



ANNUAL REPORT

2017



DEPOSIT GUARANTEE FUND

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



The unprecedented level of insolvent bank resolution in Ukraine has become a challenge for the Guarantee Fund. It was difficult because no other country has ever had the experience of such a scale, with a half of the banking system declared bankrupt.

In view of this, we have to continuously improve the legal framework that regulates the Guarantee Fund's operations. In March 2017, the Verkhovna Rada registered the Draft Law "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."

This document resulted from the long joint efforts of the Deputy Corps and the Guarantee Fund. The draft envisages the rules on expediting deposit payouts, reducing the time of the provisional administration, improving the work with assets, and preventing their extraction by the owners or other related persons.

The above draft also initiated the work on harmonization of Ukrainian laws with the EU regulations. It specifies the provisions of Directive No. 49 on deposit guarantee schemes, as well as Directive No. 59 that regulates early intervention and bank resolution as a whole.

There is still a lot of work to do, since, according to the EU-Ukraine Association Agreement, Ukraine has undertaken to move in this direction. The government has adopted the Action Plan on implementation of the Association Agreement for the next two years, which involves both directives.

With regard to the quantitative indicator, almost 99 % of depositors place no more than UAH 200,000 at the same bank. But the DGF covers less than half of all individuals' funds in the system.

In this context, the Guarantee Fund deeply analysed the possibility of increasing the guaranteed amount in 2017. Higher deposit payouts is of immediate interest, and it shall be seriously discussed at all levels. We should note the impact of this measure on the growth of banks' funding bases and potential increase in regular fees for them in the first place.

Cooperation with field-oriented international associations is an important factor of the European and international standards of the deposit guarantee system. As a permanent member of the International Association of Deposit Insurers (IADI) and the European Forum of Deposit Insurers (EFDI), the Guarantee Fund actively participated in these organisations in 2017. Moreover, the Fund actively cooperated with international financial and donor organisations in 2017, such as the World Bank, the US Agency for International Development (USAID), the European Bank for Reconstruction and Development (EBRD), and the US Treasury Office of Technical Assistance.

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 in its operations aimed at improving the capacity and capabilities within the framework of rights and powers of the Fund. The cooperation is being carried out by providing expert advice and support. As a result, we plan to improve and adapt the activities of the Fund to comply with new legislation and current challenges.

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.

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



No force-majeure or emergency happened to the Guarantee Fund in 2017. This enabled its team to focus on improving the mechanisms and procedures of the deposit guarantee system.

Nine institutions were declared insolvent during the year, and the total number of banks under the Guarantee Fund's control has reached ninety-four by the end of the year. The depositors of these banks received UAH 6.8 bn of guaranteed deposit payout during the year, of which UAH 5.04 bn, or 74 %, via the Automated Payment System introduced by the Guarantee Fund. It was being developed for several years and put into industrial operation in February 2017. Currently depositors may receive guaranteed deposits at any branch of 12 agent banks already connected to the system. I want to emphasize that in 2017 the Guarantee Fund implemented all deposit payouts without raising additional funds. Moreover, it paid the debt in the amount of UAH 2.58 bn to the National Bank of Ukraine, including UAH 2 bn of advance repayment. The Guarantee Fund was ready to repay UAH 1 bn in advance to the Ministry of Finance of Ukraine, however, the lack of a well-established mechanism prevented that. Nevertheless, we have initiated the work to reduce the debt burden on the Guarantee Fund. After all, the peak debt burden will be in 2025–31, during which the Guarantee Fund will pay to the Ministry of Finance of Ukraine UAH 132.7 bn, of which more than a half is the accrued interest.

One of the Fund's focus areas in 2017 was the search for more effective procedures for the sale of assets of banks under liquidation. So, since the beginning of the year, all auctions for sale of assets not pledged by secured creditors have been transferred to ProZorro.Sale. Therefore, almost 90 % of all the assets of banks under liquidation are being traded.

Having created the unified and open rules of play and ensured equal access for all interested investors to information about assets, the Fund focused on expediting the rate of asset sales. The “Dutch model” of auctions will help. In addition, in 2017, the Fund together with the ProZorro.Sale design team made public the Insolvent Bank Assets Register, which allowed buyers to better prepare and plan their participation in auctions.

In 2017, the proceeds of insolvent banks from the sale of assets amounted to UAH 5.02 bn, while the total proceeds from sales and lease of assets, repayment of outstanding loans and sale of securities amounted to UAH 9.9 bn.

During the reporting period, as during the previous years, the Guarantee Fund made every effort to bring to responsibility and reimburse for a part of costs at the expense of those responsible for the insolvency of banks. The Guarantee Fund and the authorized DGF officers have already submitted more than 4,500 applications to the law enforcement agencies on criminal offenses for the total amount of UAH 327.32 bn. After the review of the allegations, materials of inspection, and findings and cooperation of the Guarantee Fund with the pretrial investigation bodies, in 2017 criminal charges were filed against 34 persons. Moreover, within the scope of investigation of criminal proceedings the Fund and the authorized DGF officers filed 134 civil lawsuits to ensure the compensation for harm caused by the criminal offenses.

In addition, the Fund filed lawsuits through legal proceedings in the amount of UAH 15.6 bn to 205 persons related to the insolvent banks, whose actions or inaction caused damage to the creditors or banks.

Of course, this is not the level of effective work of the law enforcement system and judiciary branch to be expected in this area. But it is safe to say that the Guarantee Fund will keep submitting allegations of identified abuses and trying to recover the creditors' losses through legal action, including in courts of international jurisdiction, at the expense of the bank-related persons. I must say that this is a hard work; to make things worse, there is a huge resistance. Therefore, courts of different instances were considering 26 cases on the abolition of resolutions of the National Bank of Ukraine and the Guarantee Fund regarding the provisional administration and liquidation of 15 banks in 2017. We believe that pursues two goals. The first goal is to extract short-term assets that may have remained on the insolvent bank's books for the benefit of former owners. The second goal is to clean up the reputation of people who have made the bank insolvent.

We have already travelled a rather difficult path of improving the deposit guarantee system. I believe that in 2018 the Guarantee Fund team will continue this work at the same high professional level.

Sincerely,

Kostiantyn Vorushylin

Managing Director of the Deposit Guarantee Fund

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CONTENT

I. REPORT OF THE DEPOSIT GUARANTEE FUND FOR 2017

MISSION, OBJECTIVES, AND FUNCTIONS	6
1. KEY PERFORMANCE INDICATORS IN 2017	7
2. ORGANISATION MANAGEMENT	9
2.1. Human Resources Management and Development	9
2.2. Internal Audit	9
2.3. Information Technology	10
3. LEGAL AND REGULATORY ENVIRONMENT	14
3.1. Improving the Legal Framework	14
3.2. Regulatory Activities of the Fund	14
4. PUBLIC AND INTERNATIONAL ORGANISATIONS RELATIONS	17
4.1. Public Awareness	17
4.2. Financial Literacy and Protection of Depositors' Rights	19
4.3. Cooperation with NGOs	21
4.4. International Cooperation	22
5. BANKING SECTOR OVERVIEW	23
5.1. Overview of the Financial Indicators of Member Institutions	23
5.2. Analysis of Deposit Market Trends	36
6. SUPERVISORY ACTIVITY	47
6.1. Implementation of Control Functions	47
6.2. Administrative and Economic Sanctions and Administrative Fines	50
7. FINANCIAL MANAGEMENT	52
7.1. Financial Sources	52
7.2. Financial Resources Application	52
7.3. Repayment of Claims of the Fund	53
7.4. Assessment of Financial Stability of the Fund	55
7.5. Financial Investments of the Fund	56
8. INSOLVENT BANKS RESOLUTION	57
8.1. Implementation of Insolvent Bank Resolution Plans	57
8.2. Provisional Administration and Liquidation of Banks	58
8.3. Bank Creditors' Claims Settlement	65
8.4. Investigation of Unlawful Actions of Civil and Criminal Nature at Insolvent Banks	72
8.5. Legal Support of Bank Resolution Process	73
9. CONSOLIDATED SALES AND MANAGEMENT OF ASSETS	74
9.1. Improvement of the Assets Management System of Insolvent Banks	74
9.2. Development of Consolidated Sales of Assets in 2017	75
9.3. Sales Results	79
10. GUARANTEED DEPOSIT PAYOUT	81
10.1. Guaranteed Deposit Payout to Depositors of Insolvent Banks	81

II. FINANCIAL STATEMENTS FOR 2017

FINANCIAL STATEMENTS FOR 2017 CONFIRMED BY THE AUDITOR'S REPORT	85
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I. REPORT OF THE DEPOSIT GUARANTEE FUND FOR 2017

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 intuitions (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 specifi ed 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 terms and conditions set in the Law
- Informing the general public of the deposit guarantee system and the depositor’s rights and legitimate interests, and promoting financial literacy of the general population pursuant to ehe Law
- Studying and analyzing the markets of financial resources raised by the member institutions from retail depositors.

2017: AT A GLANCE



Nine more insolvent banks were transferred to the management of the Fund; two agreements on the transfer of part of the assets and liabilities of the insolvent bank in favour of the recipient were signed; the deposit payouts of over UAH 7.0 bn were made to depositors; the Automated Payment System and the new Dutch Auction Model were launched; the fully-fledged system of graded fees to the Fund based on the risk assessment was introduced in 2017, which became a year of persistent fruitful work and qualitative changes for the Deposit Guarantee Fund.

For 19 years since 1998, when the Fund was established under the Decree of the President of Ukraine “On Measures to Protect the Rights of Physical Persons as Depositors of Commercial Banks in Ukraine”, it has duly fulfilled its mission of protecting the rights and legitimate interests of bank depositors.

1. KEY PERFORMANCE INDICATORS

- In 2017, 9 banks were transferred to the management of the Fund. Regarding two of them, PJSC “DIAMANTBANK” and JSCB “NOVYI”, for the first time in the last two years, the final bank resolution method was “the disposal of all or part of the assets and liabilities of an insolvent bank to the recipient’s benefit.” That allowed us to save the funds of the Fund for deposit payouts to depositors of those banks in the amount of UAH 1,158.9 mn.
- As of 1 January 2018, there are 94 banks under control of the Fund: 2 banks have the provisional administration, and 92 are under liquidation. Total assets of the banks are UAH 526.4 bn (book value), and the estimated value of assets is UAH 96.6 bn.
- During 2017, depositors of insolvent banks received more than UAH 7.01 bn of insurance coverage. The total amount of funds received by depositors of the banks transferred to the Fund’s management after the entry into force of the Law of Ukraine “On Households Deposit Guarantee System” (26 February 2012), within guaranteed payout, amounted to UAH 87.9 bn as of 1 January 2018.
- 70 % of the guaranteed deposit payouts for the year were received by depositors via the Automated Payment System being developed for several years and launched in February 2017. At the end of the year, depositors of 12 banks declared insolvent after 1 July 2016 received the reimbursement via the Automated Payment System. This system allows depositors to contact any branch of agent banks. At the end of 2017, 10 banks joined the System.
- As of 1 January 2018, the member institutions comprise 83 banks licensed by the National Bank of Ukraine for banking operations (JSC “Oschadbank” is not a member of the Fund), two of which are under the provisional administration. As of 1 January 2018, the member institutions had UAH 1,579.8 bn of total assets, UAH 1,116.2 bn of net assets, UAH 987.9 bn of total liabilities, and UAH 128.3 bn of equity. At reporting year-end, the consolidated financial result of the Fund member institutions was negative and amounted to UAH 26.5 bn. The number of depositors of the member institutions was 41 mn people, the amount of retail deposits amounted to UAH 413.8 bn, the amount of potential reimbursement at the expense of the Fund amounted to UAH 238 bn.
- During the reporting year, the Fund repaid part of the loans issued by the National Bank of Ukraine in the amount of UAH 2,582.0 mn; the interest thereon was UAH 1,050.3 mn. Interest expenses on the Fund’s promissory notes amounted to UAH 1,264.7 mn.
- As of 1 January 2018, the total amount of approved accepted creditors’ claims equals to UAH 260.3 bn (84 banks under liquidation). In 2017, the amount of approved accepted creditors’ claims increased by UAH 16.5 bn due to the approval of the Creditors Register for 11 insolvent banks in 2017.
- In 2017, the creditors’ claims were settled for UAH 11.3 bn in all the priorities.
- At the beginning of 2018, the debt of banks being liquidated regarding the payment of creditor’s claims of the Fund amounted to UAH 77.6 bn. The total number of banks to which the Fund had registered creditor’s claims amounted to 110 banks, which comprised 91 banks under control of the Fund and 19 banks under control of the NBU.
- Total actual cash inflows to the insolvent banks in 2017 amounted to UAH 9.9 bn, of which: UAH 3.8 bn of revenues from loan repayment; UAH 5.0 bn of revenues from sale of assets (property) of the banks; UAH 0.9 bn of revenues from sale of securities; UAH 0.1 bn of revenues from leasing of banks’ assets (property).
- One of the Fund’s focus area is the improvement of the asset sale. A policy of maximum disclosure of information about assets for sale continued during

2017. The electronic register of all assets on the insolvent banks' book is publicly available. In addition, a virtual data room, which maximises the access of potential buyers to information about the assets for sale of the banks being liquidated, has been opened.

- The Fund completely switched to the new system of electronic auctions ProZorro.Sale created upon the initiative of the Fund within implementation of the Memorandum of Intent between the Fund, the National Bank of Ukraine, the Ministry of Economic Development and Trade of Ukraine, and Transparency International Ukraine NGO to cooperate in establishing a transparent and efficient system for the sale of property (assets) of insolvent banks and banks under liquidation in Ukraine.
- The Fund introduced the pilot project, according to which all assets are displayed at book (highest) value at the first bidding, with the possibility of gradual reduction of the price up to 30 % of par value. The new system of asset sales under the Dutch model was introduced at the end of October 2017; it prompts the dynamics of the sale of assets, and ensures their sale during the projected period of time.
- 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. In order to improve the asset management system of insolvent banks, in 2017 the

Fund created the Asset Management Department, compiled the register of premises of all insolvent banks available for rent and published it on the Fund's official website on a separate page for the widest possible access of those interested. In 2017, the rental revenues increased by 13 % compared to 2016, despite the disposal of banks' assets sold.

- As a result of work performed, in 2017 the authorised DGF officers sent 1,113 allegations of criminal offenses to law enforcement agencies, 634 of which resulted in entering criminal proceedings into the Unified Register of Pre-Trial Investigations. The cooperation of the Fund with the pretrial investigation bodies resulted in filing criminal charges against 34 persons in 2017.
- In addition, in order to identify the processing of problem or risk transactions, improper fulfilment of risk management and internal control procedures, violation of banking laws by the banks, the Fund organised the integrated analysis of 8 insolvent banks (forensic audit) in 2017.
- In 2017, the Fund filed lawsuits against the substantial shareholders and related persons of 8 insolvent banks: PJSC CB "DANIEL", PJSC "REAL BANK", PJSC "ERDE BANK", PJSC "BROKBUSINESSBANK", PJSC "BANK FORUM", PJSC "AVTOKRAZBANK", PJSC "INTERBANK", PJSC "ZAKHIDINKOMBANK" for the total amount of more than UAH 15.8 bn.

2. ORGANISATION MANAGEMENT

2.1. Human resources management and development

During 2017, the top priority of the personnel policy was to build and maintain the effective HR management system that ensures high-quality achievement of goals in all areas of the Fund's activities.

During the year, the Fund had a flexible structure, which it transformed several times depending on the relevant challenges and processes provided by the Fund. At the end of the year, the Fund structure consisted of 7 departments, 4 offices, 42 divisions, 13 services and units.

In 2017, the number of members of the Executive Directorate of the Fund increased by one Deputy Managing Director, who is responsible for the implementation of asset sale and management procedures for the banks liquidated by the Fund. The procedure for the appointment of a new deputy was carried out through open public competitive selection with the participation of international consultants.

By the end of 2017, the actual number of the Fund's staff was 417 people, including 225 women and 192 men. The average age of the Fund's employees is 38 years; 95.4 % have higher education, among them there are 9 candidates of sciences and 11 attorneys.

Advanced training and development of professional skills are an integral part of the Fund personnel policy. To this end, during the year, the Fund provided the staff with both internal corporate training and possibilities to attend various seminars, round tables, conferences, trainings organised by

specialized training centres, including international companies.

During the year, within the EBRD Project "Technical Cooperation for the Deposit Guarantee Fund — Stage 2 Support", in cooperation with the consultants of LLC "KPMG-Ukraine" the Fund worked on improving the target operational model of the Fund's personnel management, principles and approaches to remuneration, increasing the interest of the staff in the results of their work, improving the quality and productivity of work. Negotiations and cooperation resulted in the development of the draft staff evaluation system and establishment of the corporate competence model. This system will further determine the level of efficiency of the divisions and individual employees. The individual employee development system was also developed.

At the end of 2017, the matrix management system of the banks liquidated by the Fund was regulated by the Procedure for the interaction between the structural units of the Fund and the banks. The above Procedure strengthens control over the activities of the banks and determines the action plan for the authorized persons of the banks and employees of the Fund in terms of the bank personnel management under the Fund's control.

2.2. Internal audit

In 2017, 15 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 recommendations received.

2.3. Information technology

The main areas of the Deposit Guarantee Fund IT development in 2017 were as follows:

- creation of the software and hardware package to ensure the availability of all necessary resources for the functioning of the Fund's and insolvent banks' information systems;
- implementation of uninterruptible power supply and monitoring systems of the Fund's server rooms;
- further implementation of virtualization of server resources;
- provision of the information exchange network between the Fund and insolvent banks;
- improvement of the software package for the insolvent bank resolution;
- improvement of the automation system for the sale of assets of insolvent banks;
- modernization of the software package of the Fund Automated Payment System;
- improvement of the Fund Ascod EDCS;
- improvement of the Bank Accountability software.

In 2017, the Fund created the software and hardware package to ensure the Fund information systems with the necessary electronic computing resources, 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. 2.1).

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 software and hardware package provided the electronic computing resources of the

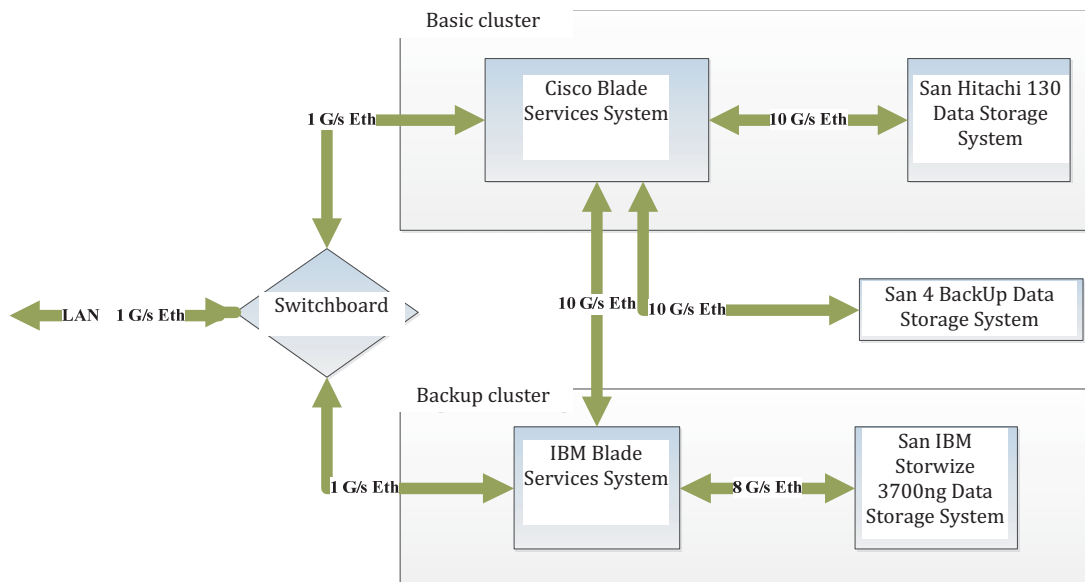


Fig. 2.1. Software and Hardware Package of the Fund

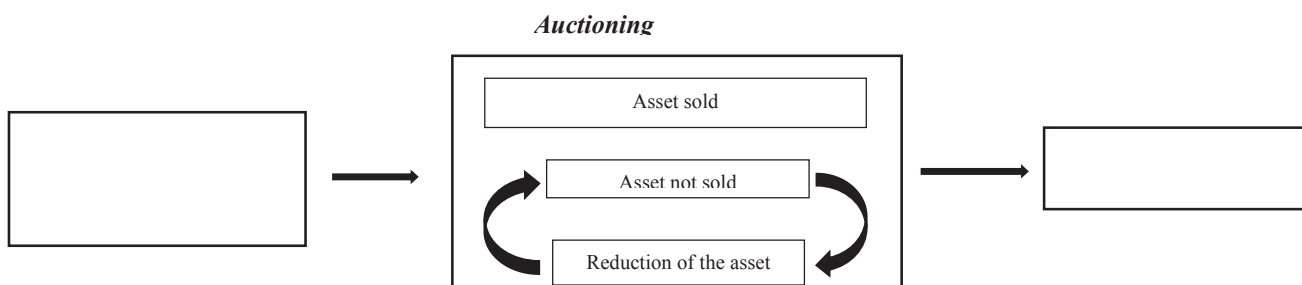


Fig. 2.2. Updated Flow Chart of the Asset Sales Automation System

operating and perspective information systems of the Fund, as well as information systems of insolvent banks.

In 2017, the Fund introduced the upgraded Asset Sales Automation System (Fig. 2.2). 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.

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 2017, the Fund introduced and upgraded the Autonomous Power Supply System for server rooms. The electrical infrastructure of the server rooms was upgraded; a diesel-electric power plant, which ensures the operability of the Fund’s information systems in the absence of power supply in the public network, was put into operation. In addition, the Fund introduced the monitoring system for climatic variables of the server rooms, which is the key to the reliable functioning of its server and telecommunication equipment.

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 2017 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 order to ensure the insolvent bank resolution, in 2017 the Fund introduced the software package for the insolvent bank resolution comprised of the following:

- 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 for daily data synchronization with OBD/ABS of banks (according to p. 4);
 - ▶ AWS (automated working system) of the Fund employee responsible for monitoring and analysis of the insolvent banks’ operation to generate, control and analyse the reports and dynamics,

including the report designer, to fast generate the necessary data samples;

- bank resolution control systems that operate on the basis of a data storage and, in turn, consist of the following components:
 - ▶ Sale of Assets of Insolvent Banks module;
 - ▶ Recording of Creditors’ Claims in Liquidation of Insolvent Banks module;
 - ▶ Claim-Related Work module;
 - ▶ Approval and Control of the Bank’s Estimates module;
 - ▶ Arrears on Loans Issued by the NBU module;
 - ▶ Analytical Reports module.

Implementation of software for working with insolvent banks enabled the Fund to:

- create the unified information basis for decision-making on insolvent bank resolution;
- automate the reporting of insolvent banks submitted to the Fund in different activity areas;
- 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;
- analyse the performance of a problem bank in order to prevent its critical state.

In order to improve the deposit payouts to depositors of insolvent banks, in February 2017 the Fund implemented the innovative software package “Fund Automated Payment System” (hereinafter referred to as the FAPS).

The implementation of FAPS 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.

In general, the overall scheme of the FAPS is as follows:

Implementation of the new system provided the Fund with an effective tool for payouts to depositors of insolvent and

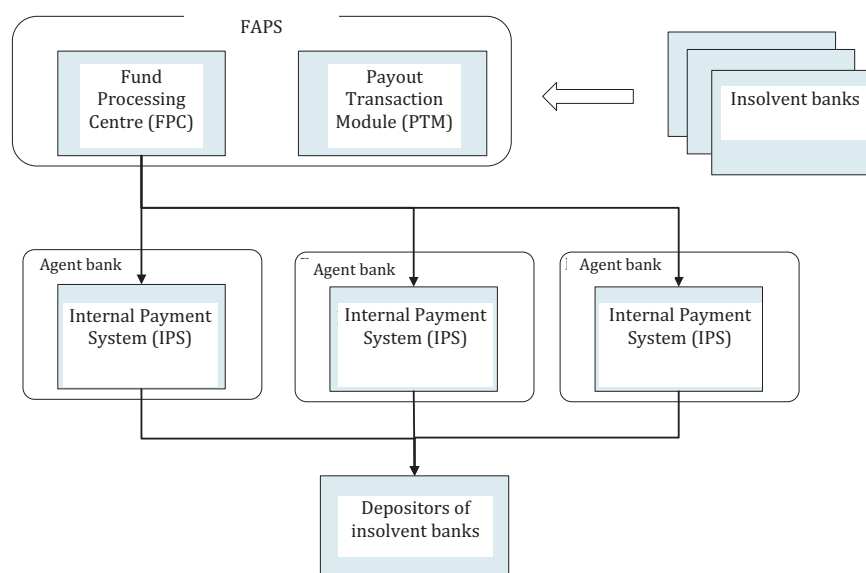


Fig. 2.3. Fund Automated Payment System

liquidated banks, which had the following benefits compared to the “old” payment systems:

- **Investors received as follows:**

expansion of the network of payment points;

payment points closer to the depositors;

efficiency of payments;

possibility to obtain deposit payouts for several insolvent banks at the same payment point;

on-going deposit payouts (the depositor is able to receive a refund at any time prior to completion of bank liquidation).

- **The Fund received as follows:**

a single software package with information about the payouts from the start of the provisional administration and until the end of liquidation;

guaranteed deposit payouts due to diversification of payments by various agent banks;

mitigation of the Fund’s risk of loss through the use of various types of payments to agent banks;

operational management of payments (connection/disconnection of agent banks, registers of beneficiaries, suspension of individual records, etc.);

reduction of the Fund’s costs (financial and material resources);

a significant reduction of paper document circulation through the reduction of the inflow of letters/applications from depositors.

- **Agent banks received as follows:**

simplified inclusion of banks into the payout system as the agent banks;

creation of a competitive environment for agent banks (agent banks will operate in equal conditions);

cost reduction by agent banks on advertising to attract new customers (depositors);

attracting new depositors and resources.

In general, the Fund has received a high-tech tool that provides for payouts to depositors of insolvent or liquidated banks, which enabled the Fund to effectively disburse payouts of the guaranteed amounts to depositors and, in general, contribute to the development of the national information system of public and state resources.

In pursuance of the state policy aimed at transferring the recordkeeping 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 2017 the Guarantee Fund improved the software of the Electronic Document Circulation System (hereinafter referred to as the Ascod EDCS) and carried out preparatory measures for the implementation of paperless document circulation with the use of electronic digital signature.

In 2017, 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.

The Fund modernised its Ascod EDCS with the purpose of centralizing the management of insolvent banks in document circulation between the Fund and insolvent banks. The Fund received a tool for paperless exchange with insolvent banks, which will ensure the reliability and promptness of the transfer of original electronic documents according to the Laws of Ukraine “On Electronic Documents and Electronic Document Circulation” and “On Electronic Digital Signature”.

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 by making changes in the acceptance of electronic

reporting forms and enhancing the remote monitoring system of the bank financial condition.

In 2017, the Fund introduced the internal corporate portal, which incorporated the tools for improving the Fund efficiency, namely:

- social network (discussion, statement and control of assignments, sales management, etc.);
- management of assignments and projects (management tools for assignments and projects help managers control the timely implementation of tasks at the subdivision and help subordinates avoid violations);
- online documents (shared access to viewing and editing documents; discussion and change history saving options available);
- disk (space for storing company documents or files with access from any device and any place with Internet connection);
- calendars (electronic calendars and organizers to make working schedules, sort assignments, monitor execution thereof, track time expenditures, organise meetings and briefings);
- business process automation (introduction of business processes for the Fund subdivisions saves time of employees to focus on really important matters);
- HR (visual structure of the Fund, rapid search for colleagues by name, telephone, email; convenient work with external users; organization of training and testing of employees).

3. LEGAL REGULATION

3.1. Improving the legal framework

The Law of Ukraine “On Households Deposit Guarantee System” was amended only once in 2017. These changes were related to the adoption of the Law of Ukraine “On Amendments to Certain Legislative Acts of Ukraine Concerning Facilitation of Business and Investment Attraction by Securities Issuers” by the Verkhovna Rada of Ukraine, which envisages the possibility of establishing a bridge bank both in the form of a public JSC and a private JSC.

During the year, the Fund was also actively involved in the elaboration of a number of draft laws introduced to the Verkhovna Rada of Ukraine by subjects of legislative initiatives, including the support for the adoption of drafts that are essential to exit the crisis and develop the banking system, as well as strengthen the institutional capacity of the Fund, protect the rights of depositors and other creditors of insolvent banks.

3.2. Regulatory activities of the fund

In 2017, the Fund adopted 33 regulations in the framework of the Households Deposit Guarantee System regulation and insolvent bank resolution.

Of these 33 regulations:

Four regulations were aimed at implementing the powers to ensure the deposit payouts, namely:

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 3626 dated 17 August 2017 “On Amendments to the Regulation on the Procedure for calculation, accrual, and payment of fees to the Deposit Guarantee Fund” registered with the Ministry of Justice of Ukraine under No. 1120/30988 on 12 September 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 4304 dated 21 September 2017 “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. 1276/31144 on 18 October 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 4313 dated 21 September 2017 “On Approval of the Regulation on the Procedure for Financing the Payout of Guaranteed Amounts by Agent Banks” registered with the Ministry of Justice of Ukraine under No. 1254/31122 on 11 October 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 4469 dated 28 September 2017 “On Amendments to Certain Regulations of the Deposit Guarantee Fund and the Invalidation of Decision of the Executive Directorate of the Deposit Guarantee Fund No. 2698 dated 5 December 2016” registered with the Ministry of Justice of Ukraine under No. 1305/31173 on 25 October 2017;

Eight regulations were aimed at implementing regulatory powers, namely:

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 502 dated 10 February 2017 “On Approval of the Identification and Internal Regime Regulations of the Deposit Guarantee Fund” registered with the Ministry of Justice of Ukraine under No. 307/30175 on 6 March 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 503 dated 10 February 2017 “On Approval of the Procedure for Filling Vacancies at the Deposit Guarantee Fund” registered with the Ministry of Justice of Ukraine under No. 306/30174 on 6 March 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 654 dated 20 February 2017 “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. 360/30228-361/30229 on 15 March 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 1096 dated 20 March 2017 “On Amendments to Certain Regulations of the Deposit Guarantee Fund”, registered with the Ministry of Justice of Ukraine under No. 462/30330 on 7 April 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 1579 dated 13 April 2017 “On Invalidation of Decision of the Executive Directorate of the Deposit Guarantee Fund No. 503 dated 20 February 2017”, registered with the Ministry of Justice of Ukraine under No. 593/30461 on 11 May 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 2394 dated 8 June 2017 “On Amendments to the Action Plan for the Deposit Guarantee Fund Employees Authorised to Monitor the Compliance of the Bank with the Procedure for Generation and Maintenance of Databases on Depositors, Conduct of

Banking Transactions by the Bank”, registered with the Ministry of Justice of Ukraine under No. 789/30657 on 26 June 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 5113 dated 21 November 2017 “On Improvement of the Procedure for Preparing and Submitting Reports by the Deposit Guarantee Fund” registered with the Ministry of Justice of Ukraine under Nos 1487/31355, 1488/31356 on 11 December 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund “On Amendments to the Regulation on the Administrative Fine Procedure of the Deposit Guarantee Fund” No. 5452 dated 18 December 2017 (pending registration with the Ministry of Justice of Ukraine);

Nine regulations aimed at implementing the powers in the field of insolvent bank resolution, namely:

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 435 dated 6 February 2017 “On Amendments to the Insolvent Bank Resolution Regulation”, registered with the Ministry of Justice of Ukraine under No. 296/30164 on 2 March 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 491 dated 9 February 2017 “On Amendments to the Regulation on the Procedure for the Selection of Persons Authorised to Perform Work (Provide Services) to Insolvent Banks or Banks Being Liquidated by the Deposit Guarantee Fund”, registered with the Ministry of Justice of Ukraine under No. 305/30173 on 6 March 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 1976 dated 15 May 2017 “On Approval of the Regulation on the Attraction of Officers of the Banks Liquidated by the Deposit Guarantee Fund”, registered with the Ministry of Justice of Ukraine under No. 694/30562 on 2 June 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 2204 dated 29 May 2017 “On Amendments to Decision of the Executive Directorate of the Deposit Guarantee Fund No. 2 dated 5 July 2012”, registered with the Ministry of Justice of Ukraine under No. 780/30648 on 21 June 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 3711 dated 21 August 2017 “On Approval 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. 1104/30972 on 7 September 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 3816 dated 30 August 2017 “On Amendments to 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. 1237/31105 on 9 October 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 3959 dated 6 September 2017 “On Amendments to the Insolvent Bank Resolution Regulation” registered with the Ministry of Justice of Ukraine under No. 1193/31061 on 27 September 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 5112 dated 21 November 2017 “On Amendments to Decision of the Executive Directorate of the Deposit Guarantee Fund No. 3711 dated 21 August 2017” registered with the Ministry of Justice of Ukraine under No. 1448/31316 on 29 November 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 5397 dated 14 December 2017 “On Amendments to the Insolvent Bank Resolution Regulation” (pending registration with the Ministry of Justice of Ukraine);

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

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 337 dated 30 January 2017 “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. 259/30127 on 24 February 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 979 dated 13 March 2017 “On the Pilot Project on Sale of Assets (Property) of the Banks being Liquidated”, registered with the Ministry of Justice of Ukraine under No. 433/30301 on 30 March 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 1302 dated 30 March 2017 “On Establishment of the Commission for Complaint Investigation and Proposal Formulation Regarding Organization and Conduct of Open Bidding (Auctions) for Sale of Assets (Property)”, registered with the Ministry of Justice of Ukraine under No. 544/30412 on 25 April 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 1872 dated 5 May 2017 “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. 687/30555 on 1 June 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 2783 dated 30 June 2017 “On Amendments to the 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. 915/30783 on 26 June 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 2783 dated 30 June 2017 “On

Establishment of the Deposit Guarantee Fund Committee on the Consolidation and Sale of Assets, Delegation of Part of the Powers of the Executive Directorate of the Deposit Guarantee Fund to the Committee, and Approval of Amendments to Certain Regulations of the Deposit Guarantee Fund”, registered with the Ministry of Justice of Ukraine under No. 932/30800 on 28 July 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 3116 dated 20 July 2017 “On Amendments to the Regulation on the 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. 1000/30868 on 14 August 2017;

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. 999/30867 on 14 August 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 3375 dated 3 August 2017 “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. 1058/30926 on 28 August 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 3778 dated 23 August 2017 “On

Amendments to Some Regulations of the Deposit Guarantee Fund” registered with the Ministry of Justice of Ukraine under No. 1130/30998 on 15 September 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 5290 dated 4 December 2017 “On Amendments to Decision of the Executive Directorate of the Deposit Guarantee Fund No. 3117 dated 20 July 2017” registered with the Ministry of Justice of Ukraine under No. 1578/31446 on 29 December 2017;

Decision of the Executive Directorate of the Deposit Guarantee Fund No. 5398 dated 14 December 2017 “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. 16/31468 on 4 January 2017.

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. 5051 dated 16 November 2017 the DGF Regulations Drafting Plan for 2018 published on the official website of the Deposit Guarantee Fund, www.fg.gov.ua.

The plan contains information about the name of draft regulations, which the Fund plans to develop in 2018, 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. PUBLIC AND INTERNATIONAL ORGANISATIONS RELATIONS

4.1. Public awareness

The reporting period was marked by further bank resolution, the massive sale of assets of insolvent banks, and a large number of judicial proceedings to defend the legitimacy of the insolvent bank resolutions carried out by the Fund. That is why, the basic principles of the Fund's public relations were transparency, openness and efficiency. The key communication targets were still to enforce the trust of citizens in the banking and financial system of the State, release social tension, and protect the rights and legitimate interests of depositors of banks.

The Fund continued to inform citizens of the procedure for obtaining the guaranteed reimbursement, insolvent bank resolution, and the Fund's activities aimed at the preservation and sale of assets of insolvent banks. It also paid special attention to the implementation of anti-crisis communications, support of the Fund's reputation, as well as prevention of panic among borrowers and creditors of banks being liquidated and/or declared insolvent.

In 2017, in order to provide the maximum information support to the sale of assets of insolvent banks, the Fund prepared and distributed information materials and press releases about planned auctions, the most interesting banks' assets displayed for sale and the bidding results to media representatives on an ongoing basis. In addition, upon the introduction of the new Asset Selling System, the Dutch auctioning model, the Deposit Guarantee Fund actively disclosed and disseminated materials on the introduction stages of a new model for the sale of assets, bidding characteristics, and effectiveness of the same.

To maximise the involvement and stimulation of professional market participants and potential buyers, the Deposit Guarantee Fund in conjunction with ProZorro.Sale organized round tables, training sessions, workshops, which featured step-by-step schemes for participation in auctions and bidding stages, as well as clarifications on the terms of

completion of the automatic step-by-step reduction of the lot price, possibilities of establishing own price quote, and determination of the auction winner.

Overall, the Fund organised 6 meetings of press clubs, briefings and press conferences in 2017, which were attended by independent experts, mass media representatives who specialise in financial and banking issues. About 800 press releases and newsletters were prepared and sent to news agencies and media representatives. In addition, representatives of the Guarantee Fund appeared on television and radio more than 20 times and gave more than 30 interviews to online and printed media.

The main communication channel in the reporting year was the official website of the Guarantee Fund, www.fg.gov.ua. The Fund's website actively published all information on the Fund's activities regarding the insolvent bank resolution, including news, announcements, statistics and reporting. In total, during 2017 the official website of the Fund was visited by more than 550,000 users (Fig. 4.1). To broaden the public access to information and facilitate search capabilities, during the year the Fund made technological modifications to the website to improve its structure, taking into account the principles of simplicity of presentation and perception of information by the target audience.

In addition to informing citizens via the website and social networks, the Fund also timely published ads in the official media ("The Voice of Ukraine and/or "The Governmental Courier" newspapers), including the ads that specify the application of the provisional administration procedure for insolvent banks, start of the liquidation procedure of banks, and deposit payouts, as well as financial statements of the Fund, etc. according to the Law. Overall, "The Voice of Ukraine" and "The Governmental Courier" newspapers published more than 70 ads of the Fund in 2017.

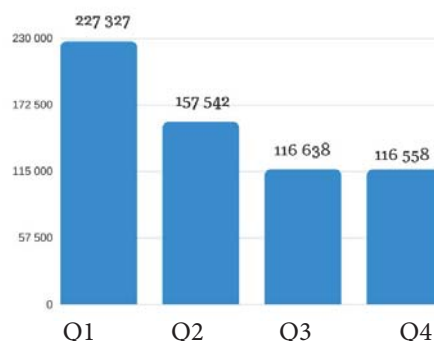


Fig. 4.1. Dynamics of the Fund's Website Sessions in 2017

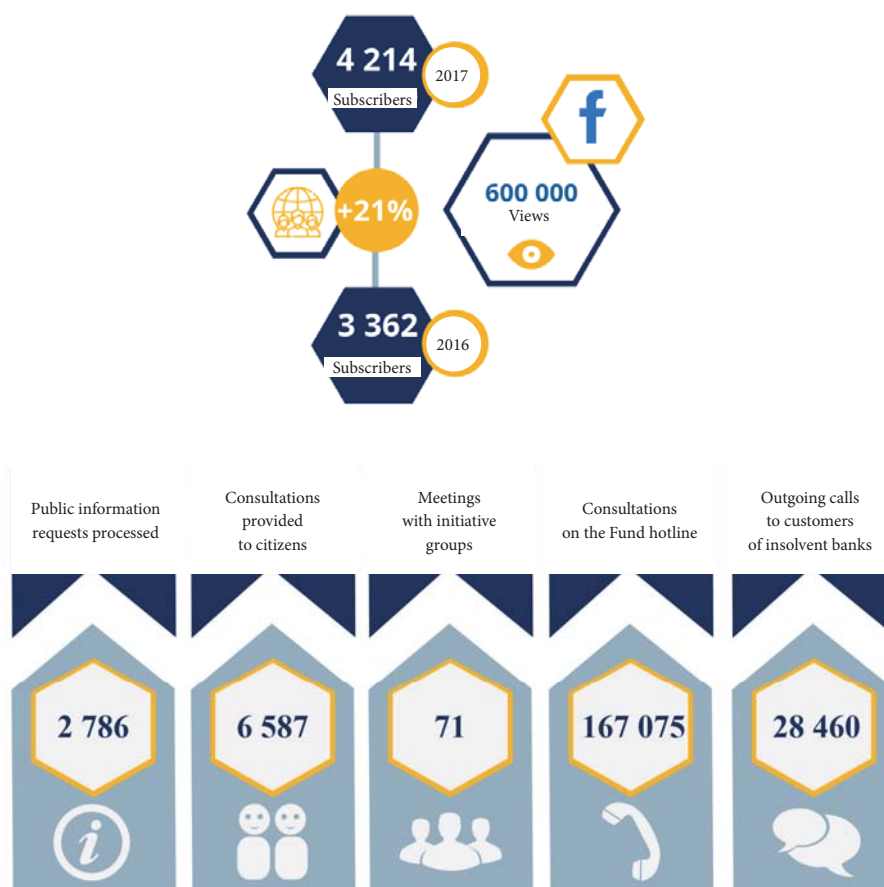


Fig. 4.2. Public Relations in 2017

The Fund Information and Consulting Centre, and Hotline

In 2017, the Fund carried out its public relations by placing up-to-date information on the Internet, using the hotlines of the Fund and direct meetings (consultations and clarifications) with citizens, and by providing written responses to requests (inquiries) of both customers of insolvent banks and other interested individuals and legal entities.

