



ANNUAL REPORT | **2018**

OF THE DEPOSIT  
GUARANTEE FUND

# I. Annual report of the **Deposit guarantee fund** in 2018 year

## ADDRESS OF THE CHAIRMAN OF THE ADMINISTRATIVE BOARD OF THE DEPOSIT GUARANTEE FUND



In 2018, the Deposit Guarantee Fund celebrated its 20th anniversary. Over the years, the Fund has undergone major evolutionary changes in all significant aspects of its operations - since a “cash desk” that only reimburses guaranteed amount to depositors, it has become an active participant of the process of insolvent banks resolution and has become an important part of the country's financial security system. The Fund has been a serious challenge for the last four years, as 95 banks were resolved, which is almost every second bank. The depositors of these institutions were paid over UAH 89 bn of guaranteed reimbursement, for which the Fund was forced to borrow significant funds from the National Bank of Ukraine and the Ministry of Finance.

The experience gained during the crisis has identified the need to improve the rules of legislation governing the deposit guarantee system, with the aim to improve the process of insolvent banks resolution and strengthen the protection of creditors' rights. In the reporting year, in particular, the Law of Ukraine “On the Deposit Guarantee System” was amended to regulate the submission of information to the Credit Register of the National Bank of Ukraine by the Fund. In addition, due to the approval of the Law of Ukraine “On Amendments to Some Legislative Acts of Ukraine on Improvement the Functioning of the Financial Sector in Ukraine”, there were eliminated obstacles to complete the procedure of liquidation of the bank and termination as a legal entity with zero liquidation balance, which is especially important because the Fund plans to complete the liquidation process of more than 40 banks in 2019. The law also regulated the status of the Guarantee Fund as a non-profit organization.

Nowadays, the Fund has a serious task – approximation of the domestic guarantee system principles to European standards, as within the framework of the Action Plan for the implementation of the Association Agreement with the EU, Ukraine has committed to implement important elements of the EU legislative to its legislation by the end of 2019. The work began by the submission of the draft Law of Ukraine “On Amendments to Certain Regulations of Ukraine to Increase the Effectiveness of Insolvent Bank Resolution, Sell Banks' Assets, and Adapt to International Standards and EU Regulations” to the Verkhovna Rada. In addition, in the reporting year there was formed a working group of representatives of the Fund, the National Bank of Ukraine and the World Bank Advisers to develop key measures needed to improve bank insolvency mechanisms and bring the regulatory framework into line with the provisions of EU Directive 2014/59.

The implementation of international standards will increase the efficiency of the deposit guarantee system and increase financial stability, which will enhance the confidence of citizens to the country's banking system.

**Sincerely,**

**Ihor Pryima**

Chairman of the Administrative Board  
of the Deposit Guarantee Fund,  
Head of the Secretariat  
of the Parliamentary Committee  
on Financial Policy and Banking

## ADDRESS OF THE MANAGING DIRECTOR OF THE DEPOSIT GUARANTEE FUND



2018 was the year when it may safely be said that banking crisis, which began in 2014, terminated: only one bank, JSC “VTB BANK”, was declared insolvent in the year, and the next important stage for the Fund was started – there was terminated the liquidation of four banks in the Fund's management. For the second year in a row, the Fund made payouts without additional borrowing, instead it continued to systematically repay its debts to the NBU and the Ministry of Finance of Ukraine, paid UAH 7.64 bn by these liabilities for the year. For the first time in 2018, pre-term repayment of UAH 1 bn was made according to the Ministry of Finance promissory notes.

A transparent and competitive asset sale system remains on the Fund's list of priorities. After the successful launch of ProZorro.Sales in 2017, there was raised the issue of raising not only domestic investors but also foreign investors, and in 2018 the Fund began to sell assets with the involvement of world-renowned international advisors.

A massive preparatory work has been carried out from the inception of this idea to its implementation. Even in those difficult circumstances in which we have to deal with assets, the Fund managed to obtain almost UAH 6.8 bn from their sale at all sites last year.

We have repeatedly and publicly, including on the media, published schemes with the help of which former top managers and bankrupt bank owners move out quality assets, leaving behind “scorched earth”. As a result, the Deposit Guarantee Fund has to fight uncompromisingly for assets in the courts. In 2018, we have filed claims for almost UAH 66 bn against related persons of insolvent banks. Almost 5.5 thousand claims have been filed with law enforcement authorities to prosecute the offenders of asset withdrawal and recover damages. The Fund will not continue this fight in the future.

Despite all the difficulties that the Fund has to overcome, we can state that we have succeeded in formation of the independent and transparent deposit guarantee system that eliminates any possibility of external intervention and a return to “manual management”.

For the second year in a row, the Automated Payment System successful works, which means that depositors of insolvent banks can receive their funds via any convenient branch of the banks that have joined to the system. For 2018, nearly USD 1 bn has been paid to depositors within the guaranteed amount. The process of approximation to the EU standards with the legislation on bank insolvency is also continuing.

Another important area of our work is the contribution of financial knowledge to citizens. In particular, the Student Video Contest was held within the Global Video Week jointly with the United States Agency for International Development (USAID) for the first time and now it is an annual event. The financial literacy of the society has a direct impact on the stability of the entire economic system of the state, so work in this direction will continue to increase.

A lot of large-scale and complex work is ahead of the Fund. The plans for 2019 are to complete the liquidation process of 40 banks and continue the sale of assets.

In addition, we set ourselves the ambitious task of increasing the payouts of guaranteed amount to depositors.

**Sincerely,**  
**Kostiantyn Vorushylin**

Managing Director  
of the Deposit Guarantee Fund



## ADMINISTRATIVE BOARD



**Ihor PRYIMA**

Chairman of the Administrative Board  
Head of Secretariat,  
Parliament Financial policy and  
Banking Committee



**Oleg STRYNZHA**

Director of the Financial Controlling  
Department  
National Bank of Ukraine



**Mykhailo VIDIAKIN**

Deputy director of strategy and  
Development Department,  
Head of Strategic Analysis and Planning Office  
National Bank of Ukraine



**Nataliia STRAKHOVA**

Deputy Director of the Department - Head of  
the Banking Services Division and Coordination  
of Interaction with the NB of the Department of Financial Policy



**Kostyantyn VORUSHYLIN**

Managing Director  
Deposit Guarantee Fund

**EXECUTIVE BOARD**

**Kostyantyn VORUSHYLIN**  
Managing Director



**Andrii OLENCHYK**  
Deputy Managing Director



**Viktor NOVIKOV**  
Deputy Managing Director



**Natalia RUDUKHA**  
Deputy Managing Director



**Svitlana REKRUT**  
Deputy Managing Director



**Olena NUZHLENKO**  
Head of Financial Department

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## MISSION, OBJECTIVES, AND FUNCTIONS OF THE DEPOSIT GUARANTEE FUND

### THE MISSION OF THE DEPOSIT GUARANTEE FUND

is to ensure the rights and legitimate interests of bank depositors, and contribute to the overall stability of the banking sector in Ukraine

### THE MAJOR GOAL OF THE DEPOSIT GUARANTEE FUND

is to ensure an effective deposit insurance scheme and resolution of insolvent banks

### FUNCTIONS

The Deposit Guarantee Fund has the following key functions:

- ✓ Maintaining the Register of Member Institutions;
- ✓ Accumulating funds from the sources as set in the Law “On Deposit Guarantee System” and supervising the payment of premiums ('contributions') from the DGF member institutions (insured banks);
- ✓ Investing the DGF funds in the government bonds;
- ✓ Issuing and distributing bonds under the procedures set in the Law, and issuing promissory notes under the terms and conditions specified in the Law 'On State Budget of Ukraine';
- ✓ Paying the insured deposits with failed banks that are subject to liquidation;
- ✓ Regulating the banks' membership with the deposit guarantee scheme;
- ✓ Inspecting problem banks upon an initiative of the National Bank of Ukraine;
- ✓ Applying financial sanctions to and imposing fines on banks and bank senior executive management;
- ✓ Resolving insolvent banks, including through provisional administration and liquidation of such banks, transfer of assets and liabilities of an insolvent bank, sale of an insolvent bank, or the establishment and sale of a bridge bank;
- ✓ On-site monitoring of the member banks under the terms and conditions set in the Law;
- ✓ Providing financial support to the member banks under the terms and conditions set in the Law;
- ✓ Analyzing the financial position and performance of the member banks in order to elicit the potential risks of the banks, and project the potential costs associated with the resolution of insolvent banks and payments of insured deposits;
- ✓ Granting the 'special purpose loan' to a bank in order to ensure a due and timely payment of the insured deposits and finance the provisional administration in a failed bank under the Paragraph 2 Part 6 Article 36, Paragraphs 7 and 8 of the Part 2 Article 37 and Part 4 Article 47 of the Law;
- ✓ Applying with the relevant questions to the customers, bank depositors and other creditors in accordance with the procedures established by the Fund;
- ✓ Informing the general public of the deposit guarantee system and the depositor's rights and legitimate interests, and promoting financial literacy pursuant to the Law;
- ✓ Studying and analyzing the markets of financial resources raised by the member institutions from retail depositors.

## 2018: At a glance



*In 2018 Deposit Guarantee Fund celebrated the 20-anniversary from the day of its establishment. It was established in 1998 under the Decree of the President of Ukraine “On Measure to Protect the Rights of Physical Persons as Depositors of Commercial Banks in Ukraine” and it has duly fulfilled its mission of protecting the rights and legitimate interests of bank depositors during these years.*

*The year was marked by the completion of the liquidation of the first 4 banks and the entrance to foreign trading platforms; the deposit payouts of UAH 979.6 million were made to depositors; UAH 6.3 billion of proceeds from the successful holding of auctions; over UAH 7.6 billion of repayments of the Fund's debt obligations to the National Bank of Ukraine and the Ministry of Finance of Ukraine; satisfaction of claims of creditors of banks, which are liquidated in the amount of almost USD 9 billion.*

## 1. KEY PERFORMANCE INDICATORS IN 2018

- As of 1 January 2019, there are 91 banks under the management of the Fund: 1 bank has the provisional administration PJSC CB “FINANCIAL INITIATIVE”, and 90 banks are in the process of liquidation. During 2018 the “VTB BANK” JSC was classified as the insolvent bank.
- The liquidation procedures of the first 4 banks, that were transferred to the management of the Fund during the reporting year, were finished, in particular “DERZHZEMBANK” PJSC, “ERDEBANK” JSC, “BANK TAVRYKA” JSC and “KLASYKBANK” PJSC. On 3 January 2019, the liquidation of “FINBANK” PJSC financial institution was completed.
- Total guaranteed reimbursement amount, that was paid to the depositors of the insolvent banks during 2018 at the expense of the Fund, was UAH 979.6 mn, UAH 734 mn of which was conducted through the Fund Automated payment system.
- As of 1 January 2019, the member institutions comprise 77 banks licensed by the National Bank of Ukraine (JSC “Oschadbank” is not a member of the Fund), one of which is under the provisional administration. As of 1 January 2019, the member institutions had UAH 1,644.3 bn of total assets, UAH 1,150.0 bn of net assets, UAH 1 022.0 bn of total liabilities, and UAH 128.0 bn of equity. At reporting year-end, the consolidated financial result of the Fund member institutions was UAH 16.3 bn. The number of depositors of the member institutions was 40.7 mln people, the amount of retail deposits amounted to UAH 438.4 bn, the amount of potential reimbursement at the expense of the Fund amounted to UAH 259.4 bn. During the reporting year, the Fund repaid the loans issued by the National Bank of Ukraine and the Ministry of Finance of Ukraine for an overall amount of UAH 7.64 bn. UAH 5.02 bn of which was paid in accordance with the loans issued by the National Bank of Ukraine, therewith there was conducted the early repay the loans of UAH 1 bn on promissory notes issued to the Ministry of Finance of Ukraine.
- As of January 01, 2019 the total book value of the 83 banks - assets, banks in which the decision of the Executive Directorate of the Fund approved the register of accepted creditors' equals UAH 482.18 bn, while their estimated value is UAH 77.17 bn or 16, 00%.
- As of 1 January 2019, the total amount of approved accepted creditors' claims equals to UAH 265.78 bn (including banks in which the liquidation was finished). During the reporting year the amount of approved accepted creditors' claims increased by UAH 5.47 bn due to the approval of the Creditors Register for 4 insolvent banks in 2018.
- In 2018, the creditors' claims were settled for UAH 8.81 bn in all the priorities.
- As of January 01, 2018, the debt of banks being liquidated regarding the payment of creditor's claims of the Fund amounted to UAH 72.50 bn. The total number of banks to which the Fund had registered creditor's claims amounted to 107 banks, which comprised 88 banks under control of the Fund and 19 banks under control of the NBU.
- In 2018 UAH 8.78 bn were received on accounts of liquidated banks, of which UAH 6.77 bn - from the sale of assets of these banks; UAH 1.45 billion was received from the loans repayment; UAH 0.46 bn - from revenues of the securities repayment; UAH 0.10 bn - from leasing of property.
- During the reporting year, successful auctions amounted to UAH 6.3 bn, with assets auctioning about UAH 340 bn at the book value. Through the trading system of Prozorro. Sale were exposed to almost 61.5 thousand of lots, 5.1 thousand of were sold. The average selling price of assets by the Fund in 2018 amounted to USD 1 million, and the maximum reached USD 331 million.
- The Fund continued to improve the sales process. As before, all auctions for sale of assets not pledged by secured creditors have been occurred at the ProZorro.Sales. In addition, there began the sale of bank assets through foreign trading platforms in 2018, in particular, the successful bidding was conducted through DebtH (USA) company and First Financial Network (USA) within the framework of a joint pilot project of the NBU and the Fund.

- As a result of work performed, in 2018 the authorized DGF officers sent 567 allegations of criminal offenses to law enforcement agencies, 190 of which resulted in entering criminal proceedings into the Unified Register of Pre-Trial Investigations. In addition, during the reporting year, the Fund completed an independent forensic audit in 9 insolvent banks.

- As of the beginning of 2019 the Fund for the fulfilment of the requirements of Article 52 of the Law of Ukraine “On Households Deposit Guarantee System”, presented claims to affiliated persons concerning 30 banks in which 571 defendants (related parties) are

involved. The total amount of claims for which applications were filed is UAH 65.8 bn.

- Among the measures aimed at increasing financial literacy of the public, in 2018 the Fund organized the Contest of Students Video in the framework of the Global Money Week celebration, conducted a series of trainings for various target audiences - for pupils, students, employees of social service centers, pensioners, teachers of the “Financial literacy” course at schools, the unemployed and others.



## 2. BANKING SECTOR OVERVIEW AND SUPERVISORY ACTIVITY

### 2.1. Overview of the Financial Indicators of Member Institutions

As of 1 January 2019, the Deposit Guarantee Fund comprised 77 member banks licensed by the National Bank of Ukraine for the provision of the banking service.

The Law of Ukraine “On Households Deposit Guarantee System” stipulates that the membership of banks in the Fund is mandatory. The Bank acquires the status of a DGF member bank on the date of receipt of the banking license. The Fund excludes a bank from among the Fund member banks in the event of adoption of a decision to revoke the banking license and institute liquidation proceedings against the bank. JSC “Oschadbank” is not a member of the Fund.

In 2018, 6 banks were excluded from the DGF Member Institutions Register (compared to 16 in the previous year) the exclusion dynamics is shown in Fig. 2.1.:

- 2 banks, revocation of a banking license and liquidation;
- 2 banks, revocation of a banking license and a general license for currency transactions in connection with the termination of banking activity without termination of a legal entity;
- 2 banks, removal from the State Register of Banks in connection with its reorganization.

As of 1 January 2019, provisional administration was introduced at 1-member bank declared insolvent by the National Bank of Ukraine.

As of January 1, 2019, the number of banks with the participation of foreign capital (more or equal to 10.00%) was 37, 100% foreign capital in 23 banks.

According to the Decision of the Committee on Supervision and Regulation of Banking Activities, oversight of the payment systems of the National Bank of Ukraine dated December 29, 2017, No. 444, the following items are provided:

- state-owned banks - banks in which the state directly or indirectly owns more than 75% of the authorised capital of the bank;
- banks of foreign banking groups - banks whose controlling stakes are owned by foreign banks or foreign financial and banking groups;

- privately owned banks - banks in which among the ultimate owners of a qualifying holding are one or more private investors directly and / or indirectly own at least 50% of the authorised capital of the bank.

As of January 1, 2019, the distribution of banks to the group was as follows: 4 – state-owned banks; 21 - banks of foreign banking groups; 51 – privately owned banks, 1 - insolvent banks.

#### Overview of the Financial Indicators of Member Institutions

The financial performance of the member institutions was analysed on the basis of balance sheet data as of 1 January, 1 July, 1 October 2018 and 1 January 2019.

Since the beginning of 2018, six banks have been excluded from the DGF Register (two of which in connection with the reorganization by joining the simplified procedure), therefore, there was not a significant impact on the dynamics of system factors in the part of assets and liabilities due to their small share in the system. The capitalization of the system remained almost unchanged, as a noticeable decrease of paid authorised capital was compensate by the improvement of performance results due to the exclusion of loss-making institutions.

General information about key balance sheet ratios of four banks excluded from the DGF Register in 2018 in connection with the liquidation and termination of banking activity without termination of a legal entity, is presented in Table 2.1.

During the first quarter of 2018, the National Bank of Ukraine twice raised the rate, which at the beginning of the year equaled 14.5%: since January 26, 2018, the rate was set at 16.0%, and since March 02, 2018 it was increased to 17.0%. In the II quarter, the rate did not change, and in the III quarter it increased again: initially to 17.5% since July 13, 2018, and then to 18.0% since September 07, 2018. After that, its rate kept constant till the end of the year.

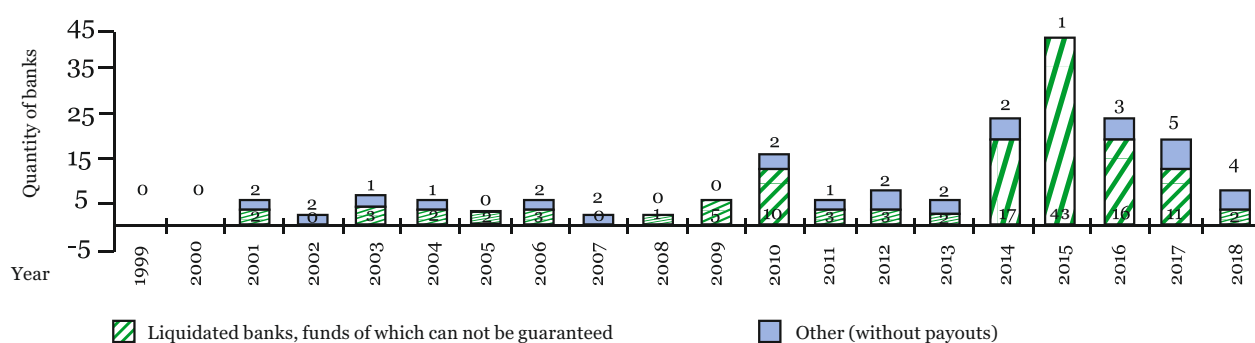


Fig. 2.1. The banks exclusion from the DGF Member Institutions Register



This gradual increase in the rate was caused by the change in the regulator's inflationary expectations, which deteriorated during the year. In September, the NBU revised the inflation estimate for 2018 as it increased due to faster than expected growth of world prices for energy and wheat, as well as higher rates of wage growth in Ukraine. Due to the strict monetary policy of the NBU, consumer inflation in 2018 decelerated and, according to the State Statistics Service of Ukraine, amounted to 9.8% against 13.7% last year. This indicates about the reversal of the growth trend, which was observed in 2017, and the depreciation of the fundamental inflationary pressure on the Ukrainian economy. At the same time, by the end of the year, inflation has exceeded the upper limit of the target range (6% ± 2 percentage points), defined by the “Main Principles of Monetary Policy for 2018 and the Mid-Term Perspective”.

During the year there were slight fluctuations in the UAH exchange, and resulted in its benign increase against the world major currencies. So, since the beginning of 2018, the official exchange rate UAH to USD has risen by UAH 0.378959 or 1.4% and as of January 1, 2019 amounted to UAH 27.688264 per a US dollar, while the official exchange rate UAH to EUR has risen by UAH 1.781286 or 5.3% and as of January 01, 2019 it was UAH 31.714138 per euro.

### Major Trends of Member Institutions in 2018

In the reporting period, the banking sector worked in favorable macroeconomic conditions. Relative stabilization of the economy and UAH exchange rate allowed to revive retail lending, to stop the outflow of foreign currency deposits, and to demonstrate an increase of UAH deposits. Corporate lending seasonally resumed in the third quarter, deposit rates grew due to the NBU's tough monetary policy. Some banks have successfully restructured toxic loans, which has allowed to disband reserves and increase profitability. The consolidated financial result of the banking system

was positive for the first time in recent years. Among the negative factors remain the high level of toxic assets in the balance sheets of the member institutions, including a significant amount of overdue loan debts, narrowing of the funding base of the banking system, decrease in the maturity of liabilities, and insufficient level of trust by depositors.

Since the beginning of the year, an important challenge for the banking system was the transition to a new standard of IFRS 9, which led to the reclassification of assets and the implementation of an approach to the formation of reserves based on the concept of expected losses. The specified changes caused a significant impact on the balance sheet ratios and profitability of the Fund's member institutions.

At year-end 2018, the balance-sheet total of the banking system showed growth, although it decreased in the first half of the year. As of 1 January 2019, it increased by UAH 33,813.0 mn, or 3.0 % (the total growth of the previous year was UAH 55,082.5 mn, or 5.2 %) and amounted to UAH 1,149,975.3 mn compared to UAH 1,116,162.3 mn at the beginning of the year. The trend changed during H2, when the balance-sheet total increased by UAH 51,241.2 mn after the reduction in the first half of the year by UAH 17,428.2 mn.

The main factors of growth were increase in loan and investment portfolios of banks, caused by increased lending, stabilization of UAH exchange rate and recovery of profitable banking system activity. Taking into account the dollarization level of the economy, when most of the currency assets and liabilities were denominated in US dollars, the impact of the national currency rate fluctuations was insignificant.

Table 2.1.

Data on Balance Sheet Indicators of the Banks Excluded from the DGF in 2018  
(except of the banks which were reorganized) as of 1 January 2018

Indicators	Net assets		Total liabilities	Equity		
	total	of which loan and investment portfolio save reserves		total	of which	
				Paid authorised capital	Performance until 2016	
For four excluded banks, UAH mn	13,559.7	5,218.9	11,554.2	2,005.5	40,665.5	- 38,814.8
Relative share in total for the Fund, %	1.2	0.6	1.2	1.6	9.1	10.3
<b>Total for the Fund, UAH mn</b>	<b>1,116,162.3</b>	<b>833,291.1</b>	<b>987,889.0</b>	<b>128,273.3</b>	<b>449,079.7</b>	<b>-377,406.5</b>

## Analysis of assets

The total assets of the member institutions in 2018 grew by UAH 64,126.8 mn or 4.1 % as of January 01, 2019 and amounted to UAH 1,644,284.1 mn compared to UAH 1,580,157.3 at the beginning of the year. At the same time, highly liquid assets (cash, payables to the NBU and on demand funds due from other banks) decreased by UAH 1,729.5 million or 1.1%, while their share in total assets decreased from 9.6% to 9.2%.

In 2018 the main factor in the growth of asset transactions of the Fund's member institutions was the recovery of retail lending and business, while last year, the investment of banks in government securities (government bonds and NBU deposit certificates). Such a change of priorities defines a gradual improvement of the banking system of the country and the return to fulfillment of the main function - lending to the economy. Some asset items have formally increased as a result of the introduction of IFRS 9 (government bonds, accrued income on loans), or artificially reduced (derivative financial assets). Investments in NBU deposit certificates and other assets have reduced, especially during the Q3, while the growth of reserves was caused by the simultaneous impact of several factors: lending, asset quality deterioration and revision of the methodology of financial instruments accounting.

See Table 2.2 for changes in the asset volumes and structure of the member institutions in 2018. Changes in 2018 of the main components of assets, which account for more than 80.0% of their total volume, in terms of individual groups of banks, are shown in Table 2.3.

The volume of the customer loan portfolio for 2018 increased by UAH 70,110.5 mn or 7.5% and as of January 1, 2019 amounted to UAH 100,902,929.6 mn, and its share in the structure of assets increased from 59.4% to 61.3%. The net customer loan portfolio grew slower and for the whole 2018 added UAH 40,004.8 mn or 8.2% due to the formation of additional reserves because of the deterioration of the quality of loan debt and the implementation of IFRS 9. Detailed analysis of the customer loan portfolio of the Fund's member institutions in 2018 is shown in the table 2.4.

In 2018 the loans to entities increased by UAH 45,048.0 mn or 5.8% due to, first of all, a substantial increase in accrued income of UAH 37,472.7 mn due to the transition to IFRS 9. At the same time, the recovery of new lending allowed to increase the loan business portfolio by UAH 7,575.3 mn. The portfolio of corporate loans grew during the year, mainly in state-owned banks and banks of foreign banking groups (except of Russian state-owned ones). The main part of the growth came in the Q3. In 2018, national currency net loans to corporations grew by 8.1%, and net foreign loans- by 2.6%. The main corporate borrowers, which ensured the lending growth, were state monopolies, trading enterprises and farms and the main

borrowers in foreign currency were enterprisers of alternative energy, trade and agricultural export enterprisers.

Retail loans continued grow for the second consecutive year and since the beginning of 2018 increased by UAH 23,768.5 mn or 14.5%, while in 2017 - only by UAH 4,186.3 mn. The main factor of growth is the granting of new national currency loans to the population, which accounts for UAH 30,481.2 mn (including accrued income - UAH 3,478.8 mn). The portfolio of foreign currency loans of population from the beginning of the year reduced by UAH 6,712.7 mn due to partial repayment and sale, despite a formal increase of accrued interest by UAH 5,757.2 mn.

Overdue debt on customer loans granting since January 1, 2018 increased by UAH 65,971.8 mn due to a healthy increase in overdue accrued income by UAH 67,625.2 mn, which is mainly due to the implementation of IFRS 9. The total amount of overdue of customer loans portfolio as of January 01, 2019 amounted to UAH 404,153.3 mn, exceeding the level of the beginning of the year by 19.5%, although in the Q4 it decreased by UAH 18,656.7 mn. Due to an increase in nominal volumes of overdue loans, its share in the total amount of granted customer loans as of January 01, 2019 increased to 40.0%, while for the whole previous year it increased from 27.3% to 36.0%.

In 2018 the amount of credit risk reserves increased by UAH 30,105.7 mn, or 6.7 % and amounted to 482,199.2 as of January 01, 2019, while the reserve coverage level of loan portfolio reduced from 48.5 % to 47.8 %. In Q4 the indicated reserves reduced for UAH 30,078.4 mn due to the exit of the two Russian state-owned banks from the banking market.

The volume of interbank loans and deposits in the first half of the year remained good stable, in the second increased and as of January 01, 2019 amounted to UAH 28,628.0 mn. In total, during the year it grew by UAH 6,534.4 mn or 29.6%, although in the Q4 it decreased by UAH 3,801.5 mn. Growth occurred solely at the expense of interbank deposits, while the volume of loans has almost not changed. The net interbank portfolio also increased by UAH 6,857.9 mn or 32.7% to UAH 27,820 mn. According to the results of the year reserves for the interbank portfolio decreased (by UAH 323.5 mn), despite its increase (by UAH 6,534.4 mn) and the amount of overdue debts (UAH 384.7 mn). The analysis of the interbank credit and deposit portfolio changes of Fund member institutions that have taken place since the beginning of the year is shown in the Table 2.5.

The amount of non-performing loans and income accrued thereon accounts receivable of the member institutions as of January 01, 2019 reached UAH 531,799.8 mn, having increased since January 01, 2018 by UAH 18,314.0 mn or 3.6%. At the same time, in the Q4 it decreased by UAH 30,083.5 mn, which allowed to reduce the

share of non-performing loans in the total loan portfolio of the member institutions to 50.1% compared to 53.4% at the beginning of the year. The main reasons for improvement are not connected to the repayment of toxic debts, but in the revival of lending, which leads to “dilution” of toxic loans by new ones, as well as exit of two Russian state-owned banks from the banking market. Changes in volumes and shares of non-performing customer loans and inter-bank loans and deposits in portfolio of certain banks groups in 2018 are shown in Table 2.6.

In connection with the IFRS 9 implementation, the structure of the securities portfolio was reflected in the balance sheets of the member institutions (Table 2.7). The total volume of investments of the member institutions in securities continued to grow for the fourth consecutive year and as of January 01, 2019 it amounted to UAH 364,684.7 mn, which is UAH 34,722.0 mn or 10.5% more than the level of the beginning of the year. At present, it accounts for 22.2% of the total assets of the member institutions against 20.9% at the beginning of the year. At the same time, the net portfolio of securities increased by UAH 34,414.2 mn, and as of January 01, 2019 it amounted to UAH 359,917.6 mn compared to UAH 325,503.4 mn as of January 01, 2018. The main component of the portfolio is investment in government securities refinanced by the NBU. During the year they grew by UAH 37,828.5 mn or 14.5%, and their share in the portfolio increased from 79.2% to 82.0%. The mentioned changes are mainly related to the reclassification of indexed government securities to government bonds in January 2018, which were previously recognized as a derivative of financial assets by JSC CB "PRIVATBANK". As a result, the size of derivative

assets decreased by more than UAH 34.0 bn, with a simultaneous healthy increase in the revaluation of government bonds, which led to a formal increase of the portfolio of government securities refinanced by the NBU, without investments increase.

NBU portfolio of deposit certificates decreased of the balance sheets of the member institutions in 2018, which as of January 01, 2019 decreased by UAH 3,962.5 mn or 6.4% to UAH 57,565.2 mn. The relative share of these certificates of the general securities portfolio also decreased from 18.6% to 15.8%. At the same time, at the end of the year, banks significantly increased investments in NBU certificates, which almost allowed to fully recover their volume after a decrease in the Q3.

The amount of member institutions to corporate securities for the first time in recent years increased and as of January 01, 2019 amounted to UAH 8,019.6 mn compared to UAH 7,163.6 mn as of January 01, 2018, but their share in the total portfolio of member institutions remained insignificant - only 2.2%, which affirms of the extremely low activity of banks in the corporate stock market of Ukraine.

After a long decline of the accounts receivable of the member institutions, accounts receivables increased, which in 2018 increased by UAH 1,286.8 mn or 7.9%. Instead, investments in affiliates and subsidiaries during this period decreased by UAH 591.0 mn or by 4 times. Long-term investments in fixed assets and intangible assets also decreased by UAH 2,059.7 mn or 4.6%, while the volume of other assets decreased by UAH 10,238.9 mn or by the quarter.

Table 2.2.

## Member Institutions Asset Structure and Dynamics in 2018

(UAH mn)

Indicators	January 01, 2018		July 01, 2018		October 01, 2018		January 01, 2019		Change of the amount	
	amount	%	amount	%	amount	%	amount	%	Q4	year
1	2	3	4	5	6	7	8	9	10	11
Cash, cheque card and banking metals	39,710.1	2.5	39,105.3	2.5	37,766.2	2.3	42,009.6	2.6	+ 4,243.4	+ 2,299.5
Payables to the NBU	30,524.9	1.9	39,126.0	2.5	41,878.7	2.5	30,762.5	1.9	- 11,116.2	+ 237.6
-funds on the NBU correspondent accounts	30,524.9	1.9	38,731.9	2.5	41,878.7	2.5	30,762.5	1.9	- 11,116.2	+ 237.6
- deposits in the NBU	-	-	394.1	0.0	-	-	-	-	-	-
Funds in the other banks	103,382.5	6.6	107,520.0	6.7	129,810.9	7.7	105,648.8	6.4	- 24,162.1	+ 2,266.3
- on demand funds	81,227.4	5.2	84,830.3	5.3	97,318.6	5.8	76,960.8	4.7	- 20,357.8	- 4,266.6
- granted loans and deposits	22,019.5	1.4	22,537.0	1.4	32,328.2	1.9	28,544.2	1.7	- 3,784.0	+ 6,524.7
-accrued incomes	135.6	0.0	152.7	0.0	164.1	0.0	143.8	0.0	- 20.3	+ 8.2
Loans to the entities	774,389.1	49.0	776,289.5	48.8	838,736.8	50.1	819,437.1	49.8	- 19,299.7	+ 45,048.0
- granted loans	724,821.2	45.9	693,092.0	43.6	746,442.8	44.6	732,396.5	44.5	- 14,046.3	+ 7,575.3
- accrued incomes	49,567.9	3.1	83,197.5	5.2	92,294.0	5.5	87,040.6	5.3	- 5,253.4	+ 37,472.7
Retail loans	163,924.3	10.4	171,703.2	10.8	190,839.4	11.4	187,692.8	11.4	- 3,146.6	+ 23,768.5

Table 2.2.(continuation)

## Member Institutions Asset Structure and Dynamics in 2018

(UAH mn)

Indicators	January 01, 2018		July 01, 2018		October 01, 2018		January 01, 2019		Change of the amount	
	amount	%	amount	%	amount	%	amount	%	Q4	year
1	2	3	4	5	6	7	8	9	10	11
– granted loans	135,881.6	8.6	133,745.4	8.4	150,715.8	9.0	150,414.1	9.1	– 301.7	+ 14,532.5
– accrued incomes	28,042.7	1.8	37,957.8	2.4	40,123.6	2.4	37,278.7	2.3	– 2,844.9	+ 9,236.0
Loans to authorities	605.7	0.0	781.4	0.0	1,398.5	0.1	1,899.7	0.1	+ 501.2	+ 1,294.0
– granted loans	594.8	0.0	696.2	0.0	1,305.8	0.1	1,823.9	0.1	+ 518.1	+ 1,229.1
- accrued incomes	10.9	0.0	85.2	0.0	92.7	0.0	75.8	0.0	– 16.9	+ 64.9
-securities*, which are refinanced or issued by the NBU	322,799.1	20.4	343,258.9	21.6	326,672.8	19.5	356,665.1	21.7	+ 29,992.3	+ 33,866.0
- securities*, which are refinanced by the NBU	256,105.5	16.2	279,032.1	17.6	292,704.9	17.5	294,590.6	17.9	+ 1,885.7	+ 38,485.1
– NBU deposit certificated	61,368.2	3.9	59,279.4	3.7	28,529.7	1.7	57,439.9	3.5	+ 28,910.2	– 3,928.3
– accrued incomes	5,325.4	0.3	4,947.4	0.3	5,438.2	0.3	4,634.6	0.3	– 803.6	– 690.8
NBU corporate and other securities*	7,163.6	0.5	7,279.2	0.5	7,796.6	0.5	8,019.6	0.5	+ 223.0	+ 856.0
– corporate and other securities*	6,117.4	0.4	6,183.2	0.4	6,719.8	0.4	6,966.6	0.4	+ 246.8	+ 849.2
– accrued incomes	1,046.2	0.1	1,096.0	0.1	1,076.8	0.1	1,053.0	0.1	– 23.8	+ 6.8
Derivative financial assets	34,501.7	2.2	111.2	0.0	123.9	0.0	317.3	0.0	+ 193.4	– 34,184.4
Accounts receivable	16,299.0	1.0	20,360.0	1.3	20,304.8	1.2	17,585.8	1.1	– 2,719.0	+ 1,286.8
Investments in affiliates or subsidiaries	777.5	0.0	400.1	0.0	400.1	0.0	186.5	0.0	– 213.6	– 591.0
Fixed and intangible assets	44,802.0	2.9	44,988.6	2.8	45,465.1	2.7	42,742.3	2.6	– 2,722.8	– 2,059.7
Other accrued incomes	1,727.1	0.1	1,689.2	0.1	1,757.1	0.1	2,005.2	0.1	+ 248.1	+ 278.1
Other assets	39,550.7	2.5	37,648.0	2.4	31,183.9	1.9	29,311.8	1.8	– 1,872.1	– 10,238.9
<b>Total assets</b>	<b>1,580,157.3</b>	<b>100.0</b>	<b>1,590,260.6</b>	<b>100.0</b>	<b>1,674,134.8</b>	<b>100.0</b>	<b>1,644,284.1</b>	<b>100.0</b>	<b>– 29,850.7</b>	<b>+ 64,126.8</b>
including accrued incomes	85,855.8	5.4	129,125.8	8.1	140,946.5	8.4	132,231.7	8.0	– 8,714.8	+ 46,375.9
Reserves for asset transactions	– 463,995.0	x	– 491,526.5	x	– 524,761.5	x	– 494,308.8	x	+ 30,452.7	– 30,313.8
<b>Net assets</b>	<b>1,116,162.3</b>	<b>x</b>	<b>1,098,734.1</b>	<b>x</b>	<b>1,149,373.3</b>	<b>x</b>	<b>1,149,975.3</b>	<b>x</b>	<b>+ 602.0</b>	<b>+ 33,813.0</b>

\* Securities

Table 2.3.

## Changes of the main components of assets of certain group of member institutions for 2018

(UAH mn)

Indicators	Total assets as of January 01, 2019		of which:					
			loans to entities		retail loans		securities*, which are refinanced or issued by the NBU	
	amount	changes for year	amount	changes for year	amount	changes for year	amount	changes for year
1	2	3	4	5	6	7	8	9
State-owned banks	849,986.9	+ 53,059.8	406,999.9	+ 43,092.4	75,801.0	+ 12,105.5	262,920.3	+ 31 505.1
of which Privatbank	525,247.8	+ 33,531.8	226,484.6	+ 13,120.2	67,382.8	+ 11,284.0	179,115.0	+ 50 670.4
banks of foreign banking groups;	544,583.5	– 2,545.4	286,874.6	+ 1,801.9	82,648.8	+ 4,381.5	53,703.5	– 554.5
of which Russian state-owned banks	118,528.3	– 23,813.9	98,552.8	– 15,883.6	2,881.7	+ 290.3	3,537.3	+ 1 685.2

Table 2.3. (continuation)

## Changes of the main components of assets of certain group of member institutions for 2018

(UAH mn)

Indicators	Total assets as of January 01, 2019		of which:					
			loans to entities		retail loans		securities*, which are refinanced or issued by the NBU	
	amount	changes for year	amount	changes for year	amount	changes for year	amount	changes for year
1	2	3	4	5	6	7	8	9
Privately owned banks	225,618.4	+ 17,221.4	103,969.7	+ 2,777.7	29,239.7	+ 7,312.3	38,179.0	+ 3 645.6
Insolvent banks	24,095.3	- 3,609.0	21,592.9	- 2,624.0	3.3	- 30.8	1,862.3	- 730.2
<b>Total of members institutions</b>	<b>1,644,284.1</b>	<b>+ 64,126.8</b>	<b>819,437.1</b>	<b>+ 45,048.0</b>	<b>187,692.8</b>	<b>+ 23,768.5</b>	<b>356,665.1</b>	<b>+ 33 866.0</b>

Table 2.4.

## Volume and structure of customer loan portfolio of member institutions in 2018

(UAH mn)

Indicators	January 01, 2018		July 01, 2018		October 01, 2018		January 01, 2019		Change of the amount for	
	amount	%	amount	%	amount	%	amount	%	Q4	year
1	2	3	4	5	6	7	8	9	10	11
Loans to the entities	774,389.1	82.5	776,289.5	81.8	838,736.8	81.4	819,437.1	81.2	- 19,299.7	+ 45,048.0
- granted loans	724,821.2	77.2	693,092.0	73.0	746,442.8	72.4	732,396.5	72.6	- 14,046.3	+ 7,575.3
of which overdue ones	269,403.8	28.7	268,205.8	28.3	275,407.0	26.7	265,032.1	26.3	- 10,374.9	- 4,371.7
- accrued incomes	49,567.9	5.3	83,197.5	8.8	92,294.0	9.0	87,040.6	8.6	- 5,253.4	+ 37,472.7
of which overdue ones	19,826.2	2.1	68,618.1	7.2	74,708.7	7.3	71,799.8	7.1	- 2,908.9	+ 51,973.6
Retail loans	163,924.3	17.4	171,703.2	18.1	190,839.4	18.5	187,692.8	18.6	- 3,146.6	+ 23,768.5
- granted loans	135,881.6	14.4	133,745.4	14.1	150,715.8	14.6	150,414.1	14.9	- 301.7	+ 14,532.5
of which overdue ones	29,929.2	3.2	29,220.6	3.1	35,158.0	3.4	32,647.5	3.2	- 2,510.5	+ 2,718.3
- accrued incomes	28,042.7	3.0	37,957.8	4.0	40,123.6	3.9	37,278.7	3.7	- 2,844.9	+ 9,236.0
of which overdue ones	19,011.4	2.0	35,383.8	3.7	37,461.1	3.6	34,598.7	3.4	- 2,862.4	+ 15,587.3
Loans to authorities	605.7	0.1	781.4	0.1	1,398.5	0.1	1,899.7	0.2	+ 501.2	+ 1,294.0
- granted loans	594.8	0.1	696.2	0.1	1,305.8	0.1	1,823.9	0.2	+ 518.1	+ 1,229.1
of which overdue ones	-	-	-	-	-	-	-	-	-	-
- accrued incomes	10.9	0.0	85.2	0.0	92.7	0.0	75.8	0.0	- 16.9	+ 64.9
of which overdue ones	10.9	0.0	75.2	0.0	75.2	0.0	75.2	0.0	-	+ 64.3
<b>Total customer portfolio</b>	<b>938,919.1</b>	<b>100.0</b>	<b>948,774.1</b>	<b>100.0</b>	<b>1,030,974.7</b>	<b>100.0</b>	<b>1,009,029.6</b>	<b>100.0</b>	<b>- 21,945.1</b>	<b>+ 70,110.5</b>
of which overdue ones	338,181.5	36.0	401,503.5	42.3	422,810.0	41.0	404,153.3	40.0	- 18,656.7	+ 65,971.8
Customer loan loss reserves	-452,093.5	x	- 479,064.7	x	- 512,277.6	x	- 482,199.2	x	+ 30,078.4	- 30,105.7
<b>Net customer portfolio, of which.</b>	<b>486,825.6</b>	<b>100.0</b>	<b>469,709.4</b>	<b>100.0</b>	<b>518,697.1</b>	<b>100.0</b>	<b>526,830.4</b>	<b>100.0</b>	<b>+ 8,133.3</b>	<b>+ 40,004.8</b>
Loans at fair value through profits and losses	-	-	6,204.0	1.3	5,900.7	1.2	70.8	0.0	- 5,829.9	+ 70.8
- nominal of loans and discount/bonus	-	x	9,328.7	x	5,923.6	x	520.1	x	- 5,403.5	+ 520.1
- accrued incomes	-	x	3,975.2	x	67.3	x	42.4	x	- 24.9	+ 42.4
- overpricing	-	x	- 7,099.9	x	- 90.2	x	- 491.7	x	- 401.5	- 491.7
Loans at fair value through another integrated profit	-	-	0.0	0.0	146.0	0.0	0.0	0.0	- 146.0	0.0
- nominal of loans and discount/bonus	-	x	64.1	x	231.1	x	53.3	x	- 177.8	+ 53.3
- accrued incomes	-	x	24.7	x	26.6	x	21.1	x	- 5.5	+ 21.1



Table 2.4. (continuation)

## Volume and structure of customer loan portfolio of member institutions in 2018

(UAH mn)

Indicators	January 01, 2018		July 01, 2018		October 01, 2018		January 01, 2019		Change of the amount for	
	amount	%	amount	%	amount	%	amount	%	Q4	year
1	2	3	4	5	6	7	8	9	10	11
– overpricing	–	x	–	x	– 15.8	x	–	x	+ 15.8	–
– reserves	–	x	– 88.8	x	– 95.9	x	– 74.4	x	+ 21.5	– 74.4
Loans of amortised cost	486,825.6	100.0	463,505.4	98.7	512,650.4	98.8	526,759.6	100.0	+ 14,109.2	+ 39,934.0
- nominal of loans and discount/bonuses	861,297.6	x	825,240.7	x	892,415.7	x	884,552.8	x	– 7,862.9	+ 23,255.2
– accrued incomes	77,621.5	x	117,240.6	x	132,416.4	x	124,331.6	x	– 8,084.8	+ 46,710.1
– reserves	– 452,093.5	x	– 478,975.9	x	– 512,181.7	x	– 482,124.8	x	+ 30,056.9	– 30,031.3

Table 2.5.

## Interbank of loans and deposits portfolio of member institutions for 2018

Indicators	January 01, 2018		July 01, 2018		October 01, 2018		January 01, 2019		Change of the amount for	
	amount	%	amount	%	amount	%	amount	%	Q4	year
1	2	3	4	5	6	7	8	9	10	11
Deposits	4,029.8	18.2	4,359.7	18.9	7,067.7	21.8	9,817.8	34.3	+ 2,750.1	+ 5,788.0
– placed deposits	4,029.5	18.2	4,358.1	18.9	7,064.7	21.8	9,811.3	34.3	+ 2,746.6	+ 5,781.8
of which overdue ones	0.3	0.0	0.3	0.0	0.3	0.0	0.3	0.0	–	–
– accrued incomes	0.3	0.0	1.6	0.0	3.0	0.0	6.5	0.0	+ 3.5	+ 6.2
of which overdue ones	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–	–
Interbank loans	18,063.8	81.8	18,660.0	81.1	25,361.8	78.2	18,810.2	65.7	– 6,551.6	+ 746.4
– granted loans	17,990.0	81.4	18,573.0	80.7	25,263.5	77.9	18,732.8	65.4	– 6,530.7	+ 742.8
of which overdue ones	345.7	1.6	319.7	1.4	873.4	2.7	762.4	2.7	– 111.0	+ 416.7
– accrued incomes	73.8	0.4	87.0	0.4	98.3	0.3	77.4	0.3	– 20.9	+ 3.6
of which overdue ones	42.4	0.2	4.2	0.0	36.4	0.1	10.4	0.0	– 26.0	– 32.0
<b>Total interbank portfolio</b>	<b>22,093.6</b>	<b>100.0</b>	<b>23,019.7</b>	<b>100.0</b>	<b>32,429.5</b>	<b>100.0</b>	<b>28,628.0</b>	<b>100.0</b>	<b>– 3,801.5</b>	<b>+ 6,534.4</b>
of which overdue ones	388.4	1.8	324.2	1.4	910.1	2.8	773.1	2.7	– 137.0	+ 384.7
Reserves of interbank loans and deposits	– 1,131.5	x	– 1,145.7	x	– 873.9	x	– 808.0	x	+ 65.9	+ 323.5
<b>Net interbank portfolio</b>	<b>20,962.1</b>	<b>x</b>	<b>21,874.0</b>	<b>x</b>	<b>31,555.6</b>	<b>x</b>	<b>27,820.0</b>	<b>x</b>	<b>– 3,735.6</b>	<b>+ 6,857.9</b>

Table 2.6.

## Non-performing portfolios of member institutions for 2018

Indicators	January 01, 2018		July 01, 2018		October 01, 2018		January 01, 2019		Change of the amount for	
	amount	Share of LP*, %	amount	Share of LP*, %	amount	Share of LP*, %	amount	Share of LP*, %	Q4	year
1	2	3	4	5	6	7	8	9	10	11
<b>Total non-performing loan portfolios* and accrued incomes of member institutions, of which</b>	<b>513,485.8</b>	<b>53.4</b>	<b>533,470.7</b>	<b>54.9</b>	<b>561,883.3</b>	<b>52.8</b>	<b>531,799.8</b>	<b>50.1</b>	<b>- 30,083.5</b>	<b>+ 18,314.0</b>
-state-owned banks	316,049.9	73.6	320,221.8	74.3	337,856.1	71.1	338,134.1	66.0	+ 278.0	+ 22,084.2
JSC CB "PRIVATBANK"	236,211.2	87.6	230,263.3	84.6	243,695.9	83.3	244,824.3	83.4	+ 1,128.4	+ 8,613.1
- banks of foreign banking groups	156,833.6	41.0	167,466.9	42.5	178,236.9	41.7	151,194.5	38.5	- 27,042.4	- 5,639.1
- privately owned banks	30,169.1	24.1	30,951.7	24.1	34,463.3	24.7	31,233.0	23.0	- 3,230.3	+ 1,063.9
- insolvent banks	10,433.2	43.0	14,830.3	69.3	11,327.0	52.2	11,238.2	52.0	- 88.8	+ 805.0

\* LP – loan portfolio of the corresponding group of banks without exemption of the reserves

Table 2.7.

## Portfolio of securities of member institutions for 2018

(UAH mn)

Indicators	January 01, 2018		July 01, 2018		October 01, 2018		January 01, 2019		Change of the amount for	
	amount	%	amount	%	amount	%	amount	%	Q4	year
1	2	3	4	5	6	7	8	9	10	11
Securities which are refinanced by the NBU	261,271.4	79.2	283,810.1	81.0	298,068.6	89.1	299,099.9	82.0	+ 1,031.3	+ 37,828.5
- government bonds and other securities, which are refinanced by the NBU	256,105.5	77.6	279,032.1	79.6	292,704.9	87.5	294,590.6	80.8	+ 1,885.7	+ 38,485.1
- accrued incomes	5,165.9	1.6	4,778.0	1.4	5,363.7	1.6	4,509.3	1.2	- 854.4	- 656.6
Securities issued by the NBU	61,527.7	18.6	59,448.8	16.9	28,604.2	8.6	57,565.2	15.8	+ 28,961.0	- 3,962.5
- NBU deposit certificated	61,368.2	18.6	59,279.4	16.9	28,529.7	8.6	57,439.9	15.8	+ 28,910.2	- 3,928.3
- accrued incomes	159.5	0.0	169.4	0.0	74.5	0.0	125.3	0.0	+ 50.8	- 34.2
Corporate and other securities	7,163.6	2.2	7,279.2	2.1	7,796.6	2.3	8,019.6	2.2	+ 223.0	+ 856.0
- corporate and other securities	6,117.4	1.9	6,183.2	1.8	6,719.8	2.0	6,966.6	1.9	+ 246.8	+ 849.2
- accrued incomes	1,046.2	0.3	1,096.0	0.3	1,076.8	0.3	1,053.0	0.3	- 23.8	+ 6.8
<b>Total securities portfolio</b>	<b>329,962.7</b>	<b>100.0</b>	<b>350,538.1</b>	<b>100.0</b>	<b>334,469.4</b>	<b>100.0</b>	<b>364,684.7</b>	<b>100.0</b>	<b>+ 30,215.3</b>	<b>+ 34,722.0</b>
Reserves of securities	- 4,459.3	x	- 4,684.7	x	- 4,717.5	x	- 4,767.1	x	- 49.6	- 307.8
<b>Net securities portfolio, of which</b>	<b>325,503.4</b>	<b>100.0</b>	<b>345,853.4</b>	<b>100.0</b>	<b>329,751.9</b>	<b>100.0</b>	<b>359,917.6</b>	<b>100.0</b>	<b>+ 30,165.7</b>	<b>+ 34,414.2</b>
Securities at fair value through profits and losses (previously trading portfolio)	46,954.7	14.4	121,066.6	35.0	123,560.8	37.5	125,780.7	34.9	+ 2,219.9	+ 78,826.0
- nominal of securities and discount/bonus	37,559.9	x	85,734.3	x	85,301.3	x	87,055.3	x	+ 1,754.0	+ 49,495.4
- accrued incomes	1,353.2	x	1,834.2	x	1,925.0	x	1,758.8	x	- 166.2	+ 405.6
- overpricing	8,041.6	x	33,498.1	x	36,334.5	x	36,966.6	x	+ 632.1	+ 28,925.0
Securities at fair value through another total income (previously portfolio for sale)	202,440.0	62.2	176,508.7	51.0	169,905.7	51.5	178,778.7	49.7	+ 8,873.0	- 23,661.3



Table 2.7. (continuation)

## Portfolio of securities of member institutions for 2018

(UAH mn)

Indicators	January 01, 2018		July 01, 2018		October 01, 2018		January 01, 2019		Change of the amount for	
	amount	%	amount	%	amount	%	amount	%	Q4	year
1	2	3	4	5	6	7	8	9	10	11
– nominal of securities and discount/bonus	203,611.5	x	181,125.1	x	174,776.4	x	185,077.7	x	+ 10,301.3	– 18,533.8
– accrued incomes	4,304.1	x	3,903.1	x	4,255.3	x	3,649.1	x	– 606.2	– 655.0
– overpricing	– 1,021.0	x	– 4,019.3	x	– 4,626.1	x	– 5,398.0	x	– 771.9	– 4,377.0
– reserves	– 4,454.6	x	– 4,500.2	x	– 4,499.9	x	– 4,550.1	x	– 50.2	– 95.5
Securities of amortised cost (previously portfolio for reimbursement)	76,108.7	23.4	48,278.1	14.0	36,285.4	11.0	55,358.2	15.4	+ 19,072.8	– 20,750.5
– nominal of securities and discount/bonus	75,399.1	x	48,156.5	x	36,168.3	x	55,295.5	x	+ 19,127.2	– 20,103.6
– accrued incomes	714.3	x	306.1	x	334.7	x	279.7	x	– 55.0	– 434.6
– reserves	– 4.7	x	– 184.5	x	– 217.6	x	– 217.0	x	+ 0.6	– 212.3

### Analysis of Liabilities

The dynamics of the liabilities of the member institutions in 2018 indicates their decrease during January – February due to the seasonal outflow of funds with further growth in the Q2 and Q3 and a slight decrease at the end of the year. This allowed not only to revive the volumes as at the beginning of the year, but also to exceed them. According to the results of the year, banks increased their obligations in all areas, except for interbank borrowings and term deposits of retail and businesses in foreign currency (including savings certificates). The largest source of liabilities increase was the funds of individuals on demand, which increased 75.6% of growth.

In total, 2018 liabilities increased by UAH 34,085.2 mn, or 3.5%, and amounted to UAH 1,021,974.2 mn as of 01 January 2019 compared to UAH 987,889.0 mn as of 01, January 2018. Liabilities have been increasing for the second consecutive year at approximately the same pace (in 2017 they have added UAH 33528.5 mn or 3.5%) due to the increase of customer balances on demand and fixed-term deposits in UAH. The structure of liabilities and their dynamics during 2018 are shown in Table 2.8. Changes for 2018 of the main liabilities components, which account more than 80.0% of their total volume, in terms of certain groups of banks, are shown in Table 2.9.

In 2018, the volume of interbank loans and deposits of member institutions decreased by UAH 5,362.1 mn or 14.1%, and their share in the structure of liabilities decreased from 3.9% to 3.2%. At the same time, the NBU loan debt of banks (without accrued interest) almost did not change, increased by only UAH 170.9 mn or 0.8%, while the balance of funds on demand of other banks decreased by UAH 3,823.2 mn or 27.9%

In the second half of the year, banks increased overdue debts on loans from international and other organizations, which amounted to UAH 81,484.9 mn at the end of the year, which is UAH 5,713.8 mn or 7.5% higher than the level as of January 01, 2018. At the same time JSC Ukreximbank, which accounts for UAH 65,017.2 mn of debts, increased it by UAH 5,817.9 mn for the year.

In 2018 the size of the banks subordinated debts remained constant and as of January 01, 2019 amounted to UAH 11,984.5 mn compared to UAH 11,948.4 mn as of January 01, 2018.

During 2018, the book value of entities of the member institutions increased. As of January 01, 2019, their volume amounted to UAH 389,001.7 mn, which is UAH 7,986.2 mn or 2.1% more than the level as of January 01, 2018. Businesses funds are growing in banks for the third year in a row (in 2017 they increased by 12.5%, and in 2016 by 8.8%), although their share in the liabilities of the member institutions decreased from 38.5% to 38.1% in 2018.

Payables to individuals over the past year increased by UAH 23,308.1 mn or 6.0% (UAH 387,110.1 to 410,418.2 mn), and their share in the liability structure increased by 1.0% (39.2% to 40.2%). The individuals national currency deposits increased in the state-owned and private banks (UAH for 19,795.4 mn and UAH 5,593.3 mn respectively), and also in the banks of foreign banking groups except of Russian state-owned banks (for UAH 5,627.2 mn). Retail currency deposits declined in all groups of banks, except of banks with private capital. During the year, their decrease amounted to UAH 6,031.3 mn.

The share of fixed-term funds (without accrued interest) in the liability structure of the member institutions in 2018 continued

to decrease for the fifth year in a row and as of January 01, 2019 amounted to 49.4% against 51.3% as of January 01, 2018. Its growth at the beginning of the year at the expense of placement temporarily free budget funds in fixed-term deposits was further offset by reduction of budget deposits at the end of the year, as well as a gradual decrease in fixed-term interbank borrowings.

Thus, the trend to reduce the fixed-term resource that has existed since the beginning of 2014 continues, but not in all directions, due to the growth of business deposits, loans from international financial institutions and retail national currency deposits.

Table 2.8.

### Structure and Dynamics of Liabilities of Member Institutions in 2018

(UAH mn)

Indicators	January 01, 2018		July 01, 2018		October 01, 2018		January 01, 2019		Change of the amount for	
	amount	%	amount	%	amount	%	amount	%	Q4	year
1	2	3	4	5	6	7	8	9	10	11
Debt to the NBU	23,143.8	2.4	20,139.5	2.1	23,633.8	2.3	23,218.4	2.3	- 415.4	+ 74.6
- funds on the NBU correspondent accounts	2.4	0.0	-	-	0.0	0.0	-	-	0.0	- 2.4
- loans received from the NBU	22,332.8	2.3	19,430.9	2.0	22,921.0	2.2	22,503.7	2.2	- 417.3	+ 170.9
- accrued costs	808.6	0.1	708.6	0.1	712.8	0.1	714.7	0.1	+ 1.9	- 93.9
Funds of other banks	52,676.2	5.4	40,366.6	4.1	49,687.3	4.8	43,967.1	4.3	- 5,720.2	- 8,709.1
- payables on demand	13,710.3	1.4	8,773.8	0.9	14,278.0	1.4	9,887.1	1.0	- 4,390.9	- 3,823.2
- received loans and deposits raised	38,160.7	3.9	30,541.8	3.1	34,141.7	3.3	32,798.6	3.2	- 1,343.1	- 5,362.1
- accrued costs	805.2	0.1	1,051.0	0.1	1,267.6	0.1	1,281.4	0.1	+ 13.8	+476.2
Payables to entities	381,015.5	38.5	364,724.2	37.3	381,168.5	37.1	389,001.7	38.1	+ 7,833.2	+ 7,986.2
- payables on demand	272,831.2	27.6	257,978.0	26.4	277,295.5	27.0	277,407.0	27.1	+ 111.5	+ 4,575.8
- fixed-term deposits (deposits)	106,830.0	10.8	105,407.9	10.8	102,372.7	10.0	110,052.5	10.8	+ 7,679.8	+ 3,222.5
- accrued costs	1 354.3	0.1	1,338.3	0.1	1,500.3	0.1	1,542.2	0.2	+ 41.9	+ 187.9
Payables to individuals	387,110.1	39.2	396,176.5	40.5	410,843.0	40.0	410,418.2	40.2	- 424.8	+ 23,308.1
- payables on demand	133,257.5	13.5	152,946.4	15.6	157,212.2	15.3	159,024.3	15.6	+ 1,812.1	+ 25,766.8
- fixed-term deposits (deposits)	251,414.0	25.4	240,845.4	24.6	251,151.3	24.4	248,978.2	24.4	- 2,173.1	- 2,435.8
- accrued costs	2,438.6	0.3	2,384.7	0.3	2,479.5	0.3	2,415.7	0.2	- 63.8	- 22.9
Funds from the budget and extra-budgetary funds	7,253.5	0.8	18,257.6	1.9	19,158.6	1.9	7,362.1	0.7	- 11 796.5	+ 108.6
- payables on demand	7,251.3	0.8	6,394.0	0.7	7,565.9	0.8	7,358.4	0.7	- 207.5	+ 107.1
- fixed-term deposits (deposits)	-	-	11,802.7	1.2	11,527.0	1.1	-	-	- 11 527.0	-
- accrued costs	2.2	0.0	60.9	0.0	65.7	0.0	3.7	0.0	- 62.0	+ 1.5
Loans from international and other financial organizations	75,771.1	7.6	75,831.7	7.7	80,186.9	7.8	81,484.9	7.9	+ 1,298.0	+ 5,713.8
- granted loans	72,388.6	7.3	72,321.0	7.4	76,459.6	7.4	77,948.7	7.6	+ 1,489.1	+ 5,560.1
- accrued costs	3,382.5	0.3	3,510.7	0.3	3,727.3	0.4	3,536.2	0.3	- 191.1	+ 153.7
Debt securities issued by banks	6,496.6	0.6	5,259.7	0.5	6,094.0	0.6	5,527.8	0.5	- 566.2	- 968.8
- saving (deposit) certificates	6,195.0	0.6	5,008.6	0.5	5,518.0	0.5	4,965.7	0.5	- 552.3	- 1,229.3
- other debt securities issued by banks	165.3	0.0	152.4	0.0	449.2	0.1	486.3	0.0	+ 37.1	+ 321.0
- accrued costs	136.3	0.0	98.7	0.0	126.8	0.0	75.8	0.0	- 51.0	- 60.5
Derivative liabilities	109.6	0.0	50.8	0.0	133.9	0.0	51.4	0.0	- 82.5	- 58.2
Accounts payable	21,606.6	2.2	27,248.6	2.8	22,745.7	2.2	22,618.7	2.2	- 127.0	+ 1,012.1
Subordinated debt	11,948.4	1.2	11,352.2	1.1	12,225.9	1.2	11,984.5	1.2	- 241.4	+ 36.1

Table 2.8.

