2%. Official unemployment in cities added 0.1 p.p. and amounted to 1.5%.

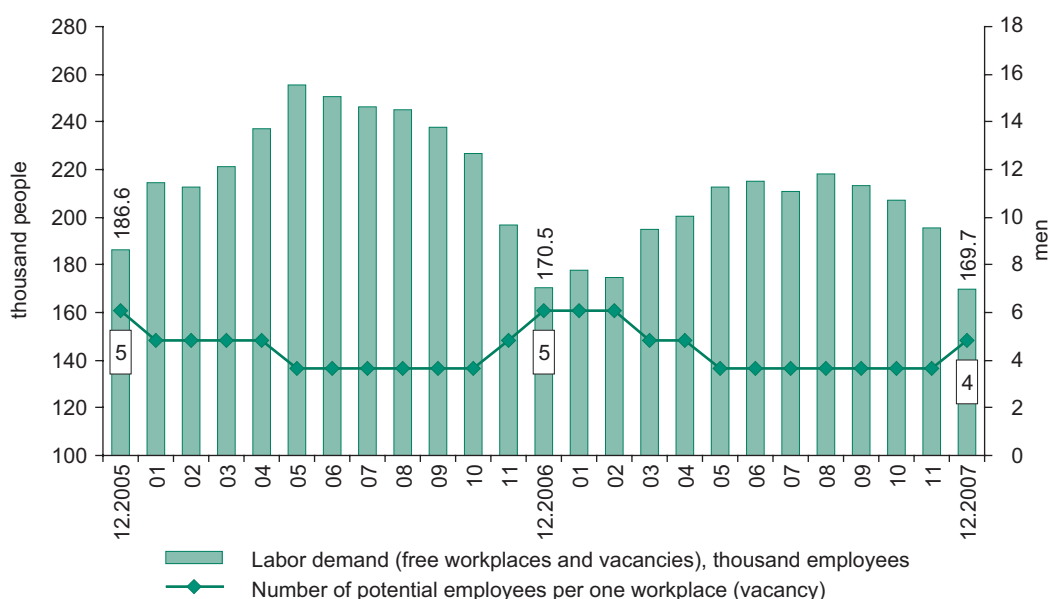
Imbalanced qualification and geographical structure of labor supply and demand led to inhomogeneous picture of official unemployment, the highest rate being registered in Ternopil Oblast (4.4%), while the lowest was in Kyiv (0.3%).

According to data of enterprises and organizations as of January 1, 2008, the number of vacancies totaled 169.7 thousand or by 0.5% less than on the same date of the previous year. Among them more than 50 per cent are worker vacancies, about one-third for officers, every seventh workplace is destined for unqualified employees.

In 2007, 1098.6 thousand people were recruited with the help of the State Employment Service, it was by 2.6% more than in 2006; including 36.8 thousand people who were employed due to subsidizing employers, 25.5 thousand people launched their own business at the expense of lump-sum unemployment benefit. In addition to regular employment the social security provided for engagement of unemployed people in civil works as seasonal employment. In 2007, 422.1 thousand people were engaged therein, that was by 3.5% less than in 2006.

In 2007, people who lost job received UAH 1.8 billion or 0.3 % of GDP at the expense of mandatory social insurance against unemployment.

Labor demand in Ukraine (at the end of period)



1.1.7. Households' Income and Expenses

In 2007, the households' nominal income grew by 30.3%, as compared with 2006, disposable income spent for purchase of consumer goods and services by 27.0%, and real income by 12.6%.

HOUSEHOLDS' INCOME IN 2007

Indices	2007, UAH million	Share, %	% as compared with respective period of the previous year	
			For information: 2007	2006
Nominal households' income, total	615.0	100.0	130.3	123.8
including:				
Wage/salary	270.6	44.0	131.9	127.7
Profit and mixed income	93.7	15.2	135.4	118.5
Property income received	20.4	3.3	147.5	125.1
Income transfers and other current transfers	230.3	37.4	125.2	121.5
including:				
– income transfers	123.2	20.0	119.5	121.8
For information:				
Disposable income	461.9		127.0	121.9
Real income	–	–	112.6	111.8

Nominal households' income enlarged, mainly, through growing wage and salary (by 31.9%) and rising income transfers and other current transfers (by 25.2%) despite the fact that a share of income transfers and other current transfers declined by 1.5 p.p., as compared with the previous year.

Households' income structure



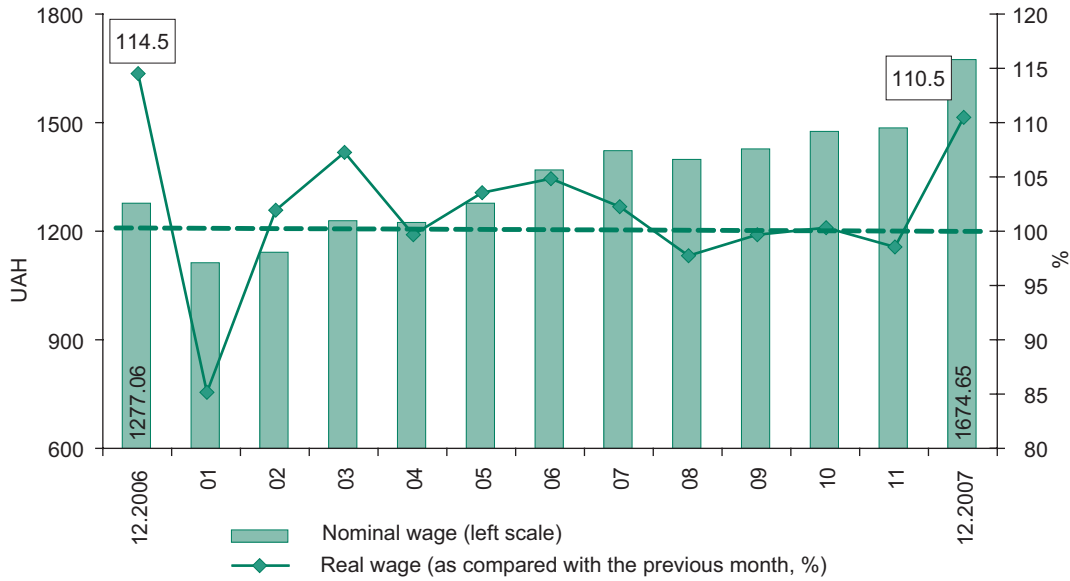
Throughout the year the wage dynamics paced over income transfers and other current transfers.

Like in the previous years, growing nominal households' income stimulated demand for consumer loans, the lending base increasing much faster than the nominal income.

In 2007, wages and salaries continued to rise, as average monthly wage per one employee increased by 29.7% (in 2006, by 29.2%) and totaled UAH 1351.14, the peak being registered in December.

The real wage increased by 12.5% (versus 18.3% in 2006).

Dynamics of monthly nominal and real wage averaged



In 2007, the nominal wage grew throughout the whole economy, financial sector showing the largest increment (35.2%), public administration the lowest (17.3%). The wage growth mainly advanced profit-before-tax growth (for instance, in industry 128.2 against 125.2%, in transport and communications 125.7 against 117.4%. In educational establishments financial results accounted for 92.9% of the previous year profit-before-tax nevertheless, salaries grew by 31.4%).

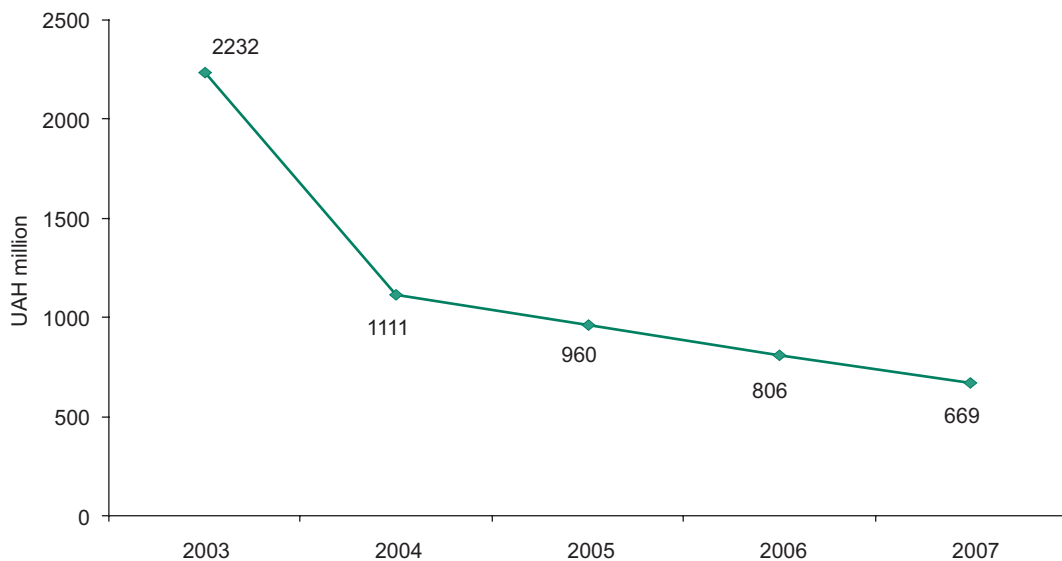
Employees of financial sector and air transport got the highest average salary (UAH 2770.20 that is 2.1 times over the average wage in Ukraine and UAH 2704.01 or twice more than the average wage, respectively), while fish and agriculture sector had the lowest wage (UAH 721.26 and UAH 733.11, respectively), the highest wage exceeding the bottom one 3.8 times.

As compared with the previous year, wages and salaries grew throughout Ukraine, the largest growth being registered in Kyiv (33.0%), the smallest in Zakarpattia Oblast (25.7%).

It should be noted that wages and salaries sharply differentiated in terms of geography as in 22 regions they were under the average wage (the same situation was in 2006).

The total arrears of wage decreased by 17.1% (last year, by 16.0%) and as of January 1, 2008, amounted to UAH 668.7 million.

Arrears of wage dynamics



In 2007, enterprises of Donetsk and Luhansk Oblasts had the largest arrears of wage (36.9% of the total arrears), although their share in the total wage in Ukraine accounted for only 17.0%.

Households' expenditure and savings, in 2007, grew as compared with 2006 by 30.3% thereby driving an increase in the domestic demand.

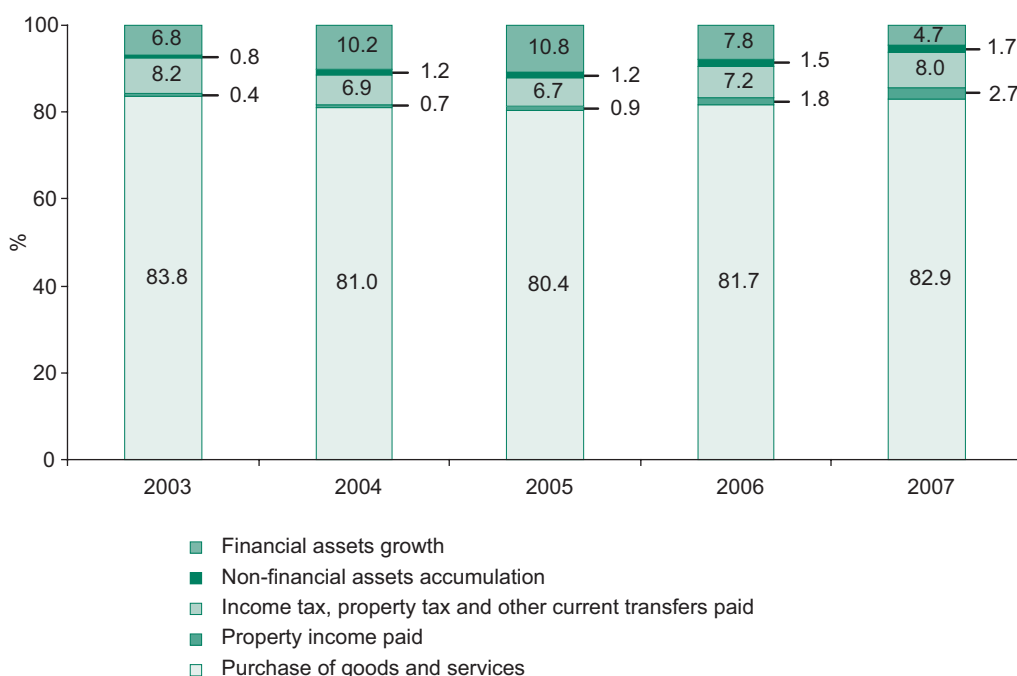
HOUSEHOLDS' EXPENDITURE AND SAVINGS IN 2007

Indicators	UAH billion	Share, %	% as compared with respective period of the previous year	
			For information: 2007	2006
Households' expenditure and savings, total	615.0	100.0	130.3	123.8
<i>including:</i>				
Purchase of goods and services	510.0	82.9	132.2	125.7
Property income paid	16.9	2.7	201.9	237.7
Income tax, property tax and other transfers paid	49.0	8.0	145.1	132.8
Accumulation of non-financial assets	10.3	1.7	144.2	161.1
Financial assets growth	28.7	4.7	77.5	89.9

In 2007, the households' expenditure increased by 36.5%, whereas savings downed by 11.7%.

People mostly spent their money for purchasing consumer goods and services (82.9%), by 1.2 p.p. more than in 2006.

Structure of households' expenditure and savings



1.2. GOVERNMENT FINANCE AND PUBLIC DEBT

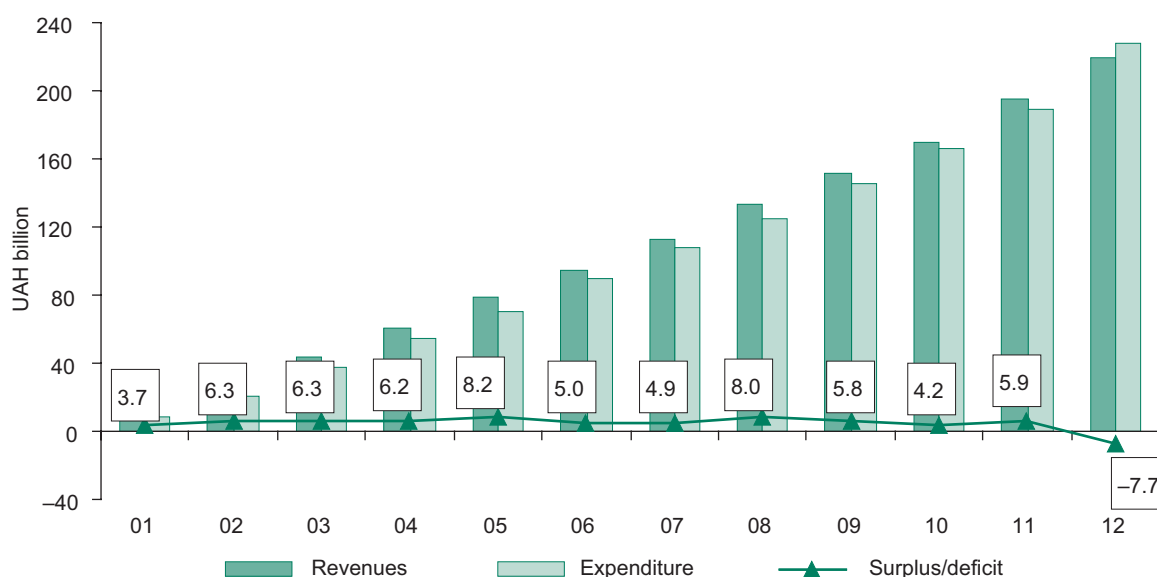
In 2007, revenues of the consolidated budget of Ukraine totaled UAH 219.9 billion or 30.8% of GDP, expenditure (plus loans net of loan repayment) UAH 227.6 billion or 31.9% of GDP.

UKRAINE'S CONSOLIDATED BUDGET IN 2007

Item	UAH billion	% as compared with the previous year	
		2007	For reference: 2006
Revenues	219.9	128.0	128.0
% of GDP	30.8	↓ 0.7 p.p.	↑ 1.2 p.p.
<i>including:</i>			
Tax revenues	161.3	128.2	128.2
% of GDP	22.6	↓ 0.5 p.p.	↑ 0.9 p.p.
Expenditure	227.6	129.7	123.6
% of GDP	31.9	↓ 0.3 p.p.	↑ 0.1 p.p.
<i>including:</i>			
Social transfers	119.6	125.9	115.5
% of GDP	16.8	↓ 0.7 p.p.	↓ 2.0 p.p.
Balance ("+" – surplus, "-" – deficit)	-7.7	Deficit increased 2.1 times	Deficit decreased by 52.6%
% of GDP	-1.1	Deficit increased by 0.4 p.p.	Deficit decreased by 1.1 p.p.

In 2007, Ukraine's Government pursued the expenditure-restricting policy. During 11 months it managed to keep a surplus of the consolidated budget of Ukraine driven by surpluses of local budgets, until in December, a spike of expenditure started to threaten the economy with inflation. Upon the year results, the consolidated budget deficit totaled UAH 7.7 billion or 1.1% of GDP (in 2006, UAH 3.7 billion or 0.7% of GDP).

Consolidated budget of Ukraine in 2007
(cumulative sum from the beginning of the year)



Surplus/deficit of the consolidated budget of Ukraine was financed at the expense of:

- funds on Government's accounts (especially in January–May, when T-bills were not placed either on domestic or on foreign markets, as well as in December);
- funds borrowed by the Government of Ukraine on the domestic and foreign markets (UAH 6.9 billion or 102.1%, and UAH 3.6 billion or 93.3% of the planned borrowings for 2007, respectively);
- revenues from privatization of state property (UAH 2.4 billion or 23.2% of the planned revenues).

Revenues to the consolidated budget of Ukraine grew by 28.0% (with CPI taken into account, by 13.4%) and accounted for 101.1% of the annual plan. Both the central budget and local budgets were executed for 105.5% and 101.6%, respectively.

Revenues to the consolidated budget of Ukraine were mostly provided by tax revenues, their share making up 73.3% of the total revenues (in 2006, 73.2%).

Starting with August, a share of VAT revenues tended downwards (by 2.3 p.p.) as compared with the previous year. At the same time, as a result of rise in individual income tax from 13 to 15% since January 1, 2007, and several rises of minimum wage, as well as due to improving financial results of economic entities a share of revenues from income tax and corporate profit tax increased (by 2.5 and 0.4 p.p., respectively). Hence, a lack of VAT revenues (UAH 5.7 billion) was compensated by corporate profit tax (UAH 5.4 billion) and income tax (UAH 1.4 billion).

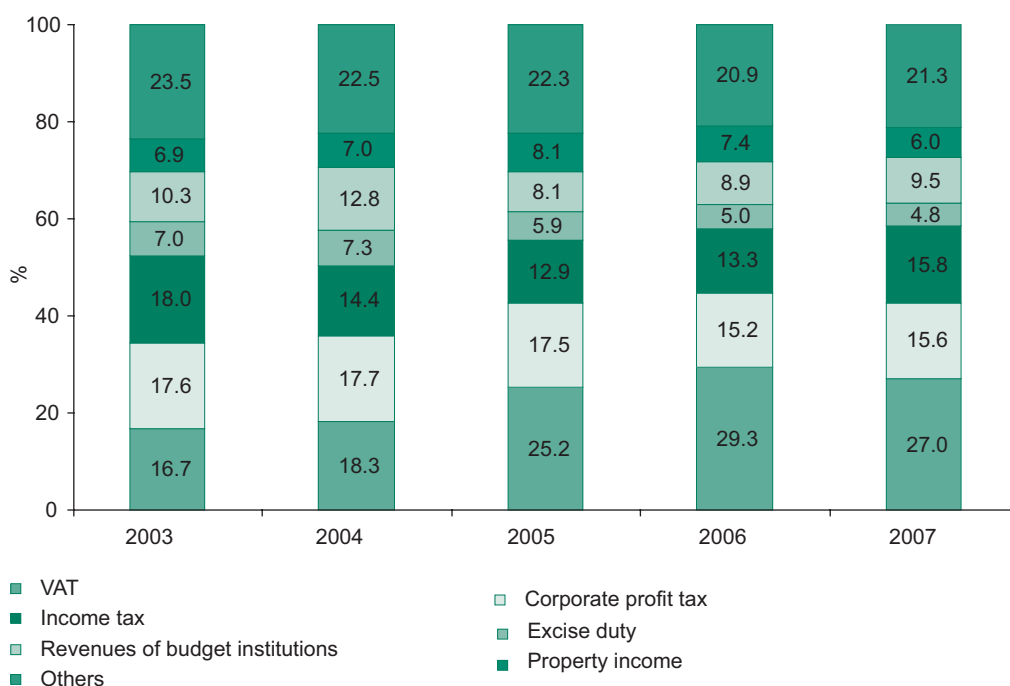
Expenditure from the Consolidated budget of Ukraine (including borrowings net of repaid loans) increased by 29.7 % as compared with 2006 (real growth was 14.9%). The expenditure plan was executed for 94.2% being 0.6 p.p. as little as compared with previous years.

In 2007, the most impressive increase was registered in expenditure on economic activities and civil order, security and judicial system (2.2 and 0.9 p.p., respectively); expenditure on social security and income transfers still having the largest share in the expenditure structure despite the fact that it fell by 2.3 p.p. as compared with 2006 and made up 21.3%.

Expenditure on health care and education was enlarged by 25.9%, as compared with 2006.

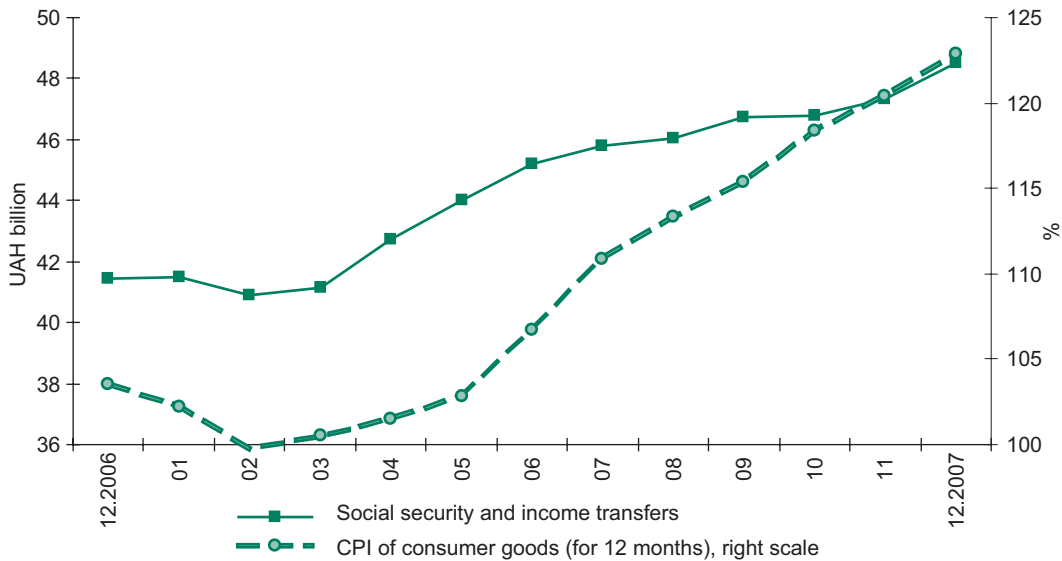
A sharp increase in expenditure from the consolidated budget of Ukraine on social security, since April–May 2007, directly affected the consumer market, insofar as they were spent on foodstuffs, clothes and footwear, as well as on small household appliances. Prices for the above goods growing faster and their share in the consumer basket of low-income population being large, they escalated inflation.

Structure of revenues of Consolidated budget of Ukraine



As of January 1, 2008, the sovereign and guaranteed debt of Ukraine totaled UAH 88.7 billion (USD 17.6 billion); in 2007, it increased by UAH 8.2 billion (or USD 1.6 billion) or by 10.2%, as a result of growth of both the sovereign debt (63.2% of the total debt growth), and guaranteed debt (36.8%).

Expenditure from Consolidated budget of Ukraine on social security and income transfer according to target classification and consumer goods CPI (for 12 months)



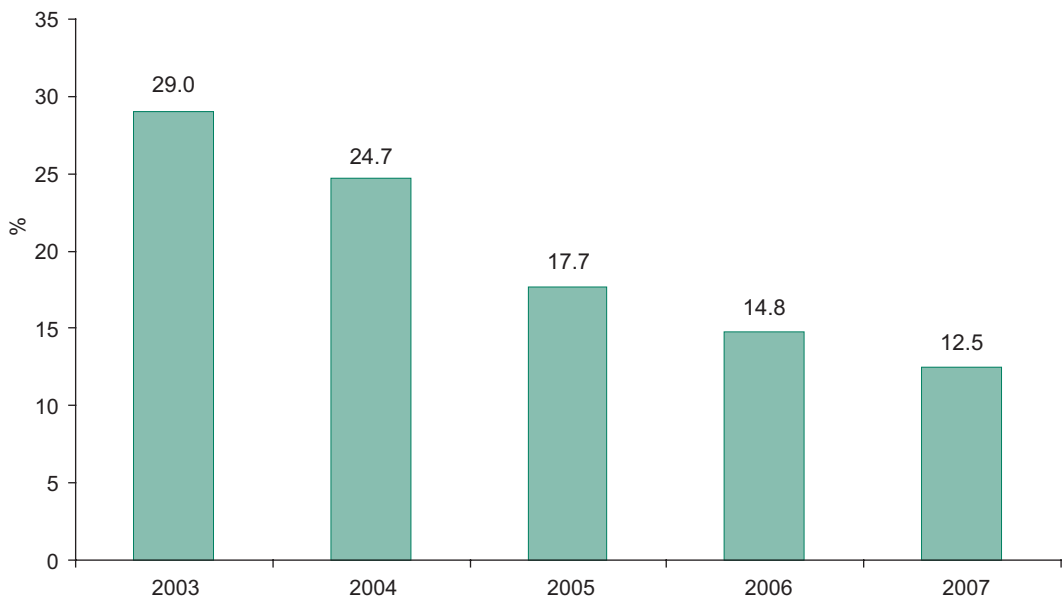
The sovereign and guaranteed debt ratio to GDP made up 12.4% and dropped by 2.4 p.p. as compared with 2006.

In 2007, UAH 9.4 billion were spent for debt repayment, including UAH 6.1 billion for repayment of principal amount of the debt and UAH 3.3 billion for interest and commission thereon:

- the domestic public debt UAH 3.1 billion (UAH 2.4 billion for repayment of the principal amount, UAH 0.7 billion for interest and commission thereon),
- foreign debt UAH 6.3 billion or USD 1.2 billion (UAH 3.7 billion or USD 0.7 billion for repayment of principal amount, UAH 2.6 billion or USD 0.5 billion for interest and commission thereon).

In 2007, UAH 9.6 billion were borrowed to the central budget of Ukraine due to placement of government securities, including UAH 3.5 billion from domestic T-bills and UAH 6.1 billion (USD 1.2 billion) from foreign T-bills.

Sovereign and guaranteed debts to GDP



1.3. EXTERNAL SECTOR

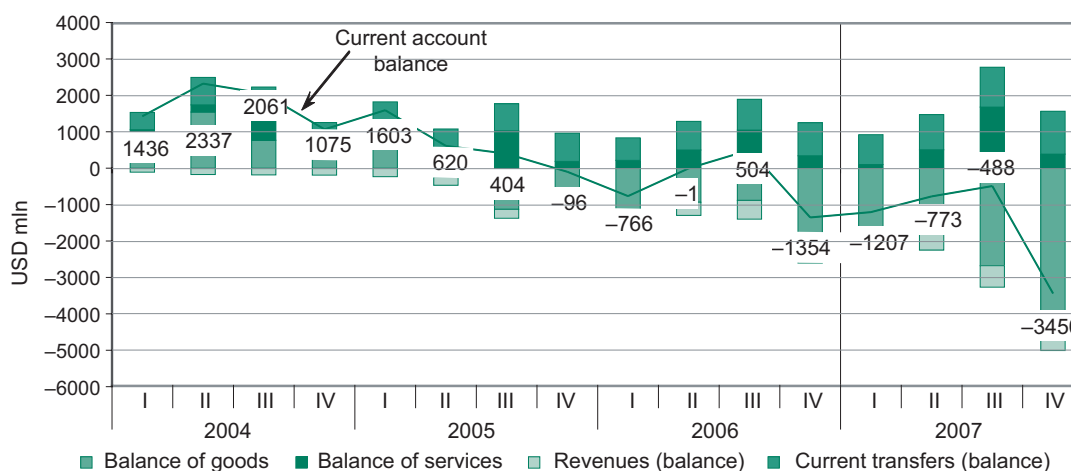
1.3.1. Ukraine's Balance of Payments

In 2007, Ukraine's balance of payments had current account deficit, however, material financial revenues allowed the government not only to compensate the current account deficit, but also to increase reserves by USD 10.2 billion.

Current account balance

In 2007, the BOP current account deficit increased 3.7 times versus 2006 and reached USD 5.9 billion (4.2% of GDP). The speedy rise of import entailed a substantial negative balance of goods worth USD 10.6 billion (in 2006, UAH 5.2 billion).

Current account balance

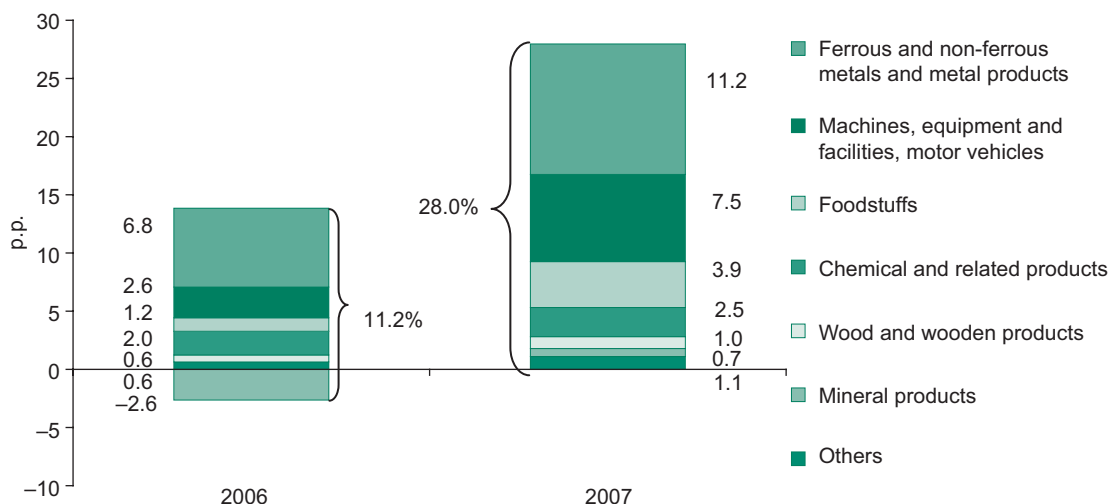


Export of goods

In 2007, due to conservation of high prices in the world markets of raw minerals and stable demand for domestic engineering products in the CIS countries the export of goods increased by 28.0 per cent and amounted to USD 49.8 billion (in 2006, exports of goods grew by 11.2 per cent).

The *metallurgy* and *engineering industries* contributed most to the increase in export of goods in 2007 (11.2 percentage points or 40.1 per cent of exports growth and 7.5 percentage points or 26.8 per cent of exports growth, respectively). The *metal product* export increased by 26.6 per cent, in value term, as compared to 2006, whereas a physical volume of ferrous metals exports increased only by 1.8 per cent, and products made of ferrous metals by 1.0 per cent.

Structure of export growth by type of goods



In 2007, export of engineering products paced upward most dynamically and exceeded the level of 2006 more than 1.5 times. A share of this group in the total exports rose by 17.0 per cent as compared to 14.3 per cent in 2006.

In 2007, export of agricultural products grew by 32.6 per cent due to 1.8-time increase in export of sunflower oil, 2.1-time increase in export of sunflower seeds, as well as 1.5-time increase in export of foodstuffs.

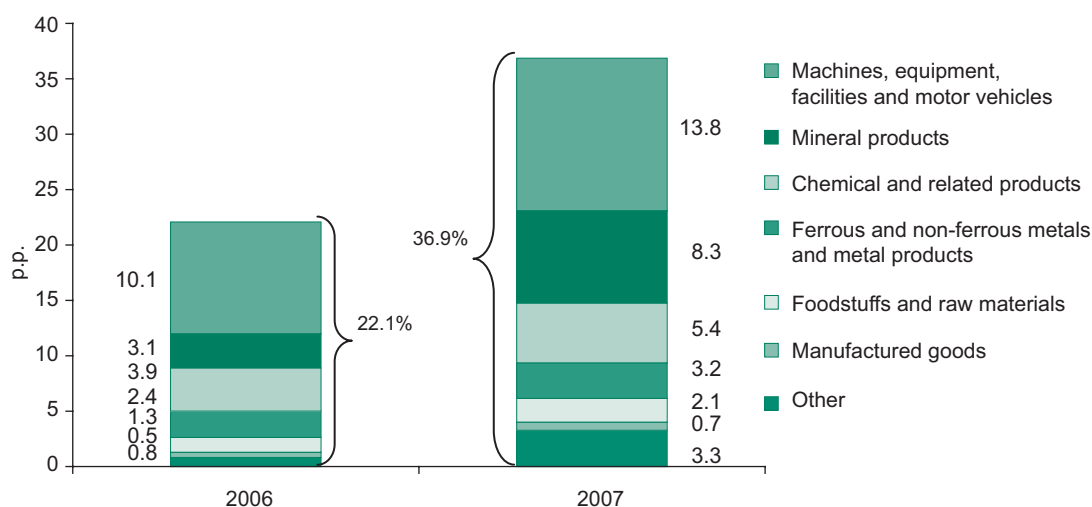
From the geographical point of view, in 2007, exports to the CIS countries, in value term, showed the fastest pace as it grew 1.5 times. A share of this region in the total volume of exports added 4.5 percentage points and accounted for 37.9 per cent. The physical volume of the Ukrainian goods and products exported to the European countries was by 17.0 per cent more than that in 2006. However, a share of these countries reduced by 2.8 percentage points whereas that of the Asian countries remained at the level of the previous year (20.8 per cent).

Import of goods

In 2007, the total import of goods accounted for USD 60.4 billion, by 36.9 per cent more as compared to 2006. High pace of import growth in 2007 was driven by growing households' income and lending boom, on the one hand, and by enhancing investment demand as a result of expansion and upgrade of production facilities, on the other hand. Moreover, a rise in prices for energy resources was an important factor provoking ascending imports in value term.

In 2007, imports grew basically due to increase in import of engineering products, mineral products and chemical products whose contribution to the total growth made up 74.5 per cent.

Structure of import growth by type of goods



In 2007, machines, equipment and transport facilities imported to Ukraine cost USD 19.8 billion, i.e. one third of the total imports. Huge appetite for investments of domestic industrial enterprises, as well as expansion of full-cycle production of machines and equipment were the main contributors to 1.4-time increase in engineering imports, in value term, as compared to 2006. The domestic demand for surface transport boosted 1.6-time rise in imports that made up 47 per cent of the total growth of engineering imports.

In 2007, value of imported mineral products grew by 31.7 per cent, as compared to 2006, mainly due to rise in prices for imported natural gas by 37.0 per cent, and so did import of petroleum derivative (increased by 24.1 per cent), coal (1.6 times) and coke (1.9 times).

From the geographic point of view, in 2007, a share of imports from CIS countries continued to go down (up to 41.1 per cent as compared to 43.1 per cent in 2006), whereas the European and Asian countries, as well as America increased their imports to Ukraine by 36.6, 46.3 and 52.5 per cent, respectively.

Services

In 2007, both export and import of services grew almost at the same rate (by 25.4 and 25.1 per cent, respectively). Export balance of services reached USD 2.7 billion, by 26.8 per cent more than that in 2006.

Revenues

The deficit of revenues rose by 22.9 per cent as compared with 2006 and amounted to USD 2.1 billion, as a result of 3-time increase in bank payments of interest on debt securities, and a 2.5-time increase in payments of interest on loans, as well as growing payments of dividends on foreign direct investments.

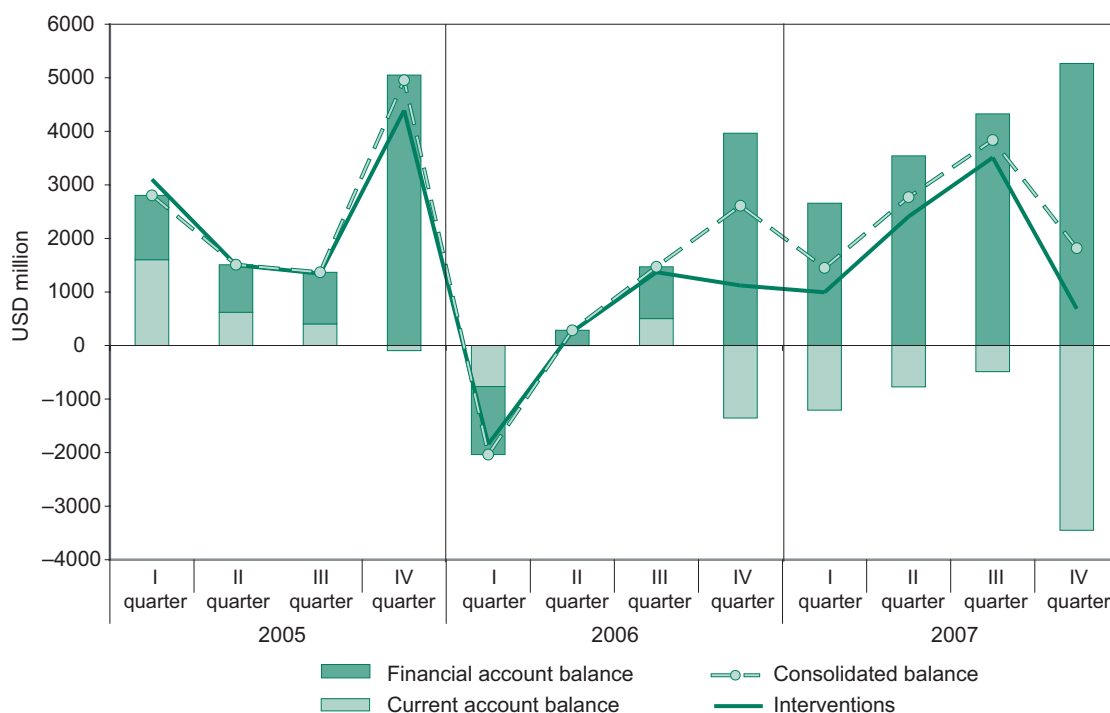
Current transfers

Positive balance of current transfers for 2007 showed an increase by 28.4 per cent in comparison with the previous year and accounted for USD 4.1 billion. A 1.4-time increase in money transfers of employees working abroad and from private transfers was the main factor to promote a growth of transfers received by the residents of Ukraine.

Financial account

In 2007, the financial surplus net of reserves totaled USD 15.8 billion (against USD 3.9 billion, in 2006).

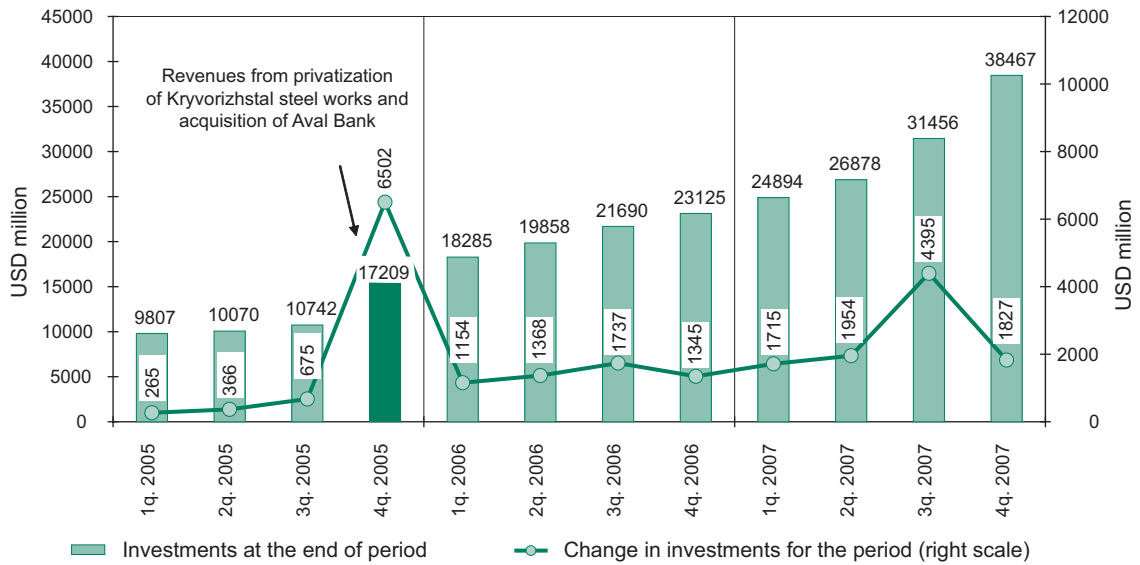
Dynamics of BOP current account balance, financial account and interventions of the National Bank of Ukraine



Direct investments

In 2007, with enhancing investment attractiveness of Ukraine a net inflow of foreign direct investments in Ukraine's economy reached USD 9.2 billion (6.6 per cent of GDP) and exceeded the level of the previous year 1.6 times first ever in the history Ukraine's balance of payment.

Direct investments in Ukraine's economy



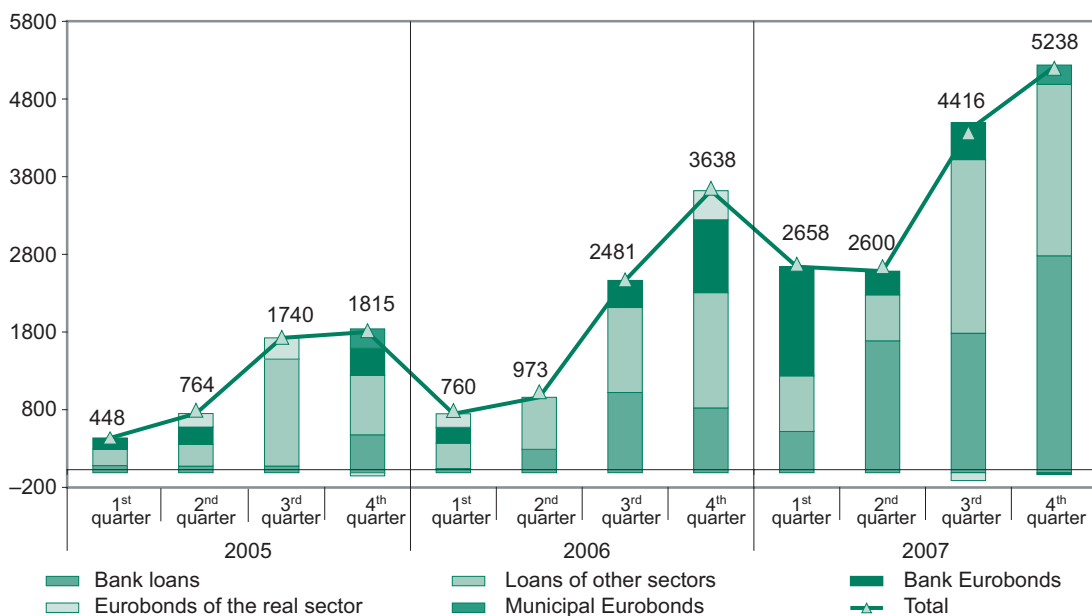
The financial sector was the most attractive for capital investments, as 37.9 per cent of the total funds were invested in Ukraine's economy through merger and acquisition of Ukrainian banks by non-residents. Investments in the construction industry and real estate operations showed a sufficient rise (1.9 and 2.5 times, respectively), as well.

As of December 31, 2007, the cumulative direct investments in Ukraine amounted to USD 38.5 billion. From the beginning of the year, the total foreign direct investments per capita became larger 1.7 times and reached USD 830.

Medium- and long-term notes and Eurobonds

In 2007, the net borrowings on middle- and long-term notes and Eurobonds totaled USD 14.9 billion or 1.9 times more than in the previous year.

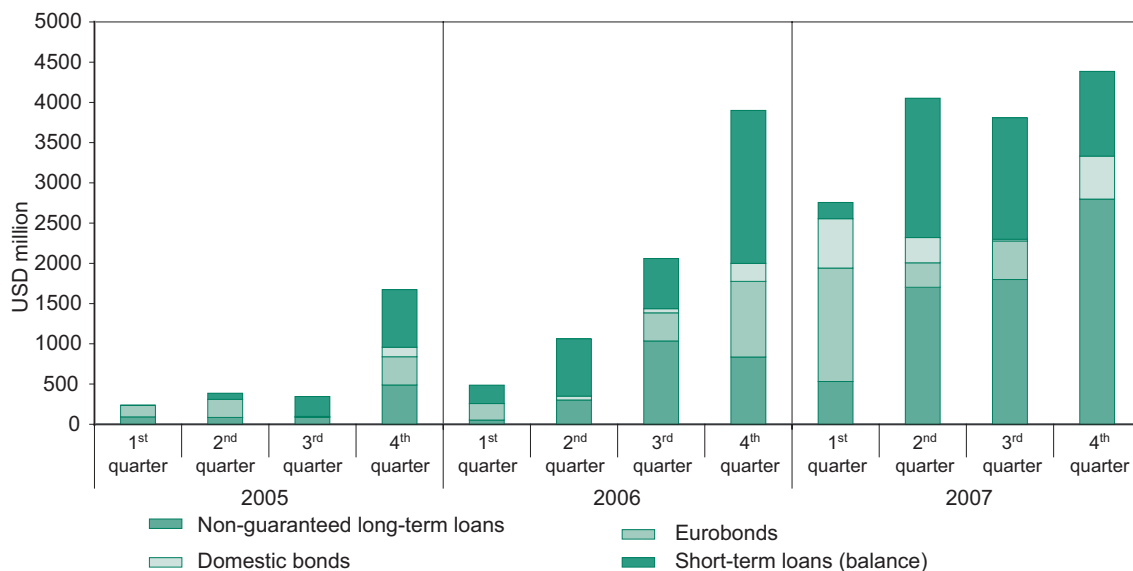
Net borrowings from medium- and long-term non-guaranteed notes and Eurobonds



In 2007, the banking sector dominated in receiving loans on foreign markets, its share in the net loans making up 60.4 per cent (versus 47.4 per cent, in 2006). The net bank long-term loans and Eurobonds grew 2.4 times in comparison with 2006.

In 2007, net borrowings of the real sector grew 1.6 times and made up USD 5.8 billion (including USD 4.5 billion, in the 2nd half).

Net borrowings of Ukraine's banking sector



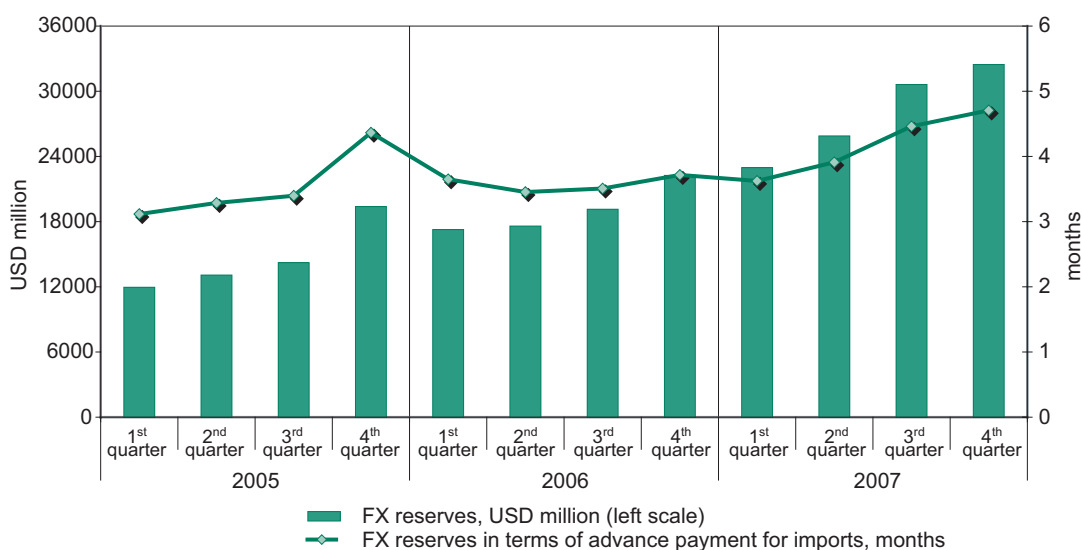
In 2007, non-residents purchased corporate bonds net worth USD 1.8 billion (against USD 349 billion, in 2006), including bank securities (87.3 per cent).

In 2007, the Ukrainian banks were eager to receive short-term loans. During the reporting year the net short-term borrowings totaled USD 4.5 billion, by one third more than in the previous year, while the total net short-term borrowings of the real sector amounted to USD 370 billion only.

Reserves

Inflow of medium- and long-term financial resources in 2007 made it possible to even a growing current account deficit and to increase Ukraine's reserves by USD 9 billion (in 2006, the reserves rose by USD 2 billion). The total reserves, as of January 1, 2008, came to USD 32.5 billion that helped to finance import of goods and services in advance for 4.7 months.

Foreign exchange reserves



1.3.2. Gross External Debt of Ukraine

As of January 1, 2008, Ukraine's gross external debt amounted to USD 84.5 billion (60.2 per cent of GDP), by 55.0 per cent more than in the previous year. The gross external debt growth was mainly driven by a 2.2-time increase in the banking sector liabilities up to USD 31 billion or 22.0 per cent of GDP; at the same time, in other sectors of the economy the liabilities added 44.1 per cent and amounted to USD 38.4 billion or 27.3 per cent of GDP.

A ratio of Ukraine's gross external debt to export of goods and services, as of January 1, 2008, made up 132.1 per cent (against 108.5 per cent as of January 1, 2007).

Loans and credits were dominating instruments of borrowings on foreign markets, their share in the gross external debt ascending from 56.4 up to 59.9 per cent, in 2007. Other components of gross external debt were debt securities (19.5 per cent) and trade credits (15.7 per cent).

The maturity structure of the gross external debt since the beginning of 2004 has been tending towards a gradual increase in the share of long-term debt from 62.1 per cent, as of January 1, 2004, to 73.1 per cent, as of January 1, 2008.

In 2007, the long-term external debt rose by 57.2 per cent and, as of January 1, 2008, amounted to USD 61.8 billion (44 per cent of GDP), 75.5 per cent of them being liabilities of banking and other sectors of the economy, the rest being government and central bank liabilities.

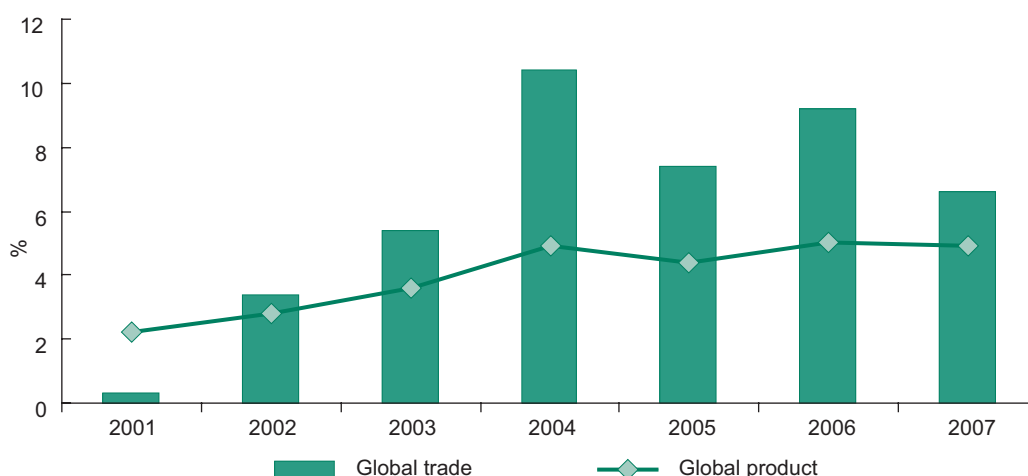
During the reporting year the short-term external debt rose by 49.5 per cent and reached USD 22.7 billion or 16.2 per cent of GDP, the short-term debt coverage ratio accounting for 1.428 at the end of 2007 against 1.463 at the beginning of 2007 (as of January 1, 2006, it was equal to 1.772).

