



NATIONAL BANK OF UKRAINE

# ANNUAL REPORT

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### **Dear Mesdames and Sirs!**

The year 2011 has turned into history. Let us remind the most important events of this year: there were a lot of good and bad news, as well as tough and unexpected events.

This was a special year notable for the turbulence of both global and regional financial markets. During the year the challenges for the financial stability of all the members of international community, including our country, became more and more complicated.

The National Bank of Ukraine is thoroughly monitoring the development of world economic situation. The instability in international markets and the aggravation of debt crisis in Europe stimulated us to develop and implement the anti-crisis preventive measures. Ukraine has worthily withstood the external challenges, especially, due to the coordinated efforts of the President, Verkhovna Rada, Government, and the National Bank of Ukraine.

For the National Bank of Ukraine the year 2011 was a quite successful year. Day by day, we have been distancing from the tough time of financial and economic crisis. We have done our best, moreover, made a pint measure hold a quart and reached significant results, even certain record indices. We have proved that the positive results of the previous year were not coincident.

We have assured the stability of the national monetary unit. Upon results of 2011, the consumer inflation in Ukraine made up 4.6% only. This record low figure is of paramount importance for both investors and population of our country. Lower inflation as compared with Government's forecast for 2011 (8.9%) ensured a possibility to considerably save real disposable income, to keep value of population savings, and to lay foundation for further progress in the macroeconomic sphere and in the financial market.

Now, the main task of the National Bank of Ukraine together with the Government is to keep inflation at a low level and to achieve the situation when inflation does not materially influence the investment decisions of economic entities.

The inflation deceleration was effectively stimulated by the expected dynamics of foreign exchange market. The hryvnia exchange rate fluctuations reflected changes in supply and demand preempting the formation of systemic risks. We have managed to neutralize the negative expectations which manifested themselves through the instability of world reserve currencies and the aggravation of debt crisis in Europe and in the United States. Despite unavailability of expected Stand-by funds the amount of international reserves remains adequate for minimizing the current exchange rate uncertainties.

The NBU's monetary policy facilitated the economic growth, which ensured the stabilization of financial situation in the country. The National Bank assured the macroeconomic stability, as in 2011, the GDP growth significantly increased, up to 5.2%.

The National Bank of Ukraine has been effectively cooperating with the International Monetary Fund, World Bank, and other influential international institutions.

The special attention was paid to ensuring the stability of banking system.

Firstly, we were focused on improving the legislative framework with the purpose of implementing our initiatives aimed at both enhancing the regulatory framework and raising the efficiency of banking supervision. In particular, four important laws have been adopted: on increasing banks' transparency; on supervision on the consolidated basis; on protection of lenders' rights; and on particular features of corporate governance in banks (approved in the first reading). They have been elaborated in cooperation with the banking community and international financial organizations.

Secondly, we were concentrated on creating more favorable conditions for activities of banks and the market as a whole.

Upon results of the year we note considerable improvement in banks' activities. The most important is that the banking system has escalated its capital. This allows us to make the banking system more stable with respect to possible financial shocks. In 2011, the regulatory capital of the banks added 11%.

It should be pointed out that assets of the banking system grew by more than 11%. Volumes of lending of the economy have been growing. The population's trust to banks has been regained as proved by an increase in individuals' deposits with banks.

At the same time, the National Bank of Ukraine took care of and improved the investment climate in Ukraine, in particular, proposed a new reliable financial tool to save investors' money, the bullion coins made of gold or silver.

One of the most important accomplishments was the implementation of international standards on identification of customers by banks in the national legislation. Taking into account this fact, in October 2011, Ukraine was excluded from the FATF list of countries having material gaps in compliance with the standards and regulations related to the prevention of legalization of proceeds of crime and financing of terrorism. This fact has facilitated operations of Ukrainian banks with foreign partners.

The National Bank understands the importance of transparency and apprehensibility of its activities for the public. Therefore, the key steps of our institution are accompanied with public information and consultations with the banking community. During the year, the format of NBU's official Internet site changed radically and became closer to the world standards of public information dissemination in central banks. In particular, there have been implemented the publication of video releases with statements of the NBU's Board members, the announcement of events and information days with the mass media engaged. The structure and content of publications have been optimized.

The NBU's activities will be further directed to fulfilling its main function, ensuring the stability of the national monetary unit. While performing this task the NBU will prioritize keeping of price stability in the country.

The stability of monetary unit is one of the main preconditions for reaching the strategic goals of the economic development of Ukraine, i.e. the recovery of economic growth on the principles of modernization and innovation development, the building of modern, stable, open, and globally competitive economy, as well as the assurance of raising welfare of Ukrainian population.

In the context of promoting the strategic goals of Ukraine's development the National Bank of Ukraine will be focused also on fulfilling the tasks related to further stabilization of the banking system, keeping the stable pace of economic growth, and on strengthening the investment component of banking lending.

In order to achieve the set goals we will use all available mechanisms and tools within the legislative framework.

*The NBU Governor*

A handwritten signature in black ink, consisting of a stylized initial 'S' followed by a series of horizontal strokes that extend to the right.

*Sergiy Arbuzov*

**PANEL OF THE COUNCIL OF THE NATIONAL BANK OF UKRAINE**  
(as at 1 May, 2012)



**Prasolov**  
**Ihor Mykolaiovych**  
Resolution of the Verkhovna Rada  
of Ukraine of 11.01.2007 No. 560-V  
**Chairman of the Council**  
**of the National Bank of Ukraine**



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



**Arbuzov**  
**Sergiy Gennadiiovych**  
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 No. 545/2010



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



**Horbal**  
**Vasyl Mykhailovych**  
Resolution of the Verkhovna Rada  
of Ukraine of 11.01.2007 No. 560-V



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



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



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



**Poroshenko**  
**Petro Oleksiiovych**  
Resolution of the Verkhovna Rada  
of Ukraine of 11.01.2007 No. 560-V



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



**Fedosov**  
**Viktor Mykhailovych**  
Decree of the President of Ukraine  
of 16.04.2010 No. 545/2010



**Khoroshkovskyi**  
**Valerii Ivanovych**  
Decree of the President of Ukraine  
of 16.04.2010 No. 545/2010



**Shpek**  
**Roman Vasyliovych**  
Decree of the President of Ukraine  
of 16.04.2010 No. 545/2010

**PANEL OF THE BOARD OF THE NATIONAL BANK OF UKRAINE**  
(as at 1 May, 2012)



**Arbuzov  
Sergiy Gennadiiovych**  
Governor  
of the National Bank  
of Ukraine



**Prokhorenko  
Valerii Petrovych**  
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



**Syniavska  
Nataliia Bohdanivna**  
Director  
of General Department  
for Information Technologies  
and Payment Systems



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

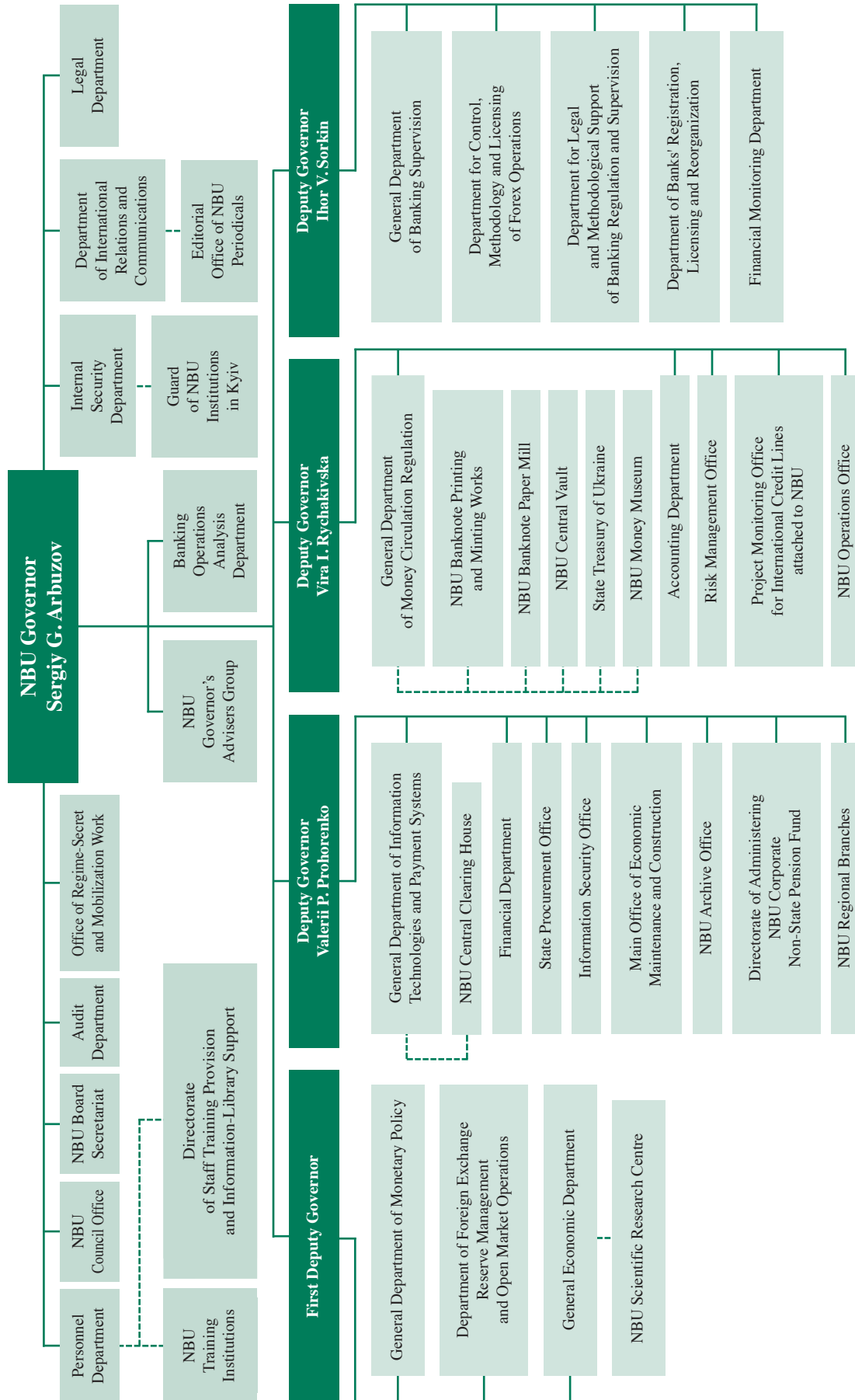


**Shumylo  
Ihor Anatoliiovych**  
Director  
of General Economic  
Department



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

# ORGANIZATIONAL CHART OF THE NATIONAL BANK OF UKRAINE (as at 1 May, 2012)





## EXECUTIVE SUMMARY

In 2011, the National Bank of Ukraine focused its activities on exercise of its main function in compliance with the Law of Ukraine on the National Bank of Ukraine, namely, on ensuring the stability of monetary unit of Ukraine. As a result of the coordinated efforts of the Government and the National Bank of Ukraine, the consumer inflation has slowed down to the lowest value for the recent nine years, whereas the real GDP growth has accelerated. Due to the rapid adjustment to changing foreign economic conditions the situation in the money market has remained predictable and regulated with the exchange rate of the national monetary unit kept stable.

High volatility of the foreign macroeconomic environment complicated the achievement of the NBU's objectives established in the legislation and required the timely adjustment of the price and quantitative monetary instruments. The well-balanced monetary policy of the National Bank of Ukraine allowed us to overcome these challenges.

A certain improvement of the foreign economic situation in the first half of 2011 entailed a rise in foreign currency supply on the domestic FX market of Ukraine and created conditions for replenishing the international reserves by the National Bank of Ukraine and liberalizing both the cash and noncash FX markets.

Under the conditions of foreign currency inflow, for the purpose of preventing a spike in monetary inflation the National Bank of Ukraine, during this period, implemented measures for neutralizing an excess of monetary funds. In particular, in July 2011, the NBU decreased twice the limits of entries of targeted T-bills purchased by banks for covering the reserve requirements (issued for financing the measures related to the European Football Championship 2012) and optimized the minimum reserve requirements in order to create more favorable conditions for banks' long-term borrowings.

Starting with the second half-year, a slowdown of the world economic recovery against the background of high volatility of international financial markets caused an increase in demand for foreign currency and fluctuations of deposits with banks. Under such conditions the NBU pursued more strict policy and focused its efforts on balancing the supply and demand for foreign currency, resuming regular operation of the FX market, and keeping the positive dynamics of deposits. As a result, the national currency exchange rate has remained stable, the international reserves have been kept in adequate amount for ensuring the proper operation of the economy and keeping the positive dynamics of deposits, with households' deposits constituting a half of the growth.

The economy grew with a quite high pace which required credit support from banks, the total amount of which, in 2011, gradually increased and exceeded the previous year level. Growing lending had a favourable impact on assets and financial results of the banks and boosted an increase by one third in the clearing settlements effected through the NBU electronic payment system.

In order to raise the efficiency of banking system the National Bank of Ukraine continued to work at improving the banking legislation and regulatory framework. In particular, upon initiative of the National Bank Verkhovna Rada of Ukraine has considered and adopted several laws facilitating the achievement of above mentioned goal. The NBU regulatory framework continued to be amended in a systematic manner. There have been drafted and approved new regulations dealing with procedures for bank registration and licensing, opening of separate structural units and submission of information on the structure of ownership; simplification of procedure for writing off bad loans at the expense of insurance reserve, etc.

The decision on creation of a remedial (rehabilitation) bank adopted by the Government of Ukraine was an important step on the path towards strengthening the banking system stability. In connection with this decision the National Bank of Ukraine elaborated and approved the Provisions for procedure of registration, licensing, regulation, and supervision over activities of the remedial bank.

The effective supervision over banks remained one of the principal activities of the National Bank of Ukraine. The banking supervision system was based on the assessment of banks by CAMELS ranking system. In addition, under the conditions of gradual recovery of Ukraine's economy, as a whole, and the banking sector, in particular, the NBU paid great attention towards banks' compliance with the requirement on increase in the minimum regulatory capital.

Special attention was paid to the banks that received refinancing loans in the crisis period. Under the conditions of a rise in liquidity of the banking system the NBU aimed its efforts at ensuring the timely fulfillment of liabilities related to refinancing loans by the banks, as well as at accelerating the loan repayment. The early repaid loans made up slightly less than a half of the refinancing loans repaid.

The effective implementation of measures aimed at exercise of the main functions of the National Bank of Ukraine would have been impossible unless the public had been aware of goals and objectives of the central bank, as well as of ways to their achievement in a timely and full manner. For this purpose, during the year, the NBU published in due time the statistical data and analytical materials in compliance with the general practice of the European system of central banks. The improvement of quality and promptness of the information materials stimulated an increase in confidence in the NBU monetary policy and laid foundation for the successful implementation of the NBU tasks.

**MACROECONOMIC  
DEVELOPMENT OF UKRAINE**

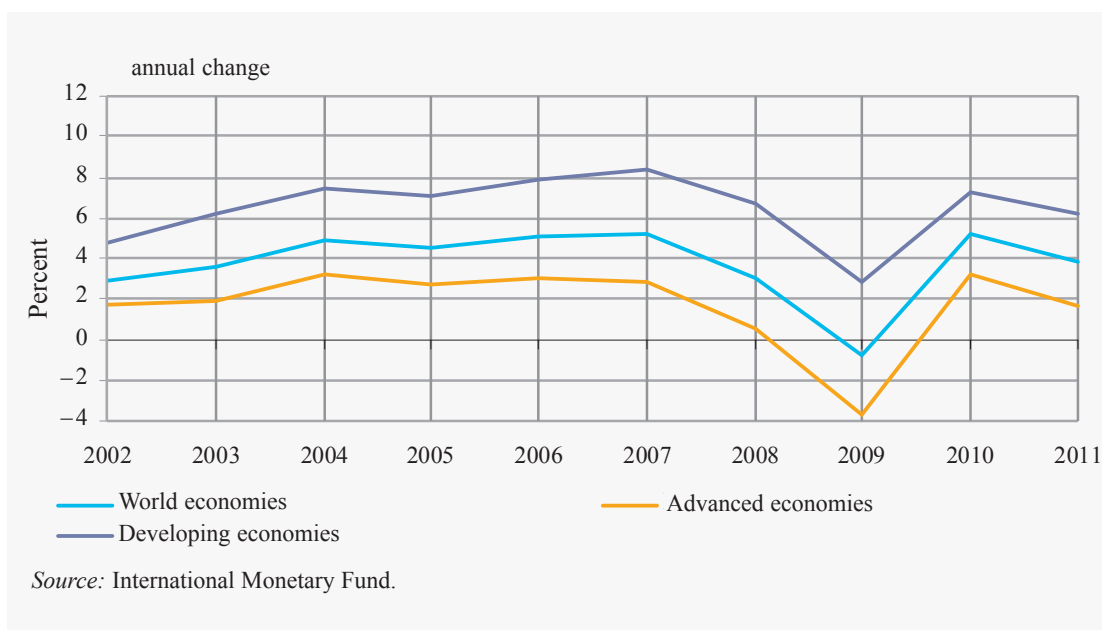


# 1. REVIEW OF THE WORLD ECONOMY AND INTERNATIONAL MARKETS

In 2011, the foreign economic conditions of Ukraine were influenced by deceleration of the world economic growth. According to the International Monetary Fund<sup>1</sup>, global GDP growth fell to 3.8%, after an ascent to 5.2%, in 2010. The economic growth in the Euro area, one of the biggest trade partners of Ukraine, slowed down, as the Eurozone GDP growth declined as compared with the previous year by 0.5 percentage points, down to 1.4%<sup>2</sup>. In 2011, Russia's GDP growth remained at the level of the previous year (4.3%). The most significant global economic slowdown was observed in the 4th quarter, as a result of noticeable deterioration of economic dynamics in advanced economies which entailed, in particular, a decline in the world trade annual growth by 5.8 percentage points, down to 6.9%<sup>1</sup>.

In 2011, among the major factors hindering the development of world economy were: earthquake, tsunami, and man-made disaster at the nuclear power plants in Japan, as well

Diagram 1. World GDP dynamics



<sup>1</sup> IMF World Economic Outlook, January 2012.

<sup>2</sup> According to Eurostat data.

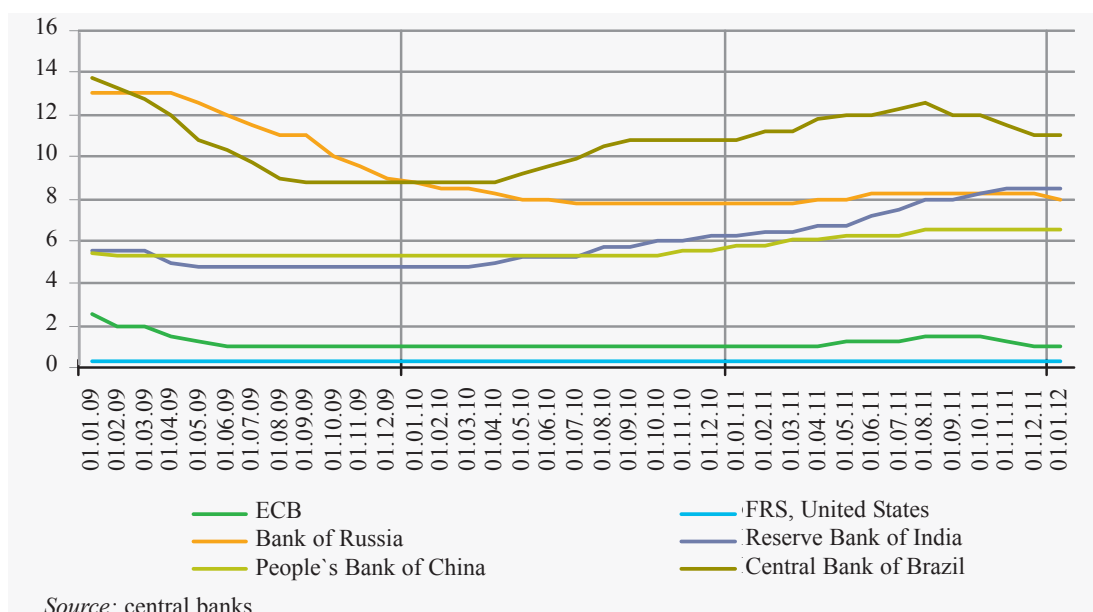
as the escalation of debt crisis in Europe into the systemic one, and a high level of public debt in the United States.

Dynamics of inflation processes during the year were moderate, although in 2011, the average inflation exceeded the level of the previous year in both advanced economies and in emerging markets and made up 2.7% versus 1.6%, in 2010, and 7.2% as compared with 6.1%, in the previous year, respectively<sup>1</sup>.

The development of world economy in the second half of 2011 was accompanied by increasing volatility in the financial markets due to a lack of liquidity in the European banking sector. In order to prevent a drop in bank lending the governments and monetary authorities in many countries of the world have taken measures to provide banks with liquidity.

Changes in conditions of the financial markets and signs of the global economic slow-down led to changing the price and quantity instruments of the monetary policy of some central banks around the world. The European countries, where banks have largely suffered from a lack of liquidity, as well as countries whose development is characterized by the high rates of GDP growth and inflation, particularly, the BRIC countries, more actively used these instruments.

**Diagram 2. Dynamics of key interest rates of central banks of the world leading countries, % annual**



Source: central banks.

Splash of volatility in the financial markets was accompanied by a shift of investors towards safer assets and, therefore, by foreign capital outflow from the developing countries. Risk premium, as measured by EMBI + spread index<sup>3</sup>, has grown almost one and a half times (from 248 percentage points to 377 percentage points, at the end of the year) with an increase in the gap with respect to other emerging market economies.

During the year, dynamics of the commodity prices in the world commodity markets were mixed. However, in the second half, there formed a downward price trend for trade in food and metals, whereas the energy prices were characterized by minor fluctuations. In the reporting year, the price index for commodities increased by 8.9 percentage points, up to 184.6, as calculated by IMF.

<sup>3</sup> EMBI + spread is a benchmark index calculated by JPMorgan as a difference between the total return performance of liquid Eurobonds issued by sovereign issuers and government institutions of emerging markets and the total return performance of US treasury bonds with the respective maturity.

## 2. REVIEW OF UKRAINE'S ECONOMY

In 2011, in the economic situation in Ukraine there was reported the improvement of macroeconomic indicators. The consumer inflation was the lowest in the last 9 years, and gross domestic product (GDP) showed an accelerated growth pace as compared with the year 2010.

The economic growth and price stability in Ukraine have been based on joint coordinated efforts of the National Bank of Ukraine and the government. High domestic consumer and investment demand, favorable foreign economic situation in the first half of the year, and record results of agriculture in the second half of 2011 facilitated the revival of economy.

Table 1. **Basic macroeconomic indices of Ukraine**

Indices	Growth (decline) rate, %				
	2007	2008	2009	2010	2011
Nominal GDP (in actual prices), UAH billion	720.7	948.1	913.3	1 082.6	1 316.6
Real GDP (in fixed prices of 2007)	7.6	2.3	-14.8	4.1	5.2
Consumer price index (as compared with December of the previous year)	16.6	22.3	12.3	9.1	4.6
Producer price index ( as compared with December of the previous year )	23.3	23.0	14.3	18.7	14.2
Unemployment rate, based on the methodology of the International Labor Organization, %	6.9	6.9	9.6	8.8	8.6
Real wage	12.5	6.3	-9.2	10.2	8.7
Real disposable income	14.8	7.6	-10.0	17.1	6.1
Consolidated budget balance ( % of GDP)	-1.1	-1.5	-4.1	-6.0	-1.8
BOP current account balance (% of GDP)	-3.7	-7.0	-1.5	-2.2	-5.5

## 2.1. ANALYSIS OF INFLATION DYNAMICS

Consumer Price Index (CPI) in Ukraine was the lowest from 2003 and made up 104.6% (against 108.9% expected by the government).

In 2011, a fall in prices was driven by an increase in food supply, as a result of the record yield of grain crops, vegetables, and fruits. An excess of crop products in the market entailed lowering prices for the raw products by 4.0%, at the end of the year, which caused a significant negative contribution to the annual change in CPI, "minus" 1.1 percentage points.

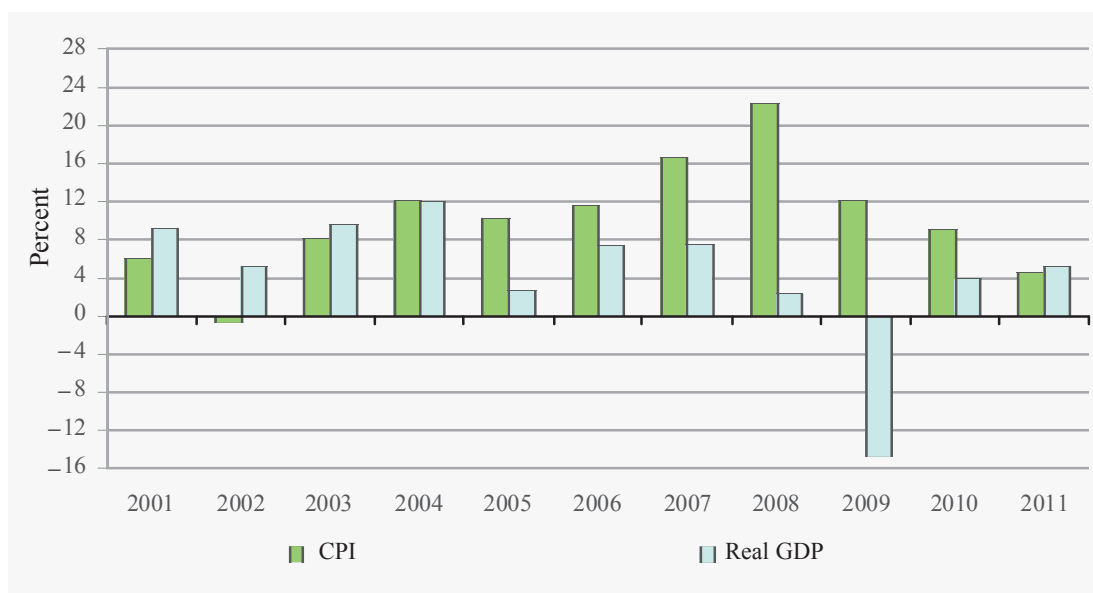
A rise in the cost for utility services by 11.0% contributed 1.1 percentage points to the CPI growth, with the electricity tariffs (by 22.9%) and rent (by 19.7%) showing the largest increase.

Another factor boosting the CPI growth was a rise in the fuel prices, starting with the beginning of the year (by 30.9% during the year), as a result of an upward trend in the world oil prices and an increase in the excise duties on fuel by 37.9% from 01.01.2011 (the share in CPI growth was 0.5 percentage points).

The prudent monetary policy facilitated the reduction of core inflation during the year down to 6.9% versus 7.9%, in 2010. The stability of hryvnia exchange rate against U.S. dollar also restrained the inflationary pressure during the year.

The recovery of world commodity markets and growth of domestic investment demand (mostly in the first three quarters of 2011) caused a significant increase in the producer price index (PPI), but this trend changed for decline in the 4th quarter, and, as a result, in 2011, PPI increased by 14.2% as compared with 18.7%, in 2010.

Diagram 3. CPI and real GDP dynamics





## 2.2. GROSS DOMESTIC PRODUCT

For Ukraine the year 2011 was a year of keeping the positive economic changes initiated in the previous year. In 2011, the real GDP growth made up 5.2%, which was 1.1 percentage points more than in 2010. The nominal GDP amounted to UAH 1316.6 billion and increased by 21.6%, in 2011, as compared with the previous year. Its dynamic growth was ensured by an increase in the gross added value in almost all economic sectors.

In the first half of the year, the economic growth was stimulated by favorable economic conditions of the foreign markets, which primarily had an effect on the dynamics of export-oriented industries: metallurgy, machine-building, chemical and petrochemical industries. In 2011, despite a slump in the external demand at the end of the year, the growth of industrial output remained high and amounted to 7.6%.

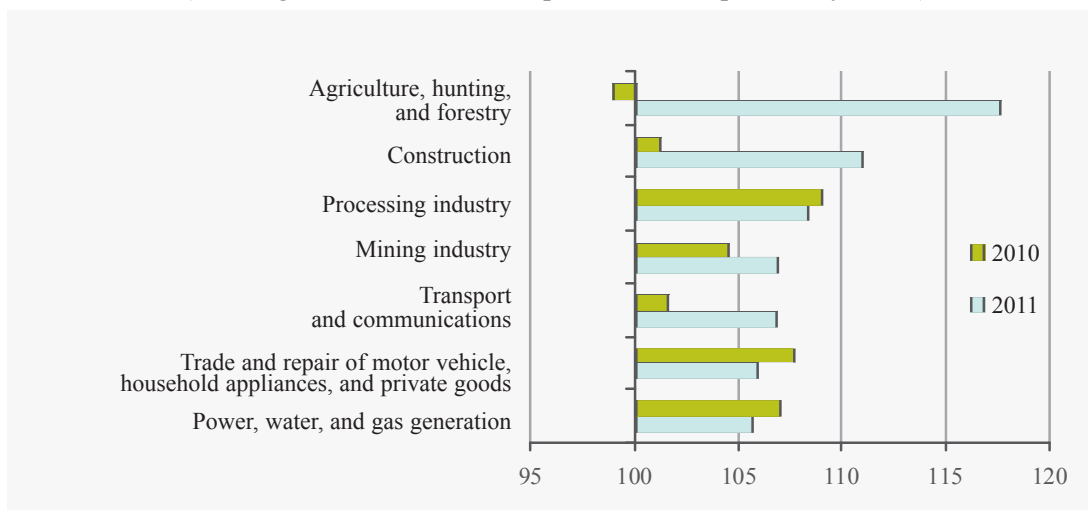
In Ukraine, in 2011, agriculture made a significant contribution to the economic growth. In the reporting year, the highest grain harvest (56.7 million tonnes), from 1991, was gathered, which is 44.5% more than in the previous year. This increase in the crop production contributed to escalating the growth of agricultural production up to 17.5%, in 2011.

Construction also favorably impacted the upward trend of the economic development, in 2011. The high level of public funding within the framework of preparation for Euro 2012 (investments in the fixed assets from the state budget added 64.6%, in 2011) entailed a rise in construction output up to 11.0%, in 2011.

Growing economic activities in the industry and construction, as well as ascending agricultural output positively influenced the performance of transport industry: in 2011, the freight turnover increased by 5.8% in comparison with the previous year.

The high domestic consumer demand supported by the real wages growth with a consistently high pace (8.7%, in 2011) contributed to the growth of retail turnover by 14.7%, in 2011.

Diagram 4. **Gross Value Added by basic economic activities**  
(rate of growth/decline as compared with the previous year, %)



### 2.3. LABOR MARKET AND POPULATION INCOME

In 2011, the economic growth in Ukraine was accompanied by revival of the labor market as its basic parameters improved: the unemployment rate and arrears of wages fell, whereas the household income grew.

As of 01.01.2012, there were 482.8 thousand of unemployed citizens, which was 11.4% less than as of 01.01.2011. The registered unemployment rate also dropped down to 1.8% of the working age population (versus 2.0%, in 2010). Accordingly, the employment rate of population aged from 15 to 70 years and the working age population increased to 59.2% and 66.5%, respectively (in 2010, it amounted to 58.5% and 65.6%, respectively).

Upon results of 2011, the nominal population income added 13.6% as compared with the previous year and reached UAH 1251.0 billion. The real disposable income increased by 6.1%, in 2011.

In 2011, the average monthly nominal wage per a staff member grew by 17.6% as compared with 2010 and amounted to UAH 2633. During the year the real wage paced up slightly slower (8.7%) than in 2010 (10.2%).

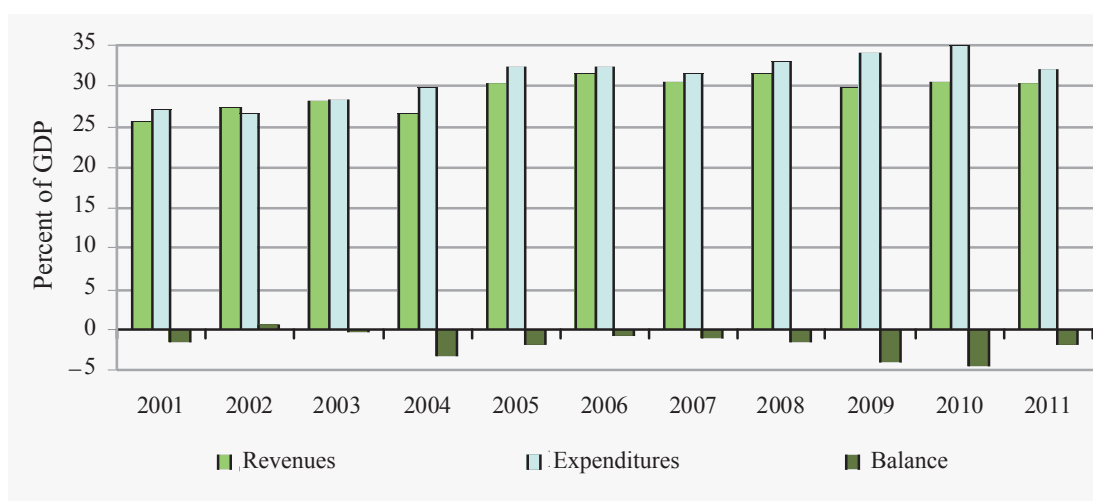
The situation of the labor market was also notable for reducing arrears of wages: as of 01.01.2012, it totaled UAH 977.4 million, which was 19.8% less than as of 01.01.2011.

### 2.4. CORPORATE AND PUBLIC FINANCE

In 2011, due to the economic growth the financial status of enterprises and companies continued to improve. The number of profitable enterprises increased as compared with 2010 by 5.0 percentage points, up to 64.0%, while their financial results from ordinary activities before taxation added 29.3% and totaled UAH 212.2 billion. However, the financial results of the enterprises incurring losses totaled UAH 99.3 billion, which was only 1.4% more than in the previous year. In the reporting year, the agricultural sector showed the most significant reduction of number of the unprofitable companies, by 14.7 percentage points (down to 14.9%) owing to the highest harvest of agricultural crops for the recent 20 years.

The government fiscal policy was characterized by more strict tax administration resulting in the fact that revenues of the Consolidated Budget of Ukraine increased by 20.4%<sup>4</sup> in

Diagram 5. Consolidated Budget of Ukraine



<sup>4</sup> For correct comparison with the previous year the revenues of the Consolidated budget of Ukraine for 2010 do not include T-bills issued against past due VAT.

contrast with the previous year and amounted to UAH 398.6 billion. Their dynamic growth was observed throughout the year. In particular, the revenues from corporate income tax increased by 36.5%, while the revenues from VAT rose by 26.6%. The annual plan for revenues was fulfilled at a level of 100.6% (in 2010, 101.7%).

Expenditure of the Consolidated Budget of Ukraine (including the loans net of repayment) totaled UAH 421.6 billion, which was by 11.2% more than in 2010. This result was achieved largely due to the growth of both capital expenditure and expenditure on public debt servicing. During the fiscal year, the expenditure raised more moderately than in the previous year, with revenues growing at a higher pace than expenditure during the major part of the year. As a result, in 2011, the expenditure plan was fulfilled for 95.3%.

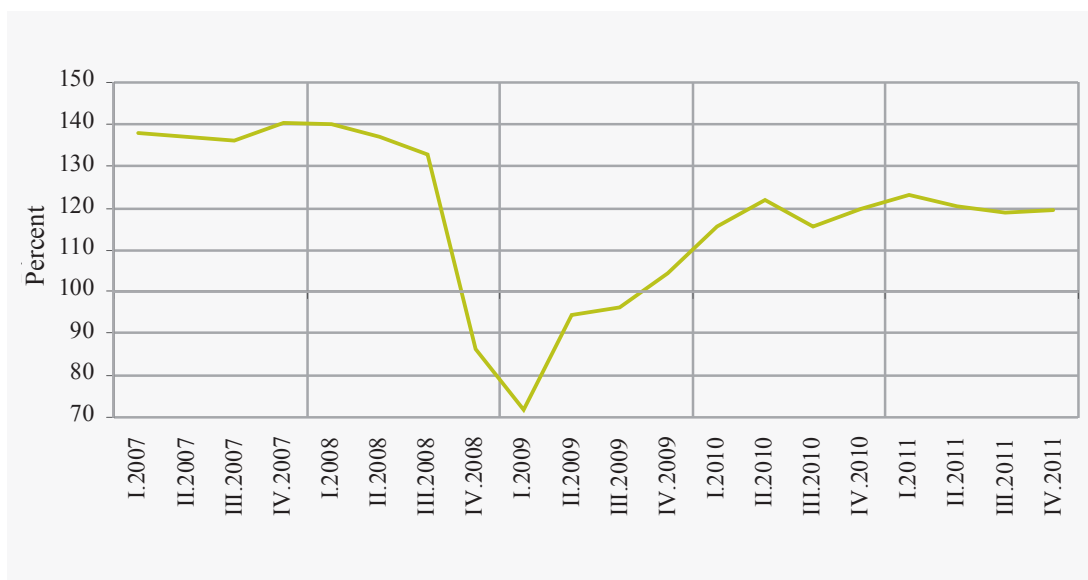
This resulted in a more than twice reduction of Ukraine's Consolidated Budget deficit in contrast with the previous year. The budget deficit was funded mainly from the internal sources: borrowings on the T-bills market and privatization of the state property.

## 2.5. RESULTS OF POLLING OF ECONOMIC ENTITIES WITH RESPECT TO THEIR BUSINESS EXPECTATIONS<sup>5</sup>

In 2011, the respondents confidently predicted better prospects for the development of their enterprises: the index of business expectations<sup>6</sup> amounted to 119.3%, at the end of the year. High score related to an increase in investment expenditure on purchasing machinery and equipment testified to the fact that businessmen expected the qualitative growth.

There are dominating optimistic expectations of the respondents regarding the overall economic development of Ukraine. During the year, the inflation expectations fell, and the

Diagram 6. Index of business expectations of enterprises and companies of Ukraine for the next 12 months, in 2007–2011



<sup>5</sup> Since 2006, the National Bank of Ukraine has been quarterly interviewing directors of companies and enterprises with respect to their assessment of current and future business activities, inflation and exchange rate expectations, as well as changes in the economic situation in the country.

<sup>6</sup> Index of business expectations is an aggregated index of expected development of business in the next 12 months based on balance of responses with respect to changes in financial and economic status of company/enterprise and future economic activities.

output in Ukraine was forecasted to ascend. The polling results have shown positive changes in operation of the banking system. In particular, the share of respondents who intend to take loans in UAH rose to 82.5%, whereas estimates of the restrictive influence of interest rates on lending went down to 67.6%. The good point was a decrease in the share of respondents who complained about the problems related to performing the banking operations (down to 4.1%).

## 3. BALANCE OF PAYMENTS AND EXTERNAL DEBT

### 3.1. Balance of Payments (BOP)

In 2011, Ukraine's balance of payments had a deficit caused primarily by an increase in the current account deficit. The main factors of the increase in deficit were: an increase in cost of import of the energy resources; growth of the domestic demand associated with implementation of the investment projects aimed at preparation for the European Football Championships 2012 and at modernization of the fixed assets of domestic enterprises; deterioration of situation of the world commodity markets in the second half of the year; and an increase in the return payments on investments.

In 2011, a lack of liquidity in the global financial markets and a slowdown of the global economic growth led to a decrease in surplus on the capital and financial transactions account which was formed exclusively at the expense of the real sector investment and debt capital.

#### *Current account*

In 2011, the current account deficit rose to USD 9.0 billion (5.5% of GDP) as compared with USD 3.0 billion (2.2% of GDP), in 2010. This change was caused by the fact that the imports of goods grew at a higher pace than exports.

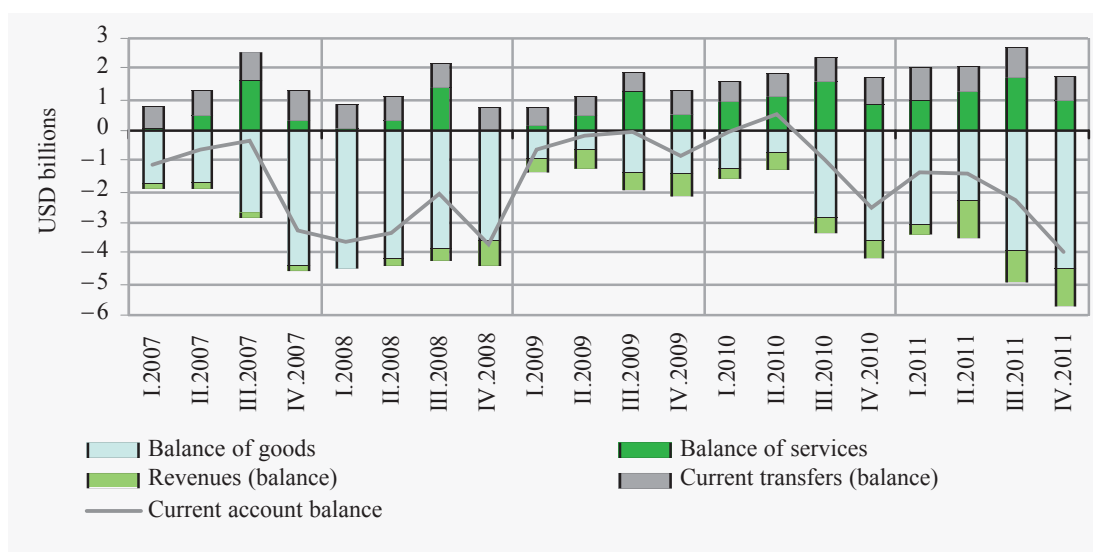
*Export of goods:* in 2011, the export of goods increased by 33.0% as compared with the previous year and reached USD 69.4 billion. The increase in exports was observed for a wide range of products. However, like in the recent years, the largest contribution to the export growth (27.8%) belonged to steel products, the value of supplies of which added 27.6%. Mineral products, chemical products, engineering, and agriculture showed high paces of the export growth (54.0%, 49.8%, 29.5%, and 28.9%, respectively).