## Structure and Dynamics of Liabilities of Member Institutions in 2018

(UAH mn)

Indicators	January 01, 2018		July 01, 2018		October 01, 2018		January 01, 2019		Change of the amount for	
	amount	%	amount	%	amount	%	amount	%	Q4	year
1	2	3	4	5	6	7	8	9	10	11
– subordinated debt	11,519.8	1.2	10,933.2	1.1	11,830.9	1.2	11,518.1	1.2	– 312.8	– 1.7
– accrued costs	428.6	0.0	419.0	0.0	395.0	0.0	466.4	0.0	+ 71.4	+ 37.8
Reserves of the liabilities	7,551.1	0.8	8,161.1	0.8	8,230.0	0.8	7,955.3	0.8	– 274.7	+ 404.2
Other accrued costs	661.4	0.1	640.9	0.1	710.9	0.1	783.3	0.1	+ 72.4	+ 121.9
Other liabilities	12,545.1	1.2	10,866.3	1.1	12,824.4	1.2	17,600.8	1.7	+ 4,776.4	+ 5,055.7
<b>Total liabilities</b>	<b>987,889.0</b>	<b>100.0</b>	<b>979,075.7</b>	<b>100.0</b>	<b>1,027,642.9</b>	<b>100.0</b>	<b>1,021,974.2</b>	<b>100.0</b>	<b>– 5,668.7</b>	<b>+ 34,085.2</b>
Inclusive accrued costs	10,017.7	1.0	10,212.8	1.0	10,985.9	1.1	10,819.4	1.1	– 166.5	+ 801.7

Table 2.9.

## Changes of main liabilities rates by certain groups of banks for 2018 UAH mn

Indicators	Total liabilities as of January 01, 2019		of which:					
			payables of other banks		payables of entities		payables to individuals	
	amount	changes in a year	amount	changes in a year	amount	changes in a year	amount	changes in a year
1	2	3	4	5	6	7	8	9
State-owned banks	480,422.6	+ 26,716.6	6,205.5	+ 1,990.0	138,578.1	– 2,689.8	224,293.9	+ 16,164.9
of which Privatbank	250,575.1	+ 17,121.4	194.9	– 38.9	47,391.9	+ 6,924.1	177,143.5	+ 10,178.3
Banks of foreign banking groups	353,438.2	– 3,671.2	33,281.3	– 8,666.5	169,755.1	+ 4,998.8	112,433.0	– 2,018.8
of which Russian state capital	36,949.6	– 25,228.9	17,413.5	– 13,679.5	5,718.8	– 3,727.7	7,087.9	– 7,012.2
Privately owned banks	171,434.9	+ 12,151.7	4,327.3	– 2,028.7	80,050.2	+ 5,703.7	72,295.0	+ 9,201.3
Insolvent banks	16,678.5	– 1,111.9	153.0	– 3.9	618.3	– 26.5	1,396.3	– 39.3
<b>Total for member institutions</b>	<b>1,021,974.2</b>	<b>+ 34,085.2</b>	<b>43,967.1</b>	<b>– 8,709.1</b>	<b>389,001.7</b>	<b>+ 7,986.2</b>	<b>410,418.2</b>	<b>+ 23,308.1</b>

## Analysis of Financial Results

According to the results of 2018, the consolidated financial result of the member institutions was positive in the amount of UAH 16,334.8 mn, which partially allowed to reimburse the decrease of shareholders' equity of the bank sector in connection with the transition to the standard of IFRS 9. The dynamics of the financial result since the beginning of the year was unstable: profit was recorded in the amount of UAH 5,375.5 mn in the Q1, loss of UAH 2,450.7 mn in the Q2, profit of UAH 2,943.6 mn in the Q3, while in the latter it was also a profit of UAH 10,466.4 mn (Fig 2.2). The main reason for such fluctuations was the provision of loans risk, as well as resolved the insolvent banks at the end of the year. The detailed dynamics of income and expenses of the member institutions, as well as their financial results for 2018, is shown in Table 2.10.

Gradual growth of interest rates on loans allowed to increase the volume of interest income of member institutions for the first time in the last three years. On the other hand, an increase of deposit

rates led to an increase of interest expense, but of smaller amounts than interest income increased, as deposit rates increased later than loans. As a result, the annual net interest income of the member institutions in 2018 amounted to UAH 67,719.4 mn compared to UAH 49,364.9 mn in 2017.

The cost of funding in the second half of the year began to increase after relative stability in the first half of the year. Increasing competition for customer payables has led to a rise of business deposit cost. In 2018, the value of new national currency deposits of corporations increased by 5.3 percentage points to 14.5% per annum. Rates on national currency deposits of individuals increased. For example, the average cost of 12-month deposits of individuals in national currency increased by 0.6 percentage points to 15.7% per annum. The value of foreign currency deposits slightly increased (in US dollars - by 0.1 percentage points to 3.6% per annum), but continued to be at a rather low level. At the same time, banks almost do not differentiate deposit rates depend on maturity: the difference in rates between 6-, 9- and 12-month deposits remained insignificant.

From the beginning of the year there was an increase of national currency loan rates, which increased by 1.1 percentage points on corporate loans and 0.4 percentage points on retail loans in the Q1. National currency loans to entities also increased to 16.1% per annum in the Q2, but the cost of loans to individuals remained unchanged at 30.3% per annum. The cost of new loans to corporations again increased to 17.5% per annum in the Q3, while rates on retail loans decreased by 0.6 percentage points to 29.7% per annum. Finally, rates of national currency business loans increased to 20.8% per annum in the Q4, while individual loans became expensive by 1.6 percentage points to 31.3% per annum.

In 2018 the increase of the banks profitability was also contributed by the outrunning growth of commission income in comparison with commission expenses and reduction of allocations to reserves after the implementation of a new methodology for accounting and valuation of financial instruments.

These factors allowed the member institutions for the first time since 2013 to get a positive consolidated financial result for 2018 in the amount of UAH 16,334.8 mn, partly reimbursed a decline of their capital due to the transition to IFRS 9.

By results of the year, 69 member institutions got a profit in the total amount of UAH 34,274.3 mn, and 14 banks got losses in the amount of UAH 17,939.5 mn. Last year 63 institutions were profitable, and 20 showed a negative result.

Among the banks groups all state-owned banks recorded annual profit in the total amount of UAH 13,429.6 mn, UAH 11,668.2 mn of which was allocated to JSC "CB" Privatbank". Banks of foreign banking groups completed the year with a profit of UAH 3,972.9 mn, despite the continuing loss-making activity of institutions with Russian state-owned capital, the consolidated loss amounted to UAH 11,003.1 mn. Solvent privately owned banks in 2018 got profit in the amount of UAH 4,191.4 mn, and insolvent banks completed a year with losses for an overall amount of UAH 5,259.1 mn.

According to the results of 2018, the total income of the member institutions amounted to UAH 185,079.1 mn, which is UAH 28,568.2 mn or 18.3% more than in 2017. During the year, all components of income increased, with the exception of the return of assets charged-off.

Interest income was recorded in the amount of UAH 121,568.8 mn, exceeding the level of 2017 by UAH 14,401.9 mn or 13.4%, while their relative share in the income structure slightly decreased from 68.5% to 65.7%. In 2018, banks gradually raised their loan rates after the NBU decision to raise the discount rate, which allowed to increase the amount of interest income for the first time in the last three years.

During 2018, the fee-based income of the member institutions increased. As of January 01, 2019 they reached UAH 45,667.4 mn and exceeded the volume of 2017 by UAH 12,522.4 mn or 37.8%, and their share in total incomes increased to 24.7% against 21.2% last year. At the same time, the volume of fee for settlement and cash services, which accounts for a lion's share of all fee revenues, increased by UAH 10,965.2 mn or 41.7%.

In 2018 the remaining income items increased less than interest and fee, but exceeded the level of 2017, with the exception of income from the return of assets charged off. This applies to the result of revaluation and purchase and sale transactions, other operating income and other incomes.

In order to improve the banks financial results, the banks tried to reduce their expenses, which in 2018 amounted to UAH 168,744.3 mn, or 92.2% of their volume in 2017, decreasing for the year by UAH 14,297.0 mn. The main component of expenses, as well as last year, remained interest expenses, the size of which amounted to UAH 53,849.4 mn or 93.2% of last year's volume. Compared to 2017, they decreased by UAH 3,952.6 mn, and at the end of 2018 they accounted for 31.9% of the total amount of expenses. The increase of the NBU discount rate during the year led to a gradual increase of interest expense, but in smaller amounts than interest income increased, as deposit rates increased later than loans.

According to the results of 2018, fee and commission expenses of the banks amounted to UAH 11,315.5 mn, which is UAH 2,966.8 mn or 35.5% more than last year, and their share in total expenses increased from 4.6% to 6.7%. Other operating expenses at the end of the year exceeded last year volume by UAH 4,389.8 mn or 45.0% and amounted to UAH 14,152.3 mn, accounting 8.4% of the total amount of expenses.

In 2018 almost one third of all expenses of the member institutions accounted for administrative and tax expenses. As of January 01, 2019, they amounted to UAH 52,842.0 mn, which is UAH 3,657.9 mn, or 6.5% less than in 2017, and came close to interest expense in volume.

Allocations to reserves decreased in 2018 decreased. Compared to 2017, their volume decreased by UAH 14,043.1 mn or 27.7%, of which allocations to reserves for loans to customers decreased by UAH 13,238.7 mn. The share of allocations to reserves in total amount of expenses amounted to 21.7% in 2018 against 27.6% last year. This reduction is due to the fact that the main part of the reserves for asset transactions formed in previous years. By virtue of the expense of reduction of allocation to reserves, total amount of expenses of member institutions has decreased by 7.8% in 2018 against the level of 2017.

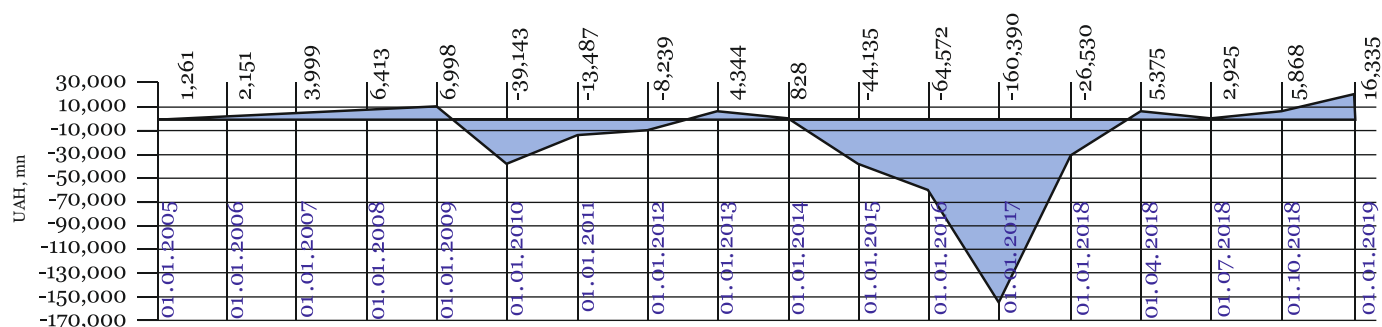


Fig. 2.2 Dynamics of financial results of the banks

Table 2.10.

## Incomes, expenses and financial results of member institutions in 2018

(UAH mn)

Indicators	January 01, 2018	July 01, 2018	October 01, 2018	January 01, 2019	Change of the amount for	
					Q4	year
1	2	3	4	5	6	7
<b>Total incomes, of which</b>	<b>156,510.9</b>	<b>82,251.1</b>	<b>127,988.1</b>	<b>185,079.1</b>	<b>+ 57,091.0</b>	<b>+ 28,568.2</b>
- Interest income	107,166.9	56,779.6	87,301.0	121,568.8	+ 34,267.8	+ 14,401.9
- Fee-based income	33,145.0	21,323.8	33,717.4	45,667.4	+ 11,950.0	+ 12,522.4
of which fee for settlement and cash services	26,325.7	17,384.4	27,527.2	37,290.9	+ 9,763.7	+ 10,965.2
- revaluation result and purchase and sale transactions	6,632.4	- 634.7	- 338.9	7,532.4	+ 7,871.3	+ 900.0
- other operating income	7,169.9	3,879.7	5,933.2	8,044.2	+ 2,111.0	+ 874.3
- other income	1,329.1	662.9	948.8	1,738.6	+ 789.8	+ 409.5
- return of assets charged off	1,067.6	239.8	426.6	527.7	+ 101.1	- 539.9
<b>Total income, of which:</b>	<b>183,041.3</b>	<b>79,326.3</b>	<b>122,119.7</b>	<b>168,744.3</b>	<b>+ 46,624.6</b>	<b>- 14,297.0</b>
- interest expenses	57,802.0	26,071.0	39,941.1	53,849.4	+ 13,908.3	- 3,952.6
of which % of payables to customers	44,541.5	20,698.1	31,728.4	42,602.5	+ 10,874.1	- 1,939.0
- fee and commission expenses	8,348.7	5,073.7	7,994.4	11,315.5	+ 3,321.1	+ 2,966.8
of which fee for settlement and cash services	7,458.8	4,645.9	7,330.5	10,408.3	+ 3,077.8	+ 2,949.5
- other operating income	9,762.5	5,280.9	8,678.6	14,152.3	+ 5,473.7	+ 4,389.8
- administrative and tax expenses	56,499.9	25,800.6	38,179.6	52,842.0	+ 14,662.4	- 3,657.9
- allocations to reserves	50,628.2	17,100.1	27,326.0	36,585.1	+ 9,259.1	- 14,043.1
of which allocation to reserves for customer loans	47,662.7	15,444.5	25,562.3	34,424.0	+ 8,861.7	- 13,238.7
<b>Financial result, of which:</b>	<b>- 26,530.4</b>	<b>2,924.8</b>	<b>5,868.4</b>	<b>16,334.8</b>	<b>+ 10,466.4</b>	<b>+ 42,865.2</b>
- solvent state-owned banks	- 21,407.2	7,843.2	6,523.4	13,429.6	+ 6,906.2	+ 34,836.8
of which Privatbank	- 22,965.9	6,925.7	5,356.3	11,668.2	+ 6,311.9	+ 34,634.1
- solvent banks of foreign banking groups	- 5,068.7	- 1,641.2	2,117.3	3,972.9	+ 1,855.6	+ 9,041.6
including Russian state-owned banks	- 11,808.2	- 9,099.3	- 9,107.5	- 11,003.1	- 1,895.6	+ 805.1
- solvent privately owned banks	1,557.2	2,010.9	2,535.6	4,191.4	+ 1,655.8	+ 2,634.2
- insolvent banks	- 1,611.7	- 5,288.1	- 5,307.9	- 5,259.1	+ 48.8	- 3,647.4

## Analysis of the Capital

In 2018 the equity of the member institutions almost did not change and as of 1 January 2019 amounted to UAH 128,001.1 million against UAH 128,273.3 million last year. Changes in equity structure of the member institutions in 2018 are shown in Table. 2.11.

During the year, several factors influenced on the level of capitalization. Initially, it decreased due to the implementation of new approaches in accounting and valuation of financial instruments during the transition to the new IFRS 9 standard. These changes

led to a retrospective increase in reserves for asset transactions of the member institutions, which increased the losses of the past years. However, in the middle of the year, due to the return of the banking system to profitable activities and additional contributions of shareholders to the authorised capital of some banks (first of all, Russian), the capitalization began to increase. At the end of the year the equity of the member institutions almost recovered to last year's level due to the resolution of 4 loss making banks and the profitability of the system.



According to the results of 2018, 58 banks increased their equity and 19 decreased their equity (after 2017 - 70 and 13, respectively). One member institution had negative equity as of 1 January 2019. The equity of the other banks was positive. During 2018 the paid authorised capital of the member institutions decreased by UAH 30,180.6 million or 6.7% and amounted to UAH 418,899.1 million, which is 3.3 times more than the equity of the member institutions. At the same time, 22 banks increased their own authorised capital by the total amount of UAH 10,586.0 million due to additional contributions, and two more - by UAH 620.0 million due to the affiliation of two other banks.

The registered authorised capital for 2018 decreased by UAH 26,524.9 million and as of 1 January 2019 amounted to UAH 418,489.2 million against UAH 445,014.1 million as of 1 January 2018. At the same time, 22 banks registered an increase in the authorised capital totaling UAH 12,101.1 million. The significant decrease in the authorised capital at the end of 2018 due to the resolution of loss-making institutions did not lead to a significant decrease in the equity of the system, since the resolution of the loss-making banks simultaneously led to the improvement of the consolidated results due to the decrease of losses in the previous years. The recovery of capitalization was also prompted by the profitability of the member institutions in 2018, which allowed to increase the equity for the amount of annual profit. According to the results of 2018, the share of equity in the liabilities decreased slightly (from 11.5% to 11.1%) due to a slight increase in the liabilities of the member institutions, although in 2017 it increased from 10.1% to 11.5%. At the same time, the volume of subordinated debt almost did not change and as of 1 January 2019 amounted to UAH 11,518.1 million against UAH 11,519.8 million as of 1 January 2018.

In 2018, the ratio of problem (overdue) loan debts to equity of the member institutions increased, which in the whole year increased from 263.9% to 316.3%. At the same time, the number of member, whose amount of overdue loan debts exceeds the equity and was, as last year, 14 banks.

As of 1 January 2019, the retail deposits were 3.4 times higher than the equity of banks, while as of 1 January 2018, such an increase was 3.2 times, which indicates the insufficient level of protection of deposits by capital.

Thus, despite the stabilization of the banking system's capitalization situation in 2018, the problem of increasing capital adequacy remains pressing. The presence of such negative factors as the asset quality deterioration, a large amount of overdue debts and a retrospective increase in losses in recent years due to the implementation of new accounting and valuation standards reduces the positive effect of the capital replenishment of the member institutions. Taking this into consideration, the NBU conducted stress tests of 24 banks in the Q3 and Q4, which together accounted for about 95% of banking sector assets, which resulted in the need of capital for 13 institutions

totaling UAH 42.1 billion. With the exception of JSC VTB BANK, which was declared insolvent, the need amounted to UAH 34.7 billion and, taking into account the measures taken by banks by the end of 2018, it decreased to UAH 19.7 billion and should be "closed" completely during 2019. In addition, to comply with the provisions of the Law of Ukraine " On Amendments to Some Legislative Acts of Ukraine Aimed at Preventing Negative Consequences for the Stability of the Banking System" No. 1586-VII dated 4 July 2014, which provides for an increase in the minimum amount of authorised capital at the time of state registration of a legal entity, which intends to carry out banking activities, from UAH 120 million to UAH 500 mn, NBU has developed the schedule of gradual adjustment of the authorised capital to comply with the requirements, namely to the amount of not less than: UAH 120 mn - by 17 June 2016; UAH 200 mn - by 11 July 2017; UAH 300 mn - by 11 July 2020 (date changed according to Resolution of the NBU Board No. 136 dated 21 December 2017); UAH 400 mn - by 11 July 2022 (date changed according to Resolution of the NBU Board No. 136 dated 21 December 2017); UAH 500 mn - by 11 July 2024. Taking this into consideration, and taking into account the results of the NBU stress tests, the next stage of capitalization growth of the banking system is expected during 2019 and the first half of 2020.

As a result of the annual evaluation of banks' stability by the NBU in 2018, the banking sector was considered sufficiently capitalized and financially stable. The current main problems remain as follows: low asset quality, high level of non-performing loans, concentration of significant funds in government securities instead of lending to the economy, reduction of the solvent customer base, continuation the work of banking institutions with low financial stability, poor protection of creditors' rights. At the same time, there was evidence of a gradual recovery of the domestic economy in general and the banking sector in particular. Existing trends for economic growth, controlled inflation and moderate exchange rate volatility are contributing to increased demand for banking services by individuals and businesses and have already led to a revival in lending and deposits. Further there is expected in the banking sector to continue the inflow of deposits, increase business loan portfolio and consumer lending. The driver of operating profitability will be retail lending and accelerated increase of fee revenues, while consolidated operating results will remain profitable, which will be fueled by operating income growth and moderate allocations to reserves.

## 2.2. Analysis of Deposit Market Trends

The analysis of deposit transactions in 2018 was conducted for 77 member institutions according to the monthly "Report on Retail Deposits of DGF Member Institutions (Reporting Form No. 1Φ)" received from the member institutions. During 2018 6 banks were taken off the register of member institutions. In the beginning of 2018 total amount of retail deposits in these banks is UAH 4.4 bn (Table 2.12).

Table 2.11.

## Changes in the Equity Structure of the Member Institutions in 2017

(UAH mn)

Indicators	1 Jan 18	1 Jul 18	1 Oct 18	1 Jan 19	Amount change for	
					Q4	year
1	2	3	4	5	6	7
Paid authorised capital	449,079.7	459,651.8	460,593.6	418,899.1	- 41,694.5	- 30,180.6
of which registered authorised capital	445,014.1	448,348.2	458,406.4	418,489.2	- 39,917.2	- 26,524.9
Issue profit/loss and additional allocations	19,431.5	20,499.4	20,499.0	20,469.8	- 29.2	+ 1,038.3
of which results from transactions with shareholders	6,405.2	6,377.7	6,377.4	6,377.3	- 0.1	- 27.9
General reserves and funds	17,178.0	18,221.6	18,886.6	18,881.3	- 5.3	+ 1,703.3
Revaluation results	19,990.6	16,201.0	15,138.3	13,629.3	- 1,509.0	- 6,361.3
of which results from initial recognition transactions with shareholders at non-market price	12,485.3	12,483.6	12,344.0	12,341.8	- 2.2	- 143.5
Earlier and 2018 results	- 377,406.5	- 394,915.4	- 393,387.1	- 343,878.4	+ 49,508.7	+ 33,528.1
of which 2018 results	-	2,924.8	5,868.4	16,334.8	+ 10,466.4	+ 16,334.8
<b>Total equity</b>	<b>128,273.3</b>	<b>119,658.4</b>	<b>121,730.4</b>	<b>128,001.1</b>	<b>+ 6,270.7</b>	<b>- 272.2</b>
For references:						
Subordinated debt	11,519.8	10,933.2	11,830.9	11,518.1	- 312.8	- 1.7

Table 2.12.

## Data on on Retail Deposits of the Banks Taken off the DGF Member Institutions Register in 2018 (as of 1 January 2018)

No.	Reg. No.	Name of the bank	Number of depositors	The amount of deposits, UAH		Potential reimbursement amount, UAH	Date of decision to liquidate/resolute a bank
			persons	total	of which foreigncurrency deposits		
1	229	UNISON	13,641	19,580,115	10,981,631	8,734,123	18 June 2018
2	222	DV BANK	912	11,152,453	6,638,811	7,006,100	14 August 2018
3	50	VS BANK	50,270	466,330,814	270,178,657	209,512,972	30 October 2018
4	219	CENTER	1,030	28,442,167	26,488,697	5,796,171	30 October 2018
5	185	BM BANK	41,601	551,153,477	314,201,180	413,153,323	06 November 2018
6	60	VTB BANK	169,165	3,369,386,749	2 077,434,792	1,814,646,120	18 December 2018
<b>Overall for 2018</b>			<b>276,619</b>	<b>4,446,045,775</b>	<b>2,705,923,768</b>	<b>2,458,848,808</b>	

## Deposit Market Trends

✓ **The number of depositors** – in 2018 decreased by 274.400 persons or 0.7% and amounted to **40.7 mn persons**. For comparison in 2017 the number of depositors decreased by 150,100 persons or 0.4%. The total number of depositors with the state-owned banks is 23.5 mn persons or 57.8% of the total number for the Fund. 7 banks, the number of depositors in each of which is more than 1 mn persons, concentrate a total of 33.1 mn depositors, which accounts for 78.9 % of the total number of depositors with the Fund (Table 2.13). JSC CB “PRIVATBANK” concentrates deposits of 21.5 mn persons, which accounts for 52.8 % of the total number of depositors with the Fund.

✓ **Total deposits** increased by UAH 24.6 mn or 5.9% and amounted to UAH 438.4 bn in 2018. For comparison in 2017 the increase of total deposits amounted UAH 31.6 bn or 8.3%. The total deposits in the state-owned banks amounted to UAH 238.0 bn or 54.3% of the total deposits for the Fund. The 8 banks with total deposits in excess of UAH 10 bn concentrate UAH

344.4 bn or 78.6% of total deposits of all the Fund, of which JSC CB “PRIVATBANK” accounts for 43.4% of all the member institutions (Table 2.14).

✓ **The number of individual entrepreneurs** amounted to 1.3 mn persons, or 3.1 %, as of 1 January 2019 among all depositors in the amount of UAH 27.4 bn, which accounted for 6.3% of the total deposits. In 2018, the number of individual entrepreneurs increased by 122,500 persons, or 8.9 %, and the amount, by UAH 6.0 bn, or 21.8 %.

✓ **Insolvent banks** – JSC CB “FINANCIAL INITIATIVE”, which concentrated funds of 164,400 depositors for the total amount of UAH 1.4 bn, of which the Fund guarantees the funds of 55,500 persons; the reimbursement amount is UAH 0.5 bn.

✓ In 2018, the **average deposit** increased by UAH 672.5 and amounted to UAH 10,776.36. The average deposit amount guaranteed by the Fund (over UAH 10) for 2018 increased by UAH 734.6 and amounted to UAH 17,269.76.

✓ **Potential reimbursement amount** by the Fund increased by UAH 21.3 bn, or 9.0 %, in 2018 and amounted to



UAH 259.04 bn as of 1 January 2019. For comparison for 2017 increase of potential reimbursement amount was UAH 34.8 bn or 17.1%. The total amount of potential reimbursement at state-owned banks is UAH 153.3 bn, or 59.1 %, of the total amount of the Fund.

Table 2.15 shows the dynamics of retail deposit transactions of the member institutions in 2018.

Table 2.16 shows the deposit structure of member institutions since the beginning of 2014.

Table 2.17 shows the dynamics of deposit transactions of the member institutions since 2000.

The annual dynamics of deposits in 2014 (UAH -20.5 bn, or 5.1 %) and 2015 (UAH -19.8 bn, or 5.2 %) is almost the same. The decrease in retail deposits is associated with the liquidation of banks, a high level of distrust in the banking system, rising inflation, and deterioration of social conditions in the country. Low rates of reduction of total deposits in 2014–15 were related to the devaluation of UAH (2 and 1.5 times, accordingly). The USD equivalent of the reduction of foreign currency deposits in both years is also almost identical (40.3 % and 38.1 %, accordingly). In 2016, the dynamics changed: namely, total deposits increased by UAH 19.9 bn, or 5.5 %, up to UAH 382.1 bn (national currency deposits, UAH +5.4 bn, or 3.3 %, up to UAH 169.9 bn, and the foreign currency deposits, UAH +14.5 bn, or 7.3 %, up to UAH 212.3 bn). However, the USD equivalent of foreign currency deposits continued to decline (USD -0.4 bn, or -5.3 %, up to USD 7.8 bn); however, the decline rate slowed down significantly.

This indicates the nominal growth of the deposit amount in 2016. During 2017, the total deposits increased by UAH 31.6 bn, or 8.3 %, due to the growth of national currency deposits by UAH 33.8 bn, or 19.9 % (as compared to 2016, both growth volumes and rates increased), while the level of reduction of foreign currency deposits in UAH equivalent is UAH -2.2 bn, or -1.0 %; the USD equivalent of foreign currency deposits continued to decrease (USD -0.3 bn, or -4.1 %, up to USD 7.48 bn), and the decline rate slightly decreased compared to 2016.

Dynamics of total deposits with the member institutions in 2000–2018 is shown in Fig. 2.3.

In 2018 the total retail deposits increased by UAH 24.6 bn or 5.9%, due to the growth of national currency deposits by UAH 33.0 bn or 16.2 % (significant growth have remained since 2016), while the level of reduction of foreign currency deposits in UAH equivalent is UAH -8.4 bn, or -4.0 %; the USD equivalent of foreign currency deposits continued to decrease (USD -0.2 bn, or -2.7 %, up to USD 7.28 bn), and the decline rate slightly decreased compared to 2017.

### Deposits by Currency

In 2018, the relative share of national currency deposits increased from 49.2 % to 54.0 %, while foreign currency deposits decreased from 50.8 % to 46.0 % (Fig. 2.4). In 2018, national currency deposits increased by UAH 33.0 bn, or 16.2 %, and amounted to UAH 236.7 bn. Compared to the dynamics of 2017 (UAH +33.8 bn, or 19.9 %), the growth rate of national currency deposits increased significantly.

Table 2.13.

Banks Concentrating the Largest Number of Depositors as of 1 January 2019

No.	Reg. No.	Name of the Bank	1 January 2019					
			Quantity of depositors, pax thous.			Deposit Amount	Potential reimbursement amount	
			total	% of total	of which foreign-currency deposits	total, UAH thous.	Quantity of Depositors, pax thous.	Deposit Amount, UAH thous
1	113	PRIVATBANK	21,477	52.8	3,882	190,105	16,177	132,152
2	121	RAIFFEISEN BANK AVAL	2,369	5.8	94	26,730	1,752	16,589
3	90	UKRSIBBANK	2,091	5.1	199	18,708	1,337	11,062
4	48	ALFA-BANK	1,823	4.5	127	31,048	700	14,188
5	111	FUIB	1,743	4.3	88	17,162	638	8,175
6	52	UKRGASBANK	1,377	3.4	83	21,423	494	11,540
7	98	ACCENT-BANK	1,219	3.0	67	3,197	453	2,832
<b>Total for banks</b>			<b>32,098</b>	<b>78.9</b>	<b>4,540</b>	<b>308,372</b>	<b>21,550</b>	<b>196,537</b>
<b>% of total for the Fund</b>			<b>78.9</b>	<b>78.9</b>	<b>77.3</b>	<b>70.3</b>	<b>85.6</b>	<b>75.8</b>
<b>TOTAL for the Fund</b>			<b>40,677</b>	<b>100.0</b>	<b>5,873</b>	<b>438,353</b>	<b>25,178</b>	<b>259,362</b>

Table 2.14.

Banks that Concentrate the Largest Amount of Deposits as of 1 January.2019

No.	Reg. No.	Name of the Bank	1 January 2019					Change for 2018 year	
			Number of depositors Pax thous.	Deposit amount, UAH thous.			Potential reimbursement amount (PRA), UAH thous.	Deposit Amount UAH thous.	PRA
				total	% of total	of which foreign currency deposits			
1	113	PRIVATBANK	21,477	190,105	43.4	74,472	132,152	13,787	13,716
2	48	ALFA-BANK	1,823	31,048	7.1	16,940	14,188	6,900	3,962
3	121	RAIFFEISEN BANK AVAL	2,369	26,730	6.1	8,307	16,589	1,997	1,308
4	22	UKREXIMBANK	664	26,466	6.0	17,854	9,627	1,215	567
5	52	UKRGASBANK	1,377	21,423	4.9	11,880	11,540	4,475	1,995
6	90	UKRSIBBANK	2,091	18,708	4.3	8,453	11,062	2,965	1,572
7	111	FUIB	1,743	17,162	3.9	9,038	8,175	1,044	724
8	85	OTP BANK	839	12,770	2.9	6,690	5,607	1,555	609
<b>Total for banks</b>			<b>32,383</b>	<b>344,410</b>	<b>78.6</b>	<b>153,634</b>	<b>208,939</b>	<b>33,938</b>	<b>24,453</b>
<b>% of total for the Fund</b>			<b>79.6</b>	<b>78.6</b>	<b>78.6</b>	<b>76.2</b>	<b>80.6</b>		
<b>TOTAL for the Fund</b>			<b>40,677</b>	<b>438,353</b>	<b>100.0</b>	<b>201,651</b>	<b>259,362</b>	<b>24,583</b>	<b>21,319</b>

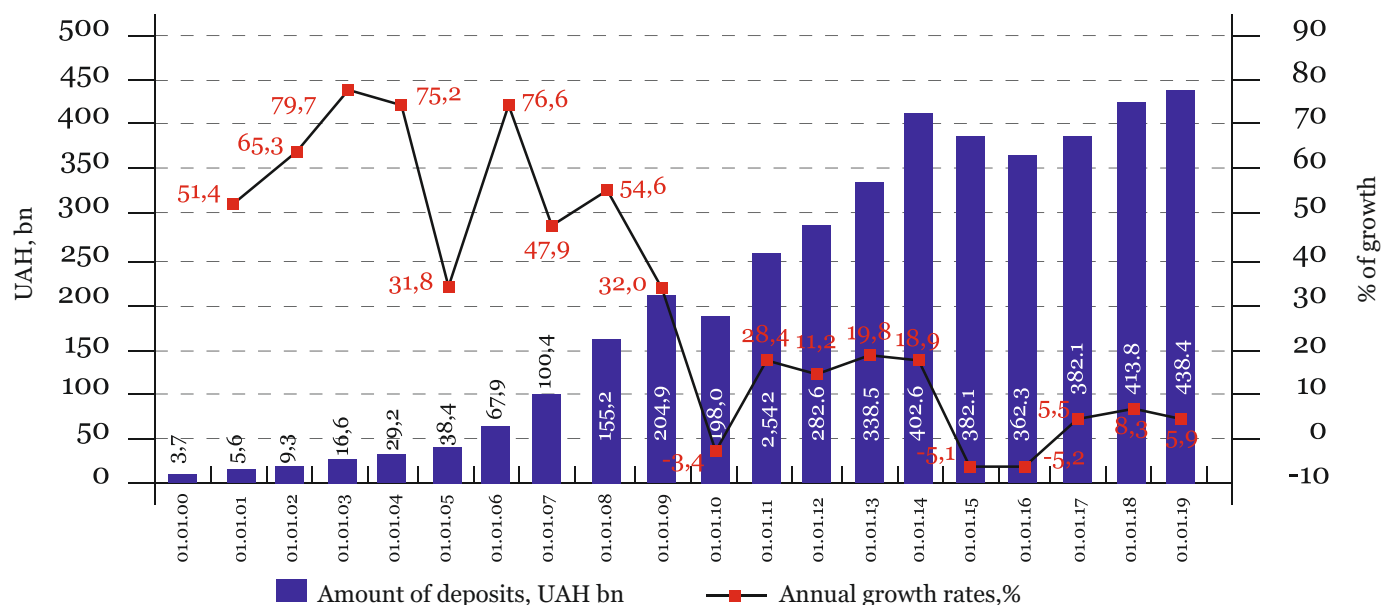


Fig. 2.3. Dynamics of Total Deposits with the Member Institutions in 2000–2018

Table 2.15.

## Dynamics of Deposit Transactions of the Member Institutions from the beginning of 2018

No.	Retail deposit transactions (No. <sup>1</sup> Φ)	1 January 2018	1 January 2019	from the beginning for 2018	
				+/-	%
<b>1</b>	<b>Number of member institutions, of which:</b>	<b>83</b>	<b>77</b>	<b>-6</b>	<b>x</b>
-	insolvent	2	1	-1	x
<b>2.1.</b>	<b>Retail deposit amount, UAH bn</b>	<b>413.8</b>	<b>438.4</b>	<b>24.6</b>	<b>5.9</b>
-	of which national currency deposits, UAH bn	203.7	236.7	33.0	16.2
-	of which foreign currency deposits, UAH bn	210.0	201.7	-8.4	-4.0
<b>2.2.</b>	<b>Number of depositors, pax mn</b>	<b>41.0</b>	<b>40.7</b>	<b>-0.3</b>	<b>-0.7</b>
<b>2.3.</b>	<b>Percentage of depositors full coverage by the Fund, %</b>	<b>98.5</b>	<b>98.4</b>	<b>-0.1</b>	<b>-0.1</b>
<b>2.4.</b>	<b>Potential reimbursement amount by the Fund, UAH bn</b>	<b>238.0</b>	<b>259.4</b>	<b>21.3</b>	<b>9.0</b>
<b>2.5.</b>	<b>Average deposit amount, UAH</b>	<b>10,104</b>	<b>10,776</b>	<b>672.5</b>	<b>6.7</b>

Table 2.16.

## Monthly Dynamics of Retail Deposit Transactions by currency

Date	Number of depositors, pax mn	Total amount of deposits, UAH bn	Potential reimbursement amount, UAH bn	Amount of national currency deposits, UAH bn	Amount of foreign-currency deposits, UAH bn
1 Jan 2014	47.4	402.6	245.6	224.3	178.4
1 Jan 2015	46.5	382.1	209.9	172.1	210.0
1 Jan 2016	44.7	362.3	191.9	164.5	197.8
1 Jan 2017	41.1	382.1	203.3	169.9	212.3
1 Jan 2018	41.0	413.8	238.0	203.7	210.0
1 Feb 2018	40.8	409.9	234.1	200.1	209.8
1 Mar 2018	40.8	406.0	236.8	204.4	201.6
1 Apr 2018	40.7	406.6	238.3	207.6	199.0
1 May 2018	40.3	411.5	243.7	214.8	196.7
1 Jun 2018	40.1	406.1	240.7	213.5	192.6
1 Jul 2018	40.2	420.5	253.1	227.3	193.1
1 Aug 2018	40.3	418.9	248.8	220.9	198.0
1 Sep 2018	40.3	430.0	251.5	218.7	211.3
1 Oct 2018	40.6	437.0	257.5	225.3	211.7
1 Nov 2018	40.6	433.1	255.4	224.4	208.7
1 Dec 2018	40.7	432.5	254.2	225.3	207.2
1 Jan 2019	40.7	438.4	259.4	236.7	201.7

Table 2.17.

## Annual Dynamics of Retail Deposit Transactions

Period	Number of depositors		Total deposits		Average deposit amount (ADA), UAH		ADA without UAH 1 or UAH 10	
	Pax thous.	growth rates prior to the year start, %	UAH mn	growth rates prior to the year start, %	UAH	growth rates prior to the year start, %	UAH	growth rates prior to the year start, %
1 Jan 2000	4,558.9	-	3,675.58	-	806	-	-	-
1 Jan 2001	5,358.8	17.5	5,603.62	52.5	1,046	29.7	-	-
1 Jan 2002	4,837.4	-9.7	9,264.13	65.3	1,915	83.1	-	-
1 Jan 2003	7,005.5	44.8	16,645.80	79.7	2,376	24.1	-	-

Table 2.17. (continuation)

## Annual Dynamics of Retail Deposit Transactions

Period	Number of depositors		Total deposits		Average deposit amount (ADA), UAH		ADA without UAH 1 or UAH 10	
	Pax thous.	growth rates prior to the year start, %	UAH mn	growth rates prior to the year start, %	UAH	growth rates prior to the year start, %	UAH	Growth rates prior to the year start, %
1 Jan 2004	10,488.4	49.7	29,160.58	75.2	2,780	17.0	3,745	
1 Jan 2005	15,021.2	43.2	38,432.07	31.8	2,559	-8.0	3,368	-10.1
1 Jan 2006	18,570.2	23.6	67,885.22	76.6	3,656	42.9	4,561	35.4
1 Jan 2007	24,239.9	30.5	100,416.06	47.9	4,143	13.3	4,945	8.4
1 Jan 2008	29,607.8	22.1	155,236.15	54.6	5,243	26.6	6,105	23.5
1 Jan 2009	34,532.3	16.6	204,934.68	32.0	5,935	13.2	7,001	14.7
1 Jan 2010	31,568.0	-8.6	198,010.58	-3.4	6,273	5.7	7,455	6.5
1 Jan 2011	32,577.8	3.2	254,180.28	28.4	7,802	24.4	9,400	26.1
1 Jan 2012	35,007.8	7.5	282,596.88	11.2	8,072	3.5	9,594	2.1
1 Jan 2013	44,428.9	26.9	338,496.80	19.8	7,619	-5.6	16,006	66.8
1 Jan 2014	47,447.2	6.8	402,615.53	18.9	8,486	11.4	17,148	7.1
1 Jan 2015	46,523.5	-1.9	382,081.64	-5.1	8,213	-3.2	16,487	-3.9
1 Jan 2016	44,703.4	-3.9	362,277.96	-5.2	8,104	-1.3	15,338	-7.0
1 Jan 2017	41,101.8	-8.1	382,149.86	5.5	9,298	14.7	16,378	6.8
1 Jan 2018	40,951.6	-0.4	413,769.21	8.3	10,103	8.7	16,535	1.0
1 Jan 2019	40,677.2	-0.7	438,352.51	5.9	10,776	6.7	17,270	4.4

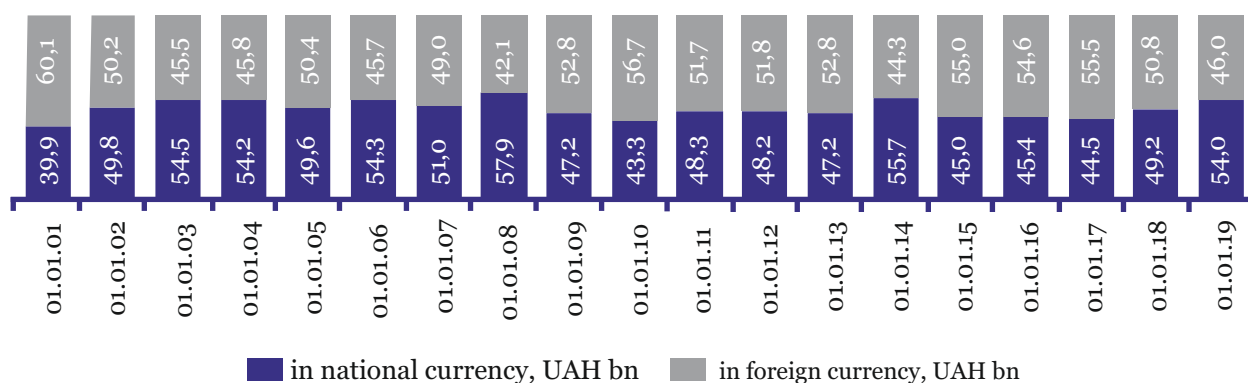


Fig. 2.4. Deposit Structure Dynamics by currency, %

In 2018, the UAH equivalent of foreign currency deposits decreased by UAH 8.4 bn, or 4.0 %, and amounted to UAH 201.7 bn. The USD equivalent of deposits decreased by USD 200.5 mn, or 2.7 %, and amounted to USD 7.28 bn. Total, since the beginning of 2018 there was increasing of national currency with the slight fluctuations

during the previous months. Conversely, there was the decreasing of foreign currency deposits. This decrease was due to the strengthening of the national currency to USD since the beginning of the year and the gradual outflow of such deposits (equivalent to USD) during 2018 (Fig. 2.5.).

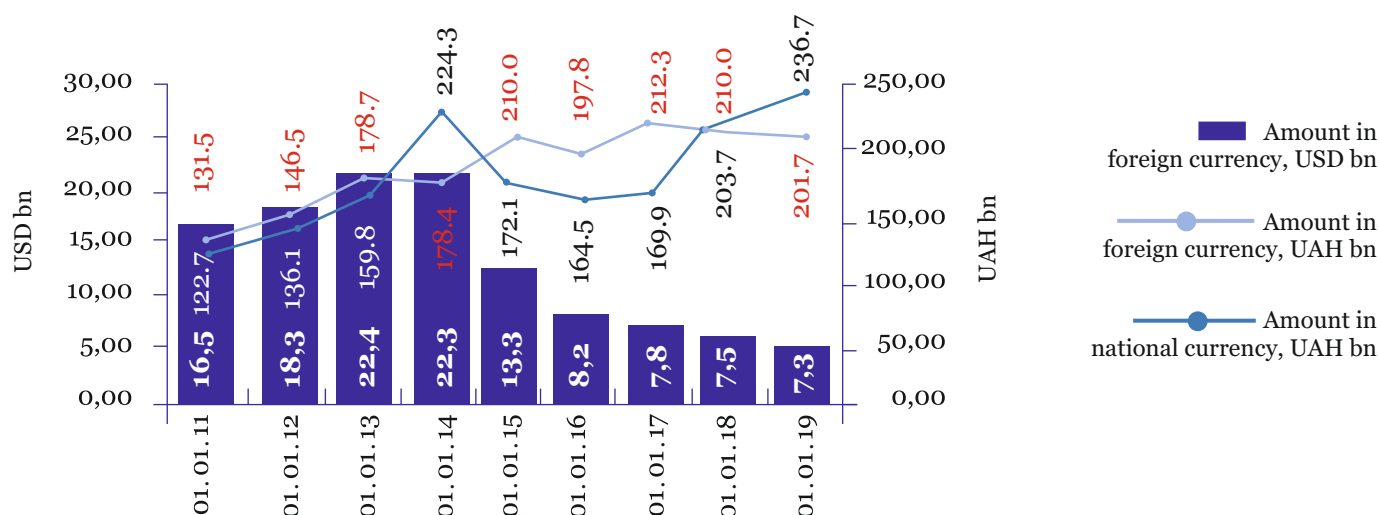


Fig. 2.5. Dynamics of Foreign Currency Deposits

## Maximum Reimbursement Limit

According to Article 26 of the Law, the maximum reimbursement limit for retail deposits by the Fund is UAH 200,000.00 (USD 7,000.00 or EUR 6,300.00). During the entire period of Fund's existence, the maximum deposit payouts increased by a factor of 400.

The retail deposit structure by range as of 1 January 2019 is as follows (Table 2.18, Fig. 2.6 and Fig. 2.7).

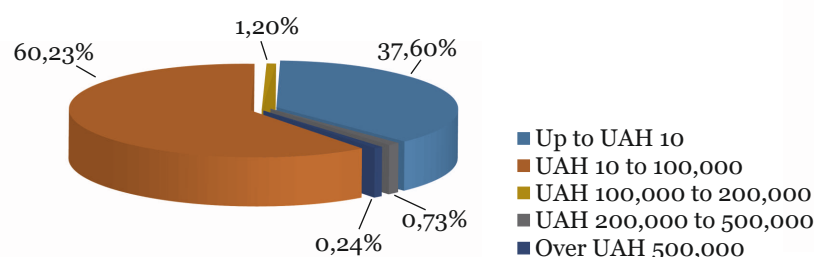


Fig. 2.6. Number of Depositors, %

As of 1 January 2019, funds of 25.0 mn persons or 98.4 % of bank depositors were fully covered (ranging from UAH 10.00 to UAH 200,000.00); these depositors account for UAH 180.7 bn, or 41.2 % of total deposits, which complies with the international social criteria. The average deposit amount in the range guaranteed by the Fund is UAH 7,230.43. Therefore, the guaranteed level of deposit payouts covers most of the retail deposits and indicates the intention/possibilities of depositors to hold deposits within the range guaranteed by the Fund.

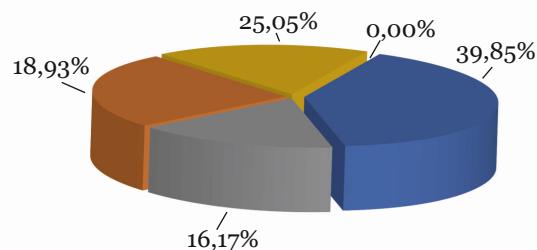


Fig. 2.7. Amount of Deposits, %

Structure of Member Institutions' Deposits by range as of 1 January 2019

Table 2.18.

Amount of the deposit, UAH	Number of depositors		Deposit amount		Average deposit amount
	pax	%	UAH thous.	%	UAH
up to UAH 10	15,295,769	37.60%	20,743.42	0.00%	1.36
UAH 10 to 100,000	24,499,932	60.23%	109,806,910.40	25.05%	4,481.93
UAH 100,000 to 200,000	487,689	1.20%	70,864,447.74	16.17%	145,306.64
UAH 200,000 to 500,000	295,280	0.73%	82,978,437.92	18.93%	281,016.11
over UAH 500,000	98,564	0.24%	174,681,972.34	39.85%	1,772,269.51
<b>Total</b>	<b>40,677,234</b>	<b>100.0%</b>	<b>438,352,511.82</b>	<b>100.0%</b>	<b>10,776.36</b>
Total without up to UAH 10.00	25,381,465	62.4%	438,331,768.40	100.0%	17,269.76
<b>UAH 10,000 to 200,000 (fully guaranteed)</b>	<b>24,987,621</b>	<b>98.4%</b>	<b>180,671,358.14</b>	<b>41.2%</b>	<b>7,230.43</b>

## Potential Reimbursement Amount and Covered Deposits

The potential reimbursement amount (PRA) by member institution increased by UAH 21.3 bn, or 9.0 %, in 2018, and amounted to UAH 259.4 bn as of 1 January 2019.

The potential reimbursement amount for 4 state-owned banks amounted to UAH 153.3 bn, which is 59.1 % of the total deposits.

The Fund's resources as of 1 January 2019 total to UAH 14.3 bn and do not cover the potential reimbursement amount for JSC CB "Privatbank" (coverage of 10.9 %, the reimbursement amount of UAH 132.2 bn, or 51.0 %, of total for the Fund) and JSC "Raiffeisen Bank Aval" (coverage of 86.4 %).

The ratio of the potential reimbursement amount (PRA) to total deposits for the Fund increased from 57.5 % to 59.2 % in 2018.

According to the data from reporting forms 1Φ as of 1 January 2019, the reimbursement amount of banks is distributed as follows: UAH 259.4 bn (total reimbursement); UAH 127.6 bn, or 49.2 %, (total fixed-term deposits); UAH 131.6 bn, or 50.7 %, (total current account deposits), including UAH 40.6 bn, or 30.9 %, of all current accounts (card accounts) (Table 2.19). That is, in 2018, fixed-term deposits in the reimbursement structure slightly decreased, and current account deposits, including card accounts, increased significantly.

Table 2.19.

Structure of the Potential Reimbursement Amount by Maturity as of 1 January 2019

No.	Indicator	1 January 2018		1 January 2019	
		Number	Deposit amount	Number	Deposit amount
1	Deposit amount/total number of depositors	40,951,648	413,769,212,831	40,677,234	438,352,511,820
2	In foreign currency	5,940,882	210,039,897,446	5,872,744	201,651,329,603
	Part IV				
9	Total potential reimbursement amount, of which:	24,191,720	238,042,953,161	25,177,643	259,361,621,843
9.1	Current account deposits, of which:	20,754,496	109,260,909,241	21,747,047	131,583,363,901
9.1.1	Card account deposits	6,930,737	38,287,165,854	6,802,967	40,609,286,279
9.2	Registered savings certificates, including those maturing in:	1,657	278,151,235	387	61,415,061

Table 2.19. (continuation)

## Structure of the Potential Reimbursement Amount by Maturity as of 1 January 2019

No.	Indicator	1 January 2018		1 January 2019	
		Number	Deposit amount	Number	Deposit amount
9.2.1	on-demand deposits	100	16,145,796	44	6,493,618
9.2.2	up to 1 month	298	47,885,842	80	12,619,783
9.2.3	1 to 2 months	336	56,104,148	35	5,634,040
9.2.4	2 to 3 months	201	35,221,274	37	6,355,894
9.2.5	3 to 4 months	151	24,902,796	18	3,031,031
9.2.6	4 to 5 months	172	29,091,297	25	4,017,253
9.2.7	5 to 6 months	140	23,827,268	18	3,255,231
9.2.8	6 to 7 months	52	8,978,941	4	624,615
9.2.9	7 to 8 months	39	6,321,178	13	2,018,690
9.2.10	8 to 9 months	26	3,827,637	19	2,540,412
9.2.11	9 to 10 months	23	3,968,057	12	1,977,925
9.2.12	10 to 11 months	27	4,796,021	12	1,671,938
9.2.13	11 to 12 months	57	9,170,613	12	1,731,788
9.2.14	over 12 months	135	7,910,368	67	9,442,842
9.3	Fixed-term deposits, including those maturing in:	9,785,196	128,419,990,634	10,197,581	127,632,170,966
9.3.1	up to 1 month	909,024	23,013,339,549	926,686	19,865,818,405
9.3.2	1 to 2 months	847,328	16,907,655,282	814,489	13,772,854,831
9.3.3	2 to 3 months	974,037	20,158,402,323	919,787	15,670,986,258
9.3.4	3 to 4 months	807,789	12,091,038,036	803,572	10,848,805,648
9.3.5	4 to 5 months	803,263	12,458,939,120	813,881	11,266,746,267
9.3.6	5 to 6 months	835,493	12,946,637,317	852,048	11,355,582,165
9.3.7	6 to 7 months	614,010	5,213,080,793	668,398	6,297,351,644
9.3.8	7 to 8 months	609,580	4,516,509,534	663,250	5,421,674,842
9.3.9	8 to 9 months	750,169	4,150,870,518	780,142	5,183,336,426
9.3.10	9 to 10 months	794,208	4,169,481,407	891,827	7,446,469,360
9.3.11	10 to 11 months	941,719	3,793,409,927	1,080,265	7,113,551,092
9.3.12	11 to 12 months	1,406,486	4,353,317,078	1,651,083	8,220,979,744
9.3.13	over 12 months	210,391	3,792,873,061	155,872	4,511,647,651
9.3.14	whereon the contract term has expired and which have not been credited to the current/card account	128,201	854,436,689	106,097	656,366,633
9.4	Other	34,300	83,902,051	23,211	84,671,915

### 2.3. Implementation of Control Functions

In the framework of ensuring the functioning of the deposit guarantee system and protection of the rights and interests of depositors, the Fund supervises the fulfilment of the banks' obligations in connection with their participation in the deposit guarantee system in the form of inspection visits to the member institutions. In 2018, inspections were carried out in order to

determine the proper fulfilment of the member institutions' obligations according to the Law and the Fund's regulations under the approved annual audit plan.

According to the DGF Member Institutions Inspection Plan for 2018 approved by Decision of the Executive Directorate of the Fund No. 4879 dated 31 October 2017, in 2018 the Fund officers conducted a total of 62 inspections (Fig.2.8.).

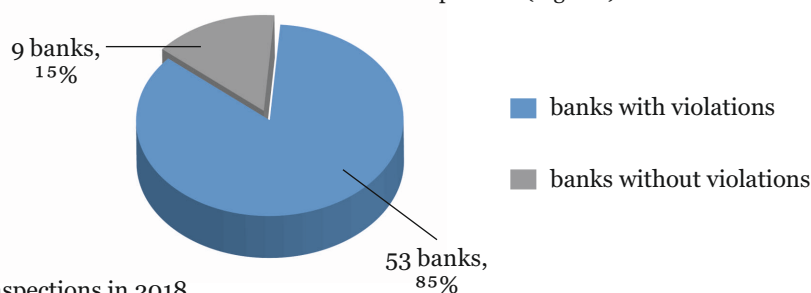


Fig.2.8. Results of member institution inspections in 2018

Scheduled inspections were carried out on the following issues:

1. Reliability of statements submitted to the Fund.
2. Completeness and timeliness of payment of fees and penalty to the Fund.
3. Completeness and reliability of maintaining a depositors database.
4. Compliance with the requirements for informing depositors about the bank's membership with the Fund.
5. Compliance with other requirements of the Law of Ukraine "On Households Deposit Guarantee System" and the Fund regulations.

Inspections were aimed at obtaining information on the compliance or non-compliance with the Law by the banks, including the adherence of the banks to the rules of calculation and payment of

fees, the provision of information for maintaining the Member Institutions Register, the compliance of accounting information of bank depositors (individuals) in a database with applicable legal requirements and the procedure for notification of depositors about the Households Deposit Guarantee System in Ukraine. Particular attention during inspections was paid to the reliability of calculations of fees and reports submitted to the Fund by banks as well as to the ability of banks to properly form databases of bank depositors (individuals) in accordance with the requirements of the Fund.

According to the results of 53 inspections there were found 101 cases of violations of the requirements of the Law of Ukraine "On Households Deposit Guarantee System" and the Fund regulations (Fig. 2.9).



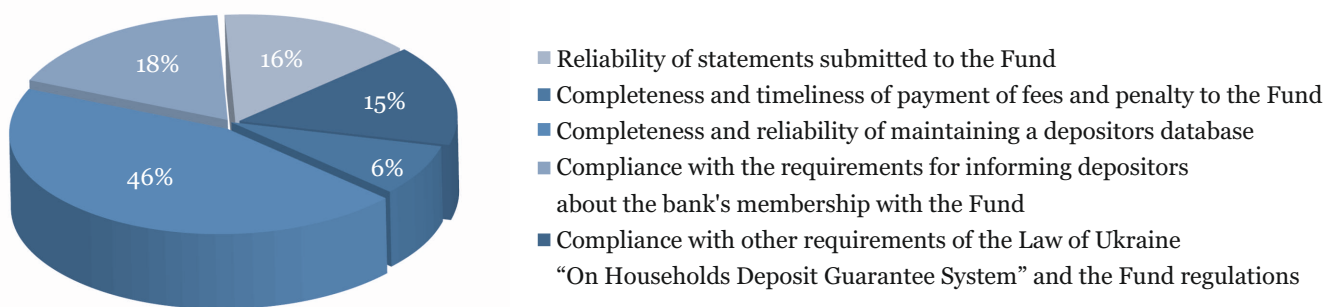


Fig. 2.9. Relative Share of Violations of Specific Issues Inspected in the Total Violations

### Reliability of Statements Submitted to the Fund

In order to analyse the market trends for development of the resources raised from depositors by the member banks in order to protect the rights and legitimate interests of depositors, enhance confidence in the banking system of Ukraine, stimulate raising funds into the banking system of Ukraine, and ensure the effective insolvent bank resolution procedure, the Fund established the requirements for the member institutions regarding the submission of reporting form No. 1Ф. The main requirements for compiling and providing this form are specified in the Instruction for Drawing up Reports on Retail Deposits with the Deposit Guarantee Fund Member Institutions – Reporting form No. 1Ф approved by Decision of the Executive Directorate of the Fund No. 5 dated 9 July 2012 and registered with the Ministry of Justice of Ukraine under No. 1314/21626 on 2 August 2012 as amended. The inspections findings indicate that the banks made certain violations in compiling and submitting the statements to the Fund, of which: unreliable information on the number and amount of funds of individuals and individual entrepreneurs; unreliable information on the number and amount of funds of retail depositors.

According to the inspection findings, violations of the procedure for drawing up reporting form No. 1-F were detected in fourteen of the inspected banks; the relative share of violation is 16% of total violations found.

### Completeness and Timeliness of Payment of Fees and Penalty to the Fund

The inspections carried out in 2018 established that during the calculation of the regular fee the member institutions committed such violations:

- Inaccurate calculation of the risk level weighted by the base annual rate in national or foreign currency.
- Incorrect determination of the average weighted interest rate on retail deposits in national currency (coefficient of diversification - K1) and the ratio (in percentage) of arithmetic balances of retail deposits in foreign currency to arithmetic balances of retail deposits in national currency (coefficient of diversification – K3);
- late submission to the Fund of the corrected calculation of the regular fee in the form of the graduated fee payable to the Fund for the Q1, Q2, Q3 of 2018;
- incorrectly determined score according to quantitative and

qualitative indicators, which led to incorrect determination of the total score by quantitative and qualitative indicators, which are weighted by weighting coefficient in the context of a group of indicators, which did not affect the amount of regular fee payment.

