



NATIONAL BANK OF UKRAINE

ANNUAL REPORT

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Dear Madams and Sirs!

The year 2010 was a year of complicated economic processes, important decisions that, sometimes, were tough sells, and consolidation of efforts of all branches of the power in order to overcome consequences of the world financial and economic crisis and to improve the economic situation.

Reforms of the economy, social sphere, and the government bodies have been launched and going on. Currently, gradual progress with respect to implementing these processes has been reported. The year 2010 was also a turning year in our activities, as the Law on the National Bank of Ukraine was amended, with the sixth clause stating that our key priority is to achieve and to keep price stability in Ukraine. Composition of the NBU Board changed, and new members have been exercising their duties within new competence. In addition, we succeeded in establishing fruitful cooperation with the current Cabinet of Ministers of Ukraine. Both the economy, as a whole, and the banking sector, in particular, have derived benefits therefrom.

Resumption of the right of legislative initiative was another important benchmark in the operation of the National Bank.

The reforms, as one can see, are irrevocable and have been yielding some good fruits.

Having overcome the phase of grave economic and financial crisis Ukraine's economy entered the post-crisis development stage. After a serious slump of 2009, GDP grew up to 4.2%, industrial output reached 11.2%, and retail trade turnover 7.6%.

The economic revival, in a great measure, was caused by adequate monetary actions of the NBU which not only ensured the stability of Ukraine's monetary unit and banking system, but also supported the government's efforts related to resuming the economic growth.

For the first time since 2004, the inflation declined down to a single-digit level, 9.1%, in 2010. At the same time, the core inflation, i.e. an indicator reflecting efficiency

of the NBU monetary measures largely fell almost twice, down to 7.9%. The inflation drop was stimulated by the stability of money and FX markets, renewal of effective operation of banks, as well as by sound interest rate and lending policy of the National Bank of Ukraine. The slump in inflation pressure was accompanied with positive dynamics of economic growth indicators which proved adequacy of money supply.

The banking system also entered the post-crisis development stage. Confidence in banks and the national monetary unit as a means of savings has been restored. An increase in households' deposits with banks, in 2010, made up 28.5% which was by one third more than before the crisis. The regulatory capital of banks added 18.5% during the year. In 2010, in order to stimulate positive trends in the monetary market and the economy as a whole the NBU three times dropped the discount rate, i.e. the reference for other NBU interest rates. Currently, the NBU discount rate makes 7.75% per annum.

The NBU managed to ensure an adequate level of liquidity in the financial system and to establish conditions for restructuring the loans issued by banks, thereby promoting saturation of the banking system with funds. As a result, the loans issued to nonfinancial institutions rose by 8.4%, in 2010.

It is very important that the consolidated balance of payments showed a surplus. In 2010, a relatively small current account deficit was covered with a surplus on the financial account. This allowed the NBU to increase its official reserves that grew by USD 8.1 billion and reached USD 34.6 billion.

During the year, the NBU became more transparent in its activities through improving communications with the public.

In 2010, the NBU profit totaled UAH 17.1 billion, with its major portion being transferred to the state budget of Ukraine. It was a material contribution to providing social and other important government expenditures.

The NBU will further continue to ensure a decrease in the core inflation and reliable operation of the banking system.

Finally, I would like to note that we will make our best endeavors to raise the economy and the banks. I'm sure that the NBU employees will show their professionalism and do their best to ensure the financial stability and to enhance competitive ability of our economy.

I believe in our potential and ability to complete successfully any big deal.

Sincerely yours,



*Serhii Arbutov,
Governor of the National Bank of Ukraine*

INTRODUCTION

The National Bank of Ukraine is a central government body whose legal status, objectives, responsibilities, competence, and organizational principles are defined by the Constitution of Ukraine, the Law of Ukraine on the National Bank of Ukraine, and by other legislative acts of Ukraine. The main objective of the National Bank of Ukraine is to keep stability of the national monetary unit, hryvnia. When performing its main task the NBU shall be governed by the priority character of achieving and keeping the price stability in the country.

In 2010, the macroeconomic conditions for implementing the NBU monetary policy were influenced by global trends, as the gradual revival of economic activities which started in the second half of 2009, continued. Due to joint efforts of the government and the National Bank of Ukraine the inflation fell down to a single-digit value, and the unemployment rate remained at a low level. At the same time, the budget deficit and Ukraine's external debt grew.

For the purpose of keeping pace of economic growth stable the National Bank of Ukraine pursued the monetary policy coordinated with the government measures. During the year, liquidity of the banking system was kept at an adequate level, mainly, due to fiscal factors and the NBU transactions on purchasing foreign currencies and escalating the international reserves. In order to ensure the equilibrium state of the money market the NBU regularly carried out mobilization transactions and operations related to bilateral quoting of Ukraine's government bonds, as well as sold government securities and strengthened the minimum reserve requirements for banks. It should be noted also that the NBU decreased, as compared with the previous year, the total volume of transactions related to refinancing of the commercial banks.

Both changes in the macroeconomic environment and the NBU efforts promoted the renewal of confidence in the banking system and national monetary unit among depositors. As a result, an ascending trend is reported in households' and corporate deposits with banks.

In order to intensify lending of the economy, in 2010, the NBU three times dropped the discount and refinancing rates. As a result of such monetary policy orientation, banks decreased price for hryvnia-denominated funds. Therefore, the NBU stimulating measures promoted intensification of investment function of the banking system in the national currency, as in 2010 the balance of loans denominated in the national currency grew, primarily, due to an increase in the loans issued to non-financial corporations.

Growing inter-bank market and increasing FX inflows from nonresidents stimulated some hryvnia's revaluation with respect to USD in the interbank FX market. The international reserves also rose and were adequate for funding future imports of goods and services for more than five months.

Stabilization of the banks' resource base and strengthening of controllability of the money market stimulated growing bank transfers, as in 2010, a number of initial payments and amount of electronic payment notices in the NBU electronic payment system ascended.

During the reporting year, the NBU made efforts with respect to legislative regulation of problematic issues in activities of the NBU and commercial banks. They were aimed at overcoming adverse effects of the financial crisis and resuming the stable functioning of the banking sector, as well as at securement of meeting obligations by Ukraine to IMF pursuant to the Memorandum on Economic and Financial Policy made within the framework of stand-by project.

In 2010, the NBU's right of legislative initiative was restored which promoted efforts related to preparation of legislative proposals among which there are, for example, the revoke of the right of banks to be members of industrial financial groups and compilation of the list of persons who are not eligible to be the top managers of banks.

With the purpose of improving the procedure for registration and licensing of banks the NBU regulations have been amended with respect to exercising control by the NBU over compliance of the business reputation of bank top managers with the requirements of the applicable laws of Ukraine during the whole period of their office, as well as over banks' compliance with the special requirements to regulatory capital.

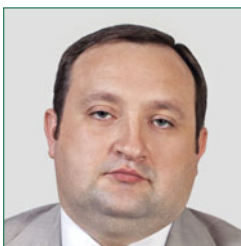
In 2010, the NBU organized and exercised supervision over banks having licenses on banking transactions. The banking supervision system was based on evaluating banks' activities with the use of CAMELS rating system that provides for assessment of the general status on the basis of common criteria covering all directions of bank activities as well as for identification of main risks and exposures.

The National Bank of Ukraine paid great attention to the increase in banks' regulatory capital and supervised over their compliance with the NBU requirements to some banks to augment their regulatory capital.

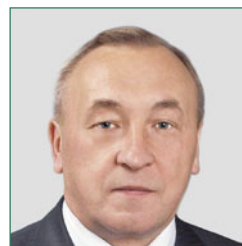
PANEL OF THE COUNCIL OF THE NATIONAL BANK OF UKRAINE
(as at 1 April, 2011)



Akimova
Iryna Mykhailivna
Decree of the President of Ukraine
of 16.04.2010 № 545/2010



Arbuzov
Serhii Hennadiiovych
Member of the Council of the
National Bank of Ukraine ex officio



Haidutskyi
Pavlo Ivanovych
Decree of the President of Ukraine
of 16.04.2010 № 545/2010



Heiets
Valerii Mykhailiovych
Decree of the President of Ukraine
of 28.02.2005 № 384/2005



Honcharov
Mykhailo Oleksandrovych
Resolution of the Verkhovna Rada
of Ukraine of 11.01.2007 № 560-V



Horbal
Vasyl Mykhailiovych
Resolution of the Verkhovna Rada of
Ukraine of 11.01.2007 № 560-V



Kliuiev
Serhii Petrovych
Resolution of the Verkhovna Rada
of Ukraine of 11.01.2007 № 560-V



Kolesnikov
Borys Viktorovych
Resolution of the Verkhovna Rada
of Ukraine of 11.01.2007 № 560-V



Poluniev
Yurii Volodymyrovych
Resolution of the Verkhovna Rada
of Ukraine of 05.09.2008 № 504-VI



Poroshenko
Petro Oleksiiovych
Resolution of the Verkhovna Rada of Ukraine
of 11.01.2007 № 560-V (Elected the
Chairman of the Council of the National Bank
of Ukraine on 23.02.2007)



Portnov
Andrii Volodymyrovych
Decree of the
President of Ukraine
of 16.04.2010 № 545/2010



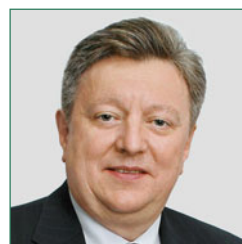
Prasolov
Ihor Mykolaiovych
Resolution of the Verkhovna Rada of Ukraine
of 11.01.2007 № 560-V (Elected the Deputy
Chairman of the Council of the National
Bank of Ukraine on 23.02.2007)



Fedosov
Viktor Mykhailiovych
Decree of the President of Ukraine of
16.04.2010 № 545/2010



Khoroshkovskiy
Valerii Ivanovych
Decree of the President of Ukraine
of 16.04.2010 № 545/2010



Shpek
Roman Vasylovych
Decree of the President of Ukraine
of 16.04.2010 № 545/2010

PANEL OF THE BOARD OF THE NATIONAL BANK OF UKRAINE
(as at 1 April, 2011)



**Arbuzov
Serhii Hennadiiovych**
Governor
of the National Bank of Ukraine



**Kolobov
Yurii Volodymyrovych**
First Deputy Governor



**Krotiuk
Volodymyr Leonidovych**
Deputy Governor



**Rychakivska
Vira Ivanivna**
Deputy Governor



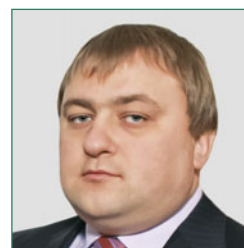
**Sorkin
Ihor Viacheslavovych**
Deputy Governor



**Ivaniuk
Ihor Mykhailovych**
Director of
Personnel Department



**Novikov
Viktor Volodymyrovych**
Director of Legal Department



**Prokhorenko
Valerii Petrovych**
Director of
Financial Department



**Tkachenko
Oleksii Oleksandrovych**
Director of General Department
of Banking Supervision

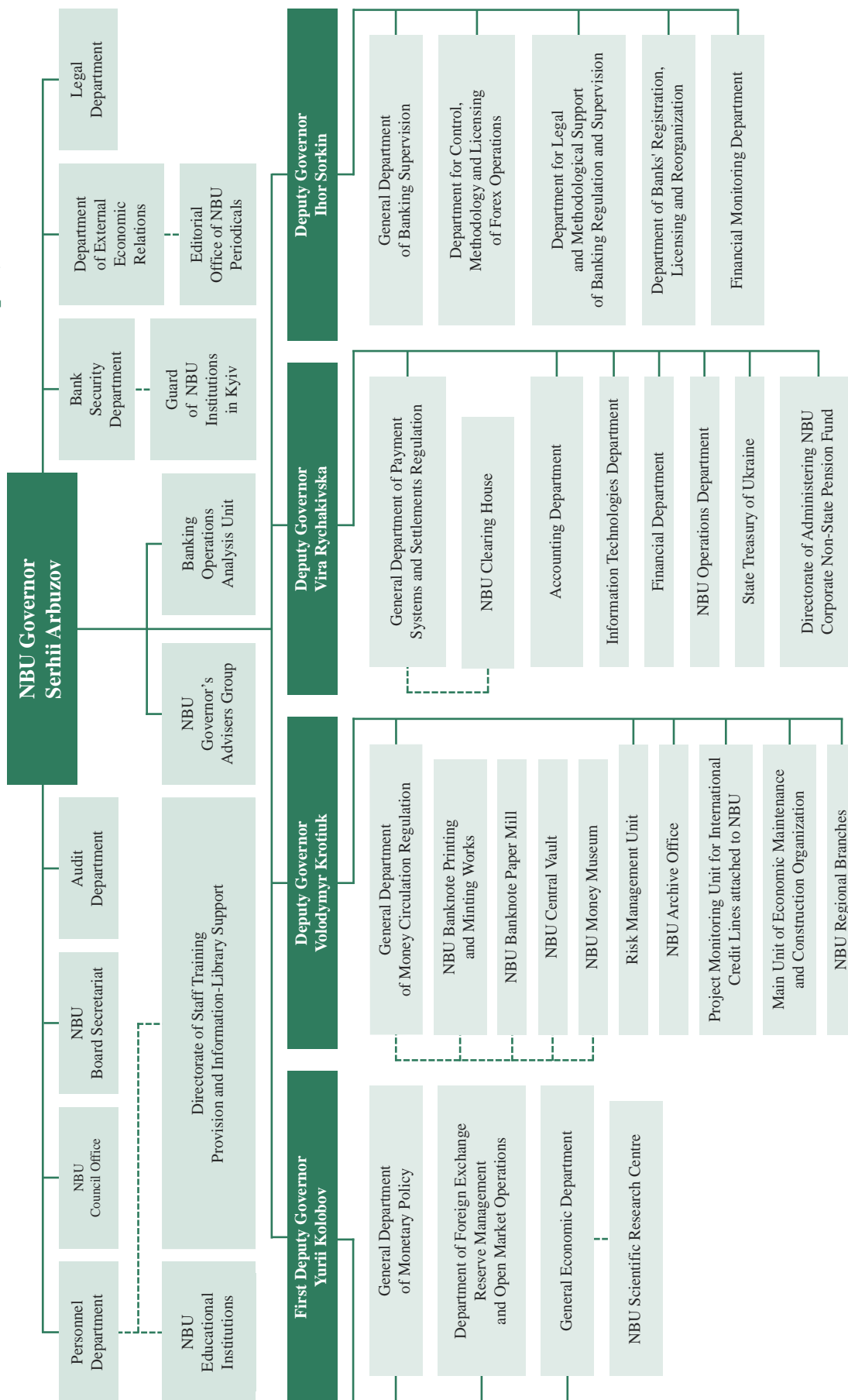


**Shumylo
Ihor Anatoliiovych**
Director of General
Economic Department



**Shcherbakova
Olena Anatoliivna**
Director of General Department
of Monetary Policy

ORGANIZATIONAL CHART OF THE NATIONAL BANK OF UKRAINE (as at 1 April, 2011)



ECONOMIC DEVELOPMENT OF UKRAINE

1. DEVELOPMENT OF THE WORLD ECONOMY AND INTERNATIONAL MARKETS

In 2010, the world economy, commodity and financial markets showed a post-crisis recovery after the deepest recession of the previous years, as the world economy's growth quickened pace up to nearly 4 per cent. In 2010, the world trade turnover grew by 12.4 per cent due to large-scale measures targeted towards stabilizing the financial sector and supporting national economies taken by governments of the world leading countries, as well as by international financial institutions.

However, the economic dynamics varied by countries and regions, and a gap enhanced between growth rates of advanced economies and emerging markets. For instance, in 2010, among the leading world economies, the United States registered a 2.9 per cent increase in GDP, and the Euro zone countries about 2 per cent, while emerging markets grew swiftly, with China and the Russian Federation increasing GDP up to 10.3 per cent and 4.0 per cent, respectively.

Chart 1. **Economic growth in Ukraine, world economic growth, and world export dynamics** (as compared with the previous year; 2010–2011 according to IMF estimates)

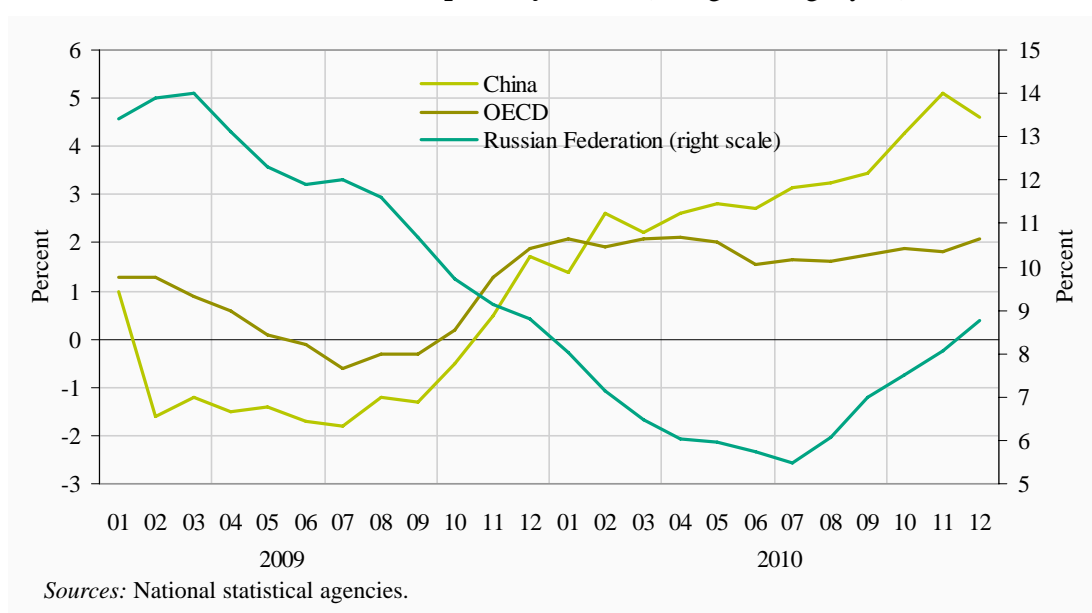


¹ World Economic Outlook Update, IMF, January 2011.

The global rise in prices for foodstuffs, raw materials, and energy resources pushed inflation worldwide, from 2.5 per cent, in 2009, to 3.7 per cent, in 2010. Capital inflow exerted extra inflation pressure in emerging markets. U.S. dollar devaluation in the world markets also put pressure on prices, especially in countries with the fixed exchange rates.

The average annual inflation growth in the world leading economies accelerated up to 1.6 per cent (from -0.4 per cent, in 2009), in the United States, and up to 1.6 per cent (from 0.3 per cent respectively²), in the Euro zone countries. In 2010, inflation in the Euro zone countries for the first ever time exceeded the ECB target of 2 per cent. At the same time, the core inflation indices in the United States and in the Euro zone countries remained relatively low, about 1 per cent, on the annualized basis. Inflation in China and in the Russian Federation, in December 2010, added 4.6 and 8.8 per cent, respectively, on the annualized basis.

Chart 2. **Consumer price dynamics** (change during a year)



Expansive monetary policy of the leading central banks threatened with escalating inflation trends. The U.S. Federal Reserve System, the ECB, and the Bank of England kept interest rates fixed at a record-breaking low level of 0–0.25 per cent, 1.0 per cent, and 0.5 per cent per annum, respectively. In November 2010, the FRS launched the second cycle of the program for quantitative monetary easing that provided for purchase of long-term U.S. government bonds.

The central banks of emerging markets moderately strengthened their monetary policy. In particular, the People's Bank of China increased interest rates, in October 2010, for the first time after the world crisis of 2007–2008, and so did the Reserve Bank of India six times per year.

In 2010, central banks widely used reserve requirements as a tool for withdrawal of excessive liquidity. Among those who used this regulative tool there were central banks of Asian countries and some other states. At the same time, negative real interest rates in majority of emerging markets meant the monetary policy being targeted towards stimulation.

² OECD Consumer price index, Paris, 01 February 2011.

Table 1. Dynamics of central bank reference interest rates in advanced economies and emerging markets, percent

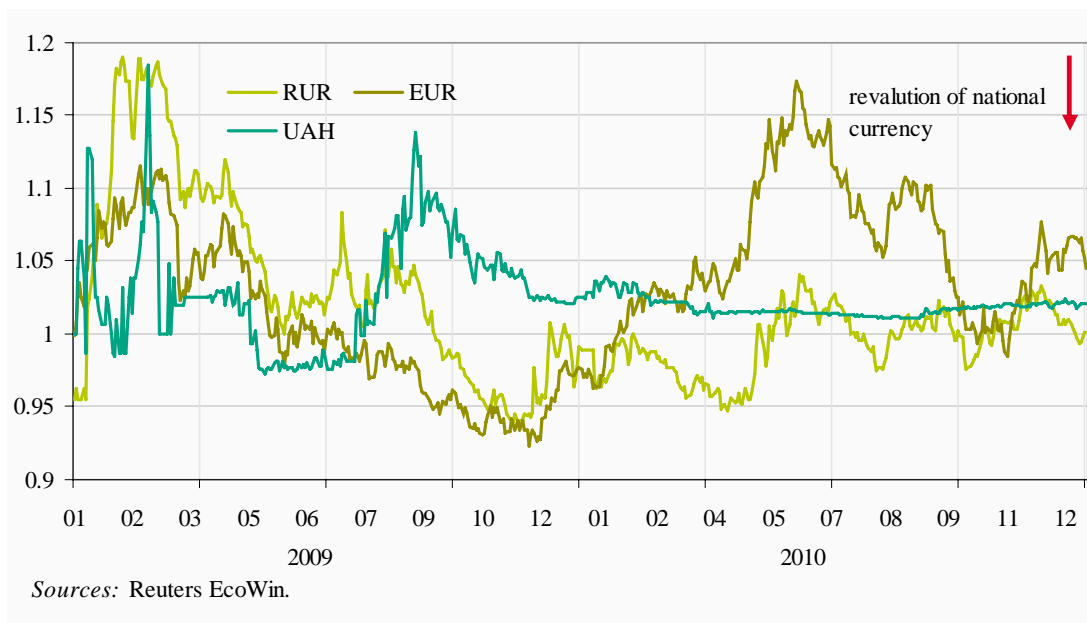
Central banks	End of 2008	End of 2009	2010 (end of quarter)			
			²	²²	²²²	IV
Advanced economies						
Average for G7	1.25	0.4	– *	0.45	0.55	0.54
Federal Reserve System	Within range from 0 to 0.25					
ECB	2.50	1.00	–	–	–	–
United Kingdom	2.00	0.50	–	–	–	–
Japan	0.10	0.10	–	–	–	0.05
Switzerland	0.50	0.25	–	–	–	–
Emerging markets						
Poland	5.00	3.50	–	–	–	–
Hungary	10.00	6.25	5.50	5.25	–	5.75
Czech Republic	2.25	1.00	–	0.75	–	–
Russian Federation	13.00	8.75	8.25	7.75	–	–
Turkey	15.00	6.50	–	–	6.25	1.50
China	5.31	5.31	–	–	5.56	5.81

* Fixed rate.

Sources: Central banks, Reuters.

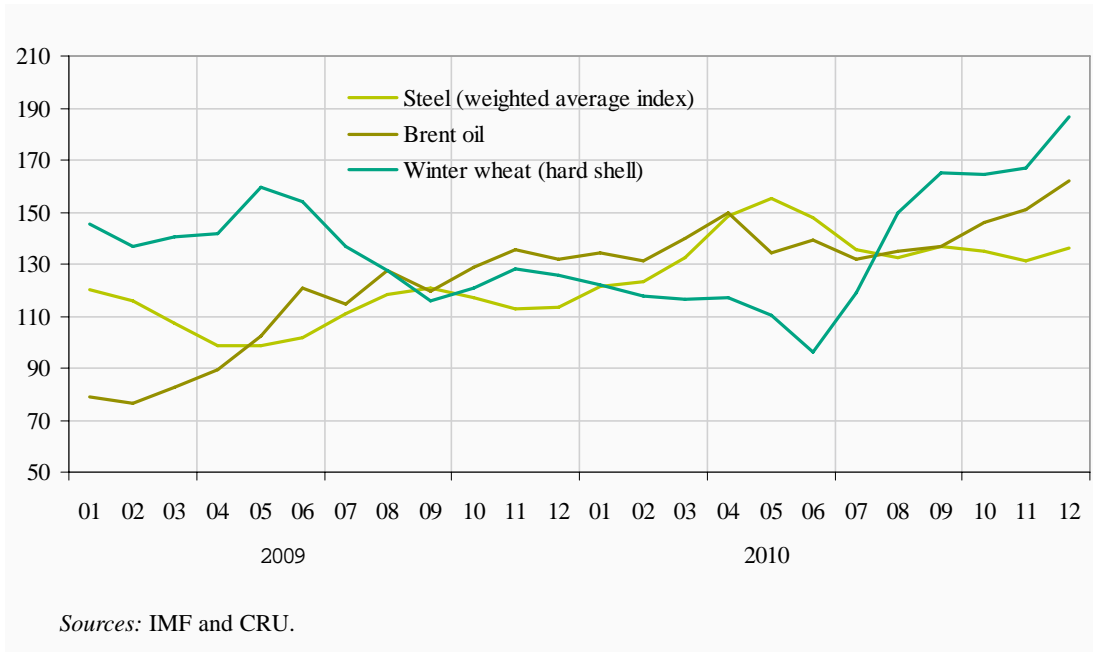
The world foreign exchange market was marked by notable fluctuations of USD exchange rate against EURO. However, in 2010, USD revalued, in average, by 5 per cent against EURO.

Chart 3. Dynamics of exchange rate of selected currencies against USD
(31.12.08=1)



In 2010, the world prices for raw materials rose substantially, as price index of raw materials, except for energy resources, approached its maximum of 2008, while the average annual oil price reached about USD 80 per barrel. The world steel prices grew by 20 per cent, in December 2010, as compared with December 2009, and by 22.4 per cent, on average, during the year. The world foodstuffs price reached a record-breaking peak since 1990, in December 2010.

Chart 4. Dynamics of prices for foodstuffs and basic raw materials
(index, 12.2005=100)



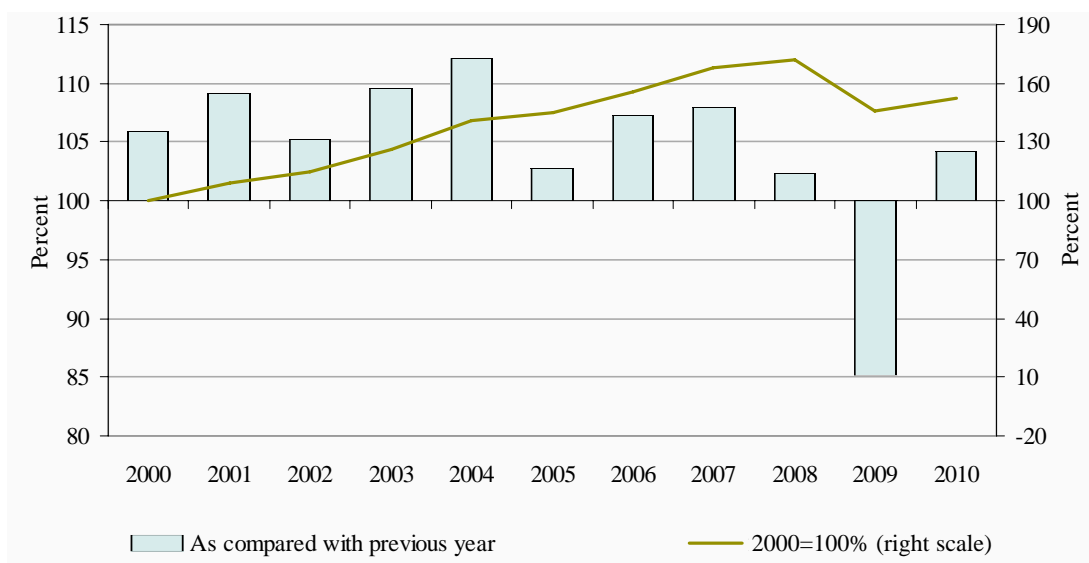
The world stock indices finished the year at a high level, as emerging markets' MSCI³ added 16.4 per cent, reaching the level of two-year maximum.

³ Morgan Stanley Capital International Equity Index.

2. REAL SECTOR OF THE ECONOMY

In 2010, Ukraine resumed its economic growth under conditions of ascending dynamics of the global economy, commodity and financial markets. Against the background of a high external investment demand for products of Ukrainian manufacturers and a hike in prices for basic types of metallurgical products the output of export-oriented industries (metallurgy, machine-building, chemical, and petrochemical industries) increased. The stabilization of situation in the domestic market and a gradual ascent of real population income promoted the development of industries meeting the consumer demand. In the second half of the year, a substantial increase in government funding stimulated the domestic investment demand improving the dynamics of construction and capital investments.

Chart 5. Ukraine's real GDP, in 2000–2010



In 2010, Ukraine's real GDP growth scored 4.2 per cent after its significant fall, by 14.8 per cent, in 2009. The nominal GDP amounted to UAH 1094.6 billion and added 19.8 percent against the previous year.

Under the effect of mainstreaming both external and domestic demand, in 2010, the output grew in majority of economic sectors, the industry, trade, and transport, etc.

During the year, a high external demand for Ukraine-made products significantly pushed the pace of industrial output growth (by 11.2 per cent), in particular, in machine-building, metallurgy, and chemical industry (by 36.1 per cent, 12.2, and 22.5 per cent, respectively).

A gradual revival of domestic consumer demand, in 2010, had a favorable effect on food and light industries, as their output grew by 3.2 and 8.9 per cent respectively, as well as on retail trade turnover (by 7.6 per cent) and on volume of services rendered (by 2.9 per cent). The retail trade growth was mainly caused by an increase in consumption of non-food items, as a result of piecemeal improvement of population's consumer sentiments.

Construction dynamics were a constraining factor for resumption of the economic growth. For the third consecutive year, the construction output had been dropping. However, at the end of 2010, it fell at a much lower pace of 5.4 per cent.

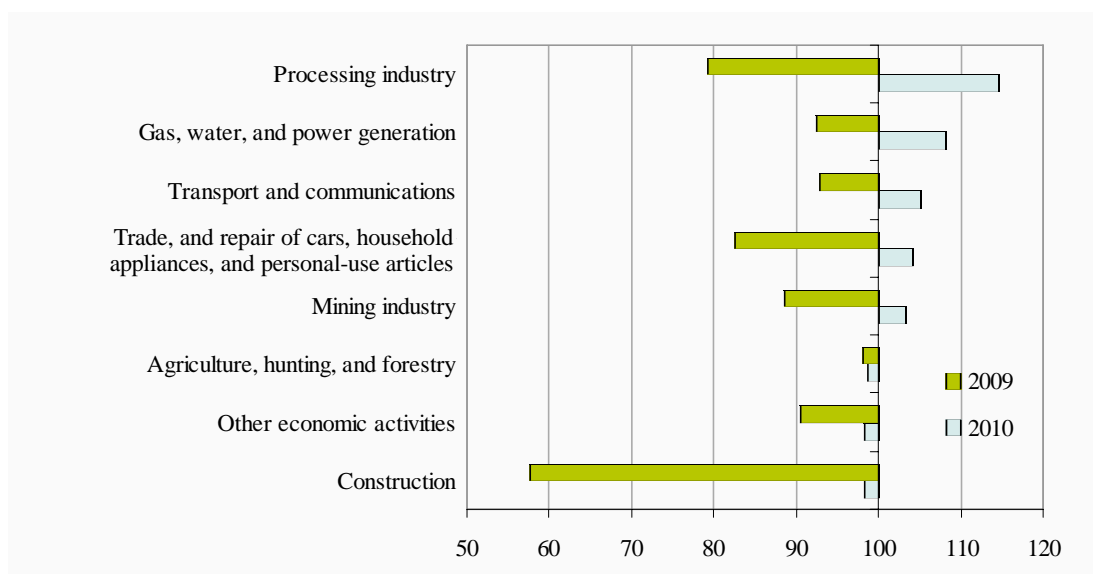
In 2010, output of agricultural products fell by 1.0 percent versus 2009. Dynamics of agricultural production were mainly defined by the dynamics of crop and plant growing that dropped by 4.6 percent. Although, in 2010, yield of crops exceeded the average level of 2000–2009, it was lower than in the previous year (because of a decrease in a yield capacity, as a result of unfavorable weather conditions). The situation in cattle-breeding remained stable, as output grew by 4.5 percent.

On the demand side, GDP growth was mainly caused by an increase in import of goods and services (by 11.1 percent), as a result of a significant rise in domestic consumer demand.

Final consumer expenditure rose by 5.9 percent and had the largest share in GDP growth. It was caused by a 7.0 percent increase in households' final consumer expenditure for the real wage increasing by 10.2 percent. This boosted domestic demand due to both growing domestic production and rising imports of goods and services.

In the last decade, the real GDP growth totaled 52.5 per cent. Industrial output increased by 61.6 percent as compared with 2000.

Chart 6. Gross value added, by principal economic activities
(growth/decrease as compared with previous year, %)



In the second half of 2010, an increase in government funding promoted a substantial progress of investment activities. After slowing down of gross accumulation of fixed assets, in the first half of the year, its annual growth made up 4.9 percent.

Table 2. **GDP structure**

(at actual prices)						
Indices	2010			For reference: 2009		
	UAH billions	share, percent	Change during the year, percent	UAH billions	share, percent	Change during the year, percent
GDP	1 094.6	100.0	4.2	913.3	100.0	-14.8
<i>Out of which:</i>						
Households' final consumer expenditure	685.2	62.6	7.0	581.7	63.7	-14.9
Final consumer expenditure of public administration sector	220.1	20.1	2.7	184.0	20.2	-2.4
Gross accumulation of fixed assets	208.3	19.0	4.9	167.6	18.3	-50.5
Export of goods and services	549.4	50.2	4.5	423.6	46.4	-22.0
Import of goods and services	-579.9	-53.0	11.1	-438.9	-48.1	-38.9

During the year, the structure of capital investments by sources of funding remained almost unchanged. Like in previous years, enterprises' own funds were the principal source of funding that had a share of 60 percent in the total capital investments. Industry remained the priority direction.

The progressive economic revival of Ukraine's trade partners stimulated growing export of goods and services (4.5 percent during the year) with an ascending share of investment products in the export structure.

Growing domestic demand was a key factor defining the escalation of growth pace of import of goods and services (by 11.1 percent). As a result of import growth exceeding the export one, the share of net export in GDP growth was negative.

3. CONSUMER PRICES AND INDUSTRIAL PRODUCER PRICES

In 2010, the annualized growth pace of consumer price index (CPI) showed a descending trend and amounted to 109.1 versus 112.3 percent, in 2009.

Indices	2010		For reference: 2009	
	As compared to December of the previous year, percent	Share in CPI, percentage points	As compared to December of the previous year, percent	Share in CPI, percentage points
CPI	109.1	9.1	112.3	12.3
<i>By individual components of the index:</i>				
Foodstuffs and nonalcoholic beverages	110.6	5.7	110.9	5.8
Clothes and footwear	102.2	0.1	107.6	0.6
Housing, water, power, gas, and other types of fuel	113.8	1.6	108.2	0.9
Transport	106.6	0.3	119.2	1.0
Broad-based inflation	107.9	4.3	114.9	8.1

A hike in prices for foodstuffs and excised goods made a big contribution to a rise in consumer prices (in the view of their high share in the structure of households' consumer expenditure), in 2010.

The restrained monetary policy promoted a successful achievement of core inflation targets – to keep inflation a single digit value, in 2010. Starting with the second quarter, it fluctuated within a narrow band (7–8.5 percent annualized) and, at the end of the year,

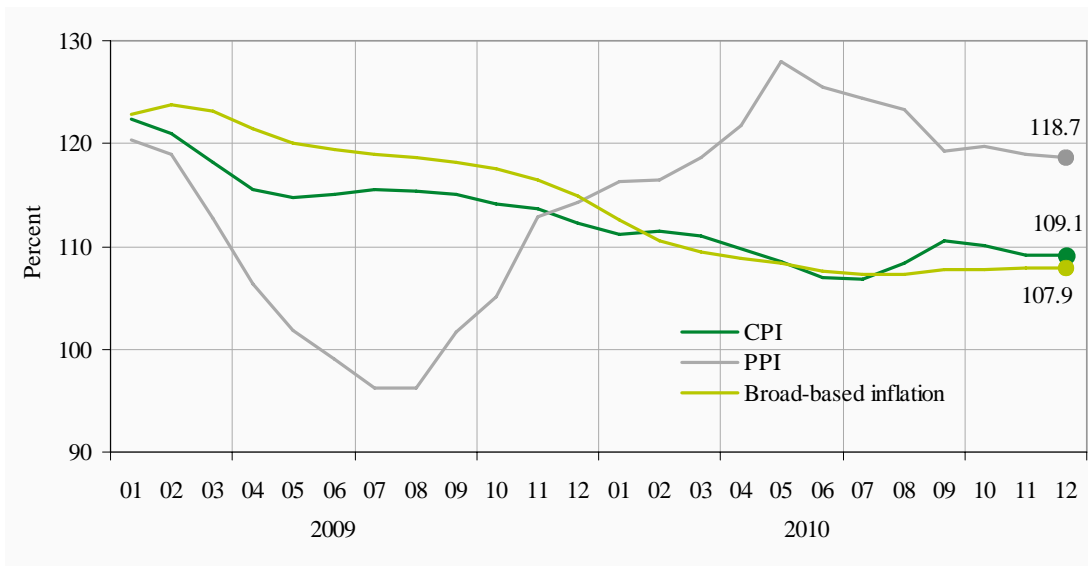
accounted for 7.9 percent (in 2009, 14.9 percent).

The gradual growth of population income and a relatively stable hryvnia's exchange rate against U.S. dollar played an important role in softening inflation pressure on the demand side.

A rise in cost of public utilities by 13.8 percent (or by 9.7 percentage points) was caused by growing price for natural gas for population by 50 percent, in August 2010. At the same time, the price for heating and hot water added only 6.2 percent, while that for power remained fixed.

In December, the population brought foreign currency worth USD 3.5 billion, in the cash FX market, that almost twice exceeded the amount of sold foreign currency (USD 1.6 billion). Together with growing households' deposits with banks (by 3 percent, in December, and by 28.5 percent, since the beginning of the year) this factor entailed a decrease in hryvnia liquidity in the cash market thereby declining the consumer demand.

Chart 7. **CPI, PPI, and core CPI**
(annualized)



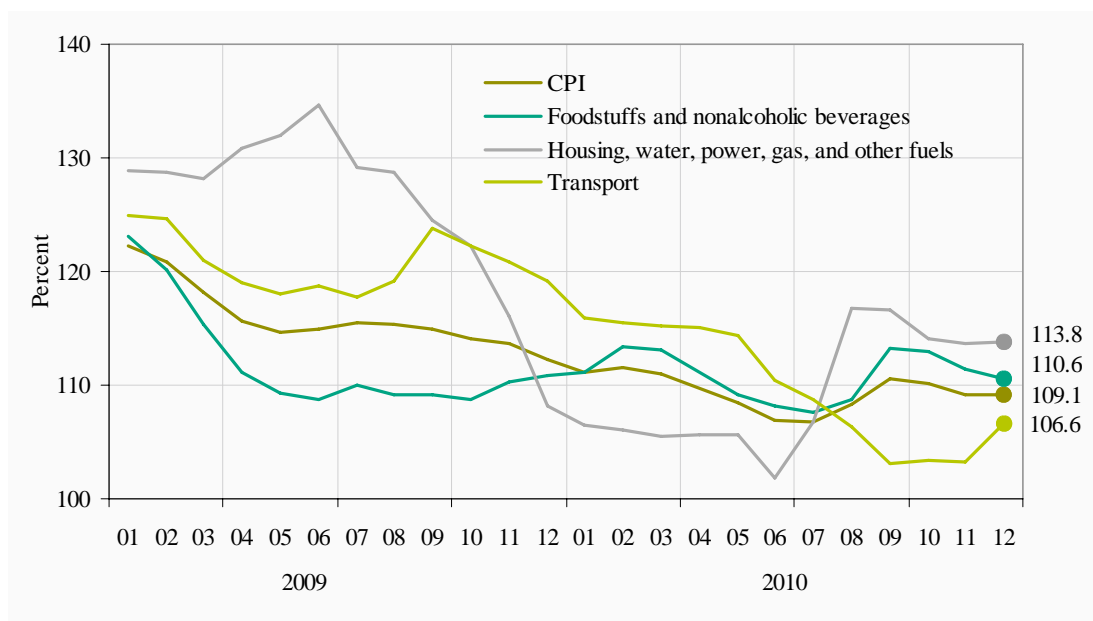
A hike in prices for foodstuffs which accelerated its pace in the second half of the year, to a great extent, was caused by a decline in crop yield in the reporting year (39.3 million tonnes, that was by 14.6 percent less than in 2009), in Ukraine, and a reduction in world grain reserves, both entailing high prices in the world markets.

The cost of production increased, as a result of upping prices for flour (by 15.6 percent during the year), and entailed a rise in prices for bread and breadstuffs (by 16.5 percent). The mounting prices for grain also stimulated ascending prices for raw and manufactured meat, by 4.1 percent.

In 2010, a rise in prices for sugar, by 20.3 percent, was provoked by an expected shortage of sugar in the domestic market (0.2–0.3 million tonnes), as well as by upping prices in the international markets.

A hike in the domestic prices for petroleum derivatives, in 2010, made up 13.9 percent. Although, in January – September, the prices for fuel grew moderately (by 8.3 percent, since the beginning of the year), a rise in the world oil prices, in the fourth quarter, and expected excise growth boosted domestic prices for petroleum derivatives, at the end of the year.

Chart 8. **CPI and its basic components**
(annualized)



In 2010, the producer price index (PPI) amounted to 118.7 percent (in 2009, 114.3 percent) which was caused by improving conditions in the world commodity markets. During the year, PPI showed irregular dynamics.

Table 4. **Producer price indices**

Indices	2010		For reference: 2009	
	As compared to December of the previous year, percent	Share in CPI, percentage points	As compared to December of the previous year, percent	Share in CPI, percentage points
PPI	118.7	18.7	114.3	14.3
Mining industry	144.4	4.1	111.2	1.1
Processing industry	117.1	12.2	117.4	12.7
Coke and petroleum derivatives	125.1	2.0	142.9	3.4
Metallurgy and ready-made metal ware	122.7	4.4	117.2	4.0
Foodstuffs, beverages and tobacco goods	118.9	3.5	120.3	2.8
Gas, water, and power generation and distribution	112.5	2.4	103.9	0.5

Since the second quarter of 2010, international oil price quotations have been ascending and boosting the prices in the sectors related to oil and petroleum derivatives production (by 47.4 and 11.5 percent, respectively, in 2010). At the same time, a rise in world prices for metals boosted a hike in price for ore production and metallurgy (by 59.0 and 22.7 percent, respectively).

The largest share in the PPI increase, in 2010, belongs to the mining industry (4.1 percentage points), food industry (3.5 percentage points), and metallurgy (4.4 percentage points).

4. EXECUTION OF CONSOLIDATED BUDGET OF UKRAINE. PUBLIC DEBT

In 2010, the revenues of Ukraine's consolidated budget increased by 21.2 percent and made up UAH 330.9 billion (net of VAT refund by domestic T-bills). It was caused by the general economic revival and, partially, by escalating tax burden on economic entities.

The revenues grew mainly for the following reasons:

- an increase in revenues from VAT, mainly, at the expense of decreasing VAT refund (the share in the growth is 6.7 percentage points);
- large transfer from the National Bank of Ukraine (the share is 3.7 percentage points).

The revenues of the Consolidated Budget of Ukraine (net of VAT refund by domestic T-bills) were fulfilled for 101.7 percent, while the State Budget of Ukraine for 100.8 percent.

Chart 9. Contribution into dynamics of revenues of the Consolidated Budget of Ukraine

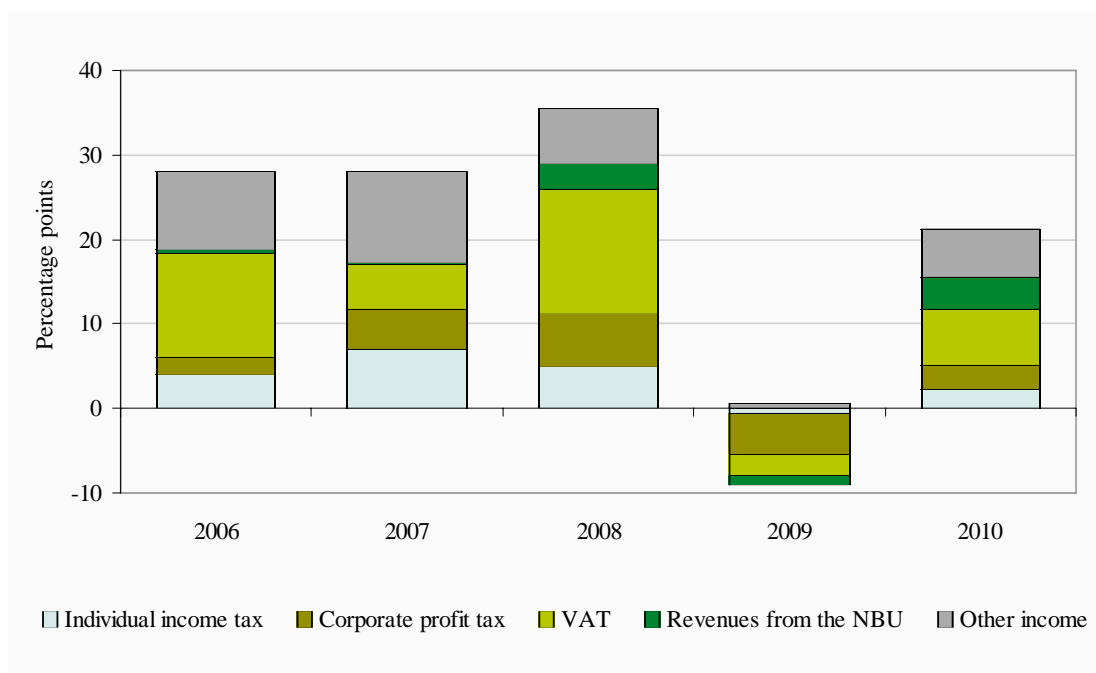


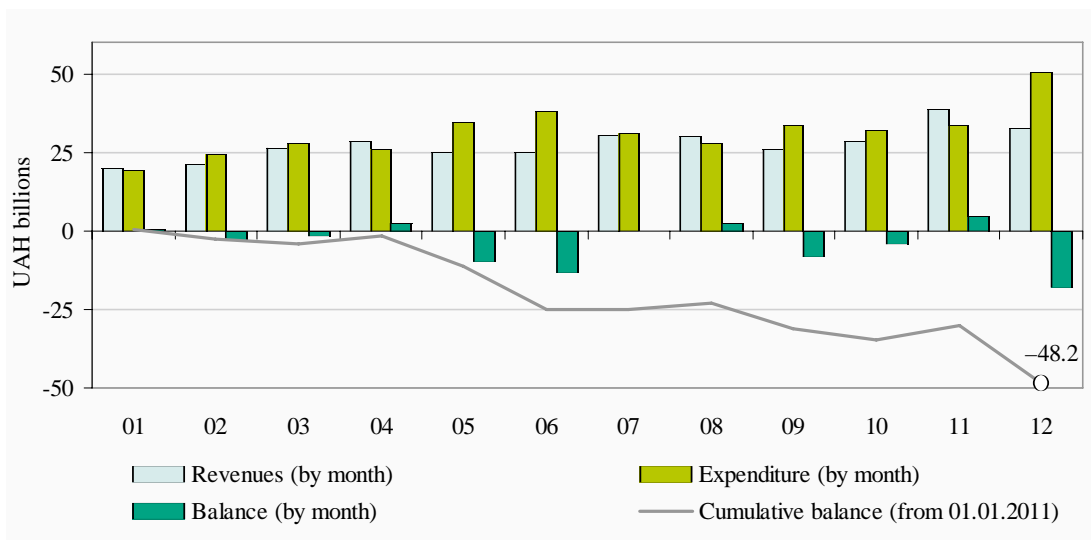
Table 5. **Fulfillment of the Consolidated Budget of Ukraine**

Budget items	2010				For reference: 2009		
	UAH billions	Per-cent of GDP	Share, per-cent	Increase as compared with the previous year, percent	Per-cent of GDP	Share, per-cent	Increase as compared with the previous year, percent
Revenues of the Consolidated Budget of Ukraine	330.9	30.2	100.0	21.2	29.9	100.0	-8.4
Including:							
Individual income tax	51.0	4.7	15.4	14.7	4.9	16.3	-3.1
Corporate profit tax	40.4	3.7	12.2	22.1	3.6	12.1	-30.9
VAT	102.8	9.4	31.0	21.5	9.3	31.0	-8.1
Excess of NBU's estimate revenues over estimate expenditure	15.5	1.4	4.7	207.0	0.6	1.9	-39.2
Expenditure of the Consolidated Budget of Ukraine (including outstanding loans)	379.2	34.6	100.0	22.2	33.9	100.0	-0.6
Current expenditure	347.2	31.7	91.9	20.8	31.5	93.5	7.2
Including:							
Wage with charges on payroll	123.4	11.4	32.7	16.7	11.6	34.5	8.5
Public debt servicing	16.4	1.5	4.3	67.6	1.1	3.2	129.4
Current transfers to population	100.2	9.2	26.5	18.3	8.3	24.7	6.2
Capital expenditure	30.6	2.8	8.1	126.4	2.2	6.5	-51.3
Balance of the Consolidated budget of Ukraine	-48.2	-4.4	-	29.9	-4.1	-	163.8
<u>For reference: Repayment of principal amount of the public debt:</u>							
External	26.9	2.5	-	-14.4	3.4	-	341.5
Domestic	7.1	0.7	-	-47.2	1.5	-	332.3
	19.8	1.8	-	10.0	2.0	-	348.5

Expenditure of the Consolidated Budget of Ukraine (including outstanding loans) reached UAH 379.2 billion and grew by 22.2 percent, as compared with the previous year. A large share in their increment was used to increase expenditure on servicing public debt, capital investments, and public enterprises utility payments. An increase in wage and current transfers to the population showed a slower pace thereby exerting moderate inflation pressure.

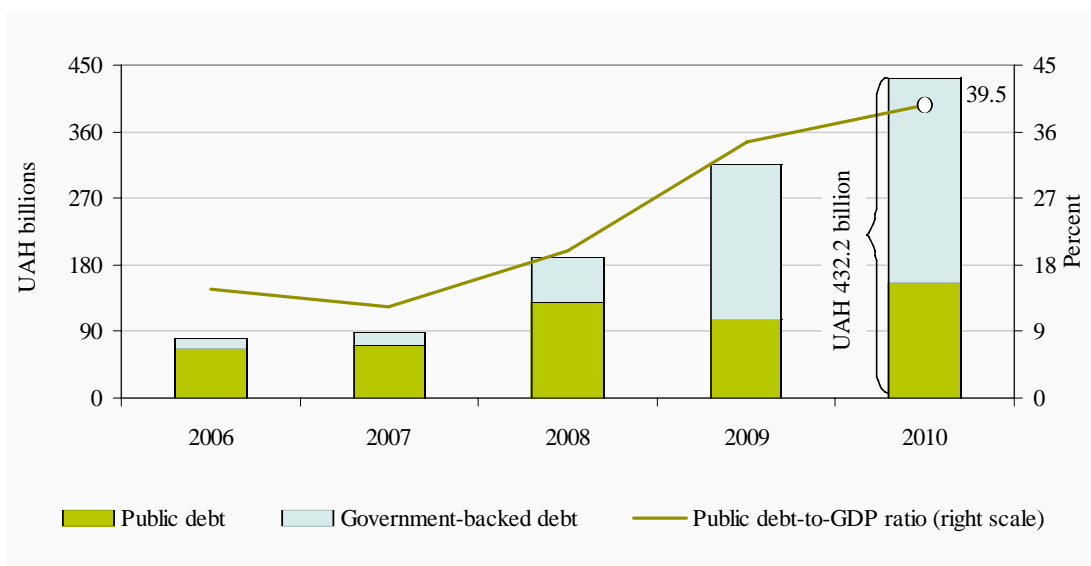
As compared with 2009, expenditure on public debt servicing had the largest ascent, by 67.6 percent (expenditure on servicing the domestic public debt grew 2.3 times). To a great extent, it was defined by the government's debt policy with respect to issue of T-bills with maturity less than a year.

Chart 10. Execution of the Consolidated Budget of Ukraine, in 2010



Almost throughout the whole year, the Consolidated Budget of Ukraine was fulfilled with a deficit that, as of January 1, 2011, totaled UAH 48.2 billion (net of VAT refund by domestic T-bills). This deficit was caused by the material expenditure on public debt servicing, problems with external funding, lack of revenues from privatization of the public property, as well as by difficulties with collection of revenues. As compared with 2009, the deficit of the Consolidated Budget of Ukraine added 29.5 percent, as a result of a rise in the deficit of the State Budget of Ukraine, by 35.1 percent.

Chart 11. Public debt and government-backed debt



During the reporting year, the public debt and the government-backed debt grew due to both domestic and external borrowings. This fact entailed an increase in the debt by UAH 115.4 billion. As of December 31, 2010, the public debt and the government-backed debt reached UAH 432.2 billion or 39.5 percent of GDP, as compared with 34.7 percent of GDP, at the end of 2009.

5. LABOR MARKET AND POPULATION'S INCOME

Labor market

In 2010, the situation on the labor market was marked by an increase in employment rate and in number of job places in the economy.

The average number of full-time employees amounted to 10.8 million and grew by 1.0 percent; 13.6 percent of the employees were employed for shortened working day (week); and 3.4 percent were on unpaid vacation (in 2009, 19.4 and 2.6 percent, respectively).

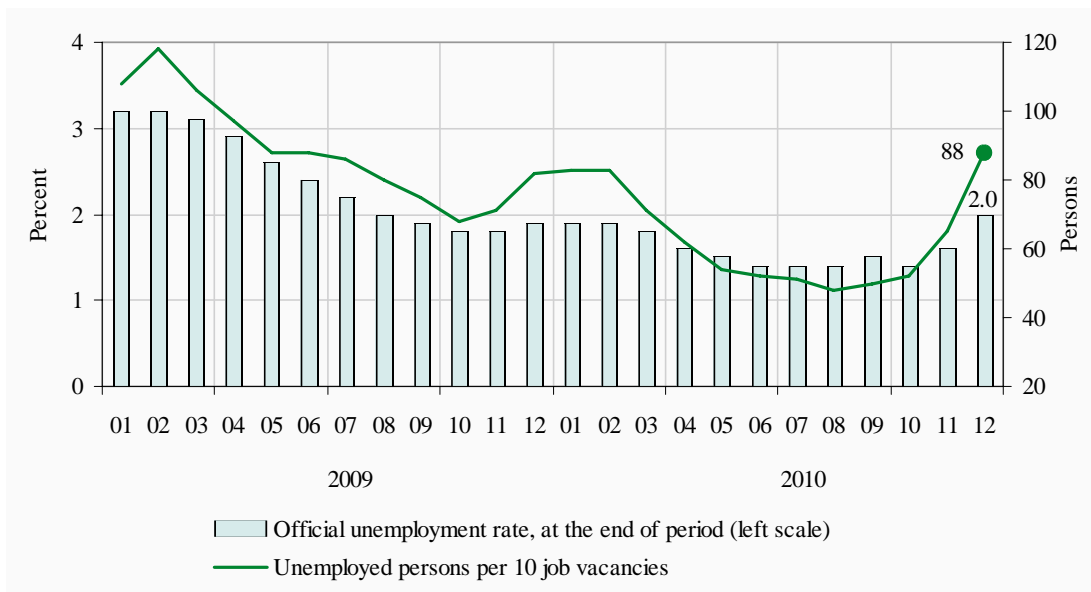
The economically active population at the age of 15–70 years reached 22.1 million (according to methodology of the International Labor Organization), including 20.3 million engaged in economic activities. The rest 1.8 million was unemployed (in 2009, 2.0 million). Employment rate of the population at the age of 15–70 years accounted for 58.5 percent, whereas that of people at the active working age made up 65.6 percent.

The number of registered unemployed persons amounted to 544.9 thousand, as of January 1, 2011. The official unemployment rate accounted for 2.0 percent of the working able population, as of January 1, 2011. In parallel with growing number of unemployed persons (by 3.9 percent, up to 564.0 thousand persons, as of January 1, 2011) the demand from enterprises for labor force, to fill job vacancies, decreased by 2.9 percent. Consequently, the ratio of official number of unemployed persons (registered in the State Employment Service) to the number of job vacancies rose and, at the end of December, amounted to 88 persons per 10 job vacancies, as compared with 82 persons per 10 job vacancies, at the end of 2009.

Average monthly retirement benefit of age pensioners registered in the Pension Fund amounted to UAH 1039.6. Total number of pensioners in Ukraine reached 13.7 million, as of January 1, 2011.

