



Joint Stock Company  
THE STATE EXPORT-IMPORT BANK OF UKRAINE



ANNUAL REPORT 2007



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\*Indicators of the Financial Statements of JSC Ukreximbank are stated per the International Accounting Standards



## Ladies and Gentlemen,

I have the honor to present the Annual Report on activity and financial results of Joint Stock Company The State Export-Import Bank of Ukraine in 2007.

I am pleased to point out a significant success and high efficiency of the Bank activity in the face of the tough competition in the banking service market. Ukreximbank has been among the leaders in the domestic banking market for more than fifteen years.

In 2007, JSC Ukreximbank performance reflected the positive trends of the dynamic business growth, improvement of profitability, introduction of new banking products and strengthening the leading position in the market.

The Bank impeccable reputation and positive image, achieved positive track record with exporters and importers, international financial institutions, foreign banks and investors became drivers of such sustained growth of one of the largest Ukrainian banks. The Bank

stability and the high quality of its services give grounds for the high confidence in Ukreximbank by the customers and partners.

Following the developed strategy aimed at the financial strength and steady-going and given the flexible adjustment to changes in external environment the Bank contribution into the economic growth of Ukraine, improvement of competitiveness of the Ukrainian economy and efficient participation of Ukraine in the international integration process is extremely valuable.

High ratings assigned to the Bank by the international rating agencies prove its leading position among the Ukrainian banks. Ukreximbank actively cooperates with the European and International Banks for Reconstruction and Development. The cooperation with the EBRD is materializing through the 7-year Energy Efficiency Program, the main purpose of which is financing the medium- and long-term industrial energy efficiency projects aimed at promoting reduction of the energy consumption; as well as the Trade Facilitation Program providing the Bank's customers the additional foreign economic activity financing facilities.

The interaction with the World Bank (IBRD) is being developed in the framework of the 20-year Second Export Development Project, targeted for providing the medium- and long-term working capital and investment financing to the private exporting enterprises and further enhancement of the banking sector in terms of financing the enterprises through the intermediary services using credit products

extended by the private financial institutions in Ukraine.

One of the priorities of JSC Ukreximbank activity continues to be a financial support, primarily the export-oriented sector of the Ukrainian economy. The credit support provided by JSC Ukreximbank in due time enabled many Ukrainian enterprises to improve their performance and become to highly profitable business. The terms and conditions of loans extended by the Bank are among the most competitive in Ukraine and adequately meet the needs of the national economy.

JSC Ukreximbank is rated the best in the category «Information Transparency of the Ukrainian Banks 2006» and «Corporate Governance in the Banking Sector of Ukraine 2006» based on results of the research conducted by the Standard and Poor's International Rating Agency and Agency of Financial Initiatives.

For the seventh consecutive time the Bank has been recognized by JP Morgan Chase (New-York, USA), one of the prominent global banking and financial institutions, as one of the best in terms of quality of settlements

in US dollars among its correspondent banks worldwide.

In response of the customers' demand abroad, Ukreximbank opened its Representative Offices in London (2006) and New-York (2007), the largest international financial and trade centers.

The main gain of the past years activity is a reputation of the Bank as a reliable, stable financial institution and this is the keystone of the professional success and prosperity in the future. The major tasks for the following financial year are to develop and implement new banking products and services, extend the Bank's branch network, implement new informational technology, develop corporate culture and upgrade staff's skills. JSC Ukreximbank has strong intents to maintain the top positions in terms of key performance indicators and to be one of the leaders in servicing and financing its customers' foreign economic activity.

I would like to express my sincere gratitude to the Board members and all employees for their highly professional and conscientious work and for being kept the corporate interests. I say thanks to our esteemed customers and business partners for their trust in us.

**Viktor KAPUSTIN**



**Chairman of the Board**



### **Ladies and Gentlemen,**

On behalf of the Supervisory Council, the supreme managerial body of Joint Stock Company The State Export Import bank of Ukraine I am delighted to present to your attention the 2007 Annual Report.

The Bank financial results bear evidence of its dynamic progress, efficient and professional work of the staff, striving for further confident maintenance of its leading positions in the banking sector of Ukraine.

JSC Ukreximbank proceeds with efficiently fulfilling the functions imposed on it by the

government. The Bank accumulated and successfully implements the unique experience in financial servicing of the intergovernmental agreements and the governmental programs.

The up-to-date global banking sector development trends and challenges, resulted from the hot market competition encourage us to look for the innovative approaches and strongly adhere to the Bank development strategy. The high quality services provided to customers are an excellent guarantee of high confidence of investors and partners in the Bank having an impeccable reputation, excellent image and great international prestige.

On behalf of the Supervisory Council I would like to express sincere gratitude to you, our esteemed colleges, customers and partners of the Bank and all employees, who contribute to improvement of competitiveness of the domestic banking system and the national economy by their day-to-day work.

**Igor SOTULENKO**

**Head of the Supervisory Council  
Honoured Economist of Ukraine**



# Bank Profile



## Bank Profile

The State Export-Import Bank of Ukraine was established in January 3, 1992 pursuant to the Decree of the President of Ukraine. In 2000, the Bank was transformed in a joint stock company, the only shareholder of which is the State of Ukraine.

The mission of the Bank is facilitation of the development of Ukrainian economy and business activities of the Bank's customers, mainly in export-oriented and import-substituting sectors of economy through lending and servicing the financial transactions of customers, support to the national exporters and fulfilment of the functions of the Financial Agent of the Government of Ukraine.

Today, JSC Ukreximbank is a steady-going financial institution aimed at the national economy transformation and technological modernisation, improvement of competitiveness and increase of the export potential. The Bank activities comply with the most high international transparency requirements, it is competitive both in domestic and international financial markets, has high-performance management and skilled staff, that is repeatedly awarded by the leading global banking institutions and the agencies.

The JSC Ukreximbank continues to be among the top leading banks in Ukraine. As of 01.01.2008 it ranks:

- the third in terms of the gained profit;
- the fifth in terms of the net assets and liabilities.

# Bank Profile



## Management

### The Management Board

The Board of the Bank consists of 11 members (as of 01.01.2008):



**Viktor KAPUSTIN** –

Chairman of the Board.  
Performs general management of the Bank,  
coordinates activity of the Board.



