



DGF

Deposit Guarantee Fund
(Ukraine)

2011 Annual Report



INTRODUCTION

In 1998, the President of Ukraine signed the Decree “On Measures to Protect the Rights of Physical Persons as Depositors of Commercial Banks in Ukraine” which approved the establishment of the Deposit Guarantee Fund (hereinafter Fund) and procedures regulating the funding of the Fund and use of the resources.

On September 20, 2001, the Verkhovna Rada (Parliament of Ukraine) approved the Law “On Deposit Guarantee Fund”, which took effect on October 24, 2001.

The Fund is a specialized government institution of public administration in the deposit guarantee sphere.

The main objective of the Fund is protecting the rights of individual depositors (natural persons) to the national banks and the branches of foreign/international banks in Ukraine.

The Administrative Board is the governing body of the Fund that consists of five persons and is formed by delegation to its membership two representatives of the Cabinet of Ministers of Ukraine, two representatives of the National Bank of Ukraine and one representative of the Association of Ukrainian Banks.

The Executive Directorate of the Fund is headed by the Managing Director.

The Fund reimburses for deposits including interest accrued to the Fund member/temporary member banks in national and foreign currencies of a value no higher than UAH 150.000 per individual depositor to every member bank, or the branch of an international/foreign bank in Ukraine from the date

of the deposit inaccessibility. No deposit of a value under UAH 1 may be reimbursed.

The Administrative Board may increase the coverage amount by a special decision.

The depositors are entitled to reimbursement in national currency at the Fund’s cost starting from the date of deposit inaccessibility.

Deposit inaccessibility is the depositor’s inability to receive the deposit as specified in the deposit agreement from the date of the appointment of the liquidator of the Fund member/temporary member bank.

The Fund members are national banks and branches of international/foreign banks in Ukraine duly licensed and certified as Fund members. “VAT Derzhavniy Oschadniy Bank Ukrainy” (the National Savings Bank of Ukraine) is not a member of the Fund.

The Fund members hold the membership certificate.

In the case of a member’s failure to adhere to the Law of Ukraine «On the Deposit Insurance Fund», the bank (the branch of an international/foreign bank in Ukraine) is transferred to the ‘temporary member’ group and receives the temporary membership certificate.

The Fund does not reimburse for the deposits of the individuals in a bank (the branch of an international/foreign bank) with the temporary membership funded after the bank was transferred to the temporary membership status.

MESSAGE FROM THE CHAIRMAN OF THE BOARD

The banks in Ukraine, as in many other countries, are the most developed financial institutions instrumental for the implementation of the economic and social policies and providing access to the financial services for all types of business entities, institutions, organizations and the general public.

In 2011, the banking sector was affected, first of all, by the government monetary and fiscal policy, as well as the level of economic development, changes in the banking legislation, the level of confidence of various groups of investors in the country's business climate, and the world markets conditions. During the year, the banks of Ukraine mobilized extensive resources in domestic market that enabled them to restore the financing of the country's economic development. As of 01.01.2012, the net assets of the banks amounted to UAH 1,054.3 b., their net capital was worth UAH 155,487 b. and the liabilities – UAH 898.8 b. During 2011, the revenues in the banking sector were growing at a higher rate than the expenditures due to the performance enhancement in the post-crisis period.

The Government of Ukraine, represented by the National Bank of Ukraine and the Fund, as the principal participant of the national financial safety net, is focused on the ensuring sustainability of the banking system and stability of the Ukrainian currency, prevention of financial crisis as a result of the bank run, and savings mobilization.

When banks are being liquidated, the stability of the financial sector depends, to a large extent, on the level of coordination within the deposit insurer. An effective response will maintain the public confidence in the banking system and prevent destabilization. In the last year, as in the previous years, well handled



deposit payouts have proven the effectiveness of the deposit insurance system in Ukraine. Today, the Fund's mandate is being extended to meet new challenges. The deposit insurance system is no longer just a mechanism of deposit payout. The Fund acquires new powers in the sphere of bank resolution to enhance protection of the depositors, as well as the other bank creditors.

The reformation of the deposit insurance system requires a substantial institutional development of the Fund, strengthening the Fund's institutional structure and status, as well as improving financing mechanisms in order to ensure an adequate level of the insurer's independence and capacity to perform the new functions.

This reform will improve the system of the financial safety in Ukraine through ensuring a proper balance between the functions of the prudential regulation, supervision and deposit

protection.

The Law of Ukraine “On Households Deposit Guarantee System” approved by the Verhovna Rada of Ukraine on 23rd February 2012 is an important result of this work to reform the Fund. The goal of the Law is to improve the process of dealing with the problem and insolvent banks by accelerating the decision making process regarding the bank resolution, and reduce the term, within which the deposit payout should be commenced, which will strengthen the protection of depositors against the loss of savings.

One of the major purposes of the current reform is to minimize the costs associated with the bank resolution and the Fund’s losses

associated with deposit payout.

On behalf of the Administrative Board, I would like to express confidence that the high professionalism of the Fund staff, productive cooperation with the National Bank of Ukraine and other participants of the financial safety net in Ukraine will improve the system protecting the interests of depositors, and strengthen the public confidence in the banking sector, which is the key condition for mobilising long-term financial resources to ensure a sustainable economic development, higher living standards and more effective social protection.

Sincerely,
Ihor Sorokin

Chairman of the Board
Deposit Guarantee Fund
Deputy Governor
National Bank of Ukraine

MESSAGE FROM THE MANAGING DIRECTOR

We are pleased to present Deposit Guarantee Fund's 2011 Annual Report that provides a detailed analysis of the deposit insurance system in Ukraine, including the key information on the Fund's financial performance, monitoring and control functions and paying out deposits to the depositors of the failed banks.

This document demonstrates the dynamic development of the deposit insurance system in Ukraine that fully meets its objectives. During the reporting period the Fund indemnified the depositors of the 18 liquidated banks and paid out UAH 191.2 m. demonstrating a well-established payout mechanism.

The annual results prove high effectiveness of the deposit insurance system in Ukraine. In 2011, four newly established banks acquired the membership status with the Fund. As of 1st January 2012, the total number of the member institutions was 170 banks, and 5 banks held the 'temporary member' status. The year was marked with a steady growth in the number of retail deposits in the banks. Thus, the total deposit value in the member ('temporary member') banks increased by UAH 28.4 b. or 11.2% to UAH 282.6 b., and the number of the individual depositors increased by 2.4 m. to reach 35 m. Currently, the insurance coverage per deposit is UAH 150 000, which is significantly (more than 18 times) higher than the average deposit value at the moment, and covers 99.2% of the retail depositors.

Therefore the functioning of the deposit insurance system encourages the growth of the savings and give people confidence in the safety of their deposits.

With the view of the deposit insurance system improvement in line with the best international practices, the Fund had been actively reforming the system, which resulted in the law "On Households Deposit Guarantee System" signed by the President of Ukraine on



19th of March 2012. The Law has established legal, financial and administrative frameworks of the reformed deposit insurance system in Ukraine, and significantly extended the Fund's mandate and functions in the sphere of bank resolution, including through provisional administration and liquidation of insolvent banks. The newly adopted Law reduced the term, within which the deposit payout should be commenced. It established the mechanisms for the transfer of all or part of the assets and liabilities of the insolvent bank to an assuming bank, as well as the terms and procedures of the establishment of a bridge bank, and selling the insolvent bank to such a bridge bank or investor. The new provisions are expected to minimize the losses associated with the bank resolution, reduce the term of provisional administration from 1 year to 3 months (or from 18 months to 6 months for systemic banks), and, finally,

lift the moratorium on deposit payout during the provisional administration, which will strengthen the public confidence in the banking system of Ukraine.

Other essential tasks of the Fund are the promotion of the openness and transparency, and financial education of the Ukrainian public, including raising public awareness of the deposit insurance system. Thus the recently established free telephone hotline is already well known, and helped to raise the public awareness significantly and provide many depositors with professional advice. During the reporting period, the hotline received approximately 10, 000 calls.

In 2011, as in the previous years, the Fund paid special attention to the international cooperation in order to adopt the best international practices of deposit insurance, as well as share the Fund's experience of reforming the system.

As a member of the International Association of Deposit Insurers, and European Forum of Deposit Insurers, the Fund participated in more than fifteen regional and international events: conferences, seminars, meetings, round table discussions, etc. As a result, the Fund

signed four Memorandums of Cooperation with the deposit insurance agencies of the United States, Russian Federation, Serbia and Bulgaria. Signing such a memorandum with the Korea Deposit Insurance Corporation is expected in the future.

The Fund has continued effective cooperation with USAID funded "Financial Sector Development Project" and the World Bank. We are grateful for the technical assistance and financial aid, professional advice and recommendations that these partners provided in the preparation and implementation of the current reform.

Reaching the goals of the Fund at the current stage was possible due to the productive collaboration with the state legislative and executive bodies, National Bank of Ukraine, and the banking sector.

On behalf of the management team and the staff, I would like to thank all our colleagues for their support to the Fund's initiatives to develop and improve the deposit insurance system in Ukraine.

Sincerely,
Olena Sharova

Managing Director
Deposit Guarantee Fund

ADMINISTRATIVE BOARD



IHOR SORKIN
Deputy Governor
National Bank of Ukraine
Chairman of the Administrative Board



ANATOLIY MAKSIUTA
First Deputy Minister of Economic
Development and Trade of Ukraine



YURIY SHEVCHENKO
Deputy Minister of Finance of Ukraine
Chief of Staff



OLEXANDR SUHONYAKO
President of the Association
of Ukrainian Banks



VIKTOR NOVIKOV
Director of Legal Department
National Bank of Ukraine

EXECUTIVE BOARD



OLENA SHAROVA
Managing Director

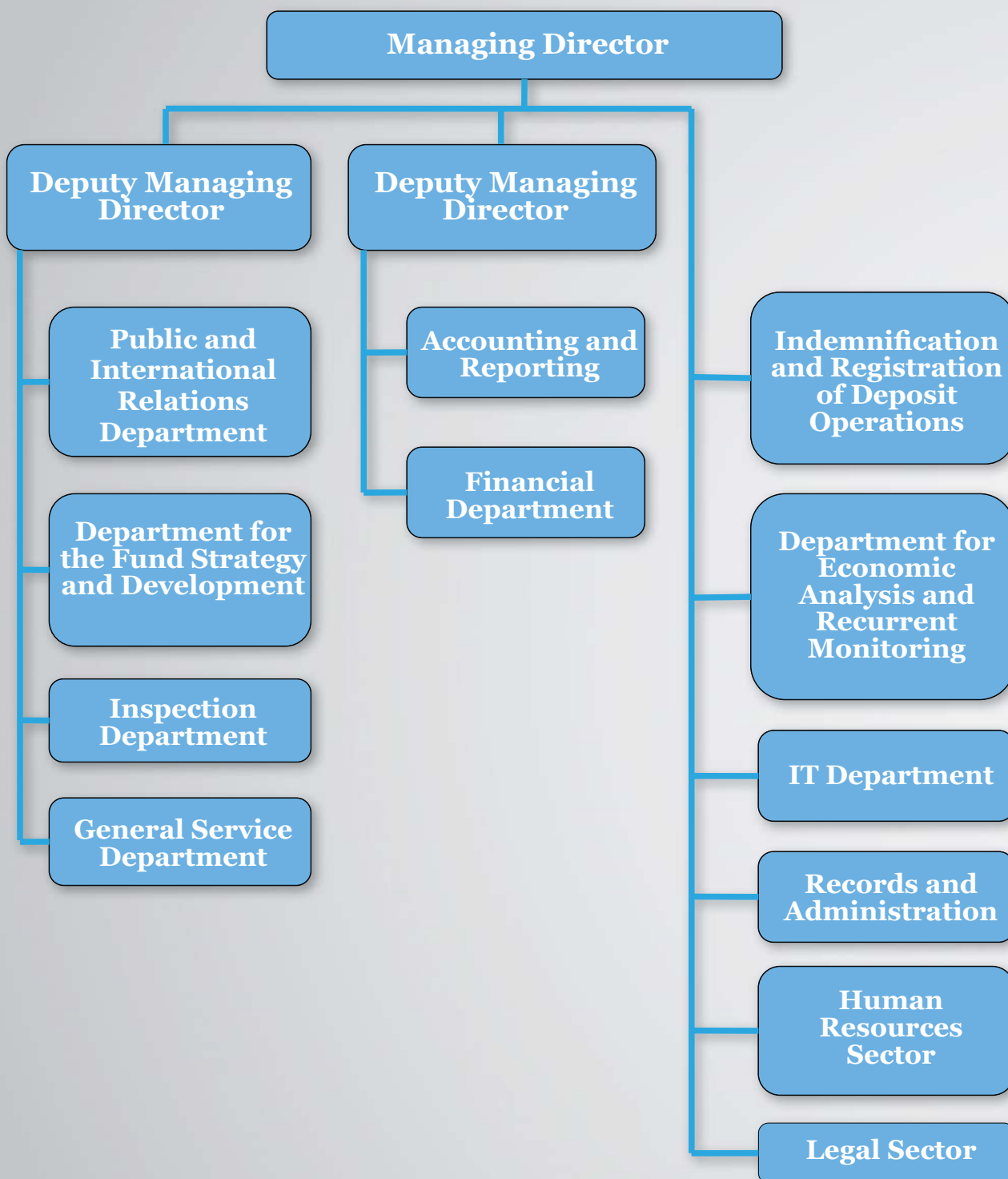


ANDRII OLENCHUK
Deputy Managing Director



SERGIY ISYUTIN
Deputy Managing Director

ORGANIZATIONAL STRUCTURE OF THE FUND



PRINCIPAL DEVELOPMENTS IN 2011

- January**
- The Resolution of the Administrative Board of the Fund “On the amount of the payout to the depositors” of 17.11.2010 came into effect. 150 000 UAH was retained as the size of the deposit value guaranteed;
 - Memorandum of Cooperation between the Deposit Guarantee Fund (Ukraine) and the Federal Deposit Insurance Corporation (USA) signed.
- February**
- Visit of the experts from the Savings Deposit Insurance Fund (Turkey). “Failed banks resolution” seminar initiated by the Deposit Guarantee Fund within the Memorandum of Cooperation with the Savings Deposit Insurance Fund of Turkey held in Kyiv. The seminar involved experts representing Deposit Guarantee Fund, National Bank of Ukraine and other interested state agencies;
 - Time allowed for the claims of the depositors of the bank VAT “Yevropeysky bank rozvytky ta zaoschadzhen” expired.
- March**
- “The major functions of the deposit insurance systems and their role in ensuring financial stability” seminar involving representatives of the Bank Guarantee Fund of Poland was held in Kyiv.
- April**
- Joint Action Plan for 2011-2012 within the Memorandum of Cooperation between the Deposit Guarantee Fund and the Federal Deposit Insurance Corporation (USA) was approved.
- May**
- Amendments to the “Policy and procedure for the creation of the database on individual depositors to the Fund member (temporary member) banks” were approved;
 - Amendments to the “Statute on Procedure for the Deposit Payouts by the Deposit Guarantee Fund” was approved;
 - One bank was included into the register of the Fund members (temporary members);
 - One bank was excluded from the register due to the decision by the NBU to revoke bank’s license and liquidate it.
- June**
- Deposit payout to the depositors of limited liability company “Dialogbank” started.
- July**
- Two banks were included into the Fund members (temporary members) register;
 - New logo of the Fund was developed and introduced.

- August**
- Commemorative medal issued to commemorate the 10th anniversary of the “Deposit Guarantee Fund Law” approval.
- September**
- Celebration of the 10th anniversary of the enactment of “Deposit Guarantee Law”.
- October**
- One bank was included into the register of the Fund members (temporary members);
 - Visit of the Deposit Protection Agency of the Kyrgyz Republic representatives. The visit was initiated and organized by the World Bank to conduct training for the staff of Kyrgyz deposit insurance system which is in the process of establishment;
 - Memorandum of Cooperation between the Deposit Guarantee Fund and Bulgarian Deposit Insurance Fund signed;
 - Memorandum of Cooperation between the Deposit Guarantee Fund (Ukraine) and Deposit Insurance Agency of the Republic of Serbia signed.
- November**
- The assessment of adherence to the key principles of an effective deposit insurance system” workshop was conducted. The workshop involved international experts;
 - Deposit Guarantee Fund received the license for the database management system Oracle and the hardware components for the information protection;
 - Two banks were excluded from the register due to the revocation of the licenses by NBU and liquidation; one bank was excluded due to its’ reorganization.
- December**
- Round table discussion “Role of Deposit Insurance in Financial System Stability and Financial Services Consumers Rights Protection” under the patronage of the Verhovna Rada (Parliament) Committee on Finance and Banking, Taxation and Customs Policy and with a support from the World Bank conducted;
 - The draft law “On Households Deposits Guarantee System” (Ref. №9342 of 25.10.2011) was approved in the first reading by the Parliament of Ukraine;
 - Deposit payout to the depositors of Public Joint-Stock Company “KB “Sotskom Bank” launched.