With the help of the State Employment Service of Ukraine, in 2010, 744.5 thousand persons or 40.3 percent of unemployed population registered in the Service were employed (in 2009, employment rate made up 32.8 percent).

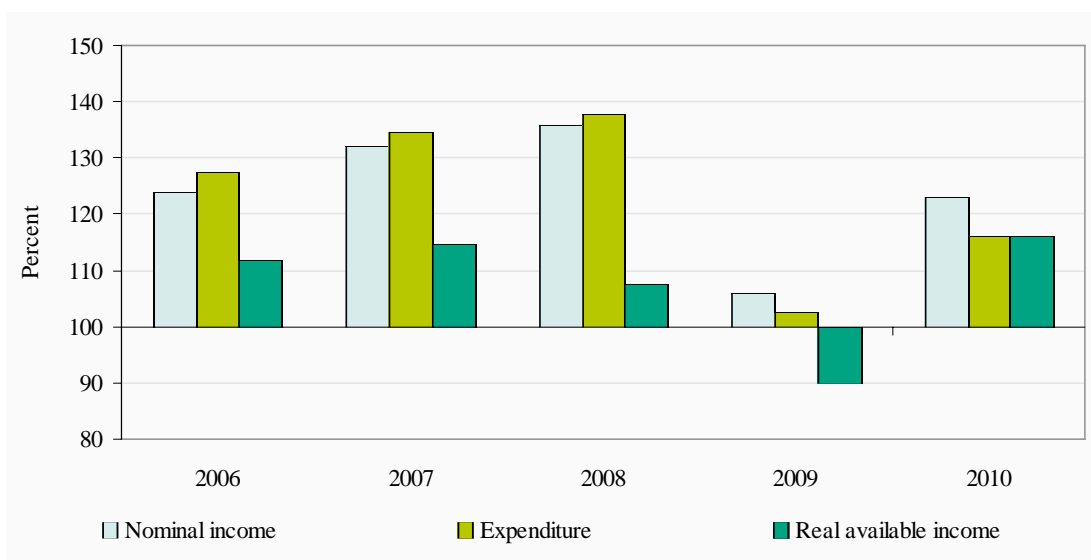
Chart 12. **Official unemployment rate and number of unemployed persons per 10 job vacancies (at the end of period)**



Population's income

At the end of 2010, nominal population's income grew by 23.1 percent, as compared with the respective period of the previous year, and totaled UAH 1 101.0 billion.

Chart 13. **Income and expenditure of Ukraine's population**

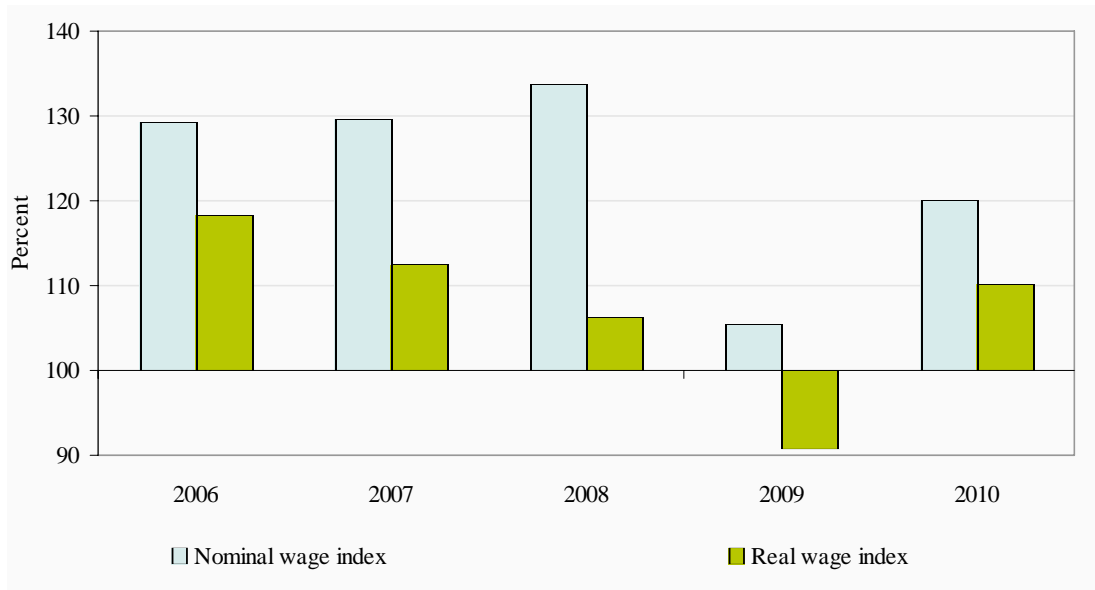


In 2010, the real available income increased by 16.2 percent which was the best increment since 2005.

The share of wage in income structure upped to 41.7 percent, whereas the share of social subventions and other transfers dropped to 38.5 percent.

The average nominal wage of full-time employee amounted to UAH 2 239, in 2010. It grew by 20.0 percent, as compared with 2009. The real wage index made up 110.2 percent.

Chart 14. Nominal and real wage indices



The reporting year was notable for a decrease in wage arrears, as since March, the amount had been dropping and, as of September 1, 2010, became less than on January 1, 2010. This trend continued till the end of the year. During the year, the wage arrears slumped by 9.2 percent and, as of January 1, 2011, totaled UAH 1 218.1 million.

6. BALANCE OF PAYMENTS AND EXTERNAL DEBT

Balance of Payments (BOP)

In 2010, the current account deficit grew, as a result of the aggravation of foreign trade in goods, especially, in the second half of the year. Among the main reasons for the deficit growth there were resumption of domestic demand and a rise in prices for energy resources.

Availability of free liquidity in the world financial markets and gradual stabilization of economic growth in Ukraine, as well as successful cooperation with international financial institutions, in 2010, led to an increase in foreign direct investments and provided a way to make borrowings, both in short-term and long-term instruments (especially, for the public and the real sectors), in foreign markets. This fact resulted in a surplus on the capital and financial accounts (versus a deficit, in 2009).

An ascent in the current account deficit was compensated by a material surplus on the capital and financial accounts. As a result, the consolidated balance of payments had a surplus of USD 5.0 billion, against a deficit of USD 13.7 billion, in 2009.

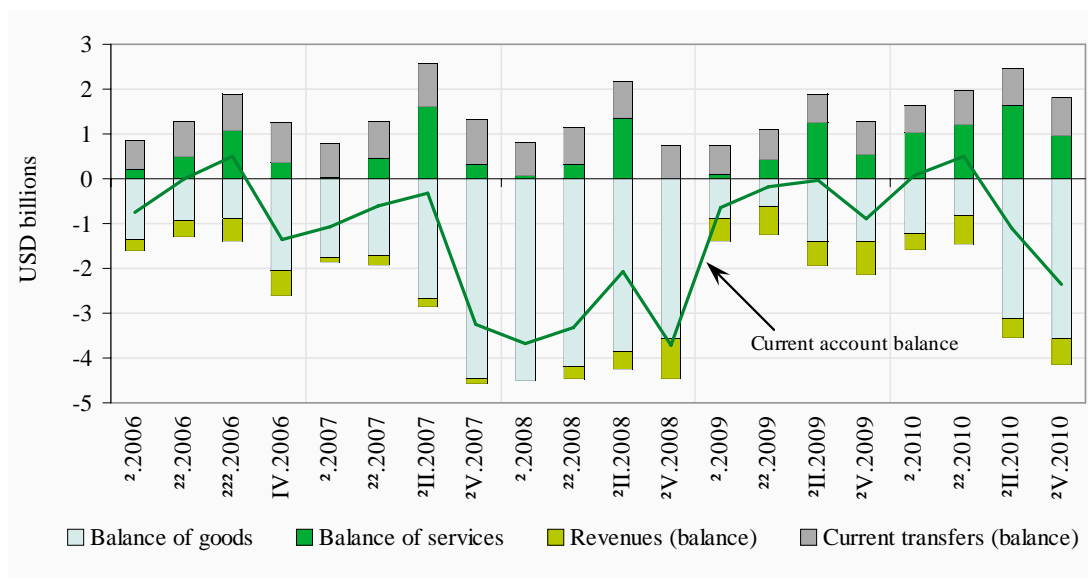
Current account

In 2010, the current account deficit grew up to USD 2.9 billion (2.1 percent of GDP), as compared with USD 1.7 billion (1.5 percent of GDP), in 2009. It was caused by the fact that import of goods grew with a higher pace than export did.

Export of goods. In 2010, export of goods rose by 29.2 percent, as compared with 2009, and totaled USD 52.1 billion. According to the NBU estimates, the growth was caused by both price factor (by 18.1 percent) and escalation of physical volume of supplies (by 9.7 percent). First of all, it is connected with the resumption of external demand: according to the IMF estimates, the world trade turnover added 12.4 percent, in 2010 (after a 10.9 percent slump, in 2009)⁴.

⁴IMF World economic outlook Update (January 2011).

Chart 15. **Current account balance**



The largest share in the export growth belongs to supplies of ferrous metal industry products which rose by 42.7 percent, in value term, mainly, due to the price factor. Export of machine-building products increased by 33.3 percent. At the same time, export of agricultural products remained almost unchanged, as it grew only by 4.4 percent.

Import of goods. In 2010, import of goods ascended by 36.2 percent, up to USD 60.9 billion, with import of energy resources showing high growth pace (by 39.7 percent, up to USD 19.6 billion).

Import of non-energy products rose by 33.4 percent, in 2010. Also, import of machine-building products resumed swiftly (39.9 percent).

In 2010, surplus of trade in services amounted to USD 4.9 billion which was twice more than in 2009 (USD 2.4 billion). Such growth was entailed, primarily, by an increase in revenues from gas transit (1.7 times), almost totally due to a rise in tariffs.

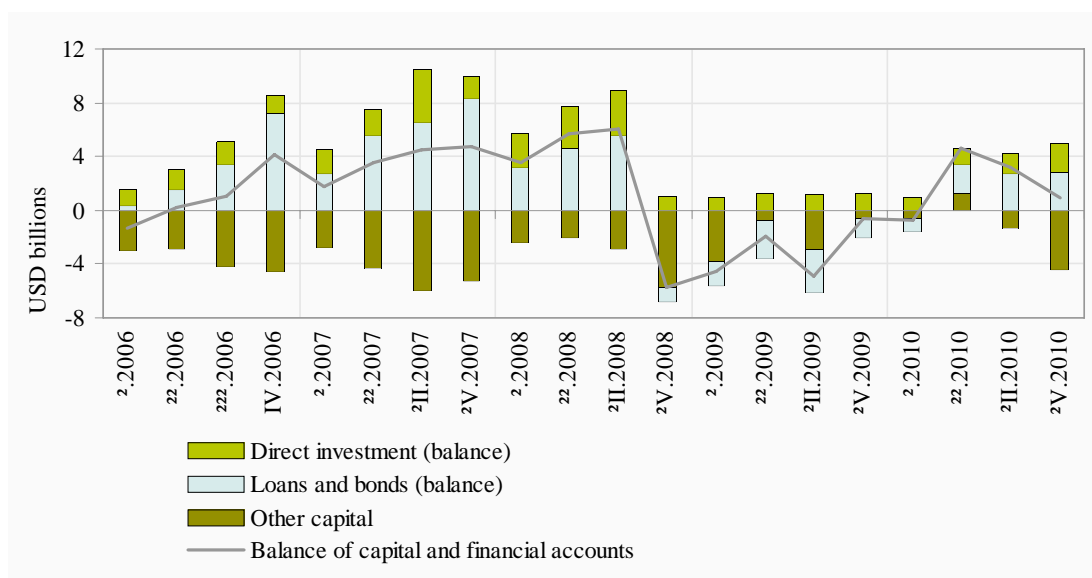
Financial account

In 2010, almost throughout the whole year, the capital and financial accounts showed stable surplus of USD 7.9 billion (in 2009, a deficit of USD 12.0 billion). The surplus was stimulated by borrowings, in the form of loans and bonds issued by the government and by the real sector, as well as by growing foreign direct investments. At the same time, FX cash outside banks grew with a relatively high pace.

Direct investments. Net inflow of foreign direct investments, in 2010, was estimated as USD 5.8 billion which was by 23.7 percent more than in 2009. At the end of the year, the accumulated foreign investments totaled USD 58.0 billion or USD 1 267 per capita.

Loans and bonds of the government and private sectors. In 2010, growing free liquidity in world financial markets and resumption of trust in Ukraine's economy boosted foreign borrowings, especially, on the government side (USD 5.1 billion) and in the real sector (USD 3.4 billion). As a whole, in 2010, the balance of loans and bonds was positive (USD 6.8 billion), as compared with net repayment of USD 9.1 billion, in 2009.

Chart 16. Capital and financial accounts



In 2010, the banking system continued to reduce its external debt, as the net repayment made up USD 1.8 billion. Under conditions of gradual resumption of lending the commercial banks repaid their external borrowings at the expense of free funds. However, in the fourth quarter, for the first time since the beginning of the crisis, banks' external borrowings exceeded repayments (by USD 59 million).

Volume of cash accumulated outside banks still remained quite high, USD 6.0 billion (in 2009, it totaled USD 9.7 billion).

Reserve assets. In 2010, a surplus of the consolidated BOP amounted to USD 5.0 billion. Together with USD 3.4 billion received from IMF within the standby credit facility this surplus gave an opportunity to increase the reserve assets up to USD 34.6 billion, as of January 1, 2011. It provides funding of import of goods and services during 5.0 months of future period.

EXTERNAL DEBT OF UKRAINE

In 2010, Ukraine's gross external debt added USD 13.9 billion or 13.5 percent and, as of January 1, 2011, reached USD 117.3 billion (85.7 percent of GDP).

Dynamics of the external debt of Ukraine, in 2010, were defined by the following factors:

- material net external borrowings of the government (USD 7.0 billion) and long-term loans of the real sector of economy (USD 3.5 billion);
- substantial accumulation of short-term debt of other sectors, including trade credits and past due (USD 4.7 billion);
- a decrease in long-term liabilities of Ukrainian banks to nonresidents (USD 2.5 billion).

During 2010, the largest increase in debt (by USD 8.5 billion, up to USD 32.5 billion or 23.7 percent of GDP) was showed by the government sector and monetary authorities. Debt of the banking sector and other sectors (including inter-corporate debt) grew by USD 5.5 billion and totaled USD 84.9 billion (62 percent of GDP).

Table 6. **External debt of Ukraine** (according to the IMF methodology)

Indices	USD millions				
	As of 01.01.2010	As of 01.04.2010	As of 01.07.2010	As of 01.10.2010	As of 01.01.2011
Government sector	17 806	17 614	19 358	23 623	24 982
Short-term	29	211	2 233	2 364	2 053
Long-term	17 777	17 403	17 125	21 259	22 929
Monetary authorities	6 210	6 014	5 855	7 056	7 509
Long-term	6 210	6 014	5 855	7 056	7 509
Banks	30 861	29 493	28 322	27 914	28 119
Short-term	4 731	4 731	4 793	4 392	4 508
Long-term	26 130	24 762	23 529	23 522	23 611
Other sectors	43 441	44 787	45 967	47 598	50 840
Short-term	14 301	16 141	17 456	17 622	19 032
Long-term	29 140	28 646	28 511	29 976	31 808
Direct investments: inter-corporate debt	5 078	5 006	5 134	5 437	5 893
Gross external debt	103 396	102 914	104 636	111 628	117 343

In 2010, short-term external debt with residual maturity less than a year rose by USD 8.5 billion and, at the end of the year, totaled USD 47.3 billion. Its coverage with the international reserves grew up to 73 percent (at the beginning of the year it accounted for 68 percent).

**ACTIVITIES OF
THE NATIONAL BANK
OF UKRAINE**

1. MONETARY POLICY

IMPLEMENTATION OF THE MONETARY POLICY FUNDAMENTALS IN 2010. MAIN INSTRUMENTS FOR REGULATION OF THE MONEY MARKET

In 2010, implementation of the monetary policy was taking place under conditions of the post-crisis revival of the economy. In this period, its primary tasks were as follows: stabilizing the functioning of the foreign exchange market, diminishing the inflationary pressure and strengthening the credit support of the processes of economic growth recovery by banks. At the same time, the worldwide tendencies related to the financial crisis consequences had essential influence on the economic development. Under these conditions, as a whole, the National Bank of Ukraine secured the fulfillment of aims and tasks defined by the Monetary Policy Fundamentals for 2010. At that, along with exercise of its primary constitutional function – assuring the national monetary unit stability – the National Bank of Ukraine took the measures in assisting Ukraine to get out fast from the crisis and securing the stability of the financial system of the state. Specifically, in this period:

- the further consumer inflation slowdown was ensured – in 2010 the consumer price index reduced to 109.1% as compared with 112.3% in 2009;
- the external stability of the monetary unit of Ukraine was secured – stabilized was the activity of the foreign exchange market;
- the quantitative criteria of efficiency of the Stand-By Program were followed;
- the banking system's work was stabilized;
- the conditions for renewal of crediting of the real sector of economy by banks were established.

Depending on the general economic situation and the state of money market, qualitative and quantitative characteristics of the National Bank of Ukraine's operations with regard to the liquidity level regulation were operatively and flexibly changing. Securing of the positive tendencies towards the inflationary pressure reduction and stable domination of supply over demand in the foreign exchange market made the National Bank of Ukraine, since the middle of the second quarter, to carry out more soft monetary policy

that primarily involved a decrease in the mobilization operations and reduction of the interest rates of the National Bank of Ukraine. At this period of time, the daily average of the banking system's free liquidity was prevalingly growing (from UAH 12.4 billion in January to UAH 30.7 billion in July).

The price dynamics speed-up in August – September 2010, provoked by a rise in administratively regulated prices and tariffs and by disproportions in some commodity markets, as well as alteration of the situation in the foreign exchange market (starting from September, the balance of the National Bank of Ukraine's interventions in the foreign exchange market became negative and amounted to USD 2.2 billion) made the National Bank of Ukraine to provide more restraint monetary policy. Starting from August, the average level of free liquidity had the trend to decrease. In December 2010, it was UAH 18.4 billion.

In parallel with regulation of quantitative indicators of the money supply, the influence on the monetary and financial processes was carried out at the expense of the appropriate interest rate policy that, as the inflationary pressure decreased, was directed to generation of incentives to the crediting activity growth.

The measures taken by the National Bank of Ukraine assisted to preserve the national currency stability, to retain the tendency towards the increase in deposits of both the households and legal persons, which testified to the renewal of credibility to the banking system of Ukraine, and they also secured a general balance in the money and credit market.

Required reserves

During 2010, the required reserves were used by the National Bank of Ukraine as one of the monetary instruments of efficient management of the money and credit market and regulation of money supply volumes.

During 2010, the ratios for required reserve formation by banks remained unchangeable. As of 1 January, 2011, the ratios of forming the required reserves by banks were as follows:

- on the time funds of legal and natural persons in foreign currency – 4.0%;
- on the demand funds of legal and natural persons in foreign currency – 7.0%;
- on the funds attracted by banks from nonresident banks and financial organizations – 2.0%.

The ratios of forming the required reserves on time and demand funds of legal and natural persons in the national currency were left at the zero level.

Starting from August 2009, the National Bank of Ukraine introduced the order in respect to keeping a part of required reserves by banks on a separate account with the National Bank of Ukraine that, as at 1 January 2010, amounted to 50% of the required reserves formed for the previous reporting period of reserving. Moreover, as at 1 January, 2010, the level of the required reserve funds daily kept by the operational day start on a bank's correspondent account with the National Bank of Ukraine, had to be not less than 90% of the required reserve amount formed for the previous reporting period of reserving and kept on the correspondent account of the bank with the National Bank of Ukraine.

In 2010, strengthened were the requirements to forming the required reserves by banks with regard to their transfer in full to a separate account with the National Bank of Ukraine.

Since 1 May 2010, the National Bank of Ukraine made it mandatory to form by banks, on a separate account with the National Bank of Ukraine, the required reserves to the amount of 100% of the required reserves formed for the previous reporting period of reserving.

During January – April, the required reserves on the separate account with the National Bank of Ukraine ranged from UAH 5.6 billion to UAH 5.8 billion, during May – December – from UAH 7.1 billion to UAH 9.0 billion.

In order to contribute to the further development of the stock market and to stimulate acquisition by banks of the government securities of Ukraine, since October 2009, for the required reserve coverage, the banks were permitted to include a part of the acquired target T-bills of Ukraine, issued with the aim to attract funds for financing the actions related to the preparation and holding of the European Football Championship 2012 in Ukraine. As at 1 January 2010, this amount was up to 20% of the required reserves formed on a bank's correspondent account with the National Bank of Ukraine, and as at 1 May 2010 – 100% of their nominal value, that was related to the adoption of the order of forming by banks of the required reserves on a separate account with the National Bank of Ukraine. The nominal value of the target T-bills that were owned by banks as at 1 January 2010 amounted to UAH 430.5 million, as at 1 January 2011 – UAH 5 482.0 million.

During 2010, the National Bank of Ukraine was calculating the interest amounting to 30% of the discount rate of the National Bank of Ukraine on the balances of the required reserves transferred by banks to a separate account with the National Bank of Ukraine on condition that a bank observed the procedure of forming and keeping the required reserves.

The average calculated ratio of required reserves, in 2010, amounted to 2.1%, or decreased from 2.2% in January to 2.1% in December (for 2009 the average calculated ratio of required reserves was 2.2% and diminished from 2.7% in January to 2.2% in December).

During 2010, the required reserves, formed according to the ratios set, grew from UAH 12.2 billion in January 2010 to UAH 12.4 billion in December 2010. During January – April, the average balances of funds on the banks' correspondent accounts ranged from UAH 16.5 billion to UAH 19.5 billion, during May – December – from UAH 18.4 billion to UAH 30.3 billion.

Interest rate policy

During 2010, the interest rate policy of the National Bank of Ukraine was carried out adequately to the situation in the money and credit market and it was aimed at renewing the crediting processes.

During 2010, the average weighted interest rate on all the refinancing instruments essentially diminished from 13.15% per annum in January to 10.42% per annum in December, or by 2.73 percentage points, including on:

– overnight credits – by 7.75 percentage points (from 17.0% per annum in January to 9.25% per annum in December);

During 2010, the National Bank of Ukraine lowered the discount rate three times: since 08.06.2010 - from 10.25% to 9.5% per annum, since 08.07.2010 – to 8.5% per annum, since 10.08.2010 – to 7.75% per annum.

– refinancing credits, extended through the tender – by 6.03 percentage points (from 16.48% per annum in February to 10.45% per annum in December);

– direct repo operations (calculated) – by 0.25 percentage point (from 9.50% per annum in August to 9.25% per annum in October);

– stabilization loans and other short-term loans extended to banks under the financial rehabilitation programs – by 4.89 percentage points (from 13.14% per annum in January to 8.25% per annum in September);

– long-term loans – by 0.5 percentage point (from 11.0% per annum in February to 10.5% per annum in July).

For the year as a whole, the average weighted interest rate on all the refinancing instruments was positive with regard to inflation and made up 11.62% per annum (for 2009 – 16.7% per annum).

Refinancing of banks

During 2010, the National Bank of Ukraine ensured the support of banks' liquidity by provision of overnight credits through the permanently acting refinancing line, refinancing credits for the term of up to 14 and 90 days, stabilization credits, direct repo operations, as well as other short- and long-term loans.

In 2010, the banks' refinancing operations totaled UAH 5.2 billion. During this period, the credits to the total amount of UAH 18.5 billion were repaid.

Table 7. Operations on the banks' refinancing

Indicators	2010		For reference: 2009	
	UAH, millions	% to the total amount	UAH, millions	% to the total amount
Total operations, including:	5 162.4	100.0	64 405.0	100.0
– through extending the stabilization credits and other short-term loans under the financial rehabilitation program	3 436.45	66.57	46 858.52	72.76
– long-term loans	984.91	19.08	670.93	2.59
– loans extended through the tender	449.70	8.71	1 239.90	1.93
– through the mechanism of the permanently acting credit line of overnight refinancing	179.37	3.47	12 726.27	19.76
– through direct repo operations	112.0	2.17	477.39	0.74
– through swap operations with foreign currency	0	0	1 431.96	2.22
Credits repaid	18.5	0	39.8	0

To diminish the negative influence of the financial and economic crisis on activities of the banks of Ukraine, to ensure their stable work and to foster the crediting of the econo-

my of Ukraine, approved were the Regulations on Refinancing and Extending the Loans to Banks by the National Bank of Ukraine to Stimulate Crediting of the Economy of Ukraine for the Period of Its Progressing to the Pre-Crisis Parameters (effected since 21 February 2010), Regulations on Provision of the Stabilization Credits to the Banks of Ukraine (effected since 13 July 2010) and the Technical Procedure of Conducting the Operations on Provision by the National Bank of Ukraine of the Stabilization Credits to the Banks of Ukraine (effected since 30 September 2010), in accordance wherewith:

- determined was the order of provision to banks by the National Bank of Ukraine of the stabilization and stimulation credits and the procedure of changing the terms and conditions of the credit agreement with the National Bank of Ukraine;

- defined were the order and terms and conditions for provision by the National Bank of Ukraine of the stabilization credit and the procedure of changing the terms and conditions of the credit agreement signed with the National Bank of Ukraine (in connection with adoption of the mentioned normative and legal documents the previous regulations ceased to be effective).

Deposit operations

In order to ensure the equilibrium in the money and credit market and to prevent the formation of monetary risks for stability of the monetary unit of Ukraine, during 2010, the National Bank of Ukraine was actively making the operations on withdrawing the excessive liquidity of banks through the issue of deposit certificates of the National Bank of Ukraine and through reverse repo operations with government securities of Ukraine. In 2010, deposit operations totaled UAH 248.1 billion (in 2009 – UAH 96.7 billion).

During 2010, announced were 575 tenders by whose results the deposit certificates at the nominal value of UAH 1 000 thousand were placed to the total amount of UAH 246.1 billion (in 2009 – UAH 96.7 billion). The interest rates on the funds attracted through the deposit certificate issue were set in accordance with the general situation in the money and credit market and the funds attraction term, as well as with due regard for the magnitude of interest rates on credits and deposits in the inter-bank market of credit resources. The average weighted interest rate on the deposit certificates issued in 2010 was 3.2% annually (in 2009 – 6.6%).

The total volume of attracting the banks' funds through reverse repo operations with government securities of Ukraine amounted to UAH 2.0 billion, and the average weighted interest rate (calculated) was at the level of 2.1% per annum.

In order to regulate the banks' liquidity, in 2010, the advanced repayment of deposit certificates to the amount of UAH 503.0 million was made.

NON-CASH EMISSION BY THE NATIONAL BANK OF UKRAINE

In 2010, in accordance with the legislation of Ukraine, the National Bank of Ukraine made the primary emission of the national currency in the cashless form through three channels: foreign exchange, credit and stock ones. Within the structure of emission operations 71% of the total cashless emission was the share of operations made through the foreign exchange channel (in 2009, dominant were emission operations made through the credit channel). It was due to the performance by the National Bank of Ukraine of interventions in the inter-bank foreign exchange market in order to flatten fluctuations of the national currency rate and to replenish the international reserves (including the operations with the State Treasury of Ukraine). During 2010, the share of emission operations through the credit channel diminished nearly 13 times, since there was no necessity for the National Bank of Ukraine to conduct the refinancing operations of large volumes under conditions of the liquidity surplus in the banking system, whose formation was mainly due to the action of fiscal factors, the increase in the banks' deposits and the National Bank of Ukraine's operations on the foreign currency purchasing.

In 2010, the National Bank of Ukraine put into circulation UAH 128.6 billion, which was by UAH 12.6 billion, or by 8.9% less than in 2009, which were aimed as follows:

- UAH 91.1 billion, or 70.9% of cashless emission, to buy foreign currency for forming the gold and foreign exchange reserve (in 2009 – UAH 29.4 billion);
- UAH 32.3 billion, or 25.1%, to acquire the government securities of Ukraine in the secondary market (in 2009 – UAH 47.4 billion);
- UAH 5.2 billion, or 4.0%, to support the banks' liquidity (in 2009 – UAH 64.4 billion).

In 2010, the National Bank of Ukraine withdrew from circulation the emission funds totaling UAH 93.16 billion, that is by UAH 42.5 billion, or by 31.4% less, than in 2009. The emission funds withdrawal was carried out by the way of:

- the foreign currency sale by the National Bank of Ukraine to the amount of UAH 55.92 billion (60.0%);
- in accordance with the Law of Ukraine On Restructuring the Debt Liabilities of the Cabinet of Ministers of Ukraine to the National Bank of Ukraine, repayment by the Government of Ukraine of indebtedness on the loans extended by the National Bank of Ukraine in 1994–1996 to finance the state budget deficit and operations on redemption of the Treasury bills of Ukraine worth UAH 18.70 billion (20.1%);
- the repayment by banks of the refinancing credits to the amount of UAH 18.54 billion (19.9% of the total funds withdrawn).

Net non-cash emission (difference between the funds put in circulation and those withdrawn from circulation) in 2010 equaled UAH 35.5 billion and grew, as compared with 2009, by UAH 29.9 billion, or 6.4 times.

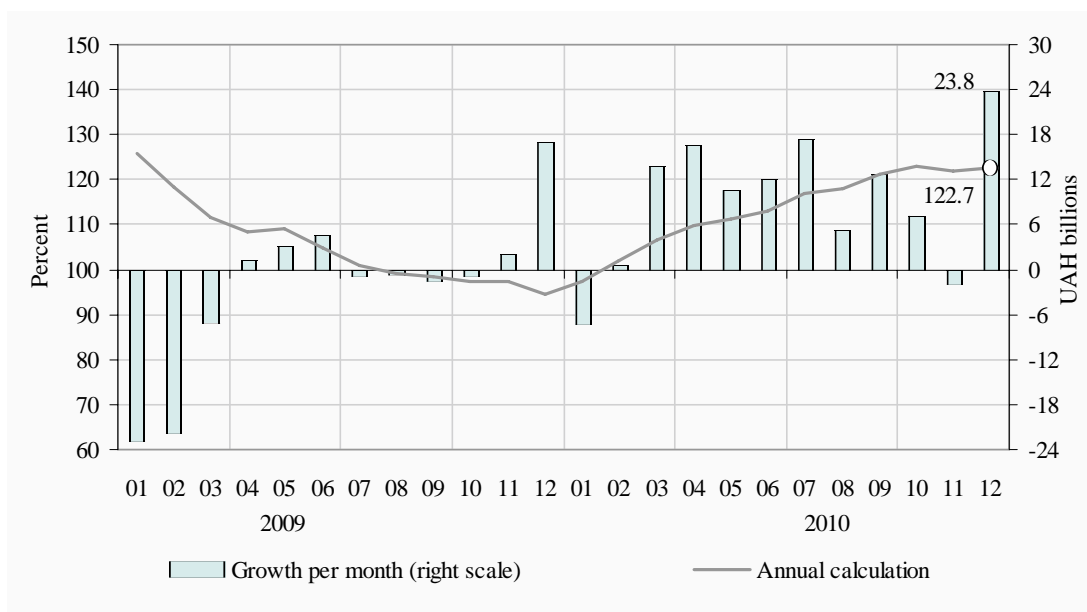
As at 1 January 2011, the non-cash emission of the National Bank of Ukraine accounted for UAH 222.4 billion, that is by UAH 35.5 billion, or by 19.0% more than as at 1 January 2010.

MONEY CIRCULATION

In 2010, the gradual restoration of confidence in the banking system and the national currency took place which was attested by stable growth of funds on the accounts with banks, primarily in the national currency.

In the reporting year, the tendency towards the money supply growth was observed. For the year, the increase in I^3 accounted for 22.7%, or UAH 110.6 billion (to UAH 597.9 billion), compared with 5.5% curtailment by the results of 2009.

Chart 17. Dynamics of money supply



Alongside the deposit return to the banking system, the increase in money supply was due to the dynamics of its other component – cash outside the banks. The money in cash in circulation outside the depository corporations (I^0) incremented for the year by 16.5%, or by UAH 26.0 billion, to UAH 183.0 billion. At the same time, with due regard of the deposit growth compared with that of cash, the money supply structure improved. The share of cash within monetary aggregate I^3 curtailed by 1.6 percentage point and as at 1 January 2011 amounted to 30.6%.

An essential increase (by 24.0%) in monetary aggregate I^1 in 2010 (in 2009 – by 3.8%) – to UAH 289.9 billion was primarily reasoned by the growth of transferable deposits in national currency by 39.3%.

Contrary to the previous year, the balances of funds on monetary aggregate I^2 incremented by 23.1%, mainly due to the increase in balances on other funds by 26.6%, including in national currency – by 37.3%.

Table 8. Monetary indicators							
Indicators	Share in I^3 , %		Year on year change, %				
	2009	2010	2009	2010			
				March	June	September	December
Money in cash outside the depository corporations (I^0)	32.2	30.6	1.5	5.4	9.9	17.4	16.5
Transferable deposits in national currency ($\text{I}^1 - \text{I}^0$)	15.8	17.9	9.0	22.9	23.7	38.5	39.3
Monetary aggregate I^1	48.0	48.5	3.8	10.8	14.4	24.3	24.0
Transferable deposits in foreign currency and other deposits ($\text{I}^2 - \text{I}^1$)	51.5	51.3	-12.7	3.6	12.1	19.1	22.3
Monetary aggregate I^2	99.5	99.8	-5.4	6.9	13.2	21.6	23.1
Securities except shares ($\text{I}^3 - \text{I}^2$)	0.5	0.2	-21.1	-56.2	-50.1	-57.5	-59.2
Monetary aggregate I^3	100.0	100.0	-5.5	6.6	12.9	21.2	22.7
Internal credit	-	-	3.9	5.7	5.5	3.9	6.3
Net claims on central government bodies, including claims	-	-	-	-	-	-	-
Claims on other residents, including under loans	-	-	106.3	127.3	102.0	71.7	65.5
	-	-	-2.4	-2.5	-1.6	-0.4	1.4
	-	-	-2.1	-2.6	-1.9	-0.5	0.9

By December-end 2010, the monetary base amounted to UAH 225.7 billion and augmented, according to the year results, by 15.8%.

In 2010, the monetary base dynamics were formed at the expense of UAH 29.6 billion augmentation (by 17.3%) of the funds in cash issued into circulation and growth by UAH 1.2 billion (by 5.3%) of the liabilities of the National Bank of Ukraine to other depository corporations that are not included in monetary aggregate I^3 ¹.

The banks' funds on the correspondent accounts with the National Bank of Ukraine diminished, during 2010, by 3.9% – to UAH 16.7 billion.

Despite the decrease in funds on the banks' correspondent accounts, their level was sufficient to secure timely performance of current operations and gradual activation of their credit activity.

Qualitative and quantitative characteristics of the National Bank of Ukraine's operations on the liquidity regulation were changing in relation to the directivity of the monetary policy that had an appropriate impact on the banking system's liquidity.

Quick rates of increase in the money supply as compared with the monetary base were due to activation of the funds multiplication mechanism. The money multiplier value grew from 2.5 as at 1 January 2010 to 2.7 as at 1 January 2011 (in comparison with its decrease in 2009 from 2.8 to 2.5). The multiplication effect of expanding the money supply by the banking system was due to a fast increment of the money supply's deposit component as compared with the cash one.

¹ Source: Review of the National Bank of Ukraine.

CASH CIRCULATION

In 2010, the economic growth recovery contributed to an increase in the demand for cash. As at 1 January 2011, the cash in circulation equaled UAH 200.1 billion, including the cash outside the banks to the amount of UAH 183.0 billion, the cash balances at the cashiers' desks to the amount of UAH 17.1 billion. For 2010, the cash in circulation outside the banks grew by UAH 26.0 billion, or by 16.5%, versus UAH 2.3 billion, or by 1.5%, for 2009. In the 1st quarter 2010, withdrawn was the cash from outside the banks' circulation to the amount of UAH 1.9 billion; in the 2nd quarter – the issue of UAH 13.2 billion; in the 3rd quarter – the issue of UAH 6.5 billion, in the 4th quarter – the issue of UAH 8.2 billion.

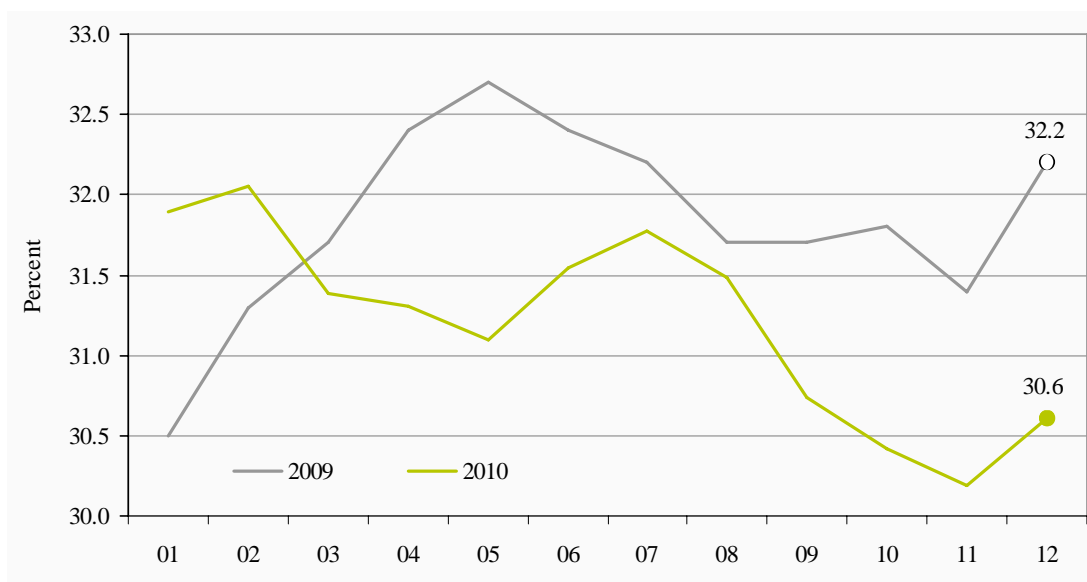
The concentration percent of cash in circulation outside the banks grew from 0.2% in 2009 to 2.3% in 2010.

The share of cash within the money supply had a positive tendency towards curtailment – from 32.2% by the end of 2009 to 30.6% by the end of 2010.

In 2010, the increase in both the issue of cash from the cashiers' desks and its return to them took place.

Incomings of cash to the cashiers' desks of banks for 2010 enlarged by 15.6% (versus a decrease by 4.4% in 2009). The increment was secured mainly at the expense of growth of trade incomings and incomings from all types of services (cumulatively by 14.0%), as well as receipts to the cashiers' desks of banks on the individuals' deposit accounts and on payment cards (cumulatively by 22.6%).

Chart 18. Share of cash (M0) in money supply (M3)



For 2010, the issue of cash from the cashiers' desks of banks incremented by 18.0% (for 2009 it diminished by 8.1%). The largest was the increase in issuing the cash on payment cards – by 27.5%. The payments to the post enterprises augmented for 2010 by 11.8%.

As at 1 January 2011, in circulation there were 2 622.9 million banknotes, 8 915.6 million change and circulating coins, and 5.7 million commemorative coins. The new design banknotes (specimens issued in 2003 and next years) equaled about 95% of their total number in circulation.

As at 1 January 2011, there were 57 banknotes per capita and 186 change and circulating coins per capita, being by 5 and 17 more than at the same date of the previous year.

During 2010, the National Bank of Ukraine secured the uninterrupted and timely satisfaction of the cash circulation needs of the country in banknotes and coins of all denominations. In the reporting year, in the country as a whole, there was the issue of cash totaling UAH 29.6 billion (in 2009 – UAH 3.0 billion).

The issues of cash (banknotes and coins) to support the operational cashiers' desks of banks of Ukraine grew, in comparison with 2009, by UAH 23.7 billion, or 1.3 times. At the same time, the cash that returned from banks of Ukraine to the regional branches' money vaults totaled UAH 88.9 billion, or by 2.1% less, than for the respective period of the previous year.

During 2010, daily monitoring of the circulation of cash, the balances of banknotes and coins at the regional branches' stocks was performed, timely and full replenishment of cash was secured. In 2010, from the reserve funds of the National Bank of Ukraine issued were banknotes and coins to the amount of over UAH 80.7 billion, or 2.5 times more than in 2009 (UAH 32.8 billion).

In order to maintain a proper view of the banknotes put in circulation, the worn cash was withdrawn from circulation. For the reporting period, withdrawn were the worn banknotes to an amount of 1.2 billion pieces against 1.0 billion pieces in 2009. Utilized were 1.26 billion banknotes.

During 2010, according to the results of researches made by the experts of the system of the National Bank of Ukraine, found out and withdrawn from circulation were 11.4 thousand false banknotes of the national currency for the total value of UAH 1.8 million with a prevailing share of banknotes of 200, 100, 50 and 20 hryvnia denominations, being respectively 57.8%, 9.3%, 12.3% and 12.0% of the total amount of the false banknotes revealed. The majority (99.4%) of false hryvnia banknotes was produced with the use of the computer and copying equipment.

In the reporting year, 702 false US dollar banknotes amounting to USD 67.9 thousand, 80 false Euro banknotes for the value of EUR 10.2 thousand, and 134 false Russian rubles for the value of 185.5 thousand rubles were withdrawn from circulation. Most of the withdrawn false US dollar (92.8%) and Euro banknotes (91.2%) were produced by the printing technology. The false Russian rubles withdrawn were produced with the use of the laser (17.9%) and jet (81.3%) printers.

In accordance with the Plan for Issuing the Commemorative Coins and Souvenir Products of Ukraine for 2010, put were into circulation 39 types (33 names) of commemorative coins, including 22 silver, 4 golden, and 13 non-precious metal coins to the total number of 721.5 thousand.

For the reporting period sold were 594.6 thousand coins for the total value of UAH 73.7 million. The planned indicator of income from sale of the commemorative coins and souvenir products for 2010 was fulfilled by 102.6% and accounted for UAH 59.5 million.

By the results of the Fourth International Contest of Commemorative Coins "Coin Constellation–2010" in the city of Saint-Petersburg (Russia), whose participants were 24 countries of the world, the coin of the National Bank of Ukraine "On Motifs of Mykola

Gogol's Work "Evenings on a Farm near Dykanka" was declared the coin of the year. In the "Silver Coin of the Year" nomination the "International Year of Astronomy" coin got the diploma.

Within realization of the Concept of Improving the Organization of Work with Cash in Ukraine for 2008–2012 (further – the Concept), The "Productivity Systems International, Inc." company worked out the Complex Program of Fulfilling the Tasks Defined by the Concept that has been approved by the Expert Commission of the National Bank of Ukraine and recommended to be adopted by the National Bank of Ukraine.

The Complex Program draft includes definitions and description of the necessary measures, projects and actions aimed at the efficient management of the complex of works with regard to the cash starting from its production and putting into circulation to its withdrawal from circulation and destruction.

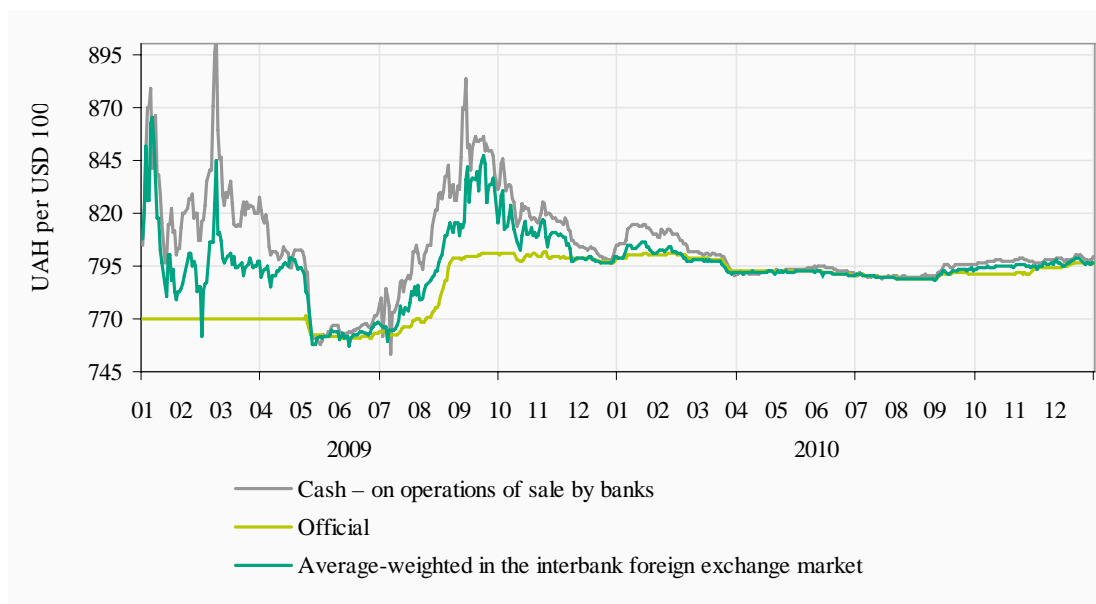
To normalize the cash circulation, to unshadow the money flows, within the legislation of Ukraine approved were the changes to the Regulations on Making the Cashiers' Operations in National Currency in Ukraine. In particular, envisaged was the limitation of the cash settlement amount (UAH 10 000) for the settlements of enterprises (entrepreneurs) in cash when purchasing by them agricultural products and for the consumed electricity. Changes were introduced to the Instruction on Organizing the Work with Valuables in the Central Vault of the National Bank of Ukraine, to the Regulations on Arranging the Annual Contest "The Best Coin of the Year of Ukraine".

2. EXCHANGE RATE POLICY

DYNAMICS OF THE EXCHANGE RATE OF HRYVNIA. REAL EFFECTIVE EXCHANGE RATE

In 2010 dynamics of the exchange rate of hryvnia were influenced by the supply of foreign currency and demand for it in the domestic market. Fluctuations of the rate of exchange of hryvnia against the US dollar during 2010 were more moderate than in the previous year.

Chart 19. Exchange rate of hryvnia against the US dollar in 2009–2010



For the reporting year, in the inter-bank market hryvnia strengthened versus the US dollar by 0.38% – to UAH 796.17 per USD 100. The official exchange rate of hryvnia against US dollar incremented by 0.3%, whereas in 2009 it declined by 3.7%.

In respect to Chinese yuan the official exchange rate of hryvnia decreased in 2010 by 3.10%, in 2009 – by 3.85, in 2008 – by 62.93%.

Table 9. Official exchange rate of hryvnia against foreign currencies

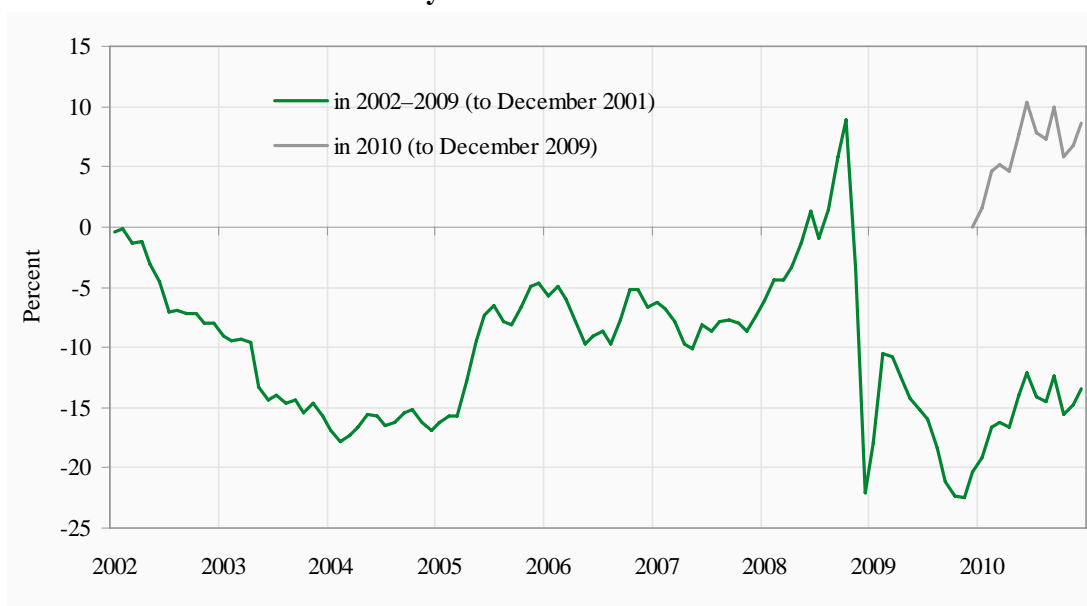
(per 100 units of currency, nominal and real changes: "-" – devaluation, "+" – revaluation)

Rate of hryvnia against foreign currencies (by the year end):	2010	For reference: 2009
against the US dollar	796.2	798.5
nominal change (%)	0.3	-3.7
real change (with regard to the inflation difference, %)	7.9	3.8
against Euro	1 057.3	1 144.89
nominal change (%)	7.7	-5.5
real change (with regard to the inflation difference, %)	18.7	-2.4
against Russian ruble	26.124	26.402
nominal change (%)	1.1	-0.7
real change (with regard to the inflation difference, %)	3.5	4.5
For reference: the consumer price index versus December of the previous year (%)	109.1	112.3

According to the provisions of the Memorandum on economic and financial policy within the Stand-By financial Program the National Bank of Ukraine was setting the official exchange rate of hryvnia against the US dollar at a level of the average-weighted rate of sellers and buyers in the inter-bank foreign exchange market of Ukraine for the previous working day with $\pm 2\%$ probable deviation.

The dynamics of the exchange rate of hryvnia versus other world currencies mirrored the conjuncture of international markets where, among other things, evident was revaluation of the US dollar against the euro. In relation to these tendencies, the official exchange rate of hryvnia in 2010 strengthened against the euro by 7.7 %, and against the Russian ruble – by 1.1%.

Chart 20. Dynamics of REER in 2002–2010



In 2010 the increment of the real effective exchange rate of hryvnia in comparison with December 2009 equaled 8.7%. This was due to strengthening of the nominal effective exchange rate (NEER) of hryvnia (by 4.9%), as well as to excess of the inflation in

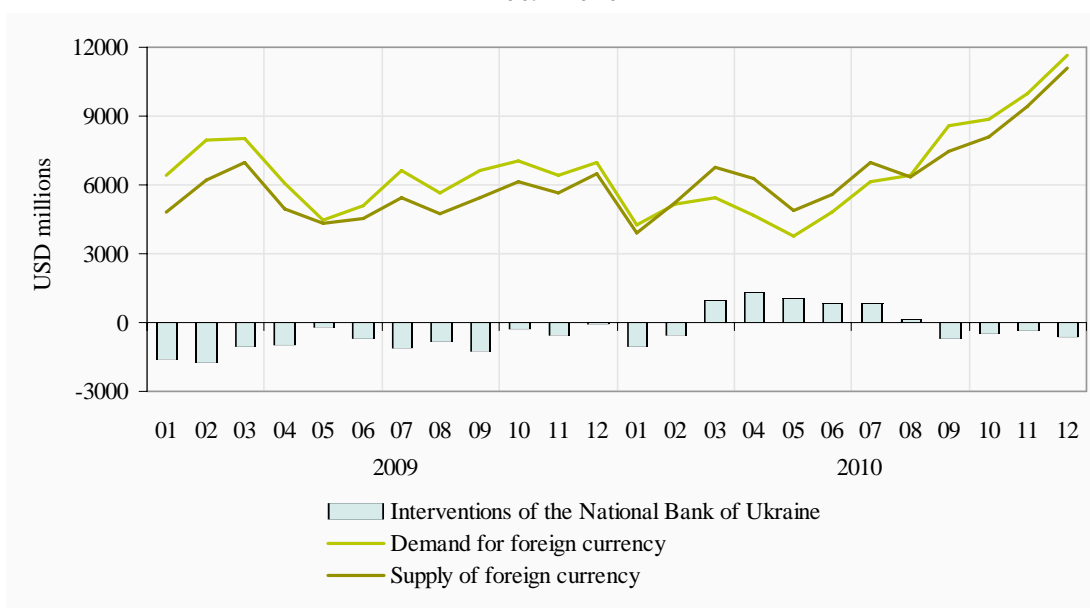
Ukraine over the weighted inflation indicator in the countries – main trade partners (by 3.8 percentage points).

Changes in the NEER dynamics took place in consequence of the hryvnia's strengthening against the majority of currencies. In particular, during the year, hryvnia strengthened against the US dollar by 0.3%, against euro – by 7.7%, British pound sterling – by 2.9%, Polish zloty – by 3.9 %, Hungarian forint – by 9.9% , etc.

DEVELOPMENT OF THE FOREIGN EXCHANGE MARKET OF UKRAINE

The dynamics of the foreign exchange market in 2010 were differently directed. The season curtailment of the foreign currency incomings to the country at the year start created a devaluation pressure on hryvnia and required from the National Bank of Ukraine to carry out regular interventions by selling the foreign currency which made it possible to somewhat compensate for the insufficiency of foreign currency supply in the market and to largely satisfy the demand for it.

Chart 21. **Some indicators of interbank foreign exchange market of Ukraine, 2009–2010**



However, already starting from mid-February and to September, in the inter-bank market seen was essential growth of the foreign currency supply due to an increase in the receipts of foreign currency on the accounts of residents. It enabled the National Bank of Ukraine to replenish the international reserves.

In September, the situation in the foreign exchange market changed again. During the last four months of the year, the demand for foreign currency steadily dominated. Under these conditions the foreign currency deficit was leveled by both the National Bank of Ukraine's interventions and the exchange rate fluctuations of hryvnia.

The most essential factors that influenced the situation in the foreign exchange market in 2010 were as follows:

- growth of the foreign currency incomings from non-residents by 20.1% as compared with the previous year;

- formation of the net inflow of foreign currency on the residents' accounts from the outside (USD 10.6 billion) compared with its net outflow a year earlier (USD 4.2 billion);
- expansion of the inter-bank foreign exchange – its operations enlarged versus 2009 by 13.1%;
- active T-bill acquisition in the primary market and appropriate increase in demand for hryvnia – the value of T-bills purchased by banks during their primary placement exceeded UAH 40.4 billion;
- non-residents' interest to T-bills;
- upgrading of the international ratings of Ukraine in foreign currency: by Fitch Ratings scale – from $\hat{A}-$ to \hat{A} , and by Standard&Poors – from $\hat{N}N+$ to $\hat{A}+$;
- diminishing the appropriate risks of crediting of Ukraine: \hat{A}^2+ Ukraine index declined from 1002 as at 31 December 2009 to 436 as at 31 December 2010.

To balance the foreign exchange market, the National Bank of Ukraine carried out in it the policy of active interventions, being both the seller and the purchaser of foreign currency. At that, the balance of the National Bank of Ukraine's interventions for the year was positive – over USD 1.3 billion (in equivalent), having become one of the factors of renewal of the international reserves lost during the crisis.

Owing to stabilization of the situation in the foreign exchange market and reduction of the difference between the official and inter-bank exchange rates of hryvnia versus the US dollar, since March of the reporting year, the National Bank of Ukraine stopped holding the target auctions on the foreign currency sale to meet the needs of the banks' clients-individuals for repayment by them of indebtedness on the foreign exchange loans. At the year start, ten auctions of the kind were held, where USD 65.6 million, EUR 0.2 million and CHF 2.4 million were sold.

Similar to previous years, in 2010, the majority of transactions on the foreign currency purchase and sale were cashless ones. At that, the share of operations with foreign currency in cash within the total operations in the foreign exchange market of the country remained nearly unaltered as compared with 2009 and equaled 19.3%.