The currency debt structure in 2007 remained almost the same as previously, as a share of liabilities denominated in USD made up 79.4 per cent (by 0.6 percentage points higher than at the beginning of the year), that of Euro-denominated liabilities 11.2 per cent, that of hryvnia-denominated liabilities 4.2 per cent, a share of liabilities denominated in Russian rubles and Swiss francs 2 per cent each. Other currencies had insufficient share in the structure of gross external debt.

1.4 THE WORLD ECONOMY AND INTERNATIONAL MARKETS SURVEY

In 2007, the rate of the world economy growth remained at a high level (4.9 per cent, by the IMF estimate). Favorable dynamics of five last years continued to ascend with developing countries and emerging markets being involved.

Dynamics of global trade and economic growth



In 2007, the economic growth essentially retarded in the USA (up to 2.2 per cent in 2007, 3.2 per cent in average throughout the period of 2004–2006), less essentially in Japan (up to 2.1 per cent in 2007, 2.4 per cent in 2006.) and in the European area (up to 2.7 from 2.9 per cent, respectively). Impact of slowing down of the USA economic development and global financial instability on the world economy development was especially noticeable in the fourth quarter of 2007.

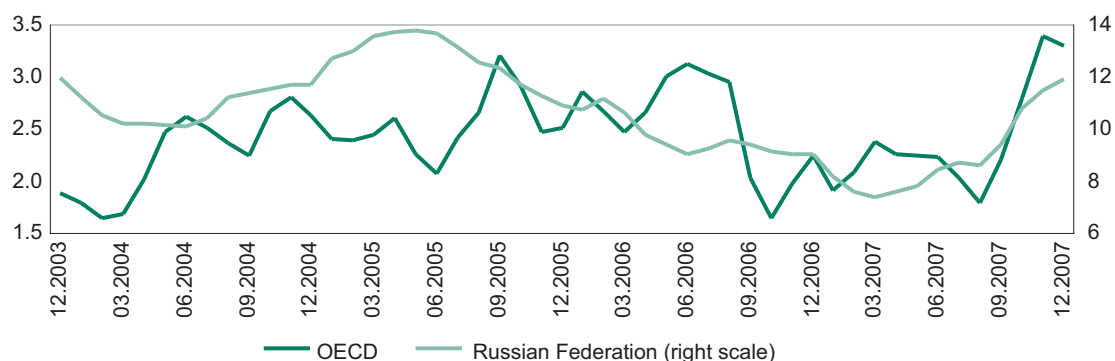
At the same time, the world economy growth was sustained due to emerging the new market economies. In 2007, China demonstrated the highest increase in the real GDP during 13 past years which amounted to 11.4 per cent. Starting in 2000, Russia's economic growth was also the highest (by 8.1 per cent). Contribution of new market economies in the world GDP grew. By the IMF estimate, only Russia, China and India achieved half the real growth of the world GDP in 2007. Throughout the CIS countries the average real GDP grew by 9 per cent against 8 per cent in 2006.

In 2007, the rate of the world commodity trade slowed down (up to 6.6 from 9.4 per cent in 2006). It brought rate of the world trade growth closer almost by 6 per cent to the long-term average value of this indicator for 20 last years. For the first time the retardation was observed in 2005 because of slowing down of import growth rate of advanced economies (the USA, European zone, Japan) which made up approximately 45 per cent of the world imports, and of new market economies of Asia. At the same time, the high rate of the world trade growth which twice exceeded the average annual rate of the world real GDP (3.0 per cent for 2000–2006.), remained a main supporting factor of the world economic growth.

The world average inflation in 2007 speeded up to 3.9 per cent for the year (by the IMF estimate, close to a maximum level over ten current years) under conditions of pressure because of rise in prices for the energy resources and foodstuffs. At the same time, the World Bank⁵ considers the global inflation remained low.

In the OECD countries the inflation speeded up starting with September because of a rapid rise in prices for oil and foodstuff. Alongside, the average inflation in these countries was lower in 2007 as compared to 2006 (respectively 2.4 and 2.6 per cent, by the OECD estimate). The implementation of anti-inflationary measures in the advanced economies was complicated because it was necessary also to ensure stability of the banking sector under conditions of global financial instability. This aggravated the inflationary expectations and caused rise in the value of assets used usually by investors for hedge against inflation (gold by 32 per cent per year, the highest rate since 1979). By countries group, the advanced economies contributed most to the growth of inflation in 2007. In many CIS countries inflation was the highest since 2000. In Russia, a rise in prices up to 11.9 per cent broke a tendency for a successive decline in the inflation in the previous years (11.7 per cent in 2004, 10.9 per cent in 2005, 9.0 per cent in 2006) and made it impossible to achieve a target as to inflation for 2007 (6.5–8.0 per cent).

Consumer price dynamics (annual change, %)



Sources: Federal Statistics Agency of the Russian Federation, OECD

Problems in the financial markets started since August with the USA mortgage substandard lending sector and expanded to the USA real estate market, money and credit markets, stock market and other segments of the world financial market. As a result, the abstemious financial system broke down. In the world money markets the interbank interest rates achieved a maximum relating to profitability on short-

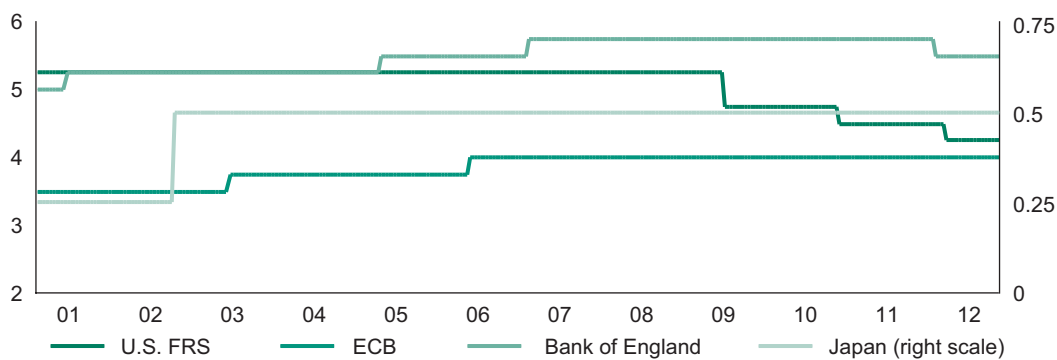
⁵ "World economic situation and prospects for economic development for 2008", World Bank, December 2007

term T-bills in the middle of 2007. The situation, to some extent, was stabilized due to the agreed measures of the central banks of advanced economies aimed at saturation of the banking system with the additional funds. On the other hand, problems in the loan markets appeared to be more serious, as lending terms became tougher that could provoke the bankruptcy of corporations with a worse financial status and low investment rating. This was considered to be one of the main risks for economic development in these countries and in the world economy. The crisis was intensified also in the real estate markets which could lead to recession in the USA.

In response to the financial market crisis and related economic risks the central banks of advanced economies focused their monetary policy on stimulating measures. For the period since the beginning of instability in the financial market the U.S. Federal Reserve System discount rate reduced by 1.5 percentage points, from 5.75 per cent annual in September of 2007 up to 4.25 per cent annual at the end of December of 2007. The discount rate of the Bank of England fell, as well.

Discount rates of leading central banks in 2007, % annual

Sources: central banks.



Problems in the world financial markets led to a lack of liquidity in the money markets of developing countries (in particular, Russia and Kazakhstan) where the external financing deficit brought the destabilization.

Devaluation of the USA dollar accelerated and its exchange rate against Euro achieved the lowest level at the end of November (nearly USD 1.50 per 1 Euro). The similar tendencies were observed on the weighted average basis (relating to the currency basket of the main trade partners). This prolonged the period of USD devaluation since 2002 more than by 35 per cent with respect to Euro, the devaluation of 2007 having a share of about 25% in the total fall. A characteristic feature of the reporting year was national currency revaluation against USD in many developing countries.

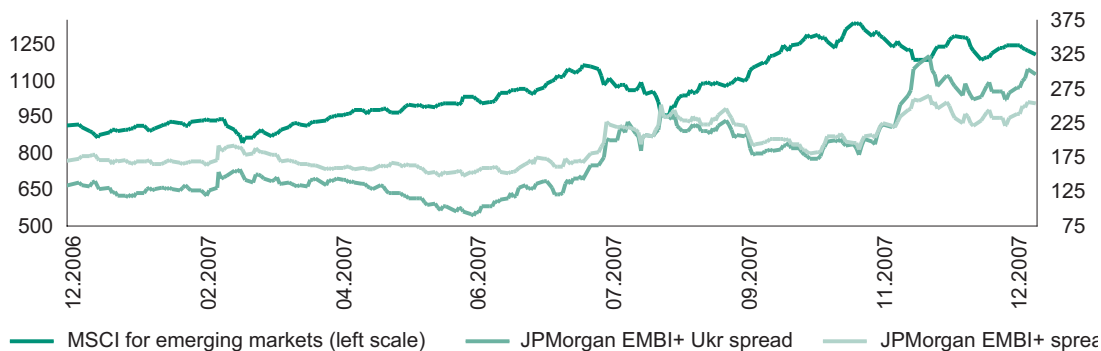
The world stock market opportunities sufficiently degraded in the fourth quarter, mainly because of a negative dynamics of benchmark indices in November and December. As of October 29, 2007, MSCI⁶ index achieved a new historic maximum (1338.5) with a subsequent drop. At the same time, as a whole, the year was successful for stock indices in emerging markets, as in 2007, it grew by 35.3 per cent; PFTS index added 135.3 per cent (the highest among this category of countries). On the other hand, the fact that risk premium (spread on Eurobonds with respect to the USA underlying assets) jumped from a minimum level of nearly 90 percentage points as of beginning of June to maximum of more than 320 percentage points at the end of November⁷ means that under unstable conditions the investors gave preference to the safe

⁶ MSCI index for emerging markets is calculated by Morgan Stanley Capital International on the basis of stock indices of 25 emerging market countries; it is an indicator of stock indices dynamics in emerging markets as a whole.

⁷ EMBI index + (Emerging Market Bond Issue +) spread is calculated by JPMorgan as a difference between profitability of liquid Eurobonds of sovereign issuers and government institutions from the emerging market countries (including Ukraine) and profitability of the USA T-bills with the same maturity.

assets being anxious about recession prospects in the USA and the world economic development downturn. At the same time, despite the fact that the risk premium at the end of 2007 achieved a peak for two recent years, as compared to historic standards, it still remained to be low. Dynamics of Eurobond spread of the Ukrainian issuers was slower than the market average since the middle of November.

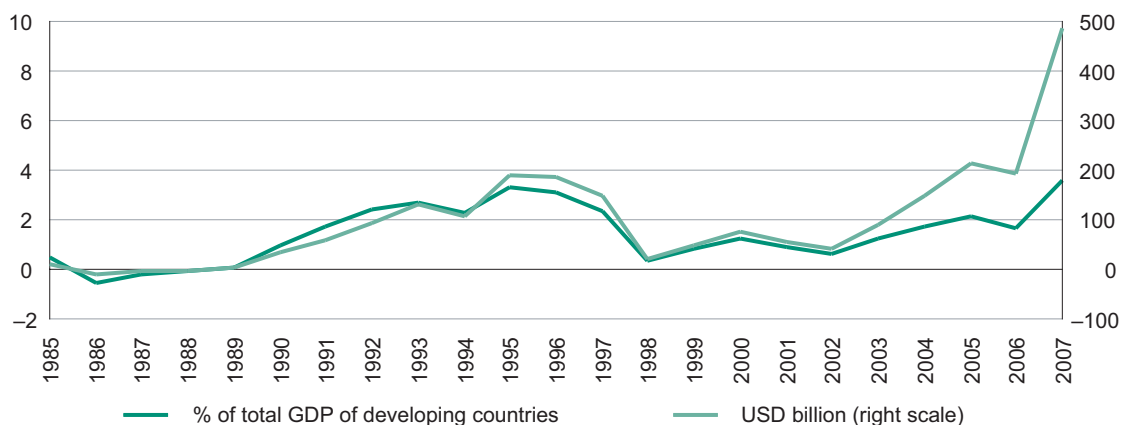
MSCI, EMBI+spread, EMBI+Ukr spread for emerging markets



Sources: Reuters, Cbonds.

On the one hand, aggravation of the situation in the world financial markets significantly slowed down the foreign capital inflow to the developing countries. The experience shows that the low world interest rates, high level of prices for raw resources and low profitability of financial assets in these countries favored a significant capital inflow to these countries. Volume of private capital earnings to the developing countries achieved a maximum level (USD 484.5 billion, by the IMF estimate) more than twice exceeding the level of 2006 (above 3.5 per cent of GDP of these countries group).

Net inflow of private equity to emerging markets and developing countries

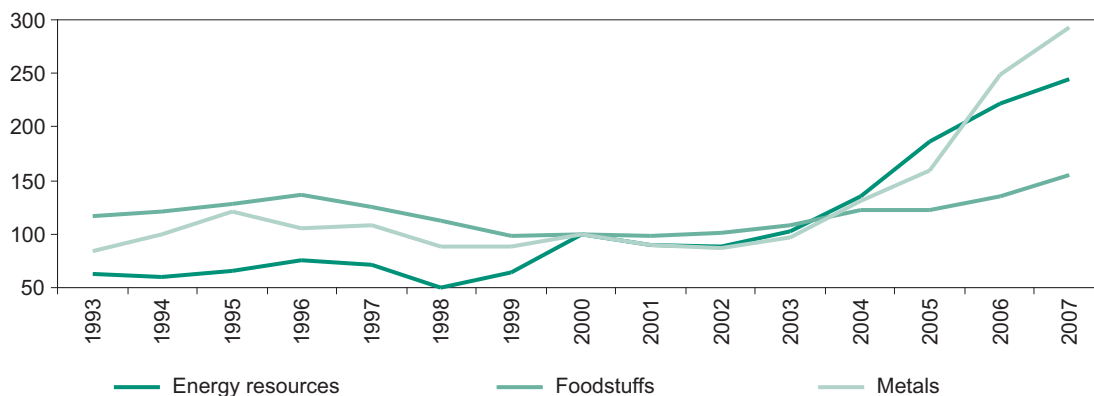


Sources: IMF.

Under conditions of US dollar devaluation a dynamic growth in the volume of the world international reserves (up to 6.4 billion by the end of 2007) was being continued. The average growth of the world international reserves speeded up from USD 30 billion in 2005 up to USD 150 billion, in 2007. The exporters of the Asian countries and the oil exporters remained the main recipients of foreign currency returns (respectively USD 3.9 billion and USD 1.2 billion). Increase in the international reserves contributed to creation of surplus liquidity in these countries since the central banks not always could fully sterilize the scale foreign currency returns.

Conditions of the world raw materials markets were marked with a general rise in prices by the basic commodity groups, including the basic products of the Ukrainian export. At the same time, one could observe a sharp rise in prices for imported oil and natural gas. Prices for basic raw resources, with the exclusion of oil, rose in dollar equivalent by 15 per cent per year. Price index for minerals, ore and metals increased during the year more than by 10 per cent, and for steel by 10.2 per cent in average. According to the year results, among the foodstuffs prices for the wheat rose most, by 70 per cent (a maximum level for 12 recent years). Increase of price for WTI oil amounted to 59 per cent from the beginning of the year, the highest annual growth for 8 recent years (a maximum level – USD 99.29 per 1 barrel as of November 21, 2007).

Dinamics of prices for food and raw materials, index, 2000 = 100



The world countries face a complex of galloping problems and under conditions of multi-point world economy it is important to treat these problems comprehensively, taking into consideration the cross-boundary cooperation. Overcoming of crisis after-effects in the financial markets and taking the respective measures to maintain the economic development are pressing issues that challenge the developing countries. Increase in inflation and stunted economic growth under conditions of aggravating opportunities in the external financial and trade markets remain the main problems of the developing countries.

Section 2
ACTIVITIES OF THE
NATIONAL BANK OF UKRAINE

2.1. MONETARY POLICY

2.1.1. Implementation of the Monetary Policy Guidelines in 2007. Main Instruments of the Money and Credit Market Regulation

Implementation of the monetary policy of the National Bank of Ukraine in 2007 was directed towards achieving the aims and tasks determined by the Monetary Policy Guidelines for 2007.

Stability in the money and credit market has been ensured, trust in the monetary unit and banking system has been preserved, and stability of the exchange rate of hryvnia against the US dollar has been maintained.

The Monetary Policy Guidelines for 2007 envisaged the increase in the monetary base by 21–26%, the money supply by 28–33%, the exchange rate of hryvnia against the US dollar (average for the period) – UAH 4.95–5.25 per USD 1.

In 2007, the main factor of expanding the money supply over the predictive level was a significant growth of socially directed payments through adoption in the reporting year of the amendments to the Law of Ukraine "On the State Budget of Ukraine for 2007". Moreover, a part of the increases planned earlier were brought nearer in time. Due to the accelerated income growth, the population became a solvent customer of banks. Thus, high rates of the population's crediting were attributed to not a soft monetary policy but to the expansive social policy.

By the results of 2007, the monetary base increased by 46.0% up to UAH 141.9 billion, the money supply – by 51.7% up to UAH 396.2 billion, the exchange rate of hryvnia against the US dollar remained unchanged – UAH 5.05 per USD 1.

To ensure the fulfillment of the Monetary Policy Guidelines for 2007 the National Bank of Ukraine used a wide spectrum of appropriate monetary instruments and mechanisms.

Required reserves

Taking into account the factors that influenced the situation in the money and credit market, during 2007, the National Bank of Ukraine deliberately used restrictive measures.

During 2007, the ratios for forming by banks of required reserves and the level of required reserves to be kept daily at the day start on the correspondent account with the National Bank of Ukraine were unchangeable. As at 1 January, 2008, the ratios of required reserves to be formed by banks were as follows:

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

The required reserve funds to be kept daily by a day start on a bank's correspondent account with the National Bank of Ukraine, were imposed at the level of not less than 100% of the amount of the specified and formed required reserves for the previous reporting period of reserving.

With due account of the inflationary process strengthening in the 4th quarter of 2007, and in order to restrain the inflationary pressure and to prevent accumulation of risks, formation of disbalances in the financial sphere, from 20 November, 2007, the list of banks' liabilities, being subject to reserve requirement, was enlarged by the funds attracted from banks-nonresidents and financial organizations – nonresidents.

By the results of the decisions taken, in 2007, the average calculated ratio of required reserves amounted to 2.1%, or increased from 2.1% in January to 2.4% in December (for 2006 it was 4.3% and decreased from 6.8% in January to 2.1% in December).

During 2007, the required reserves, formed by the banking system, augmented, at that their volume in January 2007 amounted to UAH 4.2 billion, and in December 2007 – UAH 9.7 billion. During the year, the average balances of funds on the banks' correspondent accounts ranged from UAH 13.2 to 20.7 billion.

Interest rates

During 2007, the interest rate policy of the National Bank of Ukraine was carried out adequately to the situation in the money and credit market. With due regard for a certain reduction of the inflationary processes in January–April 2007, as well as a necessity to strengthen the interest rate policy role in regulation of the money and credit market, promotion of more efficient direction of the resources by banks to crediting of the real sector of the economy and to support of further economic growth, since 1 June 2007, the National Bank of Ukraine diminished the discount rate from 8.5% to 8.0% per annum.

In order to decrease the monetary pressure on prices, in the 4th quarter of 2007, the National Bank of Ukraine ensured the interest rates on active operations of the National Bank of Ukraine at a positive level as regards the inflation; it also activated the work on attracting the banks' funds (including through the deposit certificates).

The average weighted interest rate on all refinancing instruments during 2007 augmented from 8.6% annually in January to 14.6% annually in December, i.e. by 6.0 percentage points, including on:

- overnight credits – by 4.5 percentage points (from 10.5% annually in January to 15.0% annually in December);
- refinance credits, extended by tender results – by 4.0 percentage points (from 10.5% annually in February to 14.5% annually in December).

The average weighted interest rate on all the instruments of refinancing secured by the property rights to the funds of a bank deposit placed with the National Bank of Ukraine amounted to 8.3% annually (in 2006 – 8.5% annually).

In general, for the year, the average weighted interest rate on all instruments of refinancing of the banks decreased by 1.4 percentage points and amounted to 10.1% annually (for 2006 – 11.5% annually).

Refinancing of banks

During 2007, the National Bank of Ukraine has been ensuring the support of banks' liquidity by provision of overnight credits through the permanently acting refinancing line and of refinance credits for the term of up to 14 days and up to 365 days, as well as refinance credits under the pledge of property rights to the funds of a bank's deposit placed with the National Bank of Ukraine.

Taking into consideration a high liquidity level of the banking system, the demand for refinance credits was low in 2007. The total credits for banks' refinancing in 2007 amounted to UAH 2.5 billion (in 2006 – UAH 8.3 billion). At that, through the mechanism of the permanently acting credit line for refinancing, the National Bank of Ukraine extended the overnight credits to the amount of UAH 431.6 million, or 17.1% of the total refinancing (in 2006 – UAH 5.6 billion, or 66.9%), refinance credits through the tender – UAH 1 969.1 million, or 78.0% (in 2006 – UAH 1007.5 million, or 12.2%), refinance credits under the pledge of property rights to a bank deposit placed with the National Bank of Ukraine – UAH 123.0 million, or 4.9% of the total refinancing (in 2006 – UAH 14.95 million, or 0.3%). For this period, the banks repaid the credits of refinancing to the total amount of UAH 2.1 billion (in 2006 – UAH 7.6 billion).

Deposit operations

For the purpose of optimizing the banks' liquidity and ensuring the equilibrium in supply of the money funds and demand for them, during 2007, the National Bank of Ukraine has been performing the deposit operations with banks through the placement of deposit certificates of the National Bank of Ukraine. Moreover, the agreements with banks were signed with regards the bank deposit placed

with the National Bank of Ukraine, the property rights to which were given as a security of refinance credits. In 2007, the total volume of the operations on mobilization of the banks' funds made up UAH 109.8 billion (in 2006 – UAH 6.8 billion).

During 2007, announced were 119 tenders where the deposit certificates at the nominal value of UAH 1 000 thousand were placed to the total amount of UAH 109 649.0 million (in 2006 – UAH 610 million). The interest rates on the funds attracted through deposit certificates was set in accordance with the general situation in the money and credit market with due regard for the interest rates on credits and deposits in the interbank market. The average weighted interest rate on deposit certificates in 2007 was 0.7% annually (in 2006 – 0.95% annually).

The funds of the bank deposit placed with the National Bank of Ukraine and whose property rights were given as security of refinance credits totaled UAH 124.5 million (in 2006 – UAH 15.0 million), and the average weighted interest rate was at the level of 6.6% annually (in 2006 – 6.8% annually).

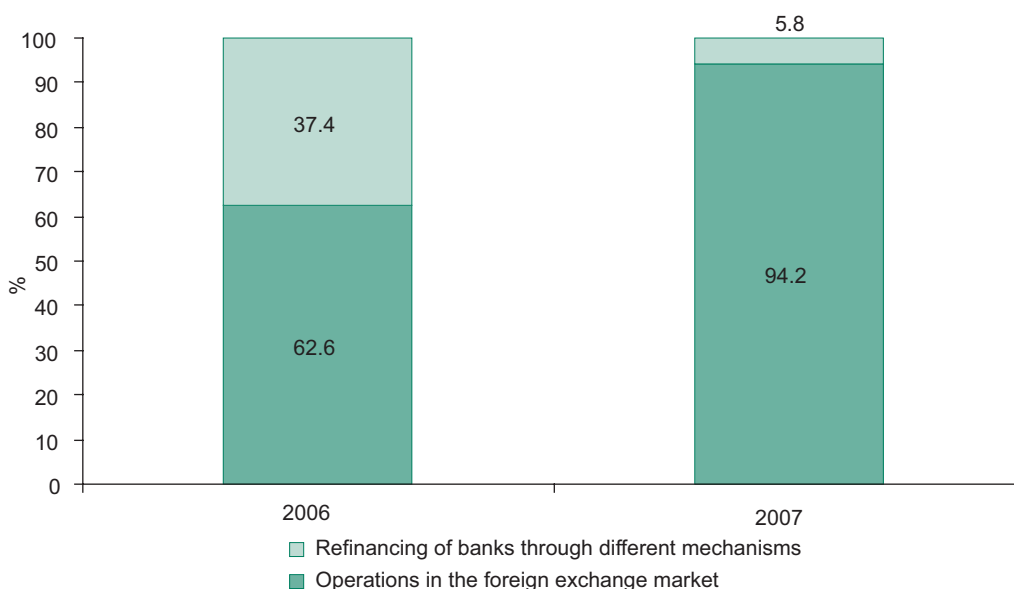
With the aim of regulating the banks' liquidity, in 2007, the advanced repayment of deposit certificates to the amount of UAH 2 630 million was carried out.

2.1.2. Non-cash emission by the National Bank of Ukraine

During 2007, the National Bank of Ukraine issued into circulation the funds totaling UAH 43.9 billion, that is UAH 21.6 billion, or nearly 2.0 times more, than in 2006, including:

- UAH 41.4 billion to acquire the foreign currency in the interbank market for forming the international reserves of the National Bank of Ukraine (in 2006 – UAH 13.9 billion), that amounted to 94.2% of the non-cash emission;
- UAH 2.5 billion to support the banks' liquidity through different refinancing mechanisms (in 2006 – UAH 8.3 billion), that amounted to 5.8% of the non-cash emission.

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



Within the structure of the non-cash emission, made by the National Bank of Ukraine, in 2007, the share of funds directed to the banks' liquidity support diminished by 31.6 percentage points due to the banks' free liquidity available over the 2nd half of the year.

In 2007, the emission funds totaling UAH 4.1 billion, or 5.0 times less than in 2006, were withdrawn from circulation by the National Bank of Ukraine. The emission funds withdrawing was carried out by way of the repayment by banks of the refinance credits, extended earlier, to the amount of UAH

2.1 billion (52.3% of the total sum of the funds withdrawn), the sale of foreign currency by the National Bank of Ukraine to the amount of UAH 1.9 billion (47.6%), as well as at the expense of operations on repayment of the external government loan securities worth UAH 5 million (0.1%).

Net non-cash emission (difference between the funds put in circulation and those withdrawn from circulation) in 2007 equaled UAH 39.8 billion and was by UAH 38.2 billion, or nearly 25 times more than in 2006.

As at 1 January 2008, the non-cash emission of the National Bank of Ukraine accounted for UAH 142.8 billion, that is by UAH 39.8 billion, or by 38.6% more than as at 1 January 2007.

2.1.3. Money Circulation

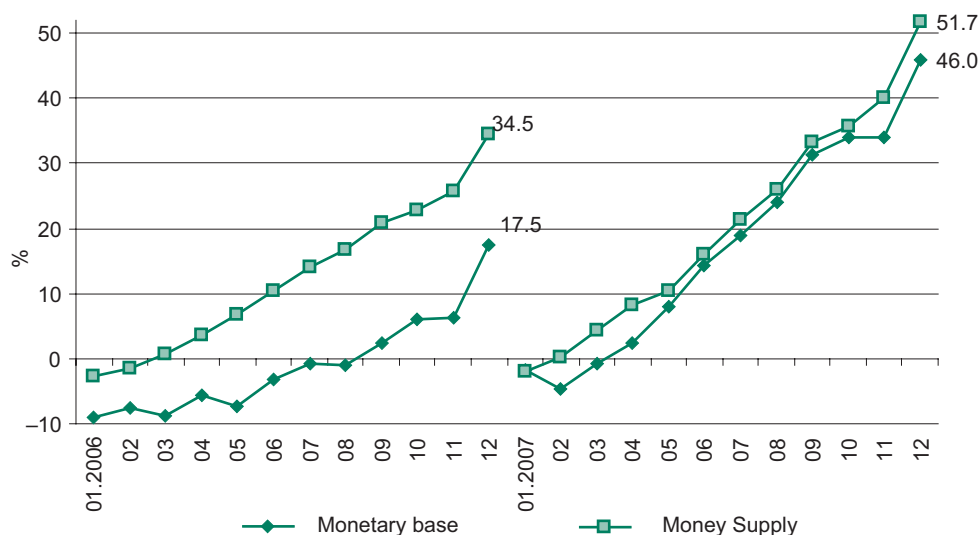
As at 1 January 2008, the monetary base equaled UAH 141.9 billion and augmented for 2007 by 46.0% (in 2006 – by 17.5%), including the money outside the banks – by 48.2%, reserve funds of banks – by 37.9%.

In 2007, during most of the year, a special feature was an increase in the banks' reserve funds due to attraction of significant funds in the external financial markets, foreign currency interventions by the National Bank of Ukraine and the households' deposit enlargement.

Alongside the monetary base growth, an expansion of the money supply took also place due to the money multiplication processes. During the year, the money multiplier dynamics was uneven and characterized by the money multiplier growth in January–April from 2.68 to 2.83, by the decrease in June–October to 2.72, and by the growth in November–December to 2.79.

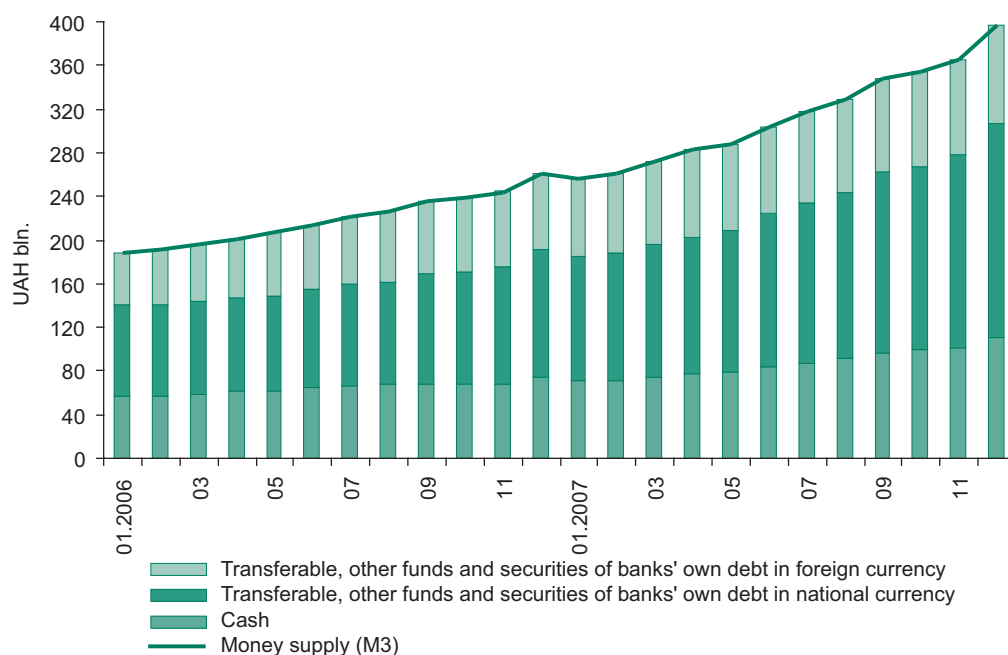
As at 1 January 2008, the money supply in circulation totaled UAH 396.2 billion and for 2007 it augmented by 51.7% (for 2006 – by 34.5%).

Dynamics of Main Monetary Indicators (to the proper year start)



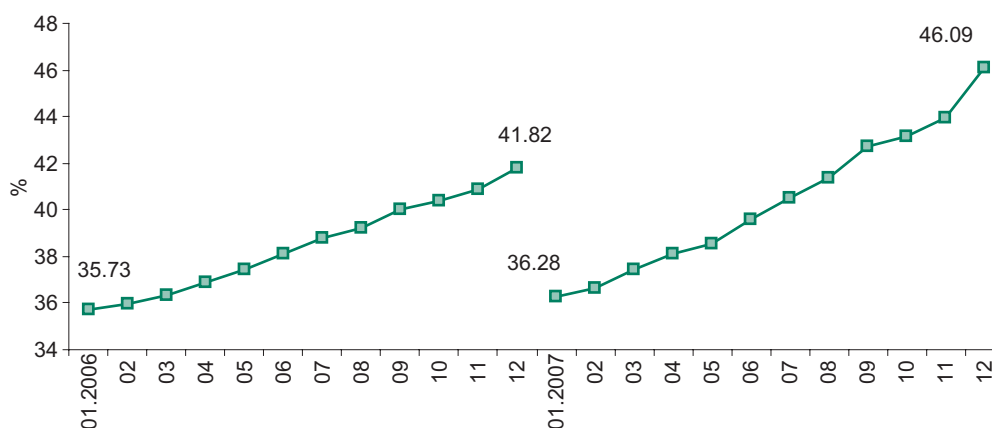
In 2007, the money supply structure within currencies changed compared with that of 2006. In 2007, the money supply in the national currency enlarged by 60.5% (in 2006 – by 28.6%), in foreign currency – by 28.1% (the previous year – by 53.8%) and amounted to UAH 306.0 and 90.2 billion, respectively. The share of money supply in the national currency, by the end of 2007, accounted for 77.2%, or grew by 4.2 percentage points.

Dynamics of Money Supply Components (by currency types)



During 2007, preserved the tendency towards the economy monetization growth that augmented for the year by 4.27 percentage point up to 46.09%.

Dynamics of Economy Monetization during 2006–2007



In the reporting year, the growth of money supply (M3) took place mainly due to the increase in its cashless portion – by 53.2%, that was by 14.2 percentage points higher compared to the previous year (by 39.0%).

As at 1 January 2008, the money outside the banks (M0) equaled UAH 111.1 billion, or grew by 48.2%, due to the augmentation in the reporting year of wage/salaries, pensions and other social payments. In 2007, positive changes in the money supply structure persisted (M3). The share of cash within the total money supply (M3) diminished by 0.7 percentage point and by the December end amounted to 28.1%.

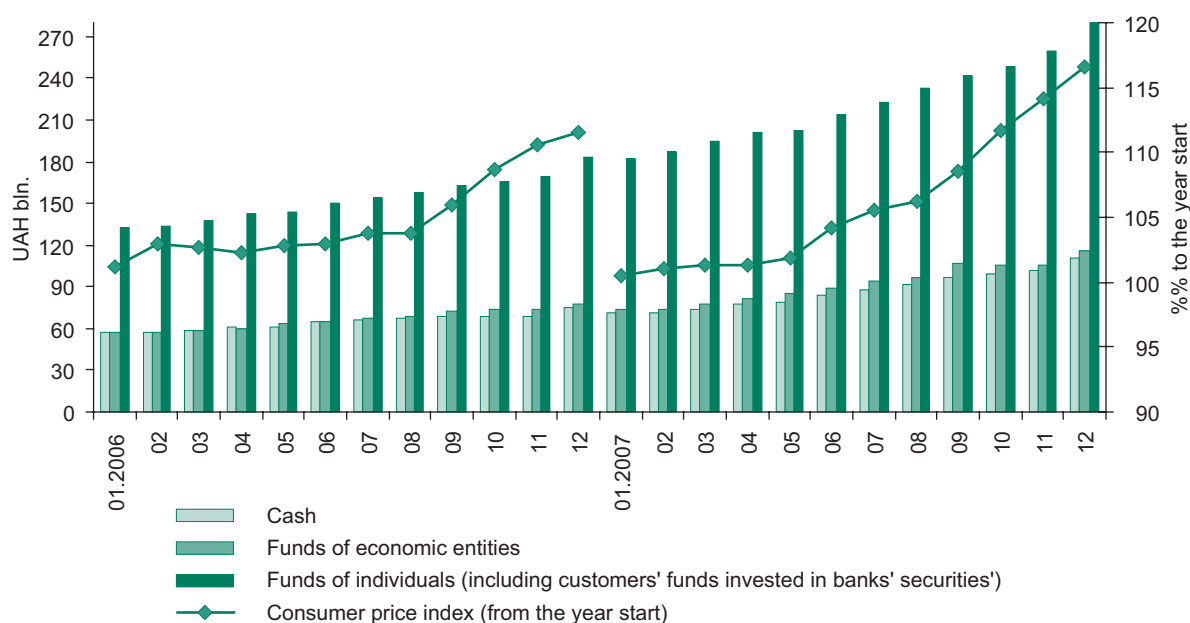
Transferable funds in the national currency as at 1 January 2007, amounted to UAH 70.5 billion and grew in 2007 by 46.1% mainly due to the increase in the individuals' funds – by 57.4%, that was somewhat favoured by the increase in the households' income receipts to the salary and social cards. In spite of a positive dynamics of augmenting the transferable funds in the national currency, their share within the total money supply as a whole for 2007 diminished by 0.7 percentage point to 17.8%.

The greatest impact on the money supply growth was on the part of operations with transferable deposits in foreign currency and other deposits.

A high rate of increase had the funds placed in the banks' securities that enlarged, in 2007, 3 times and as 1 January 2008, equaled UAH 4.9 billion. However, their share within the total money supply was not significant – 1.2%, or augmented by 0.6 percentage point for the year.

With growth in 2007 of the money supply by 51.7%, the individuals' funds (including the funds placed in banks' securities) increased by 52.8% and as at 1 January, 2008, accounted for UAH 280.5 billion. The economic entities' funds rose by 49.2% and equaled UAH 115.7 billion.

Dynamics of the Money Supply Components (by structure of allocation)



The individuals' savings amounted to UAH 164.5 billion and augmented for the year by 53.9%, including in the national currency – by 71.9%. Since the year start, the economic entities' funds were growing at a slower pace (for the year – by 49.2%).

2.1.4. Cash Circulation

As at 1 January, 2008, the cash outside the cashier's desks of the banks equalled UAH 111.1 billion and during the year it increased by UAH 36.1 billion, or by 48.2% (for 2006 – by UAH 14.7 billion, or by 24.5%). Such growth was reasoned by further increase in social payments to the population.

Concurrently, in 2007, preserved the previous years' tendency towards reduction of the share of cash within the money supply. At the same time, the level of cash concentration in circulation increased, compared to 2006, from 2.8 to 4.6%.

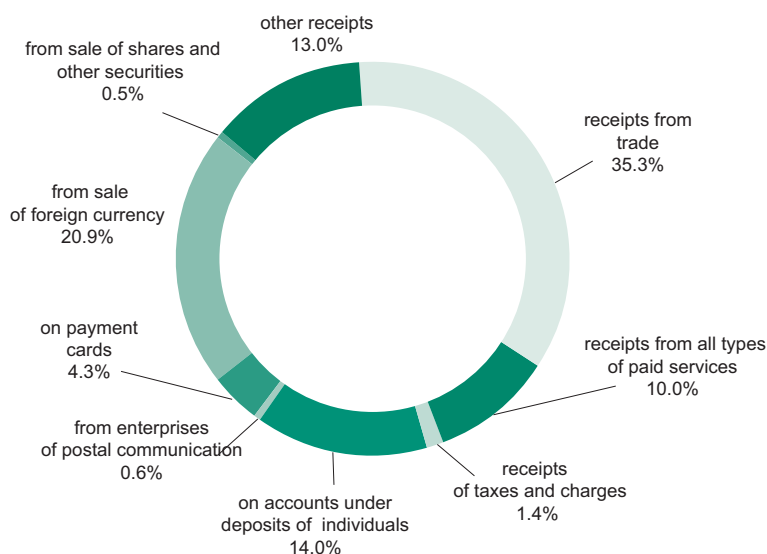
Furthermore, the growth of cash outside the banks was due to activation of the small business enterprises (trade, services sphere), individuals-entrepreneurs, that were actively using the cash money in their settlements, having regard to their activity specifics. Thus, for 2007, the sales of goods by individuals-entrepreneurs, including the sales in the organized and informal markets, totaled UAH 143.6 billion, that is more than 45% of the total sale as a whole in Ukraine (for 2006 – UAH 97.0 billion).

The formation of cash volumes outside the banks was influenced by currency exchange operations, at whose expense in 2007 withdrawn was the cash to the amount of UAH 19.9 billion, that is by UAH 1.9 billion more than in 2006.

Larger portion of regions of Ukraine (18 from 26) was bringing cash into circulation. The highest percent of cash concentration in circulation took place in the Luhansk region (27.6%), Mykolaiv region (24.5%), Kirovohrad region (23.6%), Chernihiv region (14.0%) and Donetsk region (14.0%). In eight regions UAH 19.3 billion of cash were withdrawn from circulation.

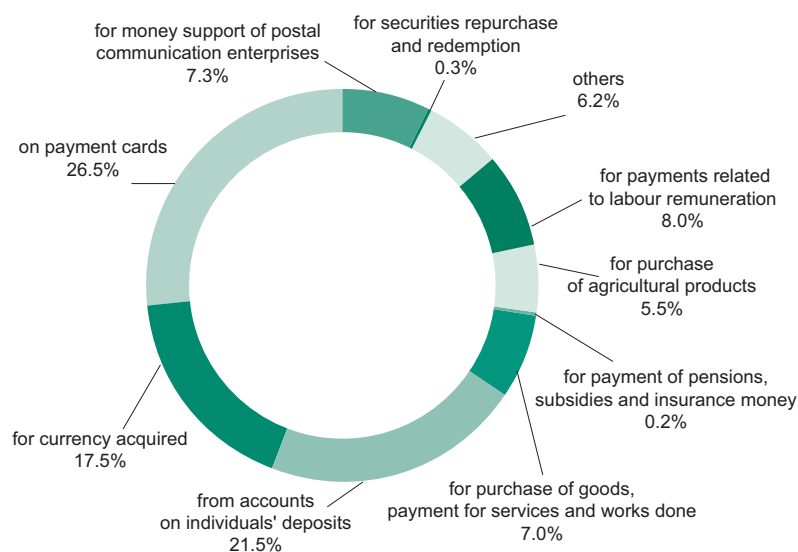
Under conditions of growing the incomes of population, the tendency towards increase had both the issue of cash from the cashiers' desks and its return to them. At that, in 2007, the issue of cash from the cashier's desks of banks exceeded its return, causing the additional cash issue to the amount of UAH 36.1 billion.

Structure of Cash Receipts to Banks' Cashier's Desks in 2007



In 2007, the cash returns to the cashiers' desks amounted to UAH 754.5 billion and grew compared to 2006 by UAH 244.8 billion, or by 48.0%. Within the returns to the cashiers' desks of banks, 45.3% were receipts from the trade network enterprises and the enterprises providing all the paid services, whose receipts, compared to 2006, increased by UAH 82.1 billion, or by 31.6%. Moreover, increased the receipts on the exchange of foreign currency (by UAH 59.7 billion, or by 60.8%), incomings to the accounts under the individuals' deposits (by UAH 48.2 billion, or by 83.6%), as well as on the payment cards (by UAH 16.9 billion, or 2.1 times).

Structure of Cash Issues from Cashier's Desks of Banks in 2007



The issues of cash from the cashiers' desks of banks of Ukraine for 2007 totalled UAH 790.7 billion and augmented, compared to 2006, by UAH 266.2 billion, or by 50.8%. The largest was the growth of payments on payment cards (by UAH 72.1 billion, or by 52.4%), from the accounts on deposits of individuals (by UAH 61.6 billion, or by 56.8%), for the acquired foreign currency (by UAH 57.8 billion, or by 72.0%). Increased the issue by banks of cash for purchase of agricultural products (by UAH 19.0 billion, or by 76.8%), as well as a for purchasing the goods and paying the services (by UAH 17.5 billion, or by 46.5%).

A positive consequence of the households' income growth in 2007 was further increase in the individuals' deposits. During the reporting year, the cash incomings on the individuals' accounts augmented by 83.6% (in 2006 – by 36.9%) and amounted to UAH 105.9 billion.

During 2007, the National Bank of Ukraine secured the needs of the economy in cash money with 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 balances of banknotes and coins in the reserve funds of the National Bank of Ukraine were carried out. The support of the regional branches in 2007 with banknotes and coins from the reserve funds totalled over UAH 53.7 billion, or by UAH 18.4 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 UAH 7.2 billion, against UAH 5.4 billion in 2006.

As at 1 January, 2008, in circulation there were 2202.3 million banknotes and 6549.3 million coins, the change and circulating ones (as at 1 January 2007 – 1771.6 and 5677.0 million pieces, respectively). By the reporting date, there were 47 banknotes per head and 134 change and circulating coins per capita of all denominations (as at 1 January, 2006, 38 pieces and 115 pieces per capita, respectively).

To maintain the proper view of the banknotes put in circulation, the worn cash has been withdrawn from circulation, in 2006, withdrawn were the worn banknotes to the amount of 771.2 million pieces against 830.5 million pieces in 2006.

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

In 2007, the bank institutions of Ukraine found out and withdrew from circulation 4.7 thousand false banknotes of the national currency (by 10% more than in 2006) for the total value of UAH 230.5 thousand (by 28.0% more compared to 2006), with a prevailing share of banknotes of 20, 50 and 100 Hryvnia denominations. It was respectively 22, 25 and 21% of the total amount of false banknotes revealed in circulation. Nearly all the false banknotes (98%) were produced with the use of reproducing equipment – in jet and laser printers.

In 2007, 925 pieces of US dollar banknotes amounting to over USD 89 thousand, 75 pieces of banknotes of the European Central Bank for the value of over EUR 12 thousand, and 352 pieces of Russian rubles for the value of over 390.5 thousand Russian rubles were acknowledged false and withdrawn from the banking system. Within the false foreign currency banknotes, USD 100 notes (94% of the total number of false US dollar banknotes), and EUR 200 notes (67% of the total number of false euro banknotes) and 1000 notes of Russian rubles. Over 92% of the false US dollar and euro banknotes withdrawn were produced by the printing technology, and 97% of Russian rubles – in the reproducing equipment.

In accordance with the approved Plan for Issuing the Commemorative and Jubilee Coins of Ukraine, in 2007, produced were 30 names of commemorative and jubilee coins (38 types) totalling over 1 million pieces, including 7 golden, 1 precious bimetal, 10 silver and 20 non-precious metal coins.

Alongside, in the reporting year, a significant activity was arranged on realizing the commemorative and jubilee coins, totalling 896.2 thousand pieces for the value of UAH 61.2 million, or 1.3 times more than in 2006.

To further improve organization of the cash circulation and to perfect the legislative and normative provision of operations with cash, in 2007, the National Bank of Ukraine approved the Instruction on Organizing the Valuables Transportation and Money Collection in the Bank Institutions of Ukraine, as well as the Regulations on Requirements with regards the Technical State and Organization of

Protection of the Premises of Banks of Ukraine. Moreover, made were amendments to the Instructions: on cash transactions in banks of Ukraine, on organizing the issue and cash work within the system of the National Bank of Ukraine, and on organizing the work with valuables in the Central Vault of the National Bank of Ukraine.

2.2. EXCHANGE RATE POLICY

2.2.1. Dynamics of the Exchange Rate of Hryvnia.

Real Effective Exchange Rate

In the reporting year, the National Bank of Ukraine further oriented to securing a predictable dynamics of the exchange rate of hryvnia that remained one of the most efficient instruments of restraining the price dynamics, and hence – maintaining a general stability of the national monetary unit.

THE OFFICIAL EXCHANGE RATE OF HRYVANIA AGAINST FOREIGN CURRENCIES

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

Rate of hryvnia against foreign currencies:	2007	For reference: 2006
– against the US dollar	505.00	505.00
nominal change (%)	0	0
real change (with respect to inflation – %)	+12.0	+8.9
– against the euro	741.946	665.09
nominal change (%)	–11.6	–11.4
real change (with respect to inflation – %)	+2.2	–1.9
– against the Russian ruble	20.579	19.179
nominal change (%)	–7.3	–9.3
real change (with respect to inflation – %)	–2.6	–6.7
<i>For reference: the consumer price index versus December of the previous year (%)</i>	116.6	111.6

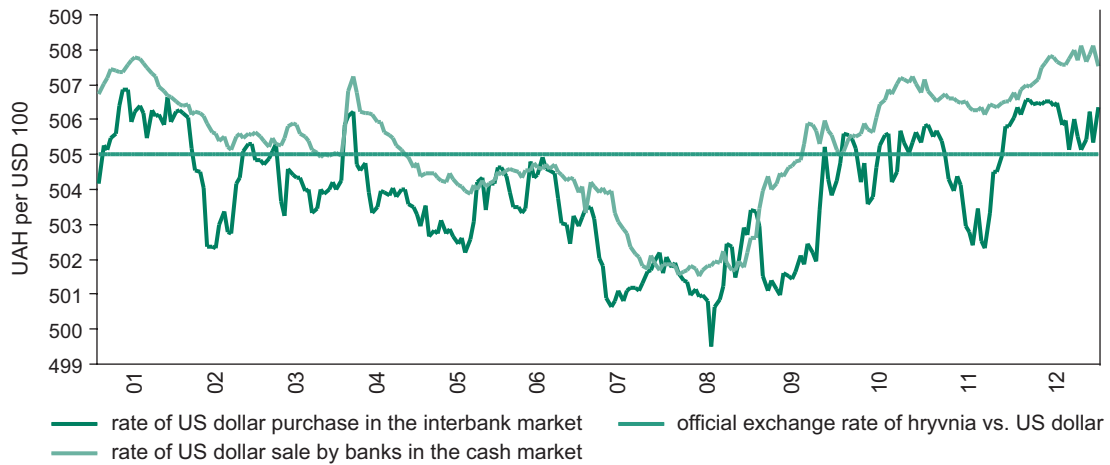
Maintaining a stable official exchange rate of the hryvnia against the US dollar (UAH 5.05 per USD 1), the National Bank of Ukraine did not resort to a rigid fixation of exchange rates that were formed in the foreign exchange market of Ukraine and reflected the changes in demand and supply. Thus, the 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 UAH 506.37 to UAH 499.52/ USD 100;
 - of selling the US dollar – from UAH 505.85 to UAH 499.42/ USD 100;
- on cash transactions:
 - of purchasing the US dollar – from UAH 504.10 to UAH 499.37/ USD 100;
 - of selling the US dollar – from UAH 507.52 to UAH 501.83/USD 100.

The dynamics of the exchange rate of hryvnia versus other world currencies mirrored the conjuncture of international markets in which the US dollar against the euro, during the reporting year, devaluated by 11.6 %. The hryvnia devaluated respectively against the euro by 11.6 %, and the Russian ruble – by 7.3 %.

When evaluating the dynamics of the exchange rate of hryvnia, it should be noted that during the last three years, a significant rise in prices for the energy carriers, as well as a cyclic growth of the political tension have been provoking not only worsening of the inflationary expectations but concurrently the excessive demand for foreign currency.

Dynamics of Exchange Rate of Hryvnia versus US dollar in 2007



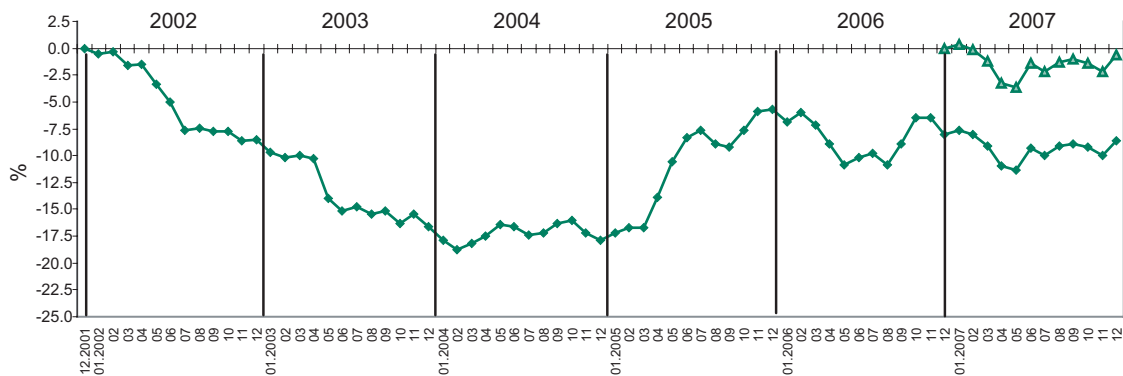
Under these conditions, the predictable dynamics of the exchange rate of hryvnia was helpful for leveling the negative market expectations, supporting a stable economic growth, investment attractiveness of the domestic economy, as well as competitive benefits of the Ukrainian producers.