*Import of goods:* in 2011, the import increased by 37.4%, as compared with the previous year, and reached USD 83.2 billion USA. In comparison with 2007-2008, when imports were mainly stimulated by the private consumer demand, in 2011, the high growth of imports was primarily due to the revival of investment demand. This is evidenced by an increase in the value of supplies of machinery by 57.7%, including 56.5% referred to means of production. Production and investment needs of domestic producers entailed

high growth of the import of metallurgical products (by 38.0%). At the same time, import of the products intended mainly for final consumption grew with a slower pace: 104.5% for the industrial goods and 110.1% for the agricultural products.

In 2011, the energy resources remained an important component of imports and increased by 45.0% totaling USD 28.4 billion. A significant increase in the value of exports was largely due to the growing import of natural gas: as compared with the previous year it grew 1.5 times and amounted to USD 14.1 billion. The share of energy resources in the structure of import of goods rose by 1.8 percentage points, up to 34.1%.

Diagram 7. Current account balance



*The balance of services:* an increase in cost of the transportation services has caused a surplus of trade in services (by USD 0.5 billion, as compared with the previous year, up to USD 4.9 billion).

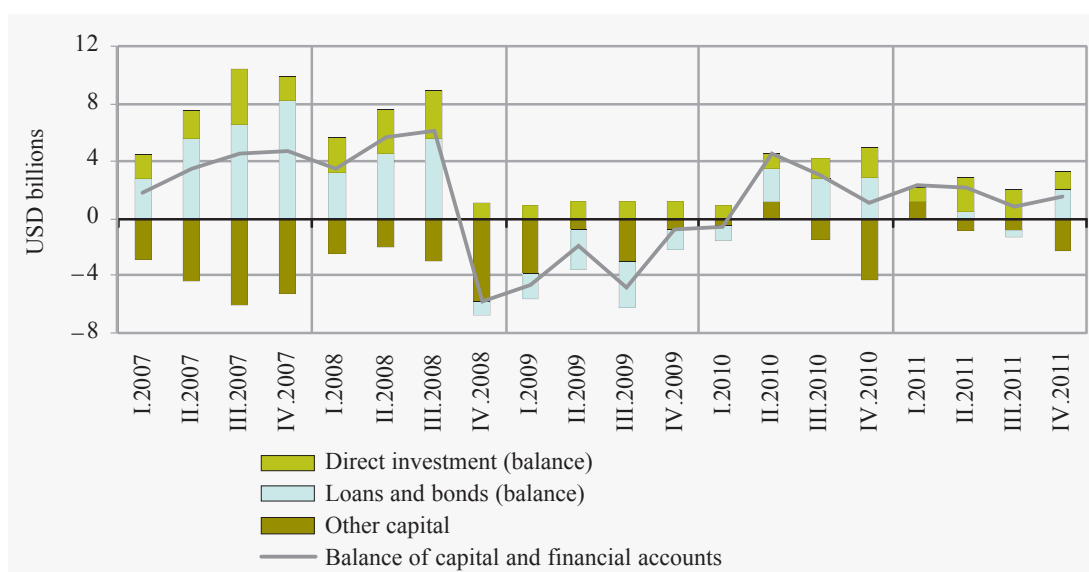
*Revenues (balance):* in 2011, the deficit of revenues increased to USD 3.8 billion against USD 2.0 billion, in 2010. This was provoked mainly by almost twice increase in the dividend payments on foreign direct investments: from USD 2.2 billion, in 2010, to USD 4.1 billion, in 2011.

### Financial account

In 2011, a surplus on the BOP capital and financial transactions account totaled USD 6.6 billion (in 2010, USD 8.0 billion) and chiefly was a result of inflow of the investment and debt capital to the real economy. The deterioration of situation on the global financial markets caused a decrease in the net government borrowings and an increase in the net payments of banking sector. The accumulation of FX cash outside the banking system continued to show ascending dynamics.

*Direct investments:* in 2011, the net FDI inflow rose to USD 7.0 billion against USD 5.8 billion, in 2010. Almost 80% of these revenues were directed to the real economy. As estimated by the National Bank of Ukraine, at the end of 2011, the accumulated foreign investments amounted to USD 64.5 billion or USD 1 413.7 per capita.

Diagram 8. Capital and financial account



*Loans and bonds of the government and private sector:* the private sector was the main recipient of borrowed funds. In 2011, the net borrowings related to loans and bonds of the real sector enterprises grew to USD 5.2 billion as compared with USD 3.4 billion, in 2010. At the same time, there continued a trend towards reducing the external debt of the banking sector. The net repayments of loans and bonds of banks amounted to USD 3.8 billion (in 2010, USD 1.8 billion). As a result of deterioration in the global capital markets, the net government borrowings (USD 1.1 billion) were significantly lower than in 2010 (USD 5.1 billion).

*Reserve assets:* in 2011, the BOP deficit (USD 2.5 billion) was funded at the expense of reserve funds. As of 01.01.2012, the international reserves amounted to USD 31.8 billion, which provided financing of import of goods and services during 3.6 months of the future period.

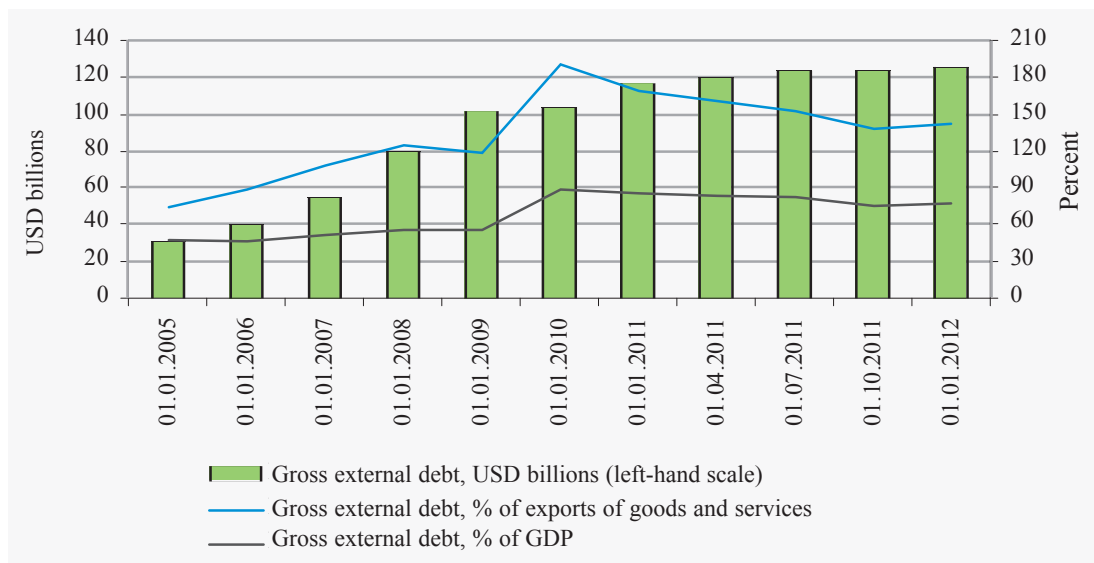
### 3.2. UKRAINE'S EXTERNAL DEBT

As of 01.01.2012, the gross external debt of Ukraine amounted to USD 126.2 billion. In 2011, it decreased to 76.6% of GDP as compared with 85.0%, at the beginning of the year.

Growth of the external debt of the government sector and monetary authorities sharply fell (2.7% versus 35.3%, in the previous year). The debt to GDP ratio of these sectors dropped from 23.5% down to 20.2%.

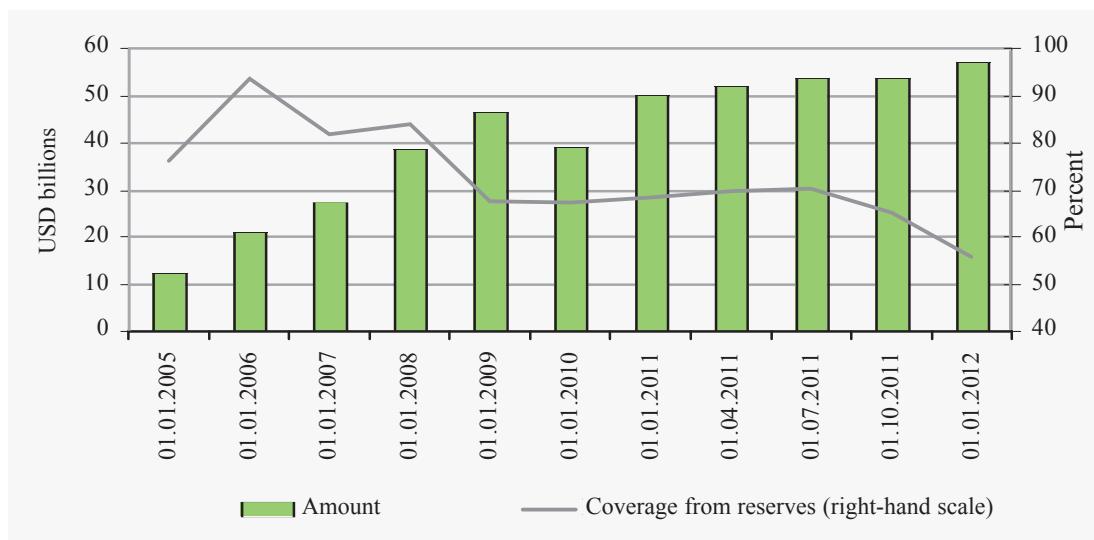
The ratio of external debt of banks and other sectors (including, inter-corporate debt) to GDP declined from 61.5% to 56.3%. Despite the deterioration in the global financial markets, the net borrowings related to loans of the real sector were 1.5 times higher than in the previous year. At the same time, the banking sector continued to repay its external obligations.

Diagram 9. Dynamics of gross external debt of Ukraine



The short-term external debt with residual maturity increased by USD 6.4 billion and reached USD 56.8 billion. The main reasons for this growth were: an increase in the short-term liabilities of other sectors related to the trade credits by USD 3.9 billion (due to the growth of foreign trade turnover of Ukraine, taking into account the IMF loan repayment in 2012 (USD 3.5 billion)).

Diagram 10. Short-term external debt with residual maturity





## 4. DEVELOPMENT OF FINANCIAL SECTOR OF UKRAINE

### 4.1. BANKING SECTOR

In 2011, the situation in Ukraine's banking sector was remarkable for a stable inflow of funds into the banking system, expansion of the bank lending market, improvement of the loan portfolio quality and reduction of past due on loans, escalation of banks' capital, and a decrease in losses and in the number of unprofitable banks, as compared with the previous year.

Table 2. **Basic indices of activities of Ukrainian banks**

Indices	2011			For reference: 2010		
	UAH billion	Change, as compared with the previous year		UAH billion	Change, as compared with the previous year	
		UAH billion	%		UAH billion	%
Total assets	1 211.5	121.3	11.1	1 090.2	88.6	8.8
Assets	1 054.3	112.2	11.9	942.1	61.8	7.0
Liabilities	898.8	94.4	11.7	804.4	39.3	5.1
Equity	155.5	17.8	12.9	137.7	22.5	9.6

In 2011, because of the accelerated GDP growth the total bank assets to GDP ratio decreased to 92.0% (as of 01.01.2011, it totaled 100.7%); the assets to GDP ratio fell down to 80.1% (as of 01.01.2011, it made up 87.0%); liabilities to GDP ratio downed to 68.3% (as of 01.01.2011, it was equal to 74.3%); and equity to GDP slipped down to 11.8% (as of 01.01.2011, it amounted to 12.7%).

In 2011, assets, equity, and liabilities continued to be concentrated in the banks of 1st group: as of 01.01.2012, these banks held 67.5% of the total assets, 65.5% of the total equity, and 67.2% of the total liabilities.

Diagram 11. **Growth rates of total assets, liabilities, and equity of the banking sector of Ukraine**

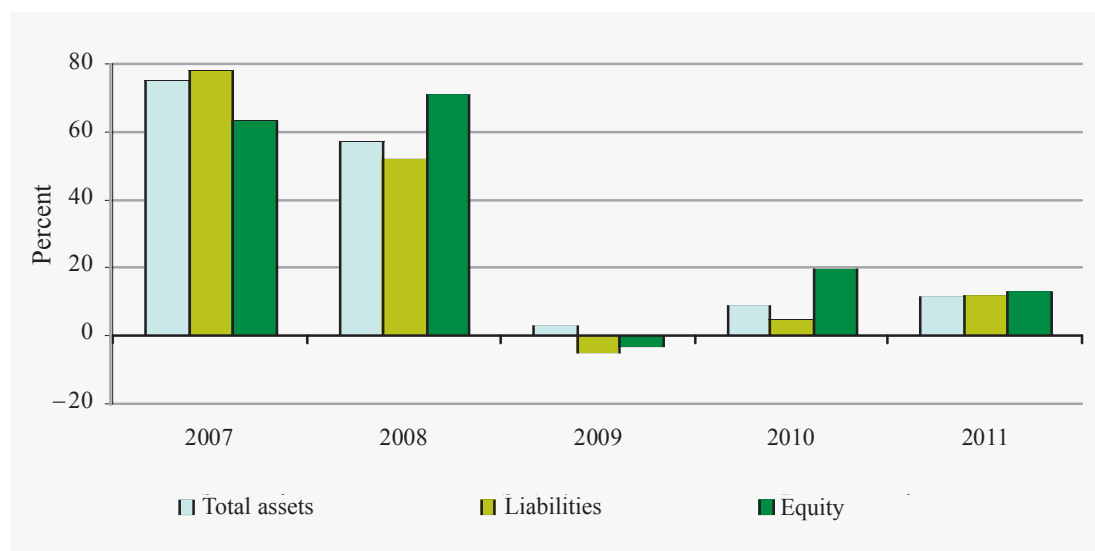


Table 3. **Structure of total assets, equity, and liabilities by groups of banks**

Group	(percent)					
	Total assets		Equity		Liabilities	
	01.01.2012	01.01.2011	01.01.2012	01.01.2011	01.01.2012	01.01.2011
Group I	67.5	66.8	65.5	66.4	67.2	66.8
Group II	15.3	18.6	14.9	14.8	14.7	18.6
Group III	7.2	6.3	6.3	6.1	8.0	6.4
Group IV	10.0	8.3	13.3	12.7	10.1	8.2

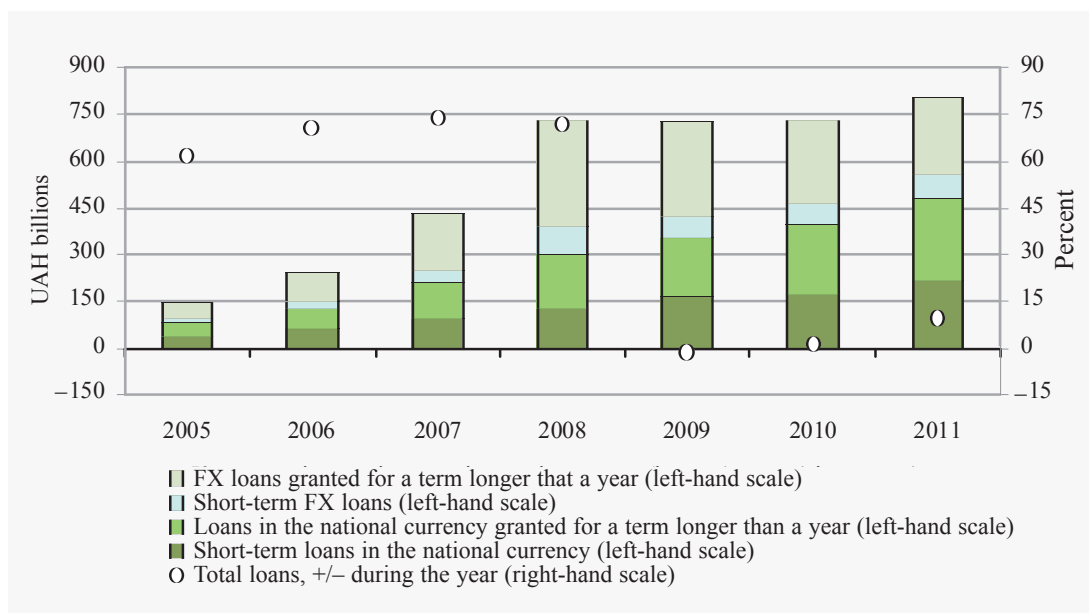
### *Assets*

In 2011, the total assets of Ukrainian banks (not adjusted for the provisions against lending transactions) increased by 11.1% (in 2010, by 8.8%) and as of 01.01.2012, amounted to UAH 1211.5 billion. During 2011, the banks escalated their assets mainly in the domestic currency. Their amount increased by 17.2% (or by UAH 105.7 billion), up to UAH 720.0 billion. Their share in the total assets made 59.4%, as of 01.01.2012 (as of 01.01.11, it came to 56.3%). The total FX assets added 3.3% (UAH 15.6 billion) and reached UAH 491.6 billion.

*Assets of the banking sector* increased by 11.9%, chiefly owing to the growth of lending operations, and totaled UAH 1 054.3 billion.

*Balances of loans granted to residents* rose by 9.4% or by UAH 69.0 billion (in 2010, by 1.3% or by UAH 9.5 billion) and, as of 01.01.2012, amounted to UAH 801.8 billion.

Diagram 12. Loan market as structured by terms and currencies



The sources of growth were loans in the domestic currency, whose balances increased by 21.0% or by UAH 83.1 billion, up to UAH 478.6 billion. Their share grew by 5.7 percentage points, up to 59.7%, as compared with the previous year. Balances of the FX loans decreased by 4.2% or by UAH 14.1 billion, down to UAH 323.2 billion. For the long-term deposits showing slow recovery to the pre-crisis level, the banks, as a rule, provided the short-term loans to all economic sectors.

Table 4. Basic indices of Ukraine's lending market development

Indices	2011				For reference: 2010			
	Balances, UAH billion	Share, %	+/- as compared with the previous year		Balances, UAH billion	Share, %	+/- as compared with the previous year	
			UAH billion	%			UAH billion	%
Loans to residents, including	801.8	100.0	69.0	9.4	732.8	100.0	9.5	1.3
By economic sectors								
Nonfinancial corporations	575.5	71.8	74.6	14.9	501.0	68.4	38.7	8.4
Households	201.2	25.1	-8.3	-4.0	209.5	28.6	-31.7	-13.1
Others <sup>7</sup>	25.0	3.1	2.7	12.2	22.3	3.0	2.5	12.6

*Loans to nonfinancial corporations* grew dynamically almost throughout the whole year and, as of 01.01.2012, amounted to UAH 575.5 billion having risen by 14.9% or by

<sup>7</sup> Other financial corporations, government institutions, and noncommercial organizations rendering services to households.

UAH 74.6 billion. This was, in particular, due to the improvement of financial status of enterprises. Investments in current activities (84.1% of loans were extended to nonfinancial corporations) prevailed in the structure of the loan purpose.

In the reporting year, *loans to households* slowed its downward dynamics to "minus" 4.0% (in 2010, "minus" 13.1%). This was caused by the growth of loans in the national currency to population by 33.8%, up to UAH 86.7 billion. However, the loan balances in foreign currency decreased by 20.9%, down to UAH 114.5 billion.

In 2011, the situation with nonperforming loans improved as past due on the loans granted in the reporting year decreased by 6.6% (by UAH 5.6 billion), down to UAH 79.3 billion, which constituted 9.6% of the lending operations (as of 01.01.2011, this index made up 11.2%). At the same time, the doubtful and bad loans increased by 5.8% (or by UAH 7.7 billion), up to UAH 139.1 billion (in 2010, an increase of 13.0% was reported), although their share in the structure of past due decreased by 0.6 percentage points, down to 14.3%.

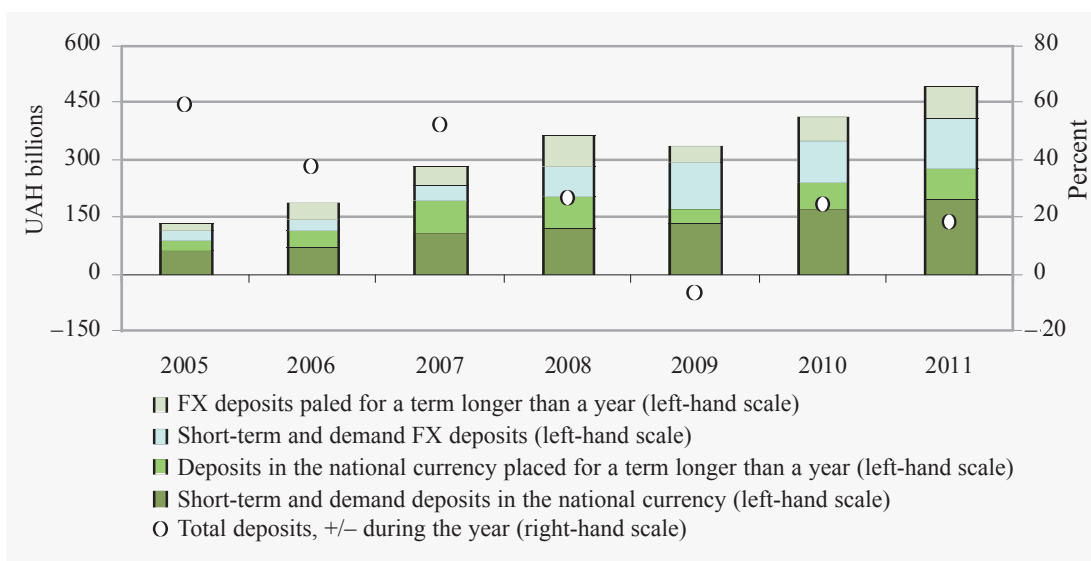
In 2011, *investments in securities* increased by 5.0% (or by UAH 4.2 billion), up to UAH 87.7 billion. However, the share of securities in the total assets decreased by 0.5 percentage points, down to 7.2%.

In 2011, *interbank loans and deposits* added 19.0% and amounted to UAH 61.0 billion (in 2010, an increase by 16.5% was recorded). Among them, the balances of *loans to resident banks* increased by 52.4% and amounted to UAH 40.3 billion, as of 01.01.2012. In 2011, the growth of balances of FX interbank loans (66.3%) was higher than that of loans in the national currency (37.1%), which was associated with a more regular pace of deposits in the foreign currency against the background of restrictions on extending the FX loans to households. The interbank loans granted to the resident banks increased by 86.7%, up to UAH 1 313.3 billion, in 2011.

### Liabilities

During the reporting year, the total liabilities of banks increased by 11.7% (or by UAH 94.4 billion) and amounted to UAH 898.8 billion, as of 01.01.2012 (in 2010, the growth was equal to 5.1%). The banks escalated most vigorously liabilities in the national currency.

Diagram 13. Deposit market as structured by terms and currencies



Their amount increased by 17.4% (or by UAH 62.5) and totaled UAH 420.6 billion. Liabilities in the foreign currency increased by 7.2% (or by UAH 32.0 billion), up to UAH 478.2 billion. Deposits remained a key component of the banks' liabilities.

The rapid economic growth led to an increase in balances of deposits from residents by 18.0% or by UAH 75.1 billion, up to UAH 491.8 billion, in 2011. During the year, there was registered a slowdown in growth of deposits in the national currency (by 17.2% as compared with 38.3%, in 2010), whereas the FX deposits rose by 19.2% versus 9.6%, in 2010. Despite the accelerated growth of short-term deposits, long-term ones were escalated with a higher pace (24.6%) than the short-term (15.3%) and demand deposits (14.7%).

**Table 5. Basic indices of Ukraine's deposit market development**

Indices	2011				For reference: 2010			
	Balances, UAH billion	Share, %	+/- as compared with the previous year		Balances, UAH billion	Share, %	+/- as compared with the previous year	
			UAH billion	%			UAH billion	%
Resident deposits, including	491.8	100.0	75.2	18.0	416.6	100.0	81.6	24.4
By economic sectors								
Nonfinancial corporations	153.1	31.1	37.0	31.9	116.1	27.9	21.3	22.5
Households	310.4	63.1	35.3	12.8	275.1	66.0	61.0	28.5
Others <sup>8</sup>	28.3	5.8	2.9	11.4	25.4	6.1	-0.7	-2.3

*The households deposits* remained the largest component of the deposits placed with banks (63.1%) having increased by UAH 35.3 billion during the year, up to UAH 310.4 billion, as of 01.01.2012. The growth of *non-financial corporations' deposits* accelerated (up to 31.9% versus 22.5%, in 2010) and had a share of 49.3% in the increase of residents' deposits, in 2011. The balances of accounts of non-financial corporations amounted to UAH 153.1 billion, as of 01.01.2012.

As of 01.01.2012, 131.3 million customers (residents) opened the current and deposit accounts with 176 banks. Among them there were 129.3 million individuals. The total number of the accounts opened increased by 2.6 million, up to 169.0 million, in 2011. The current accounts made 69.0% of the total number of accounts opened with banks, including 108.3 million accounts in the national currency. Number of the economic entities who used a system of remote maintenance of accounts totaled 833 thousand (41.4% of the customers were legal entities), as of 01.01.2012.

*Interbank funds* remained an essential component of the banks' liabilities (their share amounted to 18.5%, as of 01.01.2012). In particular, the balances of deposits from resident banks increased by 29.0% and amounted to UAH 28.0 billion, as of 01.01.2012.

<sup>8</sup> Other financial corporations, government institutions, and noncommercial organizations rendering services to households

Interbank deposits in the national currency grew with a higher pace (35.5%) than the FX interbank deposits (24.5%). The interbank deposits of resident banks increased by 37.2%, up to UAH 267.3 billion, in 2011.

*Loans received from international and other financial institutions* decreased by 7.0% or by UAH 2.7 billion, down to UAH 36.4 billion, in 2011 (in 2010, a slump was 6.6%).

### ***Equity***

In 2011, *equity* of Ukrainian banks increased by UAH 17.8 billion or by 12.9% (versus 19.6%, in 2010) and amounted to UAH 155.5 billion, at the end of the year. As of 01.01.2012, the share of equity in the liabilities of banks came to 14.7% (as 01.01.2011, it made up 14.6%). In 2011, the paid-up registered authorized capital rose by UAH 26.0 billion or by 17.8%, up to UAH 171.9 billion, which resulted in escalated capitalization of the banking sector. In 2011, the share of foreign capital in the registered authorized capital of Ukrainian banks added 1.3 percentage points and made up 41.9%.

In the reporting year, the *regulatory capital* of banks increased by 10.9%, up to UAH 178.5 billion, mainly, due to its most stable part, the authorized capital.

In 2011, there took place some changes in the structure of regulatory capital. In particular, the paid-up registered authorized capital (a component of the core capital) in the structure of regulatory capital increased from 66.1% (as of 01.01.2011) to 69.1, whereas the share of subordinated debt (a component of the additional capital) dropped from 15.5% (as of 01.01.2011) down to 13.4. The share of reserves and funds (a component of the core capital) in the regulatory capital made up 4.4% versus 5.7%, as of January 1, 2011.

The level of *capital adequacy of the banking sector* decreased from 20.83% to 18.90%, in 2011.

### ***Interest rates***

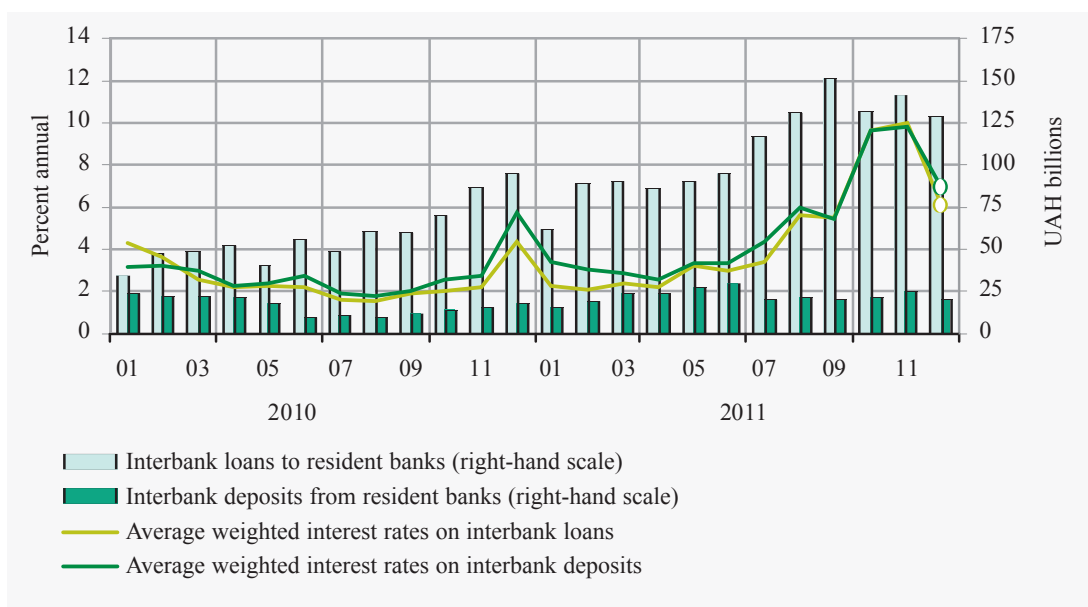
Interest rate policy of banks was influenced by enhancing lending activities. It depended on the volume of banks' resource base and free liquidity.

Vigorous growth of deposits at the beginning of 2011 led to downward price dynamics of *deposit value*. Starting with September, the interest rates on deposits were ascending. Changing value of deposits in the national currency had the main impact on the dynamics of interest rates on deposits. In 2011, the average weighted interest rate on new deposits was 7.3% per annum against 9.4% per annum, in 2010, including that on deposits in the national currency 8.1% per annum against 10.3% per annum, respectively.

During 2011, the dynamics of *value of loan to residents* were impacted by changes in the balances on correspondent accounts of banks, level of free liquidity, as well as by rates on the interbank market. An increase in the value was observed mainly for loans in the national currency (it added 0.4 percentage points, as compared with 2010, and made up 15.0% per annum). The value of loans in foreign currency decreased by 1.4 percentage points, down to 9.2% per annum, which entailed slumping interest rates on the loans granted to residents in 2011 down to 13.4% per annum, as compared with 13.7% per annum, in 2010.

Interest rates on interbank loans and deposits varied depending on the supply and demand in the money market. In the first half of the year, the interest rates in the interbank market were moderately low, whereas, starting with May 2011, they were showing an upward trend, especially for transactions in the national currency. At the end of the year, the average weighted interest rate on the interbank loans granted to the resident banks increased by 2.5 percentage points in comparison with the previous year and amounted to 5.1% per annum; that on the interbank deposits of resident banks added 2.1 percentage points and reached 5.0% per annum.

Diagram 14. Average weighted interest rates on interbank loans and deposits



### Income

In 2011, *banks' income* increased by 4.3% (or by UAH 5.9 billion) in comparison with 2010 and amounted to 142.8 billion, as of 01.01.2012.

The main source of income continued to be the *interest income*, although its share in the total income declined by 3.4 percentage points, down to 79.4%. The interest income increased by 0.02% (or by UAH 18 million) against the previous year, up to UAH 113.4 billion. The income from the corporate loans had the biggest share of 50.2% in the total interest income and amounted to UAH 71.7 billion.

In comparison with the previous year the *fee and commission income* of banks increased by 21.0% (or by UAH 3.2 billion), and so did its share (by 1.7 percentage points, up to 12.9%). *Results of trading operations* almost doubled (rose by UAH 1.8 billion, up to UAH 4.0 billion) as compared with 2010.

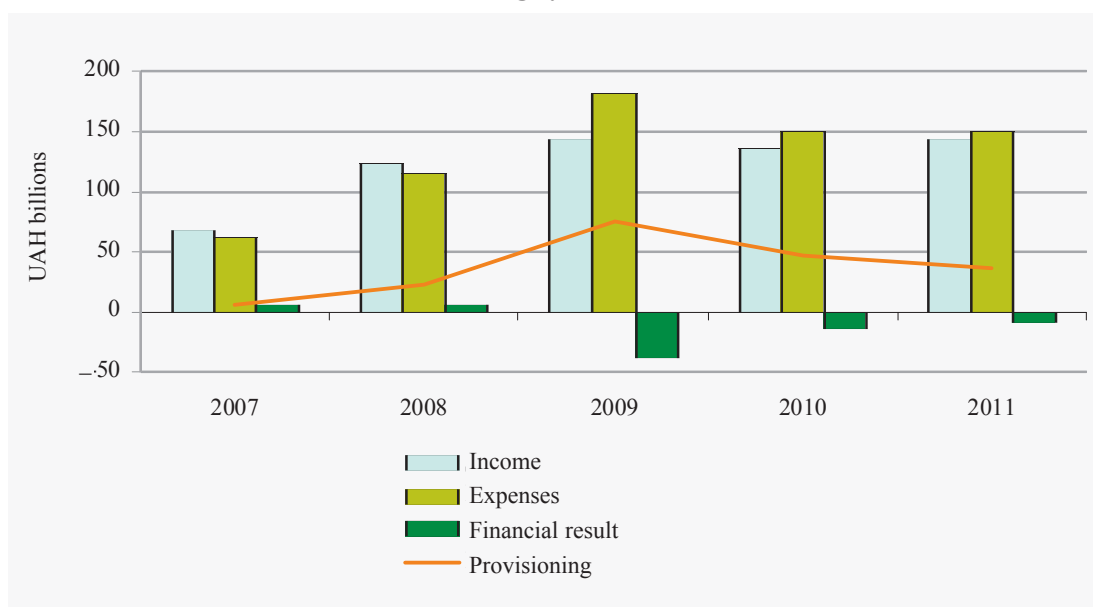
### Expenses

In 2011, banks pursued a policy of minimization and optimization of expenses. *The banks' expenses* increased by only 0.4% (or by UAH 0.6 billion), up to UAH 150.5 billion, in the reporting year.

*Interest expenses* (the largest component of expenses) fell by 3.1% (or by UAH 1.9 billion), down to UAH 59.5 billion as compared with 2010, with their share dropping down to 39.5%. *Deductions to provisions* decreased by 20.9%, down to UAH 36.5 billion as compared with 2010. Their share in the total expenses fell to 24.3% (versus 30.8%, as of 01.01.2011). Therefore, the effect of provisioning on the financial results has eased. *General administrative expenses* increased by 18.1% (or by UAH 5.3 billion), up to UAH 34.3 billion, as compared with 2010, and had a share of 22.8% in the total expenses.

The expenses to income ratio made up 105.4% (against 109.5%, in 2010).

Diagram 15. **Dynamics of income, expenses, and financial results of the banking system of Ukraine**



### ***Financial results of banks' activities***

*The financial performance of banks* improved as compared with 2010, although remained negative. In 2011, the total losses of the banking sector amounted to UAH 7.7 billion, which was almost twice less than in 2010 (UAH 13.0 billion), with 50.4% of the total losses being referred to the banks of the second group.

Table 6. **Structure of income, expenditure, and financial result of activities by bank groups**

Group	(percent)					
	Income		Expenses		Financial result	
	01.01.2012	01.01.2011	01.01.2012	01.01.2011	01.01.2012	01.01.2011
Group I	69.2	67.8	67.8	65.3	40.1	39.1
Group II	13.5	17.7	15.3	20.9	50.4	53.7
Group III	7.2	5.9	6.9	6.0	1.1	6.5
Group IV	10.1	8.5	10.0	7.9	8.4	0.7



In 2011, the number of unprofitable banks reduced: as of 01.01.2012, 31 banks incurred losses totaling UAH 13.8 billion, while as of 01.01.2011, 35 banks were unprofitable (the amount of their losses totaled UAH 17.2 billion).

## 4.2. SECURITIES MARKET

Further increase in the resource base of banks, against the background of the gradual recovery of bank lending, contributed to the growth of depository corporations' investments in securities.

In 2011, investments of banks in *securities other than shares* issued by residents grew by 10.2% and amounted to UAH 75.9 billion, at the end of the year. At the same time, their dynamics were irregular: after an increase by 25.9%, in the first half of the year, during the second half of the year, there was registered a drop in the balance of securities by 15.4%, primarily, because of declining balances of the government sector and depository corporations by 18.2% and 23.2%, respectively (from the beginning of the year, they showed a change of "plus" 4.5% and "minus" 30.6%, respectively). Despite a slight fall, since the beginning of the year, the share of government sector in the portfolio of securities other than shares has been the biggest one and amounted to 79.9%.

In the portfolio of securities other than shares issued by residents during 2011 there dominated the securities for sale, whose share, despite a slump by 2.7 percentage points, as compared with the beginning of the year, was the largest and amounted to 75.9%, at the end of the year. During the year, their balance increased by 6.4%, up to UAH 57.6 billion. Against the background of a slight increase in the balance of securities held to maturity, by 1.8% since the beginning of the year, the highest growth (55.6%) was reported for the securities in banks' trading portfolio, in 2011.

Table 7. Structure of securities other than shares issued by residents in the portfolio of depository corporations, by issuers

Indices	2011			For reference: 2010		
	Balances, at the end of period, UAH billion	Change from the beginning of the year, %	Share, %	Balances, at the end of period, UAH billion	Change from the beginning of the year, %	Share, %
<b>Total</b>	<b>75.9</b>	<b>10.2</b>	<b>100.0</b>	<b>68.9</b>	<b>129.1</b>	<b>100.0</b>
Other financial corporations	1.6	-30.6	2.1	2.3	0.2	3.3
Government sector	60.7	4.5	79.9	58.1	178.0	84.3
Nonfinancial corporations	13.6	59.3	18.0	8.6	23.8	12.4
Households	–	–	–	0.0	-2.3	0.0

The securities with maturity over 2 years continued to have the largest share (56.3%, at the end of 2011) in the structure of portfolio by maturity. In the reporting year, their balance increased by 28.1%, up to UAH 42.8 billion. A slight increase from the beginning of the year (4.8%) was observed for the securities with 1-year maturity. At the same time, the balance of the securities on demand and securities with maturity from 1 to 2 years fell by 24.3% and by 19.3%, respectively.

The portfolio of securities other than shares enhanced its share in the total assets of depository corporations by only 0.1 percentage points and made 8.5%, at the end of the year, after the rapid growth in 2010 (by 4.5 percentage points). The highest value (10.2%) was registered in the second half of the year.

In the portfolio structure by currencies, 95.5% of the securities other than shares issued by residents were denominated in the national currency.

In 2011, investments of banks in shares of both residents and nonresidents increased by 10.0%, up to UAH 6.0 billion, at the end of the year (for comparison: in 2010, they added 17.3%). Against the background of the general growth of investments in shares in all sectors, the largest increase was reported for investments in the shares of depository and other financial corporations, by 27.1% and 17.5%, respectively. The growth of banks investments in nonresidents' shares, up to 5.0%, was achieved, above all, due to an increase in the value of shares in the trading portfolio (by 45.6%) and in the portfolio of securities for sale (by 40.1%). From the beginning of the year, investments of banks in the nonfinancial corporations' shares rose by 4.4%, in particular, due to increasing investments in associates and subsidiaries (by 33.5%) and growing value of shares in the trading portfolio (by 13.2%).

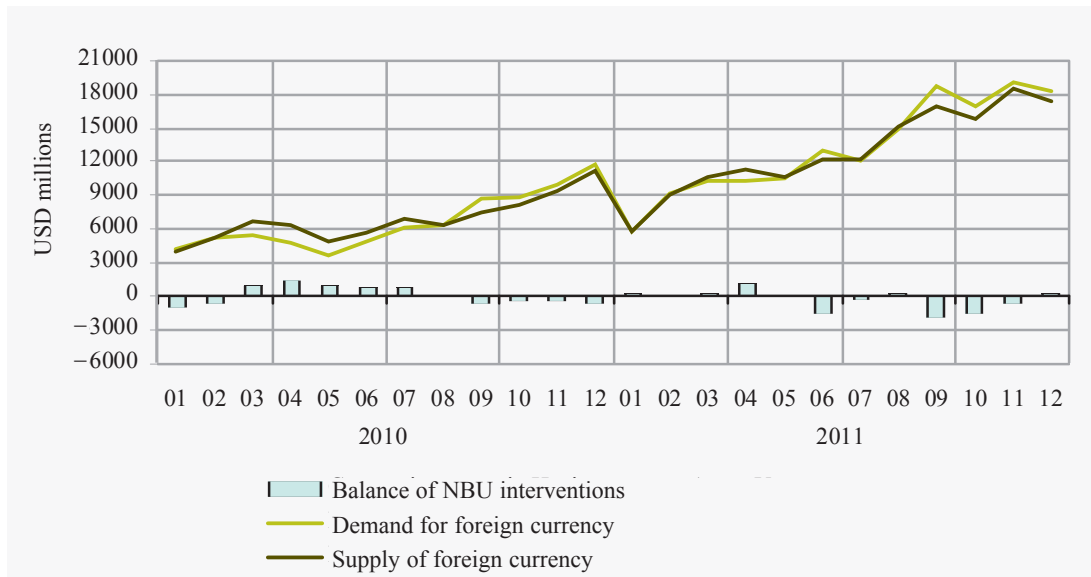
In 2011, banks actively borrowed funds by issuing the debt securities. During the year, bank liabilities related to the resident debt securities included into money supply increased 3.6 times, up to UAH 3.7 billion (or 0.5% of the total monetary aggregate M3) as compared with UAH 1.0 billion (or 0.2%), at the end of 2010.

### **4.3. FOREIGN EXCHANGE MARKET OF UKRAINE**

The dynamics of supply and demand in the interbank foreign exchange market of Ukraine (hereinafter referred to as "the foreign exchange market") were irregular, in 2011. During January – April, supply of foreign currency was dominating, as a result of its constant inflow from nonresidents under favorable world prices for traditional commodity groups of Ukrainian exports and access to external borrowings. Such a situation not only helped to balance the foreign exchange market, but also made it possible to replenish the NBU's international reserves.