**Mykola UDovychenko** –

Member of the Board –  
Deputy Chairman of the Board.  
Coordinates the Bank  
international activity.



**Yuriy KHRAMOV** –

Member of the Board –  
Deputy Chairman of the Board.  
Coordinates the Bank activity  
in the domestic market.



## Bank Profile



**Olga ALIEKSIEIEVA –**

Member of the Board.  
Responsible for the Bank's compliance with accounting and tax policies, day-to-day operational activity and external auditors interaction.



**Vira VOLOSHCHENKO –**

Member of the Board.  
Responsible for organisation and implementation of the risk management policy of the Bank.



**Volodymyr GIRIS –**

Member of the Board.  
Responsible for retail business of the Bank.



**Volodymyr KURGANSKYI –**

Member of the Board.  
Responsible for the development of the Bank infrastructure and controls the compliance with the Bank budget.

# Bank Profile



**Vitalyi LISOVENKO –**

Member of the Board.  
Responsible for corporate business  
of the Bank.



**Petro MIKHEEV –**

Member of the Board.  
Responsible for development and  
coordination of the Bank's  
regional network.



**Andrii SERVYNSKYI –**

Member of the Board.  
Responsible for legal framework  
within the Bank.



**Serhiy TSOKOL –**

Member of the Board.  
Responsible for IT issues,  
organisation and co-ordination of  
the process of development and  
implementation of automatic  
systems at the Bank.



# Bank Profile

## Licenses

The JSC Ukreximbank conducts its business on the basis of:

- the Banking License by the NBU № 2 as of 25.12.2001;
- Permit by the NBU № 2-3 as of 15.02.2005.

## Subsidiaries

As of the end of the 2007 the financial leasing services in different sectors of economy were provided by two subsidiaries of the JSC Ukreximbank:

- the Leasing Company «Ukreximleasing»;
- LLC «Eximleasing».

## Ratings

Long-term deposits' ratings assigned to JSC Ukreximbank by Moody's as well as long-term issuer's default rating assigned by Fitch Ratings are the highest currently possible ratings for a Ukrainian bank and, according to the rating agencies, are constraint by the sovereign ceilings of Ukraine.

### Moody's Investors Service

Long-term foreign currency deposit rating	B2	positive
Long-term national currency deposit rating	Baa2	stable
Short-term foreign currency deposit rating	NP	positive
Short-term national currency deposit rating	P-2	stable
Bank's financial strength	D-	positive

# Bank Profile



## Fitch Ratings

Long-term foreign currency issuer's default rating	BB-	positive
Short-term foreign currency issuer's default rating	B	
Individual rating	D	
Support rating	3	
National long-term rating	AA (ukr)	stable

## Key Achievements

During the year 2007, the Bank conducted its business in accordance with the established strategy leading to the steady and dynamic business growth. JSC Ukreximbank achieved the significant growth in the main performance indicators, improved the asset quality, increased the customer base, widened the banking products' range, maintained the ratings assigned by the top rating agencies at the high level and gained the record-breaking profits. The Bank opened foreign representative office in New-York city.

### Ratings by Magazines

According to the Global Finance Magazine JSC Ukreximbank was recognised as the Best Bank in Ukraine in 2006.

### Achievements

Recognition by the JP Morgan Chase Bank New York, USA of the JSC Ukreximbank for the seventh consecutive year as one of the best amongst its correspondent banks world-wide for the quality of settlements in USD.

JSC Ukreximbank for the second time is rated the best in the category «Information Transparency of the Ukrainian Banks» based on results of the research conducted by the Standard and Poor's International Rating Agency and Agency of Financial Initiatives.

In March, 2007 the Loan Agreement (the Second Export Development Project (EDP-2)) for the amount of USD 154.5 million between the World Bank (International Bank for Reconstruction and Development) and JSC Ukreximbank came into force.



## Bank Profile

### Awards

Award the «Financier of the Year» to Mr. Viktor Kapustin, Chairman of the Board of JSC Ukreximbank was assigned by the Council of the Nationwide Programme «Person of the Year 2006».

### Winnings

Ukreximbank's Team became the winner of National Final of the International Strategic Management Competition «Global Management Challenge».

## Membership in organizations, associations

- S.W.I.F.T. – member status;
- The Crimea Interbank Currency Exchange;
- The JSC «Interregional Stock Union» (depository);
- «Ukrainian Institute for Stock Market Development» Association;
- CJSC «Ukrainian Interbank Currency Stock Exchange»;
- LLC «Universal Commodity Exchange «Kontraktovyi Dim UMVB»;
- Kyiv Banking Union;
- Dniepropetrovsk Banking Union;
- The First Securities Trading System (FSTS);
- The Association of Ukrainian Banks (AUB);
- American Express – official dealer;
- Ukrainian Interbank Payment Systems Member Association «EMA»;
- Banking Association for Central and Eastern Europe (BACEE) – member status;
- International Factors Group – partner status.



# Market Overview



## Market Overview\*

The growth of the real GDP in 2007 compared to 2006 was 7.3% with the 6.5% industrial output – 10.2%. The foreign direct investments in the economy of Ukraine in 2007 were record for the previous years and equaled to USD 9.2 billion (according to the NBU Balance of Payments data).

The revenues of the Consolidated Budget of Ukraine for the year 2007 amounted to UAH 219.9 billion; expenses amounted to UAH 226.0 billion.

In 2007 the banking sector development was much more dynamic than overall economic development of Ukraine.

Net assets of banks increased by 76.2% mainly as a result of increase in lending by 75.1%. Growth rate of the loans to individuals (97.6%) significantly outrun the growth rate of the loans extended to corporates (64.7%).

The banks' liabilities increased by 78% and amounted to UAH 529.8 billion. The share of the individuals' deposits increased by 54.1% and equaled to 30.8% of the banks' funding base.

The banks' capital increased by 63.5% and as of 01.01.08 amounted to UAH 69.6 billion. The capital adequacy ratio decreased from 14.2% to 13.9%.

Net income received by the banks in 2007 amounted to UAH 6.6 billion that is 59.7% more compared to 2006.