As usual, the most timely and publicly accessible channel of communication was the Hotline of the Fund. The total number of clarifications and consultations provided by phone was 167,075. This channel is also used to promptly receive information on the unlawful actions of the Fund officers and complaints about the activities of the Fund’s agent banks. Such requests are duly registered and reviewed by respective subdivisions of the Fund.

Direct consultation of depositors and other customers of insolvent banks in order to provide clarification and support for the document execution is also a necessary and important component of communications. For instance, in 2017, 6,587 consultations were provided to citizens on the Fund’s activities and document execution (Fig. 4.2).

The Information and Consulting Centre of the Fund, which is responsible for ensuring access to public information,

processed and provided 2,786 responses to requests for public information managed by the Fund. The Information Policy Department officers represented the Fund in 59 cases considered by the Ukrainian Parliament Commissioner for Human Rights and other state authorities.

Facebook page <https://www.facebook.com/fg.gov.ua/> where 511 posts were published during the year is an important component of communication with citizens. In 2017, the number of page users increased by 21 %, and the total number of views reached 600,000.

During the reporting year, citizens could get new types of consultations, in particular:

- On the sale of assets (property) of banks and conducting of open bidding (auctions). To this end, the Fund has developed the information materials about the sale of assets (property) of banks being liquidated through open bidding (auctions) using the e-auction electronic bidding system;
- Informing borrowers of the introduction of new conditions for restructuring loan debt. To this end, 28,460 borrowers of insolvent banks were informed.

The Fund also conducted preparatory work to provide citizens with consultations aimed at raising overall financial literacy.

4.2. Financial literacy and protection of depositors' rights

In 2017, the Fund continued the campaign to raise citizens' awareness of the deposit guarantee system, rights and obligations of financial services consumers. After all, raising the financial literacy of the population, as well as protecting the rights and interests of depositors are legally defined functions of the Fund. In order to reach the widest possible audience, especially the elderly users of financial services, at the beginning of the year the Fund developed the scripts and produced three animated video clips: «About the Deposit Guarantee Fund» (1 min 51 sec), «Deposit Agreement without Secrets» (2 min 18 sec), «Borrower's Memo» (1 min 51 sec). The videos provide concise easy-to-understand information on the size of the guaranteed reimbursement amount, types of deposits guaranteed by the Fund, main rights and obligations of consumers of banking services, website URL and Hotline telephone number. A separate video was devoted to issues of repayment of loans by borrowers of banks being liquidated.

Having received the response letter from the National Television and Radio Broadcasting Council of Ukraine regarding the recognition of the above videos as those with

features of social advertising, the Fund requested national and regional TV channels of various formats to broadcast them. As a result, in March-May 2017 the videos were broadcast free of charge as social advertising on 17 TV channels, including nationwide ones. The Fund also organised the broadcasting of three educational audio clips as social advertising. Within two months, the Fund's audio clips were broadcast almost 3,000 times on 19 national and regional radio stations.

In 2017, the Fund also joined the new project for international technical assistance, "Transformation of Financial Sector" being implemented with financial support from the US Agency for International Development (USAID). The Memorandum of Cooperation and the Joint Action Plan for the year were signed. Within the framework of this cooperation, the Fund together with other project partners, in particular the National Bank of Ukraine and the Banking University, joined the development and implementation of the comprehensive programme to increase citizens' financial awareness in Ukraine.



BANK'S INSOLVENCY DOES NOT TERMINATE THE LOAN AGREEMENT



More than **1,000,000** UKRAINIANS
have received deposit payouts





For example, the Fund together with its partners participated in the Days of Financial Awareness, educational events held under the slogan “Manage Finances Confidently” in four cities (Odesa, Lviv, Kharkiv, and Dnipro), and designed to encourage citizens to pay more attention to the management of their own finances and budget. During the Days of Financial Awareness, the Guarantee Fund representatives gave lectures on the topics “Bank Guarantee System in Ukraine” and “Security of Bank Depositors: how not to lose savings and protect interests”, as well as trainings for university professors.

In addition, with the support of the USAID Project “Transformation of Financial Sector”, the Fund specialists who directly deal with depositors or other bank customers, visitors to the information and consulting centre, attended the training for teachers under the programme “Financial Awareness for the Confident Future.” During the event, master coaches engaged by the USAID Project told how to effectively educate adult audiences in financial literacy, shared coaching techniques and their own experiences. Participants also had the opportunity to give their first lessons as coaches and get feedback from the leaders and colleagues. The Fund officers who took the programme are expected to use their knowledge and skills in providing consultations on deposit guarantee and giving trainings and consultations to raise citizens’ financial awareness.

Protection of Depositors’ Rights

The Fund monitors the compliance of banks with the requirements for protecting the rights and legitimate interests of depositors. 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 amounts.

In the reporting year, the department carried out remote monitoring of the activities of 93 banks of Ukraine for compliance with the 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 Procedure). 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. Meeting the requirements by the Fund agent banks was also inspected.

The monitoring resulted in sending 50 letters to the banks that violated the Procedure and receiving feedback on the banks' corrective actions.

In 2017, the Depositors Protection Department processed more than 3,000 written requests/complaints. The department employees significantly expedited the procedure for fulfilling the requirements for deposit payouts under

court decisions on putting validated depositors on the list (about 1,000 requests).

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.

4.3. Cooperation with NGOs

The Public Monitoring Council (PMC) comprised of representatives of such NGOs as Union of Depositors of JSC "Delta Bank" (JSC "Delta Bank"), Public Inspection Banks (PJSC "VAB Bank"), Human Rights Protection Council of Ukraine (PJSC CB "Financial Initiative"), Association of Depositor Victims "SOS Forum" (PJSC "Bank Forum"), National Welfare of Ukraine (JSC "Bank Finance and Credit") together with the Fund organise the events where the issues of protecting insolvent banks' depositors' and creditors' rights are discussed at the professional level.

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 are discussed.

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 and cooperation projects with international trading platforms and KPMG-Ukraine.

The prevention and counteraction of corruption as well as the compliance of the Fund officers with the anti-corruption laws were also relevant to discuss with the public. In order to work on improving the laws and anti-corruption activities, the Regulatory Framework Improvement Committee and the Temporary Working Group on the Prevention and Counteraction of Corruption were established within the PMC. In addition, the Fund organised the round tables and regular meetings and consultations with NGO representatives in order to take into account proposals of the public when developing draft regulations, and other events aimed at effective interaction with depositors and creditors of insolvent banks.



4.4. 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 2017, such as the World Bank, the US Agency for International Development (USAID), the European Bank for Reconstruction and Development (EBRD), and the US Treasury Office of Technical Assistance.

In 2017 the Fund represented Ukraine at the IADI general meeting and international conference held in Quebec, Canada, as well as at the annual meeting of members of the EFDI in Oslo, Norway. The Consolidated Asset Sale Head actively participated in toxic assets forums and seminars and presented the experience of the Fund in the sale of assets of banks being liquidated to participants of two international forums on investments in toxic assets held in Prague and Vienna, as well as together with the Deputy Managing Director represented the Fund at the Ukrainian Banking Day in London. The Fund specialists also participated in the World Bank seminar on new challenges in financing, investments, deposits based on risk assessments and stress testing of deposit insurance systems in Vienna.

In addition, the active bilateral cooperation between the Fund and members of the Eurasian Regional Committee of the IADI continued. For instance, the delegation from the Republic of Azerbaijan comprised of the representatives of the Financial Markets Supervision Chamber visited the Fund on working issues in August. The purpose of the visit was to study the experience of Ukraine in the insolvent bank resolution. The itinerary of the visit included, in particular, the discussion of the Fund regulations and procedures

primarily on the work with prequalified persons, priority measures in case of the provisional administration, preparation of a resolution plan and methodology for assessing the banks' assets.

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

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.

As a result of cooperation with the international technical assistance projects, we plan to improve and adapt the activities of the Fund to comply with new legislation and current challenges. 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.



5. BANKING SECTOR OVERVIEW

5.1. Overview of the Financial Indicators of Member Institutions

As of 1 January 2018, the Deposit Guarantee Fund (hereinafter referred to as the “Fund”) comprised 83 member banks licensed by the National Bank of Ukraine.

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. The bank membership dynamics is shown in Fig. 5.1.

During the reporting year, 16 banks were excluded from the DGF Member Institutions Register (compared to 19 in the previous year):

- 11 banks, revocation of a banking license and liquidation;
- 4 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;
- 1 bank, removal from the State Register of Banks in connection with its reorganization by joining the simplified procedure.

As of 1 January 2018, provisional administration was introduced at 2 member banks declared insolvent by the National Bank of Ukraine (Fig. 5.2).

According to Decision of the Board of the National Bank of Ukraine No. 76-RSh dated 10 February 2017, as of 1 January 2018, the member institutions are divided into the following groups: 4 state-owned banks; 23 banks of foreign banking groups; 54 privately owned banks, 2 insolvent banks.

The financial performance of the member institutions was analysed on the basis of balance sheet data as of 1 January, 1 July, 1 October 2017 and 1 January 2018.

It should be noted that since the beginning of 2017, 16 banks have been excluded from the DGF Register, which had little impact on the dynamics of system indicators due to a small proportion of the members excluded.

General information about key balance sheet ratios of banks excluded from the DGF Register in 2017 is presented in Table 5.1.

Last year, the NBU changed its discount rate four times, and at the beginning of the year it amounted to 14.0 %. During the first 9 months the rate dropped twice: initially down to 13.0 % (from 14 April 2017), and then to 12.5 % (from 26 May 2017). However, in the last quarter of 2017, the discount rate was raised twice: the rate was set at 13.5 % from 27 October 2017, and it was increased to 14.5 % from 15 December 2017.

This dynamics is due to changes in inflation expectations over the course of the year, which have worsened in recent months. In 2017, consumer inflation increased to 13.7 % thereby exceeding the target of 8 % ± 2 pp set in the main principles of monetary policy for 2017 and the mid-term. For reference: the total growth of the consumer price index was 12.4 % in 2016.

At the end of the year fluctuations in the UAH exchange rate intensified and resulted in its slow depreciation against the world major currencies. For instance, since the beginning of 2017, the official exchange rate UAH to USD has decreased by UAH 0.8736365, or 3.2 %, and amounted to UAH 28.067223 per a US dollar as of 1 January 2018, while the official exchange rate UAH to EUR decreased by UAH 5.07282, or 17.8 %, and amounted to UAH 33.495424 per a Euro as of 1 January 2018.

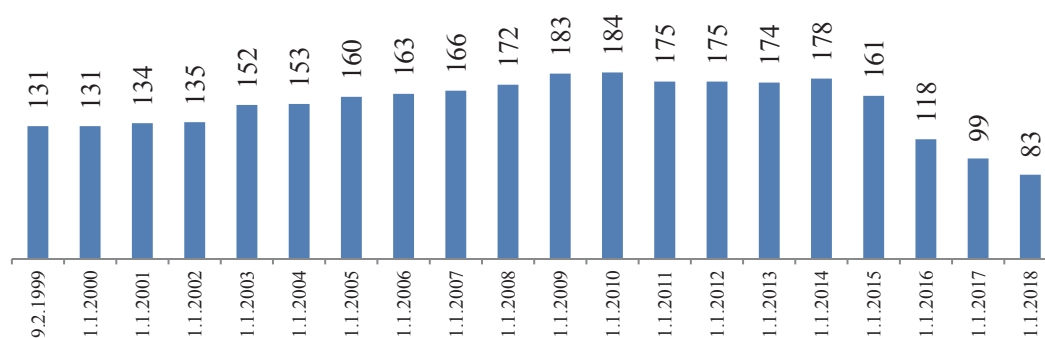


Fig. 5.1. Bank Membership Dynamics

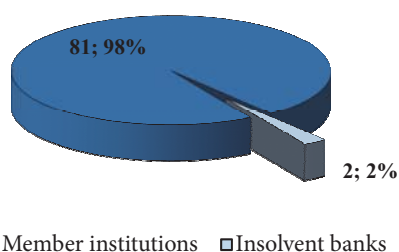


Fig. 5.2. Member Institutions Statuses as of 1 January 2018

Major Trends of Member Institutions in 2017

When analysing the results of banks for 2017, attention should be paid both to the positive and negative trends of the reporting year.

The reporting year is characterized by significant methodological changes in the assessment of risks from asset transactions, bringing the authorised capital to the officially established minimum, the growth of the balance-sheet total, the transformation of the allocation of funds (investing in savings certificates of the NBU substitute a more risky direction, lending), the increase in lending due to expansion of retail lending, stabilization of outflow of foreign currency deposits and growth of deposits in the national currency.

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.

At year-end 2017, the balance-sheet total of the banking system showed growth, although it decreased in the first half of the year. As of 1 January 2018, it increased by UAH 55,082.5 mn, or 5.2 % (the total decrease of the previous year was UAH 42,269.6 mn, or 3.8 %) and amounted to

UAH 1,116,162.3 mn compared to UAH 1,061,079.8 mn at the beginning of the year. The trend changed during Q3, when the balance-sheet total increased by UAH 39,894.4 mn after the reduction in the first half of the year by UAH 28,941.5 mn.

The main factors of growth were the continued capitalization of the banking system and related increase in loan and investment portfolios of operating banks. 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.

The total assets of the member institutions in 2017 grew by UAH 85,009.5 mn, or 5.7 %, and amounted to UAH 1,579,820.1 mn as of 1 January 2018 compared to UAH 1,494,810.6 mn at the beginning of the year. The growth of assets according to the results of the second half of the year amounted to UAH 115,190.4 mn, while they decreased by UAH 30,180.9 mn during the first half of the year.

There was still the decrease trend in the volume of highly liquid assets of the banking system (cash, funds with the NBU, and funds on demand with other banks), which in the reporting year decreased by UAH 10,955.6 mn, or 6.8 %, and amounted to UAH 151,186.7 mn as of 1 January 2018 compared to UAH 162,142.3 mn at the beginning of the year, and their respective share in total assets decreased from 10.9 % to 9.6 %.

The volume of the loan portfolio in 2017 slightly increased and recovered in the second half of the year after the reduction in the first half of the year. At the same time, the net portfolio decreased due to the deterioration of the quality of loan debt and creation of additional reserves at the end of the year.

Loans granted to economic entities decreased by UAH 643.3 mn, or 0.1 %, during 2017 (from UAH 725,464.5 mn as of 1 January 2017 to UAH 724,821.2 mn as of 1 January 2018). On the other hand, the corporate loan portfolio grew fastest in the second half of the year and increased by UAH

Table 5.1

Data on Balance Sheet Indicators of the Banks Excluded from the DGF Member Institutions Register in 2017 (As of 1 January 2017)

Indicators	Net assets			Total liabilities	Equity		
	Total	of which loan and investment portfolio save reserves	Total		of which		
					Paid authorised capital	Performance until 2016	Performance for 2016
1	2	3	4	5	6	7	8
For 16 excluded banks, UAH mn	21,614.0	15,929.6	19,919.8	1,694.2	3,288.5	- 833.0	- 1,853.9
Relative share in total for the Fund, %	2.0	2.1	2.1	1.6	0.9	0.6	1.2
For reference:							
Total for the Fund, UAH mn	1,061,079.8	764,194.0	954,360.5	106,719.3	382,986.1	- 140,235.2	- 160,389.7

26,154.7 mn after the decrease by UAH 26,798.0 mn in the first half of the year.

In Q3 and Q4, banks increased lending to businesses. In 2017, the national currency net loans to corporations grew most notably for state-owned and foreign banks. The main corporate borrowers, which ensured the lending growth, were state monopolies, trading enterprises and farms.

In 2017, retail loans increased by UAH 4,186.3 mn, or 3.2 %, and amounted to UAH 135,881.6 mn as of 1 January 2018 compared to UAH 131,695.3 mn at the beginning of the year. The increase in Q3 and Q4 allowed to completely balance the decline in the first half of the year. At the same time, consumer lending increased significantly, while PrivatBank and privately owned banks showed the highest growth rates.

Due to the significant increase in the specified overdue debts, the share of overdue debts, including the accrued income in the structure of the loan portfolio, increased by 8.3 percentage points (26.9 % to 35.2 %).

From the beginning of 2017 the amount of credit risk reserves increased by UAH 42,467.5 mn, or 10.3 %, while the reserve coverage level of loan portfolio increased from 44.5 % to 47.2 %, which indicates a further deterioration in its quality. At the end of 2017 the volume of non-performing loans and accrued income of the solvent member institutions amounted to UAH 503,052.6 mn, and their share in the loan portfolio amounted to 53.7 %. The state-owned banks had most of the non-performing loans, and the privately owned banks had least of them.

Non-performing loans and income accrued thereon in the total loan portfolio of state-owned banks (excluding reserves) accounted for 73.6 % (87.6 % of which for Privatbank). The same indicator at solvent banks of foreign banking groups and privately owned banks was 41.0 % and 24.1 %, accordingly. At the same time, during the second half of 2017, the share of the non-performing loan portfolio tended to decrease due to the provision of new loans by banks and the sale of bad debts.

Against the backdrop of the troubled dynamics of the loan portfolio, the total volume of deposits of the member institutions in securities and derivative financial assets (DFA) continued to grow for the third consecutive year and amounted to UAH 358,092.8 mn as of 1 January 2018, which is UAH 77,948.2 mn or 27.8 % more than at the beginning of the year. The main portfolio component remained government securities (government bonds and NBU deposit certificates), which accounts for 88.7 % of all deposits. Instead, the volume of deposits in corporate securities, as in the previous year, continued to decrease, and for the reporting year it decreased by UAH 1,529.1 mn, or 14.5 %. This trend shall not be considered positive, since instead of lending to the real sector of economy, banks directed available funds to purchase risk-free government bonds and NBU certificates, which currently concentrate the lion's share of their investments in securities.

The dynamics of the liabilities of the member institutions from the beginning of 2017 indicates their decrease during the first half of the year with further growth in the second half of the year, which allowed the Fund not only to restore the initial volumes, but also to exceed them. The main items reduced were interbank loans and deposits (including loans received from the NBU), liabilities under subordinated debt, and savings (deposit) certificates. Growth was due to the increase in customer balances on demand and fixed-term deposits in UAH.

In total, 2017 liability volume increased by UAH 33,528.5 mn, or 3.5 %, and amounted to UAH 987,889.0 mn as of 1 January 2018 compared to UAH 954,360.5 mn as of 1 January 2017. Taking into account that 2016 total liabilities decreased by UAH 60,526.5 mn, or 6.0 %, their growth over the past six months indicates the actual trend change in the system as a whole.

The share of fixed-term funds in the liability structure of the member institutions in 2017 continued to decrease and amounted to 51.3 % as of 1 January 2018 (in the previous 2016 it decreased from 62.9 % to 57.6 %). Therefore, the trend towards reduction of the fixed-term resources, which began at the beginning of 2014, continues, although from the second half of 2017, such a reduction has slowed down, while the negative dynamics in reducing the fixed-term deposits of customers has changed to the opposite due to the national currency deposits. If this trend continues, this will allow for a gradual stabilization of the situation with the funding base of banks and further intensification of lending, which has already begun to grow.

The dynamics of changes in interest rates indicates a gradual decrease in the cost of loans in the domestic market. For instance, according to the NBU, at the end of 2017 the average interest rate on loans in national currency amounted to 16.6 % compared to 17.7 % at the beginning of the year. This indicator for foreign currency loans was equal to 5.9 % compared to 8.2 %. At the same time, the average rates for UAH corporate loans almost did not change in the past year, remaining at 16.1 %, and for retail loans, they decreased from 30.5 % to 25.7 %.

In parallel with the reduction of prices for loans, the cost of raising deposits accounts has been decreasing for the third year in a row. However, the limited amounts of these resources and a high level of competition among banking institutions partly constrain this decline rate. In addition, after the NBU gradually increased the discount rate to 16.0 %, the value of UAH deposits in Q4 2017 began to increase, although the value of foreign currency deposits remains at historically low levels.

According to the NBU, at the end of last year, interest rates on short-term and long-term deposits in UAH were 9.8 % and 14.6 %, accordingly, while interest rates on short-term and long-term deposits in foreign currency were 2.8 % and 4.6 %, accordingly. At the same time, in early 2017 the rates for UAH short-term and long-term deposits were 9.8 % and

18.3 %, accordingly, while the rates for short-term and long-term deposits in foreign currency were 5.0 % and 6.9 %, accordingly.

The gradual reduction of interest rates leads to a reduction in interest income and expenses of the member institutions, which have been decreasing for several consecutive years.

Interest income is reduced due to the reduction of revenues from corporate lending transactions, although the return on retail loans remains steady, and interest income from securities transactions even increases due to the significant increase in revenues from government bonds and NBU certificates. In the reporting year, the member institutions earned interest income of UAH 11,876.0 mn less than last year, and its relative share in the revenue structure decreased to 68.5 % compared to 70.1 % at year-end 2016.

The banks partially offset such a decrease in revenues from the main activities by increasing fee revenues, the amount of which for the reporting year exceeded that of the previous year by UAH 4,657.7 mn, and their share in the revenue structure increased from 16.8 % to 21.2 %.

Also, given the gradual decrease in revenues, banks tried to reduce their expenses, which in 2017 decreased by UAH 147,136.8 mn compared to 2016. The main component of spending in 2017 was interest expenses, although last year they were allocations to reserves. At the same time, there was still a gradual decrease trend in the absolute amount of interest expenses, which resulted from banks' decreasing the interest rates for customers' funds, which has lasted for several years in a row.

In 2017, allocations to reserves significantly decreased: compared to 2016 their volume has decreased fourfold. In 2017, the share of allocations to reserves in total expenditures amounted to 27.6 % compared to 60.3 % last year. Such a sharp decrease is due to the fact that banks formed the main part of the reserves for asset transactions in 2016. It was due to the substantial reduction in allocations to reserves that the total expenditures of the member institutions decreased by 44.6 % last year compared to the level of 2016.

According to the results of the reporting year, the consolidated financial result of the member institutions was negative and amounted to UAH 26,530.4 mn, that is, the banking system as a whole continues to operate at a loss. As before, this is due to a steady increase in credit risk reserves against the backdrop of the continued decline in the return on asset transactions. At the same time, last year's loss was 6 times lower than in 2016 due to the significant reduction in allocations to reserves.

In 2017, all state-owned banks among the groups of banks showed profitability, except for PrivatBank, which annual loss of UAH 22,965.9 mn resulted in the negative consolidated result of the entire group in the amount of UAH 21,407.2 mn. Banks with foreign capital had the net loss of UAH 5,068.7 mn due to the loss-making activity of Russian state-owned banks, the aggregate negative result of

which amounted to UAH 11,808.2 mn. Solvent privately owned banks had the consolidated annual profit of UAH 1,557.2 mn, while both insolvent banks completed the year with losses totalling to UAH 1,611.7 mn.

The current main problems of the banking system 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, high cost of borrowing in the market, continuing the work of banking institutions with low financial stability, and poor protection of creditors' rights.

Analysis of the Capital

In 2017 the equity of the member institutions increased by UAH 21,554.0 mn, or 20.2 %, and reached UAH 128,273.3 mn (to compare: during the previous year, the equity increased by UAH 18,256.9 mn, or 20.6 %). The main reason for the increase was the continuation of the capital replenishment of banking institutions by additional contributions of shareholders in order to achieve the officially established minimum of the authorised capital in the amount of UAH 200.0 mn. Due to this factor, the authorised capital of the member institutions grew by UAH 66,093.6 mn, or 17.3 %. At the same time, an increase in equity was observed for 70 banks, and its decrease for 13 banks. As of 1 January 2018, two member institutions had negative equity (with only one, last year). The equity of the remaining banks was positive.

Pursuant to 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 the authorised capital from UAH 120 mn to UAH 500 mn as of the date of state registration of a legal entity that intends to carry out banking activities, the 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: 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.

According to the approved schedule, Ukrainian banks shall register an authorised capital of not less than UAH 200 mn by 11 July 2017. If at the beginning of 2017, 43 banks did not fulfil this requirement, and at the end of the year the number reduced to two in the problem category. During January

2018, however, the NBU registered an increase in the authorised capital of these banks to UAH 200 mn and removed the problem status. Therefore, as of 1 February 2018, the requirements of the regulator regarding the minimum amount of authorised capital were fulfilled by all member institutions.

In total, 49 banking institutions increased their authorised capital in 2017 by replenishing the capital for the total amount of UAH 66,093.7 mn (for the whole 2016, there were 50 such banks that increased their authorised capital by UAH 199,479.8 mn).

See Table 5.2 for changes in the equity structure of the member institutions in 2017.

According to the data in Table 5.2, during 2017, the authorised capital of the member institutions increased by UAH 66,093.6 mn, or 17.3 %, and amounted to UAH 449,079.7 mn, which is 3.5 times more than their equity. At the same time, UAH 56,087.0 mn of growth was paid by the government by issuing government bonds at the capital replenishment of PrivatBank and Ukreximbank by UAH 48,365.0 mn and UAH 7,722.0 mn, accordingly.

The volume of registered authorised capital in 2017 increased by UAH 179,147.5 mn, or 67.4 %, which indicates that in the past year the banks mostly registered the funds received for their capital replenishment in the previous periods. The amount of contributions for unregistered authorised capital from the beginning of 2017 decreased by 25.7 times and amounted to UAH 4,584.9 mn as of 1 January 2018 compared to UAH 117,679.3 mn as of 1 January 2017.

Due to the increase in the capital replenishment of the banking system, the share of equity in the liabilities and equity continued to increase, and from the beginning of 2017 it increased from 10.1 % to 11.5 % (for the whole last

year it increased from 8.0 % to 10.1 %). At the same time, the weight of subordinated debt has been decreasing to maintain the protective function of capital. During 2017, the volume of subordinated debt declined by almost half and amounted to UAH 11,519.8 mn as of 1 January 2018 compared to UAH 21,803.0 mn as of 1 January 2017.

Due to the tremendous growth in the volume of overdue loans with PrivatBank in Q3 2017, the ratio of problem loan debts to equity of the member institutions increased and amounted to 263.9 % as of 1 January 2018 compared to 233.5 % at the beginning of the year or 218.2 % in the first half of the year. At the same time, the number of members, whose amount of overdue loan debt exceeds the equity, continued to decrease and was 14 banks as of 1 January 2018 (at the beginning of the year there were 25 such institutions, and as of 1 July 2017, 16).

As of 1 January 2018, the retail deposits were 3.2 times higher than the equity of banks, which indicates the insufficient level of protection of deposits by capital, although they were 3.6 times higher as of 1 January 2017, and 3.4 times higher as of 1 July 2017. This indicator for 18 banks was higher than the system average, including that 5 banks had more than doubled indicator (at the beginning of the year, there were 22 and 5 such banks, accordingly).

Therefore, the continued increase in the capital replenishment of the banking system indicates the gradual improvement in the bank capital adequacy. At the same time, the presence of such negative factors as the asset quality deterioration, losses from previous periods, and the negative financial result at year-end reduced the positive effect of the capital replenishment of member institutions. Hence, risks are transferred to creditors and depositors of banks, and the problem of increasing capital adequacy remains pressing.

Table 5.2

Changes in the Equity Structure of the Member Institutions in 2017, UAH mn

Indicators	1 Jan 2017	1 Jul 2017	1 Oct 2017	1 Jan 2018	Changes from 1 Jan 2017	
					As of 1 Oct 2017	As of 1 Jan 2018
1	2	3	4	5	6	7
Authorised capital	382,986.1	406,747.2	431,005.5	449,079.7	+ 48,019.4	+ 66,093.6
of which registered authorised capital	265,866.6	395,144.7	396,508.4	445,014.1	+ 130,641.8	+ 179,147.5
Issue profit/loss	13,024.0	13,027.4	13,026.9	13,026.3	+ 2.9	+ 2.3
General reserves and funds	11,778.2	17,282.3	17,341.7	17,178.0	+ 5,563.5	+ 5,399.8
Results from transactions with shareholders	6,616.5	6,248.5	6,213.8	6,405.2	- 402.7	- 211.3
Results from initial recognition transactions with shareholders at non-market price	- 17,413.1	11,804.9	13,543.0	12,485.3	+ 30,956.1	+ 29,898.4
Revaluation results	10,352.5	13,186.5	10,859.3	7,505.3	+ 506.8	- 2,847.2
Earlier and 2017 results	- 300,624.9	- 355,183.3	- 352,324.2	- 377,406.5	- 51,699.3	- 76,781.6
of which 2017 results	-	- 1,335.7	+ 118.9	- 26,530.4	+ 118.9	- 26,530.4
Total equity	106,719.3	113,113.5	139,666.0	128,273.3	+ 32,946.7	+ 21,554.0
For reference:						
Subordinated debt	21,803.0	11,967.5	11,482.0	11,519.8	- 10,321.0	- 10,283.2

Analysis of Liabilities

The dynamics of the liabilities of the member institutions from the beginning of 2017 indicates their decrease during the first half of the year with further growth in the second half of the year, which allowed the Fund not only to restore the initial volumes, but also to exceed them. As in the previous year, the main items reduced were interbank loans and deposits (including loans issued by the NBU), liabilities under subordinated debt, and debt securities issued by banks. Growth was due to the increase in customer balances on demand and fixed-term deposits in UAH.

In total, 2017 liabilities increased by UAH 33,528.5 mn, or 3.5 %, and amounted to UAH 987,889.0 mn as of 1 January 2018 compared to UAH 954,360.5 mn as of January 2017. Taking into account that 2016 total liabilities decreased by UAH 60,526.5 mn, or 6.0 %, their growth over the past six months indicates the actual trend change in the system as a whole.

From the beginning of the year, 56 member institutions increased their liabilities, of which 10 banks in the amount of more than UAH 1.0 bn each, and another two, more than UAH 10.0 bn each. Instead, 27 members reduced their liabilities, of which 5 banks in the amount of UAH 1.0 bn each, and another bank, more than UAH 10.0 bn. At the same time, 45 banks changed the dynamics of liabilities from negative to positive in the second half of the year.

According to Table 5.3, during the reporting year, the balances on loro accounts of the member institutions increased by UAH 314.5 mn, or 2.3 %, and their share in the liability structure did not actually change, remaining at 1.4 %.

At the same time, the volume of interbank loans and deposits decreased considerably; from the beginning of the year they decreased by UAH 27,276.7 mn, or 41.7 %, and amounted to UAH 38,160.7 mn, or 3.9 % of total liabilities as of 1 January 2018, compared to 6.9 % at the beginning of the year. At the same time their share in 19 banks' liabilities exceeds the

Table 5.3

Structure and Dynamics of Liabilities of Member Institutions in 2017, UAH mn

Indicators	1 Jan 2017		1 Jul 2017		1 Oct 2017		1 Jan 2018		Change of the amount from 1 Jan 2017	
	Amount	%	Amount	%	Amount	%	Amount	%	As of 1 Oct 2017	As of 1 Jan 2018
1	2	3	4	5	6	7	8	9	10	11
Debt to the NBU	29,386.2	3.1	22,522.6	2.4	21,385.7	2.3	22,335.2	2.3	- 8,000.5	- 7,051.0
of which loans received	29,385.6	3.1	22,521.9	2.4	21,384.4	2.3	22,332.8	2.3	- 8,001.2	- 7,052.8
Payables to banks	78,833.2	8.3	56,170.7	6.1	52,737.9	5.7	51,871.0	5.3	- 26,095.3	- 26,962.2
of which IBL received* and deposits raised	65,437.4	6.9	39,752.9	4.3	36,245.6	3.9	38,160.7	3.9	- 29,191.8	- 27,276.7
Funds from the budget and extra-budgetary funds	5,149.8	0.5	17,723.6	1.9	19,233.9	2.1	7,251.3	0.8	+ 14,084.1	+ 2,101.5
of which deposits raised	-	-	12,008.6	1.3	12,601.7	1.4	-	-	+ 12,601.7	-
Payables to entities	337,420.2	35.4	338,844.9	36.9	351,927.2	37.7	379,661.2	38.4	+ 14,507.0	+ 42,241.0
of which fixed-term deposits	100,023.5	10.5	89,522.1	9.7	93,022.2	10.0	106,830.0	10.8	- 7,001.3	+ 6,806.5
Payables to individuals	352,981.1	37.0	356,183.5	38.8	359,624.0	38.6	384,671.5	38.9	+ 6,642.9	+ 31,690.4
of which fixed-term deposits	252,932.3	26.5	240,840.2	26.2	242,477.4	26.0	251,414.0	25.4	- 10,454.9	- 1,518.3
Loans from international and other financial organizations	73,623.4	7.7	67,594.5	7.4	66,951.4	7.2	72,388.6	7.3	- 6,672.0	- 1,234.8
Debt securities	13,635.2	1.4	9,966.1	1.1	8,157.6	0.9	6,359.8	0.6	- 5,477.6	- 7,275.4
of which savings/deposit certificates	13,450.4	1.4	9,749.0	1.1	7,973.7	0.9	6,195.0	0.6	- 5,476.7	- 7,255.4
Derivative liabilities	228.2	0.0	71.8	0.0	83.3	0.0	109.6	0.0	- 144.9	- 118.6
Accounts payable	20,133.6	2.1	17,417.0	1.9	19,729.9	2.1	22,087.2	2.2	- 403.7	+ 1,953.6
Subordinated debt	21,803.0	2.3	11,967.5	1.3	11,482.0	1.2	11,519.8	1.2	- 10,321.0	- 10,283.2
Accrued costs	8,980.9	0.9	8,318.4	0.9	8,610.4	0.9	10,017.7	1.0	- 370.5	+ 1,036.8
Other liabilities	12,185.7	1.3	12,244.2	1.3	12,443.4	1.3	19,616.1	2.0	+ 257.7	+ 7,430.4
Total liabilities	954,360.5	100.0	919,024.8	100.0	932,366.7	100.0	987,889.0	100.0	- 21,993.8	+ 33,528.5

* IBL means interbank loans

system average; the resources of one of these 19 banks are formed by interbank loans by more than a half. 46 member institutions raise no funds in the interbank market.

The NBU loan debt of banks also decreased from UAH 29,385.6 mn as of 1 January 2017 to UAH 22,335.2 mn as of 1 January 2018, which led to the reduction of their share in the liability structure from 3.1 % to 2.3 % (last year, loans received from the NBU decreased by UAH 16,154.0 mn, and their share in liabilities decreased by 1.4 %). Currently, only 4 banks borrowed from the NBU.

Similarly, since the beginning of the year, the member institutions reduced the size of subordinated debts (from UAH 21,803.0 mn to UAH 11,519.8 mn), volumes of loans received from international and other financial organizations (from UAH 73,623.4 mn to 72,388.6 mn) and the amount of debt for fixed-term debt securities issued by them (from UAH 13,635.2 mn to 6,359.8 mn), which led to the decrease in the share of these components in the total liabilities, accordingly, 2.3 % to 1.2 % (subordinated debt), 7.7 % to 7.3 % (loans from financial institutions), and 1.4 % to 0.6 % (debt securities issued by them). The level of subordinated debt in liabilities for 3 banks still exceeds 25 % (including 1 bank, at which it exceeds 50 %).

During 2017, the book value of budget and extra-budgetary funds of the member institutions increased and amounted to UAH 7,251.3 mn as of 1 January 2018 compared to UAH 5,149.8 mn as of 1 January 2017, having increased by 1.4 times, and their share in the liability structure increased from 0.5 % to 0.8 %.

During the same period, the funds of entities increased by UAH 42,241.0 mn, or 12.5 % (compared to their increase by UAH 27,337.9 mn, or 8.8 %, during the previous year) and reached UAH 379,661.2 mn, or 38.4 %, in the liability structure. At the same time the share of these funds in liabilities for 53 banks exceeds the system-wide indicator, and 29 banks had this indicator of more than 50 %. At maturity, funds on demand account for 71.9 % of the funds of entities, while at the beginning of the year their share was 70.4 %.

Payables to individuals over the past year increased by UAH 31,690.4 mn (UAH 352,981.1 to 384,671.5 mn), and their share in the liability structure increased by 1.9 % (37.0 % to 38.9 %). As of 1 January 2018, fixed-term deposits accounted for 65.4 % of those funds and funds on demand 34.6 %, although in 2016 the ratio was 71.7 % and 28.3 %, accordingly. In 36 banks the share of deposits in liabilities exceeds the system average, including 20 banks with the share of deposits over 50 %.

In 2017, the share of deposits (including payables to individual entrepreneurs) in total liabilities of the member institutions increased by 1.1 % and reached the level of 37.1 % (in 2016 it increased from 32.8 % to 36.0 %). This indicator of 25 banks exceeds the system average (by more than 50 % at 7 of them), which indicates the status of specialized saving institutions. At present, 49.5 % of all fixed-term deposits raised by the banks accounts for

payables to individuals, while at the beginning of the year this share was 46.0 %.

The share of fixed-term funds in the liability structure of the member institutions in 2017 continued to decrease and amounted to 51.3 % as of 1 January 2018 (for the whole 2016 it decreased from 62.9 % to 57.6 %). At the same time, the total volume of fixed-term deposits of customers grew in the second half of the year, while they steadily decreased during the first half of the year. The growth was exclusively due to the fixed-term liabilities in UAH, while the volume of foreign currency deposits is gradually decreasing.

Therefore, as a whole, the trends that appeared in the past year continue in the reporting period: despite the general increase in liabilities at year-end, they are declining in many directions; the NBU policy is aimed at reducing the bank lending, and the restriction on resources in the interbank market is offset by raising customer funds, which remain the main source of the funding base of the member institutions.

At the same time, the trend towards reducing the fixed-term funds, which existed from the beginning of 2014, continues, although during the second half of 2017, such a decrease slowed down, and the negative dynamics in reducing the fixed-term deposits of customers changed to the opposite due to the national currency deposits. If this trend continues, this will allow for the gradual stabilization of the situation with the funding base of banks, since a constant decrease in the fixed-term funds requires the banking system to maintain higher liquidity and constrains long-term financing of the economy by the funds accumulated by banks.

Analysis of Assets

At year-end 2017, the total assets of the member institutions increased by UAH 85,009.5 mn, or 5.7 %, and amounted to UAH 1,579,820.1 mn as of 1 January 2018 compared to UAH 1,494,810.6 mn at the beginning of the year. Therefore, the negative dynamics observed in the first half of the year, when the assets decreased by UAH 30,180.9 mn, or 2.0 %, has changed to the opposite. 59 member institutions showed the increase in total assets for the year. At the same time, they reduced at 24 banks.

Net assets for the period from 1 January 2017 to 1 January 2018 increased by UAH 55,082.5 mn (from UAH 1,061,079.8 mn to 1,116,162.3 mn), or 5.2 %. 61 member institutions increased their net assets, but 22 banks decreased them. The net assets grew during the second half of the year after their reduction in the first half; it is explained by the actual increase in the loan and investment portfolios of the member institutions despite the additional formation of reserves at the end of the year.

The above data show that in 2017 the main factor in the growth of asset transactions was the investment of banks in government securities (government bonds and NBU certificates). This factor accounts for the lion's share of the total increase in the total assets of the member institutions.

In addition, in the reporting year, the size of the loan portfolio and accrued income increased, and the balance of funds on demand, accounts receivable, fixed assets and intangible assets decreased.

The highly liquid assets of the member institutions (cash, payables to the NBU and on demand funds due from other banks without accrued income) decreased by UAH 10,964.0 mn, or 6.8 %, last year, and amounted to UAH 151,125.2 mn as of 1 January 2018 compared to UAH 162,089.2 mn at the beginning of the year, and their share in total assets for the same period declined from 10.9 % to 9.6 %. At 51 banks, the share of highly liquid assets in the structure exceeds the system average, while this indicator for 6 banks is less than 5.0 %.

See Table 5.4 for changes in the asset volumes and structure of the member institutions in 2017.

The volume of the loan portfolio in 2017 slightly increased, recovering in the second half of the year after the reduction

in the first half of the year. At the same time, the net portfolio decreased due to the deterioration of the quality of loan debt and creation of additional reserves at the end of the year. See Table 5.5 for changes in the size and structure of the loan portfolio of the member institutions during 2017.

The total loan portfolio (including accrued income) for 2017 increased by UAH 36,126.1 mn, or 3.9 %, and amounted to UAH 961,012.7 mn as of 1 January 2018 compared to UAH 924 886.6 mn as of 1 January 2017. It grew in all directions, except for corporate loans, which was less than 0.1 % compared to the beginning of the year.

The net loan portfolio in 2017 decreased by UAH 6,341.4 mn, or 1.2 %, due to the creation of additional reserves for lending activities, which since the beginning of the year has increased by UAH 42,467.5 mn and reached UAH 454,076.6 mn as of 1 January 2018 compared to UAH 411,609.1 mn as of 1 January 2017. At year-end, the share of the loan portfolio in assets dropped from 61.9 % to 60.8 %.