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PERFORMANCE OF THE DEPOSIT INSURANCE SYSTEM

Ukraine Banking System in 2011

In 2011 Ukraine banking sector was affected primarily by the state monetary and fiscal policy but also by the economic situation and the regulatory changes. It was also influenced by the level of confidence among the different groups of investors, the existence of the effective demand for the bank credits and the state of the world markets.

In spite of the protracted global economic crisis and problems in financial markets the banks in Ukraine managed to mobilize significant resources in the domestic market which allowed them to renew financing of the economy and keep tolerant liquidity and capitalization levels. State monetary policy, exchange markets situation as well as the state of the major sectors of the economy remained stable and predictable which helped to restore the funding base for the banking system and correct the cost of funding. The financial performance indicators of the banking sector didn't change significantly – in 2011 the banks tried to win back lost market positions and worked on the asset quality improvement. The changes of the legislation and the development of the common positions with the regulator and other supervisory bodies simplified the process of unwinding of the bank balance sheets by means of writing off problem debts, which extended banks' potential to increase credit and investment operations. At the same time the quality of the funding base still remains quite low and the operation

environment is rather weak, which increases banks' sensitivity to the individual risks. The sensitivity of the banks to the systemic risk is moderate first of all due to the serious possibility of the support from the regulator and the high level of control in the sector. The majority of the banking institutions have adequate capital supplies helping them to absorb the losses that can occur because of the deterioration of the asset quality.

There were 198 banks in the State Register of Banks as of 01.01. 2012. During 2011 four new banks were included into the Register. As of the 01.01.2012 176 banks had licenses for banking operations including currency transactions. 21 bank (or 10.6% of all banks in the State Register) were under liquidation. As of 01.01.2012 banks' assets (not adjusted for reserves under active transactions) were UAH 1 211.5 bil. (net assets – UAH 1 054.3 bil.), the equity amounted to UAH 155 487 bil., the liabilities of the banks were UAH 898.8 bil.

During 2011 the revenues of the banks were growing more rapidly than the expenditures due to the better performance; as a result the loss in the system for the year decreased from (-)13,0 to (-)7,7 billion UAH, though the system has not reached the profitability.

The discount rate of the National Bank of Ukraine remained unchanged since August 2010 and as of 01.01.2012 it was 7.75%.

The key performance indicators of the bank system of Ukraine are presented in Table 1.1.

Table 1.1

Key Performance Indicators of the Bank System of Ukraine (UAH, million)

Indicator	01.01.2011	01.01.2012
Number of registered banks	194	198
Excluded from the State Register since the start of the year	6	0
Number of banks under liquidation	18	21
Number of banks with the licenses to perform banking operations	176	176
ASSETS		
Banks' assets	942 088	1 054 280
Total assets (not adjusted for reserves under active transactions)	1 090 248	1 211 540
Loans	755 030	825 320
of which:		
granted to economic entities	508 288	580 907
granted to individual borrowers	186 540	174 650
Outstanding loans	84 851	79 292
Reserves under active bank transactions	148 839	157 907
of which: loan loss provision	112 965	118 941
LIABILITIES		
Liabilities, total	942 088	1 054 280
Capital	137 725	155 487
of which: paid registered authorized capital	145 857	171 865
Banks liabilities	804 363	898 793
of which:		
funds of business economic entities	144 038	186 213
funds of individuals	270 733	306 205
For Reference:		
Income	136 848	142 778
Expenses	149 875	150 486
Profit or loss	-13 027	-7 708

Key performance indicators of the deposit insurance system

Twelve years of the Fund's operation suggest that the deposit insurance system had a positive impact upon the development of the banking sector and significantly contributed to the stability of the financial sector in the country. For instance, as compared with the situation in 1999:

the number of depositors to the member banks and banks with the "temporary member" status increased by 7.6 times to reach 35.0 mil. individuals;

the deposit value increased by 76.4 times to UAH 282.6 bil.;

the average deposit value increased from

UAH 806 to UAH 8.072.

If in the year of 2000 the deposits of the individuals accounted for 22% of the banks' liabilities; by 01.01.2012 their share increased to 33.4%. It proves the importance of the household deposits for the development of the funding base of the banks.

On the 1st of January 2011 the Resolution of the Administrative Board of the Fund "On the amount of the payout to the depositors" of 17.11.2010 No. 2 came into effect. By this Resolution the amount of UAH 150 000 was retained as the size of the deposit value guaranteed. This amount is significantly higher

than the average deposit value (more than 18 times) and covers 99.2% of the depositors.

From 2000 till 2011 the financial resources of the Fund increased by over 95 times and

reached UAH 4.8 bil. by 01.01.2012. Fund's financial resources growth dynamic is presented in Figure 1.1.

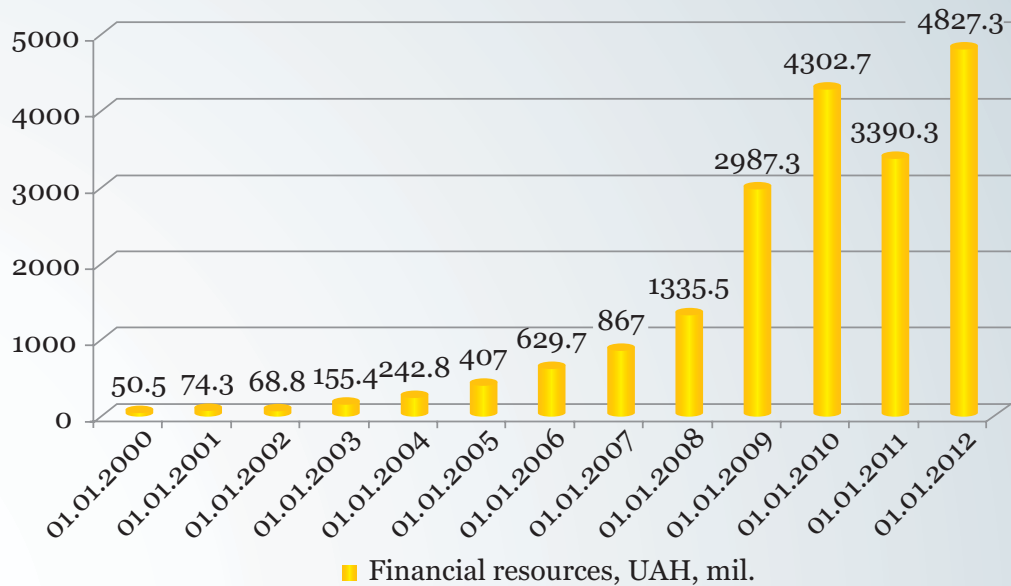


Fig. 1.1. Fund's financial resources growth dynamics

Throughout its' history the Fund indemnified the depositors of 28 banks with license revoked and liquidation process started by the National Bank. In total some 353 thousand depositors were paid over

UAH 4.1 bil. The largest volume of the deposit payouts was completed in the period from 2008 till 2010 - almost UAH 3.5 bil. of which UAH 2.3 thous. in 2010.

Payout dynamics is displayed in Fig.1.2.

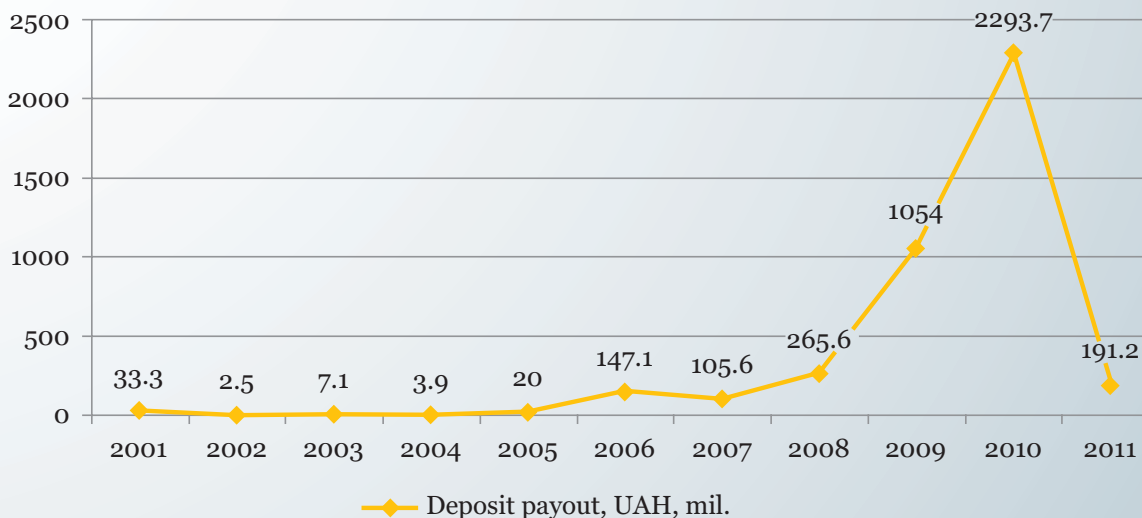


Fig.1.2. Dynamics of the guaranteed amount payout to the depositors of the liquidated banks in 2001-2011

The largest number of the liquidated banks and deposits payouts were in the years of 2006, 2007, 2009, and especially in 2010.

In 2011 the Fund was simultaneously paying out the deposits to the depositors of 18 banks (Fig. 1.3.).

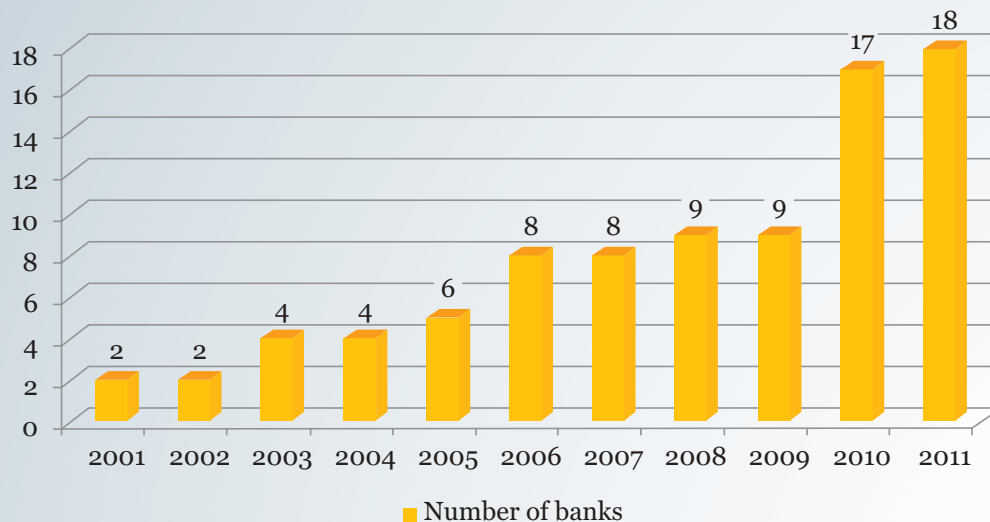


Fig. 1.3. Number of banks with depositors indemnified by the Fund in 2001-2011

Deposit operations trend analysis

An effective deposit insurance system helps to maintain public confidence in the bank system. Deposits remain the main source of bank resources (their share in the structure of liabilities is 33.4%) and the primary savings vehicle.

In 2011 the deposit mobilization was not dynamic and the deposit value growth rate was smaller than in 2010 due to the inflation expectation. In the fourth quarter of 2011 the banks increased short-term deposit interest rates in order to improve UAH liquidity which

led to the growth of the deposit value and had a positive impact on the deposit dynamic.

The following trends were observed in the deposit transactions of the Fund member (temporary member) banks.

The number of individual depositors increased by 7.5% or 2.4 mil. people and reached 35.0 mil. people. For comparison, in 2010 the number of depositors increased by 3.2% or by 1.0 mil. people. The growth of the number of the depositors in member (temporary member) banks is presented in Figure 1.4.

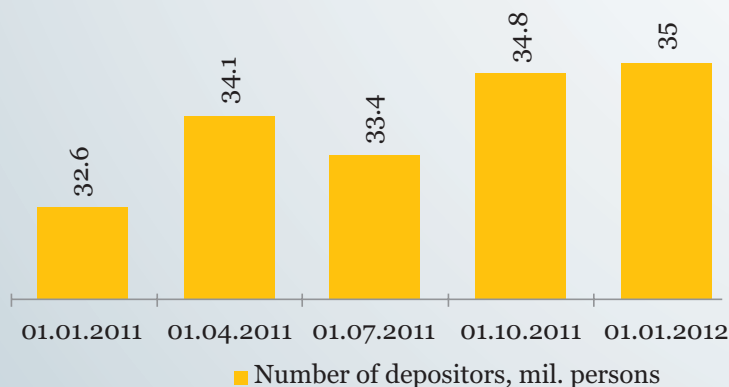


Fig. 1.4. Number of depositors in Fund's member (temporary member) banks

The retail deposit portfolio in 2011 has increased by 11.2% or by UAH 28.4 bil. to UAH 282.6 bil. As a comparison the deposit

portfolio growth in 2010 was UAH 56.2 bil. or 28.4% (Fig. 1.5).

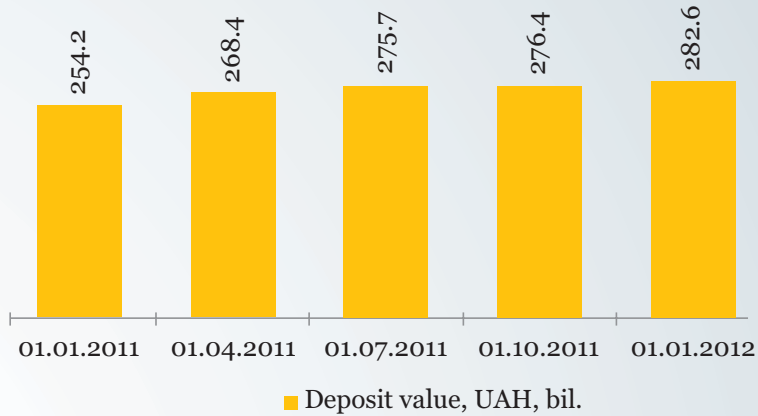


Fig. 1.5. Deposits value in Fund member (temporary member) banks

The average deposit value in 2011 increased by 3.5% from UAH 7 802 to UAH 8 072. The average deposit value in 2010 as a comparison increased by 24.4%.

In the reporting year the growth of deposits in national currency was 10.9% or UAH 13.4 bil. and reached UAH 136.1 bil. and their percentage decreased from 48.3% to 48.2%. UAH equivalent of the foreign currency deposits increased by 11.4% or by

UAH 15.0 bil. to UAH 146.5 bil. and the percentage of the foreign currency deposits increased from 51.7 to 51.8%. The UAH equivalent of the deposits in foreign currency increased by 11.4% or by UAH 15.0 bil. to UAH 146.5 bil. and the share of the foreign currency deposits in the structure of the deposits grew from 51.7 to 51.8%. The deposits in foreign currency prevail over the the deposits in national currency by 7.6%. (Fig. 1.6.).