Real effective exchange rate (REER)

During 2007, the REER of the hryvnia decreased by 0.6%, that permitted to support the available competitive advantages of the domestic products relative to foreign analogues both in the internal and external sale markets.

During the reporting year, the dynamics of the REER of the hryvnia was uneven. In January–May it decreased by 3.6 %, due to the nominal strengthening of currencies of the countries – main trade partners of Ukraine, as well as a lower inflation in Ukraine than in the Russian Federation, whose share remained the largest within the external trade turnover of Ukraine.

Dynamics of REER of Hryvnia in 2002–2007 (to December 2001) and in 2007 (to December 2006)



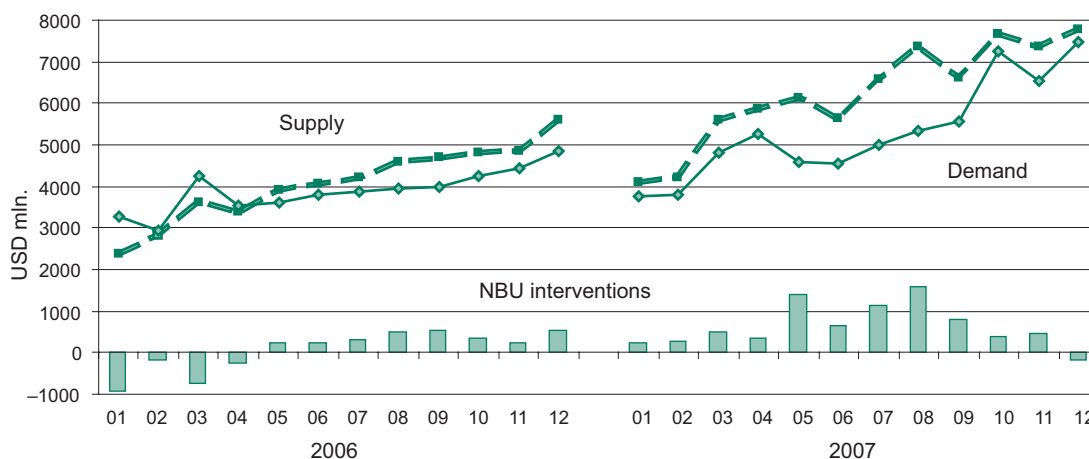
In the second half of 2007, higher inflation in Ukraine than in 25 countries – its main trade partners (except Kazakhstan), reasoned a gradual increase in the REER of the hryvnia.

A general decrease in the PEER of the hryvnia was caused by the exchange rate factor. The nominal effective exchange rate of the hryvnia diminished by 8.1 %, whereas the enlargement of the inflation gap between Ukraine and other countries (+7.5 %) contributed to the rise in the REER of the hryvnia.

2.2.2. Development of the Foreign Exchange Market of Ukraine

In 2007, the foreign exchange market of Ukraine was steadily expanding and demonstrated a stable excess of foreign currency supply over its demand – the net foreign currency supply amounted to USD 11 billion. At that, the supply of cashless foreign currency was growing at a faster pace than the demand for it (153.6 % and 137.0 %, respectively).

Indicators of Dynamics of the Interbank Foreign Exchange Market

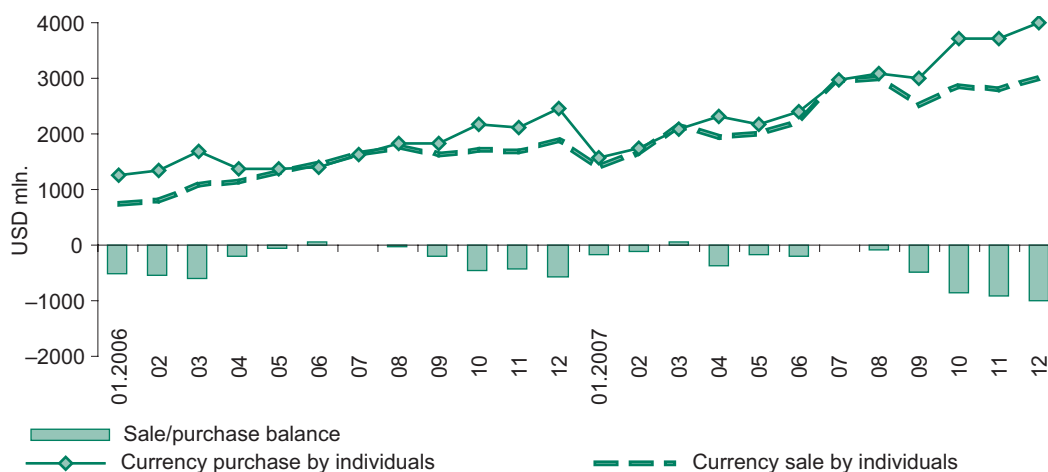


The increase in the foreign currency supply in the inter-bank market was reasoned by rise in the receipts of foreign currency that grew for the year by 42.0%. The main sources of foreign exchange incomings were earnings from exports of goods and services (45.8 %), external loans (27.5 %) and foreign investments (7.8 %).

During 2007, there was an excess of supply of foreign currency over demand for it, and the National Bank of Ukraine adjusted the exchange rate primarily through its purchase. Starting from September of the reporting year, the foreign currency demand rose and the National Bank of Ukraine significantly decreased the purchases of foreign currency in the inter-bank market. In 2007, the balance of foreign currency interventions of the National Bank of Ukraine equaled nearly USD 7.6 billion against USD 0.9 billion in 2006.

In the cash segment of the foreign exchange market, in 2007, there was the excess of demand for foreign currency that accounted for USD 4.4 billion against USD 3.6 billion in 2006. Since September of the reporting year, the accelerated growth of demand for the euros was observed, with decrease in demand for the US dollars. Seen was also the excess in supply of Russian rubles.

Dynamics of Demand and Supply of Foreign Currency in Cash in Foreign Exchange Market of Ukraine



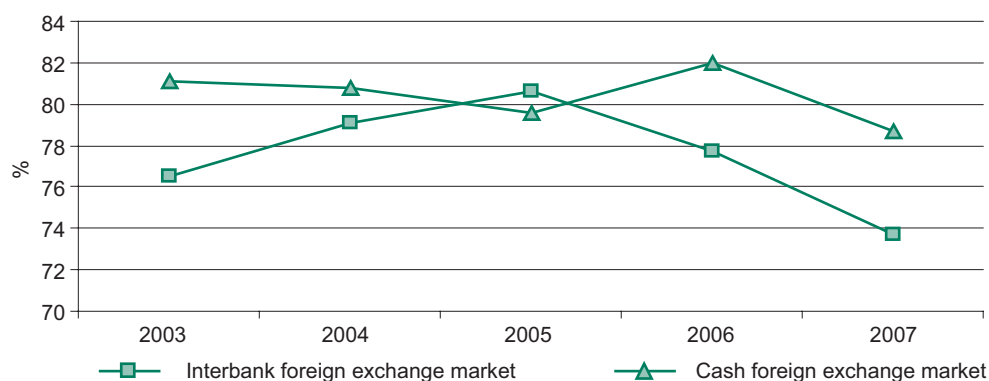
In 2007, continued the enlargement of the share of operations with cash within the structure of operations with foreign currency.

STRUCTURE OF THE FOREIGN EXCHANGE MARKET OF UKRAINE ON OPERATIONS OF FOREIGN CURRENCY PURCHASE AND SALE

Year	Non-cash market	Cash market
2003	86.5	13.5
2004	81.1	18.9
2005	78.4	21.6
2006	73.3	26.7
2007	70.8	29.2

At that, in 2007, in the cash and non-cash segments of the foreign exchange market of Ukraine there was the tendency towards the decrease in the share of transactions with US dollars and the increase in the share of transactions with euros.

The US dollar Share within Structure of Operations of Foreign Currency Purchase and Sale in the Interbank and Cash Segments of the Foreign Exchange Market of Ukraine



2.2.3. The System of Foreign Exchange Regulation

In 2007, the National Bank of Ukraine continued to improve the ratios of foreign exchange regulation related to exports and imports of capital. At the same time, the conditions for expanding the sphere of use of the national currency and raising a general demand for it were formed.

In the sphere of bank crediting, the National Bank of Ukraine supported the initiative of the European Bank for Reconstruction and Development (the EBRD) with regards the implementation by it in Ukraine of the program on financing the credit projects for Ukrainian business entities in the hryvnia.

For this purpose, amendments were made to the Regulations on Opening and Functioning the Correspondent Accounts of Banks-Residents and Non-Residents in Foreign Currency and Correspondent Accounts of Banks-Non-Residents in hryvnias. The mentioned changes enabled the EBRD to have a legal ground to extend credits to domestic residents in hryvnias through the correspondent accounts opened with the authorized banks of Ukraine that would be favourable not only to the long-term financing of the Ukrainian enterprises, but also to the lowering of their foreign exchange risks with a concurrent rise in demand for the hryvnia.

In order to create favourable conditions for implementation of strategically significant projects for the economy of Ukraine that were financed at the expense of foreign credits attracted under the government guarantees, the amendments were made to the Regulations on the Order and Conditions of Trade with Foreign Currency that enabled residents-borrowers to accumulate the target funds in foreign currency for repayment of the principal amounts of credits and for other payments related to use of the credits in foreign currency received in terms of interstate, intergovernmental agreements, and agreements under government guarantees during a period of effecting the agreements.

In 2007, implemented were the changes to the Order of Getting the Credits, Loans in Foreign Currency by Residents from Non-Residents and Extending the Loans in Foreign Currency by Residents to Non-Residents.

In order to prevent a groundless capital outflow outside Ukraine due to the payment by residents-borrowers of the excessive interest under credits and loans in foreign currency, the limits of their marginal cost were used.

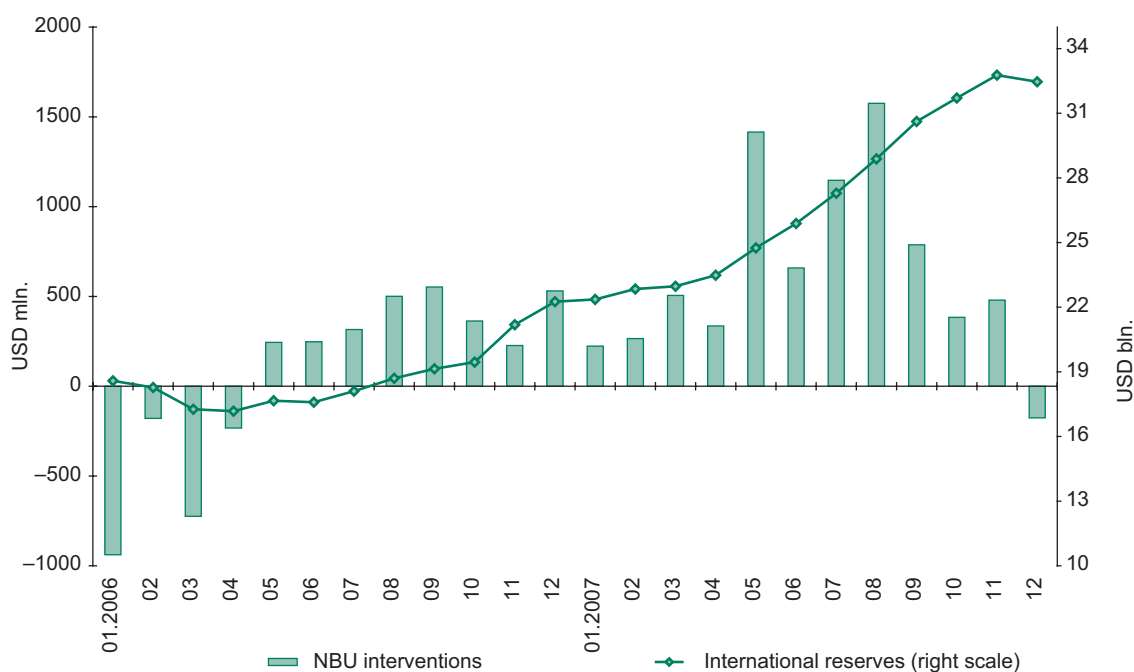
The National Bank of Ukraine also introduced, since 1 January 2008, the registration of the authorized banks' agreements on attraction of short-term external credits in foreign currency that permits to upgrade the quality of monitoring for not only the mentioned foreign exchange operations, but also the general dynamics of the gross external debt of Ukraine.

2.2.4. International Reserves

As at 1 January 2008, the international reserves amounted to USD 32.5 billion and augmented for the year by USD 10.2 billion, or by 45.9%.

The primary source of the international reserve growth were interventions of the National Bank of Ukraine that totaled in 2007 USD 7.6 billion (in dollar equivalent) versus USD 0.9 billion in 2006. The international reserve dynamics was influenced also by allocation of the external state loan bonds (USD 1.2 billion) on the part of the Government of Ukraine and by receiving the external loan by the State Service of Automobile Roads of Ukraine – USD 463 million.

International Reserves and Interventions of the National Bank of Ukraine



An additional factor of the international reserve growth was the yield obtained from the international reserve management that in 2007 amounted to USD 1410 million.

The main aim of the international reserve management was ensuring an optimum relationship of the levels of international reserve security, liquidity and yield that should provide the fulfilment by the National Bank of Ukraine of its functions in accordance with the effective law of Ukraine.

In the reporting year, the National Bank of Ukraine carried out the international reserve management in line with "The Investment Declaration of the Gold and Currency Reserve of the National Bank of Ukraine for 2007" to get an additional yield.

In 2007, the international reserves were kept on the accounts of banks-correspondents, as well as in the financial instruments with a long-term rating not lower than "A". The credit risk control was ensured

through establishing the credit limits on operations of the National Bank of Ukraine with banks-counteragents. The optimum foreign exchange and interest risks were provided through diversification of international reserves. In 2007, the National Bank of Ukraine further developed the network of banks-counteragents. The larger portion of the international reserves was kept in government securities of the developed countries, as well as in the banks of the USA, Switzerland and the Great Britain.

The international reserve liquidity was defined by the liquidity level of hard currencies, financial instruments or a financial market. To enlarge the assets with high liquidity, the share of securities was increased.

In the process of managing the international reserves the National Bank of Ukraine used primarily financial instruments in the form of short-term deposits and securities.

In 2007, continued the increase in the share of securities within the international reserve structure. Thus the share of the total securities portfolio augmented from 38% to 47%.

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

The total yield on transactions of the international reserve management for 2007 amounted to 5.3%.

In the reporting year, the international reserve growth was accompanied by timely repayment and servicing of the external state debt whose respective payments accounted for USD 1.7 billion (USD 1.2 billion – by the Government of Ukraine and USD 466 million – by the National Bank of Ukraine).

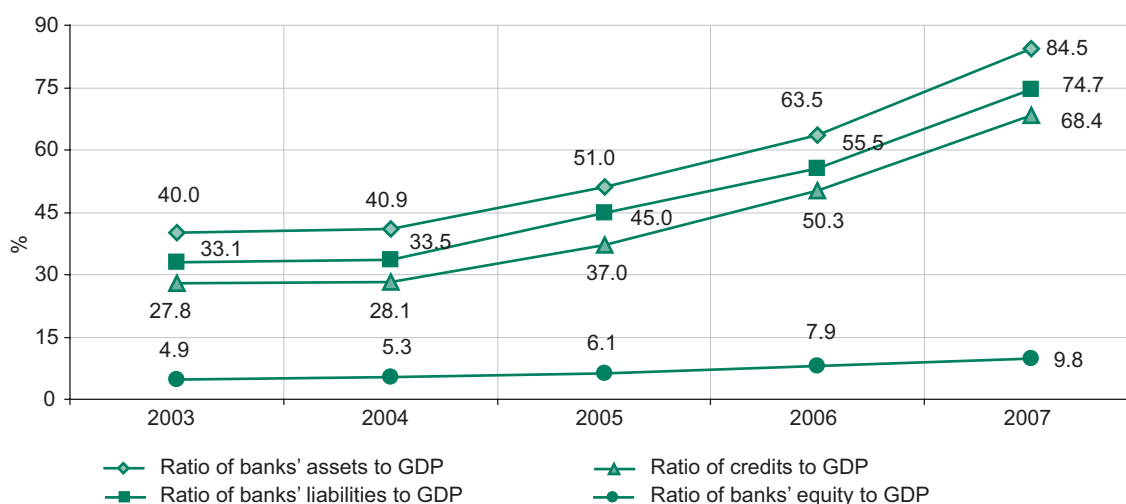
2.3. DEVELOPMENT OF THE BANKING SECTOR OF UKRAINE

2.3.1. Indicators of Activities of the Banks of Ukraine

In 2007, a dynamical development of the banking sector of Ukraine continued due to the inflow of direct foreign investments, expansion of internal consumer and investment demand, further arrangement of the households' deposit guaranteeing system, etc.

The banking sector development in 2007 was characterized by an increase in the ratio of the banks' assets to the GDP that as at 1 January, 2008, amounted to 84.5% (as at 1 January, 2007 – 63.5%), the loans to the GDP – 68.4% (as at 1 January, 2007 – 50.3%), the liabilities to the GDP – 74.7% (as at 1 January, 2007 – 55.5%).

Key Indicators of Activities of Banks of Ukraine



For 2007, the total assets of banks of Ukraine augmented by 75.3% (for 2006 – by 58.3%) and at the year end equaled UAH 619.0 billion. Within the structure of the assets as at 1 January, 2008, the share of credits amounted to 78.4% (as at 1 January, 2007 – 76.4%), highly liquid assets – 10.3% (as at 1 January, 2007 – 12.7%), investments in securities – 4.6% (as at 1 January, 2007 – 4.1%), fixed assets and intangi-

ble assets – 4.5% (as at 1 January, 2007 – 5.3%), other assets – 2.2% (as at 1 January, 2007 – 1.5%).

The assets growth was primarily due to the significant increase in the indebtedness under the credits extended, whose increment for this period accounted for 80.0% against 72.5% in 2006.

For 2007, the total liabilities of banks augmented by 78.0% (for 2006 – by 57.9%) and at the year end equaled UAH 529.8 billion. Within the banks' liabilities, the share of funds attracted to the accounts of individuals as at 1 January, 2008, made up 30.9% (as at 1 January, 2007 – 35.6%), the economic entities – 21.1% (as at 1 January, 2007 – 25.8%). The share of credits received from other banks amounted to 29.1% (as at 1 January, 2007 – 22.8%), own debt securities – 3.7% (as at 1 January, 2007 – 2.1%), the credits received from international and other financial organizations – 3.7% (as at 1 January, 2007 – 2.8%), funds of nonfinancial institutions – 2.7% (as at 1 January, 2007 – 2.5%), balances of funds on other banks' correspondent accounts – 2.4% (as at 1 January, 2007 – 2.5%), subordinated debt – 1.5% (as at 1 January, 2007 – 1.6%), other liabilities – 4.9% (as at 1 January, 2007 – 4.3%).

In 2007, banks of Ukraine significantly increased the issue of debt securities to enlarge the volume of credits and operations with securities. For this period, the State Commission on Securities and Stock Market of Ukraine registered the banks' bonds totaling UAH 19.6 billion (for 2006 – UAH 5.0 billion).

The equity capital of banks of Ukraine for 2007 grew by 63.5% (for 2006 – by 67.2%). As at 1 January, 2008, the share of banks' capital in liabilities made up 11.6% (as at 1 January, 2007 – 12.5%).

A considerable growth rate of the capital of banks of Ukraine in 2007 raised their capitalization level. For the year, the ratio of the banks' capital to the GDP increased by 1.9 percentage point to 9.8%.

Within the equity capital structure, as at 1 January, 2008, a portion of the paid-in registered statutory capital amounted to 61.6% (as at 1 January, 2007 – 61.7%), the revaluation result of fixed assets, intangible assets and investments in associated and subsidiary companies – 11.8% (as at 1 January, 2007 – 12.8%), general reserves, funds and other funds of a bank – 9.7% (as at 1 January, 2007 – 11.0%), the current year result – 9.5% (as at 1 January, 2007 – 9.7%), issue differences – 4.6% (as at 1 January, 2007 – 2.8%), the portion of the previous years' result and the reporting year's results expecting the approval – 2.4% (as at 1 January, 2007 – 1.7%), dividends, directed to the enlargement of the statutory capital – 0.4% (as at 1 January, 2007 – 0.3%).

The foreign capital in the registered statutory capital of banks of Ukraine for the year augmented more than 2 times and as at 1 January, 2008, accounted for UAH 15.1 billion (as at 1 January, 2007 – UAH 7.4 billion). The portion of the foreign capital in the registered statutory capital of banks of Ukraine respectively increased to 35.0% as at 1 January, 2008, or by 7.4 percentage points.

The regulatory capital of the banks of Ukraine rose for 2007 by 75.6% to UAH 72.3 billion (EUR 9.7 billion). At that, the capital adequacy of the banking sector as at 1 January, 2008, amounted to 13.92% (as at 1 January, 2007 – 14.19%).

The number of banks with the regulatory capital of over EUR 20 million, for 2007, enlarged from 56 to 72 banks, and their share within the total quantity of acting banks as at 1 January, 2008, grew from 33.1% to 41.1%.

In line with the decision of the Commission of the National Bank of Ukraine on the Supervision and Regulation of Activities of Banks of Ukraine of 25 December, 2006, the limit assets for the groups of banks for 2007 were as follows: group I (assets of over UAH 5000 million), group II (assets of over UAH 2000 million), group III (assets of over UAH 700 million), group IV (assets of lower UAH 700 million).

CONCENTRATION OF ASSETS, CAPITAL AND LIABILITIES BY GROUPS OF BANKS

(in %)

Group	Assets		Equity Capital		Liabilities	
	01.01.2007	01.01.2008	01.01.2007	01.01.2008	01.01.2007	01.01.2008
Group I	62.2	64.8	54.0	57.2	63.4	65.8
Group II	19.1	17.2	16.7	16.8	19.4	17.2
Group III	8.6	10.2	10.7	12.9	8.3	9.9
Group IV	10.1	7.8	18.6	13.1	8.9	7.1

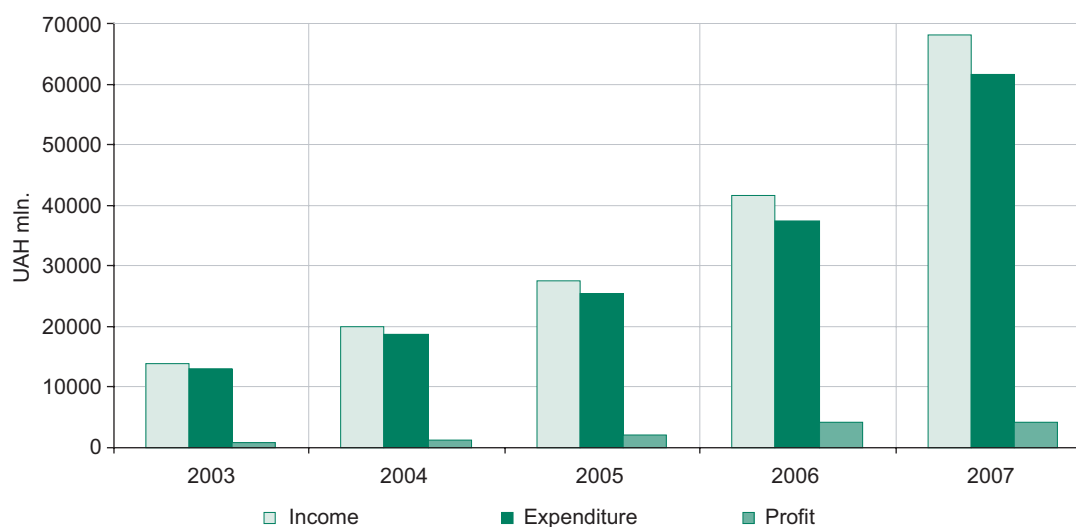
In 2007, continued the process of concentration of assets, capital and liabilities in the banks of I group,

where, as at 1 January, 2008, 64.8% of the assets of banks of Ukraine, 57.2% of the capital and 65.8% of the total liabilities (including in the market of the individuals' deposits – 68.7%) were concentrated.

The income of the banks of Ukraine as at 1 January, 2008, amounted to UAH 68.2 billion, or grew for the year by 63.7%

During 2007, within the structure of the banks' income, augmented the share of interest income (to 74.6% from 72.7% as at 1 January, 2007) and other operational incomes (to 2.3% from 1.9% as at 1 January, 2007) with reduction of the share of commission income (to 18.3 from 20.0% as at 1 January, 2007) and the trade operations result (to 4.3 from 4.9% as at 1 January, 2007).

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



In 2007, compared to the previous year, the expenditures of banks of Ukraine increased by 64.2% and as at 1 January, 2008, equaled UAH 61.6 billion.

For 2007, within the general expenditures of banks, the share of interest expenses enlarged from 44.2% to 46.5% as at 1 January, 2008, commission expenses – from 2.0% to 2.3% and other operational expenses – from 5.1% to 5.5%, with decrease in the general administrative expenses from 32.4% as at 1 January, 2007 to 30.6% as at 1 January, 2008, that testifies to positive changes in the structure of banks' expenses.

The expense to income ratio of banks equalled 90.3% (for 2006 – 90.0%). The return on assets of banks for 2007 accounted for 1.50% (for 2006 – 1.61%), the return on capital – 12.67% (for 2006 – 13.52%).

CONCENTRATION OF INCOME, EXPENDITURES AND PROFIT BY GROUPS OF BANKS

(in %)

Group	Income		Expenses		Profit	
	01.01.2007	01.01.2008	01.01.2007	01.01.2008	01.01.2007	01.01.2008
Group I	63.6	64.8	63.1	63.9	68.2	73.0
Group II	16.8	15.1	16.8	15.4	16.7	12.7
Group III	9.2	11.6	9.4	11.9	7.9	8.1
Group IV	10.4	8.5	10.7	8.8	7.2	6.2

By the results of 2007, the acting banks of Ukraine got the profit that, compared to the previous year, grew by 59.7% and equaled UAH 6.6 billion (for 2006 – UAH 4.1 billion), with 73.0% of the amount secured by the profit of banks of group I.

2.3.2. Deposit Market

Ensuring of the stability of the hryvnia, high rates of the economic growth, increase in the enterprises' profit and households' income, as well as maintaining of the depositors' credibility to the banking system of Ukraine contributed to the growth of deposits in 2007.

MAIN INDICATORS OF DEVELOPMENT OF THE DEPOSIT MARKET OF UKRAINE

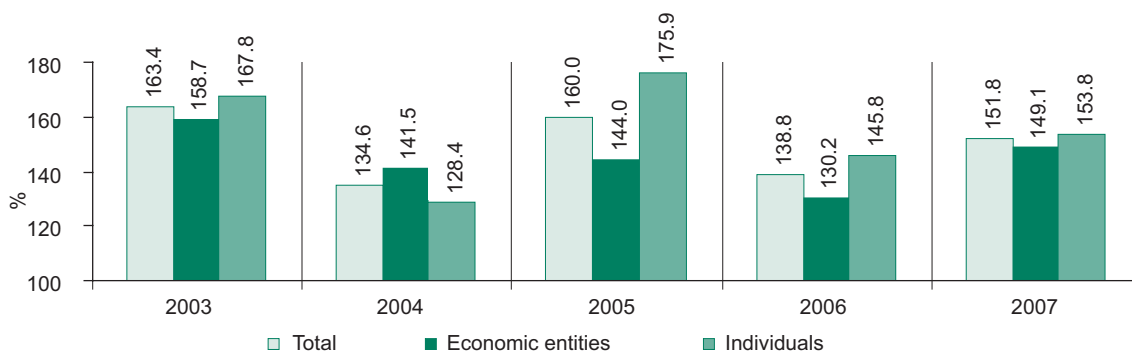
Indicators	2007				For reference: 2006			
	UAH, billion	Share, %	Growth UAH, billion	% to previous year	UAH, billion	Share, %	Growth UAH, billion	% to previous year
Liabilities, total including:	279.7	100.0	95.5	151.8	184.2	100.0	51.5	138.8
<i>By types of currencies</i>								
– In national currency	189.9	67.9	75.8	166.4	114.1	61.9	26.9	130.8
– In foreign currency	89.8	32.1	19.7	128.1	70.1	38.1	24.6	154.0
<i>By terms</i>								
– demand	92.8	33.2	30.5	149.0	62.3	33.8	11.9	123.7
– time, including:	186.9	66.8	65.0	153.3	121.9	66.2	39.5	148.0
– Long-term	129.9	69.5	49.3	161.2	80.6	66.1	29.4	157.4
<i>By categories of depositors</i>								
– for funds of economic entities	115.6	41.3	38.1	149.1	77.5	42.1	18.0	130.2
– for funds of individuals	164.1	58.7	57.4	153.8	106.7	57.9	33.5	145.8

For 2007, liabilities of banks for the funds, attracted to the banking system, rose by 51.8% (for 2006 – by 38.8%) and as at 1 January, 2008, amounted to UAH 279.7 billion. During January – September, there was a tendency towards acceleration of the growth rates (in the 1st quarter liabilities of banks on deposits went up by 5.9%, in the 2nd – by 10.3%, in the 3rd – by 15.1%), being in line with the dynamics of the economic development. In the 4th quarter, the rate of attraction by banks of deposit funds somewhat slowed down (the increase by 12.9%).

The increase in banks' liabilities for deposits in 2007 by 60.1% was ensured due to the growth of deposit funds of individuals (against 65.1% in 2006), that was reasoned by slowing-down of the enlargement of real available income of the households compared to the previous year and the increment in the expenditures of the households for consumption and servicing of the credits obtained. Moreover, the individuals started to use more widely other forms of investing the funds, in addition to bank deposits (funding of mutual investment funds, asset management companies, etc.). At the same time, during the year, continued the tendency towards the excess of the growth rates of individuals' deposits over the growth rates of cash in circulation that restrained the inflationary process development. As a result, the share of individuals' deposits within the deposit structure for the year incremented by 0.8 percentage point to 58.7% (UAH 164.1 billion).

The banks' liabilities for funds of economic entities during the reporting year augmented by 49.1%, or by UAH 38.1 billion. The largest increase in the mentioned funds was in September (in particular, at the expense of receipts on the economic entities' demand accounts in national currency) and in December (due to the enlargement of time deposits in national currency, that was a seasonal factor).

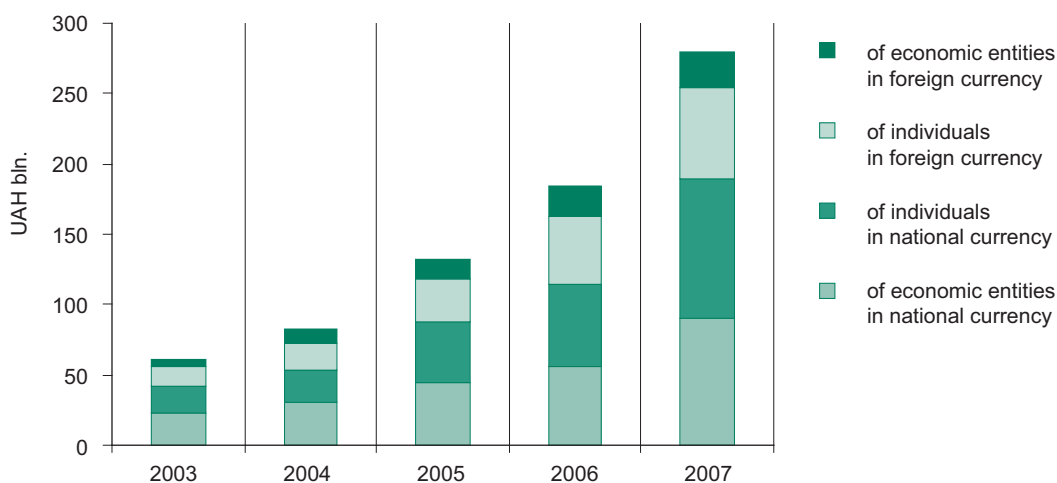
Growth Rates of Banks' Liabilities on Funds Attracted to Accounts of Economic Entities and Individuals (in % to the year start)



A peculiar feature of 2007 was the growth of the banks' deposit base primarily at the expense of funds in the national currency by all types of deposits (by 66.4% versus 28.1% in foreign currency). An absolute augmentation of deposit funds in the national currency exceeded 3.9 times their growth in foreign currency that attested the trust of depositors in the national monetary unit. The share of deposits in the national currency within the structure of deposits by types of currencies enlarged for the reporting year (contrary to 2006) from 61.9% to 67.9% that diminished respectively the dollarization level of the economy.

The prevailing growth of the individuals' deposits in the national currency was obvious during the whole reporting year, starting from February. At the same time, the households ensured 80.6% of the total increase in the deposit funds in foreign currency for 2007, mainly due to the political instability. Notwithstanding the non-uniform dynamics during the year, the economic entities' deposit funds in the national currency for the year increased by UAH 34.2 billion (or by 60.9%) versus UAH 3.8 billion (or by 18.0%) in foreign currency.

Structure of Banks' Liabilities on Attracted Funds (by types of currency)



By types of currencies, the largest amount of the economic entities' and individuals' deposits was attracted in the US dollars and euros whose shares amounted to 74.6% and 23.2%, respectively. The growth rates of deposits in the euro (172.3%) during the year exceeded the growth rates of deposits in the US dollar (117.4%) that appropriately influenced the increase in the share of deposits in the euro since the year start by 6.0 percentage points. The

main portion of the increment of the deposits in the euro (86.8%) was ensured due to the funds of individuals, whereas the payments on export-import operations of the economic entities were primarily made in the US dollars. At that, if from the year start the households preferred deposits in the US dollar, since September the households' deposits were attracted mainly in the euro. The basic factor of influencing the change in the structure of deposits by types of currencies was the fall in the exchange rate of the US dollar versus the euro that impaired the individuals' trust in the US dollar as a means of savings.

About a quarter of increase in deposits in the euro was ensured due to the exchange rate differences. However, a stable exchange rate of hryvnia against the US dollar lowered this influence on the growth rates of deposits in foreign currency.

During 2007, the improvement of structure of the banks' deposits by terms was observed. As at 1 January, 2008, the share of time deposits grew from 66.2% to 66.8%, and their volume for the year enlarged to UAH 186.9 billion (or by 53.3%). Within the time deposits, the deposits in national currency as at 1 January, 2008, amounted to 63.0% (for reference: as at 1 January, 2007 – 53.4%). The ratio of settling the funds⁹, attracted as time deposits, for the year, insignificantly improved and made up 11.7% (against 11.1% in 2006).

Structure of the Banks' Liabilities on Attracted Funds (by terms)



The time deposit growth was primarily ensured by enlargement of the individuals' deposits to UAH 126.8 billion (by 53.4%, or by UAH 44.1 billion), whose share made up 67.8%.

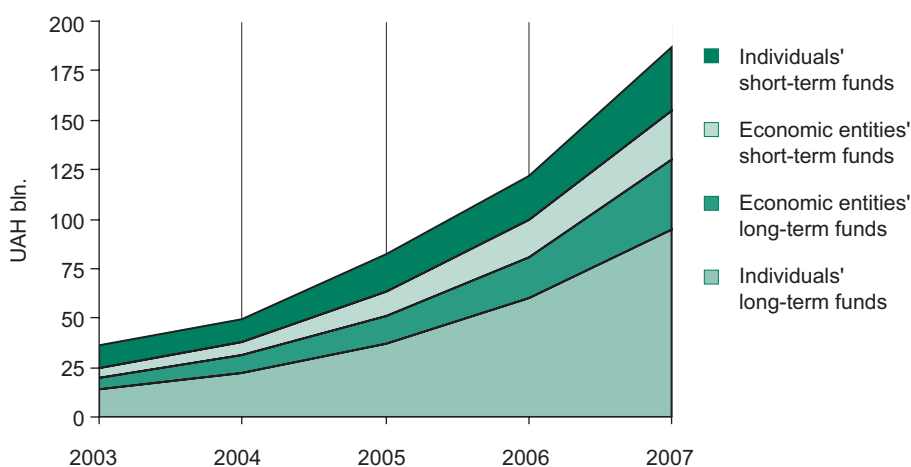
In 2007, a positive dynamics of augmenting the long-term deposit liabilities of banks preserved, with the increase for the year by 61.1% (including in the national currency – by 90.1%) and as at 1 January, 2008, amounted to UAH 129.9 billion. Long-term deposits of individuals equaled UAH 94.4 billion. Their share in the total long-term deposits equalled 72.7%. The active attraction by banks of the households' funds was contributed by the expansion of the size of the compensation amount for the individuals under deposits in case of a bank's bankruptcy in February 2007 up to UAH 25 thousand, and in August – to UAH 50 thousand. The long-term liabilities of banks on the funds in national currency attracted from the economic entities for 2007 rose 2.1 times. That was the evidence of the fact that the depositors preferred more profitable long-term deposits.

The growth of the share of long-term deposits within the total time deposits from 66.1% to 69.5% testified to the improvement of the banks' deposit liabilities structure.

Liabilities of banks under the funds attracted on the current accounts for 2007 augmented by UAH 30.5 billion (or by 49.0%), including in the national currency – by UAH 23.2 billion (or by 47.4%), and as at 1 January, 2008, made up UAH 92.8 billion.

⁹ It is calculated as a ratio of the increase in the funds balances to the funds receipts for the period.

Structure of Time Liabilities of Banks on Funds Attracted



The main component within the banks liabilities on demand funds were funds of economic entities (in spite of their share reduction by 1.6 percentage point to 59.8%). The largest increase in the balances on the economic entities' current accounts was observed during the 3rd quarter of 2007 – by UAH 11.8 billion, including in the national currency – by UAH 10.0 billion.

In 2007, the enlargement of funds on the individuals' demand accounts, compared to the previous year, accelerated nearly twice – by UAH 13.3 billion (against UAH 6.8 billion in 2006), of them by UAH 8.3 billion – due to the increase in the funds on the payment card accounts of the population, including in the national currency – by UAH 6.8 billion. The salary, pension and other social payment cards dominated within the individuals' payment card accounts. The enlargement of their use as a saving means testified to the increase in trust of the population in the payment systems. However, the level of withdrawing the funds for consumption was still rather high. Respectively, all the changes on payment card accounts during the year coincided in time with the increase in consumption expenses.

As at 1 January, 2008, traditionally, the largest portion of the banks' deposits in the national currency by types of economic activities were deposit funds of the economic entities engaged in trade (25.3% of the total amount) and in foreign currency – the funds of the economic entities of the processing industry (34.3% of the total amount).

During the year, was the increase in funds balances on the accounts of economic entities of all the types of activities. The enterprises engaged in trade, financial activity and processing had the largest money growth. In particular, a stimulatory influence on the trade development had the increase in real incomes and in crediting of the population, resulting in the growth of balances on the accounts of the trade organizations since the year start by UAH 7.4 billion (or by 37.4%).

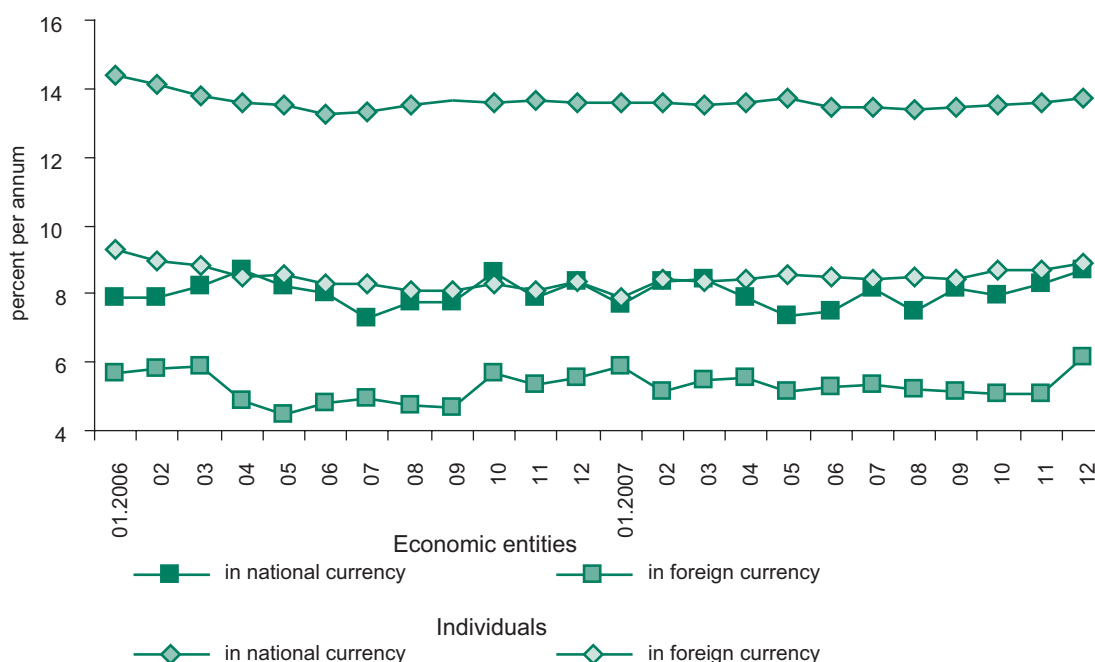
Maintaining the production volumes and rising the prices in the world markets contributed to the enlargement of foreign currency receipts on the enterprises-exporters' current accounts whose part was further directed to replenish the turnover funds in the national currency through the sale of foreign currency in the inter-bank market. This brought about the accumulation of fund balances on accounts of the enterprises of processing industry (from the year start – by UAH 6.2 billion, or by 43.7%) and of agriculture (by 82.2%, or by UAH 2.7 billion), that ensured 88.9% increase in the banks' deposit liabilities under the economic entities' funds in foreign currency.

The growth rates of fund balances on accounts of the economic entities engaged in financial activity in 2007, compared to the previous year, essentially accelerated – by 74.4%, or by UAH 6.6 billion (in 2006 – by 42.2%, or by UAH 2.6 billion). Specifically, this was favoured by the enlargement of inputs in the investment funds that attracted the depositors by higher yield compared to the bank deposits against the background of a significant inflation.

Within the regions, as at 1 January, 2008, the largest volumes of deposits were attracted by banking institutions of the town of Kyiv (41.0%), the Dnipropetrovsk region (10.0%) and the Donetsk region (8.6%). Funds of economic entities and individuals on the bank accounts in the mentioned regions amounted to 59.6% of the total deposit liabilities of banks. The major share of deposit liabilities of economic entities was in the banking institutions of the town of Kyiv (52.5%). The growth rate of liabilities on the funds attracted on the accounts of economic entities and individuals by banking institutions of the town of Kyiv, that had the largest impact on the general liabilities dynamics, for the year, accounted for 160.1%, including in the national currency – 180.5%. In all regions of Ukraine, except the Mykolaiv and Odessa regions, during the year, the prevailing growth of the deposits in the national currency was evidenced.

During 2007, noted was the increase in the cost of deposits attracted by banks (average weighted interest rate for 2007 equaled 7.2% per annum (including in the national currency – 8.2% per annum) against 6.8% per annum in 2006 (including in the national currency – 7.6% per annum). The average weighted interest rate on deposits in foreign currency was at the level of 5.8% per annum. During January – August 2007, the interest rates on deposits were at the level of the previous year. However, beginning from September, the average weighted interest rates on deposits started to go up steadily both in the national and foreign currencies. This was caused by the rise in prices of resources attracted in the external markets and was directed to the stimulation of depositors due to the upturn in inflation. During November – December, the increase in interest rates on deposits in the national currency was reasoned by enlargement of the required reserve ratio that promoted the demand for national currency on the part of the banks. As regards the time deposits, during the reporting year, observed was the rise in the average weighted interest rate on deposits of both economic entities and individuals, and primarily in foreign currency.

Dynamics of Average-Weighted Interest Rates on Time Deposits Attracted by Banks



2.3.3. Credit Market

The increase in the funds attracted by the banking system, and hence the adequate liquidity level of the banking institutions and the reduction of interest rates on credit operations contributed to rather high rates of crediting of the economy of Ukraine in 2007.

MAIN INDICATORS OF DEVELOPMENT OF THE CREDIT MARKET OF UKRAINE

Indicators	2007				For reference: 2006			
	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	426.9	100.0	181.6	174.1	245.2	100.0	101.8	171.0
<i>Including:</i>								
<i>By types of currencies</i>								
– in national currency	213.8	50.1	90.0	172.7	123.8	50.5	42.5	152.3
– in foreign currency	213.1	49.9	91.6	175.4	121.4	49.5	59.3	195.4
<i>By terms of repayment</i>								
– short-term	131.5	30.8	45.3	152.6	86.2	35.1	31.4	157.2
– long-term	295.4	69.2	136.3	185.7	159.0	64.9	70.4	179.5
<i>By category of borrowers</i>								
– to economic entities	271.4	63.6	104.7	162.8	166.7	68.0	56.8	151.7
– to individuals	155.5	36.4	76.9	197.9	78.5	32.0	45.0	2.3 times

Claims of banks under the credits extended as at 1 January, 2008, accounted for UAH 426.9 billion, having increased for 2007 by UAH 181.6 billion, or by 74.1% (the previous year – by UAH 101.8 billion, or by 71.0%). This is the highest indicator for the years of Ukraine's independence that had a positive impact on the economic growth dynamics.

Within the credit investments of banks in the economy of Ukraine, the largest were the claims under credits extended to economic entities. Due to the accelerated growth of crediting of the individuals, their share, for 2007, reduced by 4.4 percentage points to 63.6%. The share of claims under credits extended to individuals amounted to 36.4% of all the claims under credits to the economy of Ukraine.

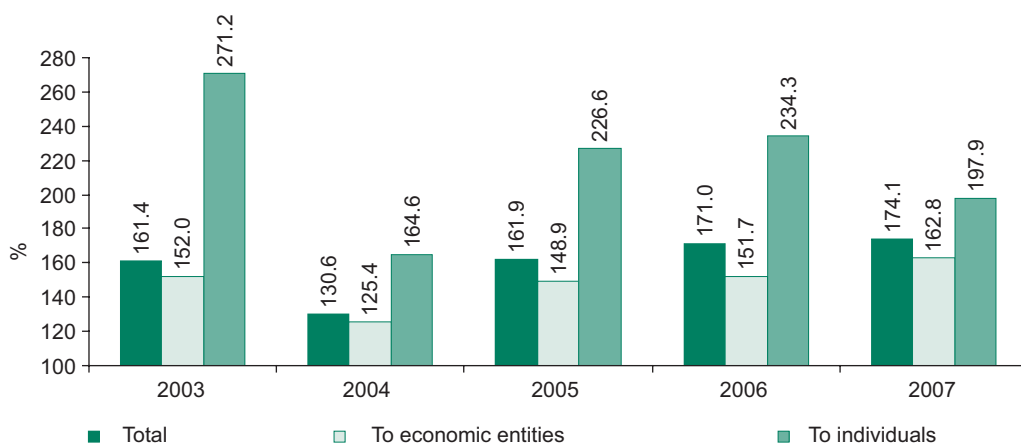
For 2007, within the credit structure the largest upward changes took place on the long-term credits in foreign currency extended to individuals (their share augmented by 3.2 percentage points), the downward changes – on the short-term credits in foreign currency extended to economic entities (by 2.0 percentage points).

The dynamics of credits extended during the year had a steady tendency towards increase in their volumes (in the 1st quarter claims under the credits enlarged by UAH 27.8 billion, or by 11.4%, in the 2nd quarter – by UAH 42.6 billion, or by 15.6%, in the 3rd quarter – by UAH 51.5 billion, or by 16.3%, and in the 4th quarter – by UAH 59.7 billion, or by 16.3%).

The rising dynamics of credits during the reporting year was essentially influenced by the significant growth rates of indebtedness under the credits extended to individuals (197.9%), due to further development of consumer and mortgage credits to households related to the rising solvency of the population.

Alongside, 57.7% of the general growth of credits to the economy of Ukraine was secured by the enlargement of the banks' claims under the credits extended to economic entities (by 62.8%, or by UAH 104.7 billion). This indicator of growth was the largest beginning from 2002 that testifies to the activation of economic activities of enterprises.

Growth Rates of the Banks' Claims under the Credits Extended (in percent to the year start)



Larger portion (UAH 213.8 billion) within the claims of banks under the credits granted was indebtedness under credits in the national currency that augmented for 2007 by 72.7%. The share of the mentioned indebtedness in the structure of credits by types of currencies reduced for the year and as at 1 January, 2008, made up 50.1%.

During 2007, the structure of the banks' claims under the credits extended was changing within currencies. Thus, in January – August, due to the intensive attraction by banks of funds from abroad, the growth rates of credit volumes in foreign currency exceeded the crediting rates in the hryvnia that caused reduction in the portion of the banks' claims in national currency within the total claims from 50.5% to 47.8%. Starting from September and till the reporting year end, the rates of credits in the national currency accelerated and exceeded the increment of the banks' claims under the credits in foreign currency with the result that the reallocation took place to the side of increasing the share of credits in foreign currency (by 2.3 percentage points).

Factors for the prevailing growth of credits in the national currency during the last four months were as follows:

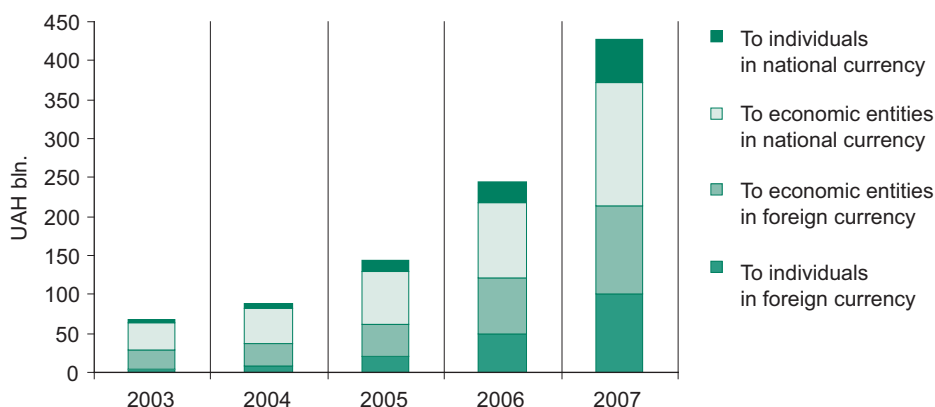
- higher growth rates of the banks' claims under deposits of economic entities and individuals in the national currency compared to those in foreign currency;
- growing prices of the credit resources received in the external market due to worsening the conditions in the world financial markets;
- actions of the National Bank of Ukraine directed to limiting the borrowings by banks of resources in the external market;
- reducing the interest rates under credits in the national currency on condition of the sufficient supply of resources in the national currency.

The credit volumes into the economy of Ukraine in the national currency were growing during the reporting year primarily due to the enlargement of credit funds extended to economic entities whose indebtedness rose for 2007 by UAH 63.4 billion, with indebtedness under the credits extended to individuals – by UAH 26.6 billion. The increment of credits in foreign currency was mainly due to the growth of appropriate credits extended to individuals (2.0 times, or by UAH 50.3 billion) as a consequence of receiving the consumer and mortgage credits by households.