In May, the net inflow of foreign currency from nonresidents decreased, and in June, there was recorded net outflow of foreign currency from accounts of residents, which, among other things, led to the dominance of demand for foreign currency over its supply for the noncash transactions. In July and August, due to a seasonal slowdown of business activities, the foreign currency demand declined, which contributed to balancing the non-cash segment of foreign exchange market.

Diagram 16. Some indices of noncash segment of Ukrainian interbank market, 2010–2011



Seasonal demand for foreign currency starting with September was enhanced by negative market expectations, mainly, due to the external factors. The expectations of market entities were impacted by pessimistic prospects for the world economy, approach of the "second wave" of the financial crisis and a rise in volatility of the exchange rates of major reserve currencies in foreign markets, as a result of the debt problems in the Eurozone and USA. This led to an increase in the demand for foreign currency on the FX market, in the last quarter of 2011.

In 2011, the most significant factors determining the dynamics of noncash segment of the foreign exchange market were as follows:

- Net demand for noncash foreign currency worth USD 2.9 billion;
- Expansion of the noncash segment of foreign exchange market, the value of transactions on which rose 1.9 times.

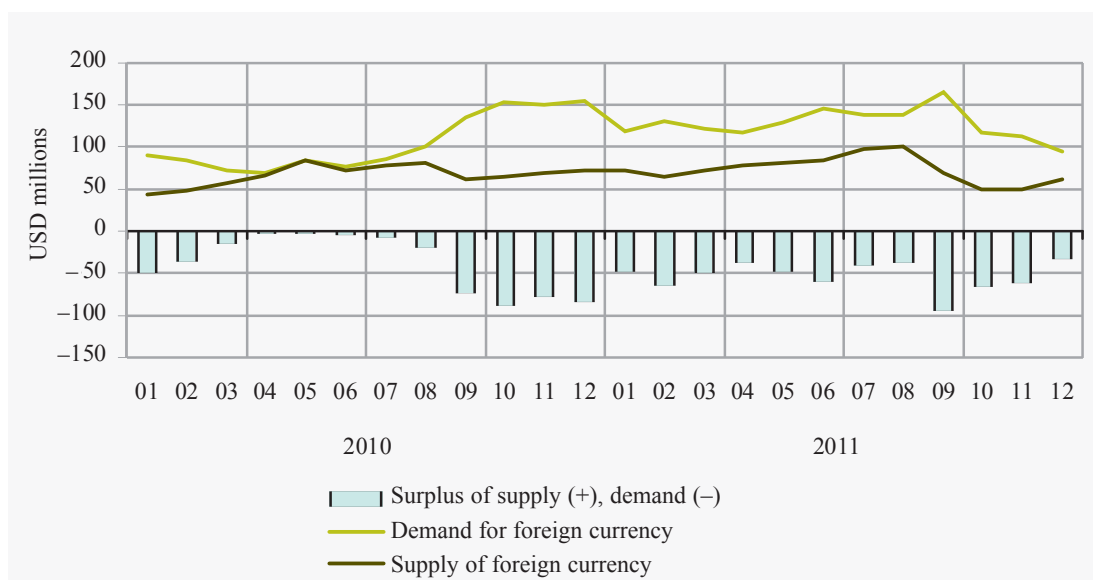
To prevent sharp fluctuations in the hryvnia exchange rate the National Bank of Ukraine kept its presence in the foreign exchange market. In 2011, it carried out interventions through both purchasing and selling the foreign currency. Their overall balance was negative and amounted to an equivalent of USD 3.7 billion.

In 2011, the value of transactions in foreign currencies in the cash segment of foreign exchange market increased by 16.4%. It should be noted that the growth in demand for foreign currency on the population's side was almost twice higher than the growth of supply: 20.4% versus 10.0%, respectively.

During the first three quarters of 2011 the volume of foreign currency purchased by population increased and reached its peak in September. In the fourth quarter of 2011, the demand for foreign currency significantly downed. Among the reasons was the improvement by the National Bank of Ukraine of the procedure for cash foreign currency exchange transactions and a raise in efficiency of supervision over the legitimacy of transactions. Since the introduction of identification of individuals engaged in foreign exchange transactions (at the end of September 2011) there was registered a monthly

decrease in the average daily net demand for cash foreign currency, from USD 95.6 million, in September, to USD 33.6 million, in December.

Diagram 17. **Cash FX transactions, 2010–2011**  
(average daily)



In 2011, the net demand for cash foreign currency totaled equivalent of USD 13.5 billion, which was 1.4 times more than in 2010 (USD 9.7 billion).

Like in the previous years, a lion's share of transactions on purchase and sale of the foreign currency were made in noncash form. The share of transactions with the cash foreign currency in the total transactions of the foreign exchange market decreased by 5.6 percentage points, down to 13.7%, as compared with 2010.

Table 8. **Structure of FX purchase/sale transactions, in 2007–2011, %**

Year	Noncash foreign currency	Cash foreign currency
2007	70.8	29.2
2008	75.9	24.1
2009	80.4	19.6
2010	80.7	19.3
2011	86.3	13.7

In the noncash foreign exchange market segment the share of transactions with the U.S. dollar increased by 4.5 percentage points, in comparison with 2010, up to 72.7%, whereas the share of transactions with the Euro dropped (from 15.8% to 14.6%), and so did the shares of transactions with the Russian ruble and with other currencies (from 5.9% to 4.4% and from 10.1% to 8.3%, respectively).

Table 9. Breakdown of FX purchase/sale transactions by currencies, 2007–2011

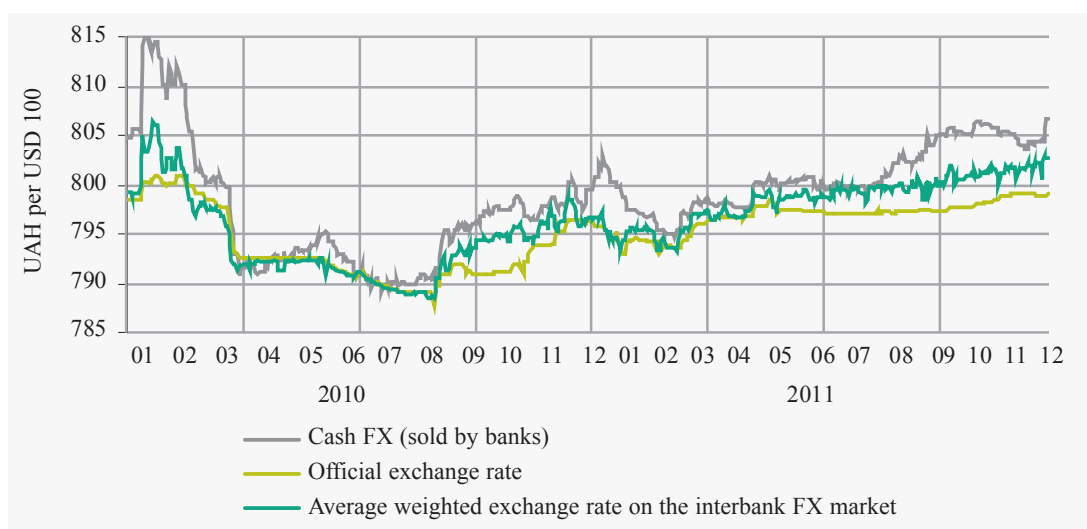
Year	Total amount, USD billion (equivalent)	Breakdown by currencies, %			
		USD	EUR	RUR	Other currencies
Noncash foreign currency					
2007	148.0	73.7	16.4	6.9	3.0
2008	208.8	77.7	14.2	6.0	2.1
2009	144.9	71.1	21.9	5.2	1.8
2010	178.9	68.2	15.8	5.9	10.1
2011	341.1	72.7	14.6	4.4	8.3
Cash foreign currency					
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
2011	50.0	76.8	15.3	6.5	1.4

In the structure of cash FX transactions the share of USD rose by 3.5 percentage points, up to 76.8%, that of RUR grew by 0.4 percentage points, up to 6.5%; whereas the share of EUR fell by 3.7 percentage points, down to 15.3%, and that of other currencies dropped by 0.2 percentage points, down to 1.4%.

### Market exchange rates

During January – early March 2011, against the background of persistent net foreign currency inflow from nonresidents and the corresponding growth of foreign exchange supply in the noncash foreign exchange market segment, the market quotations of the hryvnia against the U.S. dollar varied within the range from UAH 793.19 per USD 100 to UAH 797.20 per USD 100. During this period, the hryvnia average exchange rate enhanced by 0.4% and was equal to UAH 793.19 per USD 100.

Diagram 18. Hryvnia exchange rate against USD in 2010–2011



Since the second half of March 2011, the growing net demand for the U.S. dollars in the noncash segment of foreign exchange market resulted in devaluating the hryvnia average market exchange rate against this currency by 0.82% (UAH 799.68 per USD 100), at the end of August.

Since September, under the conditions of a seasonal increase in the foreign currency demand and strengthening of negative market expectations, there was recorded a rise in volatility of the hryvnia exchange rate against the U.S. dollar with the formation of a moderate descending trend.

In 2011, the hryvnia average weighted exchange rate against the U.S. dollar on the foreign exchange market devalued as follows:

- For noncash transactions by 0.84%(UAH 802.84 per USD 100);
- For sale of cash U.S. dollar by 0.89% (UAH 806.60 per USD 100).

#### *Dynamics of the hryvnia official exchange rate*

In 2011, under the terms of the Memorandum of Economic and Financial Policy within the framework of joint Ukraine's and IMF's Standby program the National Bank of Ukraine set the hryvnia official exchange rate against the U.S. dollar at the level of average weighted bid-ask rates in the noncash segment of foreign exchange market for the previous business day with an allowable deviation of  $\pm 2\%$ . During the year, the daily official exchange rate deviation from the market one did not exceed the established limits and ranged from "plus" 0.04% to "minus" 0.54%.

The hryvnia official exchange rate against the U.S. dollar devalued by 0.4%, while, in 2010, it firmed by 0.3%.

**Table 10. Hryvnia official exchange rate against foreign currencies**

(per 100 units of currency; nominal and real changes: “–” devaluation, “+” revaluation)

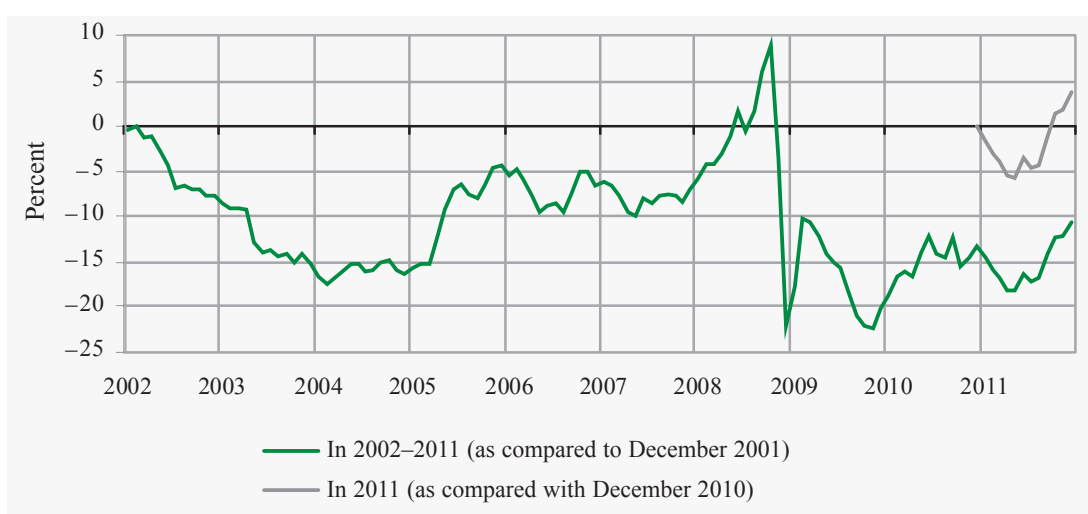
Hryvnia exchange rate against foreign currencies (at the end of the year)	2011	For reference: 2010
<b>– USD</b>	<b>798.9</b>	<b>796.2</b>
Nominal change (%)	–0.4	0.3
Real change (with inflation difference taken into account, %)	1.1	7.9
<b>– EUR</b>	<b>1 029.8</b>	<b>1 057.3</b>
Nominal change (%)	2.6	7.7
Real change (with inflation difference taken into account, %)	1.3	18.7
<b>– RUR</b>	<b>24.953</b>	<b>26.124</b>
Nominal change (%)	4.5	1.1
Real change (with inflation difference taken into account, %)	–0.1	3.5
For reference:		
CPI, as compared with December of the previous year (%)	104.6	109.1

The dynamics of hryvnia exchange rate against other world currencies reflected the situation in international markets, in which, inter alia, there was observed devaluation of U.S. dollar against the Euro. According to these trends, the hryvnia official exchange rate enhanced against the Euro by 2.6% and against the Russian ruble by 4.48%, in 2011.

### *The hryvnia real effective exchange rate*

In 2011, the hryvnia real effective exchange rate (REER) grew by 3.7% in comparison with December 2010. The hryvnia nominal effective exchange rate rose by 7.8%, mainly, due to the revaluation of U.S. dollar against Euro in the international markets, in the second half of the year.

Diagram 19. Hryvnia REER dynamics in 2002–2011



However, since the inflation in Ukraine was lower than its average weighted index in the main trade partners of Ukraine, and the inflation differential was equal to 4.1%, actually, the REER revaluation was more moderate, in the reporting year.

## 4.4. PAYMENT CARD MARKET

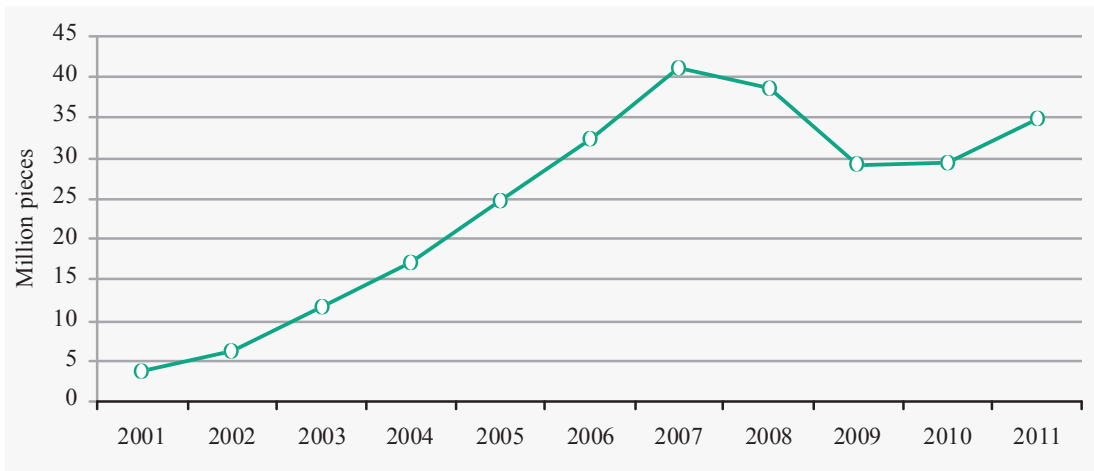
In 2011, the number of member banks of the payment systems increased by one bank and, as of January 1, 2012, amounted to 142 banks (80.7% of the total banks licensed by the National Bank of Ukraine for banking operations).

The total number of cards, the validity of which had not expired as of 01.01.2012, amounted to 57.9 million. In the financial year, the number of payment cards issued by banks, through which during the year, at least, one transaction was carried out, increased by 18.5% to 34.9 million, with the share of personal cards amounting to 97.8% and that of corporate ones making up 2.2%.

In the structure of payment cards issued by the banks by type of media there dominated the cards with magnetic stripe (91.9%); the share of cards with both chip and magnetic stripe and cards with chip made 1.9% and 3.4%, respectively. The share of payment cards used for payments on the Internet upped to 2.8% versus 0.4%, in 2010.

In terms of the payment scheme there prevailed the debit cards (76.5%); credit cards had a share of 23.5%, and the payment cards used as electronic money came to about 0.03% of the total cards issued.

Diagram 20. Dynamics of number of issued cards through which, at least, one transaction was effected



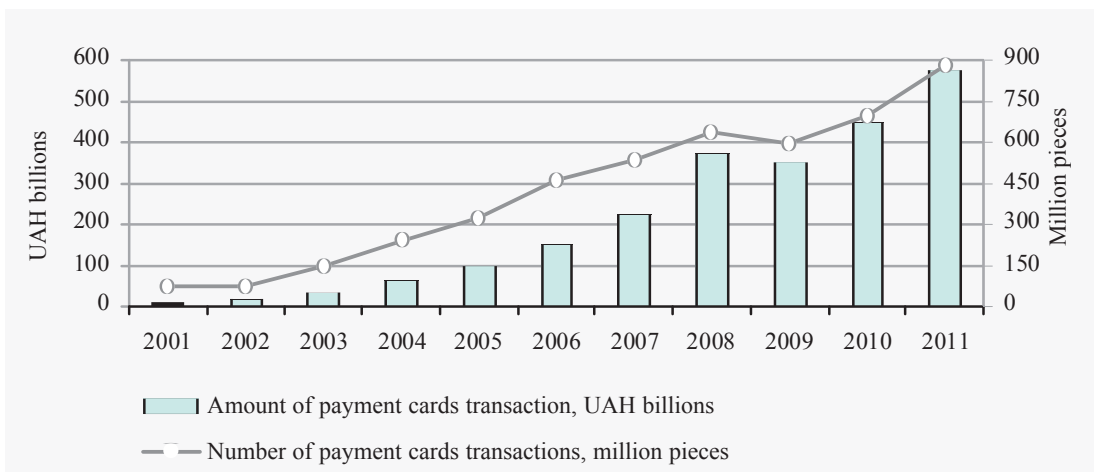
During the reporting year, the number of ATMs servicing the cardholders increased by 9.4%, up to 33.0 thousand, and so did the number of payment terminals (by 14.2%, up to 123.5 thousand).

As of 01.01.2012, the number of enterprises and companies in the commercial and service sectors which had established POS and imprinters amounted to 79.3 thousand, with most of them installed at retail stores (76.9% of the total number); the rest of them were established at tourist and recreational facilities (11.1%), providers of services (8.8%), and at e-commerce stores (3.2%).

In 2011, the number of transactions with the use of payment cards issued by the banks of Ukraine increased by 26.4%, up to 875.4 million transactions, and so did the amount of transactions (by 27.8%, up to UAH 575.9 billion).

The holders of payment cards issued by the banks of Ukraine performed the vast majority of operations (83.3% of UAH 519.8 billion) in the network of issuing bank, 15.6% of transactions worth UAH 42.6 billion in the network of resident banks, the rest of operations were carried out abroad. The worth of transactions abroad totaled UAH 13.6 billion or 2.4% of the total amount.

Diagram 21. Number and amount of transactions with payment cards issued by Ukrainian banks





During 2011, the number of cash withdrawals increased by 90.1 million, as compared with the previous year, up to 661.3 million, but their share in the total card transactions declined (75.6% versus 82.5%, in 2010). At the same time, the share of noncash payments upped to 24.4% versus 17.5%, in 2010, and their number rose by 92.6 million, up to 214.1 million.

In 2011, the volume of cash withdrawal transactions increased by UAH 108.4 billion, in comparison with 2010, and totaled UAH 529.6 billion (92.0% of the total card transactions), whereas the noncash settlements grew by UAH 16.9 billion, up to UAH 46.3 billion.

In 2011, the banks and the Payment Organization of the National System of Mass Electronic Payments (NSMEP) continued to work at the development and implementation of NSMEP innovative projects and technologies.

During 2011, seven banks: PJSC *Bank Pershyi*, JSC *Bank of Investments and Savings*, PJSC *State Export-Import Bank of Ukraine*, OJSC *Oschadbank Savings Bank*, JSC *CB Soiuz*, PJSC *AgroKomBank*, and PJSC *Real Bank* joined NSMEP.

As of 01.01.2012, NSMEP had 60 members (including the National Bank of Ukraine and UDPPZ *Ukrposhta*) and 8 participants.

The total number of NSMEP cards amounted to 1.7 million, as of 01.01.2012. During the year, 25.8 million transactions worth UAH 24.2 billion were effected with the use of NSMEP payment cards. Among operations with the NSMEP cards there dominated the cash withdrawal transactions (99.4%) worth UAH 24.0 billion, in 2011.

#### **4.5. MAIN RESULTS OF THE NATIONAL AND INTERNATIONAL MONEY TRANSFER SYSTEMS, IN 2011**

As of 01.01.2012, in Ukraine, there operated 4 money transfer systems created by banks of Ukraine (including 2 international systems), 3 systems established by nonbanking institutions (including, UDPPZ *Ukrposhta*), and 22 international systems incorporated by nonresidents.

In 2011, with the use of all the systems there were transferred:

– Within Ukraine: UAH 20.2 billion, USD 13.0 million, EUR 0.6 million, and RUR 0.3 million;

– To Ukraine: USD 3.9 billion (equivalent);

– From Ukraine: USD 0.7 billion (equivalent).

##### ***The money transfer systems created by banks of Ukraine:***

– Domestic money transfer systems:

*Aval-Express* created by JSC *Raiffeisen Bank Aval* (11 resident participants) and *SOFT* created by *Ukrsotsbank* (9 resident participants);

– International money transfer systems:

*Avers* created by JSC *Finance and Credit Bank* (31 resident and 5 nonresident participants) and *PrivatMoney* established by JSC *CB PRIVATBANK* (24 resident and 47 nonresident participants).

In 2011, with the use of domestic and international money transfer systems created by the banks of Ukraine there were transferred:

- Within Ukraine: UAH 9.3 billion; USD 13.0 million, and EUR 0.6 million;
- To Ukraine: USD 0.5 billion (equivalent);
- From Ukraine: USD 0.09 billion (equivalent).

***Money transfer systems established by nonbanking institutions:***

- *Financial World* created by *Ukrainian Payment System LLC* (3 resident participants) and
- *InterPayService* created by *PJSC Zaporizhzhviazokservis* (8 resident participants).

In 2011, the funds worth UAH 2.9 billion were transferred within Ukraine using these two money transfer systems.

In addition to the above mentioned systems, Ukrainian State Postal Enterprise *Ukrposhta* deals with money transfer through its own payment system *Poshtovyi Perekaz* (Mail transfer).

In 2011, the total amount of transfers within Ukraine processed by *Poshtovyi Perekaz* system reached UAH 7.8 billion, including UAH 0.1 billion of urgent transfers.

On the basis of the Agreement on Postal Payment Services with the Universal Postal Union and agreements with the postal services of other countries *Ukrposhta* carried out cross-border transfers. In 2011, the funds worth USD 0.24 billion, including the electronic transfers worth an equivalent of USD 0.23 billion were paid out in Ukraine with the use of *Poshtovyi Perekaz* system. From Ukraine, there were sent USD 0.1 billion, including the electronic transfers worth an equivalent of USD 0.04 billion.

***International money transfer systems created by nonresidents:***

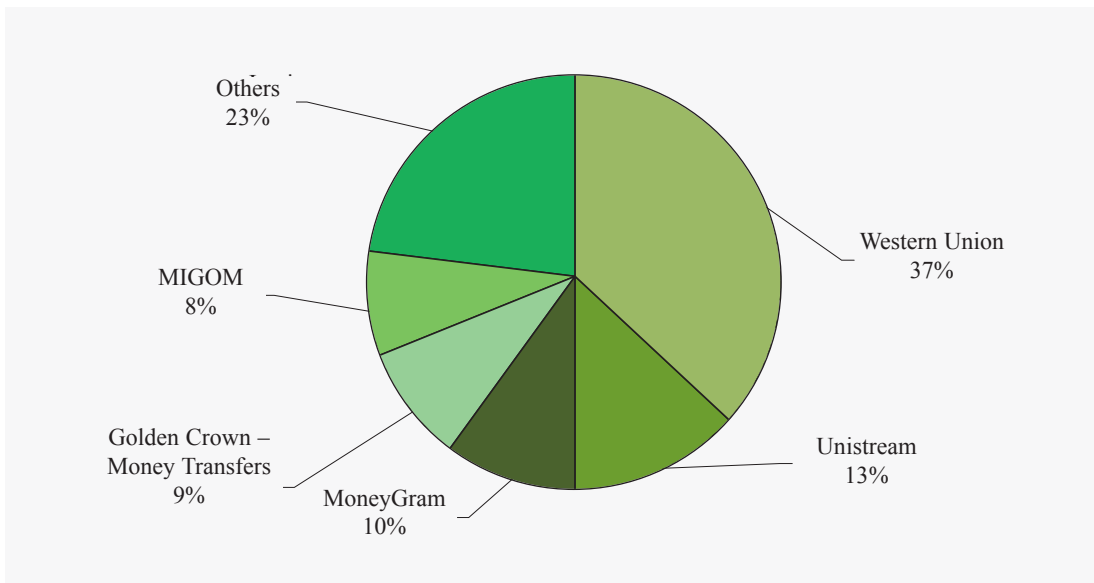
About 150 Ukrainian banks, *Ukrainian Financial Group*, and the national postal operator *UDPPZ Ukrposhta* have been participating in 22 international money transfer systems created by nonresidents.

In 2011, the amount of cross-border transfers received in Ukraine via the international money transfer systems created by nonresidents increased by 20.7%, as compared with the previous year, and amounted to an equivalent of USD 3.2 billion, while the amount of transfers sent from Ukraine added 16.4% and totaled an equivalent of USD 0.4 billion.

The largest funds were transferred to Ukraine with the use of the following international money transfer systems: *Western Union* (U.S.) 37.0%, *Unistream* (Russia) 13.0%, and *MoneyGram* (U.S.) 10.0%.

The geographical structure of the money coming to Ukraine through the international money transfer systems created by nonresidents was as follows: Russia (53.0% of the total funds received); USA (9.0%), Italy (7.0%), Spain (3.6%), Great Britain and Portugal (2.2% for each). That of the money coming out from Ukraine: Russia (42.4% of the total funds sent), Georgia (5.7%), Armenia, Uzbekistan, China (almost 4%), the USA and Azerbaijan (about 3%).

Diagram 22. Structure of amount of crossborder transfers received in Ukraine, in 2011, with the use of international money transfer systems established by nonresidents



In addition to the cross-border transfers, individuals have been using the international money transfer systems established by nonresidents to transfer funds in both foreign and national currencies within Ukraine. In 2011, via these systems within the territory of Ukraine, there were transferred: UAH 0.2 billion; USD 0.2 million; RUR 0.3 million; and EUR 0.03 million. Such transfers were made with the use of six systems: *Western Union*, *CONTACT*, *MoneyGram*, *Blitz*, *Unistream*, and *MIGOM*.



**ACTIVITIES  
OF THE NATIONAL BANK  
OF UKRAINE**



# 1. MONETARY POLICY OF THE NATIONAL BANK OF UKRAINE

## 1.1. AIMS AND TASKS OF THE MONETARY POLICY AND THEIR FULFILLMENT

In 2011, the monetary policy was carried out in line with the activity priorities determined by the legislation of Ukraine and was directed to obtaining and supporting the price stability, promoting the maintenance of the banking system stability and keeping the sustained rate of the economic growth.

In 2011, the conditions for the monetary policy implementation were unsteady. At the beginning of 2011, the foreign currency supply grew due to the appropriate conjuncture in the world financial and commodity markets, and the National Bank of Ukraine was replenishing the international reserves and taking measures with regard to liberalization of the foreign exchange market.

Starting from the second half of the year, the increase in the external economic risks adversely affected the expectations of economic entities and caused the excessive demand for foreign currency and fluctuations in the bank depositors' behaviour. Therefore, the National Bank of Ukraine pursued the strict monetary policy enabling to maintain stability of the monetary unit of Ukraine and support the economic development processes.

As a whole, the measures taken by the National Bank of Ukraine contributed to:

- decelerating the consumer inflation to the lowest value for the last 9 years (4.6%);
- keeping a forecasted situation in the foreign exchange market;
- increasing the volumes of bank deposits;
- activating the processes of crediting the real sector of economy. At the same time, the proper directivity of the monetary policy favourably affected the development of the economy of Ukraine, in particular, the real GDP grew by 5.2%.

## 1.2. USE OF THE MONETARY POLICY INSTRUMENTS

### *Reserve requirements*

During 2011, the reserve requirements, together with the complex of other monetary instruments, were used by the National Bank of Ukraine to regulate the money and credit market.

In 2011, the National Bank of Ukraine changed twice the reserve requirements for banks. From July 1, 2011, reduced were the amounts of possible inclusion of the target T-bills of Ukraine (issued with the purpose of raising funds for financing the actions related to the European Football Championship 2012), acquired by banks, in the required reserve from 100% to 50% of their nominal value. As at January 1, 2011, the mentioned securities, owned by banks, amounted to UAH 5.5 billion, as at January 1, 2012 – UAH 5.7 billion at the nominal value. At the same time, the reserve requirements were optimized to create more preferential conditions for the long-term fund attraction by banks.

The actions taken enabled to tie a substantial portion of the banking system's free liquidity, which was conducive to stabilizing the situation in the foreign exchange market, enhancing the internal hryvnia value, improving the market expectations and, as a result, diminishing the inflation.

Taking into account the inflationary pressure reduction, and in order to prevent the untimely payments by banks, the National Bank of Ukraine took some mitigating measures.

From November 30, 2011, reduced was the amount of required reserves to be kept by banks on the separate account with the National Bank of Ukraine from 100% to 70% of the required reserves formed for the previous reporting period of reserving. This contributed to expanding the opportunities of banks with regard to their liquidity management.

At the same time, the requirement was established for the banks to keep daily, by the business day start, the required reserve funds on the correspondent account with the National Bank of Ukraine to the amount of 25% of the required reserves formed for the previous reporting period of reserving.

In accordance with the last changes in the order of formation of the required reserves by banks, introduced in 2011, the following reserve requirements have been set forth:

- on the demand deposits of legal and natural persons in the foreign currency and on the funds on current accounts – 8.0%;
- on the short-term funds and deposits of legal and natural persons in the foreign currency – 7.5%;
- on the long-term funds and deposits of legal and natural persons in the foreign currency – 2.0%;
- on the funds attracted by banks from the nonresident banks and nonresident financial organizations in the foreign currency – 2.0%.

In 2011, the reserve requirements on the funds attracted by banks in the national currency were left at the zero level.

The average calculated ratio of required reserves, in 2011, as compared with the previous year, remained unchanged and amounted to 2.1%, having increased from 2.1% in January to 2.3% in December.



During 2011, the National Bank of Ukraine calculated and paid the interest amounting to 30% of the discount rate on the balances of the required reserves transferred by banks to the separate account with the National Bank of Ukraine on condition that the bank in question had observed the procedure of forming and keeping the required reserves.

In 2011, the required reserve ratio, in the absolute measurement, grew from UAH 12.4 billion in January to UAH 15.0 billion in December. During January – June 2011, the required reserves on the separate account with the National Bank of Ukraine ranged from UAH 6.7 billion to UAH 7.5 billion, during July – November – from UAH 9.9 billion to UAH 11.4 billion, in December they amounted to UAH 7.2 billion. During the first half of 2011, the average monthly balances of funds on the correspondent accounts of banks ranged from UAH 17.1 billion to UAH 22.1 billion, during July – November – from UAH 14.3 billion to UAH 16.1 billion, in December they amounted to UAH 21.6 billion.

### ***Interest rate policy***

During 2011, the interest rate policy of the National Bank of Ukraine was carried out adequately to the macroeconomic situation and was aimed at securing the value of money at a positive level with respect to inflation, which contributed to accumulation of the bank deposits in the national currency decreasing the devaluation pressure and inflation risks.

In 2011, the average weighted interest rate on all the refinancing instruments increased from 10.00% per annum in January to 11.96% per annum in December, including on:

- overnight credits – by 0.97 percentage points (from 9.76% per annum in April to 10.73% per annum in December);
- refinancing credits, extended through the tender – by 1.40 percentage points (from 10.00% per annum in January to 11.40% per annum in December);
- direct repo operations (estimated) – by 2.79 percentage points (from 9.26% per annum in June to 12.05% per annum in December).

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 12.39% per annum (for 2010 – 11.62% per annum).

During 2011, the discount rate of the National Bank of Ukraine, being the basic rate with regard to other interest rates, did not change and remained at a level of 7.75% 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 a term of up to 14 and 90 days as well as the direct repo operations.

In 2011, the banks' refinancing operations totaled UAH 28.8 billion, including the direct repo operations – UAH 23.6 billion. A significant share of the repo operations within the structure of banks' refinancing operations was caused by the needs of the government securities market development.

**Table 11. Operations on banks' refinancing**

Indicators	2011		For reference: 2010	
	UAH, million	% of the total amount	UAH, million	% of the total amount
Total operations,				
including:	28 829.2	100.0	5 162.4	100.0
– through direct repo operations	23 601.5	81.9	112.0	2.2
– loans extended through the tender	3 224.6	11.2	449.7	8.7
– through the mechanism of the permanently acting credit line of overnight refinancing	2 003.2	6.9	179.4	3.4
– through extending the stabilization credits and other short-term loans				
under the financial rehabilitation program	x	x	3 436.4	66.6
– long-term loans	x	x	984.9	19.1
Credits repaid	29 518.5	x	18 539.8	x

During this period, the credits to the total amount of UAH 29.5 billion were repaid by banks, including UAH 8.6 billion repaid ahead of the schedule. The result was favored by the regular work of the National Bank of Ukraine with regard to repaying the debt on the refinancing credits whose main share had been extended during the aggravation of the economic and financial crisis.

### ***Deposit operations***

To withdraw the excessive liquidity of banks and to ensure the equilibrium in the money and credit market, in 2011, the National Bank of Ukraine conducted the deposit operations with banks by issuing the deposit certificates of the National Bank of Ukraine and through the reverse repo operations with government securities of Ukraine.

In 2011, the mobilization operations of the National Bank of Ukraine totaled UAH 166.8 billion (for 2010 – UAH 248.1 billion), including through the reverse repo operations – UAH 1.6 billion (for 2010 – UAH 2.0 billion).

During 2011, announced were 714 tenders by whose results the deposit certificates (at the nominal value of UAH 1 000 thousand) were allocated to the total amount of UAH 165.2 billion (in 2010 – UAH 246.1 billion). The level of interest rates on the funds attracted through the deposit certificate issue was 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 interbank market of credit resources. The average weighted interest rate on the deposit certificates issued in 2011 was 1.82% per annum (in 2010 – 3.19% per annum), on the reverse repo operations – 0.87% per annum (in 2010 – 2.13%).

In order to regulate the banks' liquidity, in 2011, the advanced repayment of deposit certificates to the amount of UAH 2.6 billion was made.

### ***Operations with securities***

During 2011, in the context of the Government's financial and economic policy support and in order to regulate the money and credit market, the National Bank of Ukraine conducted the securities purchase and sale operations in the open market.

In 2011, the operations on purchasing the government securities (at the nominal value) totaled UAH 20.4 billion (in 2010 – UAH 27.6 billion). Among them, the purchase of T-bills of Ukraine, in the context of the Government's financial and economic policy support, amounted to UAH 8.7 billion at the nominal value, including:

- UAH 4.9 billion – in line with Article 2 of the Law of Ukraine dated 31 October 2008, No. 639-VI "On the Priority Actions to Counteract the Negative Impacts of the Financial Crisis";

- UAH 3.8 billion – in the framework of the measures envisaged by joint decree of the Cabinet of Ministries of Ukraine and the National Bank of Ukraine dated 30 March, 2011, No.323 "On Interaction of the Cabinet of Ministers of Ukraine and the National Bank of Ukraine in respect of the Rodovid Bank PLC 's Disposition of the Liabilities to Individuals on Deposits and Assets to the State Savings Bank of Ukraine".

In 2011, the operations on selling the government securities of Ukraine (at the nominal value) from the portfolio of the National Bank of Ukraine totaled UAH 1.4 billion (in 2010 – UAH 7.1 billion).

Moreover, during 2011, the National Bank of Ukraine executed the purchase – sale operations with the government securities of Ukraine through the bilateral quotation mechanism, within whose range the government securities (at the nominal value) to the amount of UAH 4.7 billion were acquired, and UAH 0.4 billion – sold (in 2010 – UAH 4.3 billion and UAH 9.2 billion, respectively).

### ***Non-cash emission of the National Bank of Ukraine***

In 2011, in accordance with the laws of Ukraine, the National Bank of Ukraine made the initial issue of the national currency in the cashless form through three channels: foreign exchange, credit and stock ones.

In 2011, the National Bank of Ukraine put into circulation the issued funds totaling UAH 126.8 billion, which was by UAH 1.8 billion or by 1.4% less as compared with 2010; it withdrew from circulation UAH 120.4 billion, that was by UAH 27.2 billion or by 29.2% more than in 2010.

In the reporting year, within the structure of issue operations dominant were the operations in the interbank foreign exchange market which were executed to mitigate sharp fluctuations of the hryvnia exchange rate. In view of the uneven dynamics of demand and supply in the foreign exchange market, the National Bank of Ukraine conducted operations of the foreign currency purchasing, as well as its selling.

In consequence of an excess of the foreign currency supply over demand for it in certain periods of the reporting year, in 2011 the foreign exchange channel was the main one for putting the funds into circulation, through which issued were the funds totaling UAH 72.4 billion (in 2010 – UAH 91.1 billion), which amounted to 57.1% of the total non-cash emission of the National Bank of Ukraine.

At the same time, by the results of 2011, the balance of interventions of the National Bank of Ukraine in the foreign exchange market was negative. During the reporting year, UAH 86.6 billion (in 2010 – UAH 55.9 billion) were withdrawn through the foreign exchange channel, or 71.9% of the total funds withdrawn.

Due to the execution of operations on the banking system liquidity support, in 2011 the share of funds issued through the credit channel amounted to 22.7% of the total non-cash emission. Meanwhile, the funds withdrawn from circulation through the credit channel exceeded the emission due to the repayment of debt on earlier granted refinancing credits. During the reporting year, UAH 29.5 billion (in 2010 – UAH 18.5 billion) were withdrawn through the credit channel, which was 24.5% of the total funds withdrawn from circulation.

In 2011, the funds totaling UAH 25.7 billion were put into circulation through the stock channel (in 2010 – UAH 32.3 billion), or 20.2% of the total non-cash emission. Through this channel withdrawn were from circulation the funds (with taking into account the repayment by the Government of Ukraine, in line with the Law of Ukraine On Restructuring the Debt Liabilities of the Cabinet of Ministers of Ukraine, of indebtedness on the loans extended by the National Bank of Ukraine in 1994-1996 to finance the state budget deficit) to the amount of UAH 4.3 billion (in 2010 – UAH 18.7 billion), which was 3.6% of the total funds withdrawn from circulation.

As a result, in 2011, the net non-cash emission (difference between the funds put in circulation and those withdrawn from circulation) totaled UAH 6.4 billion (in 2010 – UAH 35.5 billion), which was assured thanks to the positive balance of putting the funds into circulation through the operations with securities. This was specifically facilitated by the measures of the National Bank of Ukraine aimed at the Government's financial and economic policy support.

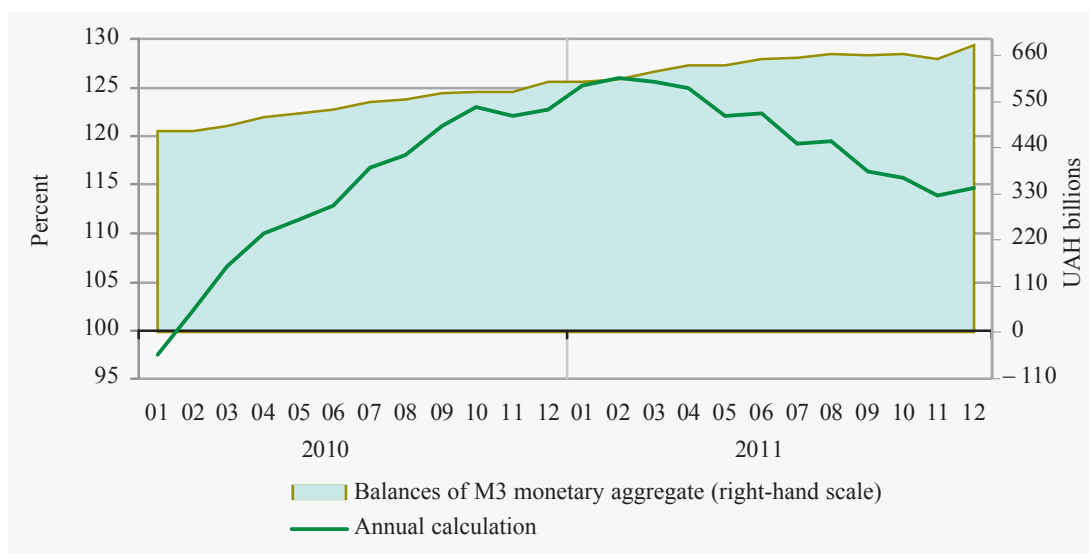
As at 1st January 2012, the non-cash emission of the National Bank of Ukraine amounted to UAH 228.8 billion, which is by UAH 6.4 billion or by 2.9% more than as at 1 January 2011.

### ***Money circulation***

By end-December 2011, the balances on monetary aggregate M3 amounted to UAH 685.5 billion and for the year had grown by UAH 87.6 billion, or by 14.7%, compared with 22.7% growth in 2010.

During the year, the growth of monetary aggregate M3 was due to an increase in both the cash component and the deposit component. The money in cash in circulation outside the depository corporations (M0) incremented for 2011 by 5.3% or by UAH 9.7 billion and by end-December amounted to UAH 192.7 billion.

Diagram 23. Money supply dynamics



The share of cash in circulation outside the depository corporations within monetary aggregate M3 curtailed for the year by 2.5 percentage points and as at 1 January 2012 amounted to 28.1%.