Table 5.4

Member Institutions Asset Structure and Dynamics in 2017, UAH mn

Indicators	1 Jan 2017		1 Jul 2017		1 Oct 2017		1 Jan 2018		Change of the amount from 1 Jan 2017	
	Amount	%	Amount	%	Amount	%	Amount	%	As of 1 Oct 2017	As of 1 Jan 2018
1	2	3	4	5	6	7	8	9	10	11
Cash and payables to the NBU	67,087.3	4.5	76,259.7	5.2	69,310.7	4.6	69,897.8	4.4	+ 2,223.4	+ 2,810.5
of which payables to the NBU	34,575.9	2.3	41,329.0	2.8	36,002.2	2.4	30,524.9	1.9	+ 1,426.3	- 4,051.0
On demand funds with other banks*	95,055.0	6.4	98,886.0	6.8	104,421.3	7.0	81,288.9	5.2	+ 9,366.3	- 13,766.1
Loan portfolio*	924,886.6	61.9	892,503.4	60.9	911,772.3	60.8	961,012.7	60.8	- 13,114.3	+ 36,126.1
of which interbank loans and deposits*	14,188.0	0.9	12,691.9	0.9	17,789.3	1.2	22,155.1	1.4	+ 3,601.3	+ 7,967.1
Securities and derivative financial asset portfolio*	283,508.2	19.0	288,728.8	19.7	306,644.4	20.5	364,464.4	23.1	+ 23,136.2	+ 80,956.2
of which Government bonds, NBU deposit certificates*	246,732.3	16.5	251,865.9	17.2	269,266.8	18.0	322,799.1	20.4	+ 22,534.5	+ 76,066.8
Accounts receivable	29,180.7	1.9	18,339.8	1.3	17,583.1	1.2	16,299.0	1.0	- 11,597.6	- 12,881.7
Investments in affiliates or subsidiaries	862.7	0.0	780.7	0.0	777.5	0.0	777.5	0.0	- 85.2	- 85.2
Fixed and intangible assets	46,470.0	3.1	44,083.6	3.0	42,974.2	2.9	44,802.0	2.9	- 3,495.8	- 1,668.0
Other accrued income	1,483.6	0.1	1,521.5	0.1	1,551.4	0.1	1,727.1	0.1	+ 67.8	+ 243.5
Other assets	46,276.5	3.1	43,526.2	3.0	44,176.4	2.9	39,550.7	2.5	- 2,100.1	- 6,725.8
Total assets	1,494,810.6	100.0	1,464,629.7	100.0	1,499,211.3	100.0	1,579,820.1	100.0	+ 4,400.7	+ 85,009.5
Reserves for asset transactions	- 433,730.8	x	- 432,491.4	x	- 427,178.6	x	- 463,657.8	x	+ 6,552.2	- 29,927.0
Net assets	1,061,079.8	x	1,032,138.3	x	1,072,032.7	x	1,116,162.3	x	+ 10,952.9	+ 55,082.5

* with accrued income

Corporate loans decreased by UAH 643.3 mn, or 0.1 %, during 2017 (from UAH 725,464.5 mn as of 1 January 2017 to UAH 724,821.2 mn as of 1 January 2018). On the other hand, it was the corporate portfolio that grew fastest in the second half of the year and increased by UAH 26,154.7 mn after the decrease by UAH 26,798.0 mn in the first half of the year. This growth would be more significant, had one of the banks not reduced its loan portfolio by UAH 8,027.0 mn in December by assigning claims and partial repayment.

In 2017, retail loans increased by UAH 4,186.3 mn, or 3.2 %, and amounted to UAH 135,881.6 mn as of 1 January 2018 compared to UAH 131,695.3 mn at the beginning of the year. The increase in Q3 and Q4 allowed to completely balance the decline in the first half of the year.

The portfolio of interbank loans and deposits showed the similar dynamics: after the decrease in Q1 and Q2 it increased by UAH 7,883.2 mn, or 55.8 %, in the second half of the year and amounted to UAH 22,019.5 mn as of 1 January 2018 compared to UAH 14,136.3 mn as of 1 January 2017.

The volume of accrued income, which as of 1 January 2018 amounted to UAH 77,695.6 mn, increased by UAH 24,453.3 mn in 2017, which is two thirds of the annual growth of the loan portfolio.

In Q3 2017, the overdue loan debt (excluding accrued income) significantly increased by UAH 106,215.6 mn due to the significant delay in repayment of corporate loans at PJSC CB "PRIVATBANK." As a result, at year-end 2017, the total overdue loan portfolio of the member institutions amounted to UAH 338,569.9 mn, exceeding the level of the beginning of the year by UAH 89,417.0 mn, or 35.9 %. Due to the significant increase in nominal amounts of overdue debts, its share in the total loans increased by 11.1 % from the beginning of the year (from 22.8 % to 33.9 %), and the share of overdue debts, inclusive of the accrued income in the loan portfolio structure, increased by 8.3 % (from 26.9 % to 35.2 %). At the same time, without taking into account the performance of PJSC CB "PRIVATBANK", the level of overdue debts in the loan portfolio of the member institutions gradually decreased in the past year.

For example, since the beginning of the year, the volume of overdue debts decreased by UAH 9,343.2 mn, or 23.8 %, on retail loans, by UAH 571.8 mn, or 62.3 %, on interbank loans and deposits, and overdue debts on loans to state authorities were fully repaid. In addition, the overdue debt for accrued income decreased by UAH 11,344.2 mn, or 22.6 %, during 2017 (UAH 50,235.2 mn as of 1 January 2017 to UAH 38,891.0 mn as of 1 January 2018).

From the beginning of 2017 the amount of credit risk reserves increased by UAH 42,467.5 mn, or 10.3 %, while the reserve coverage level of loan portfolio increased from 44.5 % to 47.2 %, which indicates a further deterioration in its quality. Currently, the share of non-performing loans and income accrued thereon (without deducting reserves) in the

loan portfolio of solvent member institutions exceeds half, although in the second half of the year it decreased.

According to Table 5.6, at the end of 2017 the volume of non-performing loans and accrued income of the solvent member institutions amounted to UAH 503,052.6 mn, and their share in the loan portfolio amounted to 53.7 %. State-owned banks had most of non-performing loans (UAH 316,049.9 mn, or 62.8 % of their total), and privately owned banks had least of them (UAH 30,169.1 mn, or 6.0 %).

As of 1 January 2018, non-performing loans and income accrued thereon in the total loan portfolio of state-owned banks (without deducting reserves) accounted for 73.6 % (including 87.6 % of PJSC CB "PRIVATBANK"). The same indicator at solvent banks of foreign banking groups and privately owned banks was 41.0 % and 24.1 %, accordingly. At the same time, during the second half of 2017, the share of the non-performing loan portfolio tended to decrease due to the provision of new loans by banks and the sale of bad debts. Against the backdrop of the negative dynamics of the loan portfolio, the structure of the portfolio of securities and derivative financial assets (DFA), as well as its changes during 2017, look more attractive, which is shown in Table 5.7.

The total volume of investments of the member institutions in securities and DFA (excluding accrued income) continued to grow for the third year in a row, and amounted to UAH 358,092.8 mn as of 1 January 2018, which is UAH 77,948.2 mn, or 27.8 %, more than at the beginning of the year. The size of the entire portfolio of securities and DFA (including accrued income) for the same period increased by UAH 80,956.2 mn and reached UAH 364,464.4 mn, or 23.1 %, of the total assets. The net portfolio of securities also increased and amounted to UAH 360,005.1 mn as of 01.01.2018 compared to UAH 278,847.0 mn at the beginning of the year. The main component of the portfolio is government securities (government bonds and NBU deposit certificates), which accounts for 88.7 % of all investments (excluding accrued income). During 2017, they increased by UAH 73,679.7 mn, or 30.2 % (UAH 243,794.0 mn as of 1 January 2017 to UAH 317,473.7 mn as of 1 January 2018). The increase in the volume of DFA amounted to UAH 5,797.6 mn, or 20.2 %, and they concentrate UAH 34,501.7 mn as of 1 January 2018. Instead, the volume of investments in corporate securities, as in the previous year, continues to decline, and from the beginning of the year it has decreased by UAH 1,529.1 mn, or 14.5 % (UAH 7,646.5 mn as of 1 January 2017 to UAH 6,117.4 mn as of 1 January 2018).

This trend indicates the continuing decline of the share of the banking system in financing the real sector of economy. Free funds from the corporate stock market are directed to the purchase of risk-free government bonds and NBU certificates, which currently concentrate most of the banks' investments in securities.

In the structure of the portfolio of securities and DFA, the portfolio for sale still prevails, and as of 1 January 2018 it accounts for 56.6 % (excluding accrued income), although

Table 5.5

Member Institutions Loan Portfolio Volume and Structure in 2017, UAH mn

Indicators	1 Jan 2017		1 Jul 2017		1 Oct 2017		1 Jan 2018		Change of the amount from 1 Jan 2017	
	Amount	%	Amount	%	Amount	%	Amount	%	As of 1 Oct 2017	As of 1 Jan 2018
1	2	3	4	5	6	7	8	9	10	11
Interbank loans and deposits	14,136.3	1.5	12,644.9	1.4	17,737.5	1.9	22,019.5	2.3	+ 3,601.2	+ 7,883.2
of which overdue ones	917.8	0.1	1,148.8	0.1	1,157.5	0.1	346.0	0.0	+ 239.7	- 571.8
Loans to entities	725,464.5	78.4	698,666.5	78.3	708,549.1	77.7	724,821.2	75.4	- 16,915.4	- 643.3
of which overdue ones	158,491.0	17.1	161,291.7	18.1	268,225.2	29.4	269,403.8	28.0	+ 109,734.2	+ 110,912.8
Loans to state authorities	348.2	0.0	333.6	0.0	93.3	0.0	594.8	0.1	- 254.9	+ 246.6
of which overdue ones	236.5	0.0	236.5	0.0	-	-	-	-	- 236.5	- 236.5
Retail loans	131,695.3	14.3	129,035.8	14.5	133,599.9	14.7	135,881.6	14.1	+ 1,904.6	+ 4,186.3
of which overdue ones	39,272.4	4.3	36,067.6	4.0	35,577.5	3.9	29,929.2	3.1	- 3,694.9	- 9,343.2
Accrued income on IBLD*	51.7	0.0	47.0	0.0	51.8	0.0	74.1	0.0	+ 0.1	+ 22.4
of which overdue ones	14.0	0.0	31.5	0.0	30.7	0.0	42.4	0.0	+ 16.7	+ 28.4
Accrued income on customer loans	53,190.6	5.8	51,775.6	5.8	51,740.7	5.7	77,621.5	8.1	- 1,449.9	+ 24,430.9
of which overdue ones	50,221.2	5.4	48,021.3	5.4	46,957.6	5.2	38,848.5	4.0	- 3,263.6	- 11,372.7
Total loan portfolio	924,886.6	100.0	892,503.4	100.0	911,772.3	100.0	961,012.7	100.0	- 13,114.3	+ 36,126.1
of which overdue one	249,152.9	26.9	246,797.4	27.6	351,948.5	38.6	338,569.9	35.2	+ 102,795.6	+ 89,417.0
Loan loss reserves	- 411,609.1	x	- 422,536.0	x	- 416,618.1	x	- 454,076.6	x	- 5,009.0	- 42,467.5
Net loan portfolio	513,277.5	x	469,967.4	x	495,154.2	x	506,936.1	x	- 18,123.3	- 6,341.4
For reference:										
IBLD loss reserves*	- 1,331.9	x	- 1,226.0	x	- 1,219.4	x	- 1,983.1	x	+ 112.5	- 651.2
Customer loan loss reserves	- 410,277.2	x	- 421,310.0	x	- 415,398.7	x	- 452,093.5	x	- 5,121.5	- 41,816.3

* IBLD means interbank loans and deposits

Table 5.6

Non-performing Loans of Solvent Member Institutions in the second half of 2017, UAH mn

Indicators	1 Jul 2017		1 Oct 2017		1 Jan 2018		Changes within six months	
	amount	share of LP*, %	amount	share of LP*, %	amount	share of LP*, %	amount	share
1	2	3	4	5	6	7	8	9
Non-performing loans and income accrued thereon (without deducting reserves) of solvent state-owned banks	285,580.1	76.3	286,314.7	74.2	316,049.9	73.6	+ 30,469.8	- 2.7
of which Privatbank	207,988.3	88.8	208,445.0	85.9	236,211.2	87.6	+ 28,222.9	- 1.2
Non-performing loans and income accrued thereon (without deducting reserves) of solvent banks of foreign banking groups	183,638.2	48.0	177,656.3	46.0	156,833.6	41.0	- 26,804.6	- 7.0
Non-performing loans and income accrued thereon (without deducting reserves) of solvent privately owned banks	27,941.9	24.7	29,280.3	25.1	30,169.1	24.1	+ 2,227.2	- 0.6
Total non-performing loans and income accrued thereon (without deducting reserves) of solvent banks	497,160.2	57.1	493,251.3	55.5	503,052.6	53.7	+ 5,892.4	- 3.4

* LP means a loan portfolio of the respective group of banks without deducting reserves

Table 5.7

Portfolio of Securities and Derivative Financial Assets of Member Institutions in 2017, UAH mn

Indicators	1 Jan 2017		1 Jul 2017		1 Oct 2017		1 Jan 2018		Change of the amount from 1 Jan 2017	
	amount	%	amount	%	amount	%	amount	%	As of 1 Oct 2017	As of 1 Jan 2018
1	2	3	4	5	6	7	8	9	10	11
DFA* in the trading portfolio	28,704.1	10.1	29,958.4	10.3	30,555.0	10.0	34,501.7	9.5	+ 1,850.9	+ 5,797.6
of which DFA* related to government bonds paid for Privatbank shares	28,539.6	10.1	29,847.4	10.3	30,445.9	10.0	34,435.0	9.4	+ 1,906.3	+ 5,895.4
Securities in the trading portfolio	35,233.0	12.4	39,061.3	13.5	41,230.9	13.4	45,601.5	12.5	+ 5,997.9	+ 10,368.5
of which government bonds, NBU deposit certificates	35,117.8	12.4	39,044.3	13.5	41,210.8	13.4	45,550.4	12.5	+ 6,093.0	+ 10,432.6
Securities in the portfolio for sale	182,379.5	64.4	179,193.4	62.1	176,855.9	57.7	202,590.5	55.6	- 5,523.6	+ 20,211.0
of which government bonds, NBU deposit certificates	174,878.8	61.7	172,701.8	59.8	170,443.3	55.6	197,484.4	54.2	- 4,435.5	+ 22,605.6
Securities to maturity in the portfolio	33,828.0	11.9	35,718.2	12.4	53,251.4	17.4	75,399.1	20.7	+ 19,423.4	+ 41,571.1
of which government bonds, NBU deposit certificates	33,797.4	11.9	35,688.1	12.4	53,221.4	17.4	74,438.9	20.4	+ 19,424.0	+ 40,641.5
Accrued income	3,363.6	1.2	4,797.5	1.7	4,751.2	1.5	6,371.6	1.7	+ 1,387.6	+ 3,008.0
Total portfolio of securities and DFA*	283,508.2	100.0	288,728.8	100.0	306,644.4	100.0	364,464.4	100.0	+ 23,136.2	+ 80,956.2
of which government bonds paid for Privatbank shares	64,408.2	22.7	74,856.2	25.9	98,110.1	32.0	110,785.7	30.4	+ 33,701.9	+ 46,377.5
Reserves for securities	- 4,661.2	x	- 4,524.7	x	- 4,575.5	x	- 4,459.3	x	+ 85.7	+ 201.9
Net portfolio of securities and DFA*	278,847.0	x	284,204.1	x	302,068.9	x	360,005.1	x	+ 23,221.9	+ 81,158.1
For reference:										
Reserves for securities for sale	- 4,653.6	x	- 4,517.5	x	- 4,561.1	x	- 4,454.6	x	+ 92.5	+ 199.0
Reserves for securities to maturity	- 7.6	x	- 7.2	x	- 14.4	x	- 4.7	x	- 6.8	+ 2.9

* DFA means derivative financial assets

its share decreased by 8.5 % in the past year. The shares of the trading portfolio and portfolio to maturity amounted to 22.3 % and 21.1 %, accordingly, compared to 22.8 % and 12.1 % at the beginning of last year.

In 2017, investments of the member institutions in affiliates and subsidiaries decreased by UAH 85.2 mn, or 9.9 %, while long-term investments in fixed assets and intangible assets decreased by UAH 1,668.0 mn, or 3.6 %.

A positive fact is the significant reduction of the book value of accounts receivable of the member institutions from UAH 29,180.7 mn as of 1 January 2017 to UAH 16,299.0 mn as of 1 January 2018.

Analysis of Financial Results

At year-end 2017, the total income of the member institutions amounted to UAH 156,510.9 mn, which is UAH

13,277.5 mn less than in 2016. All components of revenues except for fees dropped.

See Table 5.8 for the volumes and structure of revenues, as well as their changes during the past year.

The previous years' trend of decline in interest income continues, while in the reporting year banks earned interest income by UAH 11,876.0 mn less than last year. The relative share of interest income in the 2017 income structure also decreased and amounted to 68.5 % compared to 70.1 % at year-end 2016.

Interest income declined due to the decrease in income from corporate lending transactions, although the return on retail loans had not changed, and interest income from securities transactions even increased due to the significant increase in income from government bonds and NBU certificates.

The banks partially offset such a decrease in revenues from the main activities by increasing fee revenues, the amount of

which for the reporting year exceeded that of 2016 by UAH 4,657.7 mn, and their share in the revenue structure increased from 16.8 % to 21.2 %.

The volumes of the remaining income items decreased during 2017 compared to year-end 2016. This applies to the result of revaluation and purchase and sale transactions, return of assets charged off, and other income and other operating income. The share of these components in the structure of income of the member institutions also decreased.

Given the gradual decrease in revenues, banks try to reduce their expenses, which in 2017 decreased by UAH 147,136.8 mn compared to 2016, and amounted to UAH 183,041.3 mn.

As shown in Table 5.9, the main component of expenses in 2017 were interest costs, although last year they were

allocations to reserves. According to the results of the last year, they accounted for UAH 57,802.0 mn, or 31.6 %, of the total amount of expenses. There is still a trend for a gradual decrease in the absolute amount of interest expenses, which resulted from banks' decreasing the interest rates for customers' funds, which has lasted for several years in a row.

Allocations to reserves significantly decreased in 2017. Compared to 2016, their volume decreased by UAH 148,327.2 mn, or almost fourfold, including the reductions of allocations to reserves for customer loans by UAH 137,849.6 mn. The share of allocations to reserves in total expenses amounted to 27.6 % in 2017 compared to 60.3 % in 2016. Such a sharp decrease is due to the fact that banks formed the main part of the reserves for asset transactions in 2016. It is due to the substantial reduction in allocations to reserves that the total expenditures of the member

Table 5.8

Dynamics and Structure of Income of Member Institutions in 2017, UAH mn

Income items	1 Jan 2017		1 Jul 2017		1 Oct 2017		1 Jan 2018		Changes for the year	
	amount	%	amount	%	amount	%	amount	%	amount	%
1	2	3	4	5	6	7	8	9	10	11
Interest income	119,042.9	70.1	52,245.5	68.8	78,970.0	68.7	107,166.9	68.5	- 11,876.0	- 1.6
Fee-based income	28,487.3	16.8	16,244.5	21.4	25,414.2	22.1	33,145.0	21.2	+ 4,657.7	+ 4.4
of which fee for settlement and cash services	22,542.2	13.3	13,122.0	17.3	20,542.4	17.9	26,325.7	16.8	+ 3,783.5	+ 3.5
Other operating income	9,469.7	5.6	2,453.0	3.2	4,213.5	3.7	7,169.9	4.6	- 2,299.8	- 1.0
Revaluation result and purchase and sale transactions	7,133.0	4.2	3,935.0	5.2	4,604.1	4.0	6,632.4	4.2	- 500.6	0.0
Other income	3,929.1	2.3	595.6	0.8	887.4	0.8	1,329.1	0.8	- 2,600.0	- 1.5
Return of assets charged off	1,726.4	1.0	489.1	0.6	775.1	0.7	1,067.6	0.7	- 658.8	- 0.3
Total income	169,788.4	100.0	75,962.7	100.0	114,864.3	100.0	156,510.9	100.0	- 13,277.5	x

Table 5.9

Dynamics and Structure of Expenses of Member Institutions in 2017, UAH mn

Expense items	1 Jan 2017		1 Jul 2017		1 Oct 2017		1 Jan 2018		Changes for the year	
	amount	%	amount	%	amount	%	amount	%	amount	%
1	2	3	4	5	6	7	8	9	10	11
Interest expenses	78,597.2	23.8	29,624.2	38.3	43,177.1	37.6	57,802.0	31.6	- 20,795.2	+ 7.8
of which % of payables to customers	56,966.0	17.3	23,091.9	29.9	33,894.9	29.5	44,541.5	24.3	- 12,424.5	+ 7.0
Fee and commission expenses	6,403.8	1.9	3,791.9	4.9	5,905.0	5.2	8,348.7	4.6	+ 1,944.9	+ 2.7
of which fee for settlement and cash services	5,445.7	1.7	3,364.0	4.4	5,245.9	4.6	7,458.8	4.1	+ 2,013.1	+ 2.4
Other operating expenses	9,015.5	2.7	3,738.7	4.8	5,925.7	5.2	9,762.5	5.3	+ 747.0	+ 2.6
Administrative and tax expenses	37,206.2	11.3	20,630.7	26.7	31,930.3	27.8	56,499.9	30.9	+ 19,293.7	+ 19.6
of which Privatbank	7,748.3	2.3	4,088.6	5.3	6,611.1	5.8	20,971.1	11.5	+ 13,222.8	+ 9.2
Allocations to reserves	198,955.4	60.3	19,512.9	25.3	27,807.3	24.2	50,628.2	27.6	- 148,327.2	- 32.7
of which allocation to reserves for customer loans	185,512.3	56.2	31,070.6	40.2	26,132.8	22.8	47,662.7	26.0	- 137,849.6	- 30.2
Total expenses	330,178.1	100.0	77,298.4	100.0	114,745.4	100.0	183,041.3	100.0	- 147,136.8	x

institutions decreased by 44.6 % in the reporting year compared to the level of 2016.

Unlike allocations to reserves, administrative and tax expenses in 2017 increased significantly and amounted to UAH 56,499.9 mn, exceeding the level of 2016 by UAH 19,293.7 mn. Their share in the expense structure reached 30.9 % compared to 11.3 % in 2016 and exceeded the share of allocations to reserves. This change was mainly caused by the increase in administrative and tax expenses of PJSC CB “PRIVATBANK” by UAH 13,222.8 mn, including by UAH 11,765.6 mn in December 2017 for the Other Expenses item.

According to the results of the reporting year, the consolidated financial result of the member institutions was negative and amounted to UAH 26,530.4 mn, that is, the banking system as a whole continues to operate at a loss. This is due to the constant growth of credit risk reserves against the backdrop of continued decline in the return on asset transactions. At the same time, the loss of the reporting year was 6 times lower than in 2016 due to the significant reduction in allocations to reserves.

The dynamics of the financial result since the beginning of the year was unstable: the profit of UAH 5,097.6 mn was observed in Q1, loss of UAH 6,433.3 mn in Q2, profit of UAH 1,454.6 mn in Q3, and loss of UAH 26,649.3 mn in Q4.

At year-end 2017, the activity of 63 member institutions was profitable: the total positive result amounted to UAH 15,366.2 mn (at the end of 2016, there were 62 such banks with the total profit of UAH 10,356.5 mn). 20 banks were at loss totalling to UAH 41,896.6 mn. See Table 5.10 for the change in financial results of individual groups of banks during 2017.

In 2017, all state-owned banks among the groups of banks showed profitability, except for PJSC CB “PRIVATBANK”, which annual loss of UAH 22,965.9 mn resulted in the negative consolidated result of the entire group in the amount of UAH 21,407.2 mn. Banks with foreign capital had the net loss of UAH 5,068.7 mn due to the loss-making activity of Russian state-owned banks, the aggregate negative result of which amounted to UAH 11,808.2 mn. Solvent privately owned banks had the consolidated annual profit of UAH 1,557.2 mn, while both insolvent banks completed the year with losses totalling to UAH 1,611.7 mn.

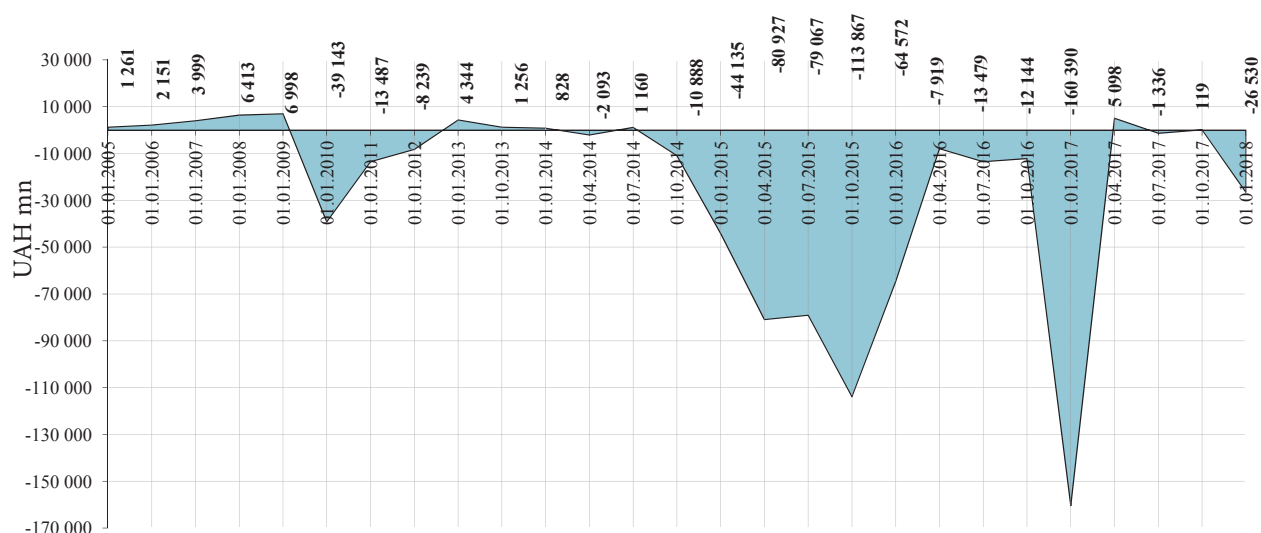


Fig. 5.3. Dynamics of Financial Results of Banks, UAH mn

Table 5.10

Financial Result of Certain Groups of Member Institutions in 2017, UAH mn

Indicators	1 Jan 2017	1 Jul 2017	1 Oct 2017	1 Jan 2018	Changes from 1 Jan 2017	
					As of 1 Oct 2017	As of 1 Jan 2018
1	2	3	4	5	6	7
Financial result of solvent state-owned banks	- 136,027.6	- 1,980.6	+ 99.9	- 21,407.2	+ 136,127.5	+ 114,620.4
of which Privatbank	- 135,309.1	- 2,777.9	- 1,605.3	- 22,965.9	+ 133,703.8	+ 112,343.2
Financial result of solvent banks of foreign banking groups	- 22,374.1	- 1,018.8	- 25.9	- 5,068.7	+ 22,348.2	+ 17,305.4
including Russian state-owned banks	- 15,061.1	- 5,784.8	- 6,275.4	- 11,808.2	+ 8,785.7	+ 3,252.9
Financial result of solvent privately owned banks	- 1,454.3	+ 1,040.5	+ 909.1	+ 1,557.2	+ 2,363.4	+ 3,011.5
Financial result of insolvent banks	- 533.7	+ 623.2	- 864.2	- 1,611.7	- 330.5	- 1,078.0
Financial result of all member institutions	- 160,389.7	- 1,335.7	+ 118.9	- 26,530.4	+ 160,508.6	+ 133,859.3

5.2. Analysis of Deposit Market Trends

The analysis of deposit transactions in 2017 was conducted for 83 member institutions according to the monthly “Report on Retail Deposits of DGF Member Institutions (Reporting Form No. 1Φ) as of 1 January 2018” received from the member institutions.

Taking 16 banks off the register had a significant impact on the dynamics of the retail deposit indicators (Table 5.11).

Deposit Market Trends

- **The number of depositors** in 2017 decreased by 150,100 persons, or 0.4 %, and amounted to **41.0 mn.**

The total number of depositors with the state-owned banks is 22.8 mn persons, or 55.7 %, of the total number for the Fund.

Among the operating banks, PJSC CB “PRIVATBANK” (589,400 persons) and PJSC “ALPHA-BANK” (454,100 persons) showed the largest increase in 2017. PJSC “UKRSOTSBANK” (-315,600 persons) and PJSC “BANKFORWARD” (-268,900 persons) showed the largest decrease in the number of depositors in 2017.

8 banks, the number of depositors in each of which is more than 1 mn persons, concentrate a total of 33.2 mn depositors, which accounts for 81.0 % of the total number of depositors with the Fund (Table 5.12). PJSC CB “PRIVATBANK” concentrates deposits of 21.2 mn persons, which accounts for 51.8 % of the total number of depositors with the Fund.

- **Total deposits** increased by UAH 31.6 bn, or 8.3 %, and amounted to UAH 413.8 bn in 2017. Total national currency deposits increased by UAH 33.8 bn, or 19.9 %, and amounted to UAH 203.7 bn (49.2 % in the deposit structure). The UAH equivalent of foreign currency deposits decreased by UAH 2.2 bn, or 1.0 %, and amounted to UAH 210.0 bn (50.8 % in the structure) (to compare: the USD equivalent decreased by USD 322.8 mn, or 4.1 %, and amounted to USD 7.48 bn).

The total amount of deposits with the state-owned banks is UAH 218.5 bn, or 52.8 %, of the total amount of deposits with the Fund.

The following banks had the largest reduction in the amount of deposits (more than UAH 1 bn) in 2017:

- PJSC “UKRSOTSBANK” (UAH -5.3 bn, or 31.7 %, up to UAH 11.5 bn);
- PJSC “SBERBANK” (UAH -3.4 bn, or 30.4 %, up to UAH 7.9 bn);
- PJSC “VTB Bank” (UAH -1.4 bn, or by 30.0 %, up to UAH 3.4 bn);
- PJSC “Prominvestbank” (UAH -1.2 bn, or 22.0 %, up to UAH 4.2 bn).

- The following banks had the largest increase in the amount of deposits (more than UAH 1 bn) in 2017:
- PJSC CB “PRIVATBANK” (UAH +24,1 bn, or 15.8 %, up to UAH 176.3 bn);
- PJSC “ALFA-BANK” (UAH +6.1 bn, or 34.1 %, up to UAH 24.1 bn);
- JSC “Raiffeisen Bank Aval” (UAH +4.5 bn, or 22.5 %, up to UAH 24.7 bn);
- JSB “UkrGasbank” (UAH +3.2 bn UAH, or 23.1 %, to UAH 16.9 bn);
- JSC “TAScombank” (UAH + 2.9 bn, or 89.8 %, up to UAH 6.1 bn);
- JSC “UkrSibbank” (UAH + 2.5 bn, or 19.0 %, up to UAH 15.7 bn);
- PJSC JSB “Pivdennyi” (UAH +1.5 bn, or 22.7 %, up to UAH 8.2 bn);
- PJSC “KREDOBANK” (UAH +1.3 bn, or 30.5 %, up to UAH 5.6 bn);
- JSC “OTP Bank” (UAH +1.1 bn, or 10.8 %, up to UAH 11.2 bn);
- PJSC “A-BANK” (UAH +1.0 bn, or 41.7 %, up to UAH 3.5 bn);

The 9 banks with total deposits in excess of UAH 10 bn each jointly concentrate UAH 321.9 bn, or 77.8 %, of total deposits of all the Fund, of which PJSC CB “PRIVATBANK” accounts for 42.6 % of all the member institutions (Table 5.13).

- The number of **individual entrepreneurs** amounted to 1.2 mn persons, or 2.8 %, as of 1 January 2018 among all depositors **in the amount** of UAH 21.4 bn, which accounted for 5.2 % of the total deposits. In 2017, the number of individual entrepreneurs increased by 55,600 persons, or 5.1 %, and the amount, by UAH 7.0 bn, or 48.8 %. PJSC CB “PRIVATBANK” concentrates the largest number of individual entrepreneurs and the amount of funds (582,970 persons, or 50.6 %, per UAH 9.1 bn, or 42.5 %).
- There were 2 **insolvent** banks, which concentrated funds of 180,000 depositors for the total amount of UAH 1.4 bn, of which the Fund guarantees the funds of 58,800 persons; the reimbursement amount is UAH 0.5 bn.
- In 2017, **the average deposit** increased by UAH 806.2 and amounted to **UAH 10,103.85**. The average deposit amount guaranteed by the Fund (over UAH 10) increased by UAH 157.12 and amounted to UAH 16,535.14. The largest average deposit amount is concentrated at PJSC “BANK AVANGARD” (UAH 2.2 mn; 26 depositors and UAH 58.1 mn of deposit

Table 5.11

Data on Retail Deposits of the Banks Taken off the DGF Member Institutions Register in 2017
as of 1 January 2017

No.	Reg. No.	Name of the bank	Number of depositors	Deposit amount, UAH		Potential reimbursement amount, UAH	Date of decision to liquidate a bank
			persons	total	of which foreign-currency deposits		
1	2	3	4	5	6	7	8
1	199	BANK TRUST ¹	54,863	557,389,011	14,090,223	544,205,027	29 Dec 2016
2	35	INVESTBANK	10,157	115,761,093	44,356,026	95,384,606	11 Jan 2017
3	163	FORTUNA-BANK	7,703	376,687,041	324,200,151	93,452,620	21 Feb 2017
4	179	PLATINUM BANK	520,777	5,912,241,147	1,648,311,686	4,889,371,393	23 Feb 2017
5	156	NK BANK	3,047	18,105,830	868,506	9,164,373	7 Mar 2017
6	237	VECTOR BANK	1,675	74,416,584	13,000,381	71,968,703	21 Mar 2017
7	37	FINBANK	86	3,173,058	1,448,773	3,086,447	27 Apr 2017
8	133	DIAMANTBANK	96,650	2,104,422,883	1,102,870,623	884,768,264	22 Jun 2017
9	127	NOVYI	11,447	100,073,195	7,703,645	92,132,320	31 Aug 2017
10	236	HEFEST	0	0	0	0	29 Sep 2017
11	192	BANK BOGUSLAV ²	8,990	307,550,052	161,128,834	144,621,550	30 Nov 2017
12	227	FINANSOVYI PARTNER	1,056	8,937,223	296,659	2,720,072	30 Nov 2017
13	53	EXPRESS-BANK	485,562	423,178,082	89,909,437	310,734,565	14 Dec 2017
14	217	APEXBANK	2,674	103,377,424	79,814,183	39,062,782	26 Dec 2017
15	19	INDUSTRIAL-FINANCIAL BANK	4,922	85,023,145	44,012,614	20,578,203	26 Dec 2017
16	201	CREDIT OPTIMA BANK	348	3,466,630	1,683,832	2,510,921	28 Dec 2017
Total for 2017³			1,209,957	10,193,802,398	3,533,695,574	7,203,761,847	

¹ Taken off from the DGF Register on 5 January 2017;

² Taken off from the DGF Register on 4 December 2017;

³ Except for JSC "RODOVID BANK" – Decision of the National Bank of Ukraine No. 811-рн dated 19 December 2017 to liquidate the bank, taken off from the DGF Register on 19 July 2012 (Minutes No. 23 dated 18 July 2012).

Table 5.12

Banks Concentrating the Largest Number of Depositors as of 1 January 2018

No.	Reg. No.	Name of the bank	1 Jan 2018					
			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	2	3	4	5	6	7	8	9
1	113	PRIVATBANK	21,213	51.8	3,841	176,317,178	15,288	118,435,059
2	121	RAIFFEISEN BANK AVAL	2,556	6.2	103	24,733,055	1,717	15,281,243
3	90	UKRSIBBANK	2,213	5.4	203	15,742,534	1,337	9,489,689
4	48	ALFA-BANK	1,835	4.5	112	24,148,247	466	10,226,217
5	111	FUIB	1,834	4.5	134	16,117,553	741	7,450,976
6	21	UKRSOTSBANK	1,276	3.1	130	11,464,233	455	6,520,782
7	98	ACCENT-BANK	1,190	2.9	77	3,458,280	429	3,102,519
8	143	SBERBANK	1,038	2.5	443	7,889,768	217	2,305,660
Total for banks:			33,155	81.0	5,043	279,870,849	20,650	172,812,144
% of total for the Fund			81.0	81.0	84.9	67.6	85.4	72.6
TOTAL for the Fund			40,952	100.0	5,941	413,769,213	24,192	238,042,953

amount) and JSC “MISTOBANK” (UAH 268,800; 4,478 depositors and UAH 1.2 bn of deposit amount).

- **Potential reimbursement amount** by the Fund increased by UAH 34.8 bn, or 17.1 %, in 2017 and amounted to **UAH 238.04 bn** as of 1 January 2018.

The total amount of potential reimbursement at state-owned banks is UAH 137.0 bn, or 57.6 %, of the total amount of the Fund.

The largest growth in the amount of potential reimbursement were observed at PJSC CB “PRIVATBANK” (UAH 23.3 bn, or 24.5 %, up to UAH 118.4 bn), JSC “Raiffeisen Bank Aval” (UAH +4.0 bn, or 35.9 %, up to UAH 15.3 bn), PJSC “ALFA-BANK” (UAH +3.1 bn, or 44.5 %, up to UAH 10.2 bn), JSC “UkrSibbank” (UAH +2.6 bn, or 37.6 %, up to UAH 9.5 bn).

Table 5.14 shows 14 banks with the highest growth rates (more than 100 %) of the potential reimbursement in 2017.

Table 5.15 shows the dynamics of retail deposit transactions of the member institutions in 2017.

Table 5.16 shows the deposit structure of member institutions since the beginning of 2014.

Table 5.17 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 (Fig. 5.4).

Deposits by Currency

In 2017, the relative share of national currency deposits increased from 44.5 % to 49.2 %, while foreign currency deposits decreased from 55.5 % to 50.8 % (Fig. 5.5).

In 2017, national currency deposits increased by UAH 33.8 bn, or 19.9 %, and amounted to UAH 203.7 bn. Compared to the dynamics of 2016 (UAH +5.4 bn, or 3.3 %), the growth rate of national currency deposits increased significantly.

In 2017, the UAH equivalent of national currency deposits decreased by UAH 2.2 bn, or 1.0 %, and amounted to UAH 210.0 bn. The USD equivalent of deposits decreased by USD 322.8 mn, or 4.1 %, and amounted to USD 7.48 bn.

In comparison with the dynamics for 2016, the growth of foreign currency deposits in UAH equivalent changed to a decrease, while the reduction in USD continued. This is due to the fact that in 2016 the depreciation of UAH caused an increase of foreign currency deposits in UAH equivalent while they decreased in USD equivalent, and in 2017, the reduction of foreign currency deposits in USD equivalent had impact on the decrease of foreign currency deposits in UAH equivalent; depreciation of UAH did not cause the increase of foreign currency deposits in UAH equivalent.

That is, in 2017 the amount of national currency deposits increased and the amount of foreign currency deposits decreased (Fig. 5.6).

In 2017, foreign currency deposits of 39 banks in the USD equivalent increased, including by more than 100 % at 8 banks (Table 5.18).

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 7,100.00 or EUR 6,000.00). 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 2018 is as follows (Table 5.19, Fig. 5.7 and Fig. 5.8).

As of 1 January 2018, funds of 24.0 mn persons (or **98.5 % of bank depositors**) were fully covered (ranging from UAH 10.00 to UAH 200,000.00); these depositors account for UAH 164.99 bn, or **39.9 % of total deposits**, which complies with the international social criteria. The average deposit amount in the range guaranteed by the Fund is UAH 6,865.95.

Therefore, the guaranteed level of deposit payouts covers most of the retail deposits and indicates the intention of depositors to hold deposits within the range guaranteed by the Fund.