The inspections of banks' completeness of payment of fees to the Fund found the understating of the regular fee amount paid to the Fund by UAH 4,300; a penalty was additionally charged for the incomplete payment of regular fees in the amount of UAH 2,500.

Overall, violations of the completeness and timeliness of payment of fees to the Fund were detected in 5 member banks; the relative share of violations is 6 % of all violations detected.

The inspections found that banks generally calculated the base for regular fees and measured their risks correctly and paid regular fees to the DGF in full.

### Completeness and Reliability of Maintaining a Depositors Database

The Fund established the requirements for the formation of a retail depositors database by member institutions which are set out in the Rules for Formation and Maintenance of Depositors Databases approved by Decision of the Fund Executive Directorate No. 3 dated 9 July 2012 and registered with the Ministry of Justice of Ukraine under No. 1430/21742 on 23 August 2012 as amended (hereinafter referred to as the Rules).

In the reporting year standard violations in forming and maintaining databases were detected, including the following:

- absence, incompleteness, or incorrectness of information about the depositor;
- duplication of information about one depositor, which impedes the identification of the depositor;
- lack of information on the bank associated persons in the data archive file within the structure of the file information line No. required by the Rules.

The above shortcomings in maintaining the database in accordance with the Rules were identified for 41 banks; the relative share of this violation is 46 % of all violations detected.

In general, the inspected banks have software and hardware in place, which allow collecting and storing information about depositors, and data storage in an archive file on external media separated both logically and physically.

In general, the inspected banks have software and hardware in place, which allow collecting and storing information about depositors, and data storage in an archive file on external media separated both logically and physically.

### Compliance with the Requirements for Informing Depositors about the Bank's Membership with the Fund

The Law and the Instruction of Procedure for the Protection of Rights and Legitimate Interests of Depositors by the Deposit Guarantee Fund approved by Decision of the Executive Directorate of the Deposit Guarantee Fund No. 825 dated 26 May 2016 and registered with the Ministry of Justice of Ukraine under No. 874/29004 on 17 June 2016 determine the requirements for the member institutions in terms of obligatory placement of information about the Households Deposit Guarantee System.

The inspection findings indicate that the banks made certain violations of the Fund requirements to inform depositors about the bank's membership with the Fund, of which:

- the bank web-site and/or retail deposits reception publish unreliable information on the Fund details;
- the bank web-site publishes the Law without latest changes and annexations;
- the standard examples of bank account agreement and cases signed with individual entrepreneurs contain the information on the reimbursement conditions guaranteed by the Fund that do not meet the requirements of the Fund;
- the standard examples of bank account agreement and cases signed with individual entrepreneurs don't contain the information on the reimbursement conditions guaranteed by the Fund;
- bank deposit agreements or bank account agreements contain no information that an individual (including an individual entrepreneur) is familiar with the reference on the Households Deposit Guarantee System certified by a separate signature of the depositor;
- bank deposit agreements or bank account agreements contain the reimbursement conditions guaranteed by the Fund, without taking into account changes in the termination of interest accrual under the agreement on the last day before the Fund starts the bank resolution procedure.

The inspections held in 2018 found 16 cases of violation of the Fund requirements by banks to inform depositors about the Households Deposit Guarantee System in Ukraine; the relative share of the violation is 18 % of all the violations found.

### Compliance with Other Requirements of the Law of Ukraine "On Households Deposit Guarantee System" and the Fund Regulations

The member institutions shall submit information set out in the Regulation on the Procedure for the Maintenance of the DGF Member Institutions Register approved by Decision of the Executive Directorate of the Fund No. 7 dated 12 July 2012 and registered with the Ministry of Justice of Ukraine under No. 1547/21859 on 7 September 2012 as amended (hereinafter referred to as the Regulation).

Inspections held in 2017 found that contrary to the requirements, the member institutions:

- failed to inform or untimely informed the Fund on the changes in the positions of Deputy Directors of the Board Director, Board Members, Chairman and members of the Supervisory Board;
- failed to inform or untimely informed the Fund on changes in the information on the twenty largest member institutions;
- failed to submit to the Fund the information, defined by the Regulation, regarding the appointment of a bank curator, an official of the National Bank of Ukraine, within the time limit and in a proper manner;
- failed to inform or untimely informed the Fund on the information change in the Regulation, namely on information about ratings of the parent company.

Inspections held in 2018 determined 13 cases of violation of the Fund requirements by banks to provide information under the Regulation; the relative share of this violation is 15 % of all the violations.

According to the explanations provided by the banks, the main causes of the violations were:

- incorrect display of the "counterparty type" parameter on the balances of retail deposits that were accounted on the accounts of individual entrepreneurs;
- for technical reasons, such as inappropriate setup of the hardware and software package, and incorrect entry of analytical parameters of individuals accounts by employees;
- failure to include in the reporting form No. 1Φ the balance of individuals, which were accounted on the balance sheet accounts No. 2903, No. 2604;
- incorrect entry of information about foreign depositors into the ABS card by responsible employees;
- software failure in the formation of database after updating depositors documents;
- clients who do not apply for the Bank for identification and verification;
- technical errors when transferring data from the client subsystem to the Bank's operating system;
- originals of documents submitted by depositors were incorrect;
- inability to correct errors due to the lack of communication with



them or due to their presence in the ATO area and in the temporarily occupied territory of the Autonomous Republic of Crimea;

- not including in the formation of the “N” file persons with whom the bank deposit or bank account contracts were not concluded;
- technical failure of the implementation of new software in connection with the merger of banks;
- untimely amendments to the standard deposit agreements, bank account agreements, information on the guarantee system;
- insufficient level of control by the structural unit of the bank responsible for the service of individuals;
- changes in the functional responsibilities between the Bank's employees responsible for timely submission of information to the Fund;
- software configuration and testing that generated reporting files, which could affect file entry;
- misinterpretation of the requirements of the Regulations regarding the notification to the bank of changes in the information contained in the member institutions register.

According to the results of the inspections, the employees of the inspection department of remote and inspection monitoring of the banking activities have compiled 89 reports on the violation of laws by the banks in the field of retail deposit guarantees.

Due to the high level of established violations, banks were advised to strengthen control over compliance with the requirements of the Law of Ukraine “On Households Deposit Guarantee System” and the Fund regulations.

## 2.4. Administrative and Economic Sanctions and Administrative Fines

The main goal of the Deposit Guarantee Fund is to ensure the functioning of the Households Deposit Guarantee System and insolvent bank resolution.

In pursuance of the Fund's main goal and in the manner prescribed by the Law, one of the functions of the Fund is to apply financial sanctions and impose administrative fines to banks and their managers.

As of 1 January 2019, the authorised DGF officers compiled 50 reports on administrative offenses. Proceedings on committed administrative violations were held under the Code of Ukraine on Administrative Offenses, since it is foreseen that the grounds for holding bank executives administratively liable are the following administrative offenses:

- breach of the Procedure for compiling information to the Fund by the bank manager (Part 1 of Article 166-19 of the Code);
- breach of the Procedure for submitting information to the Fund by the bank manager (Part 1 of Article 166-19 of the Code);
- failure of the bank manager to perform legal decisions of the Fund (Part 2 of Article 166-19 of the Code);

untimely performance of legal decisions of the Fund by the bank manager (Part 2 of Article 166-19 of the Code);

failure of the bank to pay the fee to the Fund (Part 3 of Article 166-19 of the Code);

delayed payment of the fee to the Fund by the bank (Part 3 of Article 166-19 of the Code).

After reviewing the cases on administrative offenses, the authorised DGF officers adopted 43 decisions according to Part 2 of Article 36 of the Code of Ukraine on Administrative Offenses, specifically decisions of administrative penalties on bank managers.

Therefore for:

- for the violation of the procedure for compiling or submitting information to the Fund by the bank manager, the authorised DGF officer imposed a fine in the amount of UAH 331,500.00;
- UAH 27,200.00 for the delayed payment of the fee to the Fund by the bank or failure of the bank to pay the fee to the Fund.

The total amount of fines imposed was equal to UAH 358,700.00, of which UAH 350,200.00 was paid to the State Budget of Ukraine.

In case of violation of the laws on the Households Deposit Guarantee System by the bank, the Fund imposes administrative and economic sanctions in the form of a written warning or a fine or an order to eliminate violations of the laws on the Households Deposit Guarantee System according to the violation.

The Fund imposed sanctions on banks for the following violations:

- failure of the bank to submit information to the Fund if the submission of such information is required by the Law and/or regulations;
- delayed submission of information to the Fund by the bank if the submission of such information is required by the Law and/or regulations of the Fund;
- submission of false information to the Fund by the bank if the submission of such information is required by the law and/or regulations of the Fund;
- violation of the procedure for the maintenance of a depositors database;
- failure of the bank to perform the decisions and/or the regulations of the Fund or comply with orders to eliminate violations of the legislation on deposit guarantees to individuals;
- untimely performance of decisions and/or regulations of the Fund or orders to eliminate violations of the laws on households deposit guarantees by the bank.

As of 1 January 2019, the DGF officials authorised to hear cases adopted 145 decisions, of which (Fig. 2.11):

- 67 - decisions were orders to take measures preventing violations of the laws on the Households Deposit Guarantee System in future activities;
- 69 - decisions were orders to eliminate violations of the laws in

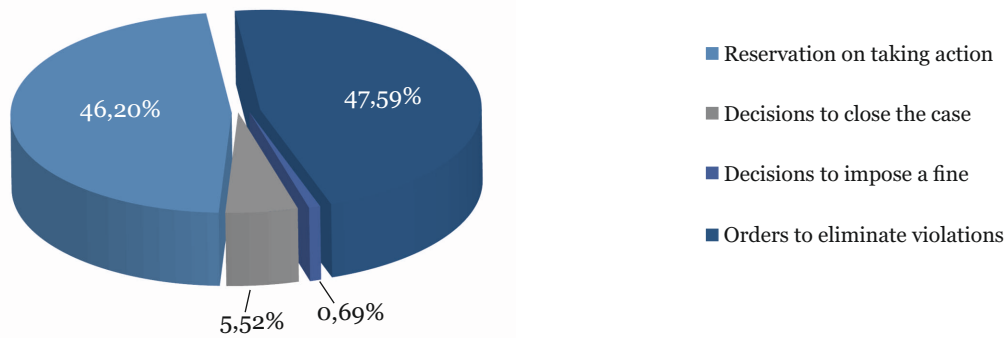


Fig. 2.11. Relative Share of Decisions Adopted by the Authorised DGF Officers

the field of households deposit guarantees;

- 8 - decisions were orders to close the case on violations in the field of households deposit guarantees;
- 1 – decision were orders to impose fines amounting to UAH 75,750.00.

According to the results of inspections and remote control, in 2018, violations of the following regulations of the Fund were recorded:

- 10 banks violated the Regulation on the Procedure for Calculation, Accrual, and Payment of Fees to the Deposit Guarantee Fund approved by Decision of the Executive Directorate of the Fund No. 1 dated 2 July 2012 and registered with the Ministry of Justice of Ukraine under No. 1273/21585 on 27 July 2012;
- 35 banks violated the Regulation on the Procedure for the Maintenance of the DGF Member Institutions Register approved by Decision of the Executive Directorate of the Fund No. 7 dated 12 July 2012 and registered with the Ministry of Justice of Ukraine under No. 1547/21859 on 7 September 2012;
- 23 banks violated the rules of the Instructions on the Procedure for Drawing up Reports on Retail Deposits with the Member Institutions (Reporting Form No. 1Φ) approved by Decision of the Executive Directorate of the Fund No. 5 dated 9 July 2012 and registered with the Ministry of Justice of Ukraine under

No. 1314/21626 on 2 August 2012, and the Rules for Submitting the Reporting by the Member Institutions approved by Decision of the Executive Directorate of the Fund No. 4 dated 9 July 2012 and registered with the Ministry of Justice of Ukraine on 27 July 2012 under No. 1269/21581, in terms of failed or delayed submission of the Report on Deposits with the Member Institutions (Reporting Form No. 1Φ);

- 40 banks violated the Rules of Forming and Maintaining the Depositors Databases approved by Decision of the Executive Directorate of the Deposit Guarantee Fund No. 3 dated 9 July 2012 and registered with the Ministry of Justice of Ukraine under No. 1430/21742 on 23 August 2012;
- 9 banks violated the Rules of Submitting Reports by the Member Institutions approved by Decision of the Executive Directorate of the Fund No. 4 dated 9 July 2012 and registered with the Ministry of Justice of Ukraine under No. 1269/21581 on 27 July 2012;
- 28 banks violated the Procedure for the Protection of Rights and Legitimate Interests of Bank Depositors by the Deposit Guarantee Fund approved by Decision of the Executive Directorate of the Fund No. 825 dated 26 May 2016 and registered with the Ministry of Justice of Ukraine under No. 874/29004 on 17 June 2016.

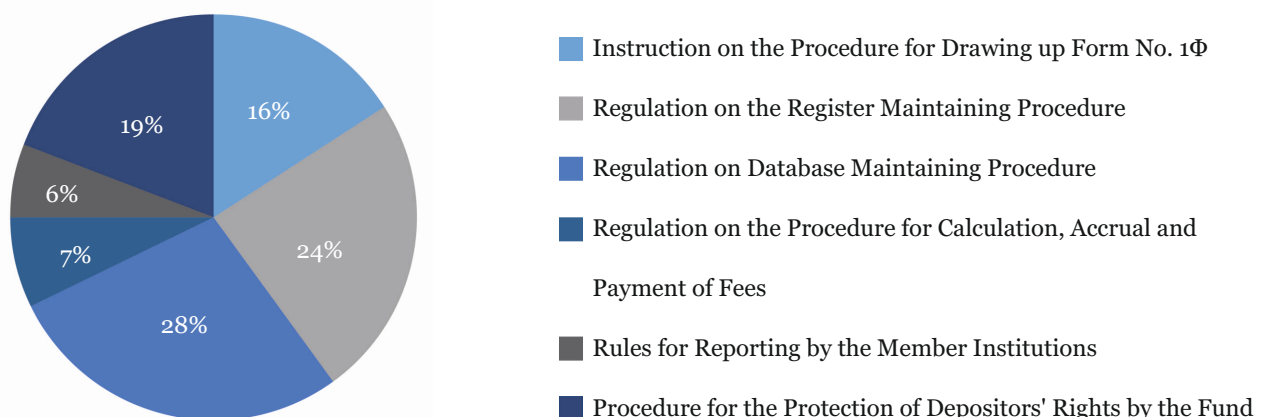


Fig. 2.12. Relative Share of Violations of Fund's Regulations

## 3. LEGAL AND REGULATORY ENVIRONMENT

### 3.1. Improving the Legal Framework and Regulatory Activities of the Fund

The Law of Ukraine “On Households Deposit Guarantee System” was amended twice in 2018, related to the adoption of the Law of Ukraine “On Amendments to Certain Legislative Acts of Ukraine Concerning Creation and Maintaining of the Credit Registry of the National Bank of Ukraine and Improvement of the Banks Credit Risk Management Processes” which envisages the information provision to the Credit Register of the National Bank of Ukraine and the Law of Ukraine “On Amendments to Certain Legislative Acts of Ukraine Concerning Improving the Functioning of the Financial Sector in Ukraine”, which envisages the issue of amending to the deposit guarantee system of the unprofitability of the Deposit Guarantee Fund, removing the legal gap regarding the withdrawal of liquidated banks.

In 2018, the Fund adopted 36 regulations in the framework of the Households Deposit Guarantee System regulation and insolvent bank resolution. Of these 36 regulations:

#### **6 regulations were aimed at implementing the powers to ensure the deposit payouts, namely:**

1. Decision of the Executive Directorate of the Deposit Guarantee Fund No. 589 dated 26 February 2018 “On Amendments to the Regulation on the Procedure for Determination of Agent Banks of the Deposit Guarantee Fund” registered with the Ministry of Justice of Ukraine under No. 329/31781 dated 16 March 2018;
2. Decision of the Executive Directorate of the Deposit Guarantee Fund No. 948 dated 2 April 2018 “On Amendments to the Regulation on the Procedure for deposit payouts by the Deposit Guarantee Fund” registered with the Ministry of Justice of Ukraine under No. 587/32039 dated 14 May 2018;
3. Decision of the Executive Directorate of the Deposit Guarantee Fund No. 1864 dated 5 July 1864 “On Amendments to the Paragraph 1 of the Section II of the Procedure for Determination of Agent Banks of the Deposit Guarantee Fund” registered with the Ministry of Justice of Ukraine under No.884/32336 dated 30 July 2018;
4. Decision of the Executive Directorate of the Deposit Guarantee Fund No.1842 dated 2 July 1842 “On Peculiarities of Formation and Maintaining of Depositor databases in terms of displaying information on persons whose place of residence is temporarily occupied territory of Ukraine, collision/demarcation line, security zone adjacent to the active area, or area of national security and defense measures , repulsion and deterrence of armed aggression of the Russian Federation” registered with the Ministry of Justice of Ukraine under No.866/32318 dated 23 July 2018;

5. Decision of the Executive Directorate of the Deposit Guarantee Fund No.1972 dated 12 July 2018 On Amendments to the Paragraph 4 of the Section IV Regulation on the Procedure for deposit payouts by the Deposit Guarantee Fund” registered with the Ministry of Justice of Ukraine under No. 900/32352 dated 2 August 2018;

6. Decision of the Executive Directorate of the Deposit Guarantee Fund No. 2289 dated 16 August 2018 “On Amendments to the Instruction of the Procedure for Protecting the Rights and Legitimate Interests of Depositors by the Deposit Guarantee Fund”, registered with the Ministry of Justice of Ukraine under No. 1308/32760 dated 19 November 2018;

#### **7 regulations were aimed at implementing regulatory powers, namely:**

1. Decision of the Executive Directorate of the Deposit Guarantee Fund No. 313 dated 1 February 2018 “On Amendments to Certain Regulations of the Deposit Guarantee Fund” registered with the Ministry of Justice of Ukraine under No.231/31683 dated 26 February 2018;

2. Decision of the Executive Directorate of the Deposit Guarantee Fund No. 615 Dated 1 March “On Amendments to the Regulation on the Procedure for calculation, accrual, and payment of fees to the Deposit Guarantee Fund and Regulation on the Procedure for the Maintenance of the Deposit Guarantee Fund Member Institutions Register”, registered with the Ministry of Justice of Ukraine under No. 514/31966 dated 27 April 2018;

3. Decision of the Executive Directorate of the Deposit Guarantee Fund No.1244 dated 26 April 2018 “On Amendments to the Regulation of on the Procedure of Inspections of Certain Deposit Guarantee Fund Member Institution”, registered with the Ministry of Justice of Ukraine under No.615/32067 dated 22 May 2018;

4. Decision of the Executive Directorate of the Deposit Guarantee Fund No. 1278 dated 4 May 2018 “On Amendments to the Regulation on the Procedure for the Maintenance of the Deposit Guarantee Fund Member Institutions Register” registered with the Ministry of Justice of Ukraine under No.634/32086 dated 29 May 2018;

5. Decision of the Executive Directorate of the Deposit Guarantee Fund No.1485 dated 29 May 2018 “On Approval of the Regulation of the Information provided for the Credit Register of the National Bank of Ukraine by the Deposit Guarantee Fund directly of with the help of the Fund’s authorised person in the case of the delegation to authority” registered with the Ministry of Justice of Ukraine under No. 727/321179 dated 18 June 2018;

6. Decision of the Executive Directorate of the Deposit Guarantee Fund No.2647 dated 27 September 2018 “On Improvement of the Procedure for Preparing and Submitting Reports by the DGF Member Institutions” registered with the Ministry of Justice of Ukraine under No. 1214/32666 dated 25 October 2018;

7. Decision of the Executive Directorate of the Deposit Guarantee Fund No.3358 dated 13 December 2018 “On Amendments to the Methodology for the assessment of financial stability of the Deposit Guarantee Fund” is on the state registration in the Ministry of Justice of Ukraine;

### **11 regulations aimed at implementing the powers in the field of insolvent bank resolution, namely:**

1. Decision of the Executive Directorate of the Deposit Guarantee Fund No. 466 dated 15 February 2018 “On Amendments to the Insolvent Bank Resolution Regulation and Procedure for the Maintenance of the Deposit Guarantee Fund Member Institutions Register”, registered with the Ministry of Justice of Ukraine under No. 292/31744 dated 14 March 2018;

2. Decision of the Executive Directorate of the Deposit Guarantee Fund No. 526 dated 22 February 2018 “On Amendments to the Insolvent Bank Resolution Regulation and Procedure” registered with the Ministry of Justice of Ukraine under No.287/31739 dated 13 March 2018;

3. Decision of the Executive Directorate of the Deposit Guarantee Fund No. 1028 dated 10 April 2018 “On Amendments to the Paragraph 5 of the Section II of the Instructions on the Procedure for Detecting Transactions (including Contracts) that are Void and Actions of the Deposit Guarantee Fund in the Case of its Detecting”, registered with the Ministry of Justice of Ukraine under No.493/31945 dated 24 April 2018;

4. Decision of the Executive Directorate of the Deposit Guarantee Fund No. 1376 dated 17 May 2018 “On Approval of Amendments to the Procedure for Preparing and Maintaining the Register of Creditors' Accepted Claims and Satisfying the Claims of Creditors of Banks Being Liquidated”, registered with the Ministry of Justice of Ukraine under No.717/32169;

5. Decision of the Executive Directorate of the Deposit Guarantee Fund No. 1418 dated 17 May 2018 “On Amendments to the Paragraph 2 of the Section I of the Regulation of the Insolvent Banks Property Lease”, registered with the Ministry of Justice of Ukraine under No.713/32165 dated 11 June 2018;

6. Decision of the Executive Directorate of the Deposit Guarantee Fund No. 2079 dated 26 July 2018 “On Amendments to the Paragraph 2 of the Section II of the Procedure for the Implementation and Calculation of the Costs of the Deposit Guarantee Fund for

the Maintenance and Sale of the Mortgaged Property”, registered with the Ministry of Justice of Ukraine under No.958/32410 dated 22 August 2018;

7. Decision of the Executive Directorate of the Deposit Guarantee Fund No. 2113 dated 26 July “On Approval of Certain Regulations of the Deposit Guarantee Fund”, registered with the Ministry of Justice of Ukraine under No.959/32411 dated 22 August 2018;

8. Decision of the Executive Directorate of the Deposit Guarantee Fund No. 2525 dated 11 September “On Amendments to the Paragraph 1 of the Section VII of the Regulation of the Procedure for Preparing and Maintaining the Register of Creditors' Accepted Claims and Satisfying the Claims of Creditors of Banks Being Liquidated” registered with the Ministry of Justice of Ukraine under No.1131/32583 dated 5 October 2018;

9. Decision of the Executive Directorate of the Deposit Guarantee Fund No. 2798 dated 18 October 2018 “On Amendments to the Paragraph 2.8 of the Chapter 2 Section V of the Insolvent Bank Resolution Regulation” registered with the Ministry of Justice of Ukraine under No. 1258/32710 dated 5 November 2018;

10. Decision of the Executive Directorate of the Deposit Guarantee Fund No. 3056 dated 14 November “On Amendments to the Section II of the Procedure for the Implementation and Calculation of the Costs of the Deposit Guarantee Fund for the Maintenance and Sale of the Mortgaged Property” registered with the Ministry of Justice of Ukraine under No.1328/32780 dated 23 November 2018;

11. Decision of the Executive Directorate of the Deposit Guarantee Fund No. 3500 dated 29 December 2018 “On Approval of the Regulation of for Determination, Calculation and Distribution the Deposits Paid by the Guarantee Fund for the Expenses Related to the Procedure of Insolvent Bank Resolution or Bank Liquidation on the Grounds Specified in the Second Part of Article 77 of the Law of Ukraine a “On Banks and Banking”, and amendments to Paragraph 1.10, Chapter 1, Section IV of the Regulation on the Insolvent Bank Resolution, is on the state registration in the Ministry of Justice of Ukraine;

### **12 regulations aimed at implementing the powers in the field of management and sale of assets (property) of banks being liquidated, namely:**

1. Decision of the Executive Directorate of the Deposit Guarantee Fund No.372 dated 5 February 2018 “On Approval of the Regulation on the Procedure for Restructuring of Individuals Loan Debts (except for Individuals - Enterprises) Under Loan Agreements, Their Fulfillment of Obligations by the Mortgage is Provided by Banks, being Liquidated by the Deposit Guarantee Fund and Amendments to the Certain Regulations of the Deposit Guarantee Fund and the Invalidation”, registered with the Ministry



of Justice of Ukraine under No.254/31706, No. 255/31707 dated 28 February 2018;

**2.** Decision of the Executive Directorate of the Deposit Guarantee Fund No. 430 dated 12 February 2018 “On Amendments to the Regulation of Commission for Complaint Investigation and Proposal Formulation Regarding Organization and Conduct of Open Bidding (Auctions) for Sale of Assets (Property) of Banks being Resolved or Liquidated” registered with the Ministry of Justice of Ukraine under No.240/31692 dated 27 February 2018;

**3.** Decision of the Executive Directorate of the Deposit Guarantee Fund No.465 dated 15 February 2018 “On Approval of the Regulation of Insolvent Banks Property Lease”, registered with the Ministry of Justice of Ukraine under No.313/31765 dated 15 March 2018;

**4.** Decision of the Executive Directorate of the Deposit Guarantee Fund No. 940 dated 29 March 2019 “On Approval of the Regulation of the Deposit Guarantee Fund Committee of Banks Property (Assets) Management being Resolved or Liquidated by the Deposit Guarantee Fund”, registered with the Ministry of Justice of Ukraine under No.736/32188 dated 20 June 2018;

**5.** Decision of the Executive Directorate of the Deposit Guarantee Fund No.1508 dated 31 May 2018 “On Amendments to the Regulation on the Organisation of Sale of Assets (Property) of Banks being Liquidated”, registered with the Ministry of Justice of Ukraine under No.732/32184 dated 20 June 2018;

**6.** Decision of the Executive Directorate of the Deposit Guarantee Fund No. 2192 dated 6 August 2018 “On Invalidation of Decision of the Executive Directorate of the Deposit Guarantee Fund No. 979 dated 13 March 2017”, registered with the Ministry of Justice of Ukraine under No.963/32415 dated 27 August 2018;

**7.** Decision of the Executive Directorate of the Deposit Guarantee Fund No. 2359 dated 23 August 2018 “On Amendments to the Regulation on the Organisation of Sale of Assets (Property) of Banks being Liquidated”, registered with the Ministry of Justice of Ukraine under No.1080/32532 dated 19 September 2018;

**8.** Decision of the Executive Directorate of the Deposit Guarantee Fund No. 2677 dated 4 October 2018 “On Amendments to the Section II of the Regulation on the Organisation of Sale of Assets (Property) of Banks being Liquidated”, registered with the Ministry of Justice of Ukraine under No.1210/32662 dated 25 October 2018;

**9.** Decision of the Executive Directorate of the Deposit Guarantee Fund No. 2718 dated 4 October 2018 “On Amendments to the

Regulation of the Deposit Guarantee Fund Committee of Banks Property (Assets) Management being Resolved or Liquidated by the Deposit Guarantee Fund”, registered with the Ministry of Justice of Ukraine under No.1218/32670 dated 26 October 2018;

**10.** Decision of the Executive Directorate of the Deposit Guarantee Fund No.2873 dated 25 October 2018 “On Approval of Amendment to the Regulation on the Procedure for Restructuring of Individuals Loan Debts (except for Individuals - Enterprises) Under Loan Agreements, Their Fulfillment of Obligations by the Mortgage is Provided by Banks, being Liquidated by the Deposit Guarantee Fund”, registered with the Ministry of Justice of Ukraine under No.1320/32772 dated 22 November 2018;

**11.** Decision of the Executive Directorate of the Deposit Guarantee Fund No. 2948 dated 2 November 2018 “On Amendments to the Paragraph 2 of the Decision of the Executive Directorate of the Deposit Guarantee Fund No. 3117 dated 20 July 2017 On the Pilot Project on the Sale of Assets (Property) of Banks being Liquidated through Open Bidding (Auctions) using the Electronic Bidding System for an E-auction Consisting of the Automatic Step-By-Step Reduction of the Initial (Starting) Lot Price, Stages of Submitting Sealed Bids and the Bid”, registered with the Ministry of Justice of Ukraine under No.1409/32861 dated 12 December 2018;

**12.** Decision of the Executive Directorate of the Deposit Guarantee Fund No. 3017 dated 8 November 2018 “On Amendments to the Regulation of Insolvent Banks Property Lease”, registered with the Ministry of Justice of Ukraine under No.1382/32834 dated 5 December 2018.

In order to implement the provisions of Article 6 of the Law of Ukraine “On Households Deposit Guarantee System” and Article 7 of the Law of Ukraine “On the Principles of State Regulatory Policy in the Area of Economic Activities”, the Fund approved by Decision No. 3258 dated 6 December 2018 the DGF Regulations Drafting Plan for 2019 published on the official website of the Deposit Guarantee Fund, [www.fg.gov.ua](http://www.fg.gov.ua). The plan contains information about the name of draft regulations, which the Fund plans to develop in 2019, objectives for their adoption, deadlines for their drafting, and the name of the structural unit of the Deposit Guarantee Fund responsible for their development. The information referred to in the Plan enables business entities and individuals to plan their future activities, participate in the discussion of draft regulations and improve their wording, as well as helps to protect the rights of such persons.

## 4. INSOLVENT BANK RESOLUTION

### 4.1. Provisional Administration and Resolution Plans

According to the Article 34 of the Law of Ukraine “On Households Deposit Guarantee System” (hereinafter referred to as the Law) the Fund starts the insolvent bank resolution procedure no later than on the working day following the receipt of the official decision of the NBU on declaring the bank insolvent. The Executive Directorate of the Fund appoints the authorised DGF officer(s) from among the Fund employees, who will be vested with all or part of the powers of the Fund as a provisional administrator, not later than the next working day after the official receipt of the Resolution of the National Bank of Ukraine on declaring a bank insolvent. The authorized DGF officer shall comply with the requirements established by the Fund. The provisional administration is introduced for a period of no more than one month. In case of the insolvent bank resolution in the manner stated in paragraphs 3–5 of Part 2 of Article 39 of the Law, the term of the provisional administration may be extended for up to one month. In case of the insolvent bank resolution in the manner prescribed in paragraphs 1 and 2 of Part 2 of Article 39 of the Law, the term of the provisional administration may be extended for five days and will be suspended not later than on the date of receipt of Resolution of the National Bank of Ukraine to revoke the banking license and liquidate the bank. Provisional administration shall be terminated after the implementation of the resolution plan or otherwise by the decision of the Executive Directorate of the Fund.

As of 1 January 2019, PJSC CB “FINANCIAL INITIATIVE” (provisional administration introduced on 24 June 2015) is under control of the Fund with the provisional administration procedure. The ultimate method to resolve this insolvent bank is “liquidation of the bank with the deposit payouts by the Fund”, but it was not provided because the actions of the National Bank of Ukraine and the Fund were appealed in a judicial proceeding, in particular, claim enforcement measures have been taken to prohibit the Fund officers to adopt decisions and/or take any other actions to liquidate the bank.

In 2018 the National Bank of Ukraine declared JOINT-STOCK COMPANY “VTB BANK” (hereinafter JSC “VTB BANK”) insolvent, the Fund has introduced provisional administration since 28 November 2018.

The book value of assets of JSC “VTB BANK” as of the day of introduction of the provisional administration amounted to UAH 6,890,375,260.00, total guaranteed reimbursement amount – 932,285.55. The book value of JST “VTB BANK” assets is shown in Table 4.1. The structure of JST “VTB BANK” assets as of the date of introduction of the provisional administration (according to the balance sheet) is shown in Fig. 4.1. Liabilities of JSC “VTB BANK” as of the date of introduction of the provisional administration amounted to UAH 5,729,807,080.00 (Table 4.2).

Table 4.1.

Book Value of Assets as of the Day of Introduction of the Provisional Administration (UAH thous.)

Bank name	Highly liquid assets	Loan portfolio (inclusive of reserves)	Securities (including government bonds)	Fixed assets (including real estate)	Other assets (inclusive of reserves)	Total ASSETS
JSC «VTB BANK	9,663.02	2,942,077.72	2,384.84	2,924,159.26	1,012,090.41	6,890,375.26
<b>Total</b>	<b>9,663.02</b>	<b>2,942,077.72</b>	<b>2,384.84</b>	<b>2,924,159.26</b>	<b>1,012,090.41</b>	<b>6,890,375.26</b>

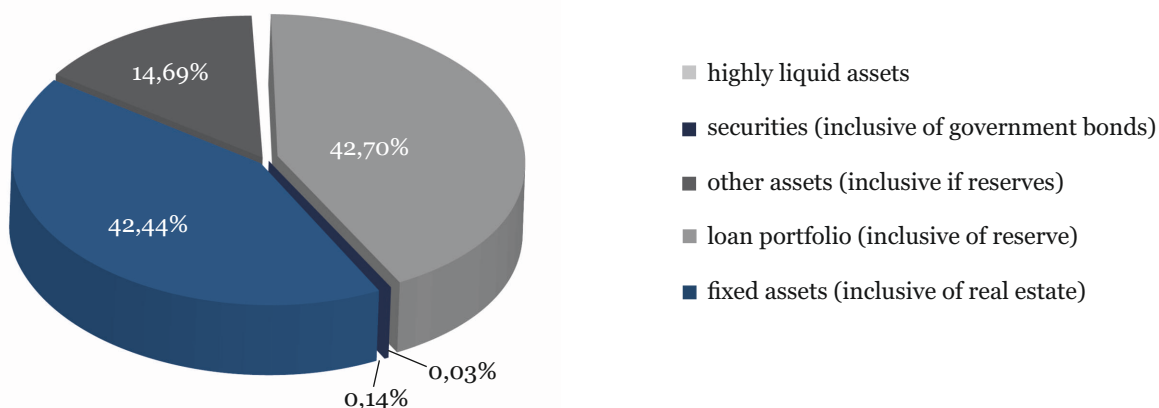


Fig. 4.1. Structure of Assets of Insolvent Banks (JSC “VTB BANK”)



Table 4.2.

## Liabilities as of the Date of Introduction of the Provisional Administration

No.	Bank name	Liability	
		total	including the guaranteed reimbursement amount
1.	JSC "VTB BANK"	5,729,807.08	932,285.55

The way of JSC "VTB BANK" resolution was the liquidation with the reimbursement by the Fund, as the least cost for the Fund.

### Insolvent Bank Resolution Plans

Within 30 days of the beginning of the provisional administration, the Executive Directorate of the Fund approves the resolution plan subject to the mandatory compliance with the principle of the least costs for the Fund. The resolution plan is prepared in accordance with the requirements established by the Fund regulations. The resolution plan determines the measures for the insolvent bank resolution by one of the following ways based on the evaluation of the financial and economic state of the bank:

- 1) liquidation of the bank with direct deposit payouts by the Fund in accordance with the procedure established by the Law;
- 2) liquidation of the bank with alienation of its assets and liabilities, in whole or in part, in favour of the receiving bank;
- 3) alienation of assets and liabilities, in whole or in part, of an insolvent bank in favour of the receiving bank with revocation of the insolvent bank's license and its further liquidation;
- 4) incorporation of a bridge bank and sale of the bridge bank to an investor accompanied by a transfer of the insolvent bank's assets and liabilities to the investor, and further liquidation of the insolvent bank;
- 5) sale of the insolvent bank to an investor.

### Implementation of Insolvent JSC "VTB BANK" Resolution Plan

By the Decision of the Executive Directorate of the Fund No. 3181 dated 27 November the decision was made:

- on conduction of tender for establishing the receiving bank with the aim of alienation of insolvent JSC VTB BANK liabilities, guaranteed by the Fund, with the premium payments by the receiving bank, during the implementation of the insolvent bank resolution, provided by the Paragraph 1 Part 2 Article 39 of the Law (bank liquidation with the reimbursement by the Fund according to the retail deposits) and there were approved its conditions;
- on conduction of a tender with the aim of insolvent JSC "VTB BANK" resolution by the ways, provided by Paragraphs 2-5 Part 2 Article 39 of the Law and there were approved its conditions.

JSC "TASKOMBANK", JSC "BANK ALLIANCE", JSC "UKRGAS-BANK", SC "ALFA BANK" expressed intention to undertake liabilities of JSC "VTB BANK", guaranteed by the Fund, with premium payment, who submitted documents to participate in the above mentioned tender.

JSC "TASKOMBANK" and JSC "ALFA BANK" submitted applications and documents to participate in tender with the aim insolvent JSC "VTB BANK" resolution in the ways, provided by the Paragraphs 2 and 3 Part 2 Article 39 of the Law (liquidation of the bank with alienation of its assets and liabilities, in whole or in part, in favour of the receiving bank and alienation of assets and liabilities, in whole or in part, of an insolvent bank in favour of the receiving bank with revocation of the insolvent bank's license and its further liquidation).

After the analysis and expenses justification, related to the insolvent bank resolution as the least cost way for the Fund to resolute JSC "VTB BANK" the Fund found out that the such ways of insolvent bank resolution as "liquidation of the bank with alienation of its assets and liabilities, in whole or in part, in favour of the receiving bank" and "alienation of assets and liabilities, in whole or in part, of an insolvent bank in favour of the receiving bank with revocation of the insolvent bank's license and its further liquidation" are the least cost for the Fund (provide the possibility of transferring not only the guaranteed amount of reimbursement but also other liabilities to the receiving bank, in accordance with the order provided by in Article 52 of this Law and assets (part or all of them), for the way "liquidation of the bank with direct deposit payouts by the Fund".

Therefore, the executive Directorate of the Fund made the decision dated 6 December 2018 to refuse conduct a tender on determination of the receiving bank with the aim of alienation the liabilities of JSC "VTB BANK" insolvent bank to it, that guaranteed by the Fund, with the premium payment by the receiving bank, during the implementation of the insolvent bank resolution, provided by the Paragraph 1 Part 2 Article 39 of the Law and it was recognized as it did not happen.

At the same time JSC "TASKOMBANK" submitted documents to the Funds, including the tender offer, to participate in the tender with the aim of insolvent JSC "VTB BANK" resolution in the ways provided by the Paragraphs 2-3 Part 2 Article 39 of the Law, and it paid guarantee fee.

SC "ALFA BANK" as a potential investor did not submit tender offer to the Fund in the terms defined by the tender conditions. There was not paid the guarantee fee.

At the same time JSC "TASKOMBANK" submitted offer failed to meet the requirements of the tender. The Executive Directorate made the decision dated 17 December 2018 about that tender of insolvent bank resolution did not occurred, the least cost way of insolvent bank resolution is liquidation of the bank with direct deposit payouts by the Fund, and there was approved the plan, that provides above mentioned way of insolvent JSC "VTB BANK" resolution.

In this way, the implementation of the insolvent JSC "VTB BANK" resolution way, provided by the Paragraph 3 Part 2 Article 39 of the Law (alienation of assets and liabilities, in whole or in part, of an insolvent bank in favour of the receiving bank with revocation of the insolvent bank's license and its further liquidation) is impossible, and the least cost way of insolvent JSC "VTB BANK" resolution was defined the way provided by the Paragraph 1 Part 2 Article 39 of the Law.

PJSC "BANK UNISON" was declared insolvent in Q2 of 2016, and the way of "alienation of assets and liabilities, in whole or in part, of an insolvent bank in favour of the receiving bank with revocation of the insolvent bank's license and its further liquidation" was approved as the possible for the insolvent PJSC "BANK UNISON" resolution.

Dnipropetrovskiy District Court of Dnipropetrovsk region, Cherkaskiy District Court of Cherkasy region, Kyivskiy District Court of Kharkiv city, Frankivskiy District Court of Lviv took claim enforcement measures to prohibit the Fund Executive Directorate and other authorised persons to contribute suggestions to the National Bank of Ukraine and adopt decisions on liquidation of the Public Joint-Stock Company "BANK "UNISON" and/or revocation of the Public Joint-Stock Company "BANK "UNISON" bank license in 2016-2017.

The Executive Directorate of the Fund made the decision on amendments to the regulation plan of PJSC "BANK UNISON" in

the part of determination of the new way of bank resolution, namely, liquidation of the bank with direct deposit payouts by the Fund, also there was contributed suggestion to the National Bank of Ukraine on the revocation of the bank license and the liquidation of PJSC "BANK UNISON" After the cancelation of all enforcement measures on 11 June 2018 due to the ending of the provisional administration and non-fulfilment of the approved plan of the regulation The Board of the National Bank of Ukraine made the decision No. 345-п/р "On Revocation of the Bank License and Liquidation of the Public Joint-Stock Company "BANK "YUNISON".

## 4.2. Liquidation of Banks

The Fund launches the bank liquidation procedure not later than on the working day following the date of receipt of the official resolution of the National Bank of Ukraine to revoke the banking license and liquidate the bank unless the liquidation is carried out on the initiative of the bank owners. The liquidation of the bank shall be completed within two years after the start of the bank liquidation. The Fund may decide to extend the liquidation of the bank for up to two years with the possibility of re-extension for up to one year.

As of 1 January 2019, 91 banks are under control of the Fund, of which one has the provisional administration - PJSC CB "FINANCIAL INITIATIVE" and 90 banks are under liquidation. On 3 January 2019 the liquidation of PJSC "FINBANK" was completed.

As of 1 January 2019 the total indicators of 91 insolvent banks were the following:

- nominal value of assets – UAH 531,350.11 mn;
- estimated value of assets – UAH 94,220.56 mn;
- total guaranteed amount – UAH 90,835.87 mn;
- debt under loans issued by the NBU – UAH 50,897.52 mn;
- repaid to the Fund (Priority 3): – UAH 19,746.28 mn.

Total nominal value of assets indicated in the table amounted more than UAH 531.4 bn, estimated value of which is UAH 94.2 bn (Table 4.3).

Table 4.3.

Book and Appraised Value of Assets Bank Being Liquidated

(UAH thous)

Bank name	Nominal value of assets	Estimated value of assets
PJSC "FINBANK"	0.00	0.00
PJSC "MELIOR BANK"	0.00	0.00
PJSC CB "DANIEL"	758,144.83	15,874.07
PJSC "REAL BANK"	5,511,398.70	18,868.08
PJSC "BROKBUSINESSBANK"	23,645,833.68	2,804,528.71
JSC BANK "MERCURIY"	2,034,540.85	52,489.49
PJSC "BANK"FORUM"	12,054,560.26	3,772,947.12
PJSC CB "ITERBANK"	1,029,096.77	364.82
PJSC "CB " PROMECONOMBANK" "	214,207.94	11,049.04

Book and Appraised Value of Assets  
Bank Being Liquidated

Table 4.3.(continuation)

(UAH thous)

Bank name	Nominal value of assets	Estimated value of assets
PJSC "CB " PIVDENCOMBANK "	9,982,426.55	262,873.93
PJSC " ZAKHIDINKOMBANK "	629,940.60	68,796.02
PJSC " AVTOKRAZBANK "	1,738,338.60	104,775.09
PJSC " STAROKYIVSKYI BANK "	534,203.36	113,441.78
PJSC " FINROSTBANK "	1,915,982.82	125,362.91
PJSC "CB " UFS "	3,524,824.04	89,763.80
JSC "EUROGASBANK"	3,982,973.32	357,420.98
JSC "BANK GOLDEN GATE"	1,265,192.81	24,789.67
PJSC "TERRA BANK"	3,692.22	2,944.87
PJSC CB "ACTIVE-BANK"	5,384,442.73	600,399.37
PJSC "PRIME BANK"	10,041.22	8,351.32
PJSC "AKTABANK"	6,128,439.14	849,137.64
PJSC "INTERCREDITBANK"	195,298.21	46,252.72
PJSC "GREEN BANK"	1,844.77	172.49
JSC CB "EXPOBANK"	2,756,838.23	709,746.35
JPSC "BANK DEMARK"	2,945,899.57	62,092.69
JSC "PORTO-FRANKO"	695,209.89	31,172.47
PJSC CB "AXIOMA"	696,459.06	152,435.11
PJSC "BG BANK"	2,022,187.70	434,632.57
PJSC "LEG BANK"	707,018.10	80,607.26
PJSC "BANK CAMBIO"	3,353,792.09	506,703.93
PJSC "VAB BANK"	32,990,996.60	6,562,100.74
PJSC "CITY COMMERCIAL BANK"	7,382,085.66	958,312.69
PJSC "PROFIN BANK"	727,756.98	67,442.87
PJSC JSB "UKOOSPILKA"	162,058.35	3,419.89
PJSC "UKRAINIAN BUSINESS BANK"	4,938,185.30	639,348.13
PJSC "ZLATOBANK"	14,837,870.26	1,351,219.98
PJSC "IMEXBANK"	22,441,720.58	3,066,301.46
PJSC "KREDITPROMBANK"	1,066,924.65	110,834.26
PJSC "CB NADRA"	49,368,260.27	6,662,468.10
PJSC "ENERHOBANK"	2,397,103.30	345,830.63
PJSC CB "STANDARD"	0.00	0.00
PJSC JSCB "KYIV"	182,787.33	238,774.29
PJSC "OMEGA BANK"	33,458.05	515,392.45
PJSC "BANK KYIVSKA RUS"	4,947,573.65	717,623.47
PJSC "UKRAINIAN PROFESSIONAL BANK"	2,754,323.46	146,943.01
PJSC "BANK NATIONAL CREDIT"	2,078,305.40	94,156.56
PJSC "BANK "MORSKYI"	10,241.67	10,241.67
PJSC " BLACK SEA BANK FOR RECONSTRUCTION AND DEVELOPMENT "	106,445.95	110,065.01
PJSC " EAST INDUSTRIAL COMMERCIAL BANK "	25,760.57	28,658.86
PJSC " UKRAINIAN MUNICIPAL BANK "	8,596.81	11,293.57
PJSC " UKRGAZPROMBANK " "	448,872.25	33,500.73
PJSC JSB "STOLYCHNYI"	892,951.89	95,519.65
JSC "DELTA BANK"	106,959,098.06	22,081,601.90
PJSC "JSCB "CAPITAL"	1,332,813.23	110,582.13
PJSC "RADICAL BANK"	674,260.04	197,046.90
PJSC "INTEGRAL-BANK"	1,121,353.15	149,750.90
JSC "BANK NATIONAL INVESTMENTS"	2,330,454.70	306,223.33
PJSC "UNICOMBANK"	1,537,342.11	109,905.73
JSC "BANK VELES"	14,315.77	6,631.35
PJSC BANK "KONTRACT"	323,705.10	165,796.47
JSC "FINANCE AND CREDIT BANK"	56,499,767.36	8,043,744.98
PJSC "VBR"	4,805,261.78	1,602,460.47
PJSC "UNION STANDARD BANK"	1,191,940.97	124,618.96
PJSC CB "PREMIUM"	948,196.39	284,377.02
PJSC "AVANT BANK"	1,871,760.83	395,361.95
JSC CB "SOIUZ"	-	-
PJSC "UKRINBANK"	5,322,424.60	-
JSC CB "TK CREDIT"	1,395,604.65	393,215.13
PJSC "BANK PETROCOMMERCE-UKRAINE"	1,296,063.87	235,114.26
PJSC "BANK SOPHIIVSKYI"	806,366.61	248,620.67
PJSC CB "KHRESHCHATYK"	8,179,174.83	1,561,642.91
PJSC "BANK MYKHAILIVSKYI"	5,973,199.72	81,192.64
PUJSC "FIDOBANK"	4,619,151.78	1,500,105.15
PUJSC "SMARTBANK"	820.41	158.80
PJSC CB "EUROBANK"	907,604.60	196,908.85
PJSC "KSG BANK"	455,096.00	122,824.24
JSC "ARTEM-BANK"	555,427.46	84,899.47
PJSC "BANK TRUST"	350,909.49	121,066.13
PJSC CB "INVESTBANK"	439,431.04	140,615.83
JSC "FORTUNA-BANK"	2,240,018.56	448,023.35

Book and Appraised Value of Assets  
Bank Being Liquidated

Table 4.3.(continuation)

(UAH thous)

Bank name	Nominal value of assets	Estimated value of assets
PJSC "PLATINUM BANK "	4,733,567.14	724,994.62
PJSC "BANK NARODNYI CAPITAL"	337,014.12	116,783.83
PJSC "VECTOR BANK"	280,055.05	12,869.87
PJSC "DIAMANTBANK"	2,461,267.95	889,064.99
PJSC JSCB "NOVYI"	173,330.65	53,588.43
PJSC COMMERCIAL BANK "HEFEST"	41.97	2.69
JSC "BANK BOGUSLAV"	520,032.29	233,326.12
JSC "RODOVID BANK"	19,518,809.07	3,240,422.09
PJSC "BANK UNISON"	626,464.40	270,213.64
JSC "VTB BANK"	24,927,563.88	6,506,024.61
<b>Total</b>	<b>507,254,816.67</b>	<b>83,837,222.76</b>

**Banks under Provisional Administration**

UAH thos.

Bank name	Nominal value of assets	Estimated value of assets
PJSC CB "FINANCIAL INITIATIVE"	24,095,29.02	10,383,338.87
<b>Total</b>	<b>24,095,291.02</b>	<b>10,383,338.87</b>
<b>Total amount for 91 banks</b>	<b>531,350,107.69</b>	<b>94,220,561.63</b>

The biggest part - 85% of the structure of insolvent bank is loans, 4% - real property and land, 3% - securities, at the same time the part of highly liquid assets is 0.55% (Fig.4.2).

In order to optimize the using of the available human, financial and material resources of the Fund and to preserve the liquidation mass of banks, work on grouping individual banks into clusters continued in 2018. The formation of a certain cluster takes into account the factors that influence or may, at different stages, affect the process and effectiveness of the bank's procedures for bank resolution defined by the Law. There is taken into account the

following factors: at what stage of the procedure implementation according to the Law is the insolvent bank; the size of the bank; territorial location of the bank and liquidation mass; available and potential human resources and other factors that may affect the Fund's implementation of bank resolution.

All these actions are aimed to provide by the Fund, authorised persons the principles and norms of the Law aimed at protecting the rights and legitimate interests of banks depositors and contributes to ensure an effective procedure insolvent bank resolution and liquidation of banks. As a result, during 2018, the total number

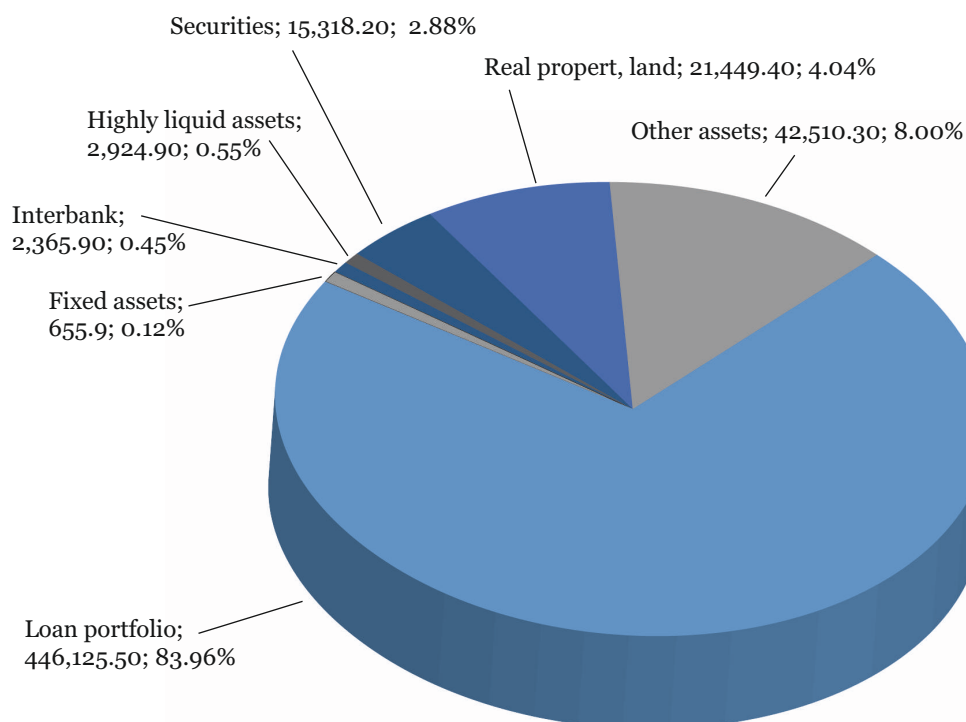


Fig. 4.2. Relative Part of Certain Assets in General Nominal Assets, %

of Fund's authorised persons to take bank resolution measures decreased by 31% or decreased by 9 persons, and in 90% of cases only one person provided liquidation measures for 2 to 6 banks. Including 69% by one authorised person, at the same time, provide for liquidation of 3 to 6 banks.

The Fund or the authorised officer (in case of delegation of respective powers) is obliged to take inventory bank assets and liabilities. The inventory checks the availability and compliance of the book value of the following assets and liabilities of the insolvent bank to their actual value:

- 1) cash in hand and valuables in the vault of the bank;
- 2) debt on loans payable to the bank (including the presence of enforcement of obligations under loan agreements);
- 3) securities debt to the bank;
- 4) debt on liabilities of the bank to creditors;
- 5) claims of the bank to a client for the bad debt written off (including the enforcement of obligations under such debt).

Inventory of bank property and formation of the liquidation estate shall be completed within six months after the decision to liquidate the bank and revoke its banking license.

Results of the inventory and formation of the liquidation estate are shown in the statement to be approved by the Executive Directorate of the Fund.

The authorized DGF officer satisfies creditors' claims with the funds received as a result of the liquidation and sale of the property of the bank in the order of approved priorities.

The requirements of each priority is conducted as soon as cash is accumulated from the bank assets sale after the complete fulfilment of the last priority requirements. In the case when the cash volume, received from the assets sale, can not fulfil all priority requirements, they are fulfilled in proportion to the amount of requirements of every creditors of one priority.

### 4.3. Bank Liquidation Procedure Termination

In 2018 the liquidation procedure of the first four banks, which were transferred to the Fund's management, was terminated, namely

PJSC "DERZHZEMBANK", JSC "ERDE BANK", JSC "BANK TAVRYKA" and PJSC "CLASSICBANK" by entering a record in the state register of legal entities, individual entrepreneurs and public formations on the termination of a legal entity. As of 1 December 2018, there was prepared and submitted liquidation balances of two banks. According to PJSC "FINBANK" the liquidation balance and the report on the completion of the liquidation procedure were approved by the decision of the Executive Directorate No. 3352 dated 13 December 2018; according to PJSC "MELIOR BANK" the liquidation balance and the report on the completion of the liquidation procedure were approved by the decision of the Executive Directorate No. 3353 dated 13 December 2018.

In order to manage the insolvent bank liquidation procedure termination, an appropriate structural unit was formed in the Fund, the functions of which include: implementation of the Fund's policy on the bank liquidation procedure termination; formation of the banks list, for which the liquidation procedure is planned to be terminated, with the purpose of further approval of such list by the Executive Directorate of the Fund; identification of the problems that interfere the bank liquidation procedure termination and taking measures to eliminate them; share in the valuation of the property (assets) of banks for which the liquidation procedure is planned to be terminated within the framework of the Fund's internal procedures; making changes to the asset management plan as necessary, or recognizing the management plan as such that became invalid as a result of including the Bank in the list of banks for which the liquidation procedure is planned to be terminated; organisation, provision and control (preparation of bank liquidation balance sheet and report of bank liquidation procedure termination); bank liquidation procedure termination and termination of the bank as a legal entity. As of 31 December 2018, there were 51 banking institutions supported by the above-mentioned structural unit of the Fund (Table 4.4.).

Total financial indicators of insolvent banks being liquidated at the end of 2018 were following:

- total amount of assets (without impairment) – UAH 118,186.6 mn;
- estimated value of assets included to the liquidation estate – UAH 15,485.0 mn;
- amount of outstanding creditors' claims – UAH 52,843.1 mn;
- balance – UAH 517.1 mn.

Table 4.4.

Banks Planned for the Termination of the Liquidation Procedure

No.	Bank	Date of commencement of liquidation	Liquidation term (according to the Decision of the ED)	Maximum end date (according to the Law)
1	PJSC "FINBANK"	28 Apr 2017	27 Apr 2019	27 Apr 2022
2	PJSC "MELIOR BANK"	11 Feb 2015	10 Feb 2019	10 Feb 2020
3	PJSC COMMERCIAL BANK "HEFEST"	2 Oct 2017	1 Oct 2019	1 Oct 2022
4	PUJSC "SMARTBANK"	25 Jul 2016	24 Jul 2019	24 Jul 2021
5	PJSC "GREEN BANK"	23 Jan 2015	22 Jan 2020	22 Jan 2020
6	PJSC "TERRA BANK"	30 Jan 2015	6 Dec 2019	29 Jan 2020
7	PJSC CB "STANDARD"	19 Jun 2015	18 Jun 2019	17 Jun 2020
8	PJSC CB "INTERBANK"	23 Jul 2014	22 Jul 2019	22 Jul 2019
9	PJSC "OMEGA BANK"	06 Jul 2015	5 Jul 2019	4 Jul 2020



Table 4.4.(continuation)

## Banks Planned for the Termination of the Liquidation Procedure

No.	Bank	Date of commencement of liquidation	Liquidation term (according to the Decision of the ED)	Maximum end date (according to the Law)
10	PJSC CB "UFS"	13 Nov 2014	12 Nov 2019	12 Nov 2019
11	PJSC "INTERCREDITBANK"	17 Jan 015	16 Jul 2019	16 Jan 2020
12	PJSC CB "AXIOMA"	30 Jan 2015	29 Jul 2019	29 Jan 2020
13	PJSC CB "PROMECONOMBANK"	8 Sep 2014	7 Sep 2019	7 Sep 2019
14	PJSC "REAL BANK"	21 May 2014	20 May2019	20 May 2019
15	JSC BANK "MERCURIY"	12 Jun 2014	14 Jun 2019	11 Jun 2019
16	PJSC «JSCB BANK»	29 Aug 2014	28 Aug 2019	28 Aug 2019
17	PJSC "ZAKHIDINKOMBANK"	23 Jul 2014	22 Jul 2019	22 Jul 2019
18	JSC "FINROSTBANK"	16 Oct 2014	16 Oct 2019	15 Oct 2019
19	PJSC "UNICOMBANK"	24 Dec 2015	3 Dec 2019	22 Dec 2020
20	PJSC CB "PIVDENCOMBANK"	26 Sep 2014	25 Sep 2019	25 Sep 2019
21	PJSC "PRIME BANK"	14 Jan 2015	13 Jan 2020	13 Jan 2020
22	JSB "UKOOSPILKA"	23 Apr 2015	22 Apr 2019	21 Apr 2020
23	PJSC «COMMERCIAL BANK "DANIEL"	16 Apr 2014	14 Apr 2019	15 Apr 2019
24	JPSC "BANK DEMARK"	30 Jan 2015	29 Jan 2020	29 Jan 2020
25	PJSC "BANK FORUM"	16 Jun 2014	14 Jun 2019	15 Jun 2019
26	JSC "BROKBUSINESSBANK"	11 Jun 2014	10 Jun 2019	10 Jun 2019
27	PJSC JSCB "KYIV"	25 Jun 2015	24 Jun 2019	23 Jun 2020
28	PJSC "CITY COMMERCIAL BANK"	20 Jun 2015	19 Mar 2019	18 Mar 2020
29	PJSC CB "PROMECONOMBANK"	22 Apr 2016	21 Apr 2019	21 Apr 2021
30	PJSC "AVANT BANK"	26 Feb 016	25 Feb 2020	24 Feb 2021
31	JSC "ARTEM-BANK"	16 Dec 2016	15 Dec 2019	15 Dec 2021
32	PJSC "VECTOR BANK"	22 Mar 2017	21 Mar 2019	21 Mar 2022
33	PJSC "UNION STANDARD BANK"	28 Dec 2015	27 Dec 2019	26 Dec 2020
34	PJSC "UKRAINIAN PROFESSIONAL BANK"	31 Aug 2015	30 Aug 2019	29 Aug 2020
35	PJSC BANK "KONTRACT"	11 Dec 2015	10 Dec 2019	9 Dec 2020
36	PJSC "STAROKYIVSKYI BANK"	18 Sep 2014	17 Sep 2019	17 Sep2019
37	PJSC JSB "STOLYCHNYI"	21 Sep 2015	20 Sep 2019	19 Feb 2020
38	JSC "BANK NATIONAL INVESTMENTS"	3 Dec2015	2 Dec 2019	1 Dec 2020
39	PJSC JSCB "NOVYI"	1 Sep 2017	31 Aug 2019	31 Aug 2022
40	JSC "BANK GOLDEN GATE"	5 Dec 2014	4 Dec 2019	4 Dec 2019
41	PJSC "UKRGAZPROMBANK"	15 Sep 2015	14 Sep 2019	13 Sep 2020
42	JSC "EUROGASBANK"	18 Nov 2014	17 Nov 2019	17 Nov 2019
43	JSC "FORTUNA-BANK"	22 Feb 2017	21 Feb 2020	21 Feb 2022
44	PJSC "BANK SOPHIIIVSKYI"	25 Apr 2016	24 Apr 2019	24 Apr 2021
45	PJSC CB "ACTIVE-BANK"	24 Dec 2014	23 Dec 2019	23 Dec 2019
46	PJSC "AKTABANK"	16 Jan 2015	15 Jan 2020	15 Jan 2020
47	JSC CB "EXPOBANK"	26 Jan 2015	30 Mar2019	25 Jan 2020
48	JSC "PORTO-FRANKO"	30 Jan 2015	29 Jan 2020	29 Jan 2020
49	PJSC "BANK CAMBIO"	2 Mar 2015	1 Mar 2020	29 Feb 2020
50	PJSC "BG BANK"	27 Feb 2015	26 Feb 2020	26 Feb 2020
51	PJSC "LEG BANK"	27 Feb 2015	26 Feb 2020	26 Feb 2020

The banks with the liquidated balances approved as of 31 December 2018 are shown in Table 4.5.