Table 12. Monetary indicators

Indicators	Share in M3, %		Change in the annual terms, %				
	2010	2011	2010	2011			
				March	June	September	December
<b>Money in cash outside the depository corporations (M0)</b>	<b>30.6</b>	<b>28.1</b>	<b>16.5</b>	<b>15.7</b>	<b>11.5</b>	<b>8.6</b>	<b>5.3</b>
Transferable deposits in national currency (M1–M0)	17.9	17.3	39.3	46.1	33.6	14.0	10.7
<b>Monetary aggregate M1</b>	<b>48.5</b>	<b>45.4</b>	<b>24.0</b>	<b>26.1</b>	<b>19.3</b>	<b>10.6</b>	<b>7.3</b>
Transferable deposits in foreign currency and other deposits (M2– M1)	51.3	54.1	22.3	25.0	24.5	21.2	20.8
<b>Monetary aggregate M2</b>	<b>99.8</b>	<b>99.5</b>	<b>23.1</b>	<b>25.5</b>	<b>22.0</b>	<b>16.0</b>	<b>14.2</b>
Securities except shares (M3–M2)	0.2	0.5	–59.2	110.2	147.6	222.9	260.3
<b>Monetary aggregate M3</b>	<b>100.0</b>	<b>100.0</b>	<b>22.7</b>	<b>25.7</b>	<b>22.3</b>	<b>16.4</b>	<b>14.7</b>
<b>Internal credit</b>	<b>–</b>	<b>–</b>	<b>6.3</b>	<b>7.8</b>	<b>11.8</b>	<b>12.6</b>	<b>12.3</b>
Net claims on central government bodies	–	–	–	–	–	–	–
Including claims	–	–	65.5	27.2	35.3	15.2	13.8
Claims on other residents,	–	–	1.4	7.3	10.8	10.8	10.0
Including under loans	–	–	0.9	6.7	9.8	10.1	9.6

In 2011, the increment rate of monetary aggregate M1 slowed down to 7.3% compared with 24.0% in the previous year due to reduction in the growth of its both components. In particular, during the reporting year, the transferable deposits in the national currency incremented by 10.7%, or by UAH 11.5 billion against their growth by 39.3% in 2010.

The monetary aggregate M3 increase by 14.2%, or by UAH 85.0 billion, to UAH 681.8 billion was due to the change in monetary aggregate M1, as well as the growth of transferable deposits in the foreign currency by UAH 10.3 billion and other deposits by UAH 53.4 billion, including in the national currency – by UAH 29.7 billion.

For the first time in recent four years, the enlargement of funds invested in securities, with the exception of shares, took place. For 2011, the balances on them grew 3.6 times and by the end of December amounted to UAH 3.7 billion.

By December-end 2011, the monetary base amounted to UAH 239.9 billion. By the year results, it augmented by 6.3% compared with the increment by 15.8% in 2010. The highest rate of the monetary base growth against the previous month was in December (4.9%), having a seasonal character.

In the reporting year, the monetary base dynamics were primarily formed at the expense of 4.7% augmentation (by UAH 9.5 billion) of the funds in cash put in circulation and 19.6% growth (by UAH 4.8 billion) of liabilities of the National Bank of Ukraine to other depository corporations that are not included in monetary aggregate M3.

Beside of the nominal increase in the monetary base, the money supply enlarged at the expense of activation of the funds multiplication process – as at 1 January 2012, the money multiplier value grew to 2.86 compared with 2.65 on the start of the reporting year.

### 1.3. FOREIGN EXCHANGE REGULATION MEASURES

In 2011, the measures of the foreign exchange regulation were aimed at achievement of the monetary policy priorities determined by the legislation of Ukraine.

The predictable situation in the foreign exchange market of Ukraine enabled to accomplish its gradual liberalization. In particular, under conditions of growth of the foreign currency supply in the market, the National Bank of Ukraine granted the right to the authorized banks<sup>1</sup>:

- from 20 May 2011:
- to perform the arbitrage operations with other banks in the interbank foreign exchange market of Ukraine;
- to conduct own transactions within the set limits of the open foreign exchange position without the liabilities available;
- to include off-balance claims and liabilities into calculation of the open foreign exchange position of banks;
- from 30 May 2011 to trade the foreign currency between themselves on "swap" conditions.

The National Bank of Ukraine liberalized also the cash segment of the foreign exchange market of Ukraine. Specifically, from 23 September 2011<sup>2</sup>:

- increased was the sale amount of foreign currency in cash to one person in the equiv-

<sup>1</sup> Decision of the Board of the National Bank of Ukraine dated 13.04.2011, No. 111 "On Amendments to Some Normative and Legal Acts of the National Bank of Ukraine", registered with the Ministry of Justice on 06.05.2011, No.546/19284.

<sup>2</sup> Decision of the Board of the National Bank of Ukraine dated 11.08.2011, No. 278 "On Approval of Changes to the Instruction about the Procedure of Performing the Foreign Exchange Operations in the Territory of Ukraine", registered with the Ministry of Justice of Ukraine dated 06.09.2011, No.1050/19788.

alent from UAH 80 000 to UAH 150 000 through the cashiers' desk of the bank during one day;

- banks have been entitled to purchase foreign currency in cash from the population using the funds in national currency through ATMs.

At the same time, the National Bank of Ukraine improved the order of performing the foreign exchange operations in cash and upgraded the effectiveness of control of their legality, in particular, through implementation of the identification of individuals – participants in such operations.

To ensure stability of the monetary unit of Ukraine, the National Bank of Ukraine took the actions aimed at prevention of the sharp exchange rate fluctuations in the interbank foreign exchange market. Particularly, the limit of the total long open foreign exchange position of not more than 5% and the limit of the total short open foreign exchange position of not more than 10% were set for the authorized banks<sup>3</sup>.

Moreover, to ensure stability in the foreign exchange market of Ukraine, from 29 June 2011, the National Bank of Ukraine took the following actions<sup>4</sup>:

- obliged the banks to observe daily the limits of open foreign exchange positions;
- applied the enforcement measures for violation of the set limit value on the daily basis;

- obliged the banks, in case of excess of the set limit of the total long open foreign exchange position, to sell the excess amount not later than the next banking day;

- prohibited the banks, in case of violation of the set limit of the total long open foreign exchange position, to purchase the foreign currency from the National Bank of Ukraine during the foreign exchange interventions in the foreign exchange market of Ukraine;

- permitted the banks to conduct the operations of the foreign currency purchasing within the set limit of the total long open foreign exchange position exclusively on condition of keeping to the order of forming the required reserves for the previous reporting period.

<sup>3</sup>Decision of the Board of the National Bank of Ukraine dated 22.06.2011, No. 205, "On Setting the Limits of a Bank's Open Foreign Exchange Position".

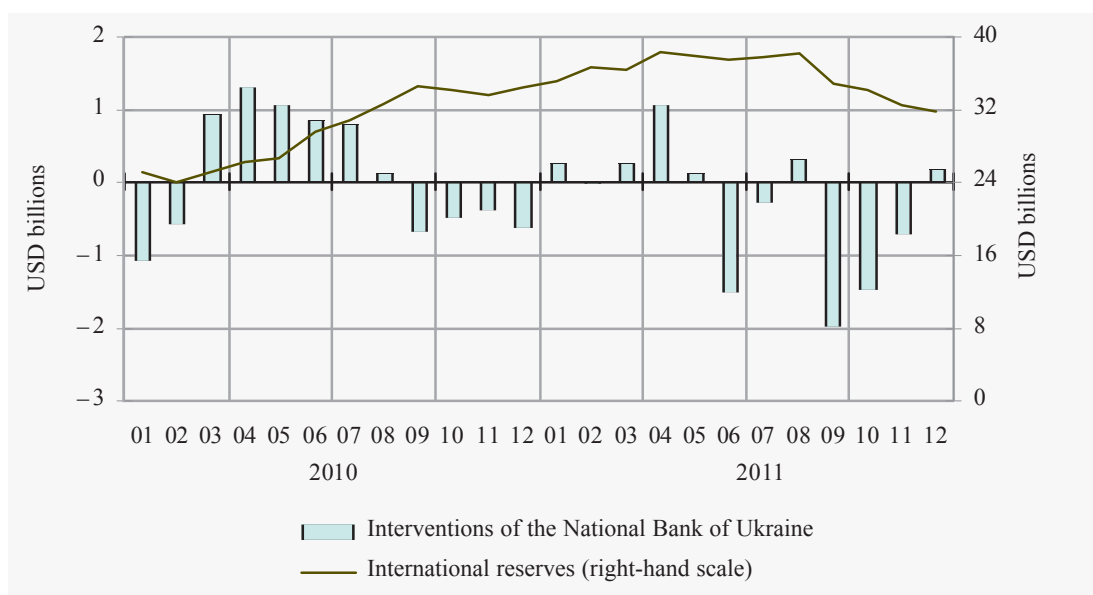
<sup>4</sup>Decision of the Board of the National Bank of Ukraine dated 22.06.2011 No. 204 "On Amendments to Some Normative and Legal Acts of the National Bank of Ukraine", registered with the Ministry of Justice of Ukraine on 23.06.2011, No. 753/19491.

## 2. INTERNATIONAL RESERVES

In 2011, the international (gold and foreign exchange) reserves of Ukraine (further – international reserves) decreased by USD 2.8 billion, or by 8.1% to USD 31.8 billion.

During 2011, the main factor of the international reserve reduction was the foreign currency sale by the National Bank of Ukraine in the interbank foreign exchange market to the amount, equivalent to USD 13.7 billion. The primary sources of the international reserve replenishment were purchases of foreign currency in the interbank foreign exchange market to the amount, equivalent to USD 9.9 billion, and incomings in favor of the State Treasury of Ukraine from placement of bonds of the external government loan worth USD 2.9 billion.

Diagram 24. **International reserves and interventions of the National Bank of Ukraine**



The main aim of the international reserve management was ensuring the optimum relationship of the levels of the international reserve protection, liquidity and yield that pro-



vided for the fulfillment by the National Bank of Ukraine of its functions defined by the effective laws of Ukraine.

The international reserve management was carried out in line with the Investment Declaration of the International (Gold and Foreign Exchange) Reserves of Ukraine for 2011.

In 2011, as before, the international reserves were kept on the accounts of correspondent banks, as well as in the financial instruments with the long-term credit rating not lower than "A". The credit risk control was ensured through establishing the credit limits to the counterpart banks. The optimum level of foreign exchange and interest risks was ensured thanks to diversification of the international reserves. A larger portion of the international reserves was kept in the government securities and on the deposit accounts.

All liabilities of the counterpart banks to the National Bank of Ukraine under the deposits and debt financial instruments were timely and fully performed.

To secure the continuous functioning of the financial system of Ukraine and timely performance of the government obligations, the international reserve liquidity was kept at a high level thanks to the choice of highly reliable partners and the government securities, as well as due to limitation of the planned investment period and permanent monitoring of the liquidity parameters of the reserve currencies and financial instruments.

In the process of managing the international reserves, the National Bank of Ukraine used the main financial instruments like the fixed yield securities of non-residents and short-term deposits in the 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 2011, the National Bank of Ukraine got the yield from the international reserve management worth USD 591.3 million.

In 2011, the total average yield of transactions on the international reserve management amounted to 1.7% compared with 1.4% in 2010.

### 3. SERVICING OF THE DOMESTIC DEBT OF UKRAINE

In accordance with the effective laws, the National Bank of Ukraine continued to perform the operations on the public debt servicing related to the placement of government securities, their redemption and payment of yield on them.

During 2011, the Ministry of Finance of Ukraine placed the T-bills in the national currency to an amount of UAH 50.3 billion, whose average-weighted yield made up 9.17% per annum, and those in the foreign currency to an amount of USD 0.4 billion having 8.92% average-weighted yield per annum, including the following:

- from the T-bills primary distribution the State Budget of Ukraine received UAH 28.9 billion in the national currency and USD 0.4 billion in the foreign currency, which amounted to 60.1% of the total T-bills placed in 2011 and was 1.3 time less as compared with 2010. The average-weighted yield on T-bills nominated both in hryvnias and foreign currency (US dollars) amounted to 8.92% per annum. There were 336 auctions on T-bill placement, out of them 92 were held. The rest of auctions (244) were not conducted due to the disparity between the bid prices of potential buyers and the real value of money funds, or due to the lack of bids to acquire the T-bills;

- T-bills to increase formation of the banks authorized capital totaling UAH 8.9 billion, or 16.5% of the total T-bills placed in 2011 with 9.50% average-weighted yield per annum;

- T-bills to increase the authorized capital for the "Naftogaz Ukrainy" national joint stock company totaling UAH 12.5 billion, or 23.3% of the total T-bills placed in 2011. Their average-weighted yield was 9.5% per annum.

During 2011, the Ministry of Finance of Ukraine placed the short-term, medium-term and long-term government bonds whose maturity amounted to: 235 days for the short-term ones (enlarged by 5 days as compared with 2010), 1 122 days for the medium-term ones (reduced by 208 days), and 2 581 days for the long-term ones (reduced by 178 days).

During the reporting year, T-bills were mainly in demand of the domestic investors. In spite of the T-bills high reliability compared with other financial instruments, during 2011,

the volume of T-bills owned by non-residents reduced by UAH 6.9 billion and as at 1 January 2012 amounted to UAH 4.7 billion, or 2.8% of the total sum of T-bills in circulation (in 2010, the T-bills with non-resident possession enlarged by UAH 10.9 billion).

**Table 13. Results of placing the T-bills in the primary market**

Indicators	2011	change to the previous year	For reference:	
			2010	change to the previous year
Number of auctions arranged, pcs.	336	114	222	-39
held	92	-73	165	44
non-held	244	187	57	-83
Placement of T-bills in the primary market, UAH, billion	50.3	-20.4	70.7	-3.8
amount of the funds attracted to the State Budget of Ukraine in the national currency, UAH, billion	28.9	-11.5	40.4	21.6
amount of the funds attracted to the State Budget of Ukraine in the foreign currency, USD, million	412.9	412.9	-	-
T-bills to increase formation of banks authorized capital, UAH, billion	8.9	2.5	6.4	-16.9
T-bills to repay overdue debt on VAT, UAH, billion	-	-	16.4	16.4
T-bills to increase formation of the Naftogaz Ukrainy authorized capital, UAH, billion	12.5	5.1	7.4	-17.0
Average-weighted yield	9.17	-1.22 p.p.	10.39	-1.82 p.p.
on T-bills attracted to the State Budget in the national currency, %	8.82	-3.87 p.p.	12.69	-7.38 p.p.
on T-bills attracted to the State Budget in the foreign currency, %	8.92	-	-	-
on T-bills issued to enlarge formation of banks' authorized capital, %	9.50	0	9.50	0
on T-bills issued to repay overdue debt on VAT, %	-	-	5.50	-
on T-bills issued to enlarge the Naftogaz Ukrainy authorized capital, %	9.50	0	9.50	0
Redemption amount and yield payment on previously issued T-bills, UAH, billion	47.6	16.9	30.7	8.3

Alongside the reduction in the average term of circulating the medium- and long-term bonds of internal government loans whose volume amounted to 75.7% of the total T-bills placed in 2011, the average-weighted yield of all T-bills placed in 2011 diminished to

9.15% per annum against 10.39% in 2010.

During 2011, the Ministry of Finance of Ukraine redeemed the T-bills and paid the yield to their holders worth UAH 47.6 billion, including the principal debt repayment – UAH 32.0 billion, the yield payment – UAH 15.6 billion, and thus, the Ministry performed all its commitments against different types of the government securities.

As a result of excess of T-bills placement volumes over their redemption volumes, the indebtedness of the Government of Ukraine on government bonds in 2011 enlarged by UAH 21.4 billion as compared with 2010, and by the year end amounted to UAH 157.6 billion.

## 4. CASH CIRCULATION

### *State of cash circulation*

In 2011, the cash circulation in Ukraine functioned under conditions of the economic growth and increase in the households money income.

As at 1 January 2012, the cash in circulation equaled UAH 209.6 billion, including the cash outside the banks to an amount of UAH 192.7 billion, the cash balances at the cashiers' desks to an amount of UAH 16.9 billion. For 2011, the cash in circulation outside the banks grew by UAH 9.7 billion, or by 5.3% (for 2010 – by UAH 26.0 billion, or by 16.5%). During the reporting year, in the 1st quarter withdrawn was the cash from outside the banks' circulation to an amount of UAH 3.5 billion. In the 2nd, 3rd and 4th quarters, there was the cash issue of UAH 8.2 billion, 2.2 billion and 2.8 billion, respectively.

The concentration percent of cash in circulation outside the banks diminished to 0.7% in 2011 versus 2.3% in 2010.

The share of cash within the money supply had a positive tendency towards curtailment – from 30.6% by the end of 2010 to 28.1% by the end of 2011.

In 2011, the increase in both the incomings of cash to the cashiers' desks and its issues from them took place.

The incomings of cash to the cashiers' desks of banks for 2011 enlarged by 18.1% – to UAH 1 324.8 billion (for 2010 – by 15.6%). The highest increment volumes were secured at the expense of growth of trade incomings and incomings from all types of services (cumulatively by 13.0%), as well as receipts to the cashiers' desks of banks on the individuals' deposit accounts and on payment cards (cumulatively by 26.4%).

For 2011, the issues of cash from the cashiers' desks of banks incremented by 16.3% – to UAH 1 334.5 billion (for 2010 – by 18.0%). The largest was the increase in issuing the cash on payment cards – by 26.9% – to UAH 521.8 billion. The main factors for such growth was the social standard upgrading (the minimum salary and pension amounts enlarged from UAH 941 as at 1 January 2011 to UAH 1 073 as at 1 January 2012 and from UAH 750 to UAH 822, respectively), as well as the positive dynamics of development of the market of payment cards in Ukraine that are among the main instruments of the payments mentioned.

Diagram 25. **The cash share (M0) in the money supply (M3)**



At the same time, in comparison with 2010, a curtailment by 18.6% – to UAH 61.3 billion – of cash issues for purchasing the agricultural products took place. The mentioned dynamics were caused by restrictions on settlements in cash between enterprises (entrepreneurs) when they purchased the agricultural products to an amount of UAH 10 000<sup>5</sup>.

The balance of foreign exchange transactions (excess of the proceeds from the foreign currency sale over the issues for the acquired foreign currency) for 2011 amounted to UAH 108.5 billion, which is by UAH 29.9 billion or 1.4 times more than for the previous year.

***Structure of the cash in circulation, control and provision of the country's needs for cash in circulation with banknotes and coins***

As at 1 January 2012, in circulation there were 2.5 billion pieces of banknotes, worth UAH 208.1 billion, 9.7 billion pieces of change and circulating coins, worth UAH 1.5 billion, and 6.4 million pieces of commemorative coins to an amount of UAH 35.5 million.

Within the structure of banknotes in circulation, the share of large denomination banknotes (200 and 500 hryvnias), as at 1 January 2012, made up 20.7% versus 17.6% as at 1 January 2011. Among the coins in circulation the largest portions had the coins of 10 kopyyka (27.8%) and 1 kopyyka (22.8%) denominations, the previous year – 27.8% and 23.1%, respectively.

As at 1 January 2012, there were 55 banknotes per capita (the previous year – 57 pieces) and 204 change coins per capita, being by 18 pieces more than as at the same date of the previous year.

During 2011, the National Bank of Ukraine secured the continuous and timely satisfaction of the country's cash circulation needs for banknotes and coins of all denominations. In the reporting year, in the country as a whole, there was the issue of cash in circulation totaling UAH 9.5 billion (in 2010 – UAH 29.6 billion).

<sup>5</sup> Decision of the Board of the National Bank of Ukraine dated 22.12.2010, No. 573, registered with the Ministry of Justice of Ukraine on 09.03.2011, No. 279/19017.

The issues of cash (banknotes and coins) to support the operational cashiers' desks of banks of Ukraine reduced, in comparison with 2010, by 9.4% – to UAH 108.6 billion. At that, the issues of coins for the mentioned period enlarged by 3.1% to UAH 126.6 million. The coin portion within the total cash issues amounted to 0.1%. At the same time, the cash that returned from banks of Ukraine to the regional branches money vaults totaled UAH 98.2 billion, which is by 10.5% more, than for the respective period of the previous year. The coin return volumes, in comparison with the previous year, reduced by 41.2%, or by UAH 7.1 million, to UAH 10.2 million.

During 2011, the 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 2011, from the reserve funds of the National Bank of Ukraine the banknotes and coins to an amount of UAH 59.7 billion (the previous year – UAH 80.7 billion) were issued.

### ***Cash processing and withdrawal of banknotes unfit for circulation***

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 1.1 billion pieces worth UAH 34.1 billion (in 2010 році – 1.2 billion pieces worth UAH 48.3 billion). Utilized were 1.0 billion pieces of banknotes.

### ***Research of banknotes***

During 2011, according to the results of researches made by the experts of the system of the National Bank of Ukraine, revealed were as false and withdrawn from circulation 7.7 thousand pieces of banknotes of the national currency for the total value of UAH 0.9 million, being by 32.2% and 46.4% respectively less than the previous year. The prevailing share of the false banknotes withdrawn from circulation were the banknotes of 200 hryvnia denomination (33.7% of the total number of false banknotes withdrawn), 50 hryvnia denomination (29.8%) and 20 hryvnia denomination (15.7%). Compared with the previous year, the number of withdrawn false banknotes of 500 hryvnia denomination decreased by 14.9%, 200 hryvnia denomination – by 60.4%, 100 hryvnia denomination – by 27.0%. At that, the growth of such banknotes of 50 hryvnia denomination by 64.0% was observed. Nearly all false hryvnia banknotes (99.6%) were produced with use of the computer and copying equipment.

In the reporting year, 388 pieces of false US dollar banknotes amounting to USD 37.5 thousand, 78 pieces of false Euro banknotes for the value of EUR 16.2 thousand, and 70 pieces of false Russian rubles for the value of 138.0 thousand rubles were withdrawn from circulation. Most of the withdrawn false US dollar (91.5%) and Euro banknotes (94.9%) were produced by the printing technology. The false Russian rubles withdrawn were produced with use of the laser (1.4%) and jet (98.6%) printers.

### ***Issue and realization of commemorative coins***

In accordance with the Plan for Issuing the Commemorative Coins of Ukraine and Souvenir Products for 2011, put were into circulation 42 types (31 names) of commemorative coins of Ukraine, including 23 silver, 3 gold, and 16 non-precious metal coins. The National Bank of Ukraine issued the coins to mark the following important events:

20 Years of Independence of Ukraine, 15 Years of the Constitution of Ukraine, the Millennial Anniversary of Saint Sophia Cathedral Foundation (an outstanding monument of architecture and mural painting), 450 Years of Peresopnytsia Gospels (the first known example of vernacular Ukrainian language which survives to this day).

For the reporting period sold were 611.7 thousand pieces of coins for the total value of UAH 109.8 million. The planned indicator of income from sale of the commemorative coins and souvenir products for 2011 was fulfilled by 103.9% and amounted to UAH 87.9 million.

During 2011, the designs of coins were elaborated and the agreements with the Union of European Football Associations (UEFA) were signed with regard to the issue of a series of commemorative coins dedicated to the Final Tournament of the European Football Championship Euro 2012 with Euro-2012 official logo.

From 28 December 2011, issued was a new banking product – "Archangel Michael" bullion coins of Ukraine (two gold ones – 5 and 20 hryvnia denominations, one silver – 1 hryvnia denomination).

By the results of the Fifth International Contest of Commemorative Coins "Coin Constellation-2011" in the city of Saint-Petersburg (Russia), whose participants were 25 countries of the world, the commemorative silver coin "Island of Khortytsia in the Dnieper – the Cradle of Ukrainian Cossacks" of 50 hryvnia denomination was declared the best in "The Best Coin of the Year" nomination. The commemorative silver coin of 5 hryvnia denomination "Year of the Tiger" from the "Chinese Calendar" series got the diploma.



## 5. SUPERVISION AND REGULATION

### 5.1. REGULATION OF ACTIVITIES OF UKRAINIAN BANKS

In 2011, the NBU dealt with improving its legislative and regulatory frameworks related to the regulation of banks' activities.

In 2011, Verkhovna Rada of Ukraine with active involvement of the National Bank of Ukraine elaborated and adopted the following laws:

- The Law of Ukraine on Amendments to Some Laws of Ukraine on Regulation of Banks' Activities which has laid the legal framework for revealing the beneficial owners of banks, raising their responsibility for situation in banks, increasing public awareness of banks' activities, and ensuring additional protection of the interests of lenders and depositors;

- The Law of Ukraine on Amendments to Some Laws of Ukraine on Supervision on Consolidated Basis which facilitates the identification and minimization of risks related to banks' participation in the financial groups;

- The Law of Ukraine on Amendments to Some Laws of Ukraine on Regulating Relations between Lenders and Consumers of Financial Services which has created the conditions for further development of lending and protection of the interests of banks and borrowers.

In addition, Verkhovna Rada of Ukraine approved in the first reading the following draft legislative acts:

- Draft Law of Ukraine on Corporate Governance in Banks which facilitates improving the system of risk management in banks and creating an adequate system of internal control;

- Draft Law of Ukraine on Schemes of Guaranteeing Individual Deposits has changed the conception and approaches to removing the insolvent banks from the market.

The regulatory framework of the National Bank of Ukraine continued to be amended in a systematic way. In particular, in connection with the entry into effect of the Law of Ukraine on Amendments to Some Laws of Ukraine on Regulation of Banks Activities, on the basis of provisions of the Tax Code of Ukraine the following regulations have been developed and approved:

- Procedure for registration and licensing of banks, opening of autonomous structural

units and submission of information on the structure of ownership (Regulations for Procedure of Registration and Licensing of Banks and Opening of Autonomous Structural Units and Regulations for Procedure of Submission of Information on the Structure of Ownership);

- Procedure for entry of audit firm to the Register of Audit Firms licensed for performing audit of banks (Regulations for Procedure of Entry of Audit Firm to the Register of Audit Firms Licensed for Performing Audit of Banks);

- Simplification of Procedure for Writing-off Bad Loans by Banks at the Expense of Insurance Provisions (Procedure for Covering Bad Debts on Loans by Banks at the Expense of Insurance Provisions).

In addition, in connection with the decision on creation of a remedial bank adopted by the Government of Ukraine the National Bank of Ukraine has prepared and approved Provisions for Procedure of Registration, Licensing, Regulation, and Supervision over Activities of the Remedial Bank. The Provisions regulate the following issues:

- List of the operations which a remedial bank is entitled to perform;
- Procedure for approval of revised version of Charter of JSC Rodovid Bank in connection with its status of the remedial bank;
- Procedure for state registration of the remedial bank;
- Procedure for licensing of the remedial bank, including reasons for refusal to issue a license to the remedial bank;
- Specific features of regulation and supervision over the remedial bank.

In addition, in 2011, the following NBU regulations were amended:

- Instruction for the Procedure of Regulation of Bank Activities in Ukraine with respect to:

- Calculation of regulatory capital;
- Improvement of procedure for inclusion of the funds borrowed as subordinated debt to bank's capital;
- Introduction of new benchmark (H3-1): regulatory capital to liabilities ratio;
- Definition of procedure for calculating investments in securities separately for each institution (H11) and total investment limitation (H12);
- Establishment of procedure for issuing to banks the written approval for making investments;
- More clear definition of the bank insiders;
- Introduction of procedure for granting banks with the status of specialized escrow bank;
- Regulations for Planning and Procedure for Carrying Out Inspections with respect to:
  - Establishment of periodicity of the regular inspections;
  - Extension of list of reasons for carrying out the irregular inspections;
  - Determination of types of inspections performed by the bank supervision service and other persons authorized by the National Bank of Ukraine;
- Regulations for Specific Features of Bank Reorganization upon Decision of Its Owners with respect to cancellation of the requirement for receiving the permit for purchasing qualifying shareholding in the bank and the written consent with operations;

- Regulations for Procedure of Submission by Banks to the National Bank of Ukraine of Audit Reports upon Results of Annual Audit of Financial Statements with respect to:
  - Requirement for auditing the financial statements only by the audit firms included in the NBU Register of Audit Firms of Ukraine;
  - The NBU's right to require from banks to extend the subject of audit;
  - Limitation with regard to auditing the financial statements of the bank by the same audit firm (maximum seven consecutive years);
  - Requirement for audit firms to submit their working documents related to bank audit upon request of the National Bank of Ukraine;
- Regulations for Granting Stabilization Loans by the NBU to Banks of Ukraine with respect to amending the list of basic collaterals;
  - Regulations for Procedure of Provisioning and Use of Provisions Against Possible Losses from Lending Operations with respect to improving the approaches to procedure for taking the value of collateral into consideration;
  - Special Procedure for Implementing Measures on Financial Rehabilitation of Banks with respect to the requirements for:
    - Receiving the prior consent of the National Bank of Ukraine to performing operations;
    - Receiving and readmission of the written consent to performing operations;
  - Technical Procedure for Operations Related to Granting Stabilization Loans by the NBU to Banks of Ukraine with respect to amending the list of basic collaterals and in connection with the changes in the NBU organizational structure.

## 5.2. REGISTRATION AND LICENSING OF BANKS

As of 01.01.2012, one hundred and ninety eight (198) banks were listed in the State Register of Banks, out of them 176 banks were licensed to conduct banking operations. All the licensed banks are organized as public joint-stock companies.

In Ukraine, as of 01.01.2012, there were operating 53 banks with the foreign capital, including 22 of them with 100% foreign capital. The share of foreign capital in the registered authorized capital of Ukrainian banks amounted to 41.9%. The foreign capital in the authorized capital of Ukrainian banks is represented by 21 countries. The following countries have a large percentage in the authorized capital of Ukrainian banks: Russia (9.2%), Cyprus (7.2%), Austria (5.0%), France (4.5%), and Germany (3.7%).

As of 01.01.2012, in Ukraine, there were 455 bank branches, 19,841 outlets, and 19 representative offices of Ukrainian banks, including 10 located in Ukraine and 9 abroad.

The most of the licensed banks are located in the developed industrial regions of Ukraine: in Kyiv and Kyiv region, there is concentrated 65.0% of the total banking institutions, whereas in Dnipropetrovsk, Donetsk, Kharkiv, and Odesa regions, there are residing about 23.0% of all banks. Such a geographical structure is explained, primarily, by the fact that these regions are the most developed industrial regions of Ukraine and have a high investment rating. At the same time, eleven regions have no operating banks (Vinnytsia, Zhytomyr, Ivano-Frankivsk, Kirovohrad, Mykolaiv, Rivne, Ternopil, Kherson, Khmelnytskyi, Cherkasy, and Chernivtsi regions). Here, the branches and outlets have been providing the population with banking services.

In the structure of branches, there has been observed a more even territorial distribution. The most of the existing branches are located in Kyiv and Kyiv region (56 branches or 12.3% of the total) and in Donetsk region (47 branches or 10.3% of the total). In the eleven regions (Vinnytsia, Volhynian, Zhytomyr, Zakarpattia, Ivano-Frankivsk, Kirovohrad, Rivne, Ternopil, Khmelnytskyi, and Chernivtsi regions) there has been operating the smallest number of branch offices: approximately 2.0% of the total number of existing branches, in each region. In each of the following five regions (Dnipropetrovsk, Luhansk, Lviv, Odesa regions, as well as in the Autonomous Republic of the Crimea and Sevastopol) there has been operating from 5.7% to 8.1% of the total number of branches. In other regions, the concentration of branches has been ranging between 2.4% to 4.6% of the total number of branches.

In 2011, the National Bank of Ukraine:

– Approved Charters of 4 new banks and included them into the State Register of Banks:

- Public Joint-Stock Company *ACCEPTBANK*;
- Public Joint-Stock Company *Bank SICH*;
- Public Joint-Stock Company *Bank DIVI*;
- Public Joint-Stock Company *InterCreditBank*;

– Withdrew Public Joint-Stock Company *Dongorbank* from the State Register of Banks;

– Restructured one bank: Public Joint-Stock Company *Dongorbank* was merged with the Public Joint-Stock Company *FIRST UKRAINIAN INTERNATIONAL BANK*;

– Accredited two representative offices of foreign banks:

- Representative office of *Dukascopy Bank SA* in Ukraine;
- Representative office of Joint-Stock Company *Latvijas Krajbanka* in Ukraine;

– Canceled accreditation and withdrew from the State Register of Banks 5 representative offices of the foreign banks:

- Representative office of JSC *BTA Bank* in Ukraine;
- Representative office of *Bayerische Landesbank* in Ukraine;
- Representative office of *Kuklin Bank* in Kyiv;
- Representative office *HSBC plc.* in Ukraine;
- Representative office of Joint-Stock Company *Latvijas Krajbanka* in Ukraine;

– Issued 19 permits to acquire or increase qualifying shareholdings in banks;

– Issued the permit for incorporation of one bank with the foreign capital;

– Issued the permit on getting status of a bank with the foreign capital;

– Approved acquisition / increase in qualifying shareholding in banks for 12 persons;

– Approved and submitted to the State Register of Banks 114 amendments to the Charters of banks, including 64 ones related to an increase in the authorized capital;

– Approved 78 people for occupying the senior positions at banks (chairman, chief accountant, and board members of the state-owned banks);

– Confirmed compliance of 196 candidates for the post of deputy chairman, board members, and deputy chief accountant;

- Confirmed compliance of 233 candidates for the post of chairman, deputy chairman, and members of the supervisory board of banks;
- Issued 29 certificates of bank registration;
- Issued the banking license and the written permission to perform certain operations to 3 new banks:
  - Public Joint-Stock Company *ACCEPTBANK*;
  - Public Joint-Stock Company *Bank SICH*;
  - Public Joint-Stock Company *Bank DIVI*;
- Issued the banking license for rendering banking services to Public Joint-Stock Company *InterCreditBank*;
- Extended the list of transactions undertaken by banks on the basis of written authorization for performing individual transactions, to 21 banks;
- Replaced the banking licenses and written authorizations for performing certain operations of 22 banks in connection with changes in their names;
- Refused to extend the list of operations carried out on the basis of written authorization for performing operations to 12 banks;
- Considered notifications of 7 banks on the start of new activities;
- Reissued banking licenses to 172 banks;
- Made 970 records to the Electronic registry related to opening branches / offices;
- Made 16 358 records to the Electronic registry related to changes in activities of branches/offices;
- Made 6557 entries to the *Bank Dossier* automated information system.

### 5.3. SUPERVISION OVER ACTIVITIES AND INSPECTION OF BANKS

In 2011, effective supervision over the banks in order to ensure the stability of banking system and the timely performance of bank liabilities to lenders and depositors remained one of the main activities of the National Bank of Ukraine.

During the year, the National Bank of Ukraine supervised over 180 banks licensed for performing banking operations. The system of banking supervision is based on the assessment of banks according to the CAMELS rating system which is to assess the general status of the bank on the basis of uniform criteria covering bank's activities in all businesses and identifying the main risks facing the bank.

To exercise effectively the supervision over the banks the National Bank of Ukraine has been combining the prudential supervision and inspections.

The prudential (offsite) supervision of banks is carried out on the basis of banks' statistical reporting, reports on inspection findings, conclusions of the regional NBU offices, audit reports, banks' information on implementation of the action plans aimed at improving the financial status and correcting deficiencies and violations in banking activities to ensure the compliance with the applicable bank laws and regulations of the National Bank of Ukraine and the fulfillment of obligations by banks related to improving their performance and minimizing risks.

The National Bank of Ukraine has been exercising control over the enforcement of bank prudential regulations. The NBU have worked with the banks that need regular monitoring by the supervisory authorities to improve the quality of their loan portfolio, to minimize the existing losses, and to increase capital for covering the potential risks in their activities, as well as to ensure repayment of the refinancing loans to the National Bank of Ukraine.

Under the conditions of gradual recovery of Ukraine's economy, as a whole, and the banking sector, in particular, the National Bank of Ukraine has paid special attention to the banks' compliance with the requirements for increasing minimum capital up to UAH 120 million till 01.01.2012 (according to Resolution of the National Bank of Ukraine of 09.06.2010, No. 273).

As of 01.01.2011, 45 banks had regulatory capital less than UAH 120 million (and needed UAH 3.6 billion for additional capitalization), while as of 01.01.2012, 6 banks, 2 out of them were under the provisional administration, did not meet the requirements for minimum capital. Enforcement measures have been used with respect to 4 banks which are obliged to implement programs for enhancing capitalization of the regulatory capital to the amount prescribed by regulations of the National Bank of Ukraine till 01.07.2012. For this period the banks have undertaken to keep to certain limitations in their activities.

The National Bank of Ukraine pays more attention to the banks that have received the refinancing loans during the crisis. Under the conditions of enhancing liquidity in the banking system the National Bank of Ukraine exercises control over these banks to ensure timely fulfillment by them of their obligations on the refinancing loans and, if possible, to accelerate the repayment. During 2011, the banks repaid the refinancing loans totaling UAH 9.2 billion, 44.5% (UAH 4.1 billion) whereof were repaid early. Twenty two banks have repaid their refinancing loans in full.

As of 01.01.2012, the following banks had past due on the refinancing loans:

- 28 banks operating in the regular mode (UAH 61.4 billion);
- 2 banks under the temporary administration (UAH 116.8 million.);
- 11 banks under liquidation (UAH 1.1 billion).

In 2011, for the purpose of exercising the daily control and raising efficiency of the use of supervisory measures the NBU appointed administrators in two banks that had a large past due on the refinancing loans. Later, given the stabilization of the financial status of the banks and positive changes in their activities (restructuring of the past due to the foreign lenders, repayment of the refinancing loans) the administrators' powers have been removed.

Special attention is paid to the supervision over state-owned banks, JSC Oschadbank and JSC Ukreximbank which are servicing the government programs, including lending of the priority industries defined by the government.

In 2011, the banking sector continued the reorganization process that needed attention of the National Bank of Ukraine. In particular, under the NBU vigilant supervision there merged PJSC FUIB and PJSC Dongorbank in accordance with the plan of reorganization approved by the Decision of the NBU Commission on Supervision and Regulation of Banking Activities of 22.12.2010, No. 835.

Among the important forms of the NBU supervisory activities there remained the inspections of banks aimed at assuring the safety and stability of bank operations, relia-

bility of reporting, and compliance with the banking laws and regulations of the National Bank of Ukraine. In 2011, there were conducted 356 inspections of 172 bank entities and autonomous structural units, including:

- 107 scheduled inspections;
- 249 unscheduled inspections.

The main thematic areas of inspections were as follows:

- Assessment of banks activities by the components of CAMELS rating system (assets quality, liquidity, earnings and profitability, capital adequacy, sensitivity to market risks);
- Banks' compliance with the programs of financial rehabilitation and fulfillment of undertakings under the loan agreements with the National Bank of Ukraine;
- Banks' compliance with the legislation related to keeping, protection, use, and disclosure of the bank secrecy on practice;
- Status of collateral (mortgage) on the loans from the National Bank of Ukraine.

The methodological basis of the inspection activities continued to improve. In particular, to raise the effectiveness of inspections the National Bank of Ukraine has developed the Guidelines for inspection of information security management and improved the following documents:

- Methodical Guidelines for Inspection of Banks with Respect to Fulfillment of Liabilities under the Loan Agreements with the National Bank of Ukraine (adopted by the National Bank of Ukraine on 06.06.2011, No. 381-p);
- The typical program for inspection of the bank as a corporate entity;
- Formats of working papers for extending loans to the corporate entities, individuals, and the interbank loans.

During 2011, in connection with the discovered failures to comply with the requirements of banking legislation and the performance of risky operations the National Bank of Ukraine initiated and implemented the following enforcement measures<sup>6</sup>:

- Sending 36 warning letters to 32 banks with further monitoring of the implementation of measures to eliminate the violations;
- Signing 19 agreements with banks to improve their financial status, to increase capitalization, and to eliminate violations of banking laws;
- Adopting decision to ban temporarily the qualified shareholder to use the voting shares acquired;
- Adopting 10 decisions on suspension / restriction of certain types of banking operations with respect to 7 banks; one bank was decided to be prohibited to extend the blank credits;
- Imposing fines on 30 banks (34 decisions), and administrative penalties on officials (65 decisions);
- Adopting resolution to appoint the provisional administration in three banks: JSC *Inprombank*, JSC CB *Volodymyrskyi*, and PJSC CB SKB;

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<sup>6</sup> Enforcement measures taken in case of failure to comply with the legislation in the sphere of financial monitoring and foreign exchange operations not included.

- Adopting resolution on revocation of the banking license and initiated procedure of liquidation in three banks: *Dialogbank* LLC, JSC CB *Volodymyrskyi*, and PJSC CB SKB;
- Bringing to the administrative responsibility 36 bank officials.

In 2011, the National Bank of Ukraine exercised control over activities of the provisional administrations in 7 banks: PJSC CB *Nadra*, JSC *Rodovid Bank*, PJSC CB SKB, JSC *Bank Stolytsia*, JSC CB *Volodymyrskyi*, JSC *Inprombank*, and *Dialogbank* LLC. As of 01.01.2012, among them there were:

- 2 banks (PJSC CB *Nadra* and JSC *Rodovid Bank*) which restored solvency and resumed operation in the regular mode;
- Banking licenses of 3 banks (JSC CB *Volodymyrskyi*, PJSC CB SKB, and *Dialogbank*) were revoked with the NBU initiating the liquidation procedure;
- In 2 banks the provisional administration continued acting (PJSC *Inprombank* and PJSC *Bank Stolytsia*).

During 2011, the efforts continued to be focused on transferring the bad assets of PJSC JSB *Ukrkazbank* and PJSC JSCB *Kyiv* to JSC *Rodovid Bank*. As a result of the measures taken jointly by the National Bank of Ukraine, Cabinet of Ministers of Ukraine, Ministry of Finance of Ukraine, and the banks in whose capitalization the state of Ukraine was involved the financial status of banks have been improved due to restoring the level of their capital, solvency, and liquidity. In addition, the measures have been taken to strengthen the management of recapitalized banks and to identify the strategies for their business.