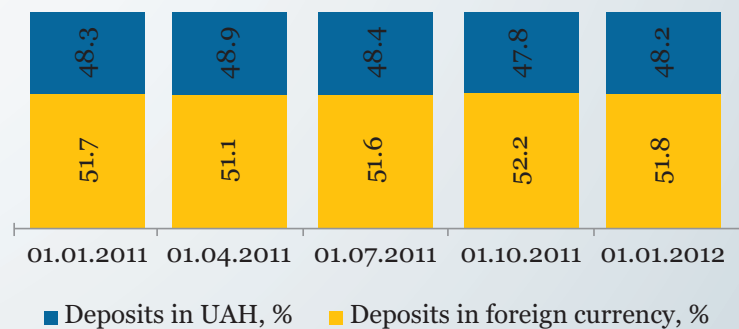


Fig. 1.6. Deposits broken down by the currency

The size of the deposit value guaranteed is UAH 150 000. The analysis of the deposit values against the amount guaranteed by the Fund shows that the biggest number of the

depositors are concentrated in the group with the deposit value less than UAH 150 000 – 99.2%. They make 42.2% of the total deposit value (Fig.1.7 and 1.8)

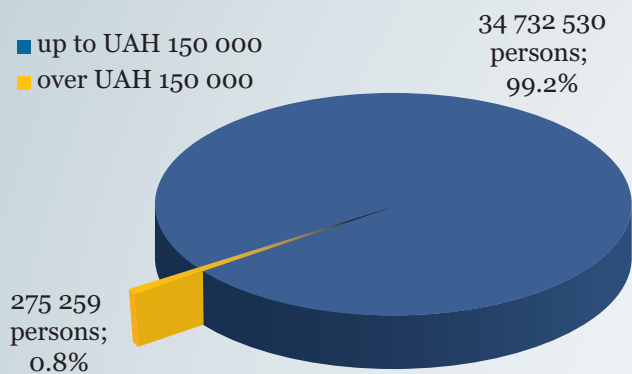


Fig. 1.7. Number of depositors to the Fund member (temporary member) banks

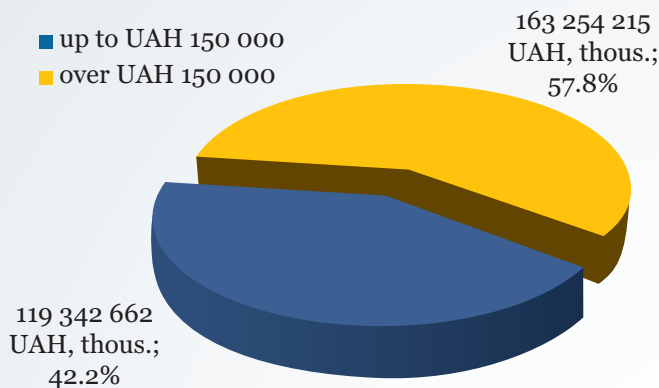


Fig. 1.8. Deposit value of the Fund member (temporary member) banks

Financial stability of the deposit insurance system is determined by the economic size of the accumulated financial resources adequate for the coverage of the risks assumed by the system. During the reporting period the financial resources of the Fund increased by 42.4% or UAH 1.4 bil. and amounted to UAH 4.8 bil. During 2011 the value of the funds

available for the settlement of the depositors claims increased by 9.2% or UAH 13.5 bil. to UAH 160.6 bil. which made 56.8% of the total deposit value. The level of the capitalization of the Fund (financial resources available for the settlement of the depositors' claims) increased from 2.3 till 3.0% (Fig. 1.9).

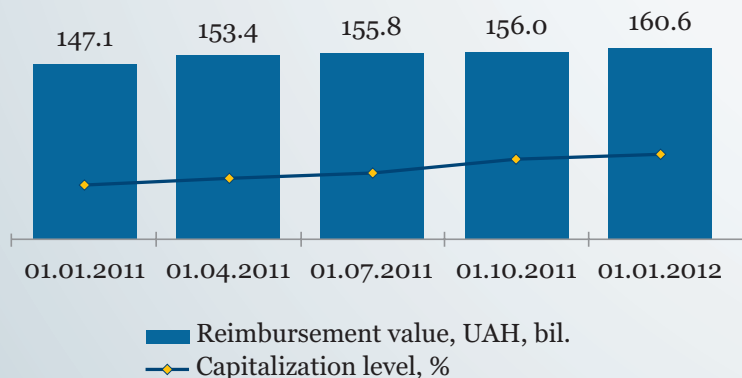


Fig. 1.9. The value of possible reimbursement and Fund's capitalization

The trend for the majority of the depositors to have a deposit within the guaranteed amount didn't change in the reporting period.

The key financial and economic performance indicators of the deposit insurance system are presented in Table 1.2.

Table 1.2.

Financial and economic performance indicators of the deposit insurance system

Indicator	01.01.2011	01.04.2011	01.07.2011	01.10.2011	01.01.2012
Total deposit value, UAH, mil.	254 180.3	268 447.0	275 655.1	276 433.3	282 596.9
The value of the possible payout (insurance liability), UAH, mil.	147 127.9	153 410.3	155 823.9	155 981.6	160 617.3
Insurance liability of the Fund to total deposit value ratio, %	57.9	57.1	56.5	56.4	56.8
The number of depositors to the insurance system member banks, thous. persons	32 577.8	34 083.2	33 442.1	34 827.3	35 007.8
The share of the depositors with the totally covered deposits, %	99.3	99.2	99.2	99.2	99.2
Maximum reimbursement per depositor (guaranteed deposit), UAH	150 000	150 000	150 000	150 000	150 000
Regular contribution rate per year, %	0.5	0.5	0.5	0.5	0.5
Financial resources of the Fund, UAH, mil.	3 390.3	3 778.7	4 038.0	4 493.4	4 827.3
Capitalization of the Fund (financial resources to the insurance liability ratio), %	2.3	2.5	2.6	2.9	3.0

Fund members

According to the Law of Ukraine on "Deposit Guarantee Fund" the members of the Fund are national banks and branches of international/foreign banks included into the State Registry of the National Bank of Ukraine duly licensed and that comply with the prudential standards regarding the capital adequacy and solvency. If the Fund members fail to comply with the abovementioned standards and National Bank of Ukraine decide to suspend their licenses they are to be transferred to the temporary members group by the resolution of the Administrative Board of the Fund. In this case the bank has to return its membership certificate and is

issued temporary member certificate. Deposits mobilized before the transfer of the bank to the temporary members group are guaranteed by the Fund, deposits mobilized after the date of the transfer are not guaranteed.

The Fund maintains the Register of the Fund members (temporary members).

As of January 1, 2012 there were 175 (Fig. 1.10) members (temporary members), of which:

- 170 – members of the Fund,
- 5 – temporary members of the Fund.

There were following changes in the Register:

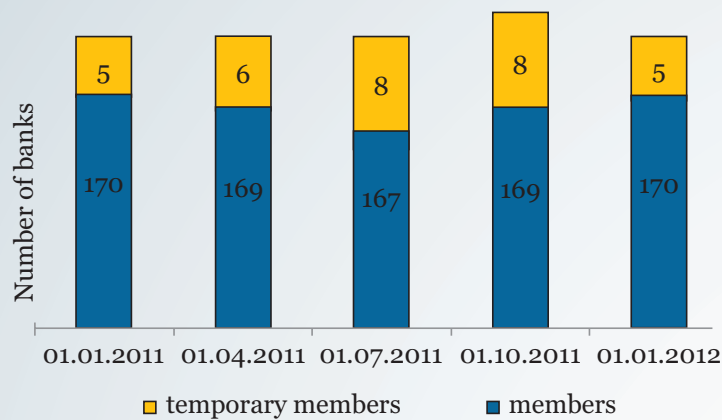


Fig. 1.10. Changes in the Register of the Fund

- 4 newly established banks were included into the Register (PAT “AKCEPT BANK”, PAT “DIVI BANK”, PAT “BANK SICH” and PAT “InterKredytBank);

- 4 banks were excluded from the Register, of which 3 temporary members due to liquidation (TOV «Dialogbank», AT “KB “Volodymyrsky”, PAT “KB “SKB”) and 1 bank due to its reorganization (PAT “DONGORBANK”);

- 5 banks were transferred to the temporary members group (PAT “Bank Stolytsya”, PAT “INPROMBANK”, PAT “KB “AKSIOMA”, AT “RODOVID BANK”, PAT “KB “Premium”);

- 2 banks resumed their membership as the Fund members (PAT “KB “NADRA”, PAT “KB “AKSIOMA”).

There were 5 temporary members in the Register of the Fund as of 01.01.2012 (PAT “Zakhidinkombank”, PAT “Bank Stolytsya”, PAT “INPROMBANK”, AT “RODOVID BANK”, PAT “KB “Premium”).

Throughout the Fund’s history 224 banks became Fund members of which 142 banks

were licensed before the enactment of the law of Ukraine «On Deposit Guarantee Fund” (hereafter Fund law). The Fund Law does not apply to PAT “Derzhavniy Oschadniy Bank Ukrainy» (the National Savings Bank of Ukraine).

During 2011 the number of banks with the foreign capital decreased by 2 banks to reach 53 banks of which 22 banks with 100% foreign capital and 31 with partially foreign capital. The number of the national banks increased by 2 banks to reach 112 banks.



Department for Economic Analysis and Recurrent Monitoring

Financial performance of the Fund member (temporary member) banks

During 2001 the Fund member (temporary member) banks activities were characterized by the growth of the equity capital, active mobilization of the economic entities resources, soft investment of funds in the earning assets and amortization of the debts at the cost of reserves. However the significant level of the indebtedness put pressure on the financial results. The lack of long term and medium term resources limited banks' abilities to provide loans. These principal trends had a direct impact on the banking

sector financial results. Low asset quality and deterioration of the market environment led to the decrease of revenues from the interest rates and decline of efficiency. Because of the low margins the operations of the banks remained unprofitable.

Analysis of the capital

During 2011 the capital of the banks grew by 13.8% or by UAH 16.7 bil. up to UAH 137.8 bil. There were following changes in the structure of the capital (Fig. 1.11).

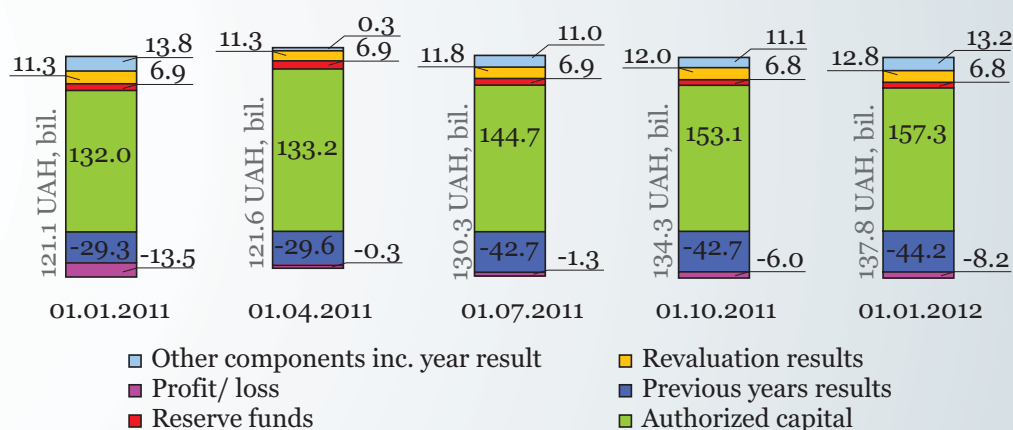


Fig. 1.11. The structure of the capital

The main source for the growth was the increase of the authorized capital by 19.2% or by UAH 25.4 bil. to UAH 157.3, which is UAH 19.5 bil. more than owners' equity and can be explained by the sizable losses at the end of 2009-2011 years period. Losses of previous years increased by 50.6% or by UAH 14.8 bil. and reached UAH (-) 44.2 bil. The loss for the year of 2011 amounted to UAH 8.2 bil., which is UAH 5.2 bil. less than in 2010. Total

deposits to own equity ratio was 2.05% which demonstrates sufficient level of the deposits protection. In general the capital adequacy risk in the system is moderate.

Liabilities evaluation

Total liabilities increased by 10.6% or by UAH 80.5 bil. to UAH 842.5 bil. There were following changes in the structure of the liabilities (Fig. 1.12.).

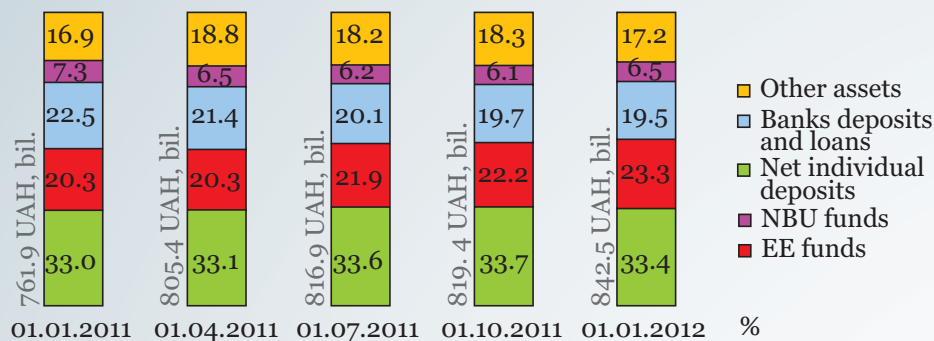


Fig. 1.12. Assets structure

The loans from other banks for the year decreased by UAH 7.0 bil. or by 4.1% despite the growth by UAH 3.6 bil. in the 4th quarter and their share in the structure of liabilities decreased from 22.5% to 19.5%. The loans from NBU for the year decreased by UAH 184.5 bil. or 0.3% despite the growth in the 4th quarter by UAH 5.0 bil. and amounted to UAH 55.1 bil. or 6.5% of liabilities. Only 38 banks have loans from the National bank of Ukraine. The funds of economic entities increased by UAH 41.4 bil. or by 26.7% and their share from 20.3 to 23.3%. Retail deposits increased by UAH 29.8 bil. or by 11.9% and their share grew from 33.0 to 33.4%. Household deposits remain the main source of resources for the banking system. The share of the household deposits in the total liabilities reached 28.8%. The loans from the international entities decreased dramatically by UAH 8.3 bil. or by 21.2% and from 5.1 to 3.7% in the structure. Subordinated debt decreased by UAH 1.5 bil. or by 1.4% and its share from 4.6 till 4.0%. The funding base is safe; the share of the term funds is 70.2%. The positive

development is the decrease of the cost of the liabilities from 8.54% to 7.35% and the cost of the deposits from 11.91% to 9.29%.

During the year the main source for the mobilizing resources was the funds of the banks clients – legal entities and individuals. For the first time over the last years the growth rate of the funds of economic entities both in absolute and in relative terms exceeded the household deposits growth rate though the later are the main source for liabilities. During the last quarter of 2011 the market of the bank to bank borrowing became more active with regard to the credits of the National Bank as well as the credits from the other banks. The positive development is dynamic decrease of the cost of deposits and liabilities which creates a possibility for the growth of the profit.

Analysis of the assets

Total assets increased by 10.1% or by UAH 103.6 bil. to UAH 1,129.1 bil, net assets – by 11.0% or by UAH 97.2 bil. and reached UAH 980.3 bil. The changes in the assets structure are presented in Fig. 1.13.

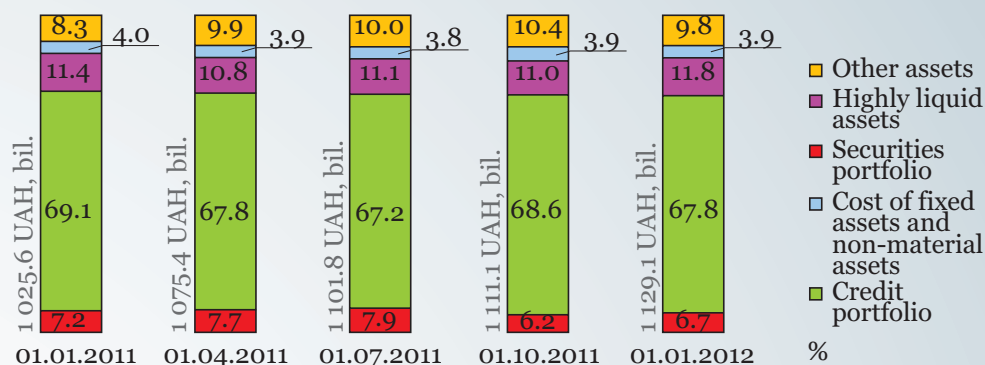


Fig. 1.13. Assets structure

Over the past few months the National Bank of Ukraine implemented tight monetary policy in order to combat inflation and reduce pressure on the exchange rate; at the same time gradual resuming of the lending absorbed excessive liquidity in the banking sector. As a result the number of correspondent accounts decreased to the lowest level of recent years, which triggered the growth of the rates in the money market.

Over the year of 2011 highly liquid assets increased by 13.9% or by UAH 16.2 bil. to 11.8% in the structure of the assets due to the growth of the funds on nostro accounts by UAH 10.4 bil. and on NBU accounts by UAH 5.8 bil. It has to be noted that 57.9% of the highly liquid assets are placed into correspondent accounts in other banks. In 20 banks the share of the high liquid assets in the total assets is less than 4.0% indicating the increased risk of liquidity. As of 01.01.2012 overdue payment documents were recorded in 2 temporary member banks indicating the critical level of liquidity risk in them.