Table 4.5.

## Banks with the liquidated balances approved as of 31 December 2018

No.	Bank	Decision of the Executive Directorate	Date of liquidated balances and report of liquidation termination approval	Date of record entry of termination of legal entity
1	PJSC "ERDE BANK"	5,334	11 Dec 2017	13 Nov 2018
2	PJSC "CLASSICBANK"	63	11 Jan 2018	07 Dec 2018
3	JSC "BANK TAVRYKA"	788	19 Mar 2018	28 Nov 2018
4	PJSC "DERZHZEMBANK"	646	05 Mar 2018	02 Apr 2018
5	PJSC "MELIOR BANK"	3,353	13 Dec 2018	x
6	PJSC "FINBANK"	3,352	13 Dec 2018	x

### Introduction of plans to complete insolvent banks liquidation procedures

At the beginning of 2018, the structuring of the banks for which the liquidation procedure is to be completed began with the adoption by the DGF Executive Directorate of the relevant decision approving

the list of banks for which the liquidation procedure is planned to be completed. The decision of the DGF Executive Directorate was preceded by a thorough analysis of the state of affairs in banks. However, after the decision of the DGF Executive Directorate No. 1383 dated 17 May 2018, which approved the list of signs for

inclusion of the bank into the list of banks for which it is planned to complete the insolvent banks liquidation procedures (hereinafter - the List), the list of such banks shall be updated provided that the following criteria are met:

1. The period (term) of liquidation of the bank is approaching completion, but no later than twelve months before the deadline period (term) of liquidation, as determined by the fifth part of Article 44 of the Law of Ukraine "On Households Deposit Guarantee System".
2. The creditors' claims were paid out in accordance with the procedure established by the Law.
3. The results of taking inventory of property and the approved act on the formation of liquidation pool or the results of assets rating that were not realized at the date of consideration of the advisability of extending the term (term) of liquidation, indicate the insufficiency of the bank's assets (property) to pay for expenses associated with the liquidation procedure longer than the period determined by the relevant decision of the DGF Executive Directorate.
4. A large part of the bank's assets (property) was realized, namely 70% or more of the liquidation value of assets (property) and/or of a quantitative indicator, as of the date of approval of the act on the formation of the liquidation pool (taking into account changes).
5. After approval of the liquidation pool, the ratio of bank expenses to actual inflows during the 6-month period (the last complete reporting periods of the calendar year preceding the date of analysis (monitoring)) is greater than or equals to 0.8.

Subsequently, upon approval of the relevant List, DGF sent to the addresses of persons authorized for bank liquidation and included into the List, information requests in order to obtain the information needed for the proper completion of the Bank's liquidation procedure. With the support of DGF employees, the authorized person of the insolvent bank prepared draft plans of measures to complete the banks liquidation procedure (hereinafter - the draft Plan) with subsequent sending to DGF, in order to check the draft Plan, in particular: for compliance with the applicable DGF regulatory documents on insolvent bank resolution, the data given in the draft plan and its annexes, compliance with the balance sheet data, etc., with the obligatory further submission of this draft Plan for review and approval by the DGF collegial bodies, namely:

- working group on optimization of insolvent banks liquidation processes (hereinafter - working group);
- the committee of the Deposit Guarantee Fund on asset management of banks, which are declared as insolvent or are being liquidated by the Deposit Guarantee Fund (hereinafter referred to as the Committee);
- the DGF Executive Directorate of the Foundation (hereinafter referred to as the ED).

After approval of the plan of measures for the completion of the liquidation procedure of an insolvent bank (hereinafter - the Plan), DGF employees on an ongoing basis analyzed the state of affairs in the banking institutions for which it is planned to complete the

liquidation procedure and monitored the progress of completion of the liquidation procedure (including meeting the deadlines specified in the plans) and to regulate relationships with other entities, institutions, or enterprises of all forms of ownership that are involved in the process of insolvent banks resolution, the liquidation process of which is carried out by DGF, for which the staff developed a group of documents and electronic files (tables) containing information of management, reporting and legal nature, improved forms of reporting and internal documents (action plans, lists of available assets, etc.).

As a result of the updated approach to analysis of insolvent banks' statements and development of new forms of analysis (monitoring) of performance of insolvent banks, during 2018, 36 banking institutions were approved by the relevant decisions of the DGF Executive Directorate, for which the liquidation procedure is planned to be completed from 2018 to 2020. In particular:

- The list of 8 banking institutions was approved by the decision of the DGF Executive Directorate No. 123 dated 18 January 2018, for which the liquidation procedure is planned to be completed in the period from 19 January 2018 to 18 January 2018;
- The list of 2 banking institutions was approved by the decision of the DGF Executive Directorate No. 1382 dated 17 May 2018, for which the liquidation procedure is planned to be completed in the period from 18 May 2018 to 30 September 2018;
- The list of 17 banking institutions was approved by the decision of the DGF Executive Directorate No. 2109 dated 26 July 2018, for which the liquidation procedure is planned to be completed in the period from 1 August 2018 to 30 September 2018;
- The list of 9 banking institutions was approved by the decision of the DGF Executive Directorate No. 3036 dated 12 November 2018, for which the liquidation procedure is planned to be completed in the period from 1 December 2018 to 31 January 2020;

#### **Problem issues of completion of insolvent banks liquidation procedures**

During 2018, among the problems that arose during the completion of insolvent banks liquidation procedures, first of all, we emphasize the existence of a legislative provision in the first part of Article 28 of the Law of Ukraine "On State Registration of Legal Entities, Entrepreneurs and Public Formations", according to which the receipt by the state registrar of information on whether the legal entity has arrears in the payment of taxes and fees and/or arrears in the payment of a single fee for obligatory state social insurance, was the basis for refusal to perform registration actions to terminate the bank as a legal entity upon completion of the liquidation procedure. With the entry into force of the Law of Ukraine "On amendments to certain legislative acts of Ukraine on improving the functioning of the financial sector in Ukraine", the above problem has been resolved, to record the termination of a legal entity by banks that are withdrawn from the market or liquidated by the Deposit Guarantee Fund, became possible regardless of the presence/absence of bank debt to the State Fiscal Service bodies.

Also at the beginning of 2018 there were problems in forming a unified opinion on submission of a certain package of documents to the NSSMC to cancel the report on registration of issue of shares of insolvent bank as an issuer of securities. Negotiations with responsible NSSMC staff resulted in a compromise solution, which resolved the problem.

At the same time, a number of problematic issues were analyzed and identified, including:

1. Issues regarding the legislative possibility of declaring them bankrupt and derecognizing bank assets from the balance sheet, namely: cash and valuables of insolvent banks that were located in the premises (branches, separate divisions) of banks located in the area of anti-terrorist operation/Joint Forces Operation and Crimea, and were not exported to the controlled territory for objective reasons.
2. Issues regarding the legislative possibility of repayment of receivables on prepayment of taxes and fees, recognition of bad debts and derecognizing such debt from the bank's balance sheet.
3. Sale of limited in circulation securities of issuers (suspension of circulation or suspension of introduction of changes in the depository accounting system). Transactions on the alienation of the issuer's securities, limited in circulation, may be declared null and void. According to Part 1 of Art. 2 of the Law of Ukraine "On Securities and Stock Market", stock market (securities market) - a set of stock market participants and the legal relationship between them regarding the placement, circulation and accounting of securities and derivatives (derivatives). According to Part 1 of Article 1 of the Law of Ukraine "On Securities and Stock Market", the circulation of securities is the performance of transactions related to the transfer of ownership of securities and rights to securities, with the exception of contracts concluded during the placement of securities. Therefore, a key issue in the sale of limited in circulation securities is the ability to transfer ownership of the securities. The unsettledness of these problematic issues only deepens the existing problems and in no way facilitates their resolution. In addition, unresolved problems adversely affect the functioning of economic entities in the stock market, impede investment processes and reduce the efficiency of financial resources.
4. Issues regarding the legislative possibility of recognition of bad funds for operations with securities and derecognizing these funds from the balance sheet;
5. Problems concerning the violation of reasonable time limits by the judicial authorities of Ukraine in civil, commercial and administrative judicial proceedings, which is conditioned by the judicial reform in Ukraine, in particular the optimization of the courts, which by the established principle should improve the work of the courts, ensure access to justice and create an effective mechanism

for the realization of the fundamental right of everyone to a fair trial, taking into account its institutional and organizational aspects. In practice, the process of merging of courts should correlate with administrative-territorial reform, and in Ukraine this process is going on autonomously, which can be regarded as an obstacle to the administration of justice and access to it.

#### 4.4. Settlement of Bank Creditors' Claims

Since the appointment, the DGF authorised officer appointed for the liquidation proceeds to the assessment of the property of the bank by involving appraisers in the manner specified by the Regulation on the Procedure for Selecting Officers Authorised to Perform Work (Provide Services) to Insolvent Banks or Banks being Liquidated by the Deposit Guarantee Fund approved by Decision of the Executive Directorate of the Fund No. 434 dated 28 March 2016, and other regulations of the Fund.

This assessment is carried out in order to form the bank liquidation estate. The Fund shall direct the funds received as a result of the liquidation and sale of property (assets) of the bank to satisfy the creditors' claims in the following priority:

- 1) liabilities arising from damage to life or health of citizens;
- 2) salary pecuniary demands arising from the bank's obligations to its employees before the adoption of the resolution to revoke the banking license and liquidate the bank;
- 3) the Fund's claims arising in cases specified in the Law (including the costs of the Fund under paragraph 7 of Part 2 of Article 20 of the Law and the costs associated with the consolidated sale of assets by the Fund);
- 4) claims of retail depositors (including individual entrepreneurs) that are not parties related to the bank, to the extent that exceeds the amount paid by the Fund;
- 5) claims of the National Bank of Ukraine resulting from the decrease in the value of collateral provided to secure refinancing loans;
- 6) claims of individuals (including individual entrepreneurs) that are not parties related to the bank whose payments or payments in favour of whom have been blocked;
- 7) claims of other depositors and legal entities (customers) that are not parties related to the bank;
- 8) other claims except for claims for subordinated debt;
- 9) claims of creditors of the bank (individuals, including individual entrepreneurs, and legal entities) that are parties related to the bank;
- 10) claims for subordinated debt.

Claims to the bank not satisfied due to insufficiency of the bank's property shall be deemed extinguished, which shall not waive the right of the Fund or the authorised DGF officers to apply the claims to the persons related to the bank in the manner specified by part 5 of Article 52 of the Law.

Claims of each subsequent priority shall be satisfied as proceeds from the sale of property (assets) are received after the complete satisfaction of the previous priority. If the amount of money received from the sale of property (assets) is not sufficient to satisfy all the claims within the same priority, such claims shall be satisfied in proportion to the amount of the claims that belong to each creditor in the priority. In case of refusal of the creditor from satisfaction of a duly recognised claim, the Fund shall disregard amount of pecuniary demands of such a creditor.

As of 1 January 2019, the total book value of the assets of 83 banks, in which the decision of the Executive Directorate of the Fund approved the Accepted Creditors' Claims Register, amounted to UAH 482.18 bn at the estimated value of UAH 77.17 bn, or 16.00 %, which is certainly not sufficient to satisfy all the creditors' claims (Table 4.6).

Table 4.6.

## Book and Estimated Value of Assets

(UAH thous)

No.	Bank	Book value of assets	Estimated value of assets
#	PJSC "DERZHEMBANK" liquidation is terminated	0.00	0.00
#	PJSC "ERDE BANK" liquidation is terminated	0.00	0.00
#	PJSC "BANK TAVRYKA" liquidation is terminated	0.00	0.00
#	PJSC "CLASSICBANK" liquidation is terminated	0.00	0.00
#	PJSC "FINBANK" liquidation is terminated 03.01.2019	0.00	0.00
1	PJSC "MELIOR BANK" in the stage of liquidation termination	0.00	0.00
2	PJSC CB "DANIEL"	758,144.83	15,874.07
3	PJSC "REAL BANK"	5,511,398.70	18,868.08
4	PJSC "BROKBUSINESSBANK"	23,645,833.68	2,804,528.71
5	JSC BANK "MERCURIY"	2,034,540.85	52,489.49
6	PJSC "BANK FORUM"	12,054,560.26	3,772,947.12
7	PJSC CB "INTERBANK"	1,029,096.77	364.82
8	PJSC CB "PROMECONOMBANK"	214,207.94	11,049.04
9	PJSC CB "PIVDENCOMBANK"	9,982,426.55	262,873.93
10	PJSC "ZAKHIDINKOMBANK"	629,940.60	68,796.02
11	PJSC "AVTOKRAZBANK"	1,738,338.60	104,775.09
12	PJSC "STAROKYIVSKYI BANK"	534,203.36	113,441.78
13	PJSC "FINROSTBANK"	1,915,982.82	125,362.91
14	PJSC CB "UFS"	3,524,824.04	89,763.80
15	JSC "EUROGASBANK"	3,982,973.32	357,420.98
16	JSC "BANK GOLDEN GATE"	1,265,192.81	24,789.67
17	PJSC "TERRA BANK"	3,692.22	2,944.87
18	PJSC CB "ACTIVE-BANK"	5,384,442.73	600,399.37
19	PJSC "PRIME BANK"	10,041.22	8,351.32
20	PJSC "AKTABANK"	6,128,439.14	849,137.64
21	PJSC "INTERCREDITBANK"	195,298.21	46,252.72
22	PJSC "GREEN BANK"	1,844.77	172.49
23	JSC CB "EXPOBANK"	2,756,838.23	709,746.35
24	JPSC "BANK DEMARK"	2,945,899.57	62,092.69
25	JSC "PORTO-FRANKO"	695,209.89	31,172.47
26	PJSC CB "AXIOMA"	696,459.06	152,435.11
27	PJSC "BG BANK"	2,022,187.70	434,632.57
28	PJSC "LEG BANK"	707,018.10	80,607.26
29	PJSC "BANK CAMBIO"	3,353,792.09	506,703.93
30	PJSC "VAB BANK"	32,990,996.60	6,562,100.74
31	PJSC "CITY COMMERCIAL BANK"	7,382,085.66	958,312.69
32	PJSC "PROFIN BANK"	727,756.98	67,442.87
33	PJSC JSB "UKOOPSPILKA"	162,058.35	3,419.89
34	PJSC "UKRAINIAN BUSINESS BANK"	4,938,185.30	639,348.13
35	PJSC "ZLATOBANK"	14,837,870.26	1,351,219.98
36	PJSC "IMEXBANK"	22,441,720.58	3,066,301.46
37	PJSC "KREDITPROMBANK"	1,066,924.65	110,834.26
38	PJSC "BANK NADRA"	49,368,260.27	6,662,468.10
39	PJSC "ENERHOBANK"	2,397,103.30	345,830.63
40	PJSC CB "STANDARD"	0.00	0.00
41	PJSC JSCB "KYIV"	182,787.33	238,774.29
42	PJSC "OMEGA BANK"	33,458.05	515,392.45
43	PJSC "BANK KYIVSKA RUS"	4,947,573.65	717,623.47
44	PJSC "UKRAINIAN PROFESSIONAL BANK"	2,754,323.46	146,943.01

Table 4.6.(continuation)

## Book and Estimated Value of Assets

(UAH thous)

No.	Bank	Book value of assets	Estimated value of assets
45	PJSC "BANK NATIONAL CREDIT"	2,078,305.40	94,156.56
46	PJSC "UKRGAZPROMBANK"	448,872.25	33,500.73
47	PJSC JSB "STOLYCHNYI"	892,951.89	95,519.65
48	JSC "DELTA BANK"	106,959,098.06	22,081,601.90
49	PJSC JSCB "CAPITAL"	1,332,813.23	110,582.13
50	PJSC "RADICAL BANK"	674,260.04	197,046.90
51	PJSC "INTEGRAL-BANK"	1,121,353.15	149,750.90
52	JSC "BANK NATIONAL INVESTMENTS"	2,330,454.70	306,223.33
53	PJSC "UNICOMBANK"	1,537,342.11	109,905.73
54	JSC "BANK VELES"	14,315.77	6,631.35
55	PJSC BANK "KONTRACT"	323,705.10	165,796.47
56	JSC "FINANCE AND CREDIT BANK"	56,499,767.36	8,043,744.98
57	PJSC "VBR"	4,805,261.78	1,602,460.47
58	PJSC "UNION STANDARD BANK"	1,191,940.97	124,618.96
59	PJSC CB "PREMIUM" (data as of 12 March 2018)	948,196.39	284,377.02
60	PJSC "AVANT BANK"	1,871,760.83	395,361.95
61	PJSC "UKRINBANK" ( ( data as of 7 July 2016)	5,322,424.60	-
62	JSC CB "TK CREDIT"	1,395,604.65	393,215.13
63	PJSC "BANK PETROCOMMERCE-UKRAINE"	1,296,063.87	235,114.26
64	PJSC "BANK SOPHIIVSKYI"	806,366.61	248,620.67
65	PJSC CB "KHRESHCHATYK"	8,179,174.83	1,561,642.91
66	PJSC "BANK MYKHAILIVSKYI"	5,973,199.72	81,192.64
67	PUJSC "FIDOBANK"	4,619,151.78	1,500,105.15
68	PUJSC "SMARTBANK"	820.41	158.80
69	PJSC CB "EUROBANK"	907,604.60	196,908.85
70	PJSC "KSG BANK" (data as of 10 April 2017)	455,096.00	122,824.24
71	JSC "ARTEM-BANK"	555,427.46	84,899.47
72	PJSC "BANK TRUST"	350,909.49	121,066.13
73	PJSC CB "INVESTBANK"	439,431.04	140,615.83
74	JSC "FORTUNA-BANK"	2,240,018.56	448,023.35
75	PJSC "PLATINUM BANK"	4,733,567.14	724,994.62
76	PJSC "BANK NARODNYI CAPITAL"	337,014.12	116,783.83
77	PJSC "VECTOR BANK"	280,055.05	12,869.87
78	PJSC "DIAMANTBANK"	2,461,267.95	889,064.99
79	PJSC JSCB "NOVYI"	173,330.65	53,588.43
80	PJSC COMMERCIAL BANK "HEFEST"	41.97	2.69
81	SC "BANK BOGUSLAV"	520,032.29	233,326.12
82	JSC "RODOVID BANK"	19,518,809.07	3,240,422.09
83	PJSC "BANK UNISON"	626,464.40	270,213.64
<b>Total amount, UAH thous.</b>		<b>482,176,207.79</b>	<b>77,170,939.04</b>

The total amount of accepted creditors' claims as of 1 January 2019 was equal to UAH 265,777,085.470 (including banks under liquidation), of which in order of priority (Table 4.7):

Table 4.7.

## Amount of Accepted Creditors' Claims by Order of Priority as of 1 January 2019

(UAH thous)

Amount of approved accepted creditors' claims as of 1 January 2019, UAH thous.	Priority 2, UAH thous.	Priority 3, UAH thous.	Priority 4, UAH thous.	Priority 5, UAH thous.	Priority 6, UAH thous.	Priority 7, UAH thous.	Priority 8, UAH thous.	Priority 9, UAH thous.	Priority 10, UAH thous.
265,777,085.47	44,702.38	89,153,822.30	37,681,847.83	8,169,688.51	64,903.28	113,438,244.50	10,919,438.80	4,065,784.06	2,238,653.80



In 2018 the amount of approved accepted creditors' claims increased by UAH 5,465,306.94 Thd. due to the approval of the Creditors Register in 2018 for 4 insolvent banks, including the largest total of the approved accepted creditors' claims: JSC "RODOVID BANK" – UAH 4,688,668.32 Thd.

In 2018 creditors' claims were settled for UAH 8,811,942.24 Thd in all the priorities (Fig. 4.3).

### Repayment of Creditors' Claims of Priority 2

The amount of accepted creditors' claims of Priority 2: UAH 44,702.38 Thd.

As of 1 January 2019, UAH 34,957.76 Thd was repaid, which accounts for 78.20% of the total debt in the priority, including the debt for 2018 in the amount of UAH 2,434.28 Thd.

Only 23 of the 37 insolvent banks repaid their secondpriority creditors in full. 5 banks have not repaid in full because some individuals did not come to receive their salaries on time. The amount of funds deposited by such banks is UAH 19.36 Thd.

6 banks did not start the repayment in Priority 2, namely: JSC "EUROGASBANK", JSC "BANK NATIONAL INVESTMENTS", PJSC "AVANT BANK", PJSC "BANK PETROCOMMERCE-UKRAINE", PJSC "VECTOR BANK", PJSC COMMERCIAL BANK "HEFEST."

### Repayment of Creditors' Claims of Priority 3 (of the Fund)

The amount of accepted creditors' claims of Priority 3: UAH 89,153,822.30 Thd.

As of 1 January 2019, UAH 19,746,279.87 Thd. was repaid, which accounts for 22.15 % of the total debt in the priority, including the debt for 2018 in the amount of UAH 4,033,520.93 Thd.

The leaders of repayment to third-priority creditors in 2018 were the following banks:

1. JSC "FINANCE AND CREDIT BANK":– UAH 1,067,537.81 Thd (26.47% of the repayment of Priority 3 in 2018);

2. JSC "DELTA BANK":– UAH 810,464.79 Thd. (20.09% of the repayment of Priority 3 in 2018);

3. PJSC "PLATINUM BANK"– UAH 430,091.81 Thd. (10.66% of the repayment of Priority 3 in 2018);

4. PUSC "FIDOBANK":– UAH 366,710.49 Thd. (9.09% of the repayment of Priority 3 in 2018);

5. PJSC "VAB BANK" – UAH 262,737.11 Thd. (6.51% of the repayment of Priority 3 in 2018);

The leaders of repayment to third-priority creditors (for all time) as of 1 January 2019 (percentage of repayment amount of each bank to the total repayment amount of third-priority creditors – UAH 19,746,279.87 Thd. are shown in the Fig. 4.4.

### Repayment of Creditors' Claims of Priority 4

The amount of accepted creditors' claims of Priority 4: UAH 37,681,847.83 Thd. Priority 4 was repaid for UAH 1,853,831.46 Thd., which accounts for 4.92 %. In 2018, Priority 4 was repaid for UAH 790,366.59 Thd.

Priority 4 was fully repaid by the following banks:

PJSC "GREEN BANK" (claims of 4 depositors with deposits of 200+ satisfied).

PJSC "KREDYTPROMBANK" (claims of 3 depositors with deposits of 200+ satisfied).

PJSC "PRIME BANK" (claims of 18 depositors with deposits of 200+ satisfied).

PJSC "BANK NARODNYI CAPITAL" (claims of 4 depositors with deposits of 200+ satisfied).

PJSC "BANK UNISON" (claims of 108 depositors with deposits of 200+ satisfied).

PJSC "UKRAINIAN BUSINESS BANK": 99.99 % satisfaction of creditors' claims (UAH 171,418.04 Thd. (claims of 64 of 65 depositors with deposits 200+ were satisfied; claims of 1 depositor were deposited: UAH 1.93 Thd.)).

PJSC "VBR": 99.99 % satisfaction of creditors' claims (UAH 719,952.74 Thd. (claims of 134 of 139 depositors 200+ were satisfied; claims of 5 depositors were deposited: UAH 8.89 Thd.)).

In 2018 repayment of creditors' claims of priority 4 was started by the following banks:

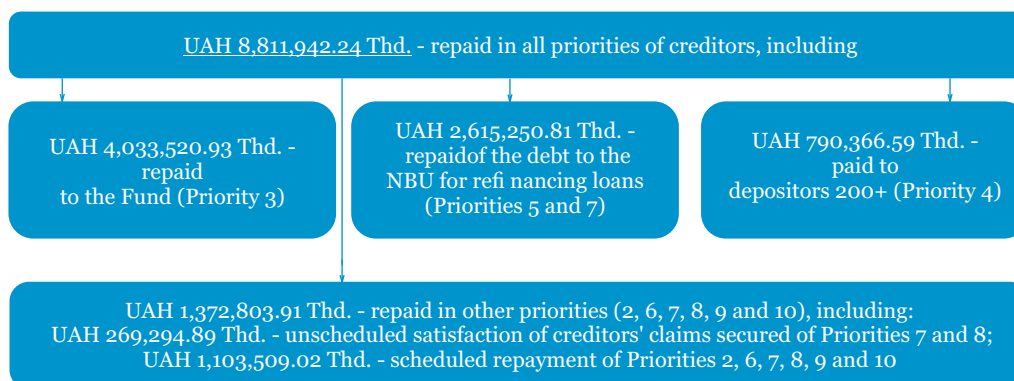


Fig. 4.3. Repayment of Creditors' Claims for 2018

TOP-10 banks of  
Repayment to third-priority  
creditors as of 1 January 2019,  
UAH thous.

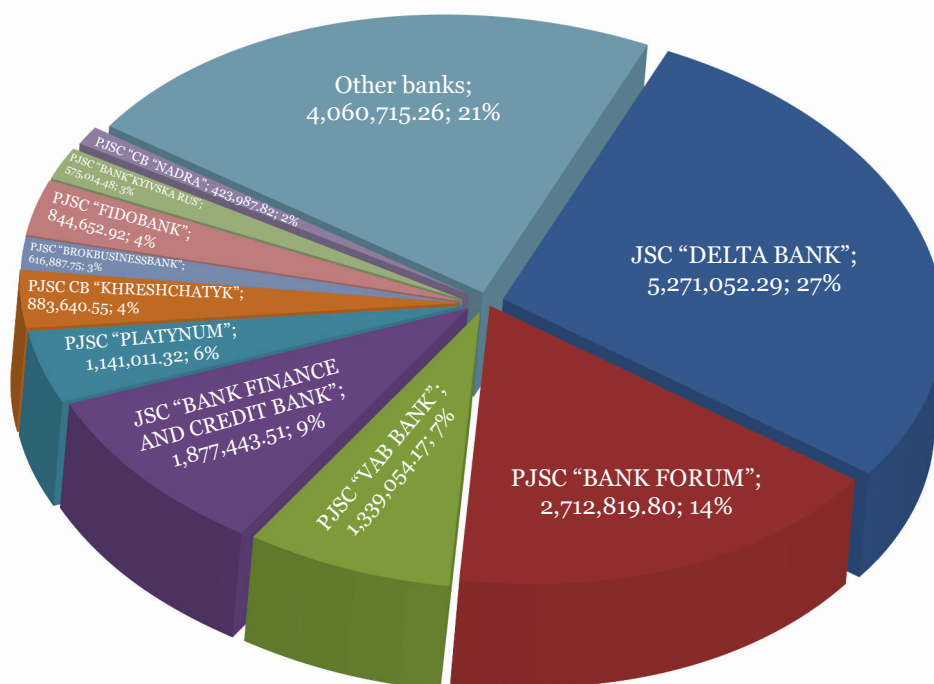


Fig. 4.4. Leading Banks for the Third-Priority Creditors Repayment as of 1 January 2019

PJSC "BANK "FORUM" – partial repayment, in the amount of 20.00% of the arrears to creditor.

PJSC "BANK"SOFIISKYI - partial repayment, in the amount of 12.51% of the arrears to creditor.

PJSC "DIAMANTBANK" partial repayment, in the amount of 45.00% of the arrears to creditor.

#### Repayment of Creditors' Claims of Priority 5

The amount of accepted creditors' claims of Priority 5:

UAH 8,169,688.51 Thd. comprised of the arrears of the following banks to the NBU: PJSC "REAL BANK": UAH 551,395.94 Thd.; PJSC "BANK FORUM": UAH 486,712.41 Thd. (refinancing loans repaid in full, the balance of debt to the NBU: UAH 25.30 Thd. (sample coins belonging to the NBU), JSC "FINANCE AND CREDIT BANK": UAH 6,941,123.33 Thd. (repaid UAH 185,305.06 Thd.); PJSC CB "KHRESHCHATYK": UAH 190,456.83 Thd. (refinancing loans repaid in full).

Overall, Priority 5 was repaid for UAH 862,449.00 Thd., which accounts for 10.56 % of the total debt in Priority 5. In 2018, Priority 5 was repaid for UAH 46,586.69 Thd. (JSC "FINANCE AND CREDIT BANK").

#### Repayment of Creditors' Claims of Priority 6

The amount of accepted creditors' claims of Priority 6: UAH 64,903.28 Thd.

Priority 6 was repaid for UAH 1,660.11 Thd., which is 2.56 %, of which: PJSC "GREEN BANK": UAH 6.50 Thd. (100 % of the accepted claims of Priority 6), PJSC JSCB "NOVYI": UAH 4.13 Thd. (100 % of the accepted claims of Priority 6), PJSC "UNISON" – UAH 30.48 Thd. (100 % of the accepted claims of

Priority 6), PJSC "PRIME BANK": UAH 6.83 Thd. (87.40 % of the accepted claims for Priority 6), PJSC "KREDITPROMBANK": UAH 16.05 Thd. (98.92 % of the accepted claims of Priority 6), PJSC "VBR": UAH 140.91 Thd. (96.03 % of the accepted claims of Priority 6), PJSC "BANK NARODNYI CAPITAL": UAH 1,455.22 Thd. (99.65 % of the accepted claims of Priority 6).

In 2018, Priority 6 was repaid for UAH 31.56 Thd.

#### Repayment of Creditors' Claims of Priority 7

The amount of accepted creditors' claims of Priority 7 was UAH 113,438,244.50 Thd., including the balance of debts to the NBU included in Priority 7 as of 1 January 2019 in the amount of UAH 33,487,715.09 Thd.

Priority 7 was repaid for UAH 10,958,462.14 Thd. (9.66 %) (including UAH 3,768,735.31 Thd. for 2018), of which:

- Total unscheduled repayment of creditors' claims (NBU) of the priority: UAH 6,441,221.98 Thd. (2018: UAH 2,568,664.12 Thd.):

PJSC CB "DANIEL": total UAH 14,851.87 Thd. (2018: UAH 3,176.43 Thd.).

PJSC "BROKBUSINESSBANK": total UAH 247,974.26 Thd. (2018: UAH 18,273.17 Thd.).

PJSC "AVTOKRAZBANK": total UAH 13,740.39 Thd. (2018: UAH 1,539.80 Thd.).

JSC "EUROGASBANK": total UAH 5,063.10 Thd. (2018: UAH 941.33 Thd.).

PJSC "ACTIVE-BANK": total UAH 18,851.26 Thd. (2018: UAH 14,539.20 Thd.).

JSC CB "EXPOBANK": total UAH 84,074.74 Thd. (2018: UAH 13,459.44 Thd.).

PJSC "BANK DEMARK": total UAH 26,519.40 Thd. (debt repaid in full).

JSC "PORT-FRANKO": total UAH 38,107.23 Thd. (debt repaid in full).

PJSC "BG BANK": total UAH 135,851.17 Thd. (2018: UAH 21,798.19 Thd.) (debt repaid in full).

PJSC "LEGBANK" - total UAH 2,300.00 Thd. (2018: UAH 2,300.00 Thd.).

PJSC "BANK CAMBIO": total UAH 290,292.29 Thd. (2018: UAH 24,117.14 Thd.).

PJSC "VAB BANK": total UAH 223,894.30 Thd. (2018: UAH 155,520.49 Thd.).

PJSC "UKRAINIAN BUSINESS BANK": total UAH 184,368.49 Thd. (debt repaid in full).

PJSC "ZLATOBANK": total UAH 39,624.37 Thd.

PJSC CB "NADRA": total UAH 1,269,113.31 Thd. (2018: UAH 627,376.51 Thd.).

PJSC "BANK KYIVSKA RUS": total UAH 186,430.99 Thd. (2018: UAH 46,942.95 Thd.).

JSC "DELTA BANK": total UAH 3,048,094.95 Thd. (2018: UAH 1,317,075.47 Thd.).

PJSC "PLATINUM BANK": total UAH 248,615.18 Thd. (debt repaid in full).

PJSC "DIAMANTBANK": total UAH 291,597.95 Thd. (2018: UAH 249,747.23 Thd.) (debt repaid in full).

JSC "RODOVIDBANK": total UAH 71,856.75 Thd. (2018: UAH 71,856.75 Thd.).

- Total unscheduled repayment of creditors' claims (third persons): UAH 677,920.72 Thd. (2018: UAH 237,288.20 Thd.):

PJSC "BROKBUSINESSBANK": total UAH 119,972.41 Thd., including UAH 1,213.50 Thd. of secured interbank loans with PJSC "Real Bank", UAH 118,758.91 Thd. with JSC "Oschadbank"; 2018: UAH 0.00 Thd.

JSC BANK "MERCURIY": total UAH 47,510.78 Thd., including UAH 35,957.36 Thd. — State Mortgage Institution, UAH 11,553.42 Thd. — LLC "PLANET COMFORT" (2018: UAH 0.00 Thd.).

PJSC "FORUM": total UAH 35,377.80 Thd. (secured interbank loans with PJSC "VTB Bank", transfer of Bakkara Hotel to the ownership of VTB Bank); 2018: UAH 0.00 Thd.

PJSC "AVTOKRAZBANK": total UAH 6,694.63 Thd. (UAH 4,682.74 Thd. — Corporate Non-State Pension Fund of the National Bank of Ukraine, UAH 2,011.89c — State Mortgage Institution); 2018: UAH 2,011.89 Thd. (State Mortgage Institution).

PJSC "STAROKYIVSKYI BANK": total UAH 2,905.17 Thd. (guarantee deposit of JSC "Ukreximbank"); 2018: UAH 0.00 Thd.

JSC "EUROGASBANK": total UAH 2,112.97 Thd. (Corporate Non-State Pension Fund of the National Bank of Ukraine); 2018: UAH 0.00 Thd.

JSC "BANK GOLDEN GATE": total UAH 287.66 Thd. (guarantee deposit of PJSC "Raiffeisen Bank Aval"); 2018: UAH 0.00 Thd.

JSC CB "EXPOBANK": total UAH 97,547.72 Thd., including

UAH 8,200.08 Thd. — guarantee deposit of JSC "Ukreximbank", UAH 89,347.63 Thd. — LLC Financial Company "Prime Capital Group"; 2018: UAH 54,005.93 Thd., (LLC Financial Company "Prime Capital Group").

PJSC "ZLATOBANK": total UAH 59,597.95 Thd., (including UAH 57,366.81 Thd. — German-Ukrainian Fund, UAH 2,231.14 Thd. — LLC "Porsche Mobility"); 2018: UAH 10,652.41 Thd. (German-Ukrainian Fund).

PJSC "IMEXBANK": total UAH 10,035.85 Thd., including UAH 278.85 Thd. — guarantee deposit of JSC "Ukreximbank", UAH 9,757.00 Thd. — Corporate Non-State Pension Fund of the National Bank of Ukraine; 2018: UAH 0.00 Thd.

PJSC CB "NADRA": total UAH 43,708.66 Thd. (UAN 36,808.66 Thd. - German- Ukrainian Fund, UAH 6,900.00 Thd. — PJSC "Alfa Bank"); 2018: UAH 6,900.00 Thd. (PJSC "Alfa Bank").

PJSC CB "STANDART" — total UAH 255.92 Thd. (JSC "Ukrzazbank"), 2018: UAH 255.92 Thd.

PJSC "BANK "KYIVSKA RUS" — total UAH 6,944.63 Thd. (German- Ukrainian Fund), 2018: UAH 6,944.63 Thd. (German-Ukrainian Fund).

PJSC "UKRAINIAN PROFESSIONAL BANK": total UAH 11,009.28 Thd. (German-Ukrainian Fund); 2018: UAH 0.00 Thd.

PJSC "BANK NATIONAL CREDIT": total UAH 2,003.99 Thd., including UAH 31.82 Thd. — PJSC "Alfa Bank", UAH 1,972.17 Thd. — guarantee deposit of JSC "Ukrzazbank"; 2018: UAH 0.00 Thd.

JSC "DELTA BANK" — total UAH 10,798.81 Thd., ("Ukreximbank"), 2018: UAH 10,798.81 Thd. ("Ukreximbank").

PJSC "RADICAL BANK": total UAH 48,181.08 Thd. (State Mortgage Institution); 2018: UAH 0.00 Thd.

PJSC "INTEGRAL-BANK" — total UAH 27,256.78 Thd. (secured interbank loans with PJSC "CB "Khreshchatyk"), 2018: UAH 0.00 Thd.

JSC "FORTUNA-BANK" — total UAH 130,355.64 Thd. ("Ukreximbank"), 2018: UAH 130,355.64 Thd. ("Ukreximbank").

PJSC "DIAMANTBANK" — total UAH 15,362.98 Thd. (PJSC "Raiffeisen Bank Aval"), 2018: UAH 15,362.98 Thd. (PJSC "Raiffeisen Bank Aval").

— Scheduled satisfaction of creditors' claims:

PJSC ACB "KYIV": UAH 31.48 Thd. (100 %).

PJSC "OMEGA BANK": UAH 33.39 Thd. (100 %).

PJSC "CLASSICBANK": UAH 2,207.64 Thd. (100 %).

JSC CB "TK CREDIT": UAH 3,275.83 Thd. (99.99 % of the total debt of the bank in the priority).

PJSC "GREEN BANK": UAH 102,784.18 Thd. (97.37 % of the total debt of the bank in the priority).

PJSC "VBR": UAH 3,520,053.34 Thd. (70.67 % of the total debt of the bank in the priority; 2018: UAH 920,752.50 Thd.).

PJSC "PRIME-BANK": UAH 102,977.39 Thd. (59.79 % of the total debt of the bank in the priority; 2018: UAH 0.25 Thd.).

JSC "BANK VELES" — UAH 849.30 Thd. (48.71% of the total debt of the bank in the priority).

PUJSC “SMARTBANK”: UAH 21,265.04 Thd. (36.35 % of the total debt of the bank in the priority; 2018: UAH 999.87 Thd.).

PJSC “BANK “UNISON” – UAH 12,721.92 Thd. (30.52% of the total debt of the bank in the priority), 2018: UAH 12,721.92 Thd.

PJSC “UKRAINIAN BUSINESS BANK”: UAH 73,117.90 Thd. (including repayment of debt on refinancing loans to the NBU, 24.47 % of the total debt of the bank in the priority; 2018: UAH 28,306.42 Thd.

PJSC “JCCB NOVYI” – 2.03 Thd. (0.02% of the total debt of the bank in the priority), 2018: UAH 2.03 Thd.

### Repayment of Creditors' Claims of Priority 8.

The amount of accepted creditors' claims of Priority 8: UAH 10,919,438.80 Thd. Priority 8 was repaid for UAH 164,865.41 Thd. (2018: UAH 32,006.69 Thd.), of which:

UAH 39,030.00 Thd. – scheduled satisfaction of PJSC “GREEN BANK” (96.31 % of the total debt in the priority, in 2018 no debt was repaid).

UAH 125,465.23 Thd. – unscheduled satisfaction of secured creditors' claims of PJSC “PLATINUM BANK” (including UAH 46,909.61 Thd. – International Finance Corporation, UAH 78,555.62 Thd. – JSC “Oschadbank” (total repaid 86.74 % of the debt of the bank in the priority; 2018: UAH 32,006.69 Thd.).

UAH 359.47 Thd. – scheduled satisfaction of JSC JSCB “NOVYI” (100 % of the total debt of the bank in the priority).

UAH 10.71 Thd. – scheduled satisfaction of PJSC “CLASSIC-BANK” (100 % of the total debt of the bank in the priority).

### Repayment of Creditors' Claims of Priority 9

The amount of accepted creditors' claims of Priority 9: UAH 4,065,784.06 Thd.

Overall, Priority 9 was repaid for UAH 891,682.77 Thd. as of 1 January 2019, which accounts for 21.93 % of the total debt for Priority 9, of which:

UAH 686,811.83 Thd. – scheduled satisfaction of JSC CB “TK CREDIT” (40.65% of the total debt of the bank in the priority, in 2018 no debt was repaid).

UAH 204,795.88 Thd. – scheduled satisfaction of PJSC JSCB “NOVYI” (100 % of the total debt of the bank in the priority repaid, UAH 122,871.95 Thd. was repaid in 2018).

UAH 55.57 Thd. – PJSC “VBR” (0.01 % of the total debt of the bank in the priority, in 2018 no debt was repaid).

UAH 19.49 Thd. – scheduled satisfaction of PJSC “CLASSIC-BANK” (100 % of the total debt of the bank in the priority).

### Repayment of Creditors' Claims of Priority 10

The amount of accepted creditors' claims of Priority 10: UAH 2,238,653.80 Thd.

As of 1 January 2019, Priority 10 was repaid for 1.14 % of the total debt in the priority, namely UAH 25,452.17 Thd. of which:

UAH 10,063.93 Thd. - scheduled satisfaction of PJSC “DERZHZEMBANK” (100 % of the total debt of the bank in the priority).

UAH 15,388.24 Thd. - scheduled satisfaction of PJSC JSCB “NOVYI” (12.00% of the total debt of the bank in the priority was repaid in 2018).

Repayment of creditors' claims as of 1 January 2019 is shown in the Fig. 4.5.

We should expressly specify the information on repayment of debts of insolvent banks on loans issued by the NBU.

In 2018 debts on NBU refinancing loans were repaid in full.

PJSC “BG BANK” (2018 – UAH 21,798.19 Thd. – of unscheduled repayment);

PJSC “DIAMANTBANK” (2018 – UAH 249,747.23 Thd. of unscheduled repayment).

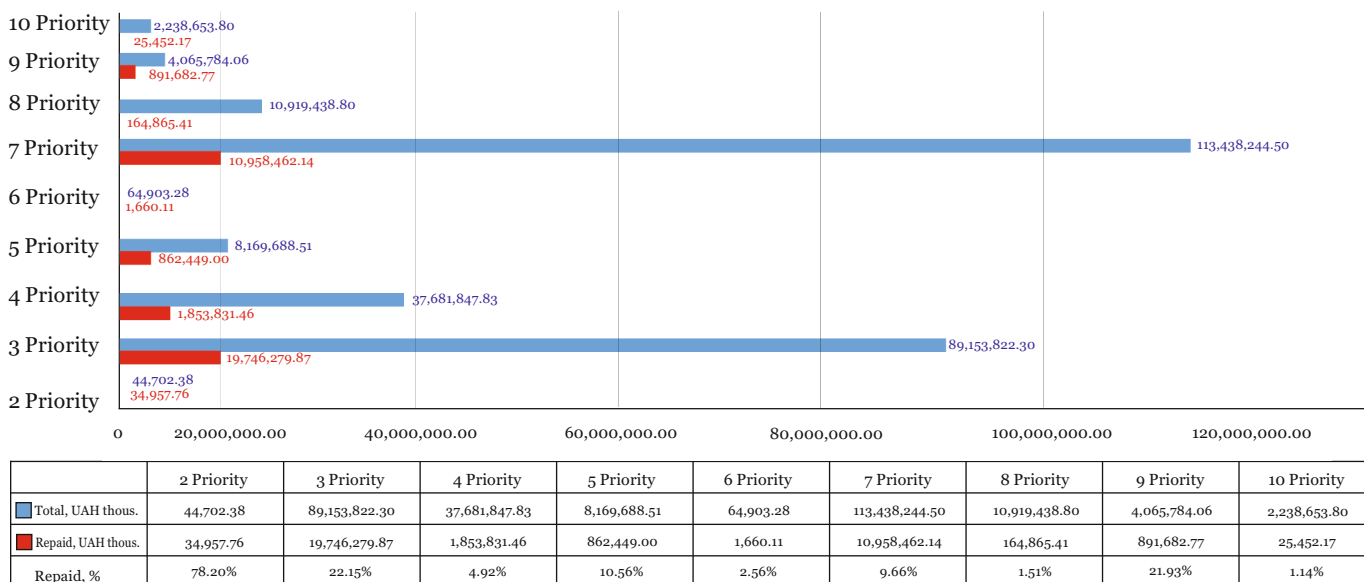


Fig. 4.5. Repayment of Creditors' Claims by Order of Priority as of 1 January 2019



In total, in 2018 the debt of UAH 2,615,250.81 Thd. on the NBU loans was repaid in full; all repayments were unscheduled, of which the largest amount of repayment was UAH 1,317,075.47 Thd. (JSC “DELTA BANK”).

As of 1 January 2019, the debt of insolvent banks on the NBU refinancing loans was recognized on the accounts of 21 banks; the total amount of debt (including banks where the creditors register is not approved: PJSC “CB “Financial Initiative” and PJSC “Ukrkomumbank”) was UAH 40,805,796.84 Thd.

#### 4.5. Investigation of Unlawful Actions of Civil and Criminal Nature at Insolvent Banks

During the procedure for insolvent bank resolution the Fund uses a set of measures aimed at preventing, detecting, and stopping illegal actions of criminal nature at insolvent banking institutions.

As a result of work performed and for the fulfilment of Paragraph 6 Part 2 Article 37 and Paragraph 8 Part 1 Article 48 of the Law, in 2017 the Fund and authorised DGF officers sent 567 allegations of criminal offenses to law enforcement agencies, 190 of which resulted in entering criminal proceedings into the Unified Register of Pre-Trial Investigations.

Simultaneously, since 2014 the Fund and authorised DGF officers have sent 5 415 allegations of criminal offenses according to the Article 214 of CPL of Ukraine at the total amount UAH 355,650,509.00 Thd., 2741 of which resulted in entering criminal proceedings into the Unified Register of Pre-Trial Investigations, 367 of which were closed, there were taken to court 38 indictments (there were brought in a verdict of guilty in 12 indictments, there were not acquittal judgements).

Among of the above mentioned number of allegations, 423 allegations on the facts of illegal actions committed by persons related to banks at the total amount of UAH 186,971,656.00 Thd. were applied to the law enforcement bodies, of which 348 criminal proceedings were entered into the Unified Register of Pre-Trial Investigations, 36 proceedings were closed, the indictments were applied to the court in 5 proceedings (there was brought in a verdict of guilty in 1 indictment, there were not acquittal judgements).

Pre-trial investigation in these criminal proceedings is carried out by various law enforcement bodies (National Police, Prosecutor's Offices of Ukraine, Security Service of Ukraine, State Fiscal Service, National Anti-Corruption Bureau of Ukraine).

As a result of allegations consideration, inspection materials, conclusions and joint cooperation of the Fund and authorised persons of the Fund with the bodies of pre-trial investigation, 28 persons were suspected of committing criminal offenses.

In order to ensure expenses compensation caused by criminal offenses there have been applied 197 civil suits by the Fund and its authorised persons in the framework of criminal investigations.

With the aim to fulfil the Fund's requirement more efficiently and according to the agreements with the International Monetary Fund, in order to identify facts of problematic or risky operations, improper fulfillment of risk management procedures and internal control, to detect violations of banking legislation in Ukraine, the Deposit Guarantee Fund, at the initiative of the Department of Investigation organized comprehensive analysis measures of 17 insolvent banks (forensic audit).

In 2018 the analysis of the insolvency of the following 9 banks: JSC “CB “NADRA”, JSC “Delta Bank”, JSC “Finance and Credit Bank”, JSC “Brokbusinessbank”, PJSC “CB “Khreshchatyk”, PJSC “Bank Mykhailivskiy”, PJSC “UPB”, PJSC “FIDOBANK”, JSC “IMEXBANK” has been completed.

The comprehensive analysis of the insolvency of the following 8 banks: PJSC CB “Eurobank”, PJSC “PtB” and PJSC “FINBANK”, PJSC “Terra Bank”, PJSC “Bank “Kyivka Rus”, PJSC “VAB Bank”, PJSC CB “UFS”, PJSC “AVANT BANK” is being conducted.

Conclusions and materials of comprehensive analysis of insolvent banks which specify the mechanisms and reasons for committing unlawful actions that resulted in significant losses for the banks, are attached to the criminal proceedings and used by the pre-trial investigation authorities during the investigation of criminal proceedings.

Thus, forensic audit conclusions are grounds for the notification of suspicion bank-related persons of the facts of their unlawful actions and are the basis of forensic accounting and forensic economic expertise, which are conducted by specialised expert institutions and used as evidence in criminal proceedings.

#### 4.6. Legal Support of Bank Resolution Process

In 2018, the Fund has represented the interests of the Deposit Guarantee Fund in all judicial instances. The total number of court proceedings according to the system (insolvent banks and the Fund) amounted to more than 60,000 cases, of which the Fund has litigated more than 8,000 court cases, including more than 800 cases with claims over UAH 10 mn. The total amount of claims according to the category of cases (10 mn or more) is almost UAH 134 bn.

The Fund participated in the judicial proceedings of the Supreme Court that reviewed the court decisions on the cancellation of the provisional administration and liquidation of banks. The Supreme Court has taken final decisions confirming the legality of resolution of the following banks: PJSC “BANK UNISON”, PJSC “VAB BANK”,



PJSC “EAST INDUSTRIAL COMMERCIAL BANK”,  
JSC CB “TK CREDIT”.

The Supreme Court abolished the decisions of the courts which adjudged illegal the decisions of the National Bank of Ukraine to declare the PJSC CB “Financial Initiative” as insolvent bank and to declare the PJSC “Bank Kyivska Rus” as insolvent banks and to revoke his license, and the cases of these banks were sent for a new proceedings.

The activity of claims to the persons related to banks, whose action or inaction led to the damage to creditors or/and banks, or/and persons related to banks, who obtained property benefits due to these actions or inactions to recompense damage caused to banks and such claims in courts.

In 2018, (taking into account the position of the Grand Chamber of the Supreme Court on the jurisdiction of the above mentioned category of cases), the Fund filed to the commercial courts lawsuits against the owners of substantial shares and related persons of 8 insolvent banks: JSC “BROKBUSINESSBANK”, PJSC “BANK FORUM”, PJSC “CITY COMMERCIAL BANK”, JSB “UKOOSPILKA”, PJSC “TERRA BANK”, PJSC “LEGBANK”, PJSC “PRIME-BANK”, PJSC “BANK CAMBIO”, PJSC “PROFIN BANK”, PJSC “STAROKYIVSKYI BANK”, JSC “BANK “TAVRYKA”, PJSC “CB “AKTIVE-BANK”, PJSC “COMMERCIAL BANK “DANIEL”, JSC “BANK

GOLDEN GATES”, PJSC “Kreditprombank”, PJSC “Enerhobank”, PJSC CB “Standard”, PJSC “BANK “Kyivska Rus”, PJSC “REAL BANK”, JSC “IMEXBANK”, PJSC CB “NADRA” – at the total amount of more than UAN 59.2 bn.

In 2018, approximately 63.000 proposals were submitted for legal examination, which were presented by insolvent banks for the sale of assets with the balanced and estimated value more than UAH 710 bn and UAH 108 bn, respectively. As a result, this work resulted in the adoption of more than 900 decisions by the Executive Directorate of the Fund and over 2.5 thousand decisions of the Committee of the Deposit Guarantee Fund on consolidation and sale of assets to approve the terms of assets sale.

Due to the increase in the quantitative and qualitative indicators of the property (assets) of insolvent banks sale, the dynamics of the flow of court cases related to the appeal of the insolvent banks assets sale has increased. The total number of such cases received by the Fund in 2018 is 116. As a result of the consideration of such cases, representatives of the Fund participated in more than 450 court sessions. As a result of consideration of cases related to the appeal of the insolvent banks assets sale during 2018, there were taken 79 decisions, 72 of which in favor of the Fund. As a result of effective work on this category of cases, it is possible to complete the tender procedure and receive incomes at the amount almost UAH 4 bn.

## 5. CONSOLIDATED SALES AND MANAGEMENT OF ASSETS

Total actual cash inflows to the insolvent banks in 2018 amounted to UAH 8.8 bn, of which:

UAH 1.4 bn – in revenues from loan repayment;

UAH 6.8 bn – revenues from the sale of assets (property)

of banks;

UAH 0.5 bn – in revenues from the sale of securities;

UAH 0.1 bn – in revenues from lease of assets (property)

of banks.

Differences in the sales price through the open bidding (auctions) and selling directly to legal entities or individuals in 2018 (6.3 bn) and actual cash receipts from the sale of assets (property) of banks in 2018 (6.7 bn) are due to the gap in time (sometimes, up to a half-year) between the date of completion of the open bidding (auctions) and the actual cash receipts for the asset purchased.

### 5.1. Improvement of the Assets Management System of Insolvent Banks

The main goal of the Fund during the bank liquidation is to increase proceeds by insolvent banks (from asset management and sale) to maximise the satisfaction of the bank creditors' claims.

Since the creation of the Asset Management Department in 2017 with the aim of improving the asset management system of insolvent banks, a thorough work was carried out with the aim to improve the quality of asset management, in particular, the concept of making informed and transparent decisions by implementing the work of the committee on assets management of the banks that are withdrawn from the market or being

liquidated by DGF. Regulations on the committee on assets management of the banks that are withdrawn from the market or being liquidated by the Deposit Guarantee Fund approved by the DGF Executive Board dated 29 March 2018 No. 940 and registered in the Ministry of Justice of Ukraine on 20 June 2018 under No. 736/32188. In order to fulfill the tasks assigned to the Committee, the DGF Executive Directorate defined its powers and established their scope, which allowed the transfer of a number of operational issues to the Committee, focusing the DGF Executive Directorate on resolving strategic issues of DGF activities. It is important that the implementation of the functions of the committee began an active process of development and introduction into the activities of banks of:

✓ assets management plans resulting from a comprehensive and complex analysis of banks' assets and property, their quantitative and qualitative characteristics, they are designed to implement a set of measures to reduce the risk of impairment and loss of assets, including taking into account the principle of rational costing.

✓ plans for the completion of banks liquidation procedure, which is based on an analysis of the current state of the banks, its residual assets, forecasting possible inflows and expenses, and aimed at establishing the volume and terms of completion of the liquidation procedures for each bank.

✓ plans of measures of claim-related work on individual assets or comprehensive plans for determining the optimal way to satisfy the bank's creditor claims, which are drawn up on the basis of an analysis of the current state of the bank's claim-related work and aimed at increasing its efficiency by regulating the further actions of each bank.

Month 2018	Revenues from loan repayment	Revenues from the sale of assets	Revenues from securities	Revenues from lease	TOTAL
<b>TOTAL</b>	<b>1,447</b>	<b>6,765</b>	<b>464</b>	<b>103</b>	<b>8,780</b>
January	147.5	981.2	2.3	9.5	1,140.5
February	155.6	877.7	173.3	9.8	1,216.4
March	135.5	495.4	262.7	10	903.6
April	124.1	858.1	0.5	8.3	991
May	111.8	732.5	0	8.1	852.4
June	123.2	425.4	15.1	8.5	572.2
July	105.9	496	2.3	9.6	614
August	163.1	272.5	0.7	8.9	445.2
September	100	358.6	0	8	466.6
October	78.7	256.3	7.5	7.3	349.8
November	99.7	399.8	0	7.1	506.6
December	102.2	611.9	0	8.1	722

In addition to the above functions, the Committee ensures that decisions are made in accordance with the 2018 regulatory documents, including: Regulation on the lease of property of insolvent banks, the regulation on the procedure for restructuring the credit debt of natural persons (except entrepreneurs) under loan agreements, the fulfillment of obligations under which is secured by a mortgage.

The aforementioned measures, together with regular monitoring of their actual implementation and presentation of results to the collegial body for discussion, significantly increase the control over the assets and at the same time significantly reduce the risk of corruption against the assets of an insolvent bank and generally lead to an increase in the efficiency of the insolvent bank resolution process.

The Fund is constantly engaged in work aimed at reducing (getting compensation for) the costs of each insolvent bank to maintain assets and increase the level of asset monetization. For example, during 2018, the Fund formed a single database on tangible assets of banks.

A specialized rental site was designed and started in 2018, which greatly simplified the process of finding and selecting rental property. The most attractive assets (property complexes or office space in central city areas) are published on DGF website with presentation materials to collect indicative offers and expand the range of potential tenants.

In addition, monitoring of registration activities in the State Register of Real Estate Rights and encumbrances on the real estate owned by banks, in order to respond in a timely manner in cases of unlawful acts in relation to such property. Thus, over 1.5 thousand units are monitored on a monthly basis, using the SMS-Mayak software of the group of companies "Liga", the use of which ensures the implementation of measures to return real estate units in Odesa, Kyiv region, etc. to banks ownership.

It should also be noted that in 2018 DGF started cooperation in the field of enforcement of decisions with private enforcement agents, the institute of which was established by the Ministry of Justice of Ukraine as an integral element of the enforcement of decisions of courts and other bodies. DGF distributes enforcement documents on debt collection from bank debtors, the liquidation procedure of which is carried out by DGF, and as of December 31, 2018 private executors were distributed 2806 enforcement documents, in fact private executors were collected more than UAH 5.5 mn.

In addition to enforcement of decisions, considerable attention is paid to working with companies providing services to insolvent banks to repay overdue debt of borrowers and other debtors of the bank.

During 2018, DGF worked in the field of "Debt collection of borrowers and other bank debtors" and cooperated with 13 leading overdue debt collection services market participants. Inflows to insolvent banks according to the results of work in the specified field were over UAH 120.5 mn.

However overdue debt collection by involving companies specializing in the provision of appropriate services, either involuntarily out of court or by appeal to court, is a common but not the most effective way to protect a creditor's rights. Restructuring is a much more effective means of debt management. Despite significant restrictions set by the Law of Ukraine "On Households Deposit Guarantee System", DGF made debt restructuring of a number of insolvent banks. Concerning a separate category of credit liabilities - natural persons' loans (except entrepreneurs), the fulfillment of obligations under which is ensured by a mortgage, normative - legal acts are developed and single debt restructuring terms are implemented for borrowers of all banks, the liquidation procedure of which is carried out by DGF. As of December 31, 2018, over 160 borrowers of insolvent banks have agreed to the proposed conditions. The tool offered by DGF allows borrowers to restore positive credit history, reduces social tension and is an effective alternative to selling debt claims on natural persons' mortgage loans. Also the asset management department on a permanent basis does Separately, DGF with a representative office of the World Bank developed a comprehensive forecasting model for the liquidation of insolvent banks, according to which it became possible to forecast the processes of each particular bank taking into account the status and amount of assets, number of staff, amount of expenses and inflows, and the deadline for liquidating the bank.

## 5.2. Development of Consolidated Sales of Assets in 2018

- A complete transition was made to the new system of selling assets (property) under the Dutch auction model (with the exception of some assets, which are in pledge), which helps to increase the dynamics of assets (property) sales and provides the possibility of their sale over the forecast period. Unlike the previous model, the automatic step-by-step decrease from the original price to the sale price will occur within one day. In general, for the day of the auction the price can be reduced from 100% to 20% of the face value. Instead, the exposure time of the assets has been increased: from 14 to 40 working days are given to get acquainted with the lots. One of the key differences is the abolition of restrictions on the number of bidders. Even if one buyer takes part in the auction, who makes a bid - the bidding will be considered to have taken place.
- Corporate credit pooling policy was developed and implemented. The basis was the so-called "calendar approach", when the pool in the chronological order of auctions includes assets (property), the

individual sale of which did not take place. Each subsequent lot begins to form automatically as soon as the previous one reaches the lower limit according to the size of the pool (total debt on loans will reach 1 billion UAH or 10 billion UAH, depending on the type of pool). The calendar approach to pooling is intended to completely eliminate the "subjective factor" and the possibility of third-party interference in this process.