In 2011, the most positive was the fact that the problems associated with the failure of JSC *Rodovid Bank* to perform its liabilities to depositors were solved. This significantly mitigated tension and enhanced confidence in the banking system.

Given the decision of the Expert Analytical Council related to participation of the state of Ukraine in the capitalization of banks, the Cabinet of Ministers of Ukraine and the National Bank of Ukraine issued a joint resolution on additional capitalization of JSC *Rodovid Bank* and JSC *Oschadbank* by virtue of which there was established a procedure for transferring the deposit-related assets and liabilities to individuals to the JSC *Oschadbank* (Resolution of 30.03.2011, No. 323).

Due to the timely and coordinated efforts of the Government of Ukraine and the National Bank of Ukraine JSC *Rodovid Bank* and JSC *Oschadbank* have ensured fulfillment of the liabilities to individual depositors by transferring the deposits and assets worth UAH 3.8 billion to JSC *Oschadbank* and started to pay the deposits to individuals. As of 01.01.2012, the funds worth UAH 2.5 billion or 66% of the total deposits were paid to bank depositors; the rest of the amount, i.e. UAH 1.3 billion or 34% has been placed by the depositors on the accounts with JSC *Oschadbank*.

Upon the submission of the National Bank of Ukraine approved with the Committee of Verkhovna Rada of Ukraine on Finance, Banking, Tax, and Customs Policies, the Cabinet of Ministers of Ukraine decided to establish the remedial bank on the basis of JSC *Rodovid Bank*, by virtue of Resolution on Creation of the Remedial Bank. In August 2011, the National Bank of Ukraine elaborated an Action Plan to establish the remedial bank on the basis of JSC *Rodovid Bank*.



Given the decision of the Cabinet of Ministers of Ukraine the National Bank of Ukraine by virtue of Resolution of 15.09.2011, no. 313 has removed the provisional administration in *Rodovid Bank* since 15.09.2011 and established the procedure for the bank's operation and limitations of its activities until it gets the remedial bank status.

Taking into account the proposals of the World Bank, the International Monetary Fund and the Ministry of Finance of Ukraine the National Bank of Ukraine has elaborated the Provisions for Registration, Licensing, Regulation, and Supervision over the Remedial Bank.

In the reporting year, there continued the work aimed at training certified provisional administrators and liquidators of banks. The National Bank of Ukraine carried out the certification of 20 people (issued 11 certificates authorizing to act as a provisional administrator of banks and 17 certificates authorizing to act as a liquidator of banks).

Considerable attention was paid to the quality control of auditing the annual financial statements of banks. Upon the results of examination of compliance of the audit firms with the requirements of Regulations for Keeping Register of Audit Firms Authorized to Audit Banks an appeal related to taking enforcement measures with respect to 2 auditors was submitted to the Audit Chamber of Ukraine.

The National Bank of Ukraine continued to improve communication with the law enforcement agencies within the framework of applicable legislation. In 2011, it prepared and sent four letters to the special units dealing with combating the organized crime, the Ministry of Interior Affairs, and to the Security Service of Ukraine. The NBU employees as professionals have been involved in proceedings by the law enforcement agencies. Pursuant to court decrees the National Bank of Ukraine has provided copies of documents (with respect to disclosure of bank secrecy) and prepared materials related to individual banking institutions for the seizure of documents.

#### **5.4. TERMINATION OF BANKS ACTIVITIES**

As of 01.01.2012, 21 banks were under liquidation (6.2% of the banks registered in the State Register), out of them 20 banks were liquidated by decisions of the National Bank of Ukraine, and 1 by a decree of the Economic Court.

As compared with 01.01.2011, the number of banks under liquidation increased by 3 banks (as of 01.01.2011, there were 18 banks under liquidation).

In 2011, the NBU did not make any decision on removal of banks from the State Register of Banks in connection with the completion of liquidation procedure by the Commission of National Bank of Ukraine on Supervision and Regulation of Banks.

In the reporting year, the National Bank of Ukraine by virtue of its decisions revoked the banking licenses and initiated liquidation procedures in three banks: PJSC CB SKB, PJSC CB *Volodymyrskyi*, and *Dialogbank* LLC.

As of 01.01.2012, the balance of assets of banks under liquidation totaled UAH 20 621.9 million. The amount of realized (repaid) assets made up UAH 1 199.6 million. Recognized payables (according to the approved registers) amounted to UAH 21 286.7 million, lenders' claims paid by liquidators came to UAH 4 112.0 million, including the claims of individuals worth UAH 89.0 million and those of corporate entities worth UAH 4 023.0 million (including the claims of the Deposit Guarantee Fund (hereinafter – DGF) worth 98.0 million).

**Table 14. Dynamics of basic indices of the banks under liquidation**

(UAH million)			
Indices	As of 01.01.2012	As of 01.01.2011	Deviation
Number of banks	21	18	3
Assets	20 621.9	20 775.2	-153.3
Funds repaid at the expense of revenues to the savings account and cash account	1 199.6	892.8	306.8
Funds of debtors	16 805.7	16 176.9	628.8
Payables recognized	21 286.7	20 477.3	809.4
Lenders' claims paid by liquidators	4 112.0	3 966.2	145.8
Claims guaranteed by Deposit Guarantee Fund	3 691.5	3 664.8	26.7
Lenders' claims paid at the expense of DGF	3 801.2	3 610.0	191.2
Expenses of liquidation commissions	568.7	354.4	214.3
Balance on the savings account and cash account	328.2	404.7	-76.5

Guaranteed compensations paid to individuals from the Deposit Guarantee Fund totaled UAH 3 801.2 million or 95.9% of the total guaranteed compensations (UAH 3 961.6 million).

Expenses of liquidators (liquidation commissions) related to the liquidation procedure reached UAH 568.7 million.

The National Bank of Ukraine and the Deposit Guarantee Fund have taken measures to improve the situation with paying the claims of lenders, primarily, individual depositors.

**Table 15. Dynamics of paying lenders' claims of banks under liquidation**

(UAH million)			
Indices	As of 01.01.2012	As of 01.01.2011	Deviation
Balance of payables recognized, including:	21 286.7	20 477.3	809.4
Payables to individuals with claims of individuals submitted to DGF	4 120.1	4 268.1	-148.0
Lenders' claims paid by liquidators, including:	4 112.0	3 966.2	145.8
Claims of individuals	89.0	75.1	13.9
Lenders' claims paid at the expense of DGF	3 801.2	3 610.0	191.2

In 2011, the NBU took measures on improving the regulations in the sphere of liquidation procedures, as well as on raising the quality of supervision over the bank liquidation process.

## 6. FOREIGN EXCHANGE CONTROL AND LICENSING SYSTEM

In 2011, the National Bank of Ukraine dealt with licensing of the foreign exchange transactions falling within the licensing regime pursuant to the Decree of the Cabinet of Ministers of Ukraine on Foreign Exchange Regulation and Foreign Exchange Control. The NBU issued both individual licenses for the one-time foreign exchange transactions for the period required for such a transaction and general licenses to perform the foreign exchange transactions exempt from the individual licenses for duration of the regime of foreign exchange control. In general, during the reporting year, the National Bank of Ukraine issued 527 permitting documents to banks, nonbank financial institutions, corporate entities, and individuals.

During the year, the NBU reissued the written authorizations for performing individual transactions and general licenses on performing the foreign exchange transactions to 173 banks.

Pursuant to the applicable legislation the National Bank of Ukraine has overseen the compliance of authorized banks and nonbank financial institutions with the foreign exchange regulations through conducting the onsite and offsite inspections. During the year, there were carried out 5 296 inspections of banks and nonbank financial institutions and 1 355 inspections of foreign exchange offices/points. 386 inspections were of a complex character. The share of regular inspections made up 40.1% (2 125 inspections) of the total number, whereas that of irregular ones amounted to 59.9% (3 171 inspections).

**Table 16. Individual licenses, general licenses, special authorizations, and approvals issued by the NBU to banks, nonbank financial institutions, corporate entities, and individuals**

	2011	For reference: 2010
<b>Banks</b>	<b>24</b>	<b>21</b>
Including:		
General licenses on performing FX transactions	5	–
Individual licenses on performing FX transactions,	19	21
Including:		
On overseas transfer of foreign currency from Ukraine for paying for bank metals	9	11
On overseas transfer of FX assets from Ukraine	2	2
On the use of foreign currency in Ukraine as a means of payment	3	2
On overseas investments	–	1
On placement of FX assets on accounts outside Ukraine	5	5
<b>Nonbank financial institutions, corporate entities, and individuals</b>	<b>503</b>	<b>562</b>
Including:		
Individual licenses on the use of foreign currency in Ukraine as a means of payment	11	11
Individual licenses on exportation, overseas transfer and remittance of foreign currency from Ukraine	9	6
Individual licenses on placement of FX assets on accounts outside Ukraine	252	270
Individual licenses on overseas investments	185	249
General licenses on FX transactions issued to nonbank financial institutions	14	8
Approvals of overseas transfers effected by residents of Ukraine under contracts on works and services providing for rendering services by nonresidents	29	15
Special authorizations on importation of bank metals, payment documents, and foreign currency	3	3

With respect to the entities who breached the foreign exchange legislation the penalties have been imposed pursuant to Article 16 of Decree of the Cabinet of Ministers of Ukraine on Foreign Exchange Regulation and Foreign Exchange Control. Throughout the year, there were made 820 decisions on bringing 122 authorized banks to account for a breach of the foreign exchange legislation totaling UAH 29 276.8 thousand. The most of decisions were issued to banks for untimely submission, concealment or misrepresentation of the statements on foreign exchange transactions.

**Table 17. Decisions on bringing authorized banks to account for the breach of foreign exchange legislation**

Type of breach	2011		For reference: 2010	
	Number of decisions	Amount, UAH thousand	Number of decisions	Amount, UAH thousand
Untimely submission, concealment or misrepresentation of statements on FX transactions	662	1 139.0	848	938.1
Failure to fulfill functions of FX monitoring agent	132	26 053.3	104	8 065.9
Breach of procedure for FX purchase/sale on the interbank FX market of Ukraine	16	2 069.7	3	63 596.8
Breach of requirements and procedure for declaring overseas FX assets belonging to resident of Ukraine	3	0.5	5	0.8
Use of foreign currency as a means of payment within the territory of Ukraine without individual license	7	14 231.3	12	17.8
<b>Total</b>	<b>820</b>	<b>29 276.8</b>	<b>972</b>	<b>72 619.4</b>

The NBU continued to systematically amend its regulatory framework. In 2011, there were registered with the Ministry of Justice of Ukraine and enacted by the National Bank of Ukraine the following amendments with respect to:

- Improving the NBU procedures for licensing FX transactions of nonbank financial institutions and providing the National Bank of Ukraine with effective enforcement tools with respect to the nonbank financial institutions holding the general licenses (the NBU Board Resolution on Amending Some Legislative Acts of the National Bank of Ukraine of 30.12.2010, No. 589);

- Improving the procedure for imposing by the National Bank of Ukraine sanctions on banks (and other financial institutions) for breaching the FX legislation, as well as of procedure for organization of the NBU onsite and offsite inspections of compliance of banks (and other financial institutions) with the applicable FX legislation of Ukraine (Resolution of the NBU Board on Amending Some Legislative Acts of the National Bank of Ukraine of 26.04.2011, No. 118);

- Establishing the procedure for issuing the general licenses on performing foreign exchange transactions to banks and branches of the foreign banks (Regulation of the NBU Board on Approval of the Procedure for Issuing General Licenses on Performing Foreign Exchange Transactions to Banks and Branches of Foreign Banks of 15.08.2011, No. 281).

In 2011, the NBU elaborated amendments to the existing regulations with respect to:

- Giving banks the possibility of gradual harmonization of the regulatory capital in line with the requirements established by the law to maintain eligibility/ become eligible for the FX transactions;

– Establishing the amount of required regulatory capital in compliance with NBU regulations;

– Unifying the requirements for regulatory capital of banks related to conducting banking operations and FX transactions, as well as the requirements, compliance with which is necessary for performing the FX transactions in the foreign exchange market of Ukraine and foreign exchange transactions in the international markets;

– Enabling the authorized banks to exempt from control the operations of the National Joint-Stock Company *Naftogaz of Ukraine* related to the imports of natural gas to Ukraine under the terms of Contract on sale of natural gas in 2009 – 2019 dated 19.01.2009 No. KII of made between the NJSC *Naftogaz of Ukraine* and OJSC *Gazprom* and based on the acceptance certificates made between NJSC *Naftogaz of Ukraine* and OJSC *Gazprom*.

To ensure the coherence of government agencies' control over the foreign exchange transactions of nonbank financial institutions, the National Bank of Ukraine carried out regularly the maintenance of agreements on exchange of information between the NBU and the National Commission for Regulation of Financial Services, and between the NBU and the National Commission for Securities and Stock Market.

In addition to the joint decision of the Cabinet of Ministers of Ukraine and the National Bank of Ukraine on Measures to Enforce Foreign Exchange Control of 26.12.1995, No. 1044, the National Bank of Ukraine regularly provided information to the State Tax Service of Ukraine, State Customs Service of Ukraine, and the Ministry of Economy of Ukraine.

Special attention is paid to the sphere of foreign economic activities. The National Bank of Ukraine carries out weekly examination, processing, and distribution of information to banks on the special sanctions imposed (cancelled) by the Ministry of Economic Development and Trade of Ukraine on the Ukrainian economic entities involved in foreign economic activities, as well as on the foreign corporate entities pursuant to Article 37 of the Law of Ukraine on Foreign Economic Activities.

In addition to the above, the regular exchange of information between the State Customs Service of Ukraine and the National Bank of Ukraine has made it possible to provide banks with the registers of cargo declarations in electronic form which are used by them to monitor the compliance with the statutory deadlines of payments under customers' foreign trade transactions.

As a result of cooperation between the National Bank of Ukraine and regional offices of the State Tax Service of Ukraine the banks have been provided with information on the completion (purpose) of liquidation procedure, re-registration in accordance with the established procedure of Ukrainian economic entities dealing with foreign economic activities who have overdue receivables, as well as on liquidation of foreign corporate entities in countries of their registration, which is documented by the competent authorities of these countries.

## 7. OTHER DIRECTIONS OF ACTIVITIES OF THE NATIONAL BANK OF UKRAINE

### 7.1. DEVELOPMENT OF THE SYSTEM OF ELECTRONIC PAYMENTS OF THE NATIONAL BANK OF UKRAINE

During 2011, 98.5% of the interbank transfers in the national currency within Ukraine were made through the System of Electronic Payments of the National Bank of Ukraine (hereinafter, SEP) that is the state system of interbank payments, whereas 1.5% of such transfers were effected through the correspondent accounts opened by banks with other banks.

As at 1 January 2012, the number of the SEP participants amounted to 694 institutions, including 175 banks of Ukraine, 453 branches of the banks of Ukraine, 28 bodies of the State Treasury Service of Ukraine, 37 institutions of the National Bank of Ukraine and the Private Joint-Stock Company "All-Ukrainian Depository of Securities".

During 2011, 332.9 million of initial payments and electronic settlement notices totaling UAH 10 319.6 billion were processed by the SEP, which was by 1.2% less in quantity and by 30.5% more in amount than the previous year.

Table 18. The SEP Workload by Modes of Functioning

SEP functioning mode	Number of initial payments and electronic settlement notices				Initial payment sum				
	2011, mln. pcs.	Change to the previous year		For reference: 2010	2011, UAH, billion	Change to the previous year		For reference: 2010	
		Mln. pcs.	%			UAH, billion	%		
File	332.5	-4.2	-1.2	336.7	8 951.3	1 839.4	25.9	7 111.9	
Real time	0.4	0.1	33.3	0.3	1368.3	571.5	71.7	796.8	
<b>Total</b>	<b>332.9<sup>1</sup></b>	<b>-4.1</b>	<b>-1.2</b>	<b>337.0<sup>2</sup></b>	<b>10 319.6</b>	<b>2 410.9</b>	<b>30.5</b>	<b>7 908.7</b>	

<sup>1</sup> Including 2.5 million pieces of electronic settlement notices.

<sup>2</sup> Including 1.8 million pieces of electronic settlement notices.

In 2011 the transactions on initial payments executed by banks amounted to 92.2%, by the State Treasury Service of Ukraine – 7.7%, by the National Bank of Ukraine – 0.1% of the total volume of such transactions made in the SEP.

The daily average balance of the SEP members' accounts in 2011 made up UAH 24.2 billion, and the daily average sum of initial payments – UAH 41 billion. On average, 1.3 million of documents were processed daily. Turnover factor of the accounts of the SEP members (calculated as a ratio of the 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 1.7 (versus 1.2 in 2010).

### ***Actions of the National Bank of Ukraine on developing the National System of Mass Electronic Payments (further – NSMEP)***

During 2011, the National Bank of Ukraine performed the works on development of the functional, technological and technical provision of the NSMEP. In the reporting year, the improved technology to secure the up-to-day information security of the NSMEP was elaborated and implemented. The list of transactions performed with the NSMEP use was expanded:

- the list of services provided with the aid of Internet-payments was enlarged;
- the pilot project on the mobile payment implementation was carried out;
- the possibility to implement the overdraft credit in the banks – the NSMEP members for the individuals – national payment card users was secured.

To ensure a continuous functioning of the hardware and software components of the NSMEP complex, the hard- and software for processing centers and security modules for the NSMEP members and participants were improved.

In 2011, the banks' work conditions with different models in the NSMEP (the issuer with information authority delegation, the acquirer with information authority delegation, etc.) were supported, the system of replicating the databases of the Main Processing Centre was improved; the schemes of forwarding the data from processing centers to the NSMEP members and participants were upgraded. During the year, followed were the agreements with the bank processing centre and the NSMEP members serviced by it, with the terminal equipment designers and card manufacturers.

During 2011, the National Bank of Ukraine carried out the works on developing and implementing the nationwide accompanying projects that used the NSMEP technologies and software and hardware facilities.

In context of cooperation with the Individuals' Deposit Guarantee Fund, designed was the identification card image and technology of performing the transactions on compensation payments that are due to customers of the banks being in the liquidation process. The technology implementation will enable in the future to substantially speed up the beginning of payments, to refuse the tenders on selecting the authorized banks and to simplify the money receiving procedure for depositors.

Subject to the Law of Ukraine "On Using the Settlement Operation Registers in the Sphere of Trade, Public Catering and Services", Article 12, the National Bank of Ukraine worked out the draft "Technology of Keeping and Collecting the Data of the Registers of Settlement Operations for the State Tax Service of Ukraine" and passed it for adjustment to the State Tax Service of Ukraine.



### ***Regulation of Payment Systems***

In 2011, the work continued on improving the order of execution of the interbank money transfer through the resident banks' correspondent accounts in the national currency of Ukraine. The changes to the Instruction on the Interbank Money Transfer in Ukraine in the National Currency were prepared and implemented and due to them the formation of the interbank electronic settlement document in the SEP was ordered, as well as the technology of stopping the bank's payment transactions from its correspondent account in the cases foreseen by the laws of Ukraine.

In the reporting year, the National Bank of Ukraine initiated the work on the draft changes to the Regulations on the Activity of Domestic Public and International Payment Systems in Ukraine in order to bring some norms of these Regulations into compliance with the laws of Ukraine, international standards related to prevention of using the financial system of Ukraine for money laundering and terrorism financing, as well as to improve the order of adjustment with the National Bank of Ukraine of the rules of payment systems and registration by the National Bank of Ukraine of the agreements about membership/participation in the international payment systems.

## **7.2. OVERSIGHT OF THE PAYMENT SYSTEMS AND SETTLEMENT SYSTEMS**

In order to ensure the reliable and efficient functioning of the payment systems and to keep to the Concept of Implementing the Oversight of the Payment Systems in Ukraine (approved by Decision of the Board of the National Bank of Ukraine dated 15 September, 2009, No. 426), in 2011, the National Bank of Ukraine worked out the draft of the Regulations on the Order of Executing the Oversight of the Payment Systems by the National Bank of Ukraine. The document took into account the recommendations of international financial organizations with regard to the payment systems' oversight, in particular, those of the European Central Bank, Bank for International Settlements, as well as experience of the central banks of the European Union and the CIS countries. The oversight objects, importance criteria and categories of payment systems and actions of the National Bank of Ukraine at every stage of the payment systems oversight were defined. Among the oversight tasks determined there was upgrade of the reliability and efficiency of the payment systems (state and private ones), detection and prevention of the risk occurrence in the payment systems in order to avoid their negative impact on the functioning of the financial markets of the country, protection of the user interests and support of the confidence in the payment systems with the purpose of expanding the cashless settlements.

To regulate the issues of the payment system oversight at the level of laws of Ukraine and to assign appropriate authorities on itself, in 2011, the National Bank of Ukraine worked out the proposals related to making the amendments to the Law of Ukraine "On the National Bank of Ukraine", the Law of Ukraine "On Payment Systems and Money Transfer in Ukraine" and Code of Ukraine on Administrative Infringements with taking into account the recommendations and standards formulated by international financial organizations.

### 7.3. LEGAL PROVISION OF THE BANKING SYSTEM ACTIVITIES

During 2011, the National Bank of Ukraine kept on the work on improving the banking legislation and the legal framework aimed at raising the functioning efficiency of the banking system of Ukraine.

In order of the legislative initiative, the National Bank of Ukraine submitted the following 4 draft laws for consideration by the Verkhovna Rada of Ukraine:

– "On Amendments to the Law of Ukraine "On Collections for the Mandatory Public Pension Insurance", – adopted on 13 January 2011;

– "On Amendments to the Law of Ukraine "On Banks and Banking", Article 75, (regarding the term of the temporary administration authorities), – adopted 4 February 2011;

– "On Amendments to the Law of Ukraine "On Amendments to Some Legislative Acts of Ukraine " dated 20 May 2010, No. 2275-VI (regarding the reserving in the foreign currency) – the draft has been worked out in the committee on the issues of finance, banking activities and tax and duties policy;

– "On Amendments to the Decree of the Cabinet of Ministers of Ukraine "On the System of Foreign Exchange Regulation and Foreign Exchange Control", Article 7 (with regard to expanding the sphere of use of the currency of Ukraine), – adopted on 20 December 2011.

Moreover, in 2011, the draft law activity of the National Bank of Ukraine was carried out in the direction of submitting the legislative proposals for consideration of the Verkhovna Rada of Ukraine through other entities having the right to initiate legislation.

Appropriate proposals became the basis of the following laws:

– "On Amendments to Some Legislative Acts of Ukraine with regard to Settling Relations between Creditors and Consumers of Financial Services" – adopted on 22 September 2011;

– "On Amendments to the Tax Code of Ukraine " (concerning the taxation of operations with precious metals with participation of the National Bank of Ukraine) – adopted on 22 December 2011;

– "On Amendments to Some Laws of Ukraine Related to Separate Issues of the National Bank of Ukraine's Activity" (in particular, in terms of replenishing and using the state's gold and foreign exchange reserve, ordering the activities of the Banknote Printing and Minting Works, the Banknote Paper Mill and the State Treasury of Ukraine) – adopted on 9 February 2012;

– "On the System of Guaranteeing the Individuals' Deposits" – adopted on 23 February 2012.

In 2011, the National Bank of Ukraine also worked out and submitted proposals to 110 law drafts, developed by the people's deputies, the Cabinet of Ministers and other government authorities. These are, among the others, the following drafts of the Laws of Ukraine:

– "On the Funds of Banking Management";

– "On Foreign Exchange Regulation and Foreign Exchange Control in Ukraine";

- "On Amendments to Some Legal Acts of Ukraine regarding Defense of the Rights of Financial Service Consumers";
- "On Amendments to Some Laws of Ukraine related to the Government Guarantees of the Citizens' Savings Renewal";
- "On the Measures Aimed at Securing the Stable Functioning of the Defense Industry Complex Enterprises";
- "On Amendments to the Law of Ukraine "On Renewing a Borrower's Solvency or Declaring a Bankrupt";
- "On the State Strategic Planning";
- "On Amendments to Some Legislative Acts of Ukraine with regard to Implementing the Electronic Money and Preventing the Financial Pyramid Establishment";
- "On Amendments to the Tax Code and Some Legislative Acts of Ukraine (concerning the improvement of some ratios of the Tax Code of Ukraine)" (with regard to the legislative discrepancy removal within determining the rights and obligations of the economic entities – tax payers and control authorities);
- "On Amendments to Some Legislative Acts of Ukraine as to the Government Purchases";
- "On the State Program of Economic and Social Development of Ukraine for 2012 and Basic Development Directions for 2013-2014".

In the reporting year, the regulatory activity of the National Bank of Ukraine was carried out pursuant to the Plan of Preparing the Drafts of Regulatory Acts of the National Bank of Ukraine for 2011. 9 normative and legal acts with the regulatory act features were worked out.

Moreover, in 2011, adopted were 136 decisions of the Board of the National Bank which approved the normative and legal acts of the National Bank of Ukraine (instructions, rules, regulations and amendments to them), 58 out of them were registered with the Ministry of Justice of Ukraine.

In 2011, the work with claims and complaints was kept on. In particular, the National Bank of Ukraine, its regional branches and structural units directed to the court 81 claims totaling UAH 732.4 million, out of them 3 claims of UAH 0.5 million were rejected, the others were settled in favor of the National Bank of Ukraine or remained under consideration.

In 2011, 162 claims totaling UAH 42.1 million were laid against the National Bank of Ukraine, its regional branches and structural units, 4 out of them totaling UAH 0.04 million were satisfied, 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 526 cases. Major portion of the 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 2011, 14 court suits were initiated for the benefit of the state and the National Bank of Ukraine upon the prosecutors' claims.

The National Bank of Ukraine submitted 48 claims. Out of the mentioned 45 claims were satisfied, 3 claims were rejected.

The National Bank of Ukraine was claimed once. The claim against the National Bank of Ukraine totaled UAH 972 and was rejected.

#### **7.4. PREVENTION AND COUNTERACTION OF USING THE BANKING SYSTEM FOR LEGALIZATION (LAUNDERING) OF PROCEEDS OBTAINED FROM CRIME, OR FOR TERRORISM FINANCING**

The National Bank of Ukraine representative, within the delegation of Ukraine, participated in 3 meetings of the FATF<sup>7</sup> and 3 Plenary Meetings of the 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 excluding Ukraine from the announced by the FATF list of the jurisdictions that have strategic drawbacks in counteracting the money laundering and terrorism financing. The decision was taken by the FATF on 27 October 2011.

During the reporting year, the National Bank of Ukraine fulfilled all the measures stipulated by the Plan of Actions for 2011 (jointly with the Cabinet of Ministers) on prevention and counteraction to legalization of criminal proceeds.

During 2011, within the implementation of requirements of the Law of Ukraine "On Banks and Banking" and the Law of Ukraine "On Prevention and Counteraction to the Legalization (Laundering) of Proceeds Obtained from Crime or Terrorism Financing", the National Bank of Ukraine worked out and approved 4 appropriate normative and legal acts:

- Decision of the Board of the National Bank of Ukraine dated 31 January 2011, No. 22, that introduced amendments to the Regulations on Financial Monitoring by Banks, approved by Decision of the Board of the National Bank of Ukraine dated 14 May, 2003, No. 189;

- Decision of the Board of the National Bank of Ukraine dated 15 June 2011, No. 192, that approved the Regulations on Imposing the Sanctions by the National Bank of Ukraine for Violation of the Legislation on Prevention and Counteraction to the Legalization (Laundering) of Proceeds Obtained from Crime or Terrorism Financing;

- Decision of the Board of the National Bank of Ukraine dated 20 June 2011, No. 197, that approved the Regulations on the Order of Organizing and Conducting the Inspections on Prevention and Counteraction to Legalization (Laundering) of the Proceeds Obtained from Crime, or Terrorism Financing (hereinafter, Decision No. 197);

- Decision of the Board of the National Bank of Ukraine dated 25 May 2011, No. 164, that made amendments to the Composition of Requisites and Structure of Files for Information Exchange between the specially authorized body of the executive branch engaged in financial monitoring and the banks (branches), approved by Decision of the Board of the National Bank of Ukraine dated 4 June 2003, No. 233.

In order to secure the appropriate methodological provision of the activity of the primary financial monitoring subjects and to prevent violation of the respective legislation of

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<sup>7</sup> Financial Action Task Force on counteracting the money laundering and terrorism financing (FATF).

Ukraine, the National Bank of Ukraine gave the explanations concerning the financial monitoring execution, arranged the training measures, as well as took part in the necessary actions.

During 2011, to secure the adequate oversight of the banks' compliance with the laws related to preventing the legalization of criminal proceeds and terrorism financing on the annual basis with taking into account the risk estimate in the mentioned sphere, the officials of the National Bank of Ukraine performed 206 on-site inspections of the banking institutions (194 scheduled inspections and 12 out-of-plan ones) as regards their keeping to the law requirements. By results of the violations revealed, adequate enforcement actions/sanctions were applied.

Moreover, in the reporting year, in accordance with Decision No. 197, the financial monitoring off-site inspection was implemented. The mentioned novelty ensured more efficient response and flexibility in taking the adequate decisions. Such an instrument, in particular, enabled to shorten the time period between revealing of violations by banking institutions of the respective laws and the reaction on the part of the regulator.

During 2011, the banks of Ukraine, to meet the requirements of the laws of Ukraine related to preventing and counteracting the legalization of criminal proceeds and terrorism financing, ensured forwarding of over 1.0 million notices to the Specially Authorized Body informing of the financial operations subject to financial monitoring.

## **7.5. IMPROVEMENT OF ACCOUNTING AND FINANCIAL REPORTING**

During 2011, the National Bank of Ukraine worked on further improvement of the methodological tools of accounting and financial reporting in order to give the complete, trustworthy and impartial information about the financial situation, financial results of activities and money flows, procedures of managing the risks and capital of the National Bank of Ukraine and banks of Ukraine to take respective decisions by the users of the financial reporting.

Performance of the tasks was directed towards improving the requirements with regard to the information disclosure in the financial reporting and adjusting the accounting of banking operations in compliance with the laws of Ukraine and with the introduced amendments to the International Standards of Financial Reporting (hereinafter – ISFS); as well as harmonization of the methodological grounds of accounting with the basic provisions of the European Union's law.

To improve the requirements concerning the information disclosure in the financial reporting, approved was a new order of compiling and presenting the financial reporting of banks of Ukraine in accordance wherewith the banks are obliged, starting from 1 January 2012, to compile the financial reporting in full conformity with the ISFS. In this respect, the methodological recommendations for calculation of the effective interest rate under the financial instruments in the banks of Ukraine were worked out.

To improve the existing accounting procedures of banks operations with financial instruments in Ukraine, developed were the draft amendments to the normative and legal acts on upgrading the accounting of credit and deposit operations as well as forming and using the provisions under credit risks in banks of Ukraine.

In order to continue the accounting reforming, to ensure the fulfillment of tasks of the Program of Economic Reforms for 2010-2014 "Rich Society, Competitive Economy, Efficient State", as well as the effective laws, the National Bank of Ukraine together with the Ministry of Finance of Ukraine prepared the Memorandum about Interaction, Cooperation and Coordination of Actions on Implementation in Ukraine of International Standards of Financial Reporting, and the measures related to their use were worked out.

In collaboration with the state authorities the National Bank of Ukraine participated in working out the draft laws "On Amendments to the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" as to the IFRS implementation in Ukraine, as well as the Tax Code of Ukraine in the part of improving some ratios related to taxation of banking operations with the tax on profits and value added tax.

## **7.6. STATISTICAL AND INFORMATION SUPPORT OF THE NATIONAL BANK OF UKRAINE ACTIVITY**

During 2011, 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 (balance sheet statements by the sectors of the economy and reviews of financial corporations);
- improvement of the statistical reporting, submitted to the National Bank of Ukraine;
- preparation of information as to the monetary aggregates, credits, deposits and securities of depository corporations;
- preparation of information regarding the interest rates of depository corporations under the new credits and deposits;
- preparation of information about non-banking financial institutions (insurance companies and non-governmental pension funds);
- compilation of the statistics of the financial stability indicators;
- preparation of statistic issues and presentation of materials regarding the state and tendencies of the economic development and the banking system;
- 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.

In 2011, the National Bank of Ukraine executed methodological provision, development, compilation and dissemination of the aggregated data of the monetary and financial statistics, the financial stability indicators statistics in conformity with the international standards of statistics and the best practice of the central banks of the world.

During the reporting year the National Bank of Ukraine ensured keeping to the Special Data Dissemination Standard of the International Monetary Fund with regard to preparation and dissemination of the data and metadata by the indicators of the financial and external sectors of the economy, namely, concerning the reviews of the depository corporations and central bank, interest rates of the National Bank of Ukraine and banks, international reserves and liquidity in the foreign currency, balance of payments, international investment position, gross external debt, foreign exchange rates.

Monthly ensured was the compilation of the balance sheet statements by the sectors of the economy and the reviews of the National Bank of Ukraine and other depository corporations, as well as the submittal of statistical reporting on the monetary and banking statistics to the International Monetary Fund for the indicators inclusion in the statistical digest "International Financial Statistics" and in the Annual Report of the International Monetary Fund. Compilation of the quarterly balance sheet statements by the sectors of the economy and reviews of other financial corporations (insurance companies and non-governmental funds) was implemented by data of the administrative and financial reporting of insurance companies and non-governmental funds.

During 2011, the work was done aimed at optimizing the statistical reporting submitted to the National Bank of Ukraine in order to ensure the monetary and banking statistics compilation in line with the international standards.

For this purpose, the National Bank of Ukraine made amendments, twice for the year, to the Rules of Organizing the Statistical Reporting Submitted to the National Bank of Ukraine, approved by Decision of the Board of the National Bank of Ukraine on 19 March 2003, No. 124. When preparing the amendments, more emphasis was placed on the availability of justification of making changes, as well as on regulation of loads on the statistical information suppliers. To this end, new approaches to organizing the procedures for preparation and discussion of changes in the statistical reporting forms were implemented; the requirements concerning their justification were worked out and approved. The discussion of the draft amendments to the Rules of Organizing the Statistical Reporting Submitted to the National Bank of Ukraine involved the bank associations and banks; regular meetings with participation of the bank associations, banks, departments – developers of the statistical reporting forms of the National Bank of Ukraine were introduced. In the 1st and 2nd halves of 2011, the changes were made in 56 and 33 statistical reporting forms, respectively. During the reporting year, 6 forms were excluded and 2 new statistical reporting forms were added.

The submittal by banks of the statistical reporting about the interest rates under non-repaid amounts of credits and deposits in accordance with the international standards and the practical experience of the central banks of the EU countries was initiated. Also started was the work on getting the information about emission of securities, compilation of other data on securities in line with the international statistical standards and with regard to the effective practice of central banks of foreign countries.

During 2011, the work on compiling the quarterly financial accounts was carried out. The methodical approaches for compiling the quarterly financial accounts according to the international standard The System of National Accounts 2008 were elaborated, and experimental calculations by quarters for 2009-2011 were made. In particular, the developments of balance sheets and flows of financial assets and liabilities within their types by institutional sectors of the economy were made to secure the complex and adjusted analysis of the financial and economic processes.

During 2011, ensured was the timely statistical data dissemination in the electronic format in order to promptly provide the information to users in the accessible and agreeable form in accordance with the practice generally accepted in the European System of Central Banks.

The National Bank of Ukraine posted on its official 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 Nonfinancial Corporations", "Households' Credits and Deposits", "New Credits Extended to Households and Nonfinancial Corporations", "New Deposits of Households and Nonfinancial Corporations", "Interest Rates", "Interest Rates by Terms", "Securities Except Shares" and other information concerning the financial sector and financial markets. The list of indicators for the supplement to the Statistical Bulletin (electronic edition) was complemented by the indices concerning the credits and deposits, as well as interest rates under them within regions. Preparation of the quarterly statistical edition "Review of Insurance Companies and Non-Governmental Pension Funds" and its dissemination on a permanent basis was implemented.

The National Bank of Ukraine, on its official web-site and in the analytical and statistical edition "Bulletin of the National Bank of Ukraine", continued the compilation and dissemination of the quarterly statistical information regarding the financial stability indicators of depository corporations, the project in accordance with the methodology of the International Monetary Fund. Information as to the financial stability indicators was submitted to the International Monetary Fund to be posted on the Internet web-site of the International Monetary Fund.

During the year, the National Bank of Ukraine carried out the information exchange with the State Statistics Service of Ukraine, National Commission on Regulating the Markets of Financial Services, National Commission on Securities and Stock Market, Ministry of Finance of Ukraine, Ministry of Economic Development and Trade of Ukraine, other state management bodies, central banks of foreign countries for the purpose of performing the tasks of the National Bank of Ukraine.

In order to more fully satisfy the needs of the National Bank of Ukraine and the banking system of Ukraine in the information technology sphere the National Bank of Ukraine has been permanently active in developing the available and creating new information systems based on the analysis of the functional demands of the National Bank of Ukraine for automation of its activities, needs of the economy of Ukraine in expanding the banking services range, the accumulated experience of development and use of the information systems, consideration of the world experience.

## **7.7. INTERNATIONAL COOPERATION**

### ***Cooperation of the National Bank of Ukraine with central banks and banking institutions of other countries***

In 2011, the bilateral cooperation was one of the directions of international activities of the National Bank of Ukraine, specifically the organization and coordination of the work related to development of international relations in the banking sphere with the central banks of other countries, foreign institutions and organizations, as well as the provision of interaction with appropriate structural units of the bodies of legislative and executive power, institutions and organizations of Ukraine, embassies of Ukraine abroad and diplomatic institutions of foreign countries in Ukraine.

To strengthen the interests of different countries in the strategic diversification of the investment capitals of Ukraine, during 2011, the National Bank of Ukraine acted under the slogan "Presentation of the National Bank of Ukraine's New Initiatives and Instruments to



the World Community". A number of visits of the management of the National Bank of Ukraine to the central banks of leading countries of Europe and Asian region were arranged. By the year results, the National Bank of Ukraine took part in over 300 events, held by international financial institutions and organizations.

During the year, the management and specialists of the central banks of other countries, foreign diplomatic institutions, banks and their representative offices, financial organizations, rating agencies, etc. visited the National Bank of Ukraine. For the year, over 400 such meetings were held where the parties discussed the issues related to the current economic situation in Ukraine, banking system development, new projects initiation and solution of acute banking issues.

During the year, the management and specialists of the National Bank of Ukraine participated in the work of joint inter-governmental commissions, meetings and negotiations on signing the interagency international agreements regarding the investment promotion and protection, the free trade zone, in particular between Ukraine and the Republic of Singapore, Canada, Iceland, Ireland, the Republic of Cyprus, Japan, Serbia, etc. In the reporting year, the National Bank of Ukraine signed agreements on cooperation with the Bank of Vietnam and the Central Bank of Lebanon.

Within the framework of the Ukrainian-German cooperation, the thirteenth meeting of the working group "Banks" of the German-Ukrainian Top Level Group in the economic cooperation issues was held in November 2011.

### ***Cooperation of the National Bank of Ukraine with the international financial and other organizations***

#### *Cooperation with the International Monetary Fund*

In line with Decree of the President of Ukraine dated 19 December 2005, No. 1809/2005 "On Ensuring Ukraine's Representation in the Boards of Governors of the International Monetary Fund and the World Bank" the Governor of the National Bank of Ukraine, by virtue of the position, is the Governor on behalf of Ukraine in the Board of Governors of the International Monetary Fund (hereinafter – the IMF) – the organization's highest body.

In 2011, the National Bank of Ukraine's representatives on the delegation of Ukraine participated in the Spring (16-17 April, Washington) and in the Annual (23-25 September, Washington) Meetings of the IMF and the World Bank, as well as in the meeting of the IMF Constituency Group headed by the Netherlands and Ukraine (27-29 May, Limassol, Cyprus). The current issues of the organization's development and activity, as well as the pressing aspects of the world economic and financial system development, joint actions to prevent the crisis phenomena in separate, specifically European countries were discussed at the meetings.

In pursuance of performing the duties of the Governor from Ukraine, during 2011, the Governor of the National Bank of Ukraine participated in the remote voting for a number of the IMF Board of Governors' resolutions.

Within the framework of the bilateral cooperation with the IMF, one of the main cooperation directions continued to be realization of the Stand-By Program (hereinafter – Program). To finalize the second revision of the Program fulfillment, during 2011, the mission of the IMF European Department twice visited Ukraine – in February and October-November.

By the results of meetings between the parties, the progress was obtained in discussing the economic policy measures (according to the IMF official notice). At the same time, the mission decided to take a pause for some additional work to be done on working out the technical issues. At present, the parties continue an active dialogue concerning the problem questions at the expert level in order to attain the compromise and financing renewal within the Program.

Alongside, in 2011, the successful realization of the IMF joint project "Institutional Capability Development", financed by the Canadian Agency for International Development, continued. During the year, the parties effected the technical cooperation on the following directions: the derivative market regulation, accounting, financial stability, business environment review and regional economic analysis, communicative policy.

#### *Cooperation with the World Bank*

Within the framework of cooperation of the National Bank of Ukraine with the World Bank, in 2011, the work on preparation and implementation of the joint projects within the Strategy for Partnership of the World Bank and Ukraine for 2008-2011. Within the World Bank's system project "The 2nd Financial Sector Adjustment Loan", the National Bank of Ukraine ensured fulfillment of the measures envisaged by the Matrix of Strategic and Institutional Reforms, necessary to finalize the Project preparation.

The National Bank of Ukraine participated in the negotiations of official delegations of Ukraine and the World Bank with regard to the joint projects "Additional Financing for the 2nd Export Development Project" and "The Energy Efficiency Project", by whose results the World Bank's Board of Governors took a decision to grant loans for the mentioned projects financing. In 2011, the National Bank of Ukraine participated in working out the draft of the Strategy of Partnership between Ukraine and the World Bank for 2012 – 2016, and in the context of its preparation in November 2011 the meeting of the National Bank of Ukraine management with representatives of the World Bank was held with the purpose of discussing the draft of the World Bank Strategy as to the development of financial sector of Ukraine.