There were 175 operating banks in Ukraine at the end of 2007, among them 47 banks with foreign capital. Over 2007 the share of the foreign capital in the statutory capital of the banks increased from 27.6% to 35%, in particular due to new acquisitions: UniCredit Group (Italy) acquired Uksotsbank, Swedbank (Sweden) - TAS-Kommerzbank and TAS-Investbank, Commerzbank (Germany) – Forum Bank, Savings Bank of the Russian Federation (Sberbank) – NRB Ukraine, Marfin Popular Bank (Cyprus), Bank Napoalim (Israel) – UkrInBank, SEB (Sweden) – Factorial Bank and others.

\* Under National Accounting Standards according to the NBU data



# Financial Overview of the Bank



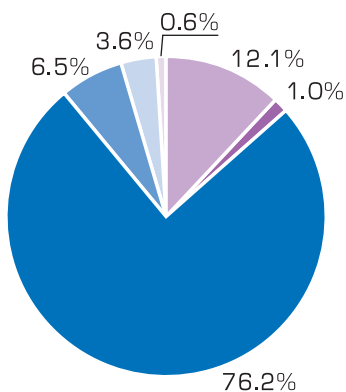
# Financial Overview of the Bank

## Main Performance Indicators

As of 01.01.2008

Indicators	Amounts, UAH mln	Growth Rate, %
Net assets	28.566	54.8%
Loans (net)	21.782	61.8%
Liabilities	26.076	56.0%
Equity	2.490	43.3%
Net income	553	65.1%

Structure of Assets of JSC Ukreximbank as at 01.01.2008



- Cash and due from NBU
- Amounts due from credit institutions
- Loans to individuals
- Investment Securities
- Fixed and Intangible Assets
- Other assets

## Analysis of Changes in the Bank Balance Sheet

During the year the assets of JSC Ukreximbank have increased by 54,8% and as of 01.01.2008 amounted to UAH 28.566 million. Considerable growth in assets was gained due to the increase of the loan portfolio by 61.8% up to UAH 21.782 million.

The Bank's liabilities increased by 56.0% and as of 01.01.2008 equaled to UAH 26.076 million.

The statutory capital of the Bank in 2007 increased by 34.79% (UAH 568 million) due to the capitalization of the income received during the last years. The equity increased by UAH 752 million up to UAH 2.49 million.

Capital adequacy ratio of the bank at the end of 2007 constituted 13.01%.

# Financial Overview of the Bank



## Financial Performance

Over the year 2007 JSC Ukreximbank has received net operating income in the amount of UAH 1.519 million, that is 44% (UAH 463 million) more than in 2006. In the net operating income structure net interest income amounted to UAH 1.052 (69%), net fees and commissions amounted to UAH 303 million (20%), non-interest income amounted to UAH 163 million (11%). The increase of the Bank's income was mainly reached due to the growth of interest income by more than 63%, fee and commission income by 38%. The non-interest income in 2007 increased by 49.7%.

The reasonable expenses management policy together with the parallel increase of income allowed enhancing Bank efficiency that was evidenced by the improvement of the cost to income ratio by 9.2 p.p. to 37.4%. As of 01.01.2008 JSC Ukreximbank had the best efficiency ratio among the largest banks of Ukraine.

In 2007 the Bank gained the largest ever profit of almost UAH 553 million under IAS with 65% increase compared to 2006.



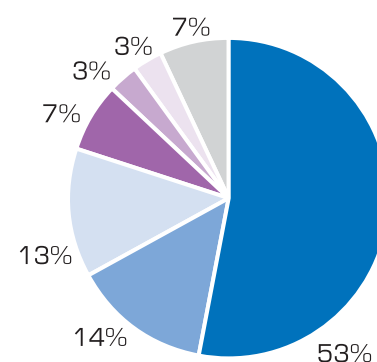
# Financial Agent of the Cabinet of Ministers of Ukraine

## Financial Agent of the Cabinet of Ministers of Ukraine



Since its foundation JSC Ukreximbank is the only agent of the Cabinet of Ministers of Ukraine for servicing of international loans covered by state guarantees. During this period the Bank, acting as the Financial Agent of the Cabinet of Ministers of Ukraine, served more than 150 loans under 13 credit lines for the equivalent of USD 2.9 billion (Germany, the USA, France, Japan, Switzerland, Spain, etc.) which were used to meet the needs of the Ukrainian economy for financing of import of crucial goods, to resolve primary objectives of stabilization and structural transformation of the economy.

**Foreign Loans Entered into by JSC Ukreximbank as the Agent of the Cabinet of Ministers (Breakdown by Sector)**

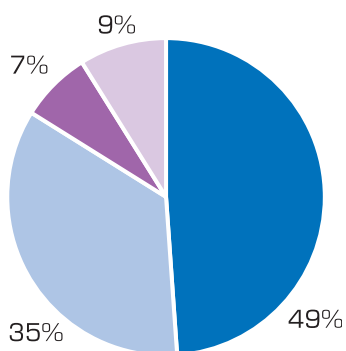


- Agriculture
- Healthcare
- Metallurgy
- Transportation, telecommunication and IT
- Light and food industry
- Power engineering
- Other industries



## Financial Agent of the Cabinet of Ministers of Ukraine

### Foreign Loans Entered into by JSC Ukreximbank acting as the Agent of the Cabinet of Ministers (Breakdown by lender's country)



- Germany
- USA
- EU
- Italy, France, Japan, Spain, Switzerland

Among the Bank's partners under international agreements are: Consortium of Banks AKA, Germany; German Credit Agency for Reconstruction (Kreditanstalt für Wiederaufbau, KfW); Association of French Banks; US Ex-Im Bank; Japanese Bank for International Cooperation; the group of Italian credit institutions headed by Efibanka; Banco Sabadell, Spain; UBS, Switzerland; Export Bank of the Czech Republic, etc., that provided financing under insurance cover of leading Export Insurance Agencies such as: Euler Hermes, Germany; COFACE, France; EGAP, the Czech Republic; US Ex-Im Bank, the USA; SACE, Italy, etc.

JSC Ukreximbank acts as an authorised bank under the Loan Agreement dated March 29, 2005 between the Japan Bank for International Cooperation and the Cabinet of Ministers of Ukraine in the amount of JPY 19.1 billion for implementation of the Boryspil State International Airport Development Project.