Table 10. Structure of transactions on foreign currency purchase and sale, 2004–2010, %

Year	Cashless foreign currency	Foreign currency in cash
2004	81.1	18.9
2005	78.4	21.6
2006	73.3	26.7
2007	70.8	29.2
2008	75.9	24.1
2009	80.4	19.6
2010	80.7	19.3

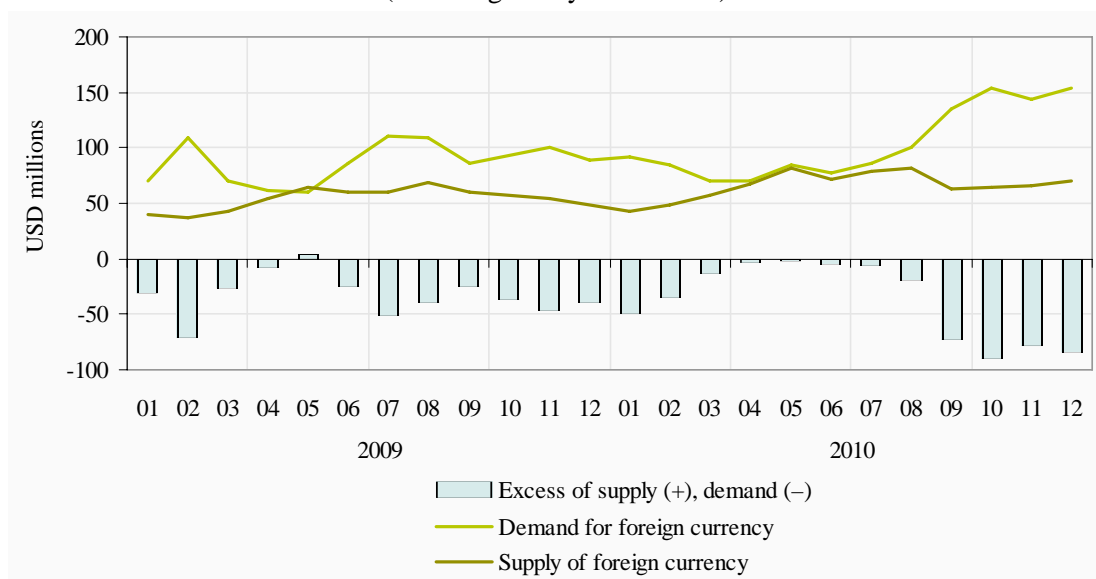
In the inter-bank foreign exchange market seen was reduction of the share of operations with US dollars (by 2.9 percentage points – to 68.2%) and euro (by 6.1 percentage points – to 15.8%). At the same time, an increase took place in the share of transactions with Russian rubles from 5.2 to 5.9% and other currencies – from 1.8 to 10.1%.

Table 11. Foreign currency structure of operations on purchase and sale of foreign currency, 2004–2010

Year	Total volume of transactions, USD billions (in the dollar equivalent)	Structure by currency types, %			
		US dollar	euro	Russian ruble	Other currencies
Cashless foreign currency					
2004	77.7	79.1	11.5	5.9	3.5
2005	91.4	80.6	12.5	5.8	1.1
2006	102.4	77.7	14.1	6.8	1.4
2007	148.0	73.7	16.4	6.9	3.0
2008	208.8	77.7	14.2	6.0	2.1
2009	144.9	71.1	21.9	5.2	1.8
2010	178.9	68.2	15.8	5.9	10.1
Foreign currency in cash					
2004	18.1	80.8	12.9	4.8	1.5
2005	25.2	79.6	14.0	4.7	1.7
2006	37.3	82.0	12.1	4.2	1.7
2007	61.1	78.7	15.2	4.5	1.6
2008	66.2	71.0	22.0	5.4	1.6
2009	35.4	71.9	22.0	5.2	0.8
2010	42.9	73.3	19.0	6.1	1.6

In the reporting year, in the cash segment of the foreign exchange market noted was essential growth of the average-daily annual volume of operations (by 21%) against the background of the outscoring rise in the foreign currency supply: its purchase by banks enlarged by 22.6%, and sale – by 20.1%. As a whole, in 2010, the demand for foreign currency exceeded its supply by USD 9.7 billion (in equivalent) as compared with USD 8.4 billion in 2009. In spite of the mentioned, the average weighted exchange rate of hryvnia on operations with sale of dollars in cash by banks in 2010 strengthened by 0.66% and by the end of the year it was UAH 799.47 per USD 100.

Chart 22. Operations with foreign currency in cash, 2009–2010
(in average daily calculation)



On transactions with foreign currency in cash the share of operations with US dollars increased by 1.4 percentage point (to 73.3%), Russian rubles – by 0.9 percentage point (to 6.1%), other currencies – by 0.8 percentage point (to 1.6%). The share of transactions with euro diminished by 2.0 percentage points (to 19.0%), respectively.

FOREIGN EXCHANGE REGULATION SYSTEM

A primary task of the system of foreign exchange regulation in 2010 was stabilizing the foreign exchange market of Ukraine, improving the expectations therein, facilitating the international settlement development and reducing the inflation.

To optimize the cashless foreign currency trade, since 20 September 2010, increased were by 1 hour the time limits of functioning of the System of Confirming the Agreements in the Inter-Bank Foreign Exchange Market of Ukraine of the National Bank of Ukraine, which enabled the authorized banks to carry out the cashless foreign currency purchase-sale by the order of the banks' customers, as well as for the purpose of fulfilling their own liabilities, from 10.00 to 17.00, Kyiv time.

In view of certain stabilization, seen in the inter-bank foreign exchange market of Ukraine in 2010, the Board of the National Bank of Ukraine took the decision:

1. Since 25 August 2010, to abolish² the requirements related to keeping by the banks, that had got the credit support, to the average-weighted exchange rate of hryvnia against the US dollar on cashless operations of its purchase-sale in the inter-bank foreign exchange market of Ukraine, as well as adhering to the average exchange rate of hryvnia against the US dollar on operations of its purchase-sale in the cash foreign exchange market;

2. Since 28 December 2010 to renew³ the mode of functioning nonresident banks' correspondent accounts in hryvnia set by Section 4, Regulations on opening and functioning of the correspondent accounts of resident banks and nonresidents in foreign currency and correspondent accounts of nonresident banks in hryvnias⁴, i.e. the nonresident banks got back the right to carry out:

- placement of inter-bank deposits in hryvnia in the authorized banks;
- own operations on transferring hryvnias to other correspondent account of the same nonresident bank opened with other authorized bank;
- inter-bank operations with other nonresident banks through their correspondent accounts opened with the authorized banks.

With due regard of the positive tendencies in the inter-bank foreign exchange market of Ukraine and taking into account the obligations of Ukraine stated in the Memorandum about Economic and Financial Policy with the IMF of 16 July 2010, the National Bank of Ukraine optimized the regulatory ratios that have impact on the operations in the foreign exchange market⁵:

² Decision of the Board of the National Bank of Ukraine No. 395, dated 25.08.2010 "On Abolishing the Requirements Related to Keeping by the Banks, that Received the Credit Support, the Average-Weighted and Average Rate of Hryvnia versus the US Dollar."

³ Decision of the Board of the National Bank of Ukraine No. 543 dated 14.12.2010 "On admitting as such that are null and void the decisions of the Board of the National Bank of Ukraine".

⁴ Approved by Decision of the Board of the National Bank No. 118 dated 26.03.1998 and registered in the Ministry of Justice of Ukraine, dated 10.04.1998, No. 231/2671 (amended).

⁵ Decision of the Board of the National Bank of Ukraine No. 544 dated 14.12.2010 "On making alterations to the normative and legal acts related to the trade with foreign currency", registered in the Ministry of Justice of Ukraine 24.12.2010, No. 1329/18624.

– established was the right of the National Bank of Ukraine to conduct interventions in the inter-bank foreign exchange market of Ukraine by way of carrying out the operations with authorized banks on purchase-sale of cashless foreign currency under "swap" conditions for the term of up to three months. Implementation of this measure will enable both clients of the authorized banks and the banks themselves to hedge foreign exchange risks;

– revived was the ratio related to use of the foreign currency bought for hryvnias in the inter-bank foreign exchange market of Ukraine (or changed for other foreign currency) not later than during ten working days after its entering to the current account of the client;

– resumed was the ratio abolished at the beginning of 2009 during the financial crisis expansion in Ukraine with regard to possibility to purchase the cashless foreign currency in the inter-bank foreign exchange market of Ukraine to ensure the performance of the operations and the right on their conducting has been provided by the individual license of the National Bank of Ukraine;

– canceled was the requirement related to presenting, in order to buy the cashless foreign exchange currency, the act of price expertise of the State Information and Analytical Centre of Monitoring the External Commodity Markets, if the total cost of services (works, intellectual property rights) on the external economic agreement exceeds EUR 100 000;

– detailed was the list of documents based on which the nonresident natural persons confirmed the sources of origin of national currency for the purpose of buying the foreign currency at the expense of funds on the current account in national currency;

– fixed was the ratio regarding the exchange of foreign currency within one group of the Classifier of foreign currencies and banking metals⁶, further – Classifier (this ratio acted on the basis of Temporary Decision of the Board of the National Bank of Ukraine No. 413 dated 04.12.2008 "On Some Issues of the Banks' Activities"). The mentioned limitation is not used to the operations carried out in the inter-bank foreign exchange market and in the international foreign exchange markets to ensure the fulfillment of agreements on imports, as well as in the international foreign exchange markets on buying the foreign currency of the 1st group of the Classifier for the foreign currency of the Classifier's other groups.

In 2010 the National Bank of Ukraine applied a preventive measure to limit the inflow of the volatile short-term capital into the banking system. With this aim in view, renewed was⁷ the requirement with regard to 20-percent reserving by banks in the National Bank of Ukraine of the nonresidents' funds in foreign currency, placed in banks as credits, deposits with the term up to 6 months (the requirement is not applied to the funds attracted for a term not more than one working day, or under the government guarantee, or from international financial organizations, whose member is Ukraine), in accordance with the Rules for Reserving the Funds on Attracted Deposits and Credits (Loans) by an Authorized Bank in Foreign Currency from Nonresidents⁸.

With the complex of measures related to contributing to the credit support of the real sector of economy of Ukraine the National Bank of Ukraine agreed to the proposal of the

⁶ Approved by Decision of the Board of the National Bank of Ukraine No. 34 dated 04.02.1998 (as edited in Decision of the Board of the National Bank of Ukraine No. 378 dated 02.10.2002, registered in the Ministry of Justice of Ukraine 24.10.2002, No. 841/7129).

⁷ Decision of the Board of the National Bank of Ukraine No. 431 dated 22.10.2010 "On making alterations to Decision of the Board of the National Bank of Ukraine No. 413 dated 04.12.2008".

⁸ Approved by Decision of the Board of the National Bank of Ukraine No. 171 dated 18.06.2008, registered in the Ministry of Justice of Ukraine 09.07.2008, No. 617/15308 (amended).

International Financial Corporation (IFC) about implementation by it in the territory of Ukraine of the program on extending the loans and guarantees in hryvnia to residents. In this connection, by Decision of the Board of the National Bank of Ukraine, No.504, dated 22.11.2010, "On the order of conducting some operations on credits, loans, guarantees in hryvnia between residents of Ukraine and International Financial Corporation (pilot project)" adjusted was the issue related to the order of performing the settlements in hryvnia through authorized banks between IFC and residents under the credit agreements and guarantee agreements.

In an effort of further implementation of measures regarding the creation of favorable investment climate and activation of the investments in Ukraine the Board of the National Bank of Ukraine approved Decision No. 572 dated 22.12.2010, "On Adjusting the Issues Related to Performance of Some Foreign Exchange Operations", that provides complex changes into the legal framework for regulation of the foreign exchange operations related to the investment activity of foreign investors in the territory of Ukraine, for further improvement of the order of making such operations, as well as for bringing the normative documents in compliance with the Law of Ukraine "On Making Changes to Some Legal Acts of Ukraine with regard to Stimulation of Foreign Investments and Crediting".

In particular, the mentioned decision foresees:

- abolishing the requirement as for the mandatory (5-day) term for placement on a separate analytical account of a bank's balance account of the customer's funds that are used for purchase of foreign currency (envisaged by the action plan on liberalization of the foreign exchange market within realization of the "Stand-By" program between Ukraine and IMF);
- the maximum simplification of requirements to the package of documents needed for repatriation of dividends to foreign investors;
- annulling the obligation to provide confirmation of the tax payment in full from the foreign investors' income;
- improvement of the order of returning the foreign investments on purchase-sale of securities on the Ukrainian stock exchanges.

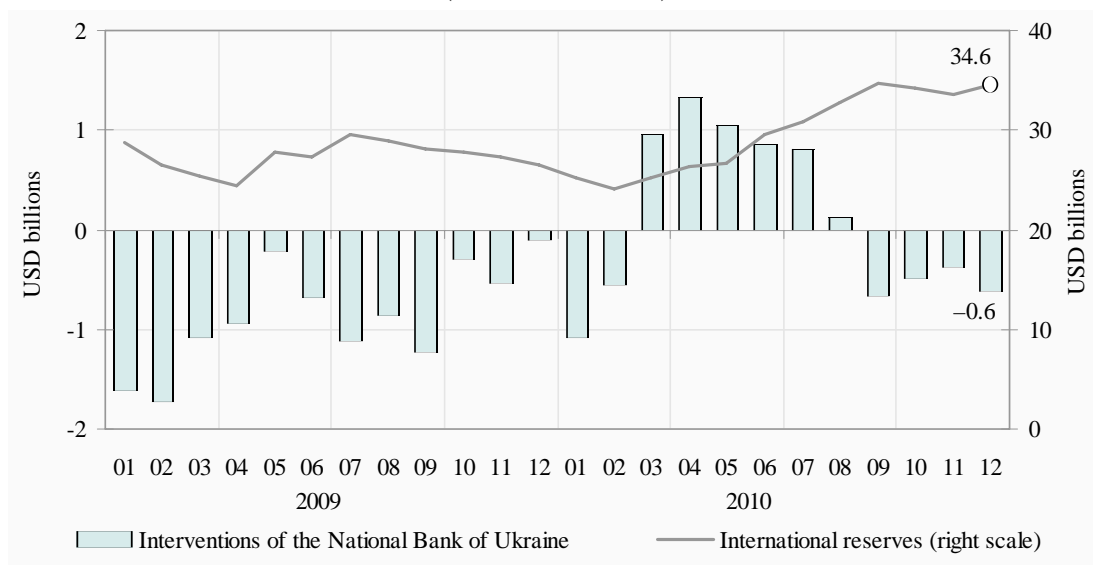
INTERNATIONAL RESERVES

In 2010 the international (gold and foreign exchange) reserves of Ukraine (further – international reserves) grew by USD 8.1 billion, or by 30.5%, and as at 1 January 2011 accounted for USD 34.6 billion.

The main factors of the international reserve replenishment were purchases of foreign currency in the inter-bank foreign exchange market of Ukraine to the amount, equivalent to USD 8.7 billion, and incomings in June of the loan to the amount of USD 2.0 billion, as well as in September – of the funds from allocation of the bonds of external government loan to the amount of USD 2.0 billion in favour of the State Treasury of Ukraine. Moreover, one of the sources of the international reserve augmentation were the incomings in August and in December of the subsequent tranches from the International Monetary Fund to the amount equivalent to UAH 3.4 billion.

In the reporting year the National Bank of Ukraine sold foreign currency in the inter-bank foreign exchange market of Ukraine worth USD 7.4 billion (in dollar equivalent).

Chart 23. **International reserves and interventions of the National Bank of Ukraine**
(at the current rate)



The main aim of the international reserve management was ensuring the optimum relationship of the levels of international reserve security, liquidity and yield that provided for the exercise by the National Bank of Ukraine of its functions defined by the effective law of Ukraine.

The international reserve management was carried out in line with the Investment Declaration of the International (Gold and Foreign Exchange) Reserves of the National Bank of Ukraine for 2010.

In 2010, the international reserves were kept on the accounts of correspondent banks, as well as in the financial instruments with a long-term credit rating not lower than "A". The credit risk control was ensured through establishing the credit limits to banks-counteragents. The optimum foreign exchange and interest risks were provided through diversification of international reserves. A larger portion of the international reserves was placed into government securities and on the deposit accounts.

All the obligations of banks-counteragents to the National Bank of Ukraine on deposits and operations with securities were timely and fully performed.

The international reserve liquidity was defined by the liquidity level of hard currencies, financial instruments, or of the financial market.

In the process of managing the international reserves the National Bank of Ukraine used the main financial instruments like securities of nonresidents and short-term deposits with foreign banks.

A larger portion of the monetary gold of the National Bank of Ukraine was kept in the vault of the State Treasury, and the rest was placed as the long-term deposits.

For 2010, the National Bank of Ukraine got the yield from the international reserve management worth USD 433.3 million.

The total average yield of transactions on the international reserve management for 2010 amounted to 1.4%.

3. DEVELOPMENT OF THE BANKING SECTOR OF UKRAINE

INDICATORS OF ACTIVITIES OF THE BANKS OF UKRAINE

In 2010, activity of the banking sector of Ukraine was characterized by a stable inflow of funds in the banking system, crediting revival, augmentation of the banks' regulatory capital and enlargement of its adequacy, reduction, as compared with the previous year, of losses and a decrease in the number of loss-making banks.

Table 12. **Main indicators of activities of the banks of Ukraine**

Indicators	2010			For reference: 2009		
	UAH billions	growth, UAH billions	% to previous year	UAH billions	growth, UAH billions	% to previous year
Total assets	1 090.2	88.6	108.8	1001.6	28.3	102.9
Assets	942.1	61.8	107.0	880.3	-45.8	95.1
Liabilities	804.4	39.3	105.1	765.1	-41.7	94.8
Equity	137.7	22.5	119.6	115.2	-4.1	96.6

For 2010, total assets of the banks of Ukraine (not adjusted to provisions under active operations) enlarged by 8.8% (for 2009 – by 2.9%) and as at 1 January 2011 amounted to UAH 1 090.2 billion. At that, assets of the banking sector grew for 2010 by 7.0% – to UAH 942.1 billion in comparison with the curtailment by 4.9% in 2009 (primarily due to growth of the input into securities). Thus, the share of input into securities within the total assets increased 2.0 times (by 3.8 percentage points). The share of loans, that remained the main component of assets, reduced by 5.3 percentage points.

For 2010, an increase in the negatively classified credit operations by 13.0% (in 2009 – 3.3 times) took place, and their share within the total credit indebtedness grew from 13.1% to 14.9% as at 1 January 2011.

For the reporting year, the total liabilities of banks grew by 5.1% (for 2009 – lowered by 5.2%) and as at 1 January 2011 accounted for UAH 804.4 billion. Within the banks' lia-

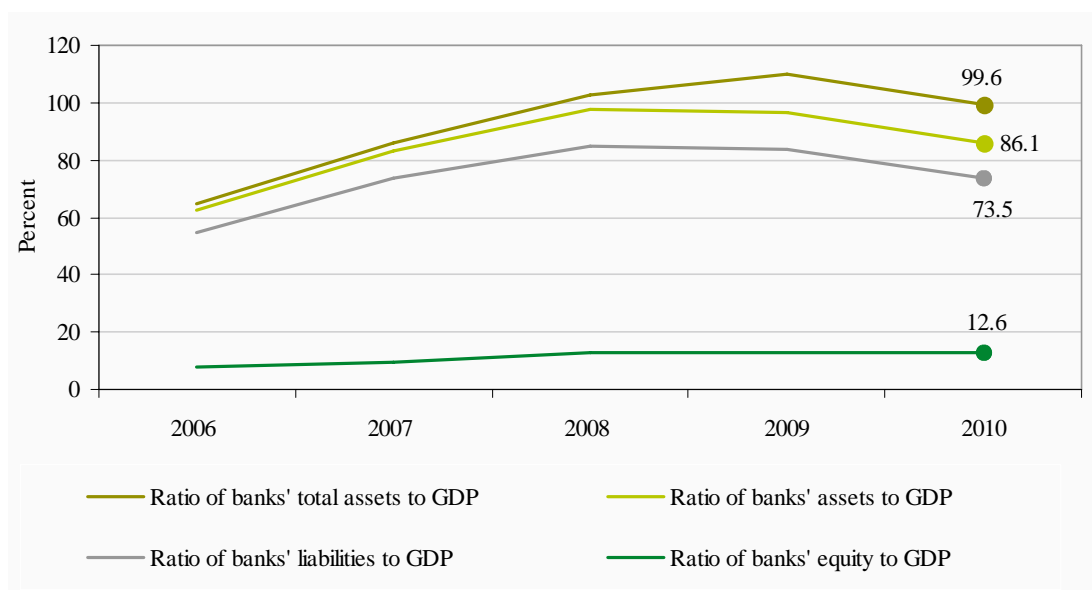
bilities, deposits made up over a half, their share enlarged for the year by 9.1 percentage points. At the same time, the share of inter-bank loans and deposits reduced by 3.8 percentage points (to 21.5%), the loans, received from international and other financial organizations – by 0.6 percentage point (to 4.9%), the funds of the National Bank of Ukraine – by 2.2 percentage points (to 8.8%).

In 2010, noted was reduction of the ratio of banks' total assets to the GDP, that as of 1 January 2011 amounted to 99.6% (as of 1 January 2010 – 109.7%). The ratio of banks' assets to the GDP diminished to 86.1% (as at 1 January 2010 – 96.4%), liabilities to the GDP – 73.5% (as at 1 January 2010 – 83.8%) and equity – remained at a level of 12.6%.

For 2010, the number of banks with foreign capital grew from 51 to 55 (31.3% of the total number of the operating banks of Ukraine), the number of banks with 100% foreign capital - from 18 to 20 (11.4 % of the total number of the operating banks).

Currently, foreign capital in Ukraine is presented by 26 countries. The largest portion within the total foreign capital makes up the capital of Russia (24.5%), Cyprus and France (11.1% each), Sweden (10.4%), Austria (10.0%), Germany (8.0%), the Netherlands (5.9%).

Chart 24. Main indicators of activity of the banks of Ukraine



For 2010, the equity of banks of Ukraine enlarged by UAH 22.5 billion, or by 19.6% (in 2009 – reduced by 3.4%) and by the end of the year accounted for UAH 137.7 billion. The equity share within the banks' liabilities as at 1 January 2011 amounted to 14.6% (as at 1 January 2010 – 13.1%). The paid-in registered authorized capital for 2010 increased by UAH 26.7 billion, or by 22.4% – to UAH 145.9 billion, which enlarged the capitalization level of the banking sector. For 2010, the portion of foreign capital in the registered authorized capital of banks of Ukraine incremented by 4.8 percentage points to 40.6%.

The regulatory capital of the banks of Ukraine rose for 2010 by 18.5% – to UAH 160.9 billion, mainly thanks to the most stable part of it – the authorized capital. During 2010, changes took place within the regulatory capital structure. Specifically, the share of actually paid-in registered authorized capital (the fixed capital component) within the regulatory capital enlarged to 66.1% from 62.7% as at 1 January 2010, and the share of subordinated debt (the additional capital component) grew to 15.0% from 13.6% as at 1 January 2010.

The adequacy level of regulatory capital of the banking sector augmented for 2010 to 20.83% from 18.08% as at 1 January 2010.

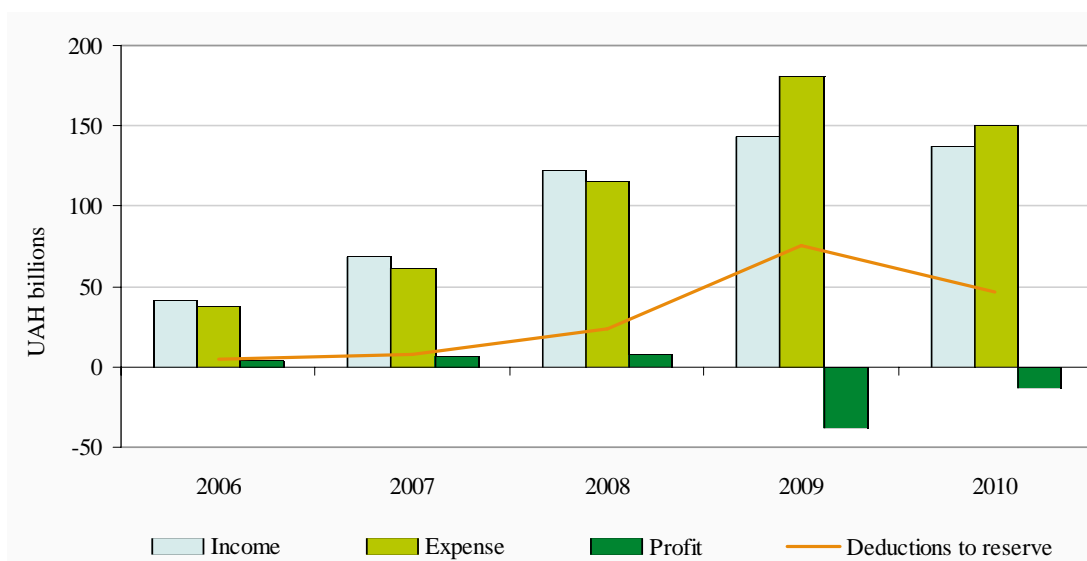
In 2010, the process of concentration of assets, capital and liabilities in the banks of Group ² continued, where, as at 1 January, 2011, 66.8% of the assets of banks of Ukraine, 66.4% of the equity and 66.8% of the total liabilities were concentrated.

Table 13. Concentration of assets, equity and liabilities by groups of banks

Group	(in percent)					
	Total assets		Equity		Liabilities	
	01.01.2011	01.01.2010	01.01.2011	01.01.2010	01.01.2011	01.01.2010
Group ²	66.8	68.6	66.4	70.7	66.8	68.6
Group ²²	18.6	16.9	14.8	9.1	18.6	17.6
Group ²²²	6.3	6.4	6.1	8.8	6.4	6.1
Group IV	8.3	8.1	12.7	11.4	8.2	7.7

The income of banks of Ukraine as at 1 January, 2011, amounted to UAH 136.8 billion, or reduced for the year by 4.3%. The interest income, as before, remained the main income item – UAH 113.3 billion. Its volume, vis-à-vis the previous year, reduced by 6.4% (primarily, due to the curtailment of income from crediting the individuals), and its portion within the banks' income reduced to 82.8% against 84.7% as at 1 January 2010. At the same time, the commission income diminished for the year by 5.8% – to UAH 15.3 billion, and its portion within the total income amounted to 11.2%. The result of trade operations reduced by 24.5% – to UAH 2.2 billion.

Chart 25. Dynamics of income, expense and profit of the banking sector of Ukraine



In 2010, in comparison with the previous year, the expenditures of banks of Ukraine decreased by 17.4% and as at 1 January, 2011, equaled UAH 149.9 billion. The interest expenses made up UAH 61.4 billion (by 7.8% less than as at 1 January 2010) and their

share continued to enlarge – to 41.0% (versus 36.7% as at 1 January 2010). It took place against the background of curtailing the volume of deductions to form reserves that reduced for the year by 38.8% and as at 1 January 2011 accounted for UAH 46.2 billion, or 30.8% of all expenses of banks. In comparison with 2009, the total administrative expenses grew by 3.0% and amounted to 19.4% of the expenses.

The expense to income ratio of banks equaled 109.5% (versus 126.9% in 2009).

Table 14. Concentration of income, expense and result of activities by groups of banks

Group	(in percent)					
	Income		Expense		Result of activity	
	01.01.2011	01.01.2010	01.01.2011	01.01.2010	01.01.2011	01.01.2010
Group ²	67.8	69.0	65.3	63.8	39.1	44.3
Group ²²	17.7	15.6	20.9	20.0	53.7	36.5
Group ²²²	5.9	6.6	6.0	7.1	6.5	9.0
Group ^{2V}	8.6	8.8	7.8	9.1	0.7	10.2

By the results of 2010, fixed was the negative financial result of activities of the banking sector to the amount of UAH 13.0 billion, that was nearly three times less than for 2009 and 53.7% of the amount was due to the losses of banks of Group ²I.

DEPOSIT MARKET

In 2010, the positive tendency towards enlargement of the deposit base of other deposit corporations renewed. As at 1 January 2011, the balances of funds attracted from residents amounted to UAH 416.6 billion and increased for the year by 24.4% against the curtailment by 6.9% in 2009. This was contributed by gradual recovery of the economic growth, stable dynamics of the foreign exchange rate during the year and higher confidence of the economic entities in the banking system.

Since April 2010, the balances on deposits in the hryvnia equivalent exceeded the pre-crisis level (UAH 347.1 billion as at 01.10.2008). With taking into account the exchange rate differences (the basic rate as at 01.10.2008), the households' deposits started to exceed their pre-crisis level since September, whereas the non-financial corporations deposits did not attain it even at the end of the year.

Funds of the households sector remained the largest portion of deposits attracted by banks, and secured the main increment of deposits in 2010. As at 1 January, 2011, the households sector's deposits totaled UAH 275.1 billion. The growth was noted during the whole of the year, being favoured by an increase in the real wages and practically stable exchange rate of hryvnia against the US dollar. For 2010 as a whole, the deposits of households sector enlarged by UAH 61.0 billion, or by 28.5% versus the curtailment by UAH 3.8 billion, or by 1.7%, in 2009.

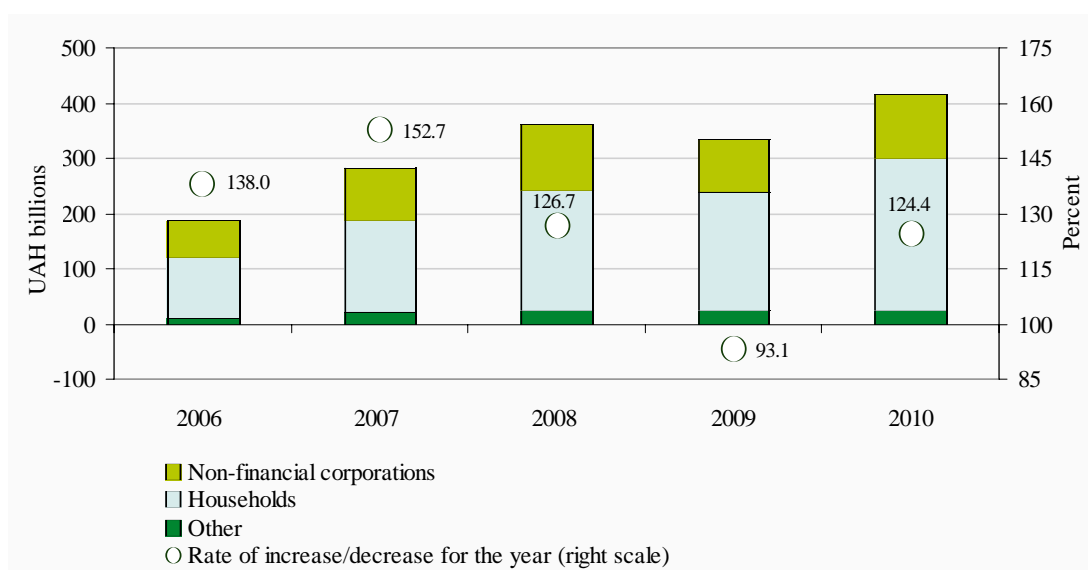
The balances of funds of the non-financial corporations sector in 2010 increased by UAH 21.3 billion, or by 22.5% (versus the curtailment by 19.8% in 2009). Their dynamics during the year were uneven, which became the main factor of fluctuations of the deposit balances as a whole. After the mentioned reduction in January – February, since March

2010 the non-financial corporations' deposits enlarged, except June (when the balances of deposits in foreign currency diminished due to the significant repayment of foreign loans) and November (owing to tax payments and excess of import volumes over the export ones). As at 1 January 2011, the deposits of non-financial corporations sector totaled UAH 116.1 billion, out of them the state non-financial corporations sub-sector – UAH 14.0 billion, or 12.0%.

Table 15. Main indicators of development of the deposit market of Ukraine

Indicators	2010				For reference: 2009			
	UAH billions	Share, %	Growth, UAH billions	% to previous year	UAH billions	Share, %	Growth, UAH billions	% to previous year
Deposits, total including:	416.6	100.0	81.6	124.4	335.0	100.0	-24.8	93.1
By type of currency								
in national currency	239.3	57.4	66.2	138.3	173.1	51.7	-28.7	85.8
In foreign currency	177.3	42.6	15.4	109.6	161.9	48.3	4.0	102.5
By term of repayment								
Demand	152.5	36.6	32.7	127.3	119.8	35.8	12.2	111.3
short-term	133.5	32.0	-1.9	98.6	135.4	40.4	42.4	145.7
long-term	130.6	31.4	50.8	163.7	79.8	23.8	-79.4	50.1
By sector of the economy								
non-financial corporations	116.1	27.9	21.3	122.5	94.8	28.3	-23.4	80.2
households	275.1	66.0	61.0	128.5	214.1	63.9	-3.8	98.3
other ⁹	25.4	6.1	-0.7	97.7	26.1	7.8	2.4	110.0

Chart 26. Deposits by sectors of economy



⁹Included are other financial corporations, general government bodies and non-profit institutions serving households.

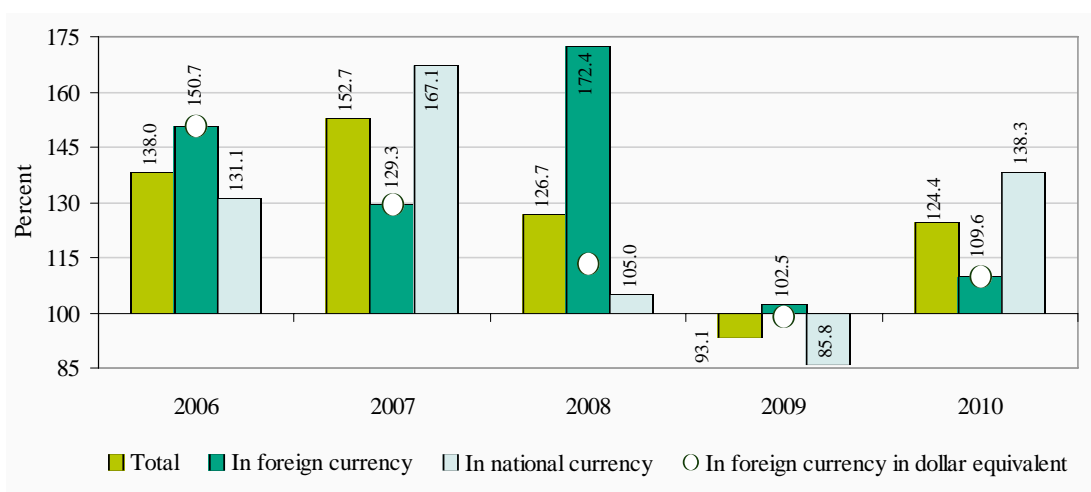
The balances of funds of the other financial corporations' subsector, attracted by banks enhanced for the year by UAH 3.4 billion (or by 21.8%), primarily at the expense of funds of other financial intermediaries and auxiliary financial organizations – by UAH 2.7 billion, or by 33.3% (specifically, their short-term deposits in hryvnia). Among the main factors of such dynamics there was an increase in the stock market indicators during the year and enlargement of the economic entities' solvency.

The balances on deposits of the general government sector in 2010 diminished by UAH 4.5 billion (or by 51.9%) to UAH 4.1 billion as at 1 January 2011, including at the expense of central government bodies – by UAH 4.2 billion, or by 51.8%.

The deposit structure by sectors of the economy changed: the portion of deposits of the households sector as at 1 January 2011 augmented to 66.0% of the total deposits (versus 63.9% as at 1 January 2010), the general government sector – decreased from 2.6% to 1.0%, the non-financial corporations sector – from 28.3% to 27.9% , the other financial corporations' sub-sector – from 4.7% to 4.6%.

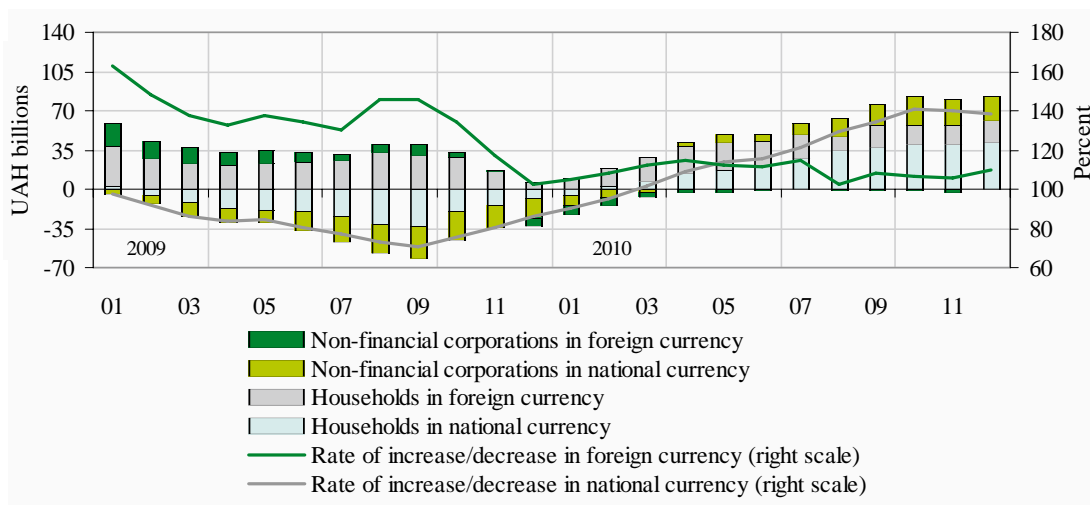
The growth rate of deposits in national currency in 2010 (38.3%) substantially exceeded the rate of their growth in foreign currency (9.6%).

Chart 27. Deposits by types of currency
(rate of increase/decrease for the year)



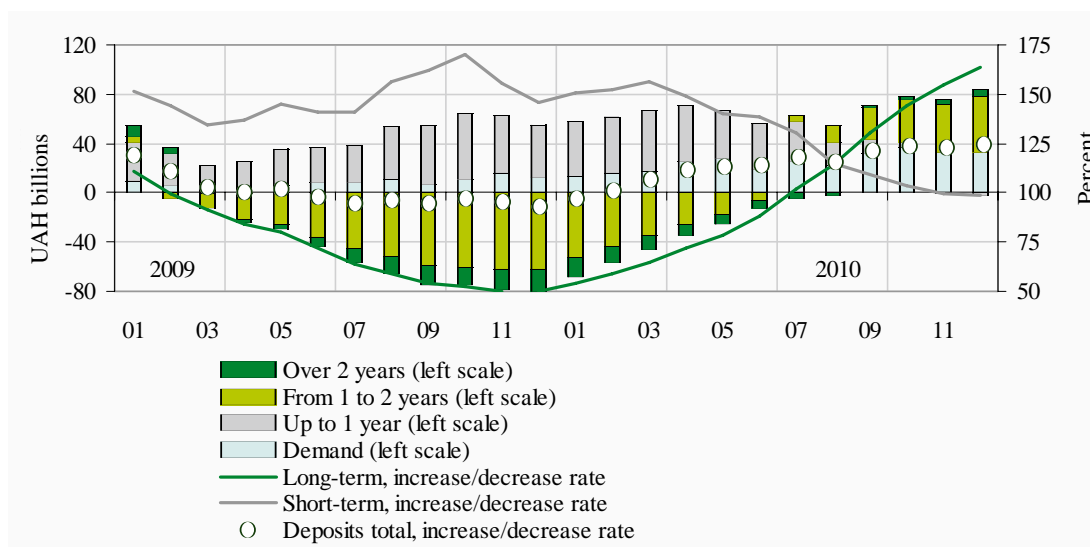
The growth rate of deposits in national currency in the annualized terms during the year gradually accelerated (of both the non-financial corporations and households). In the 4th quarter 2010, the growth started to slowdown, however by the end of the year the increase in funds remained significant – 38.3% (versus reduction by 14.2% in 2009). The dynamics of balances of funds in foreign currency were characterized by relative stability that was favoured by insignificant fluctuations of the exchange rate of hryvnia versus foreign currencies during the year and was secured by an increase in the households' deposits (enlarged for the year by 16.9%). The foreign currency deposits of the non-financial corporations diminished for the year by UAH 0.5 billion, or by 1.3% (in particular, due to the excess of payments on import contracts over the receipts on exports). For 2010, the deposit structure by types of currencies changed: the share of deposits in national currency enlarged by 5.7 percentage points to 57.4%.

Chart 28. Deposits of non-financial corporations sector and households sector by types of currency (year on year change)



During the year, against the background of recovery of the economic activity, noted was the deposit structure improvement by terms. Moreover, the interest rate policy of other deposit corporations (banks) under conditions of sufficient liquidity was aimed at creating the stimuli for enlargement of volumes of the long-term deposits. Thus, by terms of attraction, in 2010, the curtailment of short-term and growth of long-term deposits and demand deposits took place. The largest was the increase in deposits with a term from 1 year to 2 years – by 76.6%. The demand deposits during the year enhanced by 27.3%, over 2 years – by 23.6%. At the same time, the short-term deposits in the annualized terms diminished by 1.4%.

Chart 29. Deposits by terms (year on year change)

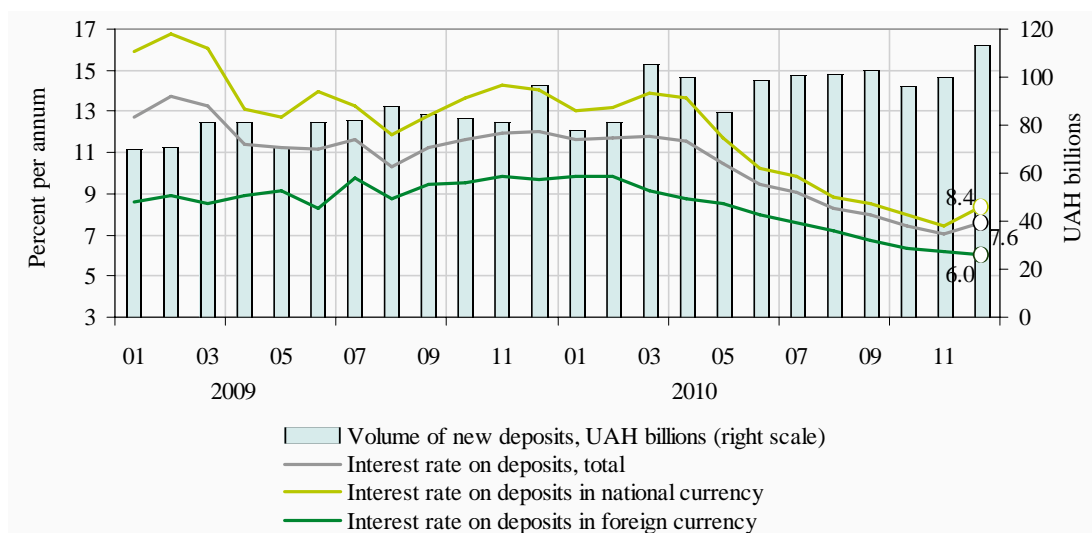


Within the regions, as at 1 January, 2011, the largest volumes of deposits were attracted by banks of the city of Kyiv and Kyiv region (41.1%), the Donetsk region (9.7%) and the Dnipropetrovsk region (8.9%).

The growth of the deposit base of banks motivated the downward dynamics of the deposit value during 2010. The increase in the interest rate on deposits in national curren-

cy by the end of the 1st quarter of the reporting year was intended to prevent the outflow of these funds, to support the banks' liquidity and was compensated by a simultaneous reduction of the value of deposits in foreign currency. Since April, the interest rates were stably decreasing both on deposits in national currency and those in foreign currencies. Small increase in the deposit value in December was due to the season factor and the growth of deposits with a larger value within the deposit structure.

Chart 30. Dynamics of average-weighted interest rates on deposits attracted from residents by other depository corporations



The average-weighted interest rate on deposits for 2010 equaled 9.4% per annum versus 11.8% per annum in 2009, including in the national currency – 10.3% against 14.0% per annum, respectively.

CREDIT MARKET

The downward dynamics in the residents' crediting that were noted in 2009 and the 1st half of 2010, in the 2nd half year stopped. Since June, under conditions of expanding the resource base, and, thus, reduction of the credit value (in national currency), the process of a monthly increment of the balances of indebtedness started under the credits extended (except December). Owing to this, their total volume for 2010 enlarged by UAH 9.5 billion, or by 1.3% to UAH 732.8 billion (for 2009 – diminished by 1.5%).

As at 01.12.2010 the balances on credits extended to residents exceeded the pre-crisis level and attained the maximum value for all the years of independence of Ukraine (UAH 735.3 billion).

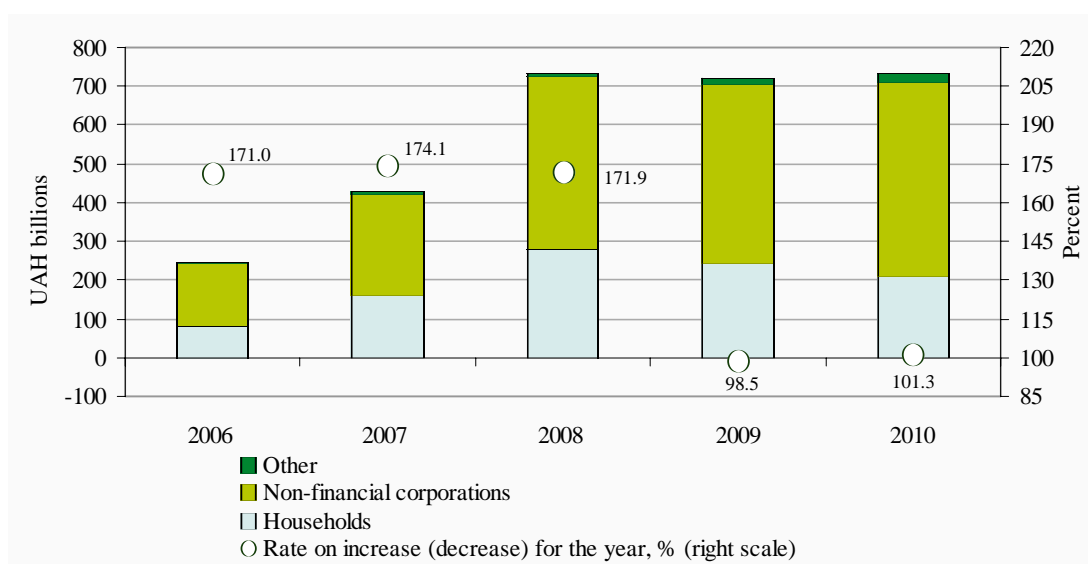
The loans extended to the non-financial corporations sector remained the largest component within the structure of crediting the residents and ensured the main increment in 2010. Upward dynamics of the balances on credits to these borrowers were observed during nearly all 2010, and for the year they grew by UAH 38.7 billion, or by 8.4% (in 2009 – by 4.2%). Above all, such dynamics were reasoned by positive tendencies towards expansion of the banks' resource base, as well as by improvement of the financial situation of some enterprises, specifically those of trade and industry. By the end of December, the indebtedness on credits to non-financial corporations amounted to UAH 501.0 billion.

Table 16. Main indicators of development of the credit market of Ukraine

Indicators	2010				For reference: 2009			
	UAH billions	Share %	Change to the previous year, UAH billions	% to the previous year	UAH billions	Share, %	Change to the previous year, UAH billions	% to the previous year
Credits, total	732.8	100.0	9.5	101.3	723.3	100.0	-10.7	98.5
including:								
By types of currency								
in national currency	395.5	54.0	40.0	111.2	355.5	49.2	55.3	118.4
in foreign currency	337.3	46.0	-30.5	91.7	367.8	50.8	-66.0	84.8
By terms of repayment								
Short-term	242.8	33.1	11.8	105.1	231.0	31.9	8.9	104.0
Long-term	490.0	66.9	-2.3	99.5	492.3	68.1	-19.6	96.2
By sectors of economy								
to non-financial corporations	501.0	68.4	38.7	108.4	462.2	63.9	18.6	104.2
to households	209.5	28.6	-31.7	86.0	241.2	33.4	-39.2	86.0
to others ¹⁰	22.3	3.0	2.5	112.6	19.8	1.4	9.9	164.3

Within the structure of credits under the target investments, the credits provided for the non-financial corporations' activity prevailed. The share of these credits in the total balances of credits extended to the non-financial corporations sector, due to reduction of activation in the investment crediting, had the tendency towards an increase (for the year – by 2.1 percentage points – to 83.0%).

Chart 31. Credits by sectors of economy



¹⁰ Included are other financial corporations, general government bodies and non-profit institutions serving households.

Alongside the increase in balances on credits extended to the non-financial corporations sector, the growth of balances on overdue credits took also place – to UAH 65.6 billion. For 2010, their increment was UAH 13.2 billion (in 2009 – by UAH 42.1 billion) and it was reasoned by enlargement of overdue credits both in national currency (by UAH 3.4 billion), and in foreign currency (by UAH 9.8 billion). The share of problem credits in the total balances on credits extended to the non-financial corporations sector continued gradually to rise and for the reporting year grew from 11.3% to 13.1%.

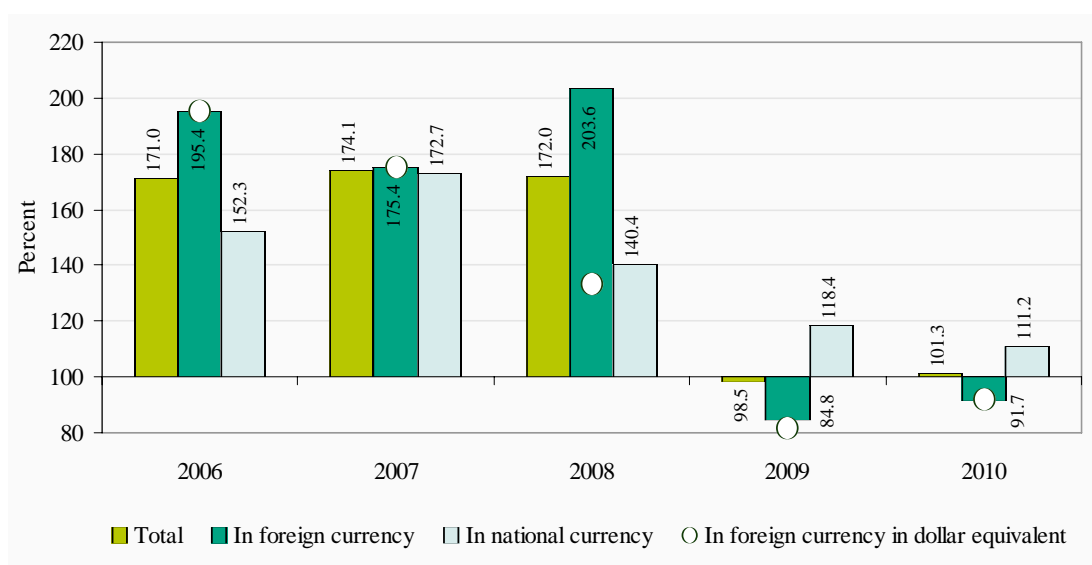
In 2010, noted was an increase in the credits given to the general government sector – by UAH 3.1 billion, or 1.5 times – to UAH 8.8 billion, including at the expense of the general government – by UAH 2.9 billion, or 1.6 time.

Under conditions of the instable financial situation of borrowers and a high level of problem indebtedness in 2010, further monthly curtailment of balances on credits extended to the households sector occurred. By the year results, they diminished by UAH 31.7 billion, or by 13.1% (in 2009 by 14.0%) and as at 1 January 2011 equaled UAH 209.5 billion. This was due to reduction of the consumer credits – by UAH 14.2 billion, or by 10.3%, credits for acquisition, construction and reconstruction of property – by UAH 16.8 billion, or by 17.0%, and other credits – by UAH 0.7 billion, or by 13.1%.

Balances on credits to other financial corporations reduced for the year by UAH 0.6 billion, or by 4.2% – to UAH 13.4 billion, solely at the expense of short-term credits, given to other financial intermediaries and auxiliary financial organizations – by UAH 1.4 billion, or by 16.5%.

The main source of the crediting growth was enlargement of credits in national currency, the indebtedness under which was practically increasing every month and for the year as a whole rose by UAH 40.0 billion, or by 11.2%. This improved the structure of credits by types of currencies – the share of credits in national currency within the total credits to residents increased for the year from 49.2% to 54.0%. The positive dynamics of balances under credits in national currency in the reporting year were secured by the enlargement of credits extended to the non-financial corporations sector – by UAH 39.0 billion, or by 14.4%. Credits, given to the households sector in national currency, diminished by UAH 1.9 billion, or by 2.9%.

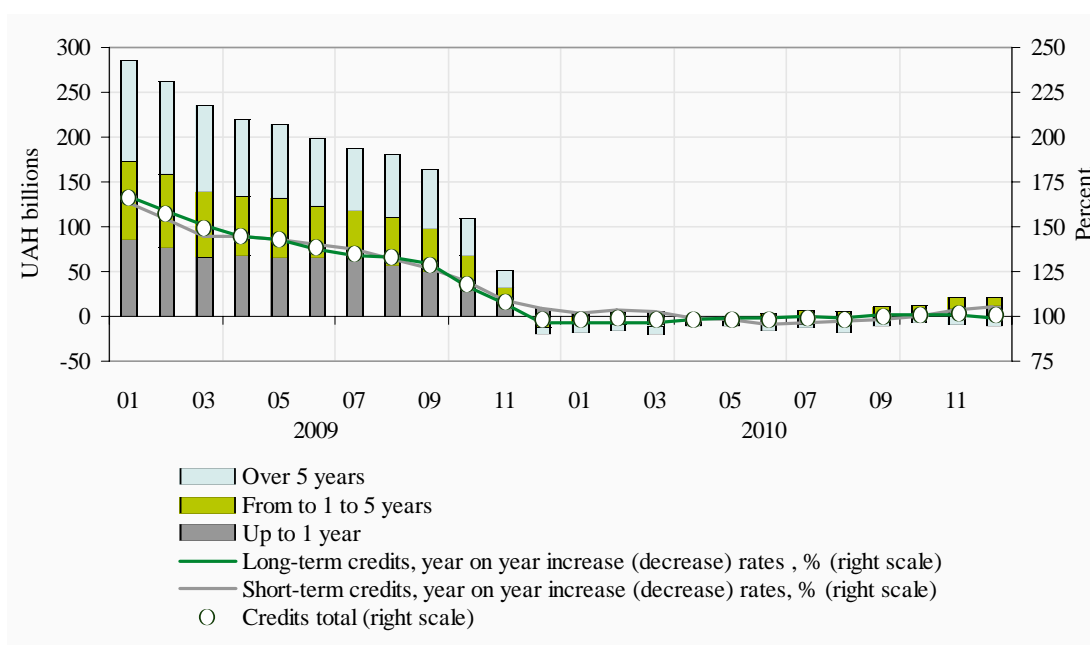
Chart 32. **Credits by types of currency** (increase/decrease rate per year)



The policy of the National Bank of Ukraine with regard to limiting the credits in foreign currency caused the downward dynamics of indebtedness on these credits in all sectors of the economy. Balances under the credits in foreign currency were growing only in July and September which did not compensate for their decrease during other months of the year, and by the results of 2010, they reduced by UAH 30.5 billion, or by 8.3%. The reduction took place both under the credits to the nonfinancial corporations sector (by UAH 0.3 billion, or by 0.1%), and the households sector (by UAH 29.8 billion, or by 17.1%).

Considering a prudent credit policy of other depository corporations (banks), in 2010, the residents' crediting was performed for shorter terms. In the annual estimate, the credits with a term up to 1 year grew by 5.1%, with a term from 1 year to 5 years – by 3.3%. At the same time, the credits, extended for a term over 5 years in the annualized terms, diminished by 5.0%.

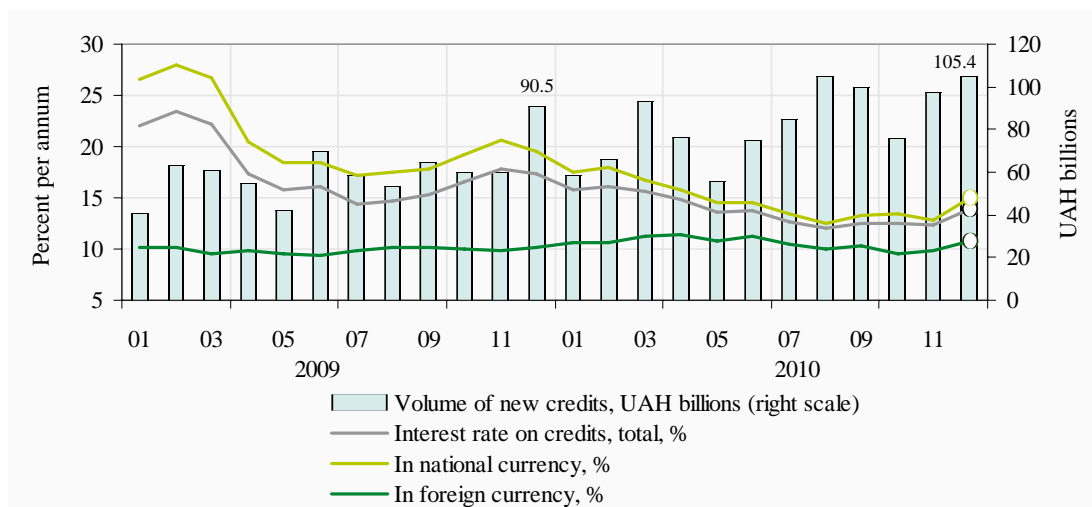
Chart 33. Credits by terms (year on year change)



Within the regions, as at 1 January, 2011, the largest volumes of credits were extended by banks of the Kyiv region and the city of Kyiv (50.0%), the Dnipropetrovsk region (13.4%), the Donetsk region (6.4%), and the Odessa region (5.5%).

A sufficient level of liquidity ensured reduction of the credit value in the 2nd – 3rd quarters. With some revival of credit activity, the descending trend of interest rates under the credits in national currency (noted from March to August) changed by the upward one in September – December. For the year as a whole, the interest rate dropped by 5.9 percentage points – to 14.6% per annum.