Security portfolio increased by 3.5% or by UAH 2.6 bil. to UAH 75.9 bil. due to the economic recovery in the 4-th quarter (growth by UAH 6.9 bil). In the setting of the slowdown of lending the banks continued to invest into government bonds although not as intensively as in the previous year since the government bond yields decreased and the lending started to resume. Government bonds decreased over the year by UAH 2.8 bil. and reached UAH 54.5 bil. or 71.8% of the investment portfolio.

The growth of the credit portfolio was 7.9% or UAH 56.2 bil. and amounted to UAH 765.4 bil., but its' share in the structure decreased from 69.1 to 67.%. The loans granted to the economic entities increased by UAH 57.7 bil. or by 12.2%, their share in the credit portfolio increased from 66.8 to 69.5%. Retail loans decreased by UAH 11.2 bil. or by 6.2%, their share in the portfolio decreased from 25.7 to 22.3%.

Loans to the banks increased by UAH 9.5 bil. or by 19.3% and their share in the credit portfolio from 6.9 to 7.7% (Fig. 1.14). The credits were granted in national

currency mainly to finance daily operations of the companies and retail crediting increased due to the growth of income of people.

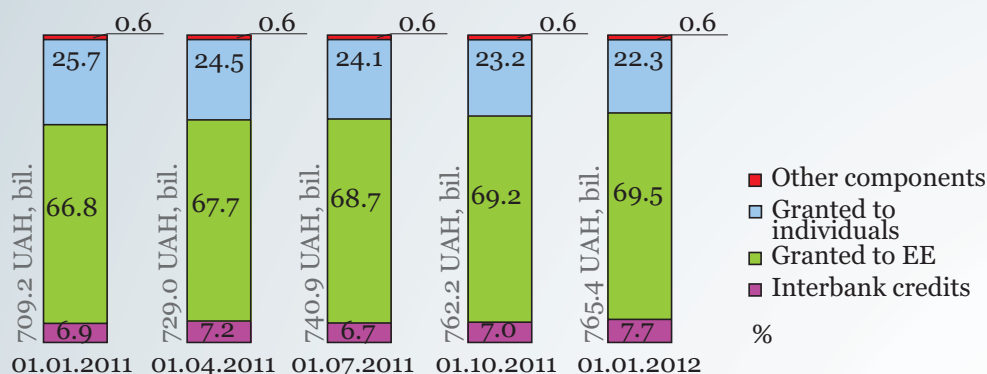


Fig. 1.14. Credit portfolio structure

The arrears decreased by 7.5% or by UAH 6.22 bil. and from 11.75 to 10.1% in the structure due to the growth of the debt amortization by UAH 14.3 bil. or 2.5 times (Fig. 1.15). To protect themselves from the credit risks the banks created reserves. The sufficiency of reserves

for loan operations in the system was 114.0%. Given the restriction on lending in foreign currency and the balanced policy of the most banks there is a strong need for development of the internal long term funding.

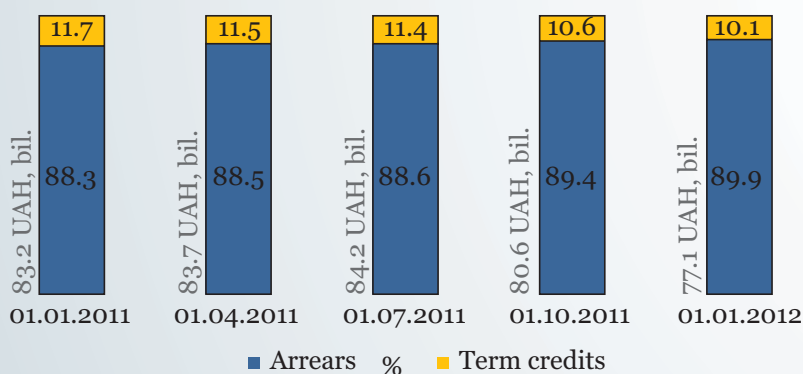


Fig. 1.15. Credit portfolio quality

Fixed and intangible assets increased by UAH 2.7 bil. or by 6.6% and their share in the structure of the assets decreased from 4.0 to 3.9%. Accounts receivable grew by UAH 20.4 bil. or by 92.4% and their share in the assets grew from 2.2 to 3.8%.

Despite the growth of the assets during the year the economic activities of the banks in investing funds in the performing assets deteriorated since the share of the performing

assets decreased from 76.3 to 74.5%. In anticipation of the currency fluctuations the significant funds were put into payables and receivables of the currency and precious metals purchase and sale transactions, which have a negative impact on credit and deposit operations. The credit risk in the system is slightly increased due to the low quality of the credit portfolio. Investment and credit risk in the system is moderate.

Financial results analysis

Total income (Fig. 1.16) grew by 3.9% or by UAH 5 bil. to UAH 132.8 bil. Interest income decreased by UAH 755.1 bil. or by 0.7% and its' share in the structure of income - from 82.7 to 79.0%. The income from the bank charges grew by UAH 3.0 bil. or by 21.3%, and its share in the structure – from 11.2 to 13.0%. The profit from trading transactions grew by UAH 1.7 bil. or by 80.5% and from 1.7 to 2.9% in the structure. The investment income grew by UAH 40.9 mil. or by 19.0%, but its' share didn't change and was 0.2%. Other operating income grew by UAH 435.2 mil. or by 9.1% and its' share – from 3.75 to 3.9%.

Total expenses (Fig. 1.17) decreased by 0.2% or by UAH 236.1 mil. to UAH 141.0 bil. Interest

costs decreased by UAH 2.3 bil. or by 4.0% and their share in the structure of the expenses – from 41.0 to 39.4%. The bank charges costs grew by UAH 377.7 mil. or by 15.2%, and their share in the structure of expenses– from 1.8 to 2.0%. Other operating expenses grew by UAH 5.1 bil. or by 48.5% and their share – from 7.5 to 11.1%. General administrative expenditures grew by UAH 4.8 bil. or by 17.5% and their share – from 19.2 to 22.7%. Provisions for reserves decreased by UAH 9.8 bil. or by 22.6% and their share in the structure – from 30.8 to 23.9%. Net interest income grew by 3.3% or by UAH 1.6 bil. and reached UAH 49.3 bil. Net income from the charges grew by 22.6 % or by UAH 2.7 bil. and reached UAH 14.5 bil.

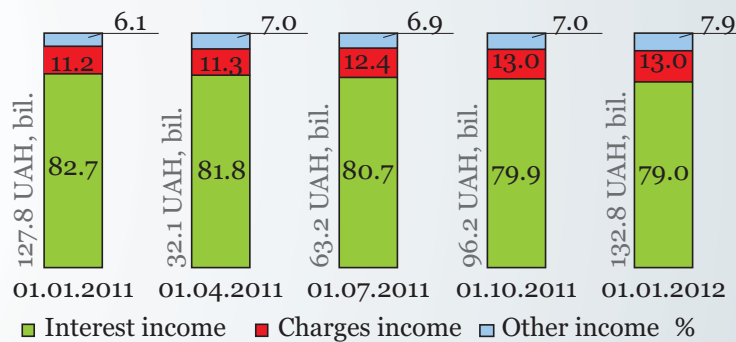


Fig. 1.16. The income structure

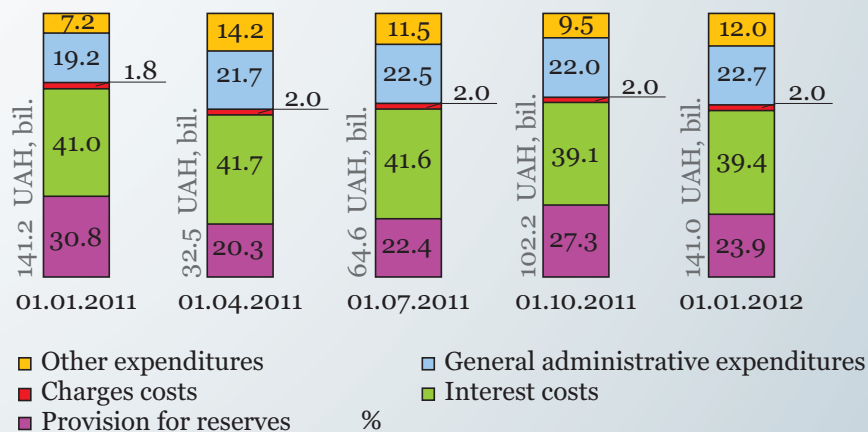


Fig. 1.17. The structure of expenses

The deterioration of the economic activities in the sphere of investing in the earning assets led to the performance deterioration of the credit and deposit operations. Although there was continuous reduction of the interest rates of both active and passive transactions the interest margin decreased causing profitability falling. Thus, the net interest margin decreased from 5.70 to 5.25% and net spread – from 4.83 to 4.50%.

The loss for the year of 2011 in comparison with the year of 2010 decreased by UAH 5.25 bil. and reached UAH 8.2 bil.

Thus, the changes in the balance sheet

items had a direct impact on the performance of the banking system. Poor assets quality and deterioration of the crediting activities caused the fall of the interest income and worsening of the primary activities indicators. Exchange rate fluctuations led to the increase of the speculative profit from the trade transactions. The growth of bank charges income is a positive development. Debt amortization helped to decrease provisions for reserves and reduced the loss of the banking system.

The banking system is gradually emerging from the crisis and the main risks are within the range of the reference values.



REFORMING THE DEPOSIT INSURANCE SYSTEM

The Key Preconditions for Reforming

The Program of Economic Reforms for 2010-2014 “Prosperous Society, Competitive Economy, Effective State” (in particular, the Section “The Development of Financial Sector”) provides for an improvement of the current deposit insurance system through extending the Fund’s mandate in order to authorize the Fund to resolve insolvent banks and thus provide deposit payouts in a timely and effective manner.

The National Action Plan to implement the Program (p. 3.7.1) provided for the Fund’s involvement in the preparation and discussion of the draft law on the deposit insurance system in the Verkhovna Rada Committees.

In addition, the development of such a law is required by the World Bank (the loan project for the rehabilitation of financial sector).

The major goal of the current reform is to ensure an effective transfer of the resolution powers from the National Bank of Ukraine to the Fund, in order to:

- Strengthen the interventions on the problem banks through increasing the operational and economic effectiveness of such interventions.

The Transition Process

In order to reform the system of insurance of retail deposits the Law “On Household Deposit Guarantee System” has been drafted. The authors, MP V. Yu. Khomutinnikov, MP S.M. Arzhevitin, MP S.M. Gorbali and MP Yu.V. Poluneev, have prepared this law within the Program of Economic Reforms for 2010-2014 “Prosperous Society, Competitive Economy, Effective State”.



Department for the Fund Strategy and Development

- Speed up the process of making the decision to liquidate the bank based on the best international practices and experience, which will eventually contribute to the public confidence in the banking sector and decrease the probability of deposit run.

- Optimize the Fund’s expenditure associated with the deposit payout.

- Strengthen the protection of the rights of other creditors of banks.

According to the draft Law, the National Bank will keep operating as the prudential regulator and supervisor of banks, including enhanced monitoring of problem banks and running programs of financial rehabilitation of such banks within terms as established in the relevant legislation. The National Bank will keep applying all interventions on problem banks, including the appointment of su-

pervisors to problem banks, in line with the procedures established in the Law “On Banks and Banking”.

At the same time, the Fund will be responsible for all actions associated with the bank resolution, which is to be conducted in the least costly manner. Bank resolution can be provided as:

- Liquidation of the bank with direct repayment of deposits.

- Liquidation of the bank with transfer of its assets and liabilities, in whole or in part, in favour of the assuming bank.

- Transfer of assets and liabilities, in whole or in part, of an insolvent bank to the assuming bank with the further withdrawal of the insolvent bank’s license and liquidation of the insolvent bank.

- Incorporation of a bridge bank and sale of the bridge bank to an investor with a transfer of the insolvent bank’s assets and liabilities to the investor, and further liquidation of the insolvent bank.

- Sale of the insolvent bank to an investor.

The Fund will have exceptional powers with regard to the introduction of the provisional administration of problem banks and liquidation of insolvent banks.

The draft Law provides for wider powers of the Administrative Board and Executive Directorate of the Fund. It also modifies the

regulations on the Fund’s assets/properties and procedures associated with lending to the Fund by the National Bank or non-refundable financial support from the government to the Fund in cases when the Fund lacks liquidity. The Fund’s powers with regard to the bank inspections have been extended, in particular the Fund may inspect problem banks jointly with the National Bank.

The draft Law establishes procedures associated with provisional administration of problem banks and liquidation of insolvent banks, as well as the functions and powers of the Authorized officers to be involved in the provisional administration and liquidation processes.

Following the adoption of the draft Law, the key goal of the Fund will be development and registration of the relevant secondary legislation on bank resolution, new structure and staffing of the Fund and new recruitment procedures (throughout six months following the date when the law is adopted in the Parliament).

In general, the success of the current reform will largely depend on the National Bank of Ukraine (as the regulator in the banking sector), Fund (as the resolution authority), and the Ministry of Finance (as potential lender to the Fund in cases the Fund lacks liquidity to ensure timely and effective payout).

Passing the Law “On Household Deposit Guarantee System” in the First Reading on October 10, 2011 (Ref. No. 9342)

As a part of the current reform, on 25th October 2011, the draft Law was submitted to the Verkhovna Rada (ref. no. 9342).

On December 7 2011, the Verkhovna Rada passed the draft Law in the first reading.

The Fund participated in all discussions of

the draft Law at all stages in the parliamentary committee.

The goals of the draft Law are:

- Protecting the rights and interests of depositors, and strengthening the public trust in the banking system in Ukraine

- Promoting investments to the banking sector in Ukraine
- Ensuring an effective regimes of resolution of insolvent banks and bank liquidation
- Strengthening the interventions on insolvent banks through increasing the operational and economic effectiveness of such interventions
- Optimizing the Fund's expenditures associated with the deposit payout.

The draft Law establishes the criteria for “problem” and “insolvent” banks, which will trigger the interventions of the National Bank of Ukraine, including the interventions aimed at ensuring the depositors’ access to their funds.

The current procedures for provisional administration of problem banks are not sufficiently effective and are lengthy. The current moratorium on depositor claims hardly contributed to the banks’ financial rehabilitation. The period between the detection of problems in a bank and the bank liquidation (deposit payout) is not identified. According to the draft Law, the provisional administration may not take longer than three months (six months for systemic banks). Throughout this period, the bank will be obliged to pay the depositors within the established insurance coverage. The liquidation may not take longer than a year (two years for systemic banks).

The new Law is expected to strengthen the public confidence in the banking system, which is one of the key conditions of the mobilization of long-term financial resources to ensure a sustainable economic development, high living standards and social protection of vulnerable groups. This can be achieved through establishing effective and transparent procedures of bank resolution,



Records and Administration Department

clear distribution of powers between the regulators in the banking sector and effective deposit insurance system.

According to the proposed legislation, the provisional administrators and liquidators will have no personal interest associated with bank liquidation, selling assets of an insolvent bank, and settling the creditor claims in the least costly manner. In line with the draft Law, the Fund, as a legal entity, will be acting as provisional administrator and bank liquidator. Thus the Fund will be interested in bank resolution in the least costly manner and settling the creditor claims to the highest possible extent.

The Law is aimed at protecting the interests of the most vulnerable groups of depositors.

At the same time, the new Law will contribute to the protection of other creditors, the investments of which are not insured.

Generally, the Law is expected to strengthen the public confidence in the banking sector and prevent the deposit run in the banking sector of Ukraine.



DEPOSIT GUARANTEE FUND OPERATIONS

The accumulation and management of the funds

During 2011 the Fund continued accumulation of the funds to implement the objectives assigned by the Law of Ukraine “On Deposit Guarantee Fund” No 2740-III of 20.09.2001. As of 01.01.2012 financial resources of the Fund amounted to UAH 4 827 297.3 thous. of which UAH 4 678 569.8 thous. were invested in the government securities and UAH 148 727.5 thous. – on the current accounts of the Fund.

The funding sources of the Fund include: initial and regular contributions of the members; late payments or incomplete payments fines; income received from the investment of the funds in government securities; interest income on outstanding balance of the Funds account with the National Bank of Ukraine.

The total revenues of the Fund during 2011 was UAH 1 637 203.4 thous.; the regular contributions had the biggest share in the revenue structure – 78.47% and the net income from the investment in the government securities – 19.39% (Fig.3.1).