# Corporate Banking



## Corporate Banking

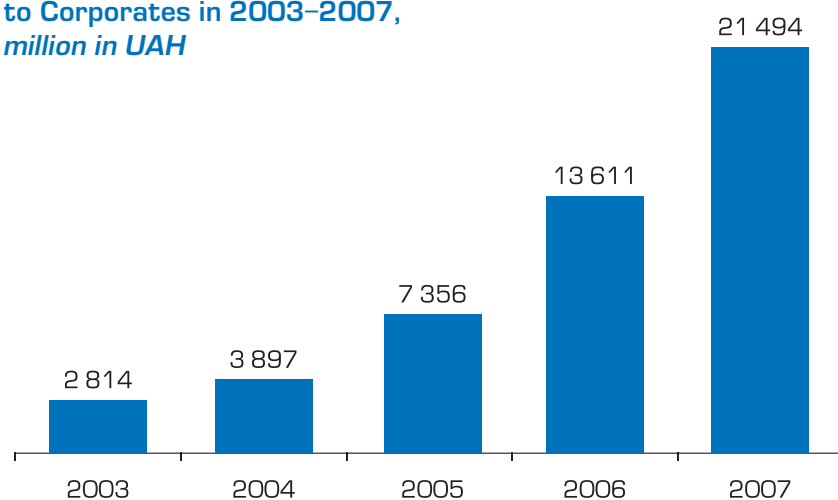
One of the main priorities of the Bank is the development of mutually beneficial relationship with the corporate customers based on providing the full range of the high-quality banking services and use of the advanced servicing schemes as well. Such an approach allowed the Bank not only to retain its customer's base but also to attract new prospective customers.

JSC Ukreximbank consistently maintains a leading position in the market of banking services for corporate customers in line with its mission to facilitate the development of the Ukrainian economy and business of its customers in export-oriented and import-substituting sectors of the economy.

### Lending

The buoyant economic growth and improvement of the investment climate in the country became the pre-condition for extension of the range and volume of loan operations while completeness and quality of the rendered services resulted in the actual growth of the Bank's credit portfolio. As of 01.01.2008 the amount of loans extended by JSC Ukreximbank to corporates amounted to UAH 21.5 billion, growth rate for the year was 57.9%. Such growth of the corporate credit portfolio allows the Bank to be the second among Ukrainian banks in this market segment.

**Dynamics of Loans (gross) provided by JSC Ukreximbank to Corporates in 2003–2007, million in UAH**



# Corporate Banking



The Bank pursues the strategy of the industry diversification focused on the most prospective industries of the economy of Ukraine.

According to 2007 results the largest shares of the credit portfolio by sector were loans to industry – 38.8% of the credit portfolio and trading companies – 31.2%, construction – 9.5% of the credit portfolio.

In 2007 financing of investment projects and export-import activity of the Ukrainian enterprises, both out of the own funds and using the resources of the foreign banks, remained among the main areas of corporate business.

The Bank increased its focus in financing the projects in processing industry, agriculture, construction, energy efficiency technologies.

## Structured Finance

Due to its impeccable reputation in international financial markets and in order to create new opportunities for borrowing foreign medium- and long-term credit resources the Bank attained recognition as a direct Borrower and Guarantor by 30 world's prominent Export Credit Agencies, such as COFACE (France), EDC (Canada), EGAP (the Czech Republic), EKF (Denmark), ERG (Switzerland), Euler Hermes (Germany), Eximbanka SR (the Slovak Republic), Eximbank of China (PRC), GIEK (Norway), HBOR (Croatia), JBIC (Japan), KEXIM (Korea), MEHIB (Hungary), OeKB (Austria), ONDD (Belgium), SACE (Italy), SEC (Slovenia), USEXIM (the USA), etc.

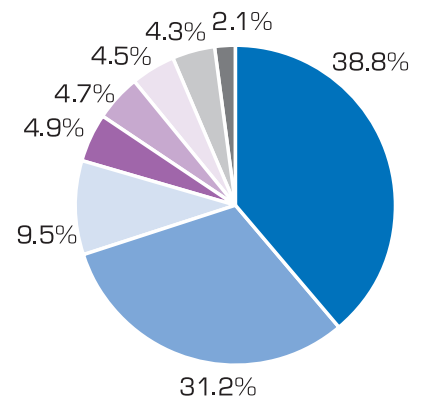
In a year 2007, the total volume of foreign export credits increased by 1.7 times.

## Trade Finance and Documentary Business

JSC Ukreximbank is among market leaders in documentary and trade finance business in Ukraine due to its long-term experience and reputation. In 2007, the volume of documentary and guarantee transactions increased by 40% compared to the previous year and reached USD 1,421.0 million.

The positive trend of growth of documentary transactions' volume was an evidence of increasing demand for these Bank's services on the part

**Corporate Credit Portfolio Structure as of 01.01.2008**



- Industry
- Trade and public catering
- Construction
- Agriculture
- Real estate deals
- Loans to individuals
- Transport and communications
- Other industries



## Corporate Banking

of the customers specializing in exports and imports. JSC Ukreximbank remains attractive to exporters and importers due to its high quality services and advice and recommendations in documentary products availability that helps customers to choose the most appropriate solution.

The volume of trade finance transactions effected by JSC Ukreximbank under clean credit lines of foreign banks increased by 75.6%yoy in 2007. At that, the amount of post-import finance grew by 94.5%yoy and the amount of pre-export finance increased almost fourfold compared to 2006 full year.

Willing to facilitate efficient foreign economic activity of the Ukrainian enterprises JSC Ukreximbank offers a wide range of trade finance products and services based on various instruments: export / import documentary LCs, banking guarantees of any kind as well as structured facilities for export and import contracts financing, which are tailored, subject to specific terms and conditions of each particular contract. In terms of such facilities JSC Ukreximbank today provides post-export finance through negotiation (payment) of documents, pre-export finance, post-import finance, and other.

In 2007, JSC Ukreximbank entered into over 40 short-term bilateral agreements with foreign financial institutions. In particular, JSC Ukreximbank and the Export-Import Bank of Korea signed the Second Amendment Agreement for total amount of USD 100 million and the tenor of 5 years to Master Interbank Export Credit Agreement for short- and long-term financing of purchasing of goods and services by Ukrainian companies. Also, in 2007 JSC Ukreximbank expanded the number of partners under pre-export financing agreements. In May 2007, JSC Ukreximbank signed a series of agreements with the European Bank for Reconstruction and Development (EBRD) for the period of up to 5 years on the Bank participation in the EBRD Trade Facilitation Program (TFP).

