



NATIONAL BANK OF UKRAINE

ANNUAL REPORT

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Dear Mesdames and Sirs!

Below you can find the Annual Report of the National Bank of Ukraine for the year of 2013 which has been among the toughest years since Ukraine got its independence. In the reporting year, all the problems and challenges which were amassing for the years in the economy, the society, and the foreign policy aggravated.

Today, the National Bank of Ukraine faces the necessity of doing the hard yards as it has to implement comprehensive reforms in the monetary system of Ukraine. Therefore, the National Bank makes a decisive move towards developing the present-day monetary policy that would allow for gradual approach to flexible exchange rate, transition to inflation targeting, and implementation of progressive institutional reforms in the market.

The pack of measures to regain the investor confidence in Ukraine's economy and financial sector has been elaborated and is being implemented. The negotiations on financial support are carried on with the world leading economies, the international financial institutions, and the private investors. In view of the foregoing, the resumption of cooperation with the International Monetary Fund and signing of a new credit program definitely are the crucial factors.

For sure, the implementation of these plans will allow the National Bank to lay the foundation for ensuring the stability of banking system and the predictability of monetary market, as well as for raising the effectiveness of Ukraine's economy.

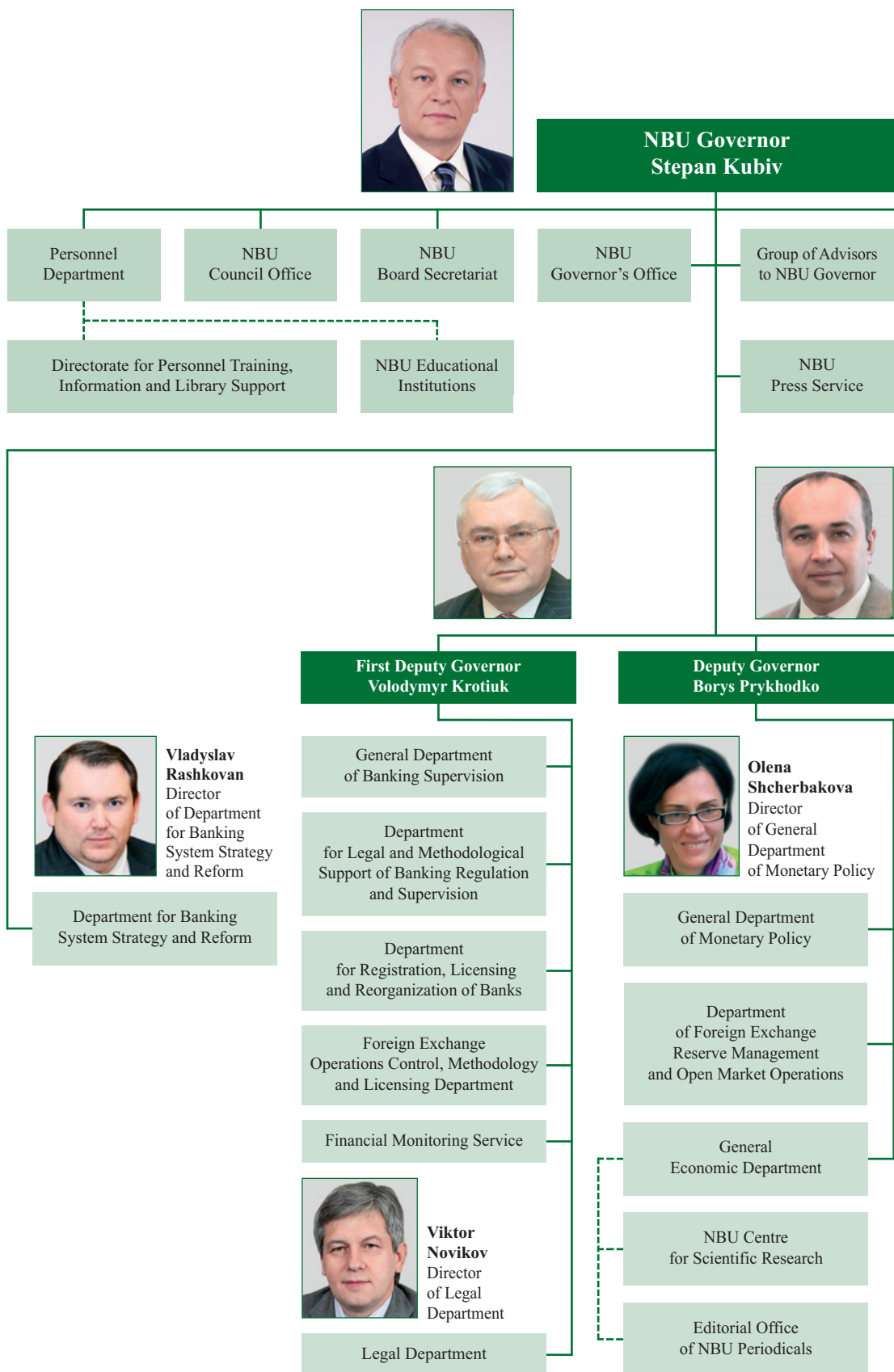
Sincerely yours,

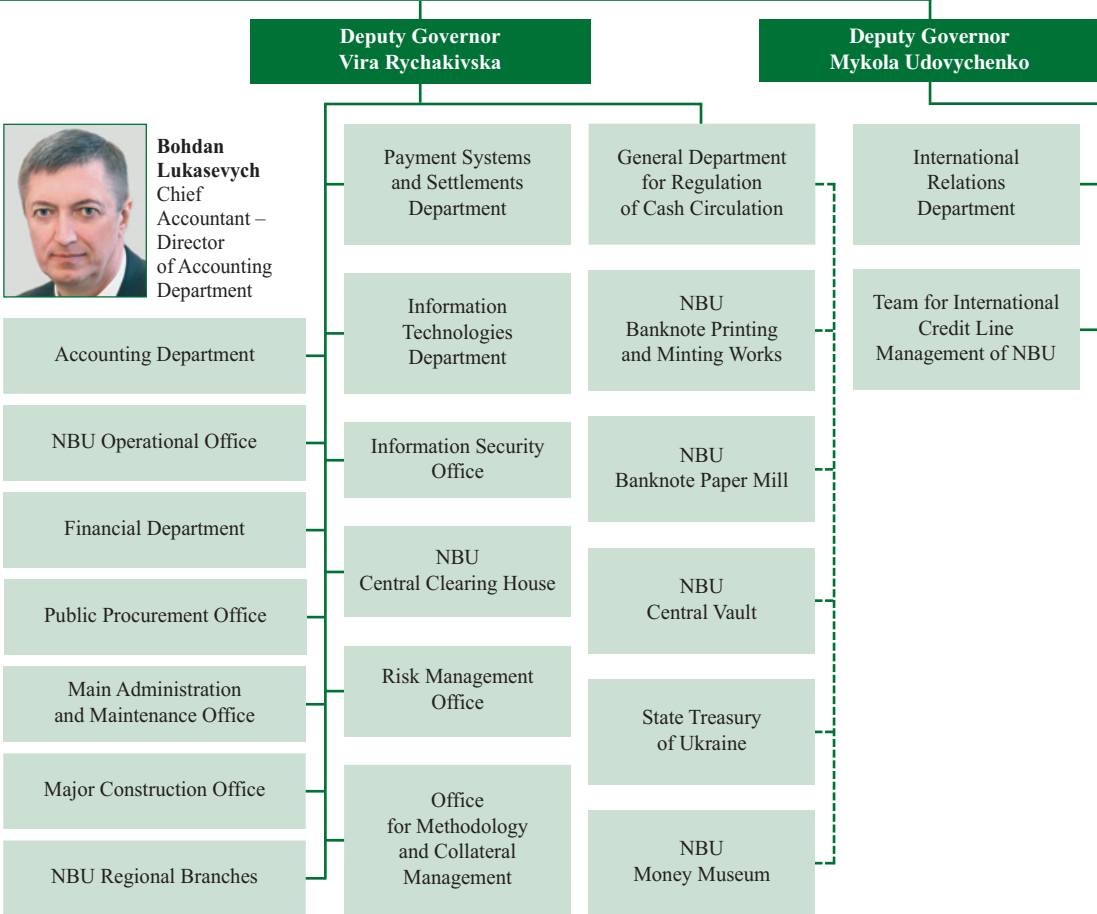
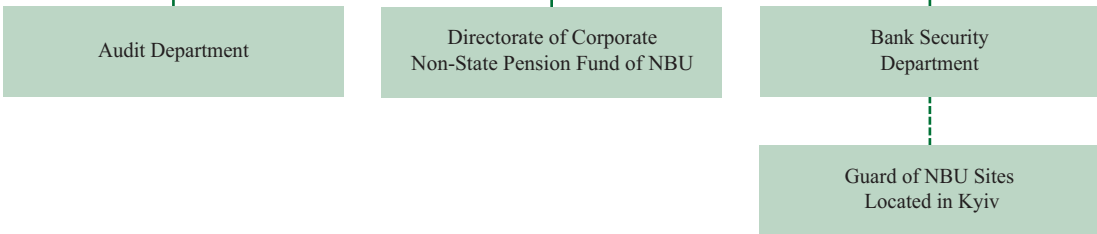
A handwritten signature in black ink, appearing to be 'Stepan Kubiv', written in a cursive style.

Stepan Kubiv

Governor of the National Bank of Ukraine

ORGANIZATIONAL CHART OF THE NATIONAL BANK OF UKRAINE (NBU) as of April 16, 2014





EXECUTIVE SUMMARY

In 2013, the economic situation in Ukraine and in majority of world countries was tense. For Ukraine the adverse effect of deteriorating situation in the world commodity markets aggravated as it had to pay considerable amounts on its foreign liabilities while the access to foreign borrowings thickened.

Under these conditions the National Bank of Ukraine faced multidirectional challenges of ensuring the stability of financial system and maintaining the economic processes.

The National Bank of Ukraine has duly fulfilled its undertakings and tasks. While performing its core function the NBU has ensured the price stability and promoted the stability of banking system within its competence.

The sound monetary policy of the National Bank assured price stability as the headline inflation made up only 0.5%, while the core inflation totaled 0.1% (as compared with 0.8%, in the previous year). At the same time, the dynamics of monetary aggregates did not allow for any imbalances of monetary nature and were adequate to the macroeconomic processes in the country.

Under the tight dynamics of headline inflation the NBU was gradually implementing the measures to facilitate the economic development, including lowering the interest rates in a stepwise manner; allowing the banks to manage their liquidity in a more flexible way by easing the minimum reserve requirements; supporting the banking system liquidity (through the respective monetary operations) at a level sufficient for ensuring the credit support of economic development, etc.

In particular, twice during the year, the NBU lowered the discount rate which is the reference one for other NBU interest rates. Respectively, the interest rates on standing refinancing facility went down entailing the economic stabilization in the country.

Despite the unfavorable macroeconomic conditions the banking system developed with better dynamics than in the previous years.

Principally, the banks increased significantly the loans to the real economy. In 2013, they added 14.7% or UAH 90 billion which was more than three times higher as compared with 2012. The growth was mainly due to the operations in the national currency. At the same time, the quality of lending operations improved.

The growth of bank funding base was almost twice higher than that in the previous year (13.3% or UAH 128 billion). The main factor of this was growing confidence in the banking system: in 2013, the household deposits rose by 19.2% or by UAH 70 billion.

The bank financial standing improved: the regulatory capital added UAH 26 billion, whereas the authorized capital, its core component, grew by UAH 10 billion. For the two consecutive years, the banking system gained a positive financial result of UAH 1.4 billion.

At the same time, we understand that the loan prices are still quite high for the economic entities. However, for dropping them it is necessary to decrease some risks related to borrower's reliability, quality of collateral, legal relations, etc. The National Bank, in its turn, pursued an active policy with respect to protection of creditors' rights, improvement of bank balance quality, and minimization of inflation and foreign exchange risks.

The situation on the FX segment of monetary market was controllable and predictable. Net demand for FX cash fell 3.5 times as compared with 2012. The introduction of mandatory FX sale ensured regular inflow of foreign currency in the market.

To mitigate the external vulnerability of financial and credit system, for several consecutive years, the National Bank has been working upon the de-dollarization of economy, the development of electronic transfer systems, and the creation of effective infrastructure of stock market.

Thanks to the measures taken by the National Bank of Ukraine, at the end of the year, the share of loans in the national currency exceeded 90% of increase in the bank loan portfolio, with the portfolio's dollarization level slumping to 34.2%. The main currency of household savings was the hryvnia; the dollarization level of deposits decreased by 8 percentage points, down to 42.8%.

The limitation of value of cash payments not only promoted an increase in payment card transactions, but also kept the stability of national financial market, enhanced bank liquidity, and stimulated a cutback in hidden cash transactions.

The NBU has made important steps towards reforming the national payment system and its infrastructure on the basis of open international standards. It has proposed a new hardware platform for processing of interbank card transactions: the Central Router and the Clearing House of the National System for Mass Electronic Payments. This enhanced materially the protection of national interests in the sphere of electronic transfers.

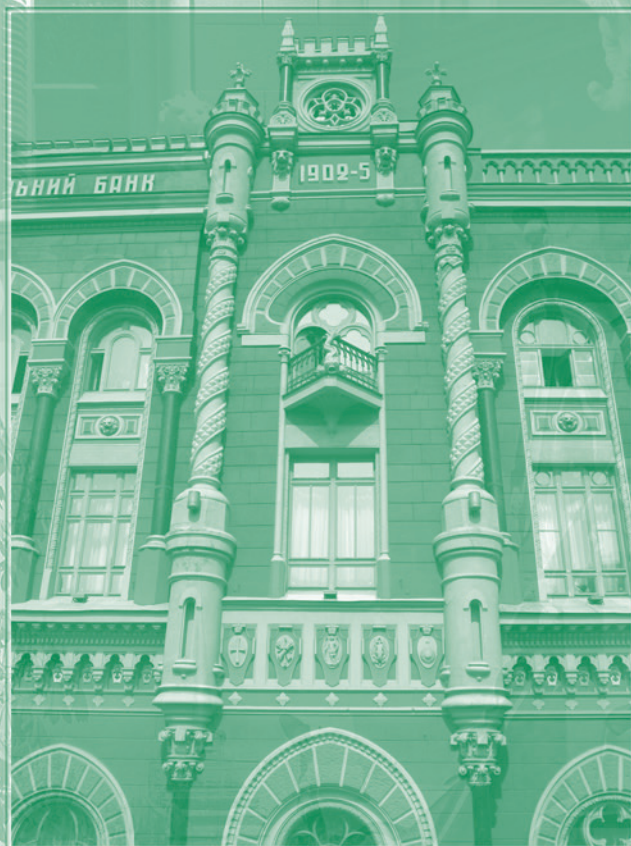
In 2013, in order to attract investments the NBU vigorously worked upon ensuring transparency of settlements on financial instruments.

Pursuant to the Law of Ukraine "On the Depository System" adopted by Verkhovna Rada of Ukraine in 2012 the Settlement Center Servicing Contracts in Financial Markets PJSC and the National Depository of Ukraine have been established and launched. This was a decisive move towards creating a transparent and effective stock market.

The NBU will continue to use its best endeavors in order to strengthen the banking system, to increase the depositor confidence in it, and to provide the economy with necessary financial support from the banking system.

Stability, predictability, and effectiveness continue to be the key priorities of the NBU's activities.

Macroeconomic Development of Ukraine



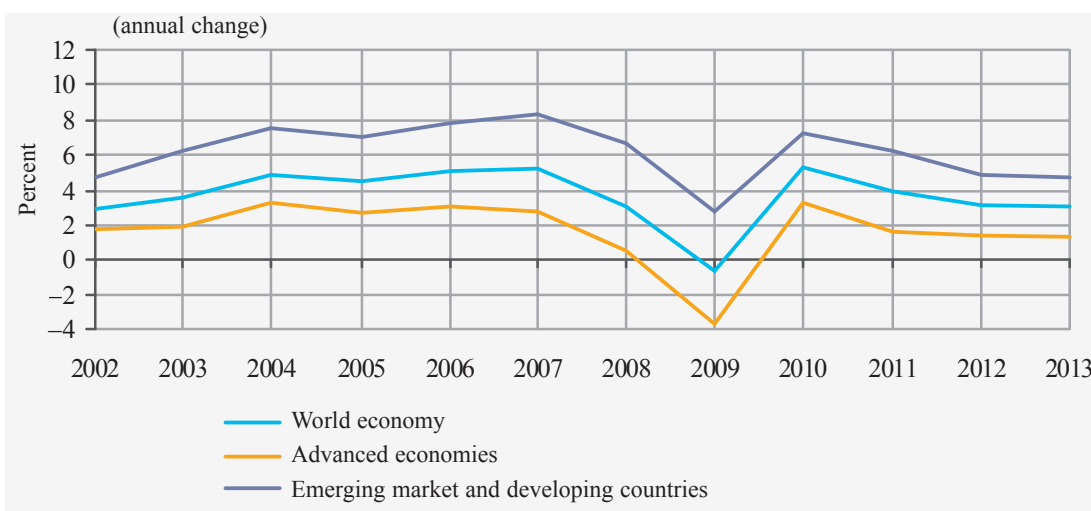
1. OVERVIEW OF THE WORLD ECONOMY AND INTERNATIONAL MARKETS

In 2013, a downward trend in the world economic development started to reverse moderately. The world GDP growth remained almost the same as in 2012 (3.0%)¹. Among the key factors stimulating these dynamics there were the resuming economic activities in the advanced economies and the slowing down economic growth in the emerging markets.

The United States economy gradually recovered as its real GDP added 1.9% in 2013. At the end of the reporting year, the euro area economies started to show some signs of improvement as the slumping pace of real GDP slowed down to minus 0.4% as compared with the previous year. In 2013, the economic growth in Russia paced down to 1.3%, while that in China fell down to 7.8% (the lowest level for the last 14 years).

The slowdown in global economic activities, in particular, in Europe, and the strengthening of protectionism in many countries affected the pace of global trade in goods and services which remained the same as in 2013, at the level of 2.7%.

Figure 1. World GDP Dynamics



Source: International Monetary Fund.

¹ IMF World economic outlook (January 2014).

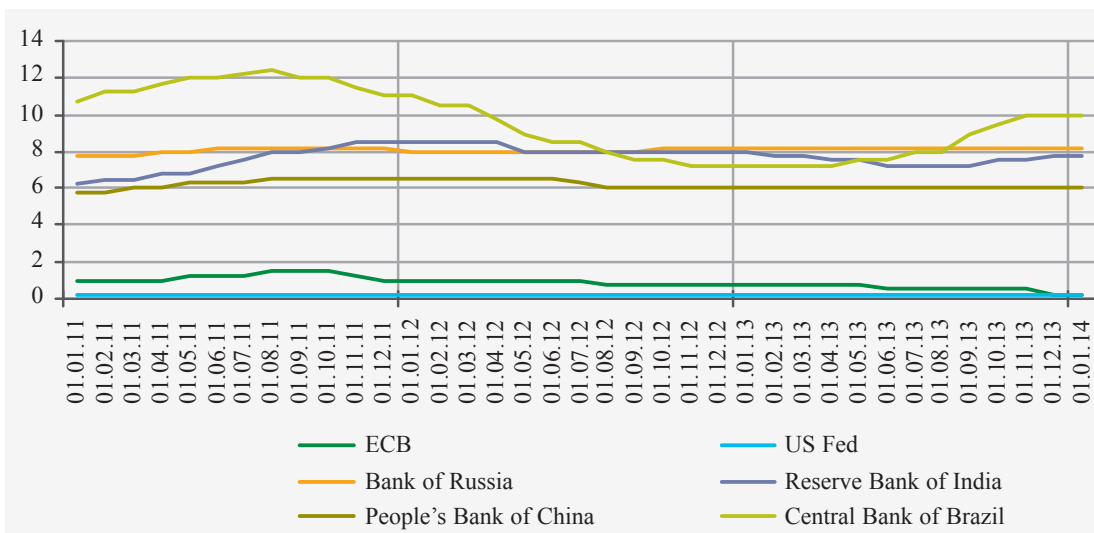
A weak consumer demand entailed a slowdown in inflation in the majority of the advanced economies where in 2013, average annual inflation was lower by 0.6 percentage points as compared with 2012 and made up 1.4%. In the developing economies inflation accelerated slightly as the average annual inflation grew by 0.1 percentage points, up to 6.1%.

During the reporting year, the world price for raw materials showed mainly the descending dynamics, as a result of high supply and geopolitical crises in the Middle East and Africa.

In 2013, in average the oil prices at stock exchange² dropped, in particular, the price for one barrel of U.K. Brent decreased to USD 108.8 versus USD 112.0 in 2012. In the reporting year, the world price for non-energy goods chiefly fell, in particular, the price for steel dropped by 7.1% whereas that for crops downed by 26%.

In the view of moderate inflation, in order to revive the economic growth the central banks of advanced economies pursued an accommodative monetary policy. The central banks of developing economies started transition to a tighter monetary policy against the background of capital outflow and announcement about the reduction of US Fed's quantitative easing program.

Figure 2. Dynamics of Key Interest Rates of Central Banks of the World Leading Countries, % p.a.



Source: Central Banks of the countries.

² The prices for oil, steel, and trade turnover are given on the average annual basis.

Source: IMF, CRU Company.

2. OVERVIEW OF UKRAINE'S ECONOMY

In 2013 Ukraine's economy was operating under unfavorable foreign economic conditions. Its development was materially influenced by a slowdown of economic growth in the main trade partners of Ukraine. At the same time, the domestic consumer demand remained at a quite high level and during the year was the key factor supporting the business activities in the country.

The growth of output in the agricultural sector had a favorable impact on the national economy. In addition, in the reporting year, the high indices of agrarian sector facilitated keeping the price stability in Ukraine.

Table 1. **Basic Macroeconomic Indices of Ukraine**

Indices	Growth (decline) rate, %				
	2009	2010	2011	2012	2013
Nominal GDP (in actual prices), UAH billions	913.3	1 082.6	1 302.1	1 411.2	1 454.9
Real GDP (in fixed prices of 2007)	-14.8	4.1	5.2	0.3	0.0
Consumer price index (as compared with December of the previous year)	12.3	9.1	4.6	-0.2	0.5
Producer price index (as compared with December of the previous year)	14.3	18.7	14.2	0.3	1.7
Unemployment rate, based on the ILO methodology, %	9.6	8.8	8.6	8.1	7.7
Real wage	-9.2	10.2	8.7	14.4	8.2
Real disposable income	-10.0	17.1	8.0	13.9	5.3
Consolidated budget balance (% of GDP)	-1.5	-2.2	-6.2	-8.1	-9.0

2.1. ANALYSIS OF INFLATION DYNAMICS

In 2013 the prices remained stable in Ukraine. For the second consecutive year, the growth of consumer prices was close to zero and added 0.5%, at the end of the year.

The main factor hampering the inflation pressure in 2013 was the dropping food prices driven by an increase in food supply in the market. A high yield of crops, fruits, and vegetables under improving infrastructure for storage and sale of food commodities stimulated a decrease in food prices by 0.8%, at the end of the year.

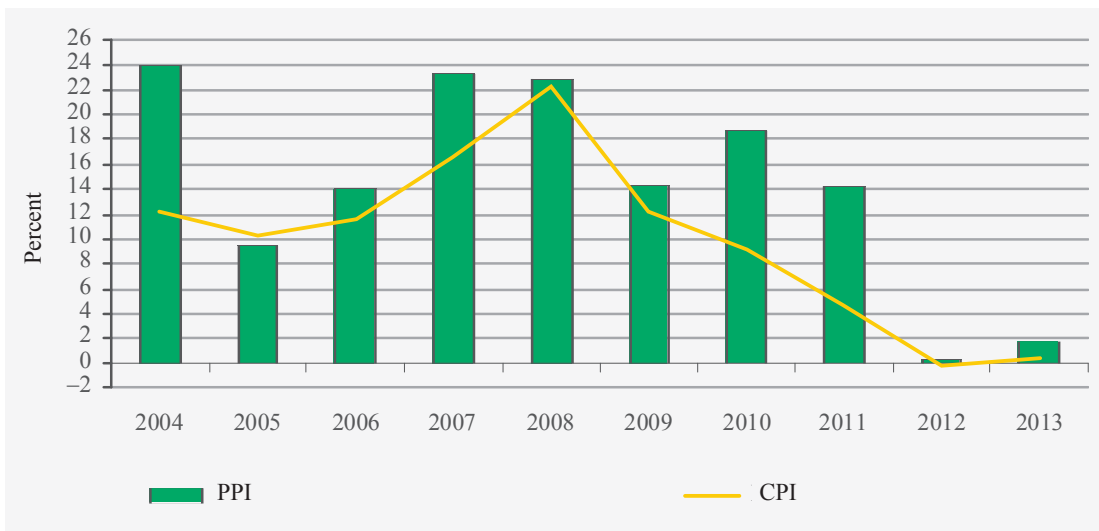
The stabilization of oil prices in the world markets had a favorable impact on inflation environment in Ukraine. In 2013 the price for fuel and lubricants dropped by 3.6%, whereas in the previous year it grew by 6.9%.

In 2013 in Ukraine the core inflation deceleration trend continued. The pace of its growth totaled 0.1% versus 0.8% in 2012. These price dynamics were chiefly driven by the falling prices for imported nonfood products.

A rise in prices for administratively regulated goods was moderate. During 2013, they increased by 3.7% mainly as a result of a rise in prices for alcoholic drinks and tobacco products (by 10.1%). The stable tariffs for electricity and public utilities played an important role in keeping a low inflation environment in the national economy. In 2013, they rose only by 0.3%.

In 2013 the producer price index added 1.7% chiefly due to an increase in the cost of electricity, gas, steam, and conditioned air. The price dynamics in key industries were influenced by the dropping prices in the world raw materials markets.

Figure 3. Dynamics of Consumer Price Index (CPI) and Producer Price Index (PPI)



2.2. GROSS DOMESTIC PRODUCT

In 2013 the economic situation in Ukraine remained complicated. Like in the previous year, the development of national economy was hindered by unfavorable foreign economic conditions for the principal Ukrainian exports. This entailed worsening of basic macroeconomic indices. In 2013 Ukraine's real GDP growth made 0.0%. The nominal GDP reached UAH 1 454.9 billion which was by 3.1% more than in 2012.

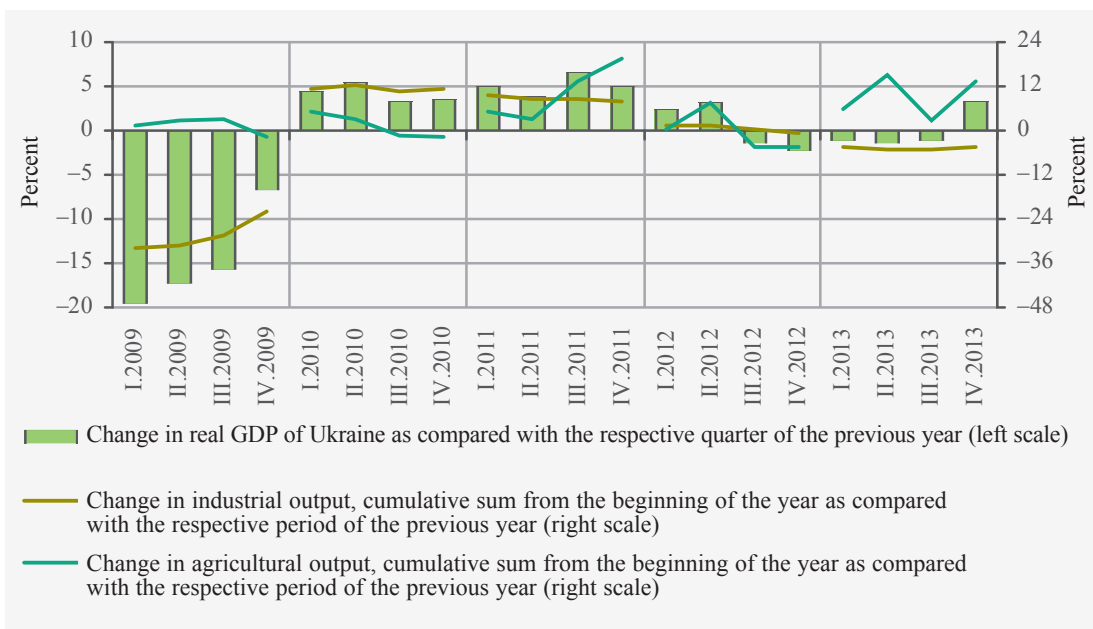
Narrowing sales markets for the Ukrainian goods influenced the industrial indices. During the whole year, the industrial output was descending, with its fall totaling 4.3%, at the end of the year. In particular, in 2013 a decrease in the output of chemical industry reached 16.9%, machinery output went down by 13.2%, and the metallurgy output by 5.3%.

A decline in domestic investment demand as a result of worsening financial results of enterprises and insignificant government financing entailed a cutback of construction and civil engineering works by 11.1% in 2013.

At the same time, the domestic consumer demand remained at a quite high level, which facilitated the growth of retail trade turnover by 9.5%.

In the second half of 2013 the real sector showed a trend towards improving the indices due to escalating the agricultural sector's output. In the current year there was reported the highest yield of crops since 1991, 63.0 million tonnes which was by 36.3% more than in the previous year. An increase in crop output promoted the escalating pace of agricultural output growth up to 13.7% in 2013.

Figure 4. Real GDP of Ukraine, Industrial and Agricultural Output, in 2009–2013



2.3. LABOR MARKET AND POPULATION INCOME

In 2013 the situation in the labor market was characterized by a decline in the number of unemployed people. At the same time, demand for labor force remained at a quite low level, as a result of dull economic activities.

As of January 01, 2014, 487.7 thousand unemployed people were reported. This was by 7.4% less than on the respective date of the previous year. The registered unemployment rate remained fixed as compared with the previous year and, as of January 1, 2014, it reached 1.8% of the working-age population. At the same time, the employment rate of population aged from 15 to 70 years rose by 60.3%, while that of the working-age population accounted for 67.4% (in 2012 – 59.7% and 67.1%, respectively).

The number of vacancies reported by enterprises, institutions, and organizations to the State Employment Service of Ukraine decreased by 2.3% and at the end of the year it totaled 47.5 thousand.

At the end of 2013 the nominal income of population grew by 5.3% as compared with the previous year and so did the real disposable income. The former reached UAH 1 529.4 billion in 2013.

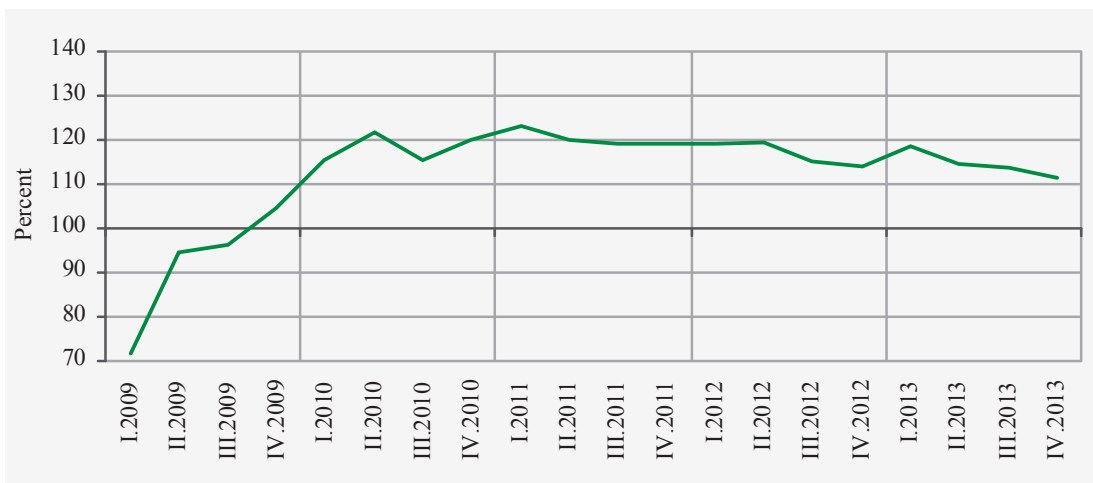
In 2013 the average monthly wage of employee added 7.9% as compared with 2012 and reached UAH 3 265. The real wage growth was 8.2%.

A rise in employee wage was accompanied by a decrease in arrears of wage and salaries by 9.6%, down to UAH 808.2 million as of January 1, 2014.

2.4. FINDINGS OF BUSINESS OUTLOOK SURVEY³

In 2013 the National Bank of Ukraine continued to poll the top managers of enterprises with respect to their business expectations.

Figure 5. **Business Outlook Index of Enterprises and Companies of Ukraine for the Next 12 Months in 2009–2013**



Source: the NBU's estimates based on business entities survey.

³ Since 2006, the National Bank of Ukraine has been quarterly polling top managers of 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.

During the year the respondents anticipated the improving prospects for development of their enterprises; however, they were less convinced in this as compared with 2012. In particular, they downed their expectations with respect to the growth of investment costs and sales of goods, employment rise and improvement of financial and economic status of their enterprises. As a result of this, the business expectation index⁴ amounted to 111.4% at the end of the year (against 114.3% at the end of 2012).

The survey findings demonstrated a positive attitude to the banking system operation and a high interest of business entities in the central bank activities. In particular, the share of respondents who intended to obtain loans in the hryvnia increased to 85.4% as compared with 83.3% at the end of 2012. Among the factors hampering the production growth, a limited access to loans was mentioned less often (15.3% of the responses versus 18.2% at the end of 2012). Most respondents were interested in the activities of the National Bank of Ukraine (86.0%).

⁴ Index of business expectations is an aggregated indicator 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.

3. BALANCE OF PAYMENTS AND EXTERNAL DEBT

3.1. BALANCE OF PAYMENTS

In 2013 Ukraine's balance of payments (BOP) had a surplus of USD 2.0 billion as against to 2012, when it had a deficit of USD 4.2 billion.

Current account balance

In 2013 the current account deficit increased to USD 16.4 billion (9.0% of GDP) versus USD 14.3 billion (8.1% of GDP) in 2012. The main factors driving the deficit growth were a decline in demand and a fall of prices for Ukrainian exports (because of low economic activities in the major trade partners), as well as an increase in investment return payments.

Export of goods. In 2013, the merchandise exports fell by 7.5%, down to USD 65.0 billion, as a result of a decline in the external demand and the unfavorable price conditions in the global commodity markets. A slump was reported in almost all the commodity groups: machinery – by 20.1% primarily because of a decrease in physical volume of supplies as a result of oversaturation of railway transport market of the Russian Federation; in the metallurgy – by 7.0% as a result of dropping price for ferrous metals; in the chemical industry – by 13.8% as result of a decline in export of fertilizers in the second half of the year (2.4 times) after reorientation of domestic producers to the domestic market; in the agricultural sector – by 4.8% because of decreasing world prices for crops.

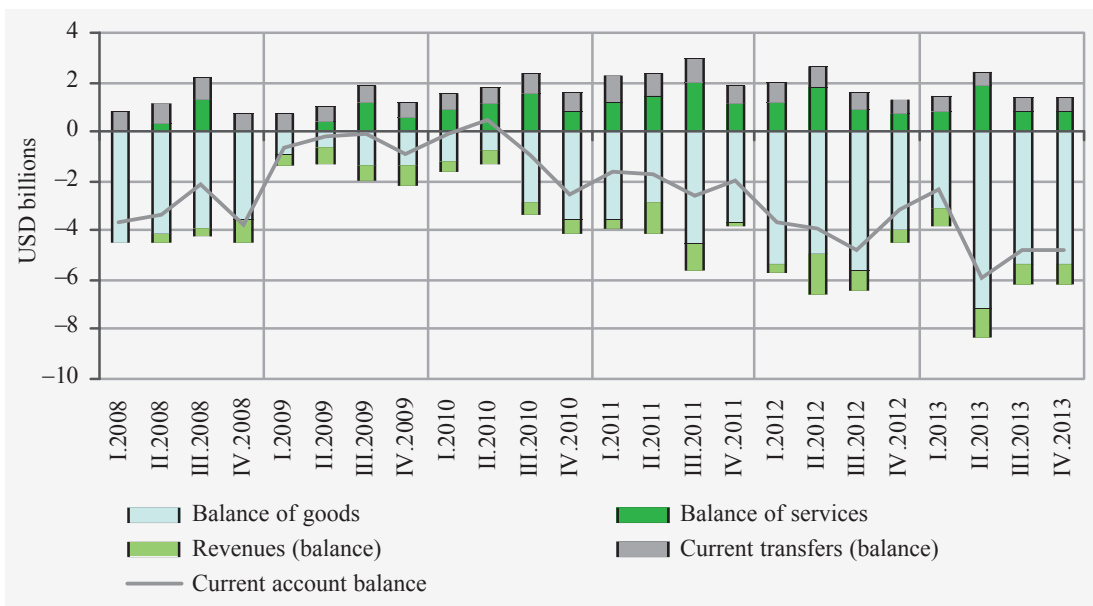
Import of goods. In 2013 the merchandise imports fell by 5.7%, down to USD 84.6 billion chiefly because of a decline in import of energy resources and a low domestic investment demand. The implementation of energy saving program and a decline in industrial output by 4.7% led to a decrease in natural gas import by 17.2%. The import of machinery products slumped by 12.6% (including, import of cars by 8.4%) as a result of car recycling tax. At the same time, the import of consumer goods remained high and was caused by a rise in the real wage by 8.2%. The import of agricultural products grew by 8.8% thanks to a high import of ready foodstuffs. Due to the growing travel expenditure the import of services rose by 10.4%.

Revenues (balance). In 2013 the negative balance of revenues remained almost the same as in 2012 (USD 3.0 billion). An increase in the negative balance of investment return by 15.2% was compensated by a rise in inflow of wage and salaries of Ukraine's residents working abroad less than a year by 22%.

Transfers. In 2013 the positive balance of transfers dropped down to USD 2.2 billion (versus USD 3.0 billion in 2012) due to a decrease in money transfers of Ukraine's residents who stayed abroad longer than a year (by 12.5%).

As a whole, the total private money transfers to Ukraine rose by 13.4% as compared with 2012, up to USD 8.5 billion. The money transfer to GDP ratio grew up to 4.7% (in 2010–2012 it amounted to 4.3%).

Figure 6. Current Account Balance



Financial account

In 2012, a surplus on the BOP account of capital transactions and financial operations increased up to USD 18.4 billion (in 2012 it made up USD 10.1 billion). Such a rise in the surplus was driven by material borrowings against the government securities and the private Eurobonds in the first half of 2013 and by a significant decrease in cash outflow from the banking sector.

Direct investments. In 2013 the net inflow of foreign direct investments reached USD 3.4 billion. The major beneficiary of investment capital was the real economy whose share in the net inflow made up 83% in the reporting year.

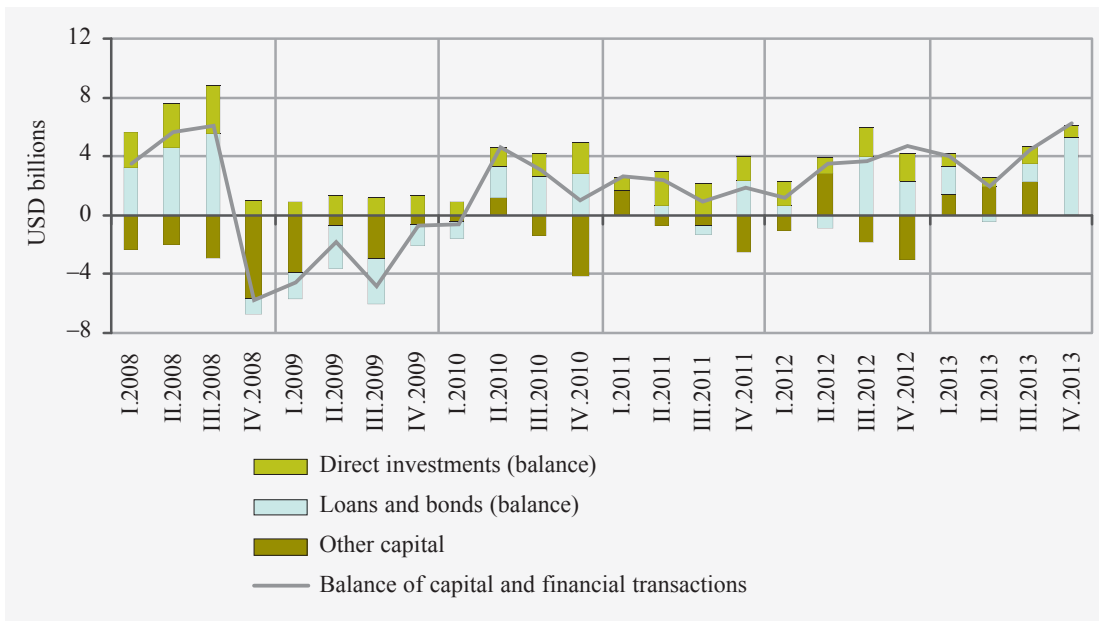
Loans and bonds of the government and the private sectors. In 2013 the net loans and bonds of the government sector rose up to USD 4.8 billion against USD 2.4 billion in 2012. The larger portion of funds was borrowed through placement of Eurobonds (USD 4.3 billion, out of which USD 3.4 billion was borrowed in December). In addition to the abovementioned the demand for domestic government securities denominated both in the US dollars and in the national currency increased.