Chart 34. Dynamics of average-weighted interest rates on credits extended to residents by other deposit corporations



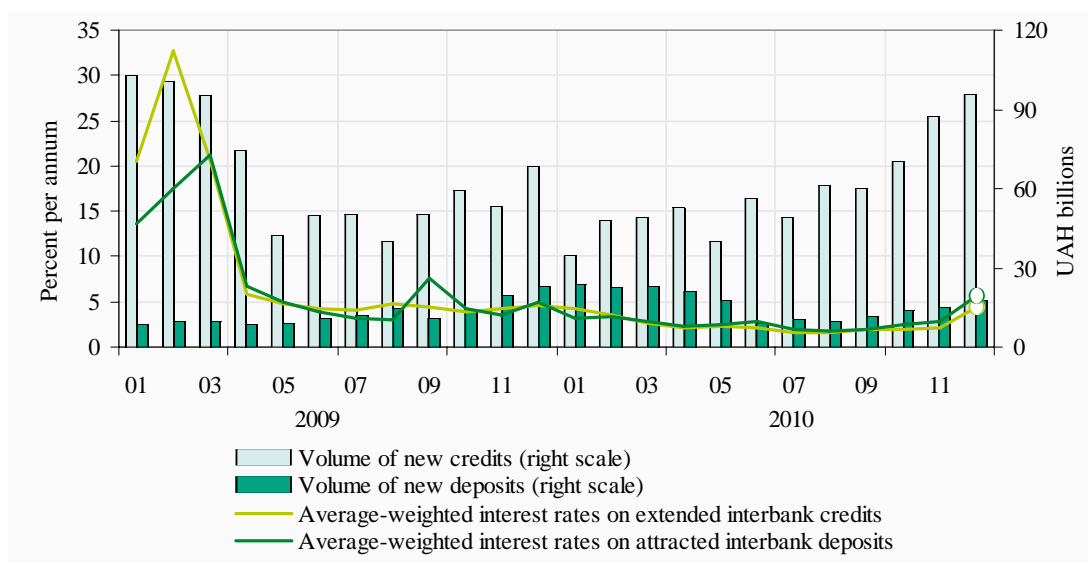
During the year, the dynamics of interest rates under the credits in foreign currency were differently directed and fluctuated within 9.5%–11.4% per annum. For the year, the interest rate under these credits enlarged by 0.7 percentage point to 10.6% per annum.

CREDITS AND DEPOSITS IN THE INTER-BANK MARKET

During 2010, the dynamics of inter-bank credit and deposit market were adequate to fluctuations of the demand for and supply of money. In January – August, due to banking institutions' sufficient free liquidity, related to the deposit base expansion, noted were reduction of demand for inter-bank resources and respective decrease in the value of credits and deposits in the inter-bank market. The volumes of operations on credits extended in the inter-bank market, during the mentioned period, were within UAH 34.3 – 61.3 billion monthly and for eight months equaled UAH 390.6 billion. The interest rates on credits declined from 4.3% per annum in January to 1.5% per annum in August, including in national currency – from 6.4% to 1.6% per annum, respectively. The value of deposits attracted in the inter-bank market, during eight months, reduced from 3.2% to 1.8% per annum, specifically in national currency – from 5.5% to 1.9% per annum.

In September – December, revival of the banks' credit activity and activation of the deposit operations of the National Bank of Ukraine (that respectively reasoned the reduction of fund balances on the correspondent accounts of banks) contributed to the growth of demand for the inter-bank resources, in particular, in national currency. This caused an increase in the interest rates on credits to 4.4% per annum in December, including in national currency – to 6.7% per annum, on deposits – to 5.7% and 8.6% per annum, respectively. At that, the volumes of the extended credits during September – December were considerably larger and fluctuated from UAH 60.0 billion to UAH 95.6 billion. This ensured nearly a half (44.5%) of the total credits extended for the year. In 2010, the operations on inter-bank credits and deposits totaled UAH 898.3 billion (including on credits – UAH 703.5 billion.), being by 4.2% less than in the previous year. Average weighted interest rates on inter-bank loans for the year diminished to 2.6% per annum (12.2% per annum in 2009), and on deposits – respectively to 2.9% per annum (from 6.9%).

Chart 35. Average-weighted interest rates on credits extended and deposits attracted in innerbank market



The balances under credits extended in the inter-bank market as at 1 January 2011, equaled UAH 26.5 billion. During January – August, their dynamics were multidirectional, and, starting from September, noted was their stable growth (except December). For 2010 as a whole, the balances under credits, extended in the inter-bank market, increased by 28.7%, including in national currency – by 31.1%, in foreign currency – by 26.5%.

Table 17. Credits and deposits in the interbank market

Indicators	2010				For reference: 2009			
	UAH billions	Share, %	Increase/decrease, UAH billions	Change, % to previous year	UAH billions	Share, %	Increase/decrease, UAH billions	Change, % to previous year
Credits, total	26.5	100.0	5.9	28.7	20.6	100.0	-9.1	-30.7
including:								
in national currency	12.6	47.8	3.0	31.1	9.6	46.9	-3.0	-23.5
in foreign currency	13.9	52.2	2.9	26.5	11.0	53.1	-6.1	-36.0
Deposits, total	21.7	100.0	-5.1	-19.0	26.8	100.0	6.3	30.8
including:								
in national currency	8.9	41.0	-4.2	-32.3	13.1	49.0	2.9	29.1
in foreign currency	12.8	59.0	-0.9	-6.2	13.7	51.0	3.4	32.4

At the same time, the dynamics of attracting deposits in the inter-bank market during the reporting year were marked by a downward trend that was due to the sufficient free liquidity in the banking system as a whole. The balances of deposits of other depository corporations (banks) for the year decreased by 19.0%, specifically in national currency – by 32.3%, in foreign currency – by 6.2%.

OPERATIONS OF BANKS IN THE SECURITIES MARKET

Table 18. Securities in the portfolio of other depository corporations (banks)

Indicators	2010				For reference: 2009			
	UAH billions	share, %	growth, UAH billions	growth to previous year, %	UAH billions	share, %	growth, UAH billions	growth to previous year, %
1. Securities other than shares	70.4	100.0	38.4	2.2 t.m.	32.0	100.0	0.4	1.4
out of which:								
	By issuers							
general								
government sector	58.1	82.5	37.2	2.8 t.m.	20.9	65.3	3.5	20.1
non-financial corporations	8.6	12.2	1.7	23.8	6.9	21.6	-1.1	-13.9
other financial corporations	2.3	3.2	0.01	0.2	2.3	7.1	-0.4	-15.9
other depository corporations	1.1	1.5	-0.4	-30.1	1.5	4.8	-1.5	-48.6
nonresidents	0.4	0.6	0.05	13.4	0.4	1.2	-0.04	-9.7
	By terms of redemption							
demand	7.7	10.9	6.8	8.2 t.m.	0.9	2.9	-0.8	-47.2
short-term	20.4	29.0	8.7	74.2	11.7	36.7	6.0	2.0 t.m.
long-term	42.3	60.1	23.0	2.2 t.m.	19.3	60.4	-4.7	-19.5
	By portfolios							
in trading portfolio	6.2	8.8	4.9	4.8 t.m.	1.3	4.0	-2.2	-63.2
in portfolio available for sale	54.8	77.9	29.6	2.2 t.m.	25.2	78.8	0.7	3.0
in portfolio held to maturity	9.4	13.3	3.9	70.4	5.5	17.2	1.9	53.8
2. Shares in banks' portfolio	5.4	100.0	0.8	17.3	4.6	100.0	-1.9	-29.4
out of which:								
	By issuers							
non-financial corporations	2.0	36.0	-0.1	-4.8	2.1	44.3	-0.6	-21.2
other financial corporations	2.2	40.4	0.6	41.9	1.6	34.2	-1.3	-45.4
other depository corporations	0.01	0.2	-0.001	-8.4	0.01	0.2	-0.4	-97.7
nonresidents	1.2	22.5	0.2	23.8	1.0	21.3	0.4	57.2
	By portfolios							
in trading portfolio	1.4	25.8	-0.1	-7.6	1.5	32.7	-1.5	-50.0
in portfolio available for sale	2.4	43.4	0.6	30.7	1.8	38.9	-0.2	-11.3
investments in associated and subsidiary companies	1.6	29.0	0.3	20.0	1.3	28.3	-0.2	-12.3

Enlargement of the banks' resource base, rise in the indicators of the stock market in comparison with the previous year and a significant issue of T-bills by different types of target designation had an effect on the dynamics of investments of other depository corporations (banks) in securities.

The banks' investments in securities by the end of 2010 amounted to UAH 83.6 billion, or rose for the year 2.1 times (for 2009 the curtailment equaled 3.1%), primarily at the expense of an increase in the investments in government securities. The share of investments in securities within the total assets enlarged for the reporting year from 3.9% to 7.7%.

The volume of securities other than shares in the banks' portfolio for 2010 enlarged 2.2 times (versus 1.4% for 2009) to UAH 70.4 billion as at 1 January, 2011. The growth took place due to an increase in balances of the securities issued in the general government sector (by UAH 37.2 billion, or 2.8 times), namely, at the expense of T-bills. At the same time, in the banks' portfolio there grew balances of the securities other than shares issued by non-financial corporations – by 23.8%, and by nonresidents – by 13.4%, and those issued by other depository corporations – decreased by 30.1%.

In the portfolio of securities other than shares, during 2010 the securities available for sale prevailed (77.9% as at 1 January, 2011, against 78.8% as at 1 January 2010). The funds balances on securities other than shares held in the portfolio available for sale during the year enlarged 2.2 times, in the trading portfolio – 4.8 times, and in the portfolio held to maturity – by 70.4%.

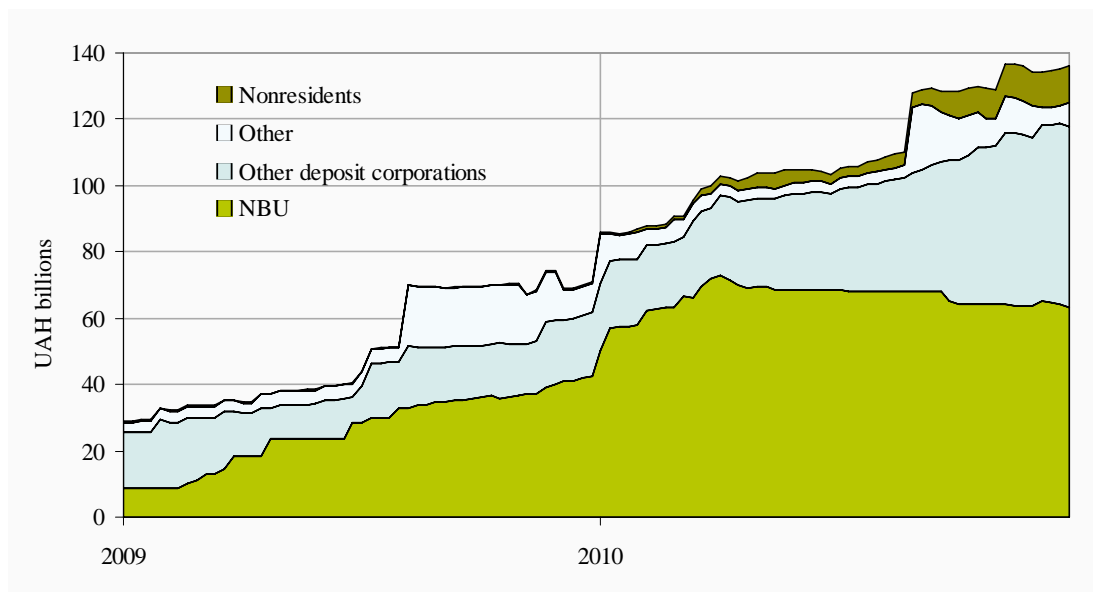
By types of currencies 99.8% of securities other than shares were nominated, as before, in national currency.

By terms of redemption the largest share within the securities (other than shares) was that of the securities whose term of redemption was over 2 years (48.7% of the general balances). For the year, they increased by UAH 18.0 billion, or 2.1 times, which was primarily due to acquisition by banks of T-bills-VAT and T-bills to increase the authorized capital of the "Naftogaz of Ukrainy" national joint-stock company. Starting from May, in the banks' portfolio, the demand securities considerably grew, especially of the general government sector, being explained by their high liquidity. For the year, the balances under them enlarged by UAH 6.7 billion, or 8.2 times. Moreover, due to a significant proposal of the Ministry of Finance of Ukraine, the growth of securities continued with a term of redemption up to 1 year (by UAH 8.7 billion, or 1.7 time). Securities with a term of redemption from 1 to 2 years rose by UAH 5.0 billion, or 2.6 times.

For 2010, the Ministry of Finance of Ukraine allocated T-bills (including T-bills issued to increase the authorized capital of banks, the "Naftogaz of Ukrainy" national joint-stock company and to repay the overdue budget debt on VAT) worth UAH 70.7 billion.

The T-bills balances in the banks' portfolio grew for the year by UAH 34.1 billion, or 2.7 times – up to UAH 54.7 billion. Against the background of a considerable increase in the volume of T-bills that were in circulation, with regard to the amount of principal debt (to UAH 136.2 billion versus UAH 85.7 billion as at 1 January 2010), the portion of T-bills, whose owners were other depository corporations, incremented for the year by 16.1 percentage points – to 40.2%. At the same time, the portion of T-bills owned by the National Bank of Ukraine diminished in 2010 by 12.0 percentage points.

Chart 36. T-bills in circulation, by principal, in 2009–2010



Investments of other depository corporations in shares of both residents and nonresidents for 2010 increased by 17.3% – to UAH 5.4 billion as at 1 January, 2011, (for 2009, they diminished by 29.4%). The largest was the growth of investments in shares of other depository corporations – by 41.9%, specifically in the trading portfolio – 2.6 times. In the banks' portfolio there increased the shares issued by nonresidents (by 23.8%), exclusively at the expense of enlargement of investments into associated and subsidiary companies. At the same time, for 2010 the investments of banks in the shares of non-financial corporations reduced (by 4.8%) and other depository corporations (by 8.4%).

In 2010, other depository corporations hardly attracted the funds through the issue of debt obligations, at that using other channels of the resource base replenishment. The volume of own debt securities issued by other depository corporations remained insignificant. The banks' indebtedness under own debt securities to residents that were calculated within the money supply, as at 1 January, 2011, equaled UAH 1.0 billion (or 0.2% of the total volume of monetary aggregate \dot{M}_3) versus UAH 2.5 billion (or 0.5%) as at 1 January, 2010.

The daily PFTS index for the year grew by 70.2% – to 975.08 points. The maximum daily PFTS index was fixed on 15.01.2008 and amounted to 1 208.61 points.

4. REGULATION OF ACTIVITIES OF BANKS OF UKRAINE. BANKING SUPERVISION DEVELOPMENT

REGULATION OF ACTIVITY OF BANKS OF UKRAINE

In 2010 in order to improve the banking system of Ukraine stability the National Bank of Ukraine worked on the further improvement of the legal framework of Ukraine regulating the issues of banks activities. In particular, Amendments were initiated to the law of Ukraine "On the Taxation of Income of Enterprises" with regard to granting rights to banks to compensate the borrower's debt recognized as bad one at the expense of the created loan-loss provisions in accordance with the methodology of the National Bank of Ukraine. Moreover, the National Bank of Ukraine under the legislative initiative introduced the following documents for consideration by Verkhovna Rada of Ukraine:

– Draft law of Ukraine "On Amendments to Some Legislative Acts of Ukraine (regarding supervision on the consolidated basis)" the subject of legal regulation of which is introduction of supervision over the financial institutions being members of groups on the consolidated basis;

– Draft law of Ukraine "On Amendments to the Law of Ukraine "On Banks and Banking" regarding the definition of corporate governance nature in banks" in which, inter alia, the ways of improving the bank management structure are provided for, amendments concerning the definition of conflict of interests term and requirements to avoid it have been introduced.

Amending the regulatory and legal framework of the National Bank of Ukraine continued to be of a systemic nature. In particular, Regulations on Granting Stabilization Loans to the Banks of Ukraine by the National Bank of Ukraine which improved the refinancing mechanisms and procedure of alteration of the loan agreements in force. Moreover, to simplify the procedure of writing off by banks the unrecoverable debt under loans at the expense of the created loan-loss provisions, developed and introduced has been the Procedure of formation of provisions for bad debts under loans and accrued thereon interest by banks as well as writing off the unrecoverable debt.

In 2010 the efforts of improving the license area of banking regulation continued. In particular, amendments have been introduced to the laws and regulations of the National Bank of Ukraine, namely:

– to the Instruction on the Procedure for Regulating Activities of Banks in Ukraine with regard to:

- Setting for banks the ratio of the minimum amount of regulatory capital totaling UAH 120 million and requirements to the banks whose regulatory capital is less than the set value to increase it to the required amount by January 1, 2012;

- Inclusion of the funds raised under the terms of subordinated debt in foreign currency in the regulatory capital at the official hryvnia exchange rate of the National Bank of Ukraine as at the reporting date;

- Granting permission to banks to include paid-in but unregistered contributions to the authorized capital for the period until January 1, 2011;

- Enabling the banks, whose period of operation is less than one year to raise funds on terms of subordinated debt;

- Fixing the maximum value of the interest rate on the funds raised on terms of subordinated debt (including commission, penalties and other fees, provided for by respective agreements).

– to the Regulations "On the Order of Issuing to Banks the Banking Licenses, Written Permits and Licenses for Carrying out Particular Operations" with regard to alteration of the minimum amount of the bank regulatory capital, necessary to get a written permit for carrying out particular operations, minimum amount of the authorized capital for the parent bank of the bank holding group and bank corporation, as well as the minimum amount of regulatory capital to obtain by a non-bank financial institution the license of the National Bank of Ukraine for carrying out particular bank operations;

– to the Regulations "On the Procedure of Establishment and State Registration of Banks, Opening of Their Branches, Representative Offices and Divisions" with regard to the procedure of determination and confirmation of compliance of the bank managers reputation with the requirements of laws of Ukraine during the whole period of their office;

– to the Regulations on the Procedure of Formation and Use of Provisions for Reimbursement of Possible Expenses on Lending Operations of Banks with regard to the unbiased assessment of creditworthiness and solvency of the borrowers and creation of provisions on the restructured (extended) loans in the amounts corresponding to the risk level of such operations;

– to the Regulations on Application by the National Bank of Ukraine of Enforcement (Coercive) Measures for Banking Law Infringement with regard to improvement of the requirements to carrying out the bank liquidation procedure.

REGISTRATION AND LICENSING OF BANKS OF UKRAINE

As of January 1, 2011, 194 banks were registered in the State Register of Banks, out of them 176 banks possessed licenses for carrying out banking operations and the written permit for conducting operations with foreign exchange valuables.

Among the banks that had the licenses for conducting banking operations 175 banks were the joint stock companies, 16 banks were the open type joint stock companies, 1 bank was the closed type joint stock company; 158 banks – public joint-stock companies and 1 bank was established as a company with limited liability.

In 2010, 3 new banks were registered, 6 banks were excluded from the State Register of Banks, and 2 preliminary permits were granted to banks on acquisition of the status of the foreign capital participation bank.

In the reporting year in Ukraine, operating were 2 banks having 100% state-owned authorized capital – the Open Joint Stock Company "State Savings Bank of Ukraine" and the Open Joint Stock Company "State Export-Import Bank of Ukraine".

As of January 1, 2011, in Ukraine operating were 55 banks with foreign capital participation (with taking into account the indirect participation by the agency of the bank shareholders), out of them 20 – with 100% foreign capital. Portion of the foreign capital participation in the registered authorized capital of banks of Ukraine was 40.11%.

Table 19. Origination of foreign capital in the banking sector of Ukraine

Country of registration of nonresident participants in Ukrainian banks	(percent)			
	2010		For reference: 2009	
	Indirect participation through bank shareholders	Direct participation of foreign capital	Indirect participation through bank shareholders	Direct participation of foreign capital
Russian Federation		9.85		8.13
France		4.47		4.29
Cyprus	0.37	4.09	0.45	4.26
Austria	0.59	3.41	0.74	3.66
Netherlands		2.38		2.62
Hungary		1.94		2.41
Sweden		4.16		2.13
Poland		1.84		1.96
Greece		1.21		1.48
Germany		3.22		1.41
Italy		1.06		0.83
Others ¹¹		1.52	0.02	1.42
Total	0.96	39.15	1.21	34.60

¹¹ Belgium, Britain (the Virgin Isles), Georgia, Ireland, Cayman Islands, Kazakhstan, Canada, Latvia, Luxemburg, Slovakia, the United States of America, Turkey, Switzerland, Finland.

The number of branches of Ukrainian banks according to the State Register of Banks on the reporting date amounted to 800 which was by 307 units less than in 2009, out of them 741 were the acting branches. The number of operating representative offices of the Ukrainian banks reduced by 20 units and was 19, out of them: 10 (against 27 in 2009) operated on the territory of Ukraine and 9 – abroad (in 2009 – 12).

Major part of the banking institutions was concentrated in the capital and developed industrial regions of Ukraine: 63.0% of the total banking institutions was located in Kyiv-city and Kyiv region. Almost 23.0% were concentrated in four regions: (7.0% and 6.0% in Dnipropetrovsk and Donetsk regions, respectively; 5.0% both in Kharkiv and Odesa regions). Ten regions had no operating bank (Vinnytsia, Zhytomyr, Kirovohrad, Mykolaiv, Rivne, Ternopil, Kherson, Khmelnytskyi, Cherkasy, and Chernivtsi regions), and banking services to the population were rendered by the branches and divisions of banks. In other regions of Ukraine there were about 14.0% of banking institutions.

Territorial concentration of the bank branches corresponded to the number of population in specific regions. The largest portion of operating branches was located in the Donetsk region (90 branches that is 12.1% of their total number) and in Kyiv-city and Kyiv region (83 branches or 11.2% of the total number). The lowest concentration level of operating branches was observed in 11 regions: Vinnytsia, Volhynian, Zhytomyr, Zakarpattia, Zaporizhia, Kirovohrad, Rivne, Ternopil, Kherson, Khmelnytskyi, and Chernivtsi regions (about 2.0% of the total number of operating branches in each region). Each of the following five regions (namely, Dnipropetrovsk, Luhansk, Lviv, Odesa, the Autonomous Republic of the Crimea and Sevastopol-city) numbered from 5.8% to 6.8% of the total branches available. In other 7 regions there were concentrated from 2.5% to 4.4% of the total number of branches per each region.

During 2010, the following work was performed:

1) with regard to the bank registration:

- newly established banks registered and included in the State Register of Banks: 3;
- banks withdrawn from the State Register of Banks: 6;
- branches included in the State Register of Banks: 2;
- representative offices of foreign banks, accredited: 2, namely:
 - Representative Office of the Joint-Stock Company "Citadele Banka" in Ukraine;
 - Representative Office of the Closed Type Joint Stock Company "Bank Torgovyi Kapital" in Ukraine, Kyiv-city;
- representative offices of foreign banks withdrawn from the State Register of Banks: 4, namely:
 - Representative Office of "Amsterdam Trade Bank N.V." in Ukraine;
 - Representative Office of the Open Joint-Stock Company Investment Bank "TRAST" in Ukraine;
 - Swedbank ÅB, Representative Office in Ukraine;
 - Representative Office of the Joint-Stock Bank "Contribution to Civil Initiatives" (Open Joint-Stock Company) / OJSC "Sobinbank"/ in Ukraine;
- permits to banks to acquire the status of a foreign capital bank granted: 2;

- certificates on banks registration issued: 67;
- 2) the bank licensing issues:
 - banking license and written permit for carrying out particular operations granted to the newly established banks: 3;
 - written permit for particular operations granted: 1 bank;
 - the list of operations performed by banks based upon the written permits for carrying out particular operations was enlarged for 16 banks;
 - banking license and written permit to perform particular operations replaced in connection with change of the bank name: 67;
- 3) with regard to amendments to the banks' articles of association:
 - permits granted for acquiring or increasing the qualifying shareholding: 44 banks;
 - amendments to the banks' articles of association, approved and included in the State Register of Banks: 158, out of them 72 in view of the authorized capital increase;
- 4) other issues:
 - appointments to the managing positions approved: 83 persons.
 - fitness of candidates to the managing positions approved: 429 persons.

During 2010 the following amendments were introduced to the legal framework of Ukraine:

- deprivation of rights for banks to be participants of Industrial-Financial Groups;
- list of persons who may not be managers of a bank;
- a new wording of operations on granting guarantees and factoring was given.

In order to improve the procedure of registration and licensing of banks, amendments to the laws and regulations of the National Bank of Ukraine have been introduced with regard to:

- exercising by the National Bank of Ukraine control over the managers of banks and officials executing their duties regarding the compliance of their business reputation with the requirements of laws of Ukraine during the whole period of holding office;
- making amendments to the special requirements with regard to the amount of regulatory capital.

SUPERVISION OF THE BANKS ACTIVITIES. INSPECTION OF BANKS.

In 2010 the National Bank of Ukraine arranged and ensured supervision over 176 banks that had licenses for carrying out banking operations. The banking supervision system was based on the assessment of the bank activities according to the CAMELS system which meant the assessment of general situation in the bank on the basis of uniform criteria covering all its activities and identification of principal risks available in their operation (risk-based approach).

Documentary (remote) control over the activities of banks was exercised on the basis of the statistical reporting of banks, inspection reports, regional NBU branches' and auditor's opinions, as well as on information of banks about performance of the action plans

on improvement of financial situation and elimination of shortcomings as well as violations in banks' activities by them with the purpose of ensuring adherence of banks to the requirements of the law in force and regulations of the National Bank of Ukraine, and observing the commitments taken by banks with regard to improvement of their activities and mitigation of risks available in their operation. In order to analyze and control the banks' activities, used were software products and the stress-testing estimates.

During 2010 one of the main problems whose solution needed permanent control on the part of the National Bank of Ukraine was the task to increase the capital level of banks to cover the possible risks in their activities. So, the audit of banks activities for 2009 was carried out with participation of the auditor companies in order to estimate the need for additional capitalization, assets quality rating, and adequacy of provisions and capital of banks as of January 1, 2010. The National Bank of Ukraine Commission on Supervision and Regulation of Banks Activities took a decision according to which the growth of regulatory capital to the total amount of UAH 41 billion till January 1, 2011 was stipulated for 61 banks. Out of this number the amount of the necessary additional capitalization of banks, recapitalized by the state (JSB "Ukrigasbank", PJSC "JSCB "KYIV", PJSC "RODOVID BANK"), as well as of the banks, where the temporary administration was appointed (PJSC "CB "NADRA", PJSC "CB "SCB", Dialogbank Ltd.), and banks for which a decision concerning the liquidation proceedings was taken (PJSC "ZEMBANK", PJSB "SYNTEZ"), totaled UAH 22.7 billion. Analysis of the measures taken by banks with regard to the additional capitalization based on the results of audit for 2009 with taking into account stress-testing components shows that out of 52 banks the National Bank of Ukraine requirements of additional capitalization were fulfilled by all banks (except for the 9 above mentioned ones).

A lot of attention was paid to increasing by banks the regulatory capital amount. Control was exercised as for meeting by banks the requirements of Resolution of the National Bank of Ukraine of June 9, 2010, No. 273, according to which certain banks had to increase the level of regulatory capital up to a level not less than UAH 120 million. As of January 1, 2011, 23 out of 68 banks, which had the regulatory capital as of date of entering into effect of the mentioned Resolution less than the prescribed amount, augmented the regulatory capital to the necessary amount.

In order to improve the banking system of Ukraine stability, the National Bank of Ukraine made decisions with regard to granting/extending the refinancing loans. As of January 1, 2011, 51 banks had refinancing loan debts in general working conditions (total amount UAH 60.2 billion), 3 banks – in the temporary administration conditions (to the amount of UAH 10.5 billion), and 11 banks – under liquidation (to the amount of UAH 1.1 billion). Taking into account the rise of banking system liquidity level, the National Bank of Ukraine took measures to accelerate the redemption of refinancing loans by banks. In 2010 banks paid back in advance the loans totaling more than UAH 10 billion.

During 2010, 243 decisions of the Commission on off-site supervision issues and 105 decisions of the Commission on bank temporary administrators' activities were prepared, out of them:

- on coordination of programs for banks financial recovery regarding consideration of the issue on refinancing the banks – 69 decisions;
- on granting the permit of inclusion of the funds raised under the terms of subordinated debt in the capital of the bank – 76 decisions;

- on other issues of the subordinated debt – 17 decisions;
- on granting the permit on accounting of irrevocable and unconditional guarantees when creating the provisions for reimbursement of possible losses on credit operations – 17 decisions;
- on approval of the head of internal audit unit of the bank – 31 decisions;
- on approval of 13 financial rehabilitation programs under temporary administration work with participation of investors.

The level of audit of banks' annual financial reporting also was in the focus of the National Bank of Ukraine attention. Due to noncompliance with the requirements of Regulations on Maintenance of the Register of Bank Auditors of the National Bank of Ukraine, the Committee on the issues of bank audit of the National Bank of Ukraine according to the established procedure took the decision to exclude 6 auditors of banks from the Register of Bank Auditors of the National Bank of Ukraine. Moreover, based on the results of examination as regards the level of meeting the requirements of the above mentioned Regulations by the auditors firms, the appeal on taking the appropriate enforcement measures to 4 auditors of banks was sent to the Auditor Chamber of Ukraine.

During the year the regular control was exercised over activities of the internal audit units of banks as well as the control over the terms of reporting about the internal audit activities, and carried out was the analysis of this reporting with regard to compliance with the requirements of the laws in force.

One of the important areas of the National Bank of Ukraine as supervisory authority was the on-site inspection that ensured control over the banks` activities by carrying out the inspections.

The main principles on which the inspection of banks was based remained the principles of systemic importance, integration and impartiality.

The main tasks of the on-site inspections were:

- exercising the effective on-site banking supervision with taking into account substantiality of the risks inherent to activities of banking institutions, as well as trends of their development;
- control over the compliance by banks with the requirements of the regulatory acts of the National Bank of Ukraine, including the prudential requirements, in particular approaches to calculation of the economic ratios, formation and use of the provisions for banking transactions with assets, reliability and completeness of the reporting submitted to the National Bank of Ukraine;
- control of meeting by banks the deadlines regarding elimination of infringements of the banking laws and regulations of the National Bank of Ukraine mentioned in the decisions on use of the enforcement measures;
- giving recommendations on improvement of the bank management system including the work of internal audit units;
- implementation of the best practice of on-site inspections in banking supervision systems, including the recommendations of Basel Committee on Banking Supervision and requirements of the European Community directives;
- preparing proposals on applying to banks the enforcement measures for the infringe-

ments revealed during inspections in order to submit them for consideration of the Board of the National Bank of Ukraine and the National Bank of Ukraine Commission on Supervision and Regulation of Banks Activities.

According to the approved Inspection Plan, in 2010, the National Bank of Ukraine carried out 355 inspections of 135 banks and 13 branches and divisions, out of them:

- planned inspections – 105;
- unscheduled inspections – 250.

The main thematic scopes of inspections were:

- fulfillment by banks of the financial rehabilitation programs and obligations on credit agreements with the National Bank of Ukraine;
- assessment of banks activities by particular components of the CAMELS rating system (assets quality, liquidity, earnings, profitability and capital adequacy);
- timely fulfillment of obligations to the bank depositors and customers;
- compliance with the established procedure for exercising audit of the annual financial reporting of banks for 2009;
- special verifications concerning the refinancing issues;
- on-site inspections of availability and state of the real estate pledged by banks to the National Bank of Ukraine under the refinancing loans.

In 2010, in conformity with the requirements of Article 18 of the law of Ukraine "On the Organizational and Legal Principles of Fight against the Organized Criminal Activities" and in accordance with the Program of Cooperation of the National Bank of Ukraine, General Prosecutor's Office of Ukraine, Ministry of Internal Affairs of Ukraine, Security Service of Ukraine, State Committee of Financial Monitoring of Ukraine, State Tax Administration of Ukraine regarding the timely identification of operations fulfilled with law violations in the banking area, 1 notification related to operations of a bank's counterparties with signs of criminal activity was forwarded by the National Bank of Ukraine to the law-enforcement authorities.

In 2010 for infringements of the banking law requirements revealed in banks' activity and for conducting risk operations, the organizational units of banking supervision and financial monitoring of the National Bank of Ukraine and regional branches of the National Bank of Ukraine initiated and applied the following enforcement measures:

- there were forwarded 95 written warnings to 71 banks with securement of the control over fulfillment by them of the measures aimed at elimination of the infringements;
- owing to the risk activity and in order to improve the financial situation of banks, to raise their capitalization level, eliminate the banking law infringements, 23 written agreements were concluded with the banks;
- 8 decisions were taken with regard to 5 banks on the temporary prohibition to the qualifying shareholders to use the voting right of acquired shares;
- 12 decisions were taken with regard to 10 banks on the termination/restriction/suspension of carrying out particular bank operations, and 3 decisions to 3 banks concerning prohibition of unsecured loans;
- 1 bank was obliged to call the general meeting of participants to approve the Program

of Financial Rehabilitation;

– penalties were applied to 44 banks, and fines imposed under the administrative law – to the officials of 56 banks;

– a decision was taken on restrictions of activities of 1 bank by appointment of the administrator;

– resolutions were adopted on appointment of the temporary administration in 4 banks: PJSC Commercial Bank "SCB", Joint-Stock Bank "SYNTEZ", "DIALOGBANK" Ltd., PJSC "ZEMBANK".

In 2010 the National Bank of Ukraine exercised control over the activities of temporary administrations in 16 banks.

In connection with impossibility during the temporary administration to bring activities of some banks in compliance with the requirements of banking law, the National Bank of Ukraine adopted a decision on revocation of the banking license and initiation of the liquidation proceedings for 8 banks. In 5 banks the temporary administration was terminated because of renewal of their activities. And also in 2010, 8 on-site inspections were carried out in the banks where the temporary administration had been appointed.

11 meetings of the Qualifications Commission of the National Bank of Ukraine were prepared and held on the issues of certification of temporary administrators and liquidators of banking institutions. 45 persons were certified: 37 certificates were issued to exercise functions of the temporary administrator and 37 certificates – to exercise functions of the bank liquidator.

TERMINATION OF ACTIVITIES OF BANKS IN UKRAINE

As of January 1, 2011, 18 banks (3.9% of 332 banks registered in the State Register of Banks of Ukraine) were in liquidation, out of them 17 banks were liquidated based upon the decision of the National Bank of Ukraine, 1 – based on the economic court judgment.

Comparing with January 1, 2010, the number of banks in liquidation increased by 5 banks (as of January 1, 2010, 13 banks were under liquidation).

In 2010, owing to completion of the liquidation procedure, 4 banks were withdrawn from the State Register of Banks of Ukraine by the Resolution of the National Bank of Ukraine Commission on Supervision and Regulation of the Banks' Activities: JSCB "GARANT", Commercial Bank "KNI AZHYI", Transcarpathian Joint-Stock Commercial Bank "LISBANK", "KYIV UNIVERSAL BANK" LLC.

In the reporting year, in accordance with the Resolutions of the National Bank of Ukraine Board, the banking license was withdrawn from and the liquidation procedure was initiated in 9 banks: CB "UFG" LLC, "UKRPROMBANK" Ltd., LTD Commercial Bank "ARMA", JSB "Big Energy", "TRANSBANK", JSC SCB "DNISTER", JSC CB "HYPOBANK", PJSC "ZEMBANK", PJSB "SYNTEZ".

As of January 2011, the remaining balance of assets in banks under liquidation amounted to UAH 20 775.2 million, the assets realized (returned) came to UAH 892.8 million,

the payables acknowledged (according to the registers approved) were equal to UAH 20 477.3 million, the payables satisfied by the liquidators – UAH 3 966.2 million, including the claims of individuals – UAH 75.1 million (out of them: on "Ukrprombank" ltd. – UAH 72.7 million), and claims of legal entities – UAH 3 891.1 million (out of them: claims of the Deposit Insurance Fund for Individuals – UAH – 84.4 million).

Table 20. Dynamics of satisfaction of the creditors' claims on banks under liquidation

Indicators	(UAH millions)		
	01.01.2010	01.01.2011	Change
Payables acknowledged, out of them:	5 492.7	20 477.3	14 984.6
individuals together with the claims of individuals, transferred to the Deposit Insurance Fund for Individuals	2 332.7	4 268.1	1 935.4
Claims of creditors, paid by liquidators, out of them:	133.6	3 966.2	3 832.6
individuals	115.8	75.1	–40.7
Claims, paid by the Deposit Insurance Fund for Individuals	1 441.9	3 610.0	2 168.1

The payments of the guaranteed reimbursement amount by the Deposit Insurance Fund for Individuals to them were equal to UAH 3 610.0 million, or 98.5% of the total guaranteed reimbursement amount (UAH 3 664.8 million).

Table 21. Dynamics of main performance indicators of banks under liquidation

Indicators	(UAH millions)		
	01.01.2010	01.01.2011	Change
Number of banks, units	13	18	5
Assets	6 609.9	20 775.2	14 165.3
Funds reimbursed at the expense of receipts to the accumulated account and to the cash desk	181.2	892.8	711.6
Debtors' funds	5 290.4	16 176.9	10 886.5
Payables acknowledged	5 492.7	20 477.3	14 984.6
Creditors' claims paid by liquidators	133.6	3 966.2	3 832.5
Claims ensured by the Deposit Insurance Fund for Individuals	1 441.9	3 664.8	2 222.9
Claims, paid by the Deposit Insurance Fund for Individuals	1 393.0	3 610.0	2 217.0
Liquidation commission costs	47.6	354.4	306.8
Balance of the accumulation account	17.4	404.7	387.3

Expenses of liquidators (liquidation commissions) on the accomplishment of the bank liquidation procedures totaled UAH 354.4 million.

The National Bank of Ukraine and the Deposit Insurance Fund for Individuals took measures on improvement of the situation with satisfying the creditor claims on the banks under liquidation and, primarily, payments to individual depositors.

In 2010, on the basis of resources available and with financial support of the National Bank of Ukraine, the guaranteed reimbursement amount of funds on deposits, including the interest as accrued on the day they had become inaccessible, was equal to UAH 150 thousand (in accordance with the Law of Ukraine "On the Priority Measures on Prevention of the Adverse Effect of the Financial Crisis and on the Amendments to Some Legal Acts of Ukraine") to each participant (temporary participant) in the Fund.

By decision of Administrative Board of the Deposit Insurance Fund for Individuals of November 17, 2010, No. 2, which took effect from January 1, 2011, it was agreed to keep the volume of reimbursement on deposits, including the interest, at the expense of resources of the Deposit Insurance Fund for Individuals in the amount of UAH 150 thousand.

In 2010, the National Bank of Ukraine took measures to improve the legal acts regulating realization of the bank liquidation procedure and the control level over the liquidation procedure, namely amendments to the Regulations on Application of the Enforcement Measures by the National Bank of Ukraine for Banking Law Violation.

5. SYSTEM OF FOREIGN EXCHANGE CONTROL AND LICENSING

In 2010 the National Bank of Ukraine granted 583 individual licenses, general licenses, approvals and special permits for conducting operations with foreign exchange valuables (in 2009 – 561).

Banks, non-bank financial institutions, legal persons and individuals were granted mostly individual licenses – 557.

Table 22. Individual licenses, general licenses, special permits and approvals of the National Bank of Ukraine, granted to banking institutions, non-bank financial institutions, legal persons, and individuals

	2010	For reference: 2009
To banking institutions, units	21	32
including:		
individual licenses for conducting operations with foreign exchange valuables	21	28
special permits to export foreign currency outside of Ukraine	–	1
approvals to transfer funds by residents outside of Ukraine under the agreements stipulating works and services to be rendered by non-residents	–	3
To non-bank financial institutions, legal persons, and individuals, units	562	529
including:		
individual licenses for conducting operations with foreign exchange valuables	536	510
general licenses granted to non-bank financial institutions for conducting operations with foreign exchange valuables	8	11
approvals to transfer funds by residents outside Ukraine under the agreements stipulating works and services to be rendered by non-residents	15	6
special permits to import banking metals, payment documents and foreign currency into Ukraine	3	2

During 2010, the National Bank of Ukraine exercised the foreign exchange control by means of conducting the on-site and in-site inspections of the authorized banks and non-bank institutions with applying penalties to the institutions, violating the requirements of the foreign exchange legislation (in particular, the Decree of the Cabinet of Ministers of Ukraine "On the System of Foreign Exchange Regulation and Foreign Exchange Control").

In 2010, 2368 inspections of banking institutions and 274 of non-bank institutions were conducted, out of them: 1 774 and 254, respectively, scheduled inspections; and 594 and 20, respectively, unscheduled inspections. 402 and 15 inspections, respectively, had a complex nature.

Moreover, 1 357 checks-up of the exchange offices were exercised, including 470 checks-up of the exchange centers belonging to banks and 887 checks-up of the exchange offices that operated based upon the agent agreements concluded with banks.

In view of the facts of violating the foreign exchange laws, 972 resolutions were passed totaling UAH 72 619.4 thousand on calling 124 authorized banks to account for the infringement of the laws (in particular, the Decree of the Cabinet of Ministers of Ukraine "On the System of Foreign Exchange Regulation and Foreign Exchange Control). The most resolutions (848) were passed on calling the authorized banks to account for the delayed reports, undisclosed or distorted reporting on the foreign exchange transactions of banking institutions.

Table 23. Resolutions passed on calling the authorized banks to account for the infringement of the foreign exchange law requirements

Types of infringements	2010		For reference: 2009	
	number of resolutions units	amount, UAH thousands	number of resolutions units	amount, UAH thousands
Delayed reports, undisclosed or distorted reporting on the foreign exchange transactions	848	938.1	888	319.6
Failure to perform the agent functions of the foreign exchange control	104	8 065.9	155	175.9
Violation of terms and conditions of the foreign currency trades in the inter-bank foreign exchange market of Ukraine	3	63 596.8	5	681.0
Failure to meet the terms and procedure to declare the foreign exchange valuables which belong to the residents of Ukraine and are outside of Ukraine	5	0.8	2	0.7
Using the foreign currency as a legal tender on the territory of Ukraine without the individual license	12	17.8	42	46.2
Total	972	72 619.4	1 092	1 223.4

In order to optimize the normative legal regulation of the foreign exchange control in 2010 amendments were made to the Regulations:

- on the procedure for granting to non-bank financial institutions and the national post operator the general licenses for carrying out the foreign exchange operations;

- on the procedure of conducting the on-site and off-site (in-site) inspections as regards the compliance by banks, other financial institutions, the national post operator with the requirements of foreign exchange law of Ukraine and checks-up of the exchange offices on the territory of Ukraine with the purpose of improving the procedure of licensing the foreign exchange operations exercised by non-bank financial institutions, the national post operator and to the National Bank of Ukraine the efficient leverages to influence on the persons and entities that had obtained the general license.

- on foreign exchange control in order to improve the procedure of applying by the National Bank of Ukraine the sanctions for violations of the foreign exchange law.

In order to exercise control in the area of external economic activity, information on special sanctions applied (called off) by the Ministry of Economy of Ukraine to the entities engaged in foreign economic activities of Ukraine and foreign economic entities pursuant to Article 37 of the Law of Ukraine "On Foreign Economic Activities" was disseminated to banks weekly on the regular basis.

6. PAYMENT SYSTEMS AND SETTLEMENTS

THE SYSTEM OF ELECTRONIC PAYMENTS OF THE NATIONAL BANK OF UKRAINE

During 2010, the System of Electronic Payments of the National Bank of Ukraine (hereinafter, SEP) exercised successfully its functions of the national inter-bank settlements, timely servicing the SEP members and at the same time ensuring a high level of safety and reliability of the transfers made.

In 2010, 98.2% of the inter-bank transfers in the national currency were made within Ukraine applying the SEP and only 1.8% of the similar transfers were carried out through the correspondent accounts of the banks opened with other banks.

As of 1 January 2011, the total number of institutions being the SEP members was 977, including 175 banks of Ukraine, 736 bank branches, 28 State Treasury bodies of Ukraine (hereinafter, the State Treasury), 37 institutions of the National Bank of Ukraine and the Private Joint-Stock Company "Ukrainian Securities Depository".

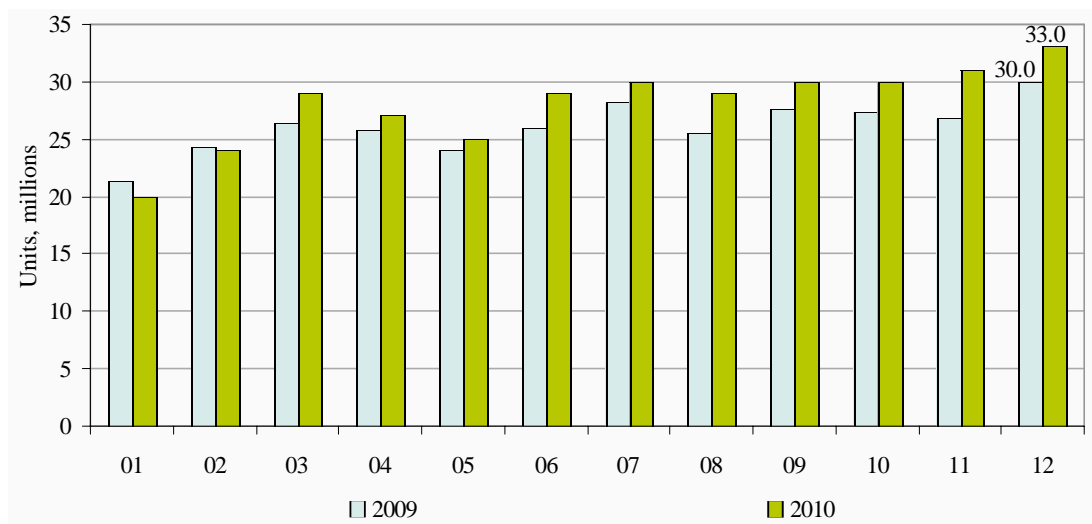
During 2010, 336.9 million of the initial payments and the payment orders totaling UAH 7 909 billion were processed in the SEP, and that was by 8% and 28% more, respectively, as compared with the previous year. Out the said payments, 336.7 million were the file mode payments of UAH 7 112 billion and 0.2 million were the real time mode payments of UAH 797 billion; and as regards the previous year, it was by 8% and 25% more, respectively, in the file mode and by 3% and 70% more, respectively, in the real time mode. Major portion of the initial payments in the file mode were processed in the SEP in December (33 million), and the least portion was marked in January 2010 (20 million). Such distribution of payments by months tends to follow the situation of 2009.

In 2010, the initial payment transactions processed in the SEP by banks amounted to 90.5%, those made by the State Treasury formed 9.4% and 0.1% were made by the National Bank of Ukraine. As regards the structure of the initial payment amount, the trend of 2010 was similar to the previous years and major portion of the initial payments, namely, 234 million, comprised payments of up to UAH 1 000; however, such payments amounted to only UAH 51 billion (less of 1% of the total funds transferred).

The daily average balance of the SEP members' accounts in 2010 formed UAH 25.9 billion. The daily average amount under the initial payments was UAH 31.5 billion. On average, 1.3 million of the payment documents were processed daily. Turnover factor of

the accounts of the SEP members (calculated as a ratio of average daily amount of initial payments made by the SEP members to the average daily balance of funds on the SEP members' accounts) for the year equaled 1.2 versus 1.1 in 2009.

Chart 37. Number of initial payments and electronic settlement notices carried out through SEP in the file mode

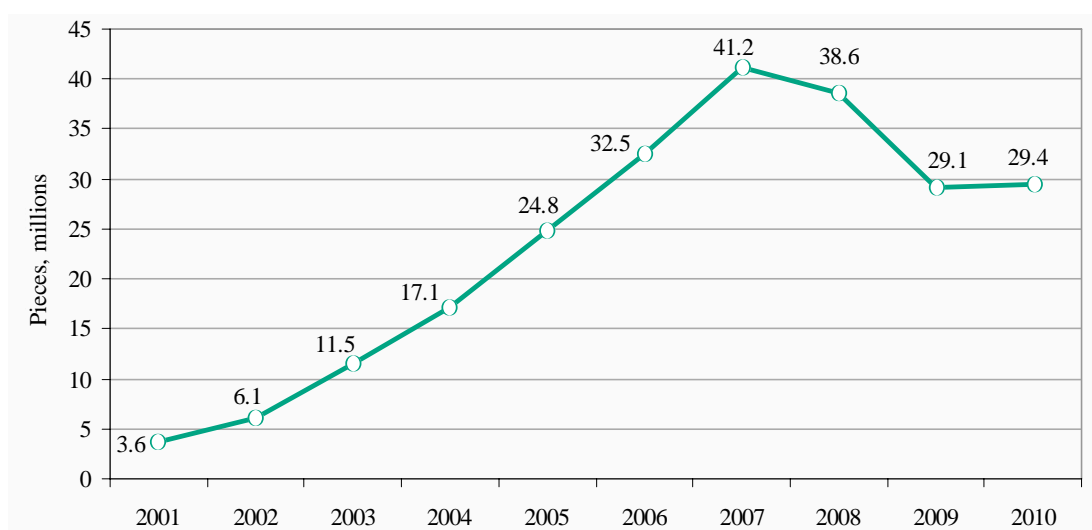


DEVELOPMENT OF THE PAYMENT CARD SYSTEMS

During 2010, the number of banks being the payment system members reduced by 5 banks and as of 1 January 2011, it consisted of 141 banks (81% of the total number).

Total number of the payment cards which remained effective as of 1 January 2011 amounted to about 46.4 million pieces. Total number of the payment cards issued by the banks of Ukraine (payment cards against which at least one operation per year was performed) increased by 1% in the reporting year forming 29.4 million pieces. Out of the total number of payment cards, the share of personal cards was 98.9%, that of the corporate cards – 1.1%.

Chart 38. Dynamics of number of issued cards wherewith during the year at least one transaction was made



Out of the total cards issued by banks, the share of magnetic strip cards prevailed (93.3%). Chip function cards and cards with the combined magnetic strip and chip functions formed about 2.1% and 4.2%, respectively; amount of payment cards used for the Internet settlements was equal to 0.4%.

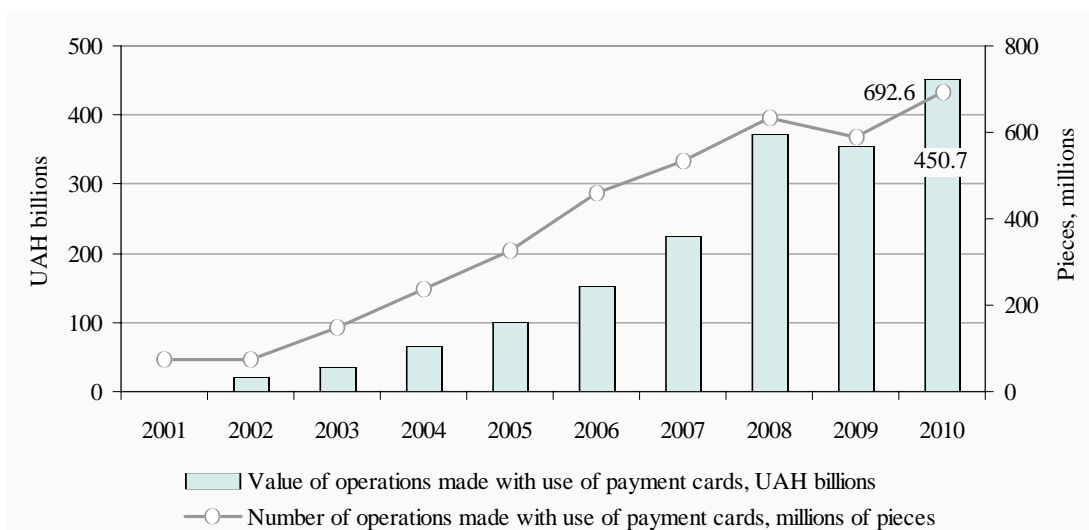
Regarding the payment model, the debit function cards prevailed (80.9%), while the credit function cards formed over 19% and the electronic money cards amounted to about 0.1%.

During the reporting period, the number of automatic telling machines servicing the payment card holders grew by 4.1% (up to 30.2 thousand units), and those of the payment terminals increased by 4.7% (to 108.1 thousand units).

The number of transactions using the payment cards issued by the banks of Ukraine grew by 17% in 2010, coming to 692.6 million, while the amount of transactions rose by 28% (to UAH 450.7 billion).

In 2010, the major portion of operations (87.0%) was made by the holders of the payment cards of Ukrainian banks within the own network of the issuing bank, 12.2% operations were performed in the network of other resident banks and the rest of operations were performed abroad.

Chart 39. Number and value of operations on payment cards issued by banks of Ukraine



During 2010, the amount of operations on cash delivery grew by UAH 86.4% billion as compared with 2009, and was equal to over UAH 421.2 billion (93.5% of the total operations performed with applying the payment cards); non-cash payments rose by UAH 11.1 billion (to an amount of almost UAH 29.5 billion that formed 6.5% of the total operations performed with applying the payment cards).

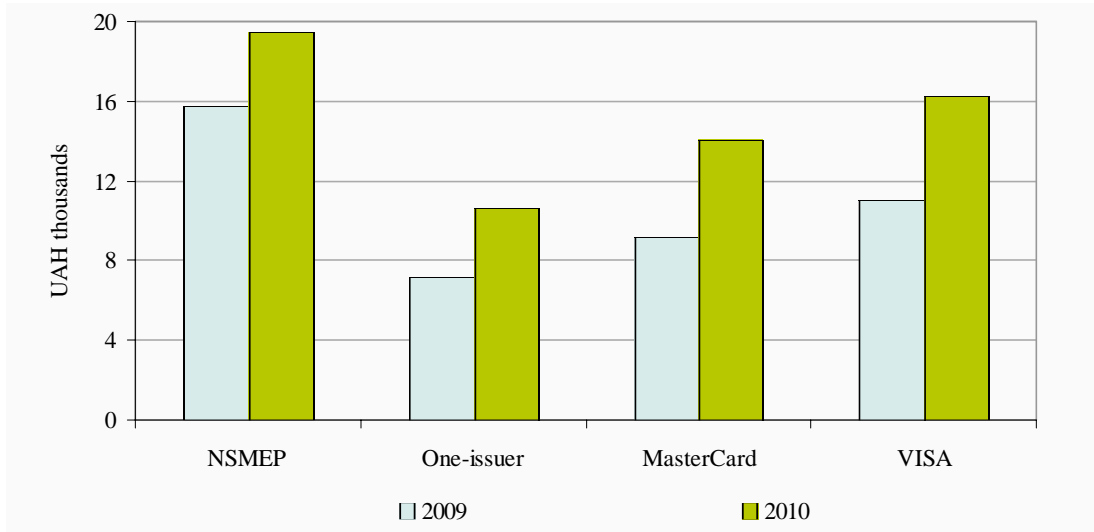
As compared with 2009, the number of transactions on cash delivery in 2010 rose by 57.9% coming to 571.2 million transactions (82.5% of the total operations with applying the payment cards); non-cash payments grew by 44 million and formed almost 121.4 million transactions (17.5% of the total transactions with applying the payment cards).

Table 24. Use of payment cards in 2010

Use of payment cards	Amount of operations (UAH billions)					Number of operations (millions)				
	Cash delivery	% of total	Non-cash payment	% of total	Total	Cash delivery	% of total	Non-cash payment	% of total	Total
In the own network of issuing bank	400.5	96.6	14	3.4	414.5	529.4	87.9	72.9	12.1	602.3
In the network of other resident banks	17.4	65.9	9	34.1	26.4	40.6	48.2	43.7	51.8	84.3
In the network of other non-resident banks	3.3	33.7	6.5	66.3	9.8	1.2	20	4.8	80	6
Total	421.2	93.5	29.5	6.5	450.7	571.2	82.5	121.4	17.5	692.6

During 2010, the average annual turnover per one payment card grew by UAH 5.0 thousand as compared with 2009 and amounted to UAH 15.4 thousand. Within the international payment systems such as VISA it was equal to UAH 16.2 thousand, with MasterCard – UAH 14 thousand, and within the group of the domestic one- issuer systems it rose to UAH 10.6 thousand.

Chart 40. Average turnover on one card



The highest average annual turnover per one payment card appeared to belong to the NSMEP – UAH 19.5 thousand.

During 2010, the National System of Mass Electronic Payments for goods and services for the people with applying the NSMEP cards showed its stable operation. Particular attention was focused on

In September 2010, the awarding ceremony for a successful tenderer of the competition "NSMEP: 10 Steps to Success" took place. It was dedicated to the tenth anniversary of launching the NSMEP pilot project. 24 institutions have been awarded, including banks, developers and providers of the NSMEP software as well as other non-banking institutions operating with the NSMEP.

the financial situation of the members and on the prevention of the possible adverse effect on the operation of the NSMEP, on a whole, and its other members.

