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IMPLEMENTATION COMPLETION AND RESULTS REPORT

(IBRD-8422-UA AND IBRD-8537-UA)

ON A

DEVELOPMENT POLICY LOAN SERIES

IN THE AMOUNT OF USD 1 BILLION

TO UKRAINE

FOR THE

FIRST AND SECOND PROGRAMMATIC FINANCIAL SECTOR DEVELOPMENT POLICY LOANS

June 19, 2017

Finance & Markets Global Practice
Belarus, Moldova and Ukraine Country Management Unit
Europe and Central Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective 5/1/2017)
Currency Unit = Ukrainian Hryvnia (UAH)
US$ 1.00 = 26.54 UAH

UKRAINE FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

CPI	Consumer Price Index	IFI	International Financial Institution
CPS	Country Partnership Strategy	ILO	International Labour Organization
DGF	Deposit Guarantee Fund	IMF	International Monetary Fund
DPL	Development Policy Loan	M&A	Mergers and Acquisitions
DPO	Development Policy Operation	M&E	Monitoring and Evaluation
D-SIB	Domestic Systemically Important Bank	MIGA	Multilateral Investment Guarantee Agency
EBRD	European Bank for Reconstruction and Development	MoF	Ministry of Finance
EC	European Commission	MoU	Memorandum of Understanding
ECB	European Central Bank	NBFIs	Non-Bank Financial Institutions
EFF	Extended Fund Facility	NBU	National Bank of Ukraine
EU	European Union	NPLs	Non-performing Loans
FDI	Foreign Direct Investment	PDO	Project Development Objective
FIRST	Financial Sector Reform and Strengthening Initiative	PFM	Public Financial Management
FSAP	Financial Sector Assessment Program	PPG	Public and Publicly Guaranteed
FSDPL	Financial Sector Development Policy Loan	ROA	Return on Assets
FY	Fiscal Year	SBA	Stand-by Arrangement
GDP	Gross Domestic Product	SIDA	Swedish International Development Cooperation Agency
GoU	Government of Ukraine	TA	Technical Assistance
IBRD	International Bank for Reconstruction and Development	USAID	United States Agency for International Development
ICR	Implementation Completion and Results Report		

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UKRAINE
FIRST AND SECOND PROGRAMMATIC FINANCIAL SECTOR DEVELOPMENT POLICY LOAN

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DATA SHEET

A. Basic Information			
Program 1			
Country	Ukraine	Program Name	Programmatic Financial Sector DPL 1
Program ID	P150677	L/C/TF Number(s)	IBRD-84220
ICR Date	06/19/2017	ICR Type	Core ICR
Lending Instrument	DPL	Borrower	GOVERNMENT OF UKRAINE
Original Total Commitment	USD 500.00M	Disbursed Amount	USD 500.00M
Implementing Agencies Ministry of Finance Ministry of Economic Development and Trade			
Cofinanciers and Other External Partners			
Program 2			
Country	Ukraine	Program Name	SECOND PROGRAMMATIC FINANCIAL SECTOR DEVELOPMENT POLICY LOAN
Program ID	P151941	L/C/TF Number(s)	IBRD-84220, IBRD-85370
ICR Date	06/19/2017	ICR Type	Core ICR
Lending Instrument	DPL	Borrower	GOVERNMENT OF UKRAINE
Original Total Commitment	USD 500.00M	Disbursed Amount	USD 500.00M
Implementing Agencies Ministry of Finance			
Cofinanciers and Other External Partners			

B. Key Dates

Programmatic Financial Sector DPL 1 - P150677				
Process	**Date**	**Process**	**Original Date**	**Revised / Actual Date(s)**
Concept Review:	05/14/2014	Effectiveness:		09/04/2014
Appraisal:	06/23/2014	Restructuring(s):		
Approval:	08/07/2014	Mid-term Review:		
		Closing:	11/30/2014	11/30/2014

SECOND PROGRAMMATIC FINANCIAL SECTOR DEVELOPMENT POLICY LOAN - P151941				
Process	**Date**	**Process**	**Original Date**	**Revised / Actual Date(s)**
Concept Review:	04/27