In 2013 the net borrowings on loans and bonds of the private sector amounted to USD 2.6 billion (in 2012 to USD 3.6 billion). Contrary to the previous years, the balance of loan and bond transactions of banking sector was positive due to the placement of Eurobonds at the beginning of the year and the short-term borrowings in the 4th quarter. The level of banking sector refinancing grew from 81% in 2012 to 101% in 2013. At the same time, the net borrowings of the real economy decreased, and the level of refinancing fell from 152% in 2012 down to 111% in 2013.

FX cash outside the banks. The growth of FX cash outside the banks decreased 2.4 times, down to USD 3.3 billion. Despite the growing outflow of cash outside the banks at the end of the year, in general, in the 4th quarter of 2013, the outflow was reported to be by 29% less than in the 4th quarter of 2012.

As of January 1, 2014, the international reserves totaled USD 20.4 billion covering 2.4 months of future imports.

Figure 7. Capital and Financial Account



3.2. EXTERNAL DEBT OF UKRAINE

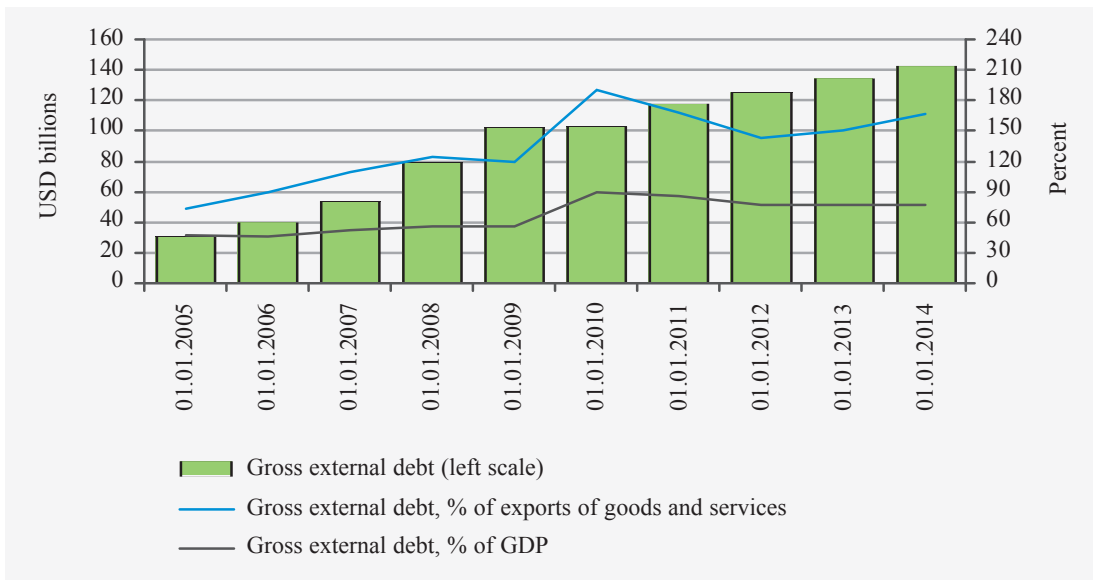
As of January 01, 2014 Ukraine's gross external debt totaled USD 142.5 billion or by USD 7.4 billion more than at the beginning of the reporting year. At the end of 2013 the gross external debt to GDP ratio ascended to 78.3% versus 76.6%, at the beginning of the year.

The key factor of these dynamics was an increase in the external liabilities of the real economy (including the inter-corporate debt) by USD 6.9 billion, up to USD 88.3 billion (or 48.5% of GDP) because of the accumulating corporate payables worth USD 4.7 billion and growing liabilities on long-term loans and bonds by USD 2.9 billion.

In 2013 the banking sector debt rose by USD 1.0 billion, up to USD 22.5 billion (or 12.4% of GDP).

In 2013 the external debt of government sector and monetary authorities decreased by USD 0.5 billion, down to USD 31.7 billion. The government debt to GDP ratio fell from 18.3 down to 17.4%.

Figure 8. Dynamics of Gross External Debt of Ukraine



4. DEVELOPMENT OF UKRAINE'S FINANCIAL SECTOR

4.1. BANKING SECTOR

In 2013 the development indicators of Ukraine's banking sector showed stable dynamics, as the banks escalated their transactions with assets, issued loans to the economy, borrowed funds from both the individuals and the corporates, enhanced their capital base, and continued to settle nonperforming loans. During the year the main indicators of banking activities in Ukraine grew primarily in the national currency.

As of January 01, 2014 one hundred and eighty-two (182) banks, including the three state-owned ones (OSCHADBANK JSC, UKREXIMBANK JSC and DERZHEMBANK PJSC) were listed in the State Register of Banks. Out of the 180 operating banks 179 ones were licensed to conduct banking operations and one bank (RODOVID BANK PJSC) had a license of remedial bank. All the licensed banks are organized as public joint-stock companies.

In 2013 the number of banks with foreign capital decreased down to 49 banks (or 27.2% of the total number of licensed banks), including 19 of them with 100% foreign capital (10.6% of the total number of licensed banks).

Table 2. Core Indicators of Ukrainian Bank Activities

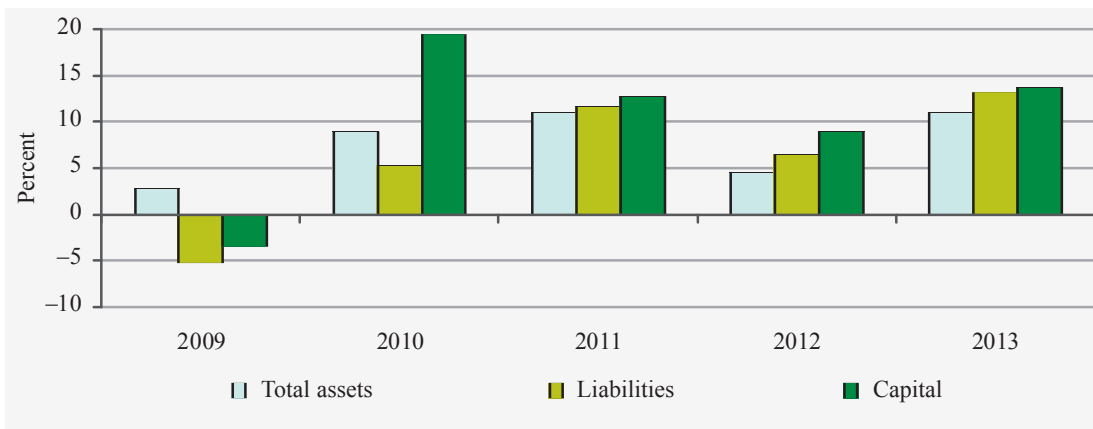
Indicators	2013			For reference: 2012		
	UAH billions	Change as compared with the previous year		UAH billions	Change as compared with the previous year	
		UAH billions	%		UAH billions	%
Total assets	1 408.7	140.8	11.1	1 267.9	56.4	4.7
Assets	1 278.1	150.9	13.4	1 127.2	72.9	6.9
Liabilities	1 085.5	127.6	13.3	957.9	59.1	6.6
Capital	192.6	23.3	13.7	169.3	13.8	8.9

As of January 1, 2014 in Ukraine there were operating 179 out of 181 registered bank branches, 19 091 banking units and 28 representative offices of Ukrainian banks, including 19 offices operating in Ukraine and 9 working abroad.

Most banks are located in the developed industrial regions of Ukraine: in Kyiv and Kyiv Oblast, there is concentrated 66.5% of the total banking institutions, whereas in Dnipropetrovsk, Donetsk and Odesa Oblasts, as well as in the Autonomous Republic of Crimea and Sevastopol there was operating about 19.2% 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.

In 2013 the ratio of the core indicators of banking activities to GDP grew. The total bank assets to GDP ratio increased up to 96.8% (as of January 1, 2013 it accounted for 90.0%); the bank assets to GDP ratio made up 87.8% (as of January 1, 2013 it amounted to 80.0%), the bank liabilities to GDP ratio accounted for 74.6% (as of January 1, 2013 it made up 68.0%). The bank capital to GDP ratio increased and was equal to 13.2% (versus 12.0% as of January 1, 2013).

Figure 9. Growth Rates of Total Assets, Liabilities and Capital of the Banking Sector of Ukraine



In 2013 as the results of annual bank classification by size of bank assets 15 banks were assigned to the 1st group, 20 banks were referred to the 2nd one, 25 banks were assigned to the 3rd group, and 116 banks were classified to the 4th group.

In 2013 the process of assets, capital and liabilities concentration continued in the 1st group of banks: as of January 1, 2014 these banks held 64.9% of the total Ukrainian banks' assets, 58.4% of the total capital and 65.3% of the total liabilities.

Table 3. Structure of Total Assets, Capital and Liabilities by Groups of Banks

Group	(percent)					
	Total assets		Capital		Liabilities	
	01.01.2014	01.01.2013	01.01.2014	01.01.2013	01.01.2014	01.01.2013
Group I	64.9	64.2	58.4	61.6	65.3	63.9
Group II	17.4	17.5	22.0	18.3	16.5	17.1
Group III	7.8	8.6	6.7	6.5	8.4	9.5
Group IV	9.9	9.7	12.9	13.6	9.8	9.5

The assets

In 2013 *the total assets* of Ukrainian banks (not adjusted to provisions against lending operations) rose by 11.1% (in 2012 they added 4.7%) and reached UAH 1 408.7 billion as of January 1, 2014. During 2013 the banks escalated their assets primarily in the national currency, as the hryvnia assets grew by 17.2% (by UAH 131.7 billion), up to UAH 896.1 billion, with their share in the total assets accounting for 63.6% as of January 1, 2014 (as of January 1, 2013 it made up 60.3%). The total assets in the foreign currency increased by 1.8% (or by UAH 9.1 billion) and reached UAH 512.6 billion.

The assets of banking sector increased by 13.4%, up to UAH 1 278.1 billion (in 2012 they rose by 6.9%), mainly due to the growing lending operations and investments in securities.

The balance of *loans to the clients* added by 12.4%, or by UAH 95.8 billion (in 2012, they upped by 2.1%) and totaled UAH 867.3 billion as of January 1, 2014. During the year the loans were issued chiefly in the national currency, which improved the loan portfolio structure by currency and promoted the economy's de-dollarization.

The main component of loan growth during the year was the *loans to the economic entities and non-bank financial institutions*. Their balances increased by 14.7% (or by UAH 89.8 billion), up to UAH 699.6 billion. The credit support of economy was ensured mainly by loans in the national currency which increased by 16.6% (or by UAH 65.1 billion), up to UAH 456.3 billion. The FX loans grew by 11.3% (or by UAH 24.7 billion).

Contrary to the previous year, the balance of *loans to the households* increased by 3.7% (or by UAH 6.0 billion), up to UAH 167.8 billion (in 2012 it downed by 7.4%). An increase was driven by growth of loans in the national currency by 23.8% (or by UAH 22.1 billion), up to UAH 114.8 billion. At the same time, the FX loan debt continued to decrease due to repayment of previous loans that contributed to mitigating the foreign exchange risk of banks. During the year, the balance of FX loan lessened by 23.3% (or by UAH 16.1 billion). At the end of the year, the share of loans in the national currency increased up to 68.4% (from 57.3% in 2012).

In 2013 the banks continued to settle the nonperforming loans. In particular, in the reporting year the past due on loans issued decreased by 2.6% (or by UAH 1.9 billion), down to UAH 70.6 billion or 7.7% of lending operations (as of January 1, 2013 it was 8.9%).

In 2013 *the investments in securities* increased by 43.5% (or by UAH 41.9 billion), to UAH 138.3 billion. Their share in the total assets grew by 2.2 percentage points to 9.8%.

In particular, *securities other than shares issued by residents* rose by 43.8% to UAH 127.7 billion. Out of the resident debt securities 70.1% was denominated in the national currency. During the year an ascending trend in the share of debt securities in bank portfolio was ensured by the growing investments in both the government and the corporate securities, primarily, in the long-term ones. At the same time, the balance of banks' investments in the securities with maturity from 1 to 2 years grew by 93.0%, whereas that with maturity over 2 years added 48.5%. Like in the previous years, the securities for sale had the lion's share in the portfolio of securities other than shares issued by residents: it increased by 12.0 percentage points and made up 91.0%. In 2013 *the bank investments in resident and nonresident shares* rose by 6.7% to UAH 7.4 billion (in 2012 by 16.1%). The growth was secured by an increase in the investments in associated compa-

nies and subsidiaries, as well as by an increase in the shares of nonfinancial corporations in the portfolio of securities for sale.

During the year against the background of intensification of lending activities the *funds on correspondent accounts with other banks* decreased by 21.5% (or by UAH 21.4 billion), down to UAH 78.1 billion. At the same time, the balance of funds at the NBU added UAH 13.5 billion.

The cash and investment metals grew by 20.0% to UAH 36.4 billion. In particular, the balance of cash in banks rose by 23.3% to UAH 24.1 billion in 2013.

Cash inflow to the banks added 9.5% and reached UAH 1 576.5 billion (in 2012, it increased by 8.7%). The growth of inflow of the sales revenues and the revenues from all types of services to the banks (totally, by 2.5%, up to UAH 666.2 billion), as well as of inflow of cash to be credited to the households deposit accounts and card accounts (totally, by 34.5%, up to UAH 569.5 billion) made the largest contribution to the rising cash inflow to the banks.

During the year, *cash withdrawal from banks* increased by 11.1% to UAH 1 611.0 billion (in 2012 by 8.7%). The cash withdrawal with the use of payment cards showed the largest gain, 16.3%, and reached UAH 733.4 billion. The key factors thereof were the rising social standards and favorable trends in the development of Ukraine's payment card market. At the same time, the cash withdrawal for purchase of goods, services and works decreased by 21.2%, down to UAH 35.2 billion. *The balance of FX transactions* (a surplus of the cash inflow to the banks over the cash withdrawal from the banks related to currency purchased) fell as well, and amounted to UAH 23.7 billion.

The liabilities

During the reporting year, the total *liabilities of banks* increased by 13.3% (or by UAH 127.6 billion) and amounted to UAH 1 085.5 billion as of January 1, 2014 (in 2012 the growth was equal to 6.6%). The banks escalated the most vigorously the liabilities in the national currency. Their amount increased by 27.9% (or by UAH 127.9 billion) and totaled UAH 586.8 billion. The liabilities in the foreign currency increased by 0.1% (or by UAH 0.3 billion), up to UAH 498.7 billion.

The *deposits* remained the key component of the bank liabilities. As of January 1, 2014 the household deposits reached 40.0% of the total liabilities, while the corporate deposits made up 21.6%.

The customers (both the residents and the nonresidents) could open *deposit accounts* for ensuring their economic activities and own needs with any banks of Ukraine, at their discretion. As of January 1, 2014, 180 banks serviced the deposit accounts of 74.4 million customers (both the residents and the nonresidents) which were by 57.4 million less than in 2012. A decrease in the number of customers serviced was a result of closing accounts by Oschadbank JSC, on which the balance was under the minimum limit established by internal bank provisions (less than UAH 10). Consequently, in 2013, *the total number of customer accounts with banks* dropped by 66.9 million down to 116.0 million accounts. There were reported 99.5 million current accounts, with their share making up 85.8% of the total accounts with banks. In particular, there were 90.6 million accounts in the national currency, including 87.4 million households' accounts. As of January 1, 2014, 178 banks

provided their customers with remote servicing of accounts. The number of corporate customers who used the remote maintenance of accounts reached 1.1 million (50.2% of the total corporate entities versus 45.6% as of January 1, 2013).

During the year, the escalation of deposits was ensured by the growing balance of households deposits (72.2 million persons serviced by banks) which testified to the stable population confidence in the banking system. In 2013 *the households funds* grew by 19.2% (or by UAH 69.7 billion) to UAH 433.7 billion (in 2012 by 18.9%). The households deposits in the national currency increased by 38.6% (or by UAH 69.1 billion) to UAH 248.2 billion, whereas those in the foreign currencies added only 0.4% (or UAH 0.7 billion).

During the year, *the corporate funds* expanded by 16.0% or by UAH 32.4 billion (in 2012, by 8.8%), up to UAH 234.9 billion. Funds in the national currency constituted the larger share (67.5%) of corporate deposits. The balance of deposits increased by 25.3% (by UAH 32.0 billion), up to UAH 158.5 billion, while the deposits in the foreign currency become larger by 0.5% (by 0.4 UAH billion).

The interbank deposits remained an essential component of the bank liabilities (their share amounted to 10.1%, as of January 1, 2014).

The loans received from international and other institutions increased by 42.4% or by UAH 12.1 billion to UAH 40.5 billion in 2013 (in 2012 a slump was 21.8%).

The capital

In 2013 *the capital of the Ukrainian banks* increased by UAH 23.3 billion or by 13.7% (versus 8.9% in 2012) and amounted to UAH 192.6 billion at the end of the year. As of January 1, 2014 the capital share in the bank liabilities accounted for 15.1% and remained almost unchanged as compared with January 1, 2013. In 2013 *the authorized capital* rose by UAH 10.0 billion or by 5.7% to UAH 185.2 billion, which resulted in the increase of banking sector capitalization.

In 2013 *the share of foreign capital* in the registered authorized capital of Ukrainian banks decreased by 5.5 percentage points and made up 34.0%. As of January 1, 2014 the foreign capital in Ukraine was represented by 26 countries. The largest shares in the total foreign capital belonged to Cyprus (31.8%), the Russian Federation (30.7%), and Austria (12.3%).

Table 4. Structure of Banks by Size of Capital

No.	Bank's capital	01.01.2014		For reference: 01.01.2013	
		Number of banks	%	Number of banks	%
1.	Up to UAH 50 million	–	–	2*	1.1
2.	From UAH 50 million to UAH 120 million	1	0.5	1	0.6
3.	From UAH 120 million to UAH 180 million	63	35.0	60	34.1
4.	From UAH 180 million to UAH 240 million	23	12.8	23	13.1
5.	More than UAH 240 million	93	51.7	90	51.1
	Total number of operating banks	180	100.0	176	100.0

* Banks with provisional administration.

In the reporting year *the regulatory capital* increased by 14.6% (or by UAH 26.1 billion) to UAH 205.0 billion, mainly, due to the growing payments of unregistered authorized capital (by UAH 14.6 billion) and authorized capital (by 5.6% or by UAH 9.8 billion).

In 2013 there took place some changes in the structure of regulatory capital. In particular, the share of the authorized capital (a component of the core capital) in the regulatory capital decreased from 68.3% (as of January 1, 2014) down to 65.7%, while the share of the subordinated debt (a component of the additional capital) grew from 11.0% (as of January 1, 2014) to 11.4%. The share of payments of unregistered authorized capital (a component of the core capital) added 5.5% (as of January 1, 2013, 0.3%).

The capital adequacy of the banking sector rose to 18.26% in 2013 versus 18.06% as of January 1, 2013.

The income

In 2013 *the bank income* grew by 12.3% (or by UAH 18.4 billion) as compared with the previous year and amounted to UAH 168.9 billion as of January 1, 2014.

The interest income continued to be the main source of income, although its share in the total income declined by 1.8 percentage points, down to 76.9%. The interest income increased by 10.5% (or by UAH 12.4 billion) against the previous year, up to UAH 129.9 billion. *The income from the corporate loans* had the biggest share of 64.0% in the total interest income and amounted to UAH 83.1 billion.

In comparison with the previous year, *the fee and commission income* of banks increased (by 18.0% or by UAH 3.8 billion), and so did its share in the total income (by 0.7 percentage points to 14.8%). As compared with 2012, *the results of trading operations* reduced by 2.3% and totaled UAH 3.3 billion (2.0% of the gross income).

The expenditures

In 2013, the banks pursued a policy of cost optimization. *The bank expenses* increased by 15.0% (or by UAH 21.9 billion), as compared with 2012, to UAH 167.5 billion in the reporting year.

The interest expenses (the largest component of the expenses) rose by 18.6% (or by UAH 12.7 billion) to UAH 80.9 billion, as compared with 2012, with their share growing by 1.4 percentage points to 48.3%.

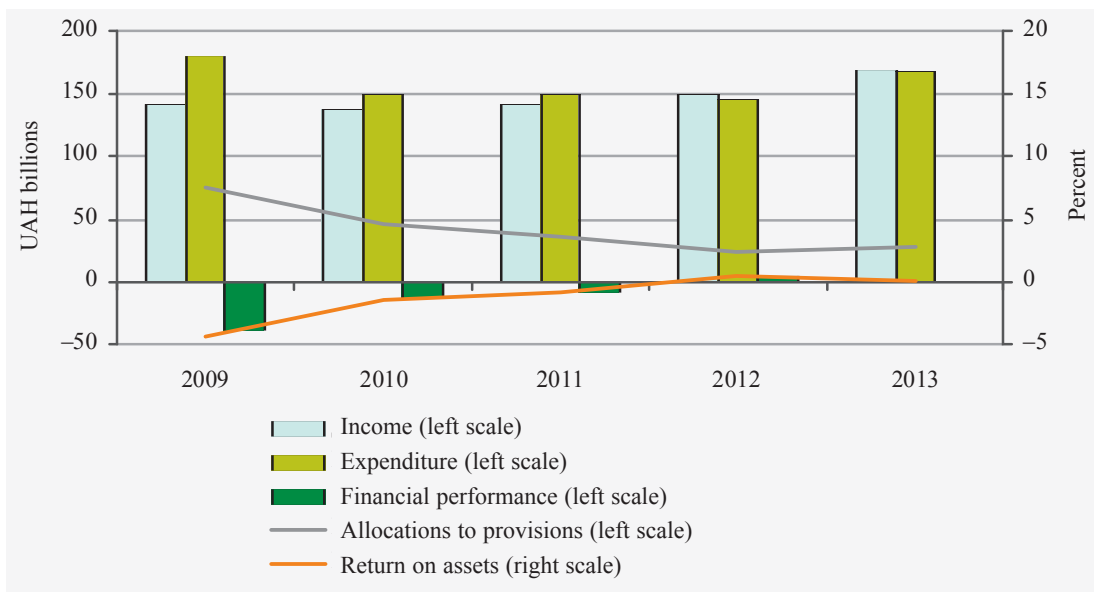
Contrary to the previous year, *the allocations to provisions* increased by 19.4% (or by UAH 4.6 billion), up to UAH 28.0 billion, as compared with 2012. Their share in the total expenses reached 16.7% (versus 16.1% as of January 1, 2013). These were the increasing allocations to provisions against lending operations based on the results of bank estimates, which materially influenced the banking sector profit for the year.

The general administrative expenses increased by 9.1% (or by UAH 3.4 billion), up to UAH 40.7 billion, as compared with 2012, and had the share of 24.3% in the total expenses.

The financial performance of banks

For the second consecutive year the banks reported profitable activities. In 2013 the total profit of banking sector amounted to UAH 1.4 billion versus UAH 4.9 billion in 2012, with the profit being referred mainly to the first group banks.

Figure 10. Dynamics of Income, Expenditure and Financial Performance of Banking System of Ukraine



At the same time, as of January 1, 2014 20 banks incurred losses the total amount of which made up UAH 6.7 billion (as of January 1, 2013 19 banks reported losses worth UAH 3.5 billion).

The *bank expenditure to income ratio* made up 99.1% in 2013 (against 96.7% in 2012).

Table 5. Concentration of Income, Expenditures and Financial Performance by the Groups of Banks

Group	(percent)			
	Income		Expenditures	
	01.01.2014	01.01.2013	01.01.2014	01.01.2013
Group I	64.3	63.9	63.0	62.3
Group II	16.0	15.5	16.4	16.1
Group III	8.7	9.4	8.3	10.3
Group IV	11.0	11.2	12.3	11.3

4.2. INTEREST RATES ON BANK TRANSACTIONS

Due to the NBU accommodating policy and high liquidity of banking sector the average weighted interest rates in the national currency showed downward dynamics during the larger part of the year. The interest rates in the interbank market, as well as the price of deposits and loans started to grow only at the end of the year. First of all, this was caused by the growing demand for loans on all the market segments as a result of intensification of bank lending activities. In addition, in December the seasonal factors and uncertainty related to the social and political crisis also impacted the interest rates.

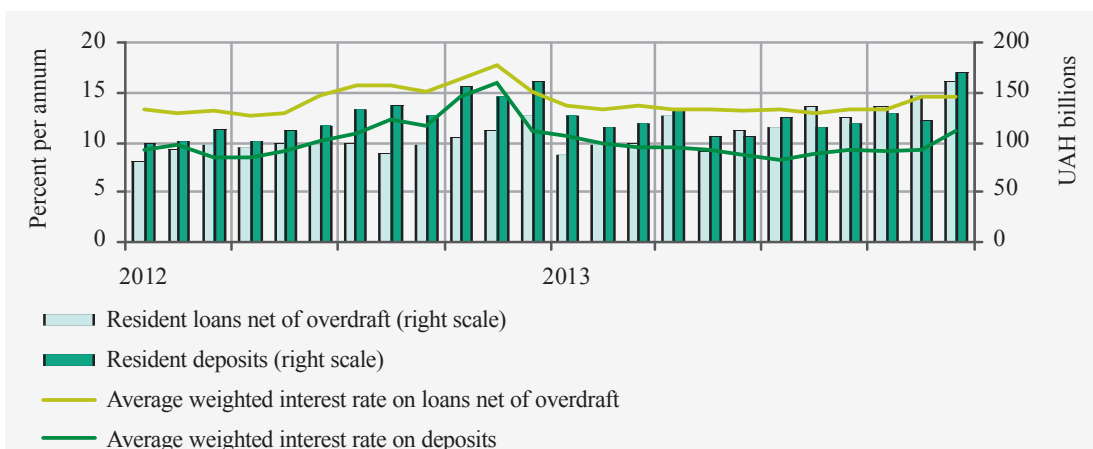
Interest rates on transactions with customers

In 2013 the volume of deposits attracted during the reporting year under new deposit agreements remained stably high. In 2013 *the total new deposits* amounted to UAH 1 490.3 billion; the average monthly amount was equal to UAH 124.2 billion. The new deposit agreements were made, primarily, in the national currency (72.8% of the total new deposits for the year).

The loans issued during the year under new loan agreements showed ascending dynamics. Upon the year results *the total new loans* increased by 19.6% and reached UAH 1 641.0 billion; the loans net of overdrafts rose by 20.4%, up to UAH 1 435.0 billion. In 2013, the average monthly amount of loans amounted to UAH 136.8 billion as compared with UAH 114.3 billion, in 2012; the loans net of overdraft totaled UAH 119.6 billion versus UAH 99.3 billion in the previous year. Among the newly issued loans the largest share belonged to the loans in the national currency 69.5% of the total loans issued in the reporting year. At the same time, out of the newly issued overdrafts those in the national currency had the lion's share of 97.8%. The loan agreements were chiefly made with corporate entities.

The stable growth of deposits with banks entailed a downward trend in the *deposit price* during the first 7 months of the reporting year, from 11.1% per annum, in December 2012, to 8.3% per annum in July 2013. In August the descending dynamics gave way to the stabilization of interest rates, whereas in November–December they rose up to 11.2% per annum. The fluctuations of price of deposits in the national currency had the key influence on dynamics of interest rates on deposits. In average, during the year, the deposit price fell by 1.8 percentage points, down to 9.5% per annum; the price of deposits in the national currency dropped by 2.5 percentage points, down to 10.9% per annum.

Figure 11. Average Weighted Interest Rates on Loans and Deposits

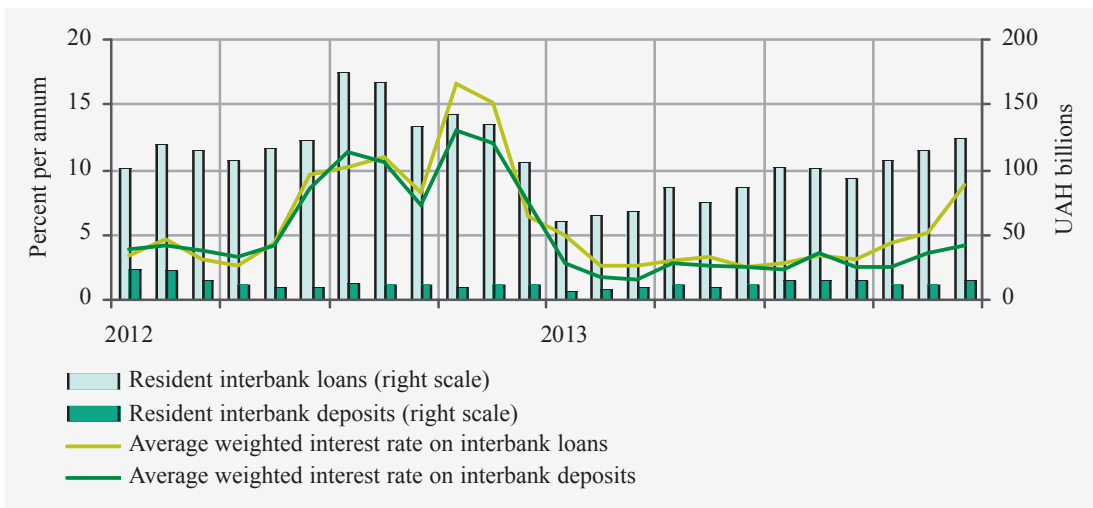


The interest rates on loans were fluctuating depending on the dynamics of demand for loans from borrowers, adequacy of resources for lending and changes in their price. During January–August 2013 the average weighted interest rate on loans (net of overdrafts) gradually downed to 13.0% per annum as compared with 15.1% per annum in December 2012. In the 4th quarter against the background of a rise in prices for resources borrowed by banks and the growing demand for loans from the customers the loan value grew up to 14.5% per annum. In average, in 2013 the average weighted interest rate on loans (net of overdrafts) decreased by 1.1 percentage points, down to 13.6% per annum, including that of the loans in the national currency by 1.9 percentage points, down to 15.9% per annum. At the same time, the loans in the foreign currency got more expensive (by 0.9 percentage points) and cost 9.4% per annum.

Interest rates in the interbank market

In 2013 the total interbank loans fell by 29.6%, as compared with 2012, down to UAH 1 084.5 billion; while the total interbank deposits dropped by 14.4%, down to UAH 131.1 billion. It should be noted that the interbank transactions were effected in different currencies: the majority of loans were issued in the national currency (66.5% of the total interbank loans in 2013), while the deposits were denominated in the foreign currency (64.9% of the total interbank deposits in 2013).

Figure 12. Average Weighted Interest Rates on Loans and Deposits in Interbank Market



The interest rates on interbank loans and deposits varied depending on supply and demand on the monetary market. In the first three quarters of the year, the interest rates on the interbank market were fluctuating at a moderately low level, as compared with the previous year; whereas, starting with the 4th quarter, they were showing an upward trend as the interest rates on loans added 5.6 percentage points and reached 8.8 percent per annum, while the interest rates on deposits rose by 1.8 percentage points, up to 4.2 percent per annum. At the end of the year, the average weighted interest rate on interbank loans granted to resident banks decreased by 4.4 percentage points in comparison with the previous year and accounted for to 4.1% per annum; the average weighted interest rate on interbank deposits of resident banks slipped down by 4.0 percentage points and amounted to 2.8% per annum.

4.3. FX MARKET OF UKRAINE

The dynamics of supply and demand for foreign currency on the interbank foreign exchange market of Ukraine (hereinafter referred to as "the FX market") were multidirectional in 2013. During the major part of the year there was observed a steady surplus of the FX transfers from nonresidents over the transfers to them. At the end of the reporting year, there was reported a seasonal increase in demand for foreign currency enhanced by unfavorable market expectations as a result of the social and political effects.

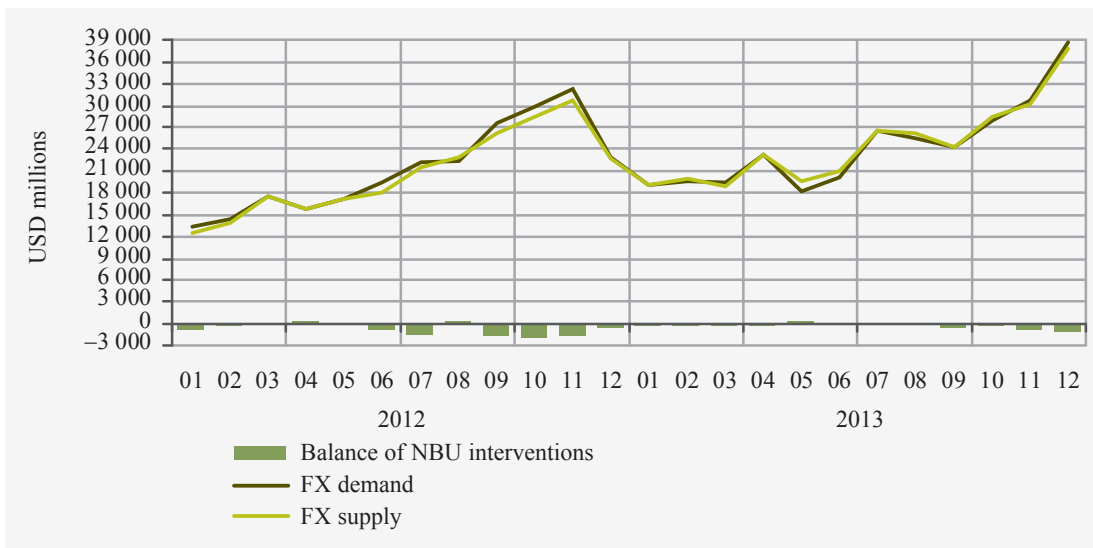
The noncash segment of FX market

In 2013 a net supply of noncash foreign exchange totaled USD 1.6 billion (in 2012 there was reported a net demand of USD 7.8 billion). The average daily value of FX transactions rose by 17.1% due to an increase in both the demand (by 14.9%) and the supply of foreign currency (by 19.3%).

Like in the previous years, in 2013, the majority of FX purchase-sale operations were made in noncash form, with the share of noncash FX transactions in the total operations on the FX market growing by 1.5 percentage points, as compared with 2012, up to 94.4%.

As compared with 2012, the share of USD operations on the noncash segment of the FX market increased by 1.1 percentage points, up to 77.6%; that of RUR operations added 0.6 percentage points reaching 6.1%, whereas that of EUR operations dropped by 0.3 percentage points, down to 14.7%; the share of transactions with other currencies fell by 1.4 percentage points, down to 1.5%.

Figure 13. Some Indices of Noncash Segment of FX market



The cash segment of FX market

In 2013 the cash segment of FX market was more balanced than in the previous years. The volume of average daily FX transactions fell by 11.8 % therein, with the population demand for FX slumping by 23.9 % and the supply growing by 8.4 %.

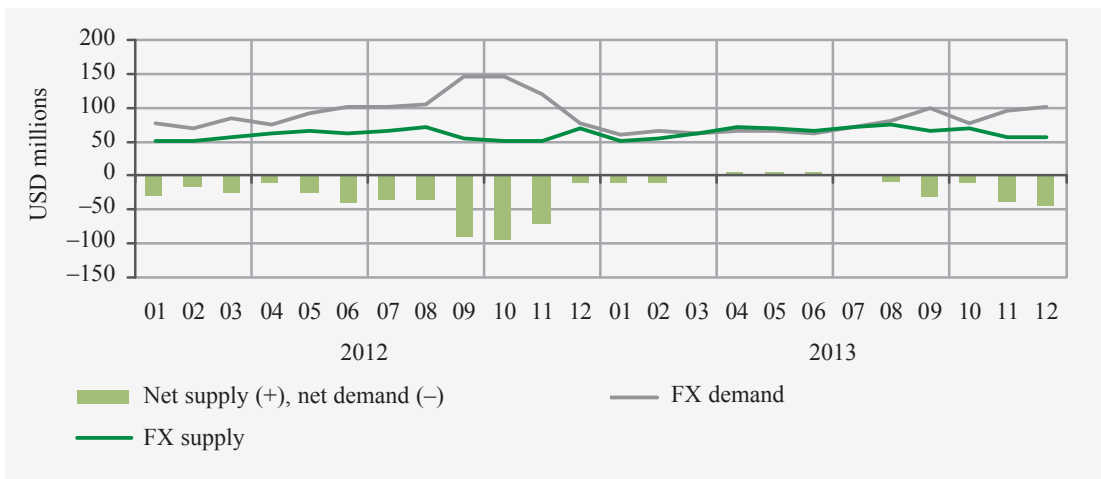
The dynamics of cash segment were multidirectional, in 2013, as after a moderate domination of demand over supply at the beginning of the year, in April–July there was reported a net FX supply (for the first time since May 2009). Starting with August 2013,

a net FX demand resumed. In the last months of the year, against the background of social crisis it got enhanced. However, its amount was far less than in the respective period of 2012.

In general, in 2013 a net demand for cash foreign currency totaled USD 2.9 billion (in equivalent), i.e. decreased 3.5 times as compared with 2012 (USD 10.2 billion).

The share of EUR operations in the cash segment of the FX market increased by 1.4 percentage points, up to 13.0%; that of RUR operations added 4.0 percentage points reaching 12.2%; and that of transactions with other currencies grew by 0.1 percentage points, up to 1.2%; the share of USD operations dropped by 5.5 percentage points, down to 73.6%.

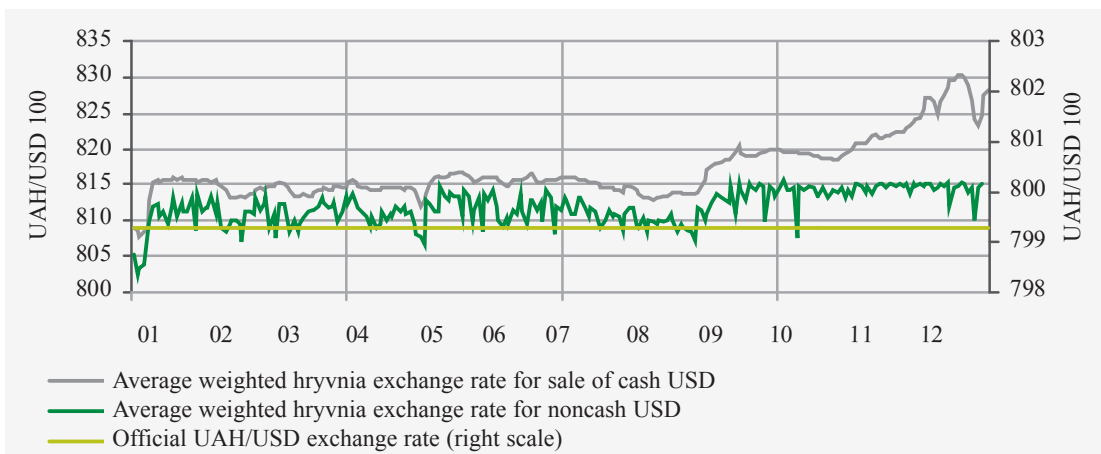
Figure 14. **Cash FX Transactions**
(average daily)



Market exchange rates

In 2013 the hryvnia exchange rate against the US dollar was fluctuating within a wider range than in 2012.

Figure 15. **Dynamics of UAH/USD Exchange Rate in 2013**



During January–August 2013 there was reported a trend towards devaluation of the hryvnia against the US dollar. In the fall the hryvnia devaluation pace accelerated because of a seasonal increase in demand for foreign currency aggravated by uncertainties and

unfavorable market expectations against the background of political crisis in the country. This entailed widening of band for the hryvnia exchange rate fluctuations.

In general, in 2013 the average weighted hryvnia exchange rate against the US dollar on the FX market fell:

– by 1.2% (from 8.0520 UAH/USD to 8.1508 UAH/USD) for the noncash transactions with the US dollar;

– by 2.4% (from 8.0888 UAH/USD to 8.2823 UAH/USD) for the cash operations with the US dollar.

Table 6. The Hryvnia Official Exchange Rate against Foreign Currencies

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

The hryvnia exchange rate against foreign currencies (at the end of the year):	2013	For reference: 2012
– Against the US dollar	799.3	799.3
Nominal change (%)	0.0	–0.04
Real change (with difference in inflation taken into account, %)	–0.8	–2.0
– Against the Euro	1 104.2	1 053.7
Nominal change (%)	–4.8	–2.3
Real change (with difference in inflation taken into account, %)	–4.6	–1.9
– Against the Russian ruble	24.5	26.3
Nominal change (%)	6.9	–5.5
Real change (with difference in inflation taken into account, %)	0.9	–8.5
For information: consumer price index, as compared with December of the previous year (%)	100.5	99.8

Dynamics of the hryvnia real effective exchange rate

In 2013 pursuant to the terms and conditions of the Memorandum of Economic and Financial Policies within the framework of IMF Stand-by arrangements the National Bank of Ukraine continued to establish the hryvnia official exchange rate against the US dollar as average weighted rate of bid and ask quotations in the FX market with allowable variation of $\pm 2\%$.