- The first successful auction was held with the involvement of international assets sale advisers (in this case, First Financial Network). The auction was attended by six investors, which is a record for auctioning of claim-related rights under the credit agreements of insolvent banks. The sale price was UAH 130 mn.
- We secured the work of the commission for handling complaints and preparing proposals for organizing and conducting open bidding (auctions) for the sale of assets (property) of banks which are withdrawn from the market or are being liquidated, which among others included representatives of the public organization Transparency International Ukraine. In 2018, 109 meetings were held, at which 1033 issues were considered. Among them, 455 complaints by natural persons and legal entities, appeals and submissions of authorized DGF officers were satisfied, which is 44% of the total number of cases considered.
- Several amendments were made to the Regulations on the organization of sale of assets (property) of banks which are being liquidated as of 24 March 2016 No. 388, the banks in which, among other things, the application of an additional tool to ensure the fulfillment of obligations of participants in open auctions - bank guarantee, and also the issue of changing the essential characteristics of the lot when selling a pool of assets (property) at any stage of the organization and carrying out of this pool of assets (property) sale procedure was settled.
- Amendments were made to the Rules of work of the electronic trading system for organizing and conducting open bidding (auctions) for the sale of assets (property) of banks, which are withdrawn from the market or being liquidated, and the Rules of work of the electronic trading system for holding an electronic

auction, which consists of an automatic step-by-step reduction of the initial (starting) price of the lot, stages of submission of closed price bids and price bids for the sale of assets (property) of banks, which are withdrawn from the market or being liquidated, which contributed to improving the efficiency of the system.

The functionality of the virtual data room has been expanded and the list of documents downloaded to it has been significantly increased (in particular, documents for all corporate loans exceeding 100 thousand UAH have been downloaded), which facilitated the maximum disclosure of information on the assets (assets) of liquidated banks, and made it easier for potential buyers to access such information.

The system of automation of the process of liquidated banks assets (property) sale on the basis of CRM Bitrix and the Single Cabinet was improved, which allowed to accelerate the process of processing and execution of decisions of the DGF Executive Directorate on approving the conditions of assets (property) sale and to avoid technical errors when posting assets (property) sale ads to Prozorro.Продажі trading system.

We improved the work and implemented proper functioning of the mechanism for putting up for sale assets (property), for which there is a demand from potential buyers (if there are appropriate letters of interest in the acquisition of relevant assets (property)).

### 5.3. Sales Results

In 2018, the assets (property) of insolvent banks totalling UAH 6.3 bn were sold at the open bidding (auctions) and directly to legal entities and individuals. Book value of the total value of assets is UAH 62.8 bn (Table 5.1). Thus, the ratio of the sale price of assets (property) to the book value was on average 10%. Such a low indicator is explained by the active sale of pool of loans of individuals in 2018.

Table 5.1.

Sale of assets (property) of banks in 2018

Month 2018	Book value of banks assets (property) sale, UAH thous.	Sales price through the open bidding (auctions) and selling directly to legal entities or individuals, UAH thous.	Ration of sale price of assets to book value of assets, %%
<b>TOTAL</b>	<b>62,793,498</b>	<b>6,278,121</b>	<b>10%</b>
Janaury	8,650,114	838,470	10%
February	12,306,258	648,739	5%
March	5,733,270	1,017,456	18%
April	4,098,738	686,070	17%
May	3,458,324	404,965	12%
June	1,898,101	437,400	23%
July	2,132,133	299,751	14%
August	1,137,573	314,218	28%

Table 5.1.(continuation)

## Sale of assets (property) of banks in 2018

Month 2018	Book value of banks assets (property) sale, UAH thous.	Sales price through the open bidding (auctions) and selling directly to legal entities or individuals, UAH thous.	Ration of sale price of assets to book value of assets, %
September	1,669,280	320,467	19%
October	3,807,097	371,298	10%
November	2,937,686	416,274	14%
December	14,964,924	523,015	3%

The sales price through the open bidding (auctions) and selling directly to legal entities or individuals for 2018 is shown in the Table 5.2 and in the Figure 5.1.

In 2018, the assets (property) of insolvent banks totaling UAH 6.3 bn were sold at the open bidding (auctions) and directly to legal entities and individuals, which is 9 % higher than in 2017 (UAH 5.8 bn) and 110 % higher than in 2016 (UAH 3.0 bn).

It should be noted that the first sale of assets (property) of banks through the open bidding (auctions) using the E-auction electronic

bidding system, which consists of automatic step-by-step reduction of the initial (starting) price of the lot, the stages of submission of sealed bids and a bid, the so-called "Dutch auction," was held on 30 October 2017. Within 30 October 2017 to 31 December 2017, 126 lots were sold at the "Dutch auction" with the sales price of UAH 47.2 mn. The average decrease in the initial price of lots was 74 %. In 2018, 25,196 lots were put up at the "Dutch auction" with the initial price of UAH 465.8 bn, 3,660 lots were sold lots with the sale price of UAH 2.84 bn, it is 45% of the all successful sale of assets (property) of banks bidding (auctions) for 2018 (Table 5.3).

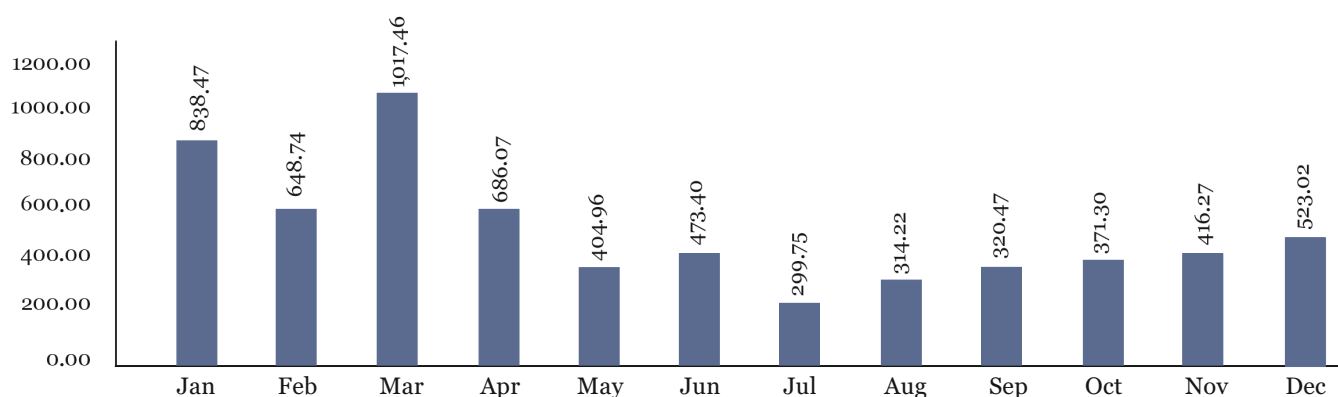


Fig. 5.1. Sales price through the open bidding (auctions) and selling directly to legal entities or individuals for 2018, UAH mn.

Table 5.2.

Comparison of the Sales Price of Assets (Property) through the Open Bidding (Auctions) and Selling Directly to Legal Entities or Individuals in 2016 and 2018, UAH mn

Asset type	Sale price for 2018, UAH thous.	Sale price for 2017, UAH thous	Sale price for 2016, UAH thous
<b>TOTAL</b>	<b>6,278,121</b>	<b>5,797,598</b>	<b>3,013,321</b>
Real estate	1,656,858	1,695,344	1,097,568
Land plots	175,381	78,252	22,171
Vehicles	24,112	55,793	62,544
Rights of claim on loan agreement and accounts receivable	4,091,016	3,257,413	1,530,804
Securities	145,315	445,649	162,310
Other assets and sale	185,440	265,146	137,923



Table 5.3.

Comparison of sale of bank assets (property) at the “Dutch auction” for 2017-2018

Month	Quantity of sold lots at the “Dutch auctions” in 2017, piece	Quantity of sold lots at the “Dutch auctions” in 2017, UAH mn	Quantity of sold lots at the “Dutch auctions” in 2018, piece	Quantity of sold lots at the “Dutch auctions” in 2018, UAH mn
<b>TOTAL</b>	<b>126</b>	<b>47</b>	<b>3,660</b>	<b>2,841</b>
January	-	-	357	320
February	-	-	226	88
March	-	-	218	188
April	-	-	502	268
May	-	-	463	234
June	-	-	266	328
July	-	-	291	193
August	-	-	227	160
September	-	-	305	162
October	-	0	262	302
November	61	15	217	207
December	65	32	326	391

The average ration of the sales price of assets (property) of banks to the book value of the sold assets (property) of the banks at the “Dutch auctions” was 6%, but this indicator of conversion rate for certain assets varies from 0.2% to 79%, more information is in the Table 5.4. Based on the results of the open bidding (auctions) and selling the assets (property) of banks directly to legal entities

or individuals in 2018, 10 banks accounted for 78 % of the total volume of assets (property) of banks. The leader of sales of assets (property) of banks is JSC “DELTA BANK”, which accounts for 23 % of all successful open biddings (auctions) held in 2018 (at the sales price) (Fig.5.2).

Table 5.4.

Ratio of sales price of assets on the open bidding at the “Dutch auctions” to the book value for 2018

Assets type	Book value, UAH thous.	Sales price based on the open bidding, UAH thous.	Ratio of the sales price to the book value of assets, %
<b>TOTAL</b>	<b>44,837,367</b>	<b>2,840,960</b>	<b>6%</b>
Real estate	1,116,573	446,698	40%
Land plot	94,649	23,624	25%
Vehicles	7,690	6,076	79%
Other fixed assets	162,780	51,206	31%
Pool of loan of individuals (mortgage)	1,049,495	62,202	6%
Pool of loan of individuals (unpledged)	12,008,541	190,571	2%
Pool of loan of individuals (auto loans)	3,884,102	60,674	2%
Pool "1 bank=1 pool"	18,410,530	41,239	0,2%
Corporate loans and accounts receivable	3,305,642	780,562	24%
Mortgage loan	4,565,138	1,125,347	25%
Other loans of individuals	232,165	52,748	23%
Securities	62	12	20%

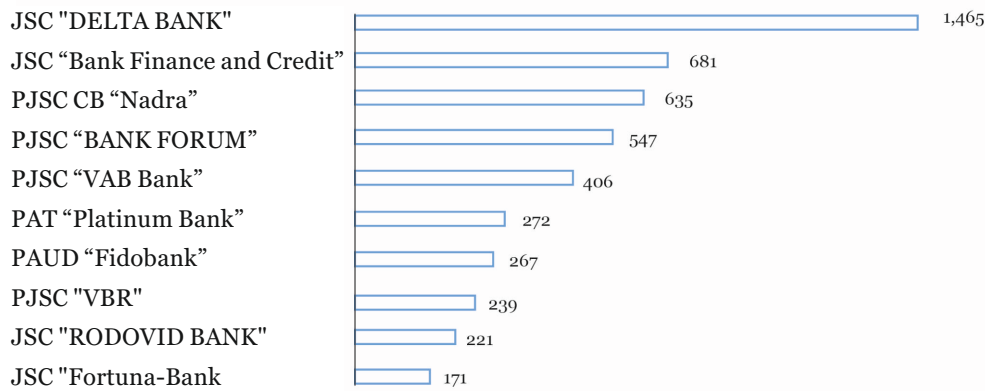


Fig. 5.2. Sales price through the open biddings (auctions) and selling directly to legal entities or individuals in 2018, UAH mn

Based on the results of the open bidding (auctions) and selling directly to legal entities or individuals in 2018, the sold assets (property) of banks had the following structure by type of assets (property) of banks: (Table 5.5).

The largest relative share in the amount of sold assets (property) of banks through the open bidding (auctions) is the sale of the right

of claim under loan agreements (64 %). The results of sale of the right of claim under loan agreements are shown in Fig. 5.3.

Within the structure of sold rights of claim under loan agreements, up to 59 % of these rights of claim were entered into with legal entities, and 41 %, with individuals (Fig.5.4).

Table 5.5.

Open Bidding (Auctions) and Selling Directly to Legal Entities or Individuals in 2018, UAH mn

TOTAL, UAH mn	6,278,1	100%
Rights of claim on loan agreements	4,047.8	64%
Fixed Assets	1,990.6	32%
Securities / corporate rights	145.3	2%
Accounts receivable	43.2	0,7%
Selling directly to legal entities or individuals	24.3	0,4%
Other assets (paintings, coins, etc.)	26.9	0,4%

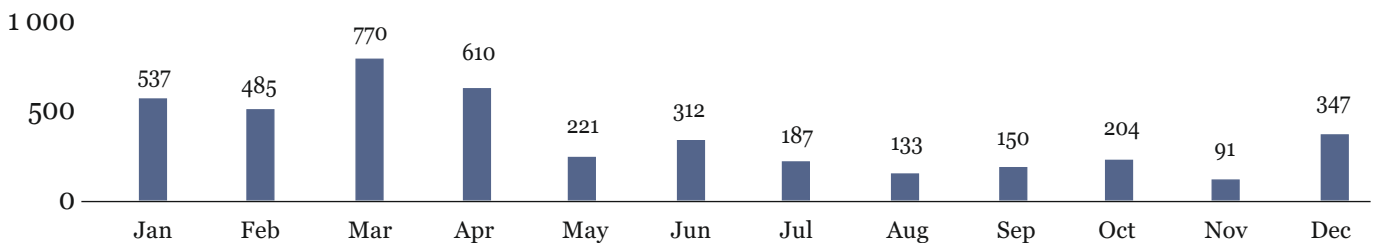


Fig. 5.3. Results of Auctions of the Sale of the Right of Claim under Loan Agreements in 2018, UAH mn

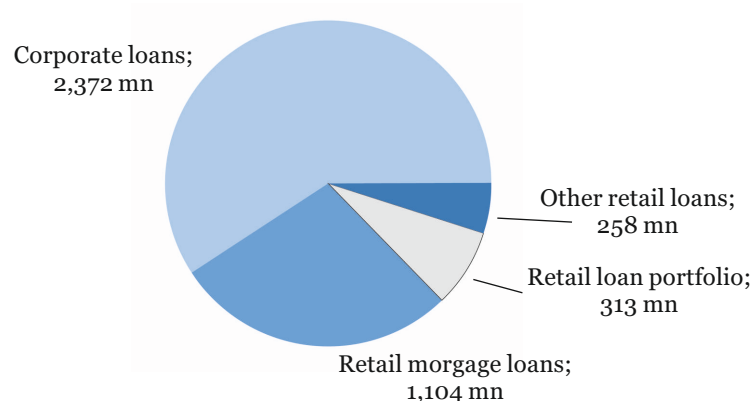


Fig. 5.4. Results of Auctions for the Sale of Loans in 2018, UAH mn

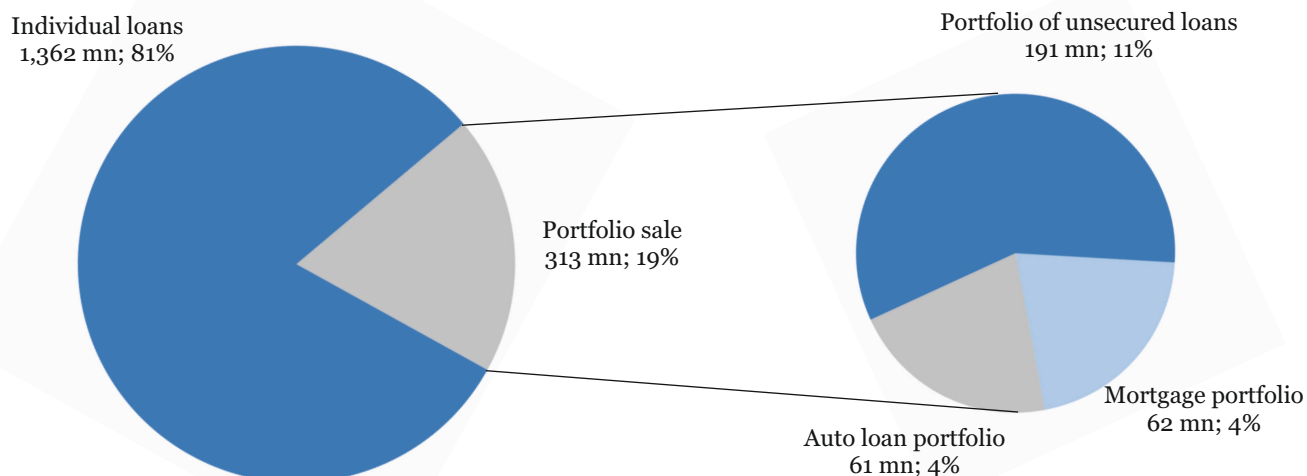


Fig. 5.5. Results of Auctions for the Sale of Retail Loans for 2018

It should be noted that more than 780,000 loans were combined by common features in the pool of loans and sold in 2018 (Fig. 5.5)

In 2018 more than 900,000 of retail loans were put up for sale in the part of pool of loan. Their total book value amounted to UAH 34.5 bn, results of auctions for the sale of retail loans in 2018 are shown in Table 5.6.

In 2017, there was started the process of lots sale, formed by the pool of the assets (property) of the banks (“one bank – one pool” approach), included in the list of banks which liquidation process must be terminated.

There was put up and sold the F21GL3111 JSC “ERDE BANK” lot According to this approach in 2017. Sales price is UAH 4,979,860.39, that equals of 2% of the book value of asset.

It should be noted that for one bank, used the approach of “one bank - one pool” can be formed since one to several pools - a certain

pool of assets, which are pledged by each creditor (for example, NBU, SMI, other), pool of third group assets and property rights according to securities, pool of all other assets. On average, in 2018 the sale of all assets of one bank (“one bank - one pool”) occurred at 0.2% of the book value. In 2018, more than 30 lots were put up for sale, formed by the pool of assets of the 21 banks (PJSC “UNICOMBANK”, PJSC “PRIME-BANK”, JSC “BROKBUSINESS-BANK”, PJSC CB “INTERBANK”, PJSC “BANK FORUM”, JSC “UKOOSPILKA”, PJSC “AKB Bank”, PJSC “Zakhidinkombank”, PJSC CB “AXIOMA”, PJSC “CB “DANIEL”, PJSC “OMEGA BANK”, PJSC “REAL BANK”, PJSC JSB “STOLYCHNYI”, JSC “BANK “TAVRYKA”, PUJSC “SMARTBANK”, PJSC “MELIOR BANK”, PJSC “GREEN BANK”, PJSC “CB “HEFEST”, PJSC “FINBANK”, PJSC CB “STANDARD”, PJSC “TERRA BANK”), of which 15 lots were sold.

There are results of lots sale in 2018 formed by the pool of the assets of banks, included in the list of banks which liquidation process must be terminated in Table 5.7

Table 5.6.

Sale of pool of retail loans in 2018

Asset type	Quantity of sold loans	Balance value, UAH mn.	Sales price through the open biddings, UAH mn	Ratio of sales price of assets to balance value of the assets, %%
<b>TOTAL</b>	<b>783,870</b>	<b>16,942</b>	<b>313</b>	<b>2%</b>
Pool of retail loans (mortgage)	525	1,049	62	6%
Pool of retail loans (unsecured)	775,190	12,009	191	2%
Pool of retail loans (auto loans)	8,155	3,884	61	2%

Table 5.7.

Lots sale in 2018 formed by the pool of the assets of banks, included in the list of banks which liquidation process must be terminated

Bank	Date of the auction	Book value of assets, UAH	Sales price, UAH	Ratio of sales price of assets to balance value of the assets, %
JSC "BANK "TAVRYKA"	7 Feb 2018	6,301,580,840.96	3,330,000.00	0.05%
PUJSC "SMARTBANK"	5 Sep 2018	464,142,692.53	60,736.82	0.01%
PJSC "AKB Bank"	30 Oct 2018	50,838,026.09	2,011,887.08	4.0%
PJSC "MELIOR BANK"	1 Nov 2018	415,021,394.35	31,997.61	0.01%
PJSC "FINBANK"	1 Nov 2018	961,273,482.00	3,135,641.01	0.33%
PJSC "GREEN BANK"	5 Nov 2018	24,227,017.44	30,044.85	0.12%
PJSC "CB "HEFEST"	8 Nov 2018	119,053,359.17	19,048.54	0.02%
PJSC "PRIME-BANK"	5 Dec 2018	235,169,073.68	2,027,046.01	0.86%
PJSC "BANK FORUM"	6 Dec 2018	179,619,640.86	7,869,735.90	4.46%
PJSC "CB "DANIEL"	7 Dec 2018	57,564,121.48	1,222,218.03	2.12%
JSC "BROKBUSINESSBANK"	7 Dec 2018	163,123,476.65	20,341,800.00	12.47%
PJSC CB "STANDARD"	17 Dec 2018	1,453,409,981.57	217,122.10	0.01%
PJSC "TERRA BANK"	26 Dec 2018	35,652,562.19	14,261.02	0.04%
PJSC "TERRA BANK"	26 Dec 2018	6,888,881,682.24	498,480.33	0.01%
PJSC "Zakhidinkombank"	28 Dec 2018	47,060,484.38	429,479.43	0.9%
<b>Total</b>		<b>17,396,617,835.59</b>	<b>41,239,498.73</b>	<b>0.2%</b>

In 2018, the process of issuing loans of legal entities in the pool of loans has begun. Thus, in 2018, 41 pools of corporate loans with a book value of UAH 67.8 bn were put up for sale with an initial value of UAH 13.4 bn. 4 pools with book value of UAH 5.5 bn were approved at the end of 2018 and put up for sale in January 2019.

In addition to these pools, pools of loans of legal entities held by the National Bank of Ukraine were also approved for sale. In particular, the terms of sale were approved for 10 such pools, with

a book value of UAH 56.7 bn, three of which were put up for sale in 2018 and one of them sold for UAH 130.6 mn (2% of the book value of the asset pool).

Based on the open bidding (auctions), the sales price of fixed assets (exclusive of direct sales to legal entities or individuals) is 32 % in the total successful open bidding (auctions). The average ratio of the sales price of all types of fixed assets to their book value was 44 % in 2018. (Fig. 5.6).

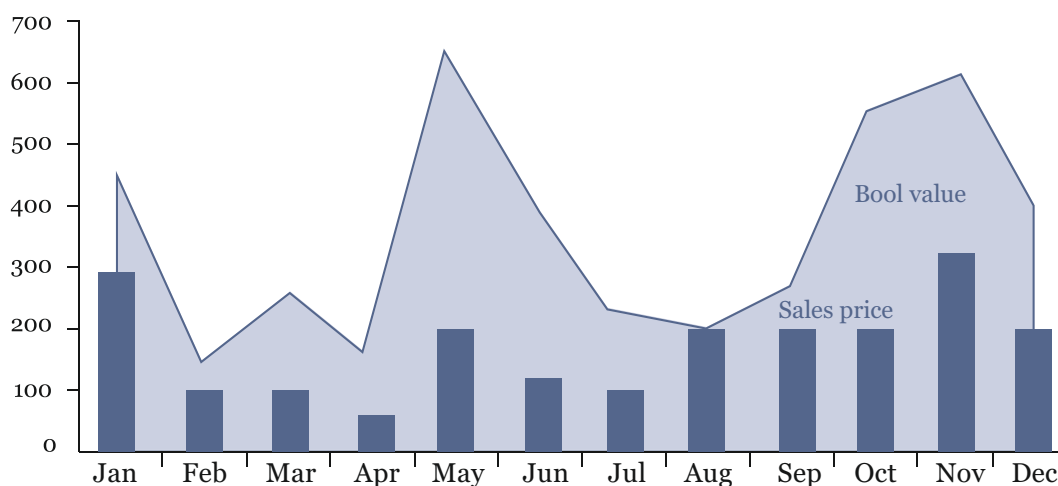


Fig. 5.6. Comparison of the Book Value and Sales Price of Fixed Assets in 2018

Within the structure of sold fixed assets, 83 % are real-estate property (residential or non-residential), 1 % are vehicles, 9 % are land plots, and 7 % are other assets (furniture, equipment, etc.). (Fig. 5.7).

As for the insolvent banks' selling the assets (property) pledged to the NBU, revenues from the sale of assets (property) pledged to the NBU amounted to UAH 2,113 mn in 2018, which is 85 % more than the same indicator in 2017 (UAH 1,140.15 mn) (Fig. 5.8).

The structure of the sold assets pledged to the NBU is as follows:

- 41% - UAH 872.84 mn - corporate loans,
- 29% - UAH 606.54 mn - real estate items,
- 27% - UAH 569.27 mn – retail loans,
- 3% – UAH 64.19 mn – land plots.

The average ratio of the sales price to the book value for all types of assets pledged to the NBU was 18 % in 2018 (Fig.5.9).

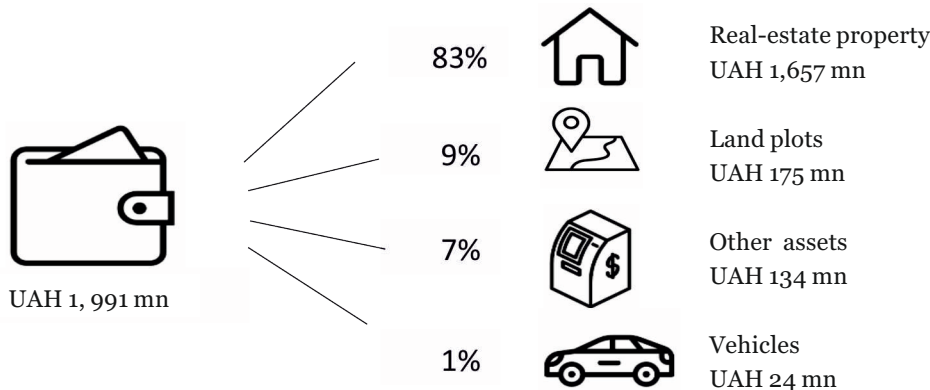


Fig. 5.7. Contribution of sales price according the resulta of open bidding (auctions) of fixed assets (exclusive of direct sales to legal entities or individuals) for 2018

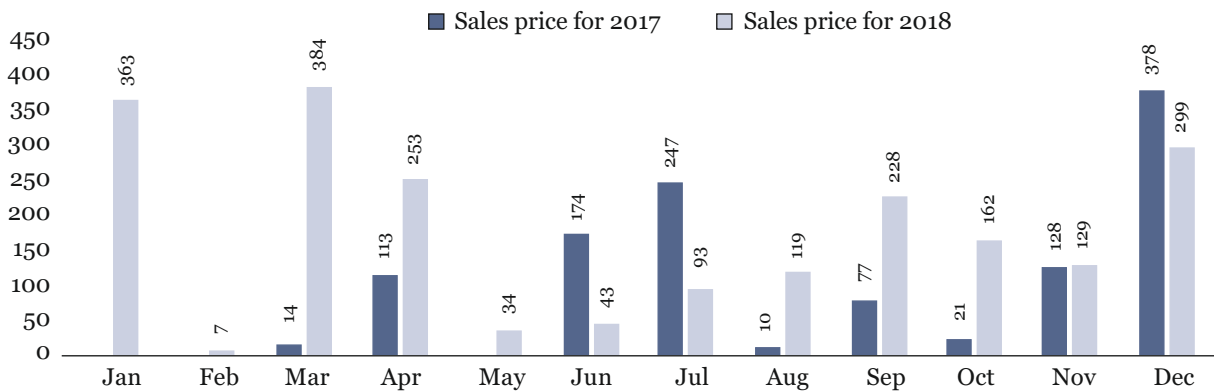


Fig. 5.8. Results of auctions of sale of assets (property) pledged to the NBU, UAH mn, for 2017-2018

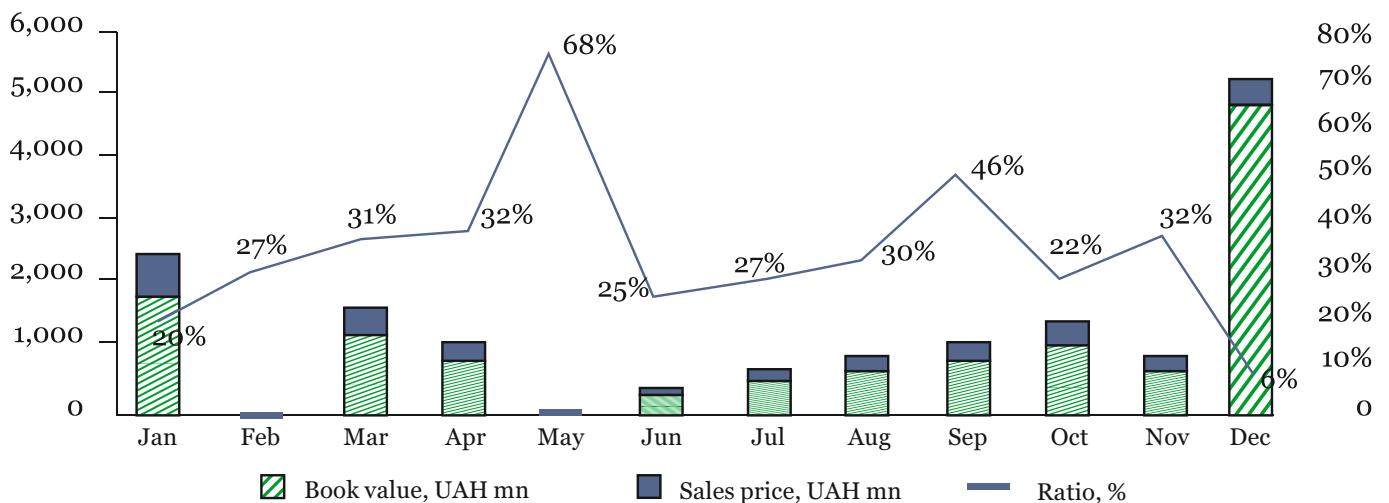


Fig. 5.9. Ratio of sales price of assets pledged to the NBU to their book value for 2018



## 6. GUARANTEED DEPOSIT PAYOUTS

### 6.1. Guaranteed Deposit Payout to Depositors of Insolvent Banks

In the case when the National Bank of Ukraine has adopted the resolution to declare the bank insolvent the Fund starts the bank resolution procedure.

In 2018, according to the Law, deposit payouts were made to the depositors of 84 banks.

In 2018, 13 agent-banks were included in the process of the deposit payouts to the depositors (Table 6.1), they are connected to the Automated Payment System of the Fund (hereinafter the System). The agent-banks were determined in accordance with the Regulation on the Procedure for determining agent banks of the Deposit Guarantee Fund approved by Decision of the Executive Directorate of the Fund No. 6 dated 12 July 2012.

Due to the commencement of the liquidation process of PJSC "UNISON BANK", in 2018, the Fund began to pay deposit payouts to the depositors of this bank.

After JSC "VTB BANK" was classified as insolvent, at the end of December 2018, the Fund began to pay deposit payouts to the depositors of this bank. Payouts were made by the System through the institutions of all the agent-banks. During the first week of payouts, depositors of JSC "VTB BANK" received more than UAH 444 mn.

According to the Part 7 of Article 26 of the Law, the Fund has completed the guaranteed deposit payout to depositors of insolvent banks during 2018: JSC "ERDE BANK", JSC "BANK TAVRYKA", PJSC "CLASSICBANK", PJSC "FINBANK". During the payment period depositors of these banks received over UAH 2.2 bn from the Fund.

In order to make the procedure of receiving the guaranteed deposit payout by depositors of the banks, payouts of which were made

through the formation of individual transfers (after receiving the depositor's request), the System was improved during the reporting year. There was developed the new functionality of transferring a significant amount of information from Beskid and Payback ("old" system of deposit payouts) to the new software package. The migration of information on 66 banks depositor' accounts has started and continued made during last 4 years, it has specific nature (depend on the insolvent bank) and required a non-standard and creative approach. As of 1 February 2018, the information about more than three million accounts of 66 banks depositors has migrated to the System. The System has already made payouts to depositors of all banks, the insolvency of which came after 1 July 2016 (after the entry into force of the amendments to the Law, total - 13 banks.

Depositors have the opportunity to receive deposit payouts at any branch of any agent-bank covering the whole territory controlled by Ukraine due to the payouts made by the System through 6 thousand branches of 13 agent banks. At present, only heirs can apply to the Fund with individual applications.

The total guaranteed reimbursement amount paid during 2018 by the Fund was UAH 979.6 mn, (Table 6.2) of which UAH 734 mn, or 75 %, were paid via the System (Fig. 6.1, Fig.6.2).

In fact, 95.8% of depositors received a guaranteed reimbursement amount and only 4.2% did not apply for the reimbursement. The amount of reimbursement for which depositors have not yet applied for, amounted to UAH 3.7 mn at the end of the reporting period. The most common reasons for not receiving payouts are: a small amount of reimbursement not exceeding UAH 100, the so-called "forgotten" deposits, and deposits belonging to the deceased depositors - before the issue of certificates of inheritance.

Table 6.1.

Agent-banks connected to the Automated Payment System in 2018

No.	Agent-banks	Quantity of branches
1	PJSC "FUIB"	200
2	JSC "TASCOMBANK"	107
3	JSC «PIVDENNYI»	94
4	PJSC "SAVINGS AND INVESTMENT BANK"	40
5	JSC "UNIVERSAL BANK"	27
6	JSC «OSCHADBANK»	2,618
7	JSC CB «PRIVATBANK»	2,151
8	JSC «UKRGAZBANK»	241
9	JSC "ALFA BANK"	244
10	JSC "KREDOBANK"	95
11	JSC "IDEA BANK"	78
12	JSC "MEGABANK"	70
13	JSC «PRAVEX-BANK»	50

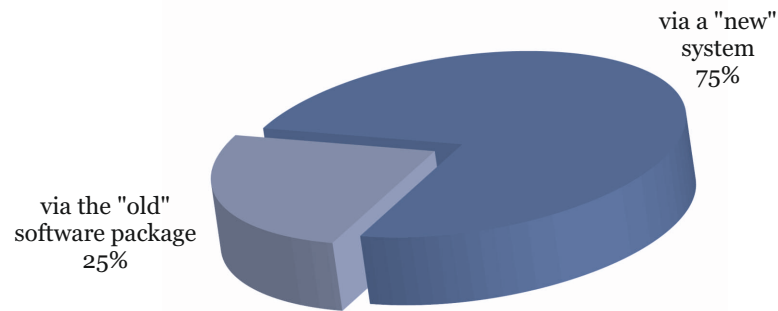


Fig. 6.1. Payouts to Depositors via the System in 2018

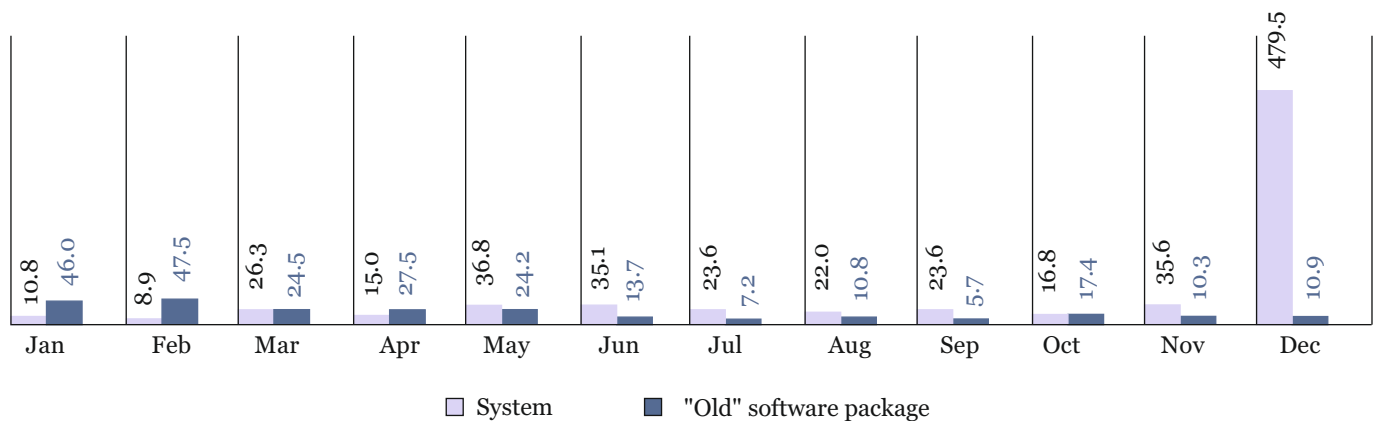


Fig. 6.2. Dynamics of payouts to the depositors of insolvent banks in 2018, UAH mn

Table 6.2.

## Reimbursement Payouts to Depositors in 2018

(UAH thous)

No.	List of liquidated banks	Balance of funds not received by depositors as of 1 January 2018	Reimbursement amount accrued in 2018	Funds received in 2018	Balance of funds not received by depositors as of 1 January 2019
1	JSC "ERDE BANK"	2,195.1	-	10.3	-
2	JSC "BANK TAVRYKA"	6,205.7	-	84.6	-
3	PJSC COMMERCIAL BANK "DANIEL"	7,399.9	16,843.1	11,495.3	12,747.8
4	PJSC "REAL BANK"	18,169.7	-	209.3	17,960.4
5	JSC "BROKBUSINESSBANK"	91,073.8	200.0	902.7	90,371.0
6	JSC BANK "MERCURIY"	6,117.0	-	72.2	6,044.8
7	PJSC "BANK FORUM"	71,342.6	281.0	3,329.0	68,294.5
8	PJSC CB "INTERBANK"	1,549.8	-	200.1	1,349.7
9	PJSC "Zakhidinkombank"	10,264.5	179.2	502.5	9,941.1
10	PJSC "AKB BANK"	8,147.9	1,026.7	1,412.3	7,762.3
11	PJSC "CB "PROMECONOMBANK"	-	-	-	-
12	PJSC "STAROKYIVSKYI BANK"	5,032.2	16,227.3	5,505.0	15,754.5
13	PJSC CB "PIDENCOMBANK"	32,957.2	199.2	1,471.9	31,684.5
14	PJSC "FINROSTBANK"	18,884.9	-	662.1	18,222.7
15	PJSC CB "UFS"	107,455.7	16,731.5	2,603.5	121,583.7
16	JSC "EUROGASBANK"	16,117.0	7,180.3	1,996.4	21,300.9

Table 6.2. (continuation)

## Reimbursement Payouts to Depositors in 2018

(UAH thous)

No.	List of liquidated banks	Balance of funds not received by depositors as of 1 January 2018	Reimbursement amount accrued in 2018	Funds received in 2018	Balance of funds not received by depositors as of 1 January 2019
17	JSC "BANK GOLDEN GATE"	2,337.3	145.9	1,032.7	1,450.4
18	PJSC "TERRA BANK"	351.6	200.0	240.4	311.2
19	PJSC CB "ACTIVE-BANK"	14,887.2	1,054.9	1,971.8	13,970.3
20	PJSC "PRIME BANK"	435.5	-	-	435.5
21	PJSC "AKTABANK"	9,802.5	1,067.3	1,017.7	9,852.1
22	PJSC "INTERCREDITBANK"	173.4	-	-	173.4
23	PJSC "GREEN BANK"	51.1	-	-	51.1
24	JSC CB "EXPOBANK"	7,310.1	2,097.0	4,135.2	5,271.9
25	PJSC "Bank Demark"	7,186.0	-	209.4	6,976.5
26	JSC "PORTO-FRANKO"	6,999.1	-	21.4	6,977.7
27	PJSC CB "AXIOMA"	839.7	-	-	839.7
28	PJSC "MELIOR BANK"	21.0	-	-	21.0
29	PJSC "LEG BANK"	2,793.3	-	366.5	2,426.8
30	PJSC "BG BANK"	9,431.9	720.0	859.6	9,292.3
31	PJSC "Bank CAMBIO"	230,854.2	-8,407.8	91,854.7	130,591.7
32	PJSC "CITY COMMERCIAL BANK"	52,189.3	2,119.9	3,295.2	51,014.0
33	PJSC "VAB"	450,694.3	2,001.6	9,824.8	442,871.1
34	PJSC "VBR"	9,671.3	200.0	325.3	9,546.0
35	PJSC "PROFINBANK"	2,519.5	-	3.3	2,516.2
36	JSB "UKOOSPILKA"	575.0	-	-	575.0
37	PJSC "UKRBUSINESSBANK"	27,780.6	-	225.2	27,555.4
38	PJSC "ZLATOBANK"	31,062.2	200.0	524.2	30,738.1
39	JSC "IMEXBANK"	175,692.8	36,401.9	13,776.6	198,318.1
40	PJSC "KREDITPROMBANK"	12,290.6	23.2	327.6	11,986.3
41	PJSC CB "NADRA"	193,101.8	8,188.5	7,926.7	193,363.7
42	PJSC "ENERHOBANK"	17,719.2	-	576.5	17,142.6
43	PJSC CB "STANDARD"	17,902.4	5,370.9	7,603.8	15,669.5
44	PJSC "BANK KYIVSKA RUS"	75,262.1	3,532.3	5,207.1	73,587.3
45	PJSC "UPB"	10,084.5	1,477.5	2,347.1	9,214.9
46	PJSC "BANK NATIONAL CREDIT"	13,925.8	200.0	900.6	13,225.2
47	PJSC "UKRGAZPROMBANK"	6,111.0	-	644.6	5,466.4
48	PJSC JSB "STOLYCHNYI"	1,503.2	-	14.0	1,489.3
49	PJSC "DELTA BANK"	512,447.3	55,966.1	64,554.5	503,858.8
50	PJSC JSCB "CAPITAL"	99,863.0	200.0	52,885.6	47,177.4
51	PJSC "RADICAL BANK"	11,369.1	6,661.4	2,144.1	15,886.4
52	PJSC "INTEGRAL-BANK"	3,384.3	5,012.1	3,432.5	4,963.9
53	JSC "BANK NATIONAL INVESTMENTS"	11,876.9	6,052.6	8,546.4	9,383.2
54	JSC "FINANCE AND CREDIT BANK"	529,024.3	2,371.1	14,488.7	516,906.7
55	PJSC "UNICOMBANK"	384.4	-	-	384.4

Table 6.2. (continuation)

## Reimbursement Payouts to Depositors in 2018

(UAH thous)

No.	List of liquidated banks	Balance of funds not received by depositors as of 1 January 2018	Reimbursement amount accrued in 2018	Funds received in 2018	Balance of funds not received by depositors as of 1 January 2019
56	JSC "BANK VELES"	80.9	-	18.3	62.6
57	PJSC "Bank Kontract"	2,504.1	40,415.6	7,259.0	35,660.7
58	PJSC "USB BANK"	3,593.7	525.4	529.5	3,589.7
59	PJSC "AVANT BANK"	40,533.3	2,364.7	4,573.3	38,324.7
60	PJSC CB "PREMIUM"	2,248.8	-	228.7	2,020.2
61	PJSC "UKRINBANK"	66,071.1	-	-	66,071.1
62	JSC CB "TK CREDIT"	109.2	-	-	109.2
63	PJSC "BANK PETROCOMMERCEUKRAINE"	5,606.6	-	104.4	5,502.2
64	PJSC "BANK SOPHIIVSKYI"	1,310.4	-	109.9	1,200.4
65	PJSC CB "KHRESHCHATYK"	72,570.8	10,750.5	9,267.8	74,053.4
66	PJSC "BANK MYKHAILIVSKYI"	24,039.1	71,761.2	77,793.4	18,006.9
67	PJSC "FIDOBANK"	63,432.5	27,160.7	31,082.1	59,511.0
68	PUJSC "SMARTBANK"	19.7	-	-	19.7
69	PJSC "CLASSICBANK"	253.5	-	-	-
70	PJSC "EUROBANK"	5,312.4	20,003.7	17,917.0	7,399.1
71	PJSC "KSG BANK"	1,105.4	200.0	-	1,305.4
72	JSC "ARTEM-BANK"	1,239.7	4,598.0	4,856.6	981.0
73	PJSC "BANK TRUST"	6,332.0	-	679.1	5,652.9
74	PJSC CB "INVESTBANK"	3,683.9	-	643.5	3,040.4
75	JSC "FORTUNA-BANK"	3,638.5	-	388.1	3,250.4
76	PJSC "NK BANK"	199.9	-	0.1	199.8
77	PJSC "PLATINUM BANK"	90,727.8	1,275.4	16,877.5	75,125.6
78	PJSC "VECTOR BANK"	1,230.7	228.6	280.4	1,178.8
79	PJSC "FINBANK"	2,828.9	-	1.7	-
80	PJSC "DIAMANT BANK"	64.2	459.3	474.6	49.0
81	JSCB "NOVYI"	-	-	-	-
82	JSC "BANK BOGUSLAV"	33,120.0	1,430.2	30,545.0	4,005.2
83	PJSC "BANK UNISON"	-	437.7	1.1	436.6
84	JSC "VTB BANK"	-	932,282.6	444,205.4	488,077.2
<b>Total:</b>		<b>3,394,678.8</b>	<b>1,305,618.2</b>	<b>979,577.7</b>	<b>3,709,332.7</b>

In 2018 according to the results of payouts the biggest relative share had reimbursement payouts to depositors of JSC "VTB BANK" (UAH 444.4 mn), PJSC "MYKHAILIVSKYI" (UAH 77.8 mn) and PJSC "Bank Cambio" (UAH 91.9 mn).

## 7. FINANCIAL MANAGEMENT

### 7.1. Financial Sources

In order to ensure the functioning of the Households Deposit Guarantee System and insolvent bank resolution, the Fund continued its accumulation of financial resources in 2018.

As of 1 January 2019, the Fund's resources comprised the following:

- funds on NBU accounts – UAH 7,082.2 mn;
- funds in government securities in the amount of UAH 7,257.0 mn.

According to Article 19 of the Law, during 2018 the Fund raised financial resources from the following sources (Table 7.1):

- 1) initial and regular fees payable by the member banks;
- 2) income from investments in government securities;
- 3) income from interest accrued on balances of the Fund accounts opened with the NBU;
- 4) loans obtained from the National Bank of Ukraine;
- 5) sale of government bonds (obtained from the State Budget of Ukraine as a loan);
- 6) funds obtained from the measures envisaged by the resolution plan;
- 7) other sources not prohibited by the laws of Ukraine.

### 7.2. Financial Resources Application

During the reporting period, the Fund spent its funds in the areas stated in Article 20 of the Law (Table 7.2):

- repayment of loans issued by the NBU – UAH 5,024.3 mn (55.2%);
- payment of interest on promissory notes of the Fund – UAH 1,233.5 mn (13.6%);
- repayment of promissory notes of the Fund – UAH 1,000 mn (11.0%);
- deposit payouts – UAH 979.6 mn (10.8%);
- estimated operating costs for 2018 – UAH 430.8 mn (4.7%);
- interest on loans issued by the NBU – UAH 378.0 mn (4.2%), significant decreasing of this expenses was conducted due to the Fund loans repayment :
- other expenses – UAH 49.1 mn (0.5%);
- special-purpose loans – UAH 2.4 mn (0.03%).

The DGF estimate of expenditures for 2018 was approved by Decision of the Administration Board of the Fund No. 30 dated 20 December 2017 (as amended on 10 September 2018, No. 14) in the total amount of UAH 602,050.00 Thd.

Table 7.1.

Formation of Financial Resources of the Fund in 2018 and 2017

Funding Source	2018	2017
Regular fee	3,498.2	3,315.2
Income from investment in government securities	1,130.0	1,147.3
Revenues in the form of interest on balances of current accounts opened with the NBU	216.4	140.8
Loans received from the NBU	0.0	0.0
Sale of government bonds	0.0	2,543.2
Redemption of government bonds	3,397.1	0.0
Funds obtained from the measures envisaged in the resolution plan, of which:	4,173.3	6,531.2
<i>liquidation (discharging of creditors' claims)</i>	4,033.5	6,530.9
<i>provisional administration (repayment of special purpose loans)</i>	139.8	0.0
<i>sale of insolvent banks and bridge banks</i>	0.0	0.3
Other revenues, including:	24.5	83.1
<i>Security deposits</i>	20.0	80.0
<i>Other revenues</i>	4.5	3.1
<b>Total by source</b>	<b>12,439.5</b>	<b>13,760.8</b>

Table 7.2.

Use of Financial Resources of the Fund in 2018 and 2017

Directions of Application of Funds	2018	2017
Deposit payouts to depositors of insolvent banks	646.8	7,004.9
Special-purpose loans	2.4	19.9
Financial support of receiving and bridge banks	0.0	0.0
Repayment of promissory notes	1,000.0	0.0
Interest expense for the promissory notes of the Fund	1,233.5	1,264.7
NBU loan repayments	5,024.3	2,582.0
Interest on loans issued by the NBU	378.0	1,050.3
Estimated operating expenses	430.8	346.6
Other expenses, including:	49.1	61.9
<i>Return of guarantee fees</i>	40.0	60.0
<i>Other expenses</i>	9.1	1.9
<b>Total</b>	<b>9,097.7</b>	<b>12,330.3</b>



The estimate for 2018 is performed for UAH 430,735.60 Thd., or 71.5 % of the amount planned.

According to the 2018 Annual Procurement Plan and Annex thereto, due to the fact that certain procurement items of the Fund under Part 3, Article 2 of the Law of Ukraine “On Public Procurement” are not covered by this Law, it is planned during the reporting year for procurement goods, works and services totaling UAH 204.2 mn. During the reporting period, goods, works, and services for the amount of UAH 114.1 mn were actually procured.

According to the Law of Ukraine “On Public Procurement” there were conducted 27 open tender procedures (2 of them with an estimated value exceeding EUR 133 Thd.), 13 negotiation procedures, which resulted in contracts for a total amount of UAH 52.5 mn. In particular, the needs of the Fund in the services of technical support of existing software products, modernization of the Lenovo Flex System software and hardware, examples of McAfee-type antivirus software for information protection, creation of a centralised information security management complex are provided.

There were conducted subthreshold procurement and services at the amount of UAH 2.5 mn, of which contracts at the total amount of UAH 0.8 mn were concluded via the Prozorro electronic procurement system.

Savings from procurement procedures through Prozorro electronic procurement system amounted to UAH 2.4 mn.

There were made procurements which are not defined by the Law of Ukraine “On Public Procurement” at the total amount of UAH 59.1 mn. In particular, the needs of the Fund for the services of complex insolvency analysis of 10 banks being liquidated (PJSC CB “Eurobank”, PJSC “Platinumbank” PJSC “Finbank”, PJSC “Bank “Kyivska Rus”, PJSC “TERRA BANK”, PJSC “KB “UFS”, PJSC “VAB Bank”, “PJSC “AVANT BANK”, PJSC “ENERGOBANK”, PJSC “FINROSTBANK”), development and implementation of a unified operating information system of insolvent banks are provided.

During the planning of the insolvent banks estimate of expenditures the Fund provided financial control measures aimed at minimizing bank expenses. Due to the measures taken, banks' expenses were reduced by 20% compared to 2017. The structure of bank expenditures in 2017 and 2018 is shown in Table 7.3.

### 7.3. Repayment of Creditors' Claims

As of 1 January 2019, the debt of banks being liquidated regarding the payment of creditor's claims of the Fund amounted to UAH 72,501.7 mn. The total number of banks to which the Fund had registered creditor's claims amounted to 107 banks, which comprised 88 banks under control of the Fund and 19 banks under control of the NBU (Table 7.4).

During the reporting year, the amount of the creditor' claims of the Fund to the banks being liquidated decreased by UAH 5,122.3 mn (changes were due to discharge the Fund's claims and write-off of credit claims). See Table 7.5 for the list of the largest amounts of discharging creditor's claims of the Fund by the banks being liquidated.

Table 7.3.

#### Expenses of Insolvent Banks

(UAH, mn)

No.	Expenses item	2018	2017	Difference	% of reduction
1	Fund of salary and its charges	654.4	825.0	-170.7	-20.7%
2	Lease, operating expenses, security and communication	170.9	247.3	-76.3	-30.9%
3	Other expenses	54.7	77.5	-22.8	-29.4%
4	Taxes, mandatory payments, fees	58.3	73.0	-14.8	-20.2%
5	Advertisement	1.2	2.3	-1.0	-46.2%
6	Engage third parties (assessment, audit, other)	152.2	141.4	10.9	7.7%
7	Emergency expenses	5.3	6.7	-1.4	-20.9%
<b>Total</b>		<b>1,097.0</b>	<b>1,373.2</b>	<b>-276.1</b>	<b>-20.1%</b>

Table 7.4.

#### Claims of the Fund to the Insolvent Banks

Banks being liquidated	As of 1 Jan 2019		As of 1 Jan 2018		Difference	
	Number of banks	Amount, UAH mn	Number of banks	Amount, UAH mn	Number of banks	Amount, UAH mn
Banks controlled by the Fund	88	68,439.8	91	73,562.1	-3	-5,122.3
Banks controlled by the NBU	19	4,061.9	19	4,061.9	0	0,0
<b>Total</b>	<b>107</b>	<b>72,501.7</b>	<b>110</b>	<b>77,624.0</b>	<b>-3</b>	<b>-5,122.3</b>

Table 7.5.

## The Largest Creditor's Claims of the Fund to the Banks Being Liquidated as of 1 January 2019

No.	Bank name	Fund's claims as of 1 January 2019, UAH mn	Relative share	Fund's claims, since the banks was declared as insolvent, UAH mn
1	PJSC "DELTA BANK"	9,829.8	13.6%	16,700.8
2	PJSC "FINANCE AND CREDIT BANK"	8,418.1	11.6%	10,525.5
3	PJSC "VAB BANK"	5,835.7	8.0%	7,185.8
4	PJSC "IMEXBANK"	4,618.0	6.4%	4,711.8
5	PJSC "PLATINUM BANK"	3,759.6	5.2%	4,900.6
6	PJSC CB "BANK NADRA"	3,539.4	4.9%	3,963.4
7	PJSC "BANK MYKHAILIVSKYI"	2,568.1	3.5%	2,618.3
8	PJSC "CITY COMMERCIAL BANK"	2,001.5	2.8%	2,020.3
9	PJSC "BROKBUSINESSBANK"	1,969.4	2.7%	2,586.3
10	PJSC CB "KHRESHCHATYK"	1,952.3	2.7%	2,836.0
11	PJSC CB "PIVDENCOMBANK"	1,708.1	2.4%	1,895.3
12	PJSC "UKRINBANK"	1,703.5	2.3%	1,841.4
13	PJSC "BANK KYIVSKA RUS"	1,669.2	2.3%	2,299.2
14	PJSC "TERRA BANK"	1,280.8	1.8%	1,314.4
15	PJSC "EUROGASBANK"	1,272.4	1.8%	1,289.4
16	PJSC CB "ACTIV-BANK"	1,261.0	1.7%	1,338.8
17	PJSC "FIDOBANK"	1,104.1	1.5%	1,948.7
18	PJSC CB "UKRAINIAN FINANCIAL WORLD"	1,002.3	1.4%	1,007.2
19	JSC "VTB BANK"	953.5	1.3%	953.5
20	PJSC "BANK DEMARK"	924.7	1.3%	1,013.8
21	PJSC "BANK MERCURIY"	912.7	1.3%	953.1
22	PJSC "NATSIONALNI INVESTYTSII"	745.3	1.0%	745.3
23	PJSC "ZLATOBANK"	713.9	1.0%	932.9
24	Others (84 banks)	12,758.6	17.6%	18,548.7
	<b>Total</b>	<b>72,501.7</b>	<b>100.0%</b>	<b>94,130.5</b>

The largest debtor in absolute terms is currently PJSC "DELTA BANK" with its UAH 9,829.8 mn, which constitutes 13.6 % of the total amount of claims. The second and third places were taken by PJSC "FINANCE AND CREDIT BANK" and PJSC "VAB BANK" with amounts of UAH 8,418.1 mn, or 11.6 %, and UAH 5,835.7 mn, or 8.0 %, of the total amount of claims, accordingly. Table 7.5 shows 23 banks with a relative share of claims of 1.0 % and above. The remaining 84 banks have creditor's claims of the Fund for the amount of UAH 12,758.6 mn, which accounts for 17.6 % of the total amount.

In the reporting year creditor's claims totalling to UAH 4,033.5 mn were discharged to the Fund. The repayment was made by 61 banks under control of the Guarantee Fund. See Table 7.6 for the list of the largest amounts of discharging creditor's claims of the Fund by the banks being liquidated. The greatest payer in absolute terms is PJSC "FINANCE AND CREDIT BANK" with UAH 1,067.5 mn, which constitutes 26.5 % of the total amount of claims. The second

and third places were taken by JSC "DELTA BANK" and PJSC "PtB" with amounts of UAH 810.5 mn, or 20.1 %, and UAH 430.1 mn, or 10.7 %, of the total discharging amount, accordingly. Table 7.6 shows 14 banks with a relative maturity share of 1.0 % and above. The remaining 47 banks have discharged creditor's claims of the Fund in the amount of UAH 347.0 mn, which accounts for 8.6 % of the total. Monthly revenues of the Fund from the discharging of creditor's claims in the reporting year are presented in Fig. 7.1.

During the reporting year there were write-off of the Fund's claims at the amount of UAH 2,087.8 mn due to the banks withdrawal from the Unified State Register of Legal Entities, Individual Entrepreneurs and Public Organizations of Ukraine, that is presented in the Table 7.7.

During the reporting period the liquidation processes of 4 banks were terminated and they are shown in the Table 7.8.

Table 7.6.

## The Largest Discharging of Creditor's Claims of the Fund in the Reporting Year

No.	Bank name	Amount, UAH mn	Relative share
	Banks controlled by the Fund DIT BANK"	1,067.5	26.5%
2	PJSC "DELTA BANK"	810.5	20.1%
3	PJSC "PtB"	430.1	10.7%

Table 7.6. (continuation)

## The Largest Discharging of Creditor's Claims of the Fund in the Reporting Year

No.	Bank name	Amount, UAH mn	Relative share
4	PUJSC "FIDOBANK"	366.7	9.1%
5	PJSC "VAB Bank"	262.7	6.5%
6	PJSC CB "KHRESHCHATYK"	224.4	5.6%
7	PJSC "Bank Kyivska Rus"	100.6	2.5%
8	PJSC "BANK "FORUM"	89.3	2.2%
9	PJSC "ENERGOBANK"	80.0	2.0%
10	PJSC BANK "TRUST"	64.5	1.6%
11	PJSC "BG BANK"	56.9	1.4%
12	JSC "FORTUNA-BANK"	51.1	1.3%
13	PJSC "UKRGAZPROMBANK"	43.0	1.1%
14	PJSC CB "NADRA"	39.1	1.0%
15	Other (47 banks)	347.0	8.6%
	<b>Total</b>	<b>4,033.5</b>	<b>100.0%</b>

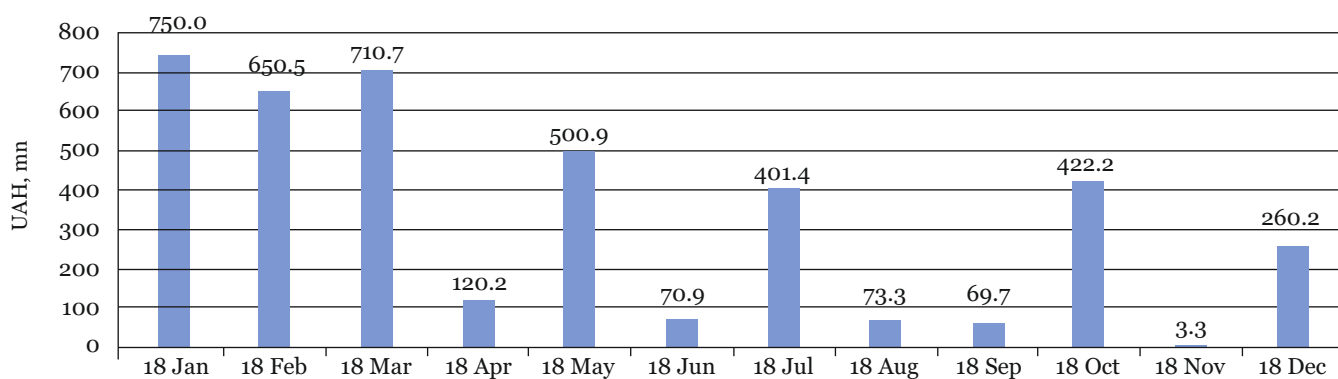


Fig. 7.1. Discharging of Creditor's Claims of the Fund During the Reporting Year

Table 7.7.