The network of correspondent banks and partners of JSC Ukreximbank is being constantly developed. This enables the Bank to promptly perform documentary transactions in any region of the world and to render services without involving third banks, therefore considerably decreasing the cost of the transactions.

# Corporate Banking



## Special-purpose Programs

### Second Export Development Project (EDP-2)

The successful implementation by JSC Ukreximbank of the First Export Development Project of International Bank for Reconstruction and Development (1997–2004) enabled the IBRD Board of Governors to approve in July 2006 a Loan of USD 154.5 million to the Bank for the implementation of the Second Export Development Project (EDP-2). The primary task of the EDP-2 is providing medium- and long-term financing of both working capital and investment needs of private exporters through preselected Ukrainian commercial banks acting as financial intermediaries.

In September 2006, the Guarantee Agreement (EDP-2) between Ukraine and the IBRD and the Loan Agreement were signed between the IBRD and JSC Ukreximbank. The ratification by the Verkhovna Rada of Ukraine of the Guarantee Agreement (the Law of Ukraine No.423-V dated December 1, 2006) completed the security procedures for the EDP-2. The funds became available on March 20, 2007. According to the IBRD opinion the project is being implemented well. Five Ukrainian commercial banks have already joined EDP-2. Utilization of the Loan began in the third quarter of 2007 upon approval of a number of projects submitted by the participating banks. Participation in EDP-2 increases Ukrainian exporting companies' access to the international funding.

Implementation of the EDP-2 will also facilitate the institutional development of the Bank in the field of IT and risk management in accordance with the International Financial Reporting Standards (IFRS).

### Ukraine Energy Efficiency Program

On April 25, 2007 the Bank and the European Bank for Reconstruction and Development signed the Loan Agreement on mutual implementation of the Ukraine Energy Efficiency Program (UKEEP) with EBRD. The use of funds of the Loan are directed for financing investment projects of private Ukrainian companies with a purpose of decreasing energy consumption and introduction of modern technologies that will improve the market position of the borrowers in general.



## Corporate Banking

Eligible sub-projects are:

- industrial energy efficiency projects (facilitate reduction of primary energy consumption and/or final electric power and/or fuel consumption);
- renewable energy resources projects (using hydro-, wind power, solar energy, biofuel and geothermal sources).

Under the Program considerable attention is paid to environmental protection.

Based on an arrangement with the EBRD, international consultants funded by the Swedish and Austrian governments and working under the Program providing free technical assistance to the customers of the Bank, which covers in-depth technical analysis of projects, energy audit of enterprises and/or support in choosing the most efficient way of investment in updating existing or establishing new production facilities.

In 2007, the Bank took active steps in selection and analysis of projects to be accomplished within UKEEP framework, for which initial disbursements were expected to take place in the first half of 2008.

### **Small- and Medium-sized Enterprise Program in Ukraine**

Since 1998 the Bank has implemented the Small- and Medium-sized Enterprise Program in Ukraine (a KfW credit line) for financing long- and medium-term projects of small- and medium-sized private enterprises for modernization or expansion of existing production facilities. 175 projects were financed under that Program.

Flexible terms and conditions of lending, comprehensive approach to credit project analysis and prompt credit decisions became a platform of successful implementation of the Program that promoted further development of the small- and medium-sized enterprise sector in Ukraine.

# Corporate Banking

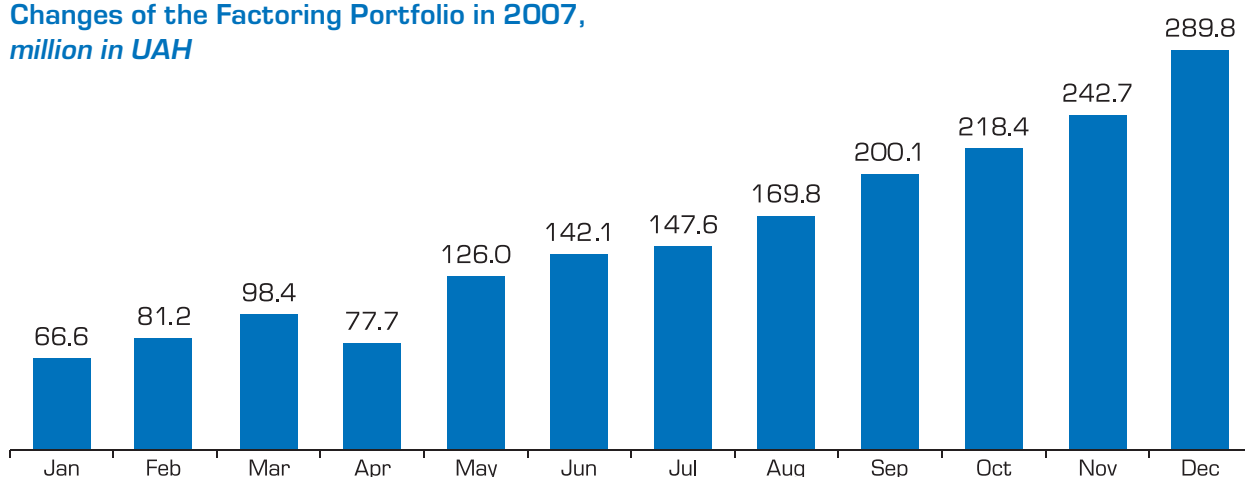


## Factoring

Factoring is one of the most rapidly developing and promising activity of Ukreximbank. In accordance with the 2007 figures the Bank became one of the leaders among the Ukrainian banks in the factoring market.

The factoring portfolio reached UAH 289.8 million and increased fourfold as compared to the previous year figures. In 2007, 44.7 thousand shipments were processed with the total acquired receivables of UAH 1,357.2 million.

### Changes of the Factoring Portfolio in 2007, million in UAH



## Foreign Exchange and Money Market Transactions

For last several years the Bank has been one of the main operators in the domestic interbank market of Ukraine in terms of volume of transactions and generated profit, has actively operated in all the market segments that enable the Bank to fully satisfy the needs of the Bank's customers involved in foreign economic activity.

In the context of constantly growing competition among leading financial institutions of Ukraine and growing volume of foreign economic operations performed by the Bank's customers, the Bank gives high importance to forex



## Corporate Banking

transactions and providing the customers with information and advisory support on the foreign exchange market trends.