The official hryvnia exchange rate against the US dollar did not change in 2013 (in 2012, the hryvnia was devaluated by 0.04%).

The exchange rate dynamics of the hryvnia against other world currencies mirrored the conditions on the international markets which reported large fluctuations of the Euro against the US dollar. Upon the year results, in 2013 the US dollar was devaluated against the Euro. As a result, the hryvnia official rate was devaluated against the Euro by 4.79%. At the same time, the hryvnia was revaluated against the Russian ruble by 6.91%.

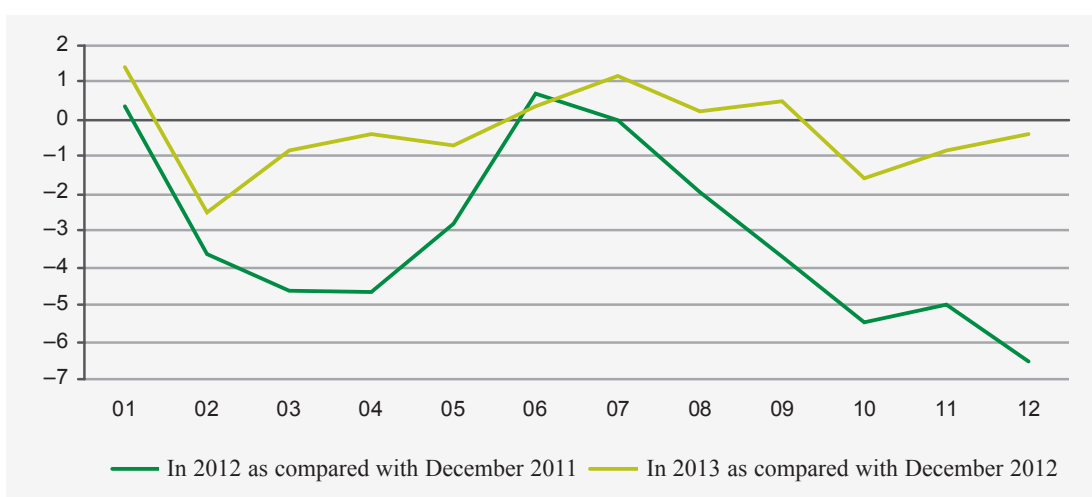
Dynamics of the hryvnia real effective exchange rate

In 2013 the hryvnia real effective exchange rate increased by 4.0%, as a result of the hryvnia revaluation against the Russian and the Belarussian ruble, the Japanese yen, and the Turkish lira.

At the same time, inflation differential decreased by 4.4%, inasmuch as inflation in Ukraine was lower than in the main trade partners of Ukraine.

Due to a decrease in the hryvnia real effective exchange rate by 0.4% the Ukrainian producers had a relative price advantage on both the foreign and the domestic sales markets.

Figure 16. The Hryvnia REER Dynamics in 2012–2013



4.4. THE STOCK MARKET

In 2013 the stock market of Ukraine was characterized by a dramatic increase in operations in the stock exchange segment. In particular, in 2013 the value of securities exchange contracts in the regulated market reached UAH 474.6 billion (versus UAH 263.7 billion in 2012). In the reporting year despite the growth of share of operations with securities in circulation, the stock market of Ukraine remained quite closed: 71.9% of all the operations were made in the over-the-counter segment (89.6%, in 2012).

In 2013 the operations with government securities were dominating in the structure of operations in the regulated market, as their share accounted for 74.0% of the total securities circulated in the exchange segment of stock market.

In 2013 the securities market of Ukraine was operated by 10 trading authorities, with about 91.2% of securities exchange contracts being concentrated on two stock exchanges: *Perspektyva* (67.4 %) and PFTS (23.8 %).

The reforms of national depository system in 2013 had a significant impact on the stock market. The reforms allowed for centralization of custodian accounting and settlements and formulated clear and transparent mechanisms for clearing of securities transactions.

Table 7. Structure of Operations in the Regulated Market by Type of Securities

Indices	share, %				
	2009	2010	2011	2012	2013
Shares	37.6	33.3	29.1	8.2	9.6
Government bonds	22.7	46.4	42.1	67.8	74.0
Corporate bonds	19.6	5.1	9.1	10.0	10.4
Local government bonds	0.1	0.1	0.2	2.4	0.2
Derivatives	0.1	2.8	10.1	9.4	4.5
Others	19.9	12.3	9.4	2.2	1.3

Government securities market

In 2013 the Ministry of Finance of Ukraine placed in the primary market domestic sovereign bonds worth UAH 65.2 billion with average weighted yield rate of 13.13 % per annum; USD 5.3 billion with average weighted yield rate of 7.63% per annum; and EUR 0.1 billion with average weighted yield rate of 4.80% per annum.

A portion of them were issued to increase the authorized capital of corporations, including:

- OSCHADBANK JSC worth UAH 1.4 billion (or 1.3% of the total domestic sovereign bonds placed in 2013) with yield rate of 9.50% per annum;

- NAFTOGAZ OF UKRAINE NJSC worth UAH 8.0 billion (or 7.3% of the total domestic sovereign bonds placed in 2013) with yield rate of 14.30% per annum;

- UKRAINIAN DANUBE NAVIGATION PJSC worth UAH 0.3 billion (or 0.3% of the total domestic sovereign bonds placed in 2013) with yield rate of 9.50% per annum.

In addition, in 2013, the domestic sovereign bonds with yield rate of 14.25% per annum worth UAH 5.0 billion were issued for paying, on behalf of the state, for shares of primary issue of Agrarian Fund PJSC. Their share made up 4.6% of the total domestic sovereign bonds placed in 2013.

In 2013 in the secondary market the value of transactions totaled UAH 513.1 billion, including UAH 323.2 billion referring to the exchange market and UAH 189.9 billion referring to the over-the-counter market.

Table 8. Average Weighted Yield Rate by Type of Domestic Sovereign Bonds

Type of domestic sovereign bonds	2013		For reference: 2012	
	Exchange market	Over the counter market	Exchange market	Over the counter market
Short-term	12.6	12.9	16.5	15.0
Medium-term	11.2	15.4	12.7	11.5
Long-term	12.5	21.4	12.6	16.7

In 2013 the total volume of domestic sovereign bonds in circulation continued to show upward dynamics. In the reporting period, it increased by UAH 66.6 billion and reached UAH 252.4 billion, as of January 1, 2014 (against UAH 185.8 billion at the end of 2012).

The value of domestic sovereign bonds owned by the National Bank of Ukraine grew by UAH 41.4 billion or by 39.2%, up to UAH 147.1 billion at par/depreciated value, while those owned by the banks added UAH 14.7 billion or 22.1% and amounted to UAH 81.1 billion. The value of domestic sovereign bonds held by nonresidents increased by UAH 6.5 billion and totaled almost UAH 12.0 billion or 4.7% of the total value of domestic sovereign bonds in circulation as of January 1, 2014. The value of domestic sovereign bonds held by other corporate entities increased by UAH 3.4 billion or by 38.5%.

4.5. PAYMENT CARD MARKET

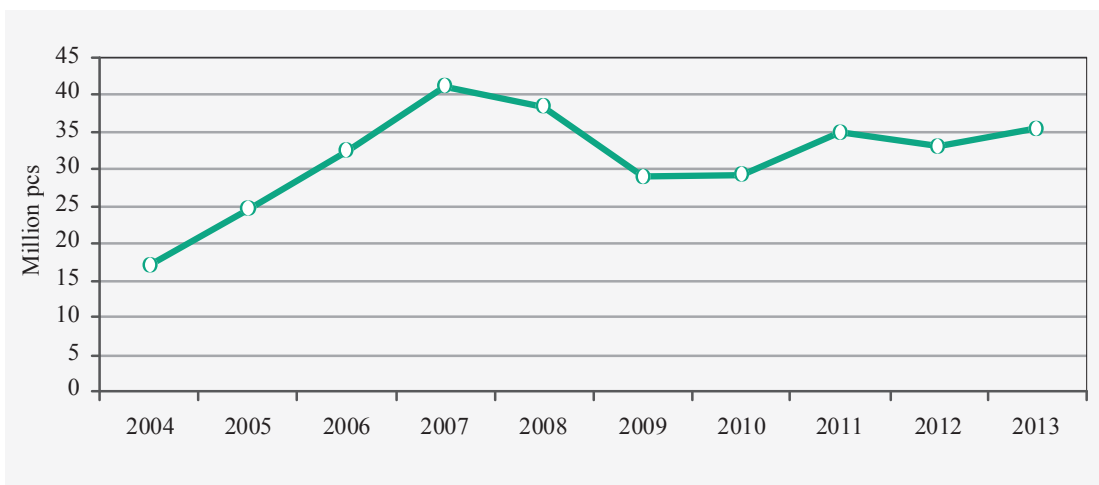
In 2013 there was a stable ascending trend in the value of noncash payments with the use of payment cards, as well as in the number of payment cards and infrastructure for transactions with them.

As of January 1, 2014 143 banks (80% of the total number of banks) were members of the payment card systems and serviced more than 50 million customers⁵.

The total number of payment cards which did not expire as of January 1, 2014 exceeded 69.726 million. In the reporting year the number of payment cards on which, at least, one transaction was made within three months grew by 7.6%, up to 35.6 million.

As compared with the previous year, in 2013, the number of ATMs servicing the cardholders rose by 11.6% and reached 40.4 thousand. The number of POS grew by 35.9% and totaled 221.2 thousand. The number of commercial POS increased by 43.6%, up to 192.3 thousand, whereas that of bank POS grew by 0.5%, up to 28.9 thousand.

Figure 17. Dynamics of Number of Cards Issued



The number of commercial entities operating in the sphere of trade in goods and services with installed POS grew by 3.8%, up to 122.3 thousand.

⁵ The total number of customers according to the data provided by the banks of Ukraine (one person can be a customer of several banks simultaneously).

Number and value of transactions

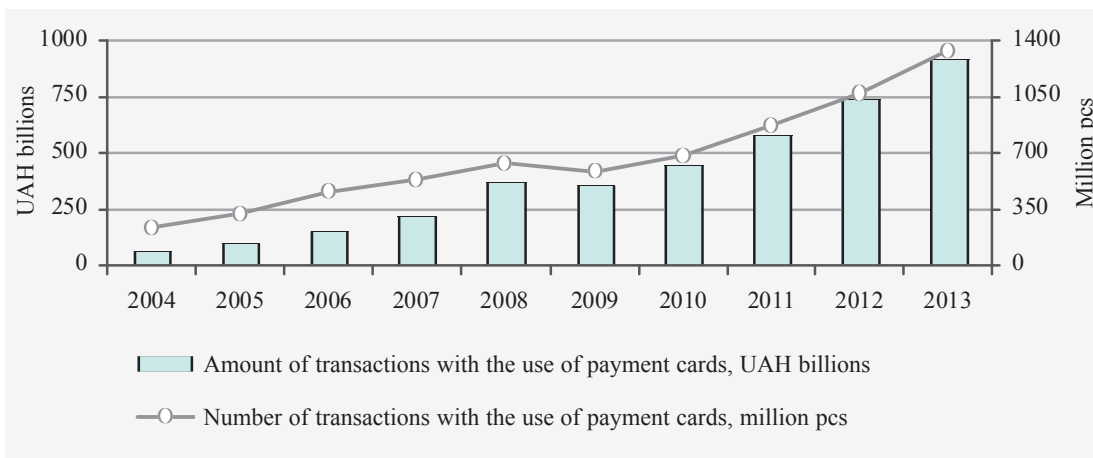
In 2013 the number of transactions with the use of payment cards issued by Ukrainian banks increased by 24.8% and exceeded 1.3 billion operations, as compared with 2012.

In the reporting year the holders of cards issued by the Ukrainian banks performed the majority of transactions (72.6% of the total number) using the issuer's ATM network; 25.6% of transactions were performed in the networks of other resident banks; 1.8% of transactions were made abroad.

The value of transactions with the use of payment cards issued by the Ukrainian banks within the territory of Ukraine added 23.5% and amounted to UAH 916 billion.

The volume of transactions with the use of debit cards added 19.3%, while that with credit cards increased by 65.9%.

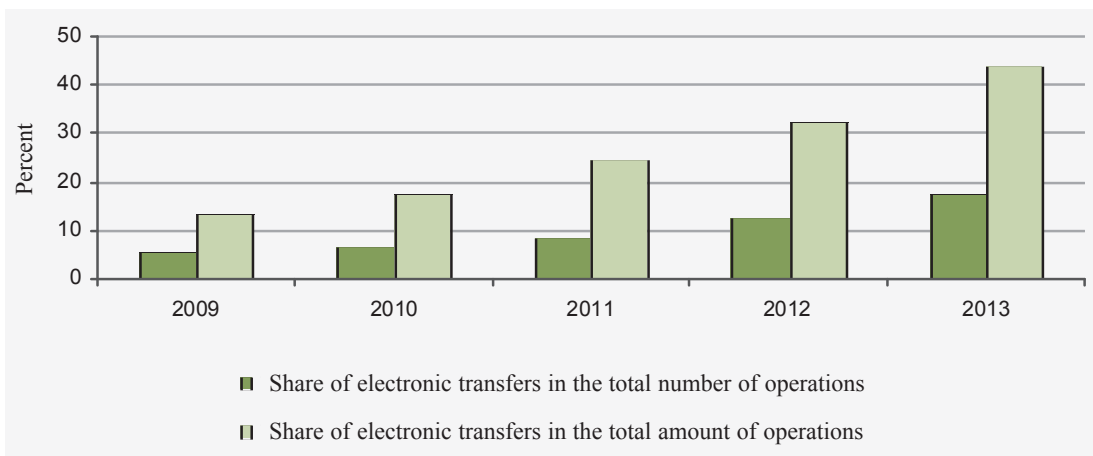
Figure 18. **Number and Amount of Transactions with Payment Cards Issued by Ukrainian Banks**



Cashless payments

In 2013 the cashless payments continued to show ascending dynamics. The share of noncash payments upped to 43.6% in comparison with 32.4% in 2012; the number of non-cash payments rose by 67.9% (in 2012 by 38.6%), up to 584 million transactions. The value of noncash payments grew by nearly UAH 68 billion or by 73.8%, as compared with 2012, and exceeded UAH 159 billion (17.4% of the total value of payment card transactions).

Figure 19. **Dynamics of Share of Electronic Transfers in Payment Card Market**



In 2013, the number of cash withdrawal transactions decreased by 30 million, down to 755 million operations. At the same time, their share in the total payment card transactions fell down to 56.4% as compared with 67.6% in 2012. In 2013 the value of cash withdrawal transactions grew by UAH 107 billion or by 16.5%, as compared with 2012, and reached UAH 757 billion (82.6% of the total value of payment card transactions).

As of January 1, 2014 the NSMEP had 61 members (including the National Bank of Ukraine) and 10 nonbank institutions (including the State Tax Authority of Ukraine and the Ukrainian State Enterprise of Posts "*Ukrposhta*"). In 2013 5 banks entered into agreements on joining the NSMEP, and 5 banks which had been the NSMEP members made supplementary agreements for working with upgraded NSMEP on the basis of open international standards.

As of January 1, 2014 the total number of issued NSMEP cards came to more than 9 million pieces. The total number of NSMEP ATMs and terminals totaled about 24 thousand units.

During 2013 almost 18 million transactions were performed with the use of NSMEP cards. In 2013 the value of transactions with NSMEP cards rose by 50.7% in comparison with 2012, and totaled UAH 32.6 billion, with the value of cashless transactions increasing by 88.4%.

4.6. THE MAIN RESULTS OF ACTIVITIES OF DOMESTIC AND INTERNATIONAL TRANSFER SYSTEMS IN 2013

Domestic and international transfer systems whose payment organizations are residents of Ukraine

As of January 1, 2014 in Ukraine there were operating:

– Five money transfer systems created by the banks of Ukraine, namely:

PrivatMoney established by PRIVATBANK JSC CB, Dnipropetrovsk; *Avers* by FINANCE AND CREDIT BANK JSC, Kyiv; *Aval-Express* by RAIFFEISEN BANK AVAL JSC, Kyiv; *SOFT* by UKRSOTSBANK PJSC, Kyiv; and *Welsend* by UKRGAZBANK JSB, Kyiv;

– Four money transfer systems established by the nonbank institutions, including *Poshtovyi Zviazok* established by the Ukrainian State Enterprise of Posts UKRPOSHTA, Kyiv; *InterPayService* by ZAPORIZHZVIAZOKSERVIS PJSC, Zaporizhzhia; *Finansovyi Svit* by UKRAINIAN PAYMENT SYSTEM Ltd., Kyiv; and *GlobalMoney* by GLOBALMONEY Ltd., Kyiv.

As well, the National Bank of Ukraine approved the rules for seven internal banks transfer systems.

Money transfer systems created by banks of Ukraine:

Among the payment systems established by the Ukrainian banks there are the three international money transfer systems:

PrivatMoney (67 participants, including 52 nonresidents); *Avers* (77 participants, including 17 nonresidents); and *Welsend* (11 participants, including 1 nonresident); and the two domestic money transfer systems: *Aval-Express* (10 resident participants) and

SOFT (7 resident participants).

In 2013 with the use of both the domestic and the international systems created by banks there were transferred:

- Within Ukraine: UAH 4 570.0 million, USD 5.4 million, and EUR 0.2 million.

The cross-border transfers were performed:

- Through the nonresident participants of *PrivatMoney*, *Avers*, and *Welsend* systems;
- Due to cooperation with the systems created by the residents and those established by the nonresidents (cooperation agreements made by payment organizations of the national payment systems *Avers* and *SOFT*);

- Through the corresponding banks (nonresident banks) of payment organizations of the domestic banking payment systems *Aval-Express* and *SOFT*.

The total value of cross-border transfers to Ukraine reached an equivalent of USD 544 million; while an equivalent of USD 124 million was sent from Ukraine.

Intra-bank money transfer systems

UAH 1 066 million was transferred via seven internal bank money transfer systems, in 2013.

The most extensive internal bank money transfer system was an instant transfer system *Shvydka kopiyyka* whose payment institution is OSCHADBANK JSC. Its share in the total money transfers via internal bank systems accounted for 79% or UAH 840 million.

Money transfer systems established by nonbank institutions:

The domestic money transfer system *Poshtovyi Perekaz (Mail Transfer)* is established by the Ukrainian State Enterprise of Posts *UKRPOSHTA*. In 2013 the total amount of transfers within Ukraine processed by *Poshtovyi Perekaz* system reached UAH 24.364 billion.

On the basis of the Postal Payment Services Agreement with the Universal Postal Union and the agreements with postal services of other countries *UKRPOSHTA* was providing the cross-border transfer service. In 2013 an equivalent of USD 206 million was paid out in Ukraine with the use of *Poshtovyi Perekaz* system. From Ukraine, there was sent an equivalent of USD 123 million.

UAH 2 103 million was transferred within Ukraine through domestic nonbank money transfer system *InterPayService* (20 participants, including 10 banks).

UAH 3 716 million was transferred through domestic nonbank money transfer system *Financial World* (4 participants, all of them are nonbank financial companies).

In 2013, for replenishing electronic wallets the transfers worth UAH 2 214 million were made through domestic nonbank money transfer system *GlobalMoney* (the system rules include the rules of electronic money system issued by *OSCHADBANK*, JSC) with the use of special self-servicing software and hardware, at the offices and self-service points.

In 2013, totally, through the five bank money transfer systems (*PrivatMoney*, *Avers*, *Aval Express*, *SOFT* and *Welsend*) and the four nonbank transfer systems (*Poshtovyi Perekaz*, *InterPayService*, *Financial World* and *GlobalMoney*), as well as through the seven internal bank money transfer systems there were transferred:

- Within Ukraine: UAH 38 034 million and an equivalent of USD 6 million;
- To Ukraine: an equivalent of USD 750 million;
- Outside Ukraine: an equivalent of USD 246 million.

International money transfer systems whose payment institutions are nonresidents

As of January 1, 2014 the Ukrainian banks, the *Ukrainian Financial Group*, and the national postal operator USEP *UKRPOSHTA* participated in 22 international money transfer systems created by nonresidents.

In 2013 the value of cross-border transfers received in Ukraine via the international money transfer systems created by nonresidents reached an equivalent of USD 4 165 million, whereas the amount of transfers sent from Ukraine totaled an equivalent of USD 579.5 million.

The largest funds were transferred to Ukraine with the use of the following international money transfer systems: *Zolotaya Korona* (Russia) 29.4%, *Western Union* (USA) 28.8%, *Unistream* (Russia) 9.6%, *Contact* (Russia) 8.9% and *MoneyGram* (USA) 8.4%.

The geographical structure of money coming to Ukraine through the international money transfer systems created by nonresidents was as follows: Russia (60.0% of the total funds received); USA (7.7%), Italy (5.2%), Spain (2.1%), Israel (2.0%) and Great Britain (1.7%). That of money coming out from Ukraine: to Russia (44.4% of the total funds sent); China (4.3%); USA and Uzbekistan (3.3% to each), Israel (2.5%), Turkey (2.4%) and Germany (2.2%).

In addition, the individuals used the international money transfer systems established by nonresidents to transfer funds in both the foreign and the national currencies within Ukraine. In 2013, via these systems, within the territory of Ukraine, there were transferred: UAH 200.7 million (in the national currency) and an equivalent of USD 811 thousand in the foreign currency.

Upon the results of activities of the domestic and the international money transfer systems established both by the residents and the nonresidents, in 2013, there were transferred:

- Within Ukraine: UAH 42 804.7 million and an equivalent of USD 12.4 million;
- To Ukraine: an equivalent of USD 4 915 million;
- From Ukraine: an equivalent of USD 827 million.

Activities of the National Bank of Ukraine



1. MONETARY POLICY OF THE NATIONAL BANK OF UKRAINE

1.1. OBJECTIVES AND TASKS OF THE MONETARY POLICY AND THEIR FULFILLMENT

In 2013 the monetary policy of the National Bank of Ukraine was aimed at fulfilling of its main constitutional function of ensuring the stability of the monetary unit of Ukraine.

When performing its main function, the National Bank of Ukraine proceeded from the priority of achieving and supporting the price stability in the state, as well as promoted, within its mandate, the banking system stability and sustainable economic growth.

The National Bank of Ukraine duly secured the performance of the imposed functions and tasks. In particular, in 2013 the ratio of the consumer price index growth (on the annualized basis) ranged from "minus" 0.8% (in March and April) to 0.5% (in December).

The stabilization of prices stemmed from both the internal and external factors, among them the main ones were: the increase in the supply in the food market, the slow growth of administered prices and tariffs and the balanced monetary policy that, due to the adequate money supply parameters, on the one hand, did not permit the imbalances of the monetary character, and, on the other hand, was adequate to the processes taking place in the economy.

During 2013, under the mentioned conditions, the monetary base grew by 20.3%. With account for the multiplying mechanism, this contributed to the money supply expansion by 17.6%.

In terms of the detained dynamics of the headline inflation, the National Bank of Ukraine consistently applied the measures to facilitate the economic development, specifically: through the gradual decrease in its interest rates; providing the banks with larger flexibility in their liquidity management; the support of the banking system liquidity (due to the proper monetary operations) at the level sufficient to secure the credit support of the economic development, etc.

The above mentioned actions, at the background of the deposit funds inflow in the banking system, assisted in the progressive crediting activation. In particular, for 2013, the increase in the bank credit balances amounted 11.8%.

1.2. USE OF THE MONETARY POLICY INSTRUMENTS

Reserve requirements

During 2013 the reserve requirements were used by the National Bank of Ukraine within the complex of other monetary instruments to regulate the monetary market.

In 2013 the National Bank of Ukraine changed twice the reserve requirements to banks providing more flexibility for the banks' own liquidity management.

Specifically, since July 1, 2013, the share of the obligatory reserves to be formed and kept by banks on a separate account with the National Bank of Ukraine was decreased from 50% to 40% of the required reserves formed for the previous reporting period. At the same time, in order to forestall the heightened volatility in the interbank credit market, since July 1, 2013, the obligatory reserves share to be kept by banks by the operational day start on the correspondent account with the National Bank of Ukraine was increased from 50% to 60% of the obligatory reserves formed for the previous reporting period.

Moreover, to stimulate the banks' operations in the stock market, since September 30, 2013, the banks were allowed to include the following eligible assets for satisfying reserve requirements of the National Bank of Ukraine:

the acquired domestic sovereign bonds denominated in the foreign currency to the amount of 10% of their nominal value in the hryvnia equivalent;

the acquired long-term domestic sovereign bonds in the national currency with the maturity (according to the primary issue conditions) over 3 600 days to the amount of 100% of their nominal value;

balances of funds on a bank's accounts 1500 "Correspondent accounts opened with other banks" and 1502 "Banks' funds in settlements", opened with Settlement Center for Servicing Financial Market Agreements PJSC, in the amount of 100%.

The mentioned securities owned by the banks accounted for:

those denominated in the foreign currency:

USD 2.3 billion and EUR 0.3 billion, as of January 1, 2013;

USD 5.9 billion and EUR 0.1 billion as of January 1, 2014;

The long-term securities in the national currency:

UAH 0.2 billion as of October 1, 2013;

UAH 0.33 billion as of January 1, 2014.

The average balances of funds on the banks' accounts 1500 "Correspondent accounts opened with other banks" and 1502 "Banks' funds in settlements", opened with Settlement Center for Servicing Financial Market Agreements PJSC, as of January 1, 2014 were UAH 398.8 million compared to UAH 74.6 million as of November 1, 2013.

The targeted domestic sovereign bonds issued to finance the preparation and conduct in Ukraine of the 2012 UEFA European Football Championship were taken off the list of the eligible assets for satisfying reserve requirements due to their full redemption.

At the same time, in order to de-dollarize the economic relations and to strengthen the status of hryvnia as the only means of payment and savings, in 2013, the NBU twice (since July 1, 2013 and since September 30, 2013) increased the reserve requirements for the funds attracted in the foreign currency while keeping the requirements for the funds attracted by banks in

the national currency at the zero level. The above-mentioned contributed to the hryvnia stability support under the fragile market conditions and unstable cross-border capital flows.

In accordance with the last changes in the reserve requirements for banks, in 2013 the following reserve requirements were set:

- on the demand funds (deposits) of legal entities in the foreign currency and on the funds on current accounts in the foreign currency – 10;
- on the demand funds (deposits) of individuals in the foreign currency and on the funds on current accounts in the foreign currency – 15;
- on the short-term funds and deposits of legal entities and individuals in the foreign currency – 10;
- on the long-term funds and deposits of legal entities and individuals in the foreign currency – 7;
- on the funds attracted by banks from nonresident banks, international financial institutions and other nonresident institutions in the foreign currency (except Russian rubles) – 5;
- on the funds attracted by banks from nonresident banks, international and other nonresident institutions in the Russian rubles – 0.

The average calculated reserve requirements for 2013 amounted to 3.0%, having increased from 2.7% in January to 3.4% in December 2013 (for 2012 – 2.6%).

During 2013 the National Bank of Ukraine was accruing and paying the interest amounting to 30% of the discount rate of the National Bank of Ukraine on the balances of the obligatory reserves transferred by banks to a separate account with the National Bank of Ukraine on condition that a bank observed the procedure of forming and keeping the reserves.

In 2013 the reserve requirements, in the absolute figures, grew from UAH 19.4 billion in January to UAH 27.3 billion in December. During 2013 the obligatory reserves on the separate account with the National Bank of Ukraine ranged from UAH 5.1 billion to UAH 11.0 billion, and the average monthly balances of funds on the correspondent accounts of banks ranged from UAH 22.4 billion to UAH 27.1 billion.

Interest rate policy

Under the conditions of price stability and in order to promote the trend, that started at the end of 2012, towards decreasing price of the funding, during 2013 the National Bank of Ukraine twice lowered the discount rate (by 0.5 percentage point every time), being the basic rate with regard to its other interest rates. Thus, since 10 June 2013, it decreased from 7.5% to 7.0% per annum, and from August 13, 2013, to 6.5% per annum.

The interest rates on the standing refinancing facility were cut down respectively.

Thus, the interest rate on the secured overnight refinancing was reduced twice (by 0.50 percentage point every time), from 8.50% to 7.50% per annum. The rate on the unsecured (blank) overnight loans was not announced since June 12, 2013.

The estimated weighted average interest rates on the loans extended through tender procedures and on the repurchase agreements were lowered to 6.50% and to 6.52% per annum in December 2013 as compared with 7.50% and 7.62% per annum in December 2012, correspondingly.

In December 2013, the interest rate on the stabilizing loans accounted for 8.5% per annum (in November 2012, 9.5% per annum).

As a whole, the weighted average interest rate on all the refinancing instruments decreased from 7.66% per annum in January to 7.13% per annum in December 2013.

In order to improve the interest rate policy framework through strengthening the efficiency of the overnight interest rates corridor, since mid-June 2013, the National Bank of Ukraine initiated the tender procedures on placing the National Bank's overnight certificates of deposit. In 2013, the interest rate on the overnight deposit certificates was gradually increased from 0.70% per annum in June to 2.00% per annum in December with the aim to narrow the corridor for the overnight interest rates of the National Bank of Ukraine.

Banks' refinancing operations

To stimulate the bank credit growth, the National Bank of Ukraine actively carried out the operations on refinancing the banks. In 2013, their volume totaled UAH 71.5 billion including the repurchase agreements for government bonds of Ukraine valued UAH 36.0 billion, or 50.3%.

In 2013, 6 extra liquidity-providing tender procedures were held, of which 5 tenders announcing the expanded eligible collateral list with the drawdown period up to 360 days. By their results, the loans were granted to the amount of UAH 7.7 billion with the weighted average interest rate of 6.84% per annum. At one of the extra tender procedures providing liquidity against Ukraine's government bond with the loan use term up to 38 days, there was extended UAH 2.0 billion at the weighted average interest rate of 6.50% per annum.

Moreover, to support the banks' liquidity, the National Bank of Ukraine temporarily abolished the limits on the maximum amount of the refinancing credits (but the overnight credit) and repurchase agreements extended by the National Bank to a separate bank, from December 10, 2013 till March 1, 2014; the number of requests for the liquidity support through overnight credits, from December 6, 2013 to January 8, 2014.

For 2013, the banks repaid the loans, extended by the National Bank of Ukraine, to the amount of UAH 70.5 billion, including UAH 25.3 billion of early redemption.

Table 9. Banks' refinancing operations

Indicators	2013		For reference: 2012	
	UAH, million	% to the total amount	UAH, million	% to the total amount
Total operations, including	71 498.2	100.0	97 554.3	100.0
– through repurchase agreements	35 970.7	50.3	56 622.0	58.0
– loans extended through the tender procedure	13 799.1	19.3	11 948.9	12.3
– through standing overnight refinancing facility	19 770.4	27.7	28 583.4	29.3
– through extending the stabilization credits	1 958.0	2.7	400.0	0.4
– through extending other long- and short- term loans	x	x	x	x
Loans repaid	70 506.4		93 588.6	x

Deposit operations

In order to regulate the banks' liquidity during 2013 the National Bank of Ukraine was placing its certificates of deposit.

To more clearly define the limits of the overnight interest rate corridor, since mid-June 2013 the National Bank of Ukraine initiated the placement of the overnight deposit certificates.

During 2013, announced were 1 366 tenders by whose results the deposit certificates were placed to the total amount of UAH 270.4 billion (in 2012 – UAH 16.7 billion). The nominal value of one deposit certificate was UAH 1 000 thousand. The average weighted interest rate on the certificates of deposit issued in circulation in 2013 was 2.05% per annum (in 2012, 2.62% per annum).

In 2013, the advanced repayment of deposit certificates amounted to UAH 6 million.

Currency interventions

In 2013, the National Bank of Ukraine used interventions in order to influence the exchange rate of hryvnia against foreign currencies and the general money demand and supply in Ukraine. At the same time, the share of the regulator's participation in the inter-bank foreign exchange market of Ukraine was insignificant – 0.9% of the total operations on it, whereas in 2012 it was 3.1 %.

In January – April, the National Bank of Ukraine executed the transactions in the inter-bank foreign exchange market of Ukraine on both the sale and the purchase of foreign currency, and during this period their total negative balance accounted for USD 1 billion (in the equivalent).

In May – June, the regulator only bought the foreign currency (USD 0.5 billion), and, in July – August, it did not execute any transactions in the interbank foreign exchange market of Ukraine.

In September – December, taking into account the hryvnia's exchange rate volatility, the National Bank of Ukraine held interventions only on the sale of foreign currency.

The negative balance of currency interventions of the National Bank of Ukraine for 2013 totaled USD 3.1 billion (in the equivalent), having decreased nearly 2.4 times compared to 2012.

Operations with securities in the open market

During 2013, the National Bank of Ukraine actively supported the liquidity of banks by conducting the operations in the open market. The National Bank of Ukraine acquired the securities to the total amount of UAH 45.6 billion (at the nominal value). In 2013, operations of the sale by the National Bank of Ukraine of the securities of Ukraine from its portfolio and operations of the purchase (sale) of the government securities of Ukraine through the bilateral quotation mechanism were not carried out.

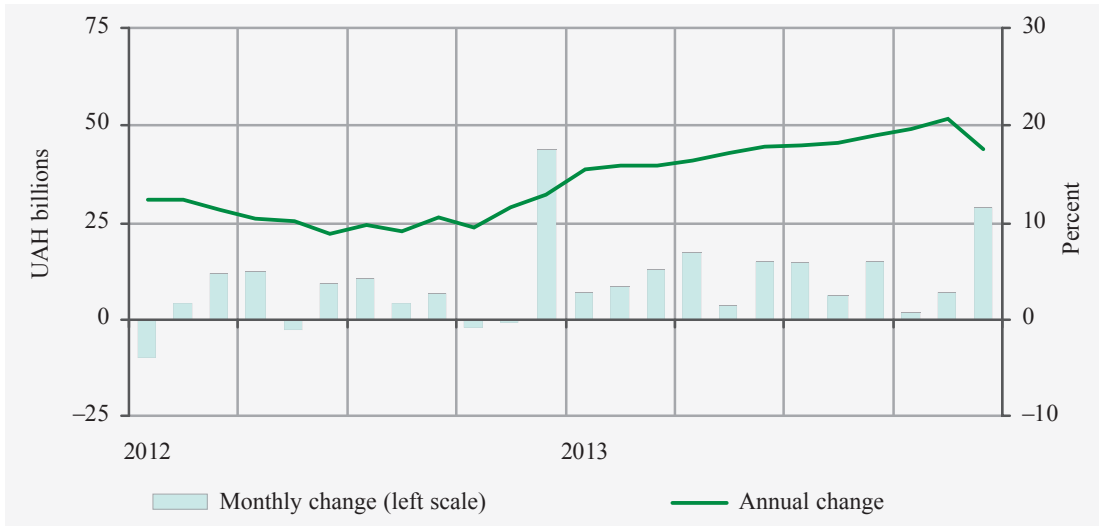
Money circulation

By December-end 2013, the balances on monetary aggregate M3 accounted for UAH 909.1 billion and for the year grew by UAH 135.9 billion, or by 17.6%, compared with the increase by 12.8% in 2012.

The money supply growth took place exclusively at the expense of the augmentation of the funds in the national currency (by 26.0%, up to UAH 661.5 billion), that testified

to enhancing the trust in the monetary unit of Ukraine. The money supply in foreign currency diminished for the year by 0.3%, to UAH 247.6 billion.

Figure 20. Dynamics of Monetary Aggregate M3



By December-end 2013, the monetary base amounted to UAH 307.2 billion and increased by the year results by 20.3%, or by UAH 51.9 billion. In the reporting year, the monetary base dynamics was defined by the augmentation of cash issued in circulation by UAH 17.5 billion, or by 39.1%, and enlargement of the liabilities of the National Bank of Ukraine to other depository corporations that are not included in monetary aggregate M3 by UAH 12.8 billion, or by 41.1%.

1.3. FOREIGN EXCHANGE REGULATION MEASURES

In 2013, the measures of the foreign exchange regulation of the National Bank of Ukraine were aimed at achievement of the monetary policy priorities determined by the laws and regulations of Ukraine.

In order to simplify the licensing procedure for the residents' foreign exchange transactions, since May 10, 2013 the requirement for the National Bank of Ukraine to notify the special agencies for organized crime control about the residents' fx license requests and to take into account the findings of these agencies when making the decisions related to the issue of the licenses was abolished.

With the aim of stabilizing the foreign exchange market, improving the market expectations and boosting the confidence in the domestic currency of Ukraine, since May 20, 2013, to November 19, 2013:

- imposed were the requirements as to the mandatory sale in the interbank foreign exchange market of Ukraine of 50% of foreign currency inflow in the form of residents' currency gains from the commodity sale under the foreign economic contracts and as to the change in the terms of settlements on merchandise exports/ imports (to 90 calendar days);

- set was the requirement concerning the sale in the interbank foreign exchange market of Ukraine of the foreign exchange inflow to Ukraine in favor of natural persons (res-

idents and nonresidents) in the amount that is equal or exceeds in the equivalent UAH 150 000 per person during one month.

To improve the procedure of issuing the individual licenses for moving the securities across the customs border of Ukraine, since June 7, 2013, revised were the document submittal requirements for issuing the licenses to move the securities across the customs border of Ukraine.

To enhance the functioning mode of the correspondent accounts of the European Bank for Reconstruction and Development (hereinafter referred to as "the EBRD") from June 25, 2013, the EBRD has a right to use the funds in hryvnias, specifically for:

- extending/getting the credits, loans;
- performing the investment activities in the territory of Ukraine;
- placing the deposits with the authorized banks.

Since July 16, 2013, the Nordic Environment Finance Corporation has a right within its mandate to open current accounts in hryvnias with the banks of Ukraine to execute operations on credits, loans, guarantees when financing the projects in the territory of Ukraine.

From August 3, 2013, adjusted was the procedure for crediting by a bank of the hryvnia equivalent from the sale of foreign exchange proceeds from abroad in favor of individuals, in particular, if a beneficiary has no accounts with the bank.

To diminish the use of foreign currency in the territory of Ukraine and to raise the status of the national currency, since September 21, 2013, the procedure for crediting the funds in foreign currency within Ukraine to a individual's (resident or nonresident) current account in foreign currency was established. The procedure determines a full list of transactions on which the crediting of foreign exchange proceeds within Ukraine to the current accounts of individuals is performed in foreign currency.

Since October 12, 2013, the requirements as to the mandatory sale in the interbank foreign exchange market of Ukraine are applied not only to residents' fx inflows from the commodity sale under the foreign economic contracts, but also to all the inflows in foreign currency from abroad in favor of legal entities (other than the authorized banks) and individual entrepreneurs.

From November 5, 2013, the NBU procedure for granting the individual licenses for investments abroad was improved, specifically the list of documents that shall be submitted by the applicant was amended.

To stabilize the foreign exchange market, to improve the market expectations and to enhance confidence in the national currency of Ukraine, from November 20, 2013, to May 17, 2014:

- introduced was the requirement concerning the mandatory sale in the interbank market of Ukraine of the foreign currency inflow from abroad in favor of legal entities (other than the authorized banks) and individual entrepreneurs, foreign representative offices (other than official representative offices) to the accounts opened with the authorized banks to carry on joint activities without establishment of a legal entity, as well as the foreign currency inflows to the residents' accounts, opened outside of Ukraine on the basis of individual licenses issued by the National Bank of Ukraine, in the amount of 50% and the change of settlement terms on export/imports of goods (to 90 calendar days);

– set was the requirement as to the sale in the interbank foreign exchange market of Ukraine of the foreign currency inflows from abroad in favor of individuals (residents and nonresidents) in the amount that is equal or exceeds in the equivalent UAH 150 000 during one month per one person.

To ensure further development of the international settlements and correspondent relations of the authorized banks of Ukraine with nonresident banks, and also due to the Republic of Latvia joining the euro area since January 1, 2014, and euro replacing Latvian lats from December 20, 2013, the authorized banks of Ukraine are permitted to start preparation to the opening of correspondent accounts in foreign exchange of the 1st group of the Classifier of Foreign Exchange and Investment Metals with the Latvian banks and since January 1, 2014 to use such correspondent accounts for transactions while adhering to the rules of keeping and treating the correspondent accounts in foreign exchange set by the National Bank of Ukraine.

1.4. REFORM OF THE STOCK MARKET

The Law of Ukraine "On the Depository System of Ukraine" (hereinafter, the Law), adopted by the Verkhovna Rada on July 6, 2012, for improvement of the stock market, provides for the establishment of the centralized depository system in Ukraine, the unification of principles and procedure for depository activities and interaction between the participants of depository system.

The Law separates accounting and settlement aspects of the transactions with securities and, respectively, the risks. Such practice is in compliance with the EU standards and promotes the reliable and transparent infrastructure of the stock market, in particular, through:

- centralizing the depository accounting in the Central Depository;
- establishing the Settlement Center Servicing Contracts in Financial Markets PJSC (hereinafter referred to as "the Settlement Center") to ensure the reliability and centralization of settlements not only for the stock market but also for the whole financial market of Ukraine;
- improving the clearing institutions activities and their central counterparty function.