Within the indebtedness under credits in foreign currency traditionally prevailed the credits granted in the US dollars and euros, whose portions as at 1 January, 2008, equaled 88.2% and 9.0%, respectively. The growth rates of credits in the US dollars (178.1%), contrary to 2006, exceeded the growth rates of the credits in euros (143.4%) that had a respective effect on the

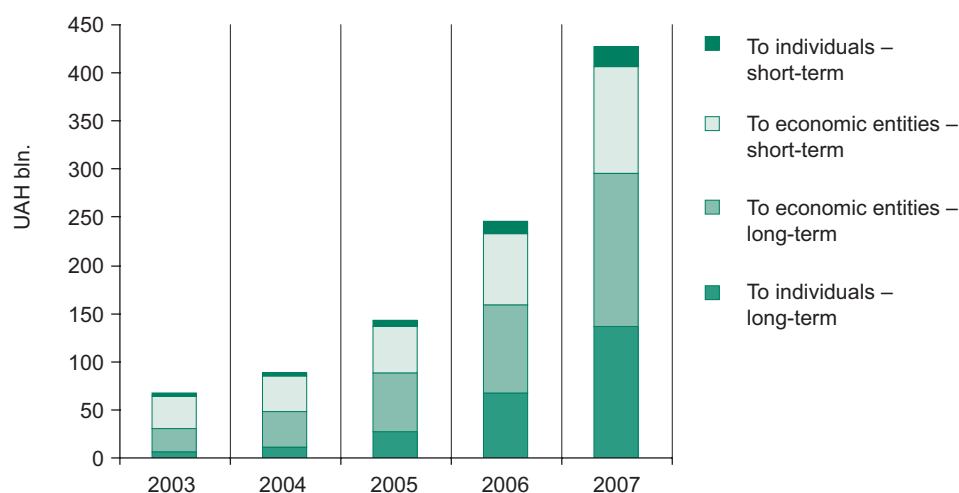
credit structure in foreign currency. The share of credits in the US dollars incremented for the reporting year by 1.3 percentage points with simultaneous reduction in the share of credits in the euros.

Structure of Banks' Claims under Credits Extended to Economy of Ukraine (by types of currency)



During 2007, continued a positive tendency towards increasing the share of long-term credits in the structure of the banks' claims under the credits granted that as at 1 January, 2008, amounted to 69.2% versus 64.9% at the year start, and the banks' claims under these credits augmented for the year up to UAH 295.4 billion, or by 85.7%, including in foreign currency – by 86.3%. An absolute increase in these claims exceeded 3.0 times the increase in the banks' claims under short-term credits.

Structure of Banks' Claims under Credits Extended to Economic Entities and Individuals (by terms)



Taking into consideration that the growth rates of long-term credits to individuals (2.0 times) were significantly higher compared to the growth rates of crediting the economic entities (by 72.9%), the increase in the long-term credit volumes had a consumer direction rather than an investment one. Thus, as at 1 January, 2008, the banks' claims under long-term credits extended to individuals made up UAH 135.9 billion, 70.2% of which were claims under the credits for buying cars, home appliances, etc. and 29.8% – the banks' claims under mortgage credits. During 2007, the mentioned types of credits were growing slower (2.0 times under every type),

than in the previous year (2.3 and 2.9 times, respectively), that, to some extent, was due to saturation of the market with goods and high prices of real estate.

In view of the fact that a significant amount of credits received was used by the individuals for buying the durable goods of foreign production, the dynamic growth of long-term credits still largely supported the economies of other countries.

The banks' claims under short-term credits during the reporting period were growing at lower rates – by 52.6% (or by UAH 45.3 billion), including in the national currency – by 58.3% or by UAH 35.1 billion). Indebtedness of economic entities under credits for the period of up to one year increased for 2007 by 50.4%, including in the national currency – by 56.1%. The banks' claims under short-term credits extended to individuals augmented for this period by 66.3%, including in the national currency – by 71.1%.

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, 2008, totalled UAH 332.2 billion, or increased since the year start by 70.1%. The portion of these credits within the total claims was permanently decreasing and for the year reduced by 1.8 percentage points up to 77.8%.

In 2007, continued the increase in the credits for the investment activity of economic entities and individuals, though at a slower pace (by 89.5%), than in the previous two years (for 2006 – 2.2 times, for 2005 – 2.7 times), due to the rising comparing base from year to year (in the nominal terms they grew more than in 2005 and 2006). The portion of these credits in the total claims of banks under credits in the economy for 2007 augmented from 20.4% to 22.2%. A major part of these credits (71.4%) were the credits in foreign currency, claims under which for the year rose by 83.5% up to UAH 36.9 billion.

Over half (51.7%) of the claims of banks under the credits, directed to the investment purposes, constituted the mortgage credits. Within the banks' claims under the credits extended to the economy of Ukraine, the share of mortgage credits during 2007 augmented by 1.2 percentage points and as at 1 January, 2008, made up 12.2%, 78.1% of which were credits in foreign currency. Indebtedness under the mortgage credits for this period grew 1.9 times. The portion of mortgage credits to individuals within the total claims under mortgage credits amounted to 78.0%, 85.5% of them were credits in foreign currency.

In 2007, the banks activated operations of financial leasing whose volumes for 2007 enlarged by 76.1% compared to 27.3% for 2006. Though, their share within the claims under credits to the economy of Ukraine was quite insignificant (0.1%).

By the results of 2007, the structure of credits extended by banking institutions to economic entities by the types of economic activities testified to the prevailing credit direction to those activity types that have been steadily developing and securing timely repayments of the credits. The largest were indebtedness volumes under the credits extended to economic entities of trade and processing industry. Their shares as at 1 January, 2008, amounted to respectively 37.7% and 23.9% of the total claims under the credits to economic entities that appropriately influenced the growth of the gross value added of the mentioned types of economic activity. The mentioned shares reduced compared to the previous year respectively by 0.5 and 2.9 percentage points.

During the last five months of the reporting year, the portion of credits directed to agriculture, hunting and forestry was steadily decreasing (from 7.2% in July to 6.1% in December), that was caused to some extent by reduction in the production volumes by agricultural producers.

Due to the keen demand, in 2007, essentially enlarged the banks' claims under the credits extended to enterprises for operations with immovables (2.2 times) and for construction (2.0 times) with the result that their share within the claims under credits to economic entities augmented respectively by 2.8 and 1.5 percentage points to 10.8% and 7.8%.

In 2007, the quality of the banking institutions' credit portfolio somewhat improved. The growth rates of indebtedness under the overdue and doubtful credits amounted to 150.5% and were lower than the increment of the total credits to the economy of Ukraine – 174.1%. Their

portion in the total claims of banks under credits extended to economic entities and individuals, compared to 2006, reduced by 0.2 percentage points to 1.7%.

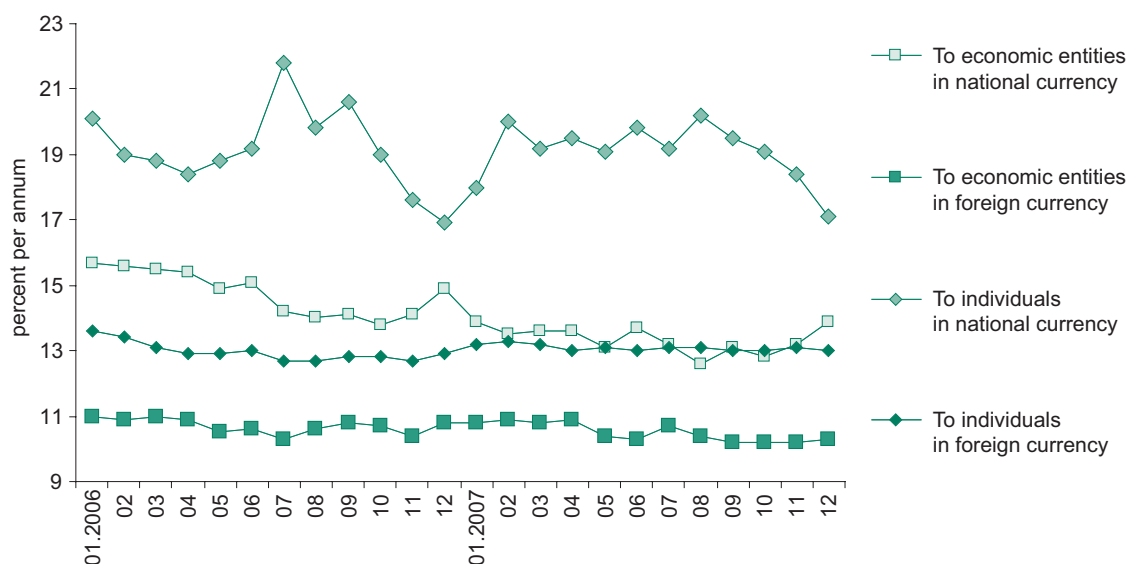
By December-end of 2007, in the banks' credit structure within the regions, the largest were traditionally the shares of banking institutions of the town of Kyiv (42.8%), the Dnipropetrovsk region (10.2%) and the Donetsk region (7.8%). Banking institutions of these regions comprised 60.8% of the total indebtedness under the credits granted. In half (13) of regions of Ukraine, within the claims under credits, prevailed the credits extended to economic entities, in 12 regions – the larger portion were the claims under the credits extended to individuals (above all it concerned the Zakarpatsky region (67.7%), Zhytomyr (64.7%), Chernivtsi region (60.9%), and in the banking institutions of the Cherkasy region indebtedness under the credits to economic entities and individuals was divided equally between them.

For 2007, the highest growth rates of the banks' claims under credits were observed in the Volyn region (192.7%), Khmelnytskyi region (191.3%) and the town of Kyiv (190.6%), and the growth rates were the lowest in the Ivano-Frankivsk region (131.2%), the Dnipropetrovsk region (142.4%) and the Zaporizhzhia region (146.3%). In the banking institutions of nearly all the regions of Ukraine (except for the town of Kyiv, the Zaporizhzhia and Mykolaiv regions) the growth rates of claims under credits in foreign currency were higher than under those in the national currency.

During 2007, observed was a general tendency towards reduction of the cost of credits extended by banks to the economy of Ukraine (without taking into account operations on overdrafts) – from 13.6% to 13.0% per annum.

Thus, the reduction of the interest rate on credits (particularly in the national currency) was influenced by the prevailing growth of the deposit base of banks in the national currency compared to foreign one that caused the increase in free liquidity in the hryvnia and the expansion of credit supply in the national currency. Reduction of interest rates on credits was favoured by the enlargement in the market of the portion of banks with foreign capital participation which had an access to the cheap resources in foreign currency in the external market.

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



2.3.4. Interbank Credit and Deposit Market

During 2007, a positive development of the interbank credit and deposit market was evidenced. The volumes of operations on interbank credits in 2007 grew 1.5 times, and on the attracted deposits – 1.8 times; the share of funds received from other banks, within the banks' liabilities structure increased by 6.3 percentage points to 29.1%. The banks' needs for additional credit resources to optimize the liquidity level were the main factor that influenced the formation of demand and supply in the interbank market.

The banks' claims under the credits extended in the interbank market augmented for the reporting year 2.5 times, or by UAH 28.4 billion (for 2006 – 1.8 times, or by UAH 8.2 billion) and as at 1 January 2008 amounted to UAH 47.0 billion, 96.9% of which were short-term credits. Since the year start, the interbank credits in the national currency enlarged by UAH 6.7 billion (or 2.4 times) to UAH 22.0 billion, in foreign currency – by UAH 7.9 billion (or 2.6 times). Providing more actively the interbank credits in foreign currency compared to those in the national currency during the year was explained by a considerable attraction of funds in the external market that contributed to expansion of the short-term supply. On the other hand, the banks needed credit resources just in foreign currency to meet the borrowers' high demand for foreign currency credits and to support the current and short-term liquidity at an appropriate level. In its turn, the growth of interbank credits in the national currency compared to 2006 was due to the prevailing increase in the funds attracted from economic entities and individuals precisely in the national currency (owing to a high level of trust in it) and, as a consequence, expansion of free liquidity in the national currency.

Taking into account higher, compared to the previous year, growth rates of the banks' liabilities on deposit funds attracted from economic entities and individuals, the banks' liabilities on interbank deposits during 2007 conversely were augmenting at a slower pace – by 54.7%, or by UAH 4.8 billion (for 2006 – 2.5 times) and as at 1 January, 2008, amounted to UAH 14.1 billion, 85.0% of which were demand deposits. During the 3rd quarter noted was even reduction of the deposits attracted in the interbank market (by 15.5%). The banks' time liabilities for the funds attracted in the interbank market enlarged compared to the year start by 6.2% (including in December – by 46.8%) to UAH 2.1 billion (95.8% of which were short-term deposits). The most significant growth since the year start was noted for the interbank demand deposits in the national currency (2.2 times).

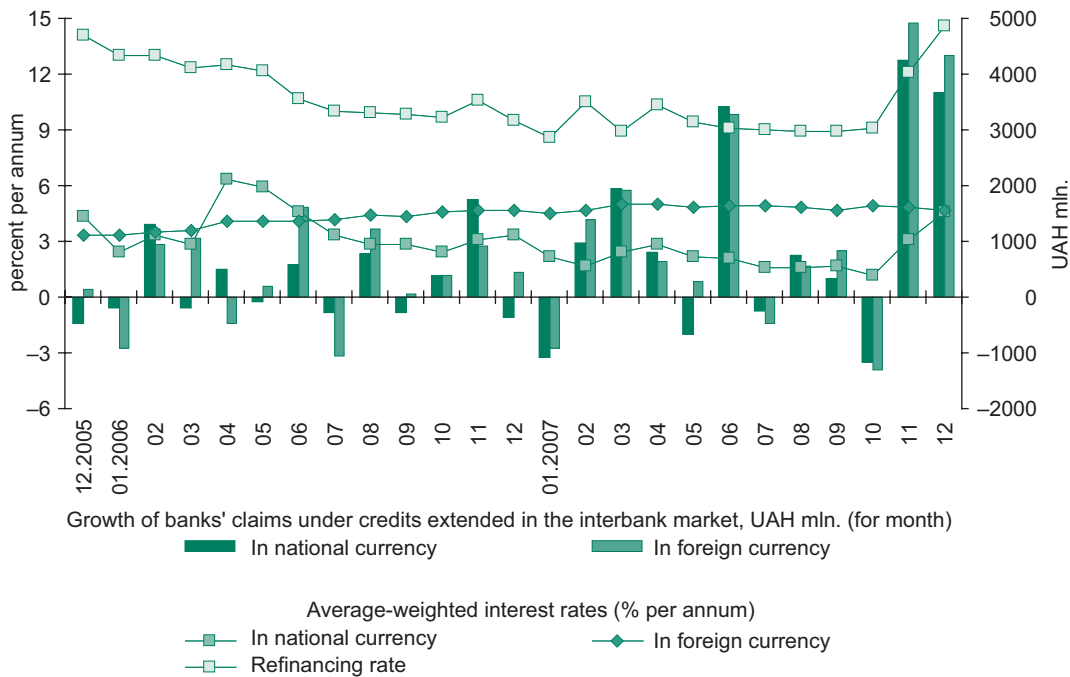
The major increment of indebtedness under interbank credits and deposits was noted in November – December of the reporting year: under the credits extended – by UAH 17.1 billion (60.4% of the annual increase), of them in foreign currency – UAH 9.2 billion; under the deposits attracted – by UAH 4.0 billion (81.3% of the annual increase), of them in the national currency – UAH 3.3 billion. The volumes of operations on the interbank credits extended in the national currency during January – October fluctuated mainly within UAH 30 – 40 billion per month, and enlarged to UAH 60.7 billion in November and to UAH 75.4 billion in December. The rise in demand for the national currency at the year end was due to the introduction in November by the National Bank of Ukraine of the mandatory reserving of the funds attracted by banks from banks-nonresidents and financial organizations – nonresidents, due to the increase in interest rates on refinancing operations, conducting the mobilization operations and other antiinflationary measures, aimed at reduction of the hryvnia supply in the market. Furthermore, the rise in demand for the national currency was caused by a seasonal increase in the consumer crediting before the New Year holidays. At the same time, further demand of banks for foreign currency to perform credit operations contributed to the growth of interbank credits and time interbank deposits in foreign currency during this period. At the year end, the enlargement of interbank crediting was favoured by a seasonal increase in the short-term deposits attracted from economic entities and individuals.

The raise during the year in the difference between long-term credits extended to the economy and long-term deposits attracted from economic entities and individuals contributed to the

growth of demand for long-term interbank credits (they gained 3.1 times) and deposits (they enlarged by 22.9%).

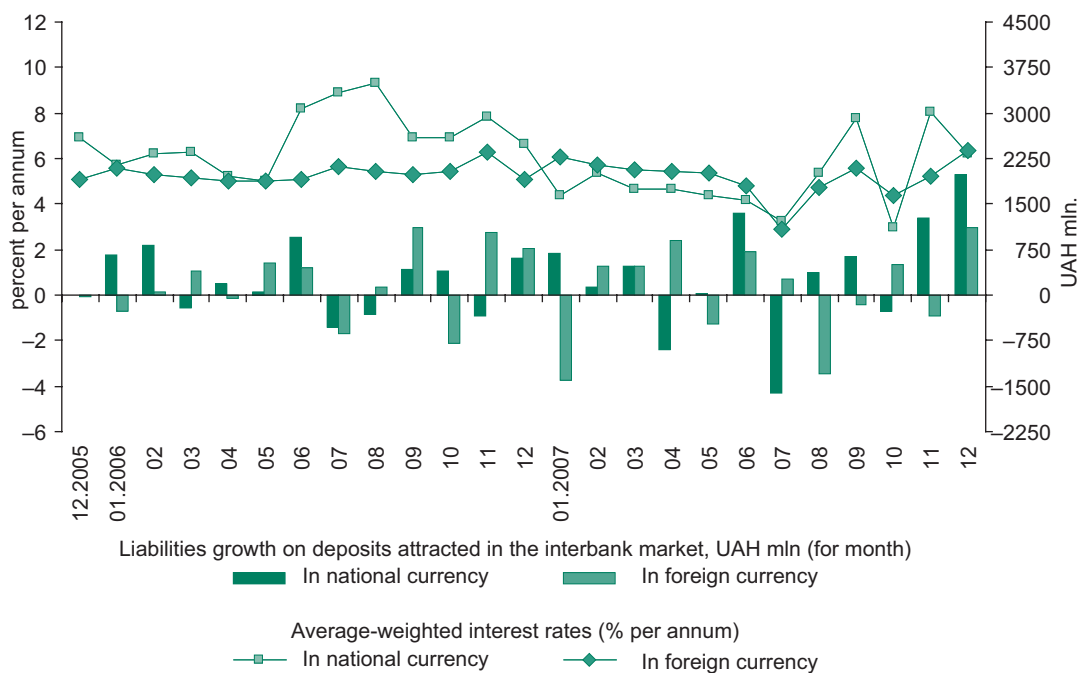
During 2007, the dynamics of interest rates in the interbank market was adequate to the changes in the dynamics of the banks' liquidity. Thus, in view of the sufficient liquidity in the hryvnia, the interest rates on credits extended in the national currency were maintained at a rather low level (on average, 2.5% per annum against 3.7% per annum in 2006). At that, in January – October the cost of resources in hryvnias fluctuated within 1.2% – 2.8% annually, and from November the average weighted interest rates on these credits started to rise (from 1.2% per annum in October to 3.1% per annum in November and 4.6% per annum in December). The cost of interbank credits in foreign currency during 2007 fluctuated within 4.5% – 5.0% per annum, being, on average, by 0.7 percentage point higher than in 2006. The average weighted interest rate on the interbank credits extended amounted to 4.2% per annum against 4.0% per annum in 2006.

Dynamics of Development of Interbank Credit Market



Similar was the dynamics of the cost of interbank deposits. Thus, the average weighted interest rates on interbank deposits in January – July 2007 were gradually diminishing. At that, their cost in the national currency was lower than in foreign currency. The gain in August in the cost of interbank deposits was reasoned by the reduction of the foreign currency supply in the market and by the increase in the demand for the national currency (with the aim of restructuring the banks' assets and liabilities in order to decrease the foreign exchange risk and reorient to crediting the customers in the national currency). As a whole, for 2007, the average weighted interest rate on interbank deposits reduced compared to 2006 from 6.0% to 5.2% per annum due to reduction of the interest rate in the national currency – from 6.5% to 5.0% annually. The cost of interbank deposits in foreign currency remained at the level of 2006 – 5.3% per annum.

Dynamics of Development of Interbank Deposit Market



The changes of the interbank resource cost during the year were also reflected to some extent on the dynamics of rates on the credits extended to the economy and the deposits attracted from the customers.

2.3.5. Operations of Banks in the Securities Market

In keeping with the laws of Ukraine "On the Banks and Banking Activities" and "On the Securities and the Stock Market" the banks carried out operations with securities as the issuers of securities (an issue of shares, bonds, savings and deposit certificates, an issue of bank bills), as investors (investment of the banks' funds in securities) and as intermediaries that performed the operations with securities in the interests and by order of their customers (brokerage and dealing transactions, fiduciary transactions, registrar, deposit, settlement and clearing transactions, consultative operations).

NUMBER OF BANKS THAT HAVE RECEIVED WRITTEN PERMITS FOR OPERATIONS WITH SECURITIES AS AT 1 JANUARY, 2008

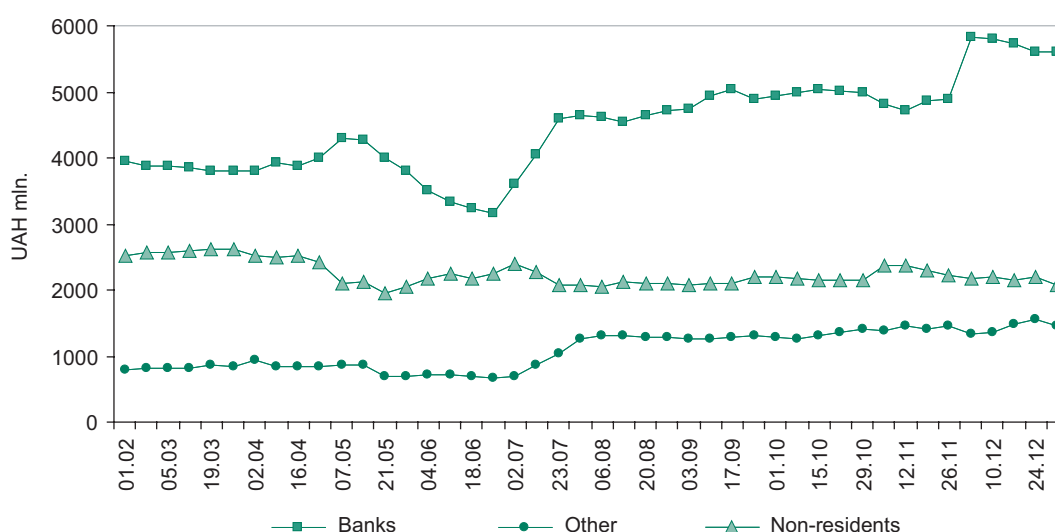
No.	Name of transaction	Number of banks
1	Issuing the own securities	169
2	Organizing the purchase and sale of securities by order of customers	171
3	Performing the transactions in the securities market in one's own name (including the underwriting)	171
4	Making the investments in the statutory funds and shares of other legal entities	171
5	Fiduciary management by funds and securities under the agreements with legal entities and individuals	144
6	Depository activity of the securities custodian	112
7	Activity on keeping the registers of owners of inscribed securities	49

For 2007, the cost of securities in the portfolio of banks of Ukraine grew as a whole 2.2

times up to UAH 22.7 billion, with their assets growth 1.8 times. Within the structure of assets of the banks of Ukraine, the share of investments in securities as at 1 January, 2008, accounted for 4.6% (against 4.1% as at 1 January, 2007). By break of sectors of the economy in the banks' securities portfolio, the cost of debt commitments (except shares) of the enterprises – economic entities made up 32.7%, the general government sector – 27.5%, other financial corporations – 6.7%. The cost of securities of other depository corporations accounted for 33.1%, including the depository certificates of the National Bank of Ukraine – 13.6%.

The major owners of T-bills to the amount of UAH 5.6 billion, or 60.0% of the total T-bills that were in circulation in terms of the principal debt sum, were the banks. The portion of T-bills in the assets of the consolidated balance sheet of banks of Ukraine as at 1 January, 2008, equaled 0.93%. During 2007, the T-bills volume in the banks' portfolio augmented by UAH 1.6 billion. The nonresidents owned the T-bills being in circulation in terms of the principal debt sum to the amount of UAH 2.2 billion (or 23.6%).

T-bills in Circulation on the Principal Debt during 2007



Within the structure of liabilities of banks of Ukraine, the share of the own debt securities as at 1 January, 2008, made up 3.7% (against 2.1% as at 1 January, 2007). The own debt securities within the money supply accounted for UAH 4.9 billion (or 1.2% of the money supply) against UAH 1.7 billion (or 0.6% of the money supply) as at 1 January, 2007, and increased 3 times since the year start.

The presence of banks as issuers in the stock market of Ukraine was reasoned by the necessity to diversify the sources of own financial resources. Thus, during 2007, the banks of Ukraine were actively issuing the corporate bonds. For 2007, the State Commission on Securities and Stock Market registered the banks' bonds to the amount of UAH 19.6 billion that was 43.2% of the total issue of bonds by issuers.

DYNAMICS OF ISSUING THE BONDS OF BANKS OF UKRAINE IN 2003–2007

Year	2003	2004	2005	2006	2007
Total bond issue by enterprises (UAH, mln.)	4241.86	4106.59	12748.28	22070.80	45441.03
Total bond issue by banks of Ukraine (UAH, mln.)	329.16	217.93	2564.73	4994.0	19647.0
<i>The share of the banks' bonds in the total bond issue by enterprises (%)</i>	7.75	5.31	20.12	22.63	43.23

Source: Data of the State Commission on Securities and Stock Market.

Notwithstanding the essential increase in the issue of these debt liabilities in 2007, their portion within the banks' liabilities structure was rather small.

2.4. REGULATION AND SUPERVISION OF THE BANKS' ACTIVITIES

2.4.1. Bank Activity Regulation

In 2007, the banking sector of Ukraine demonstrated the stable growth of its major performance indicators. Favorable macroeconomic and monetary conditions stimulated the banks to increase the active and passive operations while improving their qualitative characteristics.

In 2007, the National Bank of Ukraine continued to improve the methodological, normative and legal framework of the banking regulation and supervision in order to adjust to the requirements of the European Union legislature and the Basle Principles for the effective banking supervision.

In opinion of the joint mission experts from the International Monetary Fund and the World Bank who in June–July of 2007 within the Financial Sector Assessment Program, reviewed the Ukraine's compliance with the Core Principles for the effective banking supervision that were approved by the Basle Committee of Banking Supervision, the National Bank of Ukraine achieved a significant progress in the implementation of the Basle Committee standards and the world best practice in supervision since the time of the previous assessment performed in 2002. According to the preliminary assessment of the IMF/WB Mission, Ukraine complies in full or primarily with 25 Basle Core Principles out of 30 available.

In order to further improve the legal and normative/regulative framework and the organizational principles of the banking supervision, the Board of the National Bank of Ukraine has approved the Priority Trends for Development and Regulation of the banking activities and supervision for the period up to 2010.

The work on improvement of the legal environment for the operation of banks went on. The draft law "On Amendments to Some Laws of Ukraine" approved by the Parliament of Ukraine in the first reading and submitted for consideration to be made by the 6th calling of the Parliament stipulated for the following:

- improved procedure for the state registration of banks;
- precise regulation procedure for identifying the real bank owners;
- regulation of the relationships between the bank supervision authorities and external auditors as well as the specific features of conducting the bank audits.

Draft amendments to the Law of Ukraine "On Banks and Banking" as regards the corporate management to be strengthened with banks have been prepared and are further elaborated for submission to the Parliament upon approval of the Law of Ukraine "On the Joint Stock Companies".

The normative and legal framework for regulation of the banks' activities in Ukraine has been improved.

In view of the high increase of the consumer loans and foreign exchange lending, the Board of the National Bank of Ukraine in its resolution amended the Procedure on establishment and use of the loan loss provisions by banks. Those amendments introduced the concept of "the portfolio of similar consumer loans", determined the procedure of its establishment and set out the higher provisioning ratio against the loans differentiated depending upon the debt servicing by a borrower (excluding the collateral); provisioning ratio against the foreign exchange credit operations was increased (depending upon the risk involved). The procedure to assess the financial state of a borrower and to determine the credit category was improved which would promote the establishment of credit risk provisions more adequately.

In order to minimize the risks related to granting credits to individuals and having taken into account the requirements of the Law of Ukraine "On Protection of the Consumer Rights", the Board of the National Bank of Ukraine adopted the Rules concerning the information to be provided for a consumer by the banks of Ukraine regarding the terms and conditions of lending and the total cost of credits. According to those Rules the banks, prior to entering into and in the

course of entering into the credit contract should provide the consumer with complete information on the total credit cost taking into account all the concomitant services, and in case of the foreign exchange lending, should let the consumers know beforehand about the potential foreign exchange risks.

Aiming at improving the quality of assets invested by banks in the securities, as well as promoting banks to perform transactions with securities in the organized market (in the stock exchanges), clarifying the procedure for establishment of the bank provisions under the transactions with securities and settling the problems that occur in the course of carrying out the said transactions, the Board of the National Bank of Ukraine in its resolution approved the Regulation on establishing provision by the banks of Ukraine against the transactions with securities, which (Regulation) was developed with taking into account the Basle Principles and the international accounting standards. The mentioned Regulation stipulated for determination of the fair (real) value of securities traded in the organized stock market and of those whose market price quotation was inaccessible, and also for the establishment of the appropriate provisions against the risks related to those transactions.

In order to improve the calculation of regulative capital adequacy for the foreign exchange risk and long-term liquidity risk, the Board of the National Bank of Ukraine in its resolution amended the Instruction on regulation of the activities of banks in Ukraine, which envisaged the adequate regulative capital requirement to be satisfied by banks to cover the foreign exchange risk and risk arising when the active operations' amount with maturity of more than 1 year exceeded the amount of passive operations with similar maturities.

Amendments to the Methodic directives on the inspection of banks in Ukraine have been made, which provided for the improvement of consumer loan control and internal audit of banks.

There have been approved the Methodic directives on the arrangement and conduct of the inspections and on the establishment of the bank ratings, and such directives are intended to improve the approaches to rating assessment of the banks according to CAMELS.

In order to improve the off-site supervision efficiency, standardize the approaches to analyzing the financial situation of banks, make better the quality of reports on monitoring of the bank activities and ensure prompt revealing of problems in their activities, the National Bank of Ukraine by its decision approved the Methodic recommendations on reviewing the bank financial situation and preparing report on monitoring of the bank being a legal entity.

Together with the International Finance Corporation (IFC), the Methodic Recommendations on improvement of the corporate management in banks of Ukraine have been prepared and distributed to the banks. That document was developed in compliance with the requirements of the Basle Committee for Banking Supervision paper "Improvement of the corporate management in the banking institutions"; the document shall be proposed to the banks striving to achieve the best up-to-date standards in the corporative management, the higher level of the market discipline and transparency in their activities prior to adoption of the relevant draft law.

In order to cut down the long-term gaps between attracted funds and allocated funds, the Board of the National Bank of Ukraine made changes in the calculation of regulative capital adequacy/creditworthiness (H2) as regards weighting of the long-term active transactions which have been carried out with the periods of allocation that exceeded the periods of fund attraction by 50% risk factor.

The Board of the National Bank of Ukraine through its resolution made alterations to the Rules of registration of the bank correspondent accounts and, thus, improved the registration and re-registration procedures of the banks' correspondent accounts.

Upon implementation of the regulation on automated information system (AIS) for the banking supervision "Dossier of banks" that was approved by the resolution of the Board of the National Bank of Ukraine, the new module "Monitoring of the bank being a legal entity" was developed within the AIS "Dossier of banks". Reports on monitoring of the bank being a legal entity were provided to the regional branches in the electronic form, therefore, optimizing the periods of information supplied and efficiency of the working period used; also, this provided officers and management with the possibility to realize better corporate control on the off-site level.

In order to settle the claims of banks, other financial institutions and the national post operator related to the enforcement measures applied by the National Bank of Ukraine for violation of the banking and foreign exchange legislature, as well as the laws on prevention and fight against legalization (laundering) of earnings obtained from crimes, the Board of the National Bank of Ukraine approved the Regulation on Commission of Appeals of the National Bank of Ukraine.

In order to promote the transition to the risk-based supervision, the work on elaboration of the normative and legal acts was launched and it was intended to turn the banks to establish and improve the internal control systems including the risk management, internal audit, higher level of the corporate management adequate to the risk profile of a particular bank.

2.4.2. Supervision of the Banks' Activities

The National Bank of Ukraine arranged and provided supervision over 175 banks having licenses for carrying out the banking operations and also exercised control over the realization of supervisory functions by the regional branches of the National Bank of Ukraine.

The National Bank of Ukraine realized control over the activities of banks based upon the statistical reporting of banks, reports of inspections, auditor opinions, information of banks on the implementation of the plan of actions intended to improve the financial situation and eliminate the defects and violations in the operation of banks in order to comply with requirements of the legislature and normative/legal acts of the National Bank of Ukraine as well as over observing by banks the commitments to improve their activities and reduce risks existing in their activities.

There were improved the qualitative standards on the bank capital and minimum capital requirements; differentiated provision requirements were implemented and higher requirements to establish provisions under the active transactions in case of failure to observe the contractual liabilities were anticipated.

Special emphasis was paid to keeping the appropriate level of the bank capital:

- requests to promote the capitalization of the state-owned banks (JSC "Savings Bank" and JSC "Ukreximbank") were forwarded to the Budget Committee of the Parliament of Ukraine;

- 20 decisions related to the capitalization of banks were adopted by the Commission of the National Bank of Ukraine in the bank supervision and regulation;

- letters were sent to 34 banks as regards the participation of the representatives from the National Bank of Ukraine in the general meeting of shareholders and informing the bank members (shareholders) of the major problems and shortcomings in the bank activities as well as of the necessity to raise the capitalization of banks, including also due to the increase of the reserve fund to the level specified by the current laws in order to ensure the stable operation of banks and their further development;

- letters were sent to 11 banks with the demand to bring their organizational and legal form in compliance with the requirements of Article 6 of the Law of Ukraine "On Banks and Banking";

- letters were sent to the banks with recommendations to direct the past year retained earnings to the reserve fund.

In order to exercise control over the activities of banks, the National Bank of Ukraine used the software products such as AIS "Dossier of Banks", "Unified report of the commercial bank activities", "Monitoring of the banks' activities", "Early Response Factors" and stress-testing results.

Based upon the results of the analysis, the supervision strategy was determined per each bank. Information on the bank activity results was monthly provided to the management of the National Bank of Ukraine according to the specified form "Bank Supervision Strategy".

In order to implement the long-term planning of the banks' activities, the National Bank of Ukraine sent letters to the banks and required to provide the NBU with performance forecasts of their activities and development strategy for the next 3 years. The information obtained was further used when reviewing the development (progress) of banks and making proposals to improve their activities.

The constant control (on a daily basis) was ensured over adhering by banks to the economic ratios and the standards of work set out by the laws. In connection with mentioned above, the banks were sent letters requiring to enhance control and take measures on complying with requirements of the capital adequacy ratio, credit and foreign exchange risks, liquidity risk, and improving the efficiency and profitability of the operation.

One of the priority directions in exercising control appeared to be the bank liquidity situation, by results of which the following was done:

- 17 banks were forwarded letters concerning their discrepancy in timing of fund attraction and fund allocation;
- the banks took measures to balance (match) timing of active/passive operations, especially, in the long-term period and to improve quality of the asset and liability management system;
- the working meetings on adoption of the strategy for further supervisory actions regarding the activities of certain banks were arranged weekly, and so on.

The control over the internal audit activities was ensured, in particular, over providing the reports, co-ordination of appointment of the audit unit heads, dispatching written cautions, etc.

Auditor opinions of the annual financial statements and consolidated banks' reporting were reviewed in order to determine their compliance with the requirements of the normative and legal acts of the National Bank of Ukraine and IAS. By results of the review, 5 banks were sent letters requiring them to finish off the auditor opinions and annual financial statements; one bank was recommended to replace the company providing auditing services for another one to conduct auditing of the annual financial statements. During inspections of banks, the meetings with external auditors were arranged where the issues of verification of the financial statements of banks and the relevant reaction of banks to the external auditor remarks were discussed. There were analyzed the agreements concluded by banks to audit the financial statements of 2007, and by results of the analysis 3 banks were forwarded letters proposing them to bring their financial statements in conformity with the Laws of Ukraine "On auditing" and "On Banks and Banking", and also with the normative and legal acts of the National Bank of Ukraine on auditing the annual financial statements of banks.

Four banks were sent letters related to their violation of the time and requirements to make public the bank reporting.

The following enforcement measures were applied to banks for violations of the laws of Ukraine and of the normative and legal acts of the National Bank of Ukraine that have been revealed:

- 247 cautions in written as regards the non-observance of the requirements and the necessity to take measures to adjust the situation;
- 4 agreements in the written form were concluded with banks according to which the banks were obliged to take actions to eliminate the defects;
- 33 orders to fine the banks were prepared;
- 78 orders to impose the administrative fine on the bank managers were prepared;
- 8 instructions were prepared to restrict/terminate some kinds of transactions performed by the bank;
- 3 directions were prepared to prohibit blank credit granting;
- 1 order was prepared in order to suspend the voting right on the acquired shares for the major shareholder because of his violation of the requirements of the Law of Ukraine "On Banks and Banking".

In order to improve the banking supervision, the regional branches of the National Bank of Ukraine were advised of the requirements concerning standardizing of the approaches to reviewing the financial situation of banks; enhancing the informative power of monthly reports (conclusions) on the monitoring of the banks' activities and ensuring promptly revealing of weaknesses in their operation; of the procedure for analyzing the financial situation of the bank and compiling the report on monitoring of the bank being a legal entity; and also of the cards for daily and monthly monitoring of the bank activities in order to promptly reveal the threat of its stable operation.

Daily information has being prepared concerning the following:

- observing by banks of the economic ratios;
- interest rates of the time deposits of individuals;
- dynamics of the basic items of assets and liabilities of the banks.

In order to ensure compliance with the Core Principles of the effective banking supervision which appear to be the standards for prudential regulation and bank supervision, the risk-based supervision approach undertaken by the supervisory authority, has been further developed.

Owing to the increase of the foreign capital participation in the banking market of Ukraine, the National Bank of Ukraine more actively cooperated with the supervisory authorities of other countries in the issues related to supervision of the accountable institutions, primarily, on implementation of the Basle II principles ("International Convergence of the Capital Measure and Capital Standards: New Approaches").

During 2007, the banking supervision service of the National Bank of Ukraine organized and conducted 609 inspections including 528 planned and 81extraordinary inspections and those inspections covered 242 banks being legal entities and 367 bank branches. In order to raise the level of supervisory functions over the banks' activities, during 2007 the strategy combining the Risk Measure System and CAMELS was implemented step-by-step, and this allowed to make more comprehensive assessment of the bank financial situation, arrangement and quality of its risk management as well as other issues and provided with the possibility to assess the activities of a bank in order to determine the nature of its further supervision. Methods and approaches to the bank inspections were constantly improved in order to provide more weighted and adequate assessment of the bank activities by the results of inspections.

During 2007, the National Bank of Ukraine received 47 inquiries from the law enforcement authorities (including 12 from the Ministry of Internal Affairs of Ukraine, 10 from the Security Service of Ukraine, 12 from the law enforcement bodies and 13 from other bodies) and sent 18 notifications of the facts that could testify to the organized criminal activities.

Following the requirements of the "Program of cooperation between the National Bank of Ukraine and the law enforcement bodies related to promptly revealing of operations performed in breach of the laws in the banking area for 2007–2008" that was developed to meet Article 3 of the Decree of the President of Ukraine "On Measures to Strengthen Protection of Rights for Citizens being the Bank Depositors and Other Bank Customers and to Ensure Stability in the Banking System", the National Bank of Ukraine signed Protocols of Information Exchange with the law enforcement bodies.

2.4.3. Registration and Licensing of Banks

As of 01 January 2008, 198 banks were registered in the State Register of Banks, including two state-owned banks (JSC "Savings Bank" and JSC "Ukreximbank"); among them 163 joint stock companies including 116 open type joint stock corporations and 47 closed type joint stock companies and 35 companies with limited responsibilities.

Number of the active banks in Ukraine having the banking licenses and written permit to carry out the banking operations, including the operations with currency valuables, continued to increase from 170 at the beginning of the year to 175 banks on 01 January 2008.

The number of banks with foreign capital share grew from 35 at the start of the year to 47 (26.9% of the total acting banks of Ukraine) by the end of 2007, including 17 banks (9.7% of the total acting banks) established with 100% foreign capital.

The portion of bank assets with foreign capital participation grew from 45.6 per cent at the beginning of the year to 49.7 per cent by the end of 2007.

In 2007, the amount of foreign capital in the authorized capital of banks (registered) increased by UAH 7.7 billion or more than doubled, and as of 01 January 2008 it was equal to UAH 15.1 billion, and this, in turn, stipulated for growth of the foreign capital share in the registered authorized funds of banks by 7.6 percentage points (to 35.2% by 01 January 2008).

ORIGINATION OF THE FOREIGN CAPITAL IN THE BANKING SECTOR OF UKRAINE

№	Country of registration of non-resident of Ukraine – bank member	Foreign capital share in registered authorized funds of banks, %
1	Cyprus	7.15
2	Austria	7.15
3	France	4.41
4	Russian Federation	3.42
5	The Netherlands	2.90
6	Poland	2.78
7	Sweden	2.14
8	Hungary	1.53
9	Ireland	0.99
10	United States of America	0.75
11	Luxembourg	0.70
12	Georgia	0.32
13	United Kingdom	0.29
14	Germany	0.21
15	Turkey	0.17
16	Greece	0.12
17	Switzerland	0.10
18	Finland	0.02
19	Cayman Islands	0.01
20	Virgin Islands (British)	0.01
21	Lithuania	0.01
22	Slovenia	0.01
23	Bahama Islands	0.01
	Total	35.20

As of 1 January 2008, the number of branches in conformity with the register was 1420 units (1435 as of 01.01.2007), including 1364 acting branches and 60 acting representative offices of the Ukrainian banks, out of which 48 on the territory of Ukraine and 12 abroad.

Banks being legal entities, primarily, were concentrated in six regions of Ukraine: 60.5% in Kyiv-city and Kyiv region; 8.0% in Dnipropetrovsk region; 6.3% in Kharkiv region; 5.7% in Odesa region; 5.7% in Donetsk region; 2.9% in Lviv region while in the Zakarpattia and Ivano-Frankivsk regions there was 1 acting bank per each.

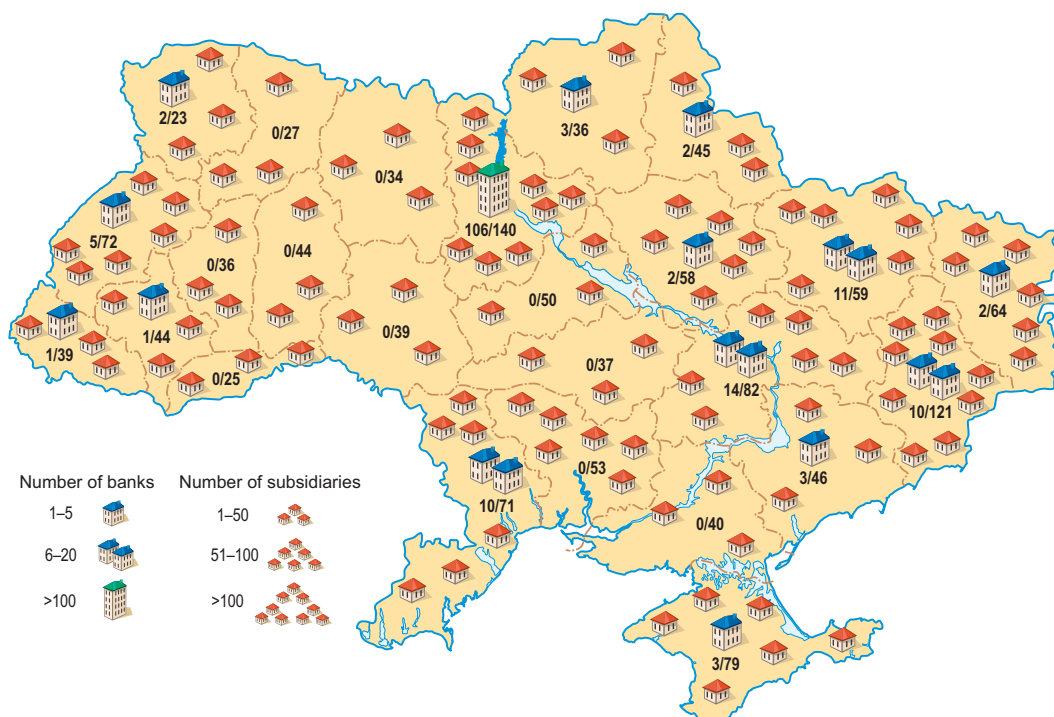
Ten regions did not have acting banks being legal entities (those were Vinnytsia, Zhytomyr, Kirovohrad, Mykolaiv, Rivne, Ternopil, Kherson, Khmelnytskyi, Cherkasy and Chernivtsi) and banking services were rendered to the people by the branches and the bank units.

More uniform territorial concentration was observed within the branches. The largest portion of acting branches locate in Kyiv-city and Kyiv region (140 branches or 10.2% of the total number) and in the Donetsk region (121 branches or 7.9% of the total number). Each of the following regions in the Dnipropetrovsk region, Autonomous Republic of the Crimea and Sevastopol-city, Lviv region, Odesa region, Luhansk region, Kharkiv and Poltava regions numbered from 6.0% to 4.3% of the total branches available. From 2.5% to 3.9% of the total acting branches of the banking sector were concentrated in other 13 regions, while the smallest number of branches was marked in three regions (Volyn, Rivne and Chernivtsi regions) amounting to less than 2% of the total acting branches of the banking sector per each region.

As regards the banking institutions (banks being legal entities and bank branches), their largest portion is concentrated in Kyiv-city (16% of the total number). 34.9% of the total banking institutions are concentrated in six regions (8.5% in Donetsk and 6.3% in Dnipropetrovsk; AR of the Crimea, Odesa and Lviv regions have 5.3%, 5.2% and 5.1%, respectively, and Kharkiv region – 4.6%).

Such concentration, primarily, was attributed to the fact that the mentioned regions appeared to be the industrial regions of Ukraine and they had sufficiently high investment category to direct there the foreign investments.

Number of banks and their subsidiaries within the regions at 1 January 2008



During 2007 the following work has been performed:

– in the bank registration issue:

newly established banks registered in the State Register of Banks – 6, including 5 in Kyiv-city;

banks withdrawn from the State Register of Banks – 1;

branches included in the State Register of Banks – 81;

branches withdrawn from the State Register of Banks – 96;

prior permits granted to establish a foreign capital bank – 2;

permits granted to the Ukrainian banks to establish the representative offices abroad – 2;

certificates of the bank registration, issued – 35;

foreign bank representative offices, accredited – 8;

– in the bank licensing issue:

written permit granted to banks to conduct particular operations – 1;

banks for which the list of operations to be performed upon the written permit for particular transactions was enlarged – 33;

banking license and written permit to perform particular operations were replaced in connection with change of the bank name – 20;

written permit to perform particular operations was replaced in connection with change of the list of operations – 4.

banking license and written permit to perform particular operations were granted to newly established banks – 8;

– in the issues of registration and entering in the State Register of the amendments made to the banks' articles of association:

in view of the authorized capital increase – 113;

- because of change in the name – 31;
- because of change in the address – 23;
- in light of new edition – 69,
- in other issues:
 - permits granted to acquire or increase the qualifying participation in banks – 52;
 - permits granted to obtain a foreign capital bank status – 13;
 - coordination of appointments for managing positions in banks – 507;

During 2007, three representative offices of the following Ukrainian banks were established abroad:

1. Joint Stock Corporation (open type) "State-owned Export-Import Bank of Ukraine" in New York, USA;
2. Joint Stock Company (closed type) "PrivatBank", Peking, People's Republic of China;
3. Joint Stock Bank "Forum" in the Republic of Kazakhstan.

In 2007, the National Bank of Ukraine accredited 8 representative offices of the foreign banks:

1. Kukmin Bank (Republic of Korea) in Kyiv-city;
2. Investcredit Bank AG (Austria) in Kyiv-city;
3. Hellenic Bank Public Company Limited (Cyprus) in Kyiv-city;
4. JSC "Baltic International Bank" (Latvia) in Kyiv-city;
5. JSC "Regional Investment Bank" (Latvia) in Dnipropetrovsk-city;
6. "Amsterdam Trade Bank NB" (the Netherlands) in Kyiv-city;
7. "Guaranty Bank International NB" (the Netherlands) in Kyiv-city;
8. "Credit Swiss" (Switzerland) in Kyiv-city.

Procedure and terms of registration and licensing of the banks, granting them the written permits to perform particular banking operations have been set in accordance with the Law of Ukraine "On Banks and Banking", with the Regulation on the procedure of establishment and state registration of banks, establishment of their branches, representative offices and units and with the Regulation on the procedure of granting to banks the banking licenses, written permits and licenses for fulfillment of particular operations.

During 2007, no alterations in the legal and normative framework of the National Bank of Ukraine related to the registration and licensing of banks took place.

2.4.4. Termination of the Banks' Activities

As of 01 January 2008, 19 banks were under the liquidation process (9.6% of the banks registered in the State Register of Banks of Ukraine), among which 16 banks were liquidated according to the decision of the National Bank of Ukraine and 3 banks – in conformity with the economic court judgments. Total assets of banks to be liquidated amount to 0.2% of the overall assets of the banking sector of Ukraine.

The liquidation procedures have been completed for the following banks: DACIEB "Ukrspcimpexbank", JSC "Our (Nash) Bank", JSCB "OLBank", JSB "Damiana-Bank", JSUB "Vidrodzhennia (Renaissance)", JSC "INKO", JSB "Rostok Bank".

During 2007, the National Bank of Ukraine took decision to withdraw the banking licenses and to initiate the liquidation procedure with regard to 2 banks. Thus, the liquidation procedure of the Closed Joint Stock Company "Vneshtorgbank" (External Trade Bank), Ukraine, was finalized through the re-organization and affiliation of the bank to the Open Joint Stock Bank "VTB Bank" as a branch. The liquidation procedure of JSB "XFB Bank, Ukraine" to be performed through joining to "UniCreditBank EsOV" as a separate unit is still running.

As of 01 January 2008, the asset balance of banks under liquidation amounted to UAH 1388.4 million, which was by UAH 191.1 million less than at the beginning of 2007; the amount of assets realized (returned) was UAH 1141.1 mln; payables acknowledged were equal to UAH 3289.8 mln; creditor claims paid by the liquidators were equal to UAH 940.8 mln.; sums paid by the Deposit Insurance Fund for Individuals were UAH 319.6 mln., which was by UAH 31.5 mln. more than in 2006; costs of liquidators (liquidation commissions) were UAH 184.2 mln., including UAH 14.8 mln. in 2007.

MAJOR PERFORMANCE INDICATORS OF BANKS UNDER LIQUIDATION

(Hryvnia, millions)

Indicators	As of		Growth (reduction) rates as compared with the beginning of 2007, %
	01.01.2007	01.01.2008	
Number of banks	19	19	–
Assets	1579.5	1388.4	–12.1
Ratio of assets of banks under liquidation to overall assets of the banking system, %	0.5	0.2	–0.3 percentage points
Assets realized (returned)	1099.9	1141.1	3.8
Debtors' funds	1744.6	1404.4	–19.5
Payables (according to recent balance sheets)	2813.1	2820.4	0.2
Acknowledged payables	3264.8	3289.8	0.8
Creditor claims paid by liquidator	900.5	940.8	4.5
Claims paid by the Deposit Insurance Fund for Individuals	177.5	319.6	80.1
Costs of liquidation commissions	169.4	184.2	8.7
Balance of the accumulated account	34.7	15.6	–55.1

In 2007, the liquidators (liquidation commissions) realized (returned) UAH 41.2 million, which was by 18.1% less than in 2006; creditor claims satisfied were equal to UAH 40.3 million (1.2% of the creditor claims acknowledged), which was almost 3 times more than in 2006; the Deposit Insurance Fund for Individuals paid to depositors being natural persons the amounts guaranteed of UAH 142.1 million which was 44.5% of the total payments within the compensation amount guaranteed (by 28.5% more than in 2006); expenditures of liquidators (liquidation commissions) amounted to UAH 14.8 million.