Accounting and Reporting Department

The biggest amount received by the Fund was in the third quarter of 2011 – UAH 464 997.9 thous. (Table 3.1). It occurs due to the repayment of the debt (regular payments and fines) by the PAT KB “Nadra” bank for the years of 2009 and 2010.

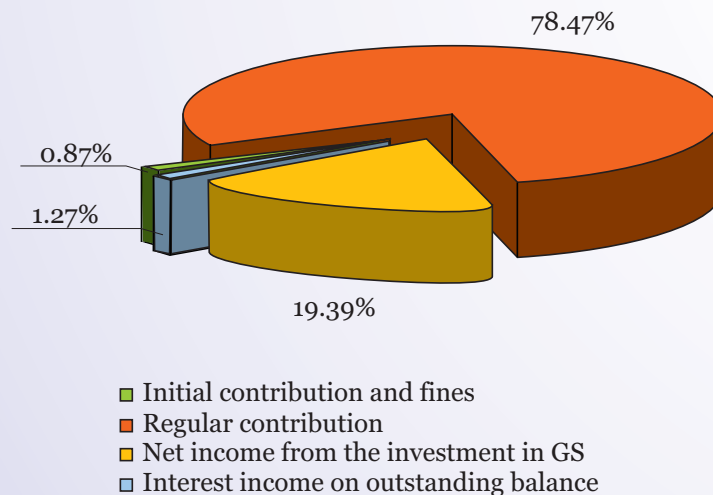


Fig. 3.1. Revenue structure in 2011.

Table 3.1

Fund revenues dynamics in 2011 broken down by the quarters

Funding sources	Year 2011				
	I quarter	II quarter	III quarter	IV quarter	Total a year
	Amount, thous. UAH	Amount, thous. UAH	Amount, thous. UAH	Amount, thous. UAH	Amount, thous. UAH
Initial contribution		1 200.0	2 450.0	1 300.0	4 950.0
Regular contribution	274 147.8	308 467.5	360 027.7	342 019.8	1 284 662.8
Fines for late or incomplete payments	53.9		9 360.9		9 414.8
Net income from the investment in government securities	108 739.1	45 290.7	88 897.9	74 449.7	317 377.4
Interest income on outstanding balance of the Funds account with the National Bank of Ukraine	5 065.6	7 825.3	4 261.3	3 646.1	20 798.4
Total revenues	388 006.4	362 783.5	464 997.9	421 415.6	1 637 203.4

In 2011 as compared to 2010 the revenues of the Fund were UAH 300 413.1 thous. or 22.47% bigger (Table 3.2). The growth occurred due to the increase of regular contributions by UAH 323 916.2 thous. or by 33.7%.

Table 3.2

Fund's revenues in 2011 and 2010

Funding source	2011	2010
	Amount, thous. UAH	Amount, thous. UAH
Initial contribution	4 950.0	3 150.0
Regular contribution	1 284 662.8	960 746.6
Fines for late or incomplete payments	9 414.8	476.6
Net income from the investment in government securities	317 377.4	347 656.9
Interest income on outstanding balance of the Funds account with the National Bank of Ukraine	20 798.4	24 760.2
Total revenues	1 637 203.4	1 336 790.3

During 2011 the financial resources of the Fund were used for paying out guaranteed amount of deposits, agent banks commission fees, covering expenses related to the performance of Fund's functions within the budget approved by the Administrative Board. The total amount spent during the reporting period amounted to UAH 224 597.0 thous., of which UAH 191 239.4 thous. - for paying out deposits. At the same time the settlement of the creditor claims of the Fund regarding the deposits paid out previously amounted to UAH 24 520,4 thous.

Investment operations

To accumulate and protect the funds from the inflation the Fund invests/ or places temporarily surplus funds into deposit accounts with the National Bank of Ukraine based on the principles of safety, liquidity, transparency and efficiency.

In the reporting period investment of funds was carried out according to the Fund's Investment Plan (2011) approved by the Resolution of the Administrative Board dated 21.12.2010, minutes No.18. In the period the Fund invested in short-term and medium-term government securities of Ukraine (Fig.3.2).

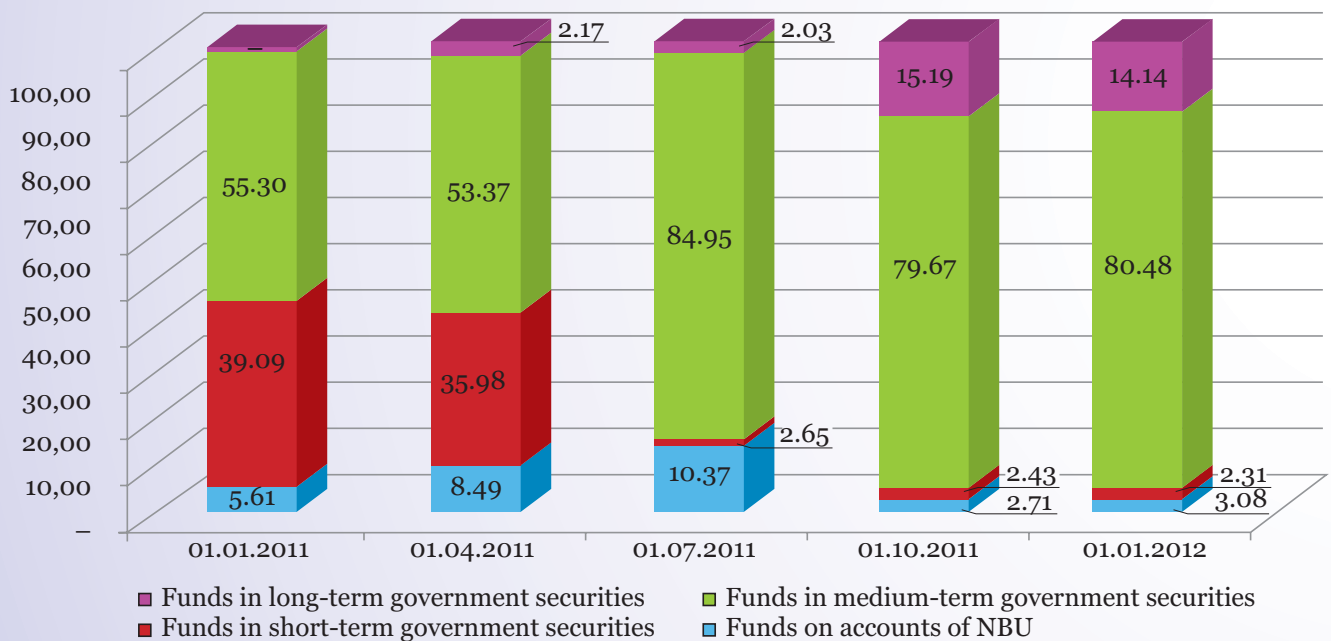


Fig. 3.2 Investment operations of the Fund by quarters

The total investment in 2011 amounted to UAH 3 350 575.2 thous. or 36.0% more than in 2010. The net income from the investment into the government bonds came to UAH 317 377.4 thous. or 8.7% less than in

2010 due to the fact that the average bond yield during the year decreased from 11.0% till 9.6%. Overall portfolio return was 10.4% as of 01.01.2012. (Table 3.3.)

Table 3.3

Composition of the investment

Indicator		Total for the year, thous., UAH	Short bonds, thous., UAH	Medium term bonds, thous., UAH	Long term bonds, thous., UAH	Placed into deposit accounts, thous., UAH
Investment in 2011	Plan	3 340 274.9				
	Actual	3 350 575.2	106 680.5	2 561 257.3	682 637.4	
	Average return, %	9.6	8.0	9.5	9.5	
Investment in 2010	Plan	2 461 757.5	1 238 155.4	1 223 602.1		
	Actual	2 464 506.0	1 238 155.4	1 226 350.6		
	Average, %	11.0	11.0	11.0		

It should be noted that that for the purpose of timely deposit payouts to the depositors of the liquidated banks during the year of 2011 the Investment Plan of the Fund presumed the existence of the minimum liquid reserve in the amount determined by the monthly payout forecast and within the limits from UAH 100 mil to UAH 500 mil.

In accordance with the Law “On Deposit Guarantee Fund” interest was accumulated on outstanding balance of the Funds accounts in the National Bank of Ukraine. It amounted to UAH 20 798.4 thous.

As of 01.01.2012 the structure of the funds with the allowance for the minimum liquid reserve was as follows:

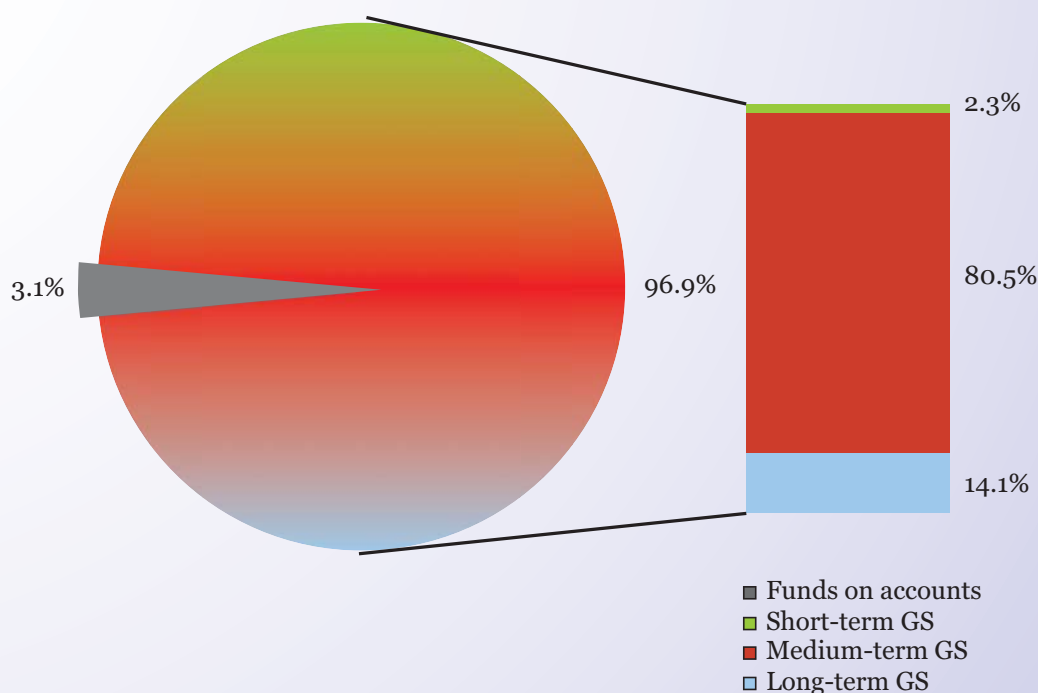


Fig. 3.3 Financial resources breakdown structure as of 01.01.2012

Financial Statements of the Fund

In accordance with the Law of Ukraine “On Accounting and Financial Reporting in Ukraine” the Fund prepares financial statements that include balance sheet, income statement, cash flow statement, equity statement and footnotes. The financial statements of the Fund are based on the book records in

compliance with the accounting standards and according to the accounting policy of the Fund.

Financial statements of the Fund audited by the independent auditing company “Auditing Firm Guarantiya Audit Ltd.” and the auditor opinion are presented in the Annexes.

Regulatory Activities of the Fund

According to the Law of Ukraine “On Deposit Guarantee Fund” the Fund issues regulatory legal acts on the matters within the powers of the Fund.

The regulations development plan for the Year of 2011 was approved by the Resolution of the Executive Directorate of the Fund (minutes of 14.02.2011, No. 005/11). The changes to the plan were approved by the resolutions of the Executive Directorate (minutes of 25.02.2011, No. 007/11, 15.03.2011 No. 009/11, 18.03.2011 No. 010/11, 26.05.2011 No. 025/11, 25.08.2011 No. 040/11, 07.10.2011 No. 045/11, 09.12.2011 No. 056/11).

According to the plan the Fund passed 2 regulatory legal acts:

Resolution of the Administrative Board of the Fund “On Approval of the Amendments to the Policy and Procedure for the Creation of the Database of Individual Depositors to the Fund Member (Temporary Member) Banks” registered in the Ministry of Justice of Ukraine 09.06.2011 under No. 697/19435;

Resolution of the Administrative Board of 19.05.2014 No. 14 “On Approval of the Amendments to the Regulations on Procedures for the Deposit Payout by the Deposit Guarantee Fund” registered in the Ministry of Justice of Ukraine 29.07.2011 under No. 931/19669.



Olena Sharova, Managing Director is meeting with the staff

The drafts of the above regulatory legal acts together with the regulatory impact analysis were made public by online posting 23.03.2011.

The information regarding the posting of the regulatory legal acts together with the notice that the comments and suggestions from the individuals and legal entities as well as associations regarding the content of the documents can be submitted within 1 month from the date of the first posting. During the period no suggestions and comments regarding the regulatory legal acts were received by the Fund.

Control Functions

To ensure the functioning of the deposit insurance system and the depositors' interests and rights protection the Fund has the right to inspect member (temporary member) banks.

The Fund conducted 766 inspections of the member (temporary member) banks of which 738 scheduled and 28 unscheduled inspections.

The inspections were conducted according to the "Deposit Guarantee Fund member (temporary member) banks inspection plan for the year of 2011" approved by the Resolution of the Executive Directorate (minutes of the meeting of 19.11.2010 No. 054/10).

The main goal of the inspections is assessment of the compliance to the requirements of the "Deposit Guarantee Fund" Law and the standards and regulations of the Fund, more specifically:

- 1) adequacy of the contributions and reports submitted to the Fund;
- 2) completeness and timeliness of the contributions' and fees to the Fund;
- 3) timeliness of the payout to the depositors;
- 4) completeness and authenticity of the depositors' registry;
- 5) compliance with the requirement to inform the depositors of the deposit insurance system in Ukraine;
- 6) adequacy of the information provided to the Fund.

After the receiving the reports on the inspection findings the banks submitted revised reporting forms and informed the Fund on the actions taken to correct the deficiencies. In turn the Fund provided the inspection reports and propositions regarding the enforcement actions to be imposed upon the banks violators to the National Bank of Ukraine.

Key findings

The scope and the structure of the depos-



Inspection Department

its to the Fund's member (temporary member banks).

In 2011 the Fund inspected 82 banks of which 79 were member banks and 3 temporary member banks. The inspected banks covered 49% of the total deposit value and 52% of the total number of the depositors to the members (temporary member) banks. During 2011 the inspections covered 51.6% of the depositors and the deposit value of 46.9% of the deposit portfolio of the Fund member (temporary member) banks with the 100% guaranteed deposits.

Adequacy of the contributions and reports

The inspections findings demonstrate following violations in the reports submitted to the Fund by the banks:

- inactive retail accounts balances as well as the individual accounts posted to the accounts payable were not included into the report;
- the reports included legal entities accounts;
- errors in rounding foreign currency equivalent;
- the individual accounts balances were not included in the interest accrual records;
- individual accounts balances for the inter-

est calculation without the adjusting entries;

- net deposit value included into accrued expenses indicator or accrued expenses into net deposits indicator - discrepancies in the report structure;

- including into the report data on the deposits in precious metal;

- including into the report data on the savings certificate payable on demand;

- including into the report money of the individuals used as the security for the safety deposit boxes keys;

- including into the report data on balance accounts of the individuals not required by the Rule;

- inconsistency of the data on the number of depositors guaranteed by the Fund.

The inspections conducted in 2011 identified inadequacies of the reports (Form №1-F and №1-TF) of 22 member (temporary member) banks or 37.9% of 58 banks with the violations identified. They are the most common type of violations.

Completeness and timeliness of the contributions and charges to the Fund

The inspections in 2011 identified the incidents of the untimely and incomplete payment of the contributions to the Fund.

Temporary member banks were the main violators and at the date when the inspections were completed they owed the Fund UAH 62.5 mil. in regular contributions and UAH 8.7 mil. in penalties. By the end of the year as a result of the inspections the banks transferred to the Fund UAH 51.9 mil. and UAH 7.4 mil. respectively.

Three member banks failed to meet the date for the regular contribution, more specifically the payments were done after the due date.

The other findings include incorrect calculation of the contribution amount due to non inclusion of the accounts posted to the balance account No. 2924 "Transit account for the payment cards transactions".

The evidences of incomplete and untimely contribution payments were found in 8 mem-

ber (temporary member) banks or 13.8% of all violators in 2011. However the inspections findings indicate that in general the banks calculated the contribution base amount correctly and paid the complete regular contributions to the Fund.