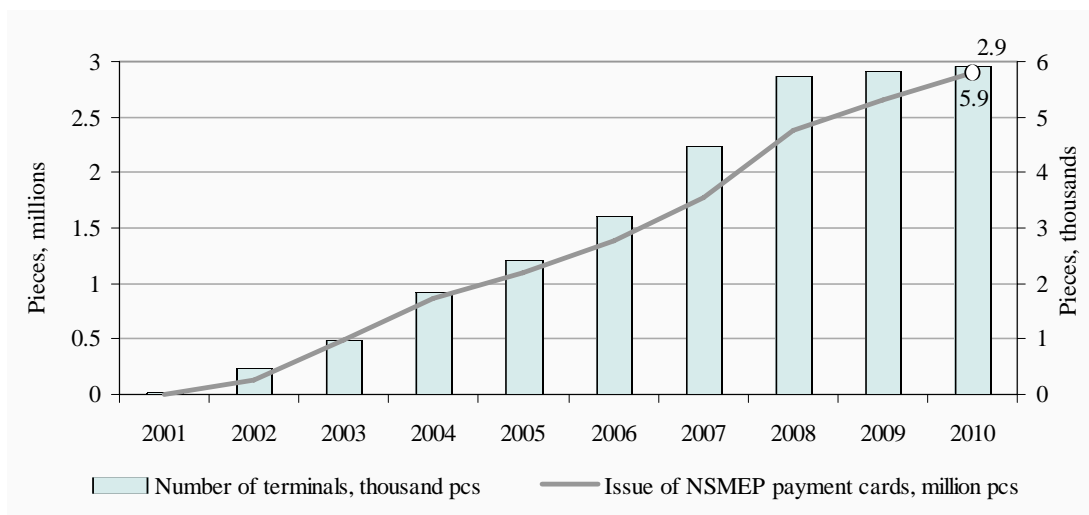
In 2010, 3 more banks joined the NSMEP, namely: PJSC "PROMECONOMBANK" (Donetsk-city), PJSB "Ukrainian Bank for Development" (Kyiv-city) and PJSC "Terra Bank" (Kyiv-city).

In addition, the permission to join the NSMEP was received for Public Corporation "Global Money" in the capacity of the technical acquirer.

As of 1 January 2011, the NSMEP comprised 57 members (including the National Bank of Ukraine and the Ukrainian State-Owned Company "UkrPost") and 7 participants.

According to the data of the NSMEP Main Processing Centre during 2010, the banks being the NSMEP members issued 239.3 thousand cards. As of 1 January 2011, the NSMEP cards totaled 2.9 million pieces. In 2010, the NSMEP turnovers went beyond UAH 25.9 billion as compared with UAH 42 million in 2001.

Chart 41. Some indicators of the National System of Mass Electronic Payments (2001–2010)



Owing to the NSMEP payment cards, "The Ukrainian Railway Company" and JSB "Express-Bank" realized the possibility to acquire electronic railway tickets through the Internet (automated self-servicing system "e-Ticket").

The introduction of the pilot project "Student Payment Card" was finalized on the basis of the national information and production system "Education" using the NSMEP know-how. Within the above project, a multi-functional student (pupil) payment card combined the functions of both the student (pupil) card and the payment card. Starting from September, step-by-step implementation of the "Student (Pupil) Payment Card" was launched together with the amendments to be made to the effective norms and regulations regarding the description of the student (pupil) card standard. As of 1 January 2011, the number of the test participants amounted to almost 50 educational institutions of Ukraine and number of the student payment cards issued was over 100 thousand pieces.

Based upon the NSMEP know-how, the formation of the automated system for the Insurance Fund of Deposits for Individuals got start, which would provide with the possibility to introduce the non-risk compensation procedure, to substantially speed up the

beginning of payments, to refuse from tenders on selecting the authorized banks and to simplify money receiving procedure for depositors.

During the year, the National Bank of Ukraine continued its work on the development of the functional, technological and technical facilities for the NSMEP. In addition, the work on providing the operation of the NSMEP hardware and software components took place.

BASIC RESULTS OF THE OPERATION OF THE NATIONAL AND INTERNATIONAL SYSTEMS FOR TRANSFER OF FUNDS IN 2010

As of 1 January 2011, in Ukraine there were operating the following systems: 4 systems for transfer of funds established by the banks of Ukraine (including 2 international systems); 3 systems for transfer of funds established by the non-banking institutions (including the state-owned company "UkrPost") and 22 international systems for transfer of funds established by non-residents.

During the reporting year, the amount of funds transferred with applying the mentioned payment systems was equal to:

- within Ukraine: UAH 16.4 billion, USD 14.3 million, EUR 0.9 million, and RUR 0.25 million;
- to Ukraine: USD 3.3 billion (in the equivalent);
- outside Ukraine: USD 0.6 billion (in the equivalent).

Systems for the transfer of funds established by the banks of Ukraine:

National systems for the transfer of funds:

- "Aval-Express" consisting of 10 resident members was established by the JSC "Raiffeisen Bank Aval" and "SOFT" system established by JSC "Ukrsotsbank" (10 resident banks);

International systems for the transfer of funds:

- "AVERS" established by the JSC "Finance and Credit Bank" (25 resident members and 5 non-resident members) and "PrivatMoney", established by the PJSC CB "PrivatBank" (25 resident members, 26 non-resident members).

In 2010, the amount of funds transferred with applying the national and international payment systems established by the banks of Ukraine was equal to:

- within Ukraine: UAH 10.8 billion, USD 14 million, and EUR 0.8 million;
- to Ukraine: USD 0.4 billion (in the equivalent);
- from Ukraine: USD 81 million (in the equivalent).

Systems for the transfer of funds established by the non-banking institutions:

- "Financial World" established by Public Corporation "Ukrainian Payment System" (2 resident members);
- "InterPayService" established by PJSC "Zaporizhzhviazokservice" (1 resident member).

In 2010, the amount of funds transferred within Ukraine with applying the above two systems formed UAH 186 million.

In addition, the transfer of funds was carried out by the Ukrainian State-Owned Post Company "UkrPost" through the payment system "Post Transfer" established by the company.

In 2010, the amount of transfers within Ukraine processed by the "Post Transfer" system was equal to UAH 5.2 billion including the urgent transfers of UAH 70 million.

According to the Agreement on the post payment services with the World Post Union and agreements with the post services of other countries, the Ukrainian Post Company "UkrPost" carried out the trans-border transfers. During 2010, the amount of transfers made in Ukraine with applying the "Post Transfer" system was equal to USD 215 million, including USD 213 million (in the equivalent) of the electronic transfers. Outside Ukraine the fund transfers amounted to USD 132 million, including the electronic transfers of USD 40 million (in the equivalent).

International systems for the transfer of funds established by the non-residents

Members of 22 international systems for the transfer of funds established by the non-residents appeared to be about 150 banks of Ukraine, JSC "Ukrainian Financial Group" and the national operator of the postal service "UkrPost".

In 2010, the total trans-border transfers received in Ukraine with applying the international transfer systems, that were established by non-residents, increased by 16.0% as compared with the previous year and amounted to USD 2.6 billion (in the equivalent), while the amount of funds transferred outside Ukraine grew by 27% to USD 0.4 billion (in the equivalent)..

The largest amounts of funds were transferred to Ukraine with applying the following international transfer systems: Western Union (USA) – 41.0%, "Unistream" (Russian Federation) – 13%, MoneyGram (USA) – 10.0%, Migom (Russian Federation) – 8%, CONTACT (Russian Federation) – 6%.

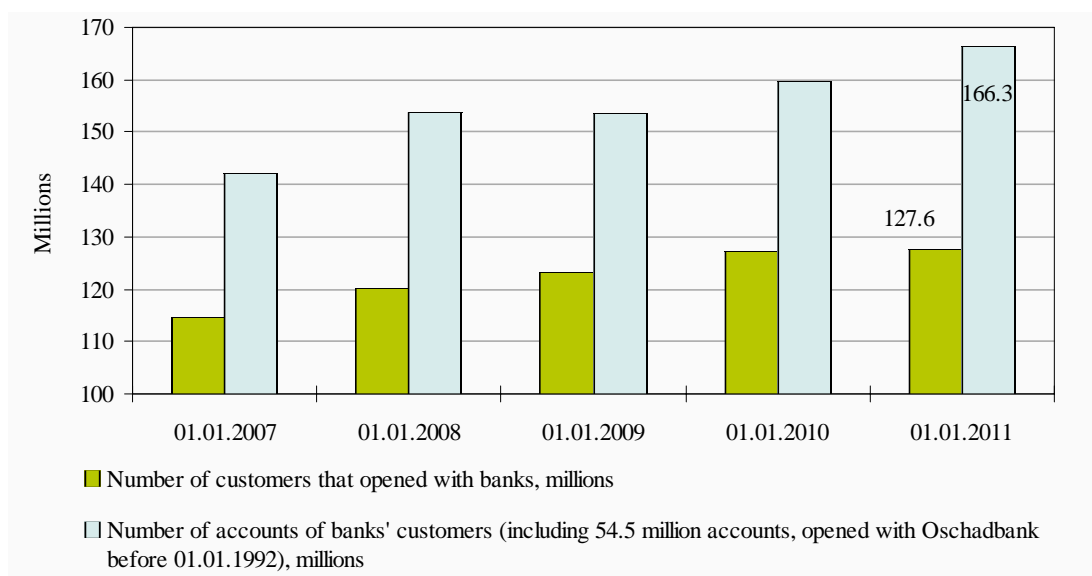
The largest amounts of funds came to Ukraine with applying the international transfer systems, that were established by the non-residents, from Russia (50.0%), USA (9.0%), Italy (7.0%), Spain (5.0%), and Great Britain (3.0%) of the total funds received. The largest amounts of funds transferred from Ukraine were sent to Russia (42.0%), Georgia (6.0%), Armenia (4.5%), Uzbekistan (4.5%), and the USA (4.0%) of the total funds transferred.

In addition to carrying out the trans-border transfers, the individuals used the international transfer systems that were established by non-residents, for transfer of both the foreign and national currencies within Ukraine. In 2010, with applying the international transfer systems, that had been established by the non-residents, the amount of funds transferred within Ukraine was equal to UAH 148 million, USD 0.3 million, RUR 0.25 million, and EUR 0.06 million.

SETTLEMENT AND CASH SERVICING OF THE CUSTOMERS BY THE BANKS OF UKRAINE

As of 1 January 2011, 175 banks were providing services to 127.6 million customers (during 2010, the number of customer rose almost by 0.4 million) including the legal entities and individuals (both residents and non-residents), who opened the current and deposit accounts. Out of the mentioned, 125.6 million were the natural persons and 2 million were the business entities, including 17.6 thousand of non-banking institutions and 6 thousand of budget institutions.

Chart 42. Some indicators of settlement and cash servicing of customers of banks of Ukraine



According to the reporting data as of 1 January 2011, all banks as the legal entities proposed the remote servicing of accounts for their customers. Number of customers being the business entities which used the system of remote servicing of their accounts amounted to 699 thousand (34.6% of the total customers being the business entities).

During 2010, the total number of accounts opened by the customers grew by 6.8% up to 166.3 million, including the following:

- current accounts – 108.7 million (65.4% of the total accounts opened with the banks), including 100.5 million Accounted in the national currency and 8.2 million Accounted in the foreign currency;

- deposit accounts – 57.6 million (34.6%), including 55.4 million Accounted in the national currency and 2.2 million Accounted in the foreign currency.

7. SERVICING OF THE DOMESTIC DEBT 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.

During 2010, the Ministry of Finance of Ukraine allocated the T-bills totaling UAH 70.7 billion, whose average weighted yield made 10.39% annually (decreased by 1.82 percentage point as compared with 2009), including the following:

- the amount of funds attracted to the State Budget of Ukraine during 2010 by the results of auctions arranged on the initial allocation of the T-bills was equal to UAH 40.4 billion (57.2% of the total amount), that was 2.2 times more as compared with 2009. The average weighted yield of the said T-bills amounted to 12.69% annually. During the year, 222 auctions on the allocation of T-bills were arranged, out of them 165 were realized. As regards the other 57 auctions, the Ministry of Finance of Ukraine took the decision not to realize the T-bills because of the disparity between the price proposals (bids) of the potential buyers and the real value of money or because of the absolute lack of bids to acquire the T-bills. In 2010, similar to 2008-2009, the allocation of T-bills was carried out every month;

- in order to observe Article 2 of Law No. 639-VI of Ukraine dated 31.10.2008 "On the Priority Measures to Prevent the Adverse Effect of the Financial Crisis and on Amendments to Some Legal Acts of Ukraine" with the purpose of increasing the authorized capital of banks, the Ministry of Finance of Ukraine issued the T-bills totaling UAH 6.4 billion during 2009, that made 9.0% of the total T-bills allocated in 2010. The average weighted yield of those T-bills amounted to 9.50% annually;

- with the purpose of redeeming the VAT arrears (debts unpaid) to the budget, there were issued the T-bills of UAH 16.4 million or 23.3% of the total T-bills allocated in 2010. The average weighted yield was equal to 5.50% annually;

- T-bills to increase the authorized capital for the National JSC "Naftogaz of Ukraine" totaling UAH 7.4 billion or 10.5% of the T-bills allocated in 2010. Their average weighted yield amounted to 9.50% annually.

Table 25. T-bills allocation on the primary market

Indicators	2010	Change to the previous year	Information:	
			2009	Change to the previous year
Number of auctions	222	-39	261	49
Realized	165	44	121	71
Non-realized	57	-83	140	-22
T-bills allocated on the primary market, UAH billions	70.7	-3.8	74.5	50.5
Funds attracted to the State Budget of Ukraine, UAH billions	40.4	21.6	18.8	9.0
T-bills to increase the establishment of the authorized capital of banks, UAH billions	6.4	-16.9	23.3	9.5
T-bills to pay VAT debts	16.4	16.4	-	-
T-bills to increase the establishment of the authorized capital of NJSC "Naftogaz", UAH billions	7.4	-17.0	24.4	-
T-bills issued to restructure the indebtedness to the National Bank of Ukraine, UAH billions	-	-	7.99	7.99
Average weighted yield of T-bills attracted to the State Budget of Ukraine, UAH billions	10.39	-1.82 p.p.	12.21	0.35 p.p.
of T-bills issued to increase the establishment of the authorized capital of banks, %	12.69	-7.38 p.p.	20.07	5.22 p.p.
of T-bills issued to pay VAT debts, %	9.50	0	9.50	-0.24 p.p.
of T-bills issued to pay VAT debts, %	5.50	-	-	-
T-bills to increase the establishment of the authorized capital of NJSC "Naftogaz", %	9.50	-	9.50	-
T-bills issued to restructure the indebtedness to the National Bank of Ukraine, %	-	-	9.83	-
Redemption amount and income payment of the previous issue T-bills, UAH billions	30.7	8.3	22.4	18.0

During 2010, the Ministry of Finance of Ukraine allocated the short-term, middle-term and long-term T-bills, whose average maturity was 230 days for the short-term T-bills (it rose by 38 days as compared with 2009), 1 330 days for the middle-term T-bills (rise by 48 days) and 2 759 days for the long-term T-bills (decrease by 577 days).

During the reporting period the T-bills were in demand of both the national investors and the non-resident buyers. The interest of non-residents in the T-bills was provoked by a high level of their reliability as compared with other financial instruments, as well as by the high yield in the first quarter of 2010. The amount of T-bills with the non-resident possession grew almost 24 times during 2010 and as of 1 January 2011, it came to UAH 11.4 billion or 8.35% of the total amount of T-bills in circulation (in 2009 it fell by UAH 16.0 million).

In 2010, the Ministry of Finance of Ukraine redeemed the T-bills and paid the income to their holders totaling UAH 30.7 billion, including the principal debt redemption of UAH 19.6 billion, and the yield payment of UAH 11.1 billion, and thus, the Ministry fulfilled all its commitments against various types of the government securities.

Because of the fact that the amount of T-bills allocated was higher than the amount of T-bills redeemed, the indebtedness of the Government of Ukraine against the public bonds grew by UAH 50.5 billion in 2010 versus 2009 and by the end of the year it amounted to UAH 136.2 billion.

8. LEGAL ENVIRONMENT OF THE BANKING SYSTEM

During the reporting period the National Bank of Ukraine was energetic in the area of the legislative regulation of problem issues in the banking activities and activities of the National Bank of Ukraine; such activities were aimed at overcoming the negative effects of the financial crisis and at recovery of the steady operation of the banking sector, as well as at ensuring the fulfillment of the liabilities of Ukraine to the IMF in accordance with the Memorandum on the economic and financial policies that was signed within the Stand-by Program.

In 2010, there was restored the right of the legislative initiative for the National Bank of Ukraine which stimulated the active work on elaboration of the legislative proposals (Resolution No. 20-pn/2010 of the Constitutional Court dated 30.09.2010). Starting from October 2010, the National Bank of Ukraine submitted 4 draft laws to be considered by the Parliament of Ukraine:

- "On Amendments to Some Laws of Ukraine" (regarding the supervision on the consolidated basis). The draft law was adopted in the first reading;
- "On Amendments to Some Legislative Acts of Ukraine regarding the Harmonization of the Budget Law Provisions". The provisions were included in the Law of Ukraine "On Amendments to the Budget Code of Ukraine and Some Other Legislative Acts of Ukraine". It was approved on 23 December 2010;
- "On Amendments to the Law of Ukraine "On Collections for the Obligatory Pension Insurance" (cancelling collections (fees) for the obligatory pension insurance from operations of the sales-purchase of non-cash currency). It was approved on 13 January 2011;
- "On Amendments to Article 75 of the Law of Ukraine "On Banks and Banking" (regarding the period of powers for the provisional administration). It was approved on 4 February 2011.

Before October 2010 the legislative proposal work of the National Bank of Ukraine was concentrated on the elaboration of draft laws and regulations and submission of the legislative proposals for consideration by the Parliament of Ukraine (that was exercised through the subjects of the legislative initiative, namely: the Cabinet of Ministers of Ukraine, people's deputies of Ukraine and the President of Ukraine). The National Bank

of Ukraine elaborated and submitted proposals to 70 draft laws worked out by the people's deputies, the Cabinet of Ministers of Ukraine and other government agencies.

In line with the Plan of preparing the draft regulatory acts in 2010, the National Bank of Ukraine elaborated 7 normative and legislative acts attributed to the regulatory acts, out of them 2 were approved. Moreover, Resolution No. 223 "On Approval of the Rule for the Procedure of Holding the Special Legal Tenders and Performance of Operations with their Use" (planned for 2009), was adopted on 30 April 2010.

Regulatory activities of the National Bank of Ukraine in 2010 were carried out according to the requirements of the Law of Ukraine "On the Principles of the State Regulatory Policy in the Economic Area". During the year, the effectiveness of 5 regulatory acts was monitored.

In the reporting year, the National Bank of Ukraine issued 107 normative and legal acts (resolutions of the Board of the National Bank of Ukraine, instructions, rules, provisions), out of them 40 were registered with the Ministry of Justice of Ukraine.

The National Bank of Ukraine kept on to work on the adjustment of the banking laws to the laws of the European Union. That work was performed in conformity with the Plan of Actions for 2010 on the fulfillment of the National Program for Adjustment of the Laws of Ukraine with the legislation of the European Union.

In 2010, the National Bank of Ukraine, its regional branches and structural units kept on to submit claims and complaints. 149 claims totaling UAH 487.6 million and EUR 0.22 million were directed to the court, out of them 1 claim of the non-property origin was rejected and the others were settled in favor of the National Bank of Ukraine or remained under consideration.

In 2010, the National Bank of Ukraine, its regional branches and structural units were raised 214 claims totaling UAH 3.05 million, out of them 4 claims of UAH 0.03 million were satisfied and the others were settled in favor of the National Bank of Ukraine or remained under consideration.

The National Bank of Ukraine was called as the third party in 886 cases. Major portion of such cases comprised the bank customer claims on acknowledging the credit agreements in the foreign currencies to be non-valid; some cases were related to the compensation of deposits, or to specifying the credit agreements and security deeds to be non-valid. In 2010, 43 court suits were initiated for the benefit of the state and the National Bank of Ukraine upon the prosecutors' claims.

In the reporting year, the National Bank of Ukraine submitted 398 claims of UAH 26.3 million. Out of the mentioned, 393 claims of UAH 26.0 million were satisfied, including 1 claim on acknowledging the National Bank of Ukraine to be the creditor of UAH 25.8 million; 4 claims remained under consideration.

The National Bank of Ukraine was claimed 4 times of UAH 0.028 million. The claims were rejected.

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

During the reporting year, the National Bank of Ukraine fulfilled all measures stipulated by the Plan of Actions for 2010 (joint with the Cabinet of Ministers) on prevention and counteraction of legalization of criminal proceeds.

The National Bank of Ukraine officials together with the profile Committee of the Parliament actively participated in the elaboration and finalization of the new edition of the law of Ukraine "On Prevention and Counteraction to the Legalization of Proceeds Obtained from Crime and Terrorism Financing". The draft stipulated for the introduction of a differentiated approach to the identification and learning of the customers based on assessment of the appropriate risks and introduction to the laws of Ukraine of the current edition of 40 Recommendations and 9 Special Recommendations of the FATF and norms of the relative EU Directives. In order to keep to the requirements of the said law, the appropriate draft normative and legal acts of the National Bank of Ukraine have been prepared. Also developed and implemented were the Methods for the assessment of risk of violation by banks of the law requirements in financial monitoring.

In 2010, the system for prevention of legalization of proceeds obtained from crime and terrorism financing forwarded 0.8 million notices from the banking institutions to the Specially Authorized Body informing of the financial operations subject to financial monitoring.

During the reporting period, the officials of the National Bank of Ukraine performed 218 scheduled inspections and 16 out-of-plan inspections of the banking institutions as regards their keeping to the law requirements.

In order to support and improve the information provision of the National Bank of Ukraine activities related to exercising the regulatory and supervisory functions, the National Bank of Ukraine and closed-type JSC "First Ukrainian Agency of Credit

Histories" concluded an agreement on obtaining the automated access to the "Lost Passport Base".

In view of ensuring the appropriate level of cooperation in the area of prevention and counteraction to legalization of criminal proceeds and terrorism financing at the international level, the representative of the National Bank of Ukraine participated in a number of FATF meetings and European Council Expert Committee on the joint assessment of measures aimed at counteraction to money laundering (MONEYVAL). By results of the measures realized, the positive dynamics were achieved in settlement of the relevant issues, in particular, as regards avoiding the procedure of intensive monitoring of Ukraine from the part of FATF.

With the purpose of improving the theoretical and methodological base for performing the financial monitoring of the banking activities, the officials of the National Bank of Ukraine took an active part in the numerous scientific and educational events.

10. INTERNATIONAL COOPERATION

COOPERATION OF THE NATIONAL BANK OF UKRAINE WITH CENTRAL BANKS AND BANKING INSTITUTIONS OF OTHER COUNTRIES

In 2010, cooperation of the National Bank of Ukraine with central banks and banking institutions of other countries was further developing. Management and officials of the National Bank of Ukraine participated in more than 40 international events.

Thus, cooperation of the National Bank of Ukraine with the Central Bank of the Republic of Belarus was in progress. During the year, the Tenth and Eleventh meetings of the Advisory Board of the central banks of Ukraine and Republic of Belarus were arranged.

Moreover, within the framework of the Ukrainian-German cooperation the twelfth meeting of the working group "Banks" of the German-Ukrainian Top Level Group in the economic cooperation issues was arranged in June 2010.

In order to exchange the experience and get to know the current economic situation and progress of the banking system, meetings of the National Bank of Ukraine management and officials took place with the representatives of central and commercial banks of other countries, namely: representatives of the National Bank of the Republic of Belarus, People's Bank of China, National Bank of Moldova, the embassies of Austria, USA, FRG, the Netherlands, Canada, France, Luxembourg, public corporation "Deutsche Bank Ukraine", the International Financial Corporation, German Consultative Group, rating agencies Fitch Ratings and Standard & Poors, PJSC "Erste Bank", the representative office of "Commerzbank AG" in Kyiv, etc. In general, almost 400 joint meetings with participation of the foreign persons have been arranged.

Constant work advanced in the joint bilateral inter-governmental commissions and also in the discussions as regards entering the international agreements, in particular, between Ukraine and the Republic of Singapore, Canada, Iceland, Brazil, Burkina Faso, Philippines, Israel, etc.

During 2010, the National Bank of Ukraine was active in the elucidation of major measures realized with regard to development of the banking system of Ukraine and the relevant exchange of information with management of the central banks of the European countries, CIS and the People's Republic of China.

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

Similarly to the previous years, the international activities of the National Bank of Ukraine in 2010 were aimed at the extension of cooperation with the international organizations.

Cooperation with the International Monetary Fund

One of the important factors in order to form the investment climate of our country, as well as the indicator to establish the relationships with other international financial organizations and foreign investors appears to be the cooperation with the International Monetary Fund (hereinafter, IMF).

During the reporting year, the National Bank of Ukraine cooperated with the IMF in the issues related to observing the commitments of Ukraine within the context of realization of the Stand-by Program; facilitating the work of the IMF missions, in particular, within the framework of the Stand-by Program realization, the assessment of security mechanisms as well as other technical missions; working out the IMF papers that resulted from the Ukraine membership in the IMF; providing recommendations as to the position of Ukraine in any question, in particular, during voting procedures, etc. Also, the management of the National Bank of Ukraine took part in the Annual IMF Meeting, Spring Meeting, meetings of the World Bank Constituency Group Governors headed by the Netherlands and Ukraine, other bilateral and multilateral meetings with the IMF representatives and also in preparation of the information and analytical papers for such meetings.

In 2010, the primary area of cooperation of the National Bank of Ukraine with the IMF was purposed at realization of the new Stand-by Program. In July 2010, the 29-month program of SDR 10 billion (nearly USD 15 billion in the equivalent) was launched. Within this program on 30 July 2010 Ukraine received the first tranche of SDR 1.25 billion (about USD 1.9 billion), out of them the Government of Ukraine received SDR 675 million (about USD 1.0 billion) and the National Bank of Ukraine received SDR 575 million (about USD 879.0 million). Within the terms of reference, the National Bank of Ukraine met all commitments of the mentioned program and implemented all measures aimed at providing the steady and long-term economic growth, reduction of the inflation rate, recovery of the investor trust to the banking system and its stabilization, etc.

In December, the IMF Executive Directors finished the first revision of the Ukraine fulfillment of the Stand-by Program. By its results it was decided to disburse the second tranche that came to Ukraine on 29 December 2010 in the amount of SDR 1 billion (about USD 1.5 billion), out of them the Government of Ukraine received SDR 655 million (about USD 978 million) and the National Bank of Ukraine received SDR 345 million (about USD 521 million).

The 14th general revision of the quota holdings and reforming the IMF management system approached the final stage. By the results of a few years' work, the member states including Ukraine, voted in favor of the new distribution of quotas in the IMF and also of the new IMF management system.

Cooperation with the World Bank

In 2010, the cooperation of the National Bank of Ukraine with the World Bank Group (hereinafter, World Bank) advanced within the framework of realizing the Strategy for Partnership of the World Bank and Ukraine for 2008–2011.

During 2010, the measures purposed to receive money to the state budget within "The 2nd Financial Sector Adjustment Loan" were carried out (it is expected to receive USD 350 million). The project is intended to consolidate the joint efforts of the Cabinet of Ministers of Ukraine and the National Bank of Ukraine aimed at the introduction of a complex system for capitalization of the problem banks with participation of the state, consolidation of the banking system, strengthening the insurance deposit system and increasing the trust of the society to the banking system.

Also, the joint realization of the project "Development of the State Statistics System for Monitoring of the Social and Economic Transformations" was in progress.

The National Bank of Ukraine kept on the agent servicing of the Credit Lines provided by the World Bank for the Ministry of Finance of Ukraine in support of the micro-, small and medium-sized enterprises in the regions where the coal industry mines had been closed (35 projects of USD 33.7 million were approved under the Credit Line) and to support the local executive bodies which took on their balance sheets the social infrastructure objects in the regions where the coal mines had been closed (26 projects of USD 7.2 million were approved under that credit line). As of 1 January 2011, the residual debts under the credit lines amounted to USD 3.7 million and USD 1.2 million, respectively.

The World Bank Technical Assistance Project (funds from the Netherlands Grant TF 055212) was provided by the program for reforming the financial sector of Ukraine.

Cooperation with the European Bank for Reconstruction and Development

The cooperation between the National Bank of Ukraine and the European Bank for Reconstruction and Development (hereinafter, EBRD) went on within the framework of promoting the development of private business initiative.

In the reporting year, the implementation of the project "The 2nd Credit Line for small and medium-sized enterprises (SME-2)" was finalized. In November 2010, the National Bank of Ukraine paid the residual debts under SME-2. In December the final audit report of the Project was prepared by the independent auditor PricewaterhouseCoopers.

In 2010, the implementation of the EBRD grant of EUR 1.2 million was finalized. The grant was given in conformity with the agreement between the National Bank of Ukraine and the European Bank for Reconstruction and Development in order to compensate a part of costs for the diagnostic examination of the Group 3 and Group 4 banks that was intended to determine their current and future financial soundness (solvency). In August 2010, 117 banks of Group 3

The implementation of projects SME-1 (USD 121.2 million) and SME-2 (USD 88.3 million) into the real sector of the economy provided granting credits of 5 year' maturity in the amount of USD 218.4 million (248 SME projects) and micro-credits of up to 3 year' maturity in the amount of USD 1.3 billion. During the implementation of the credit lines SME-1 and SME-2 under the microcomponent, 160.9 thousand credits of USD 1.4 billion were granted, that was 24.4 times more than the amount approved and provided to the participating banks.

and Group 4 were compensated the cost for the diagnostic examination totaling EUR 0.5 million.

Among the factors of cooperation with the EBRD, the issues of improving the activities of the said institution in our country still remain. Among them one can emphasize the question of carrying out transactions in the national currency to be introduced by the said institution.

Cooperation with the Bank for International Settlements

One of the important areas of the international activities in 2010 appeared to be the cooperation with the Bank for International Settlements (hereinafter, BIS), that was realized through participation of the National Bank of Ukraine in the measures of the above institution and in the regular talks on the entry of the National Bank of Ukraine into the BIS.

Cooperation with the CIS Inter-state Bank

In order to provide the constant monitoring of the reforming and re-organization processes of the CIS Inter-state Bank (hereinafter, the Inter-state Bank) and to follow the positions of other member states in 2010, the representatives of the National Bank of Ukraine participated in the meetings of the CIS Inter-state Bank Council.

During the reporting year, the National Bank of Ukraine took part in the elaboration of the new constituent papers of that international organization, namely, draft Agreement on the Inter-state Bank and Articles of Association, developed in conformity with the resolution of the Board of Heads of the States (Presidents) and Board of the Heads of Governments (Prime-Ministers) on a more precise definition of the Inter-state Bank functions under the current conditions. Also there was worked out the draft Concept for Development of the Bank for 2010–2015.

In addition, the draft Agreement on the procedure and rules of the banking activities on the territory of Ukraine and the draft Agreement on the conditions of residence on the territory of Ukraine (developed by the Inter-state Bank in order to stimulate its activities in Ukraine) were analyzed.

During the reporting year, the officials of the National Bank of Ukraine worked eagerly in the area of establishment of the payment/settlement system for the member states of the Inter-state Bank based upon the use of the national currencies of the CIS countries.

In 2010, the National Bank of Ukraine participated in working out the issues related to specifying the Ukraine position as a member state of the Inter-state Bank on further format of cooperation with the said international institution.

The cooperation with the Black-Sea Bank for Trade and Development kept on.

Cooperation with the German-Ukrainian Fund

In order to follow the "Grant Agreement" signed by the National Bank of Ukraine and the German Reconstruction Credit Institution (KfW), the program of the German-Ukrainian Fund (hereinafter, GUF) was realizing.

During 2010, within the framework of the agreements concluded by the banks participating in the GUF Program for granting micro-credits, 126 credits of over EUR 4.2 million were granted, which was almost three times more than the amount of credits given in 2009.

As of 1 January 2011, 5 credit agreements entered between the GUF and participating banks of EUR 10.4 million were effective. During the whole period of the GUF program in force, starting from 2001, 34 agreements totaling EUR 43.5 million were entered between the GUF and participating banks. Within the agreements concluded by the banks participating in the GUF Program on granting micro-credits, 161 thousand credits of more than EUR 680 million have been granted. As of 1 January 2011, 260 credits of over EUR 5.6 million remained outstanding.

Cooperation with other international institutions

Taking into consideration the fact that European integration remains the priority of Ukraine in its foreign and domestic policies, in 2010 the National Bank of Ukraine paid substantial attention to the cooperation with European Union (hereinafter, EU).

The key issue of the agenda in the Ukraine – EU relationships was the negotiating process on entering the Agreement of Association (in place of the valid Agreement on the partnership and cooperation between Ukraine and European Union) that should also include an integration component, namely, the Agreement on the establishment of the free trade zone. Similarly to the previous years, the National Bank of Ukraine took an active part in preparing the negotiating materials and the position documents, as well as in elaboration of the said draft agreements and in the XI–XIII rounds of negotiations.

In addition, in 2010 worked out were the issues related to the following:

- obtaining by Ukraine of the macro-financial assistance from EU; in particular, the draft Memorandum of Understanding between Ukraine and EU as well as the draft Credit Agreement between Ukraine and EU were worked out;

- draft agreements between Ukraine and EU on financing the program "Support of the Implementation of the Energy Strategy of Ukraine in the area of Energy Efficiency and Recoverable Energy Resources" and the program "Fostering Mutual Trade through the Removal of Technical Barriers in the Trade between Ukraine and EU";

- draft Agreement on the establishment of the free trade zone between Ukraine and Canada, as well as finalizing the elaboration and preparation for signing of the Agreement on the establishment of the free trade zone between Ukraine and the European Association for Free Trade.

During the reporting year, the representatives of the National Bank of Ukraine went on to work actively in the organizational structures which provided cooperation with EU in the different areas, such as: the Committee on cooperation between Ukraine and EU, its industrial sub-committees and the Board in the Ukraine – EU cooperation issues.

Also, the National Bank of Ukraine participated in the preparatory events on attraction of the macro-financial assistance from EU in the amount of EUR 610 million.

During the year, the active work advanced on realization of the EU Twinning Project "Improving the NBU potential through approaching the EU standards of activities of central banks".

Within the framework of bilateral talks between Ukraine and the countries striving to acquire the WTO membership, the officials of the National Bank of Ukraine considered

documents regarding the Ukraine access to the markets of services of Bosnia and Herzegovina, the Islamic Republic of Iran, the Libyan Republic and the Republic of Serbia.

The issues related to looking for the optimal format of cooperation with such financial organizations as the Euro-Asian Bank for Development, the Anti-crisis Fund of the Euro-Asian Economic Community were thoroughly examined, namely: the activities of the said institutions, possible membership of Ukraine in those structures and obtaining the economic benefits from participation in their work as compared with other international financial organizations, etc.

11. BASIC DIRECTIONS OF ECONOMIC WORK OF THE NATIONAL BANK OF UKRAINE

STATISTICAL AND INFORMATION SUPPORT OF THE NATIONAL BANK OF UKRAINE ACTIVITY

In 2010, the National Bank of Ukraine ensured handling of the economic work directed towards exercising the functions in compliance with the Law of Ukraine "On the National Bank of Ukraine" under the following directions:

- compilation of the monetary and banking statistics;
- improvement of the statistical reporting, submitted to the National Bank of Ukraine;
- preparation of information as to extended credits, attracted deposits and investments in securities;
- preparation of information regarding the interest rates under deposits and credits;
- preparation of statistic issues and presentation materials regarding the state and tendencies of the economic development and the banking system;
- initiation of new directions of statistic activity with regard to getting the data of non-banking financial institutions (insurance companies, non-governmental pension funds) and compilation of the quarterly financial accounts;
- information dissemination in the official publications of the National Bank of Ukraine and on the web-site of the National Bank of Ukraine in Internet.

During the reporting year, the work on optimization of statistical reporting for submission to the National Bank of Ukraine continued, which contributed to ensuring the compilation of monetary statistics, balance of payments statistics, international investment position and external debt in conformity with the international standards, as well as to exercising the regulatory and supervisory functions by the National Bank of Ukraine. During the reporting year, the Board of the National Bank of Ukraine prepared and passed two resolutions on amendments to the Rules of Compiling the Statistical Reporting, according to which 73 forms were changed and 2 forms of statistical reporting were cancelled. In the course of the above work, proposals regarding amendments to the acting forms as well as introduction and cancellation of some forms of reporting were coordinated with the permanent working group with participation of specialists of the National Bank of Ukraine, Association of Ukrainian Banks, "Ukrainian Credit and Banking Union" Association and some leading banks of Ukraine.

In 2010, statistical reporting on monetary and banking statistics was monthly present-

ed to the International Monetary Fund for the indicators inclusion in the statistical digest "International Financial Statistics" and Annual Report of the International Monetary Fund.

Ensured was timely statistical data dissemination in the electronic format in accordance with the practice generally accepted in the European System of Central Banks, based on actuality principles of the disseminated data and promptness of the information furnishing to users in an accessible and agreeable form. During 2010, the National Bank of Ukraine posted on its web-site the Statistical Bulletin (electronic edition), its Supplement, statistical editions "Monetary Aggregates", "Review of Depository Corporations of Ukraine", "Formation and Allocation of Financial Resources of Depository Corporations", "Credits and Deposits by Sectors of Economy", "Credits and Deposits of Non-financial Corporations", "Households Credits and Deposits", "New Credits Extended to Households and Nonfinancial Corporations", "New Deposits of Households and Nonfinancial Corporations", "Interest Rates", "Securities Except Shares" and other information concerning the financial sector and financial markets.

During 2010, the National Bank of Ukraine carried out the work as to the conformity with the IMF Special Data Dissemination Standard with regard to preparation and dissemination of data and metadata by the indicators of the financial and external sectors of the economy.

In 2010, the National Bank of Ukraine on its web-site continued the compilation and dissemination of the quarterly statistical information regarding financial stability indicators of depository corporations. Information as to financial stability indicators was submitted to the International Monetary Fund to be posted on the Internet web-site of the International Monetary Fund.

Performed was the work on compilation of the regions' financial passport by the indices of economic development, monetary and banking statistics for realization of the economic analysis of regions and economic researches.

In 2010, the work on implementing the World Bank's project "Development of the state statistics system for monitoring the social and economic transformations" continued. In the context of the above project, fulfilled were some measures as to improving the methodology of monetary, financial and balance of payments statistics.

The NBU continued its cooperation in statistical data exchange with the State Statistics Committee of Ukraine, State Commission on Regulating the Markets of Financial Services of Ukraine, State Commission on Securities and Stock Market of Ukraine. Based on the data of statistical reporting of banks, financial and administrative reporting of insurance companies and non-governmental pension funds, the approbation of compiling the review of the financial corporations sector was carried out. Prepared was the draft reporting form for insurance companies as regards getting by the National Bank of Ukraine the data in terms of economic sectors to be included into indices of the monetary statistics according to the international standards. Initiated were experimental calculations of quarterly financial accounts and quarterly balance sheets of financial assets and liabilities by economic sectors.

In 2010, regional branches of the National Bank of Ukraine carried out the explanatory work on the issues of monetary policy of the National Bank of Ukraine, exercised control of the completeness and timeliness of fulfillment by the banks of the demands as regards observance of the required reserve ratios, prescribed by the normative and legal acts of the National Bank of Ukraine. In addition, carried out were analysis and control of the completeness, authenticity and timely submission by banks of statistical reporting for compiling the monetary statistics in conformity with the normative and legal acts of the National Bank of Ukraine, provided were consultations and explanations as to compilation of reports, etc.

In the reporting year, the work on improving the information content and updating the Internet web-site of the National Bank of Ukraine continued. Extended were volumes of publications of materials on the issues of stock and financial markets. Public disclosure of express-

evaluations began as regards the economic situation in Ukraine, inflation, materials on the market of labor and household incomes etc. Updated was the section "Banking Legislation and Regulatory Activity" in the part of publishing on continuing basis the normative and legal acts of the National Bank of Ukraine and making amendments to them. Based on the results of 2010, a number of visitors of the NBU web-site increased by 11%, which is evidence of an increased interest of users of information regarding the banking system activity.

During the year, the activity of the National Bank of Ukraine had all-round elucidation at the permanent exhibition "The National Bank of Ukraine" at the "Expocenter of Ukraine" National Complex.

In order to guarantee a wide access for users to the information on the activity of both the National Bank of Ukraine and the banking system in general, the official editions were also available in electronic format (on CD-ROM), namely "Bulletin of the National Bank of Ukraine" (in Ukrainian and English), "Balance of Payments and External Debt of Ukraine" (in Ukrainian and English), Supplements to "Herald of the National Bank of Ukraine" magazine, "Legal and Normative Acts on Banking" (in Ukrainian) and "Banknotes and Coins" (in Ukrainian and English).

ECONOMIC RESEARCH AND FORECASTING. QUARTERLY POLLS OF UKRAINIAN ENTERPRISES' BUSINESS EXPECTATIONS

In 2010, the National Bank of Ukraine continued its work on improving the system of analysis and forecasting, primarily in the part of short-term forecasting.

In order to improve the short-term evaluation of inflation, a model of its individual components was added (basic, food inflation, etc.). The Bayesian approach to simulation was introduced – imposition of additional information (expert judgment, for instance) on the models' parameters, elaborated were short-term vector-autoregressive models of inflation and GDP with the purpose of evaluation of these indices for the next quarter and possibility to use interim (monthly) data. In addition, continued was the work on improving the "Quarterly Predictive Model" being the main instrument in developing the medium-term forecasting, particularly revaluation of coefficients was carried out.

In the reporting year, the National Bank of Ukraine posted on the NBU web-site on a monthly basis analytical investigation of the macroeconomic situation development, particularly "Inflation Analysis", "Estimation of the Economic State of Ukraine" and "Stock Market Analysis". The analytical documents "Macroeconomic Review" for the 4th quarter of 2009 – the 3rd quarter of 2010 were published.

In 2010, the National Bank of Ukraine continued polling the managers of enterprises as to their business expectations.

Quarterly interviewed were almost 1250 managers of enterprises in all the regions of the country, which represented the economy under the main types of activities, patterns of ownership, sizes and number of workers. Based on the results of each interview, prepared were analytical documents "Business Expectations of Enterprises of Ukraine" and posted were on the official site of the National Bank of Ukraine in Internet. Comments to publications in Internet and mass media show a continuing attention of the public to the research theme.

In the reporting year, the 20th anniversary issue of the interview results was published.

Starting from the 1st quarter of 2010, in the practice of the economic analysis of the National Bank of Ukraine implemented was the "Business Expectation Index" (BEI), which is calculated as the average of balances of answers to the questions as regards the prospects of the enterprise development in the following 12 months, and which can be used as an anticipatory indicator for evaluation of turning points of the economic cycle.

12. SCIENTIFIC RESEARCH OF THE NATIONAL BANK OF UKRAINE

In 2010, the National Bank of Ukraine, within the framework of carrying out the work on scientific substantiation of building an efficient system of regulation and supervision of activity of the financial sector, carried out the following scientific research:

- generalizing the approaches regarding the possible ways of enhancement in efficiency of regulation and supervision of the financial sector of Ukraine under conditions of guaranteeing the independence of financial regulators with simultaneous rise in the level of their transparency and accountability;
- showing the world experience related to introduction of risk management and risk oriented financial supervision and substantiating the necessity of introduction and development of the supervision based on risk evaluation and risk management in the sphere of financial services in Ukraine;
- generalizing the theoretic and practical grounds of the "bridge-bank" establishment.

With the purpose of scientific substantiation of the mechanisms for elaboration and implementation of the monetary policy under current conditions, a number of scientific researches was carried out regarding:

- enhancement in efficiency of instruments of the National Bank of Ukraine communicative policy;
- study of current tendencies in securing the institutional independence of central banks, taking into account the experience of economic and financial systems functioning in different countries during the crisis;
- analysis of action of the transmission mechanism of monetary policy: peculiarities of the crisis period.

In the reporting year, conducted was a complex research concerning selection of the optimum exchange rate arrangement, which in full measure could comply with modern realities and assure acceleration of the country economic development, basic directions of improving the transmission mechanism of monetary policy in Ukraine.

Continued was the work on developing the project of the Strategy of Financial Sector

Development in Ukraine for the Term up to 2015.

During the year, the National Bank of Ukraine, with participation of international financial organizations, involved ministries, departments and associations was organizing scientific conferences, seminars and round-table meetings on discussing the problems of scientific research, proposals and practical recommendations as to the directions of developing the financial system. Particularly, the International Forum of Experts "Alternative Modes of Regulating the Markets of Financial Services" was held, where presented was the Draft Green Book "Consultations Regarding Enhancement of Efficiency of Regulation and Supervision of the Financial Sector of Ukraine". Based on the results of the forum, the above project was posted on the official site of the National Bank of Ukraine in Internet.

13. IMPROVEMENT OF ACCOUNTING AND FINANCIAL REPORTING OF THE NATIONAL BANK OF UKRAINE

In 2010, the National Bank of Ukraine continued its work on improving the methodological tools of accounting and financial reporting in order to give the trustworthy, transparent and impartial information about the financial situation and financial results of banks' activities, the procedure of managing the risks and capital of banks of Ukraine to take respective decisions by users of the financial reporting.

Implementation of determined tasks was directed towards:

- adjustment of accounting of banking operations in compliance with the requirements of Ukrainian laws with taking into account the introduced amendments to the International Standards of Financial Reporting;

- harmonization of methodological grounds of accounting with basic provisions of the European Union's law.

Alterations were made to the acting normative and legal acts concerning the arrangement of banks' operational activity, which strengthened requirements to their information support for the purpose of forming the reliable information for users of the financial and statistical reporting.

In order to improve the existing accounting procedures of banks' operations with financial instruments, developed were draft documents on calculating the effective interest rate under the financial instruments in the Ukrainian banks and the procedure of determining the depreciated cost of debt financial instruments, as well as creation and use of provisions under credit risks in Ukrainian banks.

Together with state government bodies, the Bank participated in working out of the following draft laws:

- "On Alterations to the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" as to the use of generally accepted requirements to the information disclosure in the financial reporting with intent to adapt the law of Ukraine to the European Union laws;

- the Tax Code of Ukraine regarding the tax on income of banking operations and value added tax in the part of determining the operations, which are not a subject of taxation.

14. AUDIT OF THE NATIONAL BANK OF UKRAINE

In 2010, the audit of structural units of the National Bank of Ukraine was carried out in compliance with the approved audit plan taking into account characteristic properties of the NBU activity, connected with activation of the banking system's liquidity regulation and cooperation with international financial organizations.

During the reporting year, 138 audits were conducted, including 21 audits under directions of activity of the Central Office structural units, 94 audits of regional branches (25 complex audits and 69 audits on separate issues), 23 audits of structural units and divisions of the National Bank of Ukraine (14 complex audits and 9 audits on separate issues).

With the purpose of assuring the appropriate security level of information resources of the National Bank of Ukraine, during the audit of the Central Office and regional branches the issues of information security were checked.

The audit results show that internal control measures taken by the management of structural units are efficient in general, and promote conducting the banking operations within the limits of acceptable level of risk and in compliance with the established requirements. A special emphasis during audits was placed on the most risky directions of banking activity – the issues of support by the National Bank of Ukraine of the banking system liquidity, tender holding procedures, financial and economic activities of structural units, conditions for cash safe-keeping and realization of investment activity.

During each audit, carried out was evaluation of the internal control systems, determined were risks, inherent to the audited direction of activity, provided were recommendations as regards improving the existing procedures of internal control, bank risk management and measures of corporate governance.

In 2010, conducted was the external evaluation of the Audit Department activity by the experts, appointed by the International Monetary Fund, certified by the US International Institute of Internal Auditors, for the right to evaluate the internal audit services. By the results of evaluation, the Audit Department was awarded the assessment "generally complies with" the IBA standards and the Code of Auditors' Ethics, being the highest assessment.

15. BANKNOTE PRINTING AND MINTING WORKS PRODUCTION

ACTIVITIES OF THE BANKNOTE PRINTING AND MINTING WORKS OF THE NATIONAL BANK OF UKRAINE

Production activities of the Banknote Printing and Minting Works of the National Bank of Ukraine in the year under review were carried out in compliance with the established tasks of the National Bank of Ukraine regarding the money manufacture and the concluded agreements with other customers.

The plan of production and sales of products by order of the National Bank of Ukraine in quantitative terms was fulfilled in full.

In 2010, as compared with 2009, the production volume decreased by UAH 98 million and was UAH 483 million. The decrease in volumes of manufacture was caused by reduction in the volumes of production and shipment of banknotes by order of the National Bank of Ukraine in accordance with the financial plan of the Banknote Printing and Minting Works.

According to the Measures on replacement of worn-out equipment and introduction of new modern technologies at the Banknote Printing and Minting Works of the National Bank of Ukraine, approved by Resolution of the Board of the National Bank of Ukraine of July 01, 2008, No. 197, and the Investment Program of the Banknote Printing and Minting Works of the National Bank of Ukraine for 2008–2011, approved by Resolution of the Board of the National Bank of Ukraine of August 06, 2008, No. 233, in 2010 carried out was modernization of the multi-plane furnace device for the minting instruments'

In 2010, the work was carried out on complex automation of financial and economic processes of the Banknote Printing and Minting Works as a part of the corporative project of automation of the National Bank of Ukraine on SAP system basis. Completed was the work on designing, adjusting and testing of the system with regard to the modules: maintenance and repair of the equipment, budget estimate planning and production planning and expenditures analysis.

treatment and the following equipment was put into operation:

- the screen printing press Nota Screen with the Spark magnetic module;
- the BPS-2000 banknote quality control systems (three units);
- the vertical automated coin minting presses, GRABENER MPU-156 (nine units);
- the horizontal automated coin minting presses, Schuler MRH-150 (six units);
- the automated press for minting commemorative coins, GRABENER GMP 360D;
- the equipment for automated control of the mass of polished planchets with the function of rejection for a wrong mass index, M-1 VANGRAPH production;
- the equipment for creating the sector for manufacture of some parts of state awards by casting method.

THE BANKNOTE PAPER MILL ACTIVITY

Based on the results of production activities in 2010, the Banknote Paper Mill of the National Bank of Ukraine produced 821 tonnes of banknote paper and 339 tonnes of secured paper which enabled to load production facilities by 39.1% and 16.1%, respectively.

Volume of sales was 742 tonnes of banknote paper to the amount of UAH 63.9 million and 310 tonnes of secured paper to the amount of UAH 11.0 million.

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

According to the Investment Program of the Banknote Paper Mill for 2010–2011, conducted were the works related to introduction of innovation technologies, particularly:

- fulfilled was reconstruction of the block of preparation and batching of components of non-formaldehyde technology of the banknote paper production;
- concluded was the agreement as regards the acquisition of industrial technology of banknote paper production with higher technical characteristics of the properties, which determines an increase in the banknote circulation life-span and manufacture of the paper with antibacterial and antimycotic properties;
- manufactured and tested were research and industrial lots of two-layer paper with wide protective strips and specific optical effects that can be hardly forged and substantially increase the paper protection potential.

For the purpose of optimizing the expenses for banknote paper manufacture, the paper pulp composition was changed: instead of the expensive and deficient fibers of cotton, the cotton fiber flocks and lint were used, which caused an improvement of the manufacture efficiency of the hryvnia banknote paper and reduction in the industrial cost price by 7.0%.

16. STAFFING, PERSONNEL TRAINING AND RETRAINING. ACTIVITIES OF EDUCATIONAL INSTITUTIONS OF THE NATIONAL BANK OF UKRAINE

As of January 1, 2011, the staff of the National Bank of Ukraine numbered 9 562 persons, including 5 980 civil servants.

Table 26. Breakdown of civil servants of the National Bank of Ukraine by position categories, persons

Indicators	As of January 1, 2011			For reference: as of December 31, 2009 Total
	Total	Men	Women	
Number	5 980	2 322	3 658	6 137
Senior officials	1 672	829	843	1 735
<i>Out of them:</i>				
1 st category	5	5	0	5
2 nd category	112	81	31	116
3 rd category	556	224	332	582
4 th category	981	501	480	1013
5 th category	18	18	0	19
Professionals, specialists, employees	4 308	1 493	2 815	4 402
<i>Out of them:</i>				
2 nd category	5	3	2	6
3 rd category	467	131	336	469
4 th category	431	129	302	425
5 th category	3 405	1 230	2 175	3 502

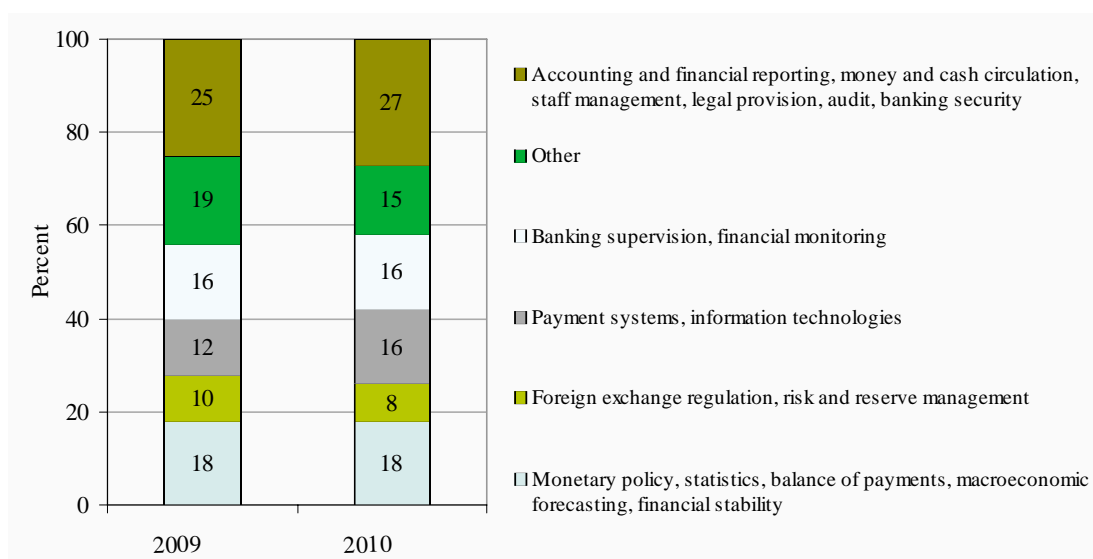
The qualitative composition of the personnel of the National Bank of Ukraine in 2010 was as follows. The number of specialists (senior officials, professionals, specialists) with

complete higher education was 6 236 persons. Doctors and candidates of sciences – 119 persons. The number of specialists with work experience over 5 years was 84.2%, up to 5 years – 15.8%. The staffing level in the National Bank of Ukraine was 96.6%, in the Central Office – 99.1%. The average age of employees in the National Bank of Ukraine was 37.2 years, in the Central Office – 40.0 years. The number of employees of retirement age was 393 persons. In 2010, the dismissed persons were 6.6%, resigned by choice – 4.2%.

In 2010, 4.1 thousand employees of the National Bank of Ukraine system (37.3% of the total number of employees) improved their qualification. In total, 1 416 training events (seminars, conferences, courses, probation etc.) were held, 276 out of them were held abroad. Out of 12 304 trainees, who participated in these training events, 4 887 were specialists from the banking and other institutions of Ukraine, and the rest – from the system of the National Bank of Ukraine.

Most of the focus of personnel training was on the issues of activity of the central bank as well as functioning of the banking system as a whole.

Chart 43. Structure of training event topics in 2009–2010 in Ukraine and abroad



As of January 01, 2011, 6 719 persons studied at the NBU subordinated educational institutions under all directions and specialties, including 4 737 full-time and 1 982 external students. At the expense of the National Bank of Ukraine financing, 2 298 persons studied (including 2251 full-time students and 47 NBU system employees as external students).

In 2010, 1 139 persons got complete higher education at the higher educational institutions of the National Bank of Ukraine, 320 persons out of them studied as full-time students and 819 as external students.

The stock of the Central Library of the National Bank of Ukraine had 103 106 published pieces including 46 827 books, 390 books on electronic media, 28 303 newspapers, 22 572 magazines and 5 014 other items. The Library had 1897 registered readers, the number of visits equaled 12 489.

17. DEVELOPMENT OF THE MATERIAL AND TECHNICAL BASE ACCORDING TO MAIN DIRECTIONS

The capital investment plan for 2010 stipulated UAH 362.7 million for construction of the NBU's own facilities and their financing (as compared with UAH 422.5 million for 2009). Use of the financing limit was UAH 285.7 million, or 78.8% of the plan.

In 2010, at the expense of centralized funds, UAH 275.0 million were spent for design and survey, construction and installation, start-up and other works, as well as for the equipment mounting that accounted for 76.5% of the plan. These were sites of the regional branches, educational institutions, the Central Office, the Central Vault, the State Treasury and the Banknote Paper Mill. The capital investment plan at the expense of own depreciation charges was fulfilled to the amount of UAH 1.8 million, or by 31.8% (under sites of the Banknote Printing and Minting Works and the Banknote Paper Mill).