PAYMENT OF CREDITOR CLAIMS OF BANKS UNDER LIQUIDATION

(Hryvnia, millions)

№	Indicators	As of
		01.01.2008
1	Payables acknowledged, total	3289.8
1.1	To natural persons	761.1
2	Creditor claims paid by liquidators, total of them	940.8
2.1	Natural persons	339.7
3	Creditor claims paid by the Deposit Insurance Fund for Individuals	319.6
4	Portion of creditor claims satisfied, (%)	38.3

The National Bank of Ukraine and the Deposit Insurance Fund for Individuals within their competence and in conformity with the legislature took measures to improve the situation with creditor claims to be paid by banks under liquidation and, in the first place, the payments to be made to depositors being the natural entities. In 2007, the Deposit Insurance Fund for Individuals, taking into account the financial resources and following the recommendation of the

National Bank of Ukraine increased the amount of compensation guaranteed for the depositors being the natural persons in two stages: starting from March it was up to UAH 25 000 and since August the amount became equal to UAH 50 thousand. As of 01 January 2008, the Deposit Insurance Fund for Individuals accumulated the resources of UAH 1.3 billion or by 54% more than at the beginning of 2007 (in 2006 it was by 37.7% more, equaling to UAH 867 million). As of 01 January 2008, 172 banks were the members of the Deposit Insurance Fund for Individuals including 2 banks being the temporary (provisional) members.

The liquidation procedure of the Bank "Ukraina" which was initiated in 2001, kept on.

During the liquidation period of the bank, UAH 963.7 million came on the accumulated account of the liquidator, out of which UAH 799.7 million (83%) were used to satisfy the bank creditor claims of Successions I, II and III (sub-queue from "a" to "и"). During the whole period, the expenditures of liquidator amounted to UAH 151.8 million.

In 2007, the liquidator worked to accumulate the liquidation funds in order to pay the creditors whose claims were referred to sub-queue "и" of Succession III. UAH 3.7 million were received on the accumulated account of the liquidator (against UAH 8.4 million in 2006). Creditor claims of Succession III sub-queue "и" were paid in the amount of UAH 1.1 million. As of 01 January 2008, the balance of the accumulated account was equal to UAH 5.9 million.

According to the Law of Ukraine "On extending the liquidation procedure of the joint stock agricultural/industrial bank "Ukraina", the period of liquidation procedure was extended to 01 January 2009.

In 2007, the National Bank of Ukraine took measures aimed at the following: improvement of the normative and legal framework regulating the realization of the bank liquidation procedure with respect to the requirements of the National Bank of Ukraine to the liquidator and to persons attracted to the bank liquidation; entering into agreement with the liquidator and setting out the procedure of his work payment; coordination with the National Bank of Ukraine of the procedure for bank property (assets) sale; determining the queue to satisfy the creditor claims; transfer of the bank assets unsold under the management of the legal entity specified by the National Bank of Ukraine; finalizing the liquidation procedure of the bank. The draft normative act regulating the fulfillment of the bank re-organization procedure was worked out.

The improvement of bank liquidator reporting was performed.

As of 01.01.2008, the indicators of the liquidators' (liquidation commissions') work in realization of the bank liquidation procedure looked better as compared with the beginning of 2007. Rates of growth of the realized (returned) bank assets amounted to 103.8%; those of creditor claims paid by the liquidators were 104.5% and the growth of secured payments made by the Deposit Insurance Fund for Individuals was 180.1%.

The liquidation procedure running for over 4 years was extended for 12 banks (63%), though the liquidation process still remained to be expensive and long-lasting.

2.5. FOREIGN EXCHANGE CONTROL AND LICENSING

During 2007, the National Bank of Ukraine granted 1524 general licenses, individual licenses, special permits and approvals.

The banking institutions were granted 33 individual licenses for conducting operations with currency valuables.

Legal entities being the non-banking institutions and natural entities were given 1491 individual licenses, general licenses, approvals and special permits, including the following:

- individual licenses for conducting operations with currency valuables – 603;
- individual licenses allowing to prolong the period of settlements specified by the law as regards the external economic transactions – 829;

- general licenses given to the non-banking financial institutions for conducting operations with currency valuables – 25;
- approvals to transfer funds by the residents outside of Ukraine against agreements that stipulate for the works and services to be rendered by the non-residents – 13;
- special permits to import currency valuables in Ukraine – 21.

Alongside with the above mentioned, during 2007, 197 amendments were made to the individual licenses previously granted; 52 individual and general licenses were cancelled and 1 duplicate of the individual license was issued.

The National Bank of Ukraine effected control over compliance by the authorized banks and the non-banking institutions with the requirements of the foreign exchange laws in the following way:

- conducting in-site and paper (off-site) inspections of the authorized banks and the non-banking institutions;
- control over the relevancy of conclusions to the results of the authorized banks' examinations made by the regional branches;
- applying penalties to banks by the revealed facts of violations of the foreign exchange legislature;
- participation in review of 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 the infringement of the foreign exchange legislature of Ukraine.

625 examinations of the banking institutions have been conducted, including 548 scheduled and 77 out of the plan. 312 examinations were of the complex nature.

Proceeding from the facts of violating the foreign exchange laws, 724 resolutions on calling 101 authorized banks to account for the infringement of the Decree of the Cabinet of Ministers of Ukraine "On the system of foreign exchange regulation and foreign exchange control" in the amount totaling UAH 1.1 million, have been approved.

Among the violations of the foreign exchange legislature, 56.5% of the cases were related with delayed information, concealing or distortion of the reporting on the foreign exchange transactions of the banking institutions; 40.3% were connected with failure to perform the agent functions of the foreign exchange control; 1.4% 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; 1.0% 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; 0.8% resulted from violation of the terms and conditions of foreign currency trades in the inter-bank foreign exchange market.

Penalties charged upon the major part of the resolutions (658) on calling to account for violation by banks of the foreign exchange legislature, amounted to UAH 508.9 thousand.

In 2007, the National Bank of Ukraine conducted 2049 checks of the exchange centers (their total number was 1324), including 923 checks of the exchange centers belonging to the banks and 1126 checks of the exchanges which operated according to the agent agreements with banks.

During the above examinations of the foreign exchange centers, 321 cases of infringement of the banking laws were revealed, including 133 violations made by the exchanges belonging to the banks and 188 violations fell on the exchange points which operated according to the agent agreements with banks.

In order to improve the legal framework for realizing the foreign exchange control of banks, of the non-banking financial institutions and of the national post operator, in 2007, the Regulation was developed concerning the procedure for conducting the in-site and off-site inspections related to complying by the banks, other financial institutions and the national post operator with the requirements of the foreign exchange laws of Ukraine as well as concerning checks of the foreign currency exchanges on the territory of Ukraine.

2.6. PAYMENT SYSTEM OF UKRAINE

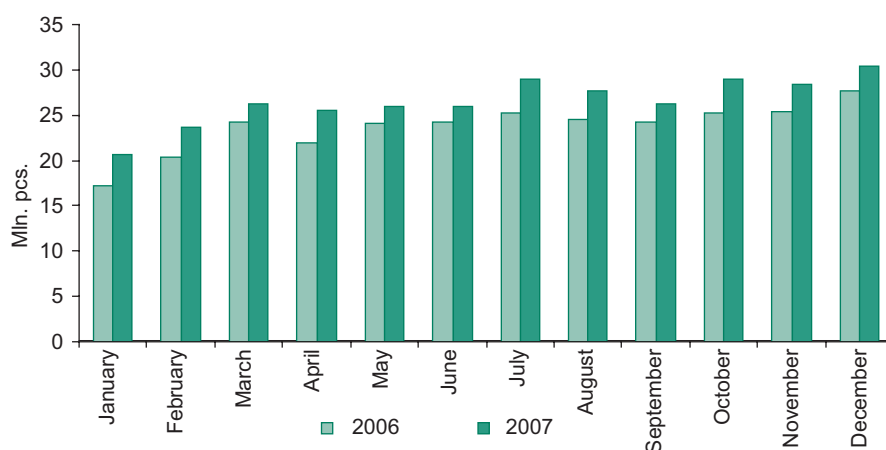
2.6.1. Inter-Bank Settlements

The year of 2007 has become the first full year of the commercial operation of the System of Electronic Payments (SEP) of the new generation in the National Bank of Ukraine.

As of 01 January 2008, the total number of institutions being the SEP members formed 1612 (it decreased by 27 units as compared with 2006 because of cutting down the number of participating bank branches).

Almost 99% of the inter-bank transfers within the territory of Ukraine denominated in the national currency were performed with applying the SEP. As of 1 January 2008, 320.2 million of electronic documents under the initial payments and payment orders totaling UAH 5756.8 billion were processed in the SEP, which was more by 13% as regards the number and by 42% regarding the amount of initial payments as compared with 2006. 318.6 million payments of UAH 5647.7 billion were carried out in the file mode, and 1652 thousand payments of UAH 109.1 billion were fulfilled in the real time mode.

Amount of Initial Payments in SEP in the File Mode (mln. pieces)



Before implementation of the SEP of the new generation, almost 100% of payment documents were fulfilled in the file mode, and thanks to putting into operation the SEP of the new generation starting from 10 November 2006, the number of payments fulfilled in the real time mode grew almost 12 times in 2007 as compared with that in 2006. During 2007, 596 participants of the system (almost 37% of the total SEP participants) made use of the SEP services in the real time mode.

PAYMENTS MADE IN THE REAL TIME MODE

Year	Number of payments, thousand, units	Amount, million, Hryvnia
2003	1.3	34
2004	0.5	114
2005	36.5	5752
2006	142.9	13546
2007	1651.7	109139

In 2007, on the average, almost 1.3 million initial payments were processed daily, at the same time, the steady tendency to increasing the daily average utilization of the system was observed as regards both the number of initial payments and payment orders and regarding

their amount in the file mode (1.1 and 1.4 times more, respectively), while in the real time mode the growth was 11.6 and 8.1 times more, respectively.

The largest number of initial payments in the file mode came to the SEP from the banks of Ukraine (90.8% of the total number).

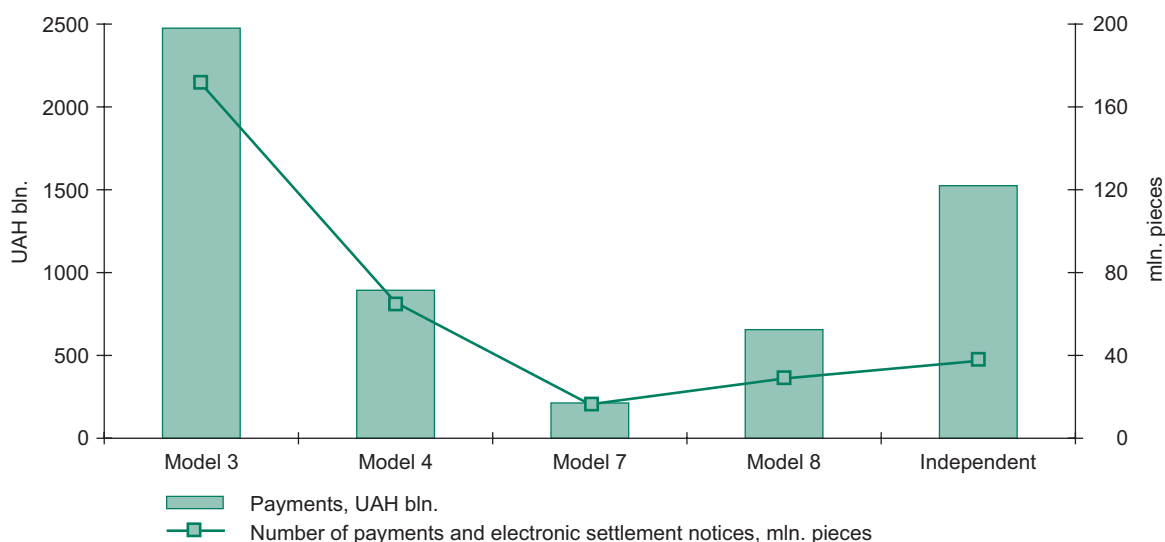
Portion of payment papers processed in the SEP against the initial payments of less than UAH 1000 formed 70% of their total number and the amount of transfers against those papers was insignificant being equal to about 1% of the total funds transferred.

Daily average balance of the SEP members' accounts varied from UAH 26.6 billion to UAH 36.1 billion, while the daily average turnover factor amounted to 0.7.

According to the rules of the SEP operation, the SEP members shall be the legal entities which determine the SEP operation mode on their own, giving preference to the model of servicing either the consolidated correspondent account or the independent correspondent account. As of 1 January 2008, 1404 participants (87% of their total number) were working in the SEP with one of the models servicing the consolidated correspondent account, and the rest 208 participants (13% of the total number) operated with the independent correspondent account.

Among 75 legal entities as the SEP participants that made their choice in favor of models servicing the consolidated correspondent accounts, the third model appeared to be the most demanded (favored by 50 banks); 19 banks preferred the fourth model; 5 banks chose the seventh model and the State Treasury of Ukraine operated with the eighth model. Last year, the largest number of payments made by the banks fell on the third model.

Distribution of Settlements by Models of Servicing the Consolidated Account as at 1 January 2008



2.6.2. Development of the Payment Card Systems

As of 1 January 2008, 127 banks (72.6% of the total number of banks possessing the licenses for carrying out the banking operations) were the members of the domestic and international payment card systems and made issuance and acquiring of payment cards. During 2007, 16 more new banks became the members of the relevant payment systems and started the issuance and servicing of the payment cards.

Total number of payment cards issued by the banks of Ukraine (payment cards against which at least one operation per year was performed) in the reporting year grew by 26.7% and amounted to 41.2 million pieces. On the whole, during the reporting year the banks of Ukraine issued almost 8.7 million of payment cards, which was by 1.0 million pieces more than in 2006. Out of the total number of payment cards the share of personal cards was 99.0%; the magnetic tape cards formed 94.0%; debit (function) cards formed 75.6% and those with payment and cash delivery functions – 95.4%.

Number of payment cards issued per one thousand people of Ukraine as of 01 January 2008 amounted to about 890 pieces, or it increased by 190 pieces during 2007.

In 2007, the number of automatic telling machines servicing the payment cards formed 20931 units, of the payment terminals – 94317 and of the imprinters – 54406 units, which was by 42%, 52% and 39% more, respectively, than in 2006.

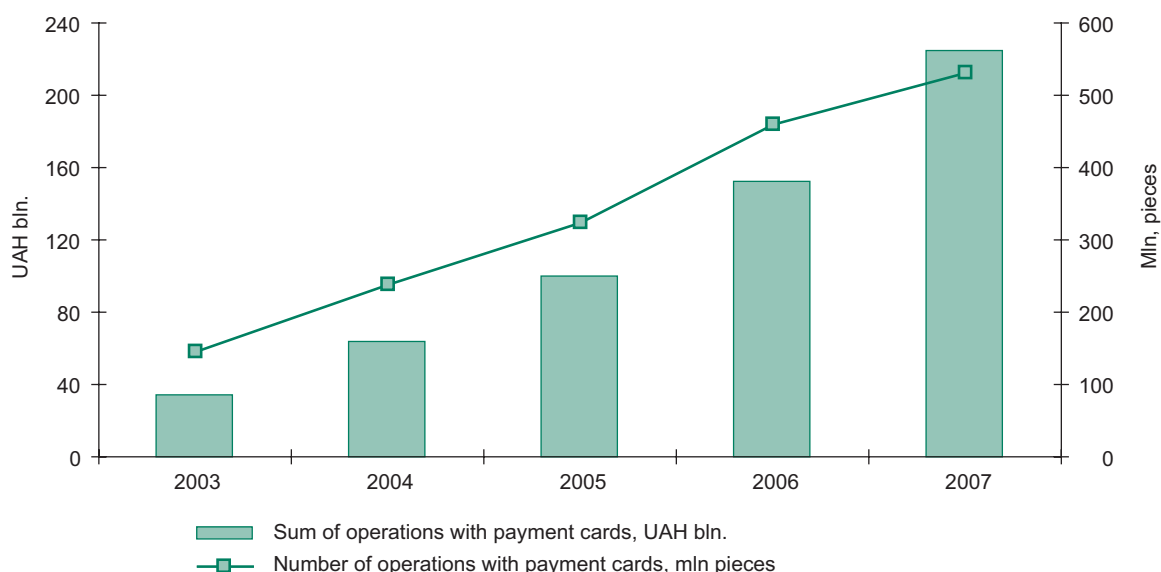
In 2007, over 531.6 million operations with applying the payment cards of UAH 225.1 billion were carried out, which was by 15.9% and 47.5% more, respectively, than in 2006. Major part of operations was performed by natural persons (98.4%).

NUMBER AND AMOUNT OF OPERATIONS WITH APPLYING THE PAYMENT CARDS IN 2007

Issuing banks and use of payment cards	Payment of goods (services)		Cash delivery		Total	
	Number of operations, million	Amount of operations, billion, Hryvnia	Number of operations, million	Amount of operations, billion, Hryvnia	Number of operations, million	Amount of operations, billion, Hryvnia
Issued by banks of Ukraine and used within the territory of Ukraine	43.0	5.8	485.0	214.0	528.0	219.8
Issued by non-resident banks and used within Ukraine	2.7	1.8	6.8	5.9	9.5	7.7
Issued by banks of Ukraine and used abroad	2.2	2.3	1.4	3.0	3.6	5.3
Total against cards used within Ukraine	45.7	7.6	491.8	219.9	537.5	227.5
Total against cards issued by banks of Ukraine	45.2	8.1	486.4	217.0	531.6	225.1

In 2007, no significant changes were observed in the structure of operations with applying the payment cards. Ratio of the operations on payment of goods (services) to the operations on cash delivery with applying cards issued by the banks of Ukraine formed from 8.5% to 91.5%; amount of the operations on cash delivery was 94.4% of the total operations performed with applying the payment cards and amount of the operations on payment of goods (services) against the payment cards was 3.6%.

Dynamics of Operations with Use of Payment Cards Issued by Banks of Ukraine



In 2007, the average annual turnover per one payment card in all payment card systems formed UAH 6114, or it grew by 15%, while the average amount per one operation formed UAH 423, which was almost by UAH 90 more (or by 27% more) than in 2006.

The highest average annual turnover per one card in 2007 belonged to the NSMEP (National System for Mass Electronic Payments) – UAH 12336, the growth of which in comparison with 2006 formed 24%; similar situation was also with the international payment card system MasterCard (UAH 5807) and the international payment card system VISA (UAH 6039).

The largest average sum per one operation against the payment cards issued by the banks of Ukraine was marked with the NSMEP equaling to UAH 707 in 2007, which was by 32% more than in 2006. Among the international payment card systems the certain priority was marked by this indicator with the international payment card system VISA (UAH 430, which was by 43% more than in 2006).

Holders of the payment cards of the Ukrainian banks conducted the major portion of operations in 2007 within the own network of the issuing bank (90.0%) and about 9.3% of operations were performed in the network of other resident banks. Recent information testified to the fact, that the holders of payment cards issued by the banks of Ukraine carried out the operations with applying the payment cards, primarily, within their own country.

The year of 2007 was the third year of the commercial operation of the National System for Mass Electronic Payments (NSMEP). During that time the NSMEP proved its technical, technological and commercial success. The conceptual goal of the NSMEP establishment and development was to achieve the socially oriented and wide national recognition.

As of 01 January 2008, the NSMEP consisted of 40 member banks (including the National Bank of Ukraine) and 5 banks-participants. During the reporting year, 9 more banks joined the NSMEP including 2 banks referred to the 1st bank group.

During 2007, the number of NSMEP payment cards grew by 34% (during the year, 385.3 thousand cards were issued). As of 01 January 2008, the issued cards numbered almost 1.8 million pieces, which was by 27.7% more than on 01.01.2007. By the end of 2007, the NSMEP card network amounted to 4461 units of terminal equipment (automatic telling machines and

terminals). During 2007, 1266 units of terminal equipment were installed, exceeding the previous year indicator by 63%. By the results of 2007, the leading positions per number of terminal equipment belonged to JSC "Imexbank" (1485 units), JSB "Express-Bank" (1481 units), Open-type JSCB "Khreschatyk" (494 units) and Open-type JSC "Megabank" (297 units).

PERFORMANCE INDICATORS OF NSMEP IN 2003–2007

Year	Number of payment cards issued, Thous. units	Number of terminal equipment, units	Annual turnovers, million, Hryvnia	Average sum of inter-bank operations, Hryvnia
2003	367	524	3912.8	284
2004	373	846	6931.1	345
2005	240	576	9739.2	331
2006	287	778	12472.9	353
2007	385	1266	18117.3	593
Total	1775	4461	51642.1	–

Utilization of the system was constantly growing, and the annual NSMEP turnover formed UAH 18.1 billion in 2007, which was by 45% more than in 2006.

In 2007, implementation of the pilot project "Student Payment Card" went on for the universities of the I–IV accreditation levels; the project was realized by the Ministry of Education and Science of Ukraine together with the National Bank of Ukraine based upon the national information/industrial system "Education" using the NSMEP know-how. The project provided with the implementation of the multifunctional student payment card of the uniform model based upon the NSMEP technology, combining the functions of the student card and the bank payment card.

As of 01 January 2008, 35 higher educational institutions were attracted to participate in the project, embracing most regions of Ukraine by the territory; also, over 35 thousand of "Student Payment Cards" were issued including almost 24 thousand issued in 2007.

Promoting the development of Internet payments through the NSMEP, the Ukrainian National Post/Pension Operator "UkrPost" implemented in full in the current year the post transfer services through Internet with applying the NSMEP cards.

In 2007, the pilot project on implementation of the mobile payment instrument was prepared based upon the NSMEP technology which allowed to control and manage the bank account and to perform payments through the mobile phone.

Moreover, in 2007, the new types of the NSMEP cards were developed, in particular, those with "Medical insurance" supplement and with bonus additions.

2.6.3. Basic Results of the International System Operation for Transfer of Funds Between the Natural Entities with no Opening of the Account

As of 1 January 2008, 18 international systems established by the non-residents for the transfer of funds between the natural entities with no opening of the account were operating in the territory of Ukraine. Participants of such systems appeared to be about 150 banks of Ukraine, JSC "Financial Group" and the National Post Operator UNPPO "UkrPost".

The amounts of funds transferred by the natural entities into Ukraine with applying the international transfer systems still tended to increase. In 2007, the total trans-border transfers received in Ukraine grew by 34.8% as compared with the previous year and formed US \$ 2.06 billion; amount of funds transferred outside Ukraine rose by 37.6% equaling to US \$ 0.19 billion in the equivalent.

Total funds that came in Ukraine through the international systems for transfer of funds between the natural entities with no opening of the account which were established both by residents and non-residents of Ukraine in 2007 formed US \$ 2.46 billion, while the funds sent from Ukraine amounted to US \$ 0.26 billion in the equivalent.

The largest amount of funds (48.3% of the total) came in Ukraine through applying the Western Union System (USA). The second place took the international fund transfer system "Unistream" (Russian Federation) forming 18.9% of the total amount; the third place was divided between two systems – MoneyGram (USA) and MIGOM (Russian Federation) through which Ukraine received 7.7% of the total funds transferred; and the fourth place belonged to CONTACT (Russian Federation) – 7.0%.

The inter-state systems for transfer of funds between the natural entities have been established by the Open-type JSC "Finance and Credit Bank" (the "AVERS" system), JSB "UkrSotsbank" (SOFT system) and also by the PrivatBank (PrivatMoney system); those banks entered agreements with the international systems for transfer of funds which were established by the non-residents. Thanks to such cooperation, US \$ 186 million came into Ukraine in 2007; US \$ 44 million in the equivalent were sent outside Ukraine.

In December 2007, the National Bank of Ukraine approved the new rules for the funds of natural entities transferred abroad and within the country against the current non-trading operations in the foreign currency, having liberalized the outside transfer procedure for the Ukrainians. According to Resolution #496 dated 29 December 2007 of the Board of the National Bank of Ukraine "On approval of the Rules for transfer of funds between the natural entities against the current non-trading operations in the foreign exchange to be made outside and inside Ukraine and the delivery of transfers in Ukraine; amendments to some norms and regulations", the individuals were allowed to transfer outside Ukraine the amount of funds not exceeding UAH 15 thousand in the equivalent per each business day based upon the documents confirming the origination of the foreign currency. Moreover, transfer of funds within Ukraine with no opening of the account shall be performed only in Hryvnia denomination.

2.6.4. Cash Performance of the Budgets of Ukraine

In 2007, in accordance with the Budget Code of Ukraine (Art.48 and Art.78), the treasury form for servicing of the state and local budgets was applied in Ukraine, which, specifically, stipulated for the management of funds available with the State Budget of Ukraine and with public off-budget funds to be made by the State Treasury of Ukraine as well as for the cash servicing of the budget fund administrators.

Cash performance of the State and local budgets recorded on the State Treasury accounts with the National Bank of Ukraine was realized according to the Agreement concluded between the National Bank of Ukraine and the State Treasury of Ukraine 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.

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

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

In conformity with Article 32 of the Law of Ukraine "On the State Budget of Ukraine for 2007" the services of processing the payment documents and information within the system of elec-

tronic payments of the National Bank of Ukraine were free of charge. The number of payments performed 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 in the system, including the initial payments forming 9 per cent of the total documents which came to the SEP of the National Bank of Ukraine.

2.7. SERVICING OF THE INTERNAL (DOMESTIC) DEBTS OF UKRAINE

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

In 2007, in order to allocate the state treasury bills (domestic T-bills), 165 auctions on the allocation of T-bills were arranged, out of which only 28 were realized. As regards the other 137 auctions, the Ministry of Finance of Ukraine took the decision not to realize the T-bills either because of the disparity between the price proposals (bids) of the potential buyers and the real value of money or because of the absolute lack of bids to acquire the T-bills. By the results of auctions arranged in 2007, UAH 3.6 billion were attracted to the State Budget of Ukraine, which was 2.3 times more as compared with 2006. The allocation of T-bills in 2007 was performed starting in June.

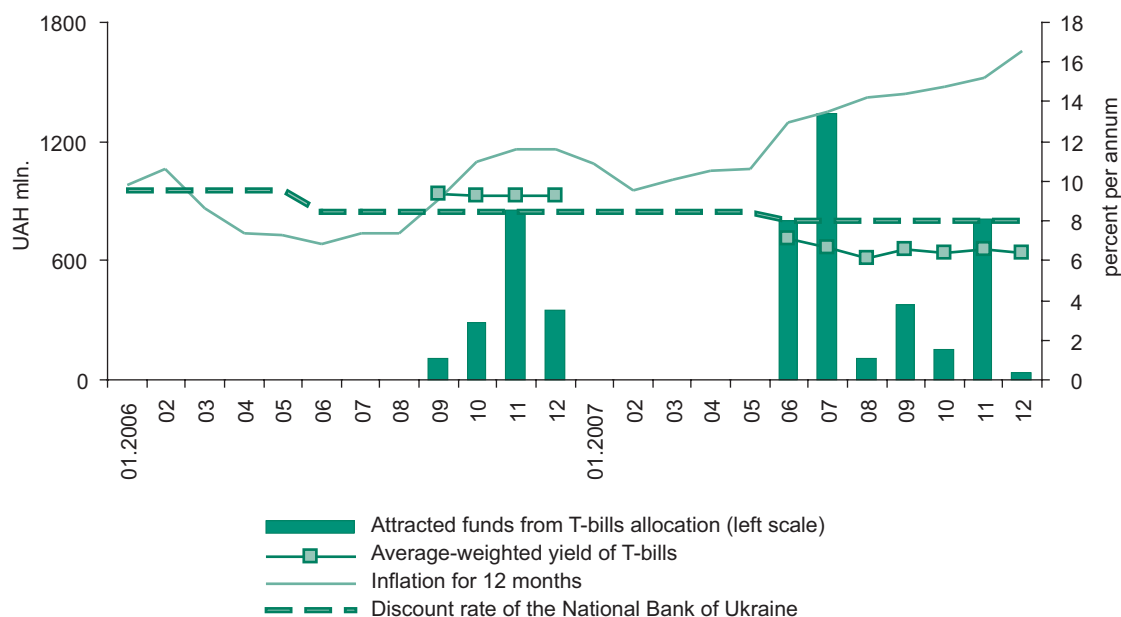
T-BILLS MARKET

Indicators	2007	Change against previous year	Information: 2006, change vis-a-vis previous year
Number of auctions	165	87	41
Realized	28	-9	12
Non-realized	137	96	29
Funds attracted to the State Budget, billion, UAH	3.6	2.0	-5.6
T-bill payment (principal amount + %), billion, UAH	2.9	-1.9	-4.5
Net fund attraction (balance), billion, UAH	0.7	3.0	-1.4
Average weighted yield, %	6.7	↓ 2.6 percentage point	↑ 2.01 percentage point
Average maturity, days	866	-119	-54

In 2007, the Ministry of Finance of Ukraine was allocating only the middle-term T-bills, the average maturity of which was 866 days having reduced by 119 days as compared with 2006.

During 2007, the T-bills were in demand of primarily the domestic investors. Notwithstanding the high reliability of the T-bills in comparison with other financial instruments, in 2007, the interest of non-residents in acquiring the government securities that was observed in 2006, tended to reduce. Thus, during 2007, the amount of T-bills with the non-resident possession decreased by UAH 0.6 billion and as of 1 January 2008, it was equal to UAH 2.1 billion (in 2006 it was UAH 3.4 billion).

Dynamics of Attracted Funds and Yield on T-bills



Along with shortening the average turnover period of the T-bills, their average weighted yield cut down (6.7% against 9.3% in 2006).

During 2007, the Ministry of Finance of Ukraine redeemed the T-bills and repaid yield to their holders totaling UAH 2.9 billion, including the principal debt redemption of UAH 2.1 billion and the yield payment of UAH 0.8 billion, and, thus, fulfilled all its commitments against various types of the government securities.

Because 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 (at face value) increased by UAH 1.5 billion in 2007 and by the end of the year it amounted to UAH 9.1 billion.

2.8. LEGAL ENVIRONMENT OF THE BANKING SYSTEM

In the reporting year, the improvement of banking laws and the normative framework aimed at the more effective operation of the banking system of Ukraine, went on.

In 2007, the legislative activities of the National Bank of Ukraine were directed at the elaboration of draft laws and their submission to the Verkhovna Rada (the Parliament) of Ukraine through the President of Ukraine, Cabinet of Ministers of Ukraine and the people's deputies of Ukraine as legal subjects of the initiative. In particular, the law elaboration activity of the National Bank of Ukraine consisted in up-dating of the conceptual amendments to the Law of Ukraine "On Banks and Banking"; working up the proposals on the improvement of laws related to ensuring deposits of individuals, corporate management in the banks, more effective procedure for the bank liquidation; identification of the real bank owners and the establishment of special requirements to them; improvement of the bank audit; establishment of the legal principles for supervision of the financial institutions on the consolidated basis, etc.

In view of the early termination of the people's deputies authorities of the 5th calling of the Verkhovna Rada and the parliamentary elections arranged, the legislative activities of the National Bank of Ukraine were focused on the participation of the NBU officers in the working groups established within the relevant central executive authorities with the purpose to prepare the appropriate amendments to the legislature and to review the draft laws submitted for

approval from the Cabinet of Ministers of Ukraine, the various ministries and other central executive authorities.

In 2007, the Parliament of Ukraine adopted the following draft laws which were elaborated under the support of the National Bank of Ukraine:

- Law of Ukraine "On Extension of the Liquidation Procedure of the JS Agro/Industrial Bank "Ukraina";

- draft Law of Ukraine (in the first reading) "On Amendments to some laws of Ukraine (concerning the regulation of the banks' activities)". The National Bank of Ukraine worked out and passed to the Parliament the proposals to the above draft law in order to include them for the second reading;

- draft Law of Ukraine "On Amendments to the Law of Ukraine "On the National Bank of Ukraine", re-submitted to the Verkhovna Rada of Ukraine upon vetoing by the President of Ukraine; its provisions were aimed at strengthening of the independence of the National Bank of Ukraine and preventing it from political influence.

The National Bank of Ukraine elaborated the proposals which were used by the people's deputies as fundamental principles for the following draft laws; "On Amendments to Some Legislative Acts of Ukraine to Ensuring the Implementation of the Bank Deposit Agreements"; "On Amendments to Some Laws of Ukraine Concerning the System of Deposit Insurance for Individuals" and "On the System of Obligatory Deposit Insurance for Individuals". The above draft laws were passed for the expert review to the Cabinet of Ministers of Ukraine which established the working group together with the officers from the National Bank of Ukraine. The draft laws were prepared for approval to be made by the Verkhovna Rada of Ukraine of the 6th calling.

Within the context of realizing the National Program for adjustment of the laws of Ukraine to the laws of the European Union and implementing the Plan of Actions for Ukraine – EU, in 2007, the National Bank of Ukraine considered more than 70 draft norms and regulations of the National Bank of Ukraine as regards their compliance with the laws of the European Union. By results of the consideration, there have been implemented the provisions of the European Union concerning the protection of consumer rights in the course of concluding the agreements on granting consumer loans and providing the consumers with full information on the total credit cost to be made by banks; concerning the bank auditor certification procedure and the mandatory bank audits; and also regarding the terms and conditions of the foreign currency trade, etc.

During 2007, the National Bank of Ukraine elaborated 10 draft regulations, 9 of which were made public and the provisions of another one were discussed at the working group meetings with participation of the representatives from banks and banking associations. More than 270 proposals and remarks were addressed to the regulations published, including about 35 from the banking associations and 230 – from the legal entities. The National Bank of Ukraine has accounted partially the remarks to 6 regulations, while the proposals and remarks to other regulations were in the course of revision. During 2007, 7 regulations were approved, out of which 3 regulations were registered by the Ministry of Justice of Ukraine. During the year, the National Bank of Ukraine tracked the efficiency of the regulations adopted in the previous years. Reports regarding the efficiency of two regulations were published on the web-site of the International Bank of Ukraine in Internet.

In the reporting year, the National Bank of Ukraine adopted 147 normative and legal acts which included the resolutions, instructions, regulations and rules; out of them, 67 normative and legal acts were registered by the Ministry of Justice of Ukraine. Other normative and legal acts did not subject to the registration by the Ministry of Justice of Ukraine. No rejections to register the normative acts of the National Bank of Ukraine by the Ministry of Justice of Ukraine took place in 2007.

In 2007, 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 266 court hearings, among which:

- decisions in favor of the National Bank of Ukraine were taken in 149 cases of UAH 6992.9 thousand;
- decisions unfavorable for the National Bank of Ukraine were taken in 8 cases of UAH 46.1 thousand.

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

- 20 claims (4.1 times less than in 2006) of UAH 402.1 thousand (14 claims of UAH 134.8 thousand were recognized; one claim of UAH 38.9 thousand was rejected; 4 claims of UAH 165.7 thousand remained with no consideration; and one claim of UAH 62.7 thousand remains under consideration);

- 125 complaints (or by 16.8% more than in 2006) of UAH 20.5 million (34 complaints of UAH 2.5 million were satisfied; 2 complaints of UAH 36.1 thousand were rejected; 12 cases of UAH 1.3 million were stopped to consider and 21 complaints of UAH 15.7 million are under consideration).

In 2007, the National Bank of Ukraine was claimed as follows:

- 2 claims of UAH 2.0 thousand (all claims were rejected);
- 101 complaints of UAH 4.9 million (6 complaints of UAH 10 thousand were satisfied; 24 complaints of UAH 664.5 thousand were rejected; 14 complaints of UAH 2.6 million remained with no consideration; 9 cases were stopped to consider; 3 complaints of UAH 453.3 thousand were withdrawn; 32 complaints of UAH 410.6 thousand are under consideration).

2.9. RISK MANAGEMENT IN THE NATIONAL BANK OF UKRAINE

In 2007, in order to ensure the safe risk level, the National Bank of Ukraine realized the financial risk management (credit risk, foreign exchange risk, interest rate risk and liquidity risk). Risk management was realized through the restrictions imposed on the acceptable risk level in complying with the recommendations of the Committee in Assets and Liabilities Management, which was reflected in the norms and regulations of the National Bank of Ukraine and promoted to avoiding or reducing its influence on the assets, liabilities and capital of the National Bank of Ukraine.

During 2007, the National Bank of Ukraine also constantly realized the operational risk management, characteristic to all its operations based upon the generalized descriptions of the line departments' processes assessed with applying scenario analysis method.

2.10. FINANCIAL MONITORING ON PREVENTION OF USING THE BANKING SYSTEM FOR LEGALIZATION (LAUNDERING) OF PROCEEDS OBTAINED IN THE CRIMINAL WAY

During 2007, the National Bank of Ukraine took measures aimed at prevention of using the banking system for legalization of criminal proceeds and terrorism financing.

In 2007, in conformity with the Law of Ukraine "On Banks and Banking" the National Bank of Ukraine developed and amended the Rules on conducting the financial monitoring by banks in respect to coordination of the appointments and dismissals of the executive officers of a bank branch as well as transferring responsibilities from one officer to another or disposing from the positions to be made rather by the executive bank official and not by the Regional Branch of the National Bank of Ukraine.

The National Bank of Ukraine initiated the elaboration of the draft Law of Ukraine "On fulfilling the UN Security Council resolutions which stipulate for restraining transactions to be carried out with assets of certain persons".

In 2007, the National Bank of Ukraine was active in the elaboration of amendments to the laws which regulated the relationships in the area of prevention of legalization of criminal proceeds and terrorism financing; the amendments were purposed at the implementation of the current edition of Forty Recommendations and IX Special Recommendations of the FATF, norms of III Directive of the European Council on prevention of using the financial system for money laundering and 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).

The National Bank of Ukraine participated in the elaboration and subsequent realization of the "Plan of Actions for 2007 on prevention and fight against legalization (laundering) of proceeds obtained in the criminal way and terrorism financing" approved by joint Resolution #136 of the Cabinet of Ministers of Ukraine and the National Bank of Ukraine dated 31 January 2007.

The representative of the National Bank of Ukraine participated as a financial sector expert in the work of missions of the Committee of the European Council (MONEYVAL) on assessing the compliance of the national laws of Moldova and Croatia with requirements of the EU laws on the prevention of legalization of proceeds obtained in the criminal way.

Also, the representative of the National Bank of Ukraine took part in the MONEYVAL training course purposed to prepare specialists for the expert assessment of the countries to counteract the legalization (laundering) of money and to fight against terrorism financing, performed within the European Council Committee.

The constant tracing of the decisions of the United Nations and the relevant foreign state authorities was conducted as regards the banks and the legal and natural entities whose activities were connected with laundering of criminal proceeds and terrorism financing. The banks were provided with the relevant information.

During 2007, the National Bank of Ukraine provided information to the banks of Ukraine, Association of the Ukrainian Banks, Ukrainian Credit Banking Union and the regional branches of the National Bank of Ukraine concerning the decisions of the Central Bank of Russian Federation on withdrawal of the licenses for performing the banking operations from banks of the Russian Federation because of their infringement of the legislature regulating the relationships in the area of prevention and counteraction of the legalization (laundering) of proceeds obtained in the criminal way and terrorism financing.

According to the Law of Ukraine "On Banks and Banking" the banks were examined as regards their compliance with the legislature in the area of preventing the legalization of proceeds obtained in the criminal way and terrorism financing.

During 2007, 482 inspections of the banking institutions were performed concerning their compliance with the above laws, including 187 inspections of the banks and 295 inspections of the bank branches. By results of the inspections 5666 cases of violation of the laws in force in the mentioned area were revealed. The National Bank of Ukraine applied 108 measures of enforcement to the banks and bank officials, namely:

- written warnings sent (40);
- penalties imposed on banks (42);
- administrative penalties charged from the bank managers and officials (23);
- bank managers and executive officials were removed from the positions (prior to elimination of the violations revealed) (two cases);
- some particular high risk transactions were stopped in one case.

In 2007, the banks of Ukraine registered 1.1 million of financial operations which became the financial monitoring objects totaling about UAH 1.05 billion; the State Committee in Financial Monitoring of Ukraine was informed of 87.9% operations of UAH 777.3 billion.

In order to establish the cooperation between the controlling and law enforcement bodies, the National Bank of Ukraine participated in the elaboration and approval of the Program of cooperation for 2007–2008 between the National Bank of Ukraine, General Prosecutor Office of Ukraine, Ministry of Internal Affairs of Ukraine, Security Office of Ukraine, State Committee in Financial Monitoring of Ukraine and State Tax Administration of Ukraine as regards the promptly revealing of operations performed with infringement of the laws in the banking area.

Representatives of the National Bank of Ukraine actively participated in the work of the Standing Working Group established in accordance to the resolution of the Cabinet of Ministers of Ukraine for researching the trends and methods related to laundering the proceeds obtained in the criminal way.

2.11. INTERNATIONAL COOPERATION

2.11.1. Relationships of the National Bank of Ukraine with Other Central Banks of the World Countries and Banking Institutions of Other Countries

In 2007, within the framework of cooperation with the central banks of other countries in the area of banking supervision, the National Bank of Ukraine prepared and entered into the Memorandum of Understanding between the National Bank of Ukraine and the National Bank of the Republic of Belarus, Memorandum of Understanding between the National Bank of Ukraine and the Banking Regulation Commission of China and Memorandum of Understanding between the National Bank of Ukraine and the Banking Supervision Commission of Poland.

In October 2007, the representatives of the National Bank of Ukraine participated in the regular meeting of the Central Bank Governors' Club of the Black Sea, Middle Asia and the Balkan countries.

In November 2007, the eleventh meeting of the Working Group "Banks" within the Top Level Group in the economic cooperation between Ukraine and the Federative Republic of Germany and the sixth meeting of the Central Bank Advisory Board of Ukraine and the Republic of Belarus, were arranged.

In order to strengthen and intensify the bilateral relations, in 2007, the management of the National Bank of Ukraine paid visits to the central banks of Iceland, Russia, Greece, etc.

For the purpose of getting to know the current economic situation in Ukraine and the banking system progress, there were meetings arranged between the management and officers of the National Bank on one side and the representatives of Commerz Bank AG, Drezdner Bank AG, Deutch Bank, Kukmin Bank, UniCreditBank, AstraBank, Bank of the Netherlands, Banking Supervision Commission of Poland and the National Bank of Poland, on the other side.

2.11.2. Cooperation of the National Bank of Ukraine with the International Financial and Other Organizations

In 2007, 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 2007, 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 World Bank

Cooperation with the World Bank for Reconstruction and Development (hereinafter, WBRD or World Bank) was realized according to the Strategy approved.

Aimed at the financial support of the State Budget of Ukraine, the National Bank of Ukraine together with the Government of Ukraine provided the realization of the Plan of Actions related to keeping to the World Bank Project "Development Policy Loan" (hereinafter, DPL-2), with taking into account the commitments of Ukraine specified in the letter of the Government of Ukraine addressed to the World Bank as regards the development policy and the Matrix of the institutional and strategic results within the DPL-2.

The National Bank of Ukraine participated in the elaboration of the draft Strategy of cooperation for 2008–2011 between the World Bank and Ukraine.

During 2007, the cooperation in reforming of the banking system between the National Bank of Ukraine and the World Bank kept on and was realized through a number of joint projects, namely, "Enlarged Access Policy to the Markets of Financial Services", "Development of the State Statistics System for Monitoring of the Social and Economic Transformations", "Export Development-II", and "Public Finance Modernization". The World Bank portfolio project in Ukraine was reviewed conjointly.

Within the Agreement on lending policy between the World Bank and Ukraine and according to the project "Enlarged Access Policy to the Market of Financial Services", the Ministry of Finance of Ukraine and the National Bank of Ukraine has entered into the agent agreement, approved the operational procedures with the World Bank and the Ministry of Finance and signed the credit agreements with two authorized banks within the said Project. On 12 July 2007, the World Bank informed on becoming valid the Agreement for granting loans to small and medium-sized enterprises (SME) in the rural area amounting to US \$150 million with 7 year maturity.

In 2007, the new project of US \$ 2.5 million was approved within the Credit line for micro-, small and medium-sized enterprises in the regions where the coal industry mines have been closed (MSME Credit line) and also three municipal projects totaling US \$ 0.7 million were launched to support the local executive bodies which took on their balance sheets the social infrastructure objects in the regions where the coal mines have been closed (municipal credit line). During the period of the MSME realization, US \$ 33 million were disbursed to finance 35 sub-projects and US \$ 5.7 million were provided to realize 23 municipal projects. As of 01 January 2008, residual debts of banks under the mentioned credit lines amounted to US \$ 8.3 million and US \$ 0.6 million, respectively.

The National Bank of Ukraine kept on maintenance of the World Bank project "Reforming of the Financial Sector of Ukraine-II" in order to meet the agreement signed in 2005 as regards the Grant of the Government of the Netherlands TF 054948 for Ukraine of Euro 1.5 million.

In 2007, the meeting of the management of the National Bank of Ukraine with Shigeo Katsu, Vice-president of the World Bank for Europe and Central Asia took place concerning the cooperation between Ukraine and the World Bank.

Cooperation with the European Bank for Reconstruction and Development

In order to support the SME business in Ukraine, the second credit line (SME-2) opened by the European Bank for Reconstruction and Development in 2000, totaling US \$ 88.2 million kept on to be implemented.

As of 01 January 2008, within the SME-1 and SME-2 credit lines the European Bank for Reconstruction and Development granted credits for 248 projects of US \$ 218.4 million with maturity up to 5 years and 2-year beneficial period of LIBOR+8%. Micro-credits extended to the final borrows at the expense of funds re-used, were equal to US \$ 1.3 billion.

In 2007, the SME credits were not rendered by the participating banks in view of shortening the period for possible use of funds attracted to 3–4 years, that was stipulated by the fact that the SME-2 Credit line should terminate in 2010. In the reporting year, in order to implement the Micro-credit Program, only US \$ 3 million were extended to the authorized banks in the form of two credit lines.

The banks went on to increase the micro-credit volumes both at their own fund expense and at the expense of funds paid by the beneficiaries. As of 01 January 2008, there remained 7 thousands of outstanding loans of US \$ 71.9 million (US \$ 66 million in the current portfolio of the Program participating banks were accumulated at the expense of the bank own funds), including 4136 express-credits, 1996 micro-credits and 874 credits to the small enterprises.

In 2007, the National Bank of Ukraine repaid in full its liabilities to the European Bank for Reconstruction and Development at the regular maturities. On 01 January 2008, the outstanding credits under the SME-2 amounted to US \$ 30.8 million.

Within the cooperation framework with the European Bank for Reconstruction and Development, the National Bank of Ukraine participated in the elaboration of the new Program of cooperation for 2007–2009 between the Government of Ukraine and the European Bank for Reconstruction and Development and in drawing up the Agreement between the Government of Ukraine and EBRD on the cooperation and activities of the EBRD Resident Representative Office in Ukraine.

The work on launching the credit operations to be extended by the European Bank for Reconstruction and Development in the national (Ukrainian) currency went on.

The papers for meeting of the NBU management with the EBRD Vice-president in financing Manfred Sheperse have been prepared. Management of the National Bank of Ukraine took part in the Annual Meeting of the EBRD Board of Governors in Kazan, Russian Federation (19–22 May, 2007).

Cooperation with the International Monetary Fund

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 2007, the experts of the IMF missions from different departments worked with the NBU officers in various issues, in particular, with the European Department concerning the assessment of the predicted results of the economic development of the country, macroeconomic forecasts and the NBU role in maintaining the macroeconomic stability; with Monetary Policy and Capital Market Department and Statistics Department concerning the National Bank methodology to calculate the international reserves under the foreign exchange rate fixed and methodology to calculate the stress-testing results. The participation of the National Bank of Ukraine in the Coordination Direct Investment Review, planned by the International Monetary Fund for 2009, was discussed.

By results of the World Bank missions' work in Ukraine, on 11–22 June 2007, the meeting of the IMF experts with representatives of the banks and audit companies was arranged in order to assess the situation of the financial sector of Ukraine and to determine satisfying by the National Bank of Ukraine of the Basle Core Principles for the effective banking supervision and the principles of payment and settlement system operation.

By results of the technical missions of the IMF experts, the National Bank of Ukraine was provided with the memos consisting of the recommendations to be used in further activities. During 2007, the experts of the International Monetary Fund provided the advisory support to the NBU officers concerning the transition to the inflation targeting mode, forecasting and analysis of the macroeconomic policy, introduction of more flexible foreign exchange rate regime, liberalization of the foreign exchange market and regulation of ownership issues with foreign banks.

There was arranged the participation of the NBU management in the half-year meeting of Governors of the International Monetary Fund and World Bank (13–16 April 2007, Washington, USA), annual meetings of the IMF and WB Constituency Group Governors headed by the Netherlands and Ukraine (9–10 June 2007, Kyshyniv, Moldova) and the annual meeting of the International Monetary Fund and the World Bank Governors (20–22 October 2007, Washington, USA).

The National Bank of Ukraine actively participated in preparing the information and analytical papers regarding the participation of Ukraine in the initiative of the IMF member-countries to mobilize the financial assistance for Liberia to be rendered by the international community.

Cooperation with the CIS Inter-state Bank

During 2007, the representatives of the National Bank of Ukraine participated in the meetings of the CIS Inter-state Bank Council, tracking the process of its reforming in compliance with the official position of Ukraine. There have been studied the draft papers "Memorandum on the credit policy of the Inter-state Bank", "Tender procedure for choosing an auditing company to perform the annual audit of the Inter-state Bank" and "Regulation on the Tender Commission for choosing an auditing company to perform the annual audit of the Inter-state Bank".

Implementation of the German-Ukrainian Fund Program

In 2007, the National Bank of Ukraine kept on the monitoring of funds of the German-Ukrainian Fund (GUF) as regards meeting the "Grant Agreement" signed by the National Bank of Ukraine and the German Reconstruction Credit institution (KfW).

During the whole time when the Program was effective, starting from 2001, 31 credit agreements totaling Euro 36.5 million, were concluded between the participating banks and the GUF; out of that number, 10 credit agreements of Euro 18.1 million remained acting. In 2007, Euro 5.4 million were disbursed to the banks from the GUF funds.

Within the agreements concluded by the banks participating in the GUF micro-credit program, as of 01 January 2008, more than 159 thousand credits totaling Euro 650.1 million were extended, including more than 36 thousand credits of Euro 170.2 million entered in 2007. The current portfolio amounted to 2.6 thousand credits of Euro 28.3 million on 01.01.2008.

During 2007, the National Bank of Ukraine took measures on the realization of the project "Refinancing program to support the rural area credits". Under this project the Government of the Federative Republic of Germany extended to Ukraine (in the person of the Ministry of Finance of Ukraine under condition that the GUF shall be the project executor) the preferential credit line of Euro 7 million for 45 years.

Cooperation with other international institutions

In conformity with the strategic course of our country integration with the European Union (hereinafter, EU), the National Bank of Ukraine ensured the fulfillment of the Ukraine-EU Plan of Actions for 2007 and actively participated in the elaboration of the new draft basic (master) agreement which should replace the Agreement on the partnership and cooperation between Ukraine and EU and also in determination of the main cooperation goals and priorities within the Agreement on the establishment of the free trade zone between Ukraine and EU, in particular, on incorporating in the agreement a special sub-section concerning the financial service trading.

In order to realize the course of Euro-Atlantic integration, in 2007, the National Bank of Ukraine provided the implementation of measures of the Ukraine – NATO Target Plan for 2007 in the part, regarding the activities of the National Bank of Ukraine.

For the purpose of joining Ukraine into the World Trade Organization (WTO), in 2007 the National Bank of Ukraine participated in the meetings of the Working Group on reviewing the Ukraine application as regards its entering the WTO; in the discussions on approximation of the financial service market operation of Ukraine to the EU rules and procedures; provided the information details to the inquiries of the countries participating in the Working Group and took part in studying the draft Working Group Report on reviewing the Ukraine application to enter the WTO as the concluding paper of Ukraine in the joining process.

In order to harmonize a number of legislative norms which failed to comply with the WTO requirements and rules, the National Bank of Ukraine initiated amendments to the Law of Ukraine "On the Procedure of Payments in the Foreign Currency", specifically, regarding the extension of time during which the payments (settlements) of residents under the export/import

operations should be effected (from 90 days to 180 days). Also, there was extended the period set to use as scheduled the foreign currency which was acquired for the Hryvnia in the inter-bank foreign exchange market of Ukraine.