## Written-off of the Fund's Claims for the Reporting Year

No.	Bank name	Amount, UAH mn
1	PJSC "ERDE BANK"	308.5
2	PJSC "BANK "TAVRYKA"	1,779.2
	<b>Total</b>	<b>2,087.8</b>

Table 7.8.

## Bank Liquidation Termination for the Reporting Period

No.	Bank	Creditors claim to the banks, UAH mn	Repayment of creditors claim UAH mn	Repayment rate
1	PJSC "ERDE BANK"	741.0	154.0	21%
2	PJSC "BANK "TAVRYKA"	2,748.4	68.5	2%
3	PJSC "DERZHZEMBANK"	10.3	10.3	100%
4	PJSC "CLASSICBANK"	3.5	3.5	100%
	<b>Total</b>	<b>3,503.2</b>	<b>236.3</b>	<b>7%</b>

## 7.4. Assessment of Financial Stability of the Fund

According to paragraph 3 of Article 19 of the Law, the Fund shall have the amount of funds not lower than 2.5 % of the deposit amount guaranteed by the Fund within the reimbursement amount adjusted for the fees payable by the member institutions to be received during the current quarter.

According to the calculations made in accordance with the Methodology for the assessment of financial stability of the Deposit Guarantee Fund, the rate of financial stability of the Fund was 5.2 % as of 1 January 2019, which is sufficient pursuant to the Law.

The assessment of the Fund projected financial sustainability significantly decreased to -1.32 % for the next (current) 12 months thereby indicating a certain shortage of funds (till UAH 4.5 bn), which the Fund will be able to overcome in the next year without additional funds.

The state of financial stability of the Fund as of 1 January 2019 and the forecast of its state for the next 12 months are shown below.

The shortage amount takes into account not only the balance of payouts to depositors of insolvent banks, but also potential payouts of the banks, which are at the significant risk of insolvency during the reporting period.

According to the Bank Monitoring Department, for a period of 12 months the Fund may make extra deposit payouts in the amount of UAH 8.9 bn for the banks with a high risk of insolvency.

In 2018, the Fund initiated a discussion of the restructuring of the Fund's debt obligations in the part of partial transfer of interest expenses of the Fund on promissory notes to the contingent liabilities, the fulfillment of which will be related to the actual funds collection from the officials and related parties of the banks whose actions resulted to the liquidation of these banks and, accordingly, the financial losses of the Fund. This issue was considered and supported by the Financial Stability Board. As a result, a working group was formed which developed measures to restructure some of the Fund's debt liabilities. The implementation of these measures is planned in 2019.

## 7.5. Financial Investments of the Fund

The book value of the government securities portfolio of the Fund (hereinafter referred to as the government bonds) as of 1 January 2018 amounted to UAH 10,954.4 mn, of which the value of government bonds received by the Fund as a IFI loan in exchange for promissory notes of the Fund amounted to UAH 5,674.0 mn, or 51.8 %. The remaining government bonds with book value of UAH 5,280.4 mn, or 48.2 %, were held to maturity.

The Investment Plan of the Fund for 2018, which was approved by the decision of the Administrative Board of the Fund No. 28 dated 28 December 2017, did not plan to invest the funds in government

Table 7.8.

### Calculation of the Fund Projected Financial Stability

(UAH mn)

Information as of the date	Financial stability of the Fund (FSF = FF/DPGF)	Deposit payouts guaranteed by the Fund (DPGF)	FUNDS OF THE FUND (FF)	Shortage of funds
1 Jan 2019	5.2%	259,362	13,67.0	6,983.0
Projected	1 Feb 2019	5.3%	13,750.4	7,250.4
	1 Mar 2019	1.3%	3,441.1	-3,083.9
	1 Apr 2019	1.5%	3,990.4	-2,559.6
	1 May 2019	1.3%	3,480.7	-3,044.3
	1 Jun 2019	1.1%	2,857.9	-3,842.1
	1 Jul 2019	1.3%	3,445.2	-3,354.8
	1 Aug 2019	1.1%	3,069.1	-3,880.9
	1 Sep 2019	1.0%	2,738.3	-4,311.7
	1 Oct 2019	1.3%	3,626.5	-3,548.5
	1 Nov 2019	1.2%	3,395.0	-3,930.0
	1 Dec 2019	1.0%	2,944.4	-4,505.6
	1 Jan 2020	1.3%	303,000	4,003.8

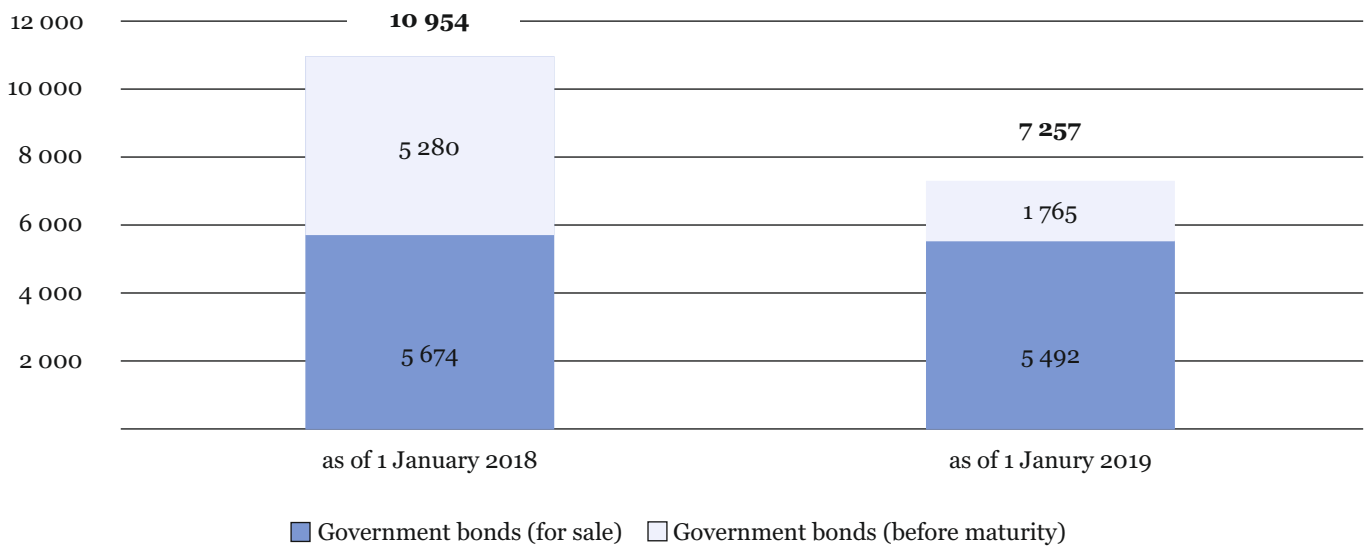


Fig.7.2 Dynamics of investment portfolio

securities. The investment plan provided for an amount of UAH 4 mn for possible financial investments of the banks resolution by creating a transition bank. However, in 2018 the banks resolution in such manner was not conducted and therefore the investments in the transition bank bonds were not made.

The report on the implementation of the Investment Plan of the Fund for 2018 is presented in Annex 1.

In 2018, a part of government bonds was repaid according to the terms of their circulation in the amount of UAH 3,397.1 mn (notional amount). On the other hand, the funds were not invested in government securities, and free funds were primarily used to repay the Fund's financial liabilities to the Ministry of Finance of Ukraine and the National Bank of Ukraine.

Therefore, at the end of the year, as of 1 January 2019, the investment portfolio decreased to UAH 7,257.0 mn, of which 75.7% of the total amount was government bonds for sale, received as a loan of the Ministry of Finance of Ukraine in exchange for the Fund's promissory notes fair value of which was UAH 5,491.9 mn. The other part of 24.3% is government bonds, held to maturity, by book value (including NAI) at the amount of UAH 1,765.1 mn.

In 2018 the Fund received UAH 4,527.1 mn of government bonds income, including UAH 3,397.1 mn due to the repayment of government bonds and UAH 1,130.0 mn of coupon income.



## 8. PUBLIC AND INTERNATIONAL ORGANISATIONS RELATIONS

### 8.1. Public awareness

In the reporting year, the situation in the banking sector began to stabilize and only one bank was transferred to DGF for resolution. That is why during the year DGF built its communication activities with the aim of solving the problems of restoring public confidence in the banking system of the state and raising their general financial awareness.

At the beginning of the year, DGF presented the results of a survey on Ukrainian financial services consumers awareness of the household deposits guarantee system, it was conducted with the support of the USAID Project "Transformation of the Financial Sector". This is the second such survey; the first one was conducted in 2015. Surveys to determine the level of citizens' awareness of the deposits guarantee system are an important part of the process of improving public relations and improving financial literacy. In a nation-wide, face-to-face survey, 2006 respondents over 18 were interviewed in all regions of Ukraine. The main survey results, in particular, showed that Ukrainians were well aware of the Deposit Guarantee Fund (52% said they had heard about the existence of DGF), were sufficiently aware of the amount of the guaranteed amount of compensation (49% chose the correct answer), but had little knowledge of the household deposits guarantee system (31% knew nothing about it and 50% knew little about it). The majority of respondents (61%) would like to receive additional information about the household deposits guarantee system. The most preferred channel for receiving information is the bank where the funds are placed (51% of responses), followed by personal consultations (31%).

The results were presented to the banking community, financial market experts, people's deputy, government officials and journalists at a roundtable in Kiev, attended by over 100 people. Also in order to reach the target audience in the regions, DGF held a meeting of visiting press clubs. In Lviv, Odessa and Kharkiv, local journalists were told about the current state of the household deposits guarantee system and presented the results of the sociological survey. These press clubs resulted in numerous press publications (more than 100 publications in print and online media), as well as stories on regional television channels and radio.

- In the reporting year, 20 years have passed since the Deposit Guarantee Fund was created, and this event was used as an informational occasion for organizing a series of outreach activities, to communication with the media, the public, professionals and to spread knowledge about the household deposits guarantee system and to restore confidence in the banking sector of our country. With this aim, in October we held an international conference on: "Financial Stability and Deposit Insurance System: key issues." The event, which was attended by over 200 participants, was co-sponsored and supported by the USAID Financial Sector Transformation Project and the World Bank. During the conference, an overview of the main stages of the development of the household deposits guarantee system in Ukraine, we analyzed the current state of affairs and discussed issue of approximation of its operational principles to the EU Directives and Standards. International and Ukrainian experts were invited to participate in the event. The event resulted in 253 publications on the Internet and 52 posts in social media.

- Also, in October of the reporting year, DGF held a press conference for regional media in Kyiv for the first time. The event, organized in partnership with the Ukrainian Education Reform Center, was attended by 24 journalists from 8 oblasts (Odesa, Zaporizhia, Vinnytsia, Khmelnytsky, Chernihiv, Zhytomyr, Transcarpathian and Kharkiv). As a result, information on the guarantee system was made public in 29 regional media outlets, including the Internet, print newspapers and social media pages. New DGF educational videos, produced with the support of USAID's Financial Sector Transformation Project, were also presented to the journalists.

- During the reporting year, considerable attention was paid to informing the public about DGF activities on the sale of assets of insolvent banks to meet creditors' claims. Thus, a number of press events were held on the issues of improving the asset sales system, in particular, the start of mass sale of assets through the system of "Dutch auctions", as well as through the pilot project on the sale of credit pools at international sites with the involvement of international advisers. Another important topic that needed active coverage in the reporting period was the topic of restructuring

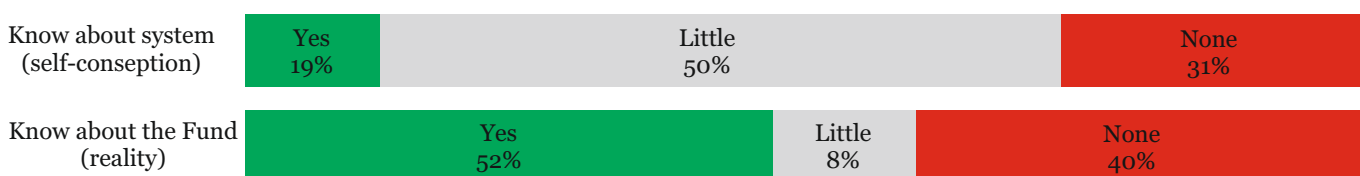


Fig. 8.1. Comparison of self-assessment of awareness of the household deposits guarantee system and the real level of awareness of the DGF existence

natural persons' mortgage loans. A number of public events have been devoted to this topic, including broadcasts on national TV channels and radio. In general, in 2018 DGF regularly prepared and sent information materials, press releases, professional comments and interviews to media representatives to provide maximum information support to the process of insolvent banks assets sale, the state of repayment of creditors' claims, resonant investigations on the theft of banks' assets by former shareholders, etc. In total, in 2018 DGF organized more than 10 press clubs, briefings and press conferences, where independent experts, media representatives specializing in financial and banking spheres were invited. More than 300 press releases and newsletters were prepared and sent to news agencies and media representatives. In addition, there were nearly 60 appearances on television, including national TV channels and the radio, also over 30 thematic interviews were given.

### **The Fund Information and Consulting Centre, and Hotline**

In 2018, the Fund carried out its public relations by providing comprehensive information support and assistance to citizens on the functioning of the deposit guarantee system in Ukraine. At the same time, the Fund undertook measures to protect the rights and legal interests of depositors during the provisional administration and liquidation of insolvent banks, to organize access to public information and to provide depositors, creditors and borrowers of insolvent banks with written responses to appeals and requests for information. Employees of the Fund conduct professional consultations on a regular basis and provide clarifications and assistance to citizens in the processing of appeals, applications, requests for information, obtaining information on the procedure for participation in the auction of insolvent banks property and solving problematic issues. Thus, in 2018, more than 2.000 consultations were provided to citizens and almost 53.000 explanations were provided via the Fund's hotline (Fig. 4.2.)

The most popular and user- publicly accessible channel that provides callers with up-to-date, reliable and complete information on the Fund's activities is the Hotline. The total number of clarifications and consultations provided by phone is 52,959. This channel is used

to provide citizens with information on the activities of insolvent banks and to provide the Fund with caller feedback, including requests which the features of claim. Such requests are duly registered and reviewed by respective subdivisions of the Fund.

A necessary and important component of communications is the direct consultation of depositors and other clients of insolvent banks on issues related to the Fund's activities, providing clarifications and assistance in the processing of documents. In 2018, 2402 consultations were provided to citizens. In addition, in the reporting year, citizens were advised to submit applications for access to a virtual data room in order to become acquainted with information on banks' assets (property) and to conduct open bidding (auctions). Information support is also provided to borrowers of insolvent banks regarding the procedure for debt repayment.

Facebook page <https://www.facebook.com/fg.gov.ua/> and Telegram-channel are an important component of communication with citizens. There were published 905 on the Facebook during the year. In 2018, the number of page users increased by 13 %, and the total number of views reached 408,660.

The Information and Consulting Centre of the Fund, which is responsible for ensuring access to public information, processed and provided 1,261 responses to requests for public information managed by the Fund. The Information Policy Department officers represented the Fund in 34 cases considered by the Ukrainian Parliament Commissioner for Human Rights.

As a result of such cooperation, the reasons for the delayed of guaranteed reimbursement payouts were eliminated and the depositors received the payment stipulated by the Law from the Fund. In other cases, the Fund has taken certain actions to include depositors' claims to the register of creditor claims.

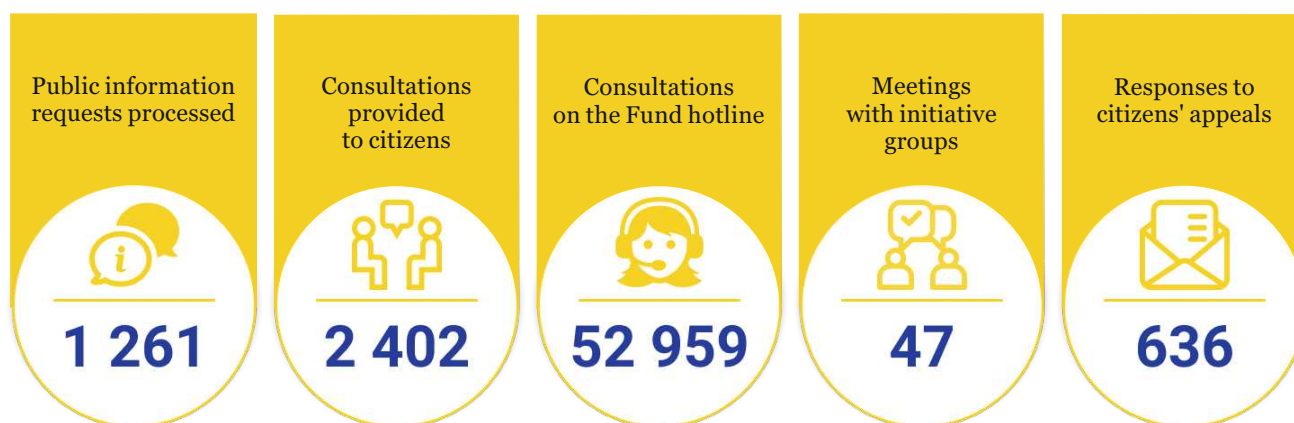


Fig. 4.2. Public Relations in 2018

## 8.2. Financial literacy and Protection of Depositors' Rights

In 2018, DGF continued its education efforts to raise public awareness of the household deposits guarantee system, the rights and obligations of financial services consumers. Indeed, improving the financial literacy of the public, as well as protecting investors' rights and interests are DGF legally defined functions. DGF developed scripts and produced four animated videos at the beginning of the year in order to reach the widest possible audience, especially the elder financial services users. "Put money in the bank within the limit of the refund amount!", "Even if your bank has failed, you must repay the loan!", "Put money in the bank wisely!", "Bank deposit guarantee conditions". The videos provide brief and accessible information about the amount of the guaranteed compensation sum, the types of deposits guaranteed by DGF, the basic rights and obligations of the banking services consumers, the website address and the hotline number. The videos were made in two formats: short - for demonstration on TV channels and extended - for demonstration on DGF Internet resources. In the extended format, in addition to the story video, an expert commentary is included.

In 2018, DGF videos "On Deposit Guarantee Fund", "Deposit agreement without secrets", "Memo of the borrower" were aired for two months on 10 regional TV channels.

We started collaboration with the NBU in the direction of C1 "Increasing the level of financial literacy" of the Comprehensive program for development of the financial sector of Ukraine until 2020, under which DGF is one of the responsible participants. As part of this collaboration, a working meeting was held with representatives of the NBU, the USAID Financial Sector Transformation Project, and international national strategy expert

Robert Drake to present DGF programs and developments in financial literacy sphere. DGF representatives also participated in a workshop on drafting a Financial Literacy Strategy with the participation of financial market representatives conducted by the National Bank.

In addition, in 2018, DGF continued its cooperation with the Project of International Technical Assistance "Financial Sector Transformation", funded by the United States Agency for International Development (USAID).

In the framework of this cooperation, DGF together with other Project partners, including the National Bank and the Banking University, participated in the "Financial Awareness Days" of educational events held in Poltava under the slogan "Manage your finances with confidence!", this events were intended to encourage more citizens' attention to managing their own finances and budget. During the Financial Awareness Days, DGF representatives delivered lectures on the Household Deposits Guarantee System in Ukraine" and "Bank Depositors' Security: how not to lose your savings and protect your interests", and also conducted trainings for higher educational institutions professors.

Also, in partnership with the Project, the Annual Student Video Contest was launched within the celebration of Global Money Week in Ukraine. The student videos were dedicated to two topics - "The art of saving: useful life hacks" and "In the bank and not in the bottle- that's where it's safer to keep your savings." In total, 50 video works from representatives of more than 20 institutions of higher education from all regions of Ukraine were submitted to the contest. The main purpose of the initiative was to promote economic knowledge among young people.





In addition, with the support of the USAID Financial Sector Transformation Project, DGF specialists, who directly interact with depositors and other bank clients, visitors of the information and advisory center, participated in training for trainers under the program “Financial awareness: savings, deposits, guarantee system”. During the event, the master trainers involved in the USAID Project talked about how to effectively teach financial literacy to adult audience, shared their coaching skills and their own experiences.

DGF employees actively use the obtained knowledge and skills in the process of providing consultations on deposit guarantee and when conducting trainings and consultations in order to raise financial awareness of citizens. It should be noted that in 2018, DGF expanded the range of target audiences participating in financial awareness training. For example, DGF representatives provided training for employees of social service centers, third-year university students, and those registered at employment centers. Training programs are tailored to meet the needs of each target audience.

Particular attention is paid to work with youth. For example, in 2018 DGF specialists provided training for high school students, in which, in particular, in the form of teamwork, students developed a business plan to launch their own online resource - from an idea to budget, and identified funding sources and methods for promoting their product. At the end of the event, the students noted that during the training they acquired practical knowledge and skills of managing finances, which would help increase their competitiveness in the labour market in the future.

Cooperation with higher education institutions is also continuing. Thus, on 31 October 2018, the Deposit Guarantee Fund held an "Open Day" for students of the faculty of economics of Taras Shevchenko KNU. and the faculty of finance of the Kyiv National

University of Trade and Economics. DGF Representatives presented a mobile exposition dedicated to DGF and told about DGF history and its main functions. In addition, heads of DGF specialized structural divisions delivered interactive thematic lectures to the students. Also, within the framework of World Savings Day, two lectures on the household deposits guarantee system were held for masters of the State Banking University.

In 2018 DGF signed a Memorandum of Cooperation on Financial Literacy with the Institute for the Modernization of Education Content. Within the framework of this cooperation, DGF representatives in May conducted a training for teachers of secondary schools, vocational schools and colleges of Zakarpatska oblast. The training was conducted within the framework of teachers' advanced training for the purpose of qualitative introduction of the special course "Financial Literacy" in the educational process. Also in November 2018, DGF representatives participated in the regional scientific and practical conference "Youth Initiative for Communities", held at the Vasyl Stefanyk Precarpathian National University in Ivano-Frankivsk, where you could listen to the key speakers of financial youth literacy section.

### Protection of Depositors' Rights

According to the results of the analysis of compliance of the requirements of the legislation of Ukraine and the normative acts of the Fund with the Directive 2014/49 / EU of the European Parliament and of the Council dated 16 April 2014 on deposit guarantee systems (hereinafter referred to as the Eurodirective), Amendments to the Instruction of Procedure for the Protection of Depositors' Rights and Legitimate Interests by the Deposit Guarantee Fund, approved by the Fund Executive Directorate Decision No. 2289 dated 16 August 2018 and registered at the Ministry of Justice of Ukraine on 19 November 2018 under the No. 1308 / 32760. The approved changes will contribute to the



fulfillment of the relevant requirements of the Eurodirective in respect of the rights and obligations of depositors, member institutions and banks acting as agent banks, and the Fund in terms of the functioning of the deposit guarantee system.

The department specially created by the Fund ensures the compliance by the member institutions with the requirements for the scope of bank deposit and bank account agreements on issues related to the functioning of the households deposit guarantee system, as well as requirements regarding the procedure for disclosure of information to depositors on the bank deposit services. In addition, the department ensures the adherence of the Fund agent banks to the depositors' rights when paying out the guaranteed reimbursement.

In the reporting year, the department carried out remote monitoring of the activities of 72 banks of Ukraine of I-III group for compliance with the Instruction of Procedure for the Protection of Depositors' Rights and Legitimate Interests by the Deposit Guarantee Fund approved by Decision of the Executive Directorate No. 825 dated 26 May 2016 registered with the Ministry of Justice of Ukraine under No. 874/29004 on 17 June 2016 (hereinafter referred to as the Instruction). The banks' meeting the requirements that enable depositors to receive more information about the financial services of banks and the deposit guarantee system prior to entering into the agreement were inspected during the monitoring.

The monitoring resulted in sending 43 letters to the banks that violated the Instruction and there were made up 12 protocols of violations in the deposit guarantee sector.

During the reporting year, there were processed more than 2,000 written requests/complaints concerning the activities of 52 banks. The department employees significantly expedited the procedure for fulfilling the requirements for deposit payouts.

At the same time, the Depositors Protection Department prevented the persons who participated in fraudulent schemes of shareholders and/or officials of insolvent banks to receive the funds. Thus, as a result of work with applications from citizens (heirs), the facts of providing by the insolvent banks with false information to notaries on the status of accounts of dead persons and cases of receiving deposits by inappropriate persons were revealed. The department initiated changes to the procedure of cooperation of insolvent banks with notaries in order to avoid the risk of fraud while receiving the guaranteed amounts by inheritance right.

### Cooperation with NGOs

In 2018 the Fund also regularly holds working meetings with representatives of the initiative groups of other insolvent banks, where the urgent issues of the insolvent bank resolution with the aim of depositors rights protection are discussed.

In particular, the subject of discussion with the public was the issue of generalizing of the case law on the financial companies clients claims and effective ways of selling insolvent banks assets in order to quickly repay the creditors claims of the fourth priority of insolvent banks.

In order to involve public members in the processes related to the sale of assets of insolvent banks, the Fund held meetings to discuss the current situation regarding the sale of assets of insolvent banks via ProZorro.Sale.

In addition, the Fund organised meetings and consultations with NGO representatives in order to discuss proposals of the public aimed at effective interaction with depositors and creditors of insolvent banks.

### 8.3. International cooperation

As a permanent member of the International Association of Deposit Insurers (IADI) and the European Forum of Deposit Insurers (EFDI), the Fund actively participated in these organisations in 2017. Moreover, the Fund actively cooperated with international financial and donor organisations in 2018, such as the World Bank, International Monetary Fund the US Agency for International Development (USAID), the European Bank for Reconstruction and Development (EBRD), and the US Treasury Office of Technical Assistance.

In 2018 the Fund represented Ukraine at the IADI general meeting and international conference held in Basel, Switzerland, as well as at the annual meeting of members of the EFDI in Vienna, Austria.

The Director of the Consolidated Asset Sales Department represented the Fund at a toxic asset conference in London, UK, with a report "On the Fund's assets and sales policies", and the Deputy Managing Director presented the Fund's asset sale policy at an investment forum in Berlin, Germany. The Foundation's experts also participated in the annual meeting of the Eurasian Regional Committee (EARC) of the IADI in Istanbul, Turkey. On 21 November 2018, in Minsk, Belarus, a delegation of the Fund signed a Memorandum of Understanding and Cooperation with the Guaranteed Repayment Agency of Belarus.

On a regular basis, the Fund conducted a quarterly update of the report on significant news in the activities of the EARC IADI, completed a large-scale annual research of the IADI on the activity of deposit guarantee systems. In close cooperation with the Deposit Guarantee Fund of the Republic of Kazakhstan, the experience exchange in the field of risk management and monthly updating of information on the Fund's activities were conducted. In total, about 20 requests from foreign jurisdictions, IADI and EFDI were processed in 2018.



The chairmanship of the Eurasian Regional Committee ISAF was transferred by Turkey to Ukraine on 17 October 2018 at a meeting in Basel.

With the assistance of World Bank experts, a White Paper on Strategic Development of an Improved Bank Insolvency Management Mechanism has been prepared in line with EU law.

In the reporting year, the Fund also began to cooperate with the USAID Project “Transformation of Financial Sector” for increasing financial awareness among citizens.

There was held the conference marking the 20th anniversary of the Fund with the contribution of the project.

Fruitful cooperation with the US Treasury Office of Technical Assistance continued on a regular basis. For example, a long-term advisor and short-term specialists on various aspects of the insolvent bank resolution and working with toxic assets worked at the Fund.

The project of the EBRD “Technical cooperation for the Deposit Guarantee Fund” continued its work; the consultant in this project is LLC “KPMG-Ukraine.” Its purpose is to help the Fund to improve the capacity and capabilities in exercising the Fund's rights and powers. The cooperation is being carried out by providing expert advice and support.

In order to develop the effective deposit guarantee and bank resolution system, Ukraine seeks to implement international standards taking into account the best practices developed by different countries in this field. Implementation of the provisions of the core international documents will help to better protect depositors and more effectively resolve issues of insolvent financial institutions.

The Fund would like to thank all its partners for international cooperation.

## 9. OPERATING ACTIVITIES

### 9.1. Personnel management and development

During 2018, the priority in the implementation of personnel policy was the support of an effective personnel management system that would ensure the quality and timely fulfillment of tasks in all areas of DGF activities.

In order to optimize the provision DGF processes, several changes were made to the DGF structure, based on the current external and internal challenges. Thus, as of December 31, 2018, DGF structure consisted of 25 independent structural units, including: 7 departments, 4 offices, etc.

As of December 31, 2018, the actual number of DGF employees, compared to 2017, did not change and was 417 people, including 231 women and 186 men. The average age of DGF employees is 39 years, 97% of employees have higher education, among them 9 people have the degree of Candidate of Science and 14 people are lawyers.

One of the components of DGF personnel policy is to promote gaining new professional skills and enhancement of professional practical skills of its personnel. To this end, during the year, internal corporate training courses were provided as well as seminars, round tables, conferences, trainings for employees were organized by specialized training centers, including international companies. During 2018, 31 training events were organized by the personnel management and development department, including:

- 1) training on the corruption prevention “Practical Aspects of Completing Declarations” - for all DGF employees, including DGF management;
- 2) a strategic session for 31 heads of independent structural units;
- 3) oratory training - for 6 members of the DGF Executive Board;
- 4) other events - 26 DGF managers and 60 DGF employees.

During the year, within the framework of the EBRD Technical Cooperation Project with the Deposit Guarantee Fund - Stage 2 Support, work was carried out with the consultations of TOV “KPMG-Ukraine”, the department of personnel management and development with the aim of improving the DGF employees' performance assessment system and develop the Target operating model of personnel management. In 2018, new draft Regulations on the procedure for conducting annual DGF employees' performance assessment was developed, and in accordance with current trends, also maximum automation of the assessment processes was carried out through the DGF single program complex.

In order to effectively communicate with banks that are being liquidated DGF and to ensure operational matrix management in 2018, and as a result of the implementation of the Target Operating Model for Personnel Management, the functions of support of

procedures and interaction with insolvent banks are allocated into a separate sector within the structure of the department of personnel management and development. The sector's employees ensured operational coordination in draft structures approval, personnel schedules and candidacies for the positions of key structural divisions heads of insolvent banks, they also ensured support and coordination of common approaches according to the procedure of interaction between DGF structural units and the banks that are liquidated by DGF.

### 9.2. Internal Audit

In 2018, 16 audits in the key areas of the Fund and its subdivisions were carried out according to the plan of inspections, including the following activities:

- financial and investment activities of the Fund;
- deposit payouts;
- verification of compliance with procedures for the insolvent bank resolution;
- verification of control over the performance of obligations of the banks in connection with their membership of the Household Deposit Guarantee System.;

The audits assessed the internal control systems and inspected the effectiveness of risk management of the activity areas audited. Recommendations were provided to improve the existing internal control procedures.

The inspection findings, conclusions and proposals were provided to the Fund's management, the heads of subdivisions audited, as well as the Fund Administration Board.

The Deposit Guarantee Fund fully took into account the proposals and conclusions received.

### 9.3. Information Technology

The main areas of the Deposit Guarantee Fund IT development in 2018 were as follows:

1. Improvement of the Fund's IT infrastructure, implementation of the Fund and NB management and monitoring systems and services, implementation of the Fund's continuity processes, including:
  - improvement of the hardware and software package to ensure the implementation of a single operational and information system of insolvent banks;
  - implementation of a system for monitoring the parameters of the physical environment of the IT infrastructure;
  - implementation of 24/7 monitoring of services and notification of critical problems in IT infrastructure;
  - reorganization of the core network of the Fund's corporate network;
  - launching a system of centralized archival copying of Fund's key IT systems;

- developing an emergency plan.
- 2. Development and implementation of the unified operating information system of insolvent banks.
- 3. Improvement of the program package for insolvent banks resolution.
- 4. Improvement of the system of process automation of insolvent banks assets sale.
- 5. Improvement of the software program “Automated Fund Payment System”.
- 6. Improvement of the electronic document circulation system of Askod Fund.
- 7. Improvement of the “Bank Accountability” software.

The Fund upgraded the software and hardware package in 2018 to ensure the implementation of an unified operating and information system of insolvent banks, and to increase the reliability of providing the necessary electronic computing resources of the Fund's information systems, namely:

- software for insolvent banks;
- Fund Automated payment system (FAPS);
- Bank Accountability software;
- other automated systems (accounting, document circulation, reference, information, communication, etc.);
- provision of industrial systems reservation;
- backup;
- virtual server technology for infrastructure and applications

(Fig. 9.1).

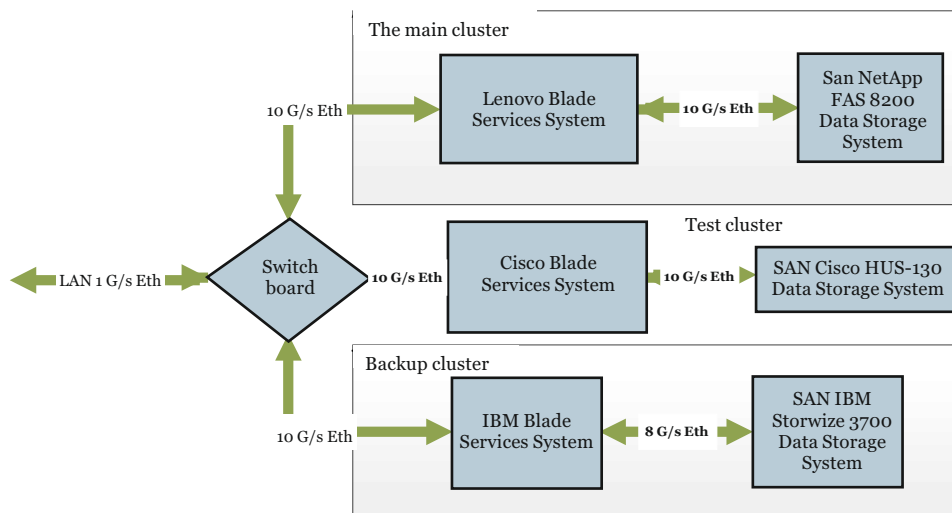


Fig. 9.1. Software and Hardware Package of the Fund

To ensure continuous access to the system, the Fund used the clustering technology and implemented the main and backup systems. The backup mechanisms were also configured to ensure the data storage reliability. The archive copies are stored in the separate data storage system. Implementation of the soft ware and hardware package provided the electronic computing resources of the operating and perspective information systems of the Fund, as well as information systems of insolvent banks.

The main objective of the information infrastructure improvement is to ensure the fault-tolerance of its components and operability of the services subject to possible force majeure circumstances. Therefore, in 2018 the Fund introduced and upgraded the information resources virtualization systems to ensure their availability and reduce the total amount of equipment used due to the more efficient use of this equipment.

In 2018, the Fund introduced the upgraded Asset Sales Automation System (Fig. 9.2). One of the main stages in the modernisation of the Asset Sales Automation System was the introduction of the “Dutch auctions” and faster asset sales. The main feature was that the Fund employees no longer had to launch a new business process whenever the asset was not sold or its price was reduced.

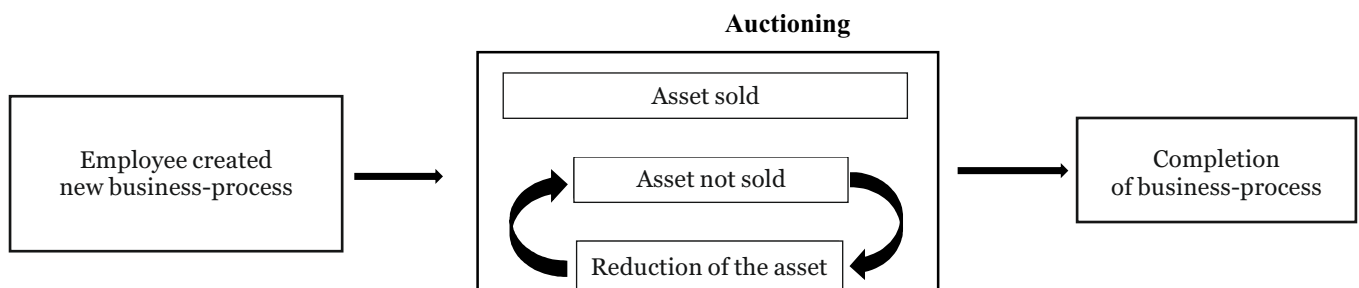


Fig. 9.2. Updated Flow Chart of the Asset Sales Automation System

The application of the upgraded Sales Automation System enabled the Fund to use the tools for working with “Dutch auctions”, automate the stages of advertising the auctions on the Fund's official website and information portal, as well as automate the updating of information in the public passport of the asset on the information portal.

The upgraded system significantly reduced the working time with the asset at the stage of its preparation and sale, as well as reduced the impact of the “human factor” on the sales.

In 2018, in order to centralize the processes of insolvent banks resolution and optimization such banks expenses, a project was launched to create and implement an Unified Operating Information System (hereinafter - UOIS) of insolvent banks (hereinafter - IB).

UOIS NB of the Fund is a consolidated database that contains data from OBD/ ABS (Operation Bank Day/Automated Banking System) of insolvent banks, and in turn, has the following components:

- data store that combines data from OBD/ABS of banks and additional data on the insolvent bank resolution;
- software to provide support and control of insolvent banks data (customer questionnaires, account balances, paid documents, commitments or placing of funds and history of their fulfillment (loan portfolio, accounts receivable, etc.), fixed assets, other necessary information to control banking activities and formulate appropriate forms of operational reporting);
- access control system to ensure the rights to read and modify data.

Main purpose of development and implementation of the System:

- creation of an unified and complete information database of the Fund for automation of support and daily operative work with the data of insolvent banks OBD;
- automation of regulatory procedures for insolvent banks;
- automate the control over the activities of banks declared insolvent;
- automate the work with assets of insolvent banks;

- improve the quality of information for decision-making and practical actions by the Fund specialists;
- simplification of the administration of OBD/ABS of insolvent banks;
- reduction of expenses for maintenance of OBD/ABS of insolvent banks.

The components of the Unified Operating Information System are shown in the Figure 9.3.

20 banks were transferred to the Unified Operating Information System: PJSC “BG BANK”, PJSC “AKTABANK”, PJSC CB “PROM-ECONOMBANK”, PJSC “RADIKAL BANK”, PJSC “TERRA BANK”, PJSC “MELIOR BANK”, PUJSC “SMARTBANK”, PJSC “FINBANK”, PJSC “BANK FORUM”, JSC “PORTO\_FRANKO”, PJSC “GREEN BANK”, PJSC CB “AXIOMA”, PJSC “REAL BANK”, PJSC COMMERCIAL BANK “HEFEST”, PJSC “CB “UFS”, PJSC “PROFIN BANK”, PJSC CB “INTERBANK”, PJSC “INTERCREDITBANK”, JSC BANK “MERKURIY”, PJSC CB “STANDARD” in 2018.

The advantages of IB transfer to the UOIS system:

- control over the activities of the IB, including control of financial flows, transactional control;
- implementation of an unified accounting policy in the IB;
- implementation of the 3rd model for the IB;
- full information support of the bank's liquidation status;
- ensurement of the monitoring of IB assets;
- implementation of centralized management of the IB;
- a significant reduction in the IB information systems, their support and maintenance costs.

In order to optimize the processes of insolvent banks resolution in 2018, the software for the insolvent banks resolution was improved, in part:

- modernization of the mechanism of transfer of data from automated IB systems (ETL level) for a group of banks (PJSC JSCB

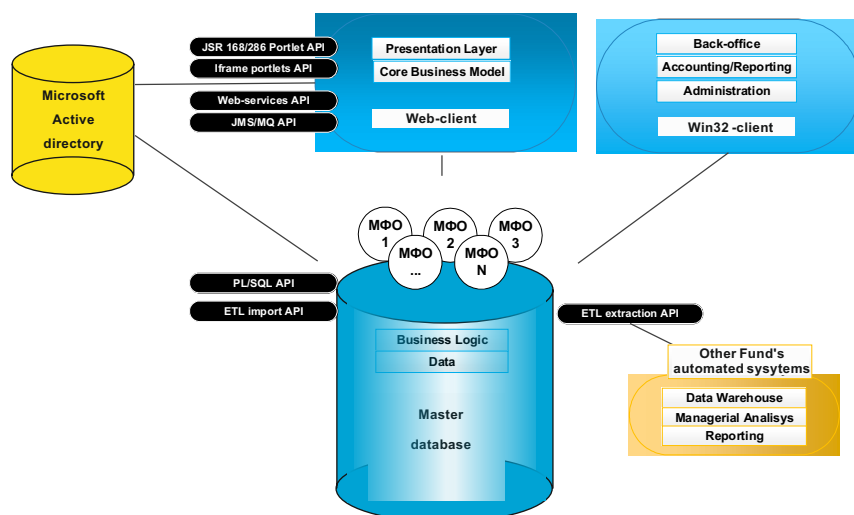


Fig. 9.3. The components of UOIS

“Capital”, PJSC “KSG BANK”, PJSC JSCB “NOVYT”, PJSC Commercial Bank “Hefest”, JSC “Bank Bohuslav”, JSC “Rodovid Bank”, PJSC “Unison Bank”);

- improvement of the procedure for loading liquid mass (fixed assets);
- development of functional monitoring of the software complex functionality;
- development of a system of conducting business contracts and accounting of lease;
- development a report on “Report for the Performance of Liabilities to Secured creditors”;
- development of additional operations and expansion of the functionality of the creditors register. Modernization of the operation of creditors claims repayment;
- development of mechanisms for integration with electronic trading system (ETS).

Modernization of the software package for operation with insolvent banks provides the Fund with opportunities:

- use the Fund's unified information framework for making decisions to ensure the insolvent banks resolution;
- reporting of insolvent banks provided to the Fund in different field of activity;
- provision automation of control over the activities of banks that are declared insolvent;
- centralized work with the assets of insolvent banks;
- improvement the quality of information for decision-making and practical actions by the Fund's specialists;
- provision of analysis of problem banks' performance indicators in order to prevent the bank's critical condition.

In order to improve the deposit payouts to depositors of insolvent banks, in February 2018 the Fund implemented the innovative software package “Fund Automated Payment System” (hereinafter referred to as the FAPS).

APS enabled the Fund as follows:

- make deposit payouts to depositors in real time;;
- create a unified and complete information database (hereinafter referred to as the DB) that contains information about the transactions on deposit payouts to depositors of insolvent banks;
- improve the quality and speed of processing information on depositors received from insolvent banks by using a unified approach to the integration of information on depositors and a single mechanism for monitoring compliance with the payouts recording methodology;
- use electronic communication equipment to send information in the course of payouts to depositors, which enables them to implement and manage these processes quickly.

The overall scheme of the FAPS is shown in the Figure 9.4.

In 2018 improvement of the FAPS was carried out in the following areas:

- development of the automated workplace of the FAPS auditor;
- development of a tool for the accumulation of analytical information on reporting;
- development of a mechanism of information exchange between the Ministry of Finance of Ukraine and the FAPS;
- modernization of the mechanism for ensuring the stability of the FAPS, due to the paralleling of processes;
- improvement of the mechanism of FAPS administration;
- development of a mechanism for processing and storing information about invalid passports;
- improvement of the payment management mechanism;
- development of a mechanism for displaying the process of sale of an insolvent bank to the FAPS.

The mentioned improvement helps to use the FVMS in a more flexible mode, which allows to optimize the whole process of making payout of guaranteed amounts to depositors.

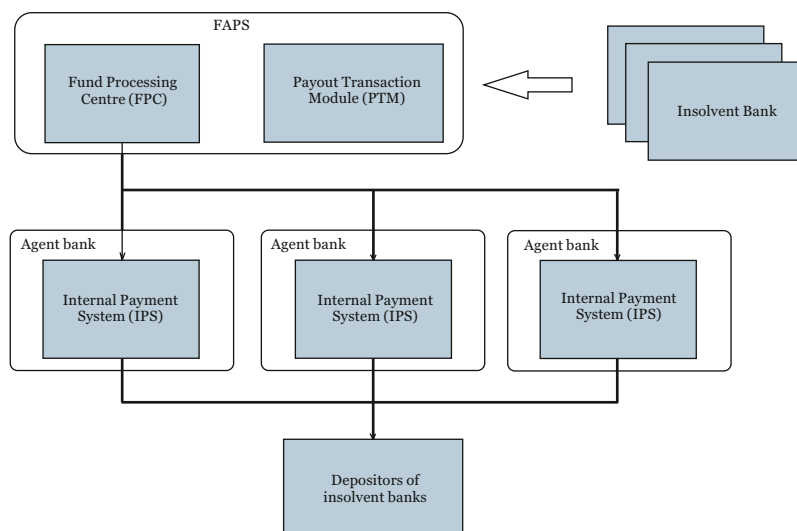


Fig. 9.4. Fund Automated Payment System



In pursuance of the state policy aimed at transferring the record-keeping of state institutions into electronic form and according to the Laws of Ukraine “On Electronic Documents and Electronic Document Circulation”, “On Electronic Digital Signature”, taking into account the tasks defined by the Comprehensive Program of Ukraine's Financial Sector Development until 2020, in 2018, the Fund carried out preparatory measures for the implementation of paperless document circulation with the use of electronic digital signature.

In 2018, the Fund also began launching the pilot project for the implementation of paperless document exchange with the National Bank of Ukraine based on the Ascod EDCS and electronic communications system for executive authorities (EA ECS).

The introduction of paperless document exchange between the Fund and the National Bank of Ukraine, and in the long term, with other institutions and enterprises, will provide the following benefits to the Fund:

- electronic exchange of documents between the Fund and the NBU (except for classified documents (bank secrecy), permanently stored documents and forwarding of citizens' requests, etc.);
- certification of all electronic documents by EDS according to the Law of Ukraine “On Electronic Documents and Electronic Document Circulation”;
- reduction of the cost of document sending;
- less time (for a few minutes) of document transfer between the electronic document circulation systems of the Fund and the NBU (Ascod type), unlike ordinary means of communication (Ukrposhta, special communication, etc.);
- fewer intermediate procedures for sending and receiving correspondence (electronic documents): electronic documents practically move directly from one Ascod EDCS to another;
- new experience for switching to electronic document circulation with other state authorities (Presidential Administration, Cabinet of Ministers of Ukraine, judicial institutions, etc.) and operating banks.

In 2018 there was implemented Askod EDCS with the purpose of centralizing the management of insolvent banks in document circulation between the Fund and insolvent banks on the base of several insolvent banks.

In connection with changes in reporting to the National Bank of Ukraine and changes in reporting regulations in 2017, the Fund improved the Bank Accountability software package, WEBportal of the Bank Accountability software package was developed which is a front-office subsystems of interactive services for:

- automated receive of electronic reports from the National Bank of Ukraine and banks in XML formats in interactive mode and in API mode;
- automatic verification of electronic reports;
- verification of electronic digital signature;
- uploading of the successfully passed verification data to the Fund's data storage;
- giving banks access to online reports and API reports results.

Application of XML reports will provide the following benefits:

- automatic input-output without reconfiguration;
- speed and automatic reports conclusion, including consolidated;
- fast, efficient and reliable data analysis and data comparison;
- data tracking, reduced decision-making time;
- improvement of efficiency and cost-effectiveness for the regulatory (supervisory) process.

XML reports is done according to the scheme shown in the Figure 9.5 .

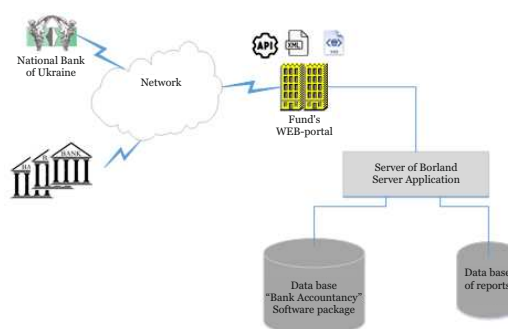


Fig. 9.5. Scheme of XML Report Implementation

**Report on fulfilment the Investment Plan  
of the Deposit Guarantee Fund for 2018**

Fund's investments	Investments amount according to the Investment Plan of 2018 UAH mn	Actual amount of investments for 2018 UAH mn	Fulfilment, %
Amount of investments, total, <i>of which:</i>	4.0	0.0	0.0
Share capital formation total, <i>of which:</i>	4.0	0.0	0.0
<i>specialized institution</i>	0.0	0.0	-
<i>bridge bank</i>	4.0	0.0	0.0
Amount of investment in government securities, total, of which according to the government securities types (according to circulation period, conditions of issue and repayment)	0.0	0.0	-
<i>Short-term government bonds</i>	X	0.0	x
<i>Short-term government bonds, denominated in foreign currency</i>	x	0.0	x
<i>Intermediate government bonds</i>	x	0.0	x
<i>Short-term or intermediate government bonds denominated in foreign currency</i>	x	0.0	x
<i>Intermediate government bonds with pre-term repayment, denominated in foreign currency</i>	x	0.0	x
<i>Long-term government bonds with pre-term repayment</i>	x	0.0	x
<i>Pre-term depreciation government bonds</i>	x	0.0	x
<i>Long-term government bonds</i>	x	0.0	x
<i>Intermediate government bonds with indexing value</i>	x	0.0	x
<i>Long-term government bonds with indexing value</i>	x	0.0	x

## **II. Deposit Guarantee Fund**

Report on management  
Financial Statement  
as of 31 December 2018 and the  
year ended on the stated date  
and independent auditor`s report

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## ON MANAGEMENT REPORT

### GENERAL INFORMATION AND DESCRIPTION OF THE OPERATIONS

The Deposit Guarantee Fund (DGF) carries out its activities in accordance with the Law of Ukraine "On Households Deposit Guarantee System" (hereinafter - the Law).

The purpose of DGF activity is to protect the rights and legitimate interests of bank depositors and promote the stability of the banking system of Ukraine.

The main task of DGF is to ensure the functioning of the Household deposits guarantee system and insolvent bank resolution.

DGF is a legal entity governed by public law, it has separate property, it is an object of public ownership entity and is in public economic management. DGF is an institution, not intended to make profit.

DGF is guided by the Constitution of Ukraine and the legislation of Ukraine in its activities.

The location DGF is the city of Kyiv.

The governing bodies of DGF are the Administrative Board and the Executive Directorate.

Administrative Board of DGF consists of five persons - one representative of the Cabinet of Ministers of Ukraine, two representatives of the National Bank of Ukraine, one representative of the profile committee of the Verkhovna Rada of Ukraine, and the Managing Director.

The DGF Executive Directorate consists of seven members. The Managing Director and his deputies shall be members of the DGF Executive Directorate.

*Details of DGF activities and functions are set out in Note 1 to the Financial Statements of the Deposit Guarantee Fund as of 31 December 2018 and of the year which ended on that date.*

### THE ORGANIZATIONAL STRUCTURE

Information about DGF organizational structure is available on DGF website at <http://www.fg.gov.ua/about/structure>.

During 2018 DGF structure continued its optimization process, aimed at achieving the purpose of DGF activities.

For this purpose, a number of changes were made in its structure:

- the department of management and development renamed the sector of personnel training to the sector of support of procedures and interaction with insolvent banks, the purpose of which is to coordinate the unification of personnel policy in banks, which are liquidated by DGF;
- in the Asset Management Department, a support sector was formed within the department of organization of procedures for liquidation of insolvent banks, also an insolvency bank valuation sector was formed, it was previously structured under the control of internal control administration. Changes caused by optimization of asset management processes;
- on the basis of the Insolvency Bank Settlement Management Department, a department for terminating the liquidation of insolvent banks was formed in order to ensure the procedures for complete completion of liquidation;
- a legal department formed a sector of litigation for related parties in the litigation department for particularly important cases to strengthen the function of collecting evidence and documents to prepare claims to owners of substantial participation and related parties of insolvent banks;
- consolidated asset sales department formed sales management and assurance administration, marketing support and asset sale sector, department of individual sales and asset management at the stage of liquidation of banks and department of bundling sales and special corporate asset management on the basis of the department of work with natural persons loans and the special corporate assets department. The changes are caused by the need to improve the sales process and to strengthen the control over the sales procedures and to clarify divisions functional component in their names;
- in the department of remote and inspection monitoring of banks activity, the department for monitoring operations of troubled banks was renamed to the department of preparation for insolvent banks resolution and introduction of provisional administration due to changes in legislation, namely the introduction of a special regime of control over the activity of banks by the National Bank of Ukraine.

### OPERATING RESULTS

As of 31 December 2018, there were 91 banks under DGF management, among which one bank PJSC "CB "FINANSOVA INITSIATYVA" still has provisional administration and 90 banks are in the process of liquidation. During 2018, one bank was declared insolvent - JSC "VTB BANK".



During the reporting year, the liquidation procedure for the first four banks, which were transferred to DGF management, was completed, namely PJSC “DERZHZEMBANK”, JSC “ERDE BANK”, JSC “BANK “TAVRYKA” and PJSC “CLASSICBANK”.

The total guaranteed amount of compensation paid to depositors of insolvent banks during 2018 at DGF expense was UAH 979 million, from which UAH 734 million, or 75% was paid through the Automated Payment System introduced by DGF.

As of 31 December 2018, the total carrying amounts of financial assets of 83 banks, upon which the DGF Executive Directorate approved the Register of Accept Creditors' Claims, are UAH 482 billion, while their appraised value is UAH 77 billion, or 16%.

The total amount of approved creditors' accepted claims as of 31 December 2018 is UAH 266 billion (including the banks where liquidation has been completed). During the reporting year, the amount of approved creditors claims increased by UAH 5 billion, due to the approval of the creditors' register in 2018 in 4 insolvent banks. In 2018, all creditors' claims were repaid- UAH 9 billion. Proceeds from insolvent banks in repayment of DGF creditor claims – UAH 4 billion.

During 2018, liquidated banks' accounts received UAH 8,780 million, including UAH 6.770 million from the sale of assets of these banks; UAH 1.450 million was received from repayment of loans; UAH 460 million - from repayment of securities; UAH 100 million - from the lease of property.

Successful auctions for the amount of UAH 6.300 million were held during the reporting year and approximately UAH 340,000 million of assets were auctioned. Through the Prozorro.Sales auction system, nearly 61.5 thousand lots were put up for sale, 5.1 thousand lots were sold. This indicator is influenced, first of all, by the quality of the assets of insolvent banks, in particular, their unlawful dissipating by former owners and management.

DGF continued its work on improving the sales process. As before, all auctions for the sale of assets not secured by secured creditors are held in the Prozorro.Sales system. In addition, in 2018, banks' assets sale through foreign trading venues was initiated, in particular, they were successfully auctioned through DebtX (USA) and First Financial Network (USA) within the framework of a joint pilot project of the National Bank of Ukraine and DGF.

According to the results of the work carried out for the period 2018, DGF and authorized DGF officers sent 567 criminal offenses to law enforcement agencies, which resulted in the consideration of 190 criminal proceedings in the Unified Register of Pre-trial Investigations. In addition, DGF completed forensic audits of 9 insolvent banks during the reporting year.

Among the measures aimed at raising the financial literacy of the population, DGF organized the Student Video Contest for Global Money Week for the first time in 2018; a number of trainings were conducted for different target audiences - for pupils, students, employees of social service centers, pensioners, school teachers of the Financial Literacy course, the unemployed and others.

## KEY INDICATORS

### *DGF net assets*

DGF net assets - the residual value of DGF assets after deducting all of its liabilities. As of 31 December 2018, DGF net deficit was UAH 64.628 million (31 December 2017: DGF net deficit was UAH 77.544 million). Net profit for the year ended on 31 December 2018 was 13.100 million UAH (net loss for the year ended on 31 December 2017: UAH 2.841 million). Cash inflow from operating activities for the year ended on 31 December 2018 was UAH 6.261 million (for the year ended on 31 December 2017, UAH 2.528 million).

The main objective of DGF net asset management is to ensure the continuity of continuous operations in order to protect the rights of bank depositors and to ensure the stability of Ukraine's financial system.

The main component of DGF net assets is retained earnings (loss). If DGF current income is insufficient to meet its full liabilities to pay out deposits and/or to service and repay the attracted credits, DGF decides to set a special fee. No special fee was applied during 2018.

### *DGF financial soundness*

DGF financial soundness is an indicator of the sufficiency of DGF financial resources to ensure the fulfillment of DGF functions and powers assigned to it by law. DGF financial resources include funds in the current DGF account in the National Bank of Ukraine, cash, financial investments in government securities, in addition to government securities, which are intended to be used as a means of fulfillment of loan obligations.

DGF financial soundness is calculated as the ratio of DGF financial resources, taking into account the amount of fees from DGF participants, which should be received during the current quarter to the sum of depositors secured by DGF within the amount of payout. The minimum value of financial soundness may not be less than 2.5%. Provided that the minimum limit is reached, DGF has the right to take measures to replenish DGF financial resources, in particular by attracting a loan from the National Bank of Ukraine and a government loan or contribution on a non-repayable basis at the expense of the state budget.

During 2014-2017, DGF financial resources were replenished through loans from the National Bank of Ukraine and a government loan in the form of domestic government bonds in exchange for bank-bills issued by DGF for the same amount.

*Details of DGF attracted funds are set out in Note 18 to the Financial Statements of the Deposit Guarantee Fund as of 31 December 2018 and of the year which ended on that date.*

As of 31 December 2018, DGF financial soundness indicator was 5.2%. In order to support DGF financial soundness, a loan agreement was signed by DGF and the National Bank of Ukraine in January 2019 to open a revolving credit line in the amount of UAH 2,000 million for the period up to 31 December 2021. Also, Article 17 of the Law of Ukraine "On the State Budget for 2019" provides for the right of the Cabinet of Ministers of Ukraine to issue bonds of the domestic government loan in exchange for bank-bills issued by DGF.

In 2018, DGF initiated a discussion of DGF debt restructuring in the part of partial transfer of DGF interest expenses into bank-bills, the fulfillment of which will be tied to the actual recovery of funds from the officials and related parties of the banks whose actions resulted in liquidation of these banks and, accordingly, DGF financial losses. This issue was considered and supported by the Financial Stability Board. As a result, a working group was set up to develop concrete measures to restructure some of DGF debt. The implementation of these measures is planned in 2019.

#### *Financial investments*

*Details of DGF financial investments are set out in Note 8 to the Financial Statements of the Deposit Guarantee Fund as of 31 December 2018 and of the year which ended on that date.*

## RISK MANAGEMENT

*Details of on the types of risks and DGF risk management policy are set out in Note 30 to the Financial Statements of the Deposit Guarantee Fund as of 31 December 2018 and of the year which ended on that date.*

## RESEARCH AND INNOVATION

At the end of 2017, DGF with the support of the USAID "Financial Sector Transformation Project", undertook a research event to determine the level of consumers' awareness of the financial services of the household deposits guarantee system. The research was conducted through a nationwide survey of Ukrainian residents. In total, 2,006 respondents over 18 (representatively to the country's population structure) were interviewed in all regions of Ukraine, except the Crimea, the territories of Donetsk and Luhansk regions that are not under the control of the Government of Ukraine.

The results of the research were presented by DGF in June 2018 and showed that Ukrainians are sufficiently aware of the amount of the guaranteed payout sum, but know practically nothing about the features of the household deposits guarantee system and its functions. The results of this study will help DGF to plan its Information and educational activities aimed to increase the level of financial awareness of citizens.

## SOCIAL ASPECTS AND PERSONNEL POLICY

During 2018, the priority in the implementation of personnel policy was the support of an effective personnel management system that would ensure the quality and timely fulfillment of tasks in all areas of DGF activities.

As of 31 December 2018, the actual number of DGF employees was 417: among them women - 231, men - 186. The average age of DGF employees is 39 years, 97% of employees have higher education, among them 9 people have the degree of Candidate of Science.