Table 5.13

Banks that Concentrate the Largest Amount of Deposits as of 1 January 2018, UAH thous

No.	Reg. No.	Name of the bank	1 Jan 2018					Change for 2017	
			Number of depositors	Deposit amount, UAH thous.			Potential reimbursement amount (PRA), UAH thous.	Deposit Amount	PRA
			Pax thous.	total	% of total	of which foreign-currency deposits		UAH thous.	
1	2	3	4	5	6	7	8	9	10
1	113	PRIVATBANK	21,213	176,317,178	42.6	81,136,943	118,435,059	24,050,334	23,336,144
2	22	UKREXIMBANK	799	25,250,339	6.1	17,358,257	9,060,222	642,626	319,489
3	121	RAIFFEISEN BANK AVAL	2,556	24,733,055	6.0	8,949,326	15,281,243	4,540,776	4,033,121
4	48	ALFA-BANK	1,835	24,148,247	5.8	15,121,618	10,226,217	6,137,329	3,147,346
5	52	UKRGASBANK	812	16,948,669	4.1	8,755,030	9,544,450	3,182,695	1,616,829
6	111	FUIB	1,834	16,117,553	3.9	9,118,909	7,450,976	885,769	650,597
7	90	UKRSIBBANK	2,213	15,742,534	3.8	7,325,712	9,489,689	2,511,259	2,594,704
8	21	UKRSOTSBANK	1,276	11,464,233	2.8	5,982,257	6,520,782	-5,308,918	-1,970,951
9	85	OTP BANK	624	11,214,832	2.7	5,728,979	4,998,083	1,096,017	1,401,845
Total for banks			33,163	321,936,640	77.8	159,477,031	191,006,721	37,737,887	35,129,126
% of total for the Fund			81.0	77.8	77.8	75.9	80.2	119.4	101.0
TOTAL for the Fund			40,952	413,769,213	100.0	210,039,897	238,042,953	31,619,351	34,771,258

Table 5.14

Banks with the Highest Growth Rates for 2017

No.	Reg. No.	Name of the bank	1 Jan 2017		1 Jan 2018		for 2017	
			Deposit amount, UAH	PRA, UAH	Deposit amount, UAH	PRA, UAH	PRA, UAH	PRA, %
1	2	3	4	5	6	7	8	9
1	25	ALLIANCE BANK	11,475,331	716,432	104,333,533	50,016,360	49,299,928	6,881.3
2	203	AGROPROSPERIS BANK	1,909,582	1,659,811	24,616,862	14,711,922	13,052,111	786.4
3	118	ZEMELNYI CAPITAL	36,406,603	28,756,834	201,364,841	149,619,080	120,862,246	420.3
4	239	RWS BANK	3,542,565	2,650,471	152,696,748	8,263,548	5,613,077	211.8
5	175	UKRBUDINVESTBANK	110,330,542	30,004,775	231,700,220	80,840,552	50,835,777	169.4
6	193	CONCORDBANK	129,839,252	60,256,223	186,959,502	146,965,701	86,709,478	143.9
7	183	SAVINGS AND INVESTMENT BANK	1,343,743,952	286,460,775	1,584,610,246	688,280,907	401,820,132	140.3
8	42	UKRAINSKYI CAPITAL	252,871,558	46,159,510	322,849,004	109,294,288	63,134,778	136.8
9	115	COMMERCIAL INDUSTRIAL BANK	116,484,639	84,961,505	243,133,376	192,751,770	107,790,265	126.9
10	235	BANK PORTAL	1,966,307	751,874	2,085,088	1,586,910	835,037	111.1
11	31	TASCOMBANK	3,192,810,864	1,317,049,908	6,060,440,186	2,778,986,251	1,461,936,344	111.0
12	228	ALPARI BANK	263,473	263,369	966,401	554,424	291,055	110.5
13	213	VERNUM BANK	84,690,579	46,165,364	150,388,604	94,838,346	48,672,982	105.4
14	200	MOTOR-BANK	774,312,925	32,813,251	542,286,901	65,865,625	33,052,374	100.7

Table 5.15

Dynamics of Deposit Transactions of the Member Institutions from the beginning of 2017

No.	Retail deposit transactions (No. 1Φ)	1 Jan 2017	1 Jan 2018	from the beginning of 2017	
1	2	3	4	5	6
1	Number of member institutions, of which:	99	83	-16	x
-	insolvent	4	2	-2	x
2.1.	Retail deposit amount, UAH bn	382.1	413.8	31.6	8.3
-	of which national currency deposits, UAH bn	169.9	203.7	33.8	19.9
-	of which foreign currency deposits, UAH bn	212.3	210.0	-2.2	-1.0
2.2.	Number of depositors, pax mn	41.1	41.0	-0.2	-0.4
2.3.	Percentage of depositors full coverage by the Fund, %	98.6	98.5	-0.1	-0.1
2.4.	Potential reimbursement amount by the Fund, UAH bn	203.3	238.0	34.8	17.1
2.5.	Average deposit amount, UAH	9,298	10,104	806.2	8.7

Table 5.16

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	Amount of foreign-currency deposits, USD bn	The official UAH/USD exchange rate
1	2	3	4	5	6	7	8
1 Jan 2014	47.4	402.6	245.6	224.3	178.4	22.3	7.9930
1 Jan 2015	46.5	382.1	209.9	172.1	210.0	13.3	15.7686
1 Jan 2016	44.7	362.3	191.9	164.5	197.8	8.24	24.0007
1 Jan 2017	41.1	382.1	203.3	169.9	212.3	7.81	27.1909
1 Jan 2018	41.0	413.8	238.0	203.7	210.0	7.48	28.0672

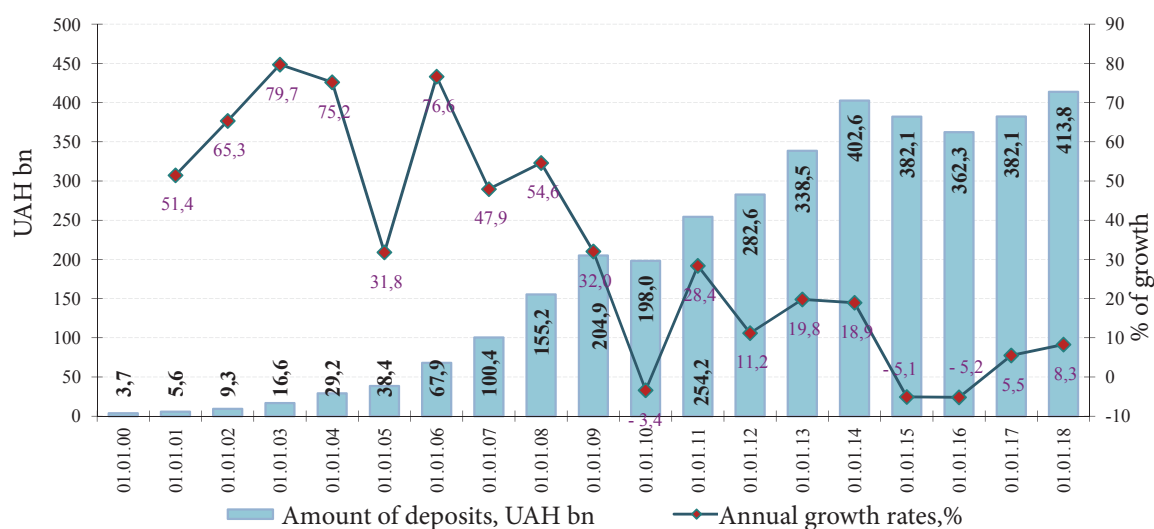


Fig. 5.4. Dynamics of Total Deposits with the Member Institutions in 2000–2017

Table 5.17

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	2	3	4	5	6	7	8	9
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		
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

Potential Reimbursement Amount and Covered Deposits

The potential reimbursement amount (PRA) by member institution increased by UAH 34.8 bn, or 17.1 %, in 2017, and amounted to UAH 238.04 bn as of 1 January 2018. The potential reimbursement amount for 4 state-owned banks amounted to UAH 137.1 bn, which is 57.6 % of the total deposits.

The potential reimbursement amount for 81 banks (exclusive of insolvent banks as of 1 January 2018) amounted to UAH 237.6 bn. The reimbursement amount for 2 insolvent banks is UAH 467.6 mn.

The Fund's resources as of 1 January 2018 total to UAH 14.4 bn and do not cover the potential reimbursement amount for PJSC CB "Privatbank" (coverage of 12.1 %, the reimbursement amount of UAH 118.4 bn, or 49.8 %, of total for the Fund) and JSC "Raiffeisen Bank Aval" (coverage of 93.9 %).

The potential reimbursement amount for 2017 increased at 64 banks. 8 banks had largest growth (more than UAH 1 bn) (Table 5.20).

14 banks had the highest growth rates of reimbursement amount for 2017 (more than 100 %) (Table 5.21).

The ratio of the potential reimbursement amount (PRA) to total deposits for the Fund increased from 53.2 % to 57.5 % in 2017.

As of 1 January 2018, one bank had almost all depositors' funds covered by the Fund (at PJSC "BANK FORWARD", the ratio of the potential reimbursement amount to total deposits increased from 88.7 % to 94.2 %).

In 2017, the ratio of the potential reimbursement amount to total deposits of 9 banks increased significantly by as much as 15 percentage points (Table 5.22) due to the increase in the reimbursement amount in comparison with the decrease in total deposits (or a smaller growth).

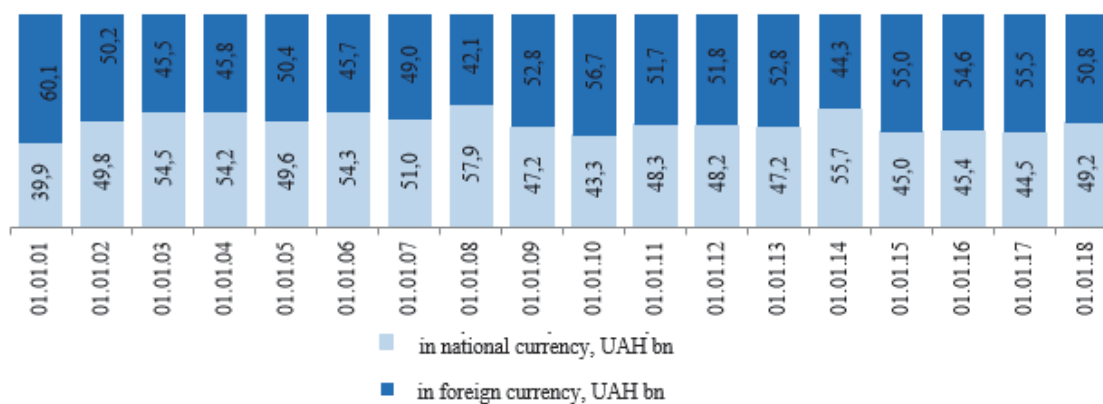


Fig. 5.5. Deposit Structure Dynamics by currency, %

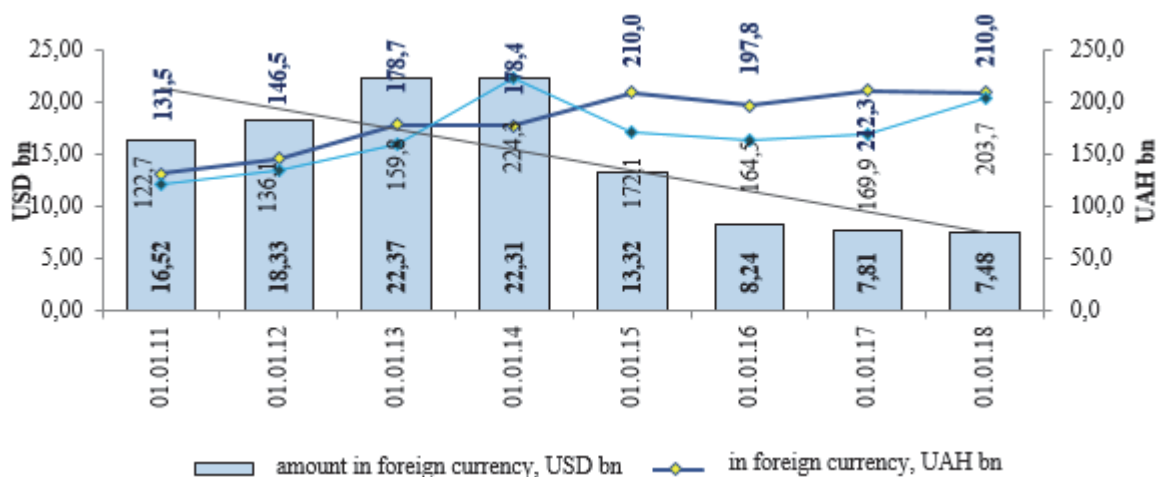


Fig. 5.6. Dynamics of Foreign Currency Deposits

Table 5.18

Growth of Foreign Currency Deposits (in USD) for 2017

No.	Reg. No.	Name of the bank	1 Jan 2018				For 2017		
			Deposit amount			PRA, UAH thous.	Amount of foreign currency deposits		
			total, UAH thous.	of which foreign currency deposits, UAH thous.	relative share, %		of which foreign currency deposits, UAH	thous.	%
1	2	3	4	5	6	7	8	9	10
1	203	AGROPROSPERIS BANK	24,617	15,698	63.8	559	14,712	541	3,012.2
2	118	ZEMELNYI CAPITAL	201,365	58,660	29.1	2,090	149,619	1,845	754.3
3	231	BANK AVANGARD	58,100	57,620	99.2	2,053	1,648	1,761	602.7
4	25	ALLIANCE BANK	104,334	70,895	68.0	2,526	50,016	2,109	505.3
5	238	CRYSTALBANK	222,628	89,613	40.3	3,193	122,970	2,433	320.0
6	5	ALT BANK	201,916	84,392	41.8	3,007	22,826	1,889	169.0
7	196	CREDITINVESTBANK	221,855	202,768	91.4	7,224	48,334	3,650	102.1
8	31	TASCOMBANK	6,060,440	3,285,500	54.2	117,058	2,778,986	53,379	83.8

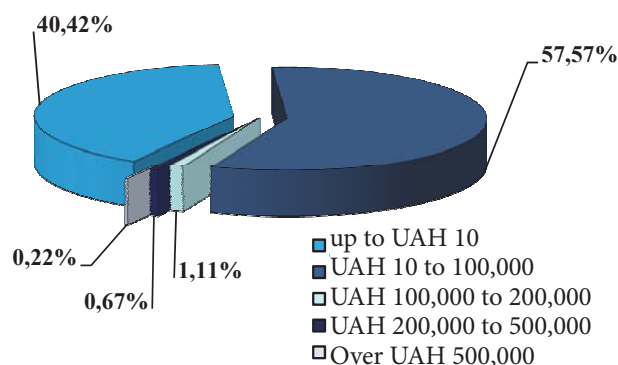


Fig. 5.7. Number of Depositors

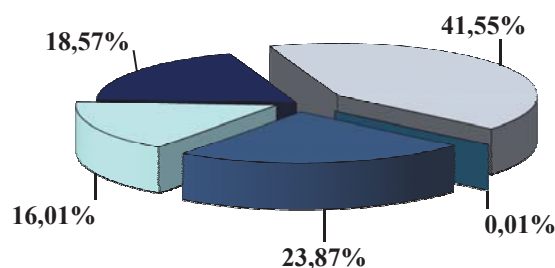


Fig. 5.8. Amount of Deposits, %

According to the data from reporting forms 1Φ as of 1 January 2018, the reimbursement amount of banks is distributed as follows: UAH 238.04 bn (total reimbursement); UAH 128.4 bn, or 53.9 %, (total fixed-term deposits); UAH 109.3 bn, or 45.9 %, (total current account deposits), including UAH 38.3 bn, or 35.0 %, of all current accounts (card accounts) (Table 5.23). That is, in 2017, fixed-term deposits in the reimbursement structure decreased, and current account deposits, including card accounts, increased.

Weighted Average Deposit Interest Rate

The weighted average retail deposit interest rates were analysed in accordance with the monthly reporting Form No. 350Д "Information on the amounts and weighted average retail deposit interest rates by bank and group of banks, currency (national and foreign), terms (total, on

demand, and fixed-term deposits (including long-term ones)), residence status (resident, non-resident), and total for the banks."

The weighted average quarter interest rate in 2017 decreased by 20.5 % for national currency deposits (from 14.08 % to 11.19 %) and by 44.9 % for foreign currency deposits (from 4.97 % to 2.74 %). The rates in national and foreign currencies decreased due to a constant decline throughout 2017 (Fig. 5.9).

The analysis of interest rates in 2017 determined that 10 banks use a rate of national currency deposits that exceeds the system weighted average by 4 percentage points (Fig. 5.10). In addition, PJSC "Bank GRANT" has an excess of 4.0 percentage points on foreign currency deposits. The highest rate on national currency deposits is offered by PJSC CB "ZEMELNYI CAPITAL" (18.86 %); and the highest rate on foreign currency deposits, by PJSC "BANK GRANT" (8.62 %).

Table 5.19

Structure of Member Institutions' Deposits by range as of 1 January 2018

Amount of the deposit, UAH	Number of depositors		Deposit amount		Average deposit amount
	pax	%	UAH thous.	%	UAH
1	2	3	4	5	6
up to UAH 10	16,554,121	40.42 %	21,309.01	0.01 %	1.29
UAH 10 to 100,000	23,576,089	57.57 %	98,762,445.91	23.87 %	4,189.09
UAH 100,000 to 200,000	455,519	1.11 %	66,237,487.67	16.01 %	145,411.03
UAH 200,000 to 500,000	274,684	0.67 %	76,839,072.46	18.57 %	279,736.25
over UAH 500,000	91,235	0.22 %	171,908,897.78	41.55 %	1,884,242.86
Total	40,951,648	100.0 %	413,769,212.83	100.0 %	10,103.85
Total without up to UAH 10.00	24,397,527	59.6 %	413,747,903.82	100.0 %	16,958.60
UAH 10,000 to 200,000 (fully guaranteed)	24,031,608	98.5 %	164,999,933.57	39.9 %	6,865.95

Table 5.20

Banks with the Largest Growth of Potential Reimbursement Amount in 2017

No.	Reg. No.	Name of the bank	1 Jan 2018			Dynamics 2017		
			Number of depositors	Deposit amount	PRA, UAH	Deposit amount, UAH	Potential reimbursement amount	
			pax	UAH			UAH	%
1	2	3	4	5	6	7	8	9
1	113	PRIVATBANK	21,213,324	176,317,177,765	118,435,059,248	24,050,333,840	23,336,144,481	24.5
2	121	RAIFFEISEN BANK AVAL	2,555,516	24,733,055,032	15,281,242,608	4,540,776,401	4,033,120,914	35.9
3	48	ALFA-BANK	1,835,205	24,148,247,199	10,226,216,964	6,137,328,637	3,147,346,497	44.5
4	90	UKRSIBBANK	2,213,186	15,742,533,924	9,489,688,539	2,511,259,418	2,594,703,563	37.6
5	52	UKRGASBANK	812,196	16,948,668,813	9,544,450,298	3,182,695,183	1,616,829,092	20.4
6	31	TASCOMBANK	164,835	6,060,440,186	2,778,986,251	2,867,629,322	1,461,936,344	111.0
7	85	OTP BANK	624,495	11,214,831,617	4,998,082,897	1,096,016,810	1,401,845,471	39.0
8	16	PIVDENNYI	518,920	8,214,056,870	4,849,705,161	1,518,080,757	1,206,033,697	33.1

Table 5.21

Banks with the Highest Growth Rates for 2017

No.	Reg. No.	Name of the bank	1 Jan 2018			Dynamics 2017		
			Number of depositors	Deposit amount	PRA, UAH	Deposit amount, UAH	Potential reimbursement amount	
			pax	UAH			UAH	%
1	2	3	4	5	6	7	8	9
1	25	ALLIANCE BANK	994	104,333,533	50,016,360	92,858,202	49,299,928	6,881.3
2	203	AGROPROSPERIS BANK	946	24,616,862	14,711,922	22,707,280	13,052,111	786.4
3	118	ZEMELNYI CAPITAL	2,298	201,364,841	149,619,080	164,958,238	120,862,246	420.3
4	239	RWS BANK	873	152,696,748	8,263,548	149,154,183	5,613,077	211.8
5	175	UKRBUDINVESTBANK	5,023	231,700,220	80,840,552	121,369,678	50,835,777	169.4
6	193	CONCORDBANK	16,149	186,959,502	146,965,701	57,120,250	86,709,478	143.9
7	183	SAVINGS AND INVESTMENT BANK	51,631	1,584,610,246	688,280,907	240,866,294	401,820,132	140.3
8	42	UKRAINSKYI CAPITAL	3,809	322,849,004	109,294,288	69,977,445	63,134,778	136.8
9	115	COMMERCIAL INDUSTRIAL BANK	8,637	243,133,376	192,751,770	126,648,736	107,790,265	126.9
10	235	BANK PORTAL	99	2,085,088	1,586,910	118,781	835,037	111.1
11	31	TASCOMBANK	164,835	6,060,440,186	2,778,986,251	2,867,629,322	1,461,936,344	111.0
12	228	ALPARI BANK	206	966,401	554,424	702,928	291,055	110.5
13	213	VERNUM BANK	2,662	150,388,604	94,838,346	65,698,025	48,672,982	105.4
14	200	MOTOR-BANK	14,132	542,286,901	65,865,625	-232,026,024	33,052,374	100.7

Table 5.22

Growth of the Ratio of the Potential Reimbursement Amount to Deposits in 2017

No.	Reg. No.	Name of the bank	1 Jan 2017			1 Jan 2018		
			Deposit amount (DA)	Potential reimbursement amount (PRA)	PRA/DA	DA	PRA	PRA/DA
			UAH		%	UAH		%
1	2	3	4	5	6	7	8	9
1	25	ALLIANCE BANK	11,475,331	716,432	6.2	104,333,533	50,016,360	47.9
2	235	BANK PORTAL	1,966,307	751,874	38.2	2,085,088	1,586,910	76.1
3	193	CONCORDBANK	129,839,252	60,256,223	46.4	186,959,502	146,965,701	78.6
4	222	DV BANK	14,655,380	4,682,471	32.0	11,152,453	7,006,100	62.8
5	173	TRUST KAPITAL	87,784,217	13,629,982	15.5	34,577,983	14,591,178	42.2
6	183	SAVINGS AND INVESTMENT BANK	1,343,743,952	286,460,775	21.3	1,584,610,246	688,280,907	43.4
7	207	ACCORDBANK	167,431,504	96,431,380	57.6	176,302,528	133,548,043	75.7
8	101	ASVIO BANK	366,320,793	29,211,020	8.0	216,322,859	52,711,739	24.4
9	42	UKRAINSKYI CAPITAL	252,871,558	46,159,510	18.3	322,849,004	109,294,288	33.9

Table 5.23

Structure of the Potential Reimbursement Amount by Maturity as of 1 January 2018

No.	Indicator	1 Jan 2017		1 Jan 2018	
		Number	Deposit amount	Number	Deposit amount
1	2	3	4	5	6
1	Deposit amount/total number of depositors	41,101,772	382,149,861,596	40,951,648	413,769,212,831
2	In foreign currency	5,935,264	212,259,120,298	5,940,882	210,039,897,446
	Part IV				
9	Total potential reimbursement amount, of which:	22,822,061	203,271,695,554	24,191,720	238,042,953,161
9.1	Current account deposits, of which:	19,356,938	70,852,501,659	20,754,496	109,260,909,241
9.1.1	Card account deposits	17,753,485	56,722,422,674	6,930,737	38,287,165,854
9.2	Registered savings certificates, including those maturing in:	8,686	1,413,336,584	1,657	278,151,235
9.2.1	on-demand deposits	246	36,863,079	100	16,145,796
9.2.2	up to 1 month	1,789	288,847,016	298	47,885,842
9.2.3	1 to 2 month	1,346	215,876,587	336	56,104,148
9.2.4	2 to 3 months	1,292	214,787,123	201	35,221,274
9.2.5	3 to 4 months	990	158,240,103	151	24,902,796
9.2.6	4 to 5 months	1,041	161,872,818	172	29,091,297
9.2.7	5 to 6 months	820	129,345,162	140	23,827,268
9.2.8	6 to 7 months	281	41,660,278	52	8,978,941
9.2.9	7 to 8 months	261	41,518,699	39	6,321,178
9.2.10	8 to 9 months	219	33,956,841	26	3,827,637
9.2.11	9 to 10 months	208	33,211,777	23	3,968,057
9.2.12	10 to 11 months	182	27,844,562	27	4,796,021
9.2.13	11 to 12 months	177	27,846,765	57	9,170,613
9.2.14	over 12 months	11	1,465,774	135	7,910,368
9.3	Fixed-term deposits, including those maturing in:	9,288,562	130,948,753,144	9,785,196	128,419,990,634
9.3.1	up to 1 month	919,234	24,900,775,937	909,024	23,013,339,549
9.3.2	1 to 2 month	843,686	17,020,802,439	847,328	16,907,655,282
9.3.3	2 to 3 months	925,630	18,334,248,178	974,037	20,158,402,323
9.3.4	3 to 4 months	784,640	12,400,233,435	807,789	12,091,038,036
9.3.5	4 to 5 months	752,883	12,150,814,665	803,263	12,458,939,120
9.3.6	5 to 6 months	779,605	11,854,178,435	835,493	12,946,637,317

Table No. 5.23 continued

No.	Indicator	1 Jan 2017		1 Jan 2018	
		Number	Deposit amount	Number	Deposit amount
1	2	3	4	5	6
9.3.7	6 to 7 months	583,152	5,898,757,165	614,010	5,213,080,793
9.3.8	7 to 8 months	557,176	4,615,688,031	609,580	4,516,509,534
9.3.9	8 to 9 months	721,102	4,635,845,605	750,169	4,150,870,518
9.3.10	9 to 10 months	735,420	4,775,506,635	794,208	4,169,481,407
9.3.11	10 to 11 months	854,608	4,448,504,368	941,719	3,793,409,927
9.3.12	11 to 12 months	1,310,240	5,687,637,035	1,406,486	4,353,317,078
9.3.13	over 12 months	209,306	3,289,952,825	210,391	3,792,873,061
9.3.14	whereon the contract term has expired and which have not been credited to the current/card account	178,939	935,808,392	128,201	854,436,689
9.4	Other	34,546	57,104,168	34,300	83,902,051

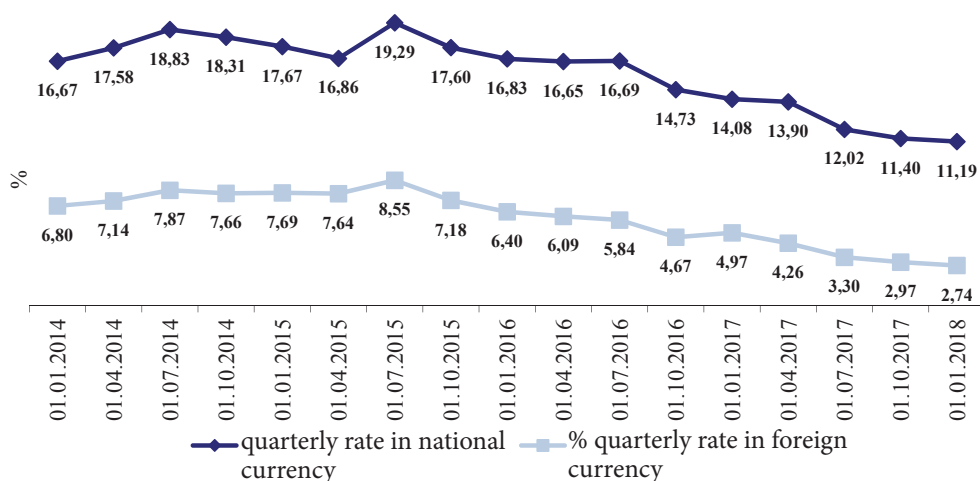


Fig. 5.9. Dynamics of the Weighted Average Retail Deposit Interest Rates for 2014–16 on the Quarterly Basis

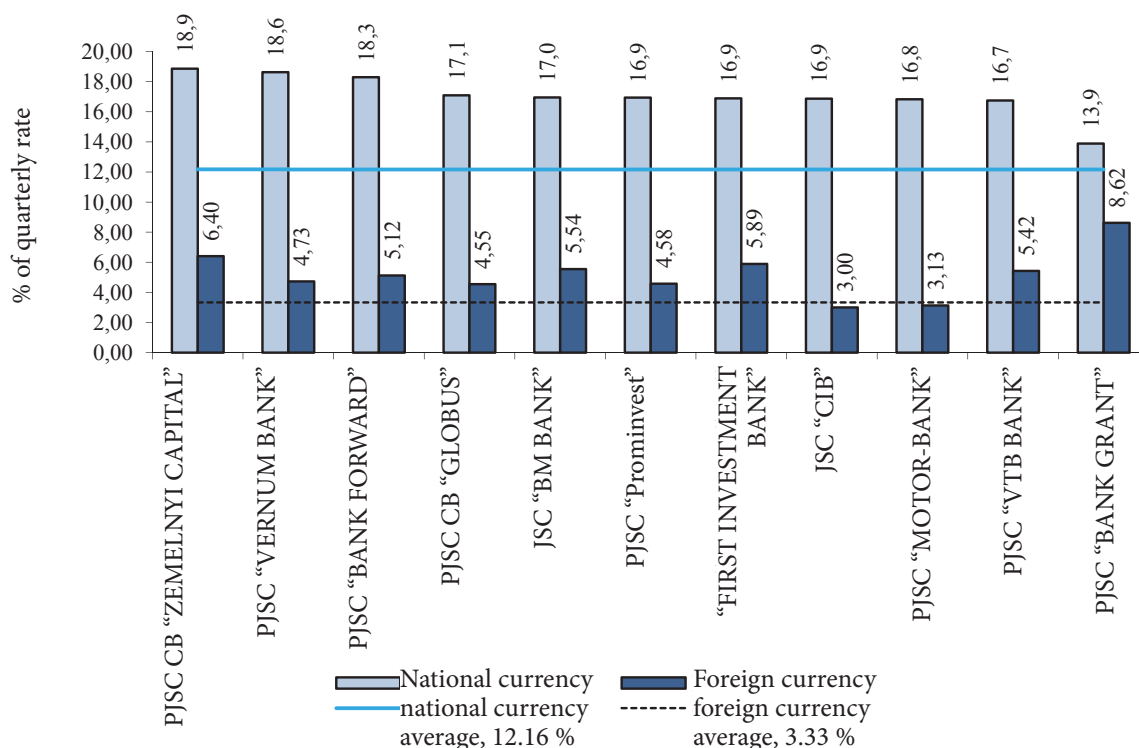


Fig. 5.10. The Highest System Rates for 2017

6. SUPERVISORY ACTIVITY

6.1. 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 2017, 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 2017 approved by Decision of the Executive Directorate of the Fund No. 2303 dated 31 October 2016, in 2017 the Fund officers conducted a total of 78 inspections, of which 67 were scheduled (86 % of the total), and 11 unscheduled inspections (14 % of the total).

In addition, the Fund analysed the compliance of 13 member banks with the Fund requirements for the development and maintenance of the depositors database in 2017.

Unscheduled inspections of banks were carried out by the Fund inspection teams by the Fund Executive Directorate decisions, and primarily concerned the implementation of orders to eliminate violations of the laws on households deposit guarantee system.

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.

In total, during the year, 77 banks were inspected; violations were detected for 78 % of them.

The inspections found 110 cases of violation of the Fund regulations (Fig. 6.1).

The banks where the inspections found violations submitted corrected reporting forms, necessary information for the Register, and informed the Fund of the measures taken to eliminate violations, etc.

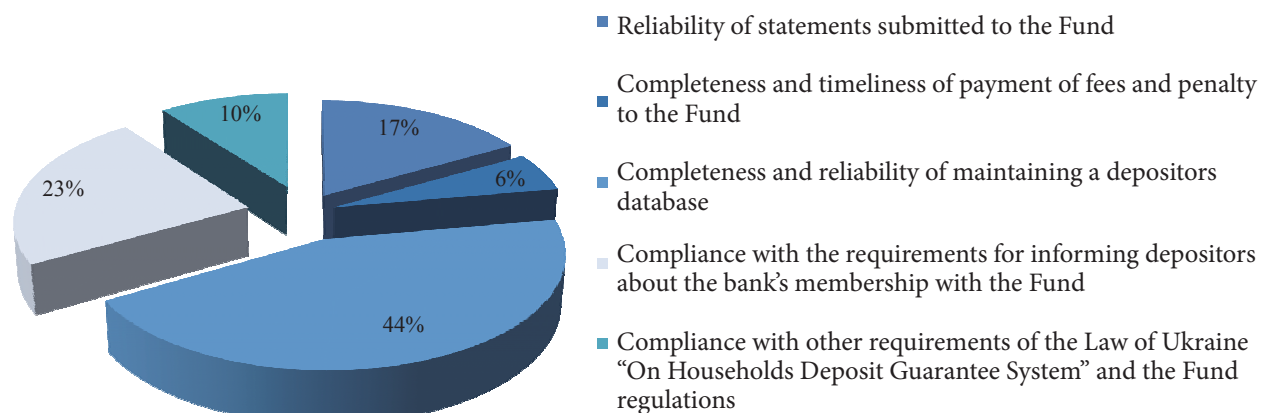


Fig. 6.1. Relative Share of Violations of Specific Issues Inspected in the Total Violations

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 eighteen of the inspected banks; the relative share of violation is 17% of total violations found.

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

The inspections carried out in 2017 established that during the calculation of the regular fee the member institutions:

- Not fully taken into account the balances of individuals recognized on the relevant balance sheet accounts, the balances of which were to be included in the regular fee calculation;
- Inaccurately calculated the risk level weighted by the base annual rate in national or foreign currency.

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 116,000.00; a penalty was additionally charged for the incomplete payment of regular fees in the amount of UAH 17,200.00.

Overall, violations of the completeness and timeliness of payment of fees to the Fund were detected in 6 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. The main requirements 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 this period, however, 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;
- incorrect calculation of the guaranteed amount.

The above shortcomings in maintaining the database in accordance with the Rules were identified for 48 banks; the relative share of this violation is 44 % 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.

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

The Law and the 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 establish 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 no information, in particular, on bank tariffs (in

terms of signing of a bank account agreement or a bank deposit agreement), standard agreements for each type of bank accounts or bank deposits;

- the bank web-site and/or retail deposits reception publish unreliable information on the Fund details;
- 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;
- 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 2017 found 25 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 23 % 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).

According to the Regulation, in case of changing the information contained in the DGF Member Institutions Register, banks shall inform the Fund of such changes within the specified period.

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 the Chairman and members of the Supervisory Board, the Management Board, and the Audit Commission;
- 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 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 ratings of the parent company.

Inspections held in 2017 determined 11 cases of violation of the Fund requirements by banks to provide information under the Regulation; the relative share of this violation is 10 % of all the violations.

See Fig. 6.2 for the quantitative characteristics of the violating banks by type of violations in terms of issues to be inspected during 2017.

The Fund employees have compiled 110 reports on the violation of laws by the banks in the field of retail deposit guarantees on the basis of inspection findings as of 1 January 2018 YTD.

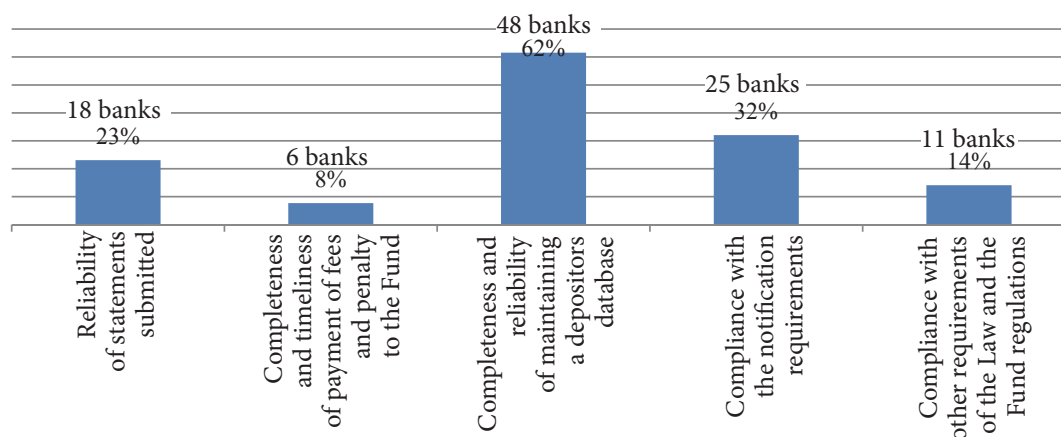


Fig. 6.2. Quantitative Characteristics of Violating Banks by Type of Violations

6.2. 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.

In 2017, the authorised DGF officers compiled 58 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 53 decisions according to Part 2 of Article 36 of the Code of Ukraine on Administrative Offenses. Among them, 50 decisions imposed administrative penalties on bank managers, and 3 decisions closed the case on an administrative offense.

Therefore, 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 374,000.00, and UAH 40,800.00 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 414,800.00 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 2018, the DGF officials authorised to hear cases adopted 165 decisions, of which:

- 62 decisions were orders to take measures preventing violations of the laws on the Households Deposit Guarantee System in future activities;
- 95 decisions were orders to eliminate violations of the laws in the field of households deposit guarantees;
- 6 decisions were orders to close the case on violations in the field of households deposit guarantees;
- 2 decisions were orders to impose fines amounting to UAH 157,834.75.

As of 1 January 2018, violations of the following regulations of the Fund were recorded (Fig. 6.4):

- 17 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;
- 19 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;
- 34 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);
- 52 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;
 - 19 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;
 - 24 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.

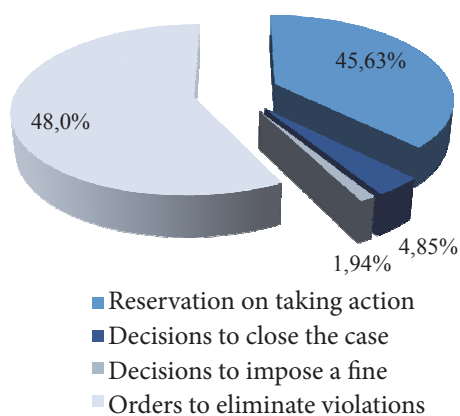


Fig. 6.3. Relative Share of Decisions Adopted by the Authorised DGF Officers

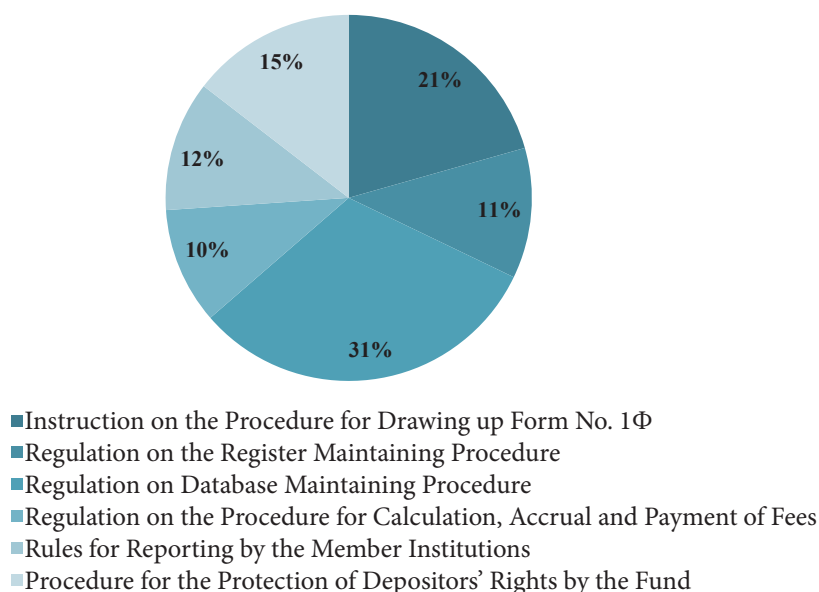


Fig. 6.4. Relative Share of Violations of Fund's Regulations

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 2017.

As of 1 January 2018, the Fund's resources comprised the following:

- funds on NBU accounts: UAH 3,740.3 mn;
- funds in government securities received in 2016 as a loan in the amount of UAH 1,996.2 mn (face value);
- funds in government securities received in 2016 as a state loan and pledged for loans of the National Bank of Ukraine in the amount of UAH 3,677.8 mn (fair value);
- investments in government securities pledged for loans issued by the NBU in the amount of UAH 5,280.4 mn.

According to Article 19 of the Law, during 2017 the Fund raised financial resources from the following sources (Table 7.1):

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

Table 7.1

Formation of Financial Resources of the Fund in 2017 and 2016, UAH mn

Funding Source	2017	2016
1	2	3
Regular fee	3,315.2	3,332.4
Income from investment in government securities	1,147.3	777.9
Revenues in the form of interest on balances of current accounts opened with the NBU	140.8	345.4
Loans received from the NBU	0.0	0.0
Sale of government bonds	2,543.2	0.0
Redemption of government bonds	0.0	668.6
Funds obtained from the measures envisaged in the resolution plan, of which:	6,531.2	6,853.4
<i>liquidation (discharging of creditors' claims)</i>	6,530.9	6,622.5
<i>provisional administration (repayment of special purpose loans)</i>	0.0	230.9
<i>sale of insolvent banks and bridge banks</i>	0.3	0.0
Other revenues, including:	83.1	102.5
<i>Security deposits</i>	80.0	100.0
<i>Other revenues</i>	3.1	2.5
Total by source	13,760.8	12,080.2

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):

- deposit payouts: UAH 7,004.9 mn (56.8 %);
- special-purpose loans: UAH 19.9 mn (0.2 %);
- repayment of loans issued by the NBU: UAH 2,582.0 mn (20.9 %);
- payment of interest on promissory notes of the Fund: UAH 1,264.7 mn (10.3 %);
- interest on loans issued by the NBU: UAH 1,050.3 mn (8.5 %);
- estimated operating costs for 2017: UAH 346.6 mn (2.8 %);

- other expenses: UAH 61.9 mn (0.5 %).

The DGF estimate of expenditures for 2017 was approved by Decision of the Administration Board of the Fund No. 10 dated 9 March 2017 (as amended on 2 October 2017, No. 24; on 28 November 2017, No. 26, on 20 December 2017, No. 29) in the total amount of UAH 375,342,000.00.

The estimate for 2017 is performed for UAH 346,553,900.00, or 92.3 % of the amount planned.

According to the 2017 Annual Procurement Plan and Annex thereto, the Fund planned the procurement of goods, works, and services for the total amount of UAH 88.6 mn.

Table 7.2

Use of Financial Resources of the Fund in 2017 and 2016, UAH mn

Directions of Application of Funds	2017	2016
1	2	3
Deposit payouts to depositors of insolvent banks	7,004.9	11,444.4
Special-purpose loans	19.9	3,213.3
Financial support of receiving and bridge banks	0.0	0.0
Interest expense for the promissory notes of the Fund	1,264.7	1,264.7
NBU loan repayments	2,582.0	635.0
Interest on loans issued by the NBU	1,050.3	1,172.4
Estimated operating expenses	346.6	243.1
Other expenses, including:	61.9	141.0
<i>Return of guarantee fees</i>	60.0	140.0
<i>Other expenses</i>	1.9	1.0
Total by direction	12,330.3	18,113.9

During the reporting period, goods, works, and services for the amount of UAH 50.1 mn were actually procured, namely the following:

- according to the Law of Ukraine “On Public Procurement,” for a total of UAH 27.3 mn, of which:
 - ▶ goods: UAH 12.2 mn;
 - ▶ services: UAH 15.1 mn;
- subthreshold procurement and procurement that is not subject to the Law of Ukraine “On Public Procurement”: UAH 22.8 mn, of which:
 - ▶ goods: UAH 0.6 mn;
 - ▶ services: UAH 22.2 mn.

Savings from procurement procedures through Prozorro electronic procurement system amounted to UAH 2.3 mn.

7.3. Repayment of Creditors' Claims

As of 1 January 2018, the debt of banks being liquidated regarding the payment of creditor's claims of the Fund amounted to UAH 77,624.0 mn. The total number of banks to which the Fund had registered creditor's claims amounted to 110 banks, which comprised 91 banks under control of the Fund and 19 banks under control of the NBU.

During the reporting year, the amount of the creditor's claims of the Fund to the banks being liquidated increased by UAH 645.8 mn (changes were due to the increase in the number of banks being liquidated, as well as by discharging the Fund's claims (Table 7.3).