In 2007, the volume of transactions in the domestic money market was UAH 43.2 billion and in interbank forex market – UAH 10.7 billion, by 48 per cent more than in 2006.

In 2007, the Bank was active in banknotes trading and precious metals market with the total volume of transactions in the international money and forex market in 2007 of UAH 439.3 billion what is almost twice as much than the 2006 figures.

The Bank's strict adherence to international standards and its reputation of a reliable partner facilitate the opening of a great number of FX lines to the Bank by international counterparts.

The Bank is active in making transactions in the international forex market with all major world currencies both by instruction of its customers and on its own behalf.

Currently, 120 banks in Ukraine and the CIS and over 35 foreign banks are counterparts of JSC Ukreximbank.

### Securities

In accordance with the license obtained by JSC Ukreximbank for professional activity in the stock market it offers its customers a full range of services in the securities market.

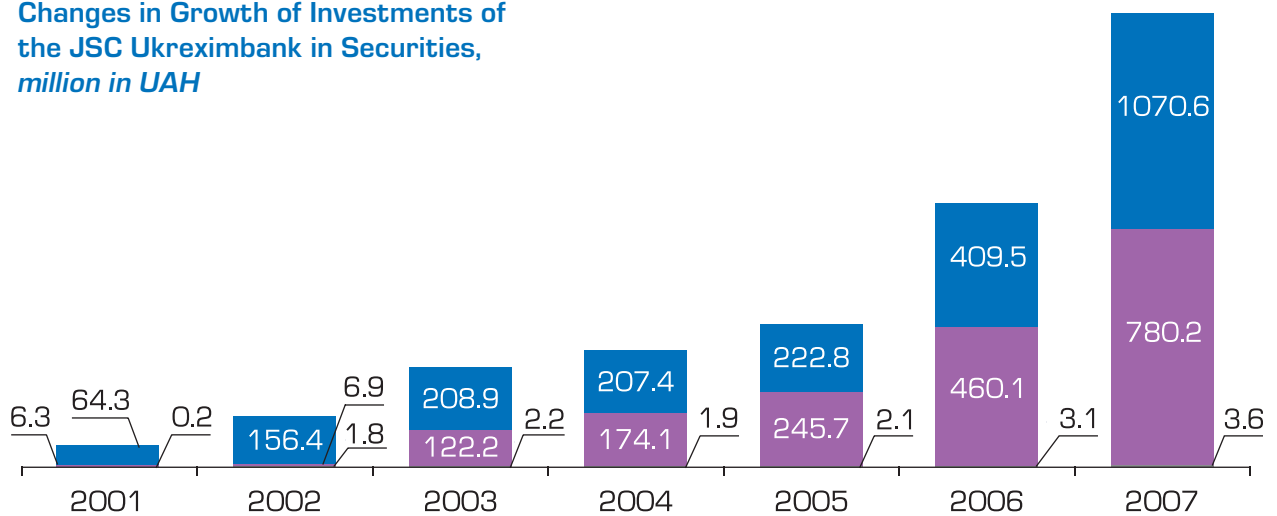
According to 2007 figures JSC Ukreximbank holds a good position in the stock market. The securities portfolio of the Bank increased twofold during the year (from UAH 871.85 million to UAH 1.85 billion). Such growth was driven by both growing share of T-bills securities refinanced by the NBU and growing investments in corporate debt securities.

The total amount of notes underwritten by the Bank during the year as at 01.01.2008 was UAH 270 million and grew by 54 percent. The notes were placed in the market with a wide range of investors (resident and non-resident, banks, insurance companies, enterprises, etc.) and listed on the stock exchange. Issues underwritten in 2007: the second issue of bonds of Spetsbudmontazh Ltd., Kharkiv, in the amount of UAH 70 million; the first issue of bonds of BBC-Ltd Ltd., Kyiv, in the amount of UAH 200 million.

# Corporate Banking



**Changes in Growth of Investments of the JSC Ukreximbank in Securities, million in UAH**



- Government debt securities (T-bills)
- Corporate debt securities (bonds, promissory notes)
- Shares (ordinary shares, stock)

The brokerage fees of the Bank from purchase/sale of securities on instruction of its customers grew up to UAH 146 million or by 115 per cent as compared to the previous year figures.

In 2007, the Bank was active in borrowing funds in the domestic financial market through issuing of its own bonds of C and D series in the total amount of UAH 775 million.



# Retail Banking

# Retail Banking



Over the year 2007, JSC Ukreximbank continued its active operations in the retail banking market and increased the volumes of such business and extended the range of services provided.

## Customers Deposits

In 2007, the balances of the customers' accounts with the entire JSC Ukreximbank branch network increased by 58% and as at 01.01.2008 amounted to an equivalent of UAH 10,595 million respectively. The balances on the individuals' term deposit accounts showed the most dramatic growth - by 84% - due to the high reputation and reliability of the Bank and its level of servicing as well as the competitive interest rates for such deposits. In the reporting year the share of individual customer deposits in the total deposit portfolio increased by almost 5 per cent. Due to more active efforts of the Bank in rendering services to individual customers in 2007, the individual customer deposits exceeded the deposits of corporates.

## Lending

The Bank offers to individual customers a wide range of mortgage and car loans as well as consumer loans and the payment card overdrafts. The transparent and favorable terms and conditions of loans offered to the customers over the year 2007 allowed the Bank to increase the volume of loans provided to individuals by 2.6 times.

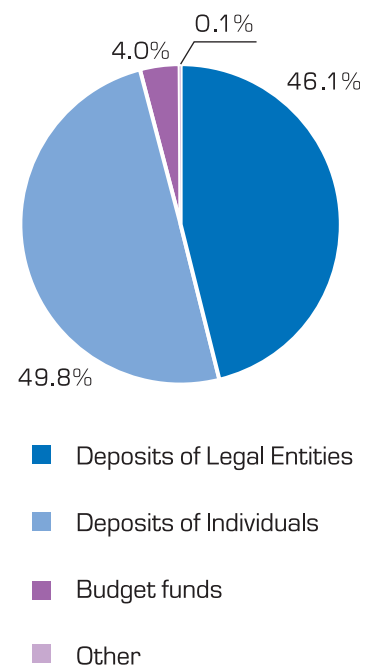
## Gold Bullions

In 2007 more active efforts in selling gold bullions enabled JSC Ukreximbank to increase the volume of gold held in customer deposit accounts by 6 times. The transaction volume growth was supported by the Bank's flexible pricing policy for wholesale buyers and individual approach to jewelry producers, to which rough gold bullions were offered.