The capital investment structure in the system of the National Bank of Ukraine in 2010: 62.1% – for creation of new and reconstruction of existing sites of educational institutions and organizations, 31.9% – for sites of regional branches, 2.3% – for sites of the Central Office, 3.7% – other.

A low level of capital investment plan fulfillment was under the sites of the Central Office financed at the expense of centralized funds (47.7% of the plan), as well as the Banknote Printing and Minting Works (25.9% of the plan) and the Banknote Paper Mill (32.4% of the plan) financed at the expense of own depreciation charges. Substantial deviation from the target indicators was caused by saving in the cost of design and survey works (as a result of the procedure of purchases under evaluation criterion at the least cost), partial change of the project design as a result of adverse weather conditions etc. In addition, the deviation in fulfilling the target indicators was caused by a delay in purchases owing to changes in conditions, order and procedure of purchases of goods, works and services according to the Law of Ukraine "On State Purchases" (No. 2289-VI of June 01, 2010).

Table 27. Capital Construction Works by Sites of the National Bank of Ukraine in 2010

(UAH millions)				
No.	Indicators	Plan	Fact	Fulfillment, %
1	Capital investments financed under construction sites of the National Bank of Ukraine	362.7	285.7	78.8
1.1	at the expense of centralized funds including:	357.0	281.0	78.7
1.1.1	sites of the Central Office	8.3	4.3	52.0
1.1.2	sites of regional branches	135.2	105.0	77.7
1.1.3	sites of educational institutions and organizations	192.0	154.0	80.2
1.1.4	other structural units	18.2	17.7	97.4
1.1.5	undistributed reserve of capital investments	3.2	0	0
1.2	at the expense of own depreciation charges including:	5.7	4.7	82.7
1.2.1	Banknote Printing and Minting Works	0.6	0.2	25.5
1.2.2	Banknote Paper Mill	5.1	4.5	88.8
2	Capital investments spent under construction sites of the National Bank of Ukraine	365.3	276.8	75.8
2.1	at the expense of centralized funds including:	359.7	275.0	76.5
2.1.1	sites of the Central Office	13.5	6.4	47.7
2.1.2	sites of regional branches	136.0	87.7	64.5
2.1.3	sites of educational institutions and organizations	192.0	170.9	89.0
2.1.4	other structural units	18.2	10.1	55.4
2.2	at the expense of own depreciation charges including:	5.6	1.8	31.8
2.2.1	Banknote Printing and Minting Works	0.5	0.1	25.9
2.2.2	Banknote Paper Mill	5.1	1.7	32.4
3	Sites put into operation to the amount of fixed assets	0	51.0	0
3.1	at the expense of centralized funds	0	49.2	0
3.2	at the expense of own depreciation charges	0	1.8	0
4	Incomplete construction of sites of the National Bank of Ukraine	0	371.9	0
4.1	at the expense of centralized funds	0	367.4	0
4.2	at the expense of own depreciation charges	0	4.5	0

In 2010, it was planned to put into operation 24 sites of the National Bank of Ukraine. During the year, 22 sites were put into operation to the total amount of UAH 51.0 million of fixed assets, among them at the expense of centralized funds – to the amount of UAH 49.2 million. Under two sites of the Main Branch of the National Bank of Ukraine for Kyiv and Kyiv Region the date of putting into operation was extended to 2011. Volumes of incomplete construction, as of the end of 2010, amounted to UAH 371.9 million against UAH 136.6 million as of the end of 2009.

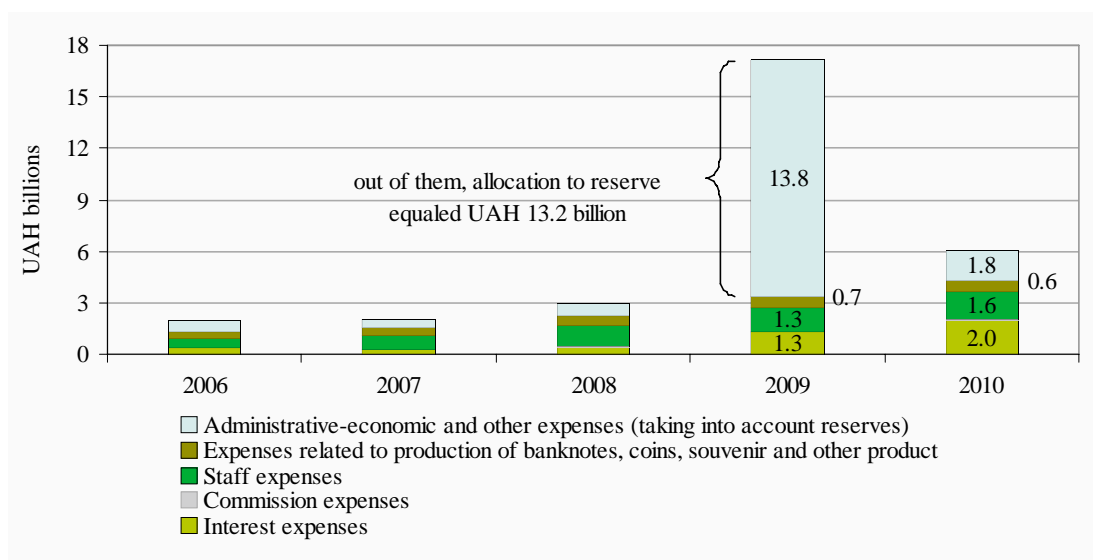
The priority in the development of material and technical base in 2010 was given to a rise of reliability level of buildings and constructions of the National Bank of Ukraine, introduction of modern technologies, reconstruction of cash operating units, server and energy supplying systems, modernization of systems of power supply, air conditioning, ventilation, security systems, technical re-equipment of the fire alarm systems, as well as creation of the material base for personnel training of the banking system of Ukraine.

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

In 2010, as compared with 2009, the profit from day-to-day activities of the National Bank of Ukraine increased almost six times and amounted to UAH 17 084 million. The income growth was caused by a substantial decrease in current expenditures (by 65.0%) against the background of insignificant growth of revenues (by 16%).

In the reporting year, gradual stabilization of the economic situation in Ukraine, as well as the measures of the National Bank of Ukraine, aimed at assurance of stability of the banking system and improvement of financial situation of both banks and borrowers, caused a decrease in volumes of credits, extended to banks to support their liquidity. As a result, in 2010, expenses for creation of provisions for credit risks decreased by 91.0%, or by UAH 12 053 million.

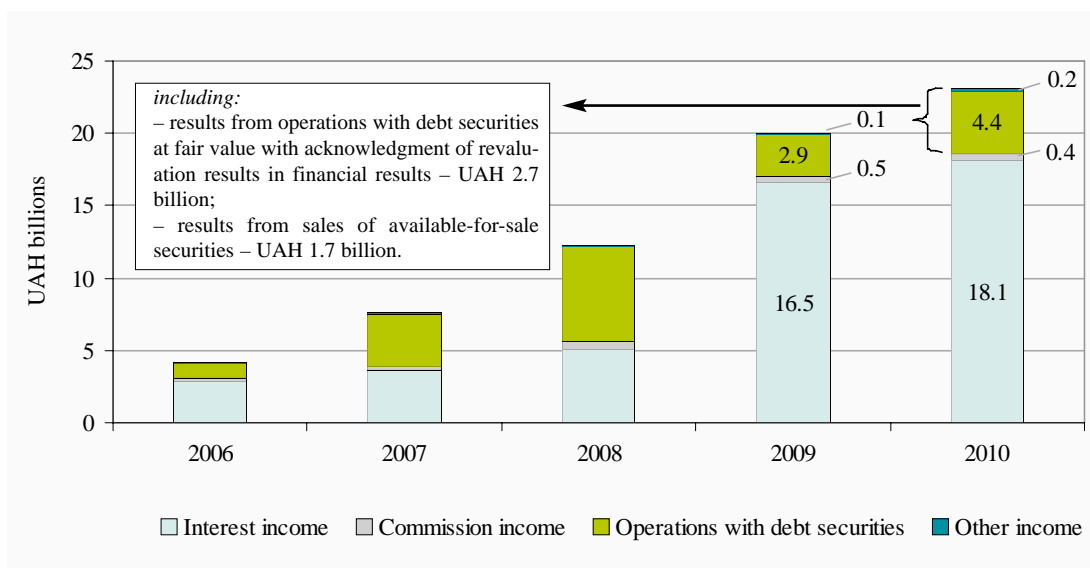
**Chart 44. Dynamics of expenses of the National Bank of Ukraine
for 2006–2010**



A decrease in these expenditures had a significant influence on the reduction in total current expenditures of the National Bank of Ukraine up to UAH 6 068.0 million as compared with UAH 17 145.0 million in 2009. Respectively, in the structure of expenditures of the National Bank of Ukraine the share of expenditures for creation of provisions under credit risks decreased to 20.0% against 77.0% in 2009.

In 2010, the growth of current income of the National Bank of Ukraine by UAH 3 130.0 million to UAH 23 152.0 million took place, primarily due to an increase by UAH 4 730.0 million of the interest income under debt securities.

Chart 45. Dynamics of income of the National Bank of Ukraine for 2006–2010



The decrease in volumes of credits extended to banks to support their liquidity resulted in curtailment by 21.0%, or by UAH 2 430.0 million, of the interest income under extended credits (including income on internal state debt). There were no changes in the structure of incomes.

Governor
of the National Bank of Ukraine

S. G. Arbuzov

**CALENDAR
OF PRINCIPAL EVENTS**

March

- Improved were the requirements to performing the liquidation procedure of banks (Decision of the Board of the National Bank of Ukraine No. 160 dated 31.03.2010).

April

- Increased was the amount, that has been transferred by banks to a separate account with the National Bank of Ukraine, from 50 to 100% of the amount of the required reserves, formed for the previous reporting period of reserving in accordance with the ratios set for a proper period. For the required reserve coverage, the coefficient of inclusion by banks of the acquired target T-bills of Ukraine, issued with the aim to attract funds for financing of the actions related to the preparation and holding of the European Football Championship 2012 in Ukraine, was changed from 20 to 100% of their nominal value. (Decision of the Board of the National Bank of Ukraine No. 210, dated 20.04.2010, "On Some Issues of Regulating the Money and Credit Market", effected since 01.05.2010).

June

- Decreased was the discount rate from 10.25% to 9.5% per annum (Decision of the Board of the National Bank of Ukraine No. 259, dated 07.06.2010).
- Enlarged was the minimum size of a bank's regulatory capital necessary for getting a written permit to make some operations. Changed was the minimum size of the authorized capital for a parent bank of the bank holding group and the bank corporation, as well as the minimum size of the regulatory capital for getting by a non-bank financial institution the National Bank of Ukraine's license to make some operations. Foreseen was inclusion into a bank's regulatory capital of the funds attracted under conditions of the subordinated debt in foreign currency at the official foreign exchange rate of the National Bank of Ukraine, set for the reporting date (Decision of the Board of the National Bank of Ukraine No. 273 dated 09.06.2010).

July

- Increased was the size of the discount rate from 9.5% to 8.5% per annum (Decision of the Board of the National Bank of Ukraine No. 320, dated 07.07.2010).
- Improved were the mechanisms of refinancing and the order of changing the terms and conditions of acting agreements on the stabilization credits signed between the National Bank of Ukraine and banks of Ukraine in the period of danger to the stability of their work (Decision of the Board of the National Bank of Ukraine No. 327, dated 13.07.2010).

August

- Reduced was the value of the discount rate from 8.5% to 7.75% per annum (Decision of the Board of the National Bank of Ukraine No. 377, dated 09.08.2010).
- Abolished was the keeping to the average-weighted exchange rate of hryvnia versus the US dollar on its purchase-sale in cashless and cash operations (Decision of the Board of the National Bank of Ukraine No. 395, dated 25.08.2010).

September

- Approved was the Technical Order of Conducting the Operations on Provision by the National Bank of Ukraine of the Stabilization Credits to Banks of Ukraine (Decision of the Board of the National Bank of Ukraine No. 445, dated 30.09.2010).
- Simplified was the procedure of writing-off by banks of the bad debt on the loans and the interest accrued, as well as the bad debt writing-off (Decision of the Board of the National Bank of Ukraine No. 424, dated 13.09.2010).

October

- Strengthened was the control over the compliance of the business reputation of the managerial persons of banks and the persons, performing their duties, to the requirements of the law of Ukraine during the whole time of their office on the stated positions (Decision of the Board of the National Bank of Ukraine No. 454, dated 07.10.2010).
- Renewed was the requirement related to 20-percent reserving by banks with the National Bank of Ukraine of the nonresidents' funds in foreign currency, placed in banks as credits, deposits for the terms of up to 6 months (the requirement is not used to the funds attracted for the term not more than one working day, or being under government guarantees or else received from the international financial organizations whose member is Ukraine). (Decision of the Board of the National Bank of Ukraine No. 431, dated 22.10.2010).
- Established was the order of defining and confirming the compliance of business reputation of a bank's managers to the requirements of the law of Ukraine during the whole time of their office on the stated positions (Decision of the Board of the National Bank of Ukraine No. 454, dated 07.10.2010).

November

- Adjusted was the order of making through the authorized banks the settlements in hryvnia between the International Financial Corporation and residents under credit agreements, guarantee agreements (Decision of the Board of the National Bank of Ukraine No. 504, dated 22.11.2010).

December

- Renewed was the right to make placements of the interbank deposits in hryvnia with the authorized banks, own operations on transferring hryvnias to another correspondent account of the same bank-nonresident opened with other authorized bank, as well as inter-bank operations with other nonresident banks through their correspondent accounts opened with the authorized banks (Decision of the Board of the National Bank of Ukraine No. 543, dated 14.12.2010).
- Enacted was the right of the National Bank of Ukraine to conduct interventions in the inter-bank foreign exchange market of Ukraine by the way of carrying out the operations with authorized banks on purchase-sale of cashless foreign currency under "swap" conditions for the term of up to three months, which will enable both the clients of the authorized banks and the banks themselves to hedge foreign exchange risks. Revived was the ratio related to the use of the foreign currency bought for hryvnias in the inter-bank foreign exchange market of Ukraine (or changed for other foreign currency) not later than during ten working days after its entering to the current account of the client (Decision of the Board of the National Bank of Ukraine No. 544, dated 14.12.2010).
- Abolished were the requirements as for the mandatory (5-day) term for placement on a separate analytical account of a bank's balance account of the customer's funds that are used for purchase of foreign currency. Simplified were to the maximum the requirements to the package of documents needed for repatriation of dividends to foreign investors. Improved was the order of returning the foreign investments on purchase-sale of securities on the Ukrainian stock exchanges (Decision of the Board of the National Bank of Ukraine No. 572, dated 22.12.2010).
- The banks whose term of activities is less than one year, were given the right to attract the funds under terms and conditions of the subordinated debt (Decision of the Board of the National Bank of Ukraine No. 564, dated 20.12.2010).
- Set was the maximum value of the interest rate on the attracted funds under terms and conditions of the subordinated debt (with taking into account of the commission, penalty and other fees defined by appropriate agreements) (Decision of the Board of the National Bank of Ukraine No. 592, dated 30.12.2010).

**METHODOLOGICAL
COMMENTS TO THE ANNUAL
REPORT**

Foreign exchange position is a ratio of a bank's claims and liabilities in each foreign currency and each banking metal. If they are equal the position is considered to be closed, if not - open.

Open foreign exchange position is short, if the volume of liabilities on foreign currencies and banking metals exceeds that of the claims.

Open foreign exchange position is long, if the volume of claims for foreign currencies and banking metals exceeds that of the liabilities.

Percent of cash concentration in circulation is a portion of the emission result (excess of the issue of cash from the cashier's desks over its incomings) in the issues of cash from the cashier's desks.

Monetary base is the sum total of liabilities of the National Bank of Ukraine in the national currency that ensures growth of the money supply and crediting of the economy. The monetary base is an indicator of the financing base that is the basis for forming the monetary aggregates but it is not a monetary aggregate itself. The monetary base includes the currency 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, except 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 funds on the correspondent accounts, funds of required reserves and other funds on demand of other depository corporations, as well as funds on the accounts of the 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 other depository corporations and the National Bank of Ukraine to other sectors of the economy, except the sector of general government and other depository corporations. 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 other depository corporations and belong, on the ownership right, to other financial corporations, non-financial corporations, households and nonprofit institutions serving households. Depending on the liquidity reduction level, financial assets are grouped into different monetary aggregates M_0 , M_1 , M_2 and M_3 .

Monetary aggregate M_0 comprises currency in circulation outside the other depository corporations.

Monetary aggregate M_1 includes monetary aggregate M_0 and transferable deposits in national currency.

Monetary aggregate M_2 comprises monetary aggregate M_1 and transferable deposits in foreign currency and other deposits.

Monetary aggregate M_3 (money supply) comprises monetary aggregate M_2 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 non-transferable deposits that are exchangeable on short notice

to cash or transferable funds, namely, the funds on demand that are not used directly to make payments, time funds and savings deposits.

Devaluation means depreciation of the currency at its official exchange rate.

Deposit means the funds, in cash or non-cash forms, in the currency of Ukraine, or in foreign currency, placed by customers on their personal accounts on an agreement basis for a fixed term of storage, or without indication of such a term, and be repaid to the depositor in accordance with the law of Ukraine and the agreement terms.

Households are hired employees, employers, self-engaged workers, pension receivers, receivers of income from property and other transfers.

Change in the annual calculation is 12-month interest rate change for the reporting month t that is calculated by the formula:

$$\alpha_t = \left[\prod_{i=0}^{11} \left(\frac{L_{t-i}}{L_{t-1-i}} \right) - 1 \right] \times 100, \text{ where } L_t - \text{balances by the end of month } t.$$

Liquidity of a bank is a bank's ability to ensure timely fulfillment of its money liabilities which is determined by the balance between the terms and amounts of the allocated assets repayment 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 (credits extension, other expenditures).

Instant liquidity ratio is determined as a ratio of highly liquid assets to current liabilities of a bank. The ratio sets a minimal necessary volume of highly liquid assets to ensure the performance of current liabilities during one operational day.

Current liquidity ratio is determined as a ratio of assets with the final repayment term up to 31 days (inclusively) to a bank's liabilities with the final repayment term up to 31 day (inclusively). This ratio sets a minimal necessary volume of a bank's assets to ensure the performance of the current liabilities during one calendar month.

Short-term liquidity ratio is determined as a ratio of liquid assets to liabilities with the final repayment term up to 1 year. This ratio sets a bank's minimal necessary assets to ensure the performance of its liabilities during one year.

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 (defined in the Instruction On Interbank Transfer of Funds in Ukraine in National Currency, approved by Decision of the Board of the National Bank of Ukraine No.320, dated 16.08.2006).

Nonprofit institutions serving households are organizations that provide non-market goods and services to households either free of charge or at prices that are not economically significant: political parties and other social organizations, charity organizations and funds, social and cultural subsections of non-financial and financial corporations.

Non-financial corporations are corporations engaged primarily in the production of market goods or non-financial services that are subdivided into subsectors: public non-financial corporations, private non-financial corporations and foreign-controlled non-financial 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.

The National Bank of Ukraine Survey is an analytical form of presenting the statistical data of the National Bank of Ukraine which are consolidated into the generalized categories of assets and liabilities. The Survey comprises data on liabilities of the National Bank of Ukraine which are included in the monetary base and are the basis for forming the monetary aggregates.

The Depository Corporations Survey (including the National Bank of Ukraine) is an analytical form of presenting the statistical data of the depository corporations (the National Bank of Ukraine and other depository corporations) which are consolidated in the generalized categories of assets and liabilities. The Survey comprises data on the liabilities of depository corporations which are included in the monetary aggregates. The balance sheet identity in the Survey ensures the link of monetary aggregate M3 and other items with claims of depository corporations on residents and non-residents.

Official reserve assets (international reserves) are external assets that are controlled by the National Bank of Ukraine and are readily available for direct 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 compiled in accordance with the methodology given in the IMF Manual "International Reserves and Foreign Currency Liquidity Guidelines for a Data Template" (2001).

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.

Foreign exchange reserves comprise cash in hard currency and claims of the National Bank of Ukraine on non-residents in the form of short-term deposits in hard currency (except deposits in gold), and securities issued by non-residents.

Reserve position in the IMF are claims of an IMF member on the IMF that are determined as a difference between the quota and IMF holdings in its (member's) currency minus the IMF holdings received by the member-country as IMF loans and balances on the IMF account No.2 which does not exceed 0.1% of the member's quota. The reserve position in the IMF is a part of the member's international reserves.

Special drawing rights (SDRs) are the assets within the special drawing rights that are held on the account of the National Bank of Ukraine with the IMF Treasury.

Gold is monetary gold placed with foreign banks and held in the vault of the State Treasury of the National Bank of Ukraine. Monetary gold is high-fine gold in the form of coins, bullions, or bars of not less than 995 fineness, that belong to the National Bank of Ukraine. The weight of gold is defined in troy ounces. One troy ounce equals 31,103480 g.

The data (except gold and SDRs) are estimated in the US dollars based on the cross rates of foreign currencies against the US dollar, that are calculated with the use of the official exchange rate of hryvnia versus foreign currencies specified by the National Bank of Ukraine at the end of the period.

Official exchange rate of hryvnia is the rate of hryvnia against foreign currencies, set by the National Bank of Ukraine as the authorized body of the state.

Interest income on a repo operation of the National Bank of Ukraine is the income received by a buyer of government securities of Ukraine or banking metals in case of performing the repo operations by the National Bank of Ukraine with banks, that is measured as a difference between the price of reverse sale (repurchase) of the government securities of Ukraine or banking metals and the price of their purchase.

Revaluation is appreciation of the currency at its official rate.

General government sector includes legal entities, whose main activity is to exercise functions of legislative, executive or judicial authority over other economic entities within a specific area, and is subdivided into subsectors: central government, regional and local governments, social security funds.

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 into interest rates of the National Bank of Ukraine and interest rates of the banks. The interest rates on credits and deposits are given 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 of the National Bank of Ukraine is one of the monetary instruments whereby the National Bank of Ukraine sets a benchmark for banks and other entities of the money and credit market with regard to the value of attracted and allocated funds.

Rate on the overnight credits of the National Bank of Ukraine is the interest rate used by the National Bank of Ukraine to provide credits to banks for the term till the next working day. The rate on overnight credits of the National Bank of Ukraine may be differentiated depending on the credit security.

Rate on credits and deposits is an average weighted rate with consideration of actual volumes under agreements between banks and economic entities, individuals and state bodies.

Refinancing rate of the National Bank of Ukraine is the interest defined payment for loans extended to banks, which is set by the National Bank of Ukraine in order to influence the money turnover and crediting.

Securities other than shares are financial instruments that are negotiable and serving as evidence of the 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, savings (deposit) certificates of corporations, etc.

Financial corporations are the 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).

**Consolidated Financial
Statements of the
National Bank of Ukraine
As at 31 December 2010**

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INDEPENDENT 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 2010 and the consolidated income statement, consolidated statements of comprehensive 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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 qualified audit opinion.

Basis for Qualified Opinion

- 6 Our 2008 and 2009 auditor's reports were qualified in respect of loans to banks as at 31 December 2008 as the NBU's management had not estimated either the recoverable amount of the loans to banks to support their liquidity, for the purposes of assessing impairment provision, or the fair value of these loans, which was not in line with the policy set out in Note 2. Loans to banks to support their liquidity were issued during 2008 and 2009 and totalled UAH 60,716 million as at 31 December 2008 and UAH 87,246 million as at 31 December 2009. During the year ended 31 December 2009 the NBU recorded an impairment provision of UAH 13,360 million against loans to banks in accordance with the policy set out in Note 2. However, in the absence of the necessary information as at 31 December 2008, we were unable to satisfy ourselves as to what should have been the correct change in provisions for impairment of loans to banks recorded in the consolidated income statement for the year ended 31 December 2009.

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Qualified Opinion

- 7 In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the accompanying consolidated financial statements have been prepared, in all material respects, to present the consolidated financial position of the NBU as at 31 December 2010 and the consolidated results of its operations and cash flows for the year then ended, in accordance with the basis set out in Note 2 to the consolidated financial statements.

Emphasis of matter

- 8 Without further qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements. The NBU applies specific accounting policies to certain items in the financial statements in order to comply with the requirements of the current Ukrainian legislation. Those policies differ from those that would be required if International Financial Reporting Standards (IFRS) were followed by the NBU. Major differences between the NBU's accounting policies and IFRS are described in Note 2.

LLC AB "PricewaterhouseCoopers (Audit)"

Kyiv, Ukraine
"11" April 2011

Auditor Olena Leonenko
Bank auditor's certificate No. 0098 issued by the Audit Chamber of Ukraine



National Bank of Ukraine
Consolidated Balance Sheet as at 31 December 2010

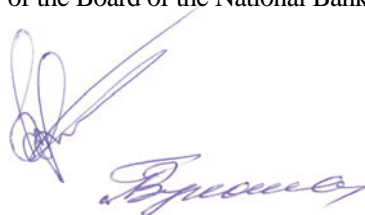
	Notes	2010	2009
<i>(in UAH millions)</i>			
Assets			
Foreign currency funds and deposits	5	122,400	98,018
Foreign securities	6	151,609	111,327
SDR Holdings	7	63	510
Monetary gold		7,191	5,434
Domestic securities	8	54,879	45,899
Loans to banks and other borrowers	9	60,782	73,964
Internal State debt	10	2,645	2,751
IMF quota contributions	11	16,823	17,175
Fixed assets and intangible assets	12	6,648	6,335
Other assets	13	2,040	1,768
Total assets		425,080	363,181
Liabilities			
Banknotes and coins in circulation		200,092	170,536
Accounts of banks	14	26,357	23,359
Accounts of State and other institutions	15	22,173	2,217
Deposit certificates issued by the NBU	16	9,442	3,421
Loans received		–	59
Liabilities to the IMF	17	76,747	66,818
Other liabilities	18	800	682
Total liabilities		335,611	267,092
Equity			
Statutory capital		100	100
Funds and other reserves		6,080	5,730
Revaluation reserve for foreign currency, monetary gold and bank metals		93,315	94,672
Fair value adjustment reserve for financial assets		(14,121)	(8,506)
Revaluation reserve for fixed assets		4,095	4,093
Total equity	20	89,469	96,089
Total liabilities and equity		425,080	363,181

Approved for issue and signed on behalf of the Board of the National Bank of Ukraine
on 11 April 2011

Governor

S.G. Arbuzov

Chief Accountant – Director of
Accounting Department



B.V. Lukasevich

The notes set out on pages 148 to 209 form an integral part of these consolidated financial statements.

National Bank of Ukraine

Consolidated Income Statement for the Year Ended 31 December 2010

	Notes	2010	2009
		<i>(in UAH millions)</i>	
Interest income	22	18,134	16,543
Interest expense	22	(2,000)	(1,337)
Net interest income	22	16,134	15,206
Fee and commission income	23	406	477
Fee and commission expense	23	(85)	(11)
Net fee and commission income	23	321	466
Results from operations with debt securities at fair value through profit or loss		2,719	2,880
Results from disposals of debt securities available for sale		1,678	–
Results from transactions with financial instruments other than debt securities at fair value through profit or loss		(11)	(13)
Other income	24	226	135
Total net income		21,067	18,674
Staff costs	25	(1,553)	(1,318)
Expenses for production of banknotes, coins, souvenirs and other products		(634)	(682)
Administrative and other expenses	26	(597)	(548)
Net increase in provisions	27	(1,199)	(13,249)
Profit for the year	19	17,084	2,877

Approved for issue and signed on behalf of the Board of the National Bank of Ukraine
on 11 April 2011

Governor

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Accounting Department

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Director of Finance Department

V.P. Prokhorenko

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National Bank of Ukraine

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2010

	2010	2009
		<i>(in UAH millions)</i>
Profit for the year	17,084	2,877
Other comprehensive income/(loss) recognised in equity		
Revaluation of foreign currency, monetary gold and bank metals	(1,357)	12,663
Revaluation of debt securities available for sale:		
– Gains less losses arising during the year	2,135	1,277
– Gains less losses recycled to profit or loss upon disposal	(1,678)	–
Revaluation of fixed assets	3	93
Total other comprehensive (loss)/ income recognised in equity for the year	(897)	14,033
Total comprehensive income for the year	16,187	16,910

Approved for issue and signed on behalf of the Board of the National Bank of Ukraine on 11 April 2011

Governor

S.G. Arbuzov

Chief Accountant – Director of Accounting Department

B.V. Lukasevich

Director of Finance Department

V.P. Prokhorenko

The notes set out on pages 148 to 209 form an integral part of these consolidated financial statements.

National Bank of Ukraine

Consolidated Statement of Cash Flows for the Year Ended 31 December 2010

	Notes	2010	2009
<i>(in UAH millions)</i>			
Operating activities			
Profit for the year		17,084	2,877
Adjustments to reconcile profit for the year to cash provided by operations:			
Depreciation and amortisation	12	382	326
Net increase in provisions for assets	27	1,199	13,249
Unwinding of discount	9	(526)	–
Accrued income		(4,270)	(747)
Accrued expense		14	64
Unrealised revaluation of foreign securities		432	2,320
Other non-cash movements		(14)	14
		<hr/>	<hr/>
Net cash inflow before changes in operating assets and liabilities		14,301	18,103
Net decrease/(increase) in loans to banks and other borrowers		13,473	(25,192)
Repayment of internal State debt	10	132	–
Net increase in other assets		(90)	(221)
Net (decrease)/increase in other liabilities		(124)	45
		<hr/>	<hr/>
Net cash from operating activities before transfer of profit to the State Budget		27,692	(7,265)
Transfer of profit to the State Budget	19	(15,547)	(5,063)
		<hr/>	<hr/>
Net cash from/(used in) operating activities		12,145	(12,328)
Investment activities			
Net (increase)/decrease in term deposits placed		(10,731)	4,123
Net (increase)/decrease in foreign securities		(41,333)	17,792
Purchase of domestic securities		(32,299)	(38,754)
Sale and redemption of domestic securities		18,822	3,561
Purchase of monetary gold		(154)	(90)
Investment in associate	13	–	(15)
Acquisition of fixed assets and intangible assets		(660)	(950)
Proceeds from disposal of fixed assets		1	1
		<hr/>	<hr/>
Net cash used in investment activities		(66,354)	(14,332)

The notes set out on pages 148 to 209 form an integral part of these consolidated financial statements.

National Bank of Ukraine

Consolidated Statement of Cash Flows for the Year Ended 31 December 2010

	Notes	2010	2009
		<i>(in UAH millions)</i>	
Financing activities			
Issue of banknotes and coins in circulation		29,556	2,998
Repayment of liabilities to the International Monetary Fund (IMF)	17	–	(676)
Proceeds from loans obtained from IMF		11,051	10,038
Net decrease in term deposits received		–	(84)
Net increase in deposit certificates of the National Bank of Ukraine		6,013	612
European Bank for Reconstruction & Development (EBRD) loans repaid		(59)	(67)
Net cash provided from financing activities		46, 561	12,821
Effect of changes in exchange rates on cash and cash equivalents		(1,528)	6,451
Net decrease in cash and cash equivalents		(9,176)	(7,388)
Cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		45,983	53,371
Cash and cash equivalents at the end of the year	21	36,807	45,983

Approved for issue and signed on behalf of the Board of the National Bank of Ukraine on 11 April 2011

Governor

S.G. Arbuzov

Chief Accountant – Director of Accounting Department

B.V. Lukasevich

The notes set out on pages 148 to 209 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 2010

	Notes	Statutory capital	Funds and other reserves	Revaluation reserve for foreign currency, monetary gold and bank metals	Revaluation reserve for fixed assets	Fair value adjustment reserve for financial assets	Total equity
<i>(in UAH millions)</i>							
Balance as at 1 January 2009		100	3,861	82,009	4,001	–	89,971
Revaluation of foreign currency, monetary gold and bank metals		–	–	12,663	–	–	12,663
Revaluation of debt securities available for sale		–	–	–	–	1,277	1,277
Revaluation of fixed assets		–	–	–	93	–	93
Upward revaluation		–	–	–	416	–	416
Downward revaluation		–	–	–	(323)	–	(323)
Realised revaluation of fixed assets		–	1	–	(1)	–	–
Other comprehensive income recognised in equity		–	1	12,663	92	1,277	14,033
Profit for 2009		–	2,877	–	–	–	2,877
Total comprehensive income for 2009		–	2,878	12,663	92	1,277	16,910
Fair value adjustment at initial recognition of financial assets	8	–	–	–	–	(10,184)	(10,184)
Amortisation of result of fair value adjustment at initial recognition of financial assets	19	–	(401)	–	–	401	–
Excess of budgeted income over budgeted expenditure for 2009 paid to the State budget	19	–	(608)	–	–	–	(608)
Balance as at 31 December 2009		100	5,730	94,672	4,093	(8,506)	96,089
Revaluation of foreign currency, monetary gold and bank metals		–	–	(1,357)	–	–	(1,357)
Available for sale investments:							
Gains less losses arising during the year		–	–	–	–	2,135	2,135
Gains less losses recycled to profit or loss upon disposal		–	–	–	–	(1,678)	(1,678)
Revaluation of fixed assets		–	–	–	3	–	3
Upward revaluation		–	–	–	3	–	3
Realised revaluation of fixed assets		–	1	–	(1)	–	–

The notes set out on pages 148 to 209 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 2010

	Notes	Statutory capital	Funds and other reserves	Revaluation reserve for foreign currency, monetary gold and bank metals	Revaluation reserve for fixed assets	Fair value adjustment reserve for financial assets	Total equity
<i>(in UAH millions)</i>							
Other comprehensive income recognised in equity		–	1	(1,357)	2	457	(897)
Profit for 2010		–	17,084	–	–	–	17,084
Total comprehensive income for 2010		–	17,085	(1,357)	2	457	16,187
Fair value adjustment at initial recognition of financial assets	8	–	–	–	–	(7,260)	(7,260)
Amortisation of result of fair value adjustment at initial recognition of financial assets	19	–	(1,188)	–	–	1,188	–
Excess of budgeted income over budgeted expenditure for 2009 and 2010 paid to the State budget	19	–	(15,547)	–	–	–	(15,547)
Balance as at 31 December 2010		100	6,080	93,315	4,095	(14,121)	89,469

Approved for issue and signed on behalf of the Board of the National Bank of Ukraine on 11 April 2011

Governor

S.G. Arbuzov

Chief Accountant – Director of Accounting Department

B.V. Lukasevich

Director of Finance Department

V.P. Prokhorenko

The notes set out on pages 148 to 209 form an integral part of these consolidated 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 sustainability of the economic growth as well as to support the economic policy of the Cabinet of Ministers of Ukraine providing that it does not prevent the NBU from carrying out its primary function.

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 international 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 the State Treasury of Ukraine, accounts of international organisations and conducts other operations necessary for the performance of its functions. The NBU also performs functions of a depository for State securities of Ukraine.

The statutory capital of the NBU is owned by the State.

In accordance with the Constitution of Ukraine the main task of the NBU Council is to develop Main principles of monetary policy and exercise control over implementation of the monetary policy. In addition, in accordance with the Law of Ukraine "On the National Bank of Ukraine", the NBU Council approves annually the NBU budget of income and expenditure for the next year, takes decision on increase of the NBU statutory capital, approves annual financial statements of the NBU, report on fulfilment of the NBU budget of income and expenditure and distribution of profit for the reporting year, approves decisions of the NBU Board on the NBU's participation in international financial organisations, as well as performs other functions according to its authority defined by the Ukrainian legislation.

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 Ukrainian Banking Academy (Sumy) includes Sevastopol Banking Institute and the structure of the Banking University (Kyiv) 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"), except for the cases when the NBU applies specific accounting policies to comply with the requirements of the Ukrainian legislation, in particular, 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, monetary gold and bank metals resulting from changes in official exchange rate of Ukrainian hryvnia to foreign currencies, monetary gold and bank metals, including the realised revaluation result, are posted directly to revaluation reserve in the equity section. This differs from IFRS requirements, in particular 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 is accounted for at cost less provision for impairment. Provision for impairment is raised in the amounts approved by the Resolution of 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 10 and 35.

These consolidated 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 constructions, financial instruments available for sale and 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, Ukrainian hryvnia ("UAH"). The consolidated 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 became mandatory for application from 1 January 2010. Listed below are those amended IFRSs which came into force in 2010 and were applied to the NBU's operations in the reporting period:

IAS 27, Consolidated and Separate Financial Statements

The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance. The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment

retained in the former subsidiary should be measured at its fair value.

Management of the NBU believes that these amendments did not have any material effect on the NBU's consolidated financial statements.

Amendments to standards adopted before their effective date

Amendment to IAS 1, Presentation of Financial Statements (issued in May 2010 as part of the Annual Improvements to International Financial Reporting Standards). The amendment clarifies the requirements for the presentation and content of the statement of changes in equity. Reconciliation between the carrying amount at the beginning and the end of the period for each component of equity must be presented in the statement of changes in equity, but its content is simplified by allowing an analysis of other comprehensive income by item for each component of equity to be presented in the notes.

Listed below are those amended IFRSs and interpretations which became effective from 1 January 2010, but were not applicable for the NBU's consolidated financial statements:

Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009).

IFRS 3, Business Combinations

Amendments to IFRS 2, Share-based Payment

Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009).

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010).

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009).

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009).

Listed below are amended IFRSs and interpretations, which become effective in 2011 and subsequent reporting periods:

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, Financial Instruments: Disclosures. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss

based on the fair value of the equity instruments compared to the carrying amount of the debt.

Classification of Rights Issues – Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.

Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 January 2011.). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosures are required to enable the effects of those risks to be understood.

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, Income Taxes – Recovery of Revalued Non-Depreciable Assets, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, Property, Plant and Equipment, was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value.

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position.

The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques at initial recognition and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes.

The NBU does not expect the amendments to be applicable to its consolidated financial statements.

Changes to IFRS, which the NBU has not early adopted and which the NBU intends applying in subsequent reporting periods:

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. Key features are as follows:

financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument;

an instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The NBU is considering the impact of the standard on its consolidated financial statements and the timing of its adoption by the NBU.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its finan-

cial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the year; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The NBU does not expect the amendments to have any material effect on its consolidated financial statements.

Key measurement terms

Depending on their classification the financial assets and liabilities are carried at fair value, cost or amortised cost.

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 distressed 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 promissory notes of State Treasury of Ukraine.

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 accrued interest, 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 denominated in foreign currency are recorded at historical cost (at the official exchange rate of hryvnia to foreign currencies at the date when the asset was acquired).

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 in hryvnias at the official exchange rate of the NBU. The official exchange rate is calculated based on information on gold prices determined (fixed) by participants of the London Bullion Market Association in US dollars translated into UAH at the NBU official UAH/US dollar exchange rate.

Interest-bearing gold placements with foreign banks are included in foreign currency funds and deposits.

The principal official exchange rates of hryvnia to foreign currencies used for translating monetary balance sheet items and monetary gold were:

	31 December 2010	31 December 2009
	(UAH)	(UAH)
USD 1	7.961700	7.985000
SDR 1	12.261295	12.518009
EUR 1	10.573138	11.448893
1 troy ounce of gold	11,237.940	8,723.613

Operations with International Monetary Fund

The NBU acts as the depository and fiscal agent of Ukraine (in respect of funds received by the NBU) in the relationship of Ukraine with the International Monetary Fund (IMF). All claims of Ukraine on and liabilities to the IMF in respect of funds received by the NBU are recorded in the consolidated 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 in settlement of quota and the NBU as a fiscal agent in respect of its borrowings and balances on IMF accounts No. 1 and No. 2. IMF account No. 1 is used for IMF transactions including quota 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 including IMF quota contributions 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 consolidated statement of income.

*The official exchange rate of hryvnia to US dollar is set based on weighted average exchange rate of purchases and sales on interbank foreign exchange market of Ukraine for the previous working day with possible deviation of $\pm 2\%$. The official exchange rate of hryvnia to other foreign currencies is set based on the official exchange rate of hryvnia to US dollar and cross-rates of respective currencies on international markets.

Operations with 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 associates or subsidiaries) and State debt securities, 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 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 recognition and measurement

Financial instruments other than internal State debt are recognised as follows:

transactions with financial instruments are recorded in the consolidated 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. Result of fair value adjustment for State securities on transactions with the State at their initial recognition is recorded directly in consolidated statement of changes in equity.

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 consolidated statement of income in the period in which it arises;

debt securities available for sale are revalued quarterly as at reporting date. Result from revaluation is recorded in the consolidated statement of comprehensive income and consolidated statement of changes in equity, realised revaluation result and interest income calculated using effective interest rate method are recorded in the consolidated statement of income;

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 designated as loans and receivables and loans to banks and other borrowers are recorded at amortised cost using effective interest method.

Provisions for impairment of financial assets

Impairment losses are recognised in the consolidated 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.

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 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.

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 consolidated income statement.

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. Where loans are issued at floating rates of interest, impairment is measured using the current effective interest rate.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed.

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 the Government of Ukraine. 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 starting from 2010. Refer to Notes 10 and 32.

Sale and repurchase agreements with securities

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. Increase in carrying value as a result of revaluation is recognised in other comprehensive income and in revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to consolidated income statement for the year. 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 the replaced part is charged to consolidated income statement of current reporting 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 consolidated statement of changes 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 consolidated income statement.

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 available for 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	7–28 years;
machinery and equipment	4–30 years;
fixtures and fittings	4–10 years;
other	2–25 years.

Land and construction in progress are not depreciated.

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 3 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 50% 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.

Investment in associate

Associates are entities, in 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 consolidated 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 information on precious metals prices determined (fixed) by participants of the London Bullion Market Association and participants of the London Platinum and Palladium Market and 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 2010	31 December 2009
	(UAH)	(UAH)
1 troy ounce of gold	11,237.940	8,723.613
1 troy ounce of silver	244.424	135.106
1 troy ounce of platinum	14,012.592	11,690.040
1 troy ounce of palladium	6,345.475	3,122.135

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 in consolidated balance sheet.

Banknotes and coins in circulation

The amount of banknotes and coins in circulation represents 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 retirement of debt in the consolidated 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 consolidated 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 (received) 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 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 to obligatory State social funds

Under the Ukrainian legislation, the NBU makes contributions to the obligatory State social funds including the pension fund, social security for temporary disability, obligatory State social security fund for unemployment and accident social security fund. Contributions to the obligatory State social funds are expensed as incurred.

Taxation

In accordance with the Law of Ukraine "On Corporate Profit Tax" the NBU and its units transfer to the State budget of Ukraine the excess of budgeted income over budgeted expenditure as it is required by the Law of Ukraine "On the National Bank of Ukraine". These transfers are trea-

ted as distributions to owners and are recorded in the statement of changes in equity. Refer also to Note 19.

Taxes other than on income are recorded within administrative and other expenses.

Corporate Non-State Pension Fund

The NBU established a 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. Upon retirement of NBU employees, all benefits are paid by the Corporate Non-State Pension Fund of the NBU.

The NBU acts as administrator, asset manager and custodian of the Corporate Non-State Pension Fund of the National Bank of Ukraine.

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 consolidated balance sheet, it is not taken into account when calculating the net profit or loss but included in the consolidated statement of comprehensive income.

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.

Changes in presentation

Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts. Net movement in foreign securities which was previously included in operating activities, has been reclassified to investing activities to better reflect the purpose of operations with foreign securities. The effect of this reclassification for presentation purposes on amounts for the year ended 31 December 2009 was as follows:

	As originally presented	Reclassification	As reclassified for 2009
			<i>(in UAH millions)</i>
Net cash from/(used in) operating activities	5,464	(17,792)	(12,328)
Net cash used in investing activities	(32,124)	17,792	(14,332)

The changes in presentation adopted in 2010 did not have any impact on the statement of financial position and the NBU therefore does not present information as of 1 January 2009.

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The NBU makes estimates, assumptions and judgements that affect the amounts of assets and liabilities reported in the consolidated financial statements for the current year and those reported 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's management makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on loans granted by the NBU. The NBU uses estimates based on historical loss experience for assets with credit risk characteristics similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase of impairment losses of UAH 1,339 million or decrease of UAH 1,433 million respectively (2009: increase or decrease of UAH 1,364 million).

The NBU used all available information to estimate the amount and timing of future cash flows for individual loans. However, the measures that the Government will take regarding recapitalised banks and certain banks under temporary administration remain uncertain. As at 31 December 2010 loans totalling UAH 18,027 million (2009: UAH 16,653 million) were outstanding from these banks. The provision for loan impairment for this exposure, totalled UAH 11,236 million (2009: UAH 8,346 million). The Government is considering various options for the future operations of these banks and their actions may significantly impact the amount of future cash flows and therefore the amount of impairment loss relating to these loans. When assessing the impairment, management of the NBU took into account the most likely actions, however, future events may differ from these expectations.

Restructuring of internal State debt

In the year ended 31 December 2009, restructuring of internal State debt was accounted for as derecognition of internal State debt in foreign currency and recognition of State securities in national currency. This judgement was based on the fact that practically all risks and rewards associated with ownership of the asset changed as a result of this transaction and management considered appropriate to derecognise one asset and recognise any rights arising as a result of the restructuring as a new asset.

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 these assumptions may

affect reported fair values. Management believes that no significant movements occurred in the fair value of the NBU's buildings and constructions in 2010. Revaluation of buildings and constructions was not made in 2010. The valuation as at 31 December 2009 was based on comparative sales of premises with the price per square meter varying from UAH 1,021 for household premises to UAH 38,453 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 as at 31 December 2009 would be UAH 240 million higher or UAH 240 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. Fair value adjustments at initial recognition of State debt securities purchased in accordance with the requirements of the Law of Ukraine "On Immediate Measures to Prevent Negative Impact of Financial Crisis and Changes to Certain Laws of Ukraine" and those purchased at the request of Government are considered as those entered into at the request of the State. As the statutory capital of the NBU is owned by the State, such losses are considered as transactions with owners and recognized directly in consolidated statement of changes in equity. When assessing the fair value of State debt securities at initial recognition certain judgements and estimates were applied by the NBU in determination of market rates used in discounted cash flow calculations. To the extent that the discount rates applied differ by +/- 1 per cent, the loss on initial recognition of State debt securities would be UAH 775 million (2009: UAH 1,202 million) higher or UAH 813 million (2009: UAH 1,279 million) lower respectively. Terms and conditions of related party balances are disclosed in Note 37.

4. Effect of Economic Conditions on the Financial Position and Results of Operations of the NBU

During 2010 the NBU's monetary policy was carried out in the context of the post-crisis economic recovery. Real GDP growth was 4.2% (2009: GDP contraction was 15.1%). Production output increased on an annual basis by 11.0% (2009: production output decreased by 21.9%).

The consumer price index in 2010 decreased to 109.1% as a result of both external and internal factors (2009: consumer price index was 112.3%).

Improving economic situation in Ukraine in 2010 was accompanied by positive changes in the financial and banking area including the monetary market.

Additionally, the country ratings by international rating agencies were upgraded in 2010. As at 31 December 2010 the sovereign ratings of Ukraine were "B2" by Moody's, "B+" by Standard & Poor's and "B" by Fitch (31 December 2009: "B2" by Moody's, "CCC+" by Standard & Poor's and "B-" by Fitch).

The official exchange rate of hryvnia to USD as at 31 December 2010 was UAH 7.9617 per USD 1 (31 December 2009: UAH 7.9850 per USD 1).

The level of international reserves increased from USD 26.5 billion as at 31 December 2009 to USD 34.6 billion as at 31 December 2010.

In addition to quantitative regulation of money supply, the NBU exercised active interest rate policy. In line with slow-down of inflation the NBU decreased its discount rate (which is the basis rate for all other interest rates set by the NBU) 3 times during 2010. Starting from 10 August 2010 the NBU discount rate was set at the level of 7.75% per annum which was aimed at increasing lending activities in the national economy.

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. As a result the NBU was required to purchase State securities of Ukraine with the total nominal value of UAH 23,649 million (2009: UAH 29,342 million) and transferred to the State budget of Ukraine UAH 15,547 million as payment of the excess of budgeted income over budgeted expenditure for the year 2009 and payment in respect of the excess of budgeted income over budgeted expenditure for each quarter of 2010 (2009: transferred to the State budget of Ukraine the remaining amount of UAH 4,455 million of the excess of budgeted income over budgeted expenditure for the year ended 31 December 2008 and the excess of budgeted income over budgeted expenditure for 2009 of UAH 608 million). Refer to Notes 8 and 19.

The balance sheet items representing amounts due from Ukrainian Government are summarised in the table below.

	Notes	2010	2009
			(in UAH millions)
Domestic securities	8	54,879	45,899
Internal State debt (gross)	10	3,306	3,439

The estimated fair value of amounts due from Government is disclosed in Note 35.

The NBU believes that it is not possible to reliably estimate the effects on the NBU's future financial position of any further possible change in the liquidity of the financial markets and their increased volatility.

5. Foreign Currency Funds and Deposits

	2010	2009
		(in UAH millions)
Financial assets		
Foreign currency cash	80	87
Demand deposits	12,604	16,076
Term deposits in foreign currency	103,168	76,599
Accrued interest receivable on deposits		
in gold and bank metals	7	8
Total financial assets	115,859	92,770
Non-financial assets		
Demand and term deposits		
in gold	2,753	2,137
in bank metals	3,788	3,111
Total non-financial assets	6,541	5,248
Total foreign currency funds and deposits	122,400	98,018

The amount of demand deposits includes balances on special purpose accounts totalling UAH 139 million (2009: UAH 161 million) maintained by the NBU under credit lines received from international financial institutions and UAH 6 million (2009: UAH 3 million) margin reserve for settlements under futures operations within the framework of Agreements on investment management and advisory services between the International Bank for Reconstruction and Development and the NBU. Refer to Note 34.

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 were neither past due nor impaired at 31 December 2010 and 31 December 2009. The foreign currency deposits are not collateralised.

All foreign currency funds and deposits are expected to be recovered within 12 months except for term deposits totalling UAH 2,466 million maturing later than in 12 months (2009: UAH 1,914 million).

The geographical analysis of the foreign currency funds and deposits is disclosed in Note 29, credit risk analysis is disclosed in Note 30, currency risk analysis is presented in Note 31, interest rate risk analysis is presented in Note 32 and liquidity risk analysis is presented in Note 33.

6. Foreign Securities

As at 31 December 2010 foreign securities included the following:

	Government bonds	Securities of international agencies, banks and other issuers	Total
	<i>(in UAH millions)</i>		
Debt securities at fair value through profit or loss by issuers:			
Securities issued by US issuers:			
denominated in US dollars	68,039	3,559	71,598
Securities of EU States issuers:			
denominated in British pounds	7,954	4,102	12,056
denominated in US dollars	2,870	13,233	16,103
denominated in Euro	34,305	8,835	43,140
Bonds of Bank for International Settlements:			
denominated in US dollars	–	660	660
Securities of other issuers:			
denominated in British pounds	–	565	565
denominated in Euro	–	225	225
denominated in US dollars	884	6,257	7,141
Total debt securities at fair value through profit or loss	114,052	37,436	151,488
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	114,052	37,557	151,609

All foreign debt securities were neither past due nor impaired at 31 December 2010 and 31 December 2009.

In 2010 interest income earned on foreign debt securities included in results from operations with debt securities at fair value through profit or loss in the consolidated income statement amounted to UAH 3,374 million (2009: UAH 4,022 million).

All foreign securities are expected to be recovered within 12 months except for equity securities available for sale totalling UAH 121 million (2009: UAH 121 million).

Bonds of international agencies, banks and other issuers include debt securities issued by foreign central and investment banks, international agencies and other issuers.

Government bonds included in securities of other issuers are represented by bonds issued by foreign local governments.

Shares of Black Sea Trade and Development Bank

Investment into the share capital of Black Sea Trade and Development Bank (BSTDB) was made in accordance with the Agreement on establishment of BSTDB dated 30 June 1994.

As at 31 December 2010 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) (2009: SDR 24 million or UAH 120 million). The NBU's share in the paid in share capital of BSTDB was 4% (2009: 4%).

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 20.7%. 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 NBU could not reliably estimate the fair value of its investments in shares of the BSTDB and ISB. The investments are carried at cost of UAH 121 million (2009: 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.

The geographical analysis of foreign securities is disclosed in Note 29, credit risk analysis for debt securities is disclosed in Note 30, currency risk analysis is presented in Note 31, interest rate risk analysis is presented in Note 32 and liquidity risk analysis is presented in Note 33.

As at 31 December 2009 the foreign securities include the following:

	Government bonds	Securities of international agencies, banks and other issuers	Total
	<i>(in UAH millions)</i>		
Debt securities at fair value through profit or loss by issuers:			
Securities issued by US issuers:			
denominated in US dollars	25,739	4,028	29,767
Securities of EU States issuers:			
denominated in British pounds	9,214	5,088	14,302
denominated in US dollars	2,173	12,954	15,127
denominated in Euro	36,834	7,656	44,490
Bonds of Bank for International Settlements:			
denominated in US dollars	–	674	674
Securities of other issuers:			
denominated in British pounds	–	341	341
denominated in Euro	–	1,042	1,042
denominated in US dollars	1,295	4,168	5,463
Total debt securities at fair value through profit or loss	75,255	35,951	111,206
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	75,255	36,072	111,327

Information on nominal value, yield to maturity, coupon income and maturities of foreign debt securities held by the NBU as at 31 December 2010, is presented in the table below:

	Total nominal value in foreign currency, in millions	Total nominal value in hryvnia equivalent, in UAH millions	Yield to maturity, % p.a.	Coupon rate, % p.a.	Frequency of coupon payments	Maturity
Debt securities at fair value through profit or loss by issuers:						
Government bonds:						
Securities issued by US issuers: denominated in US dollars	8,386	66,767	0.167–1.987	0.375–5	Every 6 months	From 1 month to 5 years
Securities of EU States issuers: denominated in British pounds	617	7,582	0.590–1.574	0.786–9.0	Every 6 months or quarterly	From 2 months to 4.2 years
denominated in US dollars	355	2,826	0.3667–1.5667	0.625–3.5	Annually or every 6 months	From 5 months to 3 years
denominated in Euro	3,074	32,506	0.364–3.915	0.5–6.5	Annually or quarterly	From 4 days to 4.8 years
Securities of other issuers: denominated in US dollars	108	860	0.305–1.233	0.434–3.5	Quarterly or every 6 months	From 4 months to 2.5 years
Bonds of international agencies, banks and other issuers						
Securities issued by US issuers: denominated in US dollars	437	3,479	0.188–1.075	0.289–4.5	Every 6 months or quarterly	From 2 months to 2.5 years
Securities of EU States issuers: denominated in British pounds	318	3,906	0.762–2.20	0.7885–5.375	Quarterly or annually	From 2 months to 3.7 years
denominated in US dollars	1,621	12,908	0.288–2.767	0.288–5.5	Quarterly, every 6 months or annually	From 24 days to 5.8 years
denominated in Euro	820	8,670	0.791–2.924	0.942–4.75	Quarterly or annually	From 27 days to 6.2 years
Bonds of Bank for International Settlements:						
denominated in US dollars	80	637	0.230	3.875	Every 6 months	349 days
Securities of other issuers: denominated in British pounds	45	553	1.287–1.764	2.25–6.875	Every 6 months or annually	From 5 months to 3 years
denominated in US dollars	771	6,140	0.339–2.136	0.466–5.875	Quarterly, every 6 months or annually	From 2 months to 5 years
denominated in Euro	20	211	2.88	3.5	Annually	Up to 4 years

Information on nominal value, yield to maturity, coupon income and maturities of foreign debt securities held by the NBU as at 31 December 2009 is presented in the table below:

	Total nominal value in foreign currency, in millions	Total nominal value in hryvnia equivalent, in UAH millions	Yield to maturity, % p.a.	Coupon rate, % p.a.	Frequency of coupon payments	Maturity
Debt securities at fair value through profit or loss by issuers:						
Government bonds:						
Securities issued by US issuers:						
denominated in US dollars	3,109	24,828	0.19–3.92	0.75–6.5	Every 6 months	From 1 month to 10 years
Securities of EU States issuers:						
denominated in British pounds	691	8,749	0.57–1.82	3.25–9	Every 6 months	From 5 months to 2.5 years
denominated in US dollars	265	2,116	0.97–1.73	1.25–3.5	Every 6 months or annually	From 1.6 to 2.7 years
denominated in Euro	3,024	34,627	0.4–2.66	1.25–6.5	Annually	From 4 days to 5 years
Securities of other issuers:						
denominated in US dollars	158	1,262	0.34–2.44	0.42–3.5	Quarterly or every 6 months	From 8 months to 3.5 years
Bonds of international agencies, banks and other issuers						
Securities issued by US issuers:						
denominated in US dollars	495	3,953	0.23–1.89	0.18–4.5	Monthly, quarterly or every 6 months	From 4 months to 3 years
Securities of EU States issuers:						
denominated in British pounds	383	4,851	0.63–3.122	0.623–5.5	Quarterly or annually	From 1 month to 5 years
denominated in US dollars	1,577	12,596	0.24–3.72	0.28–5.5	Quarterly, every 6 months or annually	From 19 days to 7 years
denominated in Euro	648	7,419	0.48–2.897	0.96–4.75	Quarterly or annually	From 2 months to 5 years
Bonds of Bank for International Settlements:						
denominated in US dollars	80	639	1.11	3.88	Every 6 months	Up to 2 years
Securities of other issuers:						
denominated in British pounds	25	317	1.74	6.875	Every 6 months	Up to 1.5 years
denominated in US dollars	511	4,082	0.38–2.99	0.46–5.875	Quarterly, every 6 months or annually	From 5 months to 5 years
denominated in Euro	90	1,030	0.588–3.655	1.335–4.375	Quarterly or annually	From 5 months to 5 years

7. SDR Holdings

SDR holdings are demand funds denominated in SDR on an account opened with IMF for Ukraine.