To fulfill the Law's requirements with regard to the share of the National Bank of Ukraine in the authorized capital of the Settlement Center for the amount not less than 75 percent, the National Bank of Ukraine acquired 119 096 ordinary shares for the total nominal value of UAH 119.1 million (including 84 096 pieces, totaling UAH 84.1 million at par value in 2013) that makes up 77.8% of the Settlement Center's authorized capital.

Moreover, in compliance with the requirements of this Law, the National Bank of Ukraine holds 2 580 ordinary registered shares for the total nominal value of UAH 25.8 million, that accounts for 25% of the authorized capital of the PJSC National Depository of Ukraine PJSC.

2. INTERNATIONAL RESERVES

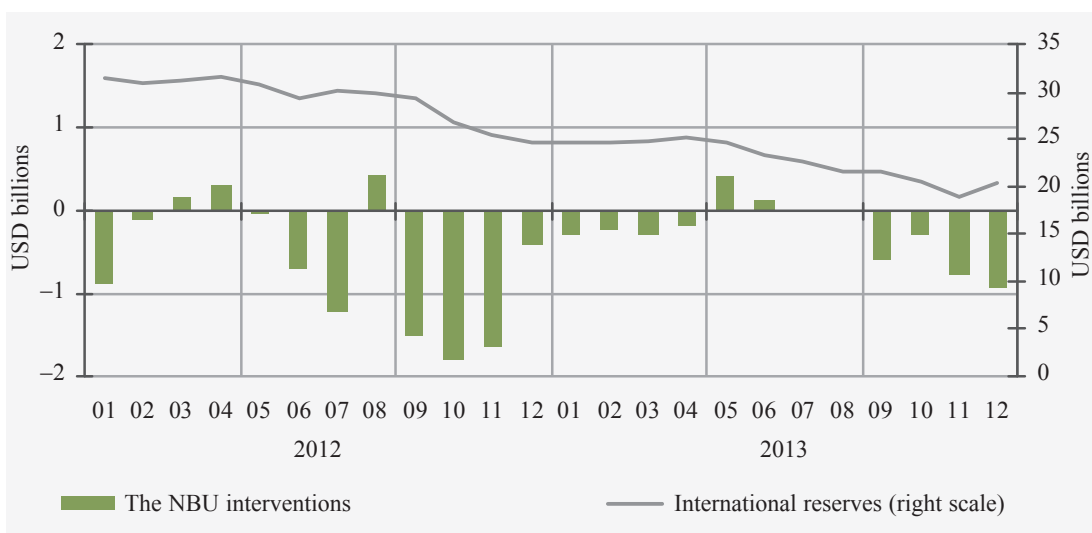
As of January 1, 2014, the international (gold and foreign exchange) reserves of Ukraine (hereinafter - international reserves) amounted to USD 20.4 billion and during the year decreased by USD 4.1 billion, or by 16.8%.

The main factors of their decrease were the payments of the Government of Ukraine for the total amount, equivalent to USD 6.6 billion, the repayments of the obligations to the IMF in the amount, equivalent to USD 5.7 billion and the foreign exchange sale by the National Bank of Ukraine in the interbank foreign exchange market of Ukraine to the amount, equivalent to USD 4.3 billion.

In 2013, the primary sources of the international reserve replenishment were inflows in favor of the State Treasury of Ukraine from placement of sovereign bonds in the foreign currency to the amount equivalent to USD 11.6 billion and purchase of the foreign currency in the interbank foreign exchange market of Ukraine to the amount of USD 1.1 billion.

The main aim of the international reserve management was ensuring an optimal balance between the soundness, liquidity and yield of international reserves.

Figure 21. **International Reserves and NBU Interventions**
(according to the current exchange rate)



In 2013, 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 setting the credit limits for the counterparty banks. The optimal level of foreign exchange and interest rate risks was ensured through diversification of international reserves.

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

All the counterparty banks' liabilities to the National Bank of Ukraine under deposits and debt financial instruments were timely and fully repaid.

To ensure the smooth functioning of the financial system of Ukraine and timely fulfillment of government obligations, the international reserve liquidity was maintained at a high level due to the choice of highly reliable counterparties and government securities, as well as due to the limitation of the planned investment period and on-going monitoring of the liquidity parameters of the reserve currencies and financial instruments.

During 2013, the monetary gold volume grew by 0.22 million troy ounces. The larger portion of the monetary gold of the National Bank of Ukraine was kept in the vault, and the rest was placed as term deposits.

In 2013, the National Bank of Ukraine got the yield from the international reserve management worth USD 49.1 million.

3. SERVICING OF THE DOMESTIC DEBT OF UKRAINE

During 2013, in accordance with the Law of Ukraine "On the National Bank of Ukraine", Article 42, paragraph 12, the National Bank of Ukraine carried out the operations on the public debt servicing involving the placement of government securities, their redemption and payment of yield on them. To perform the mentioned function, the National Bank of Ukraine, at the request of the Ministry of Finance of Ukraine, placed the domestic sovereign bonds.

The Law of Ukraine "On the State Budget of Ukraine for 2013" envisaged the domestic sovereign bonds issue to the total amount of UAH 107.7 billion (that is 1.5 times more than in 2012).

In 2013, as in 2008–2012, the domestic sovereign bonds placement was arranged during the whole year. For the year, 281 auctions on the domestic sovereign bonds placement were planned, of which 153 took place.

During the year, the Ministry of Finance of Ukraine was placing the short-term, medium-term and long-term government bonds with the following average maturity:

For the short-term ones:

- denominated in the national currency: 114 days (90 days less compared to 2012);
- denominated in the US dollar: 25 days (339 days more compared to 2012);
- denominated in the euro: 6 days⁶;

For the medium-term ones:

- denominated in the national currency: 1 758 days (increased by 495 days compared to 2012);
- denominated in the US dollar: 1 030 days (149 days more compared to 2012);
- denominated in the euro: 406 days (151 days less compared to 2012);

For the long-term ones:

- denominated in the national currency: 2 540 days (increased by 17 days compared to 2012)⁷.

For 2013, the Ministry of Finance of Ukraine placed the domestic sovereign bonds in

⁶ During 2012 the placement of short-term government bonds denominated in the euro was not carried out.

⁷ During 2012-2013, the placements of long-term government bonds denominated in the US dollars and euros were not carried out.

the national currency to the amount of UAH 65.2 billion, their weighted average yield made up 13.13% per annum, USD 5.3 billion, in the US dollar, with the weighted average yield of 7.63% per annum and EUR 0.1 billion, in the euro, with the weighted average yield of 4.80% per annum.

By the results of holding the auctions on the domestic sovereign bonds' primary placement, during 2013, the State Budget of Ukraine received: UAH 50.5 billion in the national currency; USD 5.3 billion and EUR 0.1 billion, in the foreign currency.

The redemption of the domestic sovereign bonds and the payment of yield on them were done timely and fully. The payments on the domestic sovereign bonds for 2013 reached UAH 43.5 billion, USD 2.1 billion, and EUR 0.3 billion, including the repayment of principal amount totaling UAH 25.1 billion, USD 1.7 billion, and EUR 0.3 billion, and the yield payment amounting to UAH 18.4 billion, USD 0.4 billion and EUR 0.02 billion.

As a result of excess of domestic sovereign bonds placement volumes over their redemption volumes, in 2013, the indebtedness of the Government of Ukraine on government bonds enlarged by UAH 66.6 billion as compared with 2012, and by the year end amounted to nearly UAH 252.4 billion.

4. CASH CIRCULATION

In 2013, the cash supply dynamics was adequate to the macroeconomic situation and sufficient for servicing the economic processes.

As of January 1, 2014, the cash outside the banks equaled UAH 237.8 billion and for 2013 increased by UAH 34.5 billion or by 17.0% (in 2012, by UAH 10.6 billion or by 5.5%).

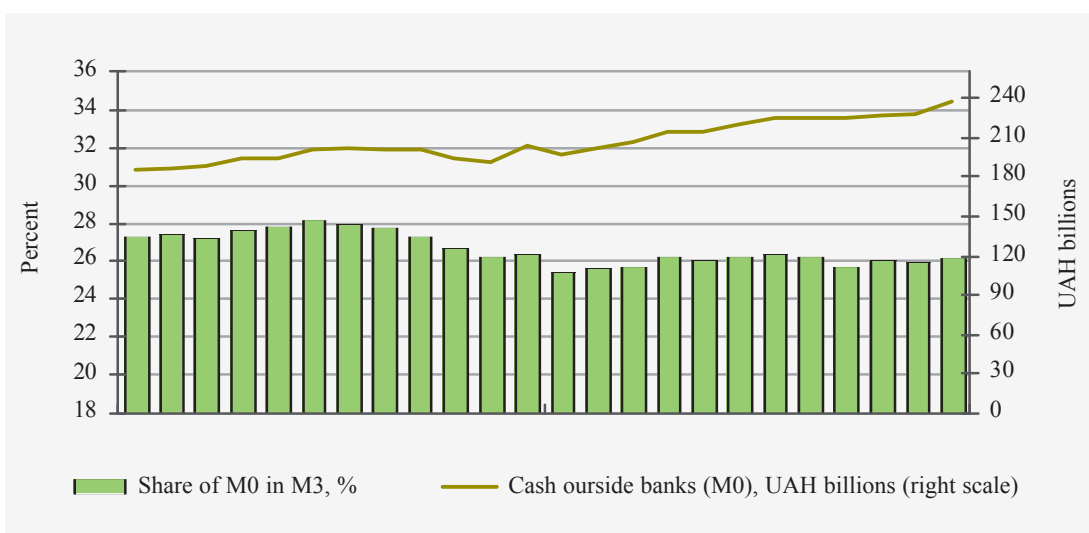
The share of cash in circulation outside the banks for 2013, compared to 2012, increased by 1.4 percentage points and amounted to 2.1%.

The share of cash outside the banks within the structure of the money supply curtailed for the year by 0.1 percentage points, to 26.2%.

Notwithstanding the gradual reduction in cash within the money supply in Ukraine, there is a trend that is true for the majority of the world's countries, including the advanced economies, towards the increase in cash in circulation in the nominal terms.

At the beginning of 2014, there were banknotes and coins in circulation totaling UAH 261.9 billion, or by UAH 39.1 billion more than at 2013 year start. It is the evidence that cash is still the main instrument of the retail settlements.

Figure 22. Dynamics of Cash Outside Banks and Its Share (M0) in Monetary Aggregate (M3) in 2012–2013



As of January 1, 2014, the banknotes in circulation amounted to 2 812 million pieces worth UAH 260.1 billion, the small and circulation coins totaled 11 324 million pieces worth UAH 1.7 billion and the commemorative coins counted 8.4 million pieces worth UAH 45.5 million.

As of January 1, 2014, within the banknotes in circulation, the largest share (in quantity) had the banknotes of 100 hryvnia (18.6%), 200 hryvnia (17.2%), 50 hryvnia (12.3%), and 1 hryvnia (15.2%) denominations.

Among the coins in circulation, the largest portions traditionally belonged to coins of 10 kopiyka (28.2%), 5 kopiyka (13.1%), 2 kopiyka (12.3%) and 1 kopiyka (21.5%) denominations.

As of January 1, 2014, there were 62 banknotes per capita (in the previous year, 57 pieces) and 239 small coins per capita, being by 17 pieces more than as of the same date of the previous year.

During the reporting year, the National Bank of Ukraine secured the continuous and timely satisfaction of the cash circulation needs for banknotes and coins of all denominations. The daily monitoring of the circulation of cash and the balances of banknotes and coins at the regional offices' stocks was performed, and the timely supply of cash was ensured. During 2013, the banknotes and coins to the amount of UAH 83.5 billion (the previous year, UAH 61.1 billion) were issued from the reserve funds of the National Bank of Ukraine.

Cash processing and withdrawal of unfit banknotes

In 2013, the regional branches received about 2.6 billion banknotes for processing, including 2.3 billion pieces received from the banks of Ukraine, that was by 3.8% less than in 2012.

During 2013, all the automated systems processed 2.66 billion banknotes. The worn cash, destroyed by the automated systems, totaled 0.55 billion pieces of banknotes.

Examination of banknotes

During 2013, according to the results of examinations made by the experts of the system of the National Bank of Ukraine, 7 216 pieces of banknotes of the national currency for the total value of UAH 618 992 (which is by 5.1% and 13.3% respectively less than the previous year), were declared to be counterfeit and withdrawn from circulation.

By the results of 2013, there were about 3.5 pieces of counterfeits per 1 million pieces of genuine banknotes (in 2012, 4.1 pieces).

The prevailing share of the false banknotes withdrawn from circulation were the banknotes of 200 hryvnia, 100 hryvnia, 50 hryvnia and 20 hryvnia denominations (1 344 pieces).

Nearly all withdrawn false hryvnia banknotes (99%) were produced with the use of the computer and copying equipment.

Moreover, in the reporting year, the foreign currency banknotes were declared counterfeit and withdrawn from circulation, namely:

The US dollars: 438 pieces (496 pieces in 2012);

The Euros: 113 pieces (171 pieces in 2012); and

The Russian rubles: 368 pieces (105 pieces in 2012).

The prevailing share of the counterfeit foreign currency banknotes withdrawn from circulation were the 100 US dollar notes (92.5% of the total number of the withdrawn US dollar counterfeits), 100 Euro notes (65.5% of the total number of the withdrawn Euro counterfeits) and 5 000 Russian ruble notes (89.9% of the total number of the withdrawn Russian ruble counterfeit).

Most of the withdrawn US dollar (91.6%) and Euro (98.2%) counterfeits were produced by the printing technology. The Russian ruble counterfeits withdrawn (98.6%) were produced with the use of the computer equipment.

Issue and distribution of commemorative coins

In accordance with the 2013 Plan for Issuing the Commemorative Coins of Ukraine and Souvenir Products, the NBU put into circulation commemorative coins of 42 denominations with the total mintage of 650.5 thousand pieces (including 112.5 thousand pieces made of precious metals), among which there were the gold coins (one denomination), the silver coins (19 denominations), and the coins of non-precious metal (22 denominations).

The National Bank of Ukraine commemorated the important historic and sporting events and jubilees by minting the coins, in particular: 1025th Anniversary of Christianization of Kyivan Rus, 1000 Years of the Liadova Cave Monastery, 900th Anniversary of the Tale of Bygone Years, 200 Years of Semen Hulak-Artemovsky, 100 Years of Mykola Amosov, World Youth Championship in Athletics and World Rhythmic Gymnastics Championships, which took place in Kyiv for the first time, the series of coins dedicated to 70th anniversary of Ukraine's liberation from the fascists invaders, in particular, the coin "Battle of the Dnieper", coins continuing the Oblasts of Ukraine series, 100 Years of P.I. Tchaikovsky National Music Academy of Ukraine, and 150th Anniversary of the National Philharmonic Society of Ukraine.

In 2013, the National Bank of Ukraine sold 737.1 thousand pieces of commemorative coins for the total value of UAH 79.6 million, including 2.4 thousand coins of gold, 74.2 thousand coins of silver, and 660.5 thousand coins of nickel silver.

The commemorative coins issued in 2012 were nominated for the 2013 Coin of the Year Contest. The winners were chosen in three categories:

Coin of the Year: "Ukrainian Lyric Song" silver commemorative coin;

Most Creative: "UEFA EURO 2012™ Poland-Ukraine" coin;

Most Artistic: "Malva" gold coin.

During 2013, the National Bank of Ukraine actively participated in the international numismatic exhibitions and conferences.

Issue and distribution of bullion coins

In 2013, the National Bank of Ukraine sold 45.34 thousand pieces of bullion coins (2.6 times more than in 2012) for the total value of UAH 129.54 million, including 19.83 thousand gold coins and 25.51 thousand silver coins. The sale volumes are indicative of the population's interest in this group of monetary products that are a reliable means of saving and investment.

In 2013, 42 authorized banks were selling the bullion coins to legal and natural persons at the prices set at their discretion and in accordance with the agreements with the National Bank of Ukraine.

5. SUPERVISION AND REGULATION

5.1. REGULATION OF ACTIVITIES OF THE UKRAINIAN BANKS

In 2013, the National Bank of Ukraine focused its efforts on improving the regulations related to the banking activities and bank supervision.

In particular, in 2013, the NBU amended some regulations, including:

- Regulation on the Procedure of Registration, Licensing, Regulation and Supervision over Remedial Banks. The amendment releases the remedial banks from the requirement to keep the obligatory reserves on a separate account with the National Bank of Ukraine;
- Regulation on the Procedure of Submitting the Audited Annual Report and Financial Statements by the Banks to the National Bank of Ukraine. The amendments concern:
 - deadline for the submission of audit report and financial statements by the banks to the NBU;
 - inclusion of the auditor's assessment of bank's reserves and capital adequacy in the Auditor's Report in accordance with the NBU regulations;
 - submittal by the auditor of the explanations and working documents related to the audit, including in electronic format;
- Regulation on the Procedure of Registration and Licensing of Banks and Opening of Individual Structural Units. The respective NBU Board Resolution establishes the special requirements for the submission of documents by the qualifying shareholders who increase their share in the bank and by the international financial institutions;
- Regulation on the Procedure of Submitting the Information on Shareholding Structure. The amendments set the form of presentation of information on bank qualifying shareholders on the NBU official website;
- Regulations on Granting by the NBU the Stabilization Loans to the Ukrainian Banks. The amendments revise approaches to eligibility of collateral which can be provided to the NBU against stabilization loans;
- Technical Procedure for the Operations Related to Granting by the NBU the Stabilization Loans to the Ukrainian Banks.

For the purpose of raising the effectiveness and ensuring the sustainable activities of Ukrainian banks the Instruction on the Procedure of Regulating the Activities of Ukrainian

Banks have been amended with respect to:

- improving the procedure for encompassing the mortgage bonds and mortgage loans included in the mortgage collateral on such bonds and the loans issued against government guarantees for capital expenditure purposes into the calculations of bank regulatory capital adequacy ratio;

- improving the approaches to including the funds borrowed as subordinated debt into bank capital, as well as the procedure for calculating the credit risk ratios.

The Methodological Guidelines for Calculating the Economic Ratios for Banks in Ukraine has been amended also. In particular, the amendments concern the algorithm for calculating the economic ratios regarding the accounts for recording contributions into unregistered authorized capital, the results of adjustment of value of financial instruments at their original recognition, the provisions against due income accrued on debt securities, other financial investments and investment loans.

To improve the Regulation on the Procedure of Provisioning and Use of Loan Loss Provisions the NBU has amended them by extending the list of eligible collateral to be taken into consideration when calculating the provisions.

In addition, within the framework of implementing the above mentioned Regulation the new Procedure for Provisioning against the FX Lending Operations with the Borrowers Having Unverified Expected FX Revenues has been elaborated and approved.

In October 2013, having considered the results of implementation of this Procedure the NBU amended it with respect to the format of bank reporting on the amount of provisions on separate account.

A set of new forms of statistical reporting has been elaborated for ensuring the bank compliance with the Regulation on the Procedure of Provisioning and Use of Loan Loss Provisions with respect to the assessment of corporate borrower financial standing by calculating the integrated indicator of borrower financial status.

5.2. REGISTRATION AND LICENSING OF THE UKRAINIAN BANKS

In 2013, the National Bank of Ukraine approved the statutory documents of 8 corporate entities who intended to perform the banking activities, namely:

- PUBLIC JOINT-STOCK COMPANY "BANK MYKHAILIVSKYI";
- PUBLIC JOINT-STOCK COMPANY "STATE LAND BANK";
- PUBLIC JOINT-STOCK COMPANY "BANK AVANGARD";
- PUBLIC JOINT-STOCK COMPANY "INVESTMENT TRUST BANK";
- PUBLIC JOINT-STOCK COMPANY "COMMERCIAL BANK "GEFEST";
- PUBLIC JOINT-STOCK COMPANY "BANK "PORTAL";
- PUBLIC JOINT-STOCK COMPANY "SETTLEMENT CENTER FOR SERVICING FINANCIAL MARKET AGREEMENTS";
- PUBLIC JOINT-STOCK COMPANY "VECTOR BANK".

The first seven banks and Public Joint-Stock Company "BANK "UNISON" were

licensed to provide the banking services; the information on the eight newly established banks was entered into the State Register of Banks.

In 2013, the NBU accredited one representative office of foreign bank in Ukraine (the representative office of ERSTE GROUP BANK AG in Ukraine) and cancelled accreditation of 4 ones (the representative office of Aizkraukles Banka AS in Ukraine (Kyiv); the representative office of Investkreditbank AG in Ukraine; the representative office of Deutsche Bank Aktiengesellschaft, and the representative office AB Ukio Bankas in Kyiv) and made the respective records in the State Register of Banks.

In 2013, the NBU authorized reorganization of 2 banks: PUBLIC JOINT-STOCK COMPANY "UNICREDIT BANK" and PUBLIC JOINT-STOCK COMPANY "FIDOCOM-BANK". These banks were removed from the State Register of Banks in connection with reorganization and return of banking license.

In connection with liquidation, during the reporting year, two banks (PUBLIC JOINT-STOCK COMPANY "RD BANK" and PUBLIC JOINT-STOCK COMPANY "BANK "TAVRIKA") gave back their banking licenses.

In addition, in 2013, the National Bank of Ukraine:

- approved and registered in the State Register of Banks 120 amendments to the banks' statutory documents, including 31 ones related to an increase in authorized fund;
- issued 3 positive opinions on intentions to change the authorized capital of state-owned banks;
- authorized establishment of 2 representative offices of Ukrainian banks in foreign countries;
- approved 2 new revised versions of the regulations for the representative offices of foreign bank in Ukraine and made the respective records in the State Register of Banks;
- recognized 14 banking groups;
- ceased recognition of one banking group;
- replaced the banking licenses in connection with change in names for 8 banks;
- considered notifications of 21 banks on the commencement of new types of activities;
- considered notifications of 4 banks on the commencement of new types of activities and sent notices of their failure to comply with requirements under which they were authorized to perform new types of activities;
- approved 107 people for occupying the senior positions at banks (chairman, chief accountant, and board members of state-owned banks);
- confirmed compliance of 233 candidates for the position of deputy chairman, board members and deputy chief accountant;
- confirmed compliance of 176 candidates for the position of chairman, deputy chairman, and members of the supervisory board of banks;
- approved acquisition of qualifying holding in corporate entity which intended to perform the banking activities for 6 persons;
- approved acquisition/increase in qualifying holding in banks for 10 persons;
- prohibited to use voting right of purchased bank shares to 1 person;
- prohibited to acquire qualifying shareholding to 2 persons.

5.3. FOREIGN EXCHANGE CONTROL AND LICENSING SYSTEM

During the year, the NBU issued 558 individual licenses, general licenses, authorizations and special permits for performing FX transactions.

Table 10. **Individual Licenses, General Licenses, Special Authorizations and Approvals Issued by the NBU to the Banks, the Nonbank Financial Institutions, the Legal Entities and the Individuals**

	2013	For reference: 2012
Banks	46	73
Including:		
General licenses on performing FX transactions	32	51
Individual licenses on performing FX transactions, including:	14	22
On overseas transfer of foreign currency from Ukraine for paying for bank metals	...	8
On overseas transfer of FX assets from Ukraine	6	7
On the use of foreign currency in Ukraine as a means of payment
On overseas investments	4	4
On placement of FX assets on accounts outside Ukraine	4	3
Nonbank financial institutions, corporate entities, and individuals	512	532
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	18	7
Individual licenses on placement of FX assets on accounts outside Ukraine	230	240
Individual licenses on overseas investments	209	242
Individual licenses on bringing securities across the customs border of Ukraine	1	...
General licenses on FX transactions issued to nonbank financial institutions	25	17
Approvals of overseas transfers effected by residents of Ukraine under contracts on works and services providing for rendering services by nonresidents	9	10
Special authorizations on importation of bank metals, payment documents, and foreign currency	9	5

Pursuant to the applicable legislation the National Bank of Ukraine was overseeing 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 6 575 inspections of banks and nonbank financial institutions and 670 inspections of foreign exchange offices/points. The share of scheduled inspections made up 37.2% (2 443 inspections) of the total number, whereas that of unscheduled ones accounted for 62.8% (4 132 inspections).

Throughout the year, on the basis of inspection findings, there were made 1 291 decisions on penalizing the banks for failure to comply with the foreign exchange legislation. The amount of penalties totaled UAH 5 167 069.63. The most of decisions were issued to banks for untimely submission, concealment or misrepresentation of statements on foreign exchange transactions.

Table 11. Decisions on Penalizing the Authorized Banks for Failure to Comply with the Foreign Exchange Legislation

Type of breach	2013		For reference: 2012	
	Number of decisions	Amount, UAH thousand	Number of decisions	Amount, UAH thousand
Untimely submission, concealment or misrepresentation of statements on FX transactions	975	1 703.4	389	676.6
Failure to fulfill functions of FX monitoring agent	167	2 290.7	70	277.0
Breach of procedure for FX purchase/sale on the interbank FX market of Ukraine	16	715.6	7	435.9
Breach of requirements and procedure for declaring overseas FX valuables belonging to resident of Ukraine	8	2.1	2	0.3
Use of foreign currency as a means of payment within the territory of Ukraine without individual license	112	437.6	40	203.3
Placement of foreign currency on accounts outside Ukraine without individual license	13	17.7
Total	1 291	5 167.1	508	1 593.2

During 2013, in connection with failure to comply with the requirements of banking legislation identified upon the inspection findings the National Bank of Ukraine implemented the following enforcement measures:

- 142 warning letters were sent to 80 banks with demand to eliminate the breaches of NBU regulations and to take measures to prevent them in future;

- limitation of FX transactions (FX sale-purchase) at the cash desks and points of exchange according to 16 decisions of the NBU Commission on Bank Supervision and Regulation (hereinafter referred to as "the Commission") with respect to 14 banks;

- 6 decisions of the Commission on penalizing 6 banks for failure to fulfill or fulfillment in undue manner of the NBU regulations. The amount of penalties totaled UAH 127.3 thousand.

The NBU continued to systematically improve its regulatory framework. In 2013, the Ministry of Justice of Ukraine registered the following NBU Board Resolutions:

– of July 30, 2013 No. 301 "On Issuing an Individual License to the State-Owned Food and Grain-Growing Corporation of Ukraine PJSC for Placement of FX Funds on Account Outside Ukraine";

– of September 16, 2013 No. 364 "On Amendments to Some NBU Regulations" registered by the Ministry of Justice on September 16, 2013, as No. 1591/24123. This Regulation is aimed at regulating control over supplies from the nonresidents to the residents under the contracts on import of goods which have been brought to the customs territory of Ukraine with respect to the clarification of the procedure for release of respective import operations from control.

5.4. SUPERVISION AND INSPECTION OF BANKS

To exercise effectively the supervision over the banks the National Bank of Ukraine combines the prudential supervision and the inspections with respect to 180 banks licensed for performing banking operations.

The prudential (offsite) supervision of banks is carried out on the basis of bank statistical reporting, reports on inspection findings, conclusions of the regional NBU offices, audit reports, banks' information on the implementation of action plans aimed at improving the financial status and eliminating the deficiencies and breaches in banking activities in order to enforce the banks to comply with the applicable legislation and the NBU regulations, as well as to fulfill the undertakings with respect to improving their activities and reducing the risk exposures.

The National Bank of Ukraine exercises control over the enforcement of bank prudential regulations. The NBU has worked with banks which need regular monitoring by supervisory authorities to improve the quality of their loan portfolio, to minimize the existing losses and to increase capital for covering potential risks in their activities.

The National Bank of Ukraine pays more attention to the banks which have received stabilization 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 stabilization loans and, if possible, to accelerate the repayment. During 2013, the banks repaid stabilization loans totaling UAH 6.3 billion, 37.7% (UAH 2.4 billion) of which was repaid early. Seven banks have repaid their stabilization loans in full.

As of January 1, 2014, the bank past due on stabilization loans was structured as follows:

- 20 banks operating in the regular mode had a past due totaling UAH 50.4 billion;
- 11 banks under liquidation reported a past due of UAH 1.0 billion.

During the year, the National Bank of Ukraine paid special attention to supervision over the state-owned banks, *OSCHADBANK* JSC and *UKREXIMBANK* JSC which were servicing government programs, in particular, lending of priority industries defined by the government, including the fuel and energy sector.

The NBU exercised a strict control over the activities of banks recapitalized by the state of Ukraine (*RODOVID BANK* PJSC; JOINT-STOCK COMMERCIAL BANK "KYIV")

PJSC and *UKRGAZBANK* JSB) and monitored how they implemented financial rehabilitation measures as defined in their strategic plans.

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, reliability of reporting, and compliance with the banking laws and regulations of the National Bank of Ukraine. In 2013, there were conducted 511 inspections of 144 bank entities and autonomous structural units, including 119 scheduled inspections.

Upon the inspection findings the NBU gave to the banks the recommendations on additional provisioning against asset-side operations and prepared the proposals on enforcement measures to be imposed on the banks.

During 2013, in connection with the identified failure 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 measures⁸:

- 90 warning letters were sent to 68 banks with further monitoring of the implementation of measures to eliminate violations;

- 15 agreements were signed with banks to improve their financial status and to eliminate the breaches of banking laws; as of January 1, 2014, 18 banks fulfilled their undertakings under the agreements (one bank fulfilled its undertakings in full, as of the end of the year);

- 11 decisions on suspension/restriction of certain types of banking operations with respect to 7 banks were adopted;

- by virtue of the NBU decision one bank was ordered to suspend dividend payments;

- 46 banks were penalized (50 decisions);

- 61 banks were imposed with administrative penalties on officials (89 decisions);

- qualifying shareholders of 2 banks were banned to use their voting right until the banks removed the breaches (2 decisions);

- one bank was referred to the problem bank category;

- resolution on revocation of banking license with further launch of the liquidation procedure with respect to two banks: *BANK "TAVRIKA" JSC* and *RD BANK JSC*.

Upon the inspection findings the NBU gave to the banks the recommendations on additional provisioning against lending operations and prepared the proposals on the appropriate enforcement measures to be imposed on the banks.

In 2013, the NBU continued to improve the procedures for bank inspection by the following directions:

- updating the procedure for assessment of asset quality and the procedure for provisioning against lending operations;

- developing the methodological guidelines related to the assessment of operating risk management and inspection of bank operations with signs of market risk;

- unifying and improving the procedures for bank inspections related to the assessment of bank compliance with financial rehabilitation programs and loan agreements signed with the NBU on refinancing and stabilization loans;

⁸ Enforcement measures taken in case of failure to comply with the legislation in the sphere of financial monitoring and foreign exchange operations not included.

– elaborating internal approaches to planning, organization, and conduct of bank inspections taking into consideration the introduction of supervision on consolidated basis.

In 2013, the NBU exercised control over the quality of audit of bank annual financial statements by auditing firms.

The NBU considered and analyzed the audit reports made upon the findings of audit of annual financial and consolidated statements for 2012 with respect to their compliance with the NBU regulations and the international auditing standards, as well as analyzed the contracts on audit of financial statements for 2013 made by the banks.

Having considered the reports the NBU sent the letters to the Audit Chamber of Ukraine and to the banks, in which it stated the auditor errors in order to prevent them in the future.

Pursuant to the Regulation on Keeping the Register of Audit Firms Authorized to Audit the Banks approved by the NBU Board Resolution of November 17, 2011 No. 410, in the reporting year, the NBU Committee for Bank Audit Issues qualified 2 audit firms to be listed in the Register.

5.5. TERMINATION OF BANK ACTIVITIES

As of January 1, 2014, pursuant to the legislation which was in force till September 22, 2012, 23 banks were under liquidation. With respect to 7 of them the NBU made decisions on approval the liquidation balances and the final liquidator reports. The bank liquidators took measures to remove the liquidated banks from the State Register of Legal Entities and Individual Entrepreneurs.

In connection with the commencement of the Law of Ukraine "On Households Deposit Guarantee Schemes" according to which the DGF was charged with bank resolution, in 2013, the DGF performed liquidation of 2 banks (BANK "TAVRIKA" JSC and RD BANK JSC).

Table 12. Dynamics of Paying Lenders' Claims of Banks under Liquidation

(UAH millions)			
Indicators	As of 01.01.2013	As of 01.01.2014	Deviation
Number of banks	23	23	0
Bank assets	16 969.5	5 689.3	-11 280.3
Balance of unpaid lender claims listed in the bank lender claims	15 015.5	4 268.8	-10 746.7
Payables to individuals recognized	449.7	420.2	-29.5
Lender claims paid by liquidators, including at the expense of collateral	4 177.4	179.9	-3 997.5
Lender claims paid by liquidators to individuals	8.5	4.3	-4.2

In addition, as of January 1, 2014, the National Bank of Ukraine exercised control over the activities of 7 corporate entities, the asset managers to whom the unsold assets of banks (*ALLONGE JSB, UKRAINA JSCB, EBDS OJSB, YEVIROPEISKYI JSCB, CB "NATIONAL STANDARD" OJSC, RDB JSB, UKRPROMBANK LLC* and *SEB JSCB*) were transferred pursuant the respective agreements. At the expense of these assets the unsettled lender claims should be paid.

During 2013, in order to thoroughly examine the problem issues and to familiarize itself with the primary documents the National Bank carried out 15 offsite inspections of bank liquidators and 6 inspections of managers of unsold bank assets.

The refinancing loans were repaid by liquidators from the proceeds of sale of bank property (the assets) provided to the NBU as collateral (mortgage).

During the year, the NBU took measures to improve the status of settling the lender claims to liquidated banks, primarily, the claims of individual depositors. In 2013, the DGF paid the guaranteed funds worth UAH 1 499 million.

**Table 13. Managed Unsold Assets and Unpaid Lender Claims
as of 01.01.2014**

		(UAH millions)
Indicators	Value	
Number of managers of unsold bank assets	7	
Assets managed	8 030.9	
Balance of unpaid lender claims	12 838.4	
Unpaid claims of individual depositors	95.1	
Paid claims of individual depositors	4.4	

6. OTHER DIRECTIONS OF THE NBU ACTIVITIES

6.1. DEVELOPMENT OF THE SYSTEM OF ELECTRONIC PAYMENTS OF THE NATIONAL BANK OF UKRAINE

The system of electronic payments of Ukraine (hereinafter, the SEP) is the state system of interbank settlements for which the National Bank of Ukraine is a payment organization and a settlement bank. During 2013, 95.0% of the interbank transfers in the national currency were effected within Ukraine through the SEP, while the rest were made through the banks' correspondent accounts opened with other banks.

As of January 1, 2014, the SEP participants were 423 institutions, including 180 banks of Ukraine, 178 branches of the banks of Ukraine, 28 bodies of the State Treasury Service of Ukraine, 37 institutions of the National Bank of Ukraine.

During 2013, the SEP participants effected 347.6 million initial payments and sent the electronic settlement notices totaling UAH 12.7 trillion, being more by 3.6% in quantity and by 8.2% in value, than in the previous year.

Table 14. Indicators of the SEP Operation

Period	Volume of initial payments		Average daily indicators			Money turnover factor in the SEP
	Quantity of payments (pcs. mln.)	Value of initial payments (UAH, bln.)	Quantity of payments (pcs. mln.)	Value of initial payments (UAH, bln.)	Balances on the accounts of SEP members (UAH, bln.)	
2009	313.3	6 168.1	1.2	24.6	21.5	1.14
2010	337.0	7 909.0	1.3	31.5	25.9	1.21
2011	332.9	10 319.7	1.3	41.3	24.2	1.70
2012	335.5	11 723.1	1.3	46.9	22.9	2.03
2013	347.6	12 685.4	1.4	50.5	27.8	1.81

In the reporting year, the number of transactions on the initial payments effected by the banks amounted to 93.1%, those by the State Treasury Service of Ukraine accounted for 6.8%, and those by other participants made up 0.1% of the total transactions made through the SEP.

The daily average balance of funds on the SEP participants' accounts for 2013 made up UAH 27.8 billion, and the daily average sum of initial payments was UAH 50.5 billion. On average, 1.4 million payments per day were processed. The money turnover factor on the SEP participants' accounts for the year equaled 1.81 (versus 2.03, in 2012).

6.2. DEVELOPMENT OF NON-CASH ACCOUNTS

During 2013, the National Bank of Ukraine directed its efforts to creating the proper conditions for further development of cashless payments, the national payment system and evolving the national payment area. The work on these directions required from the National Bank of Ukraine to provide the measures of both the organizational and legislative natures.

In 2013, the regulatory and legal framework for organizing and executing the interbank money transfer in the national currency in Ukraine was put in line with the provisions of the Law of Ukraine "On Amendments to Some Legislative Acts of Ukraine with Regard to Registering the Corporate Entities and Individual Entrepreneurs" dated May 24, 2012, No. 4839–VI, and the Law of Ukraine "On Amendments to Some Legislative Acts of Ukraine with Regard to Ensuring the Functioning of the Households Deposits Guarantee Schemes", dated October 2, 2012, No. 5411–VI.

According to the new provisions, the list of documents for opening a bank's correspondent account was shortened. The technology of fulfilling the payment requests for the compulsory money write-off from a bank's correspondent account and the documents about a bank's money blocking on its correspondent account was updated. The procedure of the interbank transfer of funds in the national currency in Ukraine by foreign banks' branches was specified.

During the year, the National Bank of Ukraine arranged the activity related to the acceptance of cash in hryvnias for its further transfer with the aid of payment facilities and through the cash acceptance points. Specifically, it was determined that only the banks, their commercial agents and nonbanking financial institutions, that have a proper license, are eligible to execute such operations. The prohibition is set for banks' commercial agents and nonbanking financial institutions to delegate their authority, concerning the cash acceptance operations, to other persons. The very operations have to be performed with consideration of the foreign exchange legislation of Ukraine.

Moreover, in 2013, the procedure of issuing to the nonbanking financial institutions, intended to become the payment systems participants, of the license for the transfer of money in the national currency without opening the accounts was specified. In particular, defined was the order of the submission of documents to the National Bank of Ukraine for getting the license, the procedure of their consideration and grounds on which the National Bank of Ukraine has the right to refuse a nonbanking financial institution in granting the license and to revoke it.

In order to enhance the scope of the cashless settlement application and to meet the requirements of the Civil Code of Ukraine, the National Bank of Ukraine took a decision to

set, since September 1, 2013, *a limit for cash payments*: UAH 10 000 (for the settlements between the legal entities (entrepreneurs) per one day); UAH 150 000 (for the settlements between the individuals and the legal entities (entrepreneurs) for commodities (works, services) per one day); UAH 150 000 (for the settlements between the individuals on the sale/purchase agreements to be notarized). Payments over the specified boundary amount should be executed by way of transferring the money from a current account to a current account, or by putting the funds into a bank for their further entering to current accounts.

Within the framework of the Strategic Program for Development of Cashless Retail Payments in Ukraine for 2012–2014, during 2013, the National Bank of Ukraine fulfilled the following:

- finalized the pilot project on implementing the Central Router that became a technological platform for processing the interbank card operations, that ensures settlements with payment cards of the National Card System inside the country. By the pilot project results, the tests were successful and 6 banks-participants were connected;

- accomplished the preparatory works for the pilot project – the introduction of the Processing Centre of the National Bank of Ukraine based on the "WAY4" system to ensure the issue and servicing of the payment cards with the magnetic stripe and the EMV chip, as well as of the payment cards of the NSMEP participants banks that do not have their own processing centers;

- continued the project, initiated in December 2012, with regard to the collection and keeping of the settlement operations' data and their rendering to the bodies of the Ministry of Revenues and Duties of Ukraine, that is implemented on the National Bank of Ukraine's technology basis.

Within the cooperation with the Cabinet of Ministries of Ukraine with respect to the common information environment of the social sphere and ensuring communication between the central bodies of the executive authorities, the National Bank of Ukraine took a decision as to:

- creation of the router with functions of the information interaction between banks and state authorities;

- participation in implementing the accounting of social benefits and allowances with more precise targeting of social assistance through launching the national cards for accounting and use of benefits;

- establishment and accreditation of the center of certifying the keys for the cards' holders and the infrastructure for their servicing;

- provision of conditions for development and implementation of the government/corporate projects.

6.3. REGULATION AND OVERSIGHT OF PAYMENT AND SETTLEMENT SYSTEMS

The legislative framework for the oversight of the payment systems as one of the functions of the National Bank was established by the amendments to the Laws of Ukraine "On the National Bank of Ukraine" and "On Payment Systems and Money Transfer in Ukraine", that were effected since January 1, 2013.

During 2013, within the work on implementing the system of oversight of the payment and settlements systems, the National Bank of Ukraine continued to work on creating the proper regulatory and legal base.

The Regulation "On the Procedure for Payment System Compliance Inspections in Ukraine" was developed and approved.⁹ In particular, set was the order of organization and conduct by the National Bank of Ukraine of the inspections of the entities subject to oversight, rights and liabilities of the authorized employees of the National Bank and managers of the inspected objects during the inspections.