During 2011, the Group for Managing the Projects of International Credit Lines attached to the National Bank of Ukraine kept on the agent servicing by the National Bank of Ukraine of the credit lines provided by the World Bank for the Ministry of Finance of Ukraine within the project "Structural Adjustment of the Coal Industry" in support of the micro-, small and medium-sized enterprises in the regions where the coal industry mines had been closed, as well as to support the local executive bodies which took on their balance sheet the social infrastructure objects in the regions where the coal mines had been closed.

Continued was the successful implementation of the project "The 2nd Program for Refinancing the Financial Sector of Ukraine" (the Netherlands' Government Grant), whose main tasks were the further banking system development and the financial sector vulnerability reduction.

#### *Cooperation with the European Bank for Reconstruction and Development (hereinafter, EBRD)*

In 2011, one of the directions for cooperation between the National Bank of Ukraine and the EBRD was strengthening of the financial sector of Ukraine through development of the local capital markets and local foreign exchange markets. In response to the EBRD proposal, the National Bank of Ukraine took part in the work of estimating mission of the joint Initiative of the EBRD, the World Bank and the IMF with regard to development of the mar-

kets of national currencies and the local markets of capital (hereinafter, Initiative), by whose results the Report on Estimation of the Primary Needs was prepared.

The National Bank of Ukraine participated in the Annual Meeting of the EBRD Board of Governors (20-21 May 2011, Astana, Kazakhstan). During the Meeting, ensured was the participation in the joint Conference of the EBRD, the Group of Twenty and the Committee on Revision of the Bretton Woods System on the subject "Development of the Markets for Financing in the Local Currency of the Local Markets of Capital ", as well as in the meetings with the EBRD management.

In April 2011, the EBRD Board of Directors approved the EBRD Activity Strategy in Ukraine for 2011 – 2014, in whose preparation and working out the National Bank of Ukraine was involved.

The National Bank of Ukraine supported the decision concerning the additional subscription of the EBRD shares and agreed the draft Law of Ukraine "On Ratifying the Instrument for Subscription of Shares to the Requirement of the European Bank for Reconstruction and Development" (adopted by the Verkhovna Rada of Ukraine on 9 December, 2011, No. 4096-VI).

#### *Cooperation with the Black-Sea Bank for Trade and Development (hereinafter, BSBTD)*

During the reporting period, within the framework of interaction with the BSBTD, the National Bank of Ukraine participated in working out the draft of the BSBTD Strategy for Ukraine for 2011 – 2014 that determined the main directions of cooperation with the BSBTD and the priorities in financing the projects for the mentioned period.

In the context of studying by the BSBTD the issue related to appropriateness of converting its capital in the SDRs into the euro and assuming the euro as a single currency for the BSBTD banking settlements and internal reporting, the National Bank of Ukraine considered the document proposed by the BSBTD Board of Directors "Choice of the New Functional Currency and the Currency of Reporting " and agreed one of three scenarios for transition to accounting the BSBTD capital and settlements in the euro. During the thirteenth Annual Meeting, the BSBTD Board adopted Resolution No.131, in accordance wherewith the amendments were made to the Agreement on the BSBTD Establishment (hereinafter, Amendments), that set the euro as the single unit for the BSBTD banking settlements accounting and internal reporting.

To approve the mentioned amendments, in 2011, the National Bank of Ukraine was engaged in the preparation of the draft Law of Ukraine "On Alterations to the Agreement on Establishment of the Black-Sea Bank for Trade and Development" (adopted by the Verkhovna Rada of Ukraine on 23 December, 2011, No. 4290-VI).

#### *Cooperation with the Inter-State Bank*

During the year, the cooperation with the Inter-State Bank aimed at adjusting a joint position with regard to further prospects for the Inter-State Bank development went on. Thus, to define Ukraine's position related to the follow-up actions as to the participation in the Inter-State Bank, the National Bank of Ukraine was involved in preparation of proposals for drafts of the Concept for the Inter-State Bank Reorganization and the Program of its modernization.

Moreover, in 2011, the National Bank of Ukraine presented the interests of Ukraine in the 43-rd meeting of the Inter-State Bank Board.

### ***Steps of the National Bank of Ukraine in the sphere of European integration of Ukraine***

Pursuant to the Law of Ukraine "On Fundamentals of Domestic and Foreign Policy" of July 01, 2010, No. 2411-VI, one of the main fundamentals of foreign policy of Ukraine was to ensure the integration of Ukraine into the European political, economic and legal space with the purpose of obtaining the EU membership.

The key aspect in the relations between Ukraine and the EU in 2011 continued to be the negotiating process regarding the Agreement of Association and the creation of a profound and comprehensive free trade zone as the Agreement component. As in the previous years, the National Bank of Ukraine was one of the core participants of the negotiating process and active in working out the Agreement text. Subsequent to the results of the negotiation rounds with the EU held in 2011, it was managed to adjust the main provisions related to the financial services of the Agreement's sector part, as well as the provisions related to the financial service trade, capital movement and payments in the Agreement part related to the free trade zone.

Besides, in 2011, the National Bank of Ukraine was involved in the negotiations with the EU as to the attraction of the EU macro-financial assistance worth EUR 610 million and adjustment of respective projects of the Credit Agreement and Memorandum.

During the reporting period, the National Bank of Ukraine went on to perform successfully the priorities of the Agenda of the Ukraine-EU Association for 2011–2012.

In order to improve administrative opportunities in compliance with the internationally determined standards, the National Bank of Ukraine together with its reliable partners the Deutsche Bundesbank and the National Bank of Poland, in 2011, successfully finalized the EU Twinning Project "Strengthening of the National Bank of Ukraine's Potential through Approaching the European Union Standards of the Central Banks' Activities". The Twinning Project execution contributed to improving the operational planning system, strengthening the communication policy of the National Bank of Ukraine and consolidating the international cooperation. Formulated were proposals for implementation of the new mechanisms and best practices pertaining the monetary policy, improvement of the foreign exchange rate policy and capital movement, development of monetary statistics and strengthening of the payment systems. For this purpose, considerable attention was paid to adjustment of the legal framework in these spheres with the EU legislation related to the banking activity norms and standards of the European Union.

In order to enhance the efficiency and to update its work, in 2011, the National Bank of Ukraine also took actions on attraction of the external aid on the part of the European Commission within the framework of the TAIEX institutional building instrument.

The National Bank of Ukraine consistently conducted harmonization of the banking legislation and took necessary measures to bring the banking system of Ukraine into conformity with the EU norms and standards. In 2011, in consideration of the EU legislation and recommendations of the EU experts, some amendments were made to the banking legislation of Ukraine and the work was done on improvement of the normative and legal framework of the National Bank of Ukraine regarding the regulation of banks' activities and bringing it into conformity with the EU standards and principles.

During the accounting period, the National Bank of Ukraine devoted also considerable attention to participation in the joint bodies of Ukraine and the EU on the issues of coopera-

tion. For instance, representatives of the National Bank of Ukraine participated in the Thirteenth Meeting of the Committee on Cooperation between Ukraine and the EU (October 26, 2011, City of Kyiv) and the Twelfth Meeting of Sub-Committee No. 2 "Economic and Social Issues, Finances and Statistics" (November 17, 2011, City of Kyiv), during which an effective dialogue with the EU party was conducted as to the issues determined by the agenda.

## **7.8. COMMUNICATION POLICY OF THE NATIONAL BANK OF UKRAINE**

In implementing the communication policy the National Bank of Ukraine adheres to the openness and transparency principles. In 2011, the National Bank of Ukraine regularly made public the information on its regulatory activity, provided the information on data requests in compliance with the Law of Ukraine "On Access to Public Information" and took other measures. It raised the level of confidence in the banking system, contributed to ensuring stable development and strengthening the economic potential of the state.

The most requested instrument of disseminating the information of the NBU activity was the Official Internet Representation of the National Bank of Ukraine, whose information resources during 2011 were visited by more than 6 million users. The Official Internet Representation of the National Bank of Ukraine permanently posted online statistical data, reviews of the money and credit and foreign exchange markets, macroeconomic indicators, reporting of the National Bank of Ukraine, results of the independent audit of the National Bank of Ukraine, banking supervision data, information of the activity of payment systems, analytical and information materials, etc. In particular, during the accounting year posted were more than 180 press-releases of important events, decisions made, information and analytical materials, etc.

For the purpose of raising the public awareness of the National Bank activity, established was a new format of informing the public – video-releases with declarations of the National Bank management and announcements of the activities conducted by the National Bank. In 2011, for instance, more than 39 video-releases were prepared.

In order to extend the capacity of structural units of the National Bank as to the work with the public and mass media, established was the Unified Electronic System for the information work organization. With the use of this System, the National Bank of Ukraine prepared and gave without delay more than 450 answers to the requests of journalists and public representatives.

During 2011, the measures were taken aimed at improvement of quality of information on financial and economic issues disseminated by mass media. On a regular basis, the information days for journalists were held, workshops for regional mass media journalists were organized in the cities of Odesa and Lviv. Participants in the events were given explanations concerning directions of the activities and structural units of the National Bank of Ukraine. Representatives of the regional mass media obtained comments and qualified answers to the raised questions directly from specialists of the National Bank of Ukraine. At the same time, the National Bank of Ukraine organized press-conferences, round table meetings and briefings on the topical issues of functioning of the banking system of Ukraine with participation of representatives of the National Bank of Ukraine, mass media and non-governmental organizations.

In 2011, the National Bank of Ukraine conducted the work on upgrading the financial literacy of people, provided support to the educational programs for different age groups. Within the frame of this work, twice a week the Museum of Money of the National Bank of Ukraine organized free guided tours. During the reporting year, the Museum of Money of the National Bank of Ukraine was visited by more than 1000 visitors.

## **7.9. ECONOMIC ANALYSIS AND FORECASTING**

In 2011, the research of the National Bank of Ukraine was aimed at further improvement of the existing system of analysis and forecasting. Within the framework of the quarterly predictive model, performed was the simulation of separate components of the aggregated demand (consumer, investment, etc.) and their assessment was made, improved was the financial sector equation that allows to take into account the impact of the National Bank of Ukraine operations (as a result of refinancing, sterilization and interventions) on the interest rates of the inter-bank market and on the foreign exchange rate.

For the purpose of taking into account the impact of monetary aggregate changes, improved was a number of one-dimensional models using the quantitative monetary theory (price gap, real money gap, etc.).

Within the boundaries of research of the fiscal policy impact on the consumer demand and inflation, the fiscal impulse evaluation (extent and impact of the fiscal policy changes) was made.

## **7.10. SCIENTIFIC RESEARCH OF THE NATIONAL BANK OF UKRAINE**

The scientific research of the National Bank of Ukraine in 2011 was directed towards the support and scientific substantiation of the monetary policy measures aimed at renovating the financial sector of Ukraine, improving its stability and competitiveness. In particular, the research activity was conducted under the following directions:

- optimization of valuation models of the banking system financial stability, taking inventory and updating of financial stability indicators, improvement of methods of calculating the financial stability composite index and conducting the macro-prudential stress-test of the banking system;
- generalizing the approaches to establishing in Ukraine remedial and "transitional" banks as instruments for work with the insolvent banks and problem assets;
- showing the global experience related to improving the mechanisms of forming the market of long-term financial resources, development of new financial instruments and stimulation of crediting the economy;
- substantiation of the recommendations concerning dollarization level lowering and development of the term foreign exchange market in order to hedge the foreign exchange risks;
- development of proposals regarding a decrease in the share of non-performing loans;
- substantiation of a system of measures for prevention of early withdrawal of deposits and development of proposals regarding the diversification of banks' contributions to the Individuals' Deposits Guarantee Fund.

With the purpose of scientific substantiation of raising the transparency of monetary policy and strengthening the potential of the National Bank of Ukraine for more effective servicing of the public, a number of scientific researches was carried out regarding:

- enhancement of the role of interest rate policy in the money and credit market regulation;
- substantiation of the proposals with regard to strengthening the institutional independence of the central bank, raising the transparency and efficiency of the monetary policy;
- enhancement of the communication policy efficiency with the view of restoration of the confidence in the banking system.

In the reporting year, in order to improve the system of regulation and supervision of the financial sector, to reveal and lower the threats for the financial system in general, the following steps were made:

- a complex research concerning the improvement of risk management of the financial sector of Ukraine in the after-crisis period;
- prepared was "The White Book" – the document of the policy as to regulation and supervision of the financial sector of Ukraine based on the Twin Peaks Model;
- elaborated were recommendations related to the enhancement of efficiency of functioning and regulation of the activity of construction financing funds;
- substantiated were measures regarding improvement of the institutional structure of financial monitoring in Ukraine.

During the year, the National Bank of Ukraine, with participation of international financial organizations, involved ministries, departments and associations organized 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, in January of the reporting year, the international seminar "Macprudential Analysis as the Financial Stability Component" was held with participation of representatives of the central banks of Germany, Poland and Romania within the framework of the TAIEX project.

## **7.11. AUDIT OF THE NATIONAL BANK OF UKRAINE**

During 2011, 181 audits were conducted (previous year – 138): 22 audits on directions of banking activity of the Central Office structural units; 142 audits of regional branches (11 complex audits and 131 audits on separate issues of the activity); 17 audits of structural units and divisions of the National Bank of Ukraine (5 complex audits and 12 limited scope audits), including audits of economic activities of 8 subdivisions of the NBU educational institutions.

With the purpose of assuring an appropriate security level of information resources of the National Bank of Ukraine, conducted were 21 audits on functioning of information systems and information security.

After considering the results of the audits the management of the audited structural units took appropriate internal control measures. A special emphasis during the 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 the year, measures were taken as regards commissioning of the software and information complex "Automation System of the Internal Audit of the National Bank of Ukraine", training of employees was organized as to the use of procedures for compiling the documentary materials of audits.

In 2011, in order to improve qualification of employees of the internal audit system of the National Bank of Ukraine, the workshop "Main fundamentals of audit organization: theory and practice" was held, with 61 participants from the Audit Department who successfully passed the tests.

## **7.12. 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 accounting year were carried out in compliance with the established tasks of the National Bank of Ukraine regarding the money manufacture and the agreements signed with other customers.

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

In 2011, real revenues from sales of products (services) by order of the National Bank of Ukraine amounted to UAH 619.4 million, with the target indicator being UAH 625.5 million. The real revenues from sales of products (services) by order of other institutions and organizations reached UAH 25.0 million, with the target indicator being UAH 24.4 million.

According to the Measures on Replacement of Worn-Out Equipment and Introduction of 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 2011 the following equipment was put into operation:

- HIREC system of Austrian company OeBS ensuring the operation of Super Orloff Intaglio printing presses with the wash-out solution;
- CToP system ("Computer To offset Plate"), which allows to create images directly on the molding material and to give up the photo materials containing silver and the process of photomontage making;
- two automated bundling machines GLORY WR500A;
- sector of ornamental casting of elements of the silver state awards;
- rim-rolling machine together with the technology of "special uncirculated" blanks production from silver dummies.

Introduced was the technology of greening (patina-making) and local gilding of the silver coins by means of galvanization.



### ***The Banknote Paper Mill Activity***

In 2011, the Banknote Paper Mill of the National Bank of Ukraine (hereinafter referred to as the Mill) produced and shipped to the Banknote Printing and Minting Works of the National Bank of Ukraine 1 189.6 tonnes of banknote paper, or 26.6 million sheets. The order of the National Bank of Ukraine was fulfilled in full and in due time. Besides, on the contractual terms, delivered were 318.6 tonnes of security paper by order of Arjo Wiggins (France) and 192.4 tonnes of the excise stamp paper by order of the Ministry of Finance of Ukraine.

In the accounting year, the Mill did significant work aimed at the development of production facilities and introduction of advanced technologies, particularly:

- put was into operation the second phase of reconstruction of the processing line of banknote paper production, consisting in technical re-equipment of the section of paper processing and control. After reconstruction the Mill is able to produce 3 100 tonnes of highly protected paper a year;

- for the purpose of improving the quality and efficiency of paper manufacture, the cotton fiber flocks and cotton cellulose of lint were exclusively used in the paper pulp composition;

- at the finishing stage is introduction of the industrial technology allowing to reach the technical indicators of the banknote paper quality, which will increase the banknote circulation life-span and will ensure manufacture of the paper with antibacterial and antimycotic effect;

- manufactured and tested as a whole were the research and industrial lots of two-layer paper with wide protective strips and numerous specific optical effects, which can be hardly forged; this can substantially increase the paper protection potential.

### **7.13. STAFFING, PERSONNEL TRAINING AND RETRAINING**

In 2011, the staff relations trended towards enhancement of efficiency and productivity of work of the National Bank of Ukraine employees. Implemented were measures aimed at introducing the efficient mechanisms of improvement and optimization of the management organizational structure, staffing the positions with the personnel having the adequate level of vocational and qualification training, development of the personnel, its qualification and competence upgrading.

As of January 1, 2012, the staff of the National Bank of Ukraine numbered 9572 persons, including 5 984 civil servants.

The qualitative composition of the personnel of the National Bank of Ukraine in 2011 was as follows. The number of specialists (senior officers, professionals, specialists) with complete higher education was 5 882 persons. Doctors and candidates of sciences amounted to 121 persons. The number of specialists with the work experience over 5 years was 86.0%, up to 5 years – 14.0%. The average age of people working in the National Bank of Ukraine was 42.9 years, in the Central Office – 40.1 years. The number of employees of retirement age was 426 persons.

In 2011, 3.7 thousand employees of the National Bank of Ukraine system (33.1% of the total number of employees) improved their qualification. In general, 1 450 training events (workshops, conferences, courses, round tables, probation, etc.) were held, 240 out of them

were held abroad. Out of 11 024 trainees, who participated in these training events, 7 298 were employees of the National Bank of Ukraine and the rest were specialists from the banking and other institutions.

**Table 19. Breakdown of civil servants of the National Bank of Ukraine by position categories, persons**

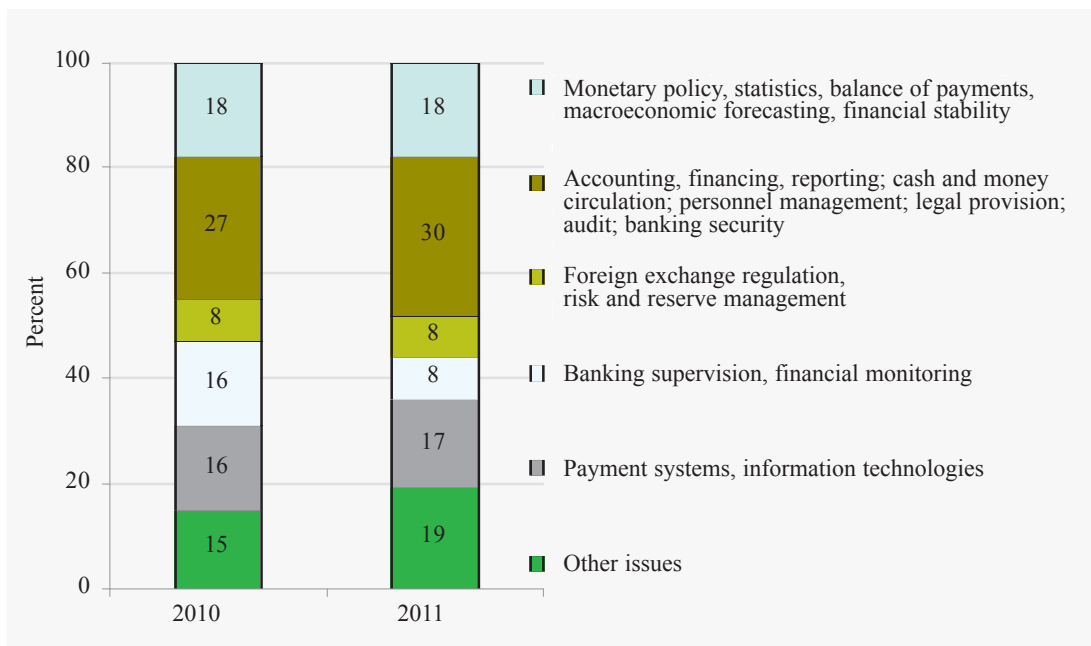
Indicators	As of January 01, 2012			For reference: As of January 01, 2011 Total
	Total	Men	Women	
Number	5 984	2 348	3 636	5 980
Senior officers	1 695	831	864	1 672
<i>whereof:</i>				
1 <sup>st</sup> category	5	4	1	5
2 <sup>nd</sup> category	101	74	27	112
3 <sup>rd</sup> category	583	241	342	556
4 <sup>th</sup> category	988	494	494	981
5 <sup>th</sup> category	18	18	0	18
Professionals, specialists, employees	4 289	1 517	2 772	4 308
<i>whereof:</i>				
2 <sup>nd</sup> category	6	4	2	5
3 <sup>rd</sup> category	506	149	357	467
4 <sup>th</sup> category	434	138	296	431
5 <sup>th</sup> category	3 343	1 226	2 117	3 405

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

As of January 01, 2012, 6 689 persons studied at the NBU subordinated educational institutions under all directions and specialties, including 4 710 full-time and 1 979 external students.

In 2011, 1 133 persons got complete higher education at the higher educational institutions of the National Bank of Ukraine, 716 persons out of them studied as the full-time students and 417 as the external students.

Diagram 26. **Topic structure of training measures in 2010–2011 in Ukraine and abroad**



The stock of the Center of Information-Library Service of the Direction on Supporting the Personnel Training and Organization of Information-Library Service as of the end of 2011 had 97 591 published issues including 48 014 books. The Library had 1 891 registered readers, the number of visits in the accounting year equaled 10 108.

Governor

S. Arbuzov



**CALENDAR  
OF PRINCIPAL EVENTS  
OF 2011**



## *February*

- Changes were made to the Regulations on Provision by the National Bank of Ukraine of the Stabilization Credits to Banks with regard to amending the list of main collateral (Resolution of the Board of the National Bank of Ukraine dated 15.02.2011, No. 40).

## *March*

- It was provided that the banknotes of 2003 and next years' patterns with the signature of the National Bank of Ukraine's Governor Arbuzov would be put into circulation during 2011 and 2012 within the planned issue, and the order of supporting the regional branches of the National Bank of Ukraine and the banks with the mentioned banknotes was also determined (Resolution of the Board of the National Bank of Ukraine dated 04.03.2011, No. 55).

## *April*

- Amendments were made to the Regulations on the Order of Forming and Using the Provisions for Indemnifying the Potential Losses under the Banks' Credit Operations with regard to improvement of the approaches to the order of taking account of the credit collateral value (Resolutions of the Board of the National Bank of Ukraine dated 13.04.2011, No. 114, 31.05.2011, No. 170, and 28.12.2011, No. 486).

## *May*

- From 20 May 2011, the National Bank of Ukraine (Resolution of the Board of the National Bank of Ukraine dated 13.04.2011, No. 111) permitted the banks the following:
  - to execute arbitrage operations with other banks in the interbank foreign exchange market of Ukraine;
  - to perform own operations within the set limits of the open foreign exchange position without the liabilities available;
  - to include the off-balance claims and liabilities into calculation of the banks' open foreign exchange position;
  - from 30 May 2011 to conduct foreign currency trade between themselves on "swap" conditions.

## *June*

- Based on the ratios of the Tax Code of Ukraine, prepared and approved was the new regulation on the issues of simplifying the procedure of writing-off by banks the bad debts on the loans at the expense of the insurance reserve – The Order of Indemnification of Bad Debts by Banks of Ukraine at the Expense of Reserve (Resolution of the Board of the National Bank of Ukraine dated 01.06.2011, No. 172).
- Approved was the Instruction on the Cashier's Operations by Banks in Ukraine (Resolution of the Board of the National Bank of Ukraine dated 01.06.2011, No. 174).

- Pursuant to the Law of Ukraine No. 3463-VI, dated 02.06.2011, "On Amendments to Article 2 of the Law of Ukraine "On the Priority Measures to Prevent the Adverse Effect of the Financial Crisis" and on Amendments to Some Legal Acts of Ukraine", the action of Article 2 with regard to the mandatory repurchase by the National Bank of Ukraine of the T-bills issued for the banks' recapitalization was revoked. During 2011, on application of Article 2 of the Law of Ukraine "On the Priority Measures to Prevent the Adverse Effect of the Financial Crisis and on Amendments to Some Legal Acts of Ukraine", the National Bank of Ukraine repurchased the T-bills totaling UAH 4 904.00 million.
- Introduced were the differentiated ratios of formation of the required reserves by banks depending on the terms of attracting the funds and the type of currencies, namely:
  - on the short-term funds and deposits of legal and natural persons in the foreign currency – 6.0%;
  - on the long-term funds and deposits of legal persons and natural persons in the foreign currency – 2.0%;
  - on the demand funds of legal and natural persons in foreign currency and on the funds on current accounts – 8.0%;
  - on the funds attracted by banks from nonresident banks and financial nonresident organizations in the foreign currency – 2.0%;
  - on the funds attracted by banks from nonresident banks and financial nonresident organizations in the national currency – 0%.

The required reserve ratio on the funds in the national currency was left at the zero level. The amount of the required reserve coverage at the expense of the earmarked T-bills of Ukraine (issued with the purpose of attracting funds for financing the actions related to the European Football Championship 2012 in Ukraine), acquired by banks, was reduced from 100% to 50% of their nominal value (Resolution of the Board of the National Bank of Ukraine dated 16.06.2011, No. 195, in force from 01.07.2011).

- From 29 June, 2011, to ensure stability of the monetary unit of Ukraine the National Bank of Ukraine was taking the actions aimed at prevention of the sharp exchange rate fluctuations in the interbank foreign exchange market. Particularly, the National Bank of Ukraine set for the authorized banks the limit of the total long open foreign exchange position of not more than 5% and the limit of the total short open foreign exchange position of not more than 10% (Resolution of the National Bank of Ukraine dated 22.06.2011, No.205) and obliged the banks to keep daily to the limits of the open foreign exchange positions set (Resolution of the Board of the National Bank of Ukraine dated 22.06.2011, No. 204).



- Amendments were made to the Regulations on the Peculiarities of Reorganizing a Bank by Owners' Decision with regard to elimination of the necessity to get the permit for acquisition or enlargement of the substantial portion in the bank, and the written permit for carrying out the operations (Resolution of the Board of the National Bank of Ukraine dated 23.06.2011, No. 206).
- Amendments were made to the Special Order of Carrying Out the Measures for Banks' Financial Rehabilitation (Resolution of the Board of the National Bank of Ukraine dated 30.06.2011, No. 213).

### *August*

- Pursuant to Resolution of the Board of the National Bank of Ukraine dated 01.08.2011, No. 267, the agreement with the Union of European Football Associations was signed with regard to licensing the products, and the design and issue of the series of 11 commemorative coins dedicated to the Final Tournament of the European Football Championship Euro 2012 were arranged.
- Discontinued was the Temporary Administration in the "CB "NADRA" PLC from 13.08.2011 (Resolution of the Board of the National Bank of Ukraine dated 12.08.2011, No. 280).
- Determined was the order of granting to banks and foreign banks' branches the general licenses to execute foreign exchange transactions (Resolution of the Board of the National Bank of Ukraine dated 15.08.2011, No. 281).

### *September*

- The procedure of banks' registration, licensing, opening of separate units and furnishing with information about the ownership structure was adjusted (Resolution of the Board of the National Bank of Ukraine dated 08.09.2011, No. 306).
- On 15 September, 2011, the Board of the National Bank of Ukraine took a decision to stop the temporary administration in the Rodovid Bank PLC and to organize the work on ensuring the exercise of the remedial bank functions by it.
- Liberalized was the cash segment of the foreign exchange market from 23 September, 2011, namely, the sale amount of foreign currency in cash to one person through the cashiers' desk of the bank during one day was increased in the equivalent from UAH 80 000 to UAH 150 000 and the ratio for currency exchange transactions through the bank ATMs was introduced. The individuals have been entitled to make transactions on selling the foreign currency for hryvnias through the ATMs (Resolution of the Board of the National Bank of Ukraine dated 11.08.2011, No. 278).

### *October*

- Amendments to the Regulations on Planning and Order of Performing the Inspections were introduced (Resolution of the Board of the National Bank of Ukraine dated 13.10.2011, No. 366).

- From 4 October, 2011, the Ministry of Finance of Ukraine carried out the emission of T-bills of Ukraine with the indexed value after coming into effect of Resolution of the Cabinet of Ministers of Ukraine dated 28.09.2011, No.1011 "On Alterations to Resolution of the Cabinet of Ministers dated 31.01.2001, No. 80".

By results of the auctions on the primary placement of the T-bills with the indexed value, during 2011, the State Budget of Ukraine got the funds worth UAH 8 045.09 million.

### *November*

- The issue of bullion coins of Ukraine was arranged (Resolution of the Board of the National Bank of Ukraine dated 15.11.2011, No. 405).
- Reduced was the amount of required reserves to be transferred by banks on a separate account with the National Bank of Ukraine from 100% to 70% of the required reserves formed for the previous reporting period of reserving in line with the ratios set for the proper period. The required reserve amount to be kept daily, by the operational day start, on the correspondent account with the National Bank of Ukraine for a value not less than 25% of the required reserves formed for the previous reporting period of reserving was determined. Changed was the required reserve ratio for the short-term funds and deposits of legal and natural persons in the foreign currency from 6 to 7.5 (Resolution of the Board of the National Bank of Ukraine dated 15.11.2011, No. 407, in force since 30.11.2011).

### *December*

- From 16 December, 2011, the Ministry of Finance of Ukraine carried out the emission of T-bills of Ukraine nominated in the foreign currency (US dollars) after coming into effect of Resolution of the Cabinet of Ministers of Ukraine dated 12.12.2011, No.1280 "On Alterations to Resolution of the Cabinet of Ministers dated 31.01.2001, No. 80".

By results of the auctions on the primary placement of the T-bills nominated in the foreign currency, during 2011, the State Budget of Ukraine got the funds worth USD 412.95 million.

- The Regulations on the Order of Registration, Licensing, Regulation of Activities of the Remedial Bank and its Supervision were worked out and approved (Resolution of the Board of the National Bank of Ukraine dated 23.12.2011, No. 471).
- Alterations were made to the Instruction on the Order of Regulating the Activities of Banks of Ukraine (Resolution of the Board of the National Bank of Ukraine dated 28.12.201, No. 479).
- Specified was that the circulation commemorative coins "Final Tournament of the European Football Championship 2012" of 1hryvnia denomination, 2012 year coinage, would be put into circulation from 1 March, 2012, and also determined was the order of supporting the Operations Department and the Regional Branches of the National Bank of Ukraine with the mentioned circulation commemorative coins (Resolution of the Board of the National Bank of Ukraine dated 30.12.2011, No. 496).
- The issue of the bullion coins of Ukraine was organized (Resolutions of the Board of the National Bank of Ukraine dated 25.12.2011, No. 473; 30.12.2011, No. 502).

**CONSOLIDATED FINANCIAL  
STATEMENTS  
OF THE NATIONAL BANK  
OF UKRAINE  
for the year ended  
31 December 2011**



## Contents

Consolidated Balance Sheet	113
Consolidated Income Statement	114
Consolidated Statement of Comprehensive Income	115
Consolidated Statement of Cash Flows	116
Consolidated Statement of Changes in Equity	118
Notes to the Consolidated Financial Statements	
1. Principal activities	119
2. Basis of presentation and accounting policies	120
3. Significant accounting estimates and judgements in applying accounting policies	133
4. Effect of economic conditions on the NBU's financial position and results of operations	134
5. Foreign currency funds and deposits	135
6. Foreign securities	136
7. SDR holdings	140
8. Domestic securities	141
9. Loans to banks and other borrowers	144
10. Internal State debt	149
11. IMF quota contributions	150
12. Fixed assets and intangible assets	151
13. Other assets	152
14. Accounts of banks	154
15. Accounts of State and other institutions	155
16. Deposit certificates issued by the NBU	155
17. Liabilities to the IMF	155
18. Other liabilities	156
19. Profits payable to the State budget of Ukraine	157
20. Capital management	157
21. Cash and cash equivalents	159
22. Interest income and expense	159
23. Fee and commission income and expense	160
24. Other income	160
25. Staff costs	160
26. Administrative and other expenses	161
27. Net increase in provisions	161
28. Financial risk management	161
29. Geographical analysis of financial assets and liabilities	165
30. Credit risk	166
31. Currency risk	168
32. Interest rate risk	169
33. Liquidity risk	171
34. Commitments, contingencies and derivative financial instruments	173
35. Fair value of financial assets and liabilities	174
36. Presentation of financial instruments by measurement categories	176
37. Related party transactions	178
38. Concentration of assets and liabilities	179





## INDEPENDENT AUDITOR'S REPORT

### To the Members of the Supervisory Council and Management Board of the National Bank of Ukraine

We have audited the accompanying consolidated financial statements of the National Bank of Ukraine (the "NBU"), which comprise the consolidated balance sheet as at 31 December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information. The consolidated financial statements have been prepared by management of the NBU in accordance with the basis of accounting described in Note 2 to these consolidated financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation of these consolidated financial statements in accordance with the basis of accounting described in Note 2 to the consolidated financial statements and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 of the consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements of the NBU are prepared, in all material respects, in accordance with the basis of accounting described in Note 2 to the consolidated financial statements.

*Basis of Accounting*

Without modifying our opinion, we draw attention to Note 2 to the consolidated financial statements, which describes the basis of accounting. The NBU applies specific accounting policies to certain items in the consolidated financial statements in order to comply with the requirements of the current Ukrainian legislation.

*Ernst & Young Audit - Services LLC*

Kyiv, Ukraine

17 April 2012



**Auditor Yulia Studynska**

Banking auditor's certificate N 0131, issued by the Audit Chamber of Ukraine  
NBU Registration certificate N 0000111



**National Bank of Ukraine**  
**Consolidated financial Statements**  
**Consolidated Balance Sheet as at 31 December 2011**

	Notes	2011	2010
<i>(in UAH millions)</i>			
<b>Assets</b>			
Foreign currency funds and deposits	5	101,451	122,400
Foreign securities	6	149,331	151,609
SDR Holdings	7	143	63
Monetary gold		8,059	7,191
Domestic securities	8	75,977	54,879
Loans to banks and other borrowers	9	60,326	60,782
Internal State debt	10	2,539	2,645
IMF quota contributions	11	16,830	16,823
Fixed assets and intangible assets	12	6,589	6,648
Other assets	13	2,602	2,040
		<hr/>	<hr/>
<b>Total assets</b>		<b>423,847</b>	<b>425,080</b>
		<hr/>	<hr/>
<b>Liabilities</b>			
Banknotes and coins in circulation		209,565	200,092
Accounts of banks	14	31,428	26,357
Accounts of State and other institutions	15	12,678	22,173
Deposit certificates issued by the NBU	16	5,529	9,442
Liabilities to the IMF	17	76,811	76,747
Other liabilities	18	897	800
		<hr/>	<hr/>
<b>Total liabilities</b>		<b>336,908</b>	<b>335,611</b>
		<hr/>	<hr/>
<b>Equity</b>			
Statutory capital		100	100
Funds and other reserves		6,131	6,080
Revaluation reserve for foreign currency, monetary gold and bank metals		90,360	93,315
Fair value adjustment reserve for financial assets		(13,737)	(14,121)
Revaluation reserve for fixed assets		4,085	4,095
		<hr/>	<hr/>
<b>Total equity</b>	20	<b>86,939</b>	<b>89,469</b>
		<hr/>	<hr/>
<b>Total liabilities and equity</b>		<b>423,847</b>	<b>425,080</b>
		<hr/>	<hr/>

Approved for issue and signed on behalf of the Board of the National Bank of Ukraine on 17 April 2012

Governor

S.G. Arbuzov

Chief Accountant – Director of Accounting Department

B.V. Lukasevych

The accompanying notes on pages 119 to 179 are an integral part of these consolidated financial statements.

*National Bank of Ukraine  
Consolidated financial Statements  
Consolidated Income Statement  
for the Year Ended 31 December 2011*

	Notes	2011	2010
		<i>(in UAH millions)</i>	
Interest income	22	15,901	18,134
Interest expense	22	(2,190)	(2,000)
<b>Net interest income</b>	22	<b>13,711</b>	<b>16,134</b>
Fee and commission income	23	368	406
Fee and commission expense	23	(12)	(85)
<b>Net fee and commission income</b>	23	<b>356</b>	<b>321</b>
Results from operations with debt securities at fair value through profit or loss		3,491	2,719
Results from disposals of debt securities available for sale		125	1,678
Results from transactions with financial instruments other than debt securities at fair value through profit or loss		6	(11)
Other income	24	322	226
<b>Total net income</b>		<b>18,011</b>	<b>21,067</b>
Staff costs	25	(1,728)	(1,553)
Expenses for production of banknotes, coins, souvenirs and other products		(764)	(634)
Administrative and other expenses	26	(629)	(597)
Net increase in provisions	27	(337)	(1,199)
<b>Profit for the year</b>	19	<b>14,553</b>	<b>17,084</b>

Approved for issue and signed on behalf of the Board of the National Bank of Ukraine on 17 April 2012

Governor

S.G. Arbuzov

Chief Accountant – Director of Accounting Department

B.V. Lukasevych

Director of Finance Department

L.G. Ivashkevych

The accompanying notes on pages 119 to 179 are an integral part of these consolidated financial statements.

*National Bank of Ukraine  
Consolidated financial Statements  
Consolidated Statement of Comprehensive Income  
for the Year Ended 31 December 2011*

		2011	2010
<i>(in UAH millions)</i>			
<b>Profit for the year</b>	19	14,553	17,084
Other comprehensive income/(loss) recognised in equity			
Revaluation of foreign currency, monetary gold and bank metals		(2,955)	(1,357)
Revaluation of debt securities available for sale:			
Gains less losses arising during the year		(1,373)	2,135
Gains less losses recycled to profit or loss upon disposal		(125)	(1,678)
Revaluation of fixed assets		-	3
<b>Total other comprehensive loss recognised in equity for the year</b>		<u>(4,453)</u>	<u>(897)</u>
<b>Total comprehensive income for the year</b>		<u>10,100</u>	<u>16,187</u>

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*National Bank of Ukraine  
Consolidated financial Statements  
Consolidated Statement of Cash Flows  
for the Year Ended 31 December 2011*

	Notes	2011	2010
		<i>(in UAH millions)</i>	
<b>Operating activities</b>			
Profit for the year	19	14,553	17,084
Adjustments to reconcile profit for the year to cash provided by operations:			
Depreciation and amortisation	12	412	382
Net increase in provisions for assets	27	337	1,199
Adjustment of interest income on impaired loans issued to banks	9, 22	(106)	(526)
Accrued income		(2,543)	(4,270)
Accrued expenses		15	14
Unrealised revaluation of foreign securities		(361)	432
Other non-cash movements		(66)	(14)
		<hr/>	<hr/>
<b>Net cash inflow before changes in operating assets and liabilities</b>		<b>12,241</b>	<b>14,301</b>
Net decrease in loans to banks and other borrowers		665	13,473
Repayment of internal State debt	10	132	132
Net increase in other assets		(433)	(90)
Net decrease in other liabilities		(5)	(124)
		<hr/>	<hr/>
<b>Net cash from operating activities before transfer of profit to the State Budget</b>		<b>12,600</b>	<b>27,692</b>
Transfer of profit to the State Budget	19	(11,898)	(15,547)
		<hr/>	<hr/>
<b>Net cash from operating activities</b>		<b>702</b>	<b>12,145</b>
<b>Investment activities</b>			
Net decrease/(increase) in term deposits placed		38,493	(10,731)
Net increase in foreign securities		(221)	(41,333)
Purchase of domestic securities		(23,200)	(32,299)
Sale and redemption of domestic securities		4,080	18,822
Purchase of monetary gold		(186)	(154)
Acquisition of fixed assets and intangible assets		(421)	(660)
Proceeds from disposal of fixed assets		1	1
		<hr/>	<hr/>
<b>Net cash from/(used in) investment activities</b>		<b>18,546</b>	<b>(66,354)</b>
		<hr/>	<hr/>

The accompanying notes on pages 119 to 179 are an integral part of these consolidated financial statements.