Movements in SDR holdings account during 2010 were as follows:

	2010	2009
	<i>(in UAH millions)</i>	
Balance of SDR holdings as at 1 January	510	66
Receipt of funds from the IMF under Stand-by programme:		
in favour of the NBU	11,107	10,088
in favour of Government	16,083	36,946
Receipts of funds from the IMF under SDR allocation	–	16,349
Purchase of SDRs	1,704	1,267
Other receipts and payments	66	50
Repayment of loan	–	(676)
Payment of loan related commission	(239)	(335)
Conversion of SDRs into other foreign currencies:		
in favour of the NBU	(11,099)	(10,019)
in favour of Government	(16,078)	(52,521)
Payment of interest for use of IMF resources:		
on behalf of the NBU	(1,060)	(797)
on behalf of Government	(870)	(268)
Payment of interest for use of funds received under SDR allocation:		
on behalf of the NBU	(4)	(7)
on behalf of Government	(39)	–
Income on SDR holdings	–	9
Translation differences	(18)	358
Balance of SDR holdings as at 31 December	<u>63</u>	<u>510</u>

During 2010 funds totalling SDR 2,250 million (UAH 27,190 million at the official exchange rate at the date of payment) were received into SDR holdings account under Stand-by programme. Out of these funds SDR 575 million (UAH 6,906 million at the official exchange rate at the date of receipt) and SDR 345 million (UAH 4,201 million at the official exchange rate at the date of receipt) represented the first and second tranche under the new Stand-by programme allocated to the NBU which were converted into other foreign currencies and recorded as a liability of the NBU due to IMF, SDR 675 million (UAH 8,107 million at the official exchange rate at the date of receipt) and SDR 655 million (UAH 7,976 million at the official exchange rate at the date of receipt) represented funds received in favour of Government under the first and second tranche of Stand-by programme which were converted into other foreign currencies and credited to State Treasury account with the NBU.

During 2009 funds totalling SDR 4,000 million (UAH 47,034 million at the official exchange rate at the date of payment) were received into SDR holdings account under Stand-by programme. Out of these funds SDR 875 million represented the tranche under Stand-by programme allocated to the NBU which were converted into other foreign currencies and recorded as a liability of the NBU due to IMF, SDR 1,000 million (UAH 11,529 million at the official exchange rate at the date of receipt) and SDR 2,125 million (UAH 25,417 million at the official exchange rate at the date of receipt) represented funds received in favour of Government under the second and third tranche of Stand-by programme respectively which were converted into other foreign currencies and credited to State Treasury account with the NBU.

In connection with the financial crisis to provide liquidity to global economy through replenishment of foreign reserves of IMF member countries, in 2009 the IMF Board of Governors took a decision on general and special SDR allocations.

During 2009 funds totalling SDR 1,017 million (UAH 12,667 million at the official exchange rate at the date of payment) were received into SDR holdings account in respect of general SDR allocation and funds totalling SDR 292 million (UAH 3,682 million at the official exchange rate at the date of payment) were received in respect of special allocation. Part of these funds totalling SDR 1,228 million (UAH 15,329 million) was converted into US dollars and Euro and transferred to accounts of the State Treasury of Ukraine for financing fiscal deficit. Liability to the IMF in respect of funds not yet used in the amount of SDR 81 million (UAH 999 million at the year end official exchange rate) is disclosed in Note 17.

8. Domestic Securities

As at 31 December 2010 securities of Ukraine included the following:

	State securities	Corporate securities	Total
	<i>(in UAH millions)</i>		
Debt securities available for sale:			
denominated in national currency:			
Internal State debt bonds ("OVDP")	7,835	–	7,835
denominated in foreign currency:			
External State bonds denominated in US dollars	1,487	–	1,487
External State bonds denominated in Euro	822	–	822
Total debt securities available for sale	10,144	–	10,144
Debt securities categorised as loans and receivables:			
Denominated in national currency:			
Internal State debt bonds	43,528	–	43,528
Bonds issued by State Mortgage Institution	–	1,207	1,207
Total debt securities categorised as loans and	43,528	1,207	44,735
Total domestic securities	53,672	1,207	54,879

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.

Internal State debt bonds ("OVDP") are issued by the Ministry of Finance of Ukraine. The nominal value of OVDP is UAH 1,000 each.

External State bonds ("OZDP") are issued by the Ministry of Finance of Ukraine. OZDP are denominated in US dollars and Euro and have nominal value of USD 1,000, USD 100,000 or EUR 50,000.

In April 2010, External State bonds ("OZDP") denominated in US dollars and Euro with the nominal value of UAH 2,331 million (equivalent at the date of reclassification) were reclassified from securities held to maturity to securities available for sale according to the NBU Board's decision because the NBU intended to dispose of them.

The promissory notes of the State Treasury of Ukraine were 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. Promissory notes of UAH 199 million (2009: 196 million) were redeemed in full in 2010. The promissory notes of the State Treasury were non-interest bearing.

Bonds of the State Mortgage Institution with additional security in form of the State guarantee issued by the Cabinet of Ministers of Ukraine ("DIU bonds") are debt securities which were partially purchased by the NBU for the purposes of regulating monetary market in the amount of UAH 505 million with the other part in the amount of UAH 702 million received from a bank which defaulted on its obligations to the NBU. DIU bonds have nominal value of UAH 100,000 each.

During 2010 the NBU acquired OVDP with the total nominal value of UAH 8,402 million in accordance with the Law of Ukraine "On Immediate Measures to Prevent Negative Impact of Financial Crisis and Changes to Certain Legislative Acts of Ukraine". In accordance with the Law the NBU purchased these securities at nominal value from banks recapitalised in accordance with decision of the Government.

In 2010 the National Bank of Ukraine at the request of the Government also acquired OVDP issued to recapitalise NJSC "Naftogaz" with the total nominal value of UAH 15,247 million. These securities were also acquired at the nominal value.

The above OVDP, acquired by the NBU in 2010 were categorised as loans and receivables. The fair value of these securities at the date of acquisition was UAH 16,578 million. The difference between funds paid for these securities and their fair value at initial recognition totalling UAH 7,260 million was charged to equity (refer to Note 3).

In 2009 the NBU acquired OVDP with total nominal value of UAH 29,342 million. In addition, in December 2009 the NBU received OVDP with the total nominal value of UAH 7,991 million as a result of restructuring of Government debt to the NBU on loans in foreign currency in accordance with the Law of Ukraine "On the State Budget of Ukraine for 2009". Also during 2009 the NBU acquired OZDP with total nominal value of UAH 2,262 million for the purposes of refinancing Ukrainian banks following the guidelines of the Law of Ukraine "On the State Budget of Ukraine for 2009".

These OVDP acquired in 2009 were categorised as loans and receivables. The fair value of these State securities at the date of acquisition was UAH 29,411 million. The difference between nominal value of these securities and their fair value at initial recognition totalling UAH 10,184 million was charged to equity (refer to Note 3).

Debt securities available for sale include OVDP used for operations with two-side quotes performed as sales of OVDP with their repurchase from holders at any time guaranteed by legislation. As at 31 December 2010 total nominal value of OVDP with two-side quotes was UAH 2,908 million (31 December 2009: UAH 3,880 million).

All domestic securities were neither past due nor impaired at 31 December 2010 and 31 December 2009.

All domestic securities are expected to be recovered later than within 12 months from the balance sheet date except for short-term OVDP and accrued interest on debt securities totalling UAH 3,278 million payable in 2011 (2009: all domestic securities expected to be recovered after more than 12 months from the balance sheet date except for short-term OVDP and accrued interest on debt securities totalling UAH 2,233 million payable in 2010).

The credit risk analysis of domestic securities is disclosed in Note 30, currency risk analysis is disclosed in Note 31, interest rate risk analysis is presented in Note 32 and liquidity risk analysis is presented in Note 33. Information on the estimated fair value of domestic securities is presented in Note 35.

As at 31 December 2009 domestic securities comprised the following:

	State securities	Corporate securities	Total
			<i>(in UAH millions)</i>
Debt securities available for sale			
denominated in national currency:			
Internal State debt bonds ("OVDP")	14,600	–	14,600
Total debt securities available for sale	14,600	–	14,600
Debt securities held to maturity:			
denominated in national currency:			
Promissory notes of the State Treasury of Ukraine	199	–	199
denominated in foreign currency ("OZDP"):			
External State bonds denominated in US dollars	895	–	895
External State bonds denominated in Euro	526	–	526
Total debt securities held to maturity	1,620	–	1,620
Debt securities categorised as loans and receivables:			
denominated in national currency:			
Internal State debt bonds	28,472	–	28,472
Bonds issued by State Mortgage Institution	–	1,207	1,207
Total debt securities categorised as loans and receivables	28,472	1,207	29,679
Total domestic securities	44,692	1,207	45,899

Information on nominal value, yield to maturity, coupon income and maturities of domestic securities as at 31 December 2010 is presented in the table below:

	Total nominal value in hryvnia/hryvnia equivalent, in UAH millions	Total nominal value in foreign currency, in millions	Yield to maturity, % p.a.	Coupon rate, % p.a.	Frequency of coupon payments	Maturity
Debt securities available for sale:						
denominated in national currency:						
Internal State debt bonds	7,478	–	5.32–11.82	9.50–25.14	Quarterly or every 6 months	From 4 months to 6 years
denominated in foreign currency:						
External State bonds denominated in US dollars	1,461	183	5.31–6.79	6.38–7.65	Every 6 months	From 2 to 7 years
External State bonds denominated in Euro	878	83	6.83	4.95	Annually	Up to 5 years
Debt securities categorised as loans and receivables:						
denominated in national currency:						
Internal State debt bonds	56,104	–	9.83–17.94	9.50–12.00	Every 6 months	From 2 to 12 years
Bonds issued by State Mortgage Institution	1,200	–	7.60–12.66	9.40–12.10	Quarterly	From 2 to 4 years

Information on nominal value, yield to maturity, coupon income and maturities of domestic securities as at 31 December 2009, is presented in the table below:

	Total nominal value in hryvnia/hryvnia equivalent, in UAH millions	Total nominal value in foreign currency, in millions	Yield to maturity, % p.a.	Coupon rate, % p.a.	Frequency of coupon payments	Maturity
Debt securities available for sale:						
denominated in national currency:						
Internal State debt bonds	14,241	–	9.75–21.08	9.50–20.00	Quarterly or every 6 months	From 2 months to 6 years
Debt securities categorised as loans and receivables:						
denominated in national currency:						
Internal State debt bonds	36,490	–	9.73–19.03	6.59–12.00	Quarterly or every 6 months	From 4 months to 11 years
Bonds issued by State Mortgage Institution	1,200	–	9.74–12.66	9.40–12.10	Quarterly	From 3 to 5 years
Debt securities held to maturity:						
denominated in national currency:						
Promissory notes of the State Treasury of Ukraine	199	–	–	–	–	Up to 1 year
denominated in foreign currency:						
External State bonds denominated in US dollars	1,466	183	16.57–26.62	6.38–7.65	Every 6 months	From 2 to 7 years
External State bonds denominated in Euro	951	83	14.69–19.76	4.95	Annually	Up to 6 years

9. Loans to Banks and Other Borrowers

Loans to banks and other borrowers by the purpose of their issue are classified as follows:

	2010	2009
	<i>(in UAH millions)</i>	
Loans granted to banks to support their liquidity:		
for stabilising banking activities	73,033	85,167
under repo agreements	114	66
loans provided through tenders performed by the NBU	100	1,332
Long-term loans for EURO 2012 and other purpose loans	1,603	671
Other	10	10
Loans granted under credit lines for support of small and medium enterprises from funds received from the European Bank for Reconstruction and Development (EBRD)	58	146
Other	193	212
Provision for impairment of loans to banks and other borrowers	(14,329)	(13,640)
Total loans to banks and other borrowers	60,782	73,964

other borrowers were as follows:

Analysis by credit quality of loans to banks and other borrowers outstanding at 31 December 2010 is as follows:

	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
	<i>(in UAH millions)</i>			
Neither past due nor impaired, by credit rating				
Â-	29,814	–	–	29,814
ÑÑÑ+	1,900	–	–	1,900
Unrated	10,098	2	–	10,100
Loans renegotiated in 2010	3,034	–	–	3,034
Total neither past due nor impaired	44,846	2	–	44,848
Past due but not impaired				
less than 30 days overdue	323	–	–	323
31 to 90 days overdue	52	–	–	52
91 to 180 days overdue	6	–	–	6
Over 360 days overdue	7	–	–	7
Total past due but not impaired	388	–	–	388
Individually impaired				
not yet past due	18,885	–	24	18,909
less than 30 days overdue	52	–	–	52
31 to 90 days overdue	174	–	–	174
91 to 180 days overdue	54	–	–	54
181 to 360 days overdue	352	–	–	352
Over 360 days overdue	10,109	58	167	10,335
Total individually impaired	29,626	58	191	29,876
Provision for impairment of loans to banks and other borrowers	(14,104)	(58)	(167)	(14,329)
Total loans to banks and other borrowers	60,756	2	24	60,782

As disclosed in Note 2, the primary factors that the NBU considers in determining whether a loan is impaired are its overdue status, realisability of related collateral, if any and worsening of the borrower's financial position. As a result, the NBU presents in the table above an ageing analysis of loans that are individually determined to be impaired.

Analysis by credit quality of loans to banks and other borrowers outstanding at 31 December 2009 is as follows:

	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	Tot
	<i>(in UAH millions)</i>			
Neither past due nor impaired, by credit rating				
A-	18,584	1	–	18,585
AAA+	746	3	–	749
AAA	356	–	–	356
Unrated	7,256	50	–	7,306
Loans renegotiated in 2009	27,783	–	–	27,783
Total neither past due nor impaired	54,725	54	–	54,779
Past due but not impaired				
less than 30 days overdue	1,241	–	–	1,241
30 to 90 days overdue	219	–	–	219
181 to 360 days overdue	39	25	–	64
Total past due but not impaired	1,499	25	–	1,524
Individually impaired				
not yet past due	17,409	–	43	17,452
less than 30 days overdue	448	–	–	448
30 to 90 days overdue	1,216	–	–	1,216
91 to 180 days overdue	120	–	–	120
181 to 360 days overdue	11,829	–	–	11,829
Over 360 days overdue	–	67	169	236
Total individually impaired	31,022	67	212	31,301
Provision for impairment of loans to banks and other borrowers	(13,361)	(67)	(212)	(13,640)
Total loans to banks and other borrowers	73,885	79	–	73,964

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2010 was as follows:

	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
<i>(in UAH millions)</i>				
Bonds issued by State Mortgage Institution	184	–	–	184
State debt securities	877	–	–	877
Claims under loans agreements with customers	6,741	–	–	6,741
Real estate	8,578	–	–	8,578
Equipment	1,534	–	–	1,534
Corporate rights for share in equity of enterprises	2,037	–	–	2,037
Other assets	26	–	–	26
Total	19,977	–	–	19,977

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2009 was as follows:

	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
<i>(in UAH millions)</i>				
Bonds issued by State Mortgage Institution	176	–	–	176
State debt securities	15	–	–	15
Claims under loans agreements with customers	9,430	–	–	9,430
Real estate	10,890	–	–	10,890
Other assets	589	–	–	589
Total	21,100	–	–	21,100

As at 31 December 2009 the fair value of collateral for impaired loans and past due but not impaired loans granted under credit lines for support of small and medium enterprises from funds received from the European Bank for Reconstruction and Development and other loans was assessed as zero due to issues with legal enforceability of the collateral.

10. Internal State Debt

	2010	2009
	<i>(in UAH millions)</i>	
Internal State debt in respect of loans to Government in national currency:		
1994–1996	3,306	3,439
Total internal State debt in national currency	3,306	3,439
Provision against internal State debt in respect of loans to Government in national currency	(661)	(688)
Total internal State debt	<u>2,645</u>	<u>2,751</u>

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 were restructured in 2000 and included in the internal State debt. Internal State debt is not collateralised.

In accordance with the above 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, starting from 2010 to 2035. UAH 132 million of the internal State debt of Ukraine in the national currency was repaid in 2010. Interest income on loans to Government in the national currency is recognised in the consolidated income statement.

Movements in the provision against internal State debt in respect of the loans to Government were as follows:

	2010	2009
	<i>(in UAH millions)</i>	
Provision against internal State debt in respect of loans to Government at the beginning of the year	688	796
(Reversal of provision) / provision for loans to Government in national currency during the year	(27)	619
Reversal of provision for loans to Government in foreign currency during the year	–	(727)
Provision against internal State debt in respect of loans to Government at the end of the year	<u>661</u>	<u>688</u>

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 2001–2008 have suspended this requirement in respect of provisioning.

During the year ended 31 December 2009 under the decision of the NBU Board as approved by the NBU Council, the NBU raised provisions against internal State debt in respect of the loans granted to Government in national currency totalling UAH 619 million. As at 31 December 2009, provisions against internal State debt in respect of loans granted to Government in the national currency equalled UAH 688 million, which was 20% of the total debt on loans granted to Government.

During 2010 the National Bank of Ukraine released UAH 27 million of the provisions against internal State debt in respect of loans granted to Government in the national currency after repayment of the portion of the internal State debt of Ukraine in the national currency.

Internal State debt in the amount of UAH 106 million (net of provision) is expected to be recovered within 12 months and remaining part of internal State debt is expected to be recovered later than within 12 months (2009: all internal State debt was expected to be recovered after more than 12 months).

The geographical analysis of internal State debt is disclosed in Note 29, currency risk analysis is presented in Note 31, interest rate risk analysis is presented in Note 32 and liquidity risk analysis is presented in Note 33.

Estimated fair value of internal State debt is disclosed in Note 35.

11. IMF Quota Contributions

The quota balance is a special type asset which represents Ukraine's subscription as a member of the IMF. Quotas vary based on the economic size of each country 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 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 by the Ministry of Finance and the NBU, the remainder being credited to the IMF accounts No 1 and No 2 (Note 17). As at 31 December 2010 Ukraine's quota in the IMF amounted to SDR 1,372 million or UAH 16,823 million at the year-end official exchange rate of hryvnia to SDR (2009: SDR 1,372 million or UAH 17,175 million at the year-end official exchange rate of hryvnia to SDR). The quota does not earn interest and is a non-current asset.

12. Fixed Assets and Intangible Assets

	Buildings and construc- tions	Motor vehicles and transport	Machi- nery and equip- ment	Fixtures and fittings	Other fixed assets	Construc- tion in progress	Intangible assets	Total
<i>(in UAH millions)</i>								
Cost or valuation at 1 January 2009	5,181	125	1,182	113	156	158	101	7,016
Accumulated depreciation as at 1 January 2009	462	52	718	63	96	–	57	1,448
Net book value at 1 January 2009	4,719	73	464	50	60	158	44	5,568
Additions	272	16	558	12	19	97	26	1,000
Transfer to other category	100	1	9	(6)	12	(116)	–	–
Revaluation	93	–	–	–	–	–	–	93
Depreciation (amortisation) charge for the year	(134)	(14)	(137)	(8)	(17)	–	(16)	(326)
Net book value at 31 December 2009	5,050	76	894	48	74	139	54	6,335
Cost or valuation at 31 December 2009	5,701	139	1,725	110	192	139	124	8,130
Accumulated depreciation as at 31 December 2009	651	63	831	62	118	–	70	1,795
Net book value at 31 December 2009	5,050	76	894	48	74	139	54	6,335
Additions	15	12	392	8	12	245	15	699
Transfer from held-for-sale category	4	–	–	–	–	–	–	4
Disposals	(2)	–	–	–	–	(8)	–	(10)
Transfer to other category	3	–	(3)	–	7	(9)	1	(1)
Revaluation	3	–	–	–	–	–	–	3
Depreciation (amortisation) charge for the year	(145)	(15)	(175)	(9)	(17)	–	(21)	(382)
Cost or valuation at 31 December 2010	5,726	149	2,095	117	208	367	139	8,801
Accumulated depreciation as at 31 December 2010	798	76	987	70	132	–	90	2,153
Net book value at 31 December 2010	4,928	73	1,108	47	76	367	49	6,648

During 2009 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.

Management believes that no significant movements occurred in the fair value of the NBU's buildings and constructions in 2010.

The carrying amount of fixed assets includes the revaluation surplus of UAH 4,095 million (2009: UAH 4,093 million).

13. Other Assets

	2010	2009
	<i>(in UAH millions)</i>	
Other financial assets		
Loans to NBU employees and other accounts receivable – neither past due nor impaired	342	301
Other	1	–
Provision against other financial assets	(1)	–
Total other financial assets	<u>342</u>	<u>301</u>
Other non-financial assets		
Bank metals	956	557
Inventory	233	308
Prepayments	164	257
Commemorative coins, souvenirs and other products	120	75
Precious metals and jewellery	101	153
Investment in associate	107	96
Non-current assets held for sale	23	26
Provision against other non-financial assets	(6)	(5)
Total other non-financial assets	<u>1,698</u>	<u>1,467</u>
Total other assets	<u>2,040</u>	<u>1,768</u>

Other financial assets are not collateralised.

Other non-financial assets include non-current assets (buildings and constructions) totalling UAH 23 million (2009: UAH 26 million), in respect of which the decision was taken by the NBU 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:

	2010	2009
	<i>(in UAH millions)</i>	
Provision against other assets at the beginning of the year	5	6
Provision/(recovery) of provision) during the year (Note 27)	2	(1)
Provision against other assets at the end of the year	<u>7</u>	<u>5</u>

At 31 December 2010 investments in associates included the following:

Name	Country of registration	Type of activity	2010		<i>(in UAH millions)</i> 2009	
			Carrying amount	Share (%)	Carrying amount	Share (%)
German-Ukrainian Fund	Ukraine	Financial institution of special type	71	31,25	60	31,25
Private Joint-Stock Company "All-Ukrainian Depository of Securities"	Ukraine	Depository activities	36	22,86	36	22,86
Total			<u>107</u>	<u>31,25</u>	<u>96</u>	<u>31,25</u>

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) (registered in Germany). The area of core activities of the GUF is improvement of competitiveness of Ukrainian micro- and small enterprises by the means of their financing through the appointed Ukrainian banks using the GUF funds. 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 small and medium enterprises.

Private Joint-Stock Company "All-Ukrainian Depository of Securities" (the "Depository") was established by the NBU, banks and other financial institutions of Ukraine. In accordance with the Charter, the Depository was established to carry out business activities related to securities custody, recording, clearing and settlements and conducting other operations provided by Ukrainian legislation in respect of depository activities.

Allocation of profits earned by the Depository is determined by its general shareholders meeting. Net profit is allocated to development of the Depository activities, improvement of its technological and organisational processes, creating and increasing reserve funds etc.

Movements in the investments in associates were as follows:

	2010	2009
	<i>(in UAH millions)</i>	
Carrying amount of investments at the beginning of the year	96	90
NBU's contribution into associates	–	15
Share of the NBU in profits/(losses) of associates	15	(11)
Foreign currency revaluation	(4)	2
Carrying amount of investments at the end of the year	<u>107</u>	<u>96</u>

Information on total assets and liabilities of the associates as at 31 December 2010 and their revenues, expenses, profits and losses for the years ended 31 December 2010 and 2009 is provided below:

	2010	2009
	<i>(in UAH millions)</i>	
Total assets	677	451
Total liabilities	271	80
Total revenue	81	22
Total expense	30	37
Net profit/(loss) for the year	51	(15)

All other assets are expected to be recovered within 12 months except for long-term receivables, bank metals and investments in associates totalling UAH 1,364 million (2009: UAH 850 million).

The geographical analysis of the other financial assets is disclosed in Note 29, credit risk analysis is disclosed in Note 30, currency risk analysis is presented in Note 31 and liquidity risk analysis is presented in Note 33.

14. Accounts of Banks

	2010	2009
	<i>(in UAH millions)</i>	
Correspondent accounts:		
in national currency	16,726	17,413
in foreign currency	–	3
Mandatory reserves kept on separate accounts with the NBU	7,678	5,770
Accounts of banks with special use conditions:		
in national currency	129	7
in foreign currency	1,824	166
Total accounts of banks	<u>26,357</u>	<u>23,359</u>

As at 31 December 2010 mandatory reserves of banks are kept on a separate account with the NBU (2009 – on a separate account and on correspondent accounts in national currency with the NBU). As at 31 December 2010 the mandatory reserve balance was calculated on the basis of a simple average over a monthly period (31 December 2009: simple average over a monthly period) and should be maintained at a level of 0 to 7 per cent (31 December 2009: 0 to 7 per cent) of certain obligations of banks. In accordance with the NBU regulations, as at 31 December 2010, banks were required on a daily basis to maintain on a separate account with the NBU 100 per cent of the amount of mandatory reserves for the preceding "reserve" period (31 December 2009: 50% of the mandatory reserve for the preceding "reserve" period on a separate account with the NBU and the remaining amount of reserves formed under applicable reserve requirements for the respective period, on the correspondent account with the NBU. The amount of mandatory reserve that was required to be kept on a daily basis on correspondent account with the NBU, should not be less than 90% of the mandatory reserve amount for the preceding "reserve" period). Mandatory reserves balances kept by banks on a separate account with the NBU, carry interest of 30% of the NBU discount rate provided that the bank complies with requirements in respect of reserves formation and maintenance (31 December 2009: 30% of the NBU discount rate provided that the bank complies with requirements in respect of reserves formation and maintenance). Mandatory reserves kept on correspondent accounts were non-interest bearing.

Accrued interest as at 31 December 2010 in amount of UAH 15 million (31 December 2009: UAH 14 million) is included into mandatory reserves kept on separate accounts with the NBU.

As at 31 December 2010 banks are allowed to satisfy their mandatory reserves requirement with special-purpose internal State bonds issued to raise funds for financing of preparation and holding of the European 2012 football championship in Ukraine purchased by them amounting to 100% of their nominal value (31 December 2009: banks are allowed to satisfy their mandatory reserves requirement with special-purpose internal State bonds issued to raise funds for financing of preparation and holding of the European 2012 football championship in Ukraine purchased by them amounting to 20% of the mandatory reserve balances on the correspondent account with the NBU).

Accounts of banks with special use conditions as at 31 December 2010 include reserves for funds attracted by banks in foreign currency from non-residents, the funds placed for the purpos-

es 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. (2009: 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).

Balances on all accounts of banks mature within 12 months (2009: all within 12 months).

The geographical analysis of the accounts of banks is disclosed in Note 29, currency risk analysis is presented in Note 31, interest rate risk analysis is presented in Note 32 and liquidity risk analysis is disclosed in Note 33.

15. Accounts of State and Other Institutions

	2010	2009
	<i>(in UAH millions)</i>	
Budget funds	21,567	1,389
Individuals' Deposits Guarantee Fund	190	619
Other	416	209
Total accounts of State and other institutions	<u>22,173</u>	<u>2,217</u>

The NBU services the accounts of the State budget of Ukraine and local budgets consolidated under one treasury account. As at 31 December 2010 budget funds include receipt of funds to the accounts of the State Treasury of Ukraine from the IMF under the new Stand-by programme between the Government of Ukraine and the IMF.

In accordance with the Law of Ukraine "On the National Bank of Ukraine" all budget accounts are non-interest bearing.

Accounts of other institutions include balance on account of the Corporate Non-State Pension Fund of the NBU in amount of UAH 11 million (2009: UAH 12 million). Refer to Note 2.

Balances on all accounts of State and other institutions mature within 12 months (2009: all within 12 months).

The geographical analysis of the accounts of State and other institutions is disclosed in Note 29, currency risk analysis is presented in Note 31, interest rate risk analysis is presented in Note 32 and liquidity risk analysis is disclosed in Note 33.

16. Deposit Certificates Issued by the NBU

The deposit certificate issued by the NBU is one of its monetary policy 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 up to 90 days (2009: up to 1 day (overnight deposits) and up to 90 days).

As at 31 December 2010 the nominal value of deposit certificates issued by the NBU was UAH 1 million each, the initial term of placement from 6 to 57 days, and weighted average interest rate was 5.1% per annum (2009: weighted average interest rate of 5.7% per annum and the initial term of placement from 6 to 89 days). The weighted average interest rate for the deposit certificates

placed during 2010 was 3.2% per annum, and the initial term of placement varied from 2 to 89 days (2009: weighted average interest rate of 6.6% per annum and initial term of placement from 2 to 90 days).

All deposit certificates issued by the NBU mature within 12 months (2009: all within 12 months).

The currency risk analysis of the deposit certificates is disclosed in Note 31, interest rate risk analysis is presented in Note 32 and liquidity risk analysis is disclosed in Note 33.

17. Liabilities to the IMF

	2010	2009
	<i>(in UAH millions)</i>	
IMF accounts No 1 and No 2	43	43
Liabilities to the IMF in respect of SDR allocation	999	1,020
Liabilities to the IMF in settlement of Quota	16,780	17,131
Liabilities to the IMF in respect of purchases of SDR	58,925	48,624
Total liabilities to the IMF	<u>76,747</u>	<u>66,818</u>

Balances on IMF accounts No. 1 and No. 2. are used for IMF transactions including quota subscription payments, purchase and repurchase of funds and for settlements with the IMF in Ukrainian currency respectively.

Liabilities to the IMF in respect of SDR allocation represent funds received in respect of special SDR allocation not yet transferred to the State Treasury of Ukraine. Refer to Note 7.

Liabilities to the IMF include securities issued to the IMF by the Ministry of Finance of Ukraine and the NBU as a fiscal agent in respect of its borrowings

Liabilities to the IMF in settlement of Quota represent liability in settlement of quota contribution. They also include the liability of the Ministry of Finance of Ukraine to the IMF in settlement of quota contribution totalling UAH 2,511 million (2009: UAH 2,511 million).

Liabilities to the IMF in respect of purchases of SDR represent loans received from IMF by the NBU. During 2010 the liabilities to the IMF increased as a result of receipt of funds from the IMF of SDR 920 million (UAH 11,107 million at the official exchange rate at the date of receipt). Out of these funds SDR 575 million (UAH 6,906 million at the official exchange rate at the date of receipt) were received under the first tranche in July 2010 and SDR 345 million (UAH 4,201 million at the official exchange rate at the date of receipt) were received under the second tranche in December 2010 in accordance with the agreement between Ukraine and the IMF under the new Stand-by programme (2009: the second tranche of SDR 875 million or UAH 10,088 million at the official exchange rate at the date of receipt under the previous Stand-by programme and receipt of funds under SDR allocation (Note 7)).

During 2010 there was no repayment of IMF funds (2009: there was a repayment of IMF funds of SDR 57 million (UAH 676 million at the official exchange rate at the date of payment or UAH 568 million at the annual IMF exchange rate)).

All liabilities to the IMF are non-current except for balances on IMF accounts No 1 and No 2 and liability to the IMF in respect of SDR allocation, which may be used by Government at any time.

The geographical analysis of liabilities to the IMF is disclosed in Note 29, currency risk analysis is presented in Note 31, interest rate risk analysis is presented in Note 32 and liquidity risk analysis is disclosed in Note 33.

18. Other Liabilities

	2010	2009
	<i>(in UAH millions)</i>	
Other financial liabilities		
Current accounts of employees	760	567
Accounts payable	28	102
Other	—	2
Total other financial liabilities	788	671
Other non-financial liabilities		
Taxes payable	4	4
Deferred income	8	7
Total other non-financial liabilities	12	11
Total other liabilities	800	682

All other liabilities are current (2009: all current except for accounts payable of UAH 1 million).

Geographical analysis of other financial liabilities is provided in Note 29, currency risk analysis is provided in Note 31 and liquidity risk analysis is provided in Note 33.

19. Profits Payable to the State Budget of Ukraine

During 2010 the NBU transferred to the State budget of Ukraine the excess of budgeted income over budgeted expenditure based on results of each quarter of 2010 as required by Article 5 of the Law of Ukraine "On the National Bank of Ukraine" (2009: under the Law of Ukraine "On Changes to the State Budget of Ukraine for 2009 and Certain Other Laws of Ukraine").

Budgeted expenditure should ensure the NBU's ability to exercise its functions and includes both expenses presented in the consolidated 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 and general reserves.

The calculation of the profit payable to the State budget of Ukraine is presented below:

	2010	2009
	<i>(in UAH millions)</i>	
Profit for the year per the consolidated statement of income	17,084	2,877
Allocation to funds of the NBU	(495)	(652)
Allocation to general reserves of the NBU	(854)	(151)
Amortisation of the results of fair value adjustment for financial assets at initial recognition	(1,188)	(401)
Retained earnings	—	(1,065)
Excess of budgeted income over budgeted expenditure for the year to be transferred to the State budget, including:	14,547	608
Payment of profits to the State budget	(14,547)	(608)
Profits payable to the State budget of Ukraine	—	—

During 2010 the NBU transferred to the State budget of Ukraine UAH 1,000 million out of retained earnings for the year ended 31 December 2009 and UAH 14,547 million of the excess of budgeted income over budgeted expenditure for the year ended 31 December 2010 (2009: the remaining amount of UAH 4,455 million of the excess of budgeted income over budgeted expen-

diture for the year ended 31 December 2008 and the excess of budgeted income over budgeted expenditure for 2009 of UAH 608 million).

At the date of issuance of these consolidated financial statements the report on fulfilment of budget of income and expenditure for 2009, distribution of profit for 2009 and consolidated financial statements of the NBU for 2009 were not approved by the NBU Council.

The amount of excess of budgeted income over budgeted expenditure of the NBU for 2010 approved by the NBU Council in September 2009, was UAH 4,294 million. The revised excess of the NBU budgeted income over budgeted expenditure for the year 2010 amounts to UAH 14,547 million. The revised NBU budget of income and expenditure for 2010 was approved by the NBU Management Board and sent to the NBU Council and is awaiting for approval.

The amount of amortisation for 2010 of the results of fair value adjustment for State securities at initial recognition totalling UAH 1,188 million (2009: UAH 401 million) was transferred to the respective reserve in equity in accordance with the NBU's accounting policy.

20. 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" (the "Law").

In accordance with this Law the amount of statutory capital of the NBU should be UAH 10 million. The amount of statutory capital may be increased under the decision of the NBU Council.

Based on the results for the year ended 31 December 2007 the NBU Council approved increase in the statutory capital of the NBU to UAH 100 million.

In accordance with this Law, formation of general reserves and other funds should be executed at the expense of profits of the NBU based on the decisions of the NBU Council.

The NBU's objectives when managing capital are to maintain an appropriate level of capital to ensure economic independence of the NBU and ability to perform its functions. The NBU management considers total capital under management to be equity as shown in the consolidated balance sheet. The amount of capital that the NBU managed as of 31 December 2010 was UAH 89,469 million (2009: UAH 96,089 million).

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. Formation of funds and reserves of the NBU for covering financial risks associated with performance of its functions, is carried out in accordance with the regulations approved by the NBU Council.

General reserves are formed to cover general risks (potential losses) arising as a result of banking operations. Annual allocation of profit for formation (increase) of the 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.

Revaluation reserve for monetary assets and liabilities in foreign currency, monetary gold and bank metals includes 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.

Fair value adjustment reserve for financial assets includes differences between the fair value and cost of financial assets at initial recognition in operations with owners, income and expense from amortisation of fair value adjustment at initial recognition and gains and losses from revaluation of investments available for sale.

The composition of the NBU capital as at 31 December 2010 is presented below:

	2010	2009
	<i>(in UAH millions)</i>	
Statutory capital	100	100
Funds of the NBU	3,448	2,953
General reserves	2,549	1,695
Retained earnings	83	1,082
Revaluation reserve for foreign currency, monetary gold and bank metals	93,315	94,672
Fair value adjustment reserve for financial assets	(14,121)	(8,506)
Revaluation reserve for fixed assets	4,095	4,093
Total capital	<u>89,469</u>	<u>96,089</u>

21. Cash and Cash Equivalents

	Notes	2010	2009
		<i>(in UAH millions)</i>	
Foreign currency cash	5	80	87
Demand deposits (excluding gold, bank metals and restricted funds)	5	12,459	15,912
Short-term deposits maturing within three months (excluding gold, bank metals and restricted funds)		65,907	48,737
Foreign securities maturing within three months		8,575	6,904
SDR Holdings	7	63	508
Domestic securities maturing within three months		–	1,027
Other accounts receivable		40	–
Demand accounts of banks (excluding accrued interest)	14	(26,342)	(23,345)
Accounts of State and other institutions	15	(22,173)	(2,217)
IMF accounts No 1 and No 2	17	(43)	(43)
Liabilities to the IMF in respect of SDR allocation	17	(999)	(1,020)
Current accounts of employees	18	(760)	(567)
Total cash and cash equivalents		<u>36,807</u>	<u>45,983</u>

Investing and financing transactions that did not require the use of cash and cash equivalents and were excluded from the statement of cash flows are as follows:

	Notes	2010	2009
		<i>(in UAH millions)</i>	
Non-cash investing activities			
Acquisition of domestic securities as repayment of internal State debt	8, 10	–	7,991
Acquisition of domestic securities as partial repayment of loans to banks	8	–	702
Total non-cash investing activities		<u>–</u>	<u>8,693</u>

	Notes	2010	2009
		<i>(in UAH millions)</i>	
Non-cash investing activities			
Repayment of internal State debt in form of domestic securities	8, 10	–	7,991
Total non-cash financing activities		<u>–</u>	<u>7,991</u>

22. Interest Income and Expense

	2010	2009
	<i>(in UAH millions)</i>	
Interest income		
Income on loans to banks and other borrowers	9,183	11,782
Income on domestic securities	8,373	3,643
Income on foreign currency funds and deposits	403	1,104
Income on internal State debt	169	–
Income on SDR holdings	–	9
Other	6	5
Total interest income	18,134	16,543
Interest expense		
Expense on operations with the IMF	(1,126)	(855)
Expense on deposit certificates issued by the NBU	(544)	(290)
Expense on accounts of banks	(184)	(43)
Expenses on accounts of Individuas' Deposits Guarantee Fund	(25)	(31)
Other	(121)	(118)
Total interest expense	(2,000)	(1,337)
Net interest income	16,134	15,206

Other interest income includes interest income on loans to employees and interest expenses include expenses on accounts of employees. During 2010 the interest received and interest paid, which are included in cash flows from operating activities in the consolidated statement of cash flows, amounted to UAH 15,941 million (2009: UAH 19,818 million) and UAH 1,986 million (2009: UAH 1,273 million) respectively.

Interest income on impaired loans in the amount of UAH 3,062 million is included into income on loans to banks and other borrowers.

23. Fee and Commission Income and Expense

	2010	2009
	<i>(in UAH millions)</i>	
Fee and commission income		
Income on cash and settlement services	182	169
Income on services of electronic payments system and electronic mail	142	131
Income on operations with financial instruments	78	171
Income on valuables transportation services	4	6
Total fee and commission income	406	477
Fee and commission expense		
Expense on operations with the IMF	(74)	–
Expense on operations with financial instruments	(11)	(11)
Total fee and commission expense	(85)	(11)
Net fee and commission income	321	466

24. Other Income

	2010	2009
	<i>(in UAH millions)</i>	
Income from sale of commemorative coins, souvenirs and other products	115	72
Income from activities of educational institutions	25	22
Income from registration and licensing	4	4
Fines and penalties received	6	3
Income from monitoring of credit lines	2	4
Other	74	30
Total other income	<u>226</u>	<u>135</u>

The other income includes income from social and consumer services, sales of printed materials, sale of inventory and software maintenance.

25. Staff Costs

	2010	2009
	<i>(in UAH millions)</i>	
Wages and salaries	894	751
Contributions into State and non-state pension funds	400	333
Social assistance and other social payments	88	75
Social security contributions	37	31
Other	134	128
Total staff costs	<u>1,553</u>	<u>1,318</u>

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.

26. Administrative and Other Expenses

	2010	2009
	<i>(in UAH millions)</i>	
Depreciation and amortisation	271	243
Utilities and household expenses	100	81
Expenses for maintenance of fixed assets and intangible assets	88	79
Telecommunication services and maintenance	15	15
Fines and penalties paid	15	14
Business trip expenses	13	12
Expenses for administration of international credit lines	6	6
Taxes, duties and charges	4	4
Stationery	3	3
Other	82	91
Total administrative and other expenses	<u>597</u>	<u>548</u>

The depreciation charge for 2010 excludes depreciation of UAH 111 million (2009: UAH 83 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 the expenses for production

of banknotes, coins and other products (refer to Note 2).

Other expenses include financial aid paid to non-working pensioners, post and mail, representation, audit, marketing and advertising, charity and other expenses.

27. Net Increase in Provisions

	Notes	2010	2009
		<i>(in UAH millions)</i>	
(Increase in)/ release of provisions:			
against internal State debt	10	27	108
against loans to banks and other borrowers	9	(1,224)	(13,358)
against other assets	13	(2)	1
Total net increase in provisions		(1,199)	(13,249)

28. 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 on the NBU's cash flows and equity, with taking into account the NBU's risk appetite defined by the Ukrainian 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 of the NBU;

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 Management Office of the NBU.

Financial risk management of the NBU is carried out through setting quantitative limits and qualitative restrictions and conditions as provided by the NBU regulations. Monthly reports on compliance with these limits and restrictions are prepared by the Risk Management Office and submitted to the NBU's management.

To cover potential losses from realisation of financial risks of the NBU attributable to performance of the NBU's functions, reserves are formed in accordance with specific regulations.

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 obligations to the NBU.

Credit risk is inherent to the operations of the NBU with funds of international reserves through placement of the funds on demand accounts and term deposits with foreign banks, investments

into foreign securities denominated in foreign currencies, investments into domestic securities 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 consolidated balance sheet. For commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 34.

Credit risk management of the NBU is performed through the following actions:

- defining the minimum acceptable credit ratings of counterparties;
- setting the long-term credit limits for funds placements by counterparty bank and security issuer;
- setting the short-term credit limits on total exposures to counterparty banks;
- setting the limits on standard duration (average maturity) level for placements of funds by currency and type of financial instruments;
- performing operations on open markets through secured lending and repo 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 29) shows that during the year ended 31 December 2010 the amount of the NBU's financial assets placed with counterparties in OECD countries, increased from 59% as at 31 December 2009 to 66% as at 31 December 2010, first of all as a result of increase in the share of financial assets placed as deposits with foreign banks and invested in securities issued by foreign issuers.

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 the currency risk through existence of open currency positions in the consolidated balance sheet due to management of the 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 consolidated balance sheet including 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 the correlation between exchange rates of hryvnia to different foreign currencies and hryvnia prices of the monetary gold and bank metals which are treated as components of the open currency position of the consolidated balance sheet, and is based on volatilities of the components calculated for the period from July 2000 to December 2010.

During the year ended 31 December 2010 the risk value of open currency position of the consolidated balance sheet at one-day horizon decreased from 0.69% as at 31 December 2009 to 0.63% as at 31 December 2010 of the UAH value of position (1.2% of consolidated equity as at 31 December 2009 and 1.43% of consolidated equity as at 31 December 2010), decreased at ten-days horizon from 3.15% (5.50% of consolidated equity) as at 31 December 2009 to 2.96% (6.77% of consolidated equity) as at 31 December 2010 and at one-month horizon from 4.43% (7.73% of consolidated equity) as at 31 December 2009 to 4.23% (9.66% of consolidated equity) as at 31 December 2010.

The above decrease in risk value of open currency position of the NBU in percentage terms arises due to decrease in volatility of hryvnia equivalent of international reserves during 2010. Relative share of risk value of open currency position as a percentage of equity insignificantly

increased as a result of the 6.9% decrease of the NBU's consolidated equity during the year ended 31 December 2010 compared to the year ended 31 December 2009.

During the process of risk value assessment of the open currency position of the consolidated balance sheet including international reserves, in 2010 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 the exchange rates, correlation of fluctuations of the 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 as a result of crisis situations.

Currency risk of the NBU is managed through the following actions:

defining the standard currency composition of the NBU's international reserves as a range of allowed deviation of share of each currency within the NBU's international reserves;

taking into account the ratio of structural hedging reflecting the level of currency risk decrease in total assets as a result of compensating changes of currency components values resulting from correlation of exchange rates and prices for monetary gold and bank metals.

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 2010 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 the interest rates. In order to limit the interest rate risk, the NBU managed its securities portfolio taking into account 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 change on the change of the market value of the portfolio.

During 2010 the modified duration of the foreign currency denominated securities portfolio to some extent decreased from 1.904 (UAH 21.36 million per one basis point) as at 31 December 2009 to 1.786 (UAH 27.18 million per one basis point) as at 31 December 2010, which was deemed to be appropriate due to gradual market interest rate increase and expectation of further increase in 2011. In particular, if the market interest rates for US Dollars, Euro and British pounds had been 100 basis points higher/lower with the composition of the foreign securities portfolio held constant, the market value of foreign securities would have been UAH 2,718 million lower/higher, which would result in the respective decrease/increase in profit and equity (2009: if market interest rates for US Dollars, Euro and British pounds had been 100 basis points higher/lower, the market value of foreign securities portfolio would have been UAH 2,136 million lower/higher, which would result in the respective decrease/increase in profit and equity of the NBU). if market yields to maturity for financial instruments denominated in hryvnia had been 100 basis points higher or lower, profit for the year would not be impacted and other components of equity would have been UAH 274 million (2009: UAH 362 million) lower or UAH 287 million (2009: UAH 378 million) higher, as a result of a decrease or increase in the fair value of fixed rate financial assets classified as available for sale.

Other methods of assessing the level of the NBU's interest rate risk used during the reporting year, 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 consolidated assets and liabilities.

Reports with analysis of modified duration, changes in interest margin and interest rate repricing of the consolidated assets and liabilities are prepared on a monthly basis by the Risk Management Office of the NBU. These reports are submitted to and reviewed by the top management of the NBU.

Liquidity risk

The liquidity risk is defined as the risk when an entity has no usable funds for servicing current liabilities.

The NBU's management of the liquidity risk inherent to operations with the 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 the 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 NBU 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 NBU regulations;

ensuring that the funds placed on term deposits and invested securities (in case the securities are held to maturity) 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 29 to 33.

29. Geographical Analysis of Financial Assets and Liabilities

The geographical analysis of the NBU's financial assets and liabilities as at 31 December 2010 is set out below:

	Ukraine	OECD countries	IMF	Other	Total
				(in UAH millions)	
Financial assets					
Foreign currency funds and deposits	80	115,778	–	1	115,859
Foreign securities	–	150,102	–	1,507	151,609
SDR Holdings	–	–	63	–	63
Domestic securities	54,879	–	–	–	54,879
Loans to banks and other borrowers	60,782	–	–	–	60,782
Internal State debt	2,645	–	–	–	2,645
IMF quota contributions	–	–	16,823	–	16,823
Other financial assets	274	4	64	–	342
Total financial assets	118,660	265,884	16,950	1,508	403,002
Financial liabilities					
Banknotes and coins in circulation	200,092	–	–	–	200,092
Accounts of banks	26,357	–	–	–	26,357
Accounts of State and other institutions	22,151	22	–	–	22,173
Deposit certificates issued by the NBU	9,442	–	–	–	9,442
Liabilities to the IMF	–	–	76,747	–	76,747
Other financial liabilities	777	11	–	–	788
Total financial liabilities	258,819	33	76,747	–	335,599
Net balance sheet position	(140,159)	265,851	(59,798)	1,508	67,403
Off-balance sheet commitments					
Commitments to extend credit	(833)	–	–	–	(833)
Net off-balance sheet position (Note 34)	(833)	–	–	–	(833)
Net position	(140,992)	265,851	(59,798)	1,508	66,570

The geographical analysis of the NBU's financial assets and liabilities as at 31 December 2009 is set out below:

	Ukraine	OECD countries	IMF	Other	Total
	<i>(in UAH millions)</i>				
Financial assets					
Foreign currency funds and deposits	87	92,683	–	–	92,770
Foreign securities	–	109,879	–	1,448	111,327
SDR Holdings	–	–	510	–	510
Domestic securities	45,899	–	–	–	45,899
Loans to banks and other borrowers	73,964	–	–	–	73,964
Internal State debt	2,751	–	–	–	2,751
IMF quota contributions	–	–	17,175	–	17,175
Other financial assets	199	–	102	–	301
Total financial assets	<u>122,900</u>	<u>202,562</u>	<u>17,787</u>	<u>1,448</u>	<u>344,697</u>
Financial liabilities					
Banknotes and coins in circulation	170,536	–	–	–	170,536
Accounts of banks	23,359	–	–	–	23,359
Accounts of State and other institutions	2,217	–	–	–	2,217
Deposit certificates issued by the NBU	3,421	–	–	–	3,421
Loans received	–	59	–	–	59
Liabilities to the IMF	–	–	66,818	–	66,818
Other financial liabilities	614	57	–	–	671
Total financial liabilities	<u>200,147</u>	<u>116</u>	<u>66,818</u>	<u>–</u>	<u>267,081</u>
Net balance sheet position	<u>(77,247)</u>	<u>202,446</u>	<u>(49,031)</u>	<u>1,448</u>	<u>77,616</u>
Off-balance sheet commitments					
Commitments to extend credit	(3,747)	–	–	–	(3,747)
Net off-balance sheet position (Note 34)	<u>(3,747)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(3,747)</u>
Net position	<u>(80,994)</u>	<u>202,446</u>	<u>(49,031)</u>	<u>1,448</u>	<u>73,869</u>

30. 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 the rating agency Fitch IBCA using the rating correspondence table of Bloomberg information system. Rating ÀÀÀ+ is the rating used for identification of highly reliable international financial institutions such as the Bank for International Settlements.

		2010		2009	
	Credit rating	Amount	% in financial assets	Amount	% in financial assets
Financial assets – neither past due nor impaired					
<i>(in UAH millions)</i>					
Foreign currency funds and deposits					
– demand deposits	AAA+	12	0.0	3,595	3.9
	AAA	517	0.4	192	0.2
	ÀÀ+	16	0.0	4	0.0
	AA	4,925	4.3		
	ÀÀ–	5,979	5.2	11,592	12.4
	À+	979	0.8	241	0.3
	A	176	0.2	452	0.5
	ÂÂÂ+	1	0.0	–	–
– term deposits	AAA+	642	0.6	5,817	6.3
	AAA	15,851	13.7	11,011	11.9
	ÀÀ+	1,945	1.7	2,120	2.3
	AA	25,703	22.1	21,831	23.5
	ÀÀ–	44,085	38.0	19,506	21.0
	À+	4,321	3.7	9,397	10.1
	A	10,627	9.2	6,925	7.5
– foreign currency cash	No risk	80	0.1	87	0.1
Total foreign currency funds and deposits		115,859	100.0	92,770	100.0
Foreign securities					
– Government bonds	AAA	109,101	72.0	66,038	59.4
	AA+	2,730	1.8	7,264	6.5
	AA	292	0.2	–	–
	ÀÀ–	1,520	1.0	1,534	1.4
	A+	409	0.3	419	0.4
– Bonds of international agencies, banks and other issuers	AAA+	660	0.4	674	0.6
	AAA	24,328	16.0	23,692	21.3
	AA+	3,203	2.1	3,919	3.5
	AA	3,477	2.3	2,203	2.0
	AA–	2,976	2.0	3,526	3.2
	A+	2,209	1.5	160	0.1
	À	583	0.4	1,777	1.6
Total foreign debt securities		151,488	100.0	111,206	100.0
Domestic securities					
	B	53,672	97.8	–	–
	CCC+	–	–	44,692	97.4
	Unrated	1,207	2.2	1,207	2.6
Total domestic securities		54,879	100.0	45,899	100.0
Loans to banks and other borrowers					
– loans granted to banks to support their liquidity	B–	29,814	66.5	39,394	71.9
	ÑÑÑ+	2,108	4.7	2,385	4.4
	ÑÑÑ	–	–	424	0.8
	Unrated	12,924	28.8	12,522	22.8
– loans granted under EBRD credit lines	B–	–	–	1	0.0
	CCC+	–	–	3	0.0
	ÑÑÑ	–	–	–	–
	Unrated	2	0.0	51	0.1
Total loans to banks and other borrowers		44,848	100.0	54,779	100.0
Other financial assets	Unrated	342	100.0	301	100.0

The total aggregate amount of loans to 5 banks with largest exposure outstanding as at 31 December 2010 was UAH 43,661 million (2009: UAH 46,894 million) or 58% (2009: 54%) of the total amount of loans to banks and other borrowers before provision.

31. Currency Risk

As at 31 December 2010, the NBU had the following positions in currencies:

	UAH	USD	EUR	SDR	GBP	Other	Non-monetary	Total
	<i>(in UAH millions)</i>							
Financial assets								
Foreign currency funds and deposits	–	65,049	35,129	–	5,947	9,734	–	115,859
Foreign securities	–	95,502	43,365	–	12,621	–	121	151,609
SDR Holdings	–	–	–	63	–	–	–	63
Domestic securities	52,570	1,487	822	–	–	–	–	54,879
Loans to banks and other borrowers	60,756	26	–	–	–	–	–	60,782
Internal State debt	2,645	–	–	–	–	–	–	2,645
IMF quota contributions	–	–	–	16,823	–	–	–	16,823
Other financial assets	233	4	–	105	–	–	–	342
Total financial assets	116,204	162,068	79,316	16,991	18,568	9,734	121	403,002
Financial liabilities								
Banknotes and coins in circulation	200,092	–	–	–	–	–	–	200,092
Accounts of banks	24,532	1,416	408	–	–	1	–	26,357
Accounts of State and other institutions	3,213	18,695	265	–	–	–	–	22,173
Deposit certificates issued by the NBU	9,442	–	–	–	–	–	–	9,442
Liabilities to the IMF	–	–	–	76,747	–	–	–	76,747
Other financial liabilities	774	4	2	–	–	8	–	788
Total financial liabilities	238,053	20,115	675	76,747	–	9	–	335,599
Net balance sheet position	(121,849)	141,953	78,641	(59,756)	18,568	9,725	121	67,403

Assets and liabilities in other currencies mainly include positions in Swiss francs and Japanese yen. As at 31 December 2009, the NBU had the following positions in currencies:

	UAH	USD	EUR	SDR	GBP	Other	Non-monetary	Total
	<i>(in UAH millions)</i>							
Financial assets								
Foreign currency funds and deposits	–	52,846	31,292	–	5,161	3,471	–	92,770
Foreign securities	–	51,032	45,531	–	14,643	–	121	111,327
SDR Holdings	–	–	–	510	–	–	–	510
Domestic securities	44,478	895	526	–	–	–	–	45,899
Loans to banks and other borrowers	73,885	79	–	–	–	–	–	73,964
Internal State debt	2,751	–	–	–	–	–	–	2,751
IMF quota contributions	–	–	–	17,175	–	–	–	17,175
Other financial assets	199	–	–	102	–	–	–	301
Total financial assets	121,313	104,852	77,349	17,787	19,804	3,471	121	344,697
Financial liabilities								
Banknotes and coins in circulation	170,536	–	–	–	–	–	–	170,536
Accounts of banks	23,191	121	47	–	–	–	–	23,359
Accounts of State and other institutions	1,771	169	277	–	–	–	–	2,217
Deposit certificates issued by the NBU	3,421	–	–	–	–	–	–	3,421
Loans received	–	59	–	–	–	–	–	59
Liabilities to the IMF	–	–	–	66,818	–	–	–	66,818
Other financial liabilities	614	5	12	–	–	40	–	671
Total financial liabilities	199,533	354	336	66,818	–	40	–	267,081
Net balance sheet position	(78,220)	104,498	77,013	(49,031)	19,804	3,431	121	77,616

32. Interest Rate Risk

As at 31 December 2010 the NBU had the following structure of the weighted average interest rates by major currencies for monetary financial interest-bearing instruments. The analysis has been prepared using the weighted-average contractual rates at the balance sheet date.