According to the legislation of Ukraine, the payment organizations of payment systems, clearing and processing institutions, participants/members of payment systems, other persons authorized to provide certain types of services or to perform operational and other technological functions with regard to the money transfer are defined as objects of the payment system oversight.

The Regulation "On the Use by the National Bank of Ukraine of the Enforcement Measures for the Infringement by the Entities Subject to Oversight of the Payment System Laws and Regulations of Ukraine"¹⁰ were also approved. Determined was the procedure of imposing the requirements by the National Bank of Ukraine to the entities subject to oversight with regard to correction of infringements of the Law of Ukraine "On Payment Systems and Money Transfer in Ukraine", regulatory and legal acts of the National Bank of Ukraine on the activity of the payment and settlement systems in Ukraine, as well as the money transfer and the order of applying to them of the enforcement measures for the infringement of the legislation of Ukraine.

The mentioned regulatory and legal acts will contribute to revealing and preventing the risks in the payment systems, enhancing the reliability and efficiency of the payment systems, their continuous functioning, as well as to transparency of the payment market in Ukraine.

6.4. LEGAL SUPPORT OF THE BANKING SYSTEM ACTIVITIES

In 2013, the National Bank of Ukraine was drafting the laws and prepared legislative proposals for draft laws, that were submitted to the Verkhovna Rada by the Cabinet of Ministers and members of the Parliament (Verkhovna Rada), The NBU also contemplated the draft laws prepared by the members of the Parliament, the Cabinet of Ministers and other public authorities and prepared proposals for them.

Thus, in 2013, the NBU legislative proposals were taken as the basis of four laws adopted by the Verkhovna Rada of Ukraine on 4 July 2013, specifically:

– "On Amendments to Some Legislative Acts of Ukraine Related to Reverting to State Control and Production by the State-Owned Enterprises of Documents and Blanks Requiring Special Security Features" (No. 399–VII), that envisages production of document blanks, which need the use of special security features, by the state enterprises which fall within the management scope of the National Bank of Ukraine;

– "On Amendments to Some Laws of Ukraine with Regard to Status and Conditions of Functioning of the Settlement Center for Processing the Contracts in Financial Markets"

⁹Resolution of the Board of the National Bank of Ukraine dated December 9, 2013 No 503.

¹⁰Resolution of the Board of the National Bank of Ukraine dated December 19, 2013 No. 524.

(No. 401–VII) (as to granting a status of a bank to the Settlement Center and empowering the National Bank of Ukraine to define the peculiarities of its regulation and oversight);

– "On Amendments to the Tax Code of Ukraine, Some Other Laws of Ukraine with Regard to Financial Bills of Exchange" (No. 407–VII) (as to the complex adjustment of issues related to the circulation of the financial bills of exchange);

– "On Amendments to the Law of Ukraine "On Securities and Stock Market" as to the Issue of Bonds of International Financial Organizations", (No. 400–VII) (with regard to defining the mechanism of investment by international financial institutions of money in national currency into the economy of Ukraine through the issue of bonds in the territory of Ukraine).

Moreover, in 2013, the National Bank of Ukraine worked out and submitted proposals and remarks to 135 draft laws elaborated by members of the Parliament, the Cabinet of Ministers and other public authorities.

In the framework of preparing the drafts in execution of the National Action Plan for 2013, the National Bank of Ukraine worked out the following draft laws:

– "On Amendments to Some Legislative Acts of Ukraine as to Reforming and Developing the National System of Credit Cooperation" (submitted to the Administration of the President of Ukraine to get a viewpoint regarding the conceptual provisions of the draft);

– "On Amendments to Article 9 of the Law of Ukraine "On the Circulation of Bills of Exchange in Ukraine" (as to prohibition of settlements under foreign economic agreements in the form of bills of exchange)";

– "On Amendments to Some Legislative Acts of Ukraine (as to the Settlements by Foreign Investors on Investment Operations)".

In 2013, the National Bank of Ukraine conducted also the work on adjusting the taxation issues of some banking operations:

– the Draft Law of Ukraine "On Amendments to the Tax Code of Ukraine as to Taxation of Banks Under Liquidation and Problem Assets of Banks", as well as the Draft Law of Ukraine "On Amendments to the Tax Code of Ukraine (as to Taxation of Insurance Proceeds Directed to Loan Debt Redemption)" were prepared and directed for adjustment to the Ministry of Revenue and Duties of Ukraine. The provisions of these draft laws were proposed to solve, in particular, the issue as to the VAT exemption of the operations of banks and other financial institutions related to the alienation of the mortgage obtained by them into ownership in a consequence of the application for seizure, as well as to the tax exemption of funds got by a bank-beneficiary in case of the insured event with a pledged item;

– the proposals to the Draft Law of Ukraine "On Alterations to the Tax Code of Ukraine as to the Profit Taxation of Enterprises" were submitted to the Ministry of Revenue and Duties of Ukraine".

In 2013, the regulatory activity of the National Bank of Ukraine was carried out in accordance with the Plan of Preparing the Drafts of Regulatory Acts of the National Bank of Ukraine for 2013, approved by Resolution of the National Bank of Ukraine No. 689-p dated December 14, 2012. In line with the Plan of Preparing the Drafts of Regulatory Acts, in 2013, the National Bank of Ukraine planned to work out 5 drafts of the normative and

legal acts corresponding to the characteristics of a regulatory act, of which two were adopted, the rest have been developed and are in the adjustment process. Furthermore, in the reporting year, three decisions were made, whose adoption was planned in 2012.

Moreover, in 2013, the National Bank of Ukraine approved 124 decisions of the Board of the National Bank of Ukraine that enacted the normative and legal acts of the National Bank of Ukraine: instructions, rules, regulations and alterations to them.

For the last year, 67 regulations and legal acts were registered in the Ministry of Justice of Ukraine, and 57 ones were registered in the Legal Department.

In the course of enforcing the state regulatory policy, the National Bank of Ukraine adhered to the principles of appropriateness, adequacy, efficiency, balance, prudence, transparency and public discussion.

In 2013, claim-related work continued. In particular, during the year, the National Bank of Ukraine, its regional branches and structural units directed to the court 60 claims totaling UAH 141.4 million and EUR 0.7 million, out of them 4 claims for the amount of UAH 2.1 million and EUR 0.6 million were rejected by the court, 1 claim remained without consideration, the rest were found in favor of the National Bank of Ukraine or remain under consideration.

In 2013, the National Bank of Ukraine, its regional offices and structural units were submitted 78 claims totaling UAH 11.06 million, of which 3 claims were satisfied, the rest were solved in favor of the National Bank of Ukraine or remain under consideration.

The National Bank of Ukraine was called as the third party in 134 cases. Major portion of the cases comprised the customers' claims to banks on acknowledging the credit agreements and collateral agreements to be non-valid, as well as the claims related to returning the deposits.

6.5. PREVENTING AND COMBATTING THE USE OF BANKING SYSTEM FOR LEGALIZATION (LAUNDERING) OF PROCEEDS FROM CRIME OR TERRORISM FINANCING

During 2013, the National Bank of Ukraine fulfilled all the measures envisaged by the Plan of Actions for 2013, jointly with the Cabinet of Ministers, on prevention and counteraction to legalization (laundering) of criminal proceeds or terrorism financing.

Within the framework of implementing the requirements of the Law of Ukraine "On the Banks and Banking Activities" and the Law of Ukraine "On Preventing and Combating Legalization (Laundering) of Proceeds from Crime and Terrorism Financing", in 2013, the National Bank of Ukraine made amendments to five Regulations of the National Bank of Ukraine, ensured their state registration, carried out the measures on disclosure of their texts to the banks and published them on the NBU official Internet site, in particular:

- The Regulation On the Use by the National Bank of Ukraine of Sanctions for Failure to Comply with the Legislation on Preventing and Combating the Legalization (Laundering) of Proceeds from Crime and Terrorism Financing has been revised;

- amendments were approved to the Rules of Organizing the Statistical Reporting Submitted to the National Bank of Ukraine;

– amendments were approved to the Rules of Organizing and Conducting Inspections on Preventing and Combating the Legalization (Laundering) of Proceeds of Crime and Terrorism Financing;

– a revised version was approved for the Methodological Guidelines on Inspecting the Bank (Branch) with Regard to Compliance with the Requirements of Legislation of Ukraine Regulating the Relations in the Sphere of Preventing and Combatting the Legalization (Laundering) of Proceeds of Crime and Terrorism Financing, and Compiling a Notice on its Findings;

– amendments were approved to the Regulations on Performing the Financial Monitoring by Banks.

To secure the adequate oversight of the banks' compliance with the laws regulating the relations in the sphere of preventing and counteracting the legalization of criminal proceeds and terrorism financing, on the annual basis, with taking into account the risk estimates in the mentioned sphere, during 2013, the experts of the National Bank of Ukraine performed 193 on-site inspections of the banking institutions (188 scheduled inspections and 5 irregular ones) as regards their keeping to the appropriate law requirements and 44 acts of the off-site oversight were drawn up. By results of the violations revealed, adequate enforcement actions/sanctions were applied.

The inspection results enabled the banks to timely pay attention to the weak elements in the system of managing the risks of the criminal proceeds legalization/terrorism financing for the purpose of non-admission and prevention of the revealed drawbacks in the future.

In 2013, to fulfill the requirements of the laws of Ukraine related to preventing and combating the legalization (laundering) of proceeds from crime and terrorism financing, the banks of Ukraine ensured the forwarding of over 943 thousand notices to the Specially Authorized Body that informed about the financial operations subject to financial monitoring.

To implement the international experience on preventing and combating the legalization (laundering) of proceeds from crime or terrorism financing, the National Bank of Ukraine shared experiences with representatives of the banking supervision bodies of other countries. Specifically, the participation was taken in the international seminars and training visits arranged by central banks of Germany, Italy, Poland, Bulgaria, and Russia.

On an ongoing basis (quarterly), the National Bank of Ukraine hold the round tables and seminars with banks' representatives on the topic "Actual Issues of Organizing the Financial Monitoring in Banks", training on the upgrading program "Organization of the Financial Monitoring in Banks", as well as the training seminars for upgrading the qualification of the experts of the National Bank of Ukraine.

The National Bank of Ukraine carried out a continuous work on elucidating its activity with regard to preventing and combating the legalization (laundering) of proceeds of crime or terrorism financing, including on the website of the National Bank of Ukraine. Specifically, recommendations/explanations related to the mandatory financial monitoring and answers to banks' questions as to fulfillment by them of the functions of a subject of primary financial monitoring were posted on the official website of the National Bank of Ukraine, under the headline "Financial Monitoring".

6.6. INTERNATIONAL COOPERATION

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

During 2013, the bilateral cooperation of the National Bank of Ukraine was aimed at presenting the interests of Ukraine in central banks of other countries, establishing and expanding the international relations, implementing the best international practices for the development of the banking sector of Ukraine, forming a positive image of Ukraine in the world community and strengthening its investment attractiveness. A regional vector included the countries of the CIS, Europe, Asia, America, and the cooperation had the format of visits, negotiations, meetings, participation in international events, realization of the technical assistance projects.

In 2013, the National Bank of Ukraine's representatives took part in over 400 international events, such as XXIX та XXX meetings of the Club of Central Bankers of Central Asia, Black Sea Region and Balkan, etc. Held were 367 bilateral meetings with the representatives of central banks and diplomatic institutions of other countries, foreign banks and their representative offices, financial organizations. The work of the joint bilateral inter-governmental commissions, as well as meetings and negotiations as regards signing the interagency international agreements, specifically, on the investment promotion and protection continued.

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

Cooperation with the International Monetary Fund (hereinafter, the IMF)

Cooperation with the IMF is an important factor for formation of the investment climate of our country, as well as an indicator for interrelations with other international financial organizations and foreign investors.

In line with the Decree of the President of Ukraine dated 19 December 2005, No. 1809/2005 "On Ensuring Ukraine's Representation on 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 on the Board of Governors of the International Monetary Fund – the organization's highest body.

In 2013, Ukraine voted for approval of the draft resolutions of the IMF Board of Governors as to the Reform of the IMF Executive Council, issues of labor remuneration to the IMF directors and their deputies, and on the dates and places of holding the Annual Meetings in 2016 and 2017.

During 2013, Ukraine actively participated in the IMF measures as a member-state. In particular, ensured was the participation in the Spring and Annual Meetings of the IMF Governors, as well as in the meetings of the IMF Constituency headed by the Netherlands, whose member is Ukraine.

During the meetings, the IMF further development and activity, as well as actual issues of the development of the world financial system and economy as a whole were discussed, and the joint actions aimed at preventing crisis developments in some countries, in particular, in European countries, were adjusted and reviewed.

In October 2013, the annual country consultations were held, where the IMF made assessment of the key elements of the macroeconomic, foreign exchange and budget poli-

cies and regulation concerning their mutual conformity, as well as contribution to the achievement of macroeconomic targets. Such consultations are a statutory obligation of every member country.

Within bilateral cooperation with the IMF, in 2013, the main emphasis was made on the renewal of the program cooperation between Ukraine and the IMF.

In particular, after finalizing at the end of 2012 of the "Stand-by" Program of 2010, on the initiative of Ukraine, the parties started the negotiations on the terms of a new program. For this purpose, in the first half of 2013, two visits of the mission of the IMF European Department to Kyiv took place.

During the meetings the issues were discussed covering the economic development of Ukraine, macroeconomic analysis and forecast, the balance of payments stance, foreign exchange rate and monetary policies, activities and regulation of the banking sector, including the discussion of a proper legislation.

In view of a number of issues in whose regard the parties did not reach the understanding, the agreement on initiation of a new program was not attained.

Cooperation with the World Bank

Cooperation with the World Bank is one of the efficient mechanisms that assist the country to implement the programs of financial stabilization and to attract cheap credit resources into the economy of Ukraine.

In 2013, the National Bank of Ukraine's cooperation with the World Bank was carried out within the Country Partnership Strategy for Ukraine for 2012–2016, specifically, in terms of the development of the financial sector of Ukraine.

Notwithstanding the suspension of preparation of "the 2nd Financial Sector Rehabilitation Loan" systemic project of the World Bank for reasons of absence of program cooperation with the IMF in 2013, the National Bank of Ukraine continued to implement measures for strengthening the stability of the banking system and increasing the confidence in it on the part of the society.

In 2013, the dialogue with the World Bank with regard to a new complex of measures on support of the actions of the National Bank of Ukraine aimed at further development of the financial sector was initiated. Such cooperation resulted in achieving the agreement on provision by the World Bank of technical assistance for further improvement of the system of banking regulation and supervision, and enhancement of the consumer right protection in the financial services markets. Moreover, in 2013, the preparatory measures for provision by the World Bank of a new potential loan for supporting and securing the financial sector sustainability were carried out.

Within the framework of fulfillment of the financial liabilities to the World Bank, in 2013, Ukraine made a subscription for additional shares of the authorized capital. The National Bank of Ukraine, as a depository bank for any amounts of the World Bank in the territory of Ukraine in accordance with the Law of Ukraine "On Ukraine's Joining the International Monetary Fund, the International Bank for Reconstruction and Development, the International Financial Corporation, the International Association for Development and Multilateral Agency for Investment Guarantees" No. 2402–XII dated June 3, 1992 received on deposit the appropriate bill of exchange from the Government of Ukraine.

At the same time, as a World Bank member state, the National Bank of Ukraine took part

in the Spring and Annual Meetings of the IMF and the World Bank, as well as in the Netherlands Constituency Meeting.

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

In 2013, one the National Bank of Ukraine and the EBRD continued to cooperate on strengthening the financial sector of Ukraine through the development of local capital and currency markets. New credit programs and products were offered to the EBRD partner banks.

The National Bank of Ukraine jointly with the EBRD started drafting the Memorandum of Understanding that would determine the lines of cooperation to develop the local capital market in Ukraine and the projects that could be supported by the EBRD.

Moreover, in the course of realization of the EBRD Initiative supported by the National Bank of Ukraine with regard to crediting the residents in hryvnias and preparation for creating the mechanism for extending loans in domestic currency by the EBRD and other IFIs through the issue of bonds in the territory of Ukraine, in 2013 the National Bank of Ukraine was involved in drafting the Law of Ukraine "On Amendments to the Law of Ukraine "On Securities and Stock Market" (concerning the issue of bonds of international financial institutions)", approved by the Verkhovna Rada of Ukraine in July 2013.

Also, in 2013 the NBU attended EBRD events as a member country. Thus, as the Governor of National Bank of Ukraine is Alternate Governor and a Member of the EBRD Board of Governors, the NBU took part in the Annual Meeting of the EBRD Board of Governors, where the issues of the EBRD's performing operations in domestic currency, update and renewal of the EBRD structure, in particular reforming of the EBRD Board of Governors, were considered.

Cooperation with the Bank for International Settlements (hereinafter, the BIS)

Striving to expand cooperation with the BIS and to be further accepted as its member, the National Bank of Ukraine participated in the BIS events, specifically in its Annual Meeting and the Round Table of the central bankers hosted together with the Swiss National Bank.

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

Ukraine is one of the founder countries of the BSBTD, whose resources are directed to finance the regional projects and facilitate the development of private and entrepreneurial activities in the member countries.

In conformity with the Decree of the President of Ukraine "On Membership of Ukraine in the Black-Sea Bank for Trade and Development" No. 181/2002, dated February 26, 2002, in 2013, the National Bank of Ukraine appointed Deputy Governor of the National Bank of Ukraine as the Alternate Governor from Ukraine on the BSBTD Board and took part in the Fifteenth Annual Meeting of the BSBTD Board of Governors representing Ukraine as a member country on the BSBTD Board.

Cooperation with the German-Ukrainian Fund

During 2013, the National Bank of Ukraine performed the management of programs and projects of the German-Ukrainian Fund (GUF) that works as a "second level" financial institution for developing and strengthening the small and medium business in Ukraine.

Cooperation with Organization for Economic Cooperation and Development (hereinafter, the OECD)

Since autumn 2013, the Organization for Economic Cooperation and Development (the OECD), within the framework of the effective OECD's Eurasian Program of Compatibility, carries out the project "Creating Conditions for Initiation of the Loan Guarantee Scheme for Small and Medium Enterprises (SME) in Ukraine".

The Project purpose is to work out an efficient credit guarantee scheme (CGS) in the form of Credit Guarantee Fund issuing loan guarantees to the SMEs engaged in the agribusiness (100–2 000 hectare farming area) in four "pilot" regions: the Vinnytsia, Kharkiv, Cherkasy and Poltava oblasts. In case of the successful functioning, the CGS experience can be extended to other regions, sectors or be applied on the national scale.

Among the achievements of the National Bank of Ukraine one can mark the submission of the application at the end of 2013 and gaining on January 1, 2014, of the status of a full member of the International Network of Financial Education of the Organization for Economic Cooperation and Development (OECD/INFE) which is the global international platform for financial education. Nearly half of the countries of the world are participants to the organization having a leading position due to participation of G20 countries and Asia Pacific Economic Cooperation (APEC).

Cooperation with other organizations

In August 2013, the "Memorandum of Cooperation between the National Bank of Ukraine and the USAID Financial Sector Development Program ("FINREP II" Program) was signed. Its implementation purpose is to strengthen the financial sector stability and to enhance the public confidence in the financial markets (to be implemented by September 2017).

In the reporting year, completed was the "Development of Communication Policy for Dissemination of Statistical Information and Publications of the National Bank of Ukraine" Project that was implemented under the auspices of the Canadian Bureau for International Education and the Canadian International Development Agency. The project was aimed at enhancement of the National Bank's ability to develop and implement the communication policy for statistics.

In June, the 14th meeting of the "Banks" Working Group of the Ukrainian-German High-Level Group on Economic Cooperation was held. The banking system from the German party was represented by Commerzbank AG.

The National Bank of Ukraine arrangements in the area of European integration

The National Bank of Ukraine plays a special role in the process of European integration of Ukraine. Among its main tasks in this process is bringing of the banking system of Ukraine, which is the basis for the market infrastructure of the economy of Ukraine, into compliance with the EU standards and regulations.

The key issue with regard to European integration in 2013 was preparation to the implementation of the Association Agreement between Ukraine and the EU whose signing would permit to come to a new level of relations with the EU – from partnership to political association and economic integration.

Also the National Bank of Ukraine actively participated in the elaboration of the draft Program of Implementing the Association Agreement between Ukraine and the EU, that

should ensure in full the meeting of the liabilities undertaken in terms of the Agreement with due regard to the schedules set for their implementation.

In 2013, the National Bank of Ukraine carried out the analysis of the provisions of Directives, Regulations and other acts of the EU legislation determined in the Annexes to the Agreement as to their consideration in the effective legislative acts of Ukraine and normative and legal acts of the National Bank of Ukraine and the working out of proposals with regard to further improvement of the banking legislation of Ukraine.

The National Bank of Ukraine also participated in consultations with the EU in respect to signing the Association Agreement between Ukraine and the EU, negotiating further actions within the European integration framework, and expanding the cooperation between Ukraine and the EU.

During 2013, the National Bank of Ukraine was successful in performing the actions of the Ukraine–EU Association Agenda that had envisaged putting into effect the prior actions for the Agreement implementation.

In March 2013, the Governor of the National Bank of Ukraine signed the appropriate Loan Agreement and Memorandum of Understanding between Ukraine and the EU in order to attract the EU macro-financial assistance in the amount of EUR 610 million for stabilization of the financial and economic system of the country.

The National Bank of Ukraine took part in the 2nd Eastern Partnership Business Forum, held during the Eastern Partnership Summit.

Also in 2013 the National Bank of Ukraine paid a special attention to the work of the EU–Ukraine cooperation authorities.

In order to use the best world and European practices of banking activities for upgrading the efficiency of its work, in 2013, the National Bank of Ukraine implemented the measures to attract external aid from the European Union, both through launching a new project of the EU assistance in the area of financial services and the TAIEX institutional development instrument.

6.7. INFORMATION SUPPORT OF THE NBU ACTIVITIES

Information support of the National Bank of Ukraine policy in 2013 was provided in conformity with the applicable legal requirements, in particular the Laws of Ukraine "On Information", "On Publication Media (Press) in Ukraine", "On Access to Public Information", and with observance of the principles of openness and transparency.

Efficient cooperation with mass media is usually one of the key disclosure channels. In 2013, upon the request of mass media the management of the National Bank of Ukraine was interviewed; 533 information requests of mass media were considered and answered, which was 236 appeals more than in 2012.

Extension of openness and transparency of information support of the National Bank policy was encouraged by regular publication of text and video messages, comments and press-releases regarding the regulatory acts adopted by the Board of the National Bank, etc. Critical decision making by the National Bank of Ukraine was followed by interviewing the management on television or in press.

Technical support of communication policy of the National Bank of Ukraine was provid-

ed by the official web-site of the National Bank of Ukraine. This channel made it possible to promptly raise awareness of the activity of the National Bank and the banking system of Ukraine.

For the purpose of raising the quality and efficiency of the communications system of the National Bank of Ukraine in 2013, a new section "Financial Literacy" was created on the NBU web-site.

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

During 2013, the National Bank of Ukraine further improved the methodological framework for accounting and financial reporting in compliance with the requirements of the International Financial Reporting Standards (hereinafter, the IFRS). The main task was to provide the users of financial reporting with complete, intelligible, transparent and trustworthy information on financial situation, performance, cashflows and changes in own capital of Ukrainian banks.

The work performed was aimed at improving the requirements to information disclosure in financial reporting and adjustment of accounting in compliance with the provisions of the legislation of Ukraine and amended IFRS. This was a significant step towards harmonization of methodological framework of accounting with the main provisions of the European Union legislation.

The banking sector is among the first sectors of the economy of Ukraine, which has been compiling and disclosing annual and consolidated financial statements for two years in a row. With a view to ensuring the compilation of financial reporting in full compliance with the IFRS requirements the transformation method is used by banks. This method is used only if differences are detected between the IFRS requirements and the rules and regulations of the National Bank of Ukraine related to presentation of banking operations in accounting.

In order to adjust the recommendations of the Basel Committee on Banking Supervision with the IFRS requirements, the approaches to assessment of bank credit risk were changed and respective new methodological guidelines were introduced for calculation of the provisions for recovery of potential losses under asset-side bank operations.

In the view to improving the applicable procedures of accounting and their transparent presentation, the amendments to the regulation covering the accounting of bank transactions in foreign currency and banking metals were prepared and introduced, particularly related to the spot FX purchase and sale using the method of settlement date accounting, the transactions carried out on margin trading terms.

The National Bank together with the public authorities participated in drafting of Laws of Ukraine "On Amendments to the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" with regard to introduction of financial reporting and consolidated financial statements in electronic form as well as the Tax Code of Ukraine in the part of improving certain ratios related to application of the income tax and value added tax for banking operations.

6.9. STATISTICS, ECONOMIC ANALYSIS AND FORECASTING

During 2013, in pursuit of the functions specified in the Law of Ukraine "On the National Bank of Ukraine", the NBU ensured methodological support and compilation of monetary and financial statistics, and processed statistical reporting, submitted to the National Bank of Ukraine, in accordance with the international statistical standards and the best practices.

There were improvements in the methodology and compilation of indicators of the monetary and financial statistics based on the data of the National Bank of Ukraine, banks, other financial intermediaries, statistics of financial soundness indicators, as well as dissemination of statistical information in the Bulletin of the National Bank of Ukraine and on the official web-site of the National Bank of Ukraine.

The NBU compiled the balance sheets by economic sector and the overviews of the financial corporations sector and its sub-sectors (of the National Bank of Ukraine, other depository corporations (banks), other financial corporations), monetary aggregates, indicators regarding the credits, deposits, securities and interest rates in terms of economic sectors, types of economic activity, repayment dates, currencies, regions, as well as the submission to the International Monetary Fund of reporting on monetary and financial statistics, statistics of financial soundness indicators to be published in the statistical digest "International Financial Statistics", and on the IMF Financial Soundness Indicators web-site or the Dissemination Standards Bulletin Board.

During the year there was ensured adherence to the Special Data Dissemination Standard of the International Monetary Fund as regards preparation and dissemination of data and meta-data for the indicators of the financial and external sectors of the economy.

In 2013, the NBU started to calculate and disseminate sectoral balance sheets and financial flows data in accordance with the IMF methodology on monetary and financial statistics based on the data of depository corporations (banks and the National Bank of Ukraine), other financial corporations (insurance corporations, non-governmental pension funds, mutual funds etc.). We continued experimental calculations of indicators of issue and placement of securities, as well as financial accounts of the sector of financial corporations and its sub-sectors to be submitted to the State Statistics Service of Ukraine in accordance with the Plan of State Statistical Observations for the purposes of compilation of national accounts.

The NBU continued cooperation with the State Statistics Service of Ukraine, the State Commission for Regulation of Financial Services Markets of Ukraine and the National Securities and Stock Market Commission in the area of information exchange and improvement of compilation of monetary and financial statistics indicators.

During the year the NBU introduced the revised statistical reporting scheme, reporting templates and procedure of compilation and submission. Together with bank associations and banks, the NBU also took measures to lessen the burden for providers of statistical reporting. Communicative Policy of the National Bank of Ukraine as to Accumulation and Dissemination of Statistical Information and Publications was developed, it contains recommendations for cooperation with providers and users of statistical information.

In 2013, the National Bank of Ukraine continued its work aimed at the improvement of the existing system of analysis and forecasting. Its "Quarterly Forecast Model" was updated by adding the fiscal policy package that allows to estimate the fiscal policy

parameters for the debt level target. The methodology for calculating the structural balance of consolidated budget of Ukraine was improved, and variation of the monetary policy instruments role over time was studied. There were also developed additional models for equilibrium value of the exchange rate.

6.10. SCIENTIFIC RESEARCH OF THE NATIONAL BANK OF UKRAINE

In 2013, the National Bank of Ukraine conducted the following researches creating scientific evidence for public support of its activity:

- overview of current issues in the banking system of Ukraine, functioning amid the global crisis, based on the so called "financial stability trilemma";
- overview of the best world practices as regards the improvement of instruments of the monetary policy of the National Bank of Ukraine.

With intent to estimate systemic risks and their impact on the financial sector of Ukraine a number of scientific researches was carried out regarding:

- overview of theoretic and practical grounds of functioning of alternative mechanisms of dispute resolution, evaluation of some aspects of their introduction in Ukraine, particularly establishment of the financial ombudsman;
- development of proposals regarding the de-dollarization of the economy of Ukraine;
- examination of theoretic and practical grounds of the European integration of the banking sector of Ukraine.

With the purpose of finding a scientific rationale for implementation of macro-prudential regulation and supervision, the National Bank conducted a comprehensive study of the world practices of introduction of counter-cyclical instruments and gave recommendations regarding their potential use in Ukraine.

Throughout the year, the National Bank of Ukraine in partnership with international financial institutions and other authorities held discussions and meetings on the topical issues of scientific research and practice of the financial system development.

6.11. AUDIT OF THE NATIONAL BANK OF UKRAINE

During 2013, 78 audits of the major business areas of the NBU structural units were carried out, including 30 comprehensive audits, 31 special audits, 16 IT audits and 1 unscheduled audit.

The above audits covered the activities of the half of the structural subdivisions of the Central Office, almost 90% of structural units and subdivisions; all regional offices and educational institutions.

During every audit the internal control systems were evaluated, the risks pertaining to the inspected line of business were determined, and the recommendations as regards the improvement of available procedures of internal control, risk management, measures of corporate governance were given.

Audit findings were considered by the management of the National Bank of Ukraine. The heads of the audited units took appropriate measures to implement recommendations based on the findings of audits (83.6% of the recommendations were accepted).

During 2013, the risk-based approach to planning of audits and generalization of audit results were improved. The audit plan includes the audit of the most risk-related lines of business of the National Bank of Ukraine: support of the banking system liquidity, management of gold and foreign exchange reserves, public procurement and cash safe-keeping.

Pursuant to the Law of Ukraine "On the National Bank of Ukraine" the Council of the National Bank of Ukraine and the Governor of the National Bank of Ukraine were informed of the progress made twice a year.

In May 2013, the workshop on Organization and Methods of Internal Audit in the National Bank of Ukraine was held in the Lviv Banking Institute of the Banking University of the National Bank of Ukraine. It gathered participants from the external auditor Ernst & Young LLC and the Institute of Internal Auditors of Ukraine.

6.12. BANKNOTE AND COIN PRODUCTION

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

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

Based on the results of work in 2013, the Banknote Printing and Minting Works fulfilled, in quantitative terms, the plan of production and sales of products requested by the National Bank of Ukraine.

Overall volume of products made and services rendered in 2013 accounted for UAH 702.0 million, including UAH 684.0 million by orders of the National Bank of Ukraine.

According to the 2012–2015 Strategic Program of the National Bank of Ukraine for development and improvement of banknote and coin production, the 2012–2013 Investment Program of the National Bank of Ukraine in the area of creation of material resources for money manufacturing, the Banknote Printing and Minting Works replaced its worn-out and morally obsolete printing and minting equipment.

The Banknote Paper Mill Activity

In 2013, the Banknote Paper Mill produced and delivered to the Banknote Printing and Minting Works banknote paper in the quantities, approved by the Board of the National Bank of Ukraine: 1 030.6 tonnes of paper, or 23.2 million sheets. In addition, in the reporting year, 515.3 tonnes of the tax stamp paper were delivered on the contractual terms by order of other state institutions.

Growth of production volume of paper became the main factor of a decrease in production cost of banknote paper. Furthermore, regular steps were taken in order to increase the output, to reduce costs of raw and energy materials and to minimize other manufacturing expenditures. All this contributed to the dynamics of paper production cost reduction in 2013.

In 2013, the Banknote Paper Mill did significant work aimed at the developing the production facilities and introducing the advanced technologies, particularly:

1) the system of automatic on-line testing and control of paper color and whiteness was installed and put into operation;

2) the molding cylinder and the insert into the innovative-design forming bath were delivered and tested. Utilization of the above equipment provides an opportunity to produce high-quality paper, considerably reduces the quantity of non-recycling waste of paper, reduces the waste of a high-priced security thread and increases the output;

3) the organizational work was fulfilled and the technical aspects of innovative experience were studied in order to re-equip the department of special wires manufacture;

4) all the business-processes supported by the SAP-based IT system of the Banknote Paper Mill were covered in the course of system up-grade aimed at improvement of its operational efficiency.

6.13. STAFFING, PERSONNEL TRAINING AND PROFESSIONAL DEVELOPMENT

In the field of human resource management the National Bank of Ukraine seeks to effectively use the human resources of Ukraine, identify and nurture the employees' potential, promote labor activities and ensure high-quality professional development. The work on improving the management and organizational structure of the National Bank of Ukraine also continued and created an opportunity for more efficient discharge of its functions and staffing.

As of January 1, 2014, the number of staff employed in the National Bank of Ukraine was 9 850 persons.

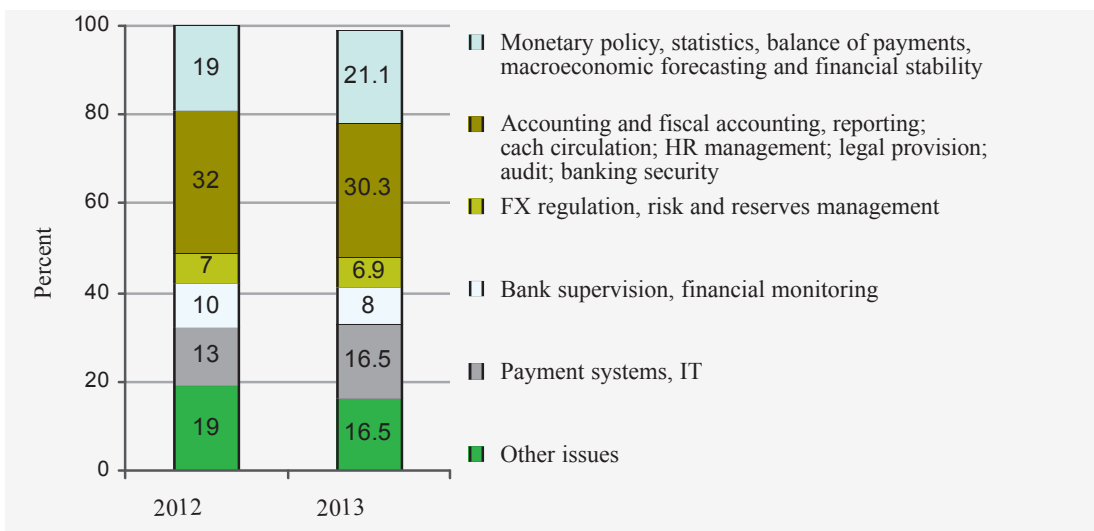
Table 15. Number of Civil Servants of the National Bank of Ukraine and their Breakdown by Position Categories

Indicators	As of 31.12.2013			For reference: 01.01.2013 Total
	Total	Male	Female	
Number	6 218	2 460	3 758	6 093
Senior official	1 784	867	917	1 741
<i>whereof:</i>				
1 st category	5	4	1	4
2 nd category	121	78	43	109
3 rd category	649	270	379	617
4 th category	991	497	494	993
5 th category	18	18	0	18
Professionals, specialists, employees	4 434	1 593	2 841	4 352
<i>whereof</i>				
2 nd category	5	3	2	2
3 rd category	571	178	393	548
4 th category	453	147	306	443
5 th category	3 405	1 265	2 140	3 359

The qualitative composition of the National Bank of Ukraine staff members as of January 1, 2014, was as follows: the number of specialists (senior officers, professionals, specialists)

with complete higher education was 6 143 persons; 137 staff members have Ph.D. or doctoral degrees. The share of specialists with work experience up to 5 years was 11.4%, while those with experience of 5 years and more accounted for 88.6%. The average age of the National Bank staff members was 43.9 years; the employees of the Central Office were 41.5 years old, in average. The number of employees of retirement age was 731 persons.

Figure 23. Training Events in 2012–2013 in Ukraine and Abroad, by Topics



In 2013, 4 576 employees of the National Bank of Ukraine system (39.4% of the total number of people working in the system of the National Bank of Ukraine) improved their qualification. Altogether, 1 697 training events (seminars, conferences, courses, internship programs etc.) were organized, 273 of them were held abroad. Of 11 768 trainees, who participated in these training events, 8 997 persons were employees of the National Bank of Ukraine system, the rest were specialists from banking and other institutions.

The main focus of training was central banking and functioning of the banking system in general.

As of January 1, 2014, 6 472 persons studied at the higher educational institutions of the National Bank of Ukraine under all faculties and specialties, including 4 997 full-time and 1 475 part-time students.

In 2013, 1 270 persons obtained a complete higher education at the NBU higher educational institutions, of which 667 graduates were full-time students, and 603 studied as extramural students.

The stock of the Center for Information and Library Service of the Directorate for Personnel Training Support and Information and Library Service as of the end of 2013 had 91 556 printed issues including 48 588 books. The library had 1 964 registered readers, number of visits in the accounting year equaled 7 701.