#### *Labour remuneration*

Labour remuneration for DGF employees shall be paid in accordance with the Regulation on labour remuneration for the Deposit Guarantee Fund employees approved by the decision of the DGF Executive Directorate dated May 8, 2016 No. 816, the Procedure and Conditions of labour remuneration of members of the DGF Executive Directorate approved by the decision of the Administrative Board of DGF dated September 27, 2012 No. 41, in compliance with the requirements of the Collective Agreement between the DGF Executive Directorate and the labor collective of the Deposit Guarantee Fund for 2018-2020.

DGF labour remuneration policy:

- creation of conditions and stimulation of employees for qualitative fulfillment of their official duties in order to fulfill the basic tasks and functions of DGF, defined by the Law of Ukraine "On Households Deposit Guarantee System";
- Establishment of uniform principles for determining the level of labour remuneration of DGF employees, in particular, fairness, transparency, competitiveness, and flexibility.

The salary of DGF employees consists of:

- the base salary, which is set in the form of position salaries. The amount of a position salary depends on the level of influence of the structural unit on DGF main activity (structural unit grade) and the level of qualification of the employee;
- additional salary, which is set in the form of allowances and bonuses and bonuses for the performance of production tasks;
- other incentive and compensation payments that are not related to specific labor results, in particular: financial assistance for the workers' health, childbirth, funeral of spouse/parents/children.

*Details of DGF employees' salary costs are set out in Note 25 and 26 to the Financial Statements of the Deposit Guarantee Fund as of 31 December 2018 and of the year which ended on that date.*

#### *Personnel training*

The basic principle of DGF personnel policy is to promote enhancement of professional practical skills of its personnel. For this purpose, during 2018, DGF employees participated in internal corporate training events, seminars, round tables, conferences, trainings held by specialized companies.

#### *Labour Protection Organization*

The basic principles of DGF labour protection organization are:

- creation and maintenance of safe and harmless working conditions, ensuring priority of life and health of workers in the process of production activity;
- ensuring the continuity and efficiency of the functioning of the labour protection management system and realization of workers' constitutional right to the protection of their life and health in the course of work;
- organization and carrying out of control of working conditions compliance with the requirements of normative legal acts on labor protection.

#### *Corruption prevention*

DGF employees, in their internal activities, as well as in their relations with business partners, public authorities, local self-government authorities, are guided by the principle of "zero tolerance" to any manifestations of corruption and take all measures prescribed by law to prevent, detect and counteract corruption related actions (practices).

According to the DGF Anti-Corruption Program, approved by the order No. 200 of April 03, 2017 DGF employees are prohibited to:

- use their authority or position and related opportunities for the purpose of obtaining undue advantage for themselves or others;
- use any DGF property in their private interest;
- claim or receive any tangible or intangible benefits (for themselves or for connected persons) in connection with the exercise of their official duties, which are not provided for in an employment or other contract between them and DGF;
- arrange, mediate or personally make any cash or non-cash payments or settlements with DGF business partners, unless such payments or settlements are provided for by applicable law;
- directly or indirectly influence DGF employees' decisions for the purpose of obtaining any tangible or intangible benefits for themselves or for connected persons, which are not provided for in an employment or other contract between them and DGF;
- take any actions that directly or indirectly incite other employees

or DGF Manager to violate the requirements of the Law or the DGF Anti-corruption program.

*The DGF Anti-corruption program is available on DGF website at <http://www.fg.gov.ua/about/antykoruptsiina-prohrama>.*

## ENVIRONMENTAL PROTECTION

DGF is concerned about the environment and tries to avoid any harm to nature. In order to protect the environment, DGF:

- introduces an electronic document management system, reduces the amount of office expenses (paper, plastic, mixed waste, etc.);
- maintains vehicles in good condition in order to reduce exhaust emissions;
- carries out utilization of decommissioned office and computer equipment by concluding a contract with a licensed enterprise for collection, transportation and transfer of waste for further utilization;
- ensures cleanliness in the DGF premises and the surrounding area.

## DEVELOPMENT PROSPECTS

The DGF development prospects are aimed at fulfillment of the main task: to ensure the functioning of the Household deposits guarantee system and insolvent bank resolution.

The DGF Executive Directorate approved the Plan of activities of the Deposit Guarantee Fund for 2019, which provides a list of actions and measures in the following areas:

- processing and improvement of legislation, including mechanisms for effective insolvent banks resolution, taking into account the best world practice and Ukrainian realities, improvement of ways of identifying the causes of bank insolvency, DGF development strategies;
- improvement of DGF information technology, including when paying out to depositors;
- enhancement of personnel potential and introduction of an effective corporate culture system, improvement of the labour remuneration system and personnel evaluation, as well as introduction of modern systems of professional development of DGF employees;
- ensuring financial soundness of the household deposits guarantee system, improving DGF funds and debt management, improving DGF management reporting and risk management system;
- ensuring the consistency of the parameters of the household deposits guarantee system to the needs of society in terms of compliance with the amount of guaranteed payments to the social and economic conditions, improving the system of charging fees to DGF;
- improving procedures for dealing with banks classified as troubled;

- ensuring public relations and financial education of the population in order to raise awareness of the household deposits guarantee system, rights and obligations of consumers of financial services;

- participation in the International Association of Deposit Insurers and the European Deposit Insurance Forum, cooperation

with the International Monetary Fund, the World Bank, the US Treasury, the European Bank for Reconstruction and Development, the US Agency for International Development (USAID) project with the aim of implementation of international standards and best practices from different countries in the field of guaranteeing natural person deposits and insolvent bank resolution.

Managing Director

K.M. Vorushylin

Chief Accountant

O.S. Perebyinis



# INDEPENDENT AUDITOR'S REPORT



Ref. No. 132 as of 28 May 2019

**INDEPENDENT AUDITOR'S REPORT  
ON THE FINANCIAL STATEMENTS OF  
THE DEPOSIT GUARANTEE FUND  
as of 31 December 2018  
and the year ended on the stated date**

*To the Administrative Board of Deposits Guarantee Fund  
To the management of the Deposits Guarantee Fund*

## FINANCIAL STATEMENTS AUDIT REPORT

### Opinion

We have conducted an audit of the financial statements of the Deposit Guarantee Fund (hereinafter – the Fund), consisting of: Statement of financial position as of 31 December 2018, Statement of Profit and Loss and other comprehensive income, Statement of Changes in Net Assets and Cash Flow Statement for the year ended on the stated date, and notes to the financial statements, including a summary of significant accounting policies.

We have also examined the Report on Management for 2018.

In our opinion, the attached financial statements accurately reflects in all material aspects the Fund's financial position as of 31 December 2018, its financial results and cash flows for the year ended on the stated date, in accordance with International Financial Reporting Standards (hereinafter IFRS).

### The basis for the opinion

We have conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibility under these standards is set out in the section "Auditor's Responsibility for the Financial Statements Audit" of our report. We are independent of DGF in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA) and ethical requirements applicable to our financial statements audit in Ukraine, and we have fulfilled other ethical responsibilities in accordance with these requirements and IESBA Code.

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

### Key audit aspects

Key audit aspects are issues that, in our professional judgment, were significant during our audit of the financial statements for the current period. These aspects were considered in the context of our audit of the financial statements as a whole and in forming the opinion on it, and we do not express a separate opinion on these issues. We have identified that the following aspects are key audit aspects that should be reflected in our report.



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Key audit aspect	How our audit addressed the key audit aspect
<i>Provision of potential expenses of DGF for the banks resolution and deposits payout</i>	
<p>Evaluation of the provision size of DFG potential expenses for the insolvent bank resolution and deposits payout is a key area of professional judgment of DFG management.</p> <p>Determination of the potential expenses amount includes certain assumptions and analysis of various factors, including the banks financial condition, the risk of banks becoming insolvent, the expected overall condition of the Ukrainian banking system.</p> <p>Different assumptions may result in different estimations of potential expenses provision.</p> <p>As of 31 December 2018, DFG recognized a significant decrease in the provision of potential expenses compared to 31 December 31 2017 (UAH 6,474 million and UAH 22,397 million, respectively), which significantly affected on DFG financial performance in 2018. The decrease in the provision of potential expenses was due to the application of the methodology outlined in the new version of the Methodology for Evaluation of Financial Stability of the Deposit Guarantee Fund. The basic judgment that led to the changes is the judgment on the exit of the banking system of Ukraine from the crisis and its stability in the midterm.</p> <p>Given the materiality of this article and the degree of subjectivity of the judgments, we have determined evaluation of DFG potential expenses provision for the insolvent bank resolution and deposits payout as the key audit aspects.</p>	<p>Our procedures for changing of potential expenses provision for the banks resolution and deposits payout included:</p> <ul style="list-style-type: none"> <li>- analysis of common approaches and methodology for provision formation;</li> <li>- verification of projected financial information by tracking incoming macroeconomic parameters;</li> <li>- verification of key management assumptions used in calculating the financial model;</li> <li>- selective verification of the accuracy of the initial data used in the calculation;</li> <li>- testing the calculations embedded in the model and their mathematical accuracy.</li> </ul> <p>As a result of the procedures performed, we note that accounting estimates of the management personnel regarding the formation of provision of potential expenses for the banks resolution and deposits payout are acceptable for the preparation of financial statements as of 31 December 2018. At the same time, the eligibility of the management's current estimates (models applied) for changing the provision of potential expenses for the banks resolution and deposits payout during the preparation of financial statements for the year ended on 31 December 2018 is not a guarantee that in the case of future events, which are inherently uncertain, occur, the estimates will not change.</p>
<i>The Fund's ability to settle commitments in a timely manner</i>	
<p>According to the DFG Financial Position Statement as of 31 December 2018:</p> <ul style="list-style-type: none"> <li>• Fund's assets: UAH 19,793 million</li> <li>• Fund's liabilities UAH 684,421 million</li> <li>• net assets: -UAH 64,628 million</li> </ul> <p>As DFG net assets are negative, we believe that the ability to settle commitments is a key audit aspect.</p>	<p>More than 72% of DGF liabilities are borrowed funds. The borrowed funds as of 31 December 2018 consist of a loan of the National Bank of Ukraine with a maturity of up to 1 year – UAH 1,460 million, and promissory notes issued with a maturity of more than 1 year - UAH 58,559 million, interest on promissory notes – UAH 12,646 million.</p> <p>To clarify the DGF ability to make payments to creditors in the short and long term, we:</p> <ul style="list-style-type: none"> <li>- analyzed the current DGF financial condition, the amount of expected payments, future flow of</li> </ul>



funds;

- investigated the structure of liabilities on borrowed funds according to maturity;
- checked the correct calculation of the interest on promissory notes and the completeness and timeliness of accounting.

According to the results of the performed procedures, we note that, in the current financial condition, DGF is able to make payments to creditors in the short term (365 days) in a timely manner.

Additionally, in the short term, the DGF risks are hedged by the Law of Ukraine “On the State Budget of Ukraine for 2019”, which gives the right to the Cabinet of Ministers of Ukraine to issue government bonds in exchange for promissory notes issued by DGF and by concluding a loan agreement with the National Bank of Ukraine on opening a revolving credit line in the amount of UAH 2,000 million by 2021.

In the long term, the ability to make payments to creditors in a timely manner depends on the issue of debt restructuring of the Ministry of Finance of Ukraine and the overall macroeconomic situation in the country. DGF recognizes this risk and takes steps to minimize it.

### Information other than the financial statements and the auditor's report thereon

Management is responsible for other information. Other information consists of information contained in the 2018 Management Report prepared in accordance with the requirements of the Law of Ukraine “On Accounting and Financial Reporting in Ukraine” and other applicable legislative and regulatory requirements other than the financial statements and our auditor's report on such information.

Our opinion on the financial statements does not extend to other information and we do not draw the conclusion with any degree of certainty about this other information.

In connection with our financial statements audit, it is our responsibility to review the other information provided above and to consider whether there is a material inconsistency between the other information and the financial statements or our knowledge obtained during the audit, or whether this information appears to be one that contains material misstatements.

If, on the basis of our work on other information received before the date of the auditor's report, we conclude that there is a material misstatement of that other information, we are obliged to report this fact. We did not find any such facts that should have been included in the report.

### Other information

The audit of DGF financial statements for the year ended on 31 December 2017 was conducted by another auditor, who on 25 May 2018, expressed an unmodified opinion on these financial statements.



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### **The responsibility of the management and those with the highest authority for financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and for such internal control system, which the management determines necessary to ensure the preparation of financial statements that are free from material misstatement due to fraud or error.

In preparing of the financial statements, management is responsible for estimation of the DGF ability to continue on an ongoing basis, revealing, where applicable, issues relating to performance continuity and using the assumption of performance continuity as a basis for accounting, except where management either plans to liquidate DGF or terminate its operations, or has no other realistic alternative to doing so. Those who have the highest authority are responsible for monitoring DGF financial reporting process.

### **The auditor's responsibility for the financial statements audit**

Our goals are to provide reasonable assurance that the financial statements as a whole are free from material misstatement due to fraud or error, and to provide an auditor's report containing our opinion. Reasonable assurance is a high level of assurance, but it does not guarantee that an audit conducted in accordance with ISAs will always reveal a material misstatement, if it exists. Misstatements can be a result of fraud or error; they are considered material if, individually or collectively, as reasonably expected, they can influence the economic decisions of users made on the basis of these financial statements. When auditing in accordance with ISA requirements, we use professional judgment and professional skepticism throughout all audit task.

In addition, we:

- identify and evaluate the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and acceptable to use as a basis for our opinion. The risk of not detecting material misstatement due to fraud is greater than that resulting from error, as fraud may include collusion, forgery, intentional omissions, incorrect allegations or neglect of internal control measures;
- gain an understanding of the internal controls involved in the audit to develop audit procedures that are appropriate to the circumstances and not to express an opinion on the effectiveness of the internal control system;
- assess the appropriateness of accounting policies used and the reasonableness of accounting estimates and related information disclosures made by the management;
- we conclude whether it is acceptable for the management to use the assumption of performance continuity as a basis for accounting and based on the audit evidence obtained, we conclude whether there is a material uncertainty about events or conditions that would cast significant doubt on DGF ability to continue its continuous performance. If we conclude that such material uncertainty exists, we must draw attention in our auditor's report to the relevant information disclosures in the financial statements or, if such information disclosures are improper, modify our opinion. Our findings are based on the audit evidence obtained before the date of our auditor's report. However, future events or conditions may compel DGF to cease operations on a continuous basis;



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- evaluate the overall presentation, structure and content of the financial statements, including information disclosure, and whether the financial statements present the transactions and events underlying its preparation, in order to achieve a fair presentation;

We inform those who are given the highest authority about the planned scope and timing of the audit and material audit results, including any significant deficiencies in the internal control system identified by us during the audit.

We also provide those who have the highest authority with the assertion that we have met the relevant ethical requirements for independence, and inform them of any relations and other aspects that could reasonably be considered to affect our independence, as well as, where applicable, of the relevant precautionary measures.

From the list of all aspects reported to those with the highest authority, we identified those that were most relevant in the financial statements audit of the current period, that is, those that are key audit aspects. We cover these aspects in our auditor's report, except where a legislative or regulatory act prohibits the public disclosure of such aspect, or if in exceptional circumstances we determine that such aspect should not be covered in our report because the negative effects of such coverage may be expected to outweigh its utility to the public interest.

## REPORT ON REQUIREMENTS OF OTHER LEGISLATIVE AND REGULATORY ACTS

In accordance with the requirements of Article 14 of the Law of Ukraine "On Audit of Financial Statements and Auditing" we provide in our Independent Auditor's Report such information, which is required in addition to the requirements of ISAs.

### **Name of the body that appointed the auditing entity to perform the mandatory audit, date of appointment and overall duration of the audit task**

Auditing entity - Private joint-stock company Auditing firm "De Visu" in accordance with part two of article 7 and paragraph 10 of part one of article 9 of the Law of Ukraine "On Households Deposit Guarantee System" was appointed by the Administrative Board of DGF in accordance with the decision No. 2 of March 22, 2019 "On determining the auditor to audit the financial statements of the Deposit Guarantee Fund for the year ended on December 31, 2018, prepared in accordance with International Financial Reporting Standards" according to the results open auctions conducted in accordance with the Law of Ukraine "On Public Procurement" and taking into account the requirements of the Law of Ukraine "On Audit of Financial Reporting and Auditing".

Appointment date is March 22, 2019.

Duration of the task considering the continuation: from April 01, 2019 to May 28, 2019.

### **Information on the consistency of the Management Report compiled in accordance with the law, with financial statements for the reporting period, on the existence of material misstatements in the Management Report and their nature**

We have read the information presented in the Management Report and have considered whether there is a material inconsistency between the Management Report and the financial statements. Based on our work, we conclude that the financial and non-financial information provided in the Management Report and in DGF financial statements for the year ended on December 31, 2018 do not contradict each other. We did not find any material misstatement in the Management Report.



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### Information on audit estimates

When identifying and estimating the risks of material misstatement from the aspect of detection of violations, including fraud and non-compliance with the requirements of legislative and regulatory acts, our procedures include, but are not limited to:

1. Requests to management staff and those empowered, including the receipt and review of supporting documentation regarding DGF policies and procedures regarding:
  - identification, evaluation and compliance with the requirements of legislative and regulatory acts, as well as the availability of information on any cases of violation thereof;
  - detecting and responding to fraud risks and information on any actual, suspected or alleged fraud;
  - internal controls put in place to reduce the risks of fraud or non-compliance with the requirements of legislative and regulatory acts.
2. Discussion by audit team members at what stage and under which circumstances DGF financial statements may be vulnerable to material misstatement as a result of fraud, including the way the fraud is committed.
3. Obtaining an understanding of the legislative and regulatory acts that apply to DGF and form the legal basis of its activities. At the same time, we paid special attention to the Law of Ukraine "On Households Deposit Guarantee System" and other legislative and regulatory acts that regulate DGF activities and may directly affect its financial statements.

As a result of our risk identification and assessment procedures, we have not identified as key audit aspects any aspects related to the potential risk of fraud or non-compliance with the requirements of legislative and regulatory acts.

Our procedures in response to other identified risks included, but are not limited to:

- reviewing the disclosures for the financial statements and testing confirmatory information to assess compliance with the relevant requirements of legislative and regulatory acts.
- request to management personnel, those with the highest authority and lawyers about the existing and potential lawsuits and claims;
- performing analytical procedures;
- familiarization with the internal administrative documents and decisions of the Administrative Board of the Deposit Guarantee Fund;
- testing the compliance of the information in stated in the financial accounting and adjustments; assessing whether judgments and decisions made by the management when determining accounting estimates confirm the existence of bias, evaluating the economic justification for significant transactions that are unusual or are outside of the scope of ordinary business activities.

### Explanation on the effectiveness of the audit in terms of detecting violations, including fraud-related issues

During the audit of the financial statements, based on which results, this Independent Auditor's Report is made, we performed audits of the risks of material misstatement of the audited financial statements.

In the result of the audit of DGF internal control system for financial statements auditing purposes, we have not identified significant deficiencies that could adversely affect the DGF ability to account, process, summarize, and prepare financial statements that do not contain material misstatements due to fraud or error, non-compliance with legislative, regulatory requirements. When conducting our audit, we checked for fraud risk factors, in particular through testing. Auditors have not received evidence of



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circumstances that may indicate that DGF financial statements contain material misstatement as a result of fraud.

#### **Confirmation that the audit report is consistent with the additional report for the audit committee**

We confirm that our audit opinion on the financial statements set out in this Independent Auditor's Report is consistent with the Supplementary Report prepared for the Administrative Board of Deposits Guarantee Fund.

#### **The statement about the failure to provide services prohibited by law and the independence of the key audit partner and the auditing entity**

We confirm that we did not provided DGF with services prohibited by Ukrainian law, including those prohibited by part 4 of Article 6 of the Law of Ukraine "On Auditing of Financial Reporting and Auditing". We have not identified any threats to our independence, either at the level of the audit firm or at the level of the key audit partner and staff involved in the audit task.

#### **Information about other services provided by the auditing entity to the legal entity or to its controlled business entities, other than mandatory audit services, which is not covered in the management report or financial statements**

Related parties of the auditing entity - "De Visu" Valuation Firm and "De Visu" Law and Consulting Firm according to the results of DGF qualifying selection are included in the List of parties who can perform work (provide services) for insolvent banks or banks that are being liquidated.

In the course of 2018, the rock of TOV "Ozinochna firma "De Vizu" provided insolvent banks and banks that are being liquidated with independent property valuation services, which is in line with Article 6, Section 4 of the Law of Ukraine "On Audit of Financial Reporting and Auditing". These services do not directly affect DGF financial statements to be audited or the independence of the auditing entity.

The auditing entity, the key audit partner, and the staff involved in the audit task did not participate in the provision of the Non-Audit Services for DGF.

#### **Explanation of the scope of the audit and the inherent limitations of the audit**

We have performed the audit to the extent required by ISAs, the Law of Ukraine "On Audit of Financial Reporting and Auditing" and other legislative and regulatory acts.

We applied documentary methods of verification - examination of documents, selective observation, grouping of deficiencies, formal and arithmetic verification of documents, analysis of documented business transactions, logical verification, assessment of the legality and reasonableness of business operations according to the data of correspondence of the accounting. The sources of information are: primary documents, including technical data carriers, registers of synthetic and analytical financial accounting, financial, tax, statistical and operational statements.

The intrinsic limitations of an audit create an inherent risk that some material misstatements of the financial statements will not be detected, even with proper planning and implementation of an audit in accordance with ISAs. An audit does not guarantee identification of all material misstatement due to factors such as the use of judgment, testing, restriction inherent in internal control, and the fact that most of the evidence available to the auditor is persuasive rather than conclusive. As a result, the auditor can only have reasonable assurance that material misstatements will be identified in the financial statements.



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**Key audit partner**

The partner of the audit task, the result of which is an independent auditor's report, is Vitalyi Gavrysh.

**Key Audit Partner** \_\_\_\_\_ **V.V. Gavrysh**

(registration number in the Register of Auditors  
and auditing entities 101943,  
ACCA certificate)

**Acting Director General**

**PJSC AF "De Visu"** \_\_\_\_\_ **V.P. Ivashchenko**

(registration number in the Register of Auditors  
and auditing entities No. 101935)

Reporting date: **May 28, 2019**

*Basic information about the audit firm***Private Joint Stock Company Audit Firm "De Visa"**

01001, Kyiv, 10 Malopidvalna Street, office 11

PJSC AF "De Visu" is included in the Auditing Entities section of the Register of Auditors and Auditing Entities, available on the Audit Chamber of Ukraine website at [www.apu.com.ua](http://www.apu.com.ua), No. 1373. Information about

PJSC AF "De Visa" is included in the following sections of the Register of auditors and auditing entities:

- "Auditing entities"
- "Auditing entities entitled to conduct mandatory audit of financial statements"
- "Auditing entities entitled to conduct mandatory audit of financial statements of enterprises of public interest"



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## STATEMENT OF FINANCIAL POSITION

<i>(UAH million)</i>	Notes	31 December 2018	31 December 2017
<b>ASSETS</b>			
Cash and cash equivalents	7	7.082	3.740
Financial investments	8	7.257	10.954
Accounts receivable from member banks' contributions	9	893	846
Other accounts receivable	10	12	9
Arrears of insolvent banks on the creditors' claims of the Fund	11	4.477	9.066
Other assets		1	1
Fixed assets	12	38	32
Intangible assets	13	33	22
<b>Total assets</b>		<b>19.793</b>	<b>24.670</b>
<b>LIABILITIES</b>			
Provision for the Fund's potential expenses for insolvent bank resolution and deposit payouts	14	6.474	22.397
The Fund's liabilities to make payouts to depositors of insolvent banks	15	3.710	3.395
Other accounts payable	16	2	27
Other provisions	17	1.570	1.945
Funds raised	18	72.665	74.450
<b>Total liabilities</b>		<b>84.421</b>	<b>102.214</b>
<b>NET ASSETS</b>			
Revaluation reserve		(70)	114
Profit (loss)		(64.558)	(77.658)
<b>Total net assets</b>		<b>(64.628)</b>	<b>(77.544)</b>
<b>Total liabilities and net assets of the Fund</b>		<b>19.793</b>	<b>24.670</b>

Approved for issue by the management and signed on its behalf on 28 May 2019.

Managing Director

K.M. Vorushylin

Chief Accountant

O.S. Perebyinis

Notes, added on the 105-131 pages are the integral part of this financial statement

## STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

<i>(UAH million)</i>	Notes	2018	2017
<b>Operating income:</b>		<b>21.152</b>	<b>7.545</b>
Member institutions fees	19	3.551	3.324
Reduction of the provision for the Fund's deferred expenses for bank resolution and deposit payouts	14	15.923	675
Investment income	20	1.605	1.693
Other operating income	21	73	1.853
<b>Expenses</b>		<b>(8.052)</b>	<b>(10.386)</b>
Expenses for the performance of deposit payout and bank resolution liabilities	22	(910)	(1.926)
Financial expenses	23	(6.190)	(6.745)
Other operating expenses	24	(583)	(1.406)
Administrative expenses	25	(369)	(309)
<b>Net income (loss)</b>		<b>13.100</b>	<b>(2.841)</b>
Net change in fair value of financial assets available for sale		(184)	114
<b>Other comprehensive income (loss), net amount</b>		<b>(184)</b>	<b>114</b>
<b>Total comprehensive income (loss)</b>		<b>12.916</b>	<b>(2.727)</b>

Approved for issue by the management and signed on its behalf on 28 May 2019.

Managing Director

K.M. Vorushylin

Chief Accountant

O.S. Perebyinis

Notes, added on the 105-131 pages are the integral part of this financial statement

## STATEMENT OF CHANGES IN NET ASSETS

<i>(UAH million)</i>	<b>Revaluation reserve</b>	<b>Accumulated damage</b>	<b>Total</b>
<b>Balance as of 31 December 2016</b>	-	<b>(74.817)</b>	<b>(74.817)</b>
Loss for the year	-	(2.841)	(2.841)
<b>Another comprehensive income</b>	<b>114</b>	-	<b>114</b>
Net change in fair value of financial assets available for sale	114	-	114
<b>Total comprehensive income/(loss) for the year</b>	<b>114</b>	<b>(2.841)</b>	<b>(2.727)</b>
<b>Balance as of 31 December 2017</b>	<b>114</b>	<b>(77.658)</b>	<b>(77.544)</b>
Income (loss) for the year	-	13.100	13.100
<b>Another comprehensive income</b>	<b>(184)</b>	-	<b>(184)</b>
Net change in fair value of financial assets available for sale	(184)	-	(184)
<b>Total comprehensive income/(loss) for the year</b>	<b>(184)</b>	<b>13.100</b>	<b>12.916</b>
<b>Balance as of 31 December 2018</b>	<b>(70)</b>	<b>(64.558)</b>	<b>(64.628)</b>

Approved for issue by the management and signed on its behalf on 28 May 2019.

Managing Director

K.M. Vorushylin

Chief Accountant

O.S. Perebyinis

Notes, added on the 105-131 pages are the integral part of this financial statement



## CASH FLOW STATEMENT

<i>(UAH million)</i>	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>		
Contributions from member banks	3.498	3.315
Proceeds from insolvent banks to satisfy creditors' claims	4.034	6.531
Funds transferred to agent banks for deposit payouts	(980)	(7.005)
Payments to employees and contributions for the social insurance fund	(259)	(221)
Payment of liabilities of other taxes and charges	(58)	(45)
Return of deposit payouts not paid to depositors by the agent bank	-	-
Receipt of guaranteed payments from potential investors to participate in the insolvent bank resolution tender	20	80
Return of guaranteed payments to potential investors to participate in the insolvent bank resolution tender	(40)	(60)
Other operating income	144	4
Other operating expenses	(98)	(71)
<b>Net cash flows from operating activities</b>	<b>6.261</b>	<b>2.528</b>
<b>Cash flows from investing activities</b>		
Proceeds from the sale of government bonds available for sale	-	2.543
Expenses for buying government bonds available for sale	-	-
Proceeds related to government bonds held to maturity	3.397	-
Expenses for buying government bonds held to maturity	-	-
Purchase of non-current assets	(27)	(32)
Interest received	1.346	1.288
<b>Net cash flows from investing activities</b>	<b>4.716</b>	<b>3.799</b>
<b>Cash flows from financial activities</b>		
Loans received from the National Bank of Ukraine	-	-
Repayment of loans received from the National Bank of Ukraine	(5.024)	(2.582)
Proceeds from the placement of promissory notes	-	-
Repayment of promissory notes	(1.000)	-
Payments of interest	(1.611)	(2.315)
<b>Net cash flows from financial activities</b>	<b>(7.635)</b>	<b>(4.897)</b>
<b>Net cash and cash equivalent flows</b>	<b>3.342</b>	<b>1.430</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>3.740</b>	<b>2.310</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>7.082</b>	<b>3.740</b>

Approved for issue by the management and signed on its behalf on 28 May 2019.

Managing Director

K.M. Vorushylin

Chief Accountant

O.S. Perebyinis

Notes, added on the 105-131 pages are the integral part of this financial statement

## NOTES TO FINANCIAL STATEMENTS

### 1. General Informarion

The Deposit Guarantee Fund (hereinafter referred to as the Fund) carries out its activities in accordance with the Law of Ukraine “On Households Deposit Guarantee System” (hereinafter referred to as the Law).

The main goal of the Fund is to ensure the functioning of the Households Deposit Guarantee System and insolvent bank resolution.

To achieve its main goal, the Fund, in the manner prescribed by the Law, carries out the following functions:

- Maintaining the Register of Member Institutions.
- Accumulating funds from the sources as set in Article 19 of the Law and supervising the payment of fees from the DGF member intuitions.
- Investing the DGF funds in the government bonds.
- Issuing and distributing bonds under the procedures set in the Law, and issuing promissory notes under the terms and conditions specified in the Law “On the State Budget of Ukraine”.
- Taking measures to organise deposit payouts within the time limits specified by the Law and in the amount determined by the Administration Board (since 21 August 2012 the reimbursement limit shall be at least UAH 200.000).
- Regulating the banks' membership with the Household Deposit Guarantee System.
- Inspecting problem banks upon an initiative of the National Bank of Ukraine.
- Applying financial sanctions to and imposing fines on banks and bank senior executive management.
- Resolving insolvent banks, including through provisional administration and liquidation of such banks, organising the disposal of assets and liabilities of an insolvent bank, sale of an insolvent bank, or establishment and sale of a bridge bank.
- On-site monitoring of the member banks under the terms and conditions set in the Law.
- Providing financial support to the member banks under the terms and conditions set in the Law.
- Analysing the financial position and performance of the member banks in order to elicit their potential risks, and project the potential costs associated with the resolution of insolvent banks and deposit payouts.
- Granting a special-purpose loan to the bank in order to ensure due and timely remuneration of labour under the terms and conditions set in paragraph 2, Part 6 of Article 36, paragraphs 7 and 8, Part 2 of Article 37, and Part 4, Article 47 of the Law during the provisional administration.
- Sending relevant inquiries to customers, depositors, and other creditors of the bank in accordance with the procedure established by the Fund.
- Informing the general public of the functioning of the Households Deposit Guarantee System, protecting the depositor's rights

and legitimate interests, and promoting financial literacy among the citizens pursuant to the Law.

- Studying and analysing the markets of financial resources raised by the member institutions from household depositors.

The Fund is a legal entity under public law, has its separate property, which is an item of state property and is under its economic jurisdiction.

The Fund is an economically independent institution, has an independent balance sheet, current and other accounts with the National Bank of Ukraine, as well as securities accounts at depository institutions (state-owned banks).

The Fund is a non-profit institution.

The governing bodies of the Fund are the Administration Board and the Executive Directorate.

The Administration Board of the Fund comprises five persons: a representative of the Cabinet of Ministers of Ukraine, two representatives of the National Bank of Ukraine, a representative of the profile committee of the Verkhovna Rada of Ukraine, and the Managing Director of the Fund.

The Executive Directorate of the Fund comprises seven members. The Fund Managing Director and its deputies are members of the Executive Directorate of the Fund by virtue of their position.

The Fund had 77 member banks as of 31 December 2018 (31 December 2017: 83 banks).

### 2. The Fund Operating Environment

The Fund operates in Ukraine. The political and economic situation in Ukraine in recent years has been unstable; it is characterised as an emerging market. As a result, operating in the country involves risks that are unusual for other countries.

The armed conflict in some parts of Luhansk and Donetsk regions, which began in the spring of 2014, is still in progress; parts of Donetsk and Luhansk regions remain under control of the self-proclaimed republics, and currently the Ukrainian government is unable to fully enforce the Ukrainian laws in these areas. In March 2014, a series of events in the Crimea led to the accession of the Republic of Crimea to the Russian Federation, which was not recognised by Ukraine and many other countries.

The situation in 2016–17 was still unstable, the Ukrainian economy showed some signs of recovery, such as a slowdown in inflation, lower rate of devaluation of UAH against major foreign currencies, growth of international reserves of the National Bank of Ukraine (hereinafter referred to as the NBU). The recovery of the Ukrainian economy has been due to improvement of the macroeconomic

management, continued cooperation with the International Monetary Fund, support from international donors and a favorable external environment.

In December 2018, Moody's upgraded Ukraine's credit rating from Caa2 till Caa1 with a "positive" forecast due to the agreement between Ukraine and IMF on new lending program stand-by, positive expectations of reducing corruption because of the reforms, strengthening Ukraine's countereffort in the course of the conflict with Russia.

In 2014–17, the NBU actively resolved the insolvent banks and transferred them to the management of the Fund. In 2018 only one bank was recognised as insolvent and transferred to the management of the Fund. In particular, as of 31 December 2018, 1 bank was under control of the provisional administration, and 90 were under liquidation (31 December 2017: 2 and 92). For the Fund, this period was full of significant structural reforms, changes in relevant laws and increase in guaranteed deposit payouts.

Management believes that it is following the course of events and taking appropriate measures to support the Fund's and deposit guarantee system stable operations. Possible negative development may have negative impact on the performance and financial position of the Fund, the nature and consequences of which cannot be currently identified. These financial statements contain the management's current assessment of the impact of operating conditions in Ukraine on operating activities and financial position of the Fund. Future operating conditions may differ from those assessed by the management.

### 3. Summary of Significant Accounting Policies

#### a) Financial Statements Compiling Principle

The financial statements are prepared in accordance with the International Financial Reporting Standards (hereinafter referred to as the IFRSs). The estimations in these financial statements were made based on the cost of production, except:

- financial assets, at fair value with recognition of revaluation of comprehensive income;
- financial assets, at fair value, with recognition of revaluation of profit or loss.

#### b) Continuity of Activity

As of 31 December 2018 the net deficit of the Fund amounts to UAH 64.628 million (31 December 2017: UAH 77.544 million). The net profit for the year ended 31 December 2018 is UAH 13.100 million (the net for the year ended 31 December 2017: UAH 2.841 million). Cash inflow from operating activities for the year ended 31 December 2018 is UAH 6.261 million (for the year ended 31 December 2017 is UAH 2.528 million).

The management implements the following measures to ensure that the Fund fulfils its obligations in the near future:

- The Fund expects that in case of a liquidity crisis, it will be able

as follows: 1) obtain new loans from the National Bank of Ukraine; 2) obtain a loan or state contribution on a non-refundable basis at the expense of the state budget. The Fund plans to maintain the existing debt burden at the expense of funds received from the member institutions as a regular fee and receipts from insolvent banks to satisfy the Fund's creditors' claims. At the same time, it was conducted early repay of UAN 1 bn in accordance with the promissory notes issued to the Ministry of Finances of Ukraine in 2018.

- In 2018, the Fund initiated consideration of the issue of regulation of the Fund's potential insolvency at a meeting of the Financial Stability Board. By the decision of the Financial Stability Board there was formed working group consisting of representatives of the Ministry of Finance of Ukraine, the National Bank of Ukraine and the Fund to develop and coordinate methods of debt restructuring of the Fund.

- In 2018 the Fund continued to use the automated payment system, introduced in that highly facilitated the attraction of new agent banks, increased the level of servicing depositors and allowed the Fund to allocate liquid assets more efficiently.

- The Fund continued to work on improvement of the process of selling assets of insolvent banks. As before, all auctions for sale of assets not pledged by secured creditors were transferred to ProZorro Sale. In addition, in 2018, the sale of banks' assets through foreign marketplace, in particular, the successful auctions were held through the companies DebtX (USA) and First Financial Network (USA) within the framework of a joint pilot project of the NBU and the Fund.

- The Fund continues to optimise and minimise the expenses of insolvent banks by strengthening control over operations at insolvent banks and centralising their main functions that arise during the provisional administration or liquidation.

- The Fund initiates further changes in the laws regarding its activities, including the Fund membership for non-banking credit facilities, and review of the concept of the current problem-solving model and bank resolution and introduction of an early response system.

The management believes that, taking into account all of the measures above, the Fund has resources to continue its activities in the near future. In addition, the management knows no significant uncertainties, other than those mentioned above, which may place in doubt the capability of the Fund to operate in the near future.

#### c) Functional Currency and Submission Currency

These financial statements are presented in the national currency of Ukraine, UAH, which is the functional currency of the Fund and the currency of submitting the financial statements. All amounts in the financial statements are rounded to millions.

Monetary assets, equity and liabilities are translated into functional currency at the official exchange rate of the National Bank of Ukraine

(NBU) as of the respective reporting date. Profits or losses on foreign exchange differences that arise on settlements in transactions and as a result of the translation of monetary assets and liabilities into functional currency at the end of the year in accordance with the official NBU rates are recognised in the statement of profit and loss. Non-monetary items in foreign currency estimated at historical cost are translated at the exchange currency rate on the transaction date.

#### d) Fixed Assets

Fixed assets are recognised at production cost less accumulated depreciation and any accumulated impairment losses.

The expenses for improving the own fixed assets, which lead to an increase in the initially expected benefits from their use, increase the initial value of these facilities.

The expenses for improving the leased fixed assets, which lead to an increase in the initially expected benefits of their use, are direct and may be included in fixed assets as a separate item.

Accrual of depreciation of an asset begins on the first day of the month following the month in which a fixed asset becomes suitable for use, and stops on the first day of the month following the month in which the fixed asset was derecognised.

Depreciation is calculated on a straight-line basis for the following useful life periods expected:

	<b>Years</b>
Buildings	40
Vehicles	5
Furniture	3-7
Office equipment	4-7
Computer equipment	3-5
Tools and household equipment	3-7
Other fixed assets	3-7

The liquidation value of the fixed asset groups which are not planned to be sold after the end of useful life is 0 % of their initial value. The liquidation value of the fixed asset groups which may be sold after the end of useful life is set at the level of generalised statistics on the actual sales of such fixed assets for the last three years.

At the end of each fiscal year the Fund reviews the liquidation value of fixed assets, useful life period, depreciation method, and analyses fixed assets for impairment.

If an evidence of fixed asset impairment is available, the Fund estimates the amount of expected reimbursement for this asset. If the amount of the expected reimbursement of the fixed asset is less than its book value, the book value of the fixed asset is reduced to the expected reimbursement. Such a reduction is an impairment loss. The impairment loss is included in the period expenses as part of other expenses.

#### e) Intangible Assets

After the asset is recognised as an intangible asset, it is recorded under the production cost model: production cost less accumulated depreciation and accumulated impairment losses of the intangible asset.

The liquidation value of an intangible asset is zero.

Depreciation of intangible assets is accrued on a straight-line basis.

Accrual of depreciation begins on the first day of the month following the month in which an asset became suitable for use and stops from the first day of the month following the month in which the asset was derecognised.

The intangible assets with indefinite useful life and classified as held for sale (for a period of such classification) are not subject to depreciation.

The useful life of intangible assets is determined by the entitling document. The useful life of an intangible asset that originates from contractual or other legal rights shall not exceed the period of validity of contractual or legal rights, but may be shorter than the validity period depending on the period during which the Fund expects to use this asset.

At the end of each fiscal year the Fund analyses the intangible assets for signs of impairment, reviews the useful life period and depreciation method, and examines availability of future economic benefits from the use of an intangible asset.

If an evidence of intangible asset impairment is available, the Fund estimates the amount of expected recovery of such an asset. The expected recoverable amount of an asset is its sales cost, unless there is a reason to believe that the benefits from the use of an intangible asset exceed the cost of its sale.

If it is impossible to determine the sales cost, the expected recoverable amount of the asset may be the benefit of its use (value of the asset in use) defined as the discounted cash flow expected from the use and future disposal of the asset.

If the expected recoverable amount of an intangible asset is less than its book value, the book value of the intangible asset is reduced to the expected recoverable amount. Such a reduction is an impairment loss. The impairment loss is included in the period expenses as part of other expenses.

Intangible assets with indefinite useful lives and those under development are tested for impairment depending on the existence of signs of impairment.

## f) Financial Instruments

The financial instruments of the Fund are represented by financial assets and financial liabilities.

Financial assets are:

- cash (cash on the current account with the National Bank of Ukraine and cash on hand;
- financial investments in the government bonds (government bonds);
- arrears of insolvent banks and banks, liquidated by the Fund, special-purpose loans and interest thereon issued to insolvent banks;
- other accounts receivable.

Financial liabilities are:

Borrowed funds (loans from the NBU, liabilities of promissory notes, issued by the Fund).

### *Classification of financial assets*

Financial assets are classified in accordance the following categories:

- financial assets measured at the depreciated production cost;
- financial assets measured at fair value with recognition of revaluation as part of comprehensive income;
- financial assets measured at fair value with recognition of revaluation as part of profit or loss.

Financial asset is classified as one that measured at depreciated production cost whether the following conditions are fulfilled:

- financial asset is held within the business model, its aim is retention of financial assets for the obtaining of contractual cash flows;
- contractual conditions of the financial asset provides cash flows on certain dates which are exclusively payment of loan principle and interests of the outstanding part of the loan principal.

Financial asset is classified as one that measured at fair value with recognition of revaluation as part of comprehensive income, whether the following conditions are fulfilled:

- financial asset is held within the business-model, its aim is retention of financial assets for the obtaining of contractual cash flows, such as sale of financial assets;
- contractual conditions of the financial asset provides cash flows on certain dates which are exclusively payment of loan principle and interests of the outstanding part of the loan principal.

Financial asset is classified as one that is measured at fair value with recognition of revaluation as part of profit or loss, whether:

- financial asset is not classified as one that measured at the depreciated production cost or such as measured at fair value with recognition of revaluation as part of comprehensive income.

- financial asset is held within the business model, its aim is obtaining of cash flow from the asset transaction of the financial assets sale.

The classification of financial assets of the Fund in accordance with the specified categories is based on the business model which controls the financial assets, cash flow characteristics on the financial asset under the contract.

The determination of the business model which controls the financial assets and testing of cash flow characteristics, defined by the contract conditions is held in accordance with the methodology, approved by the Decision of the Executive Directorate of the Fund dated 31 December 2018 No. 3357.

### *Recognition and Evaluation of Financial Instruments*

A financial asset or a financial liability is recognised in the Statement of Financial Position only when the Fund becomes a party to the contractual provisions regarding this financial instrument.

Ordinary acquisition or sale of financial asset is carried out with the use of accounting of the transaction date.

Upon initial recognition, financial assets and financial liabilities are estimated at fair value plus or minus (in case of a financial asset or a financial liability not estimated at fair value with recognition of revaluation of profit or loss) the transaction costs directly attributable to acquisition or issue of a financial asset or a financial liability.

The best evidence of the fair value of a financial instrument upon initial recognition is the transaction price, that is, the fair value of the funds paid or received. If the Fund determines that the fair value of a financial instrument upon initial recognition differs from the transaction price and that fair value is substantiated neither by the quoted price of an identical asset or a liability in an active market nor by a valuation method that only applies the public market data, such a financial instrument is initially estimated at fair value adjusted to delay of the difference between fair value upon initial recognition and transaction price. Subsequently, this difference is recognised in the profit or loss based on the proper principle during the instrument validity, but until the valuation is fully confirmed by the public market data or when the transaction is closed.

Further measurement of financial assets in accordance with the classification is carried out as follows:

- at depreciated production cost;
- at fair value with recognition of revaluation in other comprehensive income;
- at fair value with recognition of revaluation in the profit or loss.



The financial liabilities are classified and subsequently measured at depreciated production cost. Financial liabilities shall not be reclassified after initial recognition.

#### *Impairment of Financial Assets*

At the end of each reporting period, financial assets (other than financial assets at fair value with recognition of revaluation in the profit or loss) are reviewed for impairment.

Impairment of financial assets is based on the recognition of the provision of the loss for the expected credit loss according to the financial instruments in the amount that equals:

- expected credit loss during all validity period of financial instrument – if the credit risk at the reporting date significantly increased compared to the date of initial recognition
- expected credit losses for 12 months – if the credit risk at the reporting date did not significantly increase compared to the date of initial recognition or conditions, that caused to the significantly increase of the credit risk are not provided.

Provision for the losses of the expected credit losses according to the financial investments in the government bonds is based on the methodology of impairment of financial investments reduction in the government bonds, approved by the Decision of the Executive Directorate of the Fund dated 13 December 2018 No. 3357 and based on the external credit ratings and statistics on default and refund for similar financial instruments.

Provision for the losses of the expected credit losses according to the arrears of insolvent banks and banks Liquidated by the Fund, according to the special-purpose loans and interests of the special-purpose loans, granted to the insolvent banks, defined in accordance with the Annex 1 “Algorithm of the reimbursement of the bank creditor's claims settlement of the Deposit Guarantee Fund to the banks, liquidated by the Fund” till the Methodology for the assessment of financial stability of the Deposit Guarantee Fund. Approved by the Decision of the Executive Directorate of the Fund dated 28 February 2013 No. 13 (as amended by Decision of the Executive Directorate of the Fund dated 13 December 2018 No. 3358) and calculated on the approved liquidation estate of insolvent banks and conversion of the liquidation estate into the cash flow.

Provision for the losses for the expected credit losses according to the other accounts receivable is calculated with the use of the simplified practical approach during the all validity period of financial instrument with the use of matrice valuation allowance.

The measurement of the expected credit losses is connected with the quantity of days of payment delay of other depreciated production cost.

Quantity of days of payment delay	Measurement of the expected credit losses, %
No delay	1
1 – 30 days	2
31 – 90 days	3
91 – 180 days	20
181 – 365 days	50
More than 365 days	100

The amount of provision is reviewed on each balance sheet date and, if necessary, adjusted (decreased/increased). Impairment loss (profit from the utility renewal) is recognised in the profit or loss.

#### *Derecognition*

The Fund derecognises a financial asset when the rights to receive funds from this financial asset expire or when the Fund transfers this financial asset within a transaction under which the Fund transfers virtually all the risks and benefits associated with the ownership of the financial asset or does not transfer or retain virtually all risks and benefits associated with the ownership of the financial asset but ceases to exercise control over the financial asset. The Fund derecognises the financial liability when its liabilities under the contract are repaid, cancelled or expired.

#### **g) Obligation of the Fund to Make Payouts to the Depositors of Insolvent Banks and Banks Liquidated by the Fund**

Obligation of the Fund to make payouts to the depositors of insolvent banks and banks liquidated by the Fund is a statutory liability that arises in accordance with Article 26 of the Law.

The liability is recognised in the reimbursement amount approved by the Fund Executive Directorate in the Deposit Payout Register as of the date of such approval and recorded on the books in the total amount by insolvent bank.

The obligation of the Fund to make payouts to the depositors whose deposits have the features specified in Article 38 of the Law is recognised in the provision.

The obligation of the Fund to make payouts to the depositors of insolvent banks and banks liquidated by the Fund, which remain unclaimed by depositors as of the date of final payout of guaranteed reimbursement amounts, shall be reversed with the costs of meeting obligations to disburse deposit payouts.

The date of completion of the payout of the guaranteed reimbursement amounts is the date of submission of documents for making an entry of the bank liquidation in the Unified State Register of Legal Entities, Individual Entrepreneurs and Public Organizations of Ukraine.

### **h) Provision, Contingent Liabilities and Contingent Assets**

The provision is recognised in the Statement of Financial Position when the Fund has a current statutory or constructive liability as a result of an event that occurred in the past, and when it is probable that repayment of the obligation will result in the outflow of resources that represent economic benefits. If the consequences are significant, the amount of provision is determined by discounting the expected future cash flows using a discount rate, net of tax, that reflects the current market measurement of the cost of funds over time and the risks inherent in a specific liability.

Provisions of the Fund are classified by the following categories:

- provision for the Fund's potential expenses for insolvent bank resolution and deposit payouts;
- provision for the Fund's potential expenses for deposit payouts to depositors of insolvent banks and banks liquidated by the Fund, whose deposits have the features specified in Article 38 of the Law;
- provision for potential legal fees of the Fund;
- provision for future expenses on accumulated payment for absence periods (annual leave) of the Fund officers;
- provision for the expenses, for which, at the time of preparation of financial statements, counterparties have sent no original documents.

**Provision for the potential expenses of the Fund for insolvent bank resolution and deposit payouts** is determined in accordance with the Methodology for Evaluation of Financial Stability of the Deposit Guarantee Fund approved by Decision of the Executive Directorate of the Deposit Guarantee Fund No. 13 dated 28 February 2013 (as amended by Decision of the Executive Directorate of the Deposit Guarantee Fund No. 3358 dated 13 December 2018) and is a projected guaranteed reimbursement amount of deposit payouts during twelve months weighted on the coefficient of the expected credit loss level of the Fund.

Projected guaranteed reimbursement amount of deposit payouts during twelve months is calculated for banks which are not declared insolvent at the reporting date and is the sum of products of guaranteed reimbursement amount of deposit payouts according to the deposit of each of the bank and the probability that bank will be declared insolvent during twelve months.

When the bank is declared insolvent, the provision for the Fund's potential expenses for the insolvent bank resolution and deposit payouts is disestablished on the next reporting date. The guaranteed reimbursement amount payable to depositors of the insolvent bank is recognised in the liabilities.

**Provision for the Fund's potential expenses for deposit payouts to depositors of insolvent banks and banks liquidated by the Fund, whose deposits have the signs specified in Article 38 of the Law**, is determined for each insolvent bank in accordance with the list provided by the authorized

bank officer in accordance with paragraph 5, Part 2 of Article 27 of the Law, and is the sum of expenditures necessary for repaying the outstanding liability.

The provision is recognised as of the date of approval of the Deposit Payout Register and reviewed at the end of each reporting period.

The unexpended balance of the provision is disestablished as of the date of final guaranteed deposit payout.

The date of completion of the payout of the guaranteed reimbursement amounts is the date of submission of documents for making an entry of the bank liquidation in the Unified State Register of Legal Entities, Individual Entrepreneurs and Public Organizations of Ukraine.

**The provision for the potential legal fees of the Fund** is the sum of expenditures necessary to repay the outstanding liability to pay fines, administrative penalties, cash indemnity of losses that may arise as a result of the Fund's breaching or failing to comply with the laws, other regulations, agreements, approved practices, as well as the possibility of ambiguous interpretation thereof.

The provision for the Fund's potential legal fees is calculated based on the following factors: title of the court, which is considering the case; availability of the lower court decision and its content; judicial practice in similar legal relations; justification of the legal stance of the Fund. The amount of potential expenses of the Fund for litigations with high legal risk is recognised at the reporting date in the financial statements (Provisions). The amount of potential expenses of the Fund for litigations with average legal risk is recognised at the reporting date in the Notes to the financial statements.

**Provision for the deferred expenses for the cumulative payments for leave periods (annual leave) of the Fund's officers** is the expected value of cumulative payments in the form of the additional amount that will be paid as a result of the unexercised right accumulated at the end of the reporting absence period.

The amount of provision for the deferred expenses for the cumulative payments of leave periods (annual leave) of the Fund's officers is calculated for each Fund officer and is defined as a product of the average daily salary of the officer and the number of days of annual leave for the actual time worked at the reporting date, given the corresponding amount of the unified social tax accrued.

**Provision of expenses for which, at the time of preparation of financial statements, counterparties have sent no original documents** is the estimated amount of expenses for an economic transaction determined in accordance with the internal primary document (act) drawn up by the Fund employee responsible for acceptance/dispatch of inventory, works and services.

When the primary documents are received from counterparties after the preparation and approval of the financial statements, the actual amount of expenses specified in such primary documents may differ from the estimated amount previously recognised in the period when they arose. These differences are not grounds for adjusting the previously recognised amount of expenses, unless such a difference is an error and substantially affects the financial statements of the previous reporting periods.

**Contingent liability** is a potential obligation that results from the past events and the existence of which is confirmed only after one or more uncertain future events not fully controlled by the Fund will or will not occur, or an existing obligation that results from the past events but is not recognised, because there is no probability that the repayment of an obligation requires the disposal of resources that embody economic benefits, or the amount of obligation cannot be reliably measured.

**Contingent asset** is a potential asset that results from the past events and the existence of which will be confirmed only after one or more uncertain future events not fully controlled by the Fund occurs or does not occur.

**Contingent assets** and contingent liabilities are not recognised in the financial statements.

#### **i) Arrears of Insolvent Banks and Banks Liquidated by the Fund on the Creditors' Claims of the Fund**

According to Article 29 of the Law, the Fund acquires the rights of a bank creditor as follows:

- for the total amount to be reimbursed to depositors of such a bank (including paragraphs 3–5, Part 2 of Article 27 of the Law) on the day of commencement of the resolution procedure by the Fund;
- for the amount of the special-purpose loan provided to the bank during the provisional administration;
- for the amount of financial support provided by the Fund to the receiving bank or bridge bank;
- for the amount of expenses related to the insolvent bank resolution procedure, which are paid by the Fund within the limits of the cost estimate approved by the Administration Board of the Fund, including the consolidated sale of assets of the bank being liquidated;
- for the amount of the regular fee accrued but not paid to the Fund, as well as for the amount of arrears of payment of fees, penalties and/or fines to the Fund accrued before the day preceding the date of introduction of the liquidation procedure.

The arrears of insolvent banks and banks liquidated by the Fund on the creditors' claims of the Fund are the expected amount of discharging the creditors' claims of the Fund, which is recognised in the financial statements as follows:

- The reimbursement of the Fund's expenses for fulfilling the obligation of the Fund to make payouts to depositors of insolvent

banks and cover the expenses for the insolvent bank resolution procedure are recognised as a separate asset;

- outstanding special-purpose loans and interest thereon issued to insolvent banks are recognised net of provision for losses from non-repayment of special-purpose loans.

The reimbursement amount reduces the expenses associated with fulfilling the obligation of the Fund to disburse payouts to depositors of insolvent banks and cover the expenses associated with the insolvent bank resolution procedure.

Expected amount of repayment of creditors' claims is reviewed at the reporting date.

Funds received from insolvent banks and banks liquidated by the Fund to discharge the creditors' claims of the Fund are credited in the following order:

- the first priority is to repay the outstanding special-purpose loan issued to the bank during the provisional administration;
- the second priority is to repay the interest arrears on the special-purpose loan;
- the third priority is to repay the creditors' claims on funds to be reimbursed to depositors (including paragraphs 3-5, Part 2 of Article 27 of the Law);
- the fourth priority is to repay the creditors' claims on the expenses, related to the insolvent bank resolution procedure, spent within the cost estimate approved by the Administration Board of the Fund, including the consolidated sale of assets of the bank being liquidated;
- the fifth priority is to repay the arrears on fees, penalty and fines.

The arrears of insolvent banks and banks liquidated by the Fund on the creditors' claims of the Fund that will remain outstanding at the date of completion of the procedure for liquidation and exclusion of the bank from the Unified State Register of Legal Entities, Individual Entrepreneurs and Public Organizations of Ukraine is bad and shall be written off.

#### **j) Income**

Income is classified by the following groups:

- contributions of the member institutions;
- other operating income;
- investment income.

#### *Contribution of the Member Institutions*

Income from contributions of the member institutions includes as follows: initial fees; regular fees; special fees; additional fees for past periods.

The fee is charged in accordance with the Regulation on the Procedure for Calculation, Accrual, and Payment of Fees to the Deposit Guarantee Fund approved by Decision of the Executive

Directorate of the Fund No. 1 dated 2 July 2012 and registered with the Ministry of Justice of Ukraine under No. 1273/21585 on 27 July 2012.

**The initial fee** is determined at the date of issue of the banking license based on the Initial Fee Calculation Report provided by the member institutions. The amount of the initial fee is 1 % of the share capital of the bank, except in cases stipulated by law. The initial fee is paid within thirty calendar days from the date of issue of the banking license.

**The regular fee** is determined under the accrual principle on a quarterly basis on the last day of the reporting quarter based on the Regular Fee Calculation Report provided by the member institutions.

The amount of regular fee depends on the deposit base and the risk level of the bank. The member institutions calculate the fees as of the end of the last working day of the reporting quarter by weighing the base annual rate, which is 0.5 % of the charging base of deposits in national currency and 0.8 % of the charging base of deposits in foreign currency, at the risk level. The charging base for the regular fee calculation is defined as the arithmetic average (for the calculation period) of daily balances on the accounts of deposits and interest thereon. The calculation period for determining the charging base is the reporting quarter of the current year. The regular fee is paid to the Fund on a quarterly basis by the 15th day of the month following the reporting quarter.

The regular fee for past periods additionally charged on the results of the inspection of the member institution is recognized within the period of its detection. However, if at the reporting date or date of approval of statements the Fund reliably knew about the actual facts related to violations of regular fee calculation by the bank, such adjustments shall be recorded on the books in the reporting period.

The regular fee of the member institutions, regarding which the National Bank of Ukraine decided to revoke the banking license and liquidate the bank, is recognized on the day preceding the introduction of the bank liquidation procedure. Accordingly, no regular fees are charged since the date of introduction of the liquidation procedure.

The arrears of liquidated banks on fees to the Fund are a non-financial monetary asset. This asset is reviewed at the end of the reporting period for impairment. If there is an objective evidence of impairment of or impossibility to obtain an asset, the impairment loss is recognized with the formation of the provision for losses.

The provision for impairment losses is created based on the individual assessment of certain debtors.

The amount of loss is determined as the difference between the book value of the asset and the present value of preestimated future cash flows. The amount of loss is recognized in the profit or loss. The amount of provision is reviewed on each balance sheet date and, if necessary, adjusted (decreased/increased).

Special fee is set by the Fund in the following cases:

- reduction of the minimum amount of the Fund's funds below 2.5 % of the depositors' funds guaranteed by the Fund within the reimbursement amount, taking into account the amount of fees from the member institutions to be received during the current quarter, or the risk of a substantial decrease in the Fund's funds;
- necessity to repay borrowed loans.

The total amount of the special fee paid by a member institution during the year shall not exceed the amount of the regular fee of such a member institution paid for the previous year.

The special fee is recognized in the periods specified in the decision of the Executive Directorate of the Fund on the application of the special fee to the banks.

#### *Other Operating Income*

Other operating income includes as follows:

- penalty (fines, penalties) for violation of the Law;
- income in the form of interest on special-purpose loans issued to insolvent banks;
- income from the implementation of measures specified in the resolution plan, in particular, from the sale of an insolvent bank, liquidation of the bank;
- other income.

Interest income is recognized during the reporting periods when it occurred by the effective interest method. After writing off a part of the financial asset or a group of similar financial assets as a result of impairment losses, interest income is determined based on the interest rate used to discount future cash flows for the purpose of evaluating the impairment losses.

Other income is recognized if a separate transaction definitely increases the economic benefits.

#### *Investment Income*

Investment income includes as follows:

- income from interest accrued by the National Bank of Ukraine on balances on the accounts of the Fund opened with the NBU;
- income from investments of the Fund's funds in government securities of Ukraine;
- income in the form of interest on loans granted to the Fund's employees.

Interest income is recognised during the reporting periods when it occurred by the effective interest method.

#### **k) Expenses**

Expenses are classified by the following groups:

- provision for the formation of the Fund's potential expenses for insolvent bank resolution and deposit payouts;
- expenses for fulfilling the obligation to disburse deposit payouts;
- expenses for the formation of the provision for impairment

losses on financial assets;

- other operating expenses;
- financial expenses;
- administrative expenses;
- other expenses.

Other operating expenses include as follows:

- expenses associated with the insolvent bank resolution (expenses for assessment, payment of auditors' services, etc.);
- legal fees;
- expenses for the formation of the provision for the potential legal fees of the Fund;
- expenses for the formation of the provision for the Fund's potential expenses for payouts to depositors of insolvent banks and banks liquidated by the Fund, whose deposits have the signs specified in Article 38 of the Law;
- losses from operating exchange differences.