	UAH	USD	EUR	SDR	GBP	Other	Total weighted average interest rate (in %)
Financial assets							
Term deposits in OECD countries	–	0.30	0.83	–	0.79	0.77	0.55
Foreign securities	–	0.59	1.36	–	1.03	–	0.85
SDR Holdings	–	–	–	0.32	–	–	0.32
Domestic securities	9.76	6.85	4.95	–	–	–	9.63
Bonds of State Mortgage Institution	10.53	–	–	–	–	–	10.53
Loans to banks and other borrowers	9.70	1.67	–	–	–	–	9.70
Internal State debt	5.00	–	–	–	–	–	5.00
Financial liabilities							
Mandatory reserves kept on separate accounts with the NBU	2.33	–	–	–	–	–	2.33
Accounts of Individuals' Deposits Guarantee Fund	5.29	–	–	–	–	–	5.29
Deposit certificates issued by the NBU	5.12	–	–	–	–	–	5.12
Liabilities to the IMF in respect of purchases of funds under credit facilities	–	–	–	3.16	–	–	3.16

The sign "-" in the table above means that the NBU has no 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 issued by the NBU for stabilizing banking activities the interest rate is the NBU discount rate +2% for new loan issuances and the NBU discount rate +3% for renegotiated loans. In accordance with the Law of Ukraine On the National Bank of Ukraine, the NBU discount rate is revised by the NBU and used by the NBU as monetary instrument for money and credit policy fulfilment.

If the interest rate on liabilities to the IMF in respect of purchases of funds under credit facilities had been 100 basis points higher/lower, with all other variables held constant, consolidated profit and equity of the NBU would have been UAH 599 million lower/higher (2009: UAH 496 million lower/higher) as a result of higher/lower interest expense on variable interest liabilities to the IMF.

If the interest rate on loans to banks issued by the NBU for stabilizing banking activities had been 75 basis points higher/lower, with all other variables held constant, consolidated profit and equity of the NBU would have been UAH 461 million higher/lower (2009: not applicable).

As at 31 December 2009 the NBU had the following interest rates on assets and liabilities:

	UAH	USD	EUR	SDR	GBP	Other	Total weighted average interest rate (in %)
Financial assets							
Term deposits in OECD countries	–	0.25	0.49	–	0.54	0.11	0.36
Foreign securities	–	1.07	1.63	–	1.34	–	1.33
SDR Holdings	–	–	–	0.23	–	–	0.23
Domestic securities	10.02	6.85	4.95	–	–	–	9.84
Bonds of State Mortgage Institution	10.53	–	–	–	–	–	10.53
Loans to banks and other borrowers	14.18	2.62	–	–	–	–	14.14
Internal State debt	5.00	–	–	–	–	–	5.00
Financial liabilities							
Mandatory reserves kept on separate accounts with the NBU	3.08	–	–	–	–	–	3.08
Accounts of Individuals' Deposits Guarantee Fund	5.89	–	–	–	–	–	5.89
Deposit certificates issued by the NBU	5.69	–	–	–	–	–	5.69
Loans received	–	1.49	–	–	–	–	1.49
Liabilities to the IMF in respect of purchases of funds under credit facilities	–	–	–	2.06	–	–	2.06

Interest rate repricing analysis of assets and liabilities

The table below summarises concentration of the interest rate repricing risk categorised by the earlier of contractual repricing or maturity dates.

For the assets and liabilities with fixed interest rates, classification is determined based on the contractual maturity date from the balance sheet date. For the assets and liabilities with variable interest rates, classification was determined taking into account the earlier repricing term or maturity date.

Foreign securities at fair value through profit or loss have been classified within demand and up to 1 month category as the Management believes this is a fairer portrayal of its repricing position.

Loans to banks and other borrowers in the amount of UAH 56,381 million (net of provision) are with floating interest rates, which depend on the NBU discount rate. Because it is not possible to predict the date of change of the NBU discount rate, classification of these loans is determined based on contractual maturity date from the balance sheet date.

As at 31 December 2010 interest rate repricing analysis of the NBU's financial assets and liabilities is presented below:

	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
	<i>(in UAH millions)</i>						
Financial assets							
Foreign currency funds and deposits	39,129	38,853	37,184	6	–	687	115,859
Foreign securities	151,488	–	–	–	–	121	151,609
SDR Holdings	63	–	–	–	–	–	63
Domestic securities	247	210	2,821	17,569	34,032	–	54,879
Loans to banks and other borrowers	658	3,507	5,365	48,058	3,194	–	60,782
Internal State debt	–	26	80	423	2,116	–	2,645
IMF quota contributions	–	–	–	–	–	16,823	16,823
Other financial assets	1	–	–	118	113	110	342
Total financial assets	191,586	42,596	45,450	66,174	39,455	17,741	403,002
Financial liabilities							
Banknotes and coins in circulation	–	–	–	–	–	200,092	200,092
Accounts of banks	7,659	–	–	–	–	18,698	26,357
Accounts of State and other institutions	201	–	–	–	–	21,972	22,173
Deposit certificates issued by the NBU	4,088	5,354	–	–	–	–	9,442
Liabilities to the IMF	59,924	–	–	–	–	16,823	76,747
Other financial liabilities	769	–	–	–	–	19	788
Total financial liabilities	72,641	5,354	–	–	–	257,604	335,599
Net gap	118,945	37,242	45,450	66,174	39,455	(239,863)	67,403
Cumulative gap	118,945	156,187	201,637	267,811	307,266	67,403	

As at 31 December 2009 interest rate repricing analysis of the NBU's financial assets and liabilities is presented below:

	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
<i>(in UAH millions)</i>							
Financial assets							
Foreign currency funds and deposits	36,232	28,089	27,826	4	–	619	92,770
Foreign securities	111,206	–	–	–	–	121	111,327
SDR Holdings	510	–	–	–	–	–	510
Domestic securities	13	1,295	726	18,009	25,657	199	45,899
Loans to banks and other borrowers	1,613	15,547	31,111	18,447	7,162	84	73,964
Internal State debt	–	26	80	423	2,222	–	2,751
IMF quota contributions	–	–	–	–	–	17,175	17,175
Other financial assets	–	–	–	107	90	104	301
Total financial assets	149,574	44,957	59,743	36,990	35,131	18,302	344,697
Financial liabilities							
Banknotes and coins in circulation	–	–	–	–	–	170,536	170,536
Accounts of banks	5,465	–	–	–	–	17,894	23,359
Accounts of State and other institutions	619	–	–	–	–	1,598	2,217
Deposit certificates issued by the NBU	3,421	–	–	–	–	–	3,421
Loans received	–	–	59	–	–	–	59
Liabilities to the IMF	49,644	–	–	–	–	17,174	66,818
Other financial liabilities	647	7	2	–	–	15	671
Total financial liabilities	59,796	7	61	–	–	207,217	267,081
Net gap	89,778	44,950	59,681	36,990	35,131	(188,915)	77,616
Cumulative gap	89,778	134,728	194,410	231,400	266,531	77,616	–

33. Liquidity Risk

For the purposes of liquidity risk calculation the liabilities are analysed by the remaining contractual maturity at the balance sheet date.

The amounts of financial liabilities disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows may differ from the amount included in consolidated 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.

The table below shows maturity analysis of non-derivative financial assets at their carrying amounts and based on their contractual maturities, except for assets that are readily saleable in case it would be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions and based on the expected timing of cash inflows.

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 2010 is set out below:

	Demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	No maturity	Total
	<i>(in UAH millions)</i>						
Financial assets							
Foreign currency funds and deposits	39,816	38,853	37,184	6	–	–	115,859
Foreign securities	2,541	6,878	31,248	109,450	1,371	121	151,609
SDR Holdings	63	–	–	–	–	–	63
Domestic securities	247	210	2,821	17,569	34,032	–	54,879
Loans to banks and other borrowers	658	3,507	5,365	48,058	3,194	–	60,782
Internal State debt	–	26	80	423	2,116	–	2,645
IMF quota contributions	–	–	–	–	–	16,823	16,823
Other financial assets	41	–	–	188	113	–	342
Total financial assets	<u>43,366</u>	<u>49,474</u>	<u>76,698</u>	<u>175,694</u>	<u>40,826</u>	<u>16,944</u>	<u>403,002</u>
Financial liabilities							
Banknotes and coins in circulation	200,092	–	–	–	–	–	200,092
Accounts of banks	26,357	–	–	–	–	–	26,357
Accounts of State and other institutions	22,173	–	–	–	–	–	22,173
Deposit certificates issued by the NBU	4,093	5,395	–	–	–	–	9,488
Liabilities to the IMF	1,041	333	1,119	60,954	–	16,780	80,227
Other financial liabilities	781	7	–	–	–	–	788
Commitments to extend credit	–	–	833	–	–	–	833
Total potential future payments for financial obligations	<u>254,537</u>	<u>5,735</u>	<u>1,952</u>	<u>60,954</u>	<u>–</u>	<u>16,780</u>	<u>339,958</u>
Liquidity gap arising from financial instruments	<u>(211,171)</u>	<u>43,739</u>	<u>74,746</u>	<u>114,740</u>	<u>40,826</u>	<u>164</u>	<u>63,044</u>

IMF quota contributions and part of liabilities to the IMF representing the liabilities in settlement of Quota is included in "no maturity" category due to the nature of these balances.

The liquidity risk position of the NBU as at 31 December 2009 is set out below.

	Demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	No maturity	Total
<i>(in UAH millions)</i>							
Financial assets							
Foreign currency funds and deposits	36,851	28,089	27,826	4	–	–	92,770
Foreign securities	2,781	5,031	24,663	76,892	1,839	121	111,327
SDR Holdings	510	–	–	–	–	–	510
Domestic securities	13	1,295	925	18,009	25,657	–	45,899
Loans to banks and other borrowers	1,613	15,611	31,111	18,467	7,162	–	73,964
Internal State debt	–	26	80	423	2,222	–	2,751
IMF quota contributions	–	–	–	–	–	17,175	17,175
Other financial assets	–	–	104	107	90	–	301
Total financial assets	<u>41,768</u>	<u>50,052</u>	<u>84,709</u>	<u>113,902</u>	<u>36,970</u>	<u>17,296</u>	<u>344,697</u>
Financial liabilities							
Banknotes and coins in circulation	170,536	–	–	–	–	–	170,536
Accounts of banks	23,359	–	–	–	–	–	23,359
Accounts of State and other institutions	2,217	–	–	–	–	–	2,217
Deposit certificates issued by the NBU	3,426	–	–	–	–	–	3,426
Loans received	–	–	63	–	–	–	63
Liabilities to the IMF	1,063	252	750	50,619	–	17,131	69,815
Other financial liabilities	661	8	2	–	–	–	671
Commitments to extend credit	–	–	3,747	–	–	–	3,747
Total potential future payments for financial obligations	<u>201,262</u>	<u>260</u>	<u>4,562</u>	<u>50,619</u>	<u>–</u>	<u>17,131</u>	<u>273,834</u>
Liquidity gap arising from financial instruments	<u>(159,494)</u>	<u>49,792</u>	<u>80,147</u>	<u>63,283</u>	<u>36,970</u>	<u>165</u>	<u>70,863</u>

34. Commitments, Contingencies and Derivative Financial Instruments

Guarantees issued

Guarantees were issued by the NBU in 1992 in accordance with a decree of the Parliament of Ukraine after issue of respective guarantees by the Cabinet of Ministers of Ukraine to cover repayment of loans received by Ukrainian borrowers from foreign creditors. Loans outstanding covered by these guarantees were partially repaid and partially restructured.

Restructured loans are repaid by the Ministry of Finance of Ukraine at the expense of the funds of the State budget of Ukraine in accordance with the Agreement between the Government of Ukraine and Government of the Federal Republic of Germany entered into in December 2001.

As the debts covered by these guarantees are serviced by the Cabinet of Ministers of Ukraine, the NBU does not expect any expenses arising in respect of these guarantees.

Commitments to extend credit

Commitments to extend credit include the following:

	2010	2009
<i>(in UAH millions)</i>		
Commitments to extend credit under loans to support the banks' liquidity	833	3,747
Total commitments to extend credit	<u>833</u>	<u>3,747</u>

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the NBU is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The NBU monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Capital commitments

As at 31 December 2010 the NBU had capital commitments in respect of fixed asset purchases, construction and improvements and intangible assets purchases totalling UAH 143 million (2009: UAH 425 million).

Derivative financial instruments

The NBU performs operations with futures for the purposes of regulating the interest rate risk since December 2007. These operations are performed as a part of Investment Management and Consulting Services Agreement between the NBU and International Bank for Reconstruction and Development.

As at 31 December 2010 the NBU had 630 long stock-exchange interest futures contracts maturing from March 2011 to June 2014, the notional value of which equal to UAH 1,108 million or USD 139 million (31 December 2009: 294 long stock-exchange interest futures contracts maturing from March 2010 to December 2012 with the notional value of UAH 536 million or USD 67 million) and 729 short contracts, the notional value of which equal to UAH 1,371 million or USD 172 million (31 December 2009: 491 short contracts with the notional value of UAH 740 million or USD 92 million). UAH 6 million (2009: UAH 3 million) of margin reserve for settlements under futures operations is included in Foreign currency funds and deposits line item. Refer to Note 5.

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 consolidated financial statements.

35. Fair Value of Financial Assets and Liabilities

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 and State debt securities available for sale are recorded in the balance sheet at their fair value. Fair value of debt securities at fair value through profit or loss is based on quoted prices in an active market. The fair value of major part of state debt securities available for sale is based on quoted prices on an active market (2009: the fair value of state debt securities available for sale was determined using valuation technique.)

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, deposit certificates issued by the NBU, loans received and liabilities to the IMF.

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 two 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 the national currency, internal State debt and loans to banks and other borrowers.

For the purposes of estimating fair values of domestic securities denominated in national currency and internal State debt the NBU used a discount rate determined based on the yield curve.

For the purposes of estimating fair values of loans to banks and other borrowers the NBU used a market rate which is equal to the NBU discount rate plus two percent for term loans and the NBU discount rate plus three percent for prolonged and overdue loans but not less than weighted average rate of interbank lending (KIACR rate) in national currency for over 92 days. Discount rates used were as follows:

	2010	2009
	Discount rate, in % per annum	Discount rate, in % per annum
Domestic debt securities: in national currency:		
Internal State debt bonds	7.90–11.91	10.25–12.70
Promissory notes of the State Treasury of Ukraine	–	10.25–12.70
Bonds issued by State Mortgage Institution	7.98–11.89	10.25–12.70
Internal State debt denominated in national currency (issued in 1994–1996)	7.75–8.66	10.25–12.70
Loans to banks and other borrowers	9.75–14.89	10.75–16.00

The following table summarises the carrying amounts and estimated fair values of those financial assets not presented on the NBU's consolidated balance sheet at their fair value:

	Carrying amount	2010 Estimated fair value		Carrying amount	2009 Estimated fair value	
		Upper Value	Lower value		Upper Value	Lower value
<i>(in UAH millions)</i>						
Domestic debt securities: in national currency:						
Internal State debt bonds	43,528	62,105	54,134	28,472	35,578	31,848
Promissory notes of the State Treasury of Ukraine	–	–	–	199	183	180
Bonds issued by State Mortgage Institution	1,207	1,281	1,182	1,207	1,212	1,127
In foreign currency (“OZDP”):						
OZDP denominated in US dollars	–	–	–	895	1,172	1,166
OZDP denominated in Euro	–	–	–	526	692	690
Total domestic securities not carried at fair value	44,735	63,386	55,316	31,299	38,837	35,011
Internal State debt denominated in national currency (issued in 1994–1996)	2,645	2,649	2,526	2,751	2,131	2,062
Total internal State debt	2,645	2,649	2,526	2,751	2,131	2,062
Loans to banks and other borrowers	60,782	56,597	56,597	73,964	74,141	74,141

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.

For financial instruments carried at fair value, the level in the fair value hierarchy into which the fair values are categorised are as follows:

	2010		2009
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Quoted price in an active market (Level 1)
			Valuation technique with inputs observable in markets (Level 2)
			(in UAH millions)
Foreign currency funds and deposits (futures)	6	–	3
Foreign securities at fair value through profit or loss	151,488	–	111,206
Debt securities available for sale: denominated in national currency:			
Internal State debt bonds denominated in foreign currency:	6,700	1,135	3,880
External State bonds denominated in US dollars	1,487	–	–
External State bonds denominated in Euro	822	–	–
	<u> </u>	<u> </u>	<u> </u>

36. 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. Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

All financial liabilities of the NBU are carried at amortised cost.

The following table analyses financial instruments by these measurement categories as of 31 December 2010:

	Loans and receivables	Assets designated at fair value through profit or loss	Available-for-sale assets	Financial liabilities at amortised cost	Total
					(in UAH millions)
Financial assets					
Foreign currency funds and deposits	115,853	6	–	–	115,859
Foreign securities	–	151,488	121	–	151,609
SDR holdings	63	–	–	–	63
Domestic securities	44,735	–	10,144	–	54,879
Loans to banks and other borrowers	60,782	–	–	–	60,782
Internal State debt	2,645	–	–	–	2,645
IMF quota contributions	–	–	16,823	–	16,823
Other financial assets	342	–	–	–	342
Total financial assets	<u>224,420</u>	<u>151,494</u>	<u>27,088</u>	<u> </u>	<u>403,002</u>
Financial liabilities					
Banknotes and coins in circulation	–	–	–	200,092	200,092
Accounts of banks	–	–	–	26,357	26,357
Accounts of State and other institutions	–	–	–	22,173	22,173
Deposit certificates issued by the NBU	–	–	–	9,442	9,442
Loans received	–	–	–	–	–
Liabilities to the IMF	–	–	–	76,747	76,747
Other financial liabilities	–	–	–	788	788
Total financial liabilities	<u> </u>	<u> </u>	<u> </u>	<u>335,599</u>	<u>335,599</u>

The following table analyses financial instruments by these measurement categories as of 31 December 2009:

	Loans and receivables	Assets designated at fair value through profit or loss	Available- for-sale assets	Assets held to maturity	Financial liabilities at amortised cost	Total
<i>(in UAH millions)</i>						
Financial assets						
Foreign currency funds and deposits	92,767	3	–	–	–	92,770
Foreign securities	–	111,206	121	–	–	111,327
SDR holdings	510	–	–	–	–	510
Domestic securities	29,679	–	14,600	1,620	–	45,899
Loans to banks and other borrowers	73,964	–	–	–	–	73,964
Internal State debt	2,751	–	–	–	–	2,751
IMF quota contributions	–	–	17,175	–	–	17,175
Other financial assets	301	–	–	–	–	301
Total financial assets	199,972	111,209	31,896	1,620	–	344,697
Financial liabilities						
Banknotes and coins in circulation	–	–	–	–	170,536	170,536
Accounts of banks	–	–	–	–	23,359	23,359
Accounts of State and other institutions	–	–	–	–	2,217	2,217
Deposit certificates issued by the NBU	–	–	–	–	3,421	3,421
Loans received	–	–	–	–	59	59
Liabilities to the IMF	–	–	–	–	66,818	66,818
Other financial liabilities	–	–	–	–	671	671
Total financial liabilities	–	–	–	–	267,081	267,081

37. Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if the parties are under common control or one party has the ability to control the other party 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 the 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:

	Notes	2010			2009		
		Govern- ment and State- controlled entities	Associates	Other related parties	Govern- ment and State- controlled entities	Asso- ciates	Other related parties
							<i>(in UAH millions)</i>
Domestic securities	8	54,879	–	–	45,899	–	–
Loans to banks and other borrowers (gross)		29,162	–	–	32,593	–	–
Provision for impairment of loans to banks and other borrowers		(4,402)	–	–	(1,722)	–	–
Internal State debt			–	–			
Gross	10	3,306	–	–	3,439	–	–
Provision against internal State debt	10	(661)	–	–	(688)	–	–
Other assets		54	107	3	31	96	–
Accounts of banks		3,002	–	–	2,546	–	–
Accounts of State and other institutions		21,581	364	11	1,390	171	12
Accounts of Individuals' Deposits Guarantee Fund	15	–	–	190	–	–	619
Deposit certificates issued by the NBU		158	–	–	–	–	–
Other liabilities		4	–	–	4	–	–

Other related parties include entities, over which the NBU may exercise significant influence (except for associates).

The terms of balances presented in the table above are as follows:

short-term loans to State-owned banks (included in the loans to banks and other borrowers in the above table) carry contractual interest rate of 9.75% as at 31 December 2010 (31 December 2009: from 10.75% to 16.5%);

long-term loans to State-owned banks (included in the loans to banks and other borrowers in the above table) have contractual interest rates from 8.25% to 11.0% as at 31 December 2010 (31 December 2009: from 10.75% to 11%) and mature from 1 to 6 years (2009: from 3 to 7 years);

accounts of State and other institutions are non-interest bearing;

demand accounts of Deposit Guarantee Fund carry contractual interest rate of 5.29% as at 31 December 2010 (31 December 2009: 5.18%);

mandatory reserve deposit balances transferred by the State-owned banks to a separate account with the NBU (included in the accounts of banks in the above table) carry interest rate of 2.33% as at 31 December 2010 (31 December 2009: 3.08%);

deposit certificates issued by the NBU carried the contractual interest rate of 5% as at 31 December 2010 and matured within one month (31 December 2009: deposit certificated issued by the NBU had a zero balance).

Terms of operations with internal State debt and domestic securities are disclosed in respective notes.

Income and expense items from operations with the related parties are as follows:

	2010			2009		
	Government and State-controlled entities	Associates	Other related parties	Government and State-controlled entities	Associates	Other related parties
	<i>(in UAH millions)</i>					
Interest income	12,152	–	–	7,576	–	–
Interest expense	(17)	–	(25)	(12)	–	(31)
Fee and commission income	123	–	4	99	–	–
Other income	51	16	2	13	1	2
Other expenses	(13)	–	(3)	(12)	(11)	(3)
Net increase in provisions	(2,680)	–	–	(1,614)	–	–

In accordance with the Law of Ukraine "On Annual State Budget for the Year 2010", starting from the year 2010 the NBU does not charge fee for payment services which are provided to the State Treasury of Ukraine.

In 2010 the short-term benefits (salaries) of key management personnel amounted to UAH 9.8 million (2009: UAH 8.5 million). As at 31 December 2010 outstanding balance of loans to the key management personnel totalled UAH 1.2 million (2009: UAH 2 million).

38. Concentration of Assets and Liabilities

As at 31 December 2010 14% (2009: 14%) of the total NBU consolidated assets, excluding IMF Quota, are represented by amounts due from the Government of Ukraine in respect of internal State debt and State securities of Ukraine, 17% (2009: 7%) are represented by US Treasury bills, 11% (2009: 14%) are represented by the coupon bonds of UK Government and other EU countries and 15% (2009: 21%) are represented by loans to Ukrainian banks and other borrowers.

As at 31 December 2010 63% (2009: 68%) of the total NBU's consolidated liabilities (excluding the promissory notes issued to the IMF in settlement of Quota) are represented by banknotes and coins in circulation, 8% (2009: 9%) are represented by accounts of banks and 19% (2009: 20%) are represented by liabilities to the IMF.

11 April 2011
Kyiv, Ukraine

TABLES

Basic indices of the economic development of Ukraine
Gross domestic product, industrial and agricultural output, investments, retail turnover
(in actual prices, UAH million)

Period	1	2	3	Gross domestic product			7	8	9	10	11
				Intermediate consumption	Nominal	Real, as compared with the respective period of the previous year, %						Deflator index, %	Industrial products sold	Industrial output index, as compared with the respective period of the previous year, %^{1}	Agricultural output	Capital investments	Total retail turnover
2005	1 048 481	607 029	441 452	102.7	124.5	468 563	103.1	92 540	93 096	94 332	
2006	1 252 209	708 056	544 153	107.3	114.8	551 729	106.2	95 730	125 254	129 952	
2007	1 650 992	930 261	720 731	107.9	122.7	717 077	107.6	109 985	188 486	178 233	
2008	2 196 052	1 247 996	948 056	102.3	128.6	917 036	94.8	152 210	233 081	246 903	
2009	2 072 549	1 159 204	913 345	85.2	113.0	806 551	78.1	153 800	151 777	230 955	
2010											
January	...	...	...	...	...	59 609	112.8	4 350	...	17 458
January-February	...	...	...	...	...	120 824	109.4	9 350	...	35 076
January-March	493 014	273 586	219 428	104.8	110.7	193 247	111.2	14 100	24 041	55 301	
January-April	...	...	...	...	...	265 678	112.8	21 900	...	75 873
January-May	...	...	...	...	...	337 291	112.9	30 900	...	99 423
January-June	1 059 178	579 600	479 578	105.5 ²	115.1 ²	409 250	112.3	39 140	55 642	121 551	
January-July	...	...	...	...	...	479 544	111.4	85 245	...	146 279
January-August	...	...	...	...	...	553 649	111.2	116 700	...	170 781
January-September	1 741 662	957 375	784 287	103.6 ²	117.5 ²	632 371	111.1	140 500	95 163	194 673	
January-October	...	...	...	...	...	714 244	111.1	150 300	...	221 426
January-November	...	...	...	...	...	797 794	111.0	167 600	...	246 616
January-December	2 447 849	1 353 242	1 094 607	104.2	115.0	891 170	111.2	184 000	171 092	280 890	

Basic indices of the economic development of Ukraine Consumer price index, industrial producer price index, unemployment rate, income and expenditure of the population, and wage

Period	Consumer price index, %		Industrial producer price index, %		Unemployment rate (at the end of period), %	Total income of the population		Expenditure of the population (net of savings)	Average monthly nominal wage, UAH ²	Real average monthly wage index, % ¹
	with respect to the previous month	with respect to December of the previous year ¹	with respect to the previous month	with respect to December of the previous year ¹		Nominal	Real disposable, % (with inflation taken into account)				7	8	9	10	11
1	2	3	4	5	6	7	8	9	10	11
2005	...	110.3	...	109.5	3.2	381 404	123.9	335 753	1 020	131.5
2006	...	111.6	...	114.1	2.8	472 061	111.8	427 858	1 277	111.7
2007	...	116.6	...	123.3	2.4	623 289	114.8	575 510	1 675	110.3
2008	...	122.3	...	123.0	2.1	845 641	107.6	793 630	2 001	97.0
2009	...	112.3	...	114.3	2.5	894 286	90.0	813 909	2 233	99.1
2010	...	...	...	...	...	...	...	...	...	...
January	101.8	101.8	101.9	101.9	1.9	...	...	...	1 916	106.0
February	101.9	103.7	101.9	103.8	1.9	...	...	...	1 955	104.2
March	100.9	104.7	103.0	106.9	1.8	229 106	111.1	206 833	2 109	107.0
April	99.7	104.4	103.0	110.1	1.6	...	...	...	2 107	106.6
May	99.4	103.7	104.4	114.9	1.5	...	...	...	2 201	112.2
June	99.6	103.3	99.5	114.3	1.4	497 079	119.6 ³	434 363	2 373	114.7
July	99.8	103.1	99.8	114.1	1.4	...	...	...	2 367	113.1
August	101.2	104.3	100.9	115.1	1.4	...	...	...	2 280	112.3
September	102.9	107.4	100.1	115.2	1.5	785 793	116.5 ³	678 723	2 349	110.8
October	100.5	107.9	102.4	118.0	1.4	...	...	...	2 322	110.8
November	100.3	108.2	99.7	117.6	1.6	...	...	...	2 353	113.0
December	100.8	109.1	100.9	118.7	2.0	1 101 015	116.2	944 657	2 629	110.5

¹ Annual data: December with respect to December of the previous year.

² Annual data: data for December.

³ As compared with the respective quarter of the previous year.
Note: information of the State Committee of Statistics of Ukraine.

Basic indices of the economic development of Ukraine
Balance of payments, external debt, official reserve assets

Period	Current account balance		Export of goods and services		Import of goods and services		Gross external debt, at the end of period		Official reserve assets, at the end of period USD million
	USD million	% of GDP	USD million	% of GDP	USD million	% of GDP	USD million	% of GDP	
1	2	3	4	5	6	7	8	9	10
2005	2 531	2.9	44 378	51.4	43 707	50.6	39 619	45.9	19 391
2006	-1 617	-1.5	50 239	46.6	53 307	49.5	54 512	50.6	22 358
2007	-5 272	-3.7	64 001	44.8	72 153	50.6	79 955	56.0	32 479
2008	-12 763	-7.0	85 612	47.1	99 962	55.1	101 659	55.9	31 543
2009	-1 732	...	54 253	...	56 206	...	103 396	...	26 505
2010									
1st quarter	57	0.2	14 034	51.4	14 245	52.2	102 914	85.9	25 147
2nd quarter	495	1.5	16 984	51.3	16 583	50.1	104 636	83.7	29 523
1st half-year	552	...	31 018	...	30 828	...	104 636	...	29 523
3rd quarter	-1 090	-2.8	18 424	47.9	19 868	51.7	111 628	85.0	34 679
9 months	-538	...	49 442	...	50 696	...	111 628	...	34 679
4th quarter	-2 346	-6.2	19 813	52.1	22 409	58.9	117 345	85.7	34 576
year	-2 884	...	69 255	...	73 105	...	117 345	...	34 576

Monetary aggregates and their components

Period	M3 ¹	including									
		M1			M2-M1			M3-M2			
		cash in circulation outside deposit-taking corporations (1 0)	transferable deposits in national currency	transferable deposits in foreign currency	total		other deposits including		total	securities other than shares including	
					in national currency	in foreign currency	in national currency	in foreign currency		in national currency	in foreign currency
1	2	3	4	5	6	7	8	9	10	11	
balances of funds by the period end, UAH millions											
2005	194 071	60 231	38 341	9 944	84 629	48 955	35 674	925	766	160	
2006	261 063	74 984	48 292	13 040	123 098	65 983	57 115	1 650	1 402	248	
2007	396 156	111 119	70 546	20 233	189 374	119 740	69 634	4 884	4 595	289	
2008	515 727	154 759	70 369	35 003	252 397	129 888	122 509	3 200	2 763	437	
2009	487 298	157 029	76 719	41 443	209 581	96 867	112 713	2 526	2 310	216	
2010											
January	479 950	153 055	73 935	42 394	208 167	95 495	112 671	2 399	2 286	114	
February	480 403	153 982	73 571	39 001	211 498	98 246	113 253	2 351	2 250	101	
March	494 224	155 102	80 358	38 465	219 038	102 351	116 688	1 261	1 177	83	
April	510 835	159 892	82 885	39 528	227 263	107 338	119 926	1 267	1 191	76	
May	521 376	162 129	87 079	40 483	230 302	111 653	118 649	1 382	1 224	158	
June	533 504	168 282	91 261	38 009	234 575	114 903	119 673	1 377	1 215	162	
July	550 941	175 080	94 201	40 181	240 634	117 853	122 780	845	689	156	
August	556 176	175 103	96 200	40 213	243 811	121 145	122 667	849	693	156	
September	568 810	174 814	100 610	40 726	251 597	124 393	127 203	1 063	895	168	
October	576 046	175 226	102 456	41 817	255 447	126 768	128 678	1 100	996	104	
November	574 070	173 332	103 041	42 857	253 429	126 152	127 277	1 410	1 261	149	
December	597 872	182 990	106 904	41 566	265 382	133 014	132 368	1 031	828	203	

Monetary aggregates and their components (concluded)

Period	including										
	M3 ¹	M1			M2-M1			M3-M2			
		cash in circulation outside deposit-taking corporations (Ī 0)	transferrable deposits in national currency		transferrable deposits in foreign currency	other deposits including		total	securities other than shares including		
			3	4		5	6		7	8	9
1	2	3	4	5	6	7	8	9	10	11	
change in annual calculation, %											
2005	54.4	42.2	54.9	41.5	64.8	74.3	53.3	317.6	470.3	82.7	
2006	34.5	24.5	26.0	31.1	45.5	34.8	60.1	78.3	83.1	55.7	
2007	51.7	48.2	46.1	55.2	53.8	81.5	21.9	196.0	227.8	16.2	
2008	30.2	39.3	-0.3	73.0	33.3	8.5	75.9	-34.5	-39.9	51.6	
2009	-5.5	1.5	9.0	18.4	-17.0	-25.4	-8.0	-21.1	-16.4	-50.6	
2010											
January	-2.6	1.9	14.2	10.7	-11.9	-20.8	-2.7	-22.9	-16.3	-70.2	
February	2.0	4.4	17.2	17.2	-5.7	-13.7	2.5	-21.5	-14.9	-71.2	
March	6.6	5.4	22.9	12.7	2.2	-6.3	11.0	-56.2	-53.8	-74.5	
April	9.8	6.1	31.7	15.8	5.7	-2.2	14.0	-46.4	-41.4	-77.1	
May	11.3	6.0	34.3	16.5	7.9	3.4	12.5	-38.5	-36.7	-49.3	
June	12.9	9.9	23.7	6.3	13.2	10.4	15.9	-50.1	-50.4	-47.6	
July	16.8	15.4	27.5	3.6	17.4	17.3	17.6	-66.1	-68.5	-48.3	
August	18.1	17.3	32.7	-2.3	18.5	27.6	10.7	-64.2	-67.2	-39.8	
September	21.2	17.4	38.5	1.3	22.6	32.0	14.6	-57.5	-60.1	-34.2	
October	23.0	17.8	47.8	-0.1	24.1	37.0	13.7	-59.7	-60.2	-54.3	
November	22.0	17.2	41.6	0.1	24.1	39.1	12.1	-48.2	-49.5	-33.9	
December	22.7	16.5	39.3	0.3	26.6	37.3	17.4	-59.2	-64.2	-6.1	

¹ Monetary aggregates include liabilities of depositary corporations to other sectors of economy except other depositary corporations and general government sector.

Monetary aggregate Ī 0 includes currency in circulation outside the depositary corporations.

Monetary aggregate Ī 1 comprises monetary aggregate M0 and transferrable deposits in national currency (M1-M0).

Monetary aggregate Ī 2 comprises monetary aggregate M1 and transferrable deposits in foreign currency and other deposits (M2-M1).

Monetary aggregate Ī 3 comprises monetary aggregate M2 and securities other than shares (M3-M2).

Credits extended by depository corporations (except the National Bank of Ukraine) within sectors of economy

Period	Total	including													
		other financial corporations				general government sector				nonfinancial corporations				other sectors of economy	
		total	insurance corporations and non-state pension funds	other financial intermediaries and auxiliary financial organizations	total	central government	regional and local government	total	state nonfinancial corporations ¹	other nonfinancial corporations ¹	total	households	non-profit institutions serving households		
1	2	3	4	5	6	7	8	9	10	11	12	13	14		
Balances of funds at the period end, UAH millions															
2005	143 423	1 663	...	...	5	—	5	106 078	6 391	99 687	35 677	35 659	18
2006	245 230	2 689	319	2 370	4	—	4	160 503	8 798	151 705	82 034	82 010	24		
2007	426 867	5 932	550	5 382	4	—	4	260 476	13 326	247 150	160 455	160 386	69		
2008	734 022	9 789	729	9 060	12	—	12	443 665	37 382	406 283	280 556	280 490	66		
2009	723 295	14 014	632	13 382	5 755	4 527	1 229	462 215	42 587	419 627	241 311	241 249	63		
2010															
January	709 053	13 240	561	12 679	5 822	4 592	1 231	453 678	41 931	411 747	236 313	236 251	61		
February	708 292	13 291	588	12 703	6 439	5 210	1 229	455 538	42 121	413 417	233 023	232 964	60		
March	703 105	13 526	763	12 763	6 654	5 423	1 231	453 583	16 756	436 828	229 342	229 282	59		
April	704 515	12 965	851	12 115	6 670	5 439	1 231	458 491	16 744	441 747	226 389	226 329	61		
May	703 164	12 909	676	12 233	6 693	5 466	1 227	459 496	17 503	441 993	224 065	224 005	60		
June	703 545	12 253	779	11 474	6 690	5 465	1 225	463 277	17 987	445 290	221 325	221 265	60		
July	711 964	12 913	638	12 275	6 690	5 466	1 224	471 629	18 533	453 096	220 732	220 666	66		
August	716 533	12 883	690	12 193	6 686	5 466	1 220	477 909	19 491	458 417	219 056	218 987	69		
September	728 625	13 425	878	12 547	8 197	6 978	1 219	488 238	20 286	467 952	218 764	218 692	72		
October	733 181	13 402	704	12 698	8 200	6 981	1 219	494 146	20 825	473 322	217 433	217 361	71		
November	735 341	13 395	714	12 681	8 360	6 980	1 380	499 077	46 349	452 728	214 509	214 434	75		
December	732 823	13 430	935	12 496	8 817	7 430	1 388	500 961	46 042	454 919	209 615	209 538	76		

Credits extended by depository corporations (except the National Bank of Ukraine) within sectors of economy (concluded)

Period	including															
	other financial corporations				general government sector				nonfinancial corporations				other sectors of economy			
	total	including			total	including			total	including			total	including		
		insurance corporations and non-state pension funds	4	5		central government	7	regional and local government		8	total	9		state nonfinancial corporations ¹	10	other nonfinancial corporations ¹	11	households	13	non-profit institutions serving households	14
2	3	4	5	6	7	8	9	10	11	12	13	14				
Change in annual calculation, %																
2005	61.9	97.5	...	...	-87.2	-	-87.2	48.2	16.5	50.8	121.0	121.1	20.0	
2006	71.0	61.7	...	...	-11.5	-	-11.5	51.3	37.7	52.2	129.9	130.0	34.0	
2007	74.1	120.6	72.4	127.1	-10.8	-	-10.8	62.3	51.5	62.9	95.6	95.6	185.1			
2008	72.0	65.0	32.6	68.3	203.5	-	203.5	70.3	180.5	64.4	74.8	74.9	-4.4			
2009	-1.5	43.2	-13.3	47.7	...	...	...	4.2	13.9	3.3	-14.0	-14.0	-4.8
2010																
January	-1.9	32.1	-18.7	35.8	...	...	...	3.9	14.5	2.9	-14.3	-14.3	3.0
February	-1.3	16.1	-17.2	18.3	107.0	67.9	...	5.3	16.5	4.3	-13.9	-13.9	1.7			
March	-1.9	6.5	2.4	6.8	72.8	40.9	...	4.6	-53.6	9.9	-13.9	-13.9	1.7			
April	-1.5	-6.6	19.7	-8.1	40.4	41.4	36.3	5.7	-55.2	11.5	-13.8	-13.8	-3.0			
May	-1.4	-12.5	-3.1	-13.0	40.9	42.1	36.1	5.3	-54.9	11.2	-12.9	-12.9	-5.1			
June	-1.7	-11.6	7.0	-12.6	32.1	42.1	0.5	4.8	-56.1	11.0	-13.1	-13.1	-5.3			
July	-0.8	-6.5	-7.5	-6.5	32.1	42.0	0.6	5.6	-55.8	12.0	-12.6	-12.6	5.1			
August	-1.5	-8.1	-1.9	-8.5	31.6	41.7	-0.3	5.5	-53.5	11.6	-14.4	-14.4	7.6			
September	-0.1	-7.6	33.6	-9.6	61.6	81.3	-0.4	6.7	-51.7	12.6	-13.3	-13.3	5.1			
October	0.8	-4.1	15.4	-5.0	61.6	81.4	-0.5	7.6	-52.0	13.9	-12.8	-12.8	0.2			
November	1.8	-1.1	31.0	-2.4	59.3	73.5	12.7	8.8	8.8	8.8	-12.6	-12.6	5.4			
December	1.3	-4.2	47.9	-6.6	53.2	64.1	12.9	8.4	8.1	8.4	-13.1	-13.1	21.9			

¹ In March and November 2010, reclassification was between subsectors of Sector S.11 "Nonfinancial corporations" in conformity with Classification of institutional sectors of economy of Ukraine approved by order of State Statistics Committee of Ukraine of 18.04.2005 No. 96 (amended).

Deposits attracted by depository corporations (except the National Bank of Ukraine) within sectors of the economy

Period	Total	including																	
		other financial corporations						general government sector				nonfinancial corporations				other sectors of economy			
		total	insurance corporations and non-state pension funds	4	5	total	central government	7	8	regional and local government	8	9	total	state nonfinancial corporations	10	11	total	households	13	14
Balances of funds by the period end, UAH millions																			
2005	134 754	6 129	...	...	2 010	284	1 726	50 976	8 862	42 114	75 640	74 778	862				
2006	185 917	8 741	4 063	4 679	1 682	266	1 417	65 614	6 976	58 638	109 879	108 860	1 020						
2007	283 875	15 343	7 043	8 300	4 136	601	3 536	95 583	9 275	86 308	168 813	167 239	1 575						
2008	359 740	19 305	8 537	10 768	2 536	615	1 921	118 188	12 281	105 907	219 711	217 860	1 851						
2009	334 953	15 621	7 477	8 144	8 586	8 140	446	94 796	12 319	82 477	215 949	214 098	1 851						
2010																			
January	331 141	14 197	6 511	7 686	8 098	7 633	464	92 307	12 142	80 165	216 539	214 597	1 943						
February	327 144	13 935	6 335	7 601	5 212	4 735	476	88 807	11 956	76 851	219 190	217 259	1 931						
March	337 443	16 583	7 866	8 717	3 471	2 506	965	93 199	11 433	81 766	224 189	222 197	1 992						
April	351 878	15 757	7 866	7 891	3 496	2 290	1 205	96 985	11 729	85 256	235 640	233 627	2 013						
May	360 385	15 661	6 927	8 735	3 722	2 540	1 183	102 009	12 206	89 802	238 993	236 895	2 097						
June	366 089	16 899	8 346	8 552	3 502	2 225	1 277	99 849	11 789	88 060	245 840	243 664	2 176						
July	378 914	16 201	7 430	8 772	5 144	4 019	1 125	102 978	11 398	91 579	254 590	252 353	2 237						
August	383 669	16 265	7 066	9 200	4 705	3 616	1 089	106 203	12 002	94 201	256 496	254 178	2 317						
September	397 502	17 353	8 354	8 999	5 760	4 470	1 290	110 450	12 285	98 166	263 939	261 468	2 472						
October	404 214	16 222	7 027	9 195	5 826	4 320	1 507	115 175	13 649	101 526	266 990	264 488	2 502						
November	403 740	16 367	6 974	9 393	5 645	4 059	1 586	112 182	12 963	99 219	269 546	267 079	2 467						
December	416 650	19 022	8 169	10 854	4 132	3 924	208	116 105	13 952	102 153	277 390	275 093	2 298						

Interest rates on refinancing (year on year rates, %)

Period	NBU discount rate ¹	Average weighted interest rate on all instruments	including									
			credits granted through tender	overnight credits	repo transactions	credits extended to support long-term bank liquidity	stabilization credits	swap transactions	refinancing credits on collateral of property rights on bank deposits placed with the NBU	other short-term credits	credits extended to finance European Football Championship 2012	
1	2	3	4	5	6	7	8	9	10	11	12	
2005	9.5	14.7	12.9	14.9	12.0	—	—	—	—	—	—	—
2006	8.5	11.5	10.4	12.1	10.7	—	15.0	—	8.5	—	—	—
2007	8.0	10.1	10.0	11.1	—	—	—	—	8.3	—	—	—
2008	12.0	15.3	16.6	16.0	13.8	—	—	—	—	14.1	—	—
2009	10.25	16.7	20.6	18.1	21.6	—	—	—	—	16.0	—	—
2010	7.75	11.6	11.1	11.3	9.4	—	—	—	—	11.9	—	—
January	10.25	13.1	—	17.0	—	—	—	—	—	13.1	—	—
February	10.25	12.0	16.5	—	—	—	—	—	—	12.1	—	—
March	10.25	11.0	—	—	—	—	—	—	—	—	—	—
April	10.25	12.2	—	—	—	—	—	—	—	12.3	—	—
May	10.25	11.0	—	—	—	—	—	—	—	—	—	—
June	9.5	12.3	—	—	—	—	—	—	—	12.3	—	—
July	8.5	10.5	—	—	—	—	—	—	—	10.5	—	—
August	7.75	9.9	—	—	9.5	—	—	—	—	10.0	—	—
September	7.75	8.3	—	10.8	—	—	—	—	—	8.3	—	—
October	7.75	9.3	—	—	9.3	—	—	—	—	—	—	—
November	7.75	11.3	—	11.3	—	—	—	—	—	—	—	—
December	7.75	10.4	10.5	9.3	—	—	—	—	—	—	—	—

¹ At the period end.

Interest rates on credits extended by depository corporations (except the National Bank of Ukraine) in reporting period by sectors of the economy
(year on year average weighted rates, %)

Period	Total			including without taking into account overdraft					including by sectors of the economy									
	amount, UAH mln.	interest rate, %	including		amount, UAH mln.	interest rate, %	including		other financial corporations ¹		general government corporations ²		nonfinancial corporations ²		households ³		non-profit institutions serving households	
			in national currency	in foreign currency			amount, UAH mln.	interest rate, %	amount, UAH mln.	interest rate, %	amount, UAH mln.	interest rate, %	amount, UAH mln.	interest rate, %	amount, UAH mln.	interest rate, %	amount, UAH mln.	interest rate, %
2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	
2005	438 391	14.6	16.4	11.5	355 815	14.1	16.0	11.6	829	14.0	79	18.6	396 276	14.4	41 207	16.3	...	...
2006	627 967	14.1	15.4	11.3	494 758	13.6	15.1	11.3	2 124	14.3	8	15.8	534 677	13.9	91 159	15.2	...	...
2007	969 567	13.5	14.4	11.3	768 965	13.0	13.9	11.3	3 438	15.1	10	13.5	809 995	13.1	156 125	15.6	...	...
2008	1 116 456	16.0	17.8	11.6	868 542	15.5	17.6	11.6	5 536	17.0	25	21.6	945 532	15.5	165 369	18.7	...	...
2009	810 282	18.3	20.9	10.0	717 061	17.7	20.5	9.9	11 264	20.5	1 937	20.8	750 522	18.0	45 520	22.3	1 038	16.5
2010	1 112 545	14.6	15.7	10.5	991 849	13.7	14.6	10.6	16 907	17.1	3 259	13.4	1 034 525	14.0	57 800	25.2	54	22.9
January	64 302	16.4	18.3	10.7	58 458	15.8	17.6	10.7	416	20.4	157	13.8	61 138	16.2	2 589	22.5	1	19.7
February	72 360	16.7	18.6	10.7	65 648	16.1	17.9	10.7	809	21.0	625	13.7	67 875	16.4	3 047	24.4	4	27.9
March	101 723	16.3	17.5	11.2	92 868	15.7	16.8	11.3	1 515	20.1	213	13.7	96 430	15.9	3 563	25.8	1	23.8
April	84 578	15.6	16.8	11.3	76 276	14.8	15.9	11.4	1 197	19.2	21	14.9	79 763	15.1	3 588	25.2	10	18.2
May	63 158	14.7	15.8	10.7	55 715	13.7	14.6	10.7	829	17.8	26	14.2	58 848	14.1	3 453	24.6	1	27.1
June	83 391	14.6	15.4	11.2	74 711	13.8	14.5	11.2	2 390	15.3	1	25.6	77 159	14.1	3 839	24.2	2	24.9
July	94 502	13.6	14.6	10.4	85 008	12.7	13.5	10.5	1 788	14.8	8	26.0	87 872	13.0	4 827	23.5	7	26.5
August	116 788	13.2	13.9	10.0	104 866	12.0	12.5	10.1	1 137	15.9	12	26.0	109 585	12.4	6 049	27.0	6	23.0
September	112 247	13.8	14.6	10.3	99 398	12.6	13.3	10.3	2 198	17.0	1 512	12.9	101 938	12.9	6 591	26.4	7	21.7
October	87 821	13.8	14.9	9.5	75 784	12.4	13.4	9.5	1 280	14.4	10	24.1	80 721	12.9	5 806	25.6	5	22.9
November	111 589	13.4	14.1	9.9	97 746	12.3	12.9	9.9	886	16.5	172	15.4	103 793	12.7	6 733	24.3	5	23.3
December	120 085	14.8	16.0	10.7	105 371	13.9	14.9	10.7	2 462	18.0	501	13.3	109 404	14.0	7 713	25.6	5	23.5

¹ Till January 2009 – information only on overdraft credits.

² Till January 2009 – information on credits extended to nonfinancial corporations, non-profit institutions serving households and subsectors of employers and self-engaged workers of the households sector.

³ Till January 2009 – information on credits extended to subsectors of hired employees and receivers of income from property and transfers of the households sector.

**Interest rates on deposits attracted by depository corporations (except National Bank of Ukraine) in reporting period
by sectors of the economy**
(year on year average weighted rates, %)

Period	Total					including									
	amount, UAH, mln.	interest rate, %	in national currency	including		other financial corporations		general government sector		nonfinancial corporations ¹		households ²		non-profit institutions serving households	
				in foreign currency	5	amount, UAH, mln.	interest rate, %	amount, UAH, mln.	interest rate, %	amount, UAH, mln.	interest rate, %	amount, UAH, mln.	interest rate, %	amount, UAH, mln.	interest rate, %
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
2005	269 321	8.0	8.5	6.8	9 845	10.2	1 625	11.0	86 901	8.2	170 951	7.7	...	...
2006	463 943	6.8	7.6	5.8	15 774	9.8	2 572	12.0	199 025	6.5	246 572	6.9	...	...
2007	685 871	7.2	8.2	5.8	26 426	9.4	7 001	2.6	316 350	6.6	336 094	7.4	...	...
2008	1 139 325	8.3	9.9	5.4	41 568	12.1	13 312	15.0	617 529	7.5	466 916	8.7	...	...
2009	970 752	11.8	14.0	9.2	53 028	13.5	23 366	3.1	316 821	11.5	575 788	12.2	1 749	16.8	
2010	1 164 078	9.4	10.3	7.9	63 994	9.1	3 502	16.1	500 891	7.0	592 889	11.4	2 802	11.0	
January	78 101	11.6	13.0	9.8	3 316	12.4	197	10.6	28 743	9.3	45 594	13.1	250	12.0	
February	81 565	11.7	13.2	9.8	3 869	11.2	35	15.2	31 417	9.7	45 977	13.1	266	12.1	
March	105 363	11.8	13.9	9.2	6 610	10.8	904	19.4	38 612	9.6	58 956	13.3	281	12.7	
April	100 077	11.6	13.7	8.8	4 561	13.8	266	18.9	37 649	9.6	57 300	12.6	301	12.6	
May	85 604	10.5	11.7	8.6	2 993	12.3	130	18.5	33 864	8.0	48 428	12.1	188	11.7	
June	98 742	9.4	10.3	8.0	6 491	10.4	112	20.2	43 049	6.7	48 870	11.7	220	11.4	
July	100 887	9.1	9.8	7.6	3 511	11.4	77	13.6	45 590	6.6	51 507	11.1	201	11.9	
August	101 197	8.3	8.9	7.2	3 141	10.9	84	12.6	48 167	6.0	49 617	10.4	188	10.1	
September	102 939	8.0	8.5	6.8	5 536	8.3	729	14.1	48 620	5.6	47 875	10.3	180	9.8	
October	95 679	7.4	8.0	6.3	3 329	9.3	507	14.3	46 311	4.9	45 363	9.8	169	9.1	
November	100 310	7.0	7.4	6.2	12 210	3.6	353	14.6	44 118	5.4	43 448	9.6	181	10.2	
December	113 616	7.6	8.4	6.0	8 426	7.4	108	16.2	54 751	5.7	49 954	9.7	377	8.0	

¹ Till January 2009 – information on deposits attracted from nonfinancial corporations, non-profit institutions serving households, and subsectors of employers and self-engaged workers of the households sector.

² Till January 2009 – information on deposits of subsectors of hired employees and receivers of income from property and transfers of the households sector.

**Official exchange rate of hryvnia against foreign currencies set
by the National Bank of Ukraine, average for the period**

Names of currencies	2005	2006	2007	2008	2009	2010
100 Australian Dollar	390.88	380.32	423.29	443.77	617.14	729.63
100 Pound Sterling	933.76	929.45	1010.69	966.88	1 219.48	1 226.89
10000/100 ¹ Azerbaijan Manat	10.83	557.91	588.48	641.78	969.36	988.66
10 Belarussian Ruble	0.02	0.02	0.02	0.02	0.03	0.03
100 Danish Krone	85.76	84.96	92.85	103.38	145.95	141.44
100 US Dollar	512.47	505.00	505.00	526.72	779.12	793.56
100 Estonian Kroon	40.84	40.50	44.21	49.26	69.46	67.32
100 Icelandic Krona	8.16	7.26	7.90	5.76	3.75	3.63
100 Canadian Dollar	422.89	445.16	471.98	493.94	685.60	770.66
100 Kazakh Tenge	3.86	4.01	4.12	4.38	5.30	5.39
100 Latvian Lats	909.94	907.95	988.22	1 097.12	1 539.89	1486.13
100 Lithuanian Litas	185.20	183.56	200.36	223.24	314.76	305.05
100 Moldovan Leu	40.68	38.47	41.67	50.75	70.26	64.21
100 Norwegian Krone	79.67	78.80	86.34	93.63	124.67	131.48
100 Polish Zloty	158.76	162.77	183.06	219.19	252.09	263.85
10 Russian Ruble	1.81	1.86	1.98	2.11	2.47	2.61
100 Singapore Dollar	308.03	317.81	335.22	371.65	536.56	582.39
100 Slovak Koruna	16.55	17.04	20.49	24.67	–	–
10000/100 ² Turkish Lira	380.29	352.97	387.74	404.35	502.51	526.90
10000/100 ³ Turkmen Manat	9.86	9.71	9.71	5.30	273.38	278.44
1000 Hungarian Forint	25.78	24.02	27.53	30.64	38.92	38.31
100 Uzbek Sum	0.46	0.41	0.40	0.40	0.53	0.50
100 Czech Koruna	21.44	22.37	24.95	30.84	41.21	41.65
100 Swedish Krona	68.96	68.50	74.79	80.03	102.54	110.33
100 Swiss Franc	412.75	402.78	421.16	486.09	719.50	762.61
100 RNB (China)	62.53	63.34	66.40	75.85	114.06	117.23
1000 Japanese Yen	46.69	43.40	42.92	51.40	83.45	90.52
100 Euro	638.99	633.69	691.79	770.80	1 086.79	1 053.29
100 SDR	758.02	742.83	772.94	830.84	1 201.88	1 210.84

¹ From 2006, 100 Azerbaijan Manat.

² From 2005, 100 Turkish Lira.

³ From 2009, 100 Turkmen Manat.

Official Exchange Rate of Hryvnia against Foreign Currencies Set by the National Bank of Ukraine, end of the period¹
(UAH)

Names of currencies	2005	2006	2007	2008	2009	2010
100 Australian Dollar	368.69	398.47	443.46	531.22	713.95	808.41
100 Pound Sterling	867.59	990.45	1 009.73	1 114.30	1 266.47	1 229.15
10000/100 ² Azerbaijan Manat	11.00	579.46	597.35	961.30	994.27	997.83
10 Belarussian Ruble	0.02	0.02	0.02	0.04	0.03	0.03
100 Danish Krone	80.06	89.20	99.50	145.70	153.85	141.84
100 US Dollar	505.00	505.00	505.00	770.00	798.50	796.17
100 Estonian Kroon	38.17	42.51	47.42	69.38	73.17	67.57
100 Icelandic Krona	7.93	7.14	8.13	3.74	3.95	3.65
100 Canadian Dollar	432.85	435.24	515.63	626.36	761.28	796.47
100 Kazakh Tenge	3.77	3.98	4.19	6.38	5.38	5.40
100 Latvian Lats	851.60	953.94	1 064.49	1 533.47	1 614.11	1 489.59
100 Lithuanian Litas	173.53	192.62	214.88	314.40	331.58	306.22
100 Moldovan Leu	39.36	39.13	44.62	74.02	64.92	65.51
100 Norwegian Krone	74.49	80.73	93.05	110.32	137.57	135.22
100 Polish Zloty	154.70	173.61	206.01	261.80	277.56	266.66
10 Russian Ruble	1.75	1.92	2.06	2.62	2.64	2.61
100 Singapore Dollar	303.36	329.22	349.22	534.09	568.47	617.16
100 Slovak Koruna	15.77	19.31	22.08	36.03	–	–
10000/100 ³ Turkish Lira	374.09	356.81	431.92	502.43	527.84	512.36
10000/100 ⁴ Turkmen Manat	9.71	9.71	9.71	5.40	280.18	279.36
1000 Hungarian Forint	23.65	26.42	29.23	40.76	42.08	37.90
100 Uzbek Sum	0.43	0.41	0.39	0.55	0.53	0.49
100 Czech Koruna	20.59	24.20	27.91	40.76	43.37	41.89
100 Swedish Krona	63.46	73.57	78.53	99.14	111.21	117.31
100 Swiss Franc	383.17	413.89	446.85	725.49	769.52	847.55
100 RNB (China)	62.57	64.70	69.14	112.65	116.99	120.62
1000 Japanese Yen	42.83	42.38	44.66	85.21	86.50	97.68
100 Euro	597.16	665.09	741.95	1 085.55	1 144.89	1 057.31
100 SDR	721.78	759.72	798.03	1 186.01	1 251.80	1 226.13

¹ Set on the last calendar day.

² From 2006, 100 Azerbaijan Manat.

³ From 2005, 100 Turkish Lira.

⁴ From 2009, 100 Turkmen Manat.

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