See Table 7.4 for the list of the biggest creditor's claims of the Fund to the banks being liquidated.

The largest debtor in absolute terms is currently PJSC “DELTA BANK” with its UAH 10,604.8 mn, which

constitutes 13.7 % 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 9,479.9 mn, or 12.2 %, and UAH 6,096.0 mn, or 7.9 %, of the total amount of claims, accordingly. Table 7.4 shows 22 banks with a relative share of claims of 1.0 % and above. The remaining 88 banks have creditor's claims of the Fund for the amount of UAH 14,462.5 mn, which accounts for 18.6 % of the total amount.

In the reporting year creditor's claims totalling to UAH 6,530.9 mn were discharged to the Fund (Table 7.5) The repayment was made by 66 banks under control of the Guarantee Fund.

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

Unpaid Claims of the Fund to the Insolvent Banks

Banks being liquidated	As of 1 Jan 2018		As of 1 Jan 2017		Difference	
	Number of banks	Amount, UAH mn	Number of banks	Amount, UAH mn	Number of banks	Amount, UAH mn
1	2	3	4	5	6	7
Banks controlled by the Fund	91	73,562.1	81	72,916.3	10	645.8
Banks controlled by the NBU	19	4,061.9	19	4,061.9	0	0.0
Total	110	77,624.0	100	76,978.2	10	645.8

Table 7.4

The Largest Creditor's Claims of the Fund to the Banks Being Liquidated as of 1 January 201

No.	Bank name	Amount, UAH mn	Relative share
1	2	3	4
1	PJSC "DELTA BANK"	10,604.8	13.7 %
2	PJSC "FINANCE AND CREDIT BANK"	9,479.9	12.2 %
3	PJSC "VAB BANK"	6,096.0	7.9 %
4	PJSC "IMEXBANK"	4,628.0	6.0 %
5	PJSC "PLATINUM BANK"	4,184.5	5.4 %
6	PJSC CB "BANK NADRA"	3,576.9	4.6 %
7	PJSC "BANK MYKHAILIVSKYI"	2,578.5	3.3 %
8	PJSC CB "KHRESHCHATYK"	2,169.0	2.8 %
9	PJSC "CITY COMMERCIAL BANK"	2,003.1	2.6 %
10	PJSC "BROKBUSINESSBANK"	1,999.2	2.6 %
11	PJSC "BANK TAVRYKA"	1,783.1	2.3 %
12	PJSC "BANK KYIVSKA RUS"	1,765.9	2.3 %
13	PJSC CB "PIVDENCOMBANK"	1,707.9	2.2 %
14	PJSC "UKRINBANK"	1,703.0	2.2 %
15	PJSC "FIDOBANK"	1,466.4	1.9 %
16	PJSC "TERRA BANK"	1,279.9	1.6 %
17	PJSC CB "ACTIV-BANK"	1,277.4	1.6 %
18	PJSC "EUROGASBANK"	1,274.4	1.6 %
19	PJSC CB "UKRAINIAN FINANCIAL WORLD"	999.6	1.3 %
20	PJSC "BANK DEMARK"	928.8	1.2 %
21	PJSC "BANK MERCURIY"	916.5	1.2 %
22	PJSC "NATSIONALNI INVESTYTSII"	738.8	1.0 %
23	Other (88 banks)	14,462.5	18.6 %
	Total	77,624.0	100.0 %

Table 7.5

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

No.	Bank name	Amount, UAH mn	Relative share
1	2	3	4
1	PJSC "DELTA BANK"	1,672.2	25.6 %
2	PJSC "BANK FORUM"	1,079.5	16.5 %
3	PJSC "PLATINUM BANK"	710.9	10.9 %
4	PJSC "FINANCE AND CREDIT BANK"	611.1	9.4 %
5	PUJSC "FIDOBANK"	410.4	6.3 %
6	PJSC CB "KHRESHCHATYK"	405.5	6.2 %
7	PJSC "VAB Bank"	219.7	3.4 %
8	PJSC CB "NADRA"	219.1	3.4 %
9	PJSC "BROKBUSINESSBANK"	210.6	3.2 %
10	PJSC BANK "TRUST"	174.8	2.7 %
11	PJSC "DIAMANTBANK"	119.9	1.8 %
12	PJSC "Bank Kyivska Rus"	89.7	1.4 %
13	JSC CB "EXPOBANK"	73.5	1.1 %
14	PJSC "UKRGAZPROMBANK"	65.9	1.0 %
15	Other (52 banks)	468.1	7.2 %
	Total	6,530.9	100.0 %

The greatest payer in absolute terms is PJSC “DELTA BANK” with UAH 1,672.2 mn, which constitutes 25.6 % of the total amount of claims. The second and third places were taken by PJSC “BANK FORUM” and PJSC “PLATINUM BANK” with amounts of UAH 1,079.5 mn, or 16.5 %, and UAH 710.9 mn, or 10.9 %, of the total discharging amount, accordingly. Table 7.5 shows 14 banks with a relative maturity share of 1.0 % and above. The remaining 52 banks

have discharged creditor’s claims of the Fund in the amount of UAH 468.1 mn, which accounts for 7.2 % 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 was no write-off of the Fund’s claims

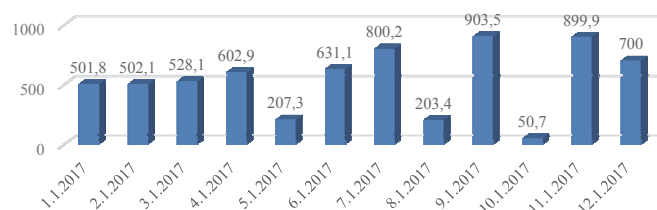


Fig. 7.1. Discharging of Creditor’s Claims of the Fund in 2017

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 2.78 % as of 1 January 2018, which is sufficient pursuant to the Law.

The assessment of the Fund projected financial sustainability significantly decreased to -2.75 % by the end of 2018 thereby

indicating a potential shortage of funds, which will go down to UAH 13,965.2 mn by the end of the year.

The state of financial stability of the Fund as of 1 January 2018 and the forecast of its state by the end of 2018 are shown in Table 7.6.

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 27,313.6 mn for the banks with a high risk of insolvency.

Table 7.6

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	2	3	4	5	6
Projected	1 Jan 2018	2.8 %	238,043	6,613.6	–
	1 Feb 2018	2.8 %	235,000	6,602.9	–
	1 Mar 2018	2.6 %	237,000	6,221.7	–
	1 Apr 2018	3.4 %	239,000	8,047.8	–
	1 May 2018	3.7 %	241,000	8,995.6	–
	1 Jun 2018	3.7 %	243,000	9,093.6	–
	1 Jul 2018	4.3 %	245,000	10,589.7	–
	1 Aug 2018	4.0 %	248,000	9,832.5	–
	1 Sep 2018	4.1 %	250,000	10,298.9	–
	1 Oct 2018	3.9 %	252,000	9,757.5	–
	1 Nov 2018	3.8 %	257,000	9,816.7	–
	1 Dec 2018	-2.7 %	261,000	-6,997.0	-13,522.0
	1 Jan 2019	-2.8 %	266,000	-7,315.2	-13,965.2

7.5. Financial Investments of the Fund

Given that the Fund resolved 94 insolvent banks and made payouts of approximately UAH 7,024.8 mn to the depositors of 72 insolvent banks during 2017, no investments in government securities were made. The investment plan for 2017 has not planned for investing the Fund's funds in government securities and the authorised capital of bridge banks or specialized institutions.

The book value of the government securities portfolio of the Fund (hereinafter referred to as the government bonds) as of 1 January 2017 amounted to UAH 13,006.1 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 7,941.0 mn, or 61.1 %. The remaining government bonds with book value of UAH 5,065.1 mn, or 38.9 %, were pledged by the Fund for the previously received loans.

In March 2017, in order to secure payouts to depositors of insolvent banks, part of the government bonds from the

Fund's portfolio in the total amount of UAH 2.5 bn was monetized. This resulted in the decrease of the book value of the government bonds portfolio of the Fund to UAH 10,733.0 mn as of 1 January 2018.

In 2017, part of the received government bonds under the terms of loan agreements was pledged for the previously received loans. As of 1 January 2018, 81 % of the government bonds of the Fund's portfolio in the amount of UAH 8,737 mn was pledged. 19 % of securities from the Fund's portfolio totalling to UAH 1,996 mn were unencumbered.

The average weighted return on the government bonds portfolio of the Fund at the beginning of 2017 amounted to 11.7 % and at the end of the year increased to 12 % due to the decrease in the relative share of government bonds with the return of 9.99 % as a result of their monetization.

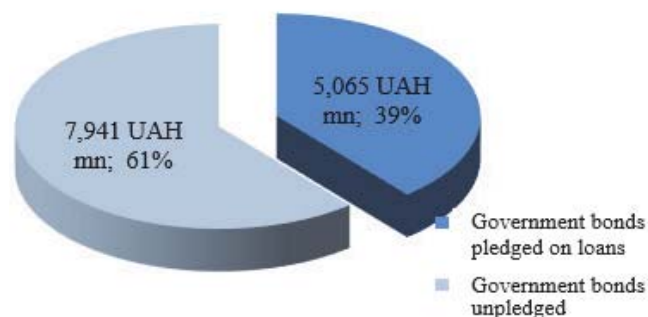


Fig.7.2. Government bonds in the Fund's portfolio as of 1 January 2017

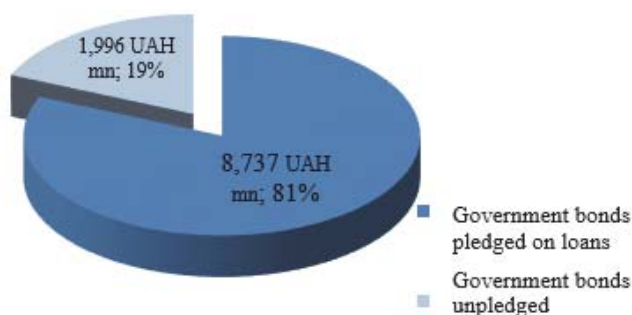
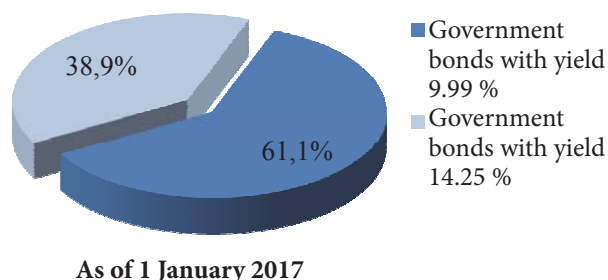
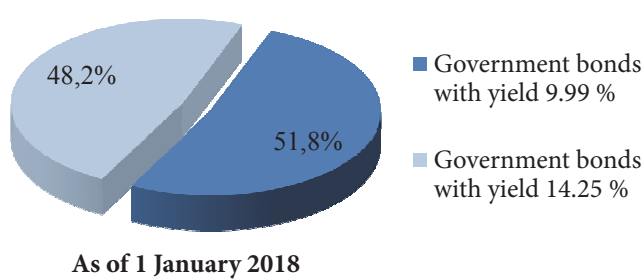


Fig.7.3. Government bonds in the Fund's portfolio as of 1 January 2018



As of 1 January 2017



As of 1 January 2018

Fig.7.4. Structure of the Fund's Securities Portfolio by return at the beginning and end of 2017

8. INSOLVENT BANKS RESOLUTION

The Fund carries out the insolvent bank resolution procedure, including the resolution through provisional administration and liquidation of banks; organises the alienation of all or part of the assets and liabilities of an insolvent bank, sale of an insolvent bank, or incorporation and sale of a bridge bank.

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 or liquidating the bank and revoking the banking license.

As of 1 January 2018, 94 banks are under control of the Fund, of which two have the provisional administration (PJSC CB “FINANCIAL INITIATIVE” and PJSC “UNISON BANK”), and 92 banks are under liquidation.

By the end of 2017 (in 2014–17), the total financial performance of insolvent banks resolved by the Fund (94 banks) was as follows:

- total assets: UAH 526,387.62 mn,
- estimated value of assets: UAH 96,600.69 mn,
- assets sold: UAH 9,220.89 mn,
- total guaranteed amount: UAH 91,820.73 mn,
- debt under loans issued by the NBU: UAH 53,736.79 mn,
- repaid to the Fund (Priority 3): UAH 15,712.76 mn.

8.1. Implementation of 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.

During 2017, the National Bank of Ukraine declared 9 banks insolvent (PJSC “VECTOR BANK”, JSC “NATIONAL CAPITAL BANK”, PJSC “PLATINUMBANK”, JSC “FORTUNA-BANK”, PJSC “FINBANK”, PJSC “DIAMANTBANK”, JSCB “NOVYI”, PJSC COMMERCIAL BANK “HEFEST”, JSC “BANK BOGUSLAV”), and the Fund instituted the provisional administration at those banks.

Among 9 banks, the ultimate method of bank resolution in 7 cases was the liquidation of the bank with deposit payouts by the Fund as the only possible method (due to the lack of

qualified investors/receiving banks) and, therefore, the least expensive for the Fund. 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 another ultimate resolution method for two banks (PJSC “DIAMANTBANK”, JSCB “NOVYI”).

The decision of the Executive Directorate of the Fund amended the resolution plan in August 2016 for JSC “RODOVID BANK”, which in the second quarter of 2016 was declared insolvent, by changing the method to the liquidation of the bank with deposit payouts by the Fund, which was not implemented due to the suspension because the actions of the National Bank of Ukraine and the Fund were appealed in a judicial proceeding, and the DGF officials were prohibited to adopt any decision and/or take any other action to liquidate the said bank. In connection with the satisfaction of the Fund's appeal and cancellation of the claims enforcement measures, on 19 December 2017, the Fund Executive Directorate adopted the decision to resume the implementation of the resolution plan for JSC “RODOVIDBANK”, as well as made a proposal to the National Bank of Ukraine on the revocation of the banking license and liquidation of JSC “RODOVID BANK.”

In accordance with Resolution of the National Bank of Ukraine No. 811-pur dated 19 December 2017 “On Revocation of the License of the Remedial Bank and Liquidation of Public Joint Stock Company ‘RODOVID BANK’”, the Executive Directorate of the Fund approved Decision No. 5455 dated 20 December 2017 “On Commencement of the Liquidation Procedure of JSC “RODOVID BANK” and Delegation of Powers of the Bank Liquidator”.

In case of resolution of the insolvent bank PJSC “DIAMANTBANK”, Decision of the Executive Directorate No. 2074 dated 23 May 2017 approved the resolution plan

for PJSC “DIAMANTBANK”, which determined the insolvent bank resolution in the manner prescribed by paragraph 3 of Part 2 of Article 39 of the Law (alienation of all or part of the assets and liabilities of the insolvent bank in favour of the receiving bank with the revocation of the banking license of the insolvent bank and its further liquidation).

JSC “TASCOMBANK” won the open tender for establishing the receiving bank; to execute Decision of the Executive Directorate of the Fund No. 2661 dated 22 June 2017, it transferred part of assets and liabilities of PJSC “DIAMANTBANK” under the respective agreement.

Due to this, the Fund alienated the insolvent bank’s assets in the amount of UAH 1.1 bn at price not lower than the market price. The total value of transferred assets exceeds market prices (the value determined by independent appraisers) by UAH 41 mn.

A similar way to resolve an insolvent bank was also applied to JSCB “NOVYI.”

Decision of the Executive Directorate of the Fund No. 3485 dated 10 August 2017 approved the resolution plan for JSCB “NOVYI”, which provides for the resolution of the insolvent bank in the manner prescribed by paragraph 3 of Part 2 of Article 39 of the Law. JSC “TASCOMBANK” won the open tender for establishing the receiving bank by Decision of the

Executive Directorate of the Fund No. 3551 dated 16 August 2017.

Pursuant thereto, the assets and liabilities of JSCB “NOVYI” were transferred to the receiving bank JSC “TASCOMBANK” on 23 August 2017 in accordance with the agreements on assignment of claims and debt transfer. All rights and obligations of the debtor to the creditors (Priorities 1-8 and partially 9) were transferred under the terms of the agreements signed, including the return of the funds to the depositors and payment of interest under the bank account/deposit agreements.

The agreement resulted in the Fund’s savings on deposit payouts in the amount of UAH 30.5 mn, and the total value of the assets transferred exceeds the market value by UAH 649,000.00.

The resolution plans for the insolvent banks PJSC “DIAMANTBANK” and JSCB “NOVYI” were implemented for the first time in the last 2 years by “alienating all or part of the assets and liabilities of the insolvent bank in favour of the receiving bank with the revocation of the banking license of the insolvent bank and its further liquidation.” The total amount of the Fund’s savings on deposit payouts was UAH 1,158.9 mn, and the net economic effect (exceeding of the value of the transferred assets over the market value) was UAH 41.6 mn.

8.2. Provisional Administration and Liquidation of Banks

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.

To carry out the provisional administration and liquidation of banks, the Executive Directorate of the Fund appoints the authorized DGF officer, who has high professional and moral qualities, impeccable business reputation, full higher education in economics, finance or law (not lower than the

Specialist’s qualification level) and professional experience, necessary for the implementation of measures stipulated by law.

In 2017, the National Bank of Ukraine declared 9 banks insolvent, which is twice less than in the previous year. In accordance with the provisions of the Law, the Fund introduced the provisional administration at the banks listed in Table 8.1.

The book value of assets as of the day of introduction of the provisional administration amounted to UAH 17,333,872,790.00. The book value of assets by bank is shown in Table 8.2.

The structure of assets of insolvent banks as of the date of introduction of the provisional administration (according to the balance sheet) is shown in Fig. 8.1.

Liabilities of banks as of the date of introduction of the provisional administration amounted to UAH 16,592,378,440.00. The liabilities by bank are shown in Table 8.3.

As of 1 January 2018, PJSC “BANK UNISON” (provisional administration introduced on 28 April 2016) and PJSC CB “FINANCIAL INITIATIVE” (provisional administration introduced on 24 June 2015) were under control of the Fund with the provisional administration procedure. The ultimate method to resolve these insolvent banks has not been determined because the actions of the National Bank of

Table 8.1

Banks with Provisional Administration in 2017

No.	Bank name	Date of resolution commencement	Guaranteed amount, UAH thous.	Resolution method
1	2	3	4	5
1	PJSC "PLATINUM BANK"	11 Jan 2017	4,883,195.55	Liquidation of the bank with the deposit payouts by the Fund
2	PJSC "NK BANK"	20 Jan 2017	6,157.89	
3	JSC "Fortuna-Bank"	27 Jan 2017	91,654.64	
4	PJSC "VECTOR BANK"	3 Mar 2017	74,964.53	
5	PJSC "FINBANK"	10 Apr 2017	3,077.25	
6	PJSC "DIAMANTBANK"	24 Apr 2017	1,240,060.16	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
7	JSCB "NOVYI"	14 Jul 2017	32,167.78	
8	PJSC COMMERCIAL BANK "HEFEST"	2 Aug 2017	0.00	Liquidation of the bank with the deposit payouts by the Fund
9	JSC "BANK BOGUSLAV"	6 Nov 2017	180,871.04	
			6,512,148.84	

Table 8.2

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

No.	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
1	2	3	4	5	6	7	8
1	PJSC "PLATINUM BANK"	223,728.05	4,627,274.21	64,173.00	727,754.89	1,780,560.71	7,423,490.87
2	PJSC "BANK NARODNYI CAPITAL"	18,967.55	169,788.03	0.00	22,690.02	16,385.80	227,831.41
3	JSC "Fortuna-Bank"	1,016.13	1,030,207.89	60.00	220,891.79	238,973.31	1,491,149.13
4	PJSC "VECTOR BANK"	833.39	163,603.73	0.00	5,412.24	10,302.42	180,151.79
5	PJSC "FINBANK"	36.46	94,454.96	0.00	3,457.85	21,917.76	119,867.03
6	PJSC "DIAMANTBANK"	571,825.98	2,550,081.14	1,444,285.151	1,356,944.61	695,605.06	6,618,741.95
7	JSCB "NOVYI"	119,022.28	198,301.89	55,002.00	108,663.67	41,763.57	522,753.41
8	PJSC COMMERCIAL BANK "HEFEST"	3.86	-106,932	0.00	819.59	16,251.09	16,967.62
9	JSC "BANK BOGUSLAV"	18,261.25	457,423.43	188,735.331	17,789.02	50,710.57	732,919.60
	Total	953,694.96	9,291,028.36	1,752,255.48	2,464,423.70	2,872,470.29	17,333,872.79

¹ Securities pledged under REPO transactions.

² Negative value is due to the repayment of part of the loan portfolio and failure to deconsolidate part of the reserve for the corresponding amount.

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.

As of 1 January 2018, 94 banks are under control of the Fund, of which two have the provisional administration

(PJSC CB "FINANCIAL INITIATIVE" and PJSC "UNISON BANK"), and 92 banks are under liquidation.

The total book value of assets of these banks is more than UAH 526.39 bn (Table 8.4), the total guaranteed amount is about UAH 91.82 bn.

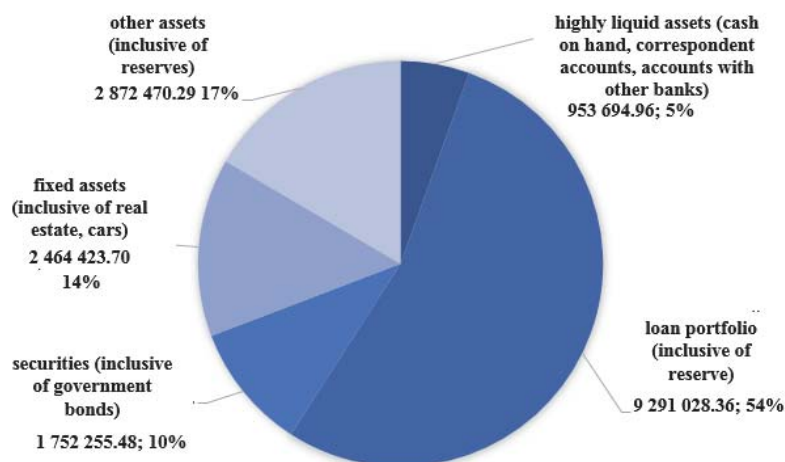


Fig. 8.1. Structure of Assets of Insolvent Banks

Table 8.3

Liabilities as of the Date of Introduction of the Provisional Administration by Bank (UAH thous.)

No.	Bank name	Liability	
		Total	including the guaranteed reimbursement amount
1	2	3	4
1	PJSC "PLATINUM BANK"	7,351,709.65	4,883,195.55
2	PJSC "BANK NARODNYI CAPITAL"	86,470.25	6,157.89
3	JSC "Fortuna-Bank"	1,142,253.05	91,654.64
4	PJSC "VECTOR BANK"	82,539.94	74,964.53
5	PJSC "FINBANK"	447,837.72	3,077.25
6	PJSC "DIAMANTBANK"	6,487,691.14	1,251,753.98
7	JSCB "NOVYI"	494,070.70	32,167.78
8	PJSC COMMERCIAL BANK "HEFEST"	274.81	0.00
9	JSC "BANK BOGUSLAV"	499,531.18	180,871.04
	Total	16,592,378.44	6,523,842.66

Table 8.4

Book and Estimated Value of Assets and Approved Accepted Creditors' Claims

Banks Being Liquidated by the Fund

	Total assets, UAH thous.	Estimated value of assets, UAH thous.	Amount of accepted creditors' claims as of 1 January 2018, UAH thous.
1	2	3	4
JSC "DELTA BANK"	98,509,287.28	25,152,977.51	53,768,611.55
JSC "FINANCE AND CREDIT BANK"	57,205,400.13	9,833,931.00	31,773,109.76
PJSC "BANK NADRA"	50,640,377.47	7,261,932.54	25,071,554.38
PJSC "VAB BANK"	33,899,971.17	7,183,437.02	18,396,277.92
PJSC "BROKBUSINESSBANK"	20,770,899.17	2,930,821.66	11,155,999.63
PJSC "IMEXBANK"	20,543,134.89	3,094,209.46	8,946,901.20
JSC "RODOVID BANK"	19,125,184.57	under evaluation	confirmation pending
PJSC "BANK FORUM"	15,233,197.86	4,578,181.03	9,159,207.84
PJSC "ZLATOBANK"	13,890,586.88	1,376,067.49	6,808,614.91
PJSC "AKTABANK"	10,919,856.26	305,462.66	920,592.20
PJSC CB "PIVDENCOMBANK"	9,219,769.32	267,015.51	3,227,090.49
PJSC CB "KHRESHCHATYK"	7,696,147.54	1,873,494.66	6,156,456.83

Table No. 8.4 continued

	Total assets, UAH thous.	Estimated value of assets, UAH thous.	Amount of accepted creditors' claims as of 1 January 2018, UAH thous.
1	2	3	4
PJSC "PLATINUM BANK"	7,337,725.84	1,462,393.92	6,983,091.10
PJSC "CITY COMMERCIAL BANK"	6,932,795.49	1,044,952.18	2,646,893.36
JSC "EUROGASBANK"	6,733,004.91	494,018.32	2,148,392.75
PJSC CB "ACTIVE-BANK"	6,607,009.23	630,916.69	2,348,314.27
PJSC "TERRA BANK"	6,528,053.52	105,139.70	2,688,883.63
JSC "BANK TAVRYKA"	6,281,996.78	18,214.44	2,748,338.15
PJSC "VBR"	5,930,437.29	3,356,397.19	6,526,445.48
PJSC "REAL BANK"	5,518,583.21	19,700.94	2,346,342.04
PJSC "UKRINBANK"	5,322,424.61	-	3,029,725.95
PJSC "BANK MYKHAILIVSKYI"	5,314,891.27	107,359.93	2,822,309.48
PJSC "BANK KYIVSKA RUS"	5,198,142.70	875,255.07	5,416,309.14
PUJSC "FIDOBANK"	4,979,385.53	1,821,554.27	5,101,877.63
PJSC "UKRAINIAN BUSINESS BANK"	4,733,225.34	735,730.63	1,726,909.26
JSC CB "EXPOBANK"	3,352,017.64	839,426.23	1,683,836.37
PJSC CB "UFS"	3,242,423.40	50,562.94	1,210,211.62
PJSC "DIAMANTBANK"	3,066,085.09	1,368,278.93	4,242,400.19
JPSC "BANK DEMARK"	2,584,507.35	62,231.49	1,165,756.68
PJSC "ENERHOBANK"	2,559,310.86	490,170.53	1,388,143.36
PJSC "UKRAINIAN PROFESSIONAL BANK"	2,370,504.00	157,005.16	1,114,824.00
JSC "FORTUNA-BANK"	2,287,168.58	588,604.26	990,138.00
JSC "BANK NATIONAL INVESTMENTS"	2,258,304.83	293,976.29	1,079,562.30
PJSC "BANK NATIONAL CREDIT"	2,141,195.52	122,154.96	841,018.17
PJSC "BG BANK"	2,128,556.14	541,524.21	1,565,130.54
PJSC "AVANT BANK"	1,966,236.62	694,683.47	1,383,357.77
PJSC "BANK CAMBIO"	1,871,645.79	244,113.95	1,553,249.94
PJSC "FINROSTBANK"	1,798,470.18	107,454.27	675,933.12
PJSC "AKB BANK"	1,722,800.26	124,315.26	980,769.88
JSC BANK "MERCURIY"	1,625,895.44	61,777.22	1,410,167.38
PJSC "UNICOMBANK"	1,441,670.42	79,122.32	220,195.06
PJSC JSCB "CAPITAL"	1,376,823.68	332,589.90	-
PJSC "KREDITPROMBANK"	1,307,918.32	168,584.35	921,783.25
PJSC CB "STANDARD"	1,302,327.00	27,929.15	555,181.06
JSC CB "TK CREDIT"	1,295,890.36	399,947.86	1,698,088.15
JSC "BANK GOLDEN GATE"	1,251,241.04	62,189.31	696,767.96
PJSC CB "PREMIUM"	1,194,445.98	428,182.54	757,019.92
PJSC "BANK PETROCOMMERCE-UKRAINE"	1,166,216.90	225,012.78	215,415.19
PJSC "INTEGRAL-BANK"	1,142,341.68	216,360.75	551,223.68
PJSC "UNION STANDARD BANK"	1,071,126.10	130,707.60	525,110.87
PJSC CB "INTERBANK"	1,055,969.49	1,316.47	309,412.49
PJSC CB "EUROBANK"	977,773.92	220,075.55	587,235.29
PJSC "FINBANK"	888,776.84	111,174.79	145,820.33
PJSC "BANK SOPHIIIVSKYI"	836,292.10	264,752.30	387,695.25
PJSC "LEG BANK"	764,769.29	96,315.62	576,921.43
JSC "PORTO-FRANKO"	746,757.78	32,765.28	642,720.02
PJSC "RADICAL BANK"	710,570.54	253,381.86	746,124.78
PJSC CB "AXIOMA"	695,179.81	152,460.42	138,307.99
PJSC "PROFIN BANK"	683,111.55	71,935.94	338,977.18

Table No. 8.4 continued

	Total assets, UAH thous.	Estimated value of assets, UAH thous.	Amount of accepted creditors' claims as of 1 January 2018, UAH thous.
1	2	3	4
PJSC "BANK TRUST"	644,911.26	163,847.02	666,767.85
PJSC "ZAKHIDINKOMBANK"	641,574.42	70,547.23	354,846.55
PJSC JSB "STOLYCHNYI"	617,504.23	95,137.23	286,416.22
PJSC "UKRGAZPROMBANK"	593,809.95	88,705.60	637,210.86
PJSC "STAROKYIVSKYI BANK"	567,892.58	120,195.18	371,824.86
JSC "BANK BOGUSLAV"	564,035.37	under evaluation	confirmation pending
JSC "ARTEM-BANK"	548,427.79	123,838.35	204,035.36
PJSC CB "DANIEL"	466,647.78	22,484.34	688,731.81
PJSC "KSG BANK"	455,096.00	122,824.24	132,464.52
PJSC CB "INVESTBANK"	413,808.47	140,682.03	206,327.51
PJSC BANK "KONTRACT"	365,838.25	180,993.76	306,632.39
PUJSC "SMARTBANK"	364,528.84	9,172.27	58,681.33
PJSC JSCB "NOVYI"	360,326.81	252,560.23	334,501.89
PJSC "BANK NARODNYI CAPITAL"	294,007.99	118,487.43	84,790.66
PJSC "INTERCREDITBANK"	254,674.18	38,747.65	87,716.39
PJSC "VECTOR BANK"	241,377.29	12,719.78	80,835.36
PJSC CB "PROMECONOMBANK"	229,264.91	11,288.14	709,894.35
PJSC "PRIME BANK"	229,016.56	22,182.22	220,905.74
PJSC JSCB "KYIV"	180,954.68	209,985.17	1,566.42
PJSC JSB "UKOOSPILKA"	163,765.85	4,791.03	109,513.81
PJSC "DERZHZEMBANK"	121,824.18	122,284.57	10,264.56
PJSC COMMERCIAL BANK "HEFEST"	119,204.61	under evaluation	380.52
PJSC "MELIOR BANK"	106,867.20	95.60	81,631.69
PJSC "BLACK SEA BANK FOR RECONSTRUCTION AND DEVELOPMENT"	104,339.17	107,205.56	-
PJSC "EAST INDUSTRIAL COMMERCIAL BANK"	27,869.32	27,869.32	-
PJSC "GREEN BANK"	18,582.46	7,156.51	173,990.51
JSC "BANK VELES"	14,391.68	6,641.92	3,195.43
PJSC "BANK MORSKYI"	10,360.08	10,360.08	-
PJSC "UKRAINIAN MUNICIPAL BANK"	4,876.68	7,863.11	-
PJSC "OMEGA BANK"	4,166.97	2,057.45	537,401.84
JSC CB "SOIUZ"	0.00	-	-
PJSC "CLASSICBANK"	0.00	0.00	3,495.96
PJSC "ERDE BANK"	0.00	0.00	741,005.97
Total	498,685,758.28	85,650,970.80	260,311,778.56

Banks under Provisional Administration

	Total assets, UAH thous.	Estimated value of assets, UAH thous.	Amount of accepted creditors' claims as of 1 January 2018, UAH thous.
1	2	3	4
PJSC CB "FINANCIAL INITIATIVE"	26,941,030.64	10,383,565.20	-
PJSC "BANK UNISON"	760,833.05	566,155.11	-
Amount of accepted creditors' claims as of 1 January 2018, UAH thous.	27,701,863.69	10,949,720.31	0.00

Distribution of Assets of Banks under Provisional Administration or Liquidation

The book value of assets (except for reserves) as of 1 January 2018 is UAH 526,387.62 mn. The following figure demonstrates the distribution of assets of insolvent banks by major type:

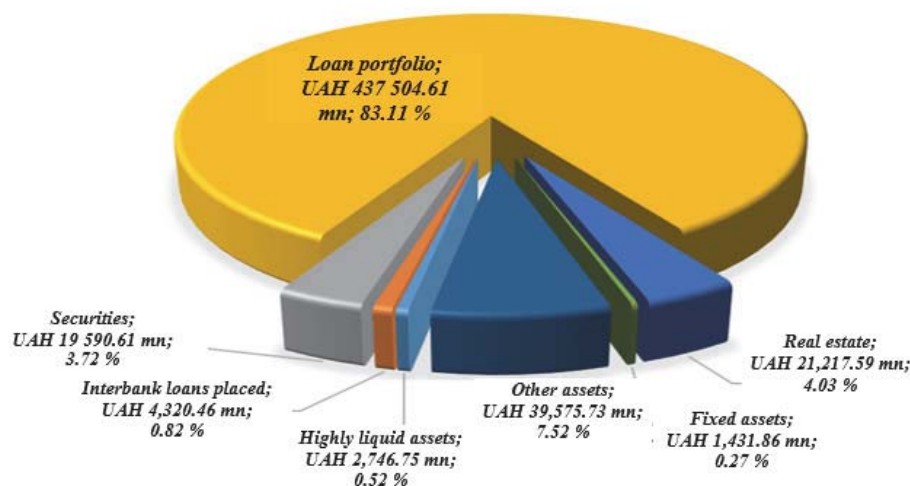


Fig. 8.2. Distribution of Assets of Banks under Provisional Administration or Liquidation

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 2018, 92 banks with the book value of assets of UAH 498.69 bn are in the state of liquidation (see Table 8.4).

One of the main issues faced in the course of bank liquidation is the reduction of the operating/administrative expenses and labour costs.

Table 8.5 below shows the consolidated information on the reduction of bank staff.

As of 1 January 2018, the total staff of insolvent banks being resolved by the Deposit Guarantee Fund was 4,036 persons (exclusive of social leave), which is by 1,209 persons, or 23 %, less than the last year's. In order to ensure cost optimization of insolvent banks for payment of salaries, as of 1 January 2018, the authorized DGF officers reduced the staff by 40,371 employees, including 5,681 persons in 2017, during the entire period of provisional administration and liquidation of insolvent banks (94 banks).

Since the start of bank liquidation procedure, the Fund or the authorised officer (in case of delegation of respective powers) begins to take inventory and assessment of the property of the bank in order to form the bank liquidation estate. 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:

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

The bank liquidation estate includes any immovable or movable property, funds, property rights, and other assets. The bank liquidation estate does not include property in cases expressly provided by law nor licenses and goodwill.

Funds remaining after the satisfaction of secured claims and costs associated with maintenance, preservation, and sale (transactions involving the bank) of the secured item shall be included in the liquidation estate.

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

Table 8.5

Changes in the Number of Staff in 2017

Changes in the Number of Staff in 2017												
Name/month	January 2017	February 2017	March 2017	April 2017	May 2017	June 2017	July 2017	August 2017	September 2017	October 2017	November 2017	December 2017
1	2	3	4	5	6	7	8	9	10	11	12	13
Total number of employees of the bank as of the date of the provisional administration introduction (exclusive of social leave)	42,813	42,813	42,906	44,043	44,145	44,145	44,282	44,299	44,299	44,299	44,407	44,407
Total number of staff reduced during the provisional administration (exclusive of social leave)	35,011	35,796	37,771	38,093	38,412	38,895	39,175	39,406	39,777	40,077	40,222	40,371
The number of the bank staff as of the reporting date (exclusive of social leave)	7,082	7,017	5,135	5,950	5,733	5,250	5,107	4,893	4,522	4,222	4,185	4,036
Number of banks	88	88	89	91	91	91	92	93	93	93	94	94

Table 8.6

List of Banks for the Planned Termination of the Liquidation Procedure

No.	Bank	Date of commencement of liquidation procedure	Date of plan approval	Date of termination of liquidation procedure (according to the approved plan)
1	2	3	4	5
1	PJSC "ERDE BANK"	10 Jan 2013	31 Aug 2017	8 Jan 2018
2	PJSC "CLASSICBANK"	12 Aug 2016	26 Oct 2017	1 Mar 2018
3	JSC "BANK TAVRYKA"	21 Mar 2013	9 Oct 2017	20 Mar 2018
4	PJSC "DERZHZEMBANK"	27 Sep 2016	9 Oct 2017	3 Apr 2018
5	PUJSC "SMARTBANK"	25 Jul 2016	26 Oct 2017	24 Jul 2018
6	PJSC "REAL BANK"	21 May 2014	30 Oct 2017	27 Aug 2018
7	JSC BANK "MERCURIY"	12 Jun 2014	30 Nov 2017	27 Aug 2018
8	PJSC CB "INTERBANK"	23 Jul 2014	2 Nov 2017	27 Aug 2018
9	PJSC CB "PROMECONOMBANK"	8 Sep 2014	30 Nov 2017	27 Aug 2018
10	PJSC CB "UFS"	13 Nov 2014	2 Nov 2017	27 Aug 2018
11	PJSC "INTERCREDITBANK"	17 Jan 2015	26 Oct 2017	27 Aug 2018
12	PJSC "GREEN BANK"	23 Jan 2015	30 Oct 2017	27 Aug 2018
13	PJSC CB "AXIOMA"	30 Jan 2015	26 Oct 2017	27 Aug 2018
14	PJSC "MELIOR BANK"	11 Feb 2015	26 Oct 2017	27 Aug 2018
15	PJSC "OMEGA BANK"	6 Jul 2015	7 Dec 2017	27 Aug 2018
16	PJSC "UNICOMBANK"	24 Dec 2015	22 Jan 2018	3 Dec 2018
17	PJSC "ZAKHIDINKOMBANK"	23 Jul 2014	22 Jan 2018	6 Dec 2018
18	PJSC "AKB BANK"	29 Aug 2014	22 Jan 2018	6 Dec 2018
19	PJSC "FINROSTBANK"	16 Oct 2014	29 Jan 2018	6 Dec 2018
20	PJSC "TERRA BANK"	30 Jan 2015	22 Jan 2018	6 Dec 2018

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.

Bank Liquidation Procedure Termination

As of 1 January 2018, 20 banking institutions are at the stage of termination of the liquidation procedure.

For instance, Decision of the Executive Directorate of the Fund No. 3796 dated 28 August 2017 approved the list of 15 banking institutions, for which it is planned to complete the liquidation procedure in the period from 28 August 2017 to 27 August 2018, namely: PJSC CB "INTERBANK", PJSC "OMEGA BANK", PJSC CB "UFS", PJSC "GREEN BANK", PJSC "DERZHZEMBANK", PJSC "INTERCREDITBANK", PJSC "MELIOR BANK", PJSC CB "AXIOMA", PJSC CB "PROMECONOMBANK", PUJSC "SMARTBANK", PJSC "REAL BANK", JSC BANK "MERCURIY", PJSC "ERDE BANK", JSC "BANK TAVRYKA", PJSC "CLASSICBANK."

Decision of the Executive Directorate of the Fund No. 5311 dated 7 December 2017 approved the list of five banking institutions for which it is planned to complete the liquidation procedure in the period from 8 December 2017 to 7 December 2018, namely: PJSC "AKB BANK", PJSC "ZAKHIDINKOMBANK", PJSC "FINROSTBANK", PJSC "TERRA BANK", PJSC "UNICOMBANK."

Table 8.6 shows the termination of the liquidation procedure for the banks on the above list:

The Executive Directorate of the Fund approved the action plans for the liquidation procedure completion (hereinafter

referred to as the Plans) for fifteen financial institutions by relevant decision.

Decisions were adopted regarding two financial institutions to transfer the property (assets) that remained after the satisfaction of the creditors' claims to the shareholders of institutions, namely: PJSC "CLASSICBANK" (Decision No. 5373 dated 14 December 2017) and PJSC "DERZHZEMBANK" (Decision No. 5423 dated 18 December 2017).

For instance, on 27 December 2017, the remaining assets of PJSC "CLASSICBANK" of the book value of UAH 432,169,000.00 were transferred to the joint shared ownership of shareholders. Transfer of remaining assets of PJSC "DERZHZEMBANK" is planned for January 2018.

Within the Plans above, one financial institution is at the final stage of the liquidation procedure. For instance, Decision of the Executive Directorate of the Fund No. 5334 dated 11 December 2017 approved the liquidation balance sheet and liquidator's report of PJSC "ERDE BANK" as of 8 December 2017. The authorized DGF officer has made all necessary actions for liquidation of the bank and timely submitted the documents to the Registration Service to make an entry on the termination of the bank as a legal entity.

The thorough analysis of the asset balances of eight banking institutions resulted in the development and preparation of the materials for the Fund Executive Directorate to consider and approve the list of banks for which it is planned to begin the completion of the liquidation procedure in January 2018, namely: PJSC CB "PIVDENCOMBANK", PJSC "PRIME BANK", PJSC CB "STANDARD", PJSC JSB "UKOOSPILKA", PJSC "FINBANK", PJSC COMMERCIAL BANK "HEFEST", PJSC COMMERCIAL BANK "DANIEL", JPSC "BANK DEMARK."