## Money Transfers

The Bank continuously expands the range of international money transfer services. In 2007, it entered into an agreement on money transfers with Western Union.

**Structure of Customer Deposits Attracted by JSC Ukreximbank in 2007**





## Retail Banking

### Payment Cards

The Bank is a principal member of the MasterCard Int. and Visa Int. international payment systems that allows it to provide a full range of card services to the customers. In 2007 JSC Ukreximbank continued to act as a settlement bank in Ukraine for MasterCard Int. under the respective Agreement entered into in 1998.

The number of MasterCard Int. and Visa Int. payment cards issued by the JSC Ukreximbank branch network over the year 2007 grew by 26% and reached 645 thousand cards.

The account balances on the customers' card accounts with the Bank grew by almost 40% and as of 01.01.2008 amounted to UAH 521 million allowing JSC Ukreximbank to be among the leading Ukrainian banks in terms of account balance per one card issued.

In 2007, the turnover of the Bank card business increased 1.6 times and reached an equivalent of UAH 6.1 billion.

The Bank card business is supported by an own (in-house) processing center directly connected to MasterCard Int. and Visa Int. payment systems. The processing center of the Bank runs the Way4 software developed by OpenWay Systems, Ltd.

JSC Ukreximbank provides advisory services to Ukrainian banks with respect to joining MasterCard Int. and Visa Int. payment systems and acts as a guarantor for the international payment systems. In 2007, three Ukrainian banks became members of the MasterCard Int. and Visa Int. payment systems due to support of JSC Ukreximbank and therefore the total number of such banks reached 18.

In 2007, the Bank introduced the For Life Together® Charity Payment Card Program, unique in Ukraine. The VISA For Life Together® international payment card makes it possible for the customer to provide support to the pediatric ward of the Institute of Oncology of the Academy of Medical Science of Ukraine.

In 2007, the Bank jointly with the Magazin journal introduced the MasterCard ShoppingCard® international payment card that offered discounts of 10% and above when the card is used for payments in more than 200 best shops in Kyiv and other cities of Ukraine.



# Funding



## Funding

Over the year 2007, JSC Ukreximbank made borrowings in the international capital markets in the form of syndicated loans and bilateral loans for the total amount of USD 540 million.

In April, the Bank attracted 1-year syndicated loan for the amount of USD 325 million, which at the moment of closing of the transaction was the largest syndicated loan in the history of the Ukrainian banking system. Interest rate made up 6m LIBOR + 0,8% per annum and set up benchmark for the future borrowings of the Ukrainian banks in the syndicated loan market. Deutsche Bank, London Branch and Standard Bank PLC were the Lead-Arrangers of this Loan.

At the end of the year, JSC Ukreximbank effected the first club transaction for the amount of USD 90 million with the tenor of 1 year together with such relationship-banks as ABN AMRO Bank NV, BayernLB, BTMU Europe Ltd, Commerzbank AG, Deutsche Bank AG London, HSBC, Landesbank Baden-Württemberg, SMBCE and Swedbank AB. ABN AMRO Bank NV was the coordinator as to the preparation of the facility documentation and BayernLB was appointed as an Agent. Interest rate was at the level of benchmark, i.e. 6m LIBOR + 0,8% per annum.



# Risk Management



# Risk Management

The top priority task of the management of the JSC Ukreximbank is a continuous control over the risk level and management thereof.

The risk management is performed through integration of the risk management process into the general transaction technology at the Bank and creation of the relevant risk monitoring system at all the levels.

The Board of the Bank, Asset and Liability Committee, Credit Committee, Retail Business Committee, Risk Management Division, Auditing and Inspection Division, front-offices and back-offices of the Bank are involved in the risk management process.

The Bank risk management policies are in compliance with the prudential standards and requirements of the National Bank of Ukraine, and the world best modern practice.

The level of risk has been maintained within the acceptable limits established by the Risk Management Policy. The Bank met prudential standards and mandatory provisioning requirements established by the National Bank of Ukraine. The correct pricing policy and accurate assets and liabilities management provided basis for the interest margin necessary for gaining profit by the Bank.

## Credit Risk Management

The Bank performs a two-level credit risk management based on the individual loan and on the portfolio levels.

Credit risk is managed through:

- establishment of procedures for lending transaction;
- credit risk limitation: policy in respect of risk concentration and large loans, appropriate diversification, related parties lending;
- establishment of limits and monitoring and control over compliance thereof;
- classification of loans on the basis of the borrower/counterpart/loan project scoring and liquidity of the security thereof;
- establishing requirements to assessment of collateral liquidity and acceptability under lending transactions of the bank;
- appropriate allowance for loans impairment.

# Risk Management



The Bank assesses the industry risks and is targeted to reduce concentration risk, clearly evaluates its position in the loan market by breakdown of industries/branches.

Over year 2007, the credit portfolio quality has been improved, thus, the share of bad and doubtful loans decreased from 1.7% to 1.3%.

The Bank creates provisions in accordance with the requirements of the National Bank of Ukraine.

## Liquidity Risk Management

The Bank is conservative in taking liquidity risk since the Bank priority is fulfilment of the obligations to the customers. The key objective of the liquidity risk management is maintenance thereof within the established limits.

The following methods are used: to evaluate the liquidity risk, ratio analysis, GAP analysis, assets allocation analysis, analysis of the borrowed funds structure. The stress testing allows evaluating the impact of the negative scenarios on the Bank liquidity. The management of the liquidity risk is performed in the short-, medium- and long-term perspective.

In case of crisis situation the Bank applies the Contingency Plan, which stipulates for the measures to be taken by the Bank in order to overcome the liquidity crisis and compensate a deficit of monetary funds.

## Interest Rate Risk Management

*The key objective of the interest rate risk management is maintenance thereof within the acceptable limits.*

The following methods are used for evaluation of the interest rate risk: GAP analysis, static and dynamic simulation for evaluation of the net interest income vulnerability in the short-term perspective, stress-testing for evaluating interest rate risk in cases of violation of the main assumptions regarding the change of the interest rates.