Completeness and authenticity of the depositors' database

The inspectors identified the following typical violation of the the depositors' database creation and maintenance procedures:

- the absence of the mandatory data on the depositor, namely:

- tax payer registration card number;

- locality, oblast, rayon, street, building and apartment numbers;

- passport or other ID details;

- the addresses of the depositors were not presented in a framework specified by the "Policy and procedure for the creation of the database on individual depositors to the Fund member (temporary member) banks" (hereafter Policy) in other words the data was inserted into one column instead of four columns;

- the database did not conform to the specified framework; thus there was no "Total" line where the aggregate amount of "Account balance" and "Total interest accrued" to be entered;

- too many abbreviations in the "full name of the depositor" column;

- improper storage of the depositors' data, namely there was no back up as it's provided by the Policy.

- during the import or export of the data from different system to one database there were errors in converting of the data resulting in the displaying of the characters not provided for by the Policy.

Violations of the "Policy and procedure for the creation of the database on individual depositors to the Fund member (temporary member) banks" were found in 21 banks or 36.2% of all violators in 2011.

In general all inspected banks had the hardware and software system of the Fund member

(temporary member) which provided for the accumulation, maintenance and proper use of the information on depositors as well as back up of the information to the external media.

Compliance with the standards and regulations of the Fund

Informing the depositors about household deposit insurance system in Ukraine

During the inspections in 2011 only one instance of the violation of the Fund requirements to inform depositors about deposit insurance system in Ukraine was found, more specifically the mandatory information (the address and the phone of the Fund, webpage address, the Law of Ukraine “On Deposit Guarantee Fund”) posted on the banks webpage was not complete. So, the banks follow the requirements of the Fund to inform the depositors about deposit insurance system in Ukraine.

Reporting of the Banks to the Fund

In 2011 the inspectors of the Fund found out that the number of member (temporary member) banks did not provide or did not provide on time the required information and reports.

The typical violations are:

- untimely notification of the Fund about the changes in the bank license details or the changes of the management – 19.5% of the inspected banks;
- untimely submission of the audit opinion – 13.4% of banks inspected in 2011;

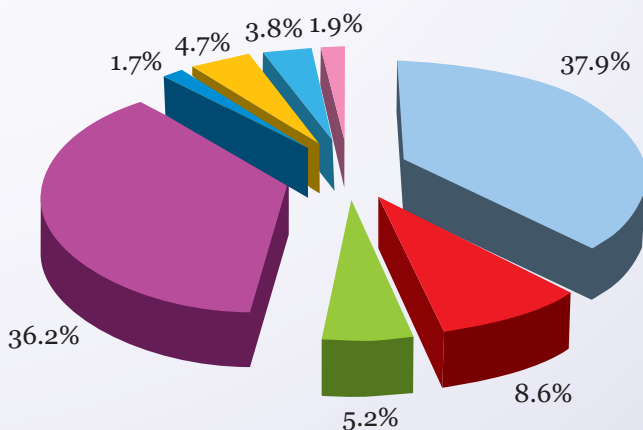


Fig. 3.4 The structure of the inspectors' findings in 2011

- untimely submission of the regular contribution amount calculation document – 7.3% of the banks inspected in 2011.

The inspection findings demonstrate that in general the Fund member (temporary member) banks meet the reporting requirements, though there were some violations.

The Fund found 97 violations in 58 out of 82 member (temporary member) banks inspected or 70.7% of the banks inspected in 2011 while in 2010 there were 101 violations in 50 member (temporary member) banks out of 96 inspected or in 52.1%.

Based on the information above we must say that the number of banks that didn't meet the regulatory requirements increased by 18.6% in 2011 in comparison with 2010. However in 2010 there were 2.02 violations per bank while in 2011 there were only 1.7 violations.

Generally the typical violations this year were similar to those in the previous year:

- discrepancies in the reporting forms №1-F and №1-TF – 22.7% of all violations;
- failure to conform to the requirements of the “Policy and procedure for the creation of the database of individual depositors to the Fund member (temporary member) banks” - 21.7% of all violations;
- untimely submission of the auditor's opinion – 11.3% of all violations;
- bank's failure to inform about the changes in accordance to the Regulations for the member (temporary member) registry maintenance – 17.5% of all violations.

- Adequacy of the contributions and reports
- Completeness and timeliness of the contributions and charges to the Fund
- Failure to meet the date for the regular contribution
- Completeness and authenticity of the depositors' database
- Violation of the Fund requirements to inform depositors about deposit insurance system
- Untimely notification of the Fund about the changes in the name of the bank, bank license details or the changes of the management
- Untimely submission of the auditor's report
- Failure to submit regular contribution amount calculation



DEPOSIT PAYOUT

Payout Procedure

The main objective of the Fund is depositors' rights protection through the payout of the guaranteed amount in the event of the Fund member (temporary member) bank liquidation. Efficiently organized and conducted deposit payout is a key performance indicator of the Fund.

The depositors are entitled for the reimbursement of their deposits in UAH at the the Fund's cost from the date of the appointment of the liquidator of the Fund member (temporary member) bank.

The Fund guarantees the deposits including interest accrued to the Fund member/temporary member banks in UAH or foreign currencies of a value no higher than the amount specified by the applicable legislation to every member national bank, or the branch of an international/foreign bank in Ukraine from the date of the deposit inaccessibility. Should the depositor have several deposits in one of the Fund member (temporary

member) banks the Fund guarantees the payout of total value of the deposits interest included but not higher than the guaranteed amount specified by the legislation of Ukraine. The deposit payout is to be made within three months from the date of the appointment of the member (temporary member) bank liquidator according to the lists of the depositors submitted by the liquidator; the Fund notifies the depositors about the launch of the deposit payout through the official mass media. During this period the depositors apply directly to the agent bank of the Fund.

If the depositors for whatever reason didn't apply to the agent bank during the three months period they should send the written request directly to the Fund. The Fund will review the request and make individual payout through the agent bank. The time allowed for the depositors' claims to the Fund is three years. The payout procedure is presented in the chart (Fig. 4.1.).

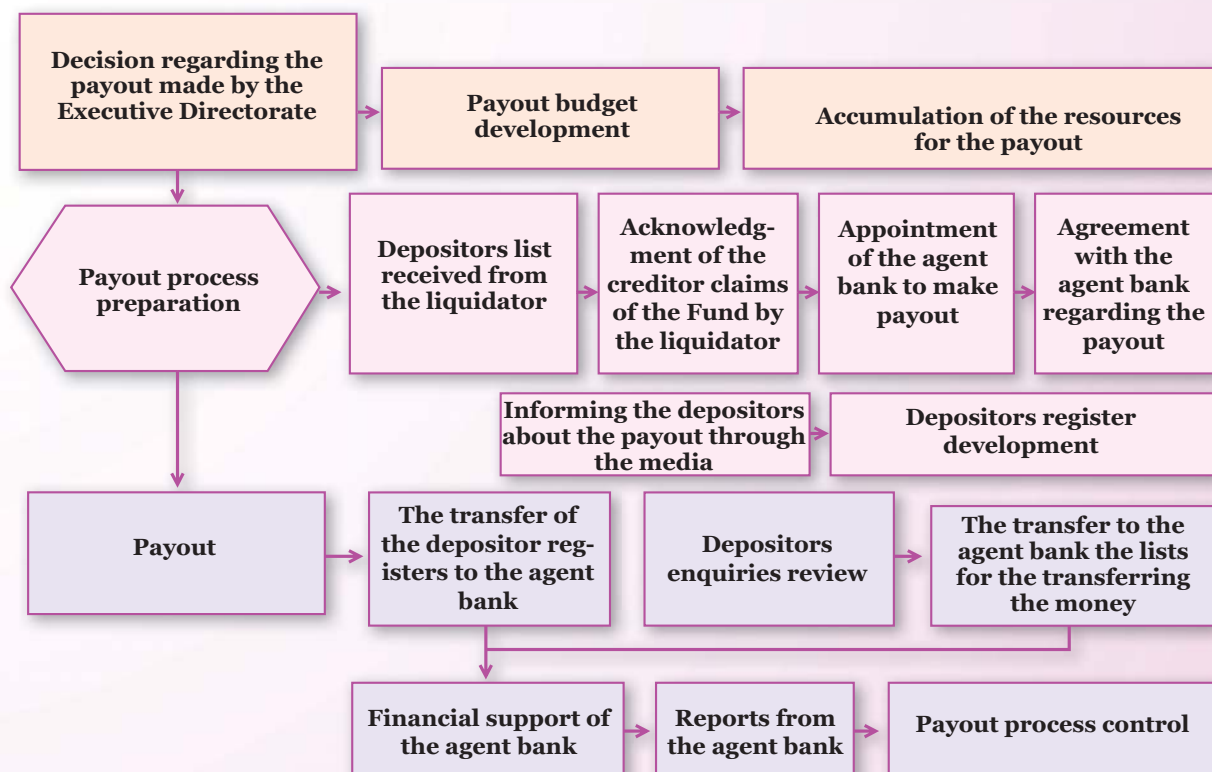


Fig. 4.1. Payout procedure

Payout to the depositors of the failed banks

By the Resolution of the Board of 10.05.2011 No. 143 the National Bank of Ukraine revoked the license of Limited Liability Company “Dialog Bank” (the city of Dnipropetrovsk) and initiated the liquidation process. Therefore on the 30th of June, 2012 the Fund launched the payout to the depositors of this bank. According to the data provided by the liquidator the Fund calculated payable amount of UAH 93 816.7 thous., of which UAH 93 065.2 thous. or 99.2% were paid out to 910 depositors during the year of 2011.

The National Bank of Ukraine by the Resolution of the Board of 30.08.2011 No.301 revoked the license of PAT KB “Volodymyrsky” (the city of Sumy) and initiated the liquidation process. Based on the data provided by the liquidator the Fund calculated deposit payable amount of UAH 115 969.52 thous.

The National Bank of Ukraine by the Resolution of the Board of 20.10.2011 No. 371 revoked the license of PAT KB “SOTSKOM BANK” (Odesa) starting from October 21, 2011 and initiated

the liquidation process. Therefore on the 16th of December 2011 the Fund launched deposit payout to the depositors of PAT KB “SOTSKOM BANK”. Based on the information provided by the liquidator the Fund calculated amount payable to the depositors of UAH 84 420.7 thous., of which UAH 69 985.8 thous. or 82,9% of the amount were paid to 1 727 depositors in 2011.

During 2011 the Fund paid out deposits to the depositors of the other banks (Table 4.1)



Table 4.1

Banks under Liquidation as of 01.01.2011

№	The name of the bank	Launch of the payout procedure
1	VAT “Yevropeyskiy Bank Rozvytku ta Zaoschadzhen”	17.04.2008
2	VAT KB “Prychornomorya”	01.07.2009
3	VAT AKB “Odesa-Bank”	26.08.2009
4	VAT “Natsionalny Standart”	07.10.2009
5	AKB “Yevropeysky”	07.10.2009
6	AB “Bank Regionalnogo Rozvytku”	20.01.2010
7	AKB “Skhidno-Yevropeysky Bank”	03.02.2010
8	KB “Ukrainska Finansova Grupa”	10.02.2010
9	TOV “Ukrayinsky Promyslovy Bank”	11.03.2010
10	TOV KB “ARMA”	25.03.2010
11	VAT Bank “Big Energiya”	20.04.2010
12	AKB “Transbank”	15.04.2010
13	VAT “Selyansky KB “Dnister”	29.04.2010
14	VAT KB “Ipobank”	12.05.2010
15	PAT “Zemelny Bank”	15.09.2010
16	PAT AB “Syntez”	24.11.2010

From the start of the Fund's operations till 01.01.2011 the depositors of 16 banks were paid UAH 3 606 186.7 thous.

In 2011 the depositors of these banks were

paid UAH 28 188.3 thous. (Tab. 4.2)

In total during 2011 the Fund indemnified the depositors of 18 liquidated banks, they were paid UAH 191 239.4 thous.

Table 4.2

Payout to the Depositors in 2011, UAH, thous.

Liquidated banks	Outstanding balance as of 01.01.2011	Deposits value payable in 2011	Amount actually received by the depositors in 2011	Outstanding balance as of 01.01.2012
VAT "Yevropeysky bank rozvytku ta zaoschdzhen"	1 821.7	61.6	282.2	1 601.1
VAT KB "Prychornomorya"	546.8	-	173.3	373.5
VAT AKB "Odesa-Bank"	570.2	-	195.4	374.8
VAT KB "Natsionalny standart"	2 068.7	-	421.9	1 646.8
AKB "Yevropeyskiy"	5 403.6	-	2 599.8	2 803.8
AB "Bank regionalnogo rozvytku"	3 006.3	7.0	1 635.5	1 377.8
AKB "Skhidno-Yevropeysky Bank"	1 975.7	-	854.8	1 120.9
KB "Ukrayinska Finansova Groupa"	367.8	-	140.4	227.4
TOV "Ukrpombank"	5 092.0	60.0	194.8	4 957.2
TOV KB "Arma"	2 305.5	-	861.0	1 444.5
VAT Bank "Big Energia"	5 420.1	-	1 478.2	3 941.9
AKB "Transbank"	5 693.2	-	1 908.4	3 784.8
VAT SKB "Dnister"	5 905.7	7.1	3 064.8	2 848.0
VAT KB "Ipobank"	134.7	-	23.0	111.7
PAT "Zemelny Bank"	2 068.6	15.5	1 271.4	812.7
PAT AB "Syntez"	12 342.5	2 410.9	13 083.5	1 669.9
TOV "Dialogbank"	-	93 816.7	93 065.2	751.5
PAT "KB "SOTSKOM-BANK"	-	84 420.7	69 985.8	14 434.9
Total	54 723.1	180 799.5	191 239.4	44 283.2

The deposit payouts to the depositors of the failed banks were made regularly through the agent banks following the “Regulations on procedures for the identification of the agent banks of the Deposit Guarantee Fund” approved by the resolution of the Administrative Board of the Fund No. 28 of 25.12.2003.

In 2011 AKB “Ukrsotsbank”, AT “Brokbisnesbank”, PAT KB “Khreschtyk”, PAT “Reiffeisen Bank Aval” were appointed to be agents banks.

The payout amount in 2011 broken down by the agent banks can be found in Table 4.3.

Table 4.3

Payout amount in 2011 broken down by the agent banks.

Agent bank	Amount paid to the depositors by the agent banks	
	thous. UAH	%
PAT KB “PryvatBank”*	5 086.9	2.7
AKB “Ukrsotsbank”	74 179.7	38.8
AT «Brokbisnesbank»	15 538.2	8.1
PAT KB “Khreschatyk”	1 869.3	1.0
PAT “Reiffeisen Bank Aval”	94 565.3	49.4
Total amount paid:	191 239.4	100.0

* PAT KB “PryvatBank” made deposit payouts in the first quarter of 2011 before the appointment of new agent banks.

Payout Statistics

In 2011 the Fund indemnified depositors of 18 banks with the licenses revoked and liquidation initiated by the National Bank of Ukraine in 2009-2011. From the start of the Fund’s operations till 01.01.2012 the significant number of the depositors of these banks were paid UAH 797.42 mil., of which:

13 596 depositors of the bank VAT “Yevropeysky bank rozvytku ta zaoschdzhen” bank were paid UAH 264 623 thous. – 99.4% of total amount due and payable.