In 2007, in conformity with the Strategy of cooperation with the international financial organizations for 2006–2008, the National Bank of Ukraine kept on its work on the establishment of the Baltic/Caspian/Black Sea Bank for Development, intensifying cooperation between Ukraine and the European Investment Bank and between Ukraine and the Northern Investment Bank which would provide with the possibility to attract the long-term financial resources of the said organizations to realize the important investment projects in the infrastructure area, energy supply and protection of environment areas.

2.12. BASIC TRENDS OF ECONOMIC WORK

2.12.1. Statistic and Information Support of the National Bank of Ukraine Activity

In 2007, the National Bank of Ukraine ensured handling of economic work directed towards fulfilling the functions in compliance with the Law of Ukraine "On the National Bank of Ukraine" under the following directions:

- analysis and forecasting of macroeconomic and monetary indices;
- compilation of monetary and banking statistics;
- analysis of banks' claims on credits extended to the economy of Ukraine and banks' liabilities on attracted funds;
- analysis of interest rates under deposit facilities mobilized by banks and extended credits;
- preparation of information, analytical and presentation materials as regards the situation and tendencies of the economy and banking system development;
- compilation of the balance of payments, its analysis and forecasting;
- compilation and analysis of international investment position;
- compilation and analysis of the state external debt;
- monitoring of performing the measures aimed at fulfillment of decrees and orders of the President of Ukraine on economic issues.

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

Over the year, in order to ensure transparency of banking activity, the National Bank of Ukraine issued the following official periodicals: analytical and statistical edition "Bulletin of the National Bank of Ukraine" and magazine "Gerald of the National Bank of Ukraine" on a monthly basis and the "Balance of Payments and Foreign Debt of Ukraine" quarterly.

In 2007, for purposes of improving the official monthly analytical and statistical edition of the National Bank of Ukraine – the "Bulletin of the National Bank of Ukraine" – the questioning was carried out among its users who generally gave high assessment to the Bulletin and relevant recommendations and comments for its further improvement.

In 2007, the work to optimize statistical reporting which is submitted to the National Bank of Ukraine continued in order to prepare monetary and banking statistics, balance of payment statistics, international investment position as well as foreign debt and fulfillment of regulative and supervising functions. During the reporting year two amendments were made to the Rules of statistical reporting to be submitted to the National Bank of Ukraine, and as a result 42 forms of statistical reporting were changed, six new forms were introduced and three forms were cancelled. New forms of statistical reporting were introduced in order to control refunding of a bank under liquidation, to make operations of non-residents with securities on the territory of Ukraine,

as well as regarding money transfer using international systems and transfer of cashless foreign currency. In order to improve monetary and banking statistics, updated were the methods and algorithms of indices calculation, revised were the time-frame, frequency and procedure of submission of some statistical reporting forms to be submitted to the National Bank of Ukraine.

During the reporting year, indicators of monetary and banking statistics were compiled, statistic reporting was given to the IMF and monetary statistics was distributed through the official editions of the National Bank of Ukraine, Internet etc.

The work related to the compliance with the requirements of the Special standard of disseminating the IMF data was continued, including preparation and dissemination of information according to the indices of the financial and external sectors of the economy.

In January 2007, the web site of the International Monetary Fund placed statistical data and metadata regarding the financial stability indicators of Ukraine as a country-member of the IMF coordinated project on compilation and dissemination of financial stability indicators. Statistical data were compiled according to 12 basic and 10 recommended by the International Monetary Fund financial stability indicators.

During the year, the National Bank of Ukraine compiled quarterly statistical data regarding financial stability indicators for depository corporations, prepared materials for information dissemination on the web site of the National Bank of Ukraine.

In 2007, the work continued aimed at making the financial passport of regions formed according to the indicators of general economic and banking system development and maintenance of time series according to its indicators. The above information was used for economic analysis of regions and economic research.

During 2007, the work to implement the World Bank's project "Development of the system of state statistics for monitoring of social and economic transformations" continued. In the context of the above project local advisers fulfilled work in order to improve monetary and banking statistics, balance of payments statistics and international investment position. In line with the procurement plan the preparation was made as to the rendering of assistance by external consultants in improvement of methods and organization of monetary and banking statistics as well as balance of payments statistics, and study of English for the National Bank of Ukraine.

The task to fulfill economic work in regional branches of the National Bank of Ukraine was given to the divisions of economic work and monetary relations (hereinafter referred to as divisions). In their work the divisions of regional branches of the National Bank of Ukraine were guided by the Regulation on branches (regional branches) of the National Bank of Ukraine, the Laws of Ukraine "On the National Bank of Ukraine" and "On Banks and Banking" as well as other normative documents of the National Bank of Ukraine.

Continuative attention of citizens and representatives of scientific and business circles both inside and outside Ukraine was attracted by the web site of the National Bank of Ukraine: the number of its visitors increased by almost 20 %. In 2007, the amount of daily information, information on banking supervision as well as analytical and research materials increased. Modernization of the web site of the National Bank of Ukraine continued.

In order to improve information awareness of the public as to the banking system development, the exhibition "The National Bank of Ukraine" was functioning at the National complex "Expocenter of Ukraine". Partially renovated was the design of the exhibition stand "The National Bank of Ukraine" made in modernist style using up-to-date materials and technologies, performed was actualization of information materials concerning the NBU activity and banking system development.

In 2007, the National Bank of Ukraine participated in the national exhibition action "Picturesque Ukraine" and was rewarded with a diploma of the National complex "Expocenter of Ukraine" for artistic design and video and information materials. Besides, the National Bank of Ukraine showed exposition at numerous seminars, round tables, scientific conferences etc.

In the reporting year the analytic work continued aimed at provision of the governing body and units of the National Bank of Ukraine with information and analytical information of international financial organizations, in particular the International Monetary Fund and the World Bank, required for decision-making. In the context of this work, different sources of information, periodicals, reports, analytic notes, working documents of the International Monetary Fund and the World Bank were monitored, information messages of the most important materials were prepared, some materials were translated into Ukrainian, or briefly summarized. For usability, the information and analytical materials selected were placed on the web-site "Information and analytical materials of the International Monetary Fund and the World Bank" of the Intranet.

2.12.2. Economic Research and Forecasting

In 2007, in the context of coherent transition to the monetary conditions based on price stability, the National Bank of Ukraine continued its work aimed at improving the macroeconomic forecast model, in particular in the part of essential enhancement of assessments of balanced levels of real GDP, interest rates and real effective exchange rate.

The results of work with economic forecasting were embodied in analytical and forecasting materials as regards the situation of the real sector, government finance and money-and-credit market, with the emphasis on the development of inflationary processes for the next 8 quarters.

During the year the National Bank of Ukraine participated in research projects. Jointly with the Ministry of Economy of Ukraine and the State Statistics Committee of Ukraine the methodology of calculating the basic inflation indicator was worked out, which will be published starting from 2008. The National Bank of Ukraine with the Institute of economic forecasting of the National Academy of Sciences of Ukraine implemented the research project "Financial and budgetary mechanisms of influence on inflationary process". Together with the Scientific Research Center of the National Bank of Ukraine carried out were the research on "The matters of introduction of inflationary targeting in Ukraine" and "The analysis of action of transmission mechanism in Ukraine". Together with the Conference Board of Canada and the International Long-Term Research Center performed was the work on implementation of the project "Ability to analyze social and economic results and potential", which continues.

The results of the performed analytic research as to the analysis of inflationary processes in Ukraine and the world and the issues of transition to the monetary order based on price stability were widely covered in a number of scientific articles and publications.

In the reporting year the economic research based on quarterly poll of business expectations of Ukrainian enterprises continued. The aim of the poll was to get information regarding the mood of economic entities and supplementary data for macroeconomic forecast. The information was received by voluntary questioning of more than 1200 enterprises selected on basis of regional structure and according to the economic activity status. Analytic materials and poll results were placed on the Internet web-site of the National Bank of Ukraine and were given to member-enterprises as well as public authorities.

2.13. SCIENTIFIC RESEARCH OF THE NATIONAL BANK OF UKRAINE

During 2007, the National Bank of Ukraine carried out a number of scientific research, regarding in particular:

- the optimal model and methods of stress-testing of credit risk by banks;
- the lay-out and information sources of the bulletin "Banking sector performance measures of CIS and EU countries";
- international experience of the assessment and management of risk of bank liquidity by banking supervision authorities; prudential requirements (economic norms) as regards the liquidity risk and recommendations for Ukraine;

- conditions, stages and measures required for introduction of more flexible hryvnia exchange rate;
- econometric models of foreign exchange policy making and macroeconomic effects of changes in exchange rate dynamics etc.

The work on developing the project "Financial sector development strategy" and the project "Ukraine's banking system development strategy" continued.

Performed was the work on preparing the analytic, scientific and methodic materials as to the results of hryvnia revaluation against US dollar, creating the system of high-quality regulation of markets of financial services and supervision of financial institutions and as to the assessment of Ukrainian banking system stability.

During the year the National Bank of Ukraine with the assistance of international financial organizations, interested ministries, departments and associations organized scientific conferences, seminars, round-table meetings with discussion of problem issues of scientific research, proposals and practical recommendations as to the directions of development of competitiveness of Ukraine's banking system.

2.14. IMPROVEMENT OF ACCOUNTING AND FINANCIAL REPORTING

With the aim of accounting regulation in Ukrainian banks the National Bank of Ukraine in 2007 proceeded with further improvement of methodological instruments in compliance with the requirements of international standards of financial reporting with the purpose of giving the complete and unbiased information about financial situation to the users.

In accordance with the aims and directions of the banking system development for 2007, the work of the National Bank of Ukraine was aimed at:

- continuation of improvement of accounting of operations with financial instruments and preparation of authentic and transparent financial reporting of Ukrainian banks taking into account the international standard requirements for financial reporting and the national accounting regulations (standards);
- harmonization of methodological accounting guidelines with the basic norms of the European Union legal system.

The above tasks were implemented by means of working-out of new and try-out of the current legal and normative acts, in particular:

- updated were methodological guidelines of display in banks' accounting of transactions with investment immovable, as well as noncurrent asset withhold for sale;
- changed was the methodology of accounting of asset sale transactions with deferred payment, credit and deposit operations, as well as operations on credit risk provisioning and use. Amendments, which become effective on January 01, 2009, anticipates that initial credit and deposit recognition is estimated at the fair value, which will contribute to introduction of modern methods of risk management in banks and will guarantee determination of real value of banking products and banking business;
- implemented was the procedure of accounting of bank operations with derivative financial instruments including hedging transactions, which are made for the purpose of compensation for losses (gains) resulting from changes of fair value of a hedging subject to be made by gains (losses) resulting from changes of fair value of a hedging instrument;
- updated were the rules of accounting of gains and losses of Ukrainian banks. In particular, changed was the procedure of display in accounting of doubtful debt under accrued income and updated was the procedure of use of effective interest rate for recognition of interest income under financial instruments;
- implemented were the requirements as to the disclosure by banks in their financial reporting of information concerning the assets, liabilities, gains and losses under transactions with financial instruments according to classes, which comply with the characteristics of respective financial instruments;

– anticipated was the disclosure in the notes to financial reporting of banks of information about management of risks, which arise under operations with financial instruments, nature and level of these risks.

2.15. AUDIT OF THE NATIONAL BANK OF UKRAINE

In 2007, the audit of the National Bank of Ukraine structural units was performed in accordance with the approved plan of examinations of the NBU structural units.

When conducting an audit, special attention was given to the reliability of financial and statistical reports, risk assessment in the activities of structural units of the National Bank of Ukraine, compliance with the legislation and the NBU legal and normative acts.

Continued was the work on compliance of the Auditing Department activity with the International standards of professional activity and internal audit worked out by the Institute of Internal Auditors.

In 2007, the audit plan was implemented: 381 audits were conducted, including 354 audits of regional branches (25 complex audits and 329 audits of separate sides of their activity), 12 audits of separate sides of the activity of the Central Office structural units, 15 audits of the activity of structural units and divisions of the National Bank of Ukraine. In addition, 6 unscheduled inspections were performed over the reporting period.

Based on the results of the audits, structural units of the National Bank of Ukraine accepted for execution 1823 recommendations, or 90.1% of the received ones.

2.16. PRODUCTION OF BANKNOTE PRINTING AND MINTING WORKS

2.16.1. Activities of the Banknote Printing and Minting Works of the National Bank of Ukraine

Production and commercial operations of the Banknote Printing and Minting Works in the reporting year were performed in accordance with the assigned tasks of the National Bank of Ukraine of money manufacture and the agreements concluded with other customers.

In 2007, as compared with 2006, the volume of production manufactured and services rendered increased by UAH 103.2 million and made up UAH 342.6 million, including UAH 326.3 million (95.2 %) on demand of the National Bank of Ukraine.

In the context of assigned tasks and concluded agreements the Banknote Printing and Minting Works in 2007 dispatched:

- 1.5 billion banknotes of different denominations;
- 920 million small coins;
- 911.4 thousand commemorative coins;
- 80 million banknotes on demand of "Giesecke & Devrient GmbH" (Germany);
- 21.3 thousand government awards, departmental medals and signs, including 1.2 thousand orders and medals for the State Administrative Department of the President of Ukraine.

Increase in output of products of the Banknote Paper Mill was due to the pickup in orders of the National Bank of Ukraine and other organizations.

Volumes of the Mint output increased as a consequence of increased volumes of commemorative and small coin production (volumes of small coin production increased essentially) by request of the National Bank of Ukraine.

In 2007, the Banknote Printing and Minting Works of the National Bank of Ukraine sold products (services) to the total amount of UAH 353.3 million, including UAH 338.0 million (95.7 %) by request of the National Bank of Ukraine, and UAH 10.1 million – by request of government institutions and other organizations.

Performed was the work aimed at study of conditions and tendencies of development of printing and metalworking equipment. Great attention was paid to solution of current problems

and preparation of the production departments of the Banknote Printing and Minting Works for fulfillment of individual government orders of special importance.

Besides, worked out was construction documentation on single demands of the units of the Banknote Printing and Minting Works as well as under instructions of labor and fire protection. Manufacture of greater part of equipment according to the technical department projects was made by the efforts of the mechanical repair department of the Banknote Printing and Minting Works.

According to the approved strategic plan of technical development of the Banknote Printing and Minting Works, modern technologies were implemented to control the quality of banknotes and intaglio printing (two systems BPS-2000 and system Nota Save III), which allowed to reduce technical waste coefficient by 1.9% and to decrease cost value of banknotes production by UAH 3.4 million

According to the approved Strategic Plan of information technologies utilization at the Banknote Printing and Minting Works for 2006 – 2010, the complex information system was implemented.

2.16.2. Activity of the Banknote Paper Mill

In 2007, according to the production activity results, the Banknote Paper Mill of the National Bank of Ukraine (town of Malyn) produced more than 1166 tons of banknote and 954 tons of security paper, which gave an opportunity to load production facilities by 55.5 % and by 44.5 % respectively.

Volume of sales in 2007 was 1142 tons of banknote paper to the amount of UAH 42.7 million, and 926 tons of security paper to the amount of UAH 15.4 million

The order of the National Bank of Ukraine was fulfilled in full and in due time.

During 2007, given were services to Malyn utility enterprises for 1249 thousand cu.m. waste-water treatment to the amount of UAH 2.4 million

With the purpose of improving the technology of banknote paper production, during 2007, paper pulp was manufactured with introduction into composition of flax fibers of the Makariv flax-mill.

Scientific research and manufacture were carried out using, for surface sizing, chemical agents based on home manufactured polyurethane in order to increase durability and wearing capacity of banknotes in the process of circulation. The received paper passed printability and engineering tests at the Banknote Paper Mill.

At the section of special nettings production, a milling machine ROLAND MDX-40 was installed, which gave an opportunity to manufacture a wax engraving to get a continuous-tone watermark, and to reduce production time of the special netting.

Performed were research investigations aimed at enlargement of source of raw materials and improvement of banknote paper production technology (analysis of dyes, moisture-resistant resins, cotton (linter) cellulose etc.).

The banknote paper manufacture proceeds with its improvement.

2.17. STAFFING AND PERSONNEL TRAINING AND RETRAINING

As of January 1, 2008, the personnel of the National Bank of Ukraine numbered 11 266 persons, including 6291 civil servants and 4975 other employees.

The qualitative composition of the personnel of the National Bank of Ukraine system over two last years was as follows:

QUALITATIVE INDICATORS OF THE NATIONAL BANK OF UKRAINE PERSONNEL

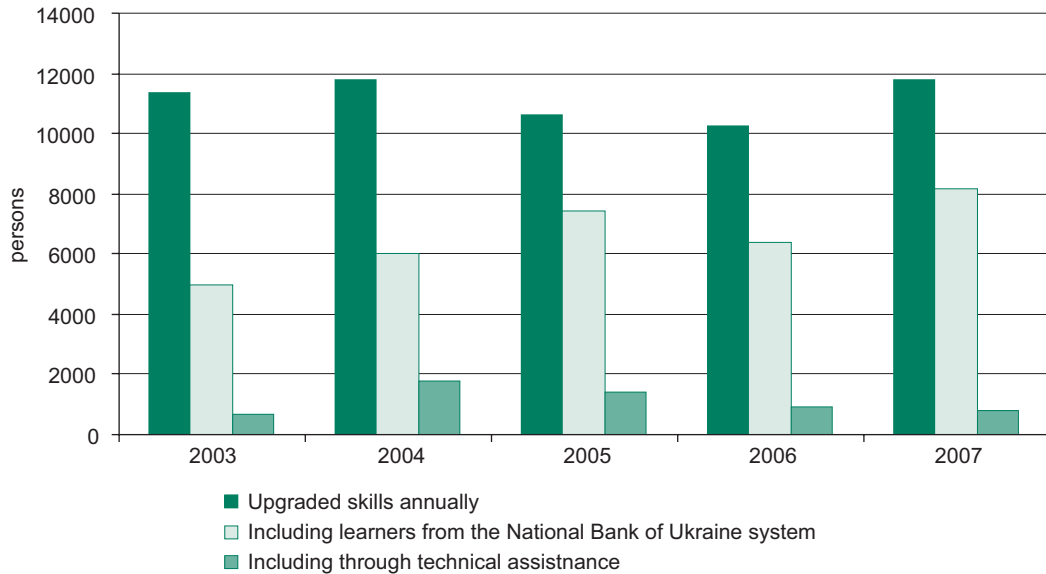
Indicators	In 2007	For reference: in 2006
Specialists (heads, professionals, specialists) with complete higher education (number of persons)	6451	6353
Doctors and Candidates of Sciences (number of persons)	368	334
Specialists with work experience (%):		
– up to 5 years	19.6	19.7
– 5 years and more	80.4	80.3
Staffing level (%):		
– in the National Bank of Ukraine	96.5	96.6
– in the Central Office	94.0	93.9
Average age of employees:		
– in the National Bank of Ukraine	41.8	42.1
– in the Central Office	40.2	40.1
Employees of retirement age (number of persons)	485	484
Dismissed (%)	7.3	7.6
Resigned by choice (%)	4.2	4.0

**BREAKDOWN OF CIVIL SERVANTS OF THE NATIONAL BANK OF UKRAINE
BY POSITION CATEGORIES**

Indicators	Total persons	As of January 01, 2008	
		Men	Women
Number	6291	2403	3888
Heads	1735	826	909
whereof:			
1-st category	5	5	0
2-nd category	115	78	37
3-rd category	536	226	310
4-th category	1061	499	562
5-th category	18	18	0
Professionals, specialists, employees:	4556	1577	2979
whereof:			
2-nd category	6	4	2
3-rd category	434	133	301
4-th category	384	110	274
5-th category	3732	1330	2402

For refresher training of employees of the system of the National Bank of Ukraine and banking and financial institutions of Ukraine over 2007, in 1566 training events (seminars, conferences, courses, round tables, probation etc., 1354 of them were held in Ukraine and 212 abroad) 11795 students participated, including 8144 employees of the system of the National Bank of Ukraine and 3651 persons from banking and other institutions of Ukraine as well as from central banks of other countries.

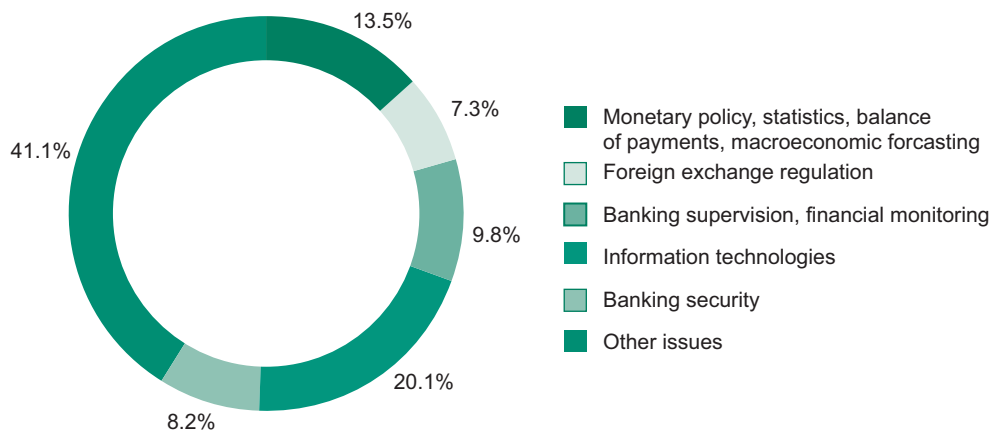
Dynamics of Advanced Training in 2003–2007



Total number of employees of the system of the National Bank of Ukraine who raised their qualification in the reporting year exceeded 3.3 thousand persons (30.0 % of total number of employees).

High emphasis in personnel training was placed on the issues of information technologies, monetary policy, money-and-credit and banking statistics, balance of payments, macroeconomic forecasting, banking supervision, financial monitoring, foreign exchange regulation, accounting and financial reporting, cash turnover, payment systems, public purchases, personnel management, audit, legal support of banks' activities, banking security, other important aspects of the activity of the central bank and the banking system as a whole.

Structure of Training Topics in 2007



As of January 01, 2008, 7440 persons studied at subordinated educational institutions under all directions and specialties, including 4227 full-time and 3213 external students. For account of the National Bank of Ukraine budget, 1796 NBU employees studied (including 1663 full-time and 133 external students).

In 2007, 1563 specialists graduated from higher educational institutions of the National Bank of Ukraine, including 807 full-time and 756 external students.

The NBU Central Library stock had 107238 pieces, including 42909 books, 34904 news-

papers and 24906 magazines. In 2007, the Library had 1872 registered readers. Number of visits was 17 391 against 19 541 in 2006.

2.18. DEVELOPMENT OF MATERIAL AND TECHNICAL BASIS ACCORDING TO MAIN DIRECTIONS

In 2007, the construction of 13 sites, which began in previous years continued and 18 new construction sites were started.

The capital investment plan stipulated fulfillment of work on constructing the NBU own facilities to the amount of UAH 147.2 million in 2007, including construction sites of regional branches, educational institutions, the Central Office and the Banknote Paper Mill, financed out of centralized funds to the amount of UAH 140.6 million, and sites of the Banknote Printing and Minting Works and the Banknote Paper Mill, financed out of their own amortization to the amount of UAH 6.6 million.

CAPITAL CONSTRUCTION OF NBU SITES IN 2007

No.	Indicators	Plan	Fact	(UAH million) Fulfillment (%)
1	Capital investment spent on construction of NBU sites	147.2	132.1	89.7
1.1	– out of centralized funds	140.6	128.7	91.5
	including:			
1.1.1	– sites of the Central Office	10.9	9.1	83.5
1.1.2	– sites of regional branches	52.9	45.9	86.8
1.1.3	– sites of training institutions and organizations	76.8	73.7	96.0
1.2	– out of their own amortization	6.6	3.4	51.5
	including:			
1.2.1	– sites of the Banknote Printing and Minting Works	3.9	2.9	74.4
1.2.2	– sites of the Banknote Paper Mill	2.7	0.5	18.5
2	Sites put into operation to the amount of basic assets	99.8	86.0	86.2
2.1	– out of centralized funds	96.6	83.5	86.4
	including:			
2.1.1	– of the Central Office	6.6	3.9	59.1
2.1.2	– of regional branches	19.3	11.5	59.6
2.1.3	– of training institutions and organizations	70.7	68.1	96.3
2.2	– out of their own amortization	3.2	2.5	78.1
	including:			
2.2.1	– Banknote Printing and Minting Works	2.5	1.8	72.0
2.2.2	– Banknote Paper Mill	0.7	0.7	100.0
3	Uncompleted construction of NBU sites	x	99.7	x

Capital investments plan in 2007 was fulfilled by 89.7 %: at the expense of centralized funds by 91.5% and at the expense of their own amortization – by 51.5%.

The largest plan fulfillment (96.0%) was under the sites of educational institutions.

In 2007, the design and survey work of 26 sites was finished to the amount of UAH 6.8 million, and 19 facilities of the system of the National Bank of Ukraine were put into operation to

the total amount of basic assets of UAH 86.0 million, which totals 86.2% of the planned volumes including at the expense of centralized funds – 86.4% and at the expense of their own amortization – 78.1%.

In 2007, the new server premises of the NBU Branch in Zhytomyr Region were equipped with adequate networks and communications and automated gas fire-fighting system; performed were re-equipment of the system of uninterrupted power supply in the building of the NBU Branch in Donetsk Region; reconstruction of the Guest House of the National Bank of Ukraine in Yalta; reconstruction of external networks of power supply and uninterrupted power supply of the NBU Branch in Rivne Region; construction of the hostel for 400 persons of the Ukrainian Banking Academy of the National Bank of Ukraine; reconstruction with capital repair of faces of the training building No. 3 of the Lviv Banking Institute of the National Bank of Ukraine; reconstruction of the hydrochloric acid warehouse into alcali warehouse of the Banknote Paper Mill (town of Malyn); renovation of the check-point No. 1 (building БФ-23) of the Banknote Printing and Minting Works etc.

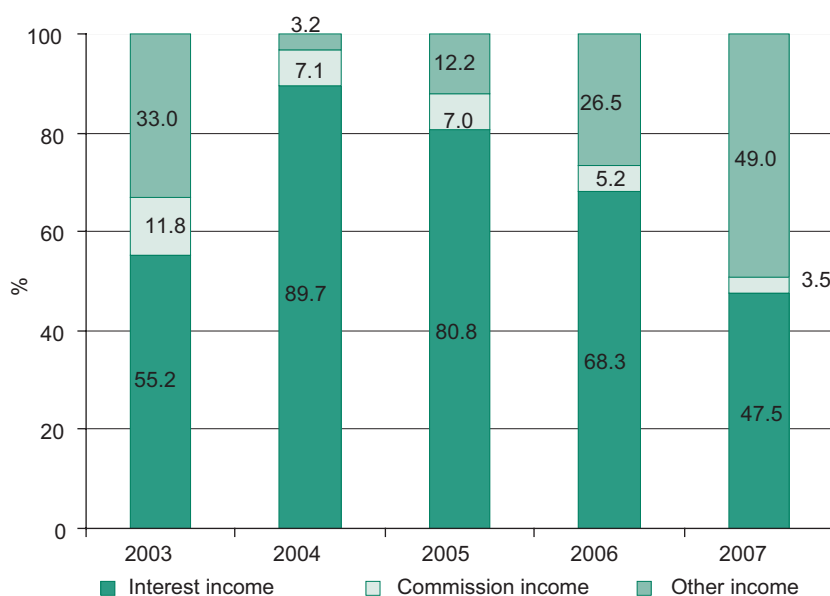
Among the main reasons of non-fulfillment of the capital investment plan was a considerable rise in the cost of labor and material resources, which resulted in repeated correction of the estimated cost of the facilities construction.

2.19. RESULTS OF THE FINANCIAL ACTIVITIES OF THE NATIONAL BANK OF UKRAINE

In the NBU report of financial results for 2007, income and expenditures are represented according to the accrual basis.

Total volume of income of the National Bank of Ukraine in 2007 as compared with 2006 increased by 82.5 %, or by UAH 3468 million and amounted to UAH 7671 million.

Structure of Income of the National Bank of Ukraine for 2003–2007

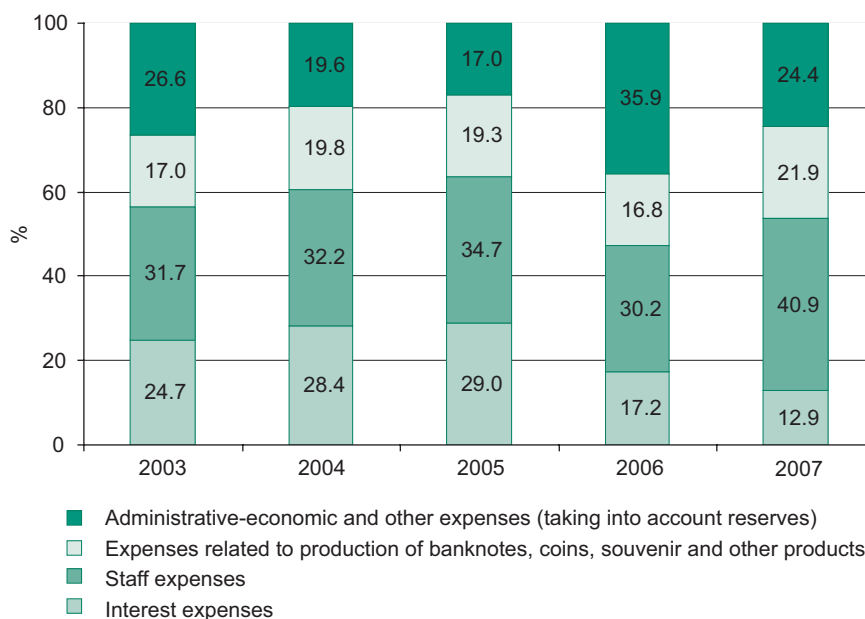


In general structure of income the portion of interest income was 47.5% (UAH 3643 million). In the interest income structure the largest portion (96.7%) fell on income on placed deposits. The share of interest income under extended credits was 3.2%, under other interest income it was 0.1 %. The share of commission income in the total volume of income was 3.5% (UAH 266 million).

An increase in the share of other income (up to 49.0%) took place mainly due to increased result of revaluation of debt securities, which were accounted under fair value with recognition of the revaluation result in financial results.

Total volume of current expenditures of the National Bank of Ukraine for 2007 remained nearly at the level of 2006 and amounted to UAH 2036 million.

Structure of Expenditures of the National Bank of Ukraine for 2003–2007



The share of interest expenses in the total structure of expenditures under the results of the accounting year was 12.9% (UAH 262 million). The share of expenses connected with manufacture of banknotes, coins, souvenir and other products was 21.9% (UAH 445 million), administrative, economic and other expenditures (including reserves) – 24.4% (UAH 497 million).

Profit from day-to-day operations of the National Bank of Ukraine for 2007 as compared with 2006 increased by 156.0% and was UAH 5635 million.

**Governor of the
National Bank of Ukraine**

V.S. Stelmakh

CALENDAR OF BASIC EVENTS HELD IN 2007

- January**
- Putting into circulation of the commemorative coin "The Year of Pig" at the face value of UAH 5 (silver).
 - Approving amendments to Regulations on Handling Cash Operations in Banks of Ukraine.
 - Putting into circulation of the jubilee coin "Serhiy Koroliov" at the face value of UAH 2 (German silver).
 - Putting into circulation of the commemorative coin "Capricorn" at the face value of UAH 5 (silver) and UAH 2 (gold).
 - Approving amendments to the Rules of Compilation and Presentation of the Reporting to the IMF.
 - Putting into circulation of the commemorative coin "Aquarius" at the face value of UAH 5 (silver) and UAH 2 (gold).
- February**
- Approving the Regulations on the Order of Forming the Provisions for Operations of Banks of Ukraine with Securities.
 - Approving the Instruction on Organizing the Currency Values Transportation and Funds Collection in Bank Institutions of Ukraine.
 - Putting into circulation of the commemorative coin "Pisces" at the face value of UAH 5 (silver) and UAH 2 (gold).
 - Putting into circulation of the jubilee coin "Les Kurbas" at the face value of UAH 2 (German silver).
- March**
- Putting into circulation of the commemorative coin "The Marmot" at the face value UAH 2 (gold).
 - Approving the Instruction on Organization and Order of Conducting the Internal Audit within the System of the National Bank of Ukraine.
 - Putting into circulation of the jubilee coin "Olexandr Liapunov" at the face value of UAH 2 (German silver).
 - Approval of the Methodological Recommendations with regard to Improvement of Corporate Management in the Banks of Ukraine.
- April**
- Approving the Rules of Organizing the Protection of Electronic Bank Documents with Information Security Facilities of the National Bank of Ukraine.
 - Putting into circulation of the jubilee coin "1100 Years to Pereyaslav Khmelnytsky Town" at the face value of UAH 5 (German silver).
- May**
- Approving the Rules of Providing the Information about the Credit Conditions and the Total Credit Cost to Consumers by Banks of Ukraine.
 - Putting into circulation of the jubilee coin "100-year Anniversary of the Motor Sich" at the face value of UAH 5 (German silver).
 - Approving amendments to the Regulations on the Order and Conditions of Trade with Foreign Currency.
 - Putting into circulation of the commemorative coin "Clean Water is a Fountain of Life" at the face value of UAH 5 (non-precious bimetal) and UAH 20 (precious bimetal).
 - Putting into circulation of banknotes at the face value of UAH 200 of 2007 issue.
 - Approving the Rules of Using the Foreign Currency in Cash on the Territory of Ukraine.

- June**
- Decreasing the discount rate of the National Bank of Ukraine from 8.5 to 8.0% annually.
 - Putting into circulation of the jubilee coin "Ivan Ohienko" at the face value of UAH 2 (German silver).
 - Making amendments to the Regulations on Opening and Functioning the Banks-Residents' Correspondent Accounts in Foreign Currency and the Banks-Nonresidents' Correspondent Accounts in Hryvnia.
 - Putting into circulation of the jubilee coin "Oleh Olzhych" at the face value of UAH 2 (German silver).
 - Making amendments to the Order of Obtaining the Credits, Loans in Foreign Currency by Residents from Nonresidents and Extending the Loans in Foreign Currency by Residents to Nonresidents.
 - Putting into circulation of the commemorative coin "XVI Session of the Parliamentary Assembly of the Organization for Security and Cooperation in Europe" at the face value of UAH 5 (non-precious bimetal).
- July**
- Putting into circulation of the jubilee coin "75 Years of the Donetsk Region Creation" at the face value of UAH 2 (German silver).
 - Approving amendments to the Regulations on the Order of Formation and Use of the Provisions for Recovery of Possible Losses from Banks' Credit Operations.
 - Putting into circulation of the jubilee coin "Olena Teliha" at the face value of UAH 2 (German silver).
 - Putting into circulation of the jubilee coin "120 Years to the Odessa State Academic Opera and Ballet Theatre" at the face value of UAH 5 (German silver) and UAH 10 (silver).
 - Putting into circulation of the commemorative coin "Orienteering" at the face value of UAH 2 (German silver).
- August**
- Approval of the Rules of the Information Technical Protection for Banks' Premises where electronic bank documents are processed.
 - Increase up to 50 thousand hryvnias in the size of guaranteed compensation to depositors by the Individuals Deposit Guaranteeing Fund.
 - Approving the Instruction on Accounting of Financial Derivatives Transactions in Banks of Ukraine.
- September**
- Approval of the Rules of Procedure for the Board of the National Bank of Ukraine.
 - Putting into circulation of the jubilee coin "Ivan Bohun" at the face value of UAH 10 (silver).
 - Approving the Methodological Recommendations for Organizing the Process of Formation of the Managerial Reporting in Banks of Ukraine.
 - Approval of amendments to the Order of Obtaining the Credits, Loans in Foreign Currency by Residents from Nonresidents and Extending the Loans in Foreign Currency by Residents to Nonresidents.
 - Approving the Rules for Accounting of Operations with Banknotes, Coins and Souvenir Products within the system of the National Bank of Ukraine.
 - Putting into circulation of the jubilee coin "1100 Anniversary of the Annalistic Chernihiv" at the face value of UAH 5 (German silver).
 - Putting into circulation of the jubilee coin "Ivan Bahrianyi" at the face value of UAH 2 (German silver).

- October**
- Putting into circulation of the jubilee coin "Petro Hryhorenko" at the face value of UAH 2 (German silver).
 - Putting into circulation of the commemorative coin "Chumatskyi Shliakh" (The Milky Way) at the face value of UAH 20 (silver).
- November**
- Putting into circulation of the commemorative coin "Buhail" at the face value of UAH 5 (non-precious bimetal).
 - Putting into circulation of the commemorative coin "The Ostroh Bible" at the face value of UAH 100 (gold).
 - Approval of the priority trends of development and regulation of the banking activities and supervision for the period up to 2010.
 - Introduction into liabilities of the banks, liable to required reserves, of the funds that are attracted by banks from banks-nonresidents and financial organizations-nonresidents.
 - Putting into circulation of the commemorative coin "The Famine is Genocide of the Ukrainian people" at the face value of UAH 5 (German silver) and UAH 20 (silver).
 - Putting into circulation of the jubilee coin "200 Years of the Crimean Health Resorts" at the face value of UAH 5 (German silver).
- December**
- Putting into circulation of the commemorative coin "Scorpio" at the face value of UAH 5 (silver) and UAH 2 (gold).
 - Putting into circulation of the commemorative coin "Sagittarius" at the face value of UAH 5 (silver) and UAH 2 (gold).
 - Implementation of requirements to cover the foreign exchange and long-term liquidity risks, taken by banks in their activities, by the regulatory capital.
 - Approval of the Instruction on the Order of Compiling and Presenting the Financial Reporting of Banks of Ukraine.
 - Putting into circulation of the jubilee coin "90-year Anniversary of the 1st Government of Ukraine" at the face value of UAH 2 (German silver).
 - Approval of the Instruction on Accounting the Credit and Savings (Deposit) Operations and Forming and Using the Credit Risk Provisions in Banks of Ukraine.
 - Approval of the Regulations on Requirements to Technical State and Protection of Premises of Banks of Ukraine.
 - Approval of amendments to the Order of Obtaining the Credits, Loans in Foreign Currency by Residents from Nonresidents and Extending the Loans in Foreign Currency by Residents to Nonresidents.
 - Approval of the Rules of Making the Individuals' Transfers outside and within Ukraine under Current Foreign Exchange Non-trade Operations and Their Payments in Ukraine.

METHODOLOGICAL COMMENTS ON THE ANNUAL REPORT

Gross Domestic Product (GDP) is an indicator, featuring the final performance result of producers - residents in the reporting period. It is determined as a sum of gross values added that are created as a result of economic activity and taxes on goods less subsidies for goods.

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 reporting date.

Real GDP is measured at comparative prices relative to the given (base) period and shows the market value of production in real prices.

Foreign exchange position of a bank is a ratio (difference) of a bank's claims and liabilities in foreign currency and banking metals.

Open foreign exchange position is a disbalance between claims and liabilities of a bank in foreign currency. The open position is short if the volume of liabilities on the sold currency and banking metals exceeds that of the claims, it is long if the claims for the purchased currency and banking metals exceeds that of the liabilities. The open foreign exchange position is associated with additional risk in case of changing the exchange rate.

Base money (monetary base) is the sum of the currency in cash issued into circulation by the National Bank of Ukraine, as well as the transferable deposits in national currency with the National Bank of Ukraine. Currency in circulation comprises banknotes and coins issued by the National Bank of Ukraine less banknotes and coins held in the vaults of the National Bank of Ukraine, cashier's desks and ATMs of the institutions of the National Bank of Ukraine. Transferable deposits include liabilities of the National Bank of Ukraine under the funds on the correspondent accounts, funds of required reserves and other funds on demand of banks, as well as funds on accounts of state non-financial corporations and households (employees of the National Bank of Ukraine) in national currency with the National Bank of Ukraine.

Monetary aggregates comprise liabilities of banks and the National Bank of Ukraine to other sectors of the economy, except the general government and banks. Components of monetary aggregates are financial assets in the form of national currency in cash, transferable deposits, other deposits, funds on securities other than shares that are issued by banks and belong by the ownership right to other financial corporations, non-financial corporations, households and nonprofit institutions serving households. Depending on the liquidity level, financial assets are grouped into different monetary aggregates M0, M1, M2 та M3.

Monetary aggregate M0 comprises currency in cash outside the banks.

Monetary aggregate M1 comprises monetary aggregate M0 and transferable deposits in national currency.

Monetary aggregate M2 comprises monetary aggregate M1 and transferable deposits in foreign currency and other deposits.

Monetary aggregate M3 (money supply) comprises monetary aggregate M2 and securities other than shares.

Transferable deposits include the funds that are exchangeable on short notice to cash at their nominal values and directly used to make payments.

Other deposits include other funds on demand that are not used directly to make payments, time funds and funds under registered saving (deposit) certificates issued by banks.

Devaluation is the decrease in the exchange rate of the national currency against foreign currencies.

Deposits are the funds, both in cash and non-cash forms, in the currency of Ukraine, or in foreign currency, or in banking metals, received by a bank from a depositor, or those entered from a depositor on a contract basis for a certain term of storage, or without indication of such a term (at interest or income in other form) and be repaid to the depositor in accordance with the law of Ukraine and the contract terms.

Demand deposits are the funds, or banking metals placed by depositors in banks on terms of withdrawing the deposit at a depositor's short notice, or making payments by order of the account's owner.

Time deposits are the funds, or banking metals placed by depositors in a bank for a certain period of time defined by the contract.

Budget deficit is an excess of budget expenditures over its revenues.

Households are hired employees, employers, self-engaged workers, pension receivers, receivers of income from property and other transfers.

Consolidated Budget of Ukraine includes indicators of the state budget of Ukraine, the budget of the Autonomous Republic of the Crimea and local consolidated budgets of regions and the cities of Kyiv and Sevastopol.

GDP index-deflator is an aggregate of price indices that provide a generalized characteristic of their changes in the reporting period compared to the period taken for comparison. It is measured as the ratio of the GDP in actual prices to that in comparable prices.

Consumer price index (CPI) characterizes time variations of the overall level of prices for the goods and services purchased by households for the nonproductive consumption. It is the indicator of a change in the cost of a fixed set of consumer goods and services in the current period versus its cost in the base period.

Base consumer price index (BCPI) characterizes the inflation caused by the pressure on the part of demand, i.e. reflects the effects of the change in real monetary conditions, fiscal policy, as well as unforeseen demand shocks. However, under significant supply shocks, the BCPI estimates may be somewhat offset due to the secondary effects whose contribution cannot be removed by statistical methods.

The main purpose of the BCPI calculation is to determine a stable dynamics of prices with minimization of short-term erratic price changes caused by supply shocks, seasonal factors, administrative regulation of tariffs and prices. Thus, changes in prices of foods with a high level of industrial processing, non-foods, except fuel, as well as services administratively non-regulated are taken into account, when calculating the BCPI.

The BCPI is a sub-index of the consumer price index (CPI), since its design is based on the existing methodological principles with regard to the CPI calculation.

Narrow base inflation index is the index of prices of non-foods, except fuel.

Broad base inflation index is the CPI, except price indices of fuel, administratively regulated services and foods with a low level of industrial processing.

Index of non-base inflation is the index of prices for raw materials, services administratively regulated, and fuel. The weighted amount of base and non-base inflation equals the consumer inflation.

Industrial producer price index is an indicator of price changes in the industrial production. It is calculated monthly based on the product prices (without value-added tax and excise duties) through sampling within certain enterprises. The data about the industrial output in value terms serve as the weighting base.

Foreign currency means foreign money signs in the form of banknotes that are in circulation and are a legal tender in the territory of a respective foreign country, as well as those withdrawn from circulation, or those that are subject to be exchanged for the money signs being in circulation.

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 of its money liabilities that is determined by the balance between the terms and amounts of repayment of the allocated assets and the terms and amounts of a bank's liabilities fulfillment, as well as the terms and amounts of other sources and directions of using the funds (credit extension, other expenditures).

A bank's instant liquidity is an economic indicator of a bank's activity that is determined as a ratio of the funds at the cashier's and on the correspondent accounts of the bank to the bank's liabilities accounted on the current accounts.

Current liquidity of a bank is an economic indicator of a bank's activity that is determined as a ratio of the primary and secondary liquidity assets to the bank's liabilities with certain fulfillment terms.

Short-term liquidity of a bank is an economic indicator of a bank's activity that is determined as a ratio of the liquid assets to the short-term liabilities.

International liquidity is a country's ability to fulfill its international liabilities, to repay debts.

Models for servicing a bank's consolidated correspondent account in the SEP are the models enabling a bank to unite its funds on the consolidated correspondent account in order to use them effectively.

Nonfinancial corporations are corporations engaged primarily in the production of market goods or nonfinancial services and that are subdivided into subsectors: public nonfinancial corporations, private nonfinancial corporations and foreign-controlled nonfinancial corporations.

Reserve requirement ratio is the amount of required reserves, set by the National Bank of Ukraine, as a percentage of the liabilities with regard to the attracted funds by a bank in national and foreign currencies (including in banking metals). A single procedure of determining and forming the required reserves by all the banks of Ukraine is approved by the Board of the National Bank of Ukraine.

Official reserve assets (international reserves) - are those external assets that are readily available and controlled by the National Bank of Ukraine for directly financing of the balance of payments deficit, for indirectly regulating the magnitude of such deficit through interventions in the foreign exchange market to influence the exchange rate of hryvnia versus foreign currencies and/or for other purposes.

Official reserve assets are claims on non-residents in hard currency and comprise foreign exchange reserves, reserve position in the IMF, special drawing rights (SDRs), gold and other reserve assets that are available for use by the National Bank of Ukraine.

Official exchange rate of hryvnia against foreign currencies is the rate of the national monetary unit, the hryvnia, officially set by the National Bank of Ukraine versus every of foreign currencies. It is determined on the basis of currency quotations in the interbank foreign exchange market of Ukraine for the previous day, as well as other indicators.

The average exchange rate of hryvnia for a period against foreign currencies is estimated for the monthly data - as the average weighted value of 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 income received by a buyer of government securities of Ukraine, or banking metals in case of performing a repo operation, that is determined as a difference between the price of reverse sale (repurchase) of government securities of Ukraine, or banking metals and the price of their purchase.

Revaluation is an increase in the exchange rate of the national monetary unit against foreign currencies.

Dolarization of the economy is the ratio of deposits in foreign currency in the banking system to the total money supply (M3) available.

Monetization of the economy is the ratio of the available money supply (M3) to the nominal GDP.

Interest rates. The system of interest rate indicators comprises the main types of rates used in the economy of Ukraine. The interest rates are subdivided in the interest rates of the National Bank of Ukraine and the interest rates of 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 the 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 extended and deposits attracted by banks is the average weighted rate with consideration for actual volumes under contracts between banks and economic entities, individuals and governmental 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.

Securities other than shares are instruments that are negotiable and serving as evidence of obligations to be settled by means of providing cash, a financial instrument, or some other item of economic value. These are bonds, treasury bills, promissory notes, deposit certificates of corporations, etc.

Financial corporations are corporations engaged in financial services or in auxiliary financial activities: the National Bank of Ukraine, other depository corporations (banks established and operating in the territory of Ukraine) and other financial corporations (insurance companies, non-government pension funds, credit institutions, financial companies, etc).

Section 3
CONSOLIDATED
FINANCIAL STATEMENTS
for the year ended 31 December 2007

NATIONAL BANK OF UKRAINE
Consolidated Balance Sheet as at 31 December 2007

(in UAH millions)

	Note	2007	2006
Assets			
Foreign currency funds and deposits	5	87,753	70,716
Foreign securities	6	77,436	43,187
SDR Holdings		14	8
Monetary gold		2,475	1,806
State securities of Ukraine	7	395	411
Loans to banks and other borrowers	8	1,692	1,391
Internal State debt	9	8,099	8,524
IMF quota contributions	10	10,949	10,423
Fixed assets and intangible assets	11	5,492	2,119
Other assets	12	981	768
Total assets		195,286	139,353
Liabilities			
Banknotes and coins in circulation		122,471	82,133
Accounts of banks	13	19,417	15,506
Accounts of State and other institutions	14	15,438	18,650
Profits payable to the State Budget	18	4,834	1,889
Deposit certificates issued by the National Bank of Ukraine	15	3,117	180
Loans received		156	255
Liabilities to the IMF	16	13,146	14,657
Other liabilities	17	347	201
Total liabilities		178,926	133,471
Equity			
Statutory capital		100	10
Funds and other reserves		2,468	1,756
Revaluation reserve for foreign currency, monetary gold and bank metals		9,787	3,357
Revaluation reserve for fixed assets		4,005	759
Total equity	19	16,360	5,882
Total liabilities and equity		195,286	139,353

Governor

Chief Accountant - Director of
Accounting Department


V. S. Stelmakh

V.I. Rychakivska

The notes set out on pages 129 to 172 form an integral part of these consolidated financial statements.

NATIONAL BANK OF UKRAINE
Consolidated Statement of Income for the year ended 31 December 2007

(in UAH millions)

	Note	2007	2006
Interest income	21	3,643	2,870
Interest expense	21	(262)	(344)
Net interest income	21	3,381	2,526
Fee and commission income	22	266	218
Fee and commission expense	22	(5)	(3)
Net fee and commission income	22	261	215
Results from operations with debt securities at fair value through profit or loss		3,622	1,008
Other income	23	140	107
Total net income		7,404	3,856
Staff costs	24	(832)	(604)
Expenses for production of banknotes, coins, souvenirs and other products		(445)	(336)
Administrative and other expenses	25	(327)	(284)
Net increase in provisions	26	(165)	(431)
Profit available for distribution	18	5,635	2,201

Governor



V. S. Stelmakh

Chief Accountant - Director of
Accounting Department


V.I. Rychakivska

Deputy Director of
Finance Department


L.H. Ivashkevych

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NATIONAL BANK OF UKRAINE
Consolidated Statement of Cash Flows for the year ended 31 December 2007

(in UAH millions)

	Note	2007	2006
Operating activities			
Profit available for distribution		5,635	2,201
Adjustments to reconcile profit available for distribution to cash provided by operations:			
Depreciation and amortisation	11	222	212
Net increase in provisions for assets		165	431
Accrued income		(687)	(740)
Accrued expense		(8)	(17)
Unrealised revaluation of foreign securities		(983)	46
Other non-cash movements		(5)	34
Net cash inflow before changes in operating assets and liabilities		4,339	2,167
Net increase in foreign securities		(30,698)	(21,705)
Net increase in loans to banks and other borrowers		(299)	(674)
Net increase in other assets		(142)	(39)
Net decrease in other liabilities		(3)	(2)
Transfer of profit to the State Budget	18	(1,889)	(1,288)
Net cash used in operating activities		(28,692)	(21,541)
Investment activities			
Net (increase)/decrease in term deposits placed		(5,699)	4,104
Redemption of State securities of Ukraine		16	30
Purchase of monetary gold		(108)	(89)
Acquisition of fixed assets and intangible assets		(336)	(226)
Proceeds from disposal of fixed assets		3	5
Net cash (used in)/from investment activities		(6,124)	3,824

The notes set out on pages 129 to 172 form an integral part of these consolidated financial statements.

NATIONAL BANK OF UKRAINE
Consolidated Statement of Cash Flows for the year ended 31 December 2007

(in UAH millions)

	Note	2007	2006
Financing activities			
Issue of banknotes and coins in circulation		40,337	16,724
Repayment of internal State debt	9	253	253
Repayment of liabilities to the IMF	16	(2,157)	(2,072)
Net (decrease)/ increase in term deposits received		(255)	276
Issue/ (repayment) of deposit certificates		2,925	(2,235)
EBRD loans repaid		(99)	(80)
Net cash from financing activities		41,004	12,866
Effect of changes in exchange rates on cash and cash equivalents		1,319	874
Net increase/(decrease) in cash and cash equivalents		7,507	(3,977)
Cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		(10,415)	(6,438)
Cash and cash equivalents at the end of the year	20	(2,908)	(10,415)

Governor

Chief Accountant - Director of
Accounting Department

V. S. Stelmakh

V.I. Rychakivska

The notes set out on pages 129 to 172 form an integral part of these consolidated financial statements.