8.3. 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:

- liabilities arising from damage to life or health of citizens;
- 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;
- 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);
- 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;
- claims of the National Bank of Ukraine resulting from the decrease in the value of collateral provided to secure refinancing loans;
- 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;
- claims of other depositors and legal entities (customers) that are not parties related to the bank;
- other claims except for claims for subordinated debt;

Assets of Banks with the Approved Accepted Creditors' Claims Register (UAH thous.)

No.	BANK	Book value of assets	Estimated value of assets
1	2	3	4
1	PJSC "ERDE BANK"*	0.00*	0.00*
2	PJSC "BANK TAVRYKA"	6,281,996.78	18,214.44
3	PJSC CB "DANIEL"	466,647.78	22,484.34
4	PJSC "REAL BANK"	5,518,583.21	19,700.94
5	PJSC "BROKBUSINESSBANK"	20,770,899.17	2,930,821.66
6	JSC BANK "MERCURIY"	1,625,895.44	61,777.22
7	PJSC "BANK FORUM"	15,233,197.86	4,578,181.03
8	PJSC CB "INTERBANK"	1,055,969.49	1,316.47
9	PJSC CB "PROMECONOMBANK"	229,264.91	11,288.14
10	PJSC CB "PIVDENCOMBANK"	9,219,769.32	267,015.51
11	PJSC "ZAKHIDINKOMBANK"	641,574.42	70,547.23
12	PJSC "AVTOKRAZBANK"	1,722,800.26	124,315.26
13	PJSC "STAROKYIVSKYI BANK"	567,892.58	120,195.18
14	PJSC "FINROSTBANK"	1,798,470.18	107,454.27
15	PJSC CB "UFS"	3,242,423.40	50,562.94
16	JSC "EUROGASBANK"	6,733,004.91	494,018.32
17	JSC "BANK GOLDEN GATE"	1,251,241.04	62,189.31
18	PJSC "TERRA BANK"	6,528,053.52	105,139.70
19	PJSC CB "ACTIVE-BANK"	6,607,009.23	630,916.69
20	PJSC "PRIME BANK"	229,016.56	22,182.22
21	PJSC "AKTABANK"	10,919,856.26	305,462.66
22	PJSC "INTERCREDITBANK"	254,674.18	38,747.65
23	PJSC "GREEN BANK"	18,582.46	7,156.51
24	JSC CB "EXPOBANK"	3,352,017.64	839,426.23
25	JPSC "BANK DEMARK"	2,584,507.35	62,231.49
26	JSC "PORTO-FRANKO"	746,757.78	32,765.28
27	PJSC CB "AXIOMA"	695,179.81	152,460.42
28	PJSC "MELIOR BANK"	106,867.20	95.60
29	PJSC "BG BANK"	2,128,556.14	541,524.21
30	PJSC "LEG BANK"	764,769.29	96,315.62
31	PJSC "BANK CAMBIO"	1,871,645.79	244,113.95
32	PJSC "VAB BANK"	33,899,971.17	7,183,437.02
33	PJSC "CITY COMMERCIAL BANK"	6,932,795.49	1,044,952.18
34	PJSC "PROFIN BANK"	683,111.55	71,935.94
35	PJSC JSB "UKOOSPILKA"	163,765.85	4,791.03
36	PJSC "UKRAINIAN BUSINESS BANK"	4,733,225.34	735,730.63
37	PJSC "ZLATOBANK"	13,890,586.88	1,376,067.49
38	PJSC "IMEXBANK"	20,543,134.89	3,094,209.46
39	PJSC "KREDITPROMBANK"	1,307,918.32	168,584.35
40	PJSC "BANK NADRA"	50,640,377.47	7,261,932.54
41	PJSC "ENERHOBANK"	2,559,310.86	490,170.53
42	PJSC CB "STANDARD"	1,302,327.00	27,929.15
43	PJSC JSCB "KYIV"	180,954.68	209,985.17
44	PJSC "OMEGA BANK"	4,166.97	2,057.45
45	PJSC "BANK KYIVSKA RUS"	5,198,142.70	875,255.07
46	PJSC "UKRAINIAN PROFESSIONAL BANK"	2,370,504.00	157,005.16

Table No. 8.7 continued

No.	BANK	Book value of assets	Estimated value of assets
1	2	3	4
47	PJSC "BANK NATIONAL CREDIT"	2,141,195.52	122,154.96
48	PJSC "UKRGAZPROMBANK"	593,809.95	88,705.60
49	PJSC JSB "STOLYCHNYI"	617,504.23	95,137.23
50	JSC "DELTA BANK"	98,509,287.28	25,152,977.51
51	PJSC "RADICAL BANK"	710,570.54	253,381.86
52	PJSC "INTEGRAL-BANK"	1,142,341.68	216,360.75
53	JSC "BANK NATIONAL INVESTMENTS"	2,258,304.83	293,976.29
54	PJSC "UNICOMBANK"	1,441,670.42	79,122.32
55	JSC "BANK VELES"	14,391.68	6,641.92
56	PJSC BANK "KONTRACT"	365,838.25	180,993.76
57	JSC "FINANCE AND CREDIT BANK"	57,205,400.13	9,833,931.00
58	PJSC "VBR"	5,930,437.29	3,356,397.19
59	PJSC "UNION STANDARD BANK"	1,071,126.10	130,707.60
60	PJSC CB "PREMIUM"	1,194,445.98	428,182.54
61	PJSC "AVANT BANK"	1,966,236.62	694,683.47
62	PJSC "UKRINBANK" (data as of 7 July 2016)	5,322,424.60	-
63	JSC CB "TK CREDIT"	1,295,890.36	399,947.86
64	PJSC "BANK PETROCOMMERCE-UKRAINE"	1,166,216.90	225,012.78
65	PJSC "BANK SOPHIIIVSKYI"	836,292.10	264,752.30
66	PJSC CB "KHRESHCHATYK"	7,696,147.54	1,873,494.66
67	PJSC "BANK MYKHAILIVSKYI"	5,314,891.27	107,359.93
68	PUJSC "FIDOBANK"	4,979,385.53	1,821,554.27
69	PUJSC "SMARTBANK"	364,528.84	9,172.27
70	PJSC "CLASSICBANK"*	0.00*	0.00*
71	PJSC CB "EUROBANK"	977,773.92	220,075.55
72	PJSC "KSG BANK"	455,096.00	122,824.24
73	PJSC "DERZHZEMBANK"	121,824.18	122,284.57
74	JSC "ARTEM-BANK"	548,427.79	123,838.35
75	PJSC "BANK TRUST"	644,911.26	163,847.02
76	PJSC CB "INVESTBANK"	413,808.47	140,682.03
77	JSC "FORTUNA-BANK"	2,287,168.58	588,604.26
78	PJSC "PLATINUM BANK"	7,337,725.84	1,462,393.92
79	PJSC "BANK NARODNYI CAPITAL"	294,007.99	118,487.43
80	PJSC "VECTOR BANK"	241,377.29	12,719.78
81	PJSC "FINBANK"	888,776.84	111,174.79
82	PJSC "DIAMANTBANK"	3,066,085.09	1,368,278.93
83	PJSC JSCB "NOVYI"	360,326.81	252,560.23
84	PJSC COMMERCIAL BANK "HEFEST"	119,204.61	0.00**
Total amount, UAH thous.		477,472,269.40	85,165,082.82

* Decision of the Executive Directorate of the Fund approved the liquidation balance sheet and the liquidator's report. At the beginning of 2018, the documents were submitted to the Registration Service to make an entry on the termination of the bank as a legal entity.

**As of 31 December 2017, the estimated value of assets was not approved.

Amount of Accepted Creditors' Claims by Order of Priority as of 1 January 2018

Amount of approved accepted creditors' claims as of 1 January 2018, 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.
260,311,778.53	42,339.53	87,886,102.66	37,355,410.16	8,284,358.43	64,770.75	109,638,458.48	10,880,330.60	4,113,696.10	2,046,311.81

- claims of creditors of the bank (individuals, including individual entrepreneurs, and legal entities) that are parties related to the bank;
- 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 2018, the total book value of the assets of 84 banks, in which the decision of the Executive Directorate of the Fund approved the Accepted Creditors' Claims Register, amounted to UAH 477.47 bn at the estimated value of UAH 85.17 bn, or 17.84 %, which is certainly not sufficient to satisfy all the creditors' claims (Table 8.7).

The total amount of accepted creditors' claims as of 1 January 2018 was equal to UAH 260,311,778,530.00 (84 banks under liquidation).

In 2017 the amount of approved accepted creditors' claims increased by UAH 16,474,792,930.00 due to the approval of the Creditors Register in 2017 for 11 insolvent banks, including the largest totals of the approved accepted creditors' claims as follows: PJSC "PLATINUM BANK" — UAH 6,983,091,100, PJSC "DIAMANTBANK" — UAH 4,242,400,190, JSC "FORTUNA-BANK" — UAH 990,138,000.

In 2017 creditors' claims were settled for UAH 11,253,096,720.00 in all the priorities.

Repayment of Creditors' Claims of Priority 2

The amount of accepted creditors' claims of Priority 2: UAH 42,339,530.00.

As of 1 January 2018, UAH 32,523,470.00 was repaid, which accounts for 76.82 % of the total debt in the priority, including the debt for 2017 in the amount of UAH 2,990,140.00.

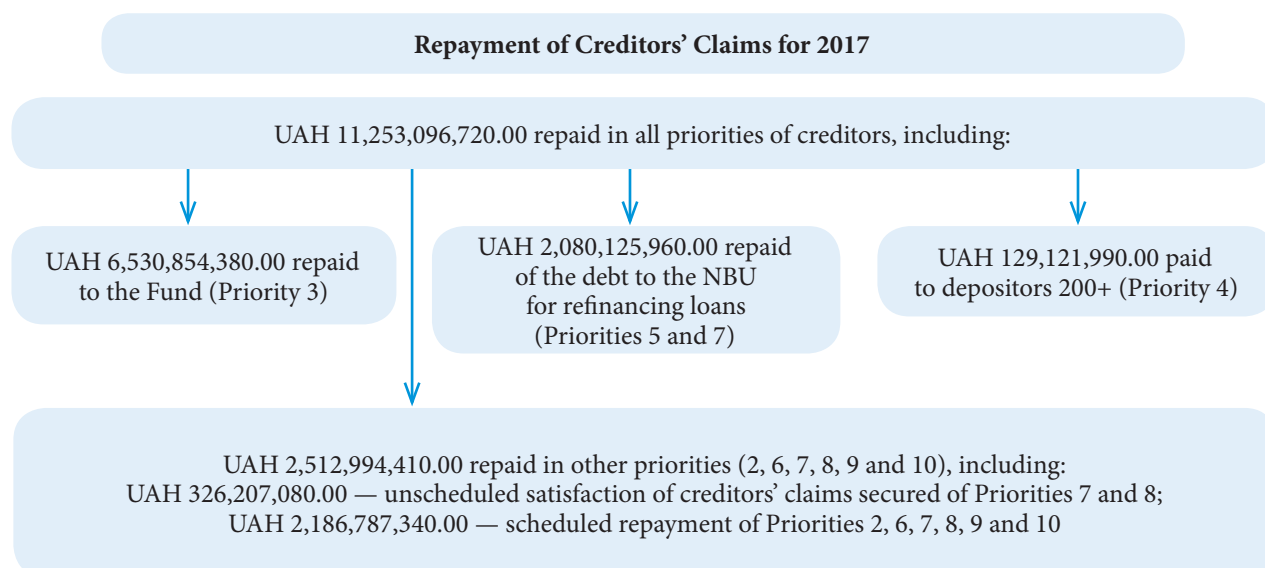


Fig. 8.3. Repayment of Creditors' Claims for 2017

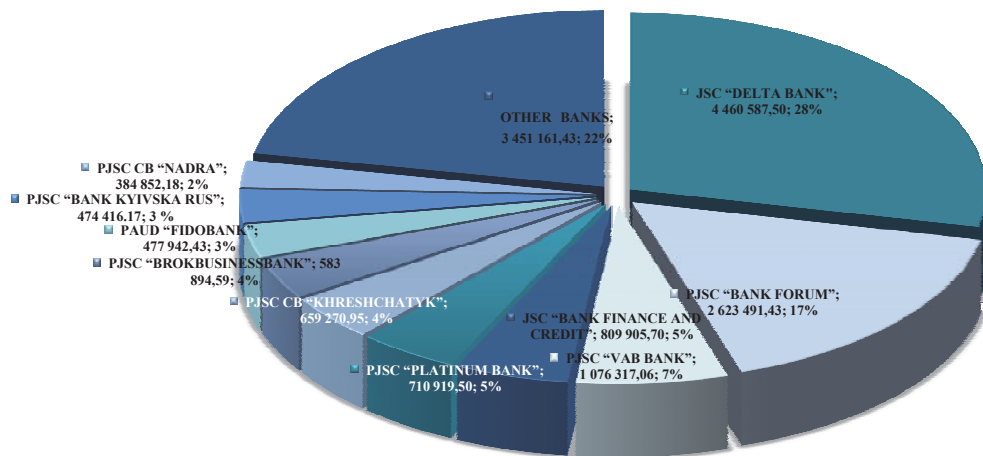


Fig. 8.4. Leading Banks for the Third-Priority Creditors Repayment (for all time) as of 1 January 2018

Only 19 of the 33 insolvent banks repaid their second-priority 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 29,890.00.

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

Repayment of Creditors' Claims of Priority 3

The amount of accepted creditors' claims of Priority 3: UAH 87,886,102,660.00.

As of 1 January 2018, UAH 15,712,758,940.00 was repaid, which accounts for 17.88 % of the total debt in the priority, including the debt for 2017 in the amount of UAH 6,530,854,390.00.

The leaders of repayment to third-priority creditors in 2017 were the following banks:

- JSC "DELTA BANK": UAH 1,672,192,510.00 (25.60 % of the repayment of Priority 3 in 2017);
- PJSC "BANK FORUM": UAH 1,079,475,950.00 (16.53 % of the repayment of Priority 3 in 2017);
- PJSC "PLATINUM BANK": UAH 710,919,500.00 (10.89 % of the repayment of Priority 3 in 2017);
- JSC "FINANCE AND CREDIT BANK": UAH 611,100,290.00 (9.36 % of the repayment of Priority 3 in 2016);
- PJSC "FIDOBANK": UAH 410,367,770.00 (6.28 % of the repayment of Priority 3 in 2016);

Repayment of Creditors' Claims of Priority 4

The amount of accepted creditors' claims of Priority 4: UAH 37,355,410,160.00. Priority 4 was repaid for UAH 1,063,464,870.00, which accounts for 2.85 %. In 2017, Priority 4 was repaid for UAH 133,765,300.00.

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 "UKRAINIAN BUSINESS BANK": 99.99 % satisfaction of creditors' claims (UAH 171,418,040.00 (claims of 64 of 65 depositors with deposits 200+ were satisfied; claims of 1 depositor were deposited: UAH 1,930.00)).

PJSC "VBR": 99.99 % satisfaction of creditors' claims (UAH 719,952,740.00 (claims of 134 of 139 depositors 200+ were satisfied; claims of 5 depositors were deposited: UAH 8,890.00)).

Repayment of Creditors' Claims of Priority 5

The amount of accepted creditors' claims of Priority 5: UAH 8,284,358,430.00 comprised of the arrears of the following banks to the NBU: PJSC "REAL BANK": UAH 551,395,940.00; PJSC "BANK FORUM": UAH 486,712,410.00 (refinancing loans repaid in full, the balance of debt to the NBU: UAH 25,300.00 (sample coins belonging to the NBU), JSC "FINANCE AND CREDIT

BANK”: UAH 7,055,793,250.00; PJSC CB “KHRESHCHATYK”: UAH 190,456,830.00 (refinancing loans repaid in full).

Overall, Priority 5 was repaid for UAH 815,862,320.00, which accounts for 9.85 % of the total debt in Priority 5. In 2017, Priority 5 was repaid for UAH 138,718,380.00 (JSC “FINANCE AND CREDIT BANK”).

Repayment of Creditors' Claims of Priority 6

The amount of accepted creditors' claims of Priority 6: UAH 64,770,750.00.

Priority 6 was repaid for UAH 1,628,550.00, which is 2.51 %, of which: PJSC “GREEN BANK”: UAH 6,500.00 (100 % of the accepted claims of Priority 6), PJSC JSCB “NOVYI”: UAH 4,130.00 (100 % of the accepted claims of Priority 6), PJSC “PRIME BANK”: UAH 5,740.00 (73,50 % of the accepted claims for Priority 6), PJSC “KREDITPROMBANK”: UAH 16,050.00 (98,89 % of the accepted claims of Priority 6), PJSC “VBR”: UAH 140,910.00 (96,03 % of the accepted claims of Priority 6), PJSC “BANK NARODNYI CAPITAL”: UAH 1,455,220.00 (99,65 % of the accepted claims of Priority 6).

In 2016, Priority 6 was repaid for UAH 1,476,320.00.

Repayment of Creditors' Claims of Priority 7

The amount of accepted creditors' claims of Priority 7 was UAH 109,638,458,480.00, including the balance of debts to the NBU included in Priority 7 as of 1 January 2018 in the amount of UAH 31,812,957,320.00.

Priority 7 was repaid for UAH 7,189,726,830.00 (6.56 % (including UAH 4,259,456,140.00 for 2017), of which:

– Total unscheduled repayment of creditors' claims (NBU) of the priority: UAH 3,872,557,860.00 (2017: UAH 1,941,407,590.00):

PJSC CB “DANIEL”: total UAH 11,675,430.00 (2017: UAH 1,953,100.00).

PJSC “BROKBUSINESSBANK”: total UAH 229,701,090.00 (2017: UAH 601,620.00).

PJSC “AVTOKRAZBANK”: total UAH 12,200,590.00 (2017: UAH 4,856,120.00).

JSC “EUROGASBANK”: total UAH 4,121,770.00 (2017: UAH 4,121,770.00).

PJSC CB “ACTIVE-BANK”: total UAH 4,312,060.00 (2017: UAH 960,990.00).

JSC CB “EXPOBANK”: total UAH 70,615,300.00 (2017: UAH 40,857,220.00).

PJSC “BANK DEMARK”: total UAH 26,519,400.00 (debt repaid in full).

JSC “PORT-FRANKO”: total UAH 38,107,210.00 (2017: UAH 36,226,270.00; debt repaid in full).

PJSC “BG BANK”: total UAH 114,052,970.00 (2017: UAH 959,120.00).

PJSC “BANK CAMBIO”: total UAH 226,175,150.00 (2017: UAH 71,773,170.00).

PJSC “VAB BANK”: total UAH 68,373,800.00 (2017: UAH 1,194,360.00).

PJSC “UKRAINIAN BUSINESS BANK”: total UAH 184,368,500.00 (debt repaid in full).

PJSC “ZLATOBANK”: total UAH 39,624,370.00 (2017: UAH 2,214,030.00).

PJSC CB “NADRA”: total UAH 641,736,800.00 (2017: UAH 206,520,010.00).

PJSC “BANK KYIVSKA RUS”: total UAH 139,488,040.00 (2017: UAH 82,850,440.00).

JSC “DELTA BANK”: total UAH 1,731,019,480.00 (2017: UAH 1,195,853,460.00).

PJSC “PLATINUM BANK”: total UAH 248,615,180.00 (2017: UAH 248,615,180.00; debt repaid in full).

PJSC “DIAMANTBANK”: total UAH 41,850,720.00 (2017: UAH 41,850,720.00).

– Total unscheduled repayment of creditors' claims (third persons): UAH 440,632,450.00 (2017: UAH 228,105,220.00):

PJSC “BROKBUSINESSBANK”: total UAH 119,972,410.00, including UAH 1,213,500.00 of secured interbank loans with PJSC “Real Bank”, UAH 118,758,910.00 with JSC “Oschadbank”; 2017: UAH 118,795,410.00, including UAH 36,410.00 of secured interbank loan with PJSC “Real Bank”, UAH 118,758,910.00 with JSC “Oschadbank”; the court decision recognized the ownership of the real estate item mortgaged by JSC “BROKBUSINESSBANK”.

JSC BANK “MERCURIY”: total UAH 47,510,780.00, including UAH 35,957,360.00 — State Mortgage Institution, UAH 11,553,420.00 — LLC “PLANET COMFORT” (2017: UAH 0.00).

PJSC “FORUM”: total UAH 35,377,800.00 (secured interbank loans with PJSC “VTB Bank”, transfer of Bakkara Hotel to the ownership of VTB Bank); 2017: UAH 0.00.

PJSC “AVTOKRAZBANK”: total UAH 4,682,740.00 (Corporate Non-State Pension Fund of the National Bank of Ukraine); 2017: UAH 0.00.

JSC “EUROGASBANK”: total UAH 2,112,970.00; 2017: UAH 2,112,970.00 (Corporate Non-State Pension Fund of the National Bank of Ukraine).

PJSC “STAROKYIVSKYI BANK”: total UAH 2,905,170.00 (guarantee deposit of JSC “Ukreximbank”); 2017: UAH 0.00.

JSC “BANK GOLDEN GATE”: total UAH 287,660.00 (guarantee deposit of PJSC “Raiffeisen Bank Aval”); 2017: UAH 0.00.

JSC CB “EXPOBANK”: total UAH 43,541,740.00, including UAH 8,200,040.00 — guarantee deposit of JSC “Ukreximbank”, UAH 35,341,700.00 — LLC Financial Company “Prime Capital Group”; 2017: UAH 43,443,450.00, including UAH 8,101,750.00 — guarantee deposit of JSC “Ukreximbank”, UAH 35,341,700.00 — LLC Financial Company “Prime Capital Group”.

PJSC “ZLATOBANK”: total UAH 48,945,540.00, including UAH 46,714,400.00 — German-Ukrainian Fund, UAH 2,231,140.00 — LLC “Porsche Mobility”; 2017: UAH 12,566,600.00 (German-Ukrainian Fund).

PJSC CB “NADRA”: total UAH 36,808,660.00 (German-Ukrainian Fund); 2017: UAH 0.00.

PJSC “UKRAINIAN PROFESSIONAL BANK”: total UAH 11,009,280.00 (German-Ukrainian Fund); 2017: UAH 0.00.

PJSC “BANK NATIONAL CREDIT”: total UAH 2,003,990.00, including UAH 31,820.00 — PJSC “Alfa Bank”, UAH 1,972,170.00 — guarantee deposit of JSC “Ukrgasbank”; 2017: UAH 0.00.

PJSC “INTEGRAL-BANK”: total UAH 27,256,780.00 (secured by the interbank loan with PJSC CB “Khreshchatyk”; 2017: UAH 0.00.

PJSC “IMEXBANK”: total UAH 10,035,850.00, including UAH 278,850.00 — guarantee deposit of JSC “Ukreximbank”, UAH 9,757,000.00 — Corporate Non-State Pension Fund of the National Bank of Ukraine; 2017: UAH 3,005,790.00 (Corporate Non-State Pension Fund of the National Bank of Ukraine).

PJSC “RADICAL BANK”: total UAH 48,181,080.00 (State Mortgage Institution); 2017: UAH 48,181,080.00 (State Mortgage Institution).

– **Scheduled satisfaction of creditors’ claims:**

PJSC ACB “KYIV”: UAH 31,480.00 (100 %).

PJSC “OMEGA BANK”: UAH 33,390.00 (100 %).

JSC “BANK VELES”: UAH 849,300.00 (100 %).

PJSC “CLASSICBANK”: UAH 2,207,640.00 (100 %).

JSC CB “TK CREDIT”: UAH 3,275,830.00 (99.99 % of the total debt of the bank in the priority).

PJSC “GREEN BANK”: UAH 102,784,200.00 (97.63 % of the total debt of the bank in the priority).

PJSC “PRIME-BANK”: UAH 102,977,140.00 (59.79 % of the total debt of the bank in the priority; 2017: UAH 1,353,540.00).

PJSC “VBR”: UAH 2,599,300,840.00 (52.23 % of the total debt of the bank in the priority; 2017: UAH 2,028,081.01).

PUJSC “SMARTBANK”: UAH 20,265,170.00 (35.00 % of the total debt of the bank in the priority; 2017: UAH 20,265,170.00).

PJSC “UKRAINIAN BUSINESS BANK”: UAH 44,811,470.00, including repayment of debt on refinancing loans to the NBU, 21.31 % of the total debt of the bank in the priority; 2017: UAH 38,032,720.00.

Repayment of Creditors’ Claims of Priority 8

The amount of accepted creditors’ claims of Priority 8: UAH 10,880,330,600.00. Priority 8 was repaid for UAH 132,858,720.00 (2017: UAH 93,828,720.00), of which:

UAH 39,030,000.00 — scheduled satisfaction of PJSC “GREEN BANK” (96.31 % of the total debt in the priority, in 2017 no debt was repaid).

UAH 93,828,720.00 — unscheduled satisfaction of secured creditors’ claims of PJSC “PLATINUM BANK” (including UAH 14,902,920.00 — International Finance Corporation, UAH 78,555,620.00 — JSC “Oschadbank” (total repaid 64.61 % of the debt of the bank in the priority; 2017: UAH 93,828,720.00).

UAH 359,470.00 — scheduled satisfaction of JSC JCCB “NOVYI” (100 % of the total debt of the bank in the priority repaid in 2017).

UAH 10,710.00 — scheduled satisfaction of PJSC “CLASSICBANK” (100 % of the total debt of the bank in the priority repaid in 2017).

Repayment of Creditors’ Claims of Priority 9

The amount of accepted creditors’ claims of Priority 9: UAH 4,113,696,100.00.

Overall, Priority 9 was repaid for UAH 768,810,820.00 as of 1 January 2018, which accounts for 18.69 % of the total debt for Priority 9, of which:

UAH 686,811,830.00 — scheduled satisfaction of JSC CB “TK CREDIT” (40.65 % of the total debt of the bank in the priority, in 2017 no debt was repaid).

UAH 81,923,930.00 — scheduled satisfaction of PJSC JSCB “NOVYI” (40 % of the total debt of the bank in the priority repaid in 2017).

UAH 55,570.00 — PJSC “VBR” (0.01 % of the total debt of the bank in the priority, in 2017 no debt was repaid).

UAH 19,490.00 — scheduled satisfaction of PJSC “CLASSICBANK” (100 % of the total debt of the bank in the priority repaid in 2017).

Repayment of Creditors’ Claims of Priority 10

The amount of accepted creditors’ claims of Priority 10: UAH 2,046,311,810.00.

Repayment of creditors' by priority, as of 1 January 2018

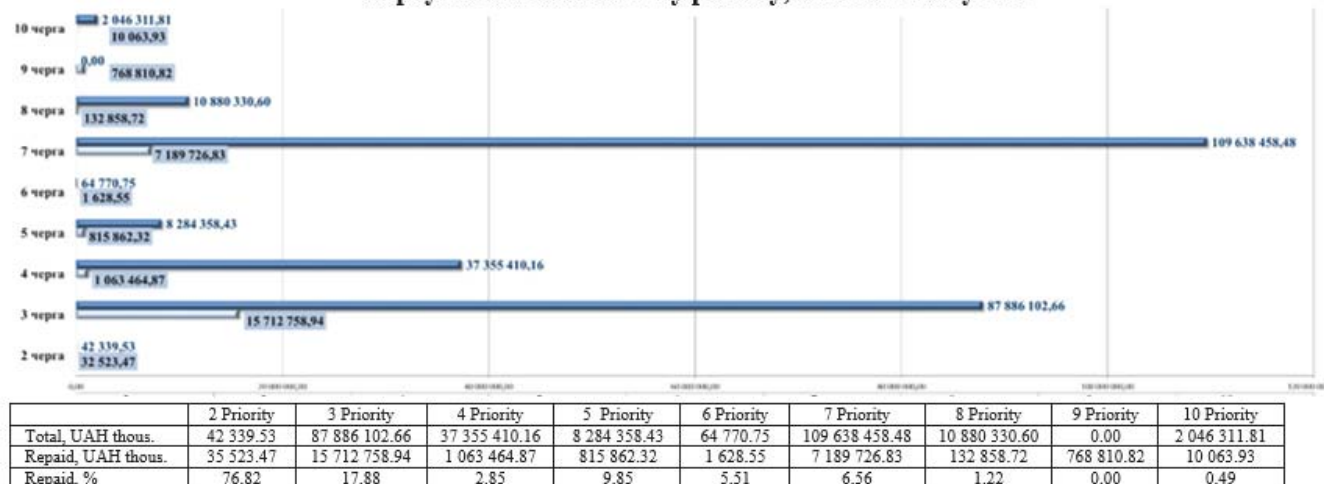


Fig. 8.5. Repayment of Creditors' Claims by Order of Priority as of 1 January 2018

As of 1 January 2018, Priority 10 was repaid for 0.49 % of the total debt in the priority, namely UAH 10,063,930.00 — scheduled satisfaction of PJSC “DERZHZEMBANK” (100 % of the total debt of the bank in the priority repaid in 2017).

In 2017, PJSC “CLASSICBANK” and PJSC “DERZHZEMBANK” fully repaid their debts in all creditors' priorities.

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

During 2017, the number of banks controlled by the Fund with debts on NBU refinancing loans increased due to the introduction of the provisional administration at and liquidation of PJSC “PLATINUM BANK” (debt to the NBU in the amount of UAH 248,615,180.00) and PJSC

“DIAMANTBANK” (debt to the NBU in the amount of UAH 291,717,530.00).

In 2017, the debt to the NBU on refinancing loans was repaid in full by the following banks:

JSC “PORTO-FRANKO” (2017: UAH 36,226,270.00 of unscheduled repayment);

PJSC “PLATINUM BANK” (total UAH 248,615,180.00, the debt was fully repaid in 2017).

In total, in 2017 the debt of UAH 2,080,125,960.00 on the NBU loans was repaid in full; all repayments were unscheduled, of which the largest amount of repayment was UAH 1,195,853,460.00 (JSC “DELTA BANK”).

As of 1 January 2018, the debt of insolvent banks on the NBU refinancing loans was recognized on the accounts of 23 banks; the total amount of debt was UAH 53,736,788,220.00.

8.4. 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, in 2017 the authorised DGF officers sent 1,113 allegations of criminal offenses to law enforcement agencies, 634 of which resulted in entering criminal proceedings into the Unified Register of Pre-Trial Investigations.

After the review of allegations, materials of inspection, findings and cooperation of the Fund with the pretrial investigation agencies, criminal charges against 34 persons (PJSC “Integral-Bank”: 2 persons; PJSC “Bank National Credit”: 1 person; PJSC “BG Bank”: 1 person; PJSC “Imexbank”: 1 person; JSC “Finance and Credit Bank”:

4 persons; PJSC “PIVDENCOMBANK” and PJSC “TERRA BANK”: 7 persons; PJSC “Bank Contract”: 2 persons; JSC “Brokbusinessbank”: 7 persons; PJSC “Radical Bank”: 1 person; PJSC “Starokyivskyi Bank”: 2 persons; PJSC CB “Nadra”: 3 persons; PJSC “USB BANK”: 3 persons) were filed in 2017.

Upon the Fund's initiative, within these criminal proceedings the total amount of UAH 502 mn and 11 real estate items (non-residential and industrial premises, land plots) with a total value of more than UAH 230 mn have been attached.

Moreover, within the scope of investigation of criminal proceedings the Fund and the authorized DGF officers filed 134 civil lawsuits to ensure the compensation for harm caused by the criminal offenses.

In addition, the Fund effectively cooperates with all law enforcement bodies on a day-to-day basis in order to identify, prevent and counteract violations in the financial and banking sector.

In order to improve coordination between the Fund and law enforcement bodies, necessary measures are constantly taken, joint meetings and meetings with investigators and prosecutors, which solve immediate problems and assist in finding common solutions to problems, are held upon the initiative of the Fund.

The positive achievements in cooperation with law enforcement bodies may also include the signing of the Memorandum of Cooperation and Exchange of Information between the Fund and the Security Service of Ukraine in 2017.

Conclusions and materials of inspections carried out by the Fund, which specify the mechanisms and reasons for committing unlawful actions that resulted in significant losses for the banks, are used by the pre-trial investigation

authorities during the investigation of criminal proceedings. These documents serve as the foundation for forensic accounting and forensic economic examination carried out by specialised expert institutions upon instructions from pre-trial investigation authorities, and are used as evidence in criminal proceedings.

In addition, in order to reveal problem or risk transactions, improper performance of risk management procedures and internal control, violations of banking laws of Ukraine, the Fund organised the conduct of comprehensive analysis of 8 insolvent banks (forensic audit) in 2017.

For example, the analysis of insolvency of PJSC “Bank Mykhailivskyi” and PJSC CB “KHRESHCHATYK” has been completed.

The comprehensive analysis of the insolvency of JSC “Finance and Credit Bank”, JSC “Brokbusinessbank”, JSC “Imexbank”, PUJSC “Fidobank”, PJSC “UPB”, PJSC CB “Eurobank” is being conducted.

8.5. Legal Support of Bank Resolution Process

During 2017, the Fund supported the cases related to the bank resolution in courts of administrative, economic and general jurisdiction, where the Fund was a party. During 2017, the Fund received 1,037 administrative cases, 212 commercial cases, and 338 cases for courts of general jurisdiction.

The Fund started to file claims of compensation for damage caused to the bank to persons related to the banks whose actions or inaction resulted in damage to creditors and/or the bank, and/or persons related to the banks who, as a result of such actions or inaction, received direct or indirect property benefits, as well as apply to the court. In 2017, the Fund filed lawsuits against the owners of substantial shares and related persons of 8 insolvent banks: PJSC CB “DANIEL”, PJSC “REAL BANK”, PJSC “ERDE BANK”, PJSC “BROKBUSINESSBANK”, PJSC “BANK FORUM”, PJSC “AVTOKRAZBANK”, PJSC “INTERBANK”, PJSC “ZAKHIDINKOMBANK” for the total amount of more than UAH 15.8 bn.

The Fund participated in the judicial proceedings of the Supreme Court of Ukraine that reviewed the court decisions on the cancellation of the provisional administration and liquidation of banks. The Supreme Court of Ukraine abolished the decisions of the courts of the previous instances on the cancellation of the provisional administration at PJSC “UKRINBANK”, and abolished the liquidation of PJSC SCCB “CAPITAL”, PJSC CB “SOIUZ” and PJSC CB “PREMIUM”, which became an essential step for the return of these insolvent banking institutions under control of the Fund and further effective measures to discharge the depositors’ and other creditors’ claims.

In the framework of 64 court cases, the work was carried out to appeal the court rulings on the prohibition of the Fund and insolvent banks to take actions on the sale of property (assets) of banks and enter into agreements on the results of open bidding (auctions) on the sale of property (assets) of banks. Such appeal made it possible to receive revenues of more than UAH 1 bn and direct them to satisfy the claims of creditors of insolvent banks.

In 2017, the Legal Department of the Fund received more than 31,000 incoming letters to work on. It formed the legal stance for more than 580 attorneys’ requests, 170 deputies’ allegations or requests, 100 allegations from individuals, and 160 allegations from legal entities related to the legal aspects of the insolvent bank resolution.

In the framework of the pilot project on the sale of property (assets) of banks being liquidated, the Fund developed and improved the agreements on interaction with Transparency International Ukraine NGO, as well as the organizers of open bidding (auctions) that improve the system of sale of property (assets) of banks, systematize and structure the interaction between all participants involved, as well as allow dynamically and in the shortest possible time to improve the sale of property (assets) of banks being liquidated.

In addition, in order to ensure the proper functioning of the processes connected with the completion of the resolution procedure, the Fund developed a number of agreements on the transfer of property that remains after the satisfaction of the liquidated bank creditors’ claims to their shareholders.

9. CONSOLIDATED SALES AND MANAGEMENT OF ASSETS

Total actual cash inflows to the insolvent banks in 2017 amounted to UAH 9.9 bn, of which:

UAH 3.8 bn in revenues from loan repayment;

UAH 5.0 bn in revenues from the sale of assets (property) of banks;

UAH 0.9 bn in revenues from the sale of securities;

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

Table 9.1

Revenues to Insolvent Banks, UAH mn

Month	Надходження від погашення кредитної заборгованості	Надходження від продажу активів	Надходження від цінних паперів	Надходження від оренди	УСЬОГО
1	2	3	4	5	6
2017	Revenues from loan repayment	Revenues from the sale of assets	Revenues from securities	Revenues from lease	TOTAL
TOTAL	3,771	5,020	957	114	9,862
January	462	176	5	9	652
February	173	188	12	9	382
March	461	166	30	10	667
April	492	290	1	9	792
May	296	347	11	10	664
June	243	266	31	10	550
July	224	1,023	3	8	1,258
August	470	433	23	9	935
September	294	601	40	10	945
October	269	568	2	10	849
November	193	383	43	10	629
December	194	579	756	10	1,539

9.1. 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.

In order to improve the asset management system of insolvent banks, in 2017 the Fund established the Asset Management Department. Since the creation of the Department, from 1 April 2017, a number of measures have been developed and implemented.

The Fund prepared the asset management plan, analysed the work of the bank with assets in detail after the bank was declared insolvent, and provided the following specific recommendations for each insolvent bank:

- time limits for displaying each asset for sale;
- necessary actions of the claim-related work and time limits thereof;
- measures to optimise the costs of renting premises necessary for the organization of liquidation procedures (warehouses, offices, etc.);

– search of tenants for property not used by the bank in order to reduce the costs of its maintenance and obtain additional income;

– optimization of labour costs, etc.

These recommendations, along with regular monitoring of their implementation and discussion of the results at the collegial body's meetings, considerably increase control over the work with assets while significantly reducing the risk of corrupt actions regarding the assets of an insolvent bank. The plans developed are approved by the decision of the Executive Directorate of the Fund.

The Fund has determined a number of impact factors and developed a single algorithm for all insolvent banks, which determines the assets of banks that bear the risk of loss or impairment of an asset. Accordingly, the unified approach determines the order of auctioning of assets and sets the specific dates for the bank to make an offer on processing by the authorized DGF subdivision, as well as the dates of making a proposal at the Fund collegial bodies meetings for each asset. These actions significantly reduce the risks of

induced retention/acceleration of preparation of the asset for sale.

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 2017, the Fund formed a single database on tangible assets of banks.

The Fund also drew up the Premises Register of all insolvent banks available for rent and placed it on a separate page of the official website for the widest possible access of interested persons. The most attractive assets (integral property complexes or office premises in central districts of the cities) are advertised on the Fund's website with photos and presentation materials for collecting indicative proposals and expanding the range of potential tenants.

In 2017, the rental revenues increased by 13 % compared to 2016, despite the disposal of banks' assets sold.

In 2017, the Fund initiated the establishment of the Property (Assets) Management Committee of the banks being resolved or liquidated by the Fund, which is a permanent collegial body of the Fund that considers various asset

management issues. Among them, for the first time the meeting of the collegial body considered the claim-related work strategies for individual assets, and certain actions of banks as creditors in collecting loan debts, including conducting enforcement proceedings, determining the sales price for pledged property, performing the bankruptcy procedure, etc. The introduction of the collegial decision-making system is aimed at, but not limited to, improving the asset management procedure for insolvent banks and preventing corruption risks in the Fund's activities.

The Fund continues to introduce innovative asset management approaches. For instance, in order to increase revenues and solve the problem of non-performing loans in portfolios of insolvent banks, in November-December 2017 for the first time the Fund developed the programme for restructuring retail loans issued by insolvent banks, Regulation on Restructuring Retail Loans Mortgaged, which (after the official publication of the decision of the Executive Directorate of the Fund officially registered at the Ministry of Justice of Ukraine) will apply to all debtors of insolvent banks that have such loans.

9.2. Development of Consolidated Sales of Assets in 2017

In 2017, the Fund's work was aimed at improving the efficiency of the sale of assets (property) of banks being liquidated. To this end, the Fund implemented a series of the following important organisational and methodological steps:

- Completely switched to the new system of electronic auctions ProZorro.Sale created upon the initiative of the Fund within implementation of the Memorandum of Intent between the Fund, the National Bank of Ukraine, the Ministry of Economic Development and Trade of Ukraine, and Transparency International Ukraine NGO to cooperate in establishing a transparent and efficient system for the sale of property (assets) of insolvent banks and banks under liquidation in Ukraine.

From here on, information about all assets shall go to a single protected central database, to which all bidding process organizers qualified by the Fund and, accordingly, their customers will have equal access.

This system reduces the interference of certain persons in the course of auctions to the extent possible. Auctions may be watched in real time.

At the end of each bidding, the system automatically generates a report that specifies the number of bidders, their bids and winners' names. This increases the competition by facilitating access to the sale of property (assets) of insolvent banks, as well as providing equal access to information about such assets (property) by all investors interested.