Governor

Stepan Kubiv

Calendar of Principal Events in 2013



CALENDAR OF PRINCIPAL EVENTS IN 2013

	January	February
Monetary Policy (Chapter 1)	<ul style="list-style-type: none"> Detailization of the mechanism for mandatory sale of FX revenues arriving in the resident accounts outside Ukraine Introduction of regulation, by licensing, of limit sum of FX transfer out of Ukraine by resident individuals Commencement of revised requirements for submitting information on the contracts made in the interbank loan market 	
Cash Circulation (Chapter 4)	<ul style="list-style-type: none"> Approval of commission fees for sale of bullion coins 	<ul style="list-style-type: none"> Improvement of the mechanism for performing cash operations by Ukrainian banks Issue into circulation of "Volodymyr Vernadskyi (1863 - 1945)" and "200 Years of Semen Hulak-Artemovskyyi" commemorative coins
Bank Supervision and Regulation (Chapter 5)	<ul style="list-style-type: none"> Introduction of simplified procedure for issue of general and individual licenses The standard requirements for compliance with prudential regulations have been confirmed not to apply to the remedial banks Revocation of banking license and launch of liquidation procedure with respect to ERDE BANK JSC 	<ul style="list-style-type: none"> Adjustment of mechanism for issuing licenses on hryvnia money transfers without opening accounts to nonbank financial institutions BANK UNISON PJSC has got banking license and been incorporated in the State Register of Banks
Other NBU Activities (Chapter 6)	<ul style="list-style-type: none"> Improvement of the procedure for the hryvnia interbank money transfer in Ukraine Commencement of new procedure for charging the FX funds by the state tax authorities Adjustment of requirements for the procedure for preparation and disclosure of bank financial reporting 	<ul style="list-style-type: none"> The NBU participated in meeting of the Club of Central Bank Governors of the Central Asia, Black Sea Region, and Balcan Countries Development of measures for combatting the fraud related to the use of payment cards and remote banking

March	April	
<p>Extension of the list of securities eligible as collateral for refinancing loans</p> <p>Standards established for mechanisms for credit support of DGF by NBU</p> <p>Unification of the procedure for accounting the government securities on the accounts of the NBU as a depository</p>	<p>Unification of the procedure for accounting the government securities when handling the stock trading with unilateral and bilateral collateral</p> <p>Establishment of the procedure for registration of the Rules of Settlement Center Servicing Contracts in Financial Markets, PJSC</p> <p>Improvement of the procedure for transfer of securities across the customs border of Ukraine</p>	Monetary Policy (Chapter 1)
<p>Approval of the list of authorized banks for sale of bullion coins</p> <p>Decision on production and issue into circulation of banknotes in accordance with the schedule for 2013</p>	<p>Approval of schedule for coinage of commemorative coins of Ukraine and souvenir products in 2014</p> <p>Issue into circulation of "The Great Bustard" and "1000 Years of the Liadova Cave Monastery" commemorative coins</p>	
<p>Improvement of procedure for issue of individual licenses on FX operations</p> <p>Improvement of methodological guidelines for calculation of economic ratios regulating bank activities</p> <p>Update of procedure for provisioning against FX loans to borrowers who do not have FX revenues</p> <p>Revocation of banking license and launch of liquidation procedure with respect to BANK TAVRIKA JSC</p>	<p>Improvement of procedure for bank reporting about agency contracts on rendering financial services</p> <p>Commencement of amended approaches to the list of eligible collaterals for stabilization loans</p>	Bank Supervision and Regulation (Chapter 5)
<p>Harmonization of issues related to acceptance of cash for further transfer</p> <p>Signing the Memorandum of Understanding and the Loan Agreement worth EUR 610 million between Ukraine and the EU</p> <p>Improvement of accounting of loan and deposit operations and provisions against credit risks</p>	<p>The NBU took part in the Spring Meetings of the IMF and the World Bank</p>	Other NBU Activities (Chapter 6)
March	April	

	May	June
Monetary Policy (Chapter 1)		Lowering the discount rate by 0.5 percentage points, down to 7.0% per annum
		Lowering the interest rates on overnight standing refinancing facility by 0.5 percentage points, down to 8.0% per annum (collateralized) and 10.0% per annum (uncollateralized)
	Confirmation of requirement for mandatory sale of 50% of resident FX revenues	Detailization of the mechanism for paying the interest on banks' balances on separate accounts with the NBU to the banks
	Extension of requirement for the sale of FX revenues over UAH 150,000 received from abroad in the interbank currency market	Permission for banks to participate in trading the NBU deposit certificates on the stock exchanges
	The terms of settlements on goods export/import operations remain the same, 90 calendar days	Launch of placement of overnight deposit certificates
		NBU's clarifications that the requirement for mandatory sale of foreign currency does not apply to investor's operations related to the PSA purposes
Cash Circulation (Chapter 4)		Liberalization of the requirement for value of FX assets transferred and cash collection (up to 3000 minimum wages)
		Improvement of the regulations for organization of security of bank sites
	Issue into circulation of "75 Years of the Luhansk Oblast" and "The House with Chimeras" commemorative coins	Issue into circulation of "World Youth Championship in Athletics" and "Maternity" commemorative coins
Bank Supervision and Regulation (Chapter 5)	Introduction of simplified procedure for licensing the resident FX transactions	
		BANK MYKHAILIVSKYI PJSC has got banking license and been incorporated in the State Register of Banks
Other NBU Activities (Chapter 6)	The NBU took part in the EBRD Annual Meeting of the Board of Governors	Improvement of the procedure for opening, use, and closure of accounts in domestic and foreign currencies
	The NBU participates in the IMF/World Bank Constituency meeting	Commencement of pilot project of the program for modernization of the National System of Mass Electronic Payments
	Completion of the project "Development of Communication Policy for Dissemination of the NBU Statistical Reporting and Publications"	NBU's participation in the Annual General Meeting of the Bank for International Settlements
	Improvement of requirements to statistical reporting on securities portfolio status	NBU's participation in the Annual Meeting of the Board of Governors of the Black Sea Bank for Trade and Development
	Amendments to the Chart of Accounts for banks	Participation in advisory panel of the European Fund for South-Eastern Europe
	Hosting the Payment Forum International Conference	Meeting of The Banks task force of the High Level Ukrainian-German Group on Economic Cooperation
	May	June

July	August	
	Lowering the discount rate by 0.5 percentage points, down to 6.5% per annum	Monetary Policy (Chapter 1)
Raising the minimum reserve requirements with respect to FX-denominated funds	Lowering the interest rate on collateralized overnight standing refinancing facility by 0.5 percentage points, down to 7.5% per annum	
Liberalization of the requirements for provisioning on a separate account with the NBU. Strengthening control over compliance with the requirements	Incorporation of property rights on the government-guaranteed loans to the list of eligible collateral for refinancing loans	
Setting the guarantee fund operational framework in order to secure the fulfillment of obligations on securities transactions	Setting of the procedure for maintaining liquidity of the Settlement Center Servicing Contracts in Financial Markets by the NBU	
Improvement of the contract execution procedure for the contracts related to settlements on deposit certificates purchase/sale	Introduction of improved procedure for crediting the accounts of individuals with the hryvnia returns from sale of FX revenues received from abroad	
The Nordic Environment Finance Corporation is authorized to make settlements with the residents of Ukraine in hryvnias within Ukraine	Preservation of the authorized banks' right to perform the arbitrage operations on terms of margin trading	
Improvement of the production process for minting 50-kopiyka coins resulting in cost reduction	Commencement of the amended procedure for operations with damaged commemorative and bullion coins and souvenir products	Cash Circulation (Chapter 4)
Issue into circulation of "Centenary of the Kyiv Research Institute of Forensic Science" and "1025th Anniversary of Christianization of Kyivan Rus" commemorative coins	Issue into circulation of commemorative coins "650 th Anniversary of the First Record of the City of Vinnytsia", "Nesterov's Loop", "World Rhythmic Gymnastics Championships", "Liberation of Kharkiv from the Fascist Invaders," and "Ukrainian Vyshyvanka"	
Expansion of indirect participation in bank; adjustment of the mechanism for making contributions into bank authorized capital	Harmonization of the procedure for establishing a bridge bank	Bank Supervision and Regulation (Chapter 5)
Harmonization of the procedure for bank reporting on the holders of qualifying holdings		
The loans against sovereign guarantees have been referred to the 1st group of assets by risk		
BANK AVANTGARDE PJSC has got banking license and been incorporated in the State Register of Banks	INVESTMENT AND TRUST BANK PJSC has got banking license and been incorporated in the State Register of Banks	
Harmonization of the status and conditions for operation of the Settlement Center Servicing Contracts in Financial Markets (draft law by NBU)	Signing of Protocol for Cooperation between the NBU and USAID Financial Sector Development Program (FINREP II)	Other NBU Activities (Chapter 6)
Harmonization of the issues related to financial bills of exchange circulation (draft law by NBU)	Improvement of the procedure for arranging and performing financial monitoring inspections	
Setting a mechanism for making hryvnia-denominated investments into Ukraine's economy by IFIs through the issue of bonds (draft law by NBU)	Celebration of the 20th anniversary of introduction of electronic money circulation in Ukraine	
Printing of document forms with special security features has been returned to the competence of the NBU		
Revision of requirement for statistical reporting		
July	August	

	September	October
Monetary Policy (Chapter 1)	Toughening of the FX minimum reserve requirements and optimization of the procedure for covering the provisions	Introduction of extended requirements for mandatory sale of FX revenues in the interbank currency market
	Expansion of the regulations for mandatory sale of portion of FX revenues	Improvement of Technical Procedure for the operations between the NBU and banks
	Toughening of the requirement for crediting foreign currency to FX current accounts of individuals within Ukraine	Commencement of improved procedure for confirmation of availability of local bonds in bank portfolio in case of their use as collateral for refinancing loan
	Improvement of the procedure for monitoring of import operations by banks	Commencement of amendments related to harmonization of the depository system of Ukraine
	Settlement of the issues related to the activities of NBU as a depository and a custodian institution	Setting of tariffs for the services provided by the NBU as a depository
Cash Circulation (Chapter 4)	Introduction of the limit on cash payments by individuals (UAH 150,000.00)	Update of the rules for identification of authenticity features and for exchange of banknotes, small and circulation coins denominated in the national currency of Ukraine
	Issue into circulation of commemorative coins "Liberation of Donbas from the Fascist Invaders", "House of a Poet (on the occasion of the Centenary of M.Voloshin's House)" and "150 th Anniversary of the National Philharmonic Society of Ukraine"	Issue into circulation of commemorative coins "Battle of the Dnieper (on the occasion of the 70 th anniversary of liberation of Kyiv from the fascist invaders)", "Nestor Makhno", and "Breakthrough of the German Defensive Line Wotan by the Soviet Army and Liberation of Melitopol"
Bank Supervision and Regulation (Chapter 5)	Improvement of the procedure for issue by the NBU of foreign investment individual licenses	Update of the methodological guidelines for calculating economic ratios for banks
	Settlement Center Servicing Contracts in Financial Markets PJSC, STATE LAND BANK PJSC and BANK PORTAL PJSC have got banking licenses and been incorporated in the State Register of Banks	Update of procedure for provisioning against FX loans to borrowers who do not have FX revenues
		COMMERCIAL BANK HEPHAESTUS, PJSC, has got banking license and been incorporated in the State Register of Banks
	COMMERCIAL BANK DANIEL, PJSC, has been referred to the problem banks	
Other NBU Activities (Chapter 6)	Participation in the meeting of the Central Banks Governors' Club of the Central Asia, Black Sea Region and Balkan Countries	Participation in the Annual Meeting of the IMF and the World Bank Board of Governors
		Adjustment of requirement for the procedure of preparation and disclosure of financial reporting
		Celebration of the World Savings Day in Ukraine (October 31, .2013)

November		December		
Expansion of requirements for mandatory sale of 50 per cent of FX revenues in the interbank FX market		Temporary cancellation of limits on refinancing loans depending on bank's regulatory capital		Monetary Policy (Chapter 1)
Extension of requirements for mandatory sale of individuals' FX revenues exceeding UAH 150,000.00 in the interbank FX market		Temporary abolishment of limits on the maximum number of bank applications for overnight loans		
Preservation of 90-days term for settlements under goods export/import operations		Permission for the authorized banks to open and use EUR-denominated correspondent accounts in Latvian banks		
Establishment of the mechanism for procurements related to manufacture, storage, and transportation of security paper, banknotes, coins, and state awards of Ukraine		Decision on production and issue into circulation of banknotes in accordance with schedule for 2014		Cash Circulation (Chapter 4)
Issue into circulation of commemorative coins "Mykola Amosov", "Borys Hrinchenko", та "100 Years of P.I.Tchaikovsky National Music Academy of Ukraine"		Issue into circulation of commemorative coins "1120 Years of the City of Uzhhorod", "900 th Anniversary of the Tale of Bygone Years", "Catherine's Glory Ship of the Line", and "Year of the Horse"		
Improvement of requirements to bank capitalization programs and maximum credit exposures		Incorporation of spot claims and liabilities into calculation of the open FX position		Bank Supervision and Regulation (Chapter 5)
		Approval of annual bank classification by size of bank assets		
Setting of the procedure for interbank money transfer in the national currency by the foreign bank branches		Setting the procedure for conducting payment system oversight		Other NBU Activities (Chapter 6)
Shortening of the list of documents required for opening a correspondent account for a bank				
Participation in the Frankfurt European Banking Congress and in the 2nd Eastern Partnership Business Forum				
Setting standards for accounting of spot FX purchase/sale operations				
Improvement of the regulations for bank financial monitoring				
Improvement of the procedure for consideration of applications and arranging personal appointments				
November		December		



Consolidated
Financial Statements
of the National Bank
of Ukraine



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INDEPENDENT AUDITOR'S REPORT

To the Council and the Board of the National Bank of Ukraine

We have audited the accompanying consolidated financial statements of the National Bank of Ukraine and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of these consolidated financial statements in accordance with International Financial Reporting Standards 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 consolidated 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 present fairly, in all material respects, the financial position of the National Bank of Ukraine and its subsidiaries as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 4 to the consolidated financial statements, which describes the escalation of political and economic situation in Ukraine that started in November 2013 and continued in 2014. The events referred to in Note 4 could affect the results and financial position of the National Bank of Ukraine in a manner not currently determinable. Our opinion is not qualified in respect of this matter.

Ernst & Young Audit Services LLC

Kyiv, Ukraine
8 April 2014



Auditor Yulia Studynska
Banking auditor's certificate No. 0131, issued by the Audit Chamber of Ukraine
NBU Registration certificate No. 0000111

Consolidated Statement of Financial Position as at 31 December 2013

	Notes	2013	2012
<i>(in UAH millions)</i>			
Assets			
Foreign currency and investment metals funds and deposits	5	58,125	60,554
Foreign securities	6	100,580	129,386
SDR Holdings	7	128	73
Monetary gold		7,893	9,178
Domestic securities	8	154,134	104,565
Loans to banks and other borrowers	9	66,998	65,055
Internal State debt	10	2,268	3,042
IMF quota contributions	11	16,945	16,854
Fixed assets and intangible assets	12	7,231	6,927
Other assets	13	2,693	3,354
Total assets		416,995	398,988
Liabilities			
Banknotes and coins in circulation		261,870	222,786
Accounts of banks	14	47,432	34,267
Accounts of State and other institutions	15	4,036	1,842
Liability on profit distribution to the State budget	19	11,886	16,000
Deposit certificates issued by the NBU	16	3,126	334
Liabilities to the IMF	17	31,140	55,760
Other liabilities	18	1,361	1,095
Total liabilities		360,851	332,084
Equity			
Statutory capital		100	100
General and other reserves		33,474	22,378
Revaluation reserve for assets and liabilities		22,542	44,426
Total equity attributable to the NBU	20	56,116	66,904
Non-controlling interests		28	–
Total equity		56,144	66,904
Total equity and liabilities		416,995	398,988

Approved for issue and signed on behalf of the Board of the National Bank of Ukraine on 8 April 2014.

Governor



S. I. Kubiv

Chief Accountant – Director of
Accounting Department



B.V. Lukasevych

The accompanying notes on pages 102 to 169 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income for 2013

	Notes	2013	2012
		<i>(in UAH millions)</i>	
Interest income	22	21,331	16,348
Interest expense	22	<u>(996)</u>	<u>(1,462)</u>
Net interest income	22	20,335	14,886
Fee and commission income	23	367	323
Fee and commission expense	23	<u>(11)</u>	<u>(346)</u>
Net fee and commission income/(expense)	23	356	(23)
Results from operations with financial assets and liabilities in foreign currency and monetary gold		(3,988)	4,562
Results from operations with debt securities at fair value		1,106	3,962
Results from operations with financial instruments other than debt securities at fair value		3	26
Other income	24	<u>436</u>	<u>279</u>
Total net income		18,248	23,692
Staff costs	25	(2,238)	(1,958)
Expenses for production of banknotes, coins, souvenirs and other products		(927)	(810)
Administrative and other expenses	26	(847)	(735)
Net decrease of provisions	27	<u>537</u>	<u>725</u>
Profit for the year		14,773	20,914
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:			
Revaluation of investment metals		<u>(686)</u>	<u>(1,349)</u>
Other comprehensive loss for the year		(686)	(1,349)
Total comprehensive income for the year		14,087	19,565
Profit attributable to:			
- National Bank		14,779	20,914
- non-controlling interests		<u>(6)</u>	<u>-</u>
		14,773	20,914
Total comprehensive income attributable to:			
- National Bank		14,093	19,565
- non-controlling interests		<u>(6)</u>	<u>-</u>
		14,087	19,565

Approved for issue and signed on behalf of the Board of the National Bank of Ukraine on 8 April 2014.

Governor



S. I. Kubiv

Chief Accountant – Director of
Accounting Department



B.V. Lukasevych

Director of Finance Department



L.H. Ivashkevych

The accompanying notes on pages 102 to 169 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows for 2013

	Notes	2013	2012
<i>(in UAH millions)</i>			
Operating activities			
Profit for the year		14,773	20,914
Adjustments:			
Depreciation and amortisation	12	469	439
Net decrease of provisions for assets	27	(537)	(725)
Adjustment of interest income on impaired loans issued to banks	9	(398)	(258)
Change in accrued income		(1,696)	(1,514)
Change in accrued expenses		(107)	(9)
Revaluation of debt securities at fair value		1,498	(463)
Unrealised revaluation of financial assets and liabilities in foreign currency and monetary gold		4,343	4,226
Other non-cash movements		21	229
Net cash inflow before changes in operating assets and liabilities		18,366	22,839
Net increase in loans to banks and other borrowers		(842)	(3,960)
Repayment of internal State debt	10	132	132
Net decrease/(increase) in other assets		298	(787)
Net (decrease)/increase in other liabilities		(59)	30
Net cash from operating activities before transfers to the State budget of Ukraine		17,895	18,254
Transfers to the State budget of Ukraine	19	(28,308)	(23,600)
Net cash used in operating activities		(10,413)	(5,346)
Investment activities			
Net decrease/(increase) in term deposits placed		1,235	(1,346)
Net decrease in foreign securities		24,504	18,686
Purchase of domestic securities		(49,411)	(41,435)
Sale and redemption of domestic securities		1,669	12,714
Purchase of monetary gold		(1,382)	(465)
Investments in associates		-	(26)
Acquisition of a subsidiary, net of cash acquired	38	(45)	-
Acquisition of fixed assets and intangible assets		(1,044)	(941)
Proceeds from disposal of fixed assets		10	10
Net cash used in investment activities		(24,464)	(12,803)

The accompanying notes on pages 102 to 169 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows for 2013

	Notes	2013	2012
<i>(in UAH millions)</i>			
Financing activities			
Issue of banknotes and coins in circulation		39,084	13,220
Repayment of liabilities to the IMF		(24,394)	(21,489)
Net decrease in deposit certificates of the National Bank of Ukraine		2,792	(5,194)
Net cash from/(used in) financing activities		<u>17,482</u>	<u>(13,463)</u>
Effect of changes in exchange rates on cash and cash equivalents		(2,239)	(6,564)
Net decrease in cash and cash equivalents		(19,634)	(38,176)
Cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		18,119	56,295
Cash and cash equivalents at the end of the year	21	<u>(1,515)</u>	<u>18,119</u>

Approved for issue and signed on behalf of the Board of the National Bank of Ukraine on 8 April 2014.

Governor

S. I. Kubiv

Chief Accountant – Director of
Accounting Department

B.V. Lukasevych

The accompanying notes on pages 102 to 169 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for 2013

	Notes	Statutory capital	General and other reserves	Revaluation reserve for assets and liabilities	Results of carrying value adjustments at initial recognition of financial assets	Total equity attributable to the NBU	Non-controlling interests	Total equity
<i>(in UAH millions)</i>								
Balance as at 1 January 2012		100	10,216	90,596	(13,973)	86,939	–	86,939
Total comprehensive income for 2012		–	20,914	(1,349)	–	19,565	–	19,565
Realized result from disposals of investment metals	19	–	176	(176)	–	–	–	–
Revaluation reserve of securities	19	–	(838)	838	–	–	–	–
Compensation of unrealized losses from revaluation of foreign currency, monetary gold with revaluation reserve for assets and liabilities	19	–	4,153	(4,153)	–	–	–	–
Transfer of unrealized securities revaluation result of prior year		–	236	(236)	–	–	–	–
Transfer of results of carrying value adjustments at initial recognition of financial assets		–	–	(13,973)	13,973	–	–	–
Transfer of funds to the State budget of Ukraine	19	–	–	(23,600)	–	(23,600)	–	(23,600)
Liability of the National Bank of Ukraine on profit distribution to the State budget of Ukraine	19	–	(12,479)	(3,521)	–	(16,000)	–	(16,000)
Balance as at 31 December 2012		100	22,378	44,426	–	66,904	–	66,904
Total comprehensive income for 2013		–	14,779	(686)	–	14,093	(6)	14,087
Realized result from disposals of investment metals	19	–	34	(34)	–	–	–	–
Compensation of unrealized losses from revaluation of securities with revaluation reserve for assets and liabilities	19	–	421	(421)	–	–	–	–
Compensation of unrealized losses from revaluation of foreign currency, monetary gold with revaluation reserve for assets and liabilities		–	8,435	(8,435)	–	–	–	–
Utilization of general reserves	10	–	(687)	–	–	(687)	–	(687)
Transfer of funds to the State budget of Ukraine	19	–	–	(12,308)	–	(12,308)	–	(12,308)
Liability of the National Bank of Ukraine on profit distribution to the State budget of Ukraine	19	–	(11,886)	–	–	(11,886)	–	(11,886)
Acquisition of subsidiary	38	–	–	–	–	–	34	34
Balance as at 31 December 2013		100	33,474	22,542	–	56,116	28	56,144

Approved for issue and signed on behalf of the Board of the National Bank of Ukraine on 8 April 2014.

Governor



S. I. Kubiv

Chief Accountant – Director of Accounting Department



B. V. Lukasevych

The accompanying notes on pages 102 to 169 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 Monetary Policy Fundamentals 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 investment metals;

to be a lender of 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 “On the National Bank of Ukraine”.

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 open 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 the 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 the Monetary Policy Fundamentals and exercise control over the implementation of the monetary policy. In addition, in accordance with the Law of Ukraine “On the National Bank of Ukraine”, the NBU Council approves annually the NBU budget of income and expenditure for the next year, takes decision on increase of the NBU statutory capital, approves annual financial statements of the NBU,

report on fulfilment of the NBU budget of income and expenditure and distribution of profit for the reporting year, approves decisions of the NBU Board on the NBU's participation in international financial organisations, as well as performs other functions according to its authority defined by the Ukrainian legislation.

The NBU system includes 25 regional offices throughout Ukraine. Additionally, the NBU's structure includes the Operations Department, Main Unit of Economic Maintenance, the Central Vault, the State Treasury 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 the Ukrainian Banking Academy (Sumy), Banking University (Kyiv) and "Banking Television" LLC (Kyiv), all of which are 100% owned by the NBU, and "SETTLEMENT CENTER" PJSC, in which the share of the NBU equals to 77.79% (Note 38).

The structure of the Banking University (Kyiv) includes Lviv, Kharkiv, Cherkassy and Sevastopol Banking Institutes.

In 2013, in accordance with the Law of Ukraine dated 4 July 2013 No. 399 -VII "On Amendments to Certain Legislative Acts of Ukraine regarding the return of State control and production of documents and forms that require special security features by the state-owned enterprises", State Enterprise "Polygraph Combine "Ukraina" for securities' production" (hereinafter – Polygraph Combine), was placed under the management of the National Bank of Ukraine.

Polygraph Combine is state-owned and was founded to achieve economic and social results as well as profit.

The main objective of Polygraph Combine is to meet the needs of the State, enterprises, institutions and organizations, legal entities and individuals in blank forms requiring, in accordance with the current legislation, special security features, excise tax stamps, postage stamps, letterheads, marked envelopes, cards, postcards, payment cards and other types of printed products and printing services.

The NBU has exercised judgement and analysed whether it had complied with control criteria of IFRS 10 *Consolidated Financial Statements* with respect to Polygraph Combine. The NBU has power over Polygraph Combine, but it is not exposed to risks or is not entitled to variable returns of its operations and acts as an agent rather than a principal with its respect. Based on those judgments it was concluded that the National Bank did not have control over Polygraph Combine, so it was not consolidated in these financial statements.

2. Basis of presentation and accounting policies

The consolidated financial statements of the National Bank of Ukraine have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These consolidated financial statements have been prepared under the historical cost convention except the financial assets classified as financial assets at fair value through profit or loss. The consolidated financial statements are presented in the national currency of Ukraine, Ukrainian Hryvnia, which is the functional and presentation currency. These consolidated financial statements are presented in millions of Ukrainian Hryvnias ("UAH million").

Basis of consolidation

These consolidated financial statements include the financial statements of the National Bank of Ukraine and its subsidiaries as at 31 December 2013.

The subsidiaries are companies controlled by the NBU. The existence of control is determined with the following conditions applied simultaneously:

existence of power over the investee;

rights to variable returns from involvement in the investee and exposure to respective risks;

the ability to use its powers over the investee to affect the amount of the NBU results.

The subsidiaries are fully consolidated from the date on which control is transferred to the NBU (which is usually the date of acquisition) and are no longer consolidated from the date that control ceases.

Changes in ownership interests in a subsidiary without loss of control is accounted for as an equity transaction. The losses of the subsidiary are attributable to non-controlling interests even if it leads to a negative balance.

If the National Bank loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary (including goodwill), the carrying amount of non-controlling interests, recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit on the transaction in profit or loss; reclassifies the share of the National Bank in the components previously recognized in other comprehensive income to profit or loss.

Intra-company balances including income and expenses on transactions between the subsidiaries are eliminated on consolidation. The NBU and its subsidiaries use the uniform accounting policies for preparation of the consolidated financial statements. Financial statements of the subsidiaries have been prepared for the same reporting period as the NBU's financial statements.

Investments in associates

Associates are the entities over which the NBU has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control of those policies.

Investments in associates are accounted for under the equity method and recognized in other assets. Subsequent changes in the carrying value reflect the post-acquisition changes in the NBU's share of net assets of the associate. The NBU's share of the post-acquisition profits or losses of associates is recorded in the consolidated statement of comprehensive income as other income or expenses. The NBU's share in other changes in the associates' equity occurred from the date of investments is recorded in the consolidated statements of comprehensive and changes in equity. However, if the NBU's share in losses of an associate equals or exceeds its interest in the associate, the NBU does not recognize further losses, except where the NBU is obliged to make further payments to, or on behalf of, the associate.

Key measurement terms

Depending on their classification the financial assets and liabilities are carried at fair value or amortised cost.

Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The market in which the NBU would normally enter into transaction to sell the asset or transfer the liability is presumed to be the principal market or, in absence of a principal market, the most advantageous market. The NBU must have access to the principal or the most advantageous market at the date of measurement. The NBU measures fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If there is a principal market for the asset or liability, the fair value represents the price in that market (whether that price is directly observable or estimated using another valuation technique), even if the price in a different market is potentially more advantageous at the measurement date.

Such valuation techniques as discounted cash flows and consideration of financial data of the investees are used to measure fair value of 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 may result in significantly different profit, income, total assets or total liabilities.

The NBU uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;

level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. The incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial asset or liability was recognised at initial recognition less any principal repayments plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and for financial assets less any write-down for incurred impairment losses.

The effective interest method is a method of calculating amortised cost of financial asset or financial liability and allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through

the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial asset or financial liability.

Transactions in foreign currency and monetary gold

Monetary assets and liabilities denominated in foreign currency and monetary gold are initially recognized 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 in the consolidated financial statements at the official exchange rates of hryvnia to foreign currencies (gold), set by the NBU at the date of the consolidated statement of financial position.

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 the international standard held in the State Treasury of Ukraine. Monetary gold represents a part of the 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 the information on gold prices determined (fixed) by the participants of the London Bullion Market Association in US dollars translated into UAH at the NBU official UAH/US dollar exchange rate.

Interest-bearing placements in gold with foreign banks are included in foreign currency funds and deposits and recorded in the consolidated financial statements at the official exchange rate of hryvnia to foreign currencies as at the date of the consolidated statement of financial position.

The principal official exchange rates of hryvnia to foreign currencies used for translating the monetary items of the consolidated statement of financial position, and monetary gold were:

	31 December 2013 (UAH)	31 December 2012 (UAH)
USD 1	7.993000	7.993000
SDR 1	12.350849	12.284601
EUR 1	11.041530	10.537172
1 troy ounce of gold	9,665.535	13,258.389

Results of revaluation of monetary assets and liabilities in foreign currency and monetary gold, as well as gold placed with foreign banks due to the change of the official exchange rate of hryvnia to foreign currencies and gold are recognised as profit or loss in the consolidated statement of comprehensive income in the period in which they arise.

* As of 31 December 2013 and 2012, the official exchange rate of hryvnia to US dollar was set based on a weighted average exchange rate of purchases and sales in the interbank foreign exchange market of Ukraine for the previous working day with a possible deviation of ± 2 %. The official exchange rate of hryvnia to other foreign currencies was set based on the official exchange rate of hryvnia to US dollar and cross-rates of the respective currencies in the international markets.

Operations with the International Monetary Fund

The NBU acts as the depository and fiscal agent of Ukraine (in respect of the funds received by the NBU) in the relationship of Ukraine with the International Monetary Fund (the IMF). All claims of Ukraine on and liabilities to the IMF in respect of the funds received by the NBU are recorded in the consolidated financial statements of the NBU. The IMF asset balances include holdings of the 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 date of the consolidated statement of financial position. 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 recognized as interest income and charges paid in respect of use of the IMF funds are recognized as interest and fee expense, as appropriate, in the consolidated statement of comprehensive income. Non-reimbursable fees under arrangement of SDR purchase are recorded as fee and commission expense. Expenses related to operations with IMF are amortised using the effective interest method and recorded as interest expenses.

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

This category includes the securities which do not meet the criteria of measurement at amortised cost. The NBU manages a group of these financial instruments in accordance with a documented business model which is used for managing the NBU's financial assets and provides for sale of such securities in the short term. The fair value of these securities is determined by reference to market quotations in the main or most advantageous market. Securities from this category may be reclassified to securities at amortised cost if the business model changes.

Debt securities at amortised cost

This category includes the securities in respect of which both of the following conditions are met:

securities are held within the business model used for managing the NBU's financial assets under which securities are held to collect contractual cash flows;

contractual terms give rise on specified dates to cash flows that are solely payments of securities' principal and interest on the principal amount outstanding.

Equity instruments at fair value

This category includes the investments in statutory capital of the companies which are neither associates nor subsidiaries. When the information for determining the fair value of equity instruments is not available, the cost is the best estimate of fair value. Therefore, the fair value of investments in shares of the Interstate Bank and Black Sea Trade and Development Bank is determined as cost, i.e. is equal to their carrying amount.

Loans to banks and other borrowers

Loans to banks and other borrowers are recorded when the NBU lends money to counterparty banks or other borrowers with intention of obtaining contractual cash flows which are exclusively the payments for repayment of the principal amount and interest. These loans do not have embedded derivatives, are not quoted in the market and are due on fixed or determinable dates.

Internal State debt

Internal State debt includes the loans granted to the Government of Ukraine. Under these loans the contractual cash flows are expected to be received which are exclusively the payments for repayment of the principal amount and interest. Internal State debt is initially recognized at fair value and subsequently measured at amortized cost.

Financial instruments recognition and measurement

Financial instruments are recognised as follows:

transactions with financial instruments are recorded in the consolidated statement of financial position at the settlement date, which is the date when the ownership right for these assets is transferred to (from) the NBU;

debt securities and equity instruments at fair value are initially recorded at fair value;

foreign currency funds and deposits, debt securities at amortised cost, loans to banks and other borrowers and all financial liabilities are initially recorded at fair value plus transaction costs.

Subsequent measurement of the NBU's financial instruments is as follows:

debt securities and equity instruments at fair value are revalued after each change in their market price. The result from changes in fair value is recognised in the profit or loss of the consolidated statement of comprehensive income in the period in which it arises;

foreign currency funds and deposits, debt securities at amortised cost, loans to banks and other borrowers, as well as the internal State debt are measured at amortised cost using the effective interest method.

Provisions for impairment of financial assets

Impairment losses are recognised in the profit or loss in the consolidated statement of comprehensive 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 a group of financial assets that can be reliably estimated.

The objective evidence of impairment of financial assets is the information on the following loss events:

the borrower or issuer experiences significant financial difficulties;

breach of contract by the borrower or breach by the securities issuer of the conditions of their issue;

possibility of bankruptcy or other financial reorganisation of the borrower or issuer;

the lender, for economic or legal reasons relating to the borrower’s or issuer’s financial difficulty, granting to the borrower or issuer 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.

Losses from impairment are recognised through the inclusion of the respective amount in expenses. The amount of provision for impairment is calculated as a difference between the financial asset’s carrying amount and the present value of expected cash flows discounted at the original effective interest rate of the asset.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment has been recognised, the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss in the consolidated statement of comprehensive income.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed.

Renegotiation of financial assets’ terms

If financial assets terms are renegotiated and changed due to financial difficulties of the borrower, such financial assets are impaired, and the respective impairment loss is calculated using the original effective interest rate determined before the renegotiation. If the loans were granted at floating rate, the impairment of such assets is calculated using the current effective interest rate. If the renegotiation of the terms is not caused by financial difficulties of the borrower, such financial assets are not considered impaired, and the carrying amount of such assets is adjusted.

The adjustment is determined as a difference between the present value of cash flows at the renegotiated terms discounted at the original effective interest rate (current effective interest rate if loans are granted at floating rate), and the carrying value of financial asset at the date of renegotiation of terms.

Repo transactions

Funds paid under the agreements for purchase and sale of securities with subsequent repurchase obligation (“repo”) are recorded as loans to banks. The difference between the purchase and resale prices is treated as interest income

recognized on over the life of the repo agreements using the effective interest rate method.

Funds received under sale and repurchase agreements (repo) are included in accounts of banks in the consolidated statement of financial position. Securities sold under sale and repurchase agreements are retained as the assets of the NBU. The difference between the sale and repurchase prices is treated as interest expense and accrued on over the life of the repo agreement using the effective interest rate method.

Fixed assets

Fixed assets are stated at historical cost less accumulated depreciation.

Historical cost of acquired fixed assets includes the costs incurred to acquire and bring them to use.

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. 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 expenses in the consolidated statement of comprehensive income of the reporting period.

If impaired, fixed assets are written down to the higher of their recoverable value and fair value less costs to sell. Decrease in the carrying amount is recognised in the profit or loss in the consolidated statement of comprehensive income. 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 recoverable value or fair value less costs to sell.

Gains and losses on disposals determined as the difference between the proceeds and the asset's carrying amount are recognised in the profit or loss of the consolidated statement of comprehensive income.

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 to their residual values over their estimated useful lives as follows:

buildings and constructions	20 – 50 years;
motor vehicles	7 – 28 years;
machinery and equipment	4 – 20 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 computer software and licences.

Historical cost of acquired intangible assets includes the costs incurred to acquire and bring them to use. Acquired intangible assets are amortised on a straight-line basis over the expected useful lives of 3 to 8 years and subsequently measured at historical cost less depreciation.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the consideration transferred over the net identifiable assets acquired and liabilities assumed. Goodwill on an acquisition of a subsidiary is included in the intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Impairment of goodwill is determined by measurement of the recoverable amount of the unit or group of units generating cash flows, to which goodwill have been allocated. Goodwill impairment losses are recognized if the recoverable amount of the unit (group of units) that generate cash flows is less than its carrying value. Goodwill impairment losses are not reversed in the future.

Investment metals and other precious metals

Investment metals include stocks of gold, which is not monetary, silver, platinum and palladium held in the State Treasury of Ukraine. Investment 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 the information on precious metals prices determined (fixed) by the 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 investment metals to UAH at which investment metals are stated in the consolidated financial statements were as follows:

	31 December 2013	31 December 2012
	(UAH)	(UAH)
1 troy ounce of gold	9,665.535	13,258.389
1 troy ounce of silver	159.221	240.989
1 troy ounce of platinum	10,926.431	12,229.290
1 troy ounce of palladium	5,643.058	5,643.058

Unrealised results of revaluation of investment metals due to the change of the official exchange rate of hryvnia to investment metals are included in other comprehensive income of the consolidated statement of comprehensive income in the period in which they arise. Realised results of revaluation of investment metals are transferred to retained earnings.

Interest-bearing placements in investment metals with foreign bank are included in foreign currency and investment metals funds and deposits. The results of revaluation of investment metals placed with foreign banks due to the change of the official exchange rate of hryvnia to investment metals are recognised as profit or loss in the consolidated statement of comprehensive income in the period in which they arise.

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.

Investment metals and other precious metals are included in other assets in the consolidated statement of financial position.

Banknotes and coins in circulation

The amount of banknotes and coins in circulation represents the nominal value of banknotes and coins (small change, circulating, commemorative and investment 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 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 recognized at fair value including the transaction costs and subsequently are measured at amortized cost.

Accounts of State and other institutions

Accounts of State and other institutions are non-derivative liabilities to state or other customers and initially are recognized at fair value including the transaction costs and subsequently are measured at amortized 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 the effective interest method. Upon redemption of deposit certificates issued by the NBU, the difference between the consideration paid and the amortised cost is included in profit or loss in the consolidated statement of comprehensive income.

Income and expense recognition

Interest income and expense are recorded in the consolidated statement of comprehensive income on an accrual basis using the effective interest method for all debt instruments, except for debt securities at fair value through profit or loss. Interest income from debt securities at fair value through profit or loss is recognised in the consolidated statement of comprehensive income within the results from operations with debt securities at fair value.

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 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 consolidated statement of financial position and are charged to expenses in the period when the coins are sold.

Staff costs

Salaries, payment of single contribution for mandatory 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 the respective costs are incurred.

Corporate non-state pension fund of the NBU

The NBU established a Corporate non-state pension fund, which is a defined contribution plan. The NBU pays contributions to this fund on a contractual basis. The NBU has no further payment obligations once the contributions have been paid. The contributions are recognised as staff costs when they are due. Upon retirement of NBU employees, all benefits are paid by the Corporate non-state pension fund of the NBU.

The NBU acts as administrator, asset manager and custodian of the Corporate non-state pension fund of the NBU.

Expenses for contributions to mandatory State social funds

Under the Ukrainian legislation, the NBU makes a single contribution for the mandatory state social security to the Ministry of Revenue and Duties of Ukraine. Transfers made to the Ministry of Revenue and Duties of Ukraine are expensed as incurred.

Taxation

According to the Tax Code of Ukraine, NBU makes settlements with the State Budget of Ukraine according to the Law of Ukraine "On the National Bank of Ukraine". The National Bank of Ukraine transfers 50 percent of distributable profit to the State Budget of Ukraine in the year following the reporting period. The distributable profit is determined by the decrease of profit by the amounts of unrealised gains for the reporting period transferred to the revaluation reserves and of unrealised losses not compensated by the revaluation reserve, and the inclusion of the gains that became realised in the current reporting period. These transfers are treated

as distributions to owners and are recorded in the consolidated statement of changes in equity (Note 19).

Other taxes paid by the NBU are recorded within administrative and other expenses.

Revaluation reserve for assets and liabilities

According to the Law of Ukraine “On the National Bank of Ukraine”, unrealised gains from the revaluation of foreign currency, monetary gold due to changes in UAH to foreign currencies and monetary gold exchange rates during the reporting period, as well as unrealised gains from the revaluation of securities and derivative financial instruments to their fair value, is transferred by NBU to the revaluation reserve for assets and liabilities within equity in the consolidated statements of financial position and changes in equity.

The revaluation reserve is used to compensate for the unrealised losses from the revaluation of foreign currency, monetary gold, securities and derivative financial instruments at fair value, should they accumulate during the reporting year.

The revaluation reserve for foreign currency sold, monetary gold, securities and derivative financial instruments is included in the distributable profit in the respective reporting periods.

Cash and cash equivalents

For the purposes of reporting cash flows, cash and cash equivalents include financial assets on demand or maturing within three months from the origination date and which are available for use at short notice and are subject to insignificant risk of changes in value, as well as liabilities 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).

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position 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.

Implementation of new and amended standards and interpretations of the financial statements applied in preparation of the NBU consolidated financial statements

Amendments to IFRS 7 *Financial Instruments: Disclosures – Transition Disclosures. Offsetting Financial Assets and Financial Liabilities* (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013) change the requirements to disclosures relating to measurement of influence or potential influence of offsetting, including rights for offsetting relating to recognized financial assets and financial liabilities of the entity, on financial position of such entity. The amendments did not affect the presentation of information, financial condition or results of operations of the NBU.

IFRS 10 *Consolidated Financial Statements* (effective for annual periods beginning on or after 1 January 2013) established a single control model that applies to all entities including special purpose entities. IFRS 10 requires management to exercise significant judgment 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. In addition, IFRS 10 introduces specific application guidance for agency relationships. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation — Special Purpose Entities*. IFRS 10 had no impact on the consolidation of investments held by the NBU.

IFRS 12 *Disclosure of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2013) provides for all disclosure requirements previously provided for by IAS 27 *Consolidated and Separate Financial Statements* in terms of consolidated financial statements, as well as the disclosure requirements previously provided for by IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates and Joint Ventures*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. Disclosures relating to IFRS 12 are presented in Notes 1, 13 and 38.

IFRS 13 *Fair Value Measurement* (effective for annual periods beginning on or after 1 January 2013) establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 provides guidance on how to measure fair value under IFRS when fair value is required or permitted in accordance with other IFRS standards. IFRS 13 affected the disclosure of fair value in the consolidated financial statements of the NBU (Note 35), but had no effect on the financial position or results of its operations.

Amendment to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* (effective for annual periods beginning on or after 01 July 2012) changes 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. The amendment affects presentation only and has no impact on NBU's financial position or performance.

IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011) (effective for annual periods beginning on 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. The new wording of the standard describes the application of the equity method to investments in joint ventures in addition to associates. The amendment mentioned did not have significant impact on the consolidated financial statements of the NBU.

IFRS amendments and interpretations that became effective in 2013 and were not applied in preparation of the NBU consolidated financial statements

Amendments to IFRS 1 *Government Loans* (effective for annual periods beginning on or after 1 January 2013) require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. Entities may

choose to apply the requirements of IFRS 9 and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest.

IFRS 11 *Joint Arrangements* (effective for annual periods beginning on or after 1 January 2013) removes 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*.

IAS 27 *Separate Financial Statements* (as revised in 2011) (effective for annual periods beginning on or after 1 January 2013). As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* (effective for annual periods beginning on or after 1 January 2013). IFRIC 20 applies to the expenses for removing the slag waste that arises in the production phase of a surface mine. It provides for the accounting for the benefits from slag waste removal.

Amendment to IAS 19 *Employee Benefits* (effective for annual periods beginning on or after 1 January 2013) proposes 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.

Improvements to International Financial Reporting Standards (issued in May 2012 and effective from 1 January 2013).

According to the revised IFRS 1 *First-time Adoption of International Financial Reporting Standards*, an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

The revised IAS 1 *Presentation of Financial Statements* clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

The revised IAS 16 *Property, Plant and Equipment* clarifies that major spare parts and standby equipment qualifying for property, plant and equipment are not inventories.

The revised IAS 32 *Financial Instruments: Presentation* clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

The revised IAS 34 *Interim Financial Reporting* aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

Standards issued but not yet effective

IFRS 9, as issued, reflects two of the three phases of the IASB project on replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities and hedge accounting. The standard has no mandatory effective date and may be applied voluntarily. The NBU early adopted IFRS 9 in respect of classification and measurement of financial assets and liabilities in preparation of the consolidated financial statements for 2012. The NBU will quantify the effect of IFRS 9 requirements that are not yet effective when the remaining part of the standard containing guidance on impairment of financial assets is issued.

Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities* (effective for annual periods beginning on or after 1 January 2014) provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after 1 January 2014) clarify the meaning of “currently has a legally enforceable right to set-off” and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting.