Financial expenses include as follows:

- expenses for payment of interest for using the loans of the National Bank of Ukraine and the State;
- expenses related to the issue, retention and circulation of the Fund's securities;
- other financial expenses.

Other financial expenses include depreciation of the premium on the government bonds and recognition of the discount on reimbursement of the Fund's expenses for deposit payouts and bank resolution to be received from insolvent banks and banks liquidated by the Fund.

Administrative expenses include general business expenses related to the Fund's performance of its functions: labour costs of the Fund employees; expenses for the formation of the provision for the future expenses for cumulative payments of absence periods (annual leave) of the Fund's employees; expenses for staff training and instruction; expenses for business trips; representation expenses; expenses for the maintenance of fixed assets and intangible assets (operating lease, property insurance, depreciation, repair, etc.); depreciation of fixed assets, intangible assets and other non-current tangible assets; remuneration for professional services (legal, audit, advertising and information services, property valuation, etc.);

expenses for communication services (mail, telephone, mobile, etc.); taxes, fees and other mandatory payments; fees for settlement and cash services; production cost of commissioned inventories; membership fees to international associations of deposit insurers; costs of the formation of provision for expenses for which counterparties have sent no original documents at the moment of preparation of the financial statements; other administrative expenses.

Other expenses include as follows:

- financial result from the sale of financial investments;
- financial result from the sale of non-current assets;
- residual value of liquidated (written off) non-current assets;;
- non-current asset impairment loss;
- depreciated book value of financial investments estimated at fair value.

Expenses are recorded on the books and statements based on the income-and-expense matching principle. The expenses not matched to the income of a particular period are recognised in the reporting period in which they were incurred.

Interest expenses are recognised during the reporting periods when they occurred by the effective interest method.

## **4. Main Accounting Estimates and Judgements Used in Applying Accounting Policies**

The preparation of financial statements according to the IFRSs requires the management to formulate judgements, estimates and assumptions that affect the application of accounting policies, the amounts of assets and liabilities, income and expenses recognised in the financial statements.

The estimates and assumptions on which they are based are reviewed regularly. The results of the review of accounting estimates are recognised in the period in which they were reviewed, as well as in all subsequent periods affected by such estimates.

Information on important judgements used in applying accounting policy principles, which have the greatest impact on the amounts recognised in the financial statements and may lead to a significant adjustment of the reporting data in the following fiscal year is disclosed in the following notes:

- Note 8: Financial investments;
- Note 11: Arrears of insolvent banks and banks liquidated by the Fund on the creditors' claims of the Fund;
- Note 14: Provision for the Fund's potential expenses for insolvent bank resolution and deposit payouts.



## 5. Standards Published but Not yet in Force

The standards below have been published but as of 31 December 2018 have not entered into force yet:

- IFRS 16 – Leases<sup>1</sup>;
- Amendments to IFRS 10 – Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>2</sup>;
- IFRS 17 – Insurance Contracts: a new standard for financial statements for insurance contracts, which addresses issues of recognition and measurement, presentation and disclosure of information<sup>2</sup>;
- IFRIC 23 – Uncertainty over Income Tax Treatments<sup>1</sup>;
- Amendments to IFRS 9 – Financial Instruments: Characteristics of Prepayments with Negative Compensation<sup>1</sup>;
- IAS 28 – Investments in Associates and Joint Ventures; explanation of the decision to evaluate investment projects at fair value through profit or loss shall be applied separately to each investment<sup>1</sup>;
- Amendments to IAS 19 - Employee benefits (February 2019)–Amendments, reduction or maturity of pension plans<sup>1</sup>;
- Amendments to IAS 1 and IAS 8 are designed to facilitate understanding of the definition of materiality in IAS 1, but are not specified for the change of the main conception of materiality in standards. The definition of materiality in IAS 8 was replaced by the reference to IAS 1<sup>4</sup>;
- Amendments to references to the Conceptual framework of the standards of IFRS - Amendments to references to the Conceptual framework of the standards of IFRS<sup>4</sup>;
- Amendments to IFRS 3 Business combination<sup>4</sup>;
- Annual improvements to IFRSs for the period of 2015–2017<sup>1</sup>.

<sup>1</sup> Effective for annual periods that start on or after 1 January 2019. Pre-term application is allowed.

<sup>2</sup> Effective for annual periods that start on or after 1 January 2021. Pre-term application is allowed.

<sup>3</sup> Effective for annual periods that start on or after the date to be determined. Pre-term application is allowed.

<sup>4</sup> Effective for annual periods that start on or after 1 January 2020. Pre-term application is allowed.

The management plans to apply these standards from the effective date.

The Fund's activities may be affected by the standards published but not yet in force.

### IFRS 16 - Leases

IFRS 16 replaces the current lease accounting requirements in IAS 17 – Leases, IFRIC 4 – Determining Whether an Arrangement Contains a Lease, SIC 15 – Operating Leases – Incentives and SIC 27 – Evaluating the Substance of Transactions in the Legal Form

of a Lease. The standard eliminates the current dualistic accounting model for leases, which divides the contracts in balance sheet financial leasing and off -balance sheet operating leases. Instead, it introduces a single model of balance sheet accounting, which is similar to the existing accounting model under financial leasing agreements. The accounting rules for lessors remain similar to the existing ones, that is, the lessors will continue to classify the lease as finance lease and operating lease.

### Expected Impact of IFRS 16 – Leases

The Fund shall apply IFRS 16 – Leases since 1 January 2019. The Fund plans to use practical simplification and not re-analyse whether the lease as a whole or its components is a lease agreement at the date of first adoption. The new standard will be applied to contracts that have previously been identified as leases using IAS 17 - Lease, IFRIC 4 - Determining Whether an Arrangement Contains a Lease. It is planned to apply the standard in retrospectively way with recognition of the cumulative effect of the first adoption of the standard recognised at the date of first adoption without recalculating comparative information. The cumulative effect of the first standard adoption will be recognised in the retained earnings as of 1 January 2019. According to the Fund, the implementation of the new standard will not significantly affect on the financial result and net assets of the Fund.

## 6. Influence of the First Adoption of New Standards

### IFRS 9 – Financial Instruments

Since 1 January 2018 the Fund has applied IFRS 9 – Financial instruments, which replaced IAS 39 - Financial Instruments: Recognition and Measurement.

The changes of the accounting policy of the Fund are concerned the rules for the classification and measurement of financial instruments and impairment of financial assets. The principles of the accounting policy of classification and measurement of financial instruments and impairment of financial assets are shown in the Note 3.

Transitional provisions of IFRS 9 according to the classification and measurement of impairment generally apply retrospectively (with some exceptions) by adjusting the input balances of retained profits and provisions at the date of first application, provided that no revaluation of indicators for the comparative periods is required.

The Fund used the exemption, which allows to avoid the reassessment of the comparative data for previous periods in terms of changes in classification and measurement (including impairment losses) of financial instruments.

At the date of first adoption of IFRS 9 the Fund conducted the measurement of the financial assets for compliance with the business models for financial assets management and the

characteristics of cash flows testing, defined by the contracts, in accordance with the methodology approved by the Decision of the Executive Directorate of the Fund dated 13 December 2018 No. 3357. The classification of the Fund's financial liabilities at the date of first adoption of IFRS 9 does not differ from IAS 39. The application of the new requirements of IFRS 9 according to the classification of financial instruments did not affect on the accounting for the Fund's financial assets and financial liabilities.

IFRS 9 replaced the “incurred loss” model used in IAS 39 with the “expected credit loss” model. The application of the new impairment model will require the Fund to make significant professional judgements about the influence of changes in economic factors on the expected credit loss determined by weighing based on the occurrence probability.

The new impairment assessment model applies to financial assets measured at depreciate value and at fair value through other comprehensive income and consists in the recognition of the provision for losses for expected credit losses according to the financial instruments in the amount that equals:

- expected credit loss during all validity period of financial instrument – if the credit risk at the reporting date significantly increased compared to the date of initial recognition
- expected credit losses for 12 months – if the credit risk at the reporting date did not significantly increase compared to the date of initial recognition or conditions, that caused to the significantly increase of the credit risk are not provided.

The measurement of expected credit losses for the entire maturity period of the financial instrument is always provided for the other accounts receivable that does not contain significant financing components. At the date of first adoption of IFRS 9 the Fund preliminary measured the impairment losses for financial assets in accordance with the standard requirements:

- according to the arrears of insolvent banks and banks Liquidated by the Fund, according to the special-purpose loans and interests of the special-purpose loans, granted to the insolvent banks, defined in accordance with the Annex 1 “Algorithm of the reimbursement of the bank creditor's claims settlement of the Deposit Guarantee Fund to the banks, liquidated by the Fund” till the Methodology for the assessment of financial stability of the Deposit Guarantee Fund. Approved by the Decision of the Executive Directorate of the Fund dated 28 February 2013 No. 13 (as amended by Decision of the Executive Directorate of the Fund dated 13 December 2018 No. 3358) and calculated on the approved liquidation estate of insolvent banks and conversion of the liquidation estate into the cash flow.

- according to the losses of the expected credit losses according to the financial investments in the government bonds is based on the methodology of impairment of financial investments reduction in the government bonds, approved by the Decision of the Executive Directorate of the Fund dated 13 December 2018 No. 3357 and based on the external credit ratings and statistics on default and refund for similar financial instruments,

- losses according to the other accounts receivable is calculated with the use of the simplified practical approach during the all validity period of financial instrument with the use of matrice valuation allowance, accounting the quantity of days of other accounts receivable late payments.

The application of new requirements of IFRS 9 according to impairment of financial assets does not impact on the financial result and net assets of the Fund.

Reconciliation of book value of the financial instruments with their classification dated 1 January 2018 according to IFRS 9 with the book value dated 31 December 2017 according to IFRS 9 is shown in the following Table:

(UAH million)	Note	Category according to I	Category according to IFRS 9	31 December 2017	Reclassification	Impairment	1 January 2018
<b>ASSET</b>							
Cash and cash equivalents	7			3.740	-	-	3.740
Financial investments	8	Depreciated production cost Fair value	Investments held to maturity Investments available for sale	10.954	-	-	10.954
Arrears of insolvent banks and banks according to the special-purpose loans	11	Depreciated production cost	Loans and accounts receivable	5.986	-	-	5.986
Other accounts receivable	10	Depreciated production cost	Loans and accounts receivable	9	-	-	9
<b>TOTAL FINANCIAL ASSETS</b>				<b>20.689</b>	-	-	<b>20.689</b>
<b>LIABILITIES</b>							
Funds raised	18	Depreciated production cost	Depreciated production cost	74.450	-	-	74.750
<b>TOTAL FINANCIAL LIABILITIES</b>				<b>74.450</b>	-	-	<b>74.450</b>

**IFRS 15 — Revenue from Contracts with Customers**

IFRS 15 established the overall principles for the required recognition, recognition amount, and recognition time for the revenue from sale of products (goods, works, services). It replaced the current guidelines for recognising the revenue from sale of products (goods, works, services) contained in IAS 18 — *Revenue Recognition*, IAS 11 — *Construction Contracts* and IFRIC 13 — *Customer Loyalty Programmes*. The main principle of the new standard is that an entity recognises revenue to record the transfer of promised goods or services to customers in the amount of remuneration that an entity expects to receive in exchange for such goods or services. The new standard improved the income disclosure procedures, contains instructions on recognition methods for the transactions not fully resolved beforehand, and improved the instructions for recognising income under contracts with several components. According to the assessment of the management of the Fund, the application of IFRS 15 does not significantly affect the financial position or performance of the Fund.

**Amendments to IFRS 2 — Share-based Payment:**

Classification and Measurement of Share-Based Payment

Transactions. The application of amendments to IFRS 2 does not significantly affect the financial position or performance of the Fund.

**Amendments to IFRS 4 Insurance Contracts:** Application of IFRS 9 — Financial Instruments in respect of IFRS 4 Insurance Contracts. The application of amendments to IFRS 4 does not significantly affect the financial position or performance of the Fund.

**Amendments to IAS 40 — Investment Property:** Transfer of Investment Property. The application of amendments to IFRS 40 does not significantly affect the financial position or performance of the Fund.

**7. Cash and cash equivalents**

Cash and cash equivalents are held on the current account of the Fund with the NBU. Cash and cash equivalents and future cash inflows are pledged under the Fund's liabilities on loan agreements with the NBU (Note 18).

<i>(UAH million)</i>	<b>31 December 2018</b>	<b>31 December 2017</b>
Cash on current account	7,082	3,740
<b>Total cash and cash equivalents</b>	<b>7,082</b>	<b>3,740</b>

**8. Financial investments**

Financial investments, represented by the government bonds, that The Fund according to the business model classifies as financial investments at the depreciated production cost and financial

investments at fair value with the recognition of the revaluation included as part of other comprehensive income.

<i>(UAH million)</i>	<b>31 December 2018</b>	<b>31 December 2017</b>
Financial investments at the depreciated production cost	1,765	5,280
Financial investments at fair value	5,492	5,674
<b>Total</b>	<b>7,257</b>	<b>10,954</b>

*Financial investments at the depreciated production cost*

Financial investments at the depreciated production cost, represented by the government bonds purchased by the Fund in 2013–14, when they were placed by the Ministry of Finance of Ukraine and held within the business model, its aim is retention of financial assets for the obtaining of contractual cash flows. The contractual cash flows according to these financial assets are payments of the principal sum and interests to the unpaid part of the principal sum. All these bonds are pledged for the Fund's liabilities under loan agreements with the National Bank of Ukraine (Note 18).

The book value of the financial investments at the depreciated production cost, includes the accrued interest due in the amount of UAH 107 million (31 December 2017: UAH 221 million).

*Financial investments at fair value*

Financial investments at fair value with recognition of revaluation of comprehensive income represented by the government bonds which the Fund received as a loan from the Ministry of Finance of Ukraine in 2016 in exchange for promissory notes, issued by the Fund for the same amount (Note 18).

The financial assets are held within the business model its aim is retention of financial assets for the obtaining of contractual cash flows such as sale of financial assets.

The Fund plans to sell these financial investments in the case of necessity to obtain liquid assets to fulfil its deposit payout obligations and cover the costs of insolvent bank resolution.

<i>(UAH million)</i>	<b>Effective yield rate</b>	<b>Maturity date</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
UA4000162127	14.25%	4 April 2018	-	329
UA4000165765	14.25%	11 April 2018	-	802
UA4000166201	14.25%	2 May 2018	-	336
UA4000168082	14.25%	16 May 2018	-	27
UA4000170732	14.25%	04 July 2018	-	624
UA4000171391	14.25%	27 June 2018	-	432
UA4000174239	14.25%	05 September 2018	-	30
UA4000175467	14.25%	10 October 2018	-	871
UA4000176093	14.25%	24 October 2018	-	63
UA4000178891	14.25%	1 January 2019	747	747
UA4000179196	14.25%	23 January 2019	1,018	1,019
<b>Total</b>			<b>1.765</b>	<b>5.280</b>

During 2017 the part of these bonds for the amount of UAH 2,500 million was sold by the Fund.

<i>(UAH million)</i>	<b>Effective yield rate</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
UA4000196513	<b>10.27%</b>	4.060	4.195
UA4000196521	<b>10.27%</b>	1.432	1.479
<b>Total</b>		<b>5.492</b>	<b>5.674</b>

The investments available for sale are recognised at fair value in the financial statements and include accrued interest due in the amount of UAH 121 million (December 31, 2017: UAH 119 million).

#### *Impairment of financial investments*

According to the requirements of IFRS 9, at the reporting date the Fund measured the impairment losses for financial investments, at the depreciated production cost and financial investment at fair value with the recognition of the revaluation included as part of other comprehensive income.

The measurement of impairment losses for financial investments in government securities was held according to the impairment losses for financial investments in government securities methodology, approved by the Decision of the Executive Directorate of the Fund dated 13 December 2018 No. 3357.

For the measurement of the provision for expected credit losses according to the financial investments in government securities these government securities are combined in the group according to the identical International Government Securities Identification Number (ISIN) and the period of purchase.

The management made key assumptions and judgements regarding the following::

- measurement of the significant of credit risk growth according of the securities group;
- measurement of the government securities default probability;
- expected level of the Fund's possible losses in the case of government securities;
- determination of the government securities estimated value.

### Measurement of the significant of credit risk growth according of the securities group

Measurement of the significantly credit risk growth according of the securities group involves the measurement of default possibility according financial instruments since the moment of initial recognition. The possibility of the default according to the government securities equals to the probability of state default. Default is recognized after 30 days of the non-fulfillment of liabilities by the debtor.

Significantly, the growth of credit risk is defined for the government securities group according to the analysis of Ukraine rating change, determined by the international rating agency Moody's. The downgrade of Ukraine at the reporting date and the forecast information of the downgrade of two or more items compared to the date of government securities initial recognition are understood as the significant growth of credit risk. If there are not significant growth of the credit risk the measurement model of expected credit losses for 12 month is applied, in another case - measurement model of expected credit losses for the all validity period of the financial instrument is applied.

### Measurement of the government securities default probability

The government securities default probability during 12 months and for the all validity period of financial instrument is defined according to the information on the current government securities rating, which equals to the long-term rating of the state based on the analytical data of «Sovereign Default and Recovery Rates» report of the rating agency «Moody's» due to the average cumulative frequency for 12 months and average cumulative frequency of the states for the period of 10 years by the rating groups for the period at least 20 years (since 1983).

For the model of 12-months expected credit losses, the government securities default probability is defined for the period of time which remained since the reporting date till the date of the security maturity, but not more one year.

The marginal probability of the government securities default is used in the model of expected credit losses for the all validity period of the financial instrument and it is determined for every year of the instrument validity since the reporting date till the date of security maturity.

Measurement of the projected value of the government securities.

Projected value of the government securities group is determined as of the mid-year and includes the nominal value of the securities group, the amount of the outstanding coupon and the accrued 30-day coupon yield. For the measurement of projected value of the

government securities in the event that the maturity of securities is held within the next 6 months from the reporting date, there is used the projected nominal value of government securities at the maturity date, measured in accordance with contract cash flows. The projected value of the security is discounted at the original effective rate of each government securities group.

### Expected level of the Fund's possible losses in the case of government securities default

The indicator of the expected level of the Fund's possible losses in the case of government securities default is measured according to the data of the Recovery Rates on Defaulted Sovereign Bonds Issuers table of the Sovereign Default and Recovery Rates report of the Moody's rating agency, used the Issuer-Weighted Recovery Rates reverse indicator.

In the case when the Fund has financial liabilities to the issuer of government securities at the reporting date, and the maturity of such obligations is not less than the maturity of the government securities, then, in the event of the issuer's default or risk of the issuer's default and on the basis of the Articles 601 and 604 of the Civil Code of Ukraine, the liability is terminated by the counting of the similar liabilities or by agreement of the parties for liabilities which are not similar. The value of the expected level of possible losses is applied at the level of 0 percent for the part of government securities that does not exceed the amount of the issuer's requirements for the Fund

As of 31 December 2018 the Fund's liabilities to the Ministry of Finance of Ukraine of the promissory notes issued is UAH 71 205 million. The period of promissory notes repayment is 2027-2031 and is not less than the government securities repayment period (Note 18). As of 31 December 2018 according to the financial investments the management estimates the expected level of the Fund's possible losses in the case of government securities default at 0 percent. The signs of financial investments impairment is not provided as of 31 December 2018.

## 9. Accounts Receivable from Contribution from Member Institution

Accounts receivable from contributions from the member institutions are represented by receivables from the regular fees payable by the banks in accordance with Article 22 of the Law.

The Fund recognises the accounts receivable from regular fees on a quarterly basis based on the Regular Fee Calculation Report provided by the member institutions. The arrears on regular fees shall be repaid by the bank by the 15th day of the month following the reporting quarter.



The regular fee of the member institutions, regarding which the National Bank of Ukraine decided to revoke the banking license and liquidate the bank, is recognised on the day preceding the

introduction of the bank liquidation procedure. Accordingly, no regular fees are charged since the date of introduction of the liquidation procedure.

<i>(UAH million)</i>	<b>31 December 2018</b>	<b>31 December 2017</b>
Accounts receivable from the member banks' contributions	893	846
Accounts receivable from the insolvent banks' contributions	321	323
<b>Total accounts receivable from the banks' contributions, gross amount</b>	<b>1.214</b>	<b>1.169</b>
<b>Impairment loss:</b>		
Arrears of insolvent banks' contributions	(321)	(323)
<b>Total impairment loss</b>	<b>(321)</b>	<b>(323)</b>
<b>Total accounts receivable from the banks' contributions, net amount</b>	<b>893</b>	<b>846</b>

Accounts receivable from the contributions from insolvent banks as of 31 December 2018, 31 December 2017 were revised for impairment due to the existence of objective evidence that it was impossible to obtain an asset. Funds received from insolvent banks

are credited to repayment of receivables from the contributions last of all the other creditors' claims of the Fund to insolvent banks. The provision for impairment losses is established at a rate of 100 % of receivables from contributions from insolvent banks.

## 10. Other Accounts Receivable

<i>(UAH million)</i>	<b>31 December 2018</b>	<b>31 December 2017</b>
Advances paid out	6	6
Accounts receivable from agent banks for deposit payouts	-	-
Accounts receivable in connection with the sale of insolvent banks	2	2
Other	6	3
<b>Exclusive of: impairment loss</b>	<b>(2)</b>	<b>(2)</b>
<b>Total other accounts receivable, net amount</b>	<b>12</b>	<b>9</b>

## 11. Arrears of Insolvent Banks on the Creditor's Claims of the Fund

The arrears of insolvent banks and banks liquidated by the Fund on the creditors' claims of the Fund are the expected amount of discharging the creditors' claims of the Fund, which is recognised in the financial statements as follows:

- the reimbursement of the Fund's expenses for fulfilling the obligation of the Fund to make payouts to depositors of insolvent banks and cover the expenses for the insolvent bank resolution procedure are recognised as a separate asset;
- outstanding special-purpose loans and interest thereon issued to insolvent banks are recognised net of provision for losses from non-repayment of special-purpose loans.

### Key Assumptions and Judgements Used in Assessing the Arrears of Insolvent Banks on the Fund's Creditors' Claims

The assessment of the arrears of insolvent banks and banks liquidated by the Fund on the creditors' claims of the Fund provides for the assessment of the expected amount of discharging of the creditors' claims of the Fund.

The management assesses the expected amount of discharging of the creditors' claims of the Fund based on the approved liquidation estate of insolvent banks and conversion of the liquidation estate into the cash flow.

The management made key assumptions and judgements regarding the following:

- expected time of cash flows;
- conversion rate of the liquidation estate into the cash flow;
- discount rates to estimate the arrears of insolvent banks on the creditors' claims of the Fund according to the expected time of cash flow.

### Expected Time of Cash Flow

The management of the Fund assumes that cash flows from banks under liquidation will be received within 5 years after the start of liquidation. After five years from the date of bank liquidation, no cash inflows are expected.

### Conversion Rate

The conversion rate is used to project the future cash flows the Fund expects to receive from the liquidation of banks. The conversion rate for a given year is calculated as the ratio of the receipts from banks to the liquidation estate for all banks in total. To calculate the conversion rate of the liquidation estate in the cash flow over the years, the Fund used the actual historical information regarding the receipts available at the date of

assessment for all banks liquidated by the Fund. At the reporting date, future cash flows are projected on a monthly basis for each bank separately, taking into account the remaining period until the projected liquidation completion date, the liquidation estate and the conversion rate.

Conversion rates used to estimate the arrears of insolvent banks on the creditors' claims of the Fund according to the expected time of cash flow are as follows:

(%)	31 December 2018	31 December 2017
1 year in liquidation	12.95	11.99
2 year in liquidation	9.69	9.17
3 year in liquidation	10.88	12.76
4 year in liquidation	8.90	10.58
5 year in liquidation	3.62	2.63

### Discount Rate to Calculate the Expected Amount of Reimbursement of the Fund's Expenses for the Liquidation Procedure

As a discount rate for the calculation of the expected amount of reimbursement of the Fund's expenses for the liquidation procedure, the Fund used the spot rate calculated on the basis of the zero coupon yield curve for the Ukrainian government bonds denominated in UAH for the period that corresponds to the period from the

reporting date to the expected time of cash flow. The zero coupon yield curve was calculated using the methodology of the National Bank of Ukraine developed on the basis of the Nelson-Siegel parametric model.

The discount rates used to estimate the arrears of insolvent banks on the creditors' claims of the Fund according to the expected time of cash flow are as follows:

(%)	31 December 2018	31 December 2017
1 year in liquidation	18.19	15.85
2 year in liquidation	17.42	15.31
3 year in liquidation	16.35	14.69
4 year in liquidation	15.18	14.01
5 year in liquidation	12.97	13.33

### Discount Rate to Calculate the Provision for Losses from Failure to Return a Special-Purpose Loan Issued to Banks

As a discount rate for the calculation of the provision for losses from the failure to return the special-purpose loan provided to

banks, the Fund used the rate for specific special-loan agreements, which ranged within 7 % to 20 % per annum.

The arrears of insolvent banks on the creditors' claims of the Fund is presented in the financial statements:

(UAH million)	31 December 2018	31 December 2017
<b>Arrears of insolvent banks on the creditors' claims of the Fund:</b>		
Reimbursement of the Fund's expenses for deposit payouts and bank resolution	1.962	3.080
Arrears of insolvent banks on special-purpose loans, net amount	2.515	5.986
<b>Total arrears of insolvent banks on the creditors' claims of the Fund, net amount</b>	<b>4.477</b>	<b>9.066</b>

The reimbursement of the Fund's expenses for deposit payouts and bank resolution reduces the expenses for fulfilment of the deposit payout and bank resolution obligation. The financial result of the change in reimbursement of the Fund for 2018 is UAH 108 million (2017: UAH 3,777 million) (Note 22).

The arrears of insolvent banks on special-purpose loans is represented in the statements in the net amount less the provision for losses from loan default:

<i>(UAH million)</i>	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Arrears of insolvent banks on special-purpose loans:</b>		
Arrears of insolvent banks on special-purpose loans, gross amount	21.129	25.107
Provision for losses from special-purpose loan default	(18.614)	(19.121)
<b>Total arrears of insolvent banks on special-purpose loans, net amount</b>	<b>2.515</b>	<b>5.986</b>

Flow of the provision for impairment losses of the arrears of insolvent banks on special-purpose loans for the reporting period is presented as follows:

<i>(UAH million)</i>	<b>2018</b>	<b>2017</b>
<b>Provision for impairment losses from the arrears of insolvent banks on special-purpose loans at the beginning of the reporting period</b>	<b>19.121</b>	<b>20.965</b>
Provision formed	1.547	172
Provision reversed	(985)	(2.016)
Write-off at the expense of the provision	(1.069)	-
<b>Provision for impairment losses for the arrears of insolvent banks on special-purpose loans at the end of the reporting period</b>	<b>18.614</b>	<b>19.121</b>

#### **Analysis of the Sensitivity of the Arrears of Insolvent Banks on the Creditor's Claims of the Fund to Changes in Key Assumptions**

Reasonably possible changes in a key assumption at the reporting date, provided that other assumptions remain unchanged, would

have an impact on the arrears of insolvent banks on the Fund's creditors' claims by the amounts below.

<i>(UAH million)</i>	<b>31 December 2018</b>		<b>31 December 2017</b>	
	Increase	Decrease	Increase	Decrease
<b>Expected reimbursement amount of the Fund's expenses for the liquidation procedure</b>				
Discount rate (changed by 1 %)	(31)	31	(38)	39
Conversion rate (changed by 10 %)	167	(166)	560	(585)
<b>Amount of provision for losses from failure to return a special-purpose loan to banks</b>				
Discount rate (changed by 1 %)	0	0	46	(47)
Conversion rate (changed by 10 %)	(285)	286	(385)	396

## 12. Fixed assets

<i>(UAH million)</i>	<b>Computers and equipment</b>	<b>Other fixed assets</b>	<b>In-progress capital investments</b>	<b>TOTAL</b>
Acquisition value as of 31 December 2016	9	3	-	<b>12</b>
Accumulated depreciation as of 31 December 2016	(3)	(3)	-	<b>(6)</b>
<b>Net book value as of 31 December 2016</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>6</b>
Receipts	25	-	4	<b>29</b>
Disposals	-	-	-	-
Accumulated depreciation on disposed fixed assets	-	-	-	-
Depreciation	(3)	-	-	<b>(3)</b>
Acquisition value as of 31 December 2017	34	3	4	<b>41</b>
Accumulated depreciation as of 31 December 2017	(6)	(3)	-	<b>(9)</b>
<b>Net book value as of 31 December 2017</b>	<b>28</b>	<b>-</b>	<b>4</b>	<b>32</b>
Receipts	17	-	-	<b>17</b>
Disposals	-	-	(4)	<b>(4)</b>
Accumulated depreciation on disposed fixed assets	-	-	-	-
Depreciation	(7)	-	-	<b>(7)</b>
Acquisition value as of 31 December 2018	51	3	-	<b>54</b>
Accumulated depreciation as of 31 December 2018	(13)	(3)	-	<b>(16)</b>
<b>Net book value as of 31 December 2018</b>	<b>38</b>	<b>-</b>	<b>-</b>	<b>38</b>

The initial value of fully depreciated fixed assets, which continues to be used, is UAH 3 million (31 December 2017: UAH 3 million).

## 13. Intangible Assets

<i>(UAH million)</i>	<b>Software</b>	<b>In-progress investments</b>	<b>TOTAL</b>
Acquisition value as of 31 December 2016	<b>6</b>	7	<b>13</b>
Accumulated depreciation as of 31 December 2016	<b>(3)</b>	-	<b>(3)</b>
<b>Net book value as of 31 December 2016</b>	<b>3</b>	7	<b>10</b>
Receipts	21	-	<b>21</b>
Disposals	-	(7)	<b>(7)</b>
Accumulated depreciation on disposed intangible assets	-	-	-
Depreciation	(2)	-	<b>(2)</b>
Acquisition value as of 31 December 2017	<b>27</b>	-	<b>27</b>
Accumulated depreciation as of 31 December 2017	<b>(5)</b>	-	<b>(5)</b>
<b>Net book value as of 31 December 2017</b>	<b>22</b>	-	<b>22</b>
Receipts	16	-	<b>16</b>
Disposals	(1)	-	<b>(1)</b>
Accumulated depreciation on disposed intangible assets	(1)	-	<b>(1)</b>
Depreciation	(5)	-	<b>(5)</b>
Acquisition value as of 31 December 2018	<b>42</b>	-	<b>42</b>
Accumulated depreciation as of 31 December 2018	<b>(9)</b>	-	<b>(9)</b>
<b>Net book value as of 31 December 2018</b>	<b>33</b>	-	<b>33</b>

## 14. Provision for the Fund's Potential Expenses for Insolvent Bank Resolution and Deposit Payouts

In 2018 the provision for the Fund's potential expenses for insolvent bank resolution and deposit payouts is measured according to the Financial Stability Assessment Methodology of the Deposit Guarantee Fund approved by Decision of the Executive Directorate of the Fund No. 13 dated 28 February 2013 (as amended by Decision of the Executive Directorate of the Deposit Guarantee Fund No. 3358 dated 13 December 2018).

Provision for the Fund's potential expenses for insolvent bank resolution and deposit payouts is a projected guaranteed amount of deposit payouts to depositors of the banks, measured for the next 12 months, weighted by the ratio of the expected losses of the Fund.

Projected guaranteed amount of deposit payouts during 12 months is the amount of products of the guaranteed amount of deposit payouts of every bank and the probability of declaring the bank insolvent during 12 months.

The guaranteed amount of deposit payouts is measured according to the data of the retail deposits report – Reporting Form No. 1Φ, its form is approved by the Decision of the Executive Directorate of the Deposit Guarantee Fund No. 5 as of 9 July 2012, registered in the Ministry of Justice on 2 August 2012 under the No. 1314/21626, that is provided for the member institutions at the reporting date.

### Key Assumptions and Judgements Used in the Estimation of the Amount of Provision for the Fund's Potential Expenses for Insolvent Bank Resolution and Deposit Payouts

Formation of the provision for the Fund's potential expenses for insolvent bank resolution and deposit payouts involves an assessment of the two components by the Fund management:

- probability that banks will be declared insolvent;
- factor of the expected losses of the Fund.

Provision for the Fund's potential expenses for insolvent bank resolution and deposit payouts is affected depending on the assessment of these components, because they (a) are highly exposed to changes from time to time, and (b) may have a significant impact.

### Probability of Declaring the Bank Insolvent

The measurement of the probability of declaring the bank insolvent is held according to the following algorithm:

- measured the level of risk of the bank using the bank scoring model

- according to the level of risk, the bank belongs to a group of banks by intervals of scoring points (previously-determined according to the scoring measurement of banks and actual bank defaults);
- the bank is assigned the probability of declaring as insolvent, taking into account the impact of the macroeconomic environment, which is determined for the group of banks at intervals of scoring points according to the internal statistics of the Fund on the actual level of bank defaults and taking into account the average level of defaults over the economic cycle. If there are objective factors for the possibility of negative changes in the macroeconomic environment, the Fund determines the provision for the Fund's potential expenses for insolvent bank resolution and deposit payouts in the amount necessary to cover the expected losses during the crisis years. For this purpose, the probability of default for the crisis period is determined by the scoring point for each group.

Measurement of the bank risk level is estimated according to the scoring model by three blocks: financial and economic condition; liquidity; external influence.

These blocks contain a set of indicators, the total value of which determines the bank risk level. The maximum total number of points of a particular bank by blocks is 100 points, which equals to 100 % of bank risk level.

The financial and economic condition has 10 indicators, each of them is weighted to the certain rate: cover of risk arrears by equity, ability to generate income, the quality of loan portfolio, adequacy of the accumulated provisions for loans, calculation of the amount of received collateral in the form of real estate, rational management of resources, losses level, net interest and fee-based income to net assets, net spread, part of non-performing assets.

The maximum number of points for this block is 50 points.

The liquidity has 7 indicators, the aggregate of which allows to assess the bank risk level of liquidity loss and, as a result, inability to fulfil obligations to creditors. The maximum number of points gained for the liquidity is 30 points. These indicators include: interest rate on raised funds in national currency, total value of liabilities, growth rate of liabilities, balance of cash flows, adequacy of funds, imbalance rate by maturity of assets and liabilities, and availability of documents of bank clients not executed in time due to the bank's fault (the presence of amounts on this indicator increases the risk of liquidity disturbance to the maximum level that is why the bank gains 30 points for this block).

The external influence has 12 indicators, each of which has the appropriate number of points. The external influence block is intended to take into account the negative factors that may affect the probability of declaring the bank insolvent. These indicators include: application of measures of influence or detection of violations, restriction, suspension or termination of the certain types of the transactions, availability of information from the NBU



on violation of prudential regulations, provision a special regime of control over the activity and / or appointment of a curator implemented by the NBU, information about the ratings of the parent company of the bank and others.

The total points of a particular bank by the external influence is calculated by summing up the points gained by the bank in this block, but shall not exceed 20 points.

### Expected Loss Ratio

The expected loss ratio is calculated on the basis of accumulated statistics on insolvent banks, for which the decision was made to liquidate the bank after 1 January 2013 and which liquidation has already been completed or continued for at least one year as of the reporting date. It is calculated as the ratio of the creditor's claims balance to the banks liquidated at the reporting date, decreased by the expected sum of creditor's claims maturity at the reporting date and the total amount of the filed creditors' claims of the Fund.

### Changes in the accounting estimates

The significant changes in the estimation, that influence on the provision for the Fund's potential expenses for insolvent bank resolution and deposit payouts are defined by the following:

- in the previous reporting period the projected guaranteed amount of deposit payouts during 12 months is estimated for the banks probability of declaring them insolvent equals 60 %. As of the reporting date the projected guaranteed amount of deposit

payouts during 12 months is estimated for all banks which are not declared insolvent at the reporting date;

- in the previous reporting period the probability of declaring the bank insolvent equals to the bank risk level, which is determined according to the scoring model of banks estimation by the financial and economic condition; liquidity condition, external influence condition. As of the reporting date the probability of declaring the bank insolvent is estimated according to the influence of the macroeconomic environment by the macroeconomic model of insolvent banks by carrying out correlation-regression analysis of dependence of banks default probability on selected macro factors (one-factor nonlinear regression model).

- in the previous reporting period the Fund's expected loss ratio is estimated as the ratio of the creditor's claims of Funds to the banks being liquidated and total amount of the filed creditors' claims of the Fund. As of the reporting date the expected amount of the creditor's claims maturity to the Fund is taken into account at the estimation of the expected loss ratio.

The result of the changes in the accounting estimates of the provision for the Fund's potential expenses for insolvent bank resolution and deposit payouts is a recognition of income of decrease in the provision for the Fund's potential expenses for insolvent bank resolution and deposit payouts in the amount of UAH 15.923 million.

The provision for the Fund's potential expenses for insolvent bank resolution and deposit payouts is presented in the financial statements.

(UAH million)

	2018	2017
<b>Provision for the Fund's potential expenses at the beginning of the period</b>	22.397	23.072
Increase/decrease in the provision for the Fund's potential expenses	(15.923)	(675)
<b>Provision for the Fund's potential expenses at the end of the period</b>	<b>6.474</b>	<b>22.397</b>

### Analysis of the Sensitivity of the Provision for the Fund's Potential Expenses for Insolvent Bank Resolution and Deposit Payouts to Changes in Key Assumptions

Reasonably possible changes of a key assumption at the reporting date, provided that other assumptions remain unchanged, would

have an impact on the provision for the Fund's potential expenses for insolvent bank resolution and deposit payouts by the amounts below.

(UAH million)

	31 December 2018		31 December 2017	
	Increase	Decrease	Increase	Decrease
<b>Provision for the Fund's potential expenses</b>				
Probability of insolvency (changed by 1 %)	771	(771)	324	(324)
Expected loss ratio (changed by 1 %)	89	(89)	262	(262)

## 15. The Fund's Liabilities to Make Payouts to Depositors of Insolvent Banks

Obligation of the Fund to make payouts to the depositors of insolvent banks and banks liquidated by the Fund is a statutory liability that arises in accordance with Article 26 of the Law.

The Fund guarantees to each depositor of the bank the reimbursement for its deposits. The funds are reimbursed in the amount of the deposit, including interest, as of the commencement date of the bank resolution procedure by the Fund, but within the maximum deposit payout limit set on that date, regardless of the number of deposits at the same bank. The maximum deposit payout limit for 2017 and 2018 amounted to UAH 200.000.00.

The Fund begins to fulfill its obligations to depositors no later than 20 working days (30 working days for banks whose depositors database contains information on more than 500.000 accounts) from the commencement date of the bank resolution procedure by the Fund and ends on the date of submission of documents for making an entry on the liquidation of the bank as a legal entity in the Unified State Register of Legal Entities.

(UAH million)

	31 December 2018	31 December 2017
Outstanding guarantee deposits	-	20
Other	2	7
<b>Total other accounts payable</b>	<b>2</b>	<b>27</b>

## 17. Other Provisions

Other provisions are represented by the provisions for deferred expenses for accumulated payment for absence periods (annual

As of 31 December 2018, the financial statements represent the Fund's obligations to depositors of 78 banks (31 December 2017: 80 banks). During 2018, the Fund made payouts in the amount of UAH 979 million (during 2017: UAH 7.011 million).

As of 31 December 2018, the documents were submitted of four banks for the making an entry of the bank liquidation in the State Register of Legal Entities, Individual Entrepreneurs and Public Organizations. Deposit payout of these banks was completed. Fund's liabilities of outstanding UAH 14 million by the depositors have been written off and reduced the expenses associated with fulfilling the obligation of the Fund to disburse payouts to depositors of insolvent banks and cover the expenses associated with the insolvent bank resolution procedure to repay insolvent bank depositors and costs related to the procedure for withdrawing insolvent banks.

## 16. Other Accounts Payable

Other accounts payable are represented by the outstanding guarantee deposits received from potential investors for participation in the tender on the insolvent bank resolution and other payables that include prepaid fees by the member institutions, deferred income, etc.

leave) of the Fund employees, provision for potential legal fees of the Fund, the Fund's potential expenses for payouts to depositors of insolvent banks and banks liquidated by the Fund, whose deposits have the signs specified in Article 38 of the Law.

(UAH million)	Provision for the deferred expenses for annual leave of the Fund's employees	Provision for the Fund's potential legal fees	Provision for expenses for payouts of deposits with signs of voidness	TOTAL
<b>Balance as of 31 December 2016</b>	<b>10</b>	<b>57</b>	<b>1.350</b>	<b>1.417</b>
Accrued (formed)	19	-	1.399	<b>1.418</b>
Used in the reporting year	(15)	-	(871)	<b>(886)</b>
Reversed in the reporting year	-	(4)	-	<b>(4)</b>
<b>Balance as of 31 December 2017</b>	<b>14</b>	<b>53</b>	<b>1.878</b>	<b>1.945</b>
Accrued (formed)	21	-	-	<b>21</b>
Used in the reporting year	(19)	-	(305)	<b>(324)</b>
Reversed in the reporting year	-	(1)	(71)	<b>(72)</b>
<b>Balance as of 31 December 2018</b>	<b>16</b>	<b>52</b>	<b>1.502</b>	<b>1.570</b>

## 18. Funds Raised

<i>(UAH million)</i>	<b>Effective interest rate</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Loans issued by the National Bank of Ukraine:</b>			
with maturity up to 1 year	12.5%	1.460	4.884
with maturity over 1 year	12.5%	-	1.600
Interest due on loans issued by the National Bank of Ukraine	-	-	-
<b>Total loans issued by the National Bank of Ukraine</b>		<b>1.460</b>	<b>6.484</b>
<b>Promissory notes issued:</b>			
with maturity up to 1 year	-	-	-
with maturity over 1 year	8.4%	58.559	59.559
Interest due on promissory notes issued	-	12.646	8.407
<b>Total promissory notes issued</b>		<b>71.205</b>	<b>67.966</b>
<b>Total funds raised</b>		<b>72.665</b>	<b>74.450</b>

### Loans Issued by the National Bank of Ukraine

In the second half of 2014, according to the Regulation “On Provision of Loan Services by the National Bank of Ukraine to the Deposit Guarantee Fund” approved by Resolution of the Board of the National Bank of Ukraine No. 95 dated 18 March 2013 (hereinafter referred to as the Resolution) as amended, the Fund entered into three loan agreements for the total amount of UAH 10.198 million with the National Bank of Ukraine (hereinafter referred to as the NBU). In accordance with the original conditions, the loan principal should be paid out in stages until 2017, and the interest rate was determined on the basis of the NBU discount rate. In 2014, the additional agreements set the nominal interest rate for all loan agreements at 12.5 %. Interest was charged and paid on a monthly basis. As of all reporting dates, the Fund has no debts to the NBU in respect of interest payments, since all accrued interest is paid by the Fund during the relevant reporting period.

During 2017-2018 the Fund entered into a number of additional agreements, which extended the maturity of the principal until January 2019.

As of 31 December 2018, the government bonds for the amount of UAH 1.765 million were held as collateral to secure the fulfilment of contractual obligations by the Fund under the loan agreements with the NBU (31 December 2017: UAH 5.059 million) (Note 8).

Also, the National Bank of Ukraine owns property rights for future cash inflows on the Fund's current account with the NBU in the amount of the Fund's obligations under the loan agreements.

### Promissory Notes Issued

In 2014, in accordance with Article 231 of the Law of Ukraine “On the State Budget of Ukraine for 2014” and Resolution of the Cabinet of Ministers of Ukraine No. 456 dated 17 September 2014 “On

Provision of Loan to the Deposit Guarantee Fund”, the Fund received a loan from the Ministry of Finance of Ukraine in the amount of UAH 10.118 million in the form of government bonds in exchange for the promissory notes issued by the Fund for the same amount. The average nominal rate for the promissory notes issued is 12.50 %; interest on promissory notes is accrued and paid twice a year at the dates of payment of coupon yield for the corresponding government bonds. The average effective rate for promissory notes issued in 2014 is 12.93 %, and the maturity for promissory notes is 2028–29. The Fund sold the received government bonds in 2015 to fulfil its obligation to disburse payouts to depositors of insolvent banks and banks liquidated by the Fund.

In 2015, in accordance with Article 17 of the Law of Ukraine “On the State Budget of Ukraine for 2015”, Resolution of the Cabinet of Ministers of Ukraine No. 156 dated 4 April 2015 “On Provision of Loan to the Deposit Guarantee Fund”, and Resolution of the Cabinet of Ministers of Ukraine No. 701 dated 8 September 2015 “On Provision of Loan to the Deposit Guarantee Fund”, the Fund received a loan from the Ministry of Finance of Ukraine in the amount of UAH 41.500 million in the form of government bonds in exchange for the promissory notes issued by the Fund for the same amount in 2015. The average nominal rate for the promissory notes issued is 11.57 %; interest on promissory notes is charged on a monthly basis, however, payment of interest occurs on the date of payment of the promissory notes. The average effective rate for the promissory notes issued in 2015 is 7.66 %, maturity dates are 2026 and 2028. The Fund sold the received government bonds in 2015 to fulfil its obligation to disburse payouts to depositors of insolvent banks and banks liquidated by the Fund.

In 2016, in accordance with Article 17 of the Law of Ukraine “On the State Budget of Ukraine for 2016” and Resolution of the Cabinet of Ministers of Ukraine No. 1003 dated 28 December 2016 “On Provision of Loan to the Deposit Guarantee Fund”, the Fund received a loan from the Ministry of Finance of Ukraine in the

amount of UAH 7.941 million in the form of government bonds in exchange for the promissory notes issued by the Fund for the same amount in 2016. The average nominal rate for the promissory notes issued is 9.99 %; interest on promissory notes is charged on a monthly basis, however, the full amount is paid on the date of payment of the promissory notes. The average effective rate for the promissory notes issued in 2016 is 6.33 %, maturity term is 2031.

The Fund sold part of the received government bonds in 2017 to fulfil its obligation to disburse payouts to depositors of insolvent banks and banks liquidated by the Fund.

In 2018, according to the Resolution of the Cabinet of Ministers of Ukraine No. 559 dated 18 July 2018 the promissory notes, issued in 2014, is early repaid in the amount of UAH 1.000 million by the Fund.

## 19. Member Institutions Fees

<i>(UAH million)</i>	<b>2018</b>	<b>2017</b>
Regular fee	3.551	3.324
Initial fee	-	-
Special fee	-	-
<b>Total member institutions fees</b>	<b>3.551</b>	<b>3.324</b>

Based on the results of inspections carried out by the Fund, the share of the regular fees additionally charged for past periods is less than 0.1%.

## 20. Investment Income

<i>(UAH million)</i>	<b>2018</b>	<b>2017</b>
Investment income from interest on government bonds	1.017	1.307
Discount on reimbursement of expenses for deposit payouts and bank resolution	371	245
Interest on cash and cash equivalents placed with the NBU	217	141
<b>Total investment income</b>	<b>1.605</b>	<b>1.693</b>

## 21. Other Operating Income

<i>(UAH million)</i>	<b>2018</b>	<b>2017</b>
Deconsolidation of provision for impairment losses on outstanding special-purpose loans	-	1.845
Interest on special-purpose loans issued to insolvent banks	-	3
Deconsolidation of provision for legal risks	1	5
Penalties and fines arising from the banks fees	72	-
<b>Total other operating income</b>	<b>73</b>	<b>1.853</b>

## 22. Expenses for the Performance of Deposit Payout and Bank Resolution Liabilities

The expenses related to the fulfilment of deposit payout and bank resolution obligations are represented in the financial statements on a

net basis and reduced by the amount of reimbursement expected to be received from insolvent banks and banks liquidated by the Fund.

<i>(UAH million)</i>	<b>2018</b>	<b>2017</b>
Expenses for deposit payout and bank resolution, gross amount	1.018	5.703
Reimbursement of the Fund's expenses for deposit payouts and bank resolution	(108)	(3.777)
<b>Expenses for deposit payout and insolvent resolution, net amount</b>	<b>910</b>	<b>1.926</b>

## 23. Financial Expenses

Other financial expenses include depreciation of the premium on the government bonds and recognition of the discount on reimbursement

of the Fund's expenses for deposit payouts and bank resolution to be received from insolvent banks and banks liquidated by the Fund.

<i>(UAH million)</i>	<b>2018</b>	<b>2017</b>
Interest paid on loans issued by the NBU	378	1.050
Interest paid on promissory notes	5.472	5.232
Other financial expenses	340	463
<b>Total financial expenses</b>	<b>6.190</b>	<b>6.745</b>

## 24. Other Operating Expenses

<i>(UAH million)</i>	<b>2018</b>	<b>2017</b>
Increase in provision for deposits with signs of voidness	-	1.399
Increase of provision for impairment losses on outstanding special-purpose loans	562	-
Legal expenses	15	-
Other expenses	6	7
<b>Total other operating expenses</b>	<b>583</b>	<b>1.406</b>

## 25. Administrative Expenses

<i>(UAH million)</i>	<b>2018</b>	<b>2017</b>
Wages and other employee benefits	248	214
Social insurance contributions	43	33
Rental and maintenance of the office	15	15
Depreciation	12	6
Repair and modernization of fixed assets and intangible assets	11	4
Business trips	2	2
Consulting services and audit	-	-
Other expenses	38	35
<b>Total administrative expenses</b>	<b>369</b>	<b>309</b>

## 26. Related-Party Transactions

In the normal course of activities, the Fund carries out transactions with related parties. Parties are considered to be related when one party has the ability to control the other party or has a significant impact on the other party when making financial or operational decisions.

### Control Relationships

The Fund is a legal entity under public law, has its separate property, which is an item of state property and is under its economic jurisdiction.

The Fund is an economically independent institution, has an independent balance sheet, current and other accounts with the National Bank of Ukraine, as well as securities accounts at depository institutions (state-owned banks).

The relationships arising from the establishment and functioning of the Households Deposit Guarantee System, the insolvent bank resolution and liquidation of banks are regulated by the Law, other laws of Ukraine, regulations of the Fund and the National Bank of Ukraine.

### Transactions with the Management Representatives

The leading managers are persons authorized and responsible, directly or indirectly, for the planning, management and control of the Fund's activities.

The leading managers of the Fund include as follows: Chairman and members of the Administration Board of the Fund, Managing Director, Deputy Managing Directors, members of the Executive Directorate of the Fund and the Tender Committee.



For the years ended 31 December 2018 and 2017, the expenses for compensation to key manager included in administrative expenses amounted to UAH 24 and 19 million, accordingly.

Members of the Administration Board of the Fund carry out their functions on a pro-bono basis. The remuneration of members of the Administrative Board is not provided for by the Law.

### Transactions with Controlled Entities under Joint Control or Significant Influence by the Authority

The Fund's main transactions with entities controlled by the authorities are the receipt of loans from the National Bank of Ukraine,

loans from the state budget, from the Ministry of Finance of Ukraine and payment of interest on corresponding loans. The nature of these transactions is described in Note 18.

Information on individually significant balances and transactions with controlled entities under joint control or significant influence of the authority is given in the tables below.

<i>(UAH million)</i>	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>ASSETS</b>		
Cash and cash equivalents on accounts opened with the National Bank of Ukraine	7.082	3.740
Government bonds issued by the Ministry of Finance of Ukraine	7.257	10.954
<b>TOTAL ASSETS</b>	<b>14.339</b>	<b>14.694</b>
<b>LIABILITIES</b>		
Promissory notes issued by the Fund to the Ministry of Finance of Ukraine	58.559	59.559
Interest due on promissory notes issued to the Ministry of Finance of Ukraine	12.646	8.407
Loans received from the National Bank of Ukraine	1.460	6.484
<b>TOTAL LIABILITIES</b>	<b>72.665</b>	<b>74.450</b>
<i>(UAH million)</i>	<b>2018</b>	<b>2017</b>
<b>TRANSACTIONS FOR THE YEAR</b>		
Investment income from interest on government bonds	1.017	1.307
Interest on cash and cash equivalents placed with the National Bank of Ukraine	217	141
Interest expenses on loans from the National Bank of Ukraine	(378)	(1.050)
Interest expenses on promissory notes issued to the Ministry of Finance of Ukraine	(5.472)	(5.232)

## 27. Contingent Liabilities

**Legal Proceedings.** The management of the Fund analyses the legal proceedings of property or non-property nature to which the Fund acts as a defendant (except for proceedings, the parties to which are depositors of insolvent banks, regarding the protection of the rights of depositors related to the payment of a guaranteed reimbursement amount at the expense of the Fund) in order to assess the legal risk level and determine the probability of an outflow of economic benefits that arises from violations or non-compliance with the laws, other regulations, agreements, approved practices, as well as the possibility of ambiguous interpretation thereof by the Fund.

According to the Fund management, some legal proceedings for the amount of UAH 2 million as of 31 December 2018 (UAH 32 million as of 31 December 2017) have a low probability of outflow of economic benefits.

Potential Fund's legal expenses on legal proceedings with a low probability of outflow of economic benefits is reflected in the other provision (Note 17).

## 28. Operating Lease

As of 31 December 2018, the Fund entered into the operating lease agreement for non-residential premises with book value of UAH 288 million to place its office there. This lease agreement does not envisage the unprojected rent payments, existence and terms of the right to renew or purchase, as well as the disclaimer of sliding prices or other restrictions.

## 29. Net Asset Management

The Fund's net assets are the residual value of the Fund's assets after deducting all of its liabilities.

The main goal of the Fund of net asset management is to ensure continuity of activities in order to protect the rights of the bank depositors and ensure the stability of the financial system of Ukraine.

The main component of the Fund's net assets is the retained earnings (loss). If the Fund's current income is insufficient to fulfil its full obligations to disburse deposit payouts and/ or service and repay borrowed funds, the Fund shall decide on the establishment of a special fee or use the loan from the National Bank of Ukraine and loan or the contribution of the state on a non-refundable basis at the expense of the state budget.

### 30. Risk Management

The risk management of the Fund is conducted for financial, operational and legal risks. Financial risks comprise credit risk, market risk (which includes currency risk and interest rate risk) and liquidity risk. The main goals of financial risk management are to determine the risk appetite and ensure it is not exceeded. The management of operational and legal risks is intended to ensure the proper functioning of internal procedures and policies aimed at minimising these risks.

#### a) Credit Risk

The Fund faces credit risk, which is the risk that one party to the transaction with a financial instrument will cause financial loss to the other party as a result of non-fulfilment of contractual obligations.

Financial instruments in connection with which the Fund may have a significant concentration of credit risk include cash

and cash equivalents, financial investments to the government bonds, arrears of insolvent banks on special purpose loans.

The maximum amount of the Fund's credit risk by asset class is recorded at book value of financial assets in the statement of financial position.

#### b) Market Risk

Market risk means that changes in market rates, such as foreign exchange rates, interest rates and securities rates, will have an impact on the income or value of the Fund's financial instruments. The market risk management goal is to manage and control the level of market risk within acceptable level while optimising returns.

#### c) Foreign Currency Risk

All monetary assets and liabilities of the Fund are denominated in UAH. Possible changes in the exchange rates applied at the end of the reporting period in connection with the functional currency of the Fund, provided that all other variables are unchanged, will have no significant impact on the profit or loss.

#### d) Interest Rate Risk

Changes in interest rates mainly affect financial investments and loans due to changes in their fair value. The financial instruments with fixed rates are reviewed at maturity.

The Fund has no financial instruments with variable interest rates.

The Fund monitors interest rates on financial instruments. The table below shows the average effective interest rates on interest bearing financial instruments as of the relevant reporting dates:

<i>% per annum</i>	<b>31 December 2018</b>	<b>31 December 2017</b>
Cash and cash equivalents	4.19%	5.4%
Financial investments at the depreciated production cost	14.25%	14.25%
Financial investments at fair value	10.27%	9.99%
Loans issued by the NBU	12.5%	12.5%
Promissory notes issued	8.4%	8.4%

#### e) Liquidity Risk

The liquidity risk means that the Fund will not be able to meet its liabilities in due time. The approach of the Fund to liquidity management is to ensure, as far as possible, the sufficient liquidity constantly available to meet its obligations as they fall due both under normal conditions and emergencies, while avoiding unacceptable losses or risk of damaging the Fund's reputation. The liquidity policy is reviewed and approved by the management.

Generally, the Fund ensures the availability of sufficient cash on demand to pay for expected expenses associated with ensuring the

functioning of the Households Deposit Guarantee System and insolvent bank resolution for a period up to 3 months, including maintenance of liabilities.

As of 31 December 2018, undiscounted cash flows based on maturity of non-derivative financial liabilities under contracts (including interest payments) are represented as follows:

<i>(UAH million)</i>	<b>Book value</b>	<b>Cash flows under contracts</b>	<b>Up to 1 year</b>	<b>1–5 years</b>	<b>Over 5 years</b>
Loans issued by the NBU	1.460	1.468	1.468	-	-
Promissory notes issued	71.205	137.439	1.140	4.560	131.739
<b>Total financial liabilities</b>	<b>72.665</b>	<b>138.907</b>	<b>2.608</b>	<b>4.560</b>	<b>131.739</b>

As of 31 December 2017, undiscounted cash flows based on maturity of non-derivative financial liabilities under contracts (including interest payments) are represented as follows:

<i>(UAH million)</i>	<b>Book value</b>	<b>Cash flows under contracts</b>	<b>Up to 1 year</b>	<b>1–5 years</b>	<b>Over 5 years</b>
Loans issued by the NBU	6.484	7.062	5.449	1.613	-
Promissory notes issued	67.966	141.079	1.265	5.059	134.755
<b>Total financial liabilities</b>	<b>74.450</b>	<b>148.141</b>	<b>6.714</b>	<b>6.672</b>	<b>134.755</b>

### 31. Fair Value of Financial Assets and Liabilities

Fair value measurement results are analysed and distributed at fair value hierarchy levels as follows:

- Level 1 includes measurements by price quotations (without adjustment) in active markets for identical assets and liabilities;
- Level 2 includes those obtained using valuation methods in which all significant inputs, directly or indirectly, are open to an asset or a liability (for example, prices or derivatives thereof);
- Level 3 includes measurements not based on open market data (for example, based on closed inputs).

For the purpose of distributing financial instruments by category, the management uses professional judgements. If open inputs that require significant adjustments are used to measure fair value, the measurement is of Level 3. The significance of the inputs used is estimated for the entire fair value measurement set.

#### *Financial assets and liabilities estimated at fair value*

Government bonds are classified as the financial instruments estimated at fair value (Note 8). As of 31 December 2017 fair value of these government securities is belonged to the first hierarchical level and is determined on the basis of adjustments on the stock markets. As of 31 December 2018 Fund's government bonds don't have active market and they are transferred to the second hierarchical level. The Fund estimates the fair value for the government bonds using available market information and relevant valuation methods.

#### *Financial assets and liabilities not estimated at fair value but their fair value is disclosed*

Financial assets and liabilities not estimated at fair value but their fair value is disclosed are government bonds estimated at the depreciated production cost (Note 8), loans from the National Bank of Ukraine, promissory notes, issued by the Fund (Note 18).

The measured fair value of such financial assets and liabilities was determined on the basis of input data of level 2 using available market information and relevant valuation methods. However, it is necessary to use the judgements during the interpretation of market data to measure fair value. Consequently, such measurements do not necessarily indicate the amounts that may be obtained in the market at present. The use of different market assumptions and/or valuation methods may have a significant impact on the fair value measured.

The measured fair value of financial assets and liabilities is determined by the discounted cash flow method and other relevant valuation methods at the reporting date and does not show the fair value of those instruments at the date of preparation or distribution of these financial statements. These calculations do not represent the premiums or discounts that may result from the offering of the entire amount of a particular financial instrument belonging to the Fund at the same time. The fair value measurement is based on the judgements about the expected future cash flows, current economic conditions, risk characteristics of various financial instruments, and other factors.

Based on the assumptions as of 31 December 2018, 31 December 2017 the fair value of all financial assets and liabilities did not significantly differ from their book value.

### 32. Events after the End of the Reporting Period

Within the period from 1 January 2019 until the date of approval of the financial statements for issue the following events were carried out:

- the promissory notes issued by the Fund in 2014 was early repaid in the amount of UAH 6.500 million;
- the loan issued by the National Bank of Ukraine was paid in the amount of UAH 1.460 million;
- completion of the procedure for liquidation of five insolvent banks that is why the expenses for fulfilment of the deposit payout and bank resolution obligation were reduced by UAH 42 million.