- Cancelled the restrictions on bidders; as of today both legal entities and individuals (except for debtors and/or guarantors under relevant agreements) may purchase the banks' assets, including the claims for loans.
- Ensured maximum disclosure of information about assets is provided.
- Made the Insolvent Banks Asset Register publicly available. From now on, the data about all assets entered to ProZorro.Sale by the Fund in the form of lots are available through a single Register, which is publicly available on prozorro.sale for all people interested.
- Opened a virtual data room; it facilitates the access of potential buyers to the information on the assets of liquidated banks that are put up for sale.
- Introduced the pilot project, according to which all assets are displayed at book (highest) value at the first bidding, with the possibility of gradual reduction of the price up to 30 % of par value.
- Since late October 2017, introduced a new system of asset sales under the Dutch model, which prompts the dynamics of the sale of assets, and ensures their sale during the projected period of time. The difference from the previous model is the automatic step-by-step reduction from the initial price to the sales price within a day. In general, the price may decrease from 100 % to 20 % of the par value within a bidding day. Instead, the asset exposure period has been increased: 14 to 40 working days are provided to review the lots. The key

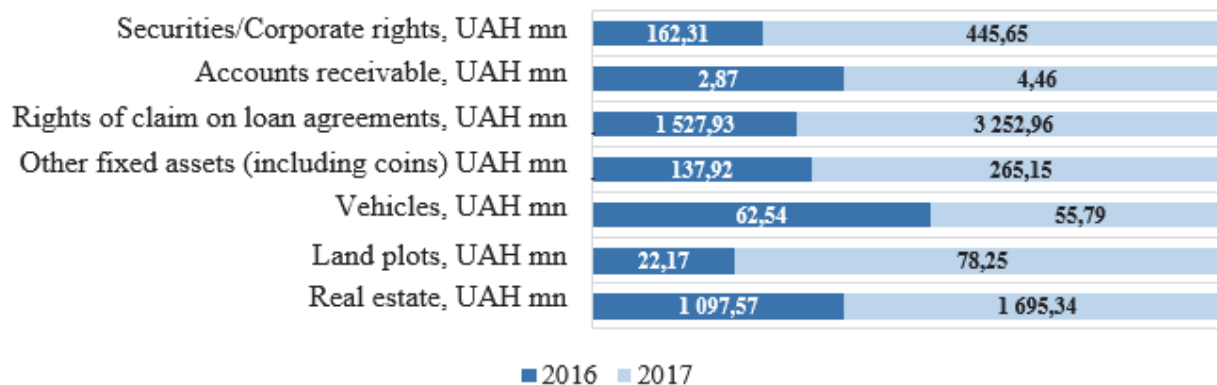


Fig. 9.1. Comparison of the Sales Price through the Open Bidding (Auctions) and Selling Directly to Legal Entities or Individuals in 2017 and 2016, UAH mn

Table 9.2

The Sales Price through the Open Bidding (Auctions) and Selling Directly to Legal Entities or Individuals in 2016 and 2017, UAH mn

Month	Sales price through the open bidding (auctions) and selling directly to legal entities or individuals, UAH thous. for 2016, UAH mn	Sales price through the open bidding (auctions) and selling directly to legal entities or individuals, UAH thous. for 2017, UAH mn	including the sales price of the "Dutch auctions", UAH mn
1	2	3	4
TOTAL	3,013	5,798	47
January	111	300	-
February	125	86	-
March	274	207	-
April	421	478	-
May	169	191	-
June	150	641	-
July	170	800	-
August	172	546	-
September	466	488	-
October	347	516	0
November	235	591	15
December	373	955	32



Fig. 9.2. Sales price through the open bidding (auctions) and selling directly to legal entities or individuals in 2017, UAH mn

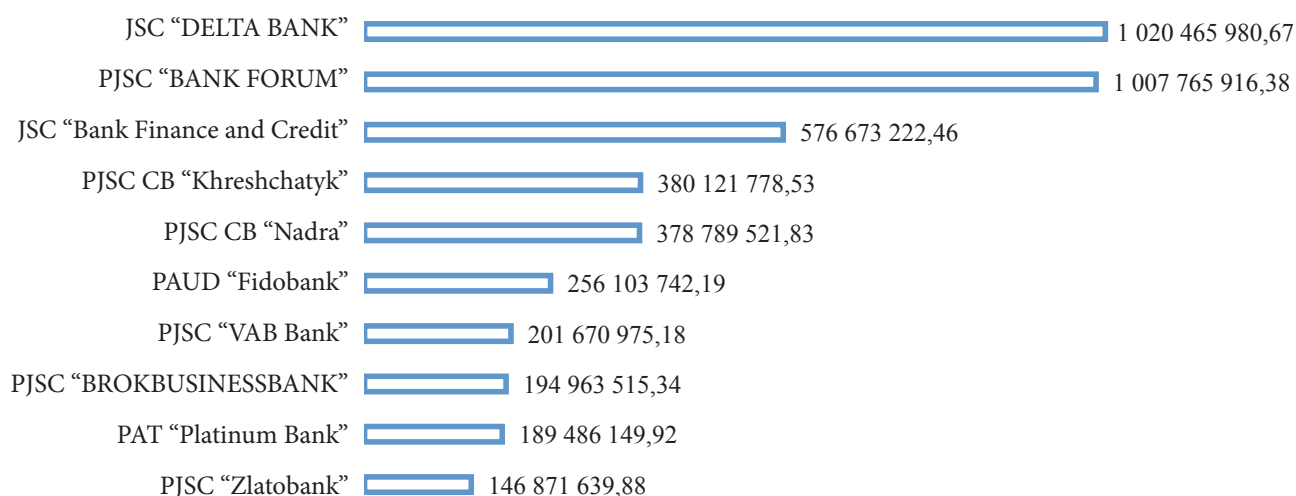


Fig. 9.3. Sales price through the open biddings (auctions) and selling directly to legal entities or individuals in 2017, UAH mn

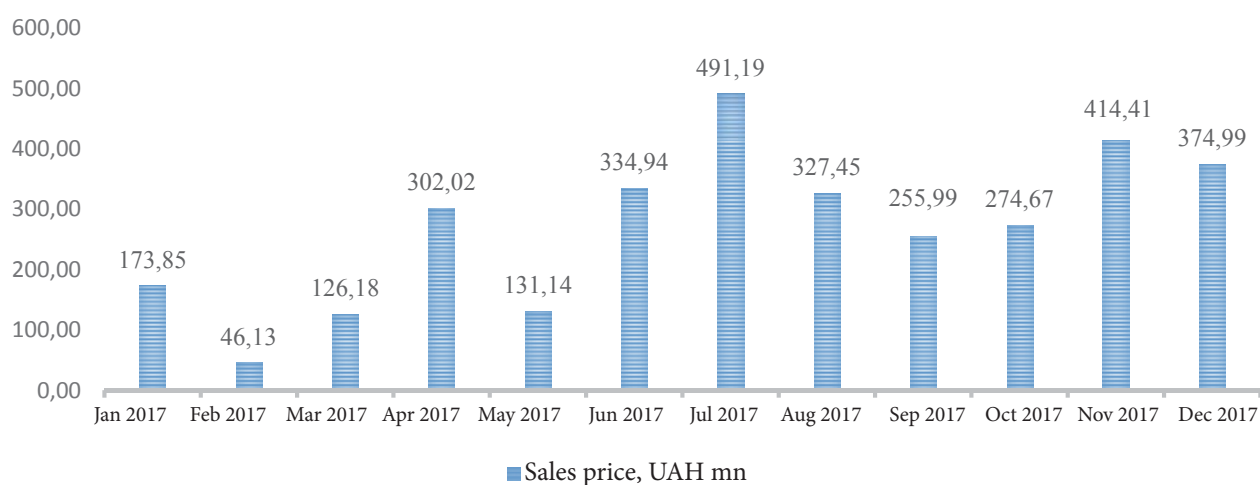


Fig. 9.4. Results of Auctions for the Sale of Loans for 2017, UAH mn

Table 9.3

Structure of the Sale of Property by Type of Assets

TOTAL, UAH mn	5,798	100 %
1	2	3
Rights of claim under loan agreements	3,253	56 %
Fixed Assets	1,956	33 %
Securities/corporate rights	446	8 %
Selling directly to legal entities or individuals	70	1 %
Other assets (paintings, coins, etc.)	69	1 %
Accounts receivable	4	0.08 %

differences also include the removal of restrictions on the number of bidders. Even if one buyer who bids takes part in the auction, the bidding shall be valid.

- Established the Commission for reviewing complaints and preparing proposals for the organization and holding of open bidding (auctions) for the sale of assets (property) of the banks being resolved or liquidated, which comprised, in particular, the representatives of Transparency International Ukraine NGO. As of 1 January 2018, 45 meetings, which considered 299 complaints and allegations from citizens and authorized DGF officers, were held.
- Amended the Regulation on the organization of sale of assets (property) of banks being liquidated approved by Decision of the Executive Directorate of the Fund No. 388 dated 24 March 2016 registered with the

Ministry of Justice of Ukraine under No. 606/28736 on 20 April 2016; these amendments, in particular, regulate the issue of the refund to the buyer if the Fund has decided to cancel the results of open bidding (auction), and the refund to the borrower who repaid the debt on the loan after the signing of the agreement of sale and purchase of the relevant asset (property) by the bank.

- Amended the Rules and Procedures of the electronic bidding system regarding the organization and conduct of open bidding (auctions) on the sale of assets (property) of the banks being resolved or liquidated, which has improved the system efficiency.
- Created a single office on ProZorro.Sale, where all information about lots is placed by all banks under control of the Fund in a single interface.

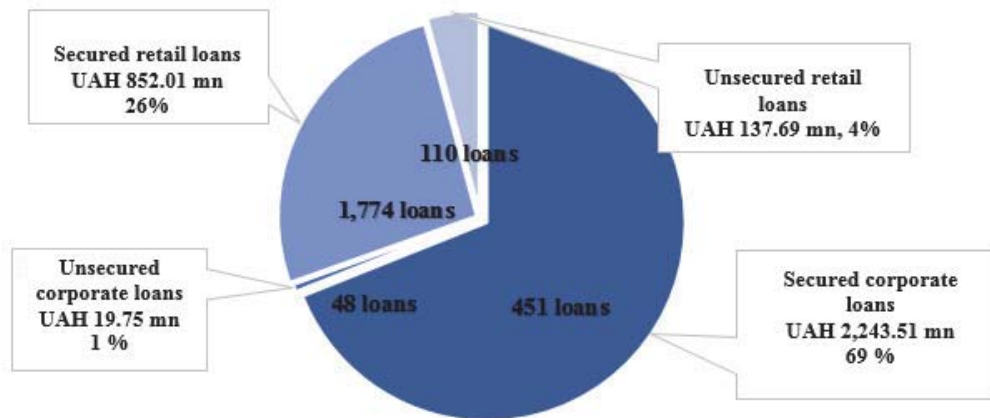


Fig. 9.5. Structure of the Rights of Claim Sold under Loan Agreements (by type of borrowers)

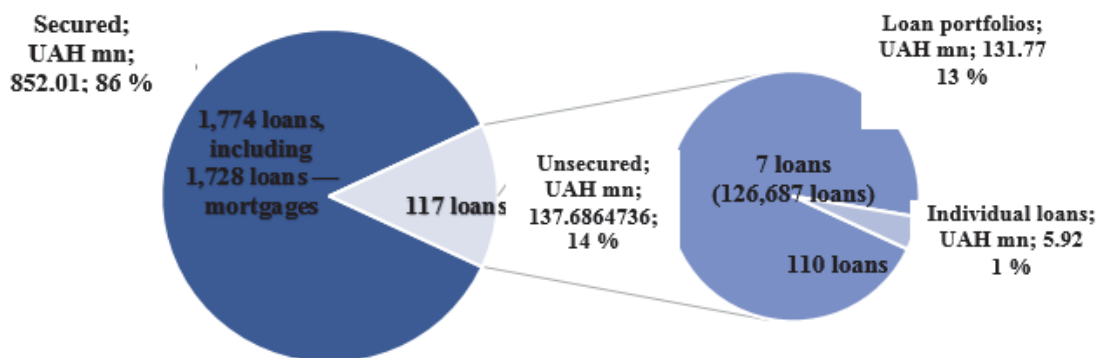


Fig. 9.6. Structure of the Rights of Claim Sold under Loan Agreements (by type of borrowers)

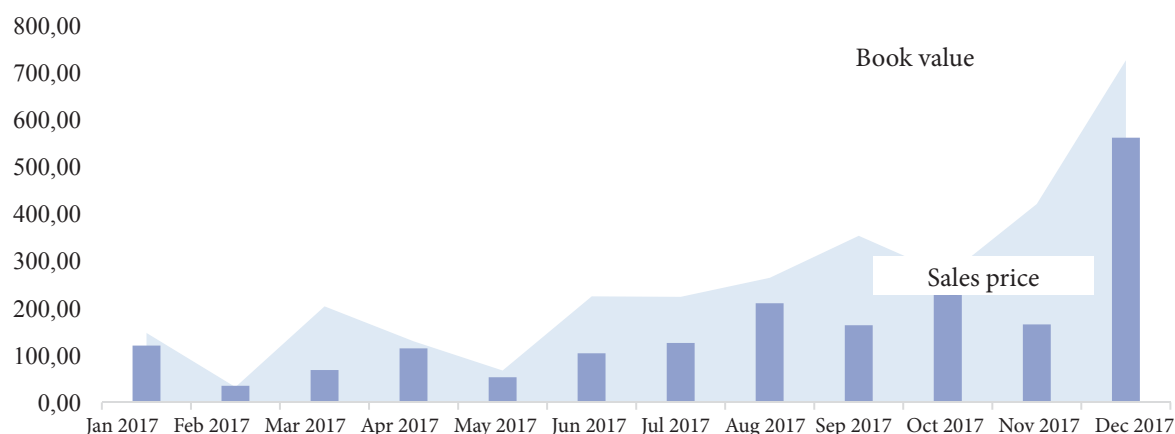


Fig. 9.7. Comparison of the Book Value and Sales Price of Fixed Assets in 2017, UAH mn

Sales Price through the Open Bidding (Auctions) of Fixed Assets (Without Selling Directly to Legal Entities or Individuals) for 2017

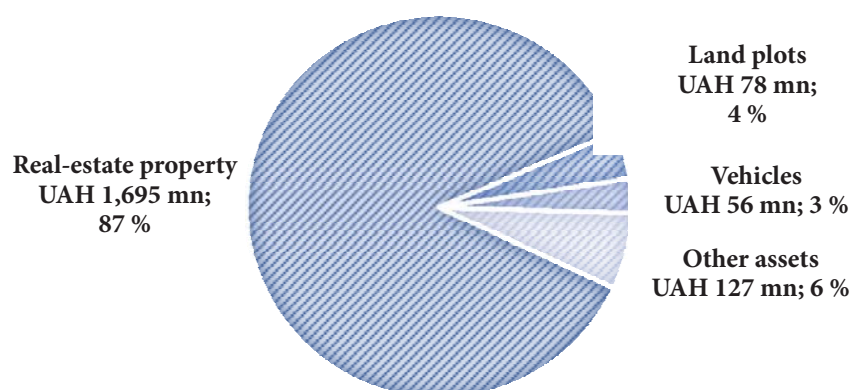


Fig. 9.8. Structure of the Fixed Assets Sold in 2017 (UAH mn, %)

9.3. Sales Results

In 2017, the assets (property) of insolvent banks totalling UAH 5.8 bn* were sold at the open bidding (auctions) and directly to legal entities and individuals, which is 92 % higher than in 2016 (UAH 3.0 bn).

* Differences in the sales price through the open bidding (auctions) and selling directly to legal entities or individuals in 2017 (5.8 bn) and actual cash receipts from the sale of assets (property) of banks in 2017 (5.0 bn) are due to the gap in time (sometimes, up to a month) between the date of completion of the open bidding (auctions) and the actual cash receipts for the asset purchased.

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 %.

Based on the results of the open bidding (auctions) and selling the assets (property) of banks directly to legal entities or individuals in 2017, 10 banks accounted for 75 % of the total volume of assets (property) of banks. (Fig. 9.3). The leader of sales of assets (property) of banks is JSC “DELTA BANK”, which accounts for 18 % of all successful open biddings (auctions) held in 2017 (at the sales price).

Based on the results of the open bidding (auctions) and selling directly to legal entities or individuals in 2017, the sold assets (property) of banks had the following structure by type of assets (property) of banks: (Table 9.3):

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

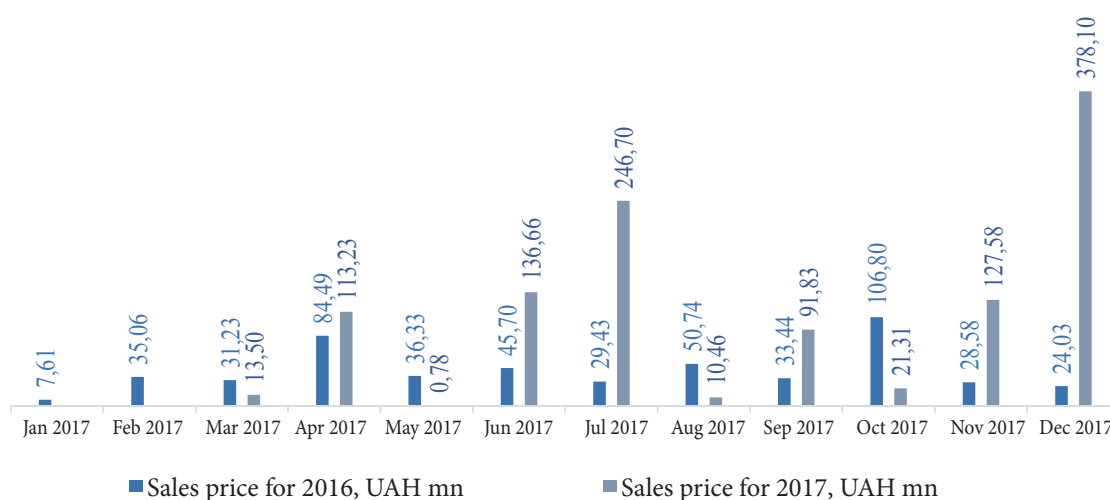


Fig. 9.9. Results of Auctions for the Sale of Assets Pledged by the NBU for 2016–17, UAH mn

the sale of the right of claim under loan agreements (56 %). The average ratio of the sales price of this asset group to its book value for 2017 was 30 %.

Within the structure of sold rights of claim under loan agreements, up to 70 % of these rights of claim were entered into with legal entities, and 30 %, with individuals.

It should be noted that more than 125,000 loans were combined by common features in the pool of loans and sold in 2017.

Based on the open bidding (auctions), the sales price of fixed assets (exclusive of direct sales to legal entities or individuals) is 33 % 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 64 % in 2017.

Within the structure of sold fixed assets, 87 % are real-estate property (residential or non-residential), 3 % are vehicles, 4 % are land plots, and 6 % are other assets (furniture, equipment, etc.). (Fig. 9.8).

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 1,140.15 mn in 2017, which is 122 % more than the same indicator in 2016 (Fig. 9.9).

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

pledged corporate loans: 63.37 %; UAH 722.52 mn;

real estate items: 30.82 %; UAH 351.42 mn;

other assets (banking metals): 5.44 %; UAH 62.03 mn;

unpledged corporate loans: 0.06 %; UAH 0.69 mn;

pledged retail loans: 0.03 %; UAH 0.29 mn;

other fixed assets: 0.01 %; UAH 0.07 mn.

The average ratio of the sales price to the book value for all types of assets pledged to the NBU was 26 % in 2017.

10. DEPOSIT PAYOUTS

10.1. Guaranteed Deposit Payout to Depositors of Insolvent Banks

After the entry into force of the amendments to the Law of Ukraine “On Households Deposit Guarantee System” on 1 July 2016, the Fund started to pay out the guaranteed reimbursement amounts to the depositors of the banks declared insolvent in 2017 within twenty working days from the date of receipt by the National Bank of Ukraine of the insolvency declaration resolution for the bank (that is, some banks start deposit payouts during the provisional administration).

In addition, starting from 1 January 2017, the Fund began to disburse the deposit payouts also to the depositors (individual entrepreneurs) of the banks declared insolvent after 1 January 2017.

In 2017, the Fund made the deposit payouts to depositors of banks being liquidated or declared insolvent through agent banks 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. Deposit payouts to depositors who did not receive the payment for any reason during the disbursement under the General Register/part of the General Register were made by means of a transfer of the corresponding amount based on the results of the review of individual applications filed by depositors with the Fund.

In 2017, the reimbursement was paid to depositors of both banks liquidated in previous years and those declared insolvent during the reporting year.

According to the Law, deposit payouts were made to the following banks: JSC “ERDE BANK”, JSC “BANK TAVRYKA”, PJSC CB “DANIEL”, PJSC “REAL BANK”, JSC “BROKBUSINESSBANK”, JSC “BANK MERCURIY”, PJSC “BANK FORUM”, PJSC CB “INTERBANK”, PJSC “Zakhidinkombank”, PJSC “AKB BANK”, PJSC CB “PROMECONOMBANK”, PJSC “STAROKYIVSKYI BANK”, PJSC CB “PIVDENCOMBANK”, PJSC “FINROSTBANK”, PJSC CB “UFS”, JSC “EUROGASBANK”, JSC “BANK GOLDEN GATE”, PJSC “TERRA BANK”, PJSC CB “ACTIVE BANK”, PJSC “PRIME BANK”, PJSC “AKTABANK”, PJSC “INTERCREDITBANK”, PJSC “GREEN BANK”, JSC CB “EXPOBANK”, PJSC “Bank Demark”, JSC “PORTO-FRANKO”, PJSC CB “AXIMOVA”, PJSC “MELIOR BANK”, PJSC “BG BANK”, PJSC “LEGBANK”, PJSC “Bank CAMBIO”, PJSC “VAB”, PJSC “CITY COMMERCIAL BANK”, PJSC “PROFINBANK”, PJSC “UKRBUSINESSBANK”, JSB “UKOOPSPILKA”, PJSC “ZLATOBANK”, JSC “IMEXBANK”, PJSC “KREDYTPROMBANK”, PJSC CB “NADRA”, PJSC “ENERHOBANK”, PJSC CB “STANDARD”, PJSC “BANK KYIVSKA RUS”, PJSC “UPB”, PJSC “BANK NATIONAL

CREDIT”, PJSC JSB “STOLYCHNYI”, PJSC “DELTA BANK”, PJSC “UKRGAZPROMBANK”, PJSC JSCB “CAPITAL”, PJSC “RADICAL BANK”, PJSC I “NTEGRAL-BANK”, JSC “BANK NATIONAL INVESTMENTS”, PJSC “UNICOMBANK”, PJSC “Bank Kontract”, JSC “BANK FINANCE AND CREDIT”, PJSC “USB BANK”, PJSC “VBR”, JSC “BANK VELES”, PJSC “AVANT BANK”, PJSC CB “PREMIUM”, PJSC “UKRINBANK”, JSC CB “TK CREDIT”, PJSC “BANK PETROCOMMERCE-UKRAINE”, PJSC “BANK SOPHIISKYI”, PJSC CB “KHRESHCHATYK”, PJSC “BANK MYKHAILIVSKYI”, PJSC “FIDOBANK”, PUJSC “SMARTBANK”, PJSC “CLASSICBANK”, PJSC “EUROBANK”, PJSC “KSG BANK”, JSC “ARTEM-BANK”, PJSC “BANK TRUST”.

Since the National Bank of Ukraine has adopted the resolution to declare the bank insolvent, in 2017 the Fund started making deposit payouts to depositors (including individual entrepreneurs) to another 9 banks, namely:

PJSC CB “Investbank”, JSC “FORTUNA-BANK”, JSC “NK BANK”, PJSC “PLATINUM BANK”, PJSC “VECTOR BANK”, PJSC “FINBANK”, PJSC “DIAMANT BANK”, JSCB “NOVYI”, JSC “BANK BOGUSLAV”.

During 2017, the Fund implemented the pilot project, and after its successful completion, introduced the Fund Automated Payment System (FAPS). FAPS was created for higher convenience of obtaining the guaranteed amount by depositors of insolvent banks. The network of payment points has significantly expanded; the depositor may choose to receive funds not from a branch of the same bank, to which the Fund has sent the Register, but among all the agent banks connected to the FAPS. The Guarantee Fund is interested in connecting as many banks that meet the criteria specified for agent banks as possible.

The new FAPS has the following advantages:

- consolidation of data on depositors in a single software package;
- provision of simultaneous access to data for payments to all agent banks;
- operational payment management;
- reduction of document circulation;
- prompt response to depositors’ requests;
- possibility of making changes to the System working mechanism in case of amendments to the laws;
- obtaining of statistics for analysis with the possibility of their export;
- increase of depositors’ trust in the banking system as a result of more convenient payout of reimbursement;

- increase in the number of agent banks connected to the System, as the requirements for the number of branches of agent banks have been cancelled;
- cutting of the time of deposit payouts;
- provision of depositors with the opportunity to choose an agent bank for reimbursement;
- mitigation of the Fund’s risks by higher payment control;
- significant reduction of complaints by depositors who independently choose an agent bank available to them;
- no prolonged routine breaks in payouts compared to the old system, in which payouts were made within 30 working days followed by a routine break.

At the end of 2017, 94 banks were under control of the Fund. The total guaranteed reimbursement amount paid during 2017 by the Fund was UAH 7.01 bn, of which UAH 5.19 bn, or 74 %, were paid via the new FAPS (Fig. 10.1).

The depositors of 13 banks declared insolvent after 1 July 2016 were reimbursed via the System in 2017. The depositors of these banks independently selected one of the 10 agent banks connected to the System (Joint-Stock Bank

“Pivdennyi”, PJSC “Alfa-Bank”, PJSC “KREDOBANK”, PJSC “FUIB”, PJSC CB “PRAVEX-BANK”, JSC “TASCOMBANK”, JSB “UKRGASBANK”, JSC “Oschadbank”, PJSC “Idea Bank”, PJSC CB “PRIVATBANK”). Another 4 banks have announced their intention to join the System in the near future.

In the course of the implementation of the System this year, the Fund developed the feature set for data migration from the old systems of deposit payouts (Beskid and Payback) to the new software package, that is, prepared the Database Information Export Procedures for the payout of guaranteed amounts to depositors of banks declared insolvent before 1 July 2016.

It should also be added that in 2017 two banks (PJSC CB “FINANCIAL INITIATIVE” and PJSC “BANK UNISON”) had the provisional administration. The Fund failed to start their liquidation procedure because of the ongoing trials. As of 1 January 2018, depositors of CB “FINANCIAL INITIATIVE” received UAH 3,752.37 mn at the expense of the special-purpose loan from the Fund. Payouts to the depositors of PJSC “BANK UNISON” are made at the expense of the bank itself; as of 1 January 2018, the depositors received UAH 118.17 mn.

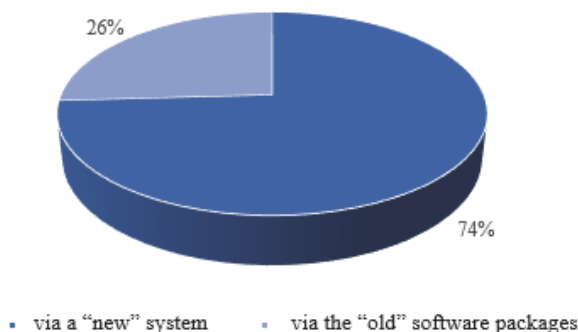


Fig. 10.1. Payouts to Depositors via the FAPS in 2017

Table 10.1

Comparison of Payment Systems for Depositors

“New” system	“Old” software package
Possibility of receiving a guaranteed reimbursement amount at any branch of any Fund agent bank	The funds were transferred to a specific agent bank, which could pay out only at its branches
Various financing schemes for payments by agent banks — reimbursement to agent banks for actual payments in advance	Prepayment
No queues in the agent banks’ branches at the beginning of the payout procedure because of more payment points (possibility of receiving funds from another agent bank) and, accordingly, decrease in complaints	Complaints about inconvenient work schedules, queues in agent banks’ branches (especially at the beginning of the payout procedure) due to longer information processing time and fewer payment points
More control in real time	Lack of operational statistics on the payout of reimbursement to depositors
Real-time payment statistics	Payout reports only as of the 1st day of the month and after the expiry of the 30-day payout period by registers.

Table 10.2

Payouts to Depositors in 2017 (UAH thous.)

No.	List of liquidated banks	Date of commencement of liquidation procedure	Balance of funds not received by depositors as of 1 January 2017	Reimbursement amount accrued in 2017	Funds received in 2017	Balance of funds not received by depositors as of 1 January 2018
1	2	3	4	5	6	7
1	JSC "ERDE BANK"	9 Jan 2013	2,200.79	0.00	5.71	2,195.08
2	JSC "BANK TAVRYKA"	20 Mar 2013	6,358.17	0.00	152.48	6,205.69
3	PJSC CB "DANIEL"	16 Apr 2014	7,516.66	0.00	116.72	7,399.94
4	PJSC "REAL BANK"	21 May 2014	18,559.75	0.00	390.07	18,169.68
5	JSC "BROKBUSINESSBANK"	11 Jun 2014	92,021.74	533.93	1,481.90	91,073.77
6	JSC BANK "MERCURIY"	12 Jun 2014	6,345.03	0.00	228.01	6,117.02
7	PJSC "BANK FORUM"	16 Jun 2014	73,639.93	200.00	2,497.36	71,342.57
8	PJSC CB "INTERBANK"	23 Jul 2014	1,829.37	0.00	279.58	1,549.80
9	PJSC "Zakhidinkombank"	23 Jul 2014	10,680.71	73.54	489.79	10,264.46
10	PJSC "AKB BANK"	29 Aug 2014	8,486.19	0.00	338.27	8,147.93
12	PJSC "STAROKYIVSKYI BANK"	18 Sep 2014	2,900.17	3,839.60	1,707.60	5,032.17
13	PJSC CB "PIVDENCOMBANK"	26 Sep 2014	35,127.22	0.00	2,169.99	32,957.23
14	PJSC "FINROSTBANK"	16 Oct 2014	19,219.75	257.09	591.99	18,884.85
15	PJSC CB "UFS"	13 Nov 2014	18,929.60	98,456.92	9,930.86	107,455.66
16	JSC "EUROGASBANK"	18 Nov 2014	18,220.43	947.43	3,050.88	16,116.98
17	JSC "BANK GOLDEN GATE"	24 Dec 2014	2,419.66	1,762.94	1,845.30	2,337.30
18	PJSC "TERRA BANK"	5 Dec 2014	580.83	756.98	986.21	351.60
19	PJSC CB "ACTIVE-BANK"	24 Dec 2014	15,824.29	49.31	986.37	14,887.22
20	PJSC "PRIME BANK"	3 Oct 2014	435.46	0.00	0.00	435.46
21	PJSC "AKTABANK"	16 Jan 2015	10,244.68	3,479.69	3,921.92	9,802.45
22	PJSC "INTERCREDITBANK"	17 Jan 2015	173.41	0.00	0.00	173.41
23	PJSC "GREEN BANK"	23 Jan 2015	51.14	0.00	0.00	51.14
24	JSC CB "EXPOBANK"	26 Jan 2015	5,909.05	2,054.50	653.40	7,310.15
25	PJSC "Bank Demark"	30 Jan 2015	7,807.48	0.00	621.50	7,185.98
26	JSC "PORTO-FRANKO"	30 Jan 2015	7,283.01	0.00	283.91	6,999.10
27	PJSC CB "AXIOMA"	30 Jan 2015	839.69	0.00	0.00	839.69
28	PJSC "MELIOR BANK"	11 Feb 2015	20.99	0.00	0.00	20.99
29	PJSC "BG BANK"	27 Feb 2015	9,293.47	180.00	41.57	9,431.91
30	PJSC "LEG BANK"	27 Feb 2015	2,905.28	0.00	112.01	2,793.27
31	PJSC "Bank CAMBIO"	2 Mar 2015	241,476.65	0.00	10,622.41	230,854.24
32	PJSC "VAB"	20 Mar 2015	459,997.10	-49.73	9,253.11	450,694.25
33	PJSC "CITY COMMERCIAL BANK"	20 Mar 2015	55,060.80	1,780.45	4,651.94	52,189.30
34	PJSC "PROFINBANK"	20 Apr 2015	2,536.04	0.00	16.50	2,519.54
35	PJSC "UKRBUSINESSBANK"	23 Apr 2015	28,693.65	0.00	913.05	27,780.59
36	JSB "UKOOSPILKA"	24 Apr 2015	1,189.79	195.99	810.80	574.98
37	PJSC "ZLATOBANK"	13 May 2015	25,173.54	17,351.25	11,462.56	31,062.23
38	JSC "IMEXBANK"	27 May 2015	198,193.76	5,793.29	28,294.27	175,692.78
39	PJSC "KREDITPROMBANK"	3 Jun 2015	12,441.18	0.00	150.57	12,290.61
40	PJSC CB "NADRA"	5 Jun 2015	203,533.39	8,136.22	18,567.76	193,101.85
41	PJSC "ENERHOBANK"	12 Jun 2015	19,658.52	150.00	2,089.34	17,719.19
42	PJSC CB "STANDARD"	19 Jun 2015	17,597.81	8,649.81	8,345.25	17,902.36
43	PJSC "BANK KYIVSKA RUS"	17 Jul 2015	73,991.67	9,293.64	8,023.18	75,262.12

Table No. 10.2. continued

No.	List of liquidated banks	Date of commencement of liquidation procedure	Balance of funds not received by depositors as of 1 January 2017	Reimbursement amount accrued in 2017	Funds received in 2017	Balance of funds not received by depositors as of 1 January 2018
1	2	3	4	5	6	7
44	PJSC "UPB"	31 Aug 2015	10,190.20	3,294.79	3,400.45	10,084.54
45	PJSC "BANK NATIONAL CREDIT"	31 Aug 2015	14,697.40	0.00	771.60	13,925.80
46	PJSC JSB "STOLYCHNYI"	15 Sep 2015	1,606.28	0.00	103.05	1,503.23
47	PJSC "DELTA BANK"	21 Sep 2015	522,805.88	89,667.65	100,026.25	512,447.28
48	PJSC "UKRGAZPROMBANK"	5 Oct 2015	6,576.47	1,172.08	1,637.58	6,110.98
49	PJSC JSCB "CAPITAL"	30 Oct 2015	33,314.45	102,522.70	35,974.13	99,863.02
50	PJSC "RADICAL BANK"	10 Nov 2015	7,630.95	4,319.97	581.78	11,369.14
51	PJSC "INTEGRAL-BANK"	27 Nov 2015	3,574.87	201.15	391.75	3,384.27
52	JSC "BANK NATIONAL INVESTMENTS"	3 Dec 2015	8,048.63	10,446.31	6,618.02	11,876.92
53	PJSC "UNICOMBANK"	4 Dec 2015	384.43	0.00	0.00	384.43
54	PJSC "Bank Kontract"	11 Dec 2015	2,827.37	574.61	897.87	2,504.11
55	JSC "FINANCE AND CREDIT BANK"	18 Dec 2015	545,021.29	3,148.06	19,145.04	529,024.30
56	PJSC "USB BANK"	28 Dec 2015	3,551.52	97.39	55.17	3,593.74
57	PJSC "VBR"	23 Dec 2015	9,812.78	198.62	340.09	9,671.31
58	JSC "BANK VELES"	11 Feb 2016	80.90	0.00	0.00	80.90
59	PJSC "AVANT BANK"	26 Feb 2016	40,725.26	2,836.75	3,028.70	40,533.31
60	PJSC CB "PREMIUM"	11 Feb 2016	2,311.89	0.00	63.05	2,248.84
61	PJSC "UKRINBANK"	23 Mar 2016	66,071.11	0.00	0.00	66,071.11
62	JSC CB "TK CREDIT"	8 Apr 2016	109.34	0.00	0.13	109.21
63	PJSC "BANK PETROCOMMERCE-UKRAINE"	22 Apr 2016	6,249.61	0.00	643.02	5,606.59
64	PJSC "BANK SOPHIIIVSKYI"	25 Apr 2016	1,636.27	0.00	325.87	1,310.39
65	PJSC CB "KHRESHCHATYK"	6 Jun 2016	93,504.73	7,426.66	28,360.60	72,570.79
66	PJSC "BANK MYKHAILIVSKYI"	13 Jul 2016	75,684.42	635,863.32	687,508.61	24,039.12
67	PJSC "FIDOBANK"	20 Jul 2016	76,294.47	31,656.16	44,518.17	63,432.46
68	PUJSC "SMARTBANK"	25 Jul 2016	19.66	0.00	0.00	19.66
69	PJSC "CLASSICBANK"	12 Aug 2016	253.53	0.00	0.00	253.53
70	PJSC "EUROBANK"	17 Aug 2016	6,088.50	460.38	1,236.50	5,312.39
71	PJSC "KSG BANK"	31 Aug 2016	1,437.09	57.51	389.22	1,105.39
72	JSC "ARTEM-BANK"	16 Nov 2016	40,237.91	55,380.06	94,378.30	1,239.67
73	PJSC "BANK TRUST"	7 Dec 2016	539,538.24	-114.94	533,091.29	6,332.01
74	PJSC CB "Investbank"	16 Dec 2016	-	93,288.73	89,604.84	3,683.90
75	JSC "FORTUNA-BANK"	27 Jan 2017	-	91,654.64	88,016.16	3,638.48
77	PJSC "NK BANK"	20 Jan 2017	-	6,157.89	5,957.95	199.94
76	PJSC "PLATINUM BANK"	11 Jan 2017	-	4,883,195.55	4,792,467.79	90,727.76
78	PJSC "VECTOR BANK"	3 Mar 2017	-	74,964.53	73,733.86	1,230.67
79	PJSC "FINBANK"	10 Apr 2017	-	3,077.25	248.33	2,828.92
80	PJSC "DIAMANT BANK"	24 Apr 2017	-	112,702.02	112,637.79	64.24
81	JSCB "NOVYI"	14 Jul 2017	-	906.30	906.30	0.00
82	JSC "BANK BOGUSLAV"	6 Nov 2017	-	180,871.04	147,751.05	33,119.99
Total:			3,845,653.25	6,559,920.02	7,010,894.43	3,394,678.84

II. FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017 AND THE YEAR ENDED ON THE STATED DATE AND INDEPENDENT AUDITOR'S REPORT

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	86
STATEMENT OF FINANCIAL POSITION	88
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME	89
STATEMENT OF CHANGES IN EQUITY	90
CASH FLOW STATEMENT	91
1. General Information	92
2. The Fund Operating Environment	93
3. Summary of Significant Accounting Policies	93
4. Main Accounting Estimates and Judgements Used in Applying Accounting Policies	101
5. Standards Published but Not yet in Force	101
6. Cash and Cash Equivalents	104
7. Investments Available for Sale	104
8. Investments Held to Maturity	104
9. Accounts Receivable from Contributions from Member Institutions	105
10. Other Accounts Receivable	105
11. Arrears of Insolvent Banks on the Creditors' Claims of the Fund	106
12. Fixed Assets	108
13. Intangible Assets	108
14. Provision for the Fund's Potential Expenses for Insolvent Bank Resolution and Deposit Payouts	109
15. The Fund's Liabilities to Make Payouts to Depositors of Insolvent Banks	110
16. Other Accounts Payable	110
17. Other Provisions	111
18. Funds Raised	111
19. Member Institutions Fees	112
20. Investment Income	112
21. Other Operating Income	112
22. Expenses for the Performance of Deposit Payout and Bank Resolution Liabilities	113
23. Financial expenses	113
24. Other Operating Expenses	113
25. Administrative Expenses	113
26. Related-Party Transactions	113
27. Off-Balance Sheet Liabilities	114
28. Operating Lease	115
29. Net Asset Management	115
30. Risk Management	115
31. Fair Value of Financial Assets and Liabilities	116
32. Influence of the First Adoption of the IFRSs	117
33. Events after the End of the Reporting Period	117

Independent auditor's report

To the Deposit Guarantee Fund Management

Crowe Horwath AC Ukraine

Independent Member Crowe Horwath International

Spaska 37, Kyiv

Tel.: +38 044 391 30 03

crowehorwathAC@crowehorwath.ua

www.crowehorwath.ua

Opinion

We have audited the financial statements of the Deposit Guarantee Fund (“the Fund”), which comprise the Balance Sheet as of 31st December 2017, the Statement of Profit or Loss and other Comprehensive Income, the Statement of Changes in Owners' Equity and Cash Flow Statement for the year then ended, and notes to the financial statements, including a brief contribution of significant accounting policies.

In our opinion, the attached financial report reflects credibly, in all material respects, the financial position of the Fund as of 31st December 2017, and financial results and cash flows of the Fund for the year then ended in accordance with the International Financial Reporting Standards (“IFRS”).

Basis for opinion

We conducted an audit in accordance with the International Standards on Auditing (“ISAs”). Our responsibilities under those standards are described in the Section “Auditor's Responsibilities for the Audit of the Consolidated Financial Statements” of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the “IESBA Code”) and the ethical requirements that are relevant to our audit of the consolidated financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibility of management and those charged with governance for the financial statements

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

In preparing the financial statements, the management is responsible for assessing the Fund's capacity to continue as a going concern through the disclosure, as applicable, of matters related to continuation of the Fund as going concern and assumptions on the Fund's ability to continue as going concern as an accounting basis with the exception of cases when those charged with governance intend to liquidate the Fund, or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the Fund.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. In addition, we:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for

one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists with regard to events or conditions that may cast significant doubt on the ability of the Fund to continue as a going concern. Should we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern; and
- evaluate the overall presentation, structure, and contents of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate to those charged with governance the information about planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control measures that we identify during our audit.

Furthermore, we provide those charged with governance with the assertions that we have met the relevant ethical requirements for independence, and we notify them of all relations and other issues that might reasonably be considered as affecting our independence, as well as where it is applied with respect to the relevant precautionary measures.

Out of the list of all issues that were given to those with the highest governance, we identified those of highest importance for the audit of the consolidated financial statements of the current period that is the issues considered as key issues of the audit. We describe these issues in our auditor's report, with the exception of cases when a legislative or regulatory act prohibits public disclosure of such an issue, or when in very exceptional circumstances we came to a conclusion that a particular issue should not be covered in our report, as the negative effects of such coverage may be expected to outweigh its usefulness for interests of the public.

The partner of the audit, which is the result of this independent auditor's report, is Vitaliy Gavrysh.