Amendments to IAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets* (applied retrospectively for annual periods beginning on or after 1 January 2014, with earlier application permitted subject to the application of IFRS 13). The amendments remove unintended consequences for disclosure in accordance with IAS 36 relating to enforcement of IFRS 13. In addition, the amendments require disclosure of the recoverable amount of assets or cash-generating unit, with respect to which the impairment loss has been recognized and restored over the reporting period.

Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* (effective for annual periods beginning on or after 1 January 2014) provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

IFRIC 21 *Levies* (effective for annual periods beginning on or after 1 January 2014) clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

The NBU estimates the effects of the standards on consolidated financial reporting and on the dates of their application.

Changes in presentation

Where necessary, comparative information was adjusted to bring it into compliance with the current year presentation.

Staff costs of “Banking television” LLC, the NBU’s subsidiary, previously included in “Administrative and other expenses”, are currently presented in “Personnel expenses” in the consolidated statement of comprehensive income. As a result of the reclassification, the amount of staff costs for 2012 increased by UAH 10 million and the amount of administrative and other expenses decreased by UAH 10 million.

3. Significant accounting estimates and judgments 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 to assess the 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 solvency 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 similar credit risk characteristics when forecasting 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 realization of any assets held as collateral against the loans. A 10% decrease or increase in the estimated future discounted cash flows from individually impaired loans, which could arise from differences in amounts and timing of the cash flows, would result in the increase of loan impairment provisions, as at 31 December 2013, of UAH 1,241 million or their decrease of UAH 1,336 million respectively (31 December 2012: increase of UAH 972 million or decrease of UAH 1,393 million).

Related party transactions

In the normal course of business the NBU enters into transactions with its related parties being mainly the Government and State-controlled banks and entities. IFRS 9 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.

The terms and conditions of related party transactions are disclosed in Note 37.

4. Effect of economic conditions on the financial position and results of operations of the NBU

During 2013, NBU's monetary policy was carried out in conditions of low external and domestic demand. Real GDP growth was 0% (2012: 0.2%). During 2013, production output decreased by 4.7% (2012: production output decreased on an annual basis by 1.8%).

The NBU ensured the stability of Ukraine's national currency in 2013. The increase in consumer price index in 2013 amounted to 0.5% (2012: decrease in consumer price index was 0.2%).

One of the preconditions of maintenance of the price stability in Ukraine was well-balanced monetary policy, which prevented shocks of monetary nature and contributed to the improvement of market expectations, including due to the projected developments in the foreign exchange market.

In order to balance the supply and demand for foreign exchange and prevent sharp exchange rate fluctuations of hryvnia the NBU carried out foreign currency purchase and sale transactions. The negative balance of currency interventions of the regulator in 2013 was USD 3.1 billion, 2.4 times less than in 2012.

Despite complicated access to the world financial market in 2013, the timely and full fulfilment of all internal and external liabilities in foreign currency, the total of which amounted to USD 12.3 billion, including due to the IMF – USD 5.7 billion, was ensured.

Fulfilment of external liabilities was decisive factor influencing the dynamics of international reserves, the amount of which decreased by USD 4.1 billion during 2013 to USD 20.4 billion as at 31 December 2013.

Enforcement of priority function in maintenance of price stability in the country enabled the NBU to concentrate on legislative powers to support the economic policy of the Government. For that purpose the NBU systematically took measures to reduce the cost of loans and vitalize lending activities of banks.

In order to support the market trends for reducing the loan prices, in 2013 the NBU decreased the discount rate twice (by 0.5% every time) to 6.5% p.a. (31 December 2012: the discount rate was 7.5%), which is the reference rate for other NBU's interest rates.

Weighted average interest rates on refinancing tender credits and direct repo transactions declined to 6.5% in December 2013 compared with 7.5% and 7.6 % in December 2012, respectively.

As of 31 December 2013 Ukraine's sovereign rating was "Caal" according to the rating agency Moody's, "B-" according to the rating agency Standard & Poor's and "B-" according to rating agency Fitch (31 December 2012: Ukraine's sovereign rating was "B3" according to the rating agency Moody's, "B" according to the rating agency Standard & Poor's and "B" according to rating agency Fitch).

The Ukrainian economy displays the characteristics of an emerging market. These characteristics include the existence of a national currency that is not convertible outside the country, a low level of liquidity in the public and private debt and equity markets, and budgetary constraints. The stability of Ukraine's economy largely depends on the policies and actions of the government aimed to reform the administrative, fiscal and legislative systems, and economy on the whole.

Consequently, operations in Ukraine involve risks that do not exist in developed markets. Ukrainian economy is largely dependent on fluctuations in world markets and the pace of the global economy.

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In 2013, the NBU purchased domestic securities for the amount of UAH 42,757 million (at nominal value) to regulate the monetary market and banks' liquidity (2012: for the amount of UAH 34,865 million); and during 2013 the NBU transferred the funds to the State budget of Ukraine in the amount of UAH 28,308 million (2012: in the amount of UAH 23,600 million) (Notes 8 and 19).

The items of the statement of financial position representing amounts due from the Ukrainian Government are summarized in the table below.

	Notes	2013	2012
		<i>(in UAH millions)</i>	
Domestic securities	8	154,134	104,565
Internal State debt	10	2,268	3,042

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

Changes in operating and political environment in Ukraine in November 2013 and at the beginning of 2014

In November 2013, the Ukrainian Government declined to sign the association agreement with the European Union, which resulted in escalation of political situation in Ukraine. In January-February 2014, strengthening of political uncertainty led to the removal from office of the President and majority of Government officials by the Parliament. The Parliament has initiated certain political reforms, and has appointed a transitional Government. The goal of the transitional Government is forming a set of anti-crisis measures aimed at halting caused by political unrest decline in production, gross domestic product, reduction of the deficit of the State budget and other macroeconomic indicators. On 21 March 2014, the transitional Government of Ukraine signed a political association with the European Union and is negotiating on obtaining financial support from the international financial institutions.

In March 2014, people in the Autonomous Republic of Crimea voted in a referendum in favor of seceding from Ukraine and becoming a part of the Russian Federation. The Crimean parliament declared the independence. The voting took place without international observers. The international organizations and the international community did not recognize the results of the referendum because they believed that it infringes on sovereignty of Ukraine and the international law. While the referendum and declaration of independence have been ruled unconstitutional by the Ukraine's Constitutional Court, the President of the Russian Federation and the representatives of Crimea signed an agreement on the accession of Crimea to the Russian Federation, which has been ratified by the constitutional court and the Parliament of the Russian Federation. As at 31 December 2013, the carrying value of the NBU assets located in or otherwise associated with the Crimea (including loans to borrowers) was equal UAH 673 million, which amounted to 0.16% of the consolidated assets of the National Bank.

Furthermore, during the first quarter of 2014, the Ukrainian Hryvnia devaluated at the official rate against major foreign currencies (US dollar, Euro, Swiss franc,

British pound) by 36.5–38.1%, which resulted in significant gains from revaluation of foreign currency recognized by the National Bank due to existence of open long currency position (Note 31). The international rating agencies have downgraded sovereign debt ratings for Ukraine. The combination of the events abovementioned has led to increased demand for foreign currency in the interbank market and respective drop in international reserves by USD 5.3 billion.

All the factors mentioned above may lead to a deterioration in the quality of the loan portfolio, with increases in non-performing loans to banks, decreases in loan collateral values, higher default risks of the banks that are the NBU borrowers, and further shrinking of gold and foreign currency reserves. Management is monitoring these developments in the current environment and taking actions where appropriate. Further negative developments, including the political unrest, may negatively affect the NBU operating results and financial position in a manner not currently determinable.

5. Foreign currency and investment metals funds and deposits

	2013	2012
	<i>(in UAH millions)</i>	
Financial assets		
Foreign currency cash	598	597
Demand deposits	25,814	13,111
Term deposits in foreign currency	26,495	40,911
Accrued interest receivable on deposits in gold and investment metals	1	3
Total financial assets	52,908	54,622
Non-financial assets		
Demand and term deposits in gold	5,217	5,932
Total non-financial assets	5,217	5,932
Total foreign currency funds and deposits	58,125	60,554

The amount of demand deposits at 31 December 2013 includes balances on special purpose accounts totalling UAH 131 million maintained by the NBU under credit lines received from international financial institutions (31 December 2012: UAH 150 million) and UAH 5 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 (Note 34).

Deposits in gold earn interest paid in USD.

All foreign currency funds and deposits were neither past due nor impaired at 31 December 2013 and 31 December 2012. The foreign currency deposits are not collateralised.

All foreign currency funds and deposits are expected to be recovered within 12 months (31 December 2012: all foreign currency funds and deposits were expected to be recovered within 12 months except for term deposits totalling UAH 3 million maturing later than in 12 months).

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 2013, the foreign securities included the following:

	Government bonds	Securities of international agencies, banks and other issuers	Total
<i>(in UAH millions)</i>			
Foreign securities at fair value:			
Debt securities by issuers:			
Securities issued by US issuers:			
denominated in US dollars	29,360	1,195	30,555
denominated in Australian dollars	–	1,220	1,220
Securities of EU States issuers:			
denominated in British pounds	2,918	2,147	5,065
denominated in US dollars	3,857	19,798	23,655
denominated in Euro	7,867	13,031	20,898
denominated in Australian dollars	–	1,499	1,499
Securities of other issuers:			
denominated in British pounds	–	925	925
denominated in Euro	–	1,375	1,375
denominated in US dollars	845	9,639	10,484
denominated in Australian dollars	3,744	1,039	4,783
Total debt securities at fair value	48,591	51,868	100,459
Equity instruments:			
Shares of Black Sea Trade and Development Bank	–	120	120
Investment in Inter-State Bank	–	1	1
Total equity instruments	–	121	121
Total foreign securities at fair value	48,591	51,989	100,580

All foreign debt securities were neither past due nor impaired at 31 December 2013 and 31 December 2012.

In 2013, interest income earned on foreign debt securities included in results from operations with debt securities at fair value in the consolidated statement of comprehensive income amounted to UAH 1,807 million (2012: UAH 2,366 million).

All foreign securities are expected to be recovered within 12 months except for equity instruments totalling UAH 121 million (31 December 2012: UAH 121 million).

Securities 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 2013, 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) (31 December 2012: SDR 24 million or UAH 120 million). The NBU's share in the paid share capital of BSTDB was 4% (31 December 2012: 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 significant influence on decisions of ISB and does not earn income.

These investments are carried at fair value of UAH 121 million (31 December 2012: UAH 121 million) and are classified as equity instruments. 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. 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 2012, the foreign securities included the following:

	Government bonds	Securities of international agencies, banks and other issuers	Total
	<i>(in UAH millions)</i>		
Foreign securities at fair value:			
Debt securities by issuers:			
Securities issued by US issuers:			
denominated in US dollars	49,245	1,866	51,111
denominated in British pounds	–	390	390
denominated in Australian dollars	–	754	754
Securities of EU States issuers:			
denominated in British pounds	2,583	3,721	6,304
denominated in US dollars	3,349	19,742	23,091
denominated in Euro	17,107	13,652	30,759
denominated in Australian dollars	–	1,127	1,127
Securities of other issuers:			
denominated in British pounds	–	587	587
denominated in Euro	–	592	592
denominated in US dollars	734	8,849	9,583
denominated in Australian dollars	4,595	372	4,967
Total debt securities at fair value	77,613	51,652	129,265
Equity instruments:			
Shares of Black Sea Trade and Development Bank	–	120	120
Investment in Inter-State Bank	–	1	1
Total equity instruments	–	121	121
Total foreign securities at fair value	77,613	51,773	129,386

Information on nominal value, yield to maturity, coupon income and maturities of foreign debt securities held by the NBU as at 31 December 2013 is presented in the table below:

	Total nominal value in foreign currency, in millions	Total nominal value in hryvnia equivalent, in UAH millions	Yield to maturity, % p.a.	Coupon rate, % p.a.	Frequency of coupon payments	Maturity
Debt securities at fair value by issuers:						
Government bonds:						
Securities issued by US issuers:						
denominated in US dollars	3,638	29,085	0.1–1.5	0.125–2.75	Every 6 months	From 4 months to 4.4 years
Securities of EU States issuers:						
denominated in British pounds	223	2,936	0.8–1.9	1.0–2.0	Every 6 months or annually	From 2.1 years to 4.6 years
denominated in US dollars	483	3,857	0.3–1.5	0.25–1.0	Every 6 months or quarterly	From 8.2 months to 4.3 years
denominated in Euro	713	7,873	0.1–1.6	0.25–3.125	Annually or quarterly	From 2.5 months to 6.2 years
Securities of other issuers:						
denominated in US dollars	105	839	0.4–0.9	0.875–1.375	Every 6 months	From 1 month to 3.1 years
denominated in Australian dollars	494	3,519	2.4–3.9	4.25–6.25	Every 6 months	From 5.5 months to 7.4 years
Bonds of international agencies, banks and other issuers:						
Securities issued by US issuers:						
denominated in US dollars	150	1,199	0.7–1.6	0.875–1.125	Every 6 months	From 2.7 to 4.5 years
denominated in Australian dollars	170	1,211	2.9–3.7	3.0–3.5	Every 6 months	From 1.8 to 4.1 years
Securities of EU States issuers:						
denominated in British pounds	160	2,112	0.5–1.7	0.62431–4.00	Quarterly or annually	From 1.8 month to 4 years
denominated in US dollars	2,470	19,743	0.19–2.7	0.24385–5.0	Monthly, quarterly, every 6 months or annually	From 10 days to 6.2 years
denominated in Euro	1,161	12,814	0.2–1.7	0.285–3.0	Quarterly or annually	From 2.4 months to 6.8 years
denominated in Australian dollars	200	1,424	3.2–3.9	3.75–5.625	Annually or every 6 months	From 1.7 to 4.5 years
Securities of other issuers:						
denominated in British pounds	70	924	0.8–1.2	0.875–1.21981	Quarterly or annually	From 1.8 years to 2.9 years
denominated in US dollars	1,204	9,622	0.0–2.4	0.2581–2.9	Every 6 months or quarterly	From 15 days to 5.1 years
denominated in Euro	120	1,325	0.6–1.7	1.375–3.75	Annually	From 1.1 to 6.3 years
denominated in Australian dollars	145	1,033	3.2–3.3	3.0–3.4633	Every 6 months or quarterly	From 2.9 to 3.7 years

Information on nominal value, yield to maturity, coupon income and maturities of foreign debt securities held by the NBU as at 31 December 2012 is presented in the table below:

	Total nominal value in foreign currency, in millions	Total nominal value in hryvnia equivalent, in UAH millions	Yield to maturity, % p.a.	Coupon rate, % p.a.	Frequency of coupon payments	Maturity
Debt securities at fair value by issuers:						
Government bonds:						
Securities issued by US issuers: denominated in US dollars	6,037	48,255	0.1–0.7	0.125–3.625	Every 6 months	From 3 months to 4.8 years
Securities of EU States issuers:						
denominated in British pounds	193	2,492	0.4–0.9	0.546–2.75	Every 6 months or quarterly	From 2.1 years to 4.7 years
denominated in US dollars	417	3,333	0.2–0.7	0.25–1.75	Annually, or every 6 months, or quarterly	From 4.2 months to 2.7 years
denominated in Euro	1,511	15,916	0.0–0.8	0.36–4.25	Annually or quarterly	From 1.2 years to 4.9 years
Securities of other issuers:						
denominated in US dollars	90	719	0.3–0.7	0.875–3.5	Every 6 months	From 6.5 months to 4.2 years
Denominated in Australian dollars	530	4,404	0.6–2.8	4.25–6.5	Every 6 months	From 4.5 months to 4.6 years
Bonds of international agencies, banks and other issuers:						
Securities issued by US issuers:						
denominated in US dollars	231	1,846	1.2–0.7	0.5–1.625	Every 6 months	From 6.5 months to 3.9 years
denominated in British pounds	30	387	0.5	1.25	Annually	Up to 11.5 months
denominated in Australian dollars	90	747	3.1–3.4	3.0–3.5	Every 6 months	From 2.8 to 4.7 years
Securities of EU States issuers:						
denominated in British pounds	280	3,615	0.5–1.5	0.549–4.5	Quarterly or annually	From 14 days to 3 years
Denominated in US dollars	2,430	19,421	0.2–1.4	0.219–5.0	Monthly, quarterly, every 6 months or annually	From 25 days to 6.8 years
denominated in Euro	1,254	13,208	0.0–1.3	0.125–3.625	Quarterly or annually	From 15 days to 6.6 years
denominated in Australian dollars	125	1,038	3.4–3.9	5.5–5.625	Annually or every 6 months	From 2.7 years to 3.6 years

	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	<i>Concluded</i> Maturity
Securities of other issuers:						
denominated in British pounds	45	580	0.5–1.0	1.22188–2.25	Quarterly or annually	From 1 year to 2.7 years
denominated in US dollars	1,092	8,728	0.3–1.3	0.41875–3.625	Quarterly, every 6 months or annually	From 1 month to 5 years
denominated in Euro	50	527	0.7–1.0	3.5–3.75	Annually	From 2.1 to 4 years
denominated in Australian dollars	45	374	3.2	3.0	Every 6 months	3.9 years

7. SDR holdings

SDR holdings are demand funds denominated in SDR on an account opened with the IMF for Ukraine.

Movements in SDR holdings account during 2013 were as follows:

	2013	2012
		<i>(in UAH millions)</i>
Balance of SDR holdings as at 1 January	73	143
Purchase of SDRs	45,970	29,792
Repayment of loans to IMF:		
on behalf of the NBU	(24,470)	(21,027)
on behalf of the Government	(20,089)	(6,294)
Payment of loan related commission	–	(97)
Payment of interest for use of IMF resources:		
on behalf of the NBU	(566)	(1,184)
on behalf of the Government	(782)	(1,243)
Payment of interest for use of funds received under SDR allocation:		
on behalf of the NBU	(1)	(1)
on behalf of the Government	(11)	(19)
Translation differences	4	3
Balance of SDR holdings as at 31 December	128	73

During 2013 and 2012 Ukraine did not receive funds from the IMF.

8. Domestic securities

As at 31 December 2013, domestic securities comprised the following:

	State securities	Corporate securities	Total
	<i>(in UAH millions)</i>		
Domestic debt securities at fair value:			
denominated in national currency:			
Internal State debt bonds (“OVDP”)	8,080	–	8,080
Debt securities at amortized cost:			
denominated in national currency:			
Internal State debt bonds (“OVDP”)	136,987	–	136,987
Bonds of other State institutions	–	7,273	7,273
denominated in foreign currency:			
External State bonds (“OZDP”) denominated in US dollars	954	–	954
External State bonds (“OZDP”) denominated in Euro	840	–	840
Total debt securities at amortized cost	138,781	7,273	146,054
Total domestic securities	146,861	7,273	154,134

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 2013 the NBU purchased State debt bonds (“OVDP”) for the purpose of monetary regulation and liquidity of Ukrainian banks with total nominal value of UAH 42,757 million, classified as debt securities at amortized cost (2012: OVDP for the purpose of monetary regulation and liquidity of Ukrainian banks with total nominal value of UAH 34,865 million, including OVDP with total nominal value of UAH 5,214 million, classified as debt securities at fair value, and UAH 29,651 million, classified as debt securities at amortized cost).

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.

Bonds of other State institutions include bonds issued by 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”) and bonds of National Agency of Roads of Ukraine with additional security in the form of the State guarantee of issuer’s liabilities issued by the Cabinet of Ministers of Ukraine (“Ukravtodor bonds”). In 2013, the NBU purchased bonds of other State institutions to regulate the banks’ liquidity.

DIU bonds have nominal value of UAH 100,000 each. In 2013, the NBU did not purchase DIU bonds (2012: the NBU purchased DIU bonds with nominal value of UAH 1,000 million and carrying value of UAH 1,002 million to regulate the banks’ liquidity).

In 2013, the NBU purchased Ukravtodor bonds with nominal value of UAH 2,800 million and fair value at acquisition date of UAH 2,828 million (2012: Ukravtodor bonds with nominal value of UAH 2,780 million and fair value at acquisition date of UAH 2,782 million). Nominal value of Ukravtodor bonds is UAH 1,000 each.

All domestic securities were neither past due nor impaired at 31 December 2013, 31 December 2012.

All domestic securities are expected to be recovered later than within 12 months from the reporting date except for OVDP and accrued interest on debt securities totalling UAH 13,348 million and OZDP and accrued interest totalling UAH 116 million payable in 2014 (31 December 2012: all domestic securities are expected to be recovered later than within 12 months from the reporting date except for OVDP and accrued interest on debt securities totalling UAH 12,376 million and OZDP and accrued interest totalling UAH 444 million payable in 2013).

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 2012, securities of Ukraine included the following:

	State securities	Corporate securities	Total
	<i>(in UAH millions)</i>		
Domestic debt securities at fair value:			
denominated in national currency:			
Internal State debt bonds (“OVDP”)	8,222	–	8,222
Debt securities at amortized cost:			
denominated in national currency:			
Internal State debt bonds (“OVDP”)	89,882	–	89,882
Bonds of other State institutions	–	4,452	4,452
denominated in foreign currency:			
External State bonds (“OZDP”) denominated in US dollars	1,248	–	1,248
External State bonds (“OZDP”) denominated in Euro	761	–	761
Total debt securities at amortized cost	<u>91,891</u>	<u>4,452</u>	<u>96,343</u>
Total domestic securities	<u>100,113</u>	<u>4,452</u>	<u>104,565</u>

Information on nominal value, yield to maturity, coupon income and maturities of domestic securities as at 31 December 2013, is presented in the table below:

	Total nominal value in hryvnia, 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
Domestic debt securities at fair value:						
denominated in national currency:						
Internal State debt bonds ("OVDP")	7,894	–	9.52–9.74	9.50–9.75	Every 6 months	From 11 months to 2.7 years
Debt securities at amortized cost:						
denominated in national currency:						
Internal State debt bonds ("OVDP")	139,160	–	9.67–17.95	5.50–15.00	Every 6 months	From 1 months to 8.4 years
Bonds of other State institutions	7,230	–	8.23–17.32	8.00–16.30	Quarterly	From 23 days to 4.7 years
Denominated in foreign currency:						
External State bonds ("OZDP") denominated in US dollars	1,039	130	10.0628–10.262	6.58–6.75	Every 6 months	From 2.9 to 3.9 years
External State bonds ("OZDP") denominated in Euro	917	83	11.1125	4.95	Annually	Up to 1.8 years

Information on nominal value, yield to maturity, coupon income and maturities of domestic securities as at 31 December 2012, is presented in the table below:

	Total nominal value in hryvnia, 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
Domestic debt securities at fair value:						
denominated in national currency:						
Internal State debt bonds ("OVDP")	8,041	–	7.84–29.43	9.00–9.75	Every 6 months	From 5 months to 3.7 years
Debt securities at amortized cost:						
denominated in national currency:						
Internal State debt bonds ("OVDP")	97,612	–	8.03–21.12	5.50–15.00	Every 6 months	From 4 months to 9.4 years
Bonds of other State institutions	4,430	–	9.84–17.32	9.40–16.30	Quarterly	From 1.1 years to 4.9 years
denominated in foreign currency:						
External State bonds ("OZDP") denominated in US dollars	1,359	170	4.771–7.063	6.58–7.65	Every 6 months	From 5.4 months to 4.9 years
External State bonds ("OZDP") denominated in Euro	875	83	5.852–6.356	4.95	Annually	Up to 2.8 years

9. Loans to banks and other borrowers

Loans to banks and other borrowers by the purpose of their issue are classified as follows:

	2013	2012
	<i>(in UAH millions)</i>	
Loans granted to banks to support their liquidity:		
for stabilising banking activities	55,022	59,112
under repo agreements	14,745	12,673
loans provided through tenders performed by the NBU	9,905	7,088
overnight loans	478	105
other	10	10
Loans granted under credit lines for support of small and medium enterprises from funds received from the European Bank for Reconstruction and Development (EBRD)	36	36
Other	2	169
Provision for impairment of loans to banks and other borrowers	<u>(13,200)</u>	<u>(14,138)</u>
Total loans to banks and other borrowers	<u>66,998</u>	<u>65,055</u>

Loans granted for stabilising banking activities, which are expected to be recovered later than within 12 months from the reporting date total UAH 35,022 million (31 December 2012: UAH 42,690 million).

In 2013 and 2012, the NBU supported the liquidity of the banks through the standing refinancing line (overnight loans), the banks refinancing for the term up to 14 days, up to 90 days and up to 360 days by holding tenders and the banks liquidity support through carrying out direct “repo” transactions with the State bonds of Ukraine and granting stabilising loans.

During the year ended 31 December 2013, 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>			
Provision against loans to banks and other borrowers at the beginning of the year	13,933	36	169	14,138
Increase in provision (Note 27)	1,243	–	–	1,243
Adjustment of interest income on impaired loans to banks	(398)	–	–	(398)
Reversal of provision (Note 27)	(1,615)	–	(166)	(1,781)
Write-off against provision	<u>(1)</u>	<u>–</u>	<u>(1)</u>	<u>(2)</u>
Provision against loans to banks and other borrowers at the beginning of the year	<u>13,162</u>	<u>36</u>	<u>2</u>	<u>13,200</u>

During the year ended 31 December 2012, 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>
Provision against loans to banks and other borrowers at the beginning of the year	14,283	36	169	14,488
Increase in provision (Note 27)	945	–	–	945
Adjustment of interest income on impaired loans to banks	(258)	–	–	(258)
Reversal of provision (Note 27)	<u>(1,037)</u>	<u>–</u>	<u>–</u>	<u>(1,037)</u>
Provision against loans to banks and other borrowers at the end of the year	<u>13,933</u>	<u>36</u>	<u>169</u>	<u>14,138</u>

Analysis by credit quality of loans to banks and other borrowers outstanding at 31 December 2013 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–	254	–	–	254
CCC+	36,930	–	–	36,930
Unrated	<u>15,219</u>	<u>–</u>	<u>–</u>	<u>15,219</u>
Total neither past due nor impaired	52,403	–	–	52,403
Individually impaired:				
not past due	26,678	–	–	26,678
overdue from 31 to 90 days	1	–	–	1
overdue over 360 days	<u>1,078</u>	<u>36</u>	<u>2</u>	<u>1,116</u>
Total individually impaired	27,757	36	2	27,795
Provision for impairment of loans to banks and other borrowers	<u>(13,162)</u>	<u>(36)</u>	<u>(2)</u>	<u>(13,200)</u>
Total loans to banks and other borrowers	<u>66,998</u>	<u>–</u>	<u>–</u>	<u>66,998</u>

As disclosed in Note 2, the primary factors that the NBU considers in determining whether a loan is impaired are worsening of the borrower's financial position, loans overdue status, ability to realize collateral. 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 2012 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	2,156	–	–	2,156
B–	31,680	–	–	31,680
CCC+	11	–	–	11
Unrated	13,658	1	–	13,659
Total neither past due nor impaired	47,505	1	–	47,506
Individually impaired:				
Not past due	30,309	–	–	30,309
Overdue over 360 days	1,173	36	169	1,378
Total individually impaired	31,482	36	169	31,687
Provision for impairment of loans to banks and other borrowers	(13,933)	(36)	(169)	(14,138)
Total loans to banks and other borrowers	65,054	1	–	65,055

Loans granted to banks with the purpose to support their liquidity were normally collateralised by securities (except overnight blank credits), namely – State bonds of Ukraine, municipal bonds, corporate bonds enterprises, including those guaranteed by the Government of Ukraine, shares of significant shareholders of the bank, as well as the real estate, proprietary rights on loan agreements, mortgages.

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

	2013	2012
	<i>(in UAH millions)</i>	
Internal State debt in respect of loans to the Government in national currency:		
1994–1996	<u>2,268</u>	<u>3,042</u>
Total internal State debt	<u>2,268</u>	<u>3,042</u>

Loans in national currency and foreign currency were granted by the NBU in 1991–1996 for financing State budget deficits. In accordance with the Law of Ukraine “On restructuring of the liabilities of the Government of Ukraine to the National Bank of Ukraine” (herein after – “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 Law on Restructuring, 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 during 2010–2035. In 2013, the internal State debt of Ukraine in the national currency was repaid in the amount of UAH 132 million (2012: UAH 132 million). Interest income on loans to the Government in the national currency is recognised in the consolidated statement of comprehensive income.

As at 1 January 2013 the NBU recognized Internal State debt at amortized cost, determined by discounting of future cash flows, and adjusted the carrying value of the Internal State debt recognizing discount of UAH 687 million.

As at 31 December 2013 internal State debt in the amount of UAH 132 million 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 (31 December 2012: internal State debt in the amount of UAH 132 million 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 2013, Ukraine's quota in the IMF amounted to SDR 1,372 million (UAH 16,945 million at the year-end official UAH/SDR exchange rate) (31 December 2012: SDR 1,372 million or UAH 16,854 million at the year-end official UAH/SDR exchange rate). The quota does not earn interest and is a non-current asset.

12. Fixed assets and intangible assets

	Buildings and constructio ns	Motor vehicles and transport	Machinery and equipment	Fixtures and fittings	Other fixed assets	Constru- ctions in progress	Intangible assets	Total
	<i>(in UAH millions)</i>							
Net book value as at 1 January 2012	4,951	87	1,096	53	76	267	59	6,589
Additions	25	22	467	4	13	183	63	777
Transfer to other categories	50	(2)	–	2	30	(80)	–	–
Depreciation charge	(151)	(20)	(214)	(9)	(16)	–	(29)	(439)
Historical cost at 31 December 2012	5,972	197	2,659	135	263	370	234	9,830
Accumulated depreciation as at 31 December 2012	(1,097)	(110)	(1,310)	(85)	(160)	–	(141)	(2,903)
Net book value as at 31 December 2012	4,875	87	1,349	50	103	370	93	6,927
Additions	40	36	205	8	13	221	177	700
Acquisition of subsidiary (Note 38)	67	1	1	1	–	2	3	75
Disposals	–	–	(2)	–	–	–	–	(2)
Transfer to other categories	87	2	(121)	–	2	34	(4)	–
Depreciation charge	(131)	(21)	(251)	(9)	(18)	–	(39)	(469)
Historical cost at 31 December 2013	6,170	231	2,700	145	276	627	389	10,538
Accumulated depreciation as at 31 December 2013	(1,232)	(126)	(1,519)	(95)	(176)	–	(159)	(3,307)
Net book value as at 31 December 2013	4,938	105	1,183	50	100	627	230	7,231

Fully depreciated fixed assets which are still in operation amount to UAH 859 million as at 31 December 2013 (31 December 2012: UAH 779 million).

Fixed assets and intangible assets represent non-current assets.

13. Other assets

	2013	2012
	<i>(in UAH millions)</i>	
Other financial assets		
Loans to NBU employees and other accounts receivable – neither past due nor impaired	345	286
Loans repossessed by the National Bank of Ukraine	14	–
Other	53	7
Provision against other financial assets	<u>(1)</u>	<u>(1)</u>
Total other financial assets	411	292
Other non-financial assets		
Investment metals	632	1,686
Inventory	303	246
Prepayments	806	413
Commemorative and bullion coins, souvenirs and other products	253	287
Precious metals and jewellery	184	299
Investments in associates	99	128
Other	15	12
Provision against other non-financial assets	<u>(10)</u>	<u>(9)</u>
Total other non-financial assets	2,282	3,062
Total other assets	2,693	3,354

Other financial assets are not collateralised.

Movements in the provision against other assets were as follows:

	2013	2012
	<i>(in UAH millions)</i>	
Provision against other assets at the beginning of the year	10	9
Provision charge during the year (Note 27)	1	2
Write-off against provision	–	(1)
Provision against other assets at the end of the year	11	10

At 31 December 2013 investments in associates included the following:

Name	Country of registration	Type of activity	Carrying amount	2013 Share (%)	Carrying amount	2012 Share (%)
<i>(in UAH millions)</i>						
German-Ukrainian Fund	Ukraine	Financial institution of special type	70	31.25	66	31.25
Private Joint-Stock Company “All-Ukrainian Depository of Securities”	Ukraine	Depository activities	–	–	36	22.86
Public Joint Stock Company “National Depository of Ukraine”	Ukraine	Depository activities	<u>29</u>	25	<u>26</u>	25
Total			99		128	

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 was allocated to the development of the Depository activities, improvement of its technological and organisational processes, creating and increasing reserve funds etc.

In 2013, the share of the NBU in the statutory capital of the Depository was increased to 77.57% by purchase of its ordinary shares. As the result the NBU assumed control over the Depository. Accordingly, the NBU derecognized the investment in the associate and recognized acquisition of subsidiary in the consolidated financial statements (Note 38).

Public Joint-Stock Company “National Depository of Ukraine” (the “National Depository”) was established by the NBU, National Securities and Stock Market Commission and other participants of stock market. In accordance with the Charter, National Depository was established for depository accounting, accounting of securities and corporate transactions of the issuers on securities accounts of the customers.

National Depository does not distribute earned profit among shareholders. Net profit can be allocated only for the purpose of maintenance of National Depository’s activities.

As at 31 December 2013 the NBU owns 2,580 ordinary shares of National Depository with nominal value of UAH 10,000 each for the total amount of UAH 25.8 million (2012: the NBU made contribution to the statutory capital of National Depository in the amount of UAH 26 million by acquisition of 2,579 ordinary shares of this company with nominal value of UAH 10,000 each).

Movements in the investments in associates were as follows:

	2013	2012
	<i>(in UAH millions)</i>	
Carrying amount of investments at the beginning of the year	128	103
Share of the NBU in profits/(losses) of associates	6	(1)
Disposal of associate	(35)	–
Contribution of the NBU to statutory capital of associates	–	26
Carrying amount of investments at the end of the year	<u>99</u>	<u>128</u>

Information on total assets and liabilities of the associates as at 31 December 2013 and their revenues, expenses, profits and losses for the years ended 31 December 2013 and 2012 is provided below:

	2013	2012
	<i>(in UAH millions)</i>	
Total assets	461	658
Total liabilities	86	141
Total revenue	64	39
Total expense	42	41
Net profit/(loss) for the year	22	(2)

All other assets are expected to be recovered within 12 months except for long-term receivables, investment metals and investments in associates totalling UAH 1,020 million as at 31 December 2013 (31 December 2012: UAH 2,037 million).

Comparative data has been adjusted to bring it into compliance with the current year disclosures.

Impaired accounts receivable, formerly presented as loans to employees of the National Bank of Ukraine and other receivables neither past due nor impaired in the amount of UAH 3 million and prepayments in the amount of UAH 9 million, were presented separately in other assets in the consolidated statement of financial position.

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

	2013	2012
	<i>(in UAH millions)</i>	
Correspondent accounts:		
in national currency	33,025	24,692
Mandatory reserves kept on separate accounts with the NBU	10,923	6,466
Accounts of banks with special use conditions:		
in national currency	198	352
in foreign currency	3,286	2,757
Total accounts of banks	<u>47,432</u>	<u>34,267</u>

Mandatory reserves of banks are kept on a separate account with the NBU and on correspondent accounts in national currency. As at 31 December 2013 and 2012, the mandatory reserve balance was calculated on the basis of a simple average over a monthly period and had to be maintained at a level of 0–15% (31 December 2012: 0–10%) of certain obligations of banks. In accordance with the NBU regulations, as at 31 December 2013, banks were required to maintain on a separate account with the NBU 40% (31 December 2012: 50%) of the amount of mandatory reserves for the preceding reserving period. In addition, as at 31 December 2013, banks were 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 60% (31 December 2012: not less than 50%) of the mandatory reserves for the preceding reserving period maintained on the correspondent account with the NBU.

Mandatory reserves balances kept by banks on a separate account with the NBU as at 31 December 2013 bear interest of 30% (31 December 2012: 30%) of the NBU discount rate provided that the bank complies with requirements in respect of reserves formation and maintenance. Mandatory reserves kept on the correspondent accounts were non-interest bearing.

Accrued interest included into mandatory reserves kept on separate accounts with the NBU as at 31 December 2013 amounted to UAH 16 million (31 December 2012: UAH 12 million).

As at 31 December 2013, banks were allowed to meet their requirement relating to mandatory reserves which are formed on the account with the National Bank, by the internal State bonds denominated in foreign currency in the amount of 10% of their carrying value in hryvnia equivalent, long-term internal State bonds denominated in local currency with maturity (in accordance with the terms of the initial issue) of more than 3600 days in the amount of 100% of their carrying value and balances outstanding on accounts "Correspondent accounts with other banks" and "Accounts due to banks in settlements" opened in "SETTLEMENT CENTER" PJSC in amount of 100% (31 December 2012: banks were allowed to meet their mandatory reserves requirement with special-purpose internal State bonds issued to raise funds for arranging and hosting the 2012 UEFA European Football Championship in Ukraine in the amount of 50% of their nominal value, and internal State bonds nominated in foreign currency in the amount of 10% of their nominal value in hryvnia equivalent, determined based on the official exchange rate of UAH to foreign currencies at the first date of the month after the end of the previous accounting period of reserving).

Accounts of banks with special use conditions as at 31 December 2013 and 2012 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.

As at 31 December 2013 and 2012 balances on all accounts of banks mature 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

	2013	2012
		<i>(in UAH millions)</i>
Funds of budget and budget entities	3,773	1,280
Deposits Guarantee Fund	80	252
Other	<u>183</u>	<u>310</u>
Total accounts of State and other institutions	<u>4,036</u>	<u>1,842</u>

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.

As at 31 December 2013 accounts of other institutions include balance on account of the Corporate Non-State Pension Fund of the NBU in the amount of UAH 20 million (31 December 2012: UAH 12 million).

As at 31 December 2013 and 2012 balances on all accounts of State and other institutions mature 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.

In 2013 and 2012 transactions of placements of the deposit certificates were performed under agreements with banks for the term of one day (overnight deposits) and up to 90 days.

As at 31 December 2013, the nominal value of deposit certificates issued by the NBU was UAH 1 million each, with the initial term of placement from 3 to 29 days and weighted average yield of 2.06% per annum (31 December 2012: weighted average yield of 2.56% per annum and the initial term of placement from 5 to 13 days). The weighted average interest rate for the deposit certificates placed in 2013 was 2.05% per annum, and the initial term of placement varied from 1 to 85 days (2012: weighted average yield 2.57% per annum and initial term of placement varied from 2 to 85 days).

As at 31 December 2013 and 2012 all deposit certificates issued by the NBU mature within 12 months.

The currency risk analysis of the deposit certificates is disclosed in Note 29, interest rate risk analysis is presented in Note 32 and liquidity risk analysis is disclosed in Note 33.

17. Liabilities to the IMF

	2013	2012
	<i>(in UAH millions)</i>	
IMF accounts No 1 and No 2	43	43
Liabilities to the IMF in respect of SDR allocation	1,006	1,000
Liabilities to the IMF in settlement of Quota	16,902	16,812
Liabilities to the IMF in respect of purchases of SDR	13,189	37,905
Total liabilities to the IMF	<u>31,140</u>	<u>55,760</u>

IMF accounts No. 1 is the IMF account with the NBU in national currency that is used for transactions with the IMF related to utilization and repayment of the IMF loans. IMF account No. 2. is the IMF account with the NBU in national currency that is used by the IMF for receipts and administrative disbursements in hryvnia on the territory of Ukraine.

Liabilities to the IMF in respect of SDR allocation represent funds received by the NBU in respect of special SDR allocation.

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 as at 31 December 2013 (31 December 2012: UAH 2,511 million).

Liabilities to the IMF in respect of purchases of SDR represent loans received from IMF by the NBU. During 2013 and 2012, no funds from the IMF were received. During 2013, there was repayment of liabilities to the IMF in the amount of SDR 2,009 million (UAH 24,470 million at the official exchange rate at the date of transaction, or UAH 24,394 million at IMF annual exchange rate) (2012: in the amount of SDR 1,719 million (UAH 21,027 million at the official exchange rate at the date of transaction, or UAH 21,489 million at IMF annual exchange rate) (Note 7).

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

	2013	2012
	<i>(in UAH millions)</i>	
Other financial liabilities		
Current accounts of employees	1,242	983
Accounts payable	66	45
Other	–	1
Total other financial liabilities	1,308	1,029
Other non-financial liabilities		
Taxes payable	10	20
Deferred income	12	8
Liabilities on unused vacations	28	38
Other	3	–
Total other non-financial liabilities	53	66
Total other liabilities	1,361	1,095

As at 31 December 2013 and 2012, all other liabilities are 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. Liability on profit distribution to the State Budget of Ukraine

The National Bank determines distributable profit in accordance with the Article 5-1 of Law of Ukraine “On the National Bank of Ukraine” that became effective starting from 1 January 2012.

Share in distributable profit that is payable to the State Budget of Ukraine after confirmation by the external auditor and approval by the NBU Council is transferred in the year following the reporting year in accordance with the Law of Ukraine “On the National Bank of Ukraine”. In accordance with the Law of Ukraine “On the State Budget of Ukraine for 2014” the National Bank is to transfer to the State Budget of Ukraine the funds for the total amount not less than UAH 22,807 million.