4 327 depositors of VAT KB “Prychornomo-

rya” bank were paid UAH 116 774 thous. - 99.7% of the total amount due and payable;

2 298 depositors of VAT AKB “Odessa-Bank” bank were paid UAH 94088 thous. - 99.6% of the total amount of the deposits due and payable;

13 942 depositors of AKB “Yevropeysky” bank were paid UAH 673 351 thous. - 99.6% of the total amount due and payable;

3 767 depositors of VAT KB “Natsionalny standart” bank were paid UAH 264 665 thous. - 99.4% of the total amount due and payable;

5 840 depositors of AB “Bank Regionalnogo Rozvytku” bank were paid UAH 296 863 thous. - 99.5% of the total amount due and payable;

4 931 depositors of AKB “Skhidno-Yevropeysky Bank” bank were paid UAH 209 377 thous. - 99.5% of total deposits due and payable;

1 010 depositors of KB “Ukrayinska Finansova Groupa” bank were paid UAH 50 664 thous. - 99.6% of total amount due and payable;

2 289 depositors of TOV “Ukrprombank” bank were paid UAH 24 709 thous. - 83.3% of total amount due and payable;

4 483 depositors of TOV KB “Arma” bank were paid UAH 177 422 thous. - 99.2% of total amount due and payable;

18 525 depositors of VAT “Big Energia” bank were paid UAH 517 104 thous. – 99.2% of the total amount due and payable;

11 021 depositors of AKB “Transbank” bank were paid UAH 434 244 thous.- 99.1% of the total amount due and payable;

10 287 depositors of VAT “Selyansky KB “Dnister” bank were paid UAH 325 896 thous. – 99.1% of total amount due and payable;

81 depositors of VAT “Ipobank” were paid UAH 401.0 thous. – 78.2% of total amount due and payable;

3 172 depositors of PAT “Zemelny Bank” bank were paid UAH 98 314 thous. 99.2% of the total amount due and payable;

3 413 depositors of AB “Syntez” bank were paid UAH 85 881 thous. – 98.1% of total amount due and payable;

910 depositors of TOV “Dialogbank” bank were paid UAH 93 065 thous. – 99.2% of total amount due and payable;

1 727 depositors of PAT “KB “SOTSKOM BANK” were paid UAH 69 986 thous. – 82.9% of total amount due and payable.

Settlement of the creditor’s claims of the Fund by the liquidators

In accordance to the Law “On Deposit Protection Fund” the Fund acquires the right of the member (temporary member) bank’s creditor within the entire amount to be paid out to the depositors of such bank at a time of the inaccessibility of the deposits.

During 2011 the debt of the liquidated banks to the Fund increased by UAH 162 059.4 thous. and as of 01.01.2012 amounted to UAH 3 909 711.8 thous. (Table 4.4).



Legal Sector

Table 4.4

Overdue payables of the liquidated banks

№	Liquidated bank	Liabilities as of 01.01.2012		
		Outstanding amount for depositors' payout, thous. UAH	Outstanding fees and penalties, thous. UAH	Total outstanding amount, thous. UAH
1.	PAT "Zemelny Bank"	99 126.4	692.1	99 818.5
2.	VAT "Yevropeyskiy Bank Rozvytku ta Zaoschadzhen"	266 223.9		266 223.9
3.	AB "Bank Regionalnogo Rozvytku"	288 240.4	1 010.8	289 251.2
4.	PAT AB "Syntez"	87 551.4	648.1	88 199.5
5.	PAT "Sotskombank"	84 420.7	1 177.3	85 598.0
6.	AB "Allonzh"	7 319.9	27.4	7 347.3
7.	AKB "Yevtopeysky"	676 154.7	1 806.5	677 961.2
8.	AKB "Odesa-Bank"	79 462.8	105.6	79 568.4
9.	AKAPB "Ukrayina"		992.1	992.1
10.	KAB "Slovyansky"		381.0	381.0
11.	VAT KB "Prychornomorya"	117 148.0	517.7	117 665.7
12.	KB "Natsionalny Standart"	266 311.4	443.4	266 754.8
13.	AKB "Skhidno-Yevropeysky Bank"	210 497.6	357.8	210 855.4
14.	AKB "Transbank"	437 028.9	403.1	437 432.0
15.	VAT Bank "Big Energia"	506 046.3		506 046.3
16.	TOV KB "ARMA"	178 866.6	295.8	179 162.4
17.	PAT KB "Volodymyrsky"	115 969.5	357.0	116 326.5
18.	KB "Ukrayinska Finansova Groupa"	50 891.5	152.2	51 043.7
19.	VAT SKB "Dnister"	328 743.8	3 897.6	332 641.4
20.	TOV "Ukrprombank"	164.3		164.3
21.	TOV "Dialogbank"	93 816.7	2 461.5	96 278.2
	Total	3 893 984.8	15 727.0	3 909 711.8

In the reporting period the liquidation procedure for TOV “Kiyivsky Universalny Bank” was completed. The arrears of this bank on the settlement of the creditor claims of the Fund at the amount of UAH 68 167.0 thous. were written off since the creditor claims that can't be satisfied because of the insufficient

assets are considered satisfied. During the Year of 2011 the liquidators of the banks paid UAH 24 520.4 thous., or 0.63% of the total outstanding amount. It is UAH 66 430.0 thous. less than in the previous year. (Table 4.5).

Table 4.5

Dynamics of the Fund's Claims Settlement

Liquidated bank	2011	2010
	Amount, thous., UAH	Amount, thous., UAH
TOV “Ukrprombank”		67 387.1
TOV “Kyivsky Universalny Bank”		6 563.3
AKB “Odesa-Bank”	5 000.0	10 000.0
AB “Bank Regionalnogo Rozvytku”	6 000.0	4 000.0
VAT Bank “Big Energiya”	12 000.0	3 000.0
AKB “Transbank”	1 000.0	
AKAPB “Ukrayina”	6.5	
VAT KB “Ipobank”	513.9	
Total amount paid	24 520.4	90 950.4

INFORMATION TECHNOLOGY

Development and reforming of the deposit insurance system in view of the new Law “On Household Deposit Guarantee System” approval require the changes in the information technology support of the Fund. The growing demands cause both quantitative (increased volume of the information to be processed, increased functions) and qualitative (extension of the actives tasks function spectrum, transformation of the tasks, etc.) changes of the information environment.

The diversity and complexity of the Fund’s tasks determined its commitment to use the latest computer information technology.

The main objectives of the information support service of the Fund are the improvement of the management, control and reporting systems, deposit payout processes restructuring and enhancement, computerized economic analysis of the member banks with intent to avert bank failures and automation of the insolvent bank resolution processes.

It involves specific goals and objectives aimed at the creation of the effective technologies to support primary activities of the Fund including the new functions that arise after the approval of the Law “On Household Deposit Guarantee System”.

In order to exercise its primary functions the Fund uses the applicable information

technology systems (Fig.5.1):

On the 28th of November 2011 the Fund received the license for the Oracle database management system and the hardware components for the information protection. The software and hardware were purchased by USAID funded “Financial Sector Development Project” (FINREP).

The Oracle system will ensure safe exchange of large databases within the IT systems currently employed within the Fund, and provide the basis for the further developments, in particular the development of new payout automated system. Such system will considerably facilitate the payout to the depositors of the banks under liquidation.

The Fund has been using deposit payout automated system for 10 years.

This system performs automated checking of the information about the depositors received from the liquidator; generates and prints the registers of the depositors to be given to the agent bank; generates money order and automatically develops all the needed documents; automatically receives report on the payout process from the agent bank; registers depositors’ inquiries; allows continuous monitoring of the funds for payouts.

The workstations of the system allow the staff to process information on the deposi

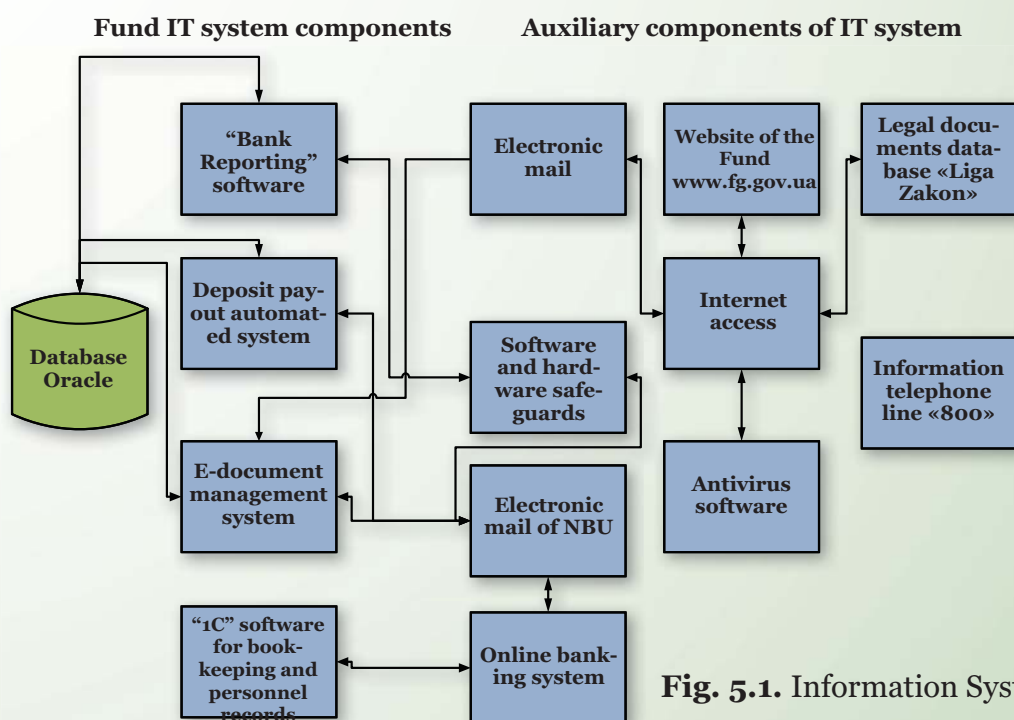


Fig. 5.1. Information System of the Fund



The Fund received from USAID funded FINREP project the license for Oracle database management system

tors and the payout process on the spot.

In order to improve the payout process the Fund together with the National Bank of Ukraine has developed the new system for the deposit payout that will facilitate the process and will have the following advantages over the current one:

- the payout term will be reduced, payout will be launched not later than 7 days from the date when the license was revoked and the liquidation started;

- payout points network will be expanded, the depositor will not be bound to one bank or bank branch as it happens at the moment;

- transition from the advance funding model when the Fund transfers to the agent bank the funds to be paid out to all the depositors of the liquidated banks before the launch of the payout to the “post factum” model when the Fund transfers funds only for the payouts that were actually made;

- the Fund will be able to track deposit payout on-line broken down by the area, agent bank workstation, as well as generate daily and periodic reports;

- the Fund will be able to control the payout process in its’ own processing center in real time broken down by the banks under liquidations, agent banks, as well as identify non-routine situations and make timely decisions;

- bank liquidators and agent banks will

work in mutually agreed technically and organizationally safe information exchange system in accordance to the unified rules for the use of the data from the processing center of the Fund.

To ensure information environment of the Fund the local computer network was created connecting all workstations and the server group.

The Fund uses international system of electronic exchange e-mail for internal and external communication purposes.

Information exchange between the Fund, National Bank of Ukraine and the commercial banks is done via e-mail of the National Bank.

The printing equipment used in the Fund enables the printing of the mass data (payout registries, etc.) which insures timely deposit payouts and Fund documents production.

The Fund uses on-line banking system which helps to perform the transactions efficiently as well as to control the accounts of the Fund in the National Bank.

The Fund’s book keeping and personnel records are done with the help of “1C” software. The plans are to change the 7th version of “1C” to the 8th and version and introduce financial accounting using this software.

The economic analysis and recurrent monitoring of the member banks are done with the help of the software package “Bank reporting”. The specified software provides for: automatic member banks reports receiving, validation of these reports at the time



IT Department

of admission and automatic generation and sending receipt confirmations; generating and printing of the forms and the charts for the purposes of the economic analysis of the Fund member banks.

The “Bank reporting” software is installed on all the workstations of the Fund personnel which enables timely processing of the data received from the member banks and early detection of the problems for the purpose of better protection of the depositors.

To provide the staff of the Fund with the access to the legal information the “Liga Zakon” software is operated. Daily updating of the legal documents database helps to monitor the changes in the legal and regulatory environment.

The Fund’s web-site is www.fg.gov.ua.

The site contains the basic information on the Fund, the current operations and regulations, and the most important information about the deposit insurance system in Ukraine.

The Fund employs an electronic system of data processing that is being regularly reviewed and improved.

Any deposit insurance system largely depends on the data processing technologies. The Fund puts much focus on the studying the international experience of data processing and analysis. The continuous improvement of the data processing and reporting systems is an integral component of the banking development system in Ukraine.

The Fund’s IT policy goals are:



General Service Department

- Development of the electronic system of data processing, including those of the member banks, liquidators, and agent banks;
- Introduction of safe and reliable Internet technologies based on the up-to-date innovations in the field;
- Development of electronic system of document management;
- Introduction and development of a real time payment system based on the “Ukrainian Electronic Mass Payment System”;
- Development and employment of the general database on the retail depositors;
- Introduction of an atomized system of data management control to sustain the retail depositor database;
- Introduction of the data safety and monitoring system;
- Electronic support to the new functions acquired by the Fund in line with the Law “On Household Deposit Guarantee System”.

PUBLIC AND INTERNATIONAL RELATIONS

Public Relations

In 2011, the principles of openness and transparency governed the public relations strategy of the Fund. The essential components of this work were counselling and educational events to strengthen the public awareness of the deposit insurance system in general, and its particular mechanisms. It increased the knowledge of and confidence in the system following the recent financial crisis, and contributed to financial literacy of the Ukrainian public and adequate behaviour in the financial markets.

Depositors were informed through mass media, the Fund's web-site, and free telephone line. Much information was related to the major principles of the deposit insurance system in Ukraine, insurance terms and conditions, insurance coverage, and legal documents regulating the Fund, etc.

The Fund's press-releases were an important component of the public awareness strategy.

Such press-releases were disseminated through mass media, including the national newspapers, TV and news agencies. The

press-releases offered such information as the number of member institutions (including the institutions with the "temporary member" status), any changes in the member register, the financial resources of the Fund, and the payout statistics and procedures.

The Fund organized meetings with journalists of some news agencies, such as "Ukrains'ki Novyny", "UNIAN", and "Ukrinform"; the TV channels "Inter", "Ukrains'kiy Biznes Kanal", "Ukrains'kiy Biznes Resurs"; and the Newspaper "Ekonomicheskie Izvestia". The Managing Director and other key specialists of the Fund gave interviews to these media on a variety of issues associated with deposit insurance, the Fund's new functions of provisional administration and liquidation of banks, and the overall impact of the current reform on the protection of depositors and other creditors of a bank.

In December 2011, the Fund conducted a round table meeting "Role of Deposit Insurance in Financial System Stability and Financial Services Consumers Rights Protection" under the patronage of the Verkhovna Rada Committee on Finance and Banking, Taxation and Customs Policy. The participants discussed the new functions of the Fund.

The international participants presented the international experience and best international practices of reforming a deposit insurance system to enhance the financial stability that were based on the lessons learned from the last financial crisis. The meeting involved representatives of international financial institutions and organizations, and their associations.

In 2011, the Fund revised and edited the Newsletters "Questions? Answers!", "Information on Deposit Guarantee System" and "Paying out Insured Deposits".



Public and International Relations Department

Considering the possibilities that the Internet resources provided and in order to facilitate a quick access to information, more focus has been put on the development of the Fund's web-site. Thus in early 2011, the Fund developed a new web-site design, and added the Section "Access to Public Information". The English version of the site has been revised and improved.

The information on the web-site is being regularly updated – in 2011, three hundred fifty updates were conducted.

In accordance with the relevant legislation of Ukraine, the Fund announced deposit payouts in mass media, regularly published a list of the member institutions (and the institu-

tions with the temporary member status) as of 1st January 2011 and 1st July 2011; and financial reports of the Fund for 2010 and the first six months of 2011. Thirty seven announcements in total were published.

Additionally, the Fund responded to 2,969 enquires. It was an evidence of a high public interest to the deposit insurance system in general and the payout procedures in particular. The public was involved by telephone, personal meetings, or mail.

The telephone hot line remains one of the most important components of the public relations strategy. It is a free service for all regions in Ukraine. Throughout the reporting period, 9 497 calls were made (Fig. 6.1).

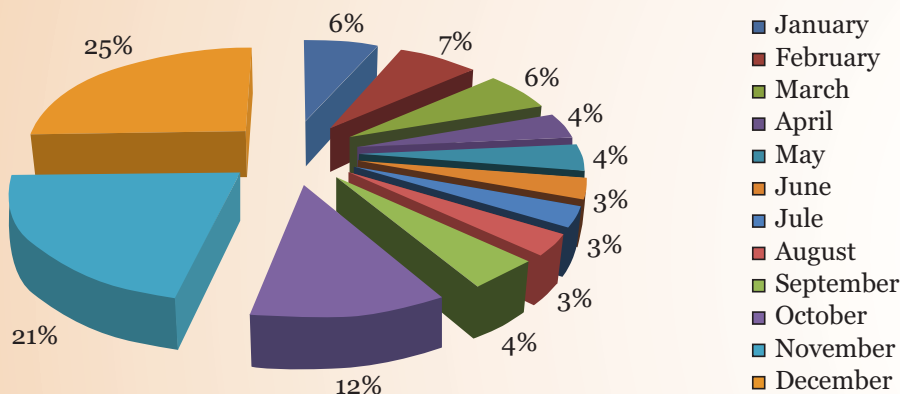


Fig. 6.1 Calls to the hotline service in 2011

In 2011, Fund staff analyzed the enquiries to the hotline. In total, the staff provided 11,770 answers to the public. The Ukrainians were most likely to ask about the payout procedures in the bank being liquidated, situations when the depositors lost access to their funds, the bank's status with the Fund, receiving inheritance, liquidator's lists and the de-

posit insurance terms and procedures.