**National Bank of Ukraine**  
*Consolidated financial Statements*  
*Consolidated Statement of Cash Flows*  
*for the Year Ended 31 December 2011*

	Notes	2011	2010
		<i>(in UAH millions)</i>	
<b>Financing activities</b>			
Issue of banknotes and coins in circulation		9,473	29,556
Proceeds from loans obtained from IMF		–	11,051
Net (decrease)/increase in deposit certificates of the National Bank of Ukraine		(3,902)	6,013
European Bank for Reconstruction & Development (EBRD) loans repaid		–	(59)
		<hr/>	<hr/>
<b>Net cash from financing activities</b>		<b>5,571</b>	<b>46,561</b>
<b>Effect of changes in exchange rates on cash and cash equivalents</b>			
		<b>(5,331)</b>	<b>(1,528)</b>
		<hr/>	<hr/>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>19,488</b>	<b>(9,176)</b>
<b>Cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the year		36,807	45,983
		<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the year</b>	21	<b>56,295</b>	<b>36,807</b>
		<hr/>	<hr/>

Approved for issue and signed on behalf of the Board of the National Bank of Ukraine on 17 April 2012

Governor

S.G. Arbuzov

Chief Accountant – Director of Accounting Department



B.V. Lukasevych

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*National Bank of Ukraine*  
*Consolidated financial Statements*  
*Consolidated Statement of Changes in Equity*  
*for the Year Ended 31 December 2011*

Notes	Statutory capital	Funds and other reserves	Revaluation reserve for foreign currency, monetary gold and bank metals	Fair value adjustment reserve for financial assets	Revaluation reserve for fixed assets	Total equity
	<i>(in UAH millions)</i>					
<b>Balance as at 1 January 2010</b>	100	5,730	94,672	(8,506)	4,093	96,089
Total comprehensive income for 2010	–	17,084	(1,357)	457	3	16,187
Realised revaluation of fixed assets	–	1	–	–	(1)	–
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 budget income over budget expenditures for 2010 paid to the State Budget	19	(15,547)	–	–	–	(15,547)
<b>Balance as at 31 December 2010</b>	100	6,080	93,315	(14,121)	4,095	89,469
Total comprehensive income for 2011	–	14,553	(2,955)	(1,498)	–	10,100
Realised revaluation of fixed assets	–	10	–	–	(10)	–
Fair value adjustment at initial recognition of financial assets	8	–	–	(732)	–	(732)
Amortisation of result of fair value adjustment at initial recognition of financial assets	19	(2,614)	–	2,614	–	–
Excess of budgeted income over budgeted expenditure for 2011 paid to the State Budget	19	(11,898)	–	–	–	(11,898)
<b>Balance as at 31 December 2011</b>	100	6,131	90,360	(13,737)	4,085	86,939

Approved for issue and signed on behalf of the Board of the National Bank of Ukraine on 17 April 2012

Governor

S.G. Arbuzov

Chief Accountant – Director of Accounting Department

B.V. Lukasevych

Director of Finance Department

L.G. Ivashkevych

The accompanying notes on pages 119 to 179 are 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 on an individual and consolidated basis;

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 Service 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 struc-

ture includes Operating Department, Main Office for Maintenance and Construction Arrangements, the Central Vault, the State Treasury-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), Banking University (Kyiv) and "Banking Television" LLC (Kyiv), all 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.

"Banking Television" LLC established in 2011 under the decision of the Board of the National Bank of Ukraine to provide citizens and community with the timely, reliable and complete information about the National Bank of Ukraine policy.

Registered address and place of business of the NBU's central office is 9, Instytutska 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 has been consistently applied.

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.

In accordance with the Law of Ukraine "On the National Bank of Ukraine", starting from 1 January 2012 the NBU switches to the full application of IFRS.

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 financial instruments categorised as at fair value through profit or loss. The accounting policies have been consistently applied to all the periods presented unless otherwise stated.

The functional and presentation currency of the NBU is the national currency of Ukraine, 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 in 2011. Listed below are those amended IFRSs which came into force in 2011 and were applied to the NBU's operations in the reporting period.

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.

IFRS 7, Financial Instruments: Disclosure (issued in October 2010 and effective for annual periods beginning on or after 1 January 2011) 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 financial 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.

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.

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

### **Amended IFRSs and interpretations which became effective in 2011, but were not applicable for the NBU's consolidated financial statements:**

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. 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 to IAS 32 exempts cer-

tain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.

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, Financial Instruments has also been amended to reflect these changes.

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:

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

IAS 27, Consolidated and Separate Financial Statements, was amended by clarifying the transition rules for amendments to IAS 21, 28, Investments in Associates, and 31, Shares in Joint Arrangements, made by the revised IAS 27 (as amended in January 2008).

IAS 34, Interim Financial Reporting, 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.

IFRIC 13, Customer Loyalty Programmes, was amended to clarify measurement of fair value of award credits.

**Amended IFRSs and interpretations, which become effective in 2012 and subsequent reporting periods:**

Amendments to IAS 12, Income Taxes, - Deferred Taxes: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012). The amendments clarify the procedure for measuring the deferred tax on investment property revalued to fair value. 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.

**Changes to IFRS, which the NBU has not early adopted and which the NBU intends applying in subsequent reporting periods:**

Amendments to IFRS 10, Consolidated Financial Statements, (effective for annual periods beginning on or after 1 January 2013) establish a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27, Consolidated and Separate Financial Statements. In addition IFRS 10 introduces specific application guidance for agency relationships. The Standards includes accounting requirements and consolidation procedures carried forward unchanged from IAS 27. IFRS 10 replaces requirements to consolidation contained in SIC-12, Consolidation - Special Purpose Entities and IAS 27.

Amendments to IFRS 11, Joint Arrangements, (effective for annual periods beginning on or after 1 January 2013) remove the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13 Jointly Controlled Entities - Non-monetary Contributions by Venturers. Earlier application is permitted.

Amendments to IFRS 13, Fair Value Measurement, (effective for annual periods beginning on or after 1 January 2013, earlier application is permitted) establish a single source of guidance under IFRS for all fair value measurements and provide guidance on how to measure fair value under IFRS when fair value is required or permitted under other IFRS. Amendments to IFRS 13 may have effect on the measurement of the Bank's assets and liabilities accounted for at fair value.

Amendments to IAS 1, Changes to the Presentation of Other Comprehensive Income, (effective for annual periods beginning on or after 1 July 2012) change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. These amendments will change presentation in the statement of comprehensive income but will have no effect on the NBU's financial position and performance.

Amendments to IAS 19, Employee Benefits, (effective for annual periods beginning on or after 1 January 2013), propose major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the

net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011) (effective for annual periods beginning on or after 1 January 2013). As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28, Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates.

Amendments to IAS 32, Financial Assets: Presentation - Offsetting of Financial Assets and Financial Liabilities (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014, earlier application is permitted).

Amendments to IFRS 7, Financial Instruments: Disclosures - Disclosures - Offsetting of Financial Assets and Financial Liabilities (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013) modify requirements to disclosures on the estimate of impact or potential impact of offsetting agreements, including the offsetting rights related to the recognized financial assets and financial liabilities of the entity, on the financial position of such entity.

The NBU is considering the impact of the standard on its consolidated financial statements and the timing of its adoption by the NBU.

Amendments to IFRS 9, Financial Instruments, and IFRS 7, Financial Instruments: Disclosures, - Mandatory Effective Date and Disclosures on Transition to IFRS 9" (issued in December 2011 and effective for annual periods beginning on or after 1 January 2015) move the effective date of IFRS 9 so that IFRS 9 is effective for annual periods beginning on or after 1 January 2015, early application is permitted. The amendments no longer require restatement of comparative figures. Amendments to IFRS 7 require additional disclosures on transition from IAS 39 to IFRS 9.

IFRS 9, Financial Instruments Part 1: Classification and Measurement, was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. 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 2015, earlier adoption is permitted. The NBU is considering the impact of the standard on its consolidated financial statements and intends to adopt it from 2012.

### **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.

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:

	<b>31 December 2011</b>	31 December 2010
	<b>(UAH)</b>	(UAH)
USD 1	<b>7.989800</b>	7.961700
SDR 1	<b>12.266467</b>	12.261295
EUR 1	<b>10.298053</b>	10.573138
1 troy ounce of gold	<b>12,284.318</b>	11,237.940

### 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

\* 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.

consolidated statement of income.

### **Operations with financial instruments**

Financial assets of the NBU are classified depending on intentions of their acquisition as follows:

#### **Foreign currency funds and deposits**

Foreign currency funds and deposits are recorded when the NBU advances foreign currency funds to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates.

#### **Debt securities at fair value through profit or loss**

This category includes securities which the NBU intends to hold for the purposes of managing international reserves and which are designated at initial recognition into this category. The NBU manages a group of these financial instruments and evaluates its performance on a fair value basis in accordance with a documented investment declaration, and information on that basis is regularly provided to and reviewed by management of the NBU. The fair value of these securities is determined by reference to market quotations. Securities from this category may not be reclassified to securities available for sale or held to maturity.

#### **Debt securities categorised as loans and receivables**

This category includes securities which the NBU intends to hold to maturity, but which are unquoted in the open market.

**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. 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.

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.

#### **Renegotiation of loans terms**

If terms of financial assets are renegotiated and changed significantly due to financial difficulties of the borrower, such financial assets are impaired and respective impairment loss is calculated using original effective interest rate determined before the renegotiation. If loans granted at floating rate then impairment of such assets is calculated using current effective interest rate. If



renegotiation of terms is not caused by financial difficulties of the borrower then such financial assets are not impaired and respective effective interest rate is revised based on changed terms.

#### **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	4–28 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 and subsequently are measured at historical cost less depreciation.

## 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 Treasury-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:

	<b>31 December 2011</b>	31 December 2010
	<b>(UAH)</b>	(UAH)
1 troy ounce of gold	<b>12,284.318</b>	11,237.940
1 troy ounce of silver	<b>209.013</b>	244.424
1 troy ounce of platinum	<b>10,898.087</b>	14,012.592
1 troy ounce of palladium	<b>5,081.513</b>	6,345.475

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. These liabilities are non-derivative and initially are recognised at fair value and subsequently are measured 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.

#### **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 expens-

es in the period when the coins are sold.

#### **Staff costs**

Salaries, payment of single contribution for obligatory state social security, transfer of contributions to the NBU's Corporate Non-state Pension Fund, as well as expenses for personnel training and development are recognized in the year in which they were incurred by (provided for) the NBU's employees.

#### **Expenses for contributions to obligatory State social funds**

Under the Ukrainian legislation, the NBU makes a single contribution for the obligatory state social security to the State Pension Fund of Ukraine. Contributions to the obligatory State social funds are expensed as incurred.

#### **Taxation**

In accordance with the Tax Code of Ukraine, the National Bank of Ukraine transfers to the State budget of Ukraine the excess of budgeted income over budgeted expenditure as required by the Law of Ukraine "On the National Bank of Ukraine". These transfers are treated 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 of the NBU**

The NBU established a Corporate Non-State Pension Fund of the NBU, 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 NBU.

#### **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.

### **3. Significant 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 990 million or decrease of UAH 1,428 million respectively (2010: increase of UAH 1,339 million or decrease of UAH 1,433 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 2011, loans totalling UAH 9,980 million (2010: UAH 18,027 million) were outstanding from these banks. The provision for loan impairment for this exposure totalled UAH 4,825 million (2010: UAH 11,236 million) were outstanding from these banks. 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 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. Upon the results of revaluation of buildings and constructions performed by the independent valuers in 2011, the NBU's management concluded that no significant changes in fair value of the NBU's buildings and constructions occurred in 2001. Revaluation of buildings and constructions was not made in 2011.

#### **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 by UAH 421 million higher or by UAH 451 million lower, respectively (2010: by UAH 775 million higher or by UAH 813 million lower, respectively). Terms and conditions of related party balances are disclosed in Note 37.

#### **4. Effect of economic conditions on the NBU's financial position and results of operations**

During 2011, the NBU's monetary policy was carried out in difficult conditions related to aggravation of debt issues in Europe and uncertainty on further world development. Real GDP growth was 5.2% (2010: 4.1%). In 2001, production output decreased on an annual basis by 7.6% (2010: production output increased by 11.2%).

The consumer price index in 2011 decreased to 104.6% as a result of both external and internal factors (2010: consumer price index was 109.1%).

As at 31 December 2011 the sovereign ratings of Ukraine were "B2" by Moody's, "B+" by Standard & Poor's and "B" by Fitch (31 December 2010: "B2" by Moody's, "B+" by Standard & Poor's and "B" by Fitch).

In 2011, the level of international reserves decreased from USD 34.6 billion as at 31 December 2010 to USD 31.8 billion as at 31 December 2011.

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 repurchase State securities of Ukraine with the total nominal value of UAH 11,961 million (2010: UAH 23,649 million) and transferred to the State Budget of Ukraine UAH 11,898 million as payment of the excess of

budgeted income over budgeted expenditure for the year 2011(2010: transferred to the State Budget of Ukraine the excess of budgeted income over budgeted expenditure for the year 2009 and the excess of budgeted income over budgeted expenditure for 2010 of UAH 15,547 million). Refer to Notes 8 and 19.

The balance sheet items representing amounts due from the Ukrainian Government are summarised in the table below.

	Notes	2011	2010
<i>(in UAH millions)</i>			
Domestic securities	8	75,977	54,879
Internal State debt (gross)	10	3,174	3,306

The estimated fair value of amounts due from the Government is disclosed in Note 35.

## 5. Foreign currency funds and deposits

	2011	2010
<i>(in UAH millions)</i>		
<b>Financial assets</b>		
Foreign currency cash	591	80
Demand deposits	16,168	12,604
Term deposits in foreign currency	79,306	103,168
Accrued interest receivable on deposits in gold and bank metals	10	7
<b>Total financial assets</b>	<b>96,075</b>	<b>115,859</b>
<b>Non-financial assets</b>		
Demand and term deposits		
in gold	3,009	2,753
in bank metals	2,367	3,788
<b>Total non-financial assets</b>	<b>5,376</b>	<b>6,541</b>
<b>Total foreign currency funds and deposits</b>	<b>101,451</b>	<b>122,400</b>

The amount of demand deposits includes balances on special purpose accounts totalling UAH 141 million maintained by the NBU under credit lines received from international financial institutions (2010: UAH 139 million and UAH 6 million of 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 2011 and 31 December 2010. 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 2,697 million maturing later than in 12 months (2010: UAH 2,466 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 2011, the foreign securities include the following:

	Government bonds	Securities of international agencies, banks and other issuers	Total
			(in UAH millions)
<b>Debt securities at fair value through profit or loss by issuers:</b>			
Securities issued by US issuers:			
denominated in US dollars	52,277	2,836	55,113
denominated in British pounds	–	372	372
Securities of EU States issuers:			
denominated in British pounds	7,581	3,740	11,321
denominated in US dollars	2,549	18,101	20,650
denominated in Euro	35,454	12,376	47,830
Securities of other issuers:			
denominated in British pounds	–	253	253
denominated in Euro	–	540	540
denominated in US dollars	770	7,173	7,943
denominated in Australian dollars	5,188	–	5,188
<b>Total debt securities at fair value through profit or loss</b>	<b>103,819</b>	<b>45,391</b>	<b>149,210</b>
<b>Equity securities available for sale:</b>			
Shares of Black Sea Trade and Development Bank	–	120	120
Investment in Inter-State Bank	–	1	1
<b>Total equity securities available for sale</b>	<b>–</b>	<b>121</b>	<b>121</b>
<b>Total foreign securities</b>	<b>103,819</b>	<b>45,512</b>	<b>149,331</b>

All foreign debt securities were neither past due nor impaired at 31 December 2011 and 31 December 2010.

In 2011, 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 3,323 million (2010: UAH 3,374 million).

All foreign securities are expected to be recovered within 12 months except for equity securities available for sale totalling UAH 121 million (2010: 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*

The contribution to 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 2011, the amount of the NBU's contribution to the share capital of BSTDB was SDR 24 million (UAH 120 million at the UAH/SDR official rate as at the date of acquisition) (2010: SDR 24 million or UAH 120 million). The NBU's share in the paid in share capital of BSTDB was 4% (2010: 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 (2010: 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 2010 foreign securities included the following:

	Government bonds	Securities of international agencies, banks and other issuers	Total
	<i>(in UAH millions)</i>		
<b>Debt securities at fair value through profit or loss by issuers:</b>			
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
	<hr/>	<hr/>	<hr/>
<b>Total debt securities at fair value through profit or loss</b>	<b>114,052</b>	<b>37,436</b>	<b>151,488</b>
<b>Equity securities available for sale:</b>			
shares of Black Sea Trade and Development Bank	–	120	120
investment in Inter-State Bank	–	1	1
	<hr/>	<hr/>	<hr/>
<b>Total equity securities available for sale</b>	<b>–</b>	<b>121</b>	<b>121</b>
	<hr/>	<hr/>	<hr/>
<b>Total foreign securities</b>	<b>114,052</b>	<b>37,557</b>	<b>151,609</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Information on nominal value, yield to maturity, coupon income and maturities of foreign debt securities held by the NBU as at 31 December 2011, 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
<b>Debt securities at fair value through profit or loss by issuers:</b>						
Government bonds:						
Securities issued by US issuers: denominated in US dollars	6,368	50,883	0.1104– 0.7977	0.125– 3.875	Every 6 months	From 8 months to 5 years
Securities of EU States issuers: denominated in British pounds	580	7,146	0.3178– 1.2096	1.10781– 5.25	Every 6 months or quarterly	From 2 months to 3.3 years
denominated in US dollars	315	2,517	0.24781– 1.26517	0.625– 2.25	Annually or every 6 months	From 4.5 months to 2.4 years
denominated in Euro	3,225	33,212	0.0068– 3.5727	0.25–5	Annually or quarterly	From 4 days to 5.6 years
Securities of other issuers: denominated in US dollars	94	751	0.37125– 0.78892	0.62944– 3.5	Every 6 months or quarterly	From 4.8 months to 2 years
denominated in Australian dollars	618	4,972	3.1351– 3.9491	4.5–6.5	Every 6 months	From 3.5 months to 2.8 years
Bonds of international agencies, banks and other issuers						
Securities issued by US issuers: denominated in US dollars	354	2,825	0.12649– 1.473739	0.375–4.5	Every 6 months	From 2 months to 4.9 years
denominated in British pounds	30	369	0.977	1.25	Annually	Up to 1.9 years
Securities of EU States issuers: denominated in British pounds	292	3,601	1.07562– 2.59746	0.01669– 5.25	Quarterly or annually	From 12 days to 2.7 years
denominated in US dollars	2,236	17,869	0.352361– 2.925908	0.2946– 5.25	Monthly, quarterly, every 6 months or annually	From 17 days to 4.9 years
denominated in Euro	1,180	12,152	0.77446– 3.521656	0.875– 3.625	Quarterly or every 6 months	From 17 days to 5.2 years
Securities of other issuers: denominated in British pounds	20	246	0.987046	2.25	Annually	Up to 2 years
denominated in US dollars	891	7,121	0.338341– 2.255022	0.51167– 3.625	Quarterly, every 6 months or annually	From 4 months to 4.8 years
denominated in Euro	50	515	2.72074– 3.22981	3.5–3.75	Annually	From 3 to 5 years

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
<b>Debt securities at fair value through profit or loss by issuers:</b>						
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 4 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

## 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 2011 were as follows:

	<b>2011</b>	2010
		<i>(in UAH millions)</i>
<b>Balance of SDR holdings as at 1 January</b>	<b>63</b>	510
Receipt of funds from the IMF under Stand-by programme:		
in favour of the NBU	–	11,107
in favour of Government	–	16,083
<b>Purchase of SDRs</b>	<b>3,235</b>	1,704
Other receipts and payments	–	66
Repayment of loan	–	–
Payment of loan related commission	<b>(178)</b>	(239)
Conversion of SDRs into other foreign currencies:		
in favour of the NBU	–	(11,099)
in favour of Government	–	(16,078)
Payment of interest for use of IMF resources:		
on behalf of the NBU	<b>(1,519)</b>	(1,060)
on behalf of Government	<b>(1,396)</b>	(870)
Payment of interest for use of funds received under SDR allocation:		
on behalf of the NBU	<b>(4)</b>	(4)
on behalf of Government	<b>(67)</b>	(39)
Income on SDR holdings	<b>1</b>	–
Translation differences	<b>8</b>	(18)
<b>Balance of SDR holdings as at 31 December</b>	<b><u>143</u></b>	<b><u>63</u></b>

During 2011, Ukraine did not receive funds from IMF.

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 Service account with the NBU.

## 8. Domestic securities

As at 31 December 2011, domestic securities comprised the following:

	State securities	Corporate securities <i>(in UAH millions)</i>	Total
Debt securities available for sale:			
denominated in national currency:			
Internal State debt bonds ("OVDP")	19,585	–	19,585
denominated in foreign currency:			
External State bonds ("OZDP") denominated in US dollars	1,325	–	1,325
External State bonds ("OZDP") denominated in Euro	708	–	708
<b>Total debt securities available for sale</b>	<b>21,618</b>	<b>–</b>	<b>21,618</b>
Debt securities categorised as loans and receivables:			
denominated in national currency:			
Internal State debt bonds ("OVDP")	52,959	–	52,959
Bonds issued by State Mortgage Institution	–	1,400	1,400
<b>Total debt securities categorised as loans and receivables</b>	<b>52,959</b>	<b>1,400</b>	<b>54,359</b>
<b>Total domestic securities</b>	<b>74,577</b>	<b>1,400</b>	<b>75,977</b>

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.

In 2011, at the request of the Government of Ukraine, the NBU purchased OVDP to ensure national needs with total nominal value of UAH 3,221 million which were classified as investments available for sale (2010: UAH 15,247 million classified as loans and receivables).

In addition, in 2011, the NBU, in execution of the requirements of the Law of Ukraine "On High Priority Measures to Prevent Adverse Consequence of Financial Crisis and On Introducing Amendments to Certain Legislative Act of Ukraine" on repurchase of the state bonds of Ukraine at the nominal value, purchased OVDP with total nominal value of UAH 8,740 million classified as loans and receivables (2010: UAH 8,402 million).

The difference amounting to UAH 732 million (2010: UAH 7,260 million) between cash paid for the above securities and their fair value arisen at the initial recognition is recognized by the NBU in equity.

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 sell them.

Bonds of the State Mortgage Institution with additional security in the form of the State guarantee of issuer's liabilities issued by the Cabinet of Ministers of Ukraine ("DIU bonds") have nom-

inal value of UAH 100,000 each. In 2011, the NBU purchased DIU bonds with nominal value of UAH 77 million and carrying value of UAH 80 million to regulate the banks' liquidity. In addition, during the year the NBU took possession of bonds with nominal value of UAH 112 million and carrying value of UAH 117 million as a result of failure of one Ukrainian bank to fulfil its obligations to the NBU. DIU bonds purchased and possessed in 2011 were classified as loans and receivables.

All domestic securities were neither past due nor impaired at 31 December 2011 and 31 December 2010.

All domestic securities are expected to be recovered later than within 12 months from the balance sheet date except for OVDP and accrued interest on debt securities totalling UAH 15,568 million and OZDP and accrue interest totalling UAH 251 million payable in 2012 (2010: all domestic securities were expected to be recovered later than 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).

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 2010, securities of Ukraine included the following:

	State securities	Corporate securities <i>(in UAH millions)</i>	Total
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 ("OZDP") denominated in US dollars	1,487	–	1,487
External State bonds denominated in Euro	822	–	822
<b>Total debt securities available for sale</b>	<b>10,144</b>	<b>–</b>	<b>10,144</b>
Debt securities categorised as loans and receivables:			
denominated in national currency:			
Internal State debt bonds ("OVDP")	43,528	–	43,528
Bonds issued by State Mortgage Institution	–	1,207	1,207
<b>Total debt securities categorised as loans and receivables</b>	<b>43,528</b>	<b>1,207</b>	<b>44,735</b>
<b>Total domestic securities</b>	<b>53,672</b>	<b>1,207</b>	<b>54,879</b>

Information on nominal value, yield to maturity, coupon income and maturities of domestic securities as at 31 December 2011 is presented in the table below:

	Total nominal value in hryvna/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 ("OVDP")	19,629	–	8.00–24.06	9.50–9.50	Every 6 months	From 2 months to 10 years
denominated in foreign currency:						
External State bonds ("OZDP") denominated in US dollars	1,466	183	9.091–10.618	6.38–7.65	Every 6 months	From 6 months to 6 years
External State bonds ("OZDP") denominated in Euro	855	83	10.8638–10.924	4.95	Annually	Up to 4 years
Debt securities categorised as loans and receivables:						
denominated in national currency:						
Internal State debt bonds ("OVDP")	64,844	–	9.82–17.95	9.50–12.00	Every 6 months	From 10 months to 11 years
Bonds issued by State Mortgage Institution	1,389	–	9.40–12.10	6.69–12.66	Quarterly	From 11 months to 3 years

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 hryvna/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 ("OVDP")	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 ("OZDP") 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 ("OZDP") 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 ("OVDP")	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

## 9. Loans to banks and other borrowers

Loans to banks and other borrowers by the purpose of their issue are classified as follows:

	2011	2010
		<i>(in UAH millions)</i>
Loans granted to banks to support their liquidity:		
for stabilising banking activities	<b>64,380</b>	73,033
under repo agreements	<b>7,576</b>	114
loans provided through tenders performed by the NBU	<b>1,034</b>	100
Long-term loans for EURO 2012 and other purpose loans	<b>1,603</b>	1,603
other	<b>10</b>	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)	<b>37</b>	58
Other	<b>174</b>	193
Provision for impairment of loans to banks and other borrowers	<b>(14,488)</b>	<b>(14,329)</b>
<b>Total loans to banks and other borrowers</b>	<b><u>60,326</u></b>	<b><u>60,782</u></b>

Loans granted for stabilising banking activities, which are expected to be recovered later than within 12 months from the balance sheet date, total UAH 51,022 million (2010: UAH 51,252 million).

In 2011, the NBU supported the short-term (quick) liquidity of the banks in the national currency through the standing refinancing line (overnight loans), the banks refinancing for the term from 14 to 90 days by holding the interest-bearing and quantitative tenders and the banks liquidity support through carrying out direct "repo" transactions with the State bonds of Ukraine and bank metals (2010: loans to support the banks liquidity were issued against the collateral of the State bonds of Ukraine, property rights under agreements in respect of loans granted by banks to businesses and individuals, municipal bonds, corporate bonds, foreign currency deposits, material shares of banks and other assets).

In 2011, interest rates on stabilising loans to banks were not revised (2010: in accordance with NBU regulations interest rates on stabilising loans to banks were changed from fixed to floating. As at 31 December 2010, gross loans outstanding on which interest rates had been changed were UAH 38,555 million).

The NBU considered that as a result of this change contractual rights to the cash flows of respective financial assets expired and as a result those loans that had not been impaired and had been subject to change in interest rates, were derecognised and new instruments were recognised at fair value. As the revised interest rates were consistent with the market rates, no gain or loss was recorded on initial recognition of the new assets.



During the year ended 31 December 2011, movements in provision against loans to banks and other borrowers were 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 (EBRD)	Other	Total
				<i>(in UAH millions)</i>
<b>Provision against loans to banks and other borrowers at the beginning of the year</b>	<b>14,104</b>	<b>57</b>	<b>168</b>	<b>14,329</b>
Increase in provision	2,177	–	1	2,178
Adjustment of interest income on impaired loans to banks	(106)	–	–	(106)
Derecognition of financial assets	(96)			(96)
Reversal of provision	(1,796)	(21)	–	(1,817)
<b>Provision against loans to banks and other borrowers at the end of the year</b>	<b><u>14,283</u></b>	<b><u>36</u></b>	<b><u>169</u></b>	<b><u>14,488</u></b>

During the year ended 31 December 2010, movements in provision against loans to banks and other borrowers were 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 (EBRD)	Other	Total
				<i>(in UAH millions)</i>
<b>Provision against loans to banks and other borrowers at the beginning of the year</b>	<b>13,361</b>	<b>67</b>	<b>212</b>	<b>13,640</b>
Increase in provision	8,198	–	–	8,198
Adjustment of interest income on impaired loans to banks	(526)	–	–	(526)
Reversal of provision	(6,929)	(1)	(44)	(6,974)
Loans written off against provision account	–	(9)	–	(9)
<b>Provision against loans to banks and other borrowers at the beginning of the year</b>	<b><u>14,104</u></b>	<b><u>57</u></b>	<b><u>168</u></b>	<b><u>14,329</u></b>

Analysis by credit quality of loans to banks and other borrowers outstanding at 31 December 2011 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 (EBRD)	Other	Total
	<i>(in UAH millions)</i>			
Neither past due nor impaired, by credit rating				
B-	1,317	–	–	1,317
B-	31,955	–	–	31,955
CCC+	919	–	–	919
Unrated	10,873	1	5	10,879
<b>Total neither past due nor impaired</b>	<b>45,064</b>	<b>1</b>	<b>5</b>	<b>45,070</b>
Individually impaired				
not yet past due	28,249	–	–	28,249
Over 360 days overdue	1,290	36	169	1,495
<b>Total individually impaired</b>	<b>29,539</b>	<b>36</b>	<b>169</b>	<b>29,744</b>
Provision for impairment of loans to banks and other borrowers	(14,283)	(36)	(169)	(14,488)
<b>Total loans to banks and other borrowers</b>	<b><u>60,320</u></b>	<b><u>1</u></b>	<b><u>5</u></b>	<b><u>60,326</u></b>

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 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 (EBRD)	Other	Total
	<i>(in UAH millions)</i>			
Neither past due nor impaired, by credit rating				
B-	29,814	–	–	29,814
CCC+	1,900	–	–	1,900
Unrated	10,098	2	–	10,100
Loans renegotiated in 2010	3,034	–	–	3,034
<b>Total neither past due nor impaired</b>	<b>44,846</b>	<b>2</b>	<b>–</b>	<b>44,848</b>
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
<b>Total past due but not impaired</b>	<b>388</b>	<b>–</b>	<b>–</b>	<b>388</b>
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	10,334
<b>Total individually impaired</b>	<b>29,626</b>	<b>58</b>	<b>191</b>	<b>29,875</b>
Provision for impairment of loans to banks and other borrowers	(14,104)	(57)	(168)	(14,329)
<b>Total loans to banks and other borrowers</b>	<b>60,756</b>	<b>3</b>	<b>23</b>	<b>60,782</b>

Information about the collateral provided for loans at 31 December 2011 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 (EBRD)	Other	Total
<i>(in UAH millions)</i>				
Loans secured by:				
state securities	11,856	–	–	11,856
real estate	20,109	–	–	20,109
claims under loans agreements with customers	33,694	–	–	33,694
promissory notes of companies	1,604			1,604
shares of banks provided by owners of significant interest	4,172	–	–	4,172
property rights on land plots	2,349	–	–	2,349
other assets	731	–	148	879
Unsecured loans	88	37	26	151
<b>Total loans to banks and other borrowers (before provision)</b>	<b>74,603</b>	<b>37</b>	<b>174</b>	<b>74,814</b>

Information about the collateral provided for loans 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 (EBRD)	Other	Total
<i>(in UAH millions)</i>				
Loans secured by:				
state securities	2,029	–	–	2,029
corporate and municipal bonds	13	–	–	13
real estate	21,497	–	–	21,497
claims under loans agreements with customers	34,142	–	–	34,142
promissory notes of companies	1,603			1,603
shares of banks provided by owners of significant interest	7,211	–	–	7,211
guarantees	5,680	–	–	5,680
other assets	2,562	–	165	2,727
funds on correspondent account	123	–	–	123
Unsecured loans	–	58	28	86
<b>Total loans to banks and other borrowers (before provision)</b>	<b>74,860</b>	<b>58</b>	<b>193</b>	<b>75,111</b>

The geographical analysis of loans to banks and other borrowers is disclosed in Note 29, credit risk analysis is presented 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. The estimated fair value of the loans to banks and other borrowers is presented in Note 35.

## 10. Internal State debt

	2011	2010
	<i>(in UAH millions)</i>	
Internal State debt in respect of loans to Government in national currency:		
1994–1996	3,174	3,306
<b>Total internal State debt in national currency</b>	<b>3,174</b>	<b>3,306</b>
Provision against internal State debt in respect of loans to Government in national currency	(635)	(661)
<b>Total internal State debt</b>	<b>2,539</b>	<b>2,645</b>

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. In 2011, the internal State debt of Ukraine in the national currency was repaid in the amount of UAH 132 million (2010: UAH 132 million). Interest income on loans to the 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 the Government were as follows:

	2011	2010
	<i>(in UAH millions)</i>	
<b>Provision against internal State debt in respect of loans to Government at the beginning of the year</b>	<b>661</b>	<b>688</b>
Reversal of provision for loans to Government in foreign currency during the year	(26)	(27)
<b>Provision against internal State debt in respect of loans to Government at the end of the year</b>	<b>635</b>	<b>661</b>

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 the 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 2011, the National Bank of Ukraine released UAH 26 million of the provisions against internal State debt in respect of loans granted to the Government in the national currency after repayment of the portion of the internal State debt of Ukraine in the national currency (2010: UAH 27 million).

Internal State debt in the amount of UAH 106 million (net of provision) is expected to be recovered within 12 months and the remaining part of internal state debt is expected to be recovered later than in 12 months (2010: internal State debt in the amount of UAH 106 million (net of provision) was expected to be recovered within 12 months and the remaining part of internal State debt was expected to be recovered later than in 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 2011, Ukraine's quota in the IMF amounted to SDR 1,372 million or UAH 16,830 million at the year-end official UAH/SDR exchange rate (2010: SDR 1,372 million or UAH 16,823 million at the year-end official UAH/SDR exchange). The quota does not earn interest and is a non-current asset.

## 12. Fixed assets and intangible assets

	Buildings and constructions	Motor vehicles and transport	Machinery and equipment	Fixtures and fittings	Other fixed assets	Construction in progress	Intangible assets	Total
	<i>(in UAH millions)</i>							
Cost or valuation at 1 January 2010	5,701	139	1,725	110	192	139	124	8,130
Accumulated depreciation as at 1 January 2010	(651)	(63)	(831)	(62)	(118)	–	(70)	(1,795)
<b>Net book value as at 1 January 2010</b>	<b>5,050</b>	<b>76</b>	<b>894</b>	<b>48</b>	<b>74</b>	<b>139</b>	<b>54</b>	<b>6,335</b>
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 charge	(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)
<b>Net book value as at 31 December 2010</b>	<b>4,928</b>	<b>73</b>	<b>1,108</b>	<b>47</b>	<b>76</b>	<b>367</b>	<b>49</b>	<b>6,648</b>
Additions	20	31	153	4	11	123	35	377
Transfer from held-for-sale category	23	–	–	–	–	–	–	23
Disposals	(16)	–	–	–	–	(31)	–	(47)
Transfer to other category	147	–	29	11	5	(192)	–	–
Depreciation charge	(151)	(17)	(194)	(9)	(16)	–	(25)	(412)
Cost or valuation at 31 December 2011	5,898	179	2,252	130	222	267	172	9,120
Accumulated depreciation as at 31 December 2011	(947)	(92)	(1,156)	(77)	(146)	–	(113)	(2,531)
<b>Net book value as at 31 December 2011</b>	<b>4,951</b>	<b>87</b>	<b>1,096</b>	<b>53</b>	<b>76</b>	<b>267</b>	<b>59</b>	<b>6,589</b>

The management believes that no significant movements occurred in the fair value of the NBU's buildings and constructions in 2011 and 2010.

The carrying amount of fixed assets includes the revaluation surplus of UAH 4,084 million (2010: UAH 4,095 million). If buildings and constructions were accounted for at cost rather than at the revalued cost, their carrying amount would be UAH 867 million as at 31 December 2011 (2010: UAH 833 million).

Fully depreciated fixed assets which are still in operation amount to UAH 566 million (2010: UAH 659 million).

### 13. Other assets

	2011	2010
	<i>(in UAH millions)</i>	
<b>Other financial assets</b>		
Loans to NBU employees and other accounts receivable – neither past due nor impaired	476	342
Other	3	1
Provision against other financial assets	<u>(1)</u>	<u>(1)</u>
<b>Total other financial assets</b>	<b>478</b>	<b>342</b>
<b>Other non-financial assets</b>		
Bank metals	1,320	956
Inventory	255	233
Prepayments	182	164
Commemorative coins, souvenirs and other products	178	120
Precious metals and jewellery	94	101
Investment in associate	103	107
Non-current assets held for sale	–	23
Provision against other non-financial assets	<u>(8)</u>	<u>(6)</u>
<b>Total other non-financial assets</b>	<b><u>2,124</u></b>	<b><u>1,698</u></b>
<b>Total other assets</b>	<b><u>2,602</u></b>	<b><u>2,040</u></b>

Other financial assets are not collateralised.

Movements in the provision against other assets were as follows:

	2011	2010
	<i>(in UAH millions)</i>	
<b>Provision against other assets at the beginning of the year</b>	<b>7</b>	<b>5</b>
Provision charge during the year (Note 27)	<u>2</u>	<u>2</u>
<b>Provision against other assets at the end of the year</b>	<b><u>9</u></b>	<b><u>7</u></b>

At 31 December 2011 investments in associates included the following:

Name	Country of registration	Type of activity	2011		2010	
			Carrying amount	Share (%)	Carrying amount	Share (%)
<i>(in UAH millions)</i>						
German-Ukrainian Fund	Ukraine	Financial institution of special type	69	31.25	71	31.25
Private Joint-Stock Company «All-Ukrainian Depository of Securities»	Ukraine	Depository activities	<u>34</u>	22.86	<u>36</u>	22.86
<b>Total</b>			<b><u>103</u></b>		<b><u>107</u></b>	

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:

	<b>2011</b>	2010
		<i>(in UAH millions)</i>
<b>Carrying amount of investments at the beginning of the year</b>	<b>107</b>	96
Share of the NBU in (losses) / profits of associates	<b>(1)</b>	15
Foreign currency revaluation	<b>(3)</b>	(4)
	<hr/>	<hr/>
<b>Carrying amount of investments at the end of the year</b>	<b>103</b>	107
	<hr/> <hr/>	<hr/> <hr/>

Information on total assets and liabilities of the associates as at 31 December 2011 and their revenues, expenses, profits and losses for the years ended 31 December 2011 and 2010 is provided below:

	<b>2011</b>	2010
		<i>(in UAH millions)</i>
Total assets	<b>560</b>	677
Total liabilities	<b>171</b>	271
Total revenue	<b>35</b>	81
Total expense	<b>41</b>	30
Net (loss) / profit for the year	<b>(6)</b>	51

All other assets are expected to be recovered within 12 months except for long-term receivables, bank metals and investments in associates totalling UAH 1,656 million (2010: UAH 1,364 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

	2011	2010 <i>(in UAH millions)</i>
Correspondent accounts:		
in national currency	21,953	16,726
Mandatory reserves kept on separate accounts with the NBU	7,233	7,678
Accounts of banks with special use conditions:		
in national currency	78	129
in foreign currency	<u>2,164</u>	<u>1,824</u>
<b>Total accounts of banks</b>	<b><u>31,428</u></b>	<b><u>26,357</u></b>

Mandatory reserves of banks are kept on a separate account with the NBU and on correspondent accounts in the national currency (2010: on a separate account with the NBU). As at 31 December 2011, the mandatory reserve balance was calculated on the basis of a simple average over a monthly period (31 December 2010: simple average over a monthly period) and should be maintained at a level of 0-8% (31 December 2010: 0-7%) of certain obligations of banks. In accordance with the NBU regulations, as at 31 December 2011, banks were required to maintain on a separate account with the NBU 70% of the amount of mandatory reserves for the preceding provisioning period (31 December 2010: 100% of the mandatory reserve for the preceding provisioning period). In addition, banks are required to maintain on a daily basis at the beginning of the operating day on the correspondent account with the NBU the amount of not less than 25% of the mandatory reserves for the preceding provisioning period maintained on the correspondent account with the NBU.

Mandatory reserves balances kept by banks on a separate account with the NBU, bear interest of 30% of the NBU discount rate provided that the bank complies with requirements in respect of reserves formation and maintenance (31 December 2010: 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 included into mandatory reserves kept on separate accounts with the NBU as at 31 December 2011 amounts to UAH 14 million (31 December 2010: UAH 15 million).

As at 31 December 2011, 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 50% of their nominal value (31 December 2010: 100% of their nominal value).

Accounts of banks with special use conditions as at 31 December 2011 and 31 December 2010 include reserves for funds attracted by banks in foreign currency from non-residents, the funds placed for the purposes of statutory capital formation of newly established banks in the process of registration, accounts for making settlements by liquidation committees of banks under the process of liquidation and accounts opened for other purposes specified by the law of Ukraine and the NBU regulations.

Balances on all accounts of banks mature within 12 months (2010: 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

	2011	2010 <i>(in UAH millions)</i>
Budget funds	12,218	21,567
Individuals' Deposits Guarantee Fund	149	190
Other	311	416
<b>Total accounts of State and other institutions</b>	<b>12,678</b>	<b>22,173</b>

The NBU services the accounts of the State budget of Ukraine and local budgets consolidated on one treasury account.

In accordance with the Law of Ukraine "On the National Bank of Ukraine" all budget accounts are non-interest bearing.

Accounts of other institutions include balance on account of the Corporate Non-State Pension Fund of the NBU in the amount of UAH 12 million (2010: UAH 11 million). Refer to Note 2.

Balances on all accounts of State and other institutions mature within 12 months (2010: 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 (2010: up to 1 day (overnight deposits) and up to 90 days).

As at 31 December 2011, the nominal value of deposit certificates issued by the NBU was UAH 1 million each, with the initial term of placement from 5 to 43 days and weighted average yield of 2.55% per annum (2010: weighted average yield of 5.1% per annum and the initial term of placement from 6 to 57 days). The weighted average interest rate for the deposit certificates placed during 2011 was 1.82% per annum, and the initial term of placement from 2 to 89 days (2010: weighted average yield 3.2% per annum and initial term of placement from 2 to 89 days).

All deposit certificates issued by the NBU mature within 12 months (2010: 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

	2011	2010 <i>(in UAH millions)</i>
IMF accounts No 1 and No 2	43	43
Liabilities to the IMF in respect of SDR allocation	999	999
Liabilities to the IMF in settlement of Quota	16,787	16,780
Liabilities to the IMF in respect of purchases of SDR	58,982	58,925
<b>Total liabilities to the IMF</b>	<b>76,811</b>	<b>76,747</b>

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.

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 (2010: UAH 2,511 million).

Liabilities to the IMF in respect of purchases of SDR represent loans received from IMF by the NBU. During 2011, no funds from the IMF were received (2010: funds received from the IMF amounted to SDR 920 million (UAH 11,107 million at the official exchange rate at the date of transaction). Out of these funds, SDR 575 million (UAH 6,906 million at the official exchange rate at the date of transaction) 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 transaction) 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 (Note 7).

During 2011, there was no repayment of IMF funds (2010: there was no repayment of IMF funds).

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 upon its request.

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

	2011	2010 <i>(in UAH millions)</i>
<b>Other financial liabilities</b>		
Current accounts of employees	857	760
Accounts payable	24	28
Other	<u>1</u>	<u>–</u>
<b>Total other financial liabilities</b>	<b>882</b>	<b>788</b>
<b>Other non-financial liabilities</b>		
Taxes payable	6	4
Deferred income	<u>9</u>	<u>8</u>
<b>Total other non-financial liabilities</b>	<b>15</b>	<b>12</b>
<b>Total other liabilities</b>	<b><u>897</u></b>	<b><u>800</u></b>

All other liabilities are current (2010: all current).