Liability on profit distribution to the State Budget of Ukraine for 2014 is presented in the calculation below:

	2013	2012
	<i>(in UAH millions)</i>	
Profit for the year attributable to the National Bank of Ukraine per the consolidated statement of comprehensive income	14,779	20,914
Compensation of unrealized losses from foreign currency, monetary gold with the revaluation reserve	8,435	4,153
Compensation of unrealized losses from securities with the revaluation reserve	421	(838)
Realized result from disposals of investment metals	34	176
Adjustment for negative result of subsidiaries	103	23
Distributable profit for the year	23,772	24,428
Allocations to general and other reserves of the National Bank	–	(12,214)
Retained earnings for the year	(11,886)	–
Recognition of liability on distribution to State Budget on account of:		
share in distributable profit	11,886	12,214
other reserves	–	265
revaluation reserve for assets and liabilities	–	3,521
Liability on profit distribution to the State budget of Ukraine	11,886	16,000

In 2013, the National Bank transferred UAH 28,308 million to the State Budget of Ukraine (2012: UAH 23,600 million).

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 a 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 performed out of distributable profit of the NBU based on the decisions of the NBU Board.

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 statement of financial position. The amount of capital that the NBU managed as at 31 December 2013 was UAH 56,116 million (31 December 2012: UAH 66,904 million).

Objectives and policies of managing components of the NBU's capital are defined by the respective internal regulations approved by the NBU Board.

Share in distributable profit, determined by the Law of Ukraine "On the National Bank of Ukraine", is allocated to general and other reserves of the NBU.

The amount of profit allocated for formation of the NBU funds for the purposes of covering investments into acquisition, construction, improvements 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 assets and liabilities includes the result arising from revaluation of monetary assets and liabilities denominated in foreign currency, monetary gold and investment metals due to changes in exchange rates of UAH to foreign currency, monetary gold and investment metals, including realised revaluation surplus.

The composition of the NBU capital as at 31 December 2013 is presented below:

	2013	2012
	<i>(in UAH millions)</i>	
Statutory capital	100	100
General reserves	13,443	2,614
Other reserves	8,145	19,764
Retained earnings	11,886	–
Revaluation reserve for assets and liabilities	22,542	44,426
Total equity attributable to the NBU	<u>56,116</u>	<u>66,904</u>

21. Cash and cash equivalents

	Notes	2013	2012
		<i>(in UAH millions)</i>	
Foreign currency cash	5	598	597
Demand deposits (excluding gold, investment metals and restricted funds)	5	25,683	12,961
Short-term deposits maturing within three months (excluding gold, investment metals and restricted funds)		25,819	39,710
Foreign securities maturing within three months		–	2,901
SDR Holdings	7	128	73
Demand accounts of banks (excluding accrued interest)	14	(47,416)	(34,255)
Accounts of State and other institutions	15	(4,036)	(1,842)
IMF accounts No 1 and No 2	17	(43)	(43)
Liabilities to the IMF in respect of SDR allocation	17	(1,006)	(1,000)
Current accounts of employees	18	(1,242)	(983)
Total cash and cash equivalents		<u>(1,515)</u>	<u>18,119</u>

22. Interest income and expense

	2013	2012
	<i>(in UAH millions)</i>	
Interest income		
Income on domestic securities	15,406	9,547
Income on loans to banks and other borrowers	5,555	6,256
Income on foreign currency funds and deposits	157	377
Income on internal State debt	194	156
Other	19	12
Total interest income	<u>21,331</u>	<u>16,348</u>
Expense on operations with the IMF	(463)	(1,135)
Expense on accounts of banks	(152)	(135)
Expense on deposit certificates issued by the NBU	(161)	(16)
Expenses on accounts of Individuals’ Deposits Guarantee Fund	(17)	(14)
Other	(203)	(162)
Total interest expense	<u>(996)</u>	<u>(1,462)</u>
Net interest income	<u>20,335</u>	<u>14,886</u>

Other interest income includes interest income on loans to employees and interest expenses include expenses on accounts of employees. During 2013, 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 21,894 million (2012: UAH 18,268 million) and UAH 1,103 million (2012: UAH 1,471 million), respectively.

Income on loans to banks and other borrowers include income on impaired loans in the amount of UAH 2,340 million (2012: UAH 2,606 million), including the adjustment of interest income on impaired loans to banks in the amount of UAH 398 million (2012: UAH 258 million) (Note 9).

23. Fee and commission income and expense

	2013	2012
	<i>(in UAH millions)</i>	
Fee and commission income		
Income on cash and settlement services	209	170
Income on services of electronic payments system and electronic mail	149	146
Income on non-resident securities management transactions	4	3
Income on valuables transportation services	3	3
Other	2	1
Total fee and commission income	<u>367</u>	<u>323</u>
Fee and commission expense		
Expenses on operations with the IMF	–	(334)
Expenses on non-resident securities management transactions	(11)	(12)
Total fee and commission expense	<u>(11)</u>	<u>(346)</u>
Net fee and commission income/(expense)	<u>356</u>	<u>(23)</u>

24. Other income

	2013	2012
	<i>(in UAH millions)</i>	
Income from sale of commemorative coins, souvenirs and other products	230	200
Gain on derecognition of financial assets	81	–
Income from activities of educational institutions	30	29
Fines and penalties received	26	6
Gain from disposal of fixed and intangible assets	9	10
Income from registration and licensing	6	4
Income from monitoring of credit lines	2	2
Other	52	28
Total other income	436	279

The other income includes income from investments in associates, social and consumer services, disposals of precious metals scrap, printed materials and inventory, etc.

25. Staff costs

	2013	2012
	<i>(in UAH millions)</i>	
Wages and salaries	1,328	1,210
Single contribution for mandatory state social security and contributions to non-state pension funds	701	589
Social assistance and other social payments	124	116
Other	85	43
Total staff costs	2,238	1,958

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

	2013	2012
	<i>(in UAH millions)</i>	
Depreciation and amortisation	331	312
Utilities and household expenses	150	119
Expenses for maintenance of fixed assets and intangible assets	120	93
Goodwill impairment	52	–
Public information expense	–	41
Telecommunication services and maintenance	37	27
Operational expenses of educational institutions	29	27
Business trip expenses	20	17
Fines and penalties paid	18	28
Expenses for administration of international credit lines	–	7
Taxes, duties and charges	3	3
Stationery	3	3
Other	84	58
Total administrative and other expenses	847	735

The depreciation charge for 2013 excludes depreciation of UAH 138 million (2012: UAH 127 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.

Other expenses include financial aid paid to retired employees, post and mail, representation, audit, sponsorship and charity, etc.

27. Net decrease of provisions

	Notes	2013	2012
<i>(in UAH millions)</i>			
Decrease of/(increase in) provisions:			
against loans to banks and other borrowers	9	538	92
against other assets	13	(1)	(2)
against internal State debt		–	635
Total net decrease of provisions		537	725

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 liquidity of the NBU assets;
- compliance with limits set by the legislation, as well as with principles, internal rules, procedures and limits defined by the NBU regulations, in the course of 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 in the consolidated statement of financial position. For loan commitments, the maximum exposure to credit risk is the amount of the commitment (Note 34).

Credit risk management of the NBU is performed through the following actions:

- defining the minimum acceptable credit ratings of counterparties, securities and their issuers;

- 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 2013 the share of the NBU's financial assets placed with counterparties in the OECD countries in the total amount of financial assets decreased from 49% as at 31 December 2012 to 39% as at 31 December 2013, first of all as a result of decrease in the amount of gold and currency reserves and increase in the amount of assets denominated in Ukrainian hryvnia.

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 statement of financial position 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 statement of

financial position including international reserves as possible change in their UAH equivalent with 95% probability in one business day, ten business days and one month horizon. In order to increase prudence in measuring currency risk VaR model calculation parameters were changed in 2013. In particular, for the calculation of correlation between exchange rates of hryvnia to the foreign currencies and prices of the monetary gold and investment metals in hryvnia which are treated as components of the open currency position of the consolidated statement of financial position, and volatility of exchange rate of different currencies and prices of monetary gold and precious metals in hryvnia data from 1 January 2008 (2012: from 1 July 2000) is taken into account. VaR and the ratio of open currency position to the consolidated equity of the NBU as at 31 December 2012 were recalculated accordingly.

In 2013, the risk value of open currency position of the consolidated statement of financial position on 1 day horizon decreased from 0.79% as at 31 December 2012 to 0.73% as at 31 December 2013 of the UAH value of position (1.91% of the consolidated equity as at 31 December 2012 and 1.95% of the consolidated equity as at 31 December 2013), on ten days horizon decreased from 2.88% (6.92% of the consolidated equity) as at 31 December 2012 to 2.62% (7.01% of the consolidated equity) as at 31 December 2013 and on one month horizon from 3.64% (8.76% of consolidated equity) as at 31 December 2012 to 3.33% (8.91% of the consolidated equity) as at 31 December 2013.

The decrease in risk value of open currency position of the NBU in percentage terms by 14.70–15.06% on the specified horizons of VaR measurement is by 2.18–2.51 percentage points explained by decrease in value of open currency position and changes in its structure, by 5.58–5.89 percentage points mainly by significant decline in the price for monetary gold and investment metals in hryvnia, by 6.08–6.61 percentage points by decrease in the volatility of the exchange rate of hryvnia to foreign currencies and by 0.71–1.34 percentage points by decrease in the correlation between changes of the exchange rates of hryvnia to foreign currencies.

Relative ratio of risk value of open currency position as a percentage of equity did not change significantly during 2013 because decrease in risk value of open currency position in 2013 in comparison with 2012 on different time horizons amounted to 14.70–15.06% while the consolidated equity decreased by 16.13% during 2013.

During the process of risk value assessment of the open currency position of the consolidated statement of financial position, including the international reserves, in 2013 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, 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 investment metals.

Interest rate risk

Interest rate risk is the risk of incurring losses as a result of unfavourable changes in interest rates.

In 2013, 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 2013, the modified duration of the foreign currency denominated securities portfolio practically did not change (increased from 2.218 (UAH 28.73 million per one basis point) as at 31 December 2012 to 2.377 (UAH 23.98 million per one basis point) as at 31 December 2013), which was deemed to be appropriate due to relative market interest rate stabilisation in 2013. Specifically, if the market interest rates for US Dollars, Euro and British pounds changed by 100 basis points with the foreign securities portfolio held constant, its value as at 31 December 2013 would change by UAH 2,398 million, which would result in the respective adjustment of profit and equity (31 December 2012: 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 2,873 million, which would have resulted in the respective adjustment of profit and equity of the National Bank of Ukraine).

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 Office of the NBU. These reports are submitted to and reviewed by the top management of the NBU.

Liquidity risk

The liquidity risk is defined as the risk when an entity has no available funds to meet 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 2013 is set out below:

	Ukraine	OECD countries	IMF	Other	Total
	<i>(in UAH millions)</i>				
Financial assets					
Foreign currency funds and deposits	598	52,310	–	–	52,908
Foreign securities	–	100,099	–	481	100,580
SDR holdings	–	–	128	–	128
Domestic securities	154,134	–	–	–	154,134
Loans to banks and other borrowers	66,998	–	–	–	66,998
Internal State debt	2,268	–	–	–	2,268
IMF quota contributions	–	–	16,945	–	16,945
Other financial assets	411	–	–	–	411
Total financial assets	224,409	152,409	17,073	481	394,372
Financial liabilities					
Banknotes and coins in circulation	261,870	–	–	–	261,870
Accounts of banks	47,432	–	–	–	47,432
Accounts of State and other institutions	4,033	3	–	–	4,036
Deposit certificates issued by the NBU	3,126	–	–	–	3,126
Liabilities to the IMF	–	–	31,140	–	31,140
Other financial liabilities	1,293	15	–	–	1,308
Total financial liabilities	317,754	18	31,140	–	348,912
Net balance sheet position	(93,345)	152,391	(14,067)	481	45,460
Off-balance sheet commitments					
Commitments to extend credit	(422)	–	–	–	(422)
Net off-balance sheet position (Note 34)	(422)	–	–	–	(422)
Net position	(93,767)	152,391	(14,067)	481	45,038

The geographical analysis of the NBU's financial assets and liabilities as at 31 December 2012 is set out below:

	Ukraine	OECD countries	IMF	Other	Total
	<i>(in UAH millions)</i>				
Financial assets					
Foreign currency funds and deposits	597	54,024	–	1	54,622
Foreign securities	–	128,440	–	946	129,386
SDR holdings	–	–	73	–	73
Domestic securities	104,565	–	–	–	104,565
Loans to banks and other borrowers	65,055	–	–	–	65,055
Internal State debt	3,042	–	–	–	3,042
IMF quota contributions	–	–	16,854	–	16,854
Other financial assets	292	–	–	–	292
Total financial assets	173,551	182,464	16,927	947	373,889
Financial liabilities					
Banknotes and coins in circulation	222,786	–	–	–	222,786
Accounts of banks	34,267	–	–	–	34,267
Accounts of State and other institutions	1,747	95	–	–	1,842
Deposit certificates issued by the NBU	334	–	–	–	334
Liabilities to the IMF	–	–	55,760	–	55,760
Other financial liabilities	1,021	8	–	–	1,029
Total financial liabilities	260,155	103	55,760	–	316,018
Net balance sheet position	(86,604)	182,361	(38,833)	947	57,871
Off-balance sheet commitments					
Commitments to extend credit	(832)	–	–	–	(832)
Net off-balance sheet position (Note 34)	(832)	–	–	–	(832)
Net position	(87,436)	182,361	(38,833)	947	57,039

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.

	Credit rating	2013		2012	
		Amount	% in financial assets	Amount	% in financial assets
Financial assets – neither past due nor impaired					
<i>(in UAH millions)</i>					
Foreign currency funds and deposits					
Demand deposits	AAA+	–	–	1	0.0
	AAA	2,035	3.9	4,158	7.6
	AA+	1,080	2.0	2	0.0
	AA–	9,958	18.8	6,744	12.4
	A+	12,607	23.8	2,048	3.7
	A	133	0.3	150	0.3
	A–	1	0.0	8	0.0
Term deposits	AAA+	–	–	4,204	7.7
	AAA	6,361	12.0	7,745	14.2
	AA+	–	–	5,440	10.0
	AA	–	–	916	1.7
	AA–	2,076	3.9	4,872	8.9
	A+	1,486	2.8	1,173	2.1
	A	4,952	9.4	5,638	10.3
	A–	11,620	22.0	10,926	20.0
Foreign currency cash	No risk	598	1.1	597	1.1
Total foreign currency funds and deposits		52,908	100.0	54,622	100.0
Foreign securities:					
Government bonds					
	AAA	12,784	12.7	26,965	20.9
	AA+	33,664	33.5	49,245	38.1
	AA–	2,143	2.1	1,403	1.1
bonds of international agencies, banks and other issuers					
	AAA	23,845	23.8	31,328	24.2
	AA+	6,558	6.5	3,508	2.7
	AA	440	0.4	–	0.0
	AA–	19,552	19.5	13,918	10.8
	A+	520	0.5	801	0.6
	A	953	1.0	1,490	1.1
	A–	–	–	607	0.5
Total foreign debt securities		100,459	100.0	129,265	100.0
Domestic securities					
	B	–	–	100,113	95.7
	CCC+	146,861	95.3	–	–
	Not rated	7,273	4.7	4,452	4.3
Total domestic securities		154,134	100.0	104,565	100.0
Loans to banks and other borrowers:					
loans granted to banks to support their liquidity					
	B	–	–	2,156	4.5
	B–	254	0.5	31,680	66.7
	CCC+	36,930	70.5	11	0.0
	Not rated	15,219	29.0	13,658	28.8
loans granted under EBRD credit lines					
	Not rated	–	–	1	0.0
Total loans to banks and other borrowers		52,403	100.0	47,506	100.0
Other financial assets	Not rated	411	100.0	292	100.0

The total amount of loans to 5 banks with the largest exposure outstanding as at 31 December 2013 was UAH 52,066 million or 65% of the total amount of loans to banks and other borrowers before provisioning (31 December 2012: UAH 46,613 million or 59%). Recognized provision for loans granted to these 5 banks was equal UAH 6,765 million as at 31 December 2013 (31 December 2012: UAH 7,193 million).

31. Currency risk

As at 31 December 2013, the NBU had the following positions in currencies:

	UAH	USD	EUR	SDR	GBP	Other	Non-monetary	Total
	<i>(in UAH millions)</i>							
Financial assets								
Foreign currency funds and deposits	–	38,650	5,208	–	1,741	7,309	–	52,908
Foreign securities	–	64,694	22,273	–	5,990	7,502	121	100,580
SDR holdings	–	–	–	128	–	–	–	128
Domestic securities	152,340	954	840	–	–	–	–	154,134
Loans to banks and other borrowers	66,998	–	–	–	–	–	–	66,998
Internal State debt	2,268	–	–	–	–	–	–	2,268
IMF quota contributions	–	–	–	16,945	–	–	–	16,945
Other financial assets	411	–	–	–	–	–	–	411
Total financial assets	222,017	104,298	28,321	17,073	7,731	14,811	121	394,372
Financial liabilities								
Banknotes and coins in circulation	261,870	–	–	–	–	–	–	261,870
Accounts of banks	44,146	2,872	344	–	–	70	–	47,432
Accounts of State and other institutions	1,893	2,012	131	–	–	–	–	4,036
Deposit certificates issued by the NBU	3,126	–	–	–	–	–	–	3,126
Liabilities to the IMF	–	–	–	31,140	–	–	–	31,140
Other financial liabilities	1,290	2	16	–	–	–	–	1,308
Total financial liabilities	312,325	4,886	491	31,140	–	70	–	348,912
Net balance sheet position	(90,308)	99,412	27,830	(14,067)	7,731	14,741	121	45,460

As at 31 December 2012, the NBU had the following positions in currencies:

	UAH	USD	EUR	SDR	GBP	Other	Non-monetary	Total
	<i>(in UAH millions)</i>							
Financial assets								
Foreign currency funds and deposits	–	36,262	11,888	–	1,636	4,836	–	54,622
Foreign securities	–	83,785	31,352	–	7,281	6,847	121	129,386
SDR holdings	–	–	–	73	–	–	–	73
Domestic securities	102,556	1,248	761	–	–	–	–	104,565
Loans to banks and other borrowers	64,890	165	–	–	–	–	–	65,055
Internal State debt	3,042	–	–	–	–	–	–	3,042
IMF quota contributions	–	–	–	16,854	–	–	–	16,854
Other financial assets	228	1	63	–	–	–	–	292
Total financial assets	170,716	121,461	44,064	16,927	8,917	11,683	121	373,889
Financial liabilities								
Banknotes and coins in circulation	222,786	–	–	–	–	–	–	222,786
Accounts of banks	31,552	2,408	307	–	–	–	–	34,267
Accounts of State and other institutions	915	502	425	–	–	–	–	1,842
Deposit certificates issued by the NBU	334	–	–	–	–	–	–	334
Liabilities to the IMF	–	–	–	55,760	–	–	–	55,760
Other financial liabilities	1,019	1	9	–	–	–	–	1,029
Total financial liabilities	256,606	2,911	741	55,760	–	–	–	316,018
Net balance sheet position	(85,890)	118,550	43,323	(38,833)	8,917	11,683	121	57,871

Assets and liabilities in other currencies mainly include positions in Swiss francs and Japanese yen.

32. Interest rate risk

As at 31 December 2013, 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.

	UAH	USD	EUR	SDR	GBP	Other	Total weighted average interest rate (in %)
Financial assets							
Term deposits in OECD countries	–	0.19	0.23	–	0.48	1.26	0.48
Foreign securities	–	0.76	0.71	–	1.25	3.18	0.96
SDR holdings	–	–	–	0.13	–	–	0.13
Domestic securities	11.47	6.65	4.95	–	–	–	11.40
Loans to banks and other borrowers	7.45	–	–	–	–	–	7.45
Internal State debt	5.00	–	–	–	–	–	5.00
Financial liabilities							
Mandatory reserves kept on separate accounts with the NBU	1.95	–	–	–	–	–	1.95
Individuals' Deposits Guarantee Fund	9.11	–	–	–	–	–	9.11
Deposit certificates issued by the NBU	2.06	–	–	–	–	–	2.06
Liabilities to the IMF in respect of purchases of funds under credit facilities	–	–	–	1.14	–	–	1.14

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 254 million lower/higher (2012: UAH 484 million lower/higher) as a result of higher/lower interest expense on variable interest liabilities to the IMF.

As at 31 December 2012, 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 consolidated statement of financial position date.

As at 31 December 2012, 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 consolidated statement of financial position date.

	UAH	USD	EUR	SDR	GBP	Other	Total weighted average interest rate (in %)
Financial assets							
Term deposits in OECD countries	–	0.18	0.04	–	0.45	0.54	0.20
Foreign securities	–	0.43	0.22	–	0.74	2.95	0.53
SDR holdings	–	–	–	0.07	–	–	0.07
Domestic securities	10.88	6.90	4.95	–	–	–	10.79
Loans to banks and other borrowers	8.5	1.34	–	–	–	–	8.5
Internal State debt	5.00	–	–	–	–	–	5.00
Financial liabilities							
Mandatory reserves kept on separate accounts with the NBU	2.25	–	–	–	–	–	2.25
Individuals' Deposits Guarantee Fund	8.27	–	–	–	–	–	8.27
Deposit certificates issued by the NBU	2.56	–	–	–	–	–	2.56
Liabilities to the IMF in respect of purchases of funds under credit facilities	–	–	–	1.91	–	–	1.91

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 consolidated statement of financial position 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 2013 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>						
Financial assets							
Foreign currency funds and deposits	47,176	3,488	–	–	–	2,244	52,908
Foreign securities	8,263	11,587	3,114	73,512	3,983	121	100,580
SDR holdings	128	–	–	–	–	–	128
Domestic securities	736	2,995	9,621	105,789	34,993	–	154,134
Loans to banks and other borrowers	7,978	12,299	20,515	25,384	822	–	66,998
Internal State debt	–	68	194	804	1,202	–	2,268
IMF quota contributions	–	–	–	–	–	16,945	16,945
Other financial assets	3	1	5	128	251	23	411
Total financial assets	64,284	30,438	33,449	205,617	41,251	19,333	394,372
Financial liabilities							
Banknotes and coins in circulation	–	–	–	–	–	261,870	261,870
Accounts of banks	–	–	–	–	–	47,432	47,432
Accounts of State and other institutions	126	–	–	–	–	3,910	4,036
Deposit certificates issued by the NBU	3,126	–	–	–	–	–	3,126
Liabilities to the IMF	14,185	–	–	–	–	16,955	31,140
Other financial liabilities	1,294	4	–	–	–	10	1,308
Total financial liabilities	18,731	4	–	–	–	330,177	348,912
Net gap	45,553	30,434	33,449	205,617	41,251	(310,844)	45,460
Cumulative gap	45,553	75,987	109,436	315,053	356,304	45,460	

As at 31 December 2012 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>							
Financial assets							
Foreign currency funds and deposits	51,311	1,923	–	–	–	1,388	54,622
Foreign securities	7,308	10,842	18,778	91,855	482	121	129,386
SDR holdings	73	–	–	–	–	–	73
Domestic securities	–	–	1,513	57,955	45,097	–	104,565
Loans to banks and other borrowers	6,707	7,815	17,157	33,376	–	–	65,055
Internal State debt	–	33	99	529	2,381	–	3,042
IMF quota contributions	–	–	–	–	–	16,854	16,854
Other financial assets	1	1	5	102	177	6	292
Total financial assets	65,400	20,614	37,552	183,817	48,137	18,369	373,889
Financial liabilities							
Banknotes and coins in circulation	–	–	–	–	–	222,786	222,786
Accounts of banks	6,056	–	–	–	–	28,211	34,267
Accounts of State and other institutions	252	–	–	–	–	1,590	1,842
Deposit certificates issued by the NBU	334	–	–	–	–	–	334
Liabilities to the IMF	38,798	–	–	–	–	16,962	55,760
Other financial liabilities	1,017	–	–	–	–	12	1,029
Total financial liabilities	46,457	–	–	–	–	269,561	316,018
Net gap	18,943	20,614	37,552	183,817	48,137	(251,192)	57,871
Cumulative gap	18,943	39,557	77,109	260,926	309,063	57,871	

33. Liquidity risk

For the purposes of liquidity risk calculation the assets are analysed by the term remaining as at the reporting date to repayment of the expected cash flows, and the liabilities are analysed by the remaining contractual maturity at the reporting 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 statement of financial position because consolidated statement of financial position amount is based on the discounted cash flows. Derivatives settled on net basis 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 consolidated statement of financial position date.

The liquidity risk position of the NBU as at 31 December 2013 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	No defined maturity	Total
	<i>(in UAH millions)</i>						
Financial assets							
Foreign currency funds and deposits	49,419	3,489	–	–	–	–	52,908
Foreign securities	1,610	2,287	8,886	83,693	3,983	121	100,580
SDR holdings	128	–	–	–	–	–	128
Domestic securities	736	2,995	9,621	105,789	34,993	–	154,134
Loans to banks and other borrowers	7,978	12,299	20,515	25,384	822	–	66,998
Internal State debt	–	68	194	804	1,202	–	2,268
IMF quota contributions	–	–	–	–	–	16,945	16,945
Other financial assets	3	1	5	128	251	23	411
Total financial assets	59,874	21,139	39,221	215,798	41,251	17,089	394,372
Financial liabilities							
Banknotes and coins in circulation	261,870	–	–	–	–	–	261,870
Accounts of banks	47,432	–	–	–	–	–	47,432
Accounts of State and other institutions	4,036	–	–	–	–	–	4,036
Deposit certificates issued by the NBU	3,126	–	–	–	–	–	3,126
Liabilities to the IMF	1,000	2,817	5,694	4,832	–	16,110	30,453
Other financial liabilities	1,294	4	–	–	–	10	1,308
Loan commitments	–	–	422	–	–	–	422
Total future payments for financial obligations	318,758	2,821	6,116	4,832	–	16,120	348,647
Liquidity gap arising from financial instruments	(258,884)	18,318	33,105	210,966	41,251	969	45,725

The liquidity risk position of the NBU as at 31 December 2012 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	No defined maturity	Total
	<i>(in UAH millions)</i>						
Financial assets							
Foreign currency funds and deposits	52,699	1,923	–	–	–	–	54,622
Foreign securities	1,723	1,208	22,380	103,472	482	121	129,386
SDR holdings	73	–	–	–	–	–	73
Domestic securities	–	–	1,513	57,955	45,097	–	104,565
Loans to banks and other borrowers	6,707	7,815	17,157	33,376	–	–	65,055
Internal State debt	–	33	99	529	2,381	–	3,042
IMF quota contributions	–	–	–	–	–	16,854	16,854
Other financial assets	1	1	5	102	174	9	292
Total financial assets	61,203	10,980	41,154	195,434	48,134	16,984	373,889
Financial liabilities							
Banknotes and coins in circulation	222,786	–	–	–	–	–	222,786
Accounts of banks	34,267	–	–	–	–	–	34,267
Accounts of State and other institutions	1,842	–	–	–	–	–	1,842
Deposit certificates issued by the NBU	334	–	–	–	–	–	334
Liabilities to the IMF	1,043	6,336	19,113	13,268	–	16,812	56,572
Other financial liabilities	1,016	6	7	–	–	–	1,029
Loan commitments	–	–	832	–	–	–	832
Total future payments for financial obligations	261,288	6,342	19,952	13,268	–	16,812	317,662
Liquidity gap arising from financial instruments	(200,085)	4,638	21,202	182,166	48,134	172	56,227

IMF quota contributions and part of liabilities to the IMF representing the liabilities in settlement of Quota is included in “no defined maturity” category due to the nature of these balances.

34. Commitments, contingencies and derivative financial instruments

Undrawn loan commitments

Undrawn loan commitments include the following:

	2013	2012
	<i>(in UAH millions)</i>	
Undrawn loan commitments under loans to support the banks' liquidity	422	832
Total undrawn loan commitment	422	832

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 borrowers 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 2013, the NBU had capital commitments in respect of fixed asset acquisition, construction and improvements and intangible assets acquisition totalling UAH 575 million (31 December 2012: UAH 952 million).

Derivative financial instruments

The NBU carried out transactions with futures for the purposes of regulating the interest rate risk since October 2013 under the Investment Management and Consulting Services Agreement between the NBU and International Bank for Reconstruction and Development.

As at 31 December 2013, the NBU had 572 long stock-exchange interest futures contracts maturing from March 2014 to March 2016, the notional value of which equalled to UAH 1,057 million or USD 132 million, and 1,288 short stock-exchange interest futures contracts maturing from March 2014 to September 2018, the notional value of which equalled to UAH 2,541 million or USD 318 million. Funds for settlements under futures settlements in the amount of UAH 5 million were measured at fair value and included in foreign currency funds and deposits as at 31 December 2013 (refer to Note 5).

As at 31 December 2012, the NBU had no futures contracts.

Legal proceedings

From time to time and in the normal course of business, claims against the NBU occur. 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. 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. Foreign debt securities are recorded in the consolidated statement of financial position at their fair value. Fair value of these securities is based on quoted prices in an active market. The fair value of major part of the internal State debt securities measured at fair value was based on

quoted prices on a market that was not active (31 December 2012: the fair value of majority of the internal State debt securities measured at fair value 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 significantly 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 value of debt securities denominated in foreign currencies at amortised cost (External State Bonds (“OZDP”) denominated in US dollars and Euro) is based on quoted prices on an active market.

Fair values of those financial instruments for which no active market exists have been estimated by the NBU using discounted cash flow techniques. These models 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 domestic securities denominated in the national currency, internal State debt and loans to banks and other borrowers.

For the purposes of estimation of fair values of domestic securities denominated in national currency the NBU used a discount rate determined based on the yield curve.

For the purposes of estimation of fair values of internal State debt weighted average NBU’s rate for all instruments of refinancing was used.

For the purposes of estimation of 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, namely overnight, for deals from 32 to 92 days and over 92 days. Discount rates used were as follows:

	2013	2012
	Discount rate, in % per annum	Discount rate, in % per annum
Domestic debt securities:		
in national currency:		
Internal State debt bonds (“OZDP”)	10.04 – 20.57	10.29 – 26.92
Bonds issued by other State institutions	8.63 – 19.60	10.48 – 19.13
Internal State debt denominated in national currency (issued in 1994–1996)	7.15	8.13
Loans to banks and other borrowers	9.092 – 10.622	15.877 – 31.918

The following table summarises the carrying amounts and estimated fair values of those financial assets not presented on the NBU's consolidated statement of financial position at their fair value:

	2013		2012	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
<i>(in UAH millions)</i>				
Domestic debt securities:				
in national currency:				
Internal State debt bonds (“OVDP”)	136,987	138,001	89,882	96,699
Bonds issued by other State institutions	7,273	7,417	4,452	4,958
in foreign currency:				
External State debt bonds (“OZDP”) denominated in US dollars	954	975	1,248	1,244
External State debt bonds (“OZDP”) denominated in Euro	840	878	761	734
Total domestic securities not carried at fair value	146,054	147,271	96,343	103,635
Internal State debt denominated in national currency (issued in 1994-1996)	2,268	2,466	3,042	2,397
Loans to banks and other borrowers	66,998	67,180	65,055	51,737

Taking into account the fact that the calculations of the estimated fair value are based on certain assumptions, it should be noted that the information provided above may not be fully reflective of the value that could be realised.

For financial instruments, the levels in the fair value hierarchy into which the fair values are categorised are as follows:

	2013			2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	<i>(in UAH millions)</i>					
Assets measured at fair value						
Foreign currency funds and deposits (futures)	5	–	–	–	–	–
Foreign securities at fair value	100,459	–	121	129,265	–	121
Domestic debt securities at fair value:						
in national currency						
Internal State bonds	–	8,080	–	7,926	296	–
Assets for which fair value is disclosed:						
Domestic debt securities						
in national currency:						
Internal State debt bonds	–	138,001	–	–	96,699	–
Bonds issued by other State institutions	–	7,417	–	–	4,958	–
in foreign currency:						
External State debt bonds (“OZDP”) denominated in USD	975	–	–	1,244	–	–
External State debt bonds (“OZDP”) denominated in EUR	878	–	–	734	–	–
Internal State debt	–	–	2,466	–	–	2,397
Loans to banks and other borrowers	–	–	67,180	–	–	51,737

In 2013 there was a transfer of domestic debt securities at fair value in the national currency, with the carrying amount of UAH 7,929 million, between Level 1 Level 2 of fair value hierarchy due to the disappearance of an active market for these financial instruments (2012: there were no significant transfers of financial instruments between Level 1 Level 2 of fair value hierarchy). The NBU deems transfer between the levels of the fair value hierarchy to have occurred at the end of the reporting period.

No changes in structure or carrying value of financial instruments that were included in Level 3 of fair value hierarchy occurred during 2013 and 2012, neither any gains or losses were recognised. Change of inputs to valuation models according to reasonably possible alternative assumptions would not have had significant impact on fair value of these instruments as at 31 December 2013 and 2012.

36. Presentation of financial instruments by measurement categories

In accordance with IFRS 9 *Financial Instruments*, the NBU classifies its financial assets into the following categories: financial assets at fair value and financial assets measured at amortised cost.

All financial liabilities of the NBU are carried at amortised cost.

The following table analyses financial assets by these measurement categories as at 31 December 2013:

	Assets measured at fair value	Assets measured at amortised cost	Total
			<i>(in UAH millions)</i>
Financial assets			
Foreign currency funds and deposits	5	52,903	52,908
Foreign securities	100,580	–	100,580
SDR holdings	–	128	128
Domestic securities	8,080	146,054	154,134
Loans to banks and other borrowers	–	66,998	66,998
Internal State debt	–	2,268	2,268
IMF quota contributions	–	16,945	16,945
Other financial assets	–	411	411
Total financial assets	108,665	285,707	394,372

The following table analyses financial assets by these measurement categories as at 31 December 2012:

	Assets measured at fair value	Assets measured at amortised cost	Total
			<i>(in UAH millions)</i>
Financial assets			
Foreign currency funds and deposits	–	54,622	54,622
Foreign securities	129,386	–	129,386
SDR holdings	–	73	73
Domestic securities	8,222	96,343	104,565
Loans to banks and other borrowers	–	65,055	65,055
Internal State debt	–	3,042	3,042
IMF quota contributions	–	16,854	16,854
Other financial assets	–	292	292
Total financial assets	137,608	236,281	373,889

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	2013			2012		
		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	154,134	–	–	104,565	–	–
Loans to banks and other borrowers		41,710	–	–	37,135	–	–
Provision for impairment of loans to banks and other borrowers		(4,770)	–	–	(4,825)	–	–
Internal State debt	10	2,268	–	–	3,042	–	–
Other assets		75	99	–	48	128	–
Accounts of banks		5,828			4,861	–	–
Accounts of State and other institutions		3,773	131	20	1,280	200	12
Accounts of Individuals' Deposits Guarantee Fund	15	80	–	–	252	–	–
Liability on profit distribution to the State budget		11,886	–	–	–	–	–
Other liabilities		9	–	–	21	–	1

Other related parties include Corporate non-state pension fund of the NBU.

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) as at 31 December 2013 bear contractual interest rate from 6.50% (31 December 2012: 7.50%);

long-term loans to State-owned banks (included in the loans to banks and other borrowers in the above table) bear contractual interest rate from 7.00% to 8.50% as at 31 December 2013 (31 December 2012: from 8.00% to 9.50%) and mature from 1 to 3 years (31 December 2012: from 1 to 4 years);

accounts of State and other institutions are non-interest bearing;

demand accounts of Individuals' Deposit Guarantee Fund bear contractual interest rate of 9.11% as at 31 December 2013 (31 December 2012: 8.27%)

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 1.95% as at 31 December 2013 (31 December 2012: 2.25%).

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:

	2013			2012		
	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	18,321	–	–	12,312	–	–
Interest expense	(31)	–	–	(28)	–	–
Fee and commission income	175	–	–	136	–	3
Other income	31	9	–	22	4	4
Staff costs	–	–	214	–	–	151
Other expenses	(17)	–	–	(17)	(3)	(6)
Net decrease in provisions	(55)	–	–	(635)	–	–

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 2013, the short-term benefits (salary) of key management personnel amounted to UAH 12 million (2012: UAH 11 million). As at 31 December 2013, outstanding balance of loans to the key management personnel amounted to UAH 6 million (31 December 2012: UAH 1 million). These loans are neither past due nor impaired.

38. Subsidiaries

As of 31 December 2012 and 2011, the National Bank recognized in the consolidated statement of financial condition investment in the associate All-Ukrainian Securities Depository (hereinafter – the Depository) in the amount of 22.86% of its authorized capital (Note 13). In May 2013, pursuant to the Law of Ukraine "On the Depository System of Ukraine" National Bank acquired 83,800 or 54.71% of the shares of the Depository, whereby the share of the National Bank in the Depository's capital constituted 77.57%. All the purchased shares have voting rights. Management believes that from the moment of the acquisition of ownership of 77.57% of the shares of the Depository, the National Bank assumed control over the Depository. Accordingly, the NBU derecognized the investment in the associate and recognized the acquisition of the subsidiary in the consolidated financial statements.

According to the Law of Ukraine "On the Depository System of Ukraine" the legal successor of the Depository is "SETTLEMENT CENTER" PJSC (hereinafter - Settlement Center).

Further in 2013, the NBU increased its stake in the share capital of the Settlement Center to 77.79% through the purchase of ordinary shares of the Settlement Center.

The statutory capital of Settlement Center is UAH 153.1 million, consisting of ordinary registered shares with a nominal value of UAH 1,000 each.

Exclusive competence of the Settlement Center is cash settlements for transactions with securities and other financial instruments on an exchange or at the over-the-counter market, if the settlement is carried out on "delivery versus payment" basis. Settlement Center opens and maintains cash accounts of the stock market traders. Settlement Center provides the payment of interests on securities, nominal value in case of redemption of securities and other corporate transactions of the issuer, including those with securities that are placed and traded outside Ukraine.

At the date of assuming control, the National Bank recognized profit on bargain purchase in the amount of UAH 1 million within other income in the consolidated statement of comprehensive income. Profit on bargain purchase originated as the result of the difference in measuring fair value of assets and liabilities of Settlement Center that was performed by the NBU at the date of assuming control, in comparison with the measurement that was carried out in order to determine the market value of the shares purchased by the NBU.

The National Bank recognized non-controlling interests in the amount of UAH 34 million, determined as the value of net identifiable assets and liabilities of the subsidiary owned by non-controlling shareholders of Settlement Center, within equity in the consolidated statement of financial position as of the date of acquisition.

Assets and liabilities of the acquired subsidiary, recognized in the consolidated financial statements of the NBU at their fair value as of the date of acquisition, included the following:

	Amounts recognized at the date of acquisition <i>(in UAH millions)</i>
Assets	
Fixed assets and intangible assets	75
Goodwill	52
Receivables	2
Cash and cash equivalents	38
Other current assets	27
Liabilities	
Current payables	(4)
Other current liabilities	(36)
Net identifiable assets and liabilities	154
Fair value of investments in associate at disposal	(35)
Recognition of non-controlling interests	(34)
Consideration paid	(84)
Net income from acquisition of subsidiary	1
Cash and cash equivalents acquired	38
Consideration paid	(84)
Net cash outflow	(45)

The amounts of revenue and net loss of Settlement Center for 2013 that was included in the consolidated statement of comprehensive income were equal to UAH 10 and 35 million respectively. If the business combination occurred at the beginning of the reporting period, the corresponding amounts would be equal to UAH 28 and 31 million respectively.

39. Concentration of assets and liabilities

As at 31 December 2013 38% (31 December 2012: 27%) of the total consolidated assets of the NBU (excluding IMF Quota) are represented by amounts due from the Government of Ukraine in respect of internal State debt and State securities of Ukraine, 7% (31 December 2012: 13%) are represented by US Treasury bills, 4% (31 December 2012: 6%) are represented by the coupon bonds of UK Government and other EU countries and 16% (31 December 2012: 16%) are represented by loans to Ukrainian banks and other borrowers.

As at 31 December 2013 76% (31 December 2012: 72%) 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, 14% (31 December 2012: 11%) are represented by accounts of banks and 4% (31 December 2012: 13%) are represented by liabilities to the IMF.

40. Subsequent events

It is set forth by the Law of Ukraine "On State Budget of Ukraine for 2014" that in 2014 the NBU makes allocations to the general reserves until their amount is equal to 5 percent of the monetary liabilities of the NBU. Nevertheless, transfers of the distributable profit to the State budget of Ukraine shall be performed in accordance with the Law of Ukraine "On State Budget of Ukraine for 2014".

In February 2014 the NBU declared to be insolvent certain banks, the carrying value of loans to which amounted to UAH 1,991 million and was considered neither past due nor impaired as at 31 December 2013.

In January-March 2014 the NBU repaid liabilities to IMF in the amount of SDR 224 million (UAH 3,094 million at the official exchange rate at the date of transaction, or UAH 2,706 million at IMF annual exchange rate).

8 April 2014
Kyiv, Ukraine

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