Throughout 2011, the Fund monitored the information in mass media in order to analyze important economic events and trends in Ukraine and overseas. Figure 6.2 demonstrates the overall structure of economic information in the mass media.

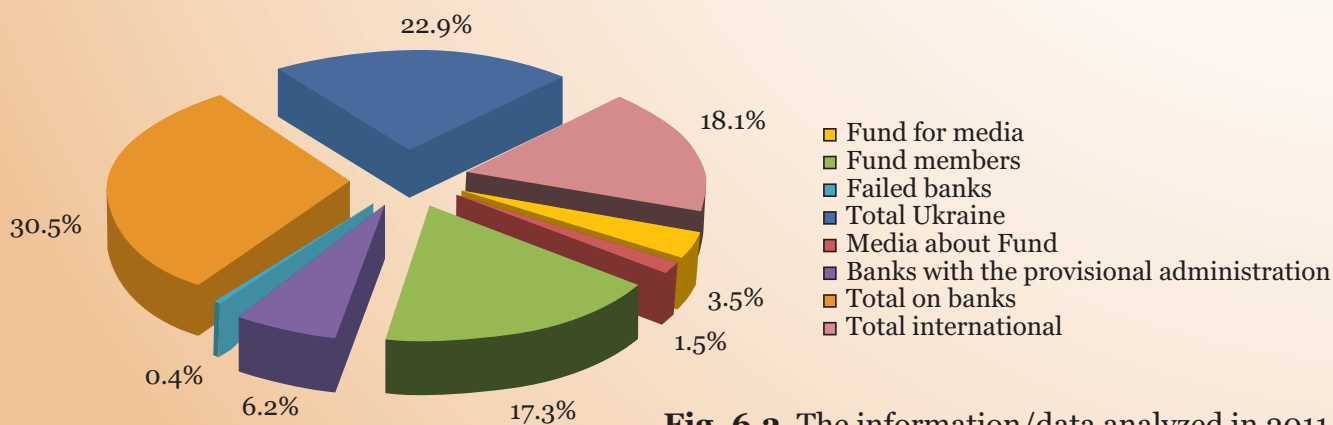


Fig. 6.2 The information/data analyzed in 2011

International Cooperation



Seminar with the participation of the experts from SDIF, Turkey. Kyiv

Throughout 2011, the Fund was especially active on the international scene. The Fund cooperated with deposit insurers in other countries, the USAID funded Financial Sector Development Project (FINREP) and the World Bank. During that year, the Fund participated in over fifteen various international and regional events (conferences, seminars, round table meetings, etc.) where the Fund enriched its knowledge and understanding of various aspects to deposit insurance, and presented the Fund's experience of reforming the system.

Considering the current reform, the Fund concentrated on studying the experience of reforms in other countries, as well as the resolution mechanism employed internationally.

On 15th-17th February 2011, the Fund took part in the Seminar "Failed Banks Resolution" organized by the Savings Deposit Insurance Fund of Turkey. The seminar concentrated on interventions targeting problem banks.

Within the International Association of Deposit Insurers, the Fund cooperated with the members of the European Regional Committee, Eurasia Regional Committee, Research and Guidance Committee, etc. As a member of the European Forum of Deposit

Insurers, the Fund regularly participated in many events of the Forum and the annual meeting in Belgrade (Serbia) in May 2011.

The self-assessment of compliance with the Core Principles for Effective Deposit Insurance System was an important step of ensuring the Fund's compliance with the established international practices of deposit insurance. The Core Principles were approved by the Basel Committee on Banking Supervision and International Association of Deposit Insurers in June 2009. Thus on 8th-9th November 2011, a joint seminar was conducted to assess the Fund's compliance with the Core Principles. Director of National Deposit Insurance Fund of Hungary and Head of the IDIA European Committee Mr. Andras Fekete Gyor, and Manager of the USIAD funded Project "Partners for Financial Stability" Mrs. Lesli Sulenta moderated the meeting.

On 7th December 2011, the Verkhovna Rada of Ukraine passed in the first reading the Law 'On Household Deposit Insurance System'. The Law addresses some non-compliance with the Core Principles, in particular with regard to the early warning and timely intervention, and effective resolution of insolvent banks, and thus brings the Ukrainian system closer



Self assessment of deposit insurance system



EFDI Annual Meeting, Belgrade, Serbia

to the best international standards and practices in the field.

Signing the Memorandums for Cooperation with the Federal Deposit Insurance Corporation (USA), and the Deposit Insurance Funds of Serbia and Bulgaria was an important step in the international cooperation. Preliminary agreements to sign the Memorandums of Understanding with the Deposit Insurance Agency of the Russian Federation and Korea Deposit Insurance Corporation were reached.

In 2011, the cooperation with the Federal Deposit Insurance Corporation (FDIC) developed. On 4th May 2011, the Fund and FDIC signed the Cooperation Protocol for 2011. On October 2011, the Fund delegations visited the FDIC Offices in the cities of Washington and Dallas (the USA). This study tour covered a broad range of aspects associated with the supervision of the banking sector and bank resolution in the USA. The participants were informed of the specific responsibilities of the FDIC's particular units/departments within the resolution, liquidation and marketing of an insolvent bank, the roles and functions of the deposit insurer as a regulator, as well as the HR policies, risk-based insurance premiums, projection of the insurer's potential

expenditures, etc. The study tours were assessed as very productive. The knowledge and materials that the Fund received from the FDIC were critically important for an effective transition to the Fund's new role, including bank resolution and other new functions of the deposit insurance system in Ukraine, such as the introduction of a new mechanism of financing the Fund, risk-based premiums, enhanced protection of consumers of financial services, etc. These knowledge and materials will be widely used to develop effective interventions on problem banks.

In 2011, as in the previous years, the Fund actively collaborated with the World Bank. The World Bank made a valuable contribution to the sophisticated process of reforming the deposit insurance system in Ukraine, and took much effort to establish and support the cooperation between the Fund and the Fund's international partners, first of all, the FDIC.

The World Bank engaged two international experts in the development of some regulatory documents, in particular the Regulation on Bank Resolution and the Regulation on Bank Liquidation. The international experts provided advise on various issues associated with the reformation of the Fund.



Signing of the Memorandum of Cooperation with Bulgaria DIF

The World Bank contributed much to the whole concept of the current reform and drafting the Law “On the Household Deposit Insurance System”. The World Bank experts provided all counselling and support to the examination of the draft Law in the Verhovna Rada Committee on Finance and Banking, Taxation and Customs Policy.

The expertise covered a wide range of issues associated with the current reform, such as the optimization of the Fund’s internal structure, HR policy, protection of consumers’ rights, and other goals as set in the Institutional Development Plan of the Fund.

In particular, on 15th-25th November 2011, the Fund and the World Bank Financial Sector Technical Assistance Team discussed the protection of the rights of consumers of financial services, strengthening the financial markets in Ukraine, enhancing the public trust to the financial sector, strengthening the protection of depositors and investors, and the development of an effective regulatory and supervisory framework in order to ensure compliance with the best international practices and standards. The meeting was held within the Program for protection of the rights of consumers of financial services and strengthening their financial education.

The technical assistance of the World Bank enabled the Fund to prepare the staff to carry out their new functions associated with the resolution of insolvent banks; improve the financial planning and investment policies of the Fund, as well as projecting potential expenditures associated with bank liquidation; improve the governance structure and internal regulations of the Fund; develop a more adequate HR policy and remuneration system; and establish a system of continuous staff training.

The USAID funded Financial Sector Development Project also provided a powerful technical assistance to the Fund, and contributed to the current reform. The Project made possible numerous training events, in particular those covering potential issues of banks and possible interventions targeting problem and insolvent banks. The Project helped to organize a study tour to the Savings Deposit Insurance Fund of Turkey which provided the most relevant and effective training program to participants representing the Fund and the National Bank of Ukraine. The Project also supported the visit to the FDIC and other events.



Training of the staff within USAID project

It is important to mention the Project-organized English classes for the Fund staff to improve the business English of the staff involved in the cooperation with international colleagues and/or studying international documents/materials.

In 2011, the Project supported the engagement of local experts in the development of the internal regulatory acts that would regulate the new functions of the Fund. Additionally, the Project supported the engagement of one local expert and one



Seminar with the representatives of DPA of the Kyrgyz Republic supported by the World bank

international expert to develop a methodology of bank asset appraisal.

The Fund is very grateful for the technical assistance that enabled us to employ new software to support the deposit payout and processing of bank reports, and introduce up-to-date information technologies.

The Fund and the Project effectively cooperated to protect the rights of the consumers of financial services and improve the financial literacy of the Ukrainian public.

Many thanks go to the World Bank and the Project for their most valuable contribution to the reformation of the deposit insurance system of Ukraine and fruitful cooperation.

INDEPENDENT AUDITOR'S REPORT

Auditor's findings (auditor's report) is available for the users of the financial statements including the Cabinet of Ministers and National Bank of Ukraine.

We, independent auditors, Limited liability company "Audit firm "Guarantiya Audit" (registration certificate No. 3696 issued by the decision of the Audit Chamber of Ukraine of 26.01.2006 ref.No. 158) have conducted an audit of the financial statements of the government institution Deposit Guarantee Fund (hereinafter the Fund) attached, comprised of the balance sheet as of December 31 2011, the Income Statement, Cash Flow Statement, Annual Statement of Owners' Equity, and all notes/appendixes according to the Accounting standards in Ukraine.

Responsibility of the management

The managerial personnel is responsible for the preparation and due presentation of these financial reports, in accordance with the National Accounting Regulations (Standards) of Ukraine, and for internal control as the managerial personnel determines is necessary to enable the preparation of financial reporting that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an audit opinion on these financial statements based on the audit findings. We conducted our audit in accordance with International Auditing Standards. The standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance that the financial statements subject to audit are free from material misstatement.

The audit provides for audit procedures aimed at obtaining audit evidence of amounts and due disclosures in the financial reporting. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatements in the financial reporting, whether due to fraud or error. The risk assessment requires the auditor to consider the internal control procedures relevant to the preparation and fair presentation of financial reporting by the Fund in order to design audit procedures that are appropriate in the circumstances- rather than expressing an opinion on the effectiveness of the Fund's internal control system. An audit also provides for an evaluation of the relevance of the accounting policies employed, and the reasonableness of accounting estimates performed by the managerial personnel, as well an evaluation of the presentation of the financial reporting in general.

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

Expression of opinion

In our opinion, the financial reporting of the government institution Deposit Guarantee Fund for the year ended 31 December 2011 adequately reflects in all material respects the financial condition of the financial results, cash flow and changes in owner's equity for the year in accordance with the National Accounting Regulations (Standards) acting in Ukraine.

Mechynsky O.B.
General Director, Auditor
TOV "AF "Guarantiya-Audyt"
Auditor Certificate A No.005430
(Seal)



Auditor: Limited liability company "Audit firm "Guarantiya Audit"
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Certificate of record in the Register of the auditors No. 3696 issued by the decision of the Auditors chamber of Ukraine 26.01.2006 ref. No. 158.

Agreement for the performance of an audit is dated: February, 21, 2012
Agreement No. 2102
The starting and end dates of the audit: from 15th of May till 30th of May 2012 without interruption.

30 May 2012
Registration No. 122

Balance sheet as of December 31, 2011

Form N1

SCMD code

1801001

Asset	Line code	As of the beginning of year	At end of reporting period
I. Non-current assets			
Intangible assets:			
book residual value	010	7	1 067
initial value	011	579	1 574
accumulated amortization	012	(572)	(507)
Construction-in-progress	020		802
Fixed assets:			
book value	030	731	1 292
initial value	031	2998	3 829
depreciation	032	(2267)	(2537)
Long-term biological assets:			
fair depreciated book value	035		
initial value	036		
accumulated amortization	037		
Long-term financial investments:			
accounted for by the equity method	040		
other financial investments	045	1 874 808	3 519 317
Long-term receivables	050	70	
Deferred tax assets	060		
Total, Section I	070		
Total, Section I	080	1 875 616	3 522 478
II. Current assets			
Inventories	100	126	217
Current biological assets	110		
Work-in-progress	120		
Outgoing inventory	130		
Goods (products)	140		
Notes (bills) received	150		
Bills receivable for goods, works, services:			
net realizable (sales) value	160		

initial value	161		
provision for doubtful debts	162		
Settlements receivable:			
due for taxes, levies and other statutory charges paid	170		
for advance paid out	180	6	30
from accrued revenue	190	319 815	349 625
from internal settlements	200		
Other current receivables	210	13 745	13 996
Current financial investment	220	1 325 232	1 159 253
Cash and cash equivalents:			
in national currency	230	190 307	148 727
in foreign exchange	240		
Other current assets	250	17	28
Total, Section II	260	1 849 248	1 671 876
III. Other deferred expenses	270	54 759	35
BALANCE	280	3 779 623	5 194 389
LIABILITY	Line code	As at the beginning of year	At end of reporting period
I. Equity capital			
Authorised (register) capital	300		
Share capital	310		
Additional capital employed	320		
Other additional capital	330		791
Surplus	340		
Retained earnings (uncovered loss)	350		
Unpaid capital	360		
Disposed capital	370		
Total, Section I	380		
II. Provision of future expenses and payments			
Staff remuneration	400		787
Other provisions	410		
Earmarked financing	420	3 724 883	5 034 132
Total, Section II	430	3 724 883	5 034 919
BALANCE	640	3 779 623	5 194 389

III. Long-term liabilities			
Long-term bank loans	440		
Other long-term liabilities	450		
Deferred tax liabilities	460		
Other long-term liabilities	470		
Total, Section III	480		
IV. Current liabilities			
Short-term bank loans	500		
Current debt under long-term liabilities	510		
Notes payable	520		
Accounts payable for goods, works, services	530	17	20
Current settlements payable:			
from advances received	540		
with budget	550		
from off-budget payments	560		
from insurance	570		
from remuneration of labour	580		7
with participants/shareholders	590		
from internal settlement	600		
Other current liabilities	610	54 723	158 652
Total, Section IV	620	54 740	158 679
V. Deferred revenues			
	630		
BALANCE	640	3 779 623	5 194 389

Income statement. Year of 2011

Form N2

SCMD code

1801003

I. Profit or loss			
Item	Line code	For the reporting period	For prior period
Income (proceeds) from sale of products (goods, works, services)	010		
VAT	015		
Excise	020		
	025		
Other charges on income	030		
Net income (proceeds) from sale of products (goods, works, services)	035		
Cost of products sold (goods, works, services)	040		
Загальновиробничі витрати	045		
Gross:			
profit	050		
loss	055		
Other operating revenue	060	244 434	2 326 277
Administrative costs	070	32 274	31 236
Distribution expenses	080		
Other operating expenses	090	191 364	2 295 042
Profit or loss from operating activities:			
profit	100	20 796	
loss	105		1
Equity income	110		
Other financial income	120	355 896	391 114
Other income	130	3	1 177 652
Financial expenses	140	38 518	18 697
Equity expenses	150		
Other expenses	160	4	1 178 825

Profit or loss from ordinary operations before tax:			
profit	170	338 173	371 243
loss	175		
Income tax before XO items	180		
Profit or loss from ordinary operations:			
profit	190	338 173	371 243
loss	195		
Extraordinary expenses:			
profit	200		
loss	205		
Tax on extraordinary profit	210		
Net:			
profit	220	338 173	371 243
loss	225		
II. Elements of operating expenses			
Measure	Line code	For report- ing period	For prior period
Material costs	230	178	159
Payroll expenses	240	19 304	20 647
Benefits-related deduction	250	3 508	3 254
Amortization	260	311	217
Other operating expenses	270	200 332	2 301 984
Total	280	223 633	2 326 261
III. Calculation of shares profitability			
Item	Line code	For report- ing period	For prior period
Average annual number of ordinary shares	300		
Adjusted average annual number of ordinary shares	310		
Earnings per ordinary share	320		
Adjusted earnings per ordinary share	330		
Dividends per ordinary share	340		