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

In 2011, the NBU transferred to the State budget of Ukraine the excess of budgeted income over budgeted expenditure based on results of each quarter of 2011 as required by Article 5 of the Law of Ukraine "On the National Bank of Ukraine" (2010: based on results of each quarter of 2010).

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:

	<b>2011</b>	2010 <i>(in UAH millions)</i>
<b>Profit for the year per the consolidated statement of income</b>	<b>14,553</b>	17,084
Allocation to funds of the NBU	<b>(41)</b>	(495)
Allocation to general reserves of the NBU	–	(854)
Amortisation of the results of fair value adjustment for financial assets at initial recognition	<b>(2,614)</b>	(1,188)
<b>Excess of budgeted income over budgeted expenditure for the year to be transferred to the State budget, including:</b>	<b>11,898</b>	14,547
Advance payment of profits to the State budget	<b>(11,898)</b>	(14,547)
<b>Profits payable to the State budget of Ukraine</b>	<u>–</u>	<u>–</u>

In 2011, the NBU transferred to the State budget of Ukraine UAH 11,898 million of the excess of budgeted income over budgeted expenditure for the year ended 31 December 2011 (2010: the NBU transferred to the State Budget of Ukraine UAH 1,000 million of the excess of budgeted income over budgeted expenditure 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).

## 20. Capital management

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 2011 was UAH 86,939 million (2010: UAH 89,469 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.

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 2011 is presented below:

	<b>2011</b>	2010 <i>(in UAH millions)</i>
Statutory capital	<b>100</b>	100
Funds of the NBU	<b>3,489</b>	3,448
General reserves	<b>2,549</b>	2,549
Retained earnings	<b>93</b>	83
Revaluation reserve for foreign currency, monetary gold and bank metals	<b>90,360</b>	93,315
Fair value adjustment reserve for financial assets	<b>(13,737)</b>	(14,121)
Revaluation reserve for fixed assets	<b>4,085</b>	4,095
<b>Total equity</b>	<b><u>86,939</u></b>	<b><u>89,469</u></b>

## 21. Cash and cash equivalents

	Notes	2011	2010
		<i>(in UAH millions)</i>	
Foreign currency cash	5	591	80
Demand deposits (excluding gold, bank metals and restricted funds)	5	16,027	12,459
Short-term deposits maturing within three months (excluding gold, bank metals and restricted funds)		78,730	65,907
Foreign securities maturing within three months		4,835	8,575
SDR Holdings	7	143	63
Domestic securities maturing within three months		1,960	–
Other accounts receivable		–	40
Demand accounts of banks (excluding accrued interest)	14	(31,414)	(26,342)
Accounts of State and other institutions	15	(12,678)	(22,173)
IMF accounts No 1 and No 2	17	(43)	(43)
Liabilities to the IMF in respect of SDR allocation	17	(999)	(999)
Current accounts of employees	18	(857)	(760)
<b>Total cash and cash equivalents</b>		<b>56,295</b>	<b>36,807</b>

## 22. Interest income and expense

		2011	2010
		<i>(in UAH millions)</i>	
<b>Interest income</b>			
Income on domestic securities		8,827	8,373
Income on loans to banks and other borrowers		5,784	9,183
Income on foreign currency funds and deposits		1,119	403
Income on internal State debt		163	169
Income on SDR holdings		1	–
Other		7	6
<b>Total interest income</b>		<b>15,901</b>	<b>18,134</b>
<b>Interest expense</b>			
Expense on operations with the IMF		(1,550)	(1,126)
Expense on deposit certificates issued by the NBU		(308)	(544)
Expense on accounts of banks		(199)	(184)
Expenses on accounts of Individuals' Deposits Guarantee Fund		(21)	(25)
Other		(112)	(121)
<b>Total interest expense</b>		<b>(2,190)</b>	<b>(2,000)</b>
<b>Net interest income</b>		<b>13,711</b>	<b>16,134</b>

Other interest income includes interest income on loans to employees and interest expenses include expenses on accounts of employees. During 2011, 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 16,681 million (2010: UAH 15,941 million) and UAH 2,174 million (2010: UAH 1,986 million), respectively.

Income on loans to banks and other borrowers include income on impaired loans in the amount of UAH 3,157 million (2010: UAH 3,062 million), including the adjustment of interest income on impaired loans to bank in the amount of UAH 106 million (2010: UAH 526 million). Refer to Note 9.

### 23. Fee and commission income and expense

	2011	2010 <i>(in UAH millions)</i>
<b>Fee and commission income</b>		
<b>Income on services of electronic payments system and electronic mail</b>	<b>149</b>	142
Income on cash and settlement services	145	182
Income on non-resident securities management transactions	71	78
Income on valuables transportation services	<u>3</u>	<u>4</u>
<b>Total fee and commission income</b>	<b>368</b>	406
<b>Fee and commission expense</b>		
Expense on operations with the IMF	–	(74)
Expenses on non-resident securities management transactions	<u>(12)</u>	<u>(11)</u>
<b>Total fee and commission expense</b>	<u>(12)</u>	<u>(85)</u>
<b>Net fee and commission income</b>	<u><b>356</b></u>	<u>321</u>

### 24. Other income

	2011	2010 <i>(in UAH millions)</i>
Income from sale of commemorative coins, souvenirs and other products	131	115
Gain on derecognition of financial assets	105	–
Income from activities of educational institutions	28	25
Fines and penalties received	18	6
Income from registration and licensing	3	4
Income from monitoring of credit lines	2	2
Other	<u>35</u>	<u>74</u>
<b>Total other income</b>	<u><b>322</b></u>	<u>226</u>

The other income includes income from social and consumer services, sales of printed materials, sale of inventory, etc.

### 25. Staff costs

	2011	2010 <i>(in UAH millions)</i>
Wages and salaries	1,049	894
Single contribution for mandatory state social security and contributions to non-state pension funds	502	437
Social assistance and other social payments	105	88
Other	<u>72</u>	<u>134</u>
<b>Total staff costs</b>	<u><b>1,728</b></u>	<u>1,553</u>

Other staff costs include staff training and development costs, expenditure for special clothes, footwear and other means of protection, the NBU employees housing expenses and other costs.



## 26. Administrative and other expenses

	2011	2010 <i>(in UAH millions)</i>
Depreciation and amortisation	286	271
Utilities and household expenses	107	100
Expenses for maintenance of fixed assets and intangible assets	88	88
Fines and penalties paid	16	15
Telecommunication services and maintenance	15	15
Business trip expenses	14	13
Loss on disposal of fixed assets and intangible assets	10	–
Expenses for administration of international credit lines	7	6
Taxes, duties and charges	3	4
Stationery	3	3
Other	80	82
<b>Total administrative and other expenses</b>	<b>629</b>	<b>597</b>

The depreciation charge for 2011 excludes depreciation of UAH 126 million (2010: UAH 111 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, sponsorship and charity, etc.

## 27. Net increase in provisions

	Notes	2011 <i>(in UAH millions)</i>	2010 <i>(in UAH millions)</i>
(Increase in) / release of provisions:			
against internal State debt	10	26	27
against loans to banks and other borrowers	9	(361)	(1,224)
against other assets	13	(2)	(2)
<b>Total net increase in provisions</b>		<b>(337)</b>	<b>(1,199)</b>

## 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 in 2011 the amount of the NBU's financial assets placed with counterparties in OECD countries, decreased from 66% as at 31 December 2010 to 61% as at 31 December 2011, first of all as a result of decrease 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 2011.

In 2011, the risk value of open currency position of the consolidated balance sheet during 1 day increased from 0.63% as at 31 December 2010 to 0.70% as at 31 December 2011 of the UAH value of position (1.43% of consolidated equity as at 31 December 2010 and 1.54% of consolidated equity as at 31 December 2011), increased during ten days from 2.96% (6.77% of consolidated equity) as at 31 December 2010 to 3.03% (6.64% of consolidated equity) as at 1 December 2011 and during one month from 4.23% (9.66% of consolidated equity) as at 31 December 2010 to 4.28% (9.40% of consolidated equity) as at 31 December 2011.

The above increase in risk value of open currency position of the NBU in percentage terms arises due to decrease in the share of low volatility currencies (specifically, USD) in the international reserves during 2011. Relative share of risk value of open currency position as a percentage of equity insignificantly increased by 2.81% as compared with 2010.

During the process of risk value assessment of the open currency position of the consolidated balance sheet including international reserves, in 2011 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 2011, 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 2011, the modified duration of the foreign currency denominated securities portfolio increased from 1.786 (UAH 27.18 million per one basis point) as at 31 December 2010 to 2.292 (UAH 34.24 million per one basis point) as at 31 December 2011, which was deemed to be appropriate due to certain market interest rate stabilisation in 2011. Specifically, if the market interest rates for US Dollars, Euro and British pounds change by 100 basis points with the foreign securities portfolio held constant, its value will change by UAH 3,424 million, which will result in the respective adjustment of profit and equity (2010: if market interest rates for US Dollars, Euro and British pounds had changed by 100 basis points, the market value of foreign securities portfolio would have changed by UAH 2,718 million, which would have resulted in the respective adjustment of profit and equity).

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 re-pricing analysis of the consolidated assets and liabilities.

Reports with analysis of modified duration, changes in interest margin and interest rate re-pricing of the consolidated assets and liabilities are prepared on a monthly basis by the Risk Management Department 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 the NBU's nostro accounts in foreign currency (in accordance with the minimum required and maximum allowed daily levels of cash on the NBU's nostro accounts in foreign currencies, specified 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 2011 is set out below:

	Ukraine	OECD countries	IMF	Other	Total
	<i>(in UAH millions)</i>				
<b>Financial assets</b>					
Foreign currency funds and deposits	591	95,483	–	1	96,075
Foreign securities	–	148,088	–	1,243	149,331
SDR Holdings	–	–	143	–	143
Domestic securities	75,977	–	–	–	75,977
Loans to banks and other borrowers	60,326	–	–	–	60,326
Internal State debt	2,539	–	–	–	2,539
IMF quota contributions	–	–	16,830	–	16,830
Other financial assets	237	6	235	–	478
<b>Total financial assets</b>	<b>139,670</b>	<b>243,577</b>	<b>17,208</b>	<b>1,244</b>	<b>401,699</b>
<b>Financial liabilities</b>					
Banknotes and coins in circulation	209,565	–	–	–	209,565
Accounts of banks	31,428	–	–	–	31,428
Accounts of State and other institutions	12,636	42	–	–	12,678
Deposit certificates issued by the NBU	5,529	–	–	–	5,529
Liabilities to the IMF	–	–	76,811	–	76,811
Other financial liabilities	880	2	–	–	882
<b>Total financial liabilities</b>	<b>260,038</b>	<b>44</b>	<b>76,811</b>	<b>–</b>	<b>336,893</b>
<b>Net balance sheet position</b>	<b>(120,368)</b>	<b>243,533</b>	<b>(59,603)</b>	<b>1,244</b>	<b>64,806</b>
<b>Off-balance sheet commitments</b>					
Commitments to extend credit	(832)	–	–	–	(832)
<b>Net off-balance sheet position (Note 34)</b>	<b>(832)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(832)</b>
<b>Net position</b>	<b>(121,200)</b>	<b>243,533</b>	<b>(59,603)</b>	<b>1,244</b>	<b>63,974</b>

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
	<i>(in UAH millions)</i>				
<b>Financial assets</b>					
Foreign currency funds and deposits	80	115,778	–	1	<b>115,859</b>
Foreign securities	–	150,102	–	1,507	<b>151,609</b>
SDR Holdings	–	–	63	–	<b>63</b>
Domestic securities	54,879	–	–	–	<b>54,879</b>
Loans to banks and other borrowers	60,782	–	–	–	<b>60,782</b>
Internal State debt	2,645	–	–	–	<b>2,645</b>
IMF quota contributions	–	–	16,823	–	<b>16,823</b>
Other financial assets	274	4	64	–	<b>342</b>
<b>Total financial assets</b>	<b>118,660</b>	<b>265,884</b>	<b>16,950</b>	<b>1,508</b>	<b>403,002</b>
<b>Financial liabilities</b>					
Banknotes and coins in circulation	200,092	–	–	–	<b>200,092</b>
Accounts of banks	26,357	–	–	–	<b>26,357</b>
Accounts of State and other institutions	22,151	22	–	–	<b>22,173</b>
Deposit certificates issued by the NBU	9,442	–	–	–	<b>9,442</b>
Liabilities to the IMF	–	–	76,747	–	<b>76,747</b>
Other financial liabilities	777	11	–	–	<b>788</b>
<b>Total financial liabilities</b>	<b>258,819</b>	<b>33</b>	<b>76,747</b>	<b>–</b>	<b>335,599</b>
<b>Net balance sheet position</b>	<b>(140,159)</b>	<b>265,851</b>	<b>(59,797)</b>	<b>1,508</b>	<b>67,403</b>
<b>Off-balance sheet commitments</b>					
Commitments to extend credit	(833)	–	–	–	<b>(833)</b>
<b>Net off-balance sheet position (Note 34)</b>	<b>(833)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(833)</b>
<b>Net position</b>	<b>(140,992)</b>	<b>265,851</b>	<b>(59,797)</b>	<b>1,508</b>	<b>66,570</b>

### 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 AAA+ is the rating used for identification of highly reliable international financial institutions such as the Bank for International Settlements.

		2011		2010	
	Credit rating	Amount	% in financial assets	Amount	% in financial assets
				<i>(in UAH millions)</i>	
<b>Financial assets – neither past due nor impaired</b>					
Foreign currency funds and deposits					
demand deposits					
	AAA+	2,382	2.5	12	0.0
	AAA	3,706	3.9	517	0.4
	AA+	2	0.0	16	0.0
	AA	–	0.0	4,925	4.3
	AA–	4,144	4.3	5,978	5.2
	A+	5,828	6.1	979	0.8
	A	105	0.1	176	0.2
	BBB+	–	0.0	1	0.0
	BBB+	1	0.0	–	0.0
term deposits					
	AAA+	8	0.0	642	0.6
	AAA	17,794	18.5	15,851	13.7
	AA+	3	0.0	1,945	1.7
	AA	–	0.0	25,703	22.1
	AA–	25,909	27.0	44,086	38.0
	A+	6,925	7.2	4,321	3.7
	A	28,677	29.8	10,627	9.2
foreign currency cash	No risk	591	0.6	80	0.1
Total foreign currency funds and deposits		96,075	100.0	115,859	100.0
Foreign securities					
Government bonds					
	AAA	50,062	33.6	109,101	72.0
	AA+	52,278	35.0	2,730	1.8
	AA	–	–	292	0.2
	AA–	1,479	1.0	1,520	1.0
	A+	–	0.0	409	0.3
bonds of international agencies, banks and other issuers					
	AAA+	–	0.0	660	0.4
	AAA	30,165	20.2	24,328	16.0
	AA+	1,820	1.2	3,203	2.1
	AA	5,837	3.9	3,477	2.3
	AA–	5,260	3.5	2,976	2.0
	A+	665	0.5	2,209	1.5
	A	1,603	1.1	583	0.4
	A–	41	0.0	–	0.0
Total foreign debt securities		149,210	100.0	151,488	100.0
Domestic securities					
	B	74,577	98.2	53,672	97.8
	Unrated	1,400	1.8	1,207	2.2
Total domestic securities		75,977	100.0	54,879	100.0
Loans to banks and other borrowers					
loans granted to banks to support their liquidity					
	B	1,317	2.9	–	0.0
	B–	31,955	71.0	29,814	66.5
	CCC+	919	2.0	2,108	4.7
	Unrated	10,878	24.1	12,924	28.8
– loans granted under EBRD credit lines	Unrated	1	0.0	2	–
Total loans to banks and other borrowers		45,070	100.0	44,848	100.0
Other financial assets	Unrated	478	100.0	342	100.0

The total amount of loans to 5 banks with largest exposure outstanding as at 31 December 2011 was UAH 39,495 million (2010: UAH 43,661 million) or 53% (2010: 58%) of the total amount of loans to banks and other borrowers before provisioning.

### 31. Currency risk

As at 31 December 2011, the NBU had the following positions in currencies:

	UAH	USD	EUR	SDR	GBP	Other	Non-monetary	Total
	<i>(in UAH millions)</i>							
<b>Financial assets</b>								
Foreign currency funds and deposits	–	42,109	24,439	–	4,252	25,275	–	<b>96,075</b>
Foreign securities	–	83,706	48,371	–	11,945	5,188	121	<b>149,331</b>
SDR Holdings	–	–	–	143	–	–	–	<b>143</b>
Domestic securities	73,944	1,325	708	–	–	–	–	<b>75,977</b>
Loans to banks and other borrowers	60,154	172	–	–	–	–	–	<b>60,326</b>
Internal State debt	2,539	–	–	–	–	–	–	<b>2,539</b>
IMF quota contributions	–	–	–	16,830	–	–	–	<b>16,830</b>
Other financial assets	237	–	–	235	6	–	–	<b>478</b>
<b>Total financial assets</b>	<b>136,874</b>	<b>127,312</b>	<b>73,518</b>	<b>17,208</b>	<b>16,203</b>	<b>30,463</b>	<b>121</b>	<b>401,699</b>
<b>Financial liabilities</b>								
Banknotes and coins in circulation	209,565	–	–	–	–	–	–	<b>209,565</b>
Accounts of banks	29,264	1,970	194	–	–	–	–	<b>31,428</b>
Accounts of State and other institutions	2,405	10,134	139	–	–	–	–	<b>12,678</b>
Deposit certificates issued by the NBU	5,529	–	–	–	–	–	–	<b>5,529</b>
Liabilities to the IMF	–	–	–	76,811	–	–	–	<b>76,811</b>
Other financial liabilities	878	3	1	–	–	–	–	<b>882</b>
<b>Total financial liabilities</b>	<b>247,641</b>	<b>12,107</b>	<b>334</b>	<b>76,811</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>336,893</b>
<b>Net balance sheet position</b>	<b>(110,767)</b>	<b>115,205</b>	<b>73,184</b>	<b>(59,603)</b>	<b>16,203</b>	<b>30,463</b>	<b>121</b>	<b>64,806</b>

Assets and liabilities in other currencies mainly include positions in Swiss francs and Japanese yen.

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>							
<b>Financial assets</b>								
Foreign currency funds and deposits	–	65,049	35,129	–	5,947	9,734	–	<b>115,859</b>
Foreign securities	–	95,502	43,365	–	12,621	–	121	<b>151,609</b>
SDR Holdings	–	–	–	63	–	–	–	<b>63</b>
Domestic securities	52,570	1,487	822	–	–	–	–	<b>54,879</b>
Loans to banks and other borrowers	60,756	26	–	–	–	–	–	<b>60,782</b>
Internal State debt	2,645	–	–	–	–	–	–	<b>2,645</b>
IMF quota contributions	–	–	–	16,823	–	–	–	<b>16,823</b>
Other financial assets	233	4	–	105	–	–	–	<b>342</b>
<b>Total financial assets</b>	<b>116,204</b>	<b>162,068</b>	<b>79,316</b>	<b>16,991</b>	<b>18,568</b>	<b>9,734</b>	<b>121</b>	<b>403,002</b>
<b>Financial liabilities</b>								
Banknotes and coins in circulation	200,092	–	–	–	–	–	–	<b>200,092</b>
Accounts of banks	24,532	1,416	408	–	–	1	–	<b>26,357</b>
Accounts of State and other institutions	3,213	18,695	265	–	–	–	–	<b>22,173</b>
Deposit certificates issued by the NBU	9,442	–	–	–	–	–	–	<b>9,442</b>
Liabilities to the IMF	–	–	–	76,747	–	–	–	<b>76,747</b>
Other financial liabilities	774	4	2	–	–	8	–	<b>788</b>
<b>Total financial liabilities</b>	<b>238,053</b>	<b>20,115</b>	<b>675</b>	<b>76,747</b>	<b>–</b>	<b>9</b>	<b>–</b>	<b>335,599</b>
<b>Net balance sheet position</b>	<b>(121,849)</b>	<b>141,953</b>	<b>78,641</b>	<b>(59,756)</b>	<b>18,568</b>	<b>9,725</b>	<b>121</b>	<b>67,403</b>



### 32. Interest rate risk

As at 31 December 2011, 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 %)
<b>Financial assets</b>							
Term deposits in OECD countries	–	0.31	0.96	–	0.81	2.28	1.09
Foreign securities	–	0.63	0.76	–	0.82	3.33	0.78
SDR Holdings	–	–	–	0.11	–	–	0.11
Domestic securities	9.76	6.86	4.95	–	–	–	9.66
Loans to banks and other borrowers	9.18	2.17	–	–	–	–	9.18
Internal State debt	5.00	–	–	–	–	–	5.00
<b>Financial liabilities</b>							
Mandatory reserves kept on separate accounts with the NBU	2.33	–	–	–	–	–	2.33
Individuals' Deposits Guarantee Fund	5.53	–	–	–	–	–	5.11
Deposit certificates issued by the NBU	2.55	–	–	–	–	–	2.55
Liabilities to the IMF in respect of purchases of funds under credit facilities	–	–	–	2.22	–	–	2.22

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 is revised on a weekly basis; on loans to banks and other borrowers issued under EBRD's credit facilities the interest rate is accrued at LIBOR+3% and revised once per six months.

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, the consolidated profit and equity of the NBU would have been UAH 586 million lower/higher (2010: UAH 599 million lower/higher) as a result of higher/lower interest expense on variable interest liabilities to the IMF.

As at 31 December 2010, the NBU had the following interest rates on assets and liabilities:

	UAH	USD	EUR	SDR	GBP	Other	Total weighted average interest rate (in %)
<b>Financial assets</b>							
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
<b>Financial liabilities</b>							
Mandatory reserves kept on separate accounts with the NBU	2.33	–	–	–	–	–	2.33
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

### 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.

As at 31 December 2011 interest rate repricing analysis of the NBU's financial assets and liabilities is presented below:

	On 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>						
<b>Financial assets</b>							
Foreign currency funds and deposits	55,719	38,273	426	–	–	1,657	<b>96,075</b>
Foreign securities	17,717	2,203	14,684	112,923	1,683	121	<b>149,331</b>
SDR Holdings	143	–	–	–	–	–	<b>143</b>
Domestic securities	–	2,043	6,494	24,779	42,661	–	<b>75,977</b>
Loans to banks and other borrowers	8,938	2,118	8,507	40,763	–	–	<b>60,326</b>
Internal State debt	–	27	79	423	2,010	–	<b>2,539</b>
IMF quota contributions	–	–	–	–	–	16,830	<b>16,830</b>
Other financial assets	1	–	–	114	120	243	<b>478</b>
<b>Total financial assets</b>	<b>82,518</b>	<b>44,664</b>	<b>30,190</b>	<b>179,002</b>	<b>46,474</b>	<b>18,851</b>	<b>401,699</b>
<b>Financial liabilities</b>							
Banknotes and coins in circulation	–	–	–	–	–	209,565	<b>209,565</b>
Accounts of banks	–	–	–	–	–	31,428	<b>31,428</b>
Accounts of State and other institutions	161	–	–	–	–	12,517	<b>12,678</b>
Deposit certificates issued by the NBU	5,529	–	–	–	–	–	<b>5,529</b>
Liabilities to the IMF	60,095	–	–	–	–	16,716	<b>76,811</b>
Other financial liabilities	874	3	–	–	–	5	<b>882</b>
<b>Total financial liabilities</b>	<b>66,659</b>	<b>3</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>270,231</b>	<b>336,893</b>
<b>Net gap</b>	<b>15,859</b>	<b>44,661</b>	<b>30,190</b>	<b>179,002</b>	<b>46,474</b>	<b>(251,380)</b>	<b>64,806</b>
<b>Cumulative gap</b>	<b>15,859</b>	<b>60,520</b>	<b>90,710</b>	<b>269,712</b>	<b>316,186</b>	<b>64,806</b>	

As at 31 December 2010 interest rate repricing analysis of the NBU's financial assets and liabilities is presented below:

	<b>On demand and up to 1 month</b>	<b>1 to 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Non- interest bearing</b> <i>(in UAH millions)</i>	<b>Total</b>
<b>Financial assets</b>							
Foreign currency funds and deposits	39,129	38,853	37,184	6	–	687	<b>115,859</b>
Foreign securities	12,237	5,843	30,615	102,263	530	121	<b>151,609</b>
SDR Holdings	63	–	–	–	–	–	<b>63</b>
Domestic securities	247	210	2,821	17,569	34,032	–	<b>54,879</b>
Loans to banks and other borrowers	658	3,507	5,365	48,058	3,194	–	<b>60,782</b>
Internal State debt	–	26	80	423	2,116	–	<b>2,645</b>
IMF quota contributions	–	–	–	–	–	16,823	<b>16,823</b>
Other financial assets	1	–	–	118	113	110	<b>342</b>
<b>Total financial assets</b>	<b><u>52,335</u></b>	<b><u>48,439</u></b>	<b><u>76,065</u></b>	<b><u>168,437</u></b>	<b><u>39,985</u></b>	<b><u>17,741</u></b>	<b><u>403,002</u></b>
<b>Financial liabilities</b>							
Banknotes and coins in circulation	–	–	–	–	–	200,092	<b>200,092</b>
Accounts of banks	7,659	–	–	–	–	18,698	<b>26,357</b>
Accounts of State and other institutions	201	–	–	–	–	21,972	<b>22,173</b>
Deposit certificates issued by the NBU	4,088	5,354	–	–	–	–	<b>9,442</b>
Liabilities to the IMF	59,924	–	–	–	–	16,823	<b>76,747</b>
Other financial liabilities	769	–	–	–	–	19	<b>788</b>
<b>Total financial liabilities</b>	<b><u>72,641</u></b>	<b><u>5,354</u></b>	<b><u>–</u></b>	<b><u>–</u></b>	<b><u>–</u></b>	<b><u>257,604</u></b>	<b><u>335,599</u></b>
<b>Net gap</b>	<b><u>(20,306)</u></b>	<b><u>43,085</u></b>	<b><u>76,065</u></b>	<b><u>168,437</u></b>	<b><u>39,985</u></b>	<b><u>(239,863)</u></b>	<b><u>67,403</u></b>
<b>Cumulative gap</b>	<b><u>(20,306)</u></b>	<b><u>22,779</u></b>	<b><u>98,844</u></b>	<b><u>267,281</u></b>	<b><u>307,266</u></b>	<b><u>67,403</u></b>	

### 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. 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 2011 is set out below:

	<b>On demand and up to 1 month</b>	<b>1 to 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Non- interest bearing</b>	<b>Total</b>
<i>(in UAH millions)</i>							
<b>Financial assets</b>							
Foreign currency funds and deposits	57,376	38,273	426	–	–	–	<b>96,075</b>
Foreign securities	1,664	3,272	20,980	120,993	2,301	121	<b>149,331</b>
SDR Holdings	143	–	–	–	–	–	<b>143</b>
Domestic securities	–	2,043	6,494	24,779	42,661	–	<b>75,977</b>
Loans to banks and other borrowers	8,938	2,118	8,507	40,763	–	–	<b>60,326</b>
Internal State debt	–	27	79	423	2,010	–	<b>2,539</b>
IMF quota contributions	–	–	–	–	–	16,830	<b>16,830</b>
Other financial assets	1	–	–	114	120	243	<b>478</b>
<b>Total financial assets</b>	<b><u>68,122</u></b>	<b><u>45,733</u></b>	<b><u>36,486</u></b>	<b><u>187,072</u></b>	<b><u>47,092</u></b>	<b><u>17,194</u></b>	<b><u>401,699</u></b>
<b>Financial liabilities</b>							
Banknotes and coins in circulation	209,565	–	–	–	–	–	<b>209,565</b>
Accounts of banks	31,428	–	–	–	–	–	<b>31,428</b>
Accounts of State and other institutions	12,678	–	–	–	–	–	<b>12,678</b>
Deposit certificates issued by the NBU	5,529	–	–	–	–	–	<b>5,529</b>
Liabilities to the IMF	1,043	5,155	17,316	38,452	–	16,787	<b>78,753</b>
Other financial liabilities	879	3	–	–	–	–	<b>882</b>
Commitments to extend credit	–	–	832	–	–	–	<b>832</b>
<b>Total potential future payments for financial obligations</b>	<b><u>261,122</u></b>	<b><u>5,158</u></b>	<b><u>18,148</u></b>	<b><u>38,452</u></b>	<b><u>–</u></b>	<b><u>16,787</u></b>	<b><u>339,667</u></b>
<b>Liquidity gap arising from financial instruments</b>	<b><u>(193,000)</u></b>	<b><u>40,575</u></b>	<b><u>18,338</u></b>	<b><u>148,620</u></b>	<b><u>47,092</u></b>	<b><u>407</u></b>	<b><u>62,032</u></b>

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 2010 is set out below:

	On 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>							
<b>Financial assets</b>							
Foreign currency funds and deposits	39,816	38,853	37,184	6	–	–	<b>115,859</b>
Foreign securities	2,541	6,878	31,248	109,450	1,371	121	<b>151,609</b>
SDR Holdings	63	–	–	–	–	–	<b>63</b>
Domestic securities	247	210	2,821	17,569	34,032	–	<b>54,879</b>
Loans to banks and other borrowers	658	3,507	5,365	48,058	3,194	–	<b>60,782</b>
Internal State debt	–	26	80	423	2,116	–	<b>2,645</b>
IMF quota contributions	–	–	–	–	–	16,823	<b>16,823</b>
Other financial assets	41	–	–	188	113	–	<b>342</b>
<b>Total financial assets</b>	<b>43,366</b>	<b>49,474</b>	<b>76,698</b>	<b>175,694</b>	<b>40,826</b>	<b>16,944</b>	<b>403,002</b>
<b>Financial liabilities</b>							
Banknotes and coins in circulation	200,092	–	–	–	–	–	<b>200,092</b>
Accounts of banks	26,357	–	–	–	–	–	<b>26,357</b>
Accounts of State and other institutions	22,173	–	–	–	–	–	<b>22,173</b>
Deposit certificates issued by the NBU	4,093	5,395	–	–	–	–	<b>9,488</b>
Liabilities to the IMF	1,041	333	1,119	60,954	–	16,780	<b>80,227</b>
Other financial liabilities	781	7	–	–	–	–	<b>788</b>
Commitments to extend credit	–	–	833	–	–	–	<b>833</b>
<b>Total potential future payments for financial obligations</b>	<b>254,537</b>	<b>5,735</b>	<b>1,952</b>	<b>60,954</b>	<b>–</b>	<b>16,780</b>	<b>339,958</b>
<b>Liquidity gap arising from financial instruments</b>	<b>(211,171)</b>	<b>43,739</b>	<b>74,746</b>	<b>114,740</b>	<b>40,826</b>	<b>164</b>	<b>63,044</b>

### 34. Commitments, contingencies and derivative financial instruments

#### Undrawn loan commitments

Undrawn loan commitments include the following:

	2011	2010
		<i>(in UAH millions)</i>
Undrawn loan commitments under loans to support the banks' liquidity	<b>832</b>	<b>833</b>
<b>Total undrawn loan commitment</b>	<b>832</b>	<b>833</b>

Undrawn loan commitments represent unused amounts of loans to banks. As regards the credit risk on undrawn loan commitment, the NBU is potentially exposed to loss in the amount equal

to the total unused loan commitments, if the unused amounts were to be drawn down. However, the possible amount of loss is less than the total unused loan commitments since the most undrawn loan commitments are contingent upon customers maintaining specific credit standards. The NBU monitors the term to maturity of undrawn loan commitments because longer-term commitments generally have a greater degree of credit risk than short-term commitments. The total outstanding contractual amount of undrawn loan commitments does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

#### **Capital commitments**

As at 31 December 2011, the NBU had capital commitments in respect of fixed asset purchases, construction and improvements and intangible assets purchases totalling UAH 1,185 million (2010: UAH 143 million).

#### **Derivative financial instruments**

The NBU carried out transactions with futures for the purposes of regulating the interest rate risk since December 2007 till December 2011 under the Investment Management and Consulting Services Agreement between the NBU and International Bank for Reconstruction and Development.

As at 31 December 2011, the NBU had no futures contracts due to their sale in 2011 (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). Funds for settlements under futures operations in the amount of UAH 6 million are included in Foreign currency funds and deposits. 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 (2010: the fair value of state debt securities available for sale was based on quoted prices on an active market.).

**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:

	2011	2010
	Discount rate, in % per annum	Discount rate, in % per annum
Domestic debt securities: in national currency:		
Internal State debt bonds ("OVDP")	7.90–16.62	7.90–11.91
Bonds issued by State Mortgage Institution	7.98–16.66	7.98–11.89
Internal State debt denominated in national currency (issued in 1994–1996)	7.75–8.72	7.75–8.66
Loans to banks and other borrowers	9.75–21.227	9.75–14.89

The following table summarises the carrying amounts and range of possible fair values of those financial assets not presented on the NBU's consolidated balance sheet at their fair value:

	2011			2010		
	Carrying amount	Estimated fair value Upper Value	Lower value	Carrying amount	Estimated fair value Upper Value	Lower value
Domestic debt securities: in national currency:						
Internal State debt bonds ("OVDP")	52,959	71,213	58,177	43,528	62,105	54,134
Bonds issued by State Mortgage Institution	1,400	1,445	1,301	1,207	1,281	1,182
<b>Total domestic securities not carried at fair value</b>	<b>54,359</b>	<b>72,658</b>	<b>59,478</b>	<b>44,735</b>	<b>63,386</b>	<b>55,316</b>
Internal State debt denominated in national currency (issued in 1994–1996)	2,539	2,556	2,384	2,645	2,649	2,526
<b>Total internal State debt</b>	<b>2,539</b>	<b>2,556</b>	<b>2,384</b>	<b>2,645</b>	<b>2,649</b>	<b>2,526</b>
<b>Loans to banks and other borrowers</b>	<b>60,326</b>	<b>57,572</b>	<b>57,572</b>	<b>60,782</b>	<b>56,597</b>	<b>56,597</b>

Taking into account the fact that the calculations of the estimated fair value are based on cer-

tain 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:

	2011		2010	
	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)
	<i>(in UAH millions)</i>			
Foreign currency funds and deposits (futures)	–	–	6	–
Foreign securities at fair value through profit or loss	<b>149,210</b>	–	151,488	–
Debt securities available for sale:				
in national currency				
Internal State debt bonds (“OVDP”)	<b>14,972</b>	<b>4,613</b>	6,700	1,135
in foreign currency				
External State bonds denominated in US dollars	<b>1,325</b>	–	1,487	–
External State bonds denominated in Euro	<b>708</b>	–	822	–

### 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 at 31 December 2011:

	Loans and receivables	Assets designated at fair value through profit or loss	Available- for-sale assets	Financial liabilities at amortised cost	Total
<i>(in UAH millions)</i>					
<b>Financial assets</b>					
Foreign currency funds and deposits	96,075	–	–	–	<b>96,075</b>
Foreign securities	–	149,210	121	–	<b>149,331</b>
SDR Holdings	143	–	–	–	<b>143</b>
Domestic securities	54,359	–	21,618	–	<b>75,977</b>
Loans to banks and other borrowers	60,326	–	–	–	<b>60,326</b>
Internal State debt	2,539	–	–	–	<b>2,539</b>
IMF quota contributions	–	–	16,830	–	<b>16,830</b>
Other financial assets	478	–	–	–	<b>478</b>
<b>Total financial assets</b>	<b>213,920</b>	<b>149,210</b>	<b>38,569</b>	–	<b>401,699</b>
<b>Financial liabilities</b>					
Banknotes and coins in circulation	–	–	–	209,565	<b>209,565</b>
Accounts of banks	–	–	–	31,428	<b>31,428</b>
Accounts of State and other institutions	–	–	–	12,678	<b>12,678</b>
Deposit certificates issued by the NBU	–	–	–	5,529	<b>5,529</b>
Liabilities to the IMF	–	–	–	76,811	<b>76,811</b>
Other financial liabilities	–	–	–	882	<b>882</b>
<b>Total financial liabilities</b>	–	–	–	<b>336,893</b>	<b>336,893</b>

The following table analyses financial instruments by these measurement categories as at 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
<i>(in UAH millions)</i>					
<b>Financial assets</b>					
Foreign currency funds and deposits	115,853	6	–	–	<b>115,859</b>
Foreign securities	–	151,488	121	–	<b>151,609</b>
SDR Holdings	63	–	–	–	<b>63</b>
Domestic securities	44,735	–	10,144	–	<b>54,879</b>
Loans to banks and other borrowers	60,782	–	–	–	<b>60,782</b>
Internal State debt	2,645	–	–	–	<b>2,645</b>
IMF quota contributions	–	–	16,823	–	<b>16,823</b>
Other financial assets	342	–	–	–	<b>342</b>
<b>Total financial assets</b>	<b>224,420</b>	<b>151,494</b>	<b>27,088</b>	–	<b>403,002</b>
<b>Financial liabilities</b>					
Banknotes and coins in circulation	–	–	–	200,092	<b>200,092</b>
Accounts of banks	–	–	–	26,357	<b>26,357</b>
Accounts of State and other institutions	–	–	–	22,173	<b>22,173</b>
Deposit certificates issued by the NBU	–	–	–	9,442	<b>9,442</b>
Liabilities to the IMF	–	–	–	76,747	<b>76,747</b>
Other financial liabilities	–	–	–	788	<b>788</b>
<b>Total financial liabilities</b>	–	–	–	<b>335,599</b>	<b>335,599</b>

### 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. Only material transactions with related parties are provided in this Note. The outstanding balances at the year end are as follows:

	Notes	2011			2010		
		Government and State-controlled entities	Associates	Other related parties	Government and State-controlled entities	Associates	Other related parties
<i>(in UAH millions)</i>							
Domestic securities	8	<b>75,977</b>	–	–	54,879	–	–
Loans to banks and other borrowers		<b>31,688</b>	–	–	29,162	–	–
Provision for impairment of loans to banks and other borrowers		<b>(4,825)</b>	–	–	(4,402)	–	–
Internal State debt			–	–			
Gross	10	<b>3,174</b>	–	–	3,306	–	–
Provision against internal State debt	10	<b>(635)</b>	–	–	(661)	–	–
Other assets		<b>11</b>	<b>103</b>	<b>4</b>	54	107	3
Accounts of banks		<b>2,336</b>	–	–	3,002	–	–
Accounts of State and other institutions		<b>12,225</b>	<b>246</b>	<b>161</b>	21,581	364	11
Accounts of Individuals' Deposits Guarantee Fund	15	–	–	<b>190</b>	–	–	190
Deposit certificates issued by the NBU		<b>1,100</b>	–	–	158	–	–
Other liabilities		<b>6</b>	–	–	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, specifically, under direct "repo" transactions with the State bond of Ukraine) bear contractual interest rate from 9.3% to 17.3% as at 31 December 2011 (31 December 2010: 9.75%);

long-term loans to State-owned banks (included in the loans to banks and other borrowers in the above table) bear contractual interest rates from 8.25% to 11.0% as at 31 December 2011 (31 December 2010: from 8.25% to 11%) and mature from 1 to 5 years (2010: from 1 to 6 years);

accounts of State and other institutions are non-interest bearing;

demand accounts of Individuals' Deposit Guarantee Fund bear contractual interest rate of 5.53% as at 31 December 2011 (31 December 2010: 5.29%);

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) bear interest rate of 2.33% as at 31 December 2011 (31 December 2010: 2.33%);

deposit certificates issued by the NBU bear the contractual interest rate of 2.5% as at 31 December 2011 and mature within one month (31 December 2010: bore the contractual interest rate of 5% and matured within one month).

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:

	2011			2010		
	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	11,555	–	–	12,152	–	–
Interest expense	(59)	–	(21)	(17)	–	(25)
Fee and commission income	119	–	3	123	–	4
Other income	23	1	2	51	16	2
Other expenses	(11)	(3)	(4)	(13)	–	(3)
Net increase in provisions	(423)	–	–	(2,680)	–	–

In accordance with the Law of Ukraine "On the National Bank of Ukraine", services to the State Treasury of Ukraine are provided by the NBU free of charge.

In 2011, the short-term benefits (salaries) of key management personnel amounted to UAH 10.1 million (2010: UAH 9.8 million). As at 31 December 2011, outstanding balance of loans to the key management personnel amounted to UAH 1.1 million (2010: UAH 1.2 million).

### 38. Concentration of assets and liabilities

As at 31 December 2011 19% (2011: 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, 13% (2010: 17%) are represented by US Treasury bills, 11% (2010: 11%) are represented by the coupon bonds of UK Government and other EU countries and 15% (2010: 15%) are represented by loans to Ukrainian banks and other borrowers.

As at 31 December 2011 66% (2011: 63%) 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, 10% (2009: 8%) are represented by accounts of banks and 19% (2010: 19%) are represented by liabilities to the IMF.

17 April 2012

Kyiv, Ukraine



## Contents

<b>National Bank of Ukraine Governor's opening address</b> .....	3
<b>Macroeconomic development of Ukraine</b> .....	11
1. Review of the World Economy and International Markets .....	13
2. Review of Ukraine's Economy .....	15
3. Balance of Payments and External Debt .....	21
4. Development of Financial Sector of Ukraine .....	25
<b>Activities of the National Bank of Ukraine</b> .....	45
1. Monetary Policy of the National Bank of Ukraine.....	47
2. International Reserves .....	56
3. Servicing of the Domestic Debt of Ukraine .....	58
4. Cash Circulation.....	61
5. Supervision and Regulation .....	65
6. Foreign Exchange Control and Licensing System.....	75
7. Other Directions of Activities of the National Bank of Ukraine.....	79
<b>Calendar of Principal Events of 2011</b> .....	101
<b>Consolidated Financial Statements of the National Bank of Ukraine</b> .....	107

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