NATIONAL BANK OF UKRAINE**Consolidated Statement of Changes in Equity for the year ended 31 December 2007**

(in UAH millions)

	Note	Statutory capital	Funds and other reserves	Revaluation reserve for foreign currency, monetary gold and bank metals	Revaluation reserve for fixed assets	Total equity
Balance as at 31 December 2005		10	1,664	(716)	762	1 720
Revaluation of foreign currency, monetary gold and bank metals		–	–	4,073	–	4,073
Realised revaluation of fixed assets		–	3	–	(3)	–
Net income/(loss) recognised directly in equity		–	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	18	–	(2,112)	–	–	(2,112)
Balance as at 31 December 2006		10	1,756	3,357	759	5,882
Revaluation of foreign currency, monetary gold and bank metals		–	–	6,430	–	6,430
Revaluation of fixed assets		–	–	–	3,247	3,247
Upward revaluation		–	–	–	3,248	3,248
Downward revaluation		–	–	–	(1)	(1)
Realised revaluation of fixed assets		–	1	–	(1)	–
Net income recognised directly in equity		–	1	6,430	3,246	9,677
Profit available for distribution		–	5,635	–	–	5,635
Total recognised income for 2007		–	5,636	6,430	3,246	15,312
Contributions into statutory capital		90	(90)	–	–	–
Excess of budgeted income over budgeted expenditure for the year to be transferred to the State budget	18	–	(4,834)	–	–	(4,834)
Balance as at 31 December 2007		100	2,468	9,787	4,005	16,360

Governor



V. S. Stelmakh

Chief Accountant - Director of Accounting Department



V.I. Rychakivska

Deputy Director of Finance Department



L.H. Ivashkevych

The notes set out on pages 129 to 172 form an integral part of these consolidated financial statements.

CONSOLIDATED 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 equity 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 the 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 (gold and foreign currency) reserves (hereinafter referred to as "international 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 exercise 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 in the secondary market, buys and sells foreign currency valuables, precious metals, sells commemorative coins made of precious and non-precious metals in the domestic and foreign markets, performs operations of servicing of the State debt in respect of placement of State securities, their redemption and interest payments, maintains accounts of State Treasury of Ukraine, 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 equity of the NBU is owned by the State.

The NBU system includes 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 Cherkassy Banking Institutes.

Registered address and place of business of the NBU's central office is 9, Institutska St., 01601, Kyiv-8, 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, includ-

ing 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 currencies resulting from changes in official exchange rate of Ukrainian hryvnia to foreign currencies, including the realised revaluation result, are posted directly to revaluation reserve in the equity section. This differs from the requirements of International Accounting Standard (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 Board and agreed with the NBU 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 7, 9 and 34.

These financial statements have been prepared in accordance with the NBU's accounting policies set out below under the historical cost convention, as modified by the revaluation of premises and financial instruments categorised as at fair value through profit or loss. The accounting policies have been consistently applied to all the periods presented, unless otherwise stated.

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 IFRSs and interpretations are mandatory for application from 1 January 2007. Listed below are those amended IFRS which are relevant to the NBU's operations in the reporting period:

The Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures introduced disclosures about the level of an entity's capital and how it manages the capital.

IFRS 7, Financial Instruments: Disclosures replaced IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The IFRS introduced new disclosures about financial instruments, including quantitative and qualitative aspects of risk exposures attributable to financial instruments held by the entity. The risk exposures are disclosed based on information provided internally to the entity's key management personnel. The disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk.

The new disclosures introduced by the above IFRSs are made in these financial statements.

Additionally, other new and revised standards and interpretations that are effective from 1 January 2007, are not relevant to the NBU's operations:

Interpretation of International Financial Reporting Interpretations Committee (IFRIC) 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006);

IFRIC 8, Scope of IFRS 2 (effective for 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).

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 2007.

Standards effective for annual periods beginning on or after 1 January 2008 which the NBU intends applying in subsequent reporting periods:

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The NBU expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

New standards, changes to standards and interpretations that are not relevant to the NBU's operations:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009);

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009);

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009);

Vesting Conditions and Cancellations-Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2008);

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009);

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);

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008);

IFRIC 14, IAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements (as revised in 2007) and consequential amendments to IFRS 7 Financial Instruments: Disclosures, IAS 39 Financial Instruments: Recognition and Measurement and IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments (issued in February 2008; effective for annual periods beginning on or after 1 January 2009).

Key measurement terms

Depending on their classification the financial assets and liabilities 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 results 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, as well as to internal State debt and Government securities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. The 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 asset or liability was recognised at initial recognition less any principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and for financial assets less any write-down for incurred impairment losses.

The effective interest method is a method of calculating amortised cost of financial asset or financial liability and allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (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 asset or financial liability.

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 and gold 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 international reserves. Monetary gold is recorded in physical weight in troy ounces and is valued at the official exchange rate of the NBU. The official exchange rate 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 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 current 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, in case of a 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.

The principal official exchange rates of hryvnia to foreign currencies and monetary gold used for translating monetary balance sheet items were:

	31 December 2007 (UAH)	31 December 2006 (UAH)
USD 1	5.050000	5.050000
SDR 1	7.980253	7.597229
EUR 1	7.419460	6.650850
1 troy ounce of gold	4,183.925	3,210.285

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 IMF 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 assets of the NBU are classified depending on intentions of their acquisition as follows:

Foreign currency funds and deposits

Foreign currency funds and deposits are recorded when the NBU advances foreign currency funds to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates.

Debt securities at fair value through profit or loss

This category includes securities which the NBU intends to hold for the purposes of managing international 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 counterparty bank or other borrower 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;

foreign currency funds and deposits, investments available for sale, debt securities held to maturity, loans to banks and other borrowers and all financial liabilities 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;

foreign currency funds and deposits 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

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 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 has been 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.

The objective evidence of impairment of financial assets is information on the following loss events:

- the borrower experiences significant financial difficulties;
- breach of contract by the borrower;
- possibility of bankruptcy or other financial reorganisation of the borrower;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider (such as a change in interest rate or extension of payment terms);
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets.

If the NBU determines that no objective evidence of impairment exists 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 inclusion of respective amount into expenses. The amount of impairment is calculated as a difference between the financial asset's carrying amount and the present value of expected cash flows discounted at the original 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 has been recognised, the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

When impaired financial assets are renegotiated or their terms otherwise modified because of financial difficulties of the borrower, impairment is measured using the original effective interest rate before the modification of terms.

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.

Provisions against internal State debt are raised in accordance with the requirements of the Ukrainian legislation and decisions approved by the NBU Council.

Internal State debt

Internal State debt includes loans granted to Government of Ukraine in national and foreign currencies. The loans are stated at the principal amounts outstanding net of provisions created in accordance with the requirements of the Ukrainian legislation and decisions approved by the NBU Council.

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 9).

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 fixed assets is included in equity. 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 fixed assets which increases the expected economic benefits embodied in this item of fixed assets 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 fixed assets items are capitalised and the residual value of replaced part is charged to expenses of current period.

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 equity. 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 using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives 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.

The residual value of an asset is the estimated amount that the NBU would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the NBU expects to use the asset until the end of its physical life.

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 the power to govern their financial or operating policies normally through an interest of more than one half of the voting rights. All the NBU's subsidiaries are wholly owned by the NBU (refer to Note 1). 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.

Intra-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. 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 Treasure-House of Ukraine. Bank metals are recorded in physical weight in troy ounces and are valued at the official exchange rate of the NBU. The official 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 2007 (UAH)	31 December 2006 (UAH)
1 troy ounce of gold	4,183.925	3,210.285
1 troy ounce of silver	74.488	65.145
1 troy ounce of platinum	7,721.450	5,640.850
1 troy ounce of palladium	1,823.050	1,636.200

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 recognised as inventory and 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 at their nominal value 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.

Accounts of banks

Accounts of banks are recorded when money are advanced to the NBU by counterparty banks. The non-derivative liability is carried at amortised cost.

Accounts of State and other institutions

Accounts of State and other institutions are non-derivative liabilities to state or other customers and are carried at amortised cost.

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 redemption of deposit certificates issued by the NBU, the difference between the consideration paid and amortised cost is included in gains or losses arising from early retirement of debt in the statement of income.

Loans received

Loans received by the NBU 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 Ukrainian 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.

Staff costs

Wages, salaries, contributions to the State social funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the NBU.

Expenses for contributions into obligatory State social funds

Under the Ukrainian legislation, the NBU makes contributions 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.

Corporate Non-State Pension Fund

The NBU established corporate non-State pension fund which is a defined contribution plan. The NBU pays contributions to this fund on a contractual basis. The NBU has no further payment obligations once the contributions have been paid. The contributions are recognised as staff costs when they are due.

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, monetary gold and bank metals in the equity 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 except for banknotes and coins in circulation. 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. 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. The NBU 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 16 million higher or UAH 16 million lower (2006: UAH 17 million higher or UAH 17 million lower)..

Investments carried at cost. The NBU could not reliably estimate fair value of its available-for-sale investments in shares of the Black Sea Trade and Development Bank (BSTDB) and Inter-State Bank (ISB) (refer to Note 6). The investments are carried at cost of UAH 121 million (2006: UAH 121 million). These investments were made by the NBU in performance of one of its functions as the central bank of Ukraine, i.e. represent Ukraine in those organisations where co-operation is performed at the level of central banks. The shares of these banks are not traded as these are specialised international institutions. For the purposes of assessment of impairment of those equity securities for which the fair value cannot be reliably determined, the NBU has considered financial data of the investees and the NBU's share in net assets. The NBU has no intention to dispose of these investments.

Fair value of buildings and constructions. As stated in Note 2, buildings and constructions of the NBU are subject to revaluation on a regular basis. Such revaluations are based on the results of work of independent valuers. The basis for their work is sales comparison and income capitalisation approach, except for those items that are of a highly specialized nature which are valued at depreciated replacement cost. When performing the revaluation certain judgements and estimates are applied by the valuers in determination of the comparative premises to be used in sales comparison approach. Changes in assumptions about these factors could affect reported fair values. The valuation was based on comparative sales of premises with the price per square meter varying from UAH 213 for household premises to UAH 39,612 for office premises depending upon the location of premises. To the extent that the price per square meter differs by +/-5 percent, the fair value of buildings and constructions would be UAH 174 million higher or UAH 174 million lower.

Related party transactions. In the normal course of business the NBU enters into transactions with its related parties being mainly Government and State-controlled entities. 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.

4. Effect of Economic Conditions on the Financial Position and Results of Operations of the NBU

In 2007 Ukraine experienced acceleration of the economic growth rate. Significant domestic (consumer) demand, high level of investment activity and an increase in the external demand for metal and machine-building products were the principal factors for this ascending trend. The level of inflation remained relatively high at 16.6% for the year ended 31 December 2007 com-

pared with 11.6% for the year ended 31 December 2006. In this situation the monetary policy of the NBU was aimed at maintaining price stability and support of economic activities.

Support of the hryvnia exchange rate was performed by the NBU through interventions in the interbank foreign exchange market. As a result international reserves of the NBU grew from USD 22.3 billion as at 31 December 2006 to USD 32.5 billion as at 31 December 2007.

Due to a decrease in the base interest rates on international markets, in particular Intended Federal Funds Rate, yield on interest-bearing gold and foreign currency assets of the NBU increased from 4.06% per annum as at 31 December 2006 to 5.31% per annum as at 31 December 2007. In addition, as a result of a decrease in hryvnia exchange rate against major currencies, the revaluation reserve for foreign currency, monetary gold and bank metals in the equity of the NBU increased to UAH 9,787 million as at 31 December 2007 compared with UAH 3,357 million as at 31 December 2006.

The NBU discount rate decreased by 0.5% compared with 31 December 2006 and was 8.0% as at 31 December 2007. The official exchange rate of hryvnia to USD did not change and amounted to UAH 5.0500 per USD 1 as at 31 December 2007.

The Ukrainian economy displays 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 2007, 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 2007 (refer to Note 9).

The Government-related balance sheet items are summarised in the table below.

	Note	2007	2006
State securities of Ukraine	7	395	411
Internal State debt	9	8,099	8,524

The estimated fair value of amounts due from Government is disclosed in Note 34.

Since the second half of 2007 as a result of problems in the US mortgage market, there were increased volatility and lower liquidity in the fixed income and derivative markets. The volume of Eurobond issues and similar wholesale financing by Ukrainian banks has reduced since August 2007. Such circumstances may affect the ability of the Ukrainian banks to obtain new borrowings and refinance their existing borrowings and may require the NBU to increase the volume of liquidity support lending to the banking sector.

The "credit crunch" on global financial markets did not have significant impact on the financial position of the NBU as at 31 December 2007 and the results of its operations for the year then ended. The NBU believes that it is not possible to reliably estimate the effects on the NBU's financial position of any further possible deterioration in the liquidity of the financial markets and their increased volatility.

5. Foreign Currency Funds and Deposits

	2007	(in UAH millions) 2006
Financial assets		
Foreign currency cash	76	75
Demand deposits	2,408	1,584
Term deposits in foreign currency:	82,312	67,219
Accrued interest receivable on deposits in gold and bank metals	11	8
Total financial assets	84,807	68,886
Non-financial assets		
Term deposits		
in gold	1,025	496
in bank metals	1,921	1,334
Total non-financial assets	2,946	1,830
Total foreign currency funds and deposits	87,753	70,716

The amount of demand deposits includes balances on special purpose accounts totalling UAH 83 million (2006: UAH 55 million) maintained by the NBU under credit lines received from international financial institutions and the UAH 1 million margin reserve for settlements under futures operations within the framework of Agreement on investment management and advisory services with the International Bank for Reconstruction and Development dated 1 November 2006.

The term deposits denominated in bank metals include platinum and palladium deposits. These deposits and deposits of gold earn interest paid in USD.

All foreign currency funds and deposits are current and not impaired. The foreign currency deposits are not collateralised.

The geographical analysis of the foreign currency funds and deposits is disclosed in Note 28, credit risk analysis is disclosed in Note 29, currency risk analysis is presented in Note 30 and interest rate risk analysis is presented in Note 31.

6. Foreign Securities

As at 31 December 2007 the foreign securities include the following:

	(in UAH millions)		
	Government securities	Corporate securities	Total
Debt securities at fair value through profit or loss by issuers:			
Coupon US Treasury bills	25,443	–	25,443
Coupon UK Government bonds	12,823	–	12,823
Other EU State bonds	17,235	–	17,235
Bonds of Bank for International Settlements:			
denominated in US dollars	–	1,520	1,520
denominated in British pounds	–	1,446	1,446
denominated in Euro	–	1,219	1,219
Bonds of other issuers:			
denominated in US dollars	–	9,477	9,477
denominated in British pounds	–	4,671	4,671
denominated in Euro	–	3,481	3,481
Total debt securities at fair value through profit or loss	55,501	21,814	77,315
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	55,501	21,935	77,436

All foreign debt securities were current and not impaired at 31 December 2007 and 31 December 2006.

Coupon US Treasury bills

As at 31 December 2007 the total nominal value of coupon US Treasury bills was USD 4,879 million (UAH 24,638 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2007) (2006: USD 3,700 million or UAH 18,685 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2006).

As at 31 December 2007 US Treasury bills had yield to maturity from 3.01% to 4.48% per annum, coupon at a rate from 2.6255% to 6.25% per annum payable every 6 months and maturity from 1 month to 16 years (2006: US Treasury bills had yield to maturity from 4.7% to 5.07% per annum, coupon at a rate from 2.25% to 6.625% per annum payable every 6 months and maturity from 1 month to 19 years).

Coupon UK Government bonds

As at 31 December 2007 the total nominal value of coupon UK Government bonds was GBP 1,235 million (UAH 12,467 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2007) (2006: GBP 687 million or UAH 6,801 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2006).

As at 31 December 2007 UK Government coupon bonds had yield to maturity from 4.30% to 4.92% per annum, coupon at a rate from 4% to 9% per annum payable every 6 months and maturity from 2 months to 4.5 years (2006: UK Government coupon bonds had yield to maturity from 5.04% to 5.27% per annum, coupon at a rate from 4% to 9% per annum payable every 6 months and maturity from 2 months to 4.5 years).

Other EU State bonds

As at 31 December 2007 the total nominal value of EU State bonds was EUR 2,269 million (UAH 16,838 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2007) (2006: EUR 1,097 million or UAH 7,299 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2006).

As at 31 December 2007 EU State bonds had yield to maturity from 3.8% to 4.6% per annum, coupon at a rate from 2.5% to 8.5% per annum payable once a year and maturity from 4 days to 3 years (2006: EU State bonds had yield to maturity from 3.6% to 4.1% per annum, coupon at a rate of 2% to 8.5% per annum payable once or twice a year and maturity from 1 month to 1 year).

Bonds of Bank for International Settlements

As at 31 December 2007 the total nominal value of USD denominated bonds of Bank for International Settlements was USD 299.5 million (UAH 1,512 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2007) (2006: USD 369 million or UAH 1,863 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2006).

The total nominal value of GBP denominated bonds of Bank for International Settlements was GBP 144.5 million (UAH 1,459 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2007) (2006: GBP 10 million or UAH 99 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2006).

The total nominal value of Euro denominated bonds of Bank for International Settlements was EUR 165 million (UAH 1,224 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2007).

As at 31 December 2007 bonds of Bank for International Settlements had yield to maturity from 3.82% to 5.18% per annum, coupon at a rate from 0% to 5% per annum payable every 6 months or once a year and maturity from 2 months to 4 years (2006: yield to maturity was from 4.94% to 5.26% per annum, coupon at a rate from 3% to 4.9% per annum payable every 6 months and maturity from 2.5 months to 2 years).

Bonds of other issuers

Bonds of other issuers include debt securities issued by foreign investment banks and other issuers. As at 31 December 2007 total nominal value of USD-denominated bonds of other issuers was USD 1,820 million (UAH 9,193 million at the exchange rate of hryvnia to foreign currencies as at 31 December 2007) (2006: USD 1,140 million or UAH 5,758 million at the official exchange rate as at 31 December 2006).

As at 31 December 2007 USD-denominated bonds of other issuers had yield to maturity from 3.59% to 5.07% per annum, coupon at a rate from 2.375% to 7% per annum payable every 6 months and maturity from 1.5 months to 9 years (2006: yield to maturity was from 4.9% to 5.5% per annum, coupon at a rate from 2.4% to 6.6% per annum payable every 6 months and maturity from 1.5 month to 10 years).

As at 31 December 2007 the total nominal value of GBP-denominated bonds of other issuers was GBP 454.5 million (UAH 4,589 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2007). (2006: GBP 133 million or UAH 1,323 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2006).

As at 31 December 2007 GBP-denominated bonds of other issuers had yield to maturity from 4.62% to 5.68% per annum, coupon rate from 0% to 5.5% per annum payable annually and maturity from 8 months to 5 years (2006: 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 2007 the total nominal value of Euro-denominated bonds of other issuers was EUR 471 million (UAH 3,495 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2007) (2006: EUR 101 million or UAH 672 million at the official exchange rate of hryvnia to foreign currencies as at 31 December 2006).

As at 31 December 2007 Euro-denominated bonds of other issuers had yield to maturity from 4.08% to 5.0% per annum, coupon rate from 0% to 4.375% per annum payable annually and maturity from 3 days to 3 years (2006: yield to maturity from 3.9% to 5.2% per annum, coupon rate from 2.4% to 6.6% per annum payable annually 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 2007 the amount of the NBU's contribution to the 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) (2006: SDR 24 million or UAH 120 million). The NBU's share in the share capital of BSTDB was 8% (2006: 8%).

Investment in Inter-State Bank

Inter-State Bank (ISB) was established under a multi-lateral agreement of member countries of the 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 share in equity equals 20.70%. The NBU does not have actual influence on decisions of ISB and does not earn income. 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 28, credit risk analysis for debt securities is disclosed in Note 29, currency risk analysis is presented in Note 30, interest rate risk analysis is presented in Note 31.

	(in UAH millions)		
	Government securities	Corporate securities	Total
Debt securities at fair value through profit or loss by issuers:			
Coupon US Treasury bills	18,898	–	18,898
Coupon UK Government bonds	6,941	–	6,941
Other EU State bonds	7,476	–	7,476
Bonds of Bank for International Settlements:			
denominated in USD	–	1,852	1,852
denominated in GBP	–	99	99
Bonds of other issuers:			
denominated in USD	–	5,821	5,821
denominated in GBP	–	1,311	1,311
denominated in EUR	–	668	668
Total debt securities at fair value through profit or loss	33,315	9,751	43,066
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	33,315	9,872	43,187

7. State Securities of Ukraine

	2007	(in UAH millions) 2006
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
Total State securities of Ukraine	395	411

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 2007 the held-to-maturity debt securities denominated in national currency held by the NBU represented the promissory notes of the State Treasury of Ukraine received by the NBU in September 2000 from the Ministry of Finance of Ukraine as a part of the restructuring of accrued income on domestic Government bonds due in 2000–2004. The total nominal value of the 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 the external State debt securities issued in 1995. Coupon on the bonds was payable on a quarterly basis. These bonds were fully repaid in March 2007.

The NBU did not perform operations in respect of sales or purchases of the State bonds of Ukraine during 2007.

The currency risk analysis of State securities is disclosed in Note 30, interest rate risk analysis

is presented in Note 31. Information on the estimated fair value of State securities of Ukraine is presented in Note 34.

8. Loans to Banks and Other Borrowers

Loans to banks and other borrowers by the purpose of their issue are classified as follows:

	2007	2006
<i>(in UAH millions)</i>		
Loans granted to banks to support their liquidity:		
loans provided through tenders	1,401	669
Overnight	10	41
loans under REPO operations	–	53
Other	155	411
Loans granted under credit lines for support of small and medium enterprises from funds received from the European Bank for Reconstruction and Development	301	394
Other	149	157
Provision for impairment of loans to banks and other borrowers	(324)	(334)
Total loans to banks and other borrowers	1,692	1,391

Loans to banks to support liquidity (except for overnight loans) were collateralised by State bonds of Ukraine, claims under agreements in respect of loans granted by banks to businesses, municipal bonds, corporate bonds and foreign currency deposits. In addition, during 2007 the NBU also granted loans in national currency to commercial banks for 3 years secured by deposits in national currency placed with the NBU for one month with compulsory monthly prolongation.

During the year ended 31 December 2007 movements in provision against loans to banks and other borrowers were as follows:

	<i>(in UAH millions)</i>						
	Loans granted to banks to support their liquidity:				Loans granted under credit lines for support of small and medium enterprises from funds received from the European Bank for Reconstruction and Development:	Other	Total
	overnight	loans granted through tenders	loans under REPO operations	other			
Provision against loans to banks and other borrowers at the beginning of the year	–	–	–	17	166	151	334
Reduction in provision	–	–	–	–	(2)	(5)	(7)
Loans written off against provision account	–	–	–	–	(3)	–	(3)
Provision against loans to banks and other borrowers at the end of the year	–	–	–	17	161	146	324

During the year ended 31 December 2006 movements in provision against loans to banks and other borrowers were as follows:

(in UAH millions)

	Loans granted to banks to support their liquidity:			other	Loans granted under credit lines for support of small and medium enterprises from funds received from the European Bank for Reconstruction and Development:	Other	Total
	overnight	loans granted through tenders	loans under REPO operations				
Provision against loans to banks and other borrowers at the beginning of the year	-	-	-	17	179	155	351
Reduction in provision	-	-	-	-	(13)	(4)	(17)
Provision against loans to banks and other borrowers at the end of the year	-	-	-	17	166	151	334

The loans to banks and other borrowers as at 31 December 2007 can be classified by credit quality as follows:

(in UAH millions)

	Loans granted to banks to support their liquidity:		Loans granted under credit lines for support of small and medium enterprises from funds received from the European Bank for Reconstruction and Development:	Other	Total
	overnight	loans granted through tenders			
Not overdue and not impaired	1,549		139	-	1,688
Impaired loans	17		162	149	328
Provision against loans to banks and other borrowers	(17)		(162)	(145)	(324)
Total loans to banks and other borrowers	1,549		139	4	1,692

Credit risk analysis of the loans not overdue and not impaired is provided in Note 29.

As at 31 December 2007 and 31 December 2006 all the impaired loans are past due over 360 days, except for the loan in the amount of UAH 48 million (2006: UAH 53 million) which was renegotiated after it became past due.

The loans to banks and other borrowers as at 31 December 2006 can be classified by credit quality as follows:

(in UAH millions)

	Loans granted to banks to support their liquidity:	Loans granted under credit lines for support of small and medium enterprises from funds received from the European Bank for Reconstruction and Development:	Other	Total
Not overdue and not impaired	1,157	227	–	1,384
Impaired loans	17	167	157	341
Provision against loans to banks and other borrowers	(17)	(166)	(151)	(334)
Total loans to banks and other borrowers	1,157	228	6	1,391

For the purposes of impairment calculations the fair value of collateral on impaired loans was assessed as zero due to problems with legal enforceability of the collateral.

Information about the collateral provided for loans at 31 December 2007 is as follows:

(in UAH millions)

	Loans granted to banks to support their liquidity:	Loans granted under credit lines for support of small and medium enterprises from funds received from the European Bank for Reconstruction and Development:	Other	Total
Loans secured by:				
Claims under loans agreements with customers	1,327	–	–	1,327
Deposits placed with the NBU	138	–	–	138
Government securities	73	–	–	73
Corporate and municipal bonds	1	–	–	1
Other assets	–	–	98	98
Unsecured loans	27	301	51	379
Total loans to banks and other borrowers (before provision)	1,566	301	149	2,016

Information about the collateral provided for loans at 31 December 2006 is as follows:

(in UAH millions)

	Loans granted to banks to support their liquidity:	Loans granted under credit lines for support of small and medium enterprises from funds received from the European Bank for Reconstruction and	Other	Total
Loans secured by:				
Claims under loans agreements with customers	424	–	–	424
Deposits in foreign currency with the NBU	379	–	–	379
Government securities	182	–	–	182
Corporate and municipal bonds	116	–	–	116
UAH deposits with the NBU	15	–	–	15
Other assets	–	–	100	100
Unsecured loans	58	394	57	509
Total loans to banks and other borrowers (before provision)	1,174	394	157	1,725

The geographical analysis of loans to banks and other borrowers is disclosed in Note 28, currency risk analysis is presented in Note 30 and interest rate risk analysis is presented in Note 31. The estimated fair value of the loans to banks and other borrowers is presented in Note 34.

9. Internal State Debt

(in UAH millions)

	2007	2006
Internal State debt in respect of loans to Government in national currency:		
1991–1993	–	129
1994–1996	3,439	3,439
Total internal State debt in national currency	3,439	3,568
Internal State debt in respect of loans to Government in foreign currency:		
1995	2,757	3,010
1996	2,464	2,464
Total internal State debt in foreign currency	5,221	5,474
Provision against internal State debt in respect of loans to Government in national currency	(69)	(198)
Provision against internal State debt in respect of loans to Government in foreign currency	(492)	(320)
Total internal State debt	8,099	8,524

Loans in national currency and foreign currency were granted by the NBU in 1991–1996 for financing State budget deficits.

In accordance with the Law on Restructuring, the loans in national currency granted in 1994–1996 totalling UAH 3,439 million and loans granted in foreign currency totalling USD 1,034 million (UAH 5,221 million at the exchange rate of hryvnia to USD as at 31 December 2007) were restructured and included in 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. Had the repayment of internal State debt in foreign currency followed the repayment schedule envisaged by the Law on Restructuring, the principal amount of internal State debt in foreign currency as at 31 December 2007 would have been lower by USD 738 million (UAH 3,727 million at the exchange rate of hryvnia to USD as at 31 December 2007) (2006: lower by USD 640 million or UAH 3,232 million at the exchange rate of hryvnia to USD as at 31 December 2006).

In accordance with the Law, the amount of the internal State debt of Ukraine in respect of the 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, the interest income on loans to Government in the national currency is not recognised in the statement of income.

During 2007 in accordance with the Law of Ukraine on State budget of Ukraine for 2007, a part of the debt in respect of the loans in foreign currency totalling USD 50 million (UAH 253 million at the official exchange rate at the date of payment) was repaid (2006: a part of the debt was repaid in respect of the 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 2008 provides for repayment in 2008 of a part of the debt in respect of the loans in foreign currency totalling UAH 255 million. The Law does not provide for payment of interest on the 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 the provision against internal State debt in respect of loans to Government were as follows:

	2007	(in UAH millions) 2006
Provision against internal State debt in respect of loans to Government at the beginning of the year	518	69
Provision for loans to Government in foreign currency during the year	172	320
Provision for loans to Government in national currency during the year	–	129
Loans written off against provisions	(129)	–
Provision against internal State debt in respect of loans to Government at the end of the year	561	518

In accordance with the Law on Restructuring, in 2000 the NBU raised a provision of 2% of the amount outstanding in respect of the 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 2001–2007 have suspended this requirement in respect of provisioning.

Under the decision of the NBU Board, during the year ended 31 December 2007 the NBU derecognised the amount due in respect of the loans to Government in national currency granted in 1991–1993 totalling UAH 129 million (2006 – the NBU raised provision of UAH 129 million in respect of the 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.

During the year ended 31 December 2007 under the decision of the NBU Board, the NBU raised provisions against internal State debt in respect of the loans granted to Government in foreign currency totalling UAH 172 million (2006: UAH 320 million).

The currency risk analysis of internal State debt is disclosed in Note 30 and interest rate risk analysis is presented in Note 31. Estimated fair value of internal State debt is disclosed in Note 34.

10. 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 issued to the IMF, the remainder being credited to IMF accounts No 1 and No 2 (Note 16). As at 31 December 2007 Ukraine's quota in the IMF amounted to SDR 1,372 million or UAH 10,949 million at the year-end official exchange rate of hryvnia to SDR (2006: SDR 1,372 million or UAH 10,423 million at the year-end official exchange rate of hryvnia to SDR). The quota does not earn interest.

11. Fixed Assets and Intangible Assets

(in UAH millions)

	Building and constructions	Motor vehicles and transport	Machinery and equipment	Fixtures and fittings	Other fixed assets	Construc- tion in progress	Intangible assets	Total
Net book value at 1 January 2007	1,543	46	377	32	46	57	18	2,119
Cost or valuation at 1 January 2007	1,632	85	911	82	102	57	58	2,927
Accumulated depreciation as at 1 January 2007	89	39	534	50	56	–	40	808
Additions	70	42	155	7	26	67	11	378
Disposals:	(30)	–	(1)	–	–	–	–	(31)
of which cost	(44)	(5)	(21)	–	(10)	–	–	(80)
of which accumulated depreciation	14	5	20	–	10	–	–	49
Transfer to other category:	18	–	10	–	(5)	(23)	–	–
of which cost	18	–	12	–	(7)	(23)	–	–
of which accumulated depreciation	–	–	(2)	–	2	–	–	–
Revaluation:	3,248	–	–	–	–	–	–	3,248
of which revaluation of cost	3,475	–	–	–	–	–	–	3,475
of which revaluation of accumulated depreciation	(227)	–	–	–	–	–	–	(227)
Depreciation (amortisation) charge for the year	49	10	111	8	34	–	10	222
Cost or valuation at 31 December 2007	5,151	122	1,057	89	111	101	69	6,700
Accumulated depreciation as at 31 December 2007	351	44	627	58	78	–	50	1,208
Net book value at 31 December 2007	4,800	78	430	31	33	101	19	5,492

During 2007 the NBU performed revaluation of premises and constructions to adjust the net book value (carrying value) of the assets included in this category, to their fair value. The revaluation was performed based on the reports of independent appraisers, who hold the relevant

professional qualifications and who have recent experience in valuation of the assets of similar category. The basis used for the appraisal of the major part of the NBU's premises and constructions was the comparative sales method. For the specialised premises or premises that are architectural monuments, the basis used for valuation was the depreciated replacement cost or income capitalisation method.

The carrying amount of fixed assets includes the revaluation surplus of UAH 4,005 million (2006: UAH 759 million).

At 31 December 2007 fixed assets and intangible assets included the assets totalling UAH 348 million at cost or valuation, which had been fully depreciated (2006: UAH 274 million). These assets are still used by the NBU.

(in UAH millions)

	Building and constructions	Motor vehicles and transport	Machinery and equipment	Fixtures and fittings	Other fixed assets	Construc- tion in progress	Intangible 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)
of which cost	(6)	(4)	(11)	(1)	(14)	(1)	(3)	(40)
of which accumulated depreciation	2	4	11	1	14	–	3	35
Transfer to other category:	59	–	10	–	5	(70)	(4)	–
of which cost	62	–	22	(13)	6	(70)	(7)	–
of which 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 as 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

12. Other assets

	2007	(in UAH millions) 2006
Other financial assets		
Accounts receivable – current and not impaired	113	93
Accounts receivable – impaired	2	2
Provision against other financial assets	(1)	(1)
Total other financial assets	114	94
Other non-financial assets		
Bank metals	467	326
Inventory	178	141
Prepayments	82	114
Precious metals and jewellery	58	61
Investments in associates	46	29
Non-current assets held for sale	30	–
Commemorative coins, souvenirs and other products	12	9
Provision against other non-financial assets	(6)	(6)
Total other non-financial assets	867	674
Total other assets	981	768

Other non-financial assets include non-current assets (buildings and constructions) totalling UAH 30 million, in which respect the decision was taken on their disposal. The carrying value of these assets does not exceed their fair value less costs to sell.

Movements in the provision against other assets were as follows:

	2007	(in UAH millions) 2006
Provision against other assets at the beginning of the year	7	8
Recovery of provision during the year (Note 26)	–	(1)
Provision against other assets at the end of the year	7	7

At 31 December 2007 investments in associates included the following:

Name	Country of registration	Type of activity	(in UAH millions)			
			2007		2006	
			Amount	Share (%)	Amount	Share (%)
German-Ukrainian Fund	Ukraine	Financial institution of special type	46	31,25	29	31,25
Total			46		29	

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 increase the lending pool for SME.

Movements in the investments in GUF were as follows:

	2007	(in UAH millions) 2006
Carrying amount of investment at the beginning of the year	29	24
Share of the NBU in GUF's profits	2	5
Foreign currency revaluation	15	–
Carrying amount of investment at the end of the year	46	29

Information on total assets and liabilities of the associate as at 31 December 2007 and its revenues and profits for the year ended 31 December 2007 is provided below:

	2007	(in UAH millions) 2006
Total assets	171	127
Total liabilities	24	1
Total revenue	9	8
Total expense	1	2
Net profit for the year	8	6

The geographical analysis of the other financial assets is disclosed in Note 28, credit risk analysis is disclosed in Note 29 and currency risk analysis is presented in Note 30.

13. Accounts of Banks

	2007	(in UAH millions) 2006
Correspondent accounts:		
in national currency	19,050	14,899
in foreign currency	3	121
Term deposits:		
in foreign currency	–	379
in national currency	139	15
Accounts of banks with special use conditions:		
in national currency	149	89
in foreign currency	76	3
Total accounts of banks	19,417	15,506

Correspondent accounts in national currency include mandatory reserves of banks with the NBU. As at 31 December 2007 the mandatory reserve balance was calculated on the basis of a simple average over a monthly period (as at 31 December 2006: simple average over a monthly period) and should be maintained at a level of 0.5 to 5 per cent (31 December 2006: 0.5 to 5 per cent) of certain obligations of banks. In accordance with the NBU regulations, as at 31 December 2007, banks were required on a daily basis to maintain on the 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 2006: 100%). The correspondent accounts are non-interest bearing.

Term deposits in national currency include the funds placed by banks with the NBU as collateral against the refinancing loans received from the NBU.

Accounts of banks with special use conditions include the funds placed for the purposes of statutory capital formation 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 the accounts of banks is disclosed in Note 28, currency risk analysis is presented in Note 30, interest rate risk analysis is presented in Note 31 and liquidity risk analysis is disclosed in Note 32.

14. Accounts of State and Other Institutions

	2007	(in UAH millions) 2006
Budget funds	15,328	18,624
Other	110	26
Total accounts of State and other institutions	15,438	18,650

The NBU services the accounts of the State budget of Ukraine and local budgets 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.

Accounts of other clients include balance of UAH 54 million on account of Corporate Non-State Pension Fund of the NBU (refer to Note 24).

The geographical analysis of accounts of State and other institutions is disclosed in Note 28, currency risk analysis is presented in Note 30, interest rate risk analysis is disclosed in Note 31 and liquidity risk analysis is disclosed in Note 32.

15. Deposit Certificates Issued by the NBU

The 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 banks' funds with the NBU and the right of banks to receive at maturity the funds placed together with accrued interest.

Transactions with placement of the deposit certificates are performed under agreements with banks for the term of one day (overnight deposits) and from 14 to 365 days (2006: from 31 to 365 days).

As at 31 December 2007 the nominal value of deposit certificates issued by the NBU was UAH 1 million each, the initial term of placement from 6 to 270 days, and weighted average interest rate was 3.8% per annum (2006: weighted average interest rate of 1.1% per annum and the initial term of placement of 14 days). The weighted average interest rate for the deposit certificates placed during 2007 was 0.7% per annum, and the initial term of placement varied from 1 to 270 days (2006: weighted average interest rate of 0.95% per annum and initial term of placement from 1 to 152 days).

The currency risk analysis of the deposit certificates is disclosed in Note 30, interest rate risk analysis is presented in Note 31 and liquidity risk analysis is disclosed in Note 32.

16. Liabilities to the IMF

	2007	(in UAH millions) 2006
IMF accounts No 1 and No 2	28	27
Liabilities to the IMF in settlement of Quota	10,921	10,397
Liabilities to the IMF in respect of purchases of SDR	2,197	4,233
Total liabilities to the IMF	13,146	14,657

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 (2006: UAH 2,511 million).

During 2007 there was a repurchase of IMF funds of SDR 279 million (UAH 2,157 million at the official exchange rate at the date of payment) (2006: SDR 279 million or UAH 2,072 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 31 and liquidity risk analysis is disclosed in Note 32.

17. Other Liabilities

	2007	(in UAH millions) 2006
Other financial liabilities		
Current accounts of employees	305	168
Accounts payable	30	24
Total other financial liabilities	335	192
Other non-financial liabilities		
Accounts payable	5	3
Deferred income	7	6
Total other non-financial liabilities	12	9
Total other liabilities	347	201

Geographical analysis of the other liabilities is provided in Note 28, currency risk analysis is provided in Note 30 and liquidity risk analysis is provided in Note 32.

18. Profits Payable to the State Budget

In accordance with the Law of Ukraine "On the National Bank Ukraine", the NBU is obliged to distribute the excess of budgeted income over budgeted expenditure to the State budget of Ukraine based on the results for the preceding year. Budgeted expenditure should ensure the NBU's ability to exercise its functions and includes both expenses presented in the statement of income and expenditures 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 the 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 2007 amounted to UAH 4,834 million (2006: UAH 2,112 million).

The calculation of the profit payable to the State budget of Ukraine is presented below:

	2007	(in UAH millions) 2006
Profit available for distribution per the statement of income	5,635	2,201
Allocation to funds of the NBU	(148)	(89)
Allocation to general reserves of the NBU	(453)	–
Allocation to statutory capital of the NBU	(90)	–
Profit available for distribution	(110)	–
Excess of budgeted income over budgeted expenditure for the year to be transferred to the State budget, including:	4,834	2,112
Advance payment of profits to the State budget	–	(223)
Profits payable to the State Budget	4,834	1,889

During 2007 the NBU transferred to the State budget of Ukraine the remaining amount of UAH 1,889 million of the excess of income over expenditure for the year ended 31 December 2006.

19. Management of Capital

Capital of the NBU comprises the residual value of the NBU's assets after deduction of its liabilities.

No external capital requirements exist for the NBU as the central bank, except for the size of the statutory capital stipulated by the Law of Ukraine "On the National Bank of Ukraine".

In accordance with this Law the amount of statutory capital of the NBU shall be UAH 10 million. The amount of statutory capital may be increased under the decision of the NBU Council.

In accordance with this Law, formation of the NBU's statutory capital, general reserves and other funds is to be at the expense of profits of the NBU under decisions of the NBU Council.

Objectives and policies of managing components of the NBU's capital are defined by the respective internal regulations approved by the decisions of the NBU Council and the NBU Board.

General reserves are formed to cover general risks (potential losses) arising as a result of banking operations. The maximum amount of these reserves is limited by 2 per cent of the amount of international reserves. Annual allocation of profit for formation (increase) of general reserves, is defined at a level of 10 per cent of the profit available for distribution.

The amount of profit allocated for formation of the NBU funds for the purposes of covering investments into acquisition, construction, improvement of non-current tangible and intangible assets and covering social needs of the NBU employees, is defined within the limits provided in the NBU budget under the respective headings.

During 2007 the NBU Board and the NBU Council took steps to improve the capital management policy. As a result the decision was taken to increase the statutory capital by UAH 90 million and increase general reserves by UAH 453 million through allocation of current year profits.

The composition of capital as at 31 December 2007 is presented below:

	2007	2006
		<i>(in UAH millions)</i>
Statutory capital	100	10
Funds of the NBU	1,844	1,696
General reserves	499	46
Retained earnings	125	14
Revaluation reserve for foreign currency, monetary gold and bank metals	9,787	3,357
Revaluation reserve for fixed assets	4,005	759
Total capital	16,360	5,882

20. Cash and Cash Equivalents

	Note	2007	2006
			<i>(in UAH millions)</i>
Foreign currency cash	5	76	75
Demand deposits (excluding restricted funds)	5	2,325	1,530
Short-term deposits maturing within three months (excluding gold, bank metals and restricted funds)		29,726	21,929
SDR holdings		14	8
Demand accounts of banks	13	(19,278)	(15,112)
Accounts of State and other institutions	14	(15,438)	(18,650)
IMF accounts No 1 and No 2	16	(28)	(27)
Current accounts of employees	17	(305)	(168)
Total cash and cash equivalents		(2,908)	(10,415)

21. Interest Income and Expense

	<i>(in UAH millions)</i>	
	2007	2006
Interest income		
Income on foreign currency funds and deposits	3,524	2,778
Income on loans to banks and other borrowers	116	86
Income on State securities of Ukraine	–	3
Other	3	3
Total interest income	3,643	2,870
Interest expense		
Expense on operations with the IMF	(173)	(261)
Expense on deposit certificates issued by the NBU	(29)	(38)
Expense on loans received	(15)	(19)
Expense on accounts of banks	(7)	(4)
Other	(38)	(22)
Total interest expense	(262)	(344)
Net interest income	3,381	2,526

22. Fee and Commission Income and Expense

	<i>(in UAH millions)</i>	
	2007	2006
Fee and commission income		
Income on services of electronic payments system and electronic mail	134	115
Income on cash and settlement services	100	76
Income on valuables transportation services	22	26
Income on operations with financial instruments	10	1
Total fee and commission income	266	218
Fee and commission expense		
Expense on operations with financial instruments	(5)	(3)
Total fee and commission expense	(5)	(3)
Net fee and commission income	261	215

23. Other Income

	<i>(in UAH millions)</i>	
	2007	2006
Income from sale of commemorative coins, souvenirs and other products	73	54
Income from activities of educational institutions	19	17
Income from registration and licensing	5	7
Fines and penalties received	3	2
Income from monitoring of credit lines	2	3
Gain from disposal of fixed assets	2	–
Other	36	24
Total other income	140	107

The other income includes income from the sale of packages for coins, souvenir banknotes, printed materials, income from social and consumer services and income from associates.

24. Staff Costs

	2007	(in UAH millions) 2006
Wages and salaries	378	285
Social assistance and other social payments	197	148
Mandatory State pension scheme contributions	165	114
Social security contributions	22	21
Other	70	36
Total staff costs	832	604

The 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.

In addition, this line item includes the funds totalling UAH 54 million transferred to a newly established Corporate Non-State Pension Fund of the NBU. This is a defined contribution pension plan and after transfer of respective funds the NBU does not incur liabilities in respect of benefits payments. Upon retirement of the NBU employees, all benefits are paid by the Corporate Non-State Pension Fund of the NBU.

25. Administrative and Other Expenses

	2007	(in UAH millions) 2006
Depreciation and amortisation	146	139
Expenses for maintenance of fixed assets and intangible assets	58	40
Utilities and household expenses	49	40
Business trip expenses	10	8
Telecommunication services and maintenance	10	9
Taxes, duties and charges	2	2
Other	52	46
Total administrative and other expenses	327	284

The depreciation charge for 2007 excludes depreciation of UAH 76 million (2006: UAH 73 million) in respect of the 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).

The other expenses include expenses for purchase of exhibits for the museums, post and mail, stationery, representation, audit, marketing and advertising, sponsorship and other expenses, fines and penalties paid, loss from disposal of tangible and intangible assets and other.

26. Net Increase in Provisions

	Note	2007	(in UAH millions) 2006
(Increase)/decrease in provisions:			
against internal State debt	9	(172)	(449)
against loans to banks and other borrowers	8	7	17
against other assets	12	-	1
Total net increase in provisions		(165)	(431)

27. Financial Risk Management

Risk management objectives of the NBU are as follows:

- ensuring that the NBU's risks are kept at a secure level on a continuous basis;
- ensuring effective management of assets and liabilities of the NBU, in particular prevention of inadequate use of funds;
- ensuring maintenance of the necessary level of liquid assets of the NBU;
- compliance with limits set by the legislation, as well as with principles, internal rules, procedures and limits defined by the NBU regulations, during the process of assets and liabilities management;
- timely provision of the NBU's management with adequate information (reports) on risk management positions in respect of assets and liabilities of the NBU.

Main principles of financial risk management of the NBU are as follows:

- financial risk management is aimed at full avoidance or minimisation of the impact of risks attributable to assets and liabilities of the NBU, with taking into account the NBU's risk appetite defined by the legislation and the NBU regulations;
- acceptable level of financial risks of the NBU is defined by the NBU Board and Assets and Liabilities Management Committee;
- control over compliance with the acceptable level of financial risks of the NBU is exercised by management of the structural divisions of the NBU and Risk Control Division of the NBU.
- Principal types of the financial risks inherent in the NBU's activities are credit, currency, interest rate and liquidity risk.

Credit risk. Credit risk is the risk to incur losses as a result of counterparty failing to perform its financial liabilities to the NBU.

Credit risk is inherent to the operations of the NBU with funds of international reserves through placement of funds on demand accounts and term deposits with foreign banks, investments into foreign securities denominated in foreign currencies, and lending to banks and other borrowers.

The NBU's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the balance sheet.

Credit risk management is performed at the NBU through the following actions:

- defining minimum acceptable credit ratings of counterparties;
- setting long-term credit limits for funds placements by counterparty bank and security issuer;
- setting short-term credit limits on total exposures to counterparty banks;
- setting limits on standard duration (average maturity) level for placements of funds by currency and type of financial instrument;
- performing operations on open markets through secured lending and swap operations;
- monitoring of participating banks' compliance with eligibility criteria defined by respective credit line agreements;
- monitoring creditworthiness of counterparty banks.

Geographical analysis of the NBU's placements (Note 28) shows that during the year ended 31 December 2007 the amount of the NBU's financial assets placed with counterparties in OECD countries, increased from 84% as at 31 December 2006 to 88% as at 31 December 2007. Distribution of the NBU's assets by credit ratings of counterparties has also improved (refer to Note 29). As at 31 December 2006 the NBU's placements with banking counterparties and investments into securities of issuers with credit ratings of "A" and above and international

financial organisations represented 98.6% of the total financial assets of the NBU, while as at 31 December 2007 they represented 98.9% of the total financial assets of the NBU.

Currency risk.

Currency risk is the risk of incurring losses as a result of unfavourable changes in exchange rates of hryvnia to foreign currencies.

The NBU is exposed to currency risk through existence of open currency positions in the balance sheet due to management of international reserves.

The level of currency risk of the NBU was assessed using Value-at-Risk (VaR) method by calculating the risk value of open currency position of the balance sheet and international reserves as possible change in their UAH equivalent with 95% probability in one business day, ten business days and one month horizon. The model of the Value-at-Risk method applied by the NBU takes into account correlation between exchange rates of hryvnia to different foreign currencies and hryvnia prices of monetary gold and bank metals which are treated as components of the open currency position of the balance sheet and international reserves, and is based on volatilities of the components calculated for the period from July 2000 to December 2007.

During the year ended 31 December 2007 the risk value of open currency position of the balance sheet increased from 0.40% of UAH equivalent of the open position (5.15% of equity) as at 31 December 2006 to 0.51% (4.69% of equity) as at 31 December 2007 at one-day horizon, from 1.32% (17.04% of equity) as at 31 December 2006 to 1.63% (15.16% of equity) as at 31 December 2007 at ten-days horizon and from 1.86% (23.98% of equity) as at 31 December 2006 to 2.24% (20.81% of equity) as at 31 December 2007 at one-month horizon as a result of increase of the share of currencies with higher volatility against UAH within the international reserves. In particular, this relates to Euro, Swiss franc and British pound.

During the process of risk value assessment of open currency position of the balance sheet and international reserves, in 2007 the NBU performed monthly analysis of the level of impact of specific currency positions on formation of the risk value, as well as changes in amounts and exchange rates of specific currencies, volatility of exchange rates, correlation of fluctuations of exchange rates, ratio of the currencies with high volatility and low volatility against hryvnia.

For the purposes of analysing possible future levels of the currency risk the NBU performed stress-testing to investigate the level of impact of possible financial market turbulence on the value of international reserves of the NBU.

Currency risk is managed through defining the standard currency composition of the NBU's international reserves as a range of allowed shares of each currency within the NBU's international reserves.

Interest rate risk. Interest rate risk is the risk of incurring losses as a result of unfavourable changes in interest rates.

During the year ended 31 December 2007 the interest rate risk of the NBU first of all was defined through sensitivity of the market value of foreign securities representing a part of the international reserves, to changes in interest rates. In order to limit the interest rate risk, the NBU managed its securities portfolio in relation to standard indicators, such as securities indices defined separately for securities portfolio in each currency, and modified duration indicators. The modified duration of the securities portfolio characterizes a degree of influence of the market interest rate's change on the change of the market value of the portfolio.

During 2007 the modified duration of the foreign currency denominated securities portfolio increased from 1.593 (UAH 6.87 million per one basis point) as at 31 December 2006 to 1.685 (UAH 13.04 million per one basis point) as at 31 December 2007, which was deemed to be appropriate due to the increase in the amount of international reserves and expectations of a decrease in market interest rates in 2007–2008. In particular, if the market interest rates for US Dollars, Euro and British pounds had been 100 basis points lower with the composition of the securities portfolio held constant, the market value of foreign securities would have been UAH 1,304 million higher which would result in the respective increase in profit and equity (2006: if market interest rates for US Dollars, Euro and British pounds had been 100 basis points lower,

the market value of foreign securities would have been UAH 688 million higher which would result in the respective increase in profit and equity)

Other methods of assessing the level of the NBU's interest rate risk used during the reporting period, were 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 the assets and liabilities.

Liquidity risk.

The liquidity risk is defined as the risk when an entity does not have usable funds for servicing current liabilities.

The NBU's management of the liquidity risk inherent to operations with international reserves and arising to a significant extent due to volatility in levels of interventions on the internal currency market, envisages four levels of liquidity support as follows:

maintaining certain levels of the international reserve assets in form of cash on nostro accounts (in accordance with the minimum required and maximum allowed daily levels of cash on the NBU's nostro accounts in foreign currencies, defined by respective regulations);

availability of highly liquid securities within the international reserves (by major currencies) with the share of each type of securities not exceeding the levels defined by respective regulations;

ensuring that the funds placed on term deposits and invested in securities mature evenly;

ensuring possibility to perform conversion operations in case of necessity to use liquid assets in one currency for compensating lack of liquidity in another currency.

Liquidity risk is managed through monitoring of compliance with the minimum and maximum requirements to liquidity of the international reserves defined in the Investment declaration.