Interest rate risk is managed by monitoring and control over the interest rate sensitivity assets and liabilities gap limit and limit of the net interest income sensitivity to fluctuations of the interest rate.

Interest rate policy is implemented in compliance with the targeted level of the net interest margin.



# Risk Management

## Currency Risk Management

For the purpose of effective currency risk management the following limits are established:

- limit for the Bank consolidated open currency position and for each Businesses;
- intra-day limit for the open currency position;
- stop-loss limit for the total amount of the open currency position;
- stop-loss limit for foreign exchange transactions in the international money market;
- limit for the Treasury transactions in order to exercise control over the open currency position in terms of income and losses.

For evaluation of currency risk the following parameters are calculated: the amount of open currency position, amount of possible losses in accordance with the Value-at-Risk methodology using historic simulation and variation – co-variation methods.

## Operational Risk Management

Operational Risk Management is performed by:

- improving the system of internal procedures, regulations, flow charts and certificates of incumbency;
- duties and powers sharing;
- auditing and internal control over compliance with regulatory requirements, management decisions, internal procedures, regulations, flow charts;
- improving the management information support system;
- exercising control over the legal execution of the transactions/agreements;
- staff skills upgrading;
- upgrading the software, communication, data storage and transmission equipment used by the Bank;
- analysing the reasons of appearance of the signs of the operational risk, developing and implementing preventive measures in order to avoid similar events in the future.



# Information Technologies



## Information Technologies

In view of the growing impact of the IT on the financial services industry and competitiveness, the Bank is paying significant attention to developing and improving the IT infrastructure based on modern technical and architectural solutions.

The utilization of the in-house software in combination with the software and hardware produced by the brand-names (Oracle, HP, SUN, Cisco) allows the Bank to develop an effective up-to-date integrated Bank's automation system for the business needs.

The Bank's payment infrastructure is based on the internal Bank's payment system with its principal aim being a creation of a basis for centralized operative management of temporarily free funds of the Bank for the reasonable use thereof. The internal Bank's payment system ensures the interaction of the Bank with external payment systems (national and international electronic payment systems) via single point of entry - the Clearing Division of the Bank.

The remote customer service systems – the Financial Portal® (an Internet-Banking system), the Client-Bank System, the Corporate Client-Bank System, ATM network, information kiosks, phone information service, customer's alert and notification system, Official Web site of the Bank – provide the customers an access to the information resources and services of the Bank.

The Bank improves back-up and IT infrastructure management systems on the permanent basis. In the framework of the implementation of ITSM methodologies the Bank put into operation the HP OpenView IT infrastructure monitoring and management system and the HP Service Desk as a user's support system.

In 2007, the modernization of the corporate network with implementation of IP/MPLS high-speed channels as main channels of the ground-to-ground communications was performed.



# Bank Staff – Human Resources Management



## Bank Staff – Human Resources Management

The employees are the Bank's most valuable asset. In 2007 the Bank focused on providing staff members with the opportunities for professional growth. For this reason the system of long-term staff training and improvement of employee skills was introduced via distance education and creation of the corporate university. Forms and methods for staff motivation, corporate culture enhancing and system of internal communications are continuously improving. 79% of the staff has higher education (85.3% at the Head Office, 75% at the branches). 63 specialists at the Head Office and 203 specialists at branches continue their education receiving the first or the second higher education.

27 seminars regarding the key issues of banking were organized and held by the Bank's training centre. 970 specialists at the Head Office and branches took part in these seminars. The Bank's lead specialists participated therein as main speakers and communicators. Our employees also participated in the seminars and conferences arranged by the NBU, international and Ukrainian financial and banking institutions, specialized educational establishments to acquire best practices and establish business relations.

In April 2007, the team of Ukreximbank, which is the winner of the 2006 National Final of the Strategic Management Competition Global Management Challenge (GMC), took part in the International Final of GMC in Macao, China. During the 2007 GMC the Bank was represented by 8 teams, 3 of which passed to the National Final and became 3 of the 8 strongest teams of Ukraine.



# Social Responsibility



## Social Responsibility

Social responsibility is one of the key aspects of the business philosophy of the JSC Ukreximbank. Through its daily aid work, the Bank supports the revival of the best Ukrainian traditions of charity, and makes a considerable contribution to the cause of protecting human lives, health and dignity.

The main principal of the Bank activity in this field is assistance in solving particular challenges of individuals, organisations or institutions on a free-of-charge, non-commercial basis only.

The charity work of the JSC Ukreximbank is focused on:

- social support of disabled, veterans, elderly people, children, orphans, large families, etc.;
- help in treatment of severe diseases, medical care to disabled, elderly people, children, support for preventive medical institutions, etc.;
- support of the development of science and education, implementation of scientific and educational programs, support for teachers, scholars, students, support for education of orphans and disabled children etc.;
- support of protection of architectural monuments and culture, development of native culture, support for talented and creative youth etc.;
- support of the development of publishing, the mass media, support for publishing spiritual, scientific, documentary literature, fiction, etc.;
- support of the development of health care, mass physical education, sports and tourism, healthy lifestyle promotion.



# Branch Network



## Branch Network

According to its mission and strategic aims the Bank provides for development of its branch network adequate for its clients needs.

As at 01.01.2008 the Bank's network consisted of 30 branches and 95 sub-branches, providing for the Bank's presence in all regions of Ukraine and in the Autonomous Republic of Crimea.

During 2007, the network development was made due to the opening of the Bank's branch in the city of Sumy and 16 new sub-branches. Full-service branches were opened in regions with high potential for the purpose of rendering comprehensive services to enterprises involved in foreign economic activity and leaders in different sectors of the economy and rendering of financial services to the public. Along with the full-service branches specialized sub-branches with the purpose-oriented set of banking products and services focused on the certain groups were opened.

While expanding its branch network the Bank makes significant investments in the equipment of the Bank's premises, modern technical equipment and software and training of staff. The Bank's branch network is built on the principles of expediency, unified corporate style, profitability of each branch, high degree of operational control at site.

There are two representative offices outside Ukraine: one in London, United Kingdom of Great Britain and Northern Ireland and the other one were opened in 2007 in New-York City, United States of America.

The Bank plans to further develop and bring up-to-date its network both in Ukraine and abroad.