General Director	Volodymyr Kozlenko
Auditor	Vitaliy Gavrysh

Certificate Auditor series A №005607 issued by the decision of the ACU on 25.12.2003 №130

Certificate of Banks' Auditor №0106 issued by the decision of the ACU on 18.12.2008 №197/2

Kyiv, Ukraine
25 May 2018

Statement of financial position

<i>(UAH million)</i>	Notes	31 December 2017	31 December 2016	1 January 2016
ASSETS				
Cash and cash equivalents	6	3.740	2.310	8.343
Investments available for sale	7	5.674	7.945	–
Investments held to maturity	8	5.280	5.285	5.980
Accounts receivable from member banks' contributions	9	846	854	792
Other accounts receivable	10	9	28	333
Arrears of insolvent banks on the creditors' claims of the Fund	11	9.066	10.149	3.445
Other assets		1	1	1
Fixed assets	12	32	6	7
Intangible assets	13	22	10	5
Total assets		24.670	26.588	18.906
LIABILITIES				
Provision for the Fund's potential expenses for insolvent bank resolution and deposit payouts	14	22.397	23.072	16.240
The Fund's liabilities to make payouts to depositors of insolvent banks	15	3.395	3.846	6.800
Other accounts payable	16	27	5	42
Other provisions	17	1.945	1.417	59
Funds raised	18	74.450	73.065	62.526
Total liabilities		102.214	101.405	85.667
NET ASSETS				
Revaluation reserve		114	–	–
Profit/loss		(77.658)	(74.817)	(66.761)
Total net assets		(77.544)	(74.817)	(66.761)
Total liabilities and net assets of the Fund		24.670	26.588	18.906

Approved for issue by the management and signed on its behalf on 25 May 2018.

Managing Director K. M. Vorushylin
Chief Accountant O. S. Perebyinis

Statement of profit and loss and other comprehensive income

<i>(UAH million)</i>	Notes	2017	2016
Operating income:		7.545	12.034
Member institutions fees	19	3.324	3.422
Reduction of the provision for the Fund's deferred expenses for bank resolution and deposit payouts	14	675	–
Investment income	20	1.693	1.107
Other operating income	21	1.853	7.505
Expenses		(10.386)	(20.090)
Expenses for the performance of deposit payout and bank resolution liabilities	22	(1.926)	(4.567)
Increase in the provision for the Fund's deferred expenses for bank resolution and deposit payouts	14	–	(6.832)
Financial expenses	23	(6.745)	(6.097)
Other operating expenses	24	(1.406)	(2.367)
Administrative expenses	25	(309)	(227)
Net loss		(2.841)	(8.056)
Net change in fair value of financial assets available for sale		114	–
Other comprehensive income/loss, net amount		114	–
Total comprehensive income/loss		(2.727)	(8.056)

Approved for issue by the management and signed on its behalf on 25 May 2018.

Managing Director	K. M. Vorushylin
Chief Accountant	O. S. Perebyinis

Statement of changes in equity

<i>(UAH million)</i>	Revaluation reserve	Accumulated loss	Total
Balance as of 1 January 2016	–	(66.761)	(66.761)
Loss for the year	–	(8.056)	(8.056)
Another comprehensive income	–	–	–
Net change in fair value of financial assets available for sale	–	–	–
Total comprehensive income/loss for the year	–	(8.056)	(8.056)
Balance as of 31 December 2016	–	(74.817)	(74.817)
Loss for the year	–	(2.841)	(2.841)
Another comprehensive income	114	–	114
Net change in fair value of financial assets available for sale	114	–	114
Total comprehensive income/loss for the year	114	(2.841)	(2.727)
Balance as of 31 December 2017	114	(77.658)	(77.544)

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Cash flow statement

<i>(UAH million)</i>	2017	2016
Cash flows from operating activities		
Contributions from member banks	3.315	3.333
Proceeds from insolvent banks to satisfy creditors' claims	6.531	6.623
Funds transferred to agent banks for deposit payouts	(7.005)	(11.595)
Payments to employees and contributions for the social insurance fund	(221)	(153)
Payment of liabilities of other taxes and charges	(45)	(31)
Return of deposit payouts not paid to depositors by the agent bank	–	150
Receipt of guaranteed payments from potential investors to participate in the insolvent bank resolution tender	80	100
Return of guaranteed payments to potential investors to participate in the insolvent bank resolution tender	(60)	(140)
Other operating income	4	239
Other operating expenses	(71)	(3.260)
Net cash flows from operating activities	2.528	(4.734)
Cash flows from investing activities		
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	–	669
Expenses for buying government bonds held to maturity	–	–
Purchase of non-current assets	(32)	(19)
Interest received	1.288	1.123
Net cash flows from investing activities	3.799	1.773
Cash flows from financial activities		
Loans received from the National Bank of Ukraine	–	–
Repayment of loans received from the National Bank of Ukraine	(2.582)	(635)
Proceeds from the placement of promissory notes	–	–
Repayment of promissory notes	–	–
Payments of interest	(2.315)	(2.437)
Net cash flows from financial activities	(4.897)	(3.072)
Net cash and cash equivalent flows	1.430	(6.033)
Cash and cash equivalents at the beginning of the year	2.310	8.343
Cash and cash equivalents at the end of the year	3.740	2.310

Approved for issue by the management and signed on its behalf on 25 May 2018.

Managing Director	K. M. Vorushylin
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1. General Information

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 83 member banks as of 31 December 2017 (31 December 2016: 99 banks, 1 January 2016: 118 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. This event significantly deteriorated the relationships between Ukraine and the Russian Federation.

Starting from 2014, the economic situation in Ukraine has worsened significantly as a result of a decline in trading with the Russian Federation and military tension in eastern Ukraine. Despite the still unstable situation in 2016–17, 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), and the general recovery of business activity.

The International Monetary Fund has continued to support the Ukrainian government in the framework of the four-year IMF Extended Financing Programme approved in March 2015. Other international financial institutions have also provided significant technical support in recent years to help Ukraine to restructure its external debt and implement various reforms (including anti-corruption reform, corporate law reform, and gradual liberalization of the energy sector).

In August 2017, Moody's upgraded Ukraine's credit rating to Caa2 with a "positive" forecast due to recent government reforms and improved international relationships. Further stabilization of the economic and political situation depends on the further implementation of structural reforms by the government and other factors.

In 2014–17, the NBU actively resolved the insolvent banks and transferred them to the management of the Fund. In particular, as of 31 December 2017, 2 banks were under control of the provisional administration, and 92 were under liquidation (31 December 2016: 4 and 81, accordingly, 1 January 2016: 3 and 64, accordingly). For the Fund, this period was full of significant structural reforms, changes in relevant laws and increase in guaranteed deposit payouts.

Although the management believes that it is taking appropriate measures to support the Fund's stable operations, which are necessary in the current circumstances, further volatility in the operating environment may have a 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). These statements are the first financial statements of the Fund compiled in accordance with the IFRSs; the Fund has applied IFRS 1 — First-Time Adoption of International Financial Reporting Standards.

Note 32 explains how the transition to the IFRSs has affected the financial statements of the Fund.

The estimations in these financial statements were made based on the cost of production, except for financial assets available for sale (at fair value).

b) *Continuity of Activity*

As of 31 December 2017, the net deficit of the Fund amounts to UAH 77.544 million (31 December 2016: UAH 74.817 million, 1 January 2016: UAH 66.761 million). In addition, the net loss for the year ended 31 December 2017 is UAH 2.841 million (year ended 31 December 2016: UAH 8.056 million). Cash inflow from operating activities for the year ended 31 December 2017 is UAH 2.528 million (year ended 31 December 2016: outflow of UAH 4.734 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. At the same time, 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.
- In 2017 the Fund introduced the automated payment system 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 created and began to use the electronic system ProZorro.Sale for the sale of assets of insolvent banks, which not only facilitated and improved the bidding, but also accelerated the obtaining of funds from the sale of assets by 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, optimization of the existing financing system (introduction of a fully-fledged system of differentiated fees to the Fund based on the risk assessment), 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:

	Years
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 cash, financial assets held to maturity, financial assets available for sale, loans and accounts receivable, borrowed funds and other financial liabilities.

g) Financial Assets

Cash includes cash on the current account with the National Bank of Ukraine and cash on hand.

Financial assets held to maturity are non-derivative financial assets with fixed or determined payments and fixed maturity that the Fund intends and is able to hold to maturity, other than financial assets at fair value with recognition of revaluation of profit or loss; financial assets available for sale; loans and accounts receivable.

Financial assets held to maturity include government debt securities with fixed maturity with the interest accrued thereon at a fixed or variable interest rate.

Financial assets available for sale are non-derivative financial assets designated as available for sale, and are not classified as financial assets held to maturity; financial assets at fair value with recognition of revaluation of profit or loss; loans and accounts receivable.

Financial assets available for sale include government debt securities listed in an active market that the Fund plans to sale in order to obtain liquid assets necessary to fulfil its deposit payout obligations and cover the costs of insolvent bank resolution.

Loans and accounts receivables are non-derivative financial assets not listed in an active market with fixed or determined payments. No agreements are entered into for their immediate or short-term resale, and they are not classified as financial assets at fair value with recognition of revaluation of profit or loss or financial assets available for sale.

Loans and accounts receivable include the following classes of financial assets: debts of insolvent banks and banks being liquidated by the Fund on special-purpose loans and interest thereon issued to insolvent banks; other accounts receivable.

h) Financial Liabilities

Borrowed funds include loans from the National Bank of Ukraine and promissory notes issued by the Fund.

Recognition and Evaluation of Financial Instruments

A financial asset or a financial liability is recognised in the Statement of Financial Position on the transaction date only when the Fund becomes a party to the contractual provisions regarding this financial instrument.

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 is carried out as follows:

- at depreciated production cost using the effective interest method — for financial assets held to maturity; loans and accounts receivable;
- at fair value with recognition of revaluation in other comprehensive income — for financial assets available for sale;
- at fair value with recognition of revaluation in the profit or loss — in other cases.

The financial liabilities are subsequently measured at depreciated production cost using the effective interest method. 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.

If there is an objective evidence of impairment or the impossibility of obtaining a financial asset, the impairment loss of the financial asset is recognised with the creation of a 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 pre-estimated future cash flows. The amount of loss is recognised in the profit or loss.

The amount of provision is reviewed on each balance sheet date and, if necessary, adjusted (decreased/increased).

To calculate the provision for losses from non-return of special-purpose loans issued to insolvent banks, the expected amount of repayment of principal and accrued interest under the special-purpose loan agreement is determined and discounted.

i) 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.

j) 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.

k) 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. 232 dated 21 December 2015) registered with the Ministry of Justice of Ukraine under No. 482/23014 on 25 March 2013, and is a projected guaranteed reimbursement amount of deposit payouts.

The Fund calculates the provision for the Fund's potential expenses for insolvent bank resolution and deposit payouts as a product of three components:

- projected guaranteed reimbursement amount of deposit payouts;
- probability that banks will be declared insolvent;
- factor of the expected losses of the Fund in case if the bank is declared insolvent.

Provision of potential expenses of the Fund for the insolvent bank resolution and deposit payouts is formed for the banks, insolvent probability of which exceeds 60 %.

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.

l) 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.

m) Income

Income is classified by the following groups:

- contributions of the member institutions;
- other operating income;
- investment income.

n) Contributions 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 recognised 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 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.

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 recognised 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 pre-estimated future cash flows. The amount of loss is recognised 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 recognised in the periods specified in the decision of the Executive Directorate of the Fund on the application of the special fee to the banks.

o) 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 recognised 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 recognised if a separate transaction definitely increases the economic benefits.

p) 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.

For all financial instruments determined at depreciate value, as well as government debt securities classified as available for sale, interest income or expenses are recorded on the books at the effective interest rate, which is a rate that accurately discounts the expected future payments and receipts over the expected validity period of a financial instrument or a shorter period (if any) to the net book value of a financial asset or a financial liability. The calculation takes into account all contractual terms and conditions of a financial instrument and all rewards or additional costs directly related to the financial instrument and being an integral part of the effective interest rate, but does not include the future loan losses. The book value of a financial asset or a financial liability is adjusted when the Fund reviews its measurement of payments or receipts. The adjusted book value is calculated based on the initial effective interest rate, and changes in the book value are recognised in the interest income or expenses.

q) 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;
 - depreciation of the premium on financial investments in government debt securities held to maturity;

- expenses related to the issue, retention and circulation of the Fund's securities.

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: Investments held to maturity;
- 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 2017 have not entered into force yet:

- IFRS 9 — Financial Instruments¹;
- IFRS 15 — Revenue from Contracts with Customers (and related explanations)¹;
- IFRS 16 — Leases²;
- Amendments to IFRS² — Share-based Payment: Classification and Measurement of Share-Based Payment Transactions¹;
- Amendments to IFRS 4 Insurance Contracts: Application of IFRS 9 — Financial Instruments in respect of IFRS 4 Insurance Contracts¹;
- 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 Venture⁴;

- IFRS 17 — Insurance Contracts: a new standard for financial statements for insurance contracts, which addresses issues of recognition and measurement, presentation and disclosure of information³;
- IFRIC 22 — Foreign Currency Transactions and Advance Consideration¹;
- IFRIC 23 — Uncertainty over Income Tax Treatments²;
- Amendments to IFRS 9 — Financial Instruments: Characteristics of Prepayments with Negative Compensation²;
- 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 investment²;
- Amendments to IAS 40 — Investment Property: Transfer of Investment Property¹;
- Annual improvements to IFRSs for the period of 2014–161;
- Annual improvements to IFRSs for the period of 2015–172.

¹ Effective for annual periods that start on or after 1 January 2018. Pre-term application is allowed.

² Effective for annual periods that start on or after 1 January 2019. Pre-term application is allowed.

³ Effective for annual periods that start on or after 1 January 2021. Pre-term application is allowed.

⁴ Effective for annual periods that start on or after the date to be determined. 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 9 — Financial Instruments: Classification and Measurement

IFRS 9 published in July 2014 amends the existing guidelines contained in IAS 39 — Financial Instruments: Recognition and Measurement, and contains rules for the classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

Expected Impact of IFRS 9

The Fund shall apply IFRS 9 — Financial Instruments: Classification and Measurement since

1 January 2018. The expected impact of the application of this standard on the financial statements of the Fund as of 1 January 2018 given below is based on the results of the analysis performed up until that time. The actual impact of the application of this standard on 1 January 2018 may vary, since the Fund has not completed the testing and evaluation of its information system controls yet, and since the new accounting policy may be changed until the Fund publishes its first financial statements that will include the date of the first adoption of this standard.

Classification and Measurement

IFRS 9 contains three main categories by which financial assets are classified: financial assets measured at depreciate value, at fair value with recognition of revaluation result in other comprehensive income, and at fair value with recognition of revaluation result in the profit or loss. The classification of financial assets in accordance with IFRS 9 is generally based on the business model which controls the financial asset and cash flow characteristics on that asset under the contract. The specified standard abolishes the IAS 39 classification of financial assets held to maturity, loans and accounts receivable and financial assets available for sale.

IFRS 9 does not separate the derivative financial instruments embodied in a contract, its principal contract being a financial asset within the scope of this IFRS. Instead, the relevant classification requirements apply to the entire hybrid instrument. Investments in equity instruments are measured at fair value.

IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities.

According to the Fund's assessment, the application of new classification requirements will not significantly affect the accounting of financial assets and financial liabilities of the Fund.

Impairment

IFRS 9 replaces 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, accounts receivable under lease agreements, certain loan and financial guarantee liabilities. The new loss impairment model generally requires recognition of credit losses for all financial assets, even if they are newly created or acquired.

According to IFRS 9, impairment losses are measured in one of the following ways:

- as expected credit losses as a result of default by the financial instrument, which are possible during the next 12 months (“credit losses expected within 12 months”);
- as expected credit losses as a result of all possible default events during the expected period of the financial instrument (“loan losses expected during the entire maturity of the financial instrument”).

The measurement of expected losses for the entire period is used if the credit risk of a financial asset at the reporting date significantly increased compared to the date of initial recognition. Otherwise, it is necessary to measure the expected credit losses for 12 months after the reporting date, provided that the Fund is entitled to use the assumption that the credit risk of a financial instrument has not significantly increased compared to the initial recognition if it was determined that the financial instrument had a low credit risk at the reporting date. However, the accounts receivable and contractual assets that do not contain significant financing components are always measured by the expected credit losses for the entire maturity period.

The Fund preliminary measured the impairment losses for financial assets in accordance with IFRS 9 and concluded that the additional provision to be created by the Fund in connection with the introduction of the new standard would have no significant impact on the financial results or net assets of the Fund.

The impairment losses will be measured as follows:

- for the arrears of insolvent banks on special-purpose loans, the expected amount of discharging of the creditors’ claims of the Fund will be calculated based on the amount of the approved liquidation estate of insolvent banks and the conversion of liquidation estate into the cash flow, taking into account the effect of the projected macroeconomic indicators for the term of these arrears;
- for debt liabilities, accounts receivable from the accrued income, bank deposits and cash and cash equivalents, the expected credit will be calculated based on the external credit ratings and statistics on default and refund for similar financial instruments.

Disclosure of Information

IFRS 9 will require detailed disclosure of information, in particular, regarding credit risk and expected credit losses. During the assessment, the Fund conducted an analysis to identify information that is missing from these disclosures. The Fund is implementing changes that, in its opinion, will allow the collection of necessary data.

Transitional Provisions

The requirements for 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 plans to use 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. Differences in the book value of financial instruments that arise from the implementation of IFRS 9 will be recognised in the retained earnings as of 1 January 2018.

IFRS 15 — Revenue from Contracts with Customers

IFRS 15 establishes the overall principles for the required recognition, recognition amount, and recognition time for the revenue from sale of products (goods, works, services). It replaces 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 improves the income disclosure procedures, contains instructions on recognition methods for the transactions not fully resolved beforehand, and improves 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 will not significantly affect the financial position or performance of the Fund.

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. The management have not analysed the potential impact of the new standard on the financial position or performance of the Fund yet.

6. Cash and Cash Equivalents

Cash and cash equivalents are held on the current account of the Fund with the NBU.

<i>(UAH million)</i>	31 December 2017	31 December 2016	1 January 2016
Cash on current account	3.740	2.310	8.343
Total cash and cash equivalents	3.740	2.310	8.343

Cash and cash equivalents and future cash inflows are pledged under the Fund's liabilities on loan agreements with the NBU (Note 0).

7. Investments Available for Sale

Investments available for sale are represented by government bonds, which the Fund plans to sell in order to obtain the liquid assets necessary to fulfil its obligations to disburse deposit payouts and cover the expenses for the insolvent bank resolution.

In 2016 the Fund received a loan in the form of government bonds in the amount of UAH 7.941 million from the Ministry of Finance of Ukraine in exchange for the promissory notes issued by the Fund for the same amount (Note 18). During 2017, the Fund sold part of these bonds for the amount of UAH 2.500 million.

<i>(UAH million)</i>	Effective yield rate	31 December 2017	31 December 2016	1 January 2016
UA4000196513	10.27 %	4.195	4.002	–
UA4000196521	10.27 %	1.479	3.943	–
Total		5.674	7.945	–

The investments available for sale are recognised at fair value in the financial statements, and include accrued interest due in the amount of UAH 119 million (31 December 2016: UAH 120 million, by 1 January 2016: 0.00).

8. Investments Held to Maturity

Investments held to maturity are represented by the government bonds purchased by the Fund in 2013–14, when they were placed by the Ministry of Finance of Ukraine. All these bonds are pledged for the Fund's liabilities under loan agreements with the National Bank of Ukraine (Note 18).

<i>(UAH million)</i>	Effective yield rate	Maturity date	31 December 2017	31 December 2016	1 January 2016
UA4000092126	9.5 %	29 Jun 2016	–	–	89
UA4000092134	9.5 %	13 Jul 2016	–	–	523
UA4000106181	9.5 %	13 Jul 2016	–	–	82
UA4000162127	14.25 %	4 Apr 2018	329	330	330
UA4000165765	14.25 %	11 Apr 2018	802	803	803
UA4000166201	14.25 %	2 May 2018	336	337	337
UA4000168082	14.25 %	16 May 2018	27	27	27
UA4000170732	14.25 %	4 Jul 2018	624	624	624
UA4000171391	14.25 %	27 Jun 2018	432	434	435
UA4000174239	14.25 %	5 Sep 2018	30	30	30
UA4000175467	14.25 %	10 Oct 2018	871	871	871
UA4000176093	14.25 %	24 Oct 2018	63	63	63
UA4000178891	14.25 %	9 Jan 2019	747	747	747
UA4000179196	14.25 %	23 Jan 2019	1.019	1.019	1.019
Total			5.280	5.285	5.980

The book value of the investments held to maturity includes the accrued interest due in the amount of UAH 221 million (31 December 2016: UAH 220 million, 1 January 2016: UAH 239 million).

The Fund regularly reviews the government debt securities booked at depreciated value for possible impairment. In determining whether it is necessary to recognise the expenses for the formation of the provision for impairment, the Fund management applies the professional judgement that there are signs that indicate a reduction in future cash flows for such securities. This indicator may include data that may be determined and characterise a negative change in the issuer's solvency. The Fund management believes that as of 31 December 2017 and 31 December 2016 there were no signs of impairment of government debt securities booked at depreciated value.

As of 31 December 2017, all bonds in the Fund's portfolio represent government bonds of Ukraine, which given the potential difficulties of the Ukrainian government to repay its contractual obligations due to the higher state budget deficit, as well as the reduction of the NBU's foreign exchange reserves, leads to significant uncertainty of estimates of the potential reimbursement of these financial assets. If these financial assets are not reimbursed after 31 December 2017, impairment losses shall be recorded on the books.

Sensitivity Analysis

Reduction in the expected fair value of government bonds of Ukraine by 1 % as of 31 December 2017 would decrease the net assets by UAH 90 million (31 December 2016: UAH 108 million, 1 December 2016: UAH 49 million) (the sensitivity analysis is conducted in aggregate for investments available for sale, as disclosed in Note 7, and investments held to maturity, as disclosed in Note 8).

9. Accounts Receivable from Contributions from Member Institutions

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>	31 December 2017	31 December 2016	1 January 2016
Accounts receivable from the member banks' contributions	846	854	792
Accounts receivable from the insolvent banks' contributions	323	309	290
Total accounts receivable from the banks' contributions, gross amount	1.169	1.163	1.082
Impairment loss:			
Arrears of insolvent banks' contributions	(323)	(309)	(290)
Total impairment loss	(323)	(309)	(290)
Total accounts receivable from the banks' contributions, net amount	846	854	792

Accounts receivable from the contributions from insolvent banks as of 31 December 2017, 31 December 2016 and 1 January 2016 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>	31 December 2017	31 December 2016	1 January 2016
Advances paid out	6	20	–
Accounts receivable from agent banks for deposit payouts	–	6	330
Accounts receivable in connection with the sale of insolvent banks	2	2	2

Other	3	2	3
Exclusive of: impairment loss	(2)	(2)	(2)
Total other accounts receivable, net amount	9	28	333

11. Arrears of Insolvent Banks on the Creditors' 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 2017	31 December 2016	1 January 2016
1 year in liquidation	11.99	11.97	8.24
2 years in liquidation	9.17	11.87	28.71
3 years in liquidation	12.76	10.05	0.00
4 years in liquidation	10.58	10.44	0.00
5 years in liquidation	2.63	0.00	0.00

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 2017	31 December 2016	1 January 2016
1 year in liquidation	15.85	16.95	19.83
2 years in liquidation	15.31	17.01	18.24
3 years in liquidation	14.69	16.00	16.63
4 years in liquidation	14.01	14.74	15.20
5 years in liquidation	13.33	13.55	14.00

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:

<i>(UAH million)</i>	31 December 2017	31 December 2016	1 January 2016
Arrears of insolvent banks on the creditors' claims of the Fund:			
Reimbursement of the Fund's expenses for deposit payouts and bank resolution	3.080	2.041	710
Arrears of insolvent banks on special-purpose loans, net amount	5.986	8.108	2.735
Total arrears of insolvent banks on the creditors' claims of the Fund, net amount	9.066	10.149	3.445

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 2017 is UAH 3.777 million (2016: UAH 3.233 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>	31 December 2017	31 December 2016	1 January 2016
Arrears of insolvent banks on special-purpose loans:			
Arrears of insolvent banks on special-purpose loans, gross amount	25.107	29.073	31.213
Provision for losses from special-purpose loan default	(19.121)	(20.965)	(28.478)
Total arrears of insolvent banks on special-purpose loans, net amount	5.986	8.108	2.735

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>	2017	2016
Provision for impairment losses from the arrears of insolvent banks on special-purpose loans at the beginning of the reporting period	20.965	28.478
Provision formed	172	–
Provision reversed	(2.016)	(7.513)
Write-off at the expense of the provision	–	–
Provision for impairment losses for the arrears of insolvent banks on special-purpose loans at the end of the reporting period	19.121	20.965

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>	31 December 2017		31 December 2016		1 January 2016	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
Expected reimbursement amount of the Fund's expenses for the liquidation procedure						
Discount rate (changed by 1 %)	(38)	39	(24)	25	(4)	4

Conversion rate (changed by 10 %)	560	(585)	282	(335)	133	(134)
Amount of provision for losses from failure to return a special-purpose loan to banks						
Discount rate (changed by 1 %)	46	(47)	88	(90)	15	15
Conversion rate (changed by 10 %)	(385)	396	(737)	918	(310)	(311)

12. Fixed Assets

<i>(UAH million)</i>	Computers and equipment	Other fixed assets	In-progress capital investments	TOTAL
Acquisition value as of 1 January 2016	8	3	–	11
Accumulated depreciation as of 1 January 2016	(2)	(2)	–	(4)
Net book value as of 1 January 2016	6	1	–	7
Receipts	1	–	–	1
Disposals	–	–	–	–
Accumulated depreciation on disposed fixed assets	–	–	–	–
Depreciation	(1)	(1)	–	(2)
Acquisition value as of 31 December 2016	9	3	–	12
Accumulated depreciation as of 31 December 2016	(3)	(3)	–	(6)
Net book value as of 31 December 2016	6	–	–	6
Receipts	25	–	4	29
Disposals	–	–	–	–
Accumulated depreciation on disposed fixed assets	–	–	–	–
Depreciation	(3)	–	–	(3)
Acquisition value as of 31 December 2017	34	3	4	41
Accumulated depreciation as of 31 December 2017	(6)	(3)	–	(9)
Net book value as of 31 December 2017	28	–	4	32

The initial value of fully depreciated fixed assets, which continues to be used, is UAH 3 million (31 December 2016: UAH 1 million, 1 January 2016: UAH 1 million).

13. Intangible Assets

<i>(UAH million)</i>	Software	In-progress investments	TOTAL
Acquisition value as of 1 January 2016	6	1	7
Accumulated depreciation as of 1 January 2016	(2)	–	(2)
Net book value as of 1 January 2016	4	1	5
Receipts	–	6	6
Disposals	–	–	–
Accumulated depreciation on disposed intangible assets	–	–	–
Depreciation	(1)	–	(1)
Acquisition value as of 31 December 2016	6	7	13
Accumulated depreciation as of 31 December 2016	(3)	–	(3)
Net book value as of 31 December 2016	3	7	10
Receipts	21	–	14
Disposals	–	(7)	–
Accumulated depreciation on disposed intangible assets	–	–	–
Depreciation	(2)	–	(2)
Acquisition value as of 31 December 2017	27	–	27
Accumulated depreciation as of 31 December 2017	(5)	–	(5)
Net book value as of 31 December 2017	22	–	22

14. Provision for the Fund's Potential Expenses for Insolvent Bank Resolution and Deposit Payouts

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, the probability of the insolvency of which is 60 % or more, weighted by the ratio of the expected losses of the Fund in case of declaring the bank insolvent.

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 three components by the Fund management:

- projected guaranteed reimbursement amount of deposit payouts;
- probability that banks will be declared insolvent;
- factor of the expected losses of the Fund in case if the bank is declared insolvent.

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.

Projected Guaranteed Amount of Deposit Payouts

To determine the projected guaranteed amount of deposit payouts, the Fund uses data from the Households Deposit Report – reporting form No. 1Φ – approved by Decision of the Executive Directorate of the Guarantee Deposit Fund No. 5 dated 9 July 2012 registered with the Ministry of Justice of Ukraine under No. 1314/21626 on 2 August 2012, to be submitted by the member institutions at the reporting date.

Probability of Declaring the Bank Insolvent

The probability of declaring the bank insolvent is calculated in accordance with 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. 232 dated 21 December 2015).

The probability of declaring the bank insolvent is estimated by three blocks: financial and economic condition; liquidity; external influence.

These blocks contain a set of indicators, the total value of which determines the probability of a particular bank in each block. The maximum total number of points of a particular bank by blocks is 100 points, which equals to 100 % probability of occurrence of financial risks for the Fund.

The financial and economic condition has 10 indicators: cover of risk arrears by equity, two indicators that characterise the ability to generate income, adequacy of the accumulated provisions for loans, calculation of the amount of received collateral in the form of real estate, rational management of resources, profitability of the bank capital, net interest and fee-based income to net assets, net spread, and investment risk. The maximum number of points for this block is 50 points, which equals to 50 % probability.

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. 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 maximum number of points gained for the liquidity is 30 points, which equals to 30 % probability.

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 of transactions on accepting retail deposits, suspension/termination of transactions on accepting retail deposits, availability of information from the NBU on violation of prudential regulations, declaration of the bank insolvent, etc.

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, which equals to 20 % probability.

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 outstanding creditors' claims of the Deposit Guarantee Fund to the total amount of the filed creditors' claims of the Fund.

The provision for the Fund's potential expenses for insolvent bank resolution and deposit payouts is presented in the financial statements:

<i>(UAH million)</i>	2017	2016
Provision for the Fund's potential expenses at the beginning of the period	23.072	16.240
Increase/decrease in the provision for the Fund's potential expenses	(675)	6.832
Provision for the Fund's potential expenses at the end of the period	22.397	23.072

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.

<i>(UAH million)</i>	31 December 2017		31 December 2016	
	Increase	Decrease	Increase	Decrease
Provision for the Fund's potential expenses				
Probability of insolvency (changed by 1 %)	330	(330)	324	(324)
Expected loss ratio (changed by 1 %)	273	(273)	262	(262)
Projected guaranteed reimbursement amount of payouts (changed by 1 %)	224	(224)	231	(231)

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 2016 and 2017 amounted to UAH 200.000.00.

The Fund begins to fulfil 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.

As of 31 December 2017, the financial statements represent the Fund's obligations to depositors of 80 banks (31 December 2016: 72 banks, 1 January 2016: 57 banks). During 2017, the Fund made payouts in the amount of UAH 7.011 million (during 2016: UAH 11.768 million).

As of 31 December 2017, there were no banks for which the documents were submitted to make an entry on the bank liquidation in the Unified State Register of Legal Entities, Individual Entrepreneurs and Public Organizations of Ukraine.

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.

<i>(UAH million)</i>	31 December 2017	31 December 2016	1 January 2016
Outstanding guarantee deposits	20	–	40
Other	7	5	2
Total other accounts payable	27	5	42

17. Other Provisions

Other provisions are represented by the provisions for deferred expenses for accumulated payment for absence periods (annual 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.

<i>(UAH million)</i>	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
Balance as of 1 January 2016	5	54	–	59
Accrued (formed)	12	3	2.364	2.379
Used in the reporting year	(7)	–	(1.014)	(1.021)
Reversed in the reporting year	–	–	–	–
Balance as of 31 December 2016	10	57	1.350	1.417
Accrued (formed)	19	–	1.399	1.418
Used in the reporting year	(15)	–	(871)	(886)
Reversed in the reporting year	–	(4)	–	(4)
Balance as of 31 December 2017	14	53	1.878	1.945

18. Funds Raised

<i>(UAH million)</i>	Effective interest rate	31 December 2017	31 December 2016	1 January 2016
Loans issued by the National Bank of Ukraine:				
with maturity up to 1 year	12.5%	4.884	9.066	635
with maturity over 1 year	12.5%	1.600	–	9.066
Interest due on loans issued by the National Bank of Ukraine	–	–	–	–
Total loans issued by the National Bank of Ukraine		6.484	9.066	9.701
Promissory notes issued:				
with maturity up to 1 year	–	–	–	–
with maturity over 1 year	8.4%	59.559	59.559	51.618
Interest due on promissory notes issued	–	8.407	4.440	1.207
Total promissory notes issued		67.966	63.999	52.825
Total funds raised		74.450	73.065	62.526

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.

In 2017 the Fund entered into a number of additional agreements, which extended the maturity of the principal until 2019. In addition, in accordance with these additional agreements, if the Fund's balances calculated on a monthly basis exceed the projected expenses of the Fund, the Fund shall early repay the loans in the amount calculated by the formula set out in Appendix 4 of the Resolution.

As of 31 December 2017, the government bonds for the amount of UAH 5.059 million were held as collateral to secure the fulfilment of contractual obligations by the Fund under the loan agreements with the NBU (31 December 2016: UAH 5.065 million, 1 January 2016: UAH 5.741 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.

19. Member Institutions Fees

<i>(UAH million)</i>	2017	2016
Regular fee	3.324	3.422
Initial fee	–	–
Special fee	–	–
Total member institutions fees	3.324	3.422

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 0.01 %.

20. Investment Income

<i>(UAH million)</i>	2017	2016
Investment income from interest on government bonds	1.307	762
Discount on reimbursement of expenses for deposit payouts and bank resolution	245	–
Interest on cash and cash equivalents placed with the NBU	141	345
Total investment income	1.693	1.107

21. Other Operating Income

<i>(UAH million)</i>	2017	2016
Deconsolidation of provision for impairment losses on outstanding special-purpose loans	1.845	7.495
Interest on special-purpose loans issued to insolvent banks	3	8
Deconsolidation of provision for legal risks	5	–
Penalties and fines arising from the banks fees	–	2
Total other operating income	1.853	7.505

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>	2017	2016
Expenses for deposit payout and bank resolution, gross amount	5.703	7.800
Reimbursement of the Fund's expenses for deposit payouts and bank resolution	(3.777)	(3.233)
Expenses for deposit payout and insolvent resolution, net amount	1.926	4.567

23. Financial Expenses

<i>(UAH million)</i>	2017	2016
Interest paid on loans issued by the NBU	1.050	1.172
Interest paid on promissory notes	5.232	4.498
Other financial expenses	463	427
Total financial expenses	6.745	6.097

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.

24. Other Operating Expenses

<i>(UAH million)</i>	2017	2016
Increase in provision for deposits with signs of voidness	1.399	2.364
Increase in provision for legal risks	–	3
Other expenses	7	–
Total other operating expenses	1.406	2.367

25. Administrative Expenses

<i>(UAH million)</i>	2017	2016
Wages and other employee benefits	214	152
Social insurance contributions	33	24
Rental and maintenance of the office	15	12
Depreciation	6	3
Repair and modernization of fixed assets and intangible assets	4	4
Business trips	2	2
Consulting services and audit	–	–
Other expenses	35	30
Total administrative expenses	309	227

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 2017 and 2016, the expenses for compensation to key manager included in administrative expenses amounted to UAH 19 and 14 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>	31 December 2017	31 December 2016	1 January 2016
ASSETS			
Cash and cash equivalents on accounts opened with the National Bank of Ukraine	3.740	2.310	8.343
Government bonds issued by the Ministry of Finance of Ukraine	10.954	13.230	5.980
TOTAL ASSETS	14.694	15.540	14.323
LIABILITIES			
Promissory notes issued by the Fund to the Ministry of Finance of Ukraine	59.559	59.559	51.618
Interest due on promissory notes issued to the Ministry of Finance of Ukraine	8.407	4.440	1.207
Loans received from the National Bank of Ukraine	6.484	9.066	9.701
TOTAL LIABILITIES	74.450	73.065	62.526

<i>(UAH million)</i>	2017	2016
TRANSACTIONS FOR THE YEAR		
Investment income from interest on government bonds	1.307	762
Interest on cash and cash equivalents placed with the National Bank of Ukraine	141	345
Interest expenses on loans from the National Bank of Ukraine	(1.050)	(1.172)
Interest expenses on promissory notes issued to the Ministry of Finance of Ukraine	(5.232)	(4.498)

27. Off-Balance Sheet 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 32 million as of 31 December 2017 (UAH 4 million as of 31 December 2016) have a low probability of outflow of economic benefits.

28. Operating Lease

As of 31 December 2017, the Fund entered into the operating lease agreement for non-residential premises with book value of UAH 283 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 in the field 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) mainly formed from the fees paid by the member institutions. 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.

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, government bonds available for sale and held to maturity, and 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 investments held to maturity, investments available for sale, 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>	31 December 2017	31 December 2016	1 January 2016
Cash and cash equivalents	5.4%	5.9%	5.9%
Investments held to maturity	14.25%	14.8%	13.7%
Investments available for sale	9.99%	9.99%	–
Loans issued by the NBU	12.5%	12.5%	12.5%
Promissory notes issued	8.4%	8.3%	8.5%

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 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>	Book value	Cash flows under contracts	Up to 1 year	1–5 years	Over 5 years
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
Total financial liabilities	74.450	148.141	6.714	6.672	134.755

As of 31 December 2016, undiscounted cash flows based on maturity of non-derivative financial liabilities under contracts (including interest payments) are represented as follows:

<i>(UAH million)</i>	Book value	Cash flows under contracts	Up to 1 year	1–5 years	Over 5 years
Loans issued by the NBU	9.066	9.758	9.758	–	–
Promissory notes issued	63.999	142.344	1.265	5.059	136.020
Total financial liabilities	73.065	152.102	11.023	5.059	136.020

As of 1 January 2016, undiscounted cash flows based on maturity of non-derivative financial liabilities under contracts (including interest payments) are represented as follows:

<i>(UAH million)</i>	Book value	Cash flows under contracts	Up to 1 year	1–5 years	Over 5 years
Loans issued by the NBU	9.701	11.568	1.810	9.758	–
Promissory notes issued	52.825	123.885	1.265	5.059	117.561
Total financial liabilities	62.526	135.453	3.075	14.817	117.561

31. Fair Value of Financial Assets and Liabilities

Fair value measurement results are analysed and distributed at fair value hierarchy levels as follows: (i) Level 1 includes measurements by price quotations (without adjustment) in active markets for identical assets and liabilities; (ii) 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), and (iii) 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.

As of 31 December 2017, 31 December 2016 and 1 January 2016, government bonds classified as investments available for sale (Note 7), belong to the first hierarchical level.

a) Repeated Measurements of Fair Value

Repeated measurements of fair value are required or permitted by accounting standards in the statement of financial position at the end of each reporting period.

b) Assets and Liabilities Not Measured at Fair Value, but with Fair Value Disclosed

The measured fair value of financial assets and liabilities was determined 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 2017, 31 December 2016, and 1 January 2016, the fair value of all financial assets and liabilities did not significantly differ from their book value.

32. Influence of the First Adoption of the IFRSs

As Note 3 indicates, these financial statements are prepared in accordance with IFRS 1 — First-Time Adoption of International Financial Reporting Standards in the framework of the Fund's transition to the International Financial Reporting Standards (IFRSs).

When drawing up these financial statements as of 31 December 2017 and the year then ended, the Fund consistently used the accounting policies summarised in Note 3. 1 January 2016 is the date of the Fund's transition to the IFRSs.

When drawing up the statement of financial position in accordance with the IFRSs, the Fund adjusted the numerical values previously recorded on the financial statements prepared in accordance with the national accounting standards. The influence of the transition from the national accounting standards to the IFRSs on the net assets (deficit) and comprehensive income of the Fund is explained in the following tables:

<i>(UAH million)</i>	31 December 2016	1 January 2016
Profit/loss recorded on the financial statements in accordance with the national accounting standards	(84.895)	(70.109)
Adjustment:		
Accrual of provision for legal risks	(54)	(54)
Accrual (increase) of provisions for legal risks	(3)	–
Recognition of discounted reimbursement of expenses of the Fund for deposit payouts and bank resolution	710	710
Adjustment of the discount on reimbursement of the Fund's expenses for deposit payouts and bank resolution	(420)	–
Adjustment of the amount of provision for impairment of receivables	14.633	–
Adjustment of the amount of provision for impairment of receivables	2.692	2.692
Adjustment of the amount of accrued interest on government bonds	(14)	–
Adjustment of the amount of accrued interest on impaired special-purpose loans	(501)	–
Accrual of provision on deposits with signs of voidness	(2.364)	–
Expenses for deposit payouts and insolvent bank resolution	(4.567)	–
Adjustment of administrative expenses	(34)	–
Net assets (deficit) as recorded on the financial statements in accordance with the IFRSs	(74.817)	(66.761)

<i>(UAH million)</i>	2016
Total comprehensive income, as recorded on the financial statements in accordance with the national accounting standards	(14.786)
Adjustment:	
Adjustment of the amount of provision for impairment of receivables	14.633
Adjustment of the amount of accrued interest on government bonds	(14)
Adjustment of the amount of accrued interest on impaired special-purpose loans	(501)
Accrual of increase of provision for legal risks	(3)
Adjustment of the discount on reimbursement of the Fund's expenses for deposit payouts and bank resolution	(420)
Accrual of provision on deposits with signs of voidness	(2.364)
Expenses for deposit payouts and insolvent bank resolution	(4.567)
Adjustment of administrative expenses	(34)
Total comprehensive income, as recorded on the financial statements in accordance with the IFRSs	(8.056)

Data of the cash flow statements drawn up in accordance with the national accounting standards and the IFRSs do not differ significantly.

The Fund did not prepare financial statements in accordance with previously applied national accounting standards for periods after 31 December 2016.

33. Events after the End of the Reporting Period

Within the period from 1 January 2018 until the date of approval of the financial statements for issue, the loans issued by the National Bank of Ukraine were early repaid in the amount of UAH 3.600 million.



© Deposit Guarantee Fund

17, Sichovykh Striltsiv St., Kyiv, 04053, Ukraine

+38 (044) 333 35 63, +38 (044) 333 35 56

www.fg.gov.ua, fgvfo@fg.gov.ua