Detailed analysis of exposures to the above risks is disclosed in Notes 28 to 32.

28. Geographical Analysis of Financial Assets and Liabilities

The geographical analysis of the NBU's financial assets and liabilities as at 31 December 2007 is set out below:

	<i>(in UAH millions)</i>				
	Ukraine	OECD countries	IMF	Other	Total
Assets					
Foreign currency funds and deposits	77	84,730	–	–	84,807
Foreign securities	–	77,368	–	68	77,436
SDR Holdings	–	–	14	–	14
State securities of Ukraine	395	–	–	–	395
Loans to banks and other borrowers	1,692	–	–	–	1,692
Internal State debt	8,099	–	–	–	8,099
IMF Quota contributions	–	–	10,949	–	10,949
Other financial assets	114	–	–	–	114
Total financial assets	10,377	162,098	10,963	68	183,506
Liabilities					
Banknotes and coins in circulation	122,471	–	–	–	122,471
Accounts of banks	19,417	–	–	–	19,417
Accounts of State and other institutions	15,438	–	–	–	15,438
Deposit certificates issued by the NBU	3,117	–	–	–	3,117
Loans received	–	156	–	–	156
Liabilities to the IMF	–	–	13,146	–	13,146
Other financial liabilities	321	14	–	–	335
Total financial liabilities	160,764	170	13,146	–	174,080
Net balance sheet position	(150,387)	161,928	(2,183)	68	9,426
Off-balance sheet commitments					
Commitments to extend credit	1	–	–	–	1
Net off-balance sheet position (Note 33)	1	–	–	–	1
Net position	(150,388)	161,928	(2,183)	68	9,425

Included in the balances with OECD countries (foreign currency funds and deposits) are the demand and term deposits with the Bank for International Settlements and accrued interest on these deposits, totalling UAH 1,042 million. Foreign securities balance sheet item includes the bonds issued by Bank for International Settlements totalling UAH 4,185 million.

The total amount of funds placed with the Bank for International Settlements is UAH 5,227 million or 3.2% of the total financial assets placed in OECD countries (2006: UAH 8,484 million, or 7.6% of the total financial assets placed in OECD countries).

The geographical analysis of the NBU's financial 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	68,811	–	–	68,886
Foreign securities	–	43,157	–	30	43,187
SDR Holdings	–	–	8	–	8
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
Other financial assets	94	–	–	–	94
Total financial assets	10,495	111,968	10,431	30	132,924
Liabilities					
Banknotes and coins in circulation	82,133	–	–	–	82,133
Accounts of banks	15,506	–	–	–	15,506
Accounts of State and other institutions	18,650	–	–	–	18,650
Deposit certificates issued by the NBU	180	–	–	–	180
Loans received	–	255	–	–	255
Liabilities to the IMF	–	–	14,657	–	14,657
Other financial liabilities	177	15	–	–	192
Total financial liabilities	116,646	270	14,657	–	131,573
Net balance sheet position	(106,151)	111,698	(4,226)	30	1,351
Off-balance sheet commitments					
Commitments to extend credit	4	–	–	–	4
Net off-balance sheet position (Note 33)	4	–	–	–	4
Net position	(106,155)	111,698	(4,226)	30	1,347

29. Credit Risk

Financial assets of the NBU are classified by the lowest out of the ratings assigned to the NBU's counterparties by the international rating agencies Fitch IBCA, Moody's and Standard & Poor's. The ratings are listed below as per the coding of rating agency Fitch IBCA using the rating correspondence table of Bloomberg information system. Rating AAA+ is the rating used for identification of highly reliable international financial institutions such as the Bank for International Settlements.

	Credit rating	2007		(in UAH millions) 2006	
		Amount	% in financial assets	Amount	% in financial assets
Financial assets – neither past due nor impaired					
Foreign currency funds and deposits					
– demand deposits	AAA+	16	0,0	596	0,9
	AAA	23	0,0	34	0,0
	AA	1,299	1,6	36	0,1
	AA–	617	0,7	783	1,2
	A+	453	0,5	56	0,1
	A	–	–	71	0,1
	A–	–	–	7	0,0
– term deposits	AAA+	1	0,0	5,440	7,9
	AAA	3,055	3,6	–	–
	AA+	2,744	3,2	3,614	5,2
	AA	46,116	54,4	27,924	40,5
	AA–	19,746	23,3	27,687	40,2
	A+	9,562	11,3	677	1,0
	A	1,099	1,3	1,886	2,7
– foreign currency cash	No risk	76	0,1	75	0,1
Total foreign currency funds and deposits		84,807	100,0	68,886	100,0
Foreign securities					
– Government bonds	AAA	54,086	70,0	31,617	73,4
	AA+	1,415	1,8	876	2,0
	A+	–	–	821	1,9
– Corporate securities	AAA+	4,185	5,4	1,951	4,5
	AAA	13,655	17,7	7,600	17,7
	AA+	1,092	1,4	127	0,3
	AA	85	0,1	74	0,2
	AA–	2,082	2,7	–	–
	A+	463	0,6	–	–
	A	252	0,3	–	–
Total foreign debt securities		77,315	100,0	43,066	100,0
Loans to banks and other borrowers					
– loans granted to banks to support their liquidity	B	305	18,1	437	31,6
	B–	254	15,0	542	39,2
	Unrated	990	58,7	177	12,8
– loans granted under EBRD credit lines	B	7	0,4	3	0,2
	B–	120	7,1	201	14,5
	Unrated	12	0,7	24	1,7
Total loans to banks and other borrowers		1,688	100,0	1,384	100,0
Other financial assets	Unrated	113	100,0	93	100,0

30. Currency Risk

As at 31 December 2007, the NBU had the following positions in currencies:

	<i>(in UAH millions)</i>							
	UAH	USD	EUR	SDR	GBP	Other	Non-monetary	Total
Financial assets								
Foreign currency funds and deposits	–	38,426	32,424	–	8,640	5,317	–	84,807
Foreign securities	–	36,440	21,935	–	18,940	–	121	77,436
SDR Holdings	–	–	–	14	–	–	–	14
State securities of Ukraine	395	–	–	–	–	–	–	395
Loans to banks and other borrowers	1,549	143	–	–	–	–	–	1,692
Internal State debt	3,370	4,729	–	–	–	–	–	8,099
IMF Quota contributions	–	–	–	10,949	–	–	–	10,949
Other financial assets	114	–	–	–	–	–	–	114
Total financial assets	5,428	79,738	54,359	10,963	27,580	5,317	121	183,506
Financial liabilities								
Banknotes and coins in circulation	122,471	–	–	–	–	–	–	122,471
Accounts of banks	19,338	2	77	–	–	–	–	19,417
Accounts of State and other institutions	4,476	7,824	35	–	–	3,103	–	15,438
Deposit certificates issued by the NBU	3,117	–	–	–	–	–	–	3,117
Loans received	–	156	–	–	–	–	–	156
Liabilities to the IMF	–	–	–	13,146	–	–	–	13,146
Other financial liabilities	321	1	13	–	–	–	–	335
Total financial liabilities	149,723	7,983	125	13,146	–	3,103	–	174,080
Net balance sheet position	(144,295)	71,755	54,234	(2,183)	27,580	2,214	121	9,426

Assets and liabilities in other currencies mainly include positions in Swiss francs and Japanese yen.

As at 31 December 2006, the NBU had the following positions in currencies:

	<i>(in UAH millions)</i>							
	UAH	USD	EUR	SDR	GBP	Other	Non-monetary	Total
Financial assets								
Foreign currency funds and deposits	–	38,425	21,361	–	3,588	5,512	–	68,886
Foreign securities	–	26,571	8,145	–	8,350	–	121	43,187
SDR Holdings	–	–	–	8	–	–	–	8
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
Other financial assets	94	–	–	–	–	–	–	94
Total financial assets	5,016	70,384	29,522	10,431	11,938	5,512	121	132,924
Financial liabilities								
Banknotes and coins in circulation	82,133	–	–	–	–	–	–	82,133
Accounts of banks	15,003	382	121	–	–	–	–	15,506
Accounts of State and other institutions	9,125	4,519	908	–	–	4,098	–	18,650
Deposit certificates issued by the NBU	180	–	–	–	–	–	–	180
Loans received	–	255	–	–	–	–	–	255
Liabilities to the IMF	–	–	–	14,657	–	–	–	14,657
Other financial liabilities	178	1	7	–	–	6	–	192
Total financial liabilities	106,619	5,157	1,036	14,657	–	4,104	–	131,573
Net balance sheet position	(101,603)	65,227	28,486	(4,226)	11,938	1,408	121	1,351

31. Interest Rate Risk

As at 31 December 2007 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.

	<i>(in %)</i>						Total weighted average interest rate
	UAH	USD	EUR	SDR	GBP	Other	
Assets							
Term deposits in OECD countries	–	5.05	4.43	–	6.13	2.28	4.74
Foreign securities	–	3.49	4.24	–	4.63	–	3.98
SDR Holdings	–	–	–	3.50	–	–	3.50
State securities of Ukraine	–	–	–	–	–	–	–
Loans to banks and other borrowers	9.95	6.50	–	–	–	–	9.42
Liabilities							
Term deposits of banks	6.4	–	–	–	–	–	6.4
Accounts of Government and other institutions	3.1	–	–	–	–	–	3.1
Deposit certificates issued by the NBU	3.75	–	–	–	–	–	3.75
Loans received	–	5.85	–	–	–	–	5.85
Liabilities to the IMF in respect of purchases of funds	–	–	–	4.77	–	–	4.77

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 2006 the NBU had the following interest rates on assets and liabilities:

	<i>(in %)</i>						Total weighted average interest rate
	UAH	USD	EUR	SDR	GBP	Other	
Assets							
Term deposits in OECD countries	–	5.32	3.34	–	5.02	1.53	4.58
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
Accounts of Government and other institutions	3.04	–	–	–	–	–	3.04
Deposit certificates issued by the NBU	1.06	–	–	–	–	–	1.06
Loans received	–	6.37	–	–	–	–	6.37
Liabilities to the IMF in respect of purchases of funds	–	–	–	5.48	–	–	5.48

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 the contractual maturity date. For assets and liabilities with variable interest rates, classification was determined with 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 the Management believe this is a fairer portrayal of its repricing position.

As at 31 December 2007 interest rate repricing analysis of the NBU's financial 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
Financial assets							
Foreign currency funds and deposits	11,932	20,956	51,829	1	–	89	84,807
Foreign securities	77,315	–	–	–	–	121	77,436
SDR Holdings	14	–	–	–	–	–	14
State securities of Ukraine	–	–	–	–	–	395	395
Loans to banks and other borrowers	125	237	1,192	138	–	–	1,692
Internal State debt	–	–	–	–	–	8,099	8,099
IMF Quota contributions	–	–	–	–	–	10,949	10,949
Other financial assets	–	–	1	59	52	2	114
Total financial assets	89,386	21,193	53,022	198	52	19,655	183,506
Financial liabilities							
Banknotes and coins in circulation	–	–	–	–	–	122,471	122,471
Accounts of banks	141	–	–	–	–	19,276	19,417
Accounts of State and other institutions	18	–	–	–	–	15,420	15,438
Deposit certificates issued by the NBU	2,266	726	125	–	–	–	3,117
Loans received	–	–	156	–	–	–	156
Liabilities to the IMF	2,197	–	–	–	–	10,949	13,146
Other financial liabilities	308	–	–	–	–	27	335
Total financial liabilities	4,930	726	281	–	–	168,143	174,080
Net gap	84,456	20,467	52,741	198	52	(148,488)	9,426
Cumulative gap	84,456	104,923	157,664	157,862	157,914	9,426	–

Included in loans to banks and other borrowers in category "1 to 5 years" are the loans of UAH 138 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 2006 interest rate repricing analysis of the NBU's financial assets and liabilities is presented below:

(in UAH millions)

	Demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non- interest bearing	Total
Financial assets							
Foreign currency funds and deposits	10,563	13,088	44,768	–	–	467	68,886
Foreign securities	43,066	–	–	–	–	121	43,187
SDR Holdings	8	–	–	–	–	–	8
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
Other financial assets	–	–	1	53	37	3	94
Total financial assets	54,115	13,160	45,610	68	37	19,934	132,924
Financial liabilities							
Banknotes and coins in circulation	–	–	–	–	–	82,133	82,133
Accounts of banks	412	–	–	–	–	15,094	15,506
Accounts of State and other institutions	13	–	–	–	–	18,637	18,650
Deposit certificates issued by the NBU	180	–	–	–	–	–	180
Loans received	–	–	255	–	–	–	255
Liabilities to the IMF	4,234	–	–	–	–	10,423	14,657
Other financial liabilities	170	–	–	–	–	22	192
Total liabilities	5,009	–	255	–	–	126,309	131,573
Net gap	49,106	13,160	45,355	68	37	(106,375)	1,351
Cumulative gap	49,106	62,266	107,621	107,689	107,726	1,351	–

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.

32. Liquidity Risk

For the purposes of liquidity risk calculation the liabilities are analysed by remaining contractual maturity at the balance sheet date.

The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on the discounted cash flows. Net settled derivatives are included at the net amounts expected to be paid. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the balance sheet date.

The liquidity risk position of the NBU as at 31 December 2007 is set out below.

(in UAH millions)

	Demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	No maturity	Total
Financial liabilities							
Banknotes and coins in circulation	122,471	–	–	–	–	–	122,471
Accounts of banks	19,418	–	–	–	–	–	19,418
Accounts of State and other institutions	15,438	–	–	–	–	–	15,438
Deposit certificates issued by the NBU	2,267	732	133	–	–	–	3,132
Loans received	–	–	82	86	–	–	168
Liabilities to the IMF	85	705	1,036	469	–	10,921	13,216
Other financial liabilities	320	13	–	1	–	1	335
Gross loan commitments	1	–	–	–	–	–	1
Total potential future payments for financial obligations	160,000	1,450	1,251	556	–	10,922	174,179

The liquidity risk position of the NBU as at 31 December 2006 is set out below

(in UAH millions)

	Demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	No maturity	Total
Financial liabilities							
Banknotes and coins in circulation	82,133	–	–	–	–	–	82,133
Accounts of banks	15,506	–	–	–	–	–	15,506
Accounts of State and other institutions	18,650	–	–	–	–	–	18,650
Deposit certificates issued by the NBU	180	–	–	–	–	–	180
Loans received	–	–	113	169	–	–	282
Liabilities to the IMF	82	704	1,556	2,170	–	10,397	14,909
Other financial liabilities	182	10	–	–	–	–	192
Gross loan commitments	4	–	–	–	–	–	4
Total potential future payments for financial obligations	116,737	714	1,669	2,339	–	10,397	131,856

33. Commitments, Contingencies and Derivative Financial Instruments

Commitments to extend credit

Commitments to extend credit include the following:

(in UAH millions)

	2007	2006
Commitments to extend credit under international credit lines	1	4
Total commitments to extend credit	1	4

Capital commitments

As at 31 December 2007 the NBU had capital commitments in respect of fixed asset purchases, construction and improvements and intangible assets purchases totalling UAH 160 million (2006: UAH 107 million).

Derivative financial instruments

Starting from December 2007 the NBU performs operations with futures for the purposes of regulating interest rate risk. These operations are performed as a part of Investment Management and Consulting Services Agreement between the NBU and International Bank for Reconstruction and Development dated 1 November 2006.

As at 31 December 2007 the NBU had 342 long stock-exchange Euro-dollar interest futures contracts maturing from March 2008 to March 2010. The nominal value of these futures contracts was UAH 416 million (USD 82 million) as at 31 December 2007.

Legal proceedings

From time to time and in the normal course of business, claims against the NBU are received. On the basis of own estimates and internal professional advice the Management is of the opinion that no material losses will be incurred by the NBU and accordingly no provision has been made in these financial statements.

34. Fair Value of Financial Instruments

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 the market data to determine the estimated fair value. As disclosed in Note 4, the economy of Ukraine displays characteristics of an emerging market, and the level of activity in financial markets of Ukraine at the moment is low. As such, the estimates may not be fully reflective of the value that could be realised by the NBU in the current circumstances.

Financial assets and liabilities carried at fair value. Debt securities at fair value through profit or loss are recorded in the balance sheet at their fair value. The NBU has estimated that the fair value of certain financial assets and liabilities is not materially different from their carrying values. These financial instruments include funds and deposits in foreign currency, SDR holdings, banknotes and coins in circulation, accounts of banks, accounts of State and other 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 used discount factor of 6.6% per annum, being the yield on domestic Government bonds with maturity date on 23 June 2010 sold on the primary market on 26 November 2007 (2006: the NBU discount rate of 8.5% per annum effective as at 31 December 2006 was used).

To estimate the lower value of the promissory notes of State Treasury of Ukraine, the NBU used discount rate of 8% per annum effective as at 31 December 2007 (2006: 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 the primary market).

For the purposes of calculating the 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 fair value, the NBU used the yield rate of 6.935% per annum being the yield on USD-denominated external Government bonds on the Ukrainian external debt securities market as at 1 January 2008 with the maturity date in 2017 and coupon rate of 6.75% per annum (2006: discount rate of 6.073% per annum being the yield on USD-denominated external Government bonds on the Ukrainian State debt securities market with similar maturity dates).

The discounted cash flows have been estimated from 2008, given that servicing of the debt will not be in accordance with the repayment schedule envisaged by the Law of Ukraine On Restructuring and that the debt would not be repaid by 2009, as it was envisaged, but that the repayment will be in line with recent actual servicing of USD 50 million per annum.

The fair value of internal State debt in respect of the national currency denominated loans to Government granted in 1994–1996. To estimate the upper value, the NBU used the discount factor of 6.6% per annum being the average yield on domestic Government bonds placed on the primary market on 26 November 2007 and maturing on 23 June 2010 (2006: the NBU used the discount rate of 8.5% effective as at the end of 2006).

To estimate the lower value of loans, the NBU used as the discount factor 8.0% per annum, being the NBU discount rate effective at the end of 2007 (2006: the weighted-average yield on domestic Government bonds of 9.5% per annum maturing on 28 September 2011, which were realised on the primary market on 27 November 2006).

As at the end of 2007 the cash flows for the purposes of calculating the fair value of loans to Government in national currency included the amount of interest at 5% per annum for servicing the loans starting from 2010.

Fair value of loans to banks and other borrowers approximates 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 the market interest rate (2006: the fair value of loans to banks and other borrowers was approximating the carrying value of the loans).

The following table summarises the carrying amounts and estimated fair values of those financial assets not presented on the NBU's balance sheet at their fair value:

	<i>(in UAH millions)</i>					
	Carrying value	2007		Carrying value	2006	
		Estimated fair value Upper value	Estimated fair value Lower value		Estimated fair value Upper value	Estimated fair value Lower value
State securities of Ukraine in foreign currency	–	–	–	16	16	16
State securities of Ukraine in national currency	395	340	330	395	301	292
Total State securities of Ukraine	395	340	330	411	317	308
Internal State debt on loans in foreign currency	4,729	2,730	2,730	5,154	4,847	2,871
Internal State debt in national currency arising in 1994–1996	3,370	2,676	2,346	3,370	2,068	1,878
Total internal State debt	8,099	5,406	5,076	8,524	6,915	4,749
Loans to banks and other borrowers	1,692	1,692	1,692	1,391	1,391	1,391

Taking into account the fact that the calculations of the estimated fair value are based on certain assumptions, it should be noted that the information provided above may not be fully reflective of the value that could be realised.

35. Presentation of Financial Instruments by Measurement Categories

In accordance with IAS 39, Financial Instruments: Recognition and Measurement, the NBU classifies its financial assets into the following categories: loans and receivables; financial assets at fair value through profit or loss; available-for-sale financial assets and financial assets held to maturity.

All financial liabilities of the NBU are carried at amortised cost.

The following table provides a reconciliation of balance sheet items with these measurement categories as of 31 December 2007:

	<i>(in UAH millions)</i>					
	Loans and receivables	Assets at fair value through profit or loss	Available-for-sale assets	Assets held to maturity	Financial liabilities at amortised cost	Total
Assets						
Foreign currency funds and deposits	84,807	–	–	–	–	84,807
Foreign securities	–	77,315	121	–	–	77,436
SDR Holdings	14	–	–	–	–	14
State securities of Ukraine	–	–	–	395	–	395
Loans to banks and other borrowers	1,692	–	–	–	–	1,692
Internal State debt	8,099	–	–	–	–	8,099
IMF Quota contributions	–	–	10,949	–	–	10,949
Other financial assets	114	–	–	–	–	114
Total financial assets	94,726	77,315	11,070	395	–	183,506
Liabilities						
Banknotes and coins in circulation	–	–	–	–	122,471	122,471
Accounts of banks	–	–	–	–	19,417	19,417
Accounts of State and other institutions	–	–	–	–	15,438	15,438
Deposit certificates issued by the NBU	–	–	–	–	3,117	3,117
Loans received	–	–	–	–	156	156
Liabilities to the IMF	–	–	–	–	13,146	13,146
Other financial liabilities	–	–	–	–	335	335
Total financial liabilities	–	–	–	–	174,080	174,080

The following table provides a reconciliation of balance sheet items with measurement categories as of 31 December 2006:

(in UAH millions)

	Loans and receivables	Assets at fair value through profit or loss	Available-for- sale assets	Assets held to maturity	Financial lia- bilities at amortised cost	Total
Assets						
Foreign currency funds and deposits	68,886	–	–	–	–	68,886
Foreign securities	–	43,066	121	–	–	43,187
SDR Holdings	8	–	–	–	–	8
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
Other financial assets	94	–	–	–	–	94
Total financial assets	78,903	43,066	10,544	411	–	132,924
Liabilities						
Banknotes and coins in circulation	–	–	–	–	82,133	82,133
Accounts of banks	–	–	–	–	15,506	15,506
Accounts of State and other institutions	–	–	–	–	18,650	18,650
Deposit certificates issued by the NBU	–	–	–	–	180	180
Loans received	–	–	–	–	255	255
Liabilities to the IMF	–	–	–	–	14,657	14,657
Other financial liabilities	–	–	–	–	192	192
Total financial liabilities	–	–	–	–	131,573	131,573

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 the related parties. The outstanding balances at the year end are as follows:

(in UAH millions)

	Note	2007	2006				
		Government and State- controlled entities	Associated companies	Other related parties	Government and State- controlled entities	Associated companies	Other related parties
State securities of Ukraine	7	395	–	–	411	–	–
Internal State debt	9	8,099	–	–	8,524	–	–
Other assets	12	2	46	1	3	29	–
Accounts of banks	13	1,180	–	–	1,071	–	–
Accounts of State and other institutions	14	15,328	35	72	18,636	1	10
Profits payable to the State Budget	18	4,835	–	–	1,889	–	–
Deposit certificates issued by the NBU	15	300	–	–	100	–	–
Other liabilities	17	2	–	–	3	–	–

All balances presented in the table above are non-interest bearing except for:

accounts of State and other institutions totalling UAH 18 million with contractual interest rate of 3.1% as at 31 December 2007 (31 December 2006: UAH 10 million with contractual interest rate of 3.04%);

deposit certificates issued by the NBU with contractual interest rate from 2.5% to 7.0% as at 31 December 2007 (31 December 2006: 1.1%).

Income and expense items from operations with the related parties are as follows:

(in UAH millions)

	2007			2006		
	Government and State-controlled entities	Associated companies	Other related parties	Government and State-controlled entities	Associated companies	Other related parties
Interest income	2	–	–	3	–	–
Interest expense	6	–	5	27	–	1
Fee and commission income	14	–	–	12	–	–
Other income	–	2	–	–	5	–
Net increase in provisions	172	–	–	449	–	–

In 2007 short-term benefits (salaries) of key management personnel amounted to UAH 6.3 million (2006: UAH 4.5 million). As at 31 December 2007 outstanding balance of loans to key management personnel totalled UAH 3 million (2006: UAH 3 million).

37. Concentration of Assets and Liabilities

As at 31 December 2007 5% (2006: 7%) of the total NBU assets, excluding IMF Quota, were represented by amounts due from Government of Ukraine in respect of internal State debt and State securities of Ukraine, 3% (2006: 7%) were represented by funds and deposits placed with the Bank for International Settlements and bonds of Bank for International Settlements and 14% (2006: 15%) were represented by US Treasury bills. 75% (2006: 68%) of the total NBU's liabilities (excluding the promissory notes issued to the IMF in settlement of Quota) are represented by banknotes and coins in circulation, 9% (2006: 15%) is represented by funds of the State Treasury of Ukraine and 12% (2006: 13%) is represented by accounts of banks.

38. Subsequent Events

In January and April 2008 the NBU transferred to the State Budget UAH 1,906 million as partial settlement of the liability to transfer the excess of income over expenditure for 2007.

Starting from 1 January 2008 the NBU discount rate has increased from 8% per annum as at 31 December 2007 to 10% per annum.

In February 2008 the NBU made an investment of UAH 20 million in the share capital of newly established entity Open Joint Stock Company "All-Ukrainian Depository of Securities". The NBU's share in this entity amounts to 25%. The investment was made in accordance with the NBU budget for 2008 approved by the Decision of the NBU Council dated 20 February 2008.

14 April 2008
Kyiv, Ukraine

AUDITOR'S REPORT

To the Members of the Council and the Board of the National Bank of Ukraine:

1. We have audited the accompanying consolidated financial statements of the National Bank of Ukraine (the "NBU") which comprise the consolidated balance sheet as of 31 December 2007 and the consolidated statements of income, of cash flows and of changes in equity 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 consolidated 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 consolidated 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.

Opinion

6. In our opinion, the accompanying consolidated financial statements have been properly prepared, in all material respects, to present the financial position of the NBU as at 31 December 2007 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.

Section 4

TABLES

MAIN ECONOMIC AND SOCIAL INDICATORS OF UKRAINE

(in actual prices, UAH, mln.)

Indicators	2003	2004	2005	2006	2007
Gross domestic product	267344	345113	441452	544153	712945
Growth rates versus the previous year in comparable prices, %	109.6	112.1	102.7	107.3	107.6
Industrial output	259502	x	x	x	x
Growth rates versus the previous year in comparable prices, %	115.8	112.5	103.1	106.2	110.2
Agricultural output	64780	83900	92536	94300	109850
Growth/decrease rates versus the previous year in comparable prices, %	89.0	119.7	100.1	102.5	93.5
Fixed capital investments	51011	75714	93096	125254	188486
Growth rates versus the previous year in comparable prices, %	131.3	128.0	101.9	119.0	129.8
Retail turnover	49993	67556	94332	129952	178233
Growth rates versus the previous year in comparable prices, %	120.5	121.9	123.4	126.4	129.5
Services rendered	56121	72933	92013	116351	137515 ¹
Growth rates versus the previous year in actual prices, %	121.0	130.0	126.2	126.5	114.1 ²
Financial result of ordinary activity before tax	19643	44578	64371	76253	121435
Growth rates versus the previous year in actual prices, %	134.2	2.3 t.	144.4	118.5	159.3
Share of unprofitable enterprises, %	37.2	34.8	34.2	33.5	28.9
Consumer price index, % versus December of the previous year	108.2	112.3	110.3	111.6	116.6
Index of industrial producer prices, % versus December of the previous year	111.1	124.1	109.5	114.1	123.3
Average monthly nominal salary/wages of employees, UAH	462.27	589.62	806.19	1041.47	1351.14
Growth rates in %					
versus the previous year	122.8	127.5	136.7	129.2	129.7
versus December of the previous year	124.4	127.7	144.9	125.2	131.1
Indices of real average monthly salary/wages of employees					
Growth rates in %					
versus the previous year	115.2	123.8	120.3	118.3	112.5
versus December of the previous year	113.8	120.8	131.5	111.7	110.3
Income of individuals	215672	274241	381404	472061	614984
Growth rates versus the previous year in actual prices, %	116.5	127.2	139.1	123.8	130.3
Expenditures and savings of individuals	215672	274241	381404	472061	614984
Growth rates versus the previous year in actual prices, %	116.5	127.2	139.1	123.8	130.3

¹ From 2006 – services rendered.² Growth rates in comparable prices.

Concluded

Indicators	2003	2004	2005	2006	2007
Unemployment rate (at the period end), %	3.5	3.5	3.1	2.7	2.3
Number of unemployed individuals registered by the State Service of Employment, thou persons	2835.2	2900.6	2887.7	2700.4	2419.7
Number of individuals registered as unemployed, thou persons	2258.7	2251.4	2203.9	1997.6	1728.5
Minimum salary/wages of individuals at the period end, UAH	205.0	237.0	310.0	400.0	460.0
Living minimum in average per month per person, UAH	334.35	385.9	453.95	...	...
Exports of goods and services, USD, mln.	28953	41291	44378	50239	64001
Growth rates in % versus the previous year	124.0	142.6	107.5	113.2	127.4
Imports of goods and services, USD, mln.	27665	36313	43707	53307	71877
Growth rates in % versus the previous year	128.7	131.3	120.4	122.0	134.8
Gross external debt, USD, mln ¹	23811	30647	39619	54512	84520
Service ratio of long-term external debt, % ²	11.8	10.7	14.7	17.3	18.0
International reserves, in months covering future period imports	2.3	2.6	4.4	3.7	4.1
in % of GDP:					
Consolidated Budget revenues	28.2	26.5	30.4	31.6	30.8
Consolidated Budget expenditures	28.4	29.4	32.1	32.2	31.7
Consolidated Budget deficit	0.2	3.2	1.8	0.7	1.1
Current Balance of Payments	5.8	10.6	2.9	-1.5	-4.2
Gross external debt	47.5	47.2	45.9	50.6	59.9
Public external debt ¹	21.6	19.9	15.6	12.8	10.7
Exports of goods and services	57.8	63.6	51.4	46.6	45.3
Imports of goods and services	55.2	56.0	50.6	49.5	50.9

¹Public external debt includes debts of general Government and monetary authorities.

²External debt service costs (according to schedule) pertaining to export of goods and services.

According to the data of the State Statistics Committee of Ukraine, excluding data on export and import of goods and services, Current Balance of Payments, service ratio of long-term external debt, international reserves, calculated by the NBU and data on unemployment, number of unemployed persons, and social security, calculated by the State Centre of Employment of the 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 UKRAINE

(by the period end, UAH mln.)

Period	M3																					
	Including						M2-M1															
	total			in national currency			in foreign currency			total			in national currency			in foreign currency						
	in national currency		in foreign currency	total		in national currency	in foreign currency	total		in national currency	in foreign currency	total		in national currency	in foreign currency	total		in national currency	in foreign currency			
M0		M1-M0	total		M1		M2		M3		total		M2-M1		M3-M2		total		in national currency		in foreign currency	
2003	95043	75258	19786	94855	75115	19740	51541	33119	18421	43315	23575	19740	188	142	46							
2004	125801	95405	30396	125483	95180	30303	67090	42345	24745	58393	28090	30303	317	225	93							
2005	194071	148294	45777	193145	147528	45617	98573	60231	38341	94573	48955	45617	925	766	160							
2006	261063	190660	70404	259413	189258	70155	123276	74984	48292	136138	65983	70155	1650	1402	248							
2007																						
I quarter	272464	196517	75946	269524	193794	75730	122930	74028	48902	146595	70865	75730	2939	2723	217							
I half year	303016	223960	79056	299910	221131	78779	140693	83962	56731	159217	80438	78779	3106	2829	277							
9 months	348226	262015	86211	344894	258944	85951	164527	96838	67689	180367	94416	85951	3332	3072	260							
year	396156	306001	90156	391273	301406	89867	181665	111119	70546	209608	119740	89867	4884	4595	289							
	<i>in percent versus the year start</i>																					
2007																						
I quarter	104	103	108	104	102	108	100	99	101	108	107	108	178	194	87							
I half year	116	117	112	116	117	112	114	112	117	117	122	112	188	202	112							
9 months	133	137	122	133	137	123	133	129	140	132	143	123	202	219	105							
year	152	160	128	151	159	128	147	148	146	154	181	128	296	328	116							
	<i>in percent versus the previous year</i>																					
2003	147	144	159	147	144	161	128	125	133	180	201	161	40	50	24							
2004	132	127	154	132	127	154	130	128	134	135	119	154	169	158	202							
2005	154	155	151	154	155	151	147	142	155	162	174	151	292	341	172							
2006	135	129	154	134	128	154	125	124	126	144	135	154	178	183	156							

Note.

Monetary aggregate M0 includes money in cash outside the depository corporations.

Monetary aggregate M1 – monetary aggregate M0 and transferable deposits in national currency (M1-M0).

Monetary aggregate M2 – monetary aggregate M1 and transferable deposits in foreign currency, as well as other deposits (M2-M1).

Monetary aggregate M3 – monetary aggregate M2 and securities except shares (M3-M2).

**LIABILITIES OF BANKS FOR FUNDS ATTRACTED ON ACCOUNTS
OF ECONOMIC ENTITIES AND INDIVIDUALS (by currencies)**

(by the period end, UAH mln.)

Period	Total	including											
		in national currency						in foreign currency					
		total	including				total	including					
			demand	among them transfe- rable	other	time		among them long- term	demand	among them transfe- rable	other	time	among them long- term
1. Total													
2003	61617	41954	20143	18380	1764	21811	11814	19663	5362	4813	549	14301	8013
2004	82959	52759	25765	24669	1096	26994	17123	30200	7672	6924	748	22528	14400
2005	132745	87198	40103	38243	1860	47096	28931	45546	10247	9872	375	35299	22267
2006	184234	114093	48957	48110	847	65136	42970	70142	13334	13026	308	56807	37628
2007													
I quarter	195105	119389	49635	48524	1111	69754	47974	75717	14757	14465	292	60960	41263
I half year	215222	136466	57235	56028	1207	79231	53750	78756	16330	15972	358	62425	42118
9 months	247723	161843	69013	67427	1586	92830	64540	85880	18893	17994	900	66987	45172
year	279738	189906	72140	70166	1974	117766	81688	89832	20663	20198	465	69169	48165
in percent versus the year start													
2007													
I quarter	106	105	101	101	131	107	112	108	111	111	95	107	110
I half year	117	120	117	116	143	122	125	112	122	123	116	110	112
9 months	134	142	141	140	187	143	150	122	142	138	292	118	120
year	152	166	147	146	233	181	190	128	155	155	151	122	128
in percent versus the previous year													
2003	163	164	145	...	...	186	219	163	133	...	...	178	213
2004	135	126	128	134	62	124	145	154	143	144	136	158	180
2005	160	165	156	155	170	174	169	151	134	143	50	157	155
2006	139	131	122	126	46	138	149	154	130	132	82	161	169
1.1. Economic entities													
2003	29221	23079	14923	13160	1763	8156	4367	6142	3390	2844	546	2752	1801
2004	41348	30643	19765	18669	1096	10878	5820	10705	5761	5014	748	4944	3339
2005	59542	45022	26094	24239	1855	18928	9744	14521	7070	6698	372	7451	4408
2006	77519	56255	30438	29591	847	25817	13256	21264	7834	7528	305	13431	7385
2007													
I quarter	77991	55080	29937	28826	1111	25143	14131	22911	9071	8781	290	13840	7585
I half year	88426	64945	34660	33455	1205	30284	16032	23482	9920	9569	352	13561	6727
9 months	106737	80074	44633	43048	1584	35442	20106	26663	11766	10878	888	14897	7263
year	115579	90496	43030	41056	1974	47466	27670	25083	12434	11981	453	12650	7747
in percent to the year start													
2007													
I quarter	101	98	98	97	131	97	107	108	116	117	95	103	103
I half year	114	115	114	113	142	117	121	110	127	127	115	101	91
9 months	138	142	147	145	187	137	152	125	150	144	291	111	98
year	149	161	141	139	233	184	209	118	159	159	148	94	105
in percent to the previous year													
2003	159	164	144	...	...	222	333	140	133	...	...	151	268
2004	142	133	132	142	62	133	133	174	170	176	137	180	185
2005	144	147	132	130	169	174	167	136	123	134	50	151	132
2006	130	125	117	122	46	136	136	146	111	112	82	180	168

Concluded

Period	Total	including										
		in national currency						in foreign currency				
		total	including				total	including				
			demand	among them		time		among them long-term	demand	among them		time	among them long-term
transfe-rable	other	transfe-rable		other								

1.2. Individuals

2003	32396	18875	5220	5219	0.2	13655	7448	13521	1972	1969	3.0	11549	6212
2004	41611	22116	6000	6000	0.7	16115	11302	19495	1911	1911	0.3	17584	11061
2005	73202	42176	14008	14004	4.6	28168	19187	31026	3177	3175	2.4	27848	17859
2006	106715	57837	18519	18519	0.1	39319	29714	48878	5501	5498	2.6	43377	30243

2007

I quarter	117114	64309	19699	19698	0.4	44610	33844	52806	5686	5683	2.6	47119	33678
I half year	126795	71522	22575	22573	2.3	48947	37718	55274	6410	6403	6.4	48864	35391
9 months	140986	81769	24380	24378	1.5	57389	44434	59217	7127	7115	11.9	52090	37908
December	164159	99411	29110	29110	0.1	70300	54018	64749	8230	8217	12.2	56519	40418

in percent versus the year start**2007**

I quarter	110	111	106	106	457	113	114	108	103	103	100	109	111
I half year	119	124	122	122	2413	124	127	113	117	116	243	113	117
9 months	132	141	132	132	1581	146	150	121	130	129	452	120	125
December	154	172	157	157	72	179	182	132	150	149	465	130	134

in percent to the previous year

2003	168	163	148	...	...	169	182	176	134	...	...	186	201
2004	128	117	115	115	329	118	152	144	97	97	11	152	178
2005	176	191	233	233	696	175	170	159	166	166	750	158	161
2006	146	137	132	132	2	140	155	158	173	173	109	156	169

CLAIMS OF BANKS ON CREDITS EXTENDED TO THE ECONOMY OF UKRAINE
(by types of currency and terms)

(by the period end, UAH mln.)

Period	Total	including by types of							
		currency		credits					
		in national currency	in foreign currency	short-term			long-term		
				total	including		total	including	
	in national currency	in foreign currency			in national currency	in foreign currency			
Total									
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
2007									
I quarter	273064	134137	138927	93359	64658	28700	179705	69479	110226
I half year	315692	153566	162125	103135	73349	29786	212557	80217	132339
9 months	367160	177499	189660	116861	84223	32639	250299	93277	157022
year	426863	213798	213065	131501	95155	36346	295362	118643	176719
in percent versus the year start									
2007									
I quarter	111	108	114	108	108	110	113	109	116
I half year	129	124	133	120	122	114	134	126	139
9 months	150	143	156	136	140	125	157	146	165
year	174	173	175	153	158	139	186	186	185
in percent versus the previous year									
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
2007	174	173	175	153	158	139	186	186	185
1.1. Economic entities									
2003	58849	35559	23290	34382	22723	11659	24466	12836	11631
2004	73785	44564	29220	37063	24355	12708	36722	20209	16512
2005	109895	67525	42370	48807	35154	13653	61088	32371	28717
2006	166683	95438	71245	74451	51334	23118	92231	44104	48127
2007									
I quarter	183648	104116	79532	80349	55200	25149	103299	48916	54383
I half year	208057	119808	88249	88540	62868	25672	119518	56940	62578
9 months	237543	136667	100876	99359	71396	27964	138184	65271	72913
year	271417	158828	112589	111973	80153	31820	159444	78675	80769
in percent versus the year start									
2007									
I quarter	110	109	112	108	108	109	112	111	113
I half year	125	126	124	119	122	111	130	129	130
9 months	143	143	142	133	139	121	150	148	152
year	163	166	158	150	156	138	173	178	168
in percent versus the previous year									
2003	152	158	143	121	129	107	240	265	217
2004	125	125	125	108	107	109	150	157	142
2005	149	152	145	132	144	107	166	160	174
2006	152	141	168	153	146	169	151	136	168
2007	163	166	158	150	156	138	173	178	168

Concluded

Period	Total	including by types of							
		currency		credits					
		in national currency	in foreign currency	short-term			long-term		
				total	including		total	including	
	in national currency	in foreign currency			in national currency	in foreign currency			
1.2. Individuals									
2003	8986	4004	4982	2900	2014	886	6086	1990	4096
2004	14794	6643	8151	3513	2509	1003	11282	4134	7148
2005	33523	13749	19774	6012	4319	1693	27511	9430	18081
2006	78543	28345	50198	11742	8768	2974	66801	19577	47224
2007									
I quarter	89416	30022	59395	13010	9458	3552	76407	20563	55843
I half year	107635	33758	73876	14596	10481	4114	93039	23277	69762
9 months	129617	40832	88784	17502	12827	4675	112115	28006	84109
year	155446	54970	100476	19528	15002	4526	135918	39968	95950
in percent versus the year start									
2007									
I quarter	114	106	118	111	108	119	114	105	118
I half year	137	119	147	124	120	138	139	119	148
9 months	165	144	177	149	146	157	168	143	178
year	198	194	200	166	171	152	203	204	203
in percent versus the previous year									
2003	271	203	371	174	194	141	369	213	573
2004	165	166	164	121	125	113	185	208	175
2005	227	207	243	171	172	169	244	228	253
2006	234	206	254	195	203	176	243	208	261
2007	198	194	200	166	171	152	203	204	203

**INTEREST RATES ON REFINANCING OF BANKS
BY THE NATIONAL BANK OF UKRAINE**

(annual percentage rates, %)

Period	NBU discount rate*	Average-weighted rate on all instruments	including						
			credits extended through tender	overnight credits	REPO operations	credits extended to support banks' long-term liquidity	stabilizing credits	swap operations	refinance credits against pledge of property rights to bank deposit funds placed with the NBU
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
2007	8.0	10.1	10.0	11.1	–	–	–	–	8.3
January	8.5	8.6	–	10.5	–	–	–	–	8.5
February	8.5	10.5	10.5	10.5	–	–	–	–	–
March	8.5	8.9	8.9	–	–	–	–	–	–
April	8.5	10.3	10.2	10.5	–	–	–	–	–
May	8.5	9.4	9.2	10.0	–	–	–	–	–
from 1.06	8.0	–	–	–	–	–	–	–	–
June	8.0	9.1	9.3	10.0	–	–	–	–	8.0
July	8.0	9.0	8.9	10.0	–	–	–	–	–
August	8.0	8.9	8.9	10.0	–	–	–	–	–
September	8.0	8.9	8.6	10.0	–	–	–	–	–
October	8.0	9.1	9.1	9.0	–	–	–	–	–
November	8.0	12.1	12.0	12.5	–	–	–	–	–
December	8.0	14.6	14.5	15.0	–	–	–	–	–

* At the period end.

**INTEREST RATES ON CREDITS AND DEPOSITS
(by currencies)**

(average weighted annual, %)

Period	On credits						On deposits		
	including overdraft			excluding overdraft			total	including	
	total	including		total	including			in national currency	in foreign currency
		in national currency	in foreign currency		in national currency	in foreign currency			
2003	17.5	20.2	11.6	14.7	17.9	11.9	6.8	7.1	6.0
2004	15.2	17.9	12.3	14.5	17.3	12.3	7.4	7.8	6.2
2005	14.6	16.4	11.6	14.2	16.0	11.6	8.0	8.5	6.8
2006	14.1	15.4	11.3	13.6	15.1	11.3	6.8	7.6	5.8
2007	13.5	14.4	11.3	13.0	13.9	11.3	7.2	8.2	5.8
January	13.8	14.8	11.4	13.2	14.2	11.4	7.4	8.0	6.3
February	13.6	14.5	11.6	13.1	13.9	11.7	7.0	8.1	5.8
March	13.6	14.5	11.6	13.1	14.0	11.5	7.1	8.1	5.9
April	13.7	14.6	11.7	13.2	14.1	11.7	7.0	7.8	5.9
May	13.4	14.2	11.3	12.7	13.4	11.4	6.8	7.7	5.7
June	13.5	14.6	11.2	13.0	14.1	11.2	6.9	7.7	5.7
July	13.5	14.5	11.4	13.0	13.9	11.5	7.1	8.2	5.8
August	13.2	14.0	11.2	12.6	13.3	11.3	6.8	8.0	5.6
September	13.4	14.3	11.1	12.9	13.8	11.1	7.1	8.3	5.6
October	13.3	14.2	11.0	12.8	13.7	11.0	7.3	8.3	5.8
November	13.5	14.4	11.1	13.0	14.0	11.1	7.5	8.6	5.8
December	13.8	14.8	11.2	13.4	14.4	11.2	7.9	8.6	6.3

Note. Interest rates exclude interbank credits and deposits.

**OFFICIAL EXCHANGE RATE OF HRYVNIYA AGAINST FOREIGN CURRENCIES
SET BY THE NATIONAL BANK OF UKRAINE (period average)**

(UAH)

Currencies	2003	2004	2005	2006	2 0 0 7			
					I quarter	I half year	9 months	year
100 Australian Dollar	347.14	391.63	390.88	380.32	396.79	408.15	414.59	423.29
100 British Pound Sterling	871.28	973.91	933.76	929.45	987.42	994.96	1003.26	1010.69
10000/100* Azerbaijan Manat	10.86	10.83	10.83	557.91	580.67	583.41	586.19	588.48
10 Belarussian Ruble	0.03	0.02	0.02	0.02	0.02	0.02	0.02	0.02
100 Danish Crone	81.07	88.84	85.75	84.96	88.79	90.08	91.09	92.85
100 US Dollar	533.27	531.92	512.47	505.00	505.00	505.00	505.00	505.00
100 Estonian Kroon	38.50	42.24	40.84	40.50	42.29	42.90	43.37	44.21
100 Icelandic Krona	6.96	7.58	8.16	7.25	7.40	7.66	7.78	7.90
100 Canadian Dollar	380.93	409.10	422.89	445.16	431.13	445.15	457.54	471.98
100 Kazakh Tenge	3.57	3.91	3.86	4.01	4.04	4.10	4.10	4.12
100 Latvian Lats	933.76	984.96	909.94	907.95	942.76	958.24	969.54	988.22
100 Lithuanian Litas	174.54	191.50	185.20	183.56	191.64	194.40	196.53	200.36
100 Moldovan Leu	38.27	43.17	40.68	38.47	39.35	40.07	40.75	41.67
100 Norwegian Krone	75.40	78.99	79.67	78.80	81.02	82.48	84.17	86.34
100 Polish Zloty	137.09	146.22	158.76	162.77	170.36	174.68	177.41	183.06
10 Russian Ruble	1.74	1.85	1.81	1.86	1.92	1.94	1.95	1.98
100 Singapore Dollar	306.03	314.69	308.03	317.81	329.62	330.44	331.20	335.21
100 Slovak Koruna	14.53	16.51	16.55	17.04	19.25	19.71	20.02	20.49
10000/100** Turkish Lira	0.04	0.04	380.29	352.97	357.96	367.53	375.65	387.74
10000 Turkmen Manat	10.26	10.23	9.86	9.71	9.71	9.71	9.71	9.71
1000 Hungarian Forint	23.78	26.26	25.78	24.02	26.22	26.82	27.06	27.53
100 Uzbek Sum	0.55	0.52	0.46	0.41	0.41	0.40	0.40	0.40
100 Czeck Koruna	18.92	20.72	21.44	22.37	23.61	23.85	24.18	24.95
100 Swedish Krona	66.07	72.45	68.96	68.50	72.06	72.81	73.48	74.79
100 Swiss Franc	396.14	428.18	412.75	402.78	409.54	411.50	414.63	421.16
100 RNB (China)	–	64.28	62.53	63.33	65.08	65.42	65.88	66.40
1000 Japanese Yen	46.03	49.21	46.68	43.40	42.30	42.08	42.34	42.92
100 Euro	602.44	660.94	638.99	633.69	661.71	671.21	678.57	691.79
100 SDR	746.82	787.82	758.02	742.83	757.44	761.56	765.80	772.94

* From 2006 – 100 Azerbaijan Manat.

** From 2005 – 100 Turkish Liras.

**OFFICIAL EXCHANGE RATE OF HRYVNIA AGAINST FOREIGN CURRENCIES
SET BY THE NATIONAL BANK OF UKRAINE (by the period end*)**

(UAH)

Currencies	2003	2004	2005	2006	2 0 0 7			
					I quarter	I half year	9 months	year
100 Australian Dollar	397.94	411.51	368.69	398.47	408.50	428.88	445.36	443.46
100 British Pound Sterling	946.88	1018.27	867.59	990.45	992.60	1009.77	1024.01	1009.73
10000/100** Azerbaijan Manat	10.83	10.82	11.00	579.46	582.20	589.95	593.21	597.35
10 Belarussian Ruble	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
100 Danish Crone	89.49	97.03	80.06	89.20	90.51	91.34	96.04	99.50
100 US Dollar	533.15	530.54	505.00	505.00	505.00	505.00	505.00	505.00
100 Estonian Kroon	42.58	46.13	38.17	42.51	43.09	43.44	45.77	47.42
100 Icelandic Krona	7.43	8.62	7.93	7.14	7.64	8.04	8.21	8.13
100 Canadian Dollar	406.73	437.87	432.85	435.24	435.38	471.97	505.61	515.63
100 Kazakh Tenge	3.70	4.08	3.77	3.98	4.08	4.15	4.17	4.19
100 Latvian Lats	987.31	1028.18	851.60	953.94	950.22	976.34	1016.02	1064.48
100 Lithuanian Litas	193.02	209.33	173.53	192.62	195.28	196.86	207.39	214.88
100 Moldovan Leu	40.33	42.58	39.36	39.13	40.32	41.06	43.66	44.62
100 Norwegian Krone	79.11	87.55	74.49	80.73	83.22	84.86	92.40	93.05
100 Polish Zloty	142.11	177.16	154.70	173.61	174.25	179.00	189.52	206.01
10 Russian Ruble	1.81	1.91	1.75	1.92	1.94	1.96	2.02	2.06
100 Singapore Dollar	313.10	323.87	303.36	329.22	332.58	328.42	338.58	349.22
100 Slovak Koruna	16.19	18.65	15.77	19.31	20.20	20.02	21.14	22.08
10000/100*** Turkish Lira	0.04	0.04	374.09	356.81	362.55	381.29	415.41	431.92
10000 Turkmen Manat	10.25	10.20	9.71	9.71	9.71	9.71	9.71	9.71
1000 Hungarian Forint	25.46	29.38	23.65	26.42	27.19	27.43	28.63	29.23
100 Uzbek Sum	0.54	0.50	0.43	0.41	0.40	0.40	0.40	0.39
100 Czeck Koruna	20.46	23.75	20.58	24.20	24.05	23.69	25.94	27.91
100 Swedish Krona	73.40	80.06	63.46	73.57	72.22	73.23	77.66	78.53
100 Swiss Franc	427.23	467.45	383.16	413.89	415.83	410.79	431.98	446.85
100 RNB (China)	–	64.10	62.57	64.70	65.36	66.31	67.20	69.14
1000 Japanese Yen	49.82	51.18	42.83	42.38	43.02	41.00	43.85	44.66
100 Euro	666.22	721.75	597.16	665.09	674.28	679.73	716.09	741.95
100 SDR	792.25	823.93	721.78	759.72	764.18	764.64	784.93	798.03

* As set on the last calendar day.

** From 2006 – 100 Azerbaijan Manat.

*** From 2005 – 100 Turkish Liras.

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Editorial staff:

Anatolii Shapovalov (Head)
Vira Gal (Deputy Head)
Natalia Hrebenyk
Vira Rychakivska
Mykola Melnychuk
Olena Scherbakova
Tetiana Halchynska

Compiled by the NBU
Statistics and Reporting Department

Translated by
Halyna Holubieva
Liudmyla Patenko
Valentyna Kravchenko
Olha Zahorodniaia

Proof-readers:
Kristina Zasykyna
Olena Marchenko

Responsible for the publication,
Head of the Division for Issue
of NBU Statistic Publications
of the Editorial Board of NBU Periodicals:
Mylana Boichuk
Photographs: by *Vladyslav Nehrebetskyi*

Address of the Editorial Board of NBU Periodicals:

7 Nauky Avenue,
Kyiv, 03028, Ukraine
Telephone: (38 044) 527 3014
Telephone and fax: (38 044) 524 9625
E-mail: litvinova@bank.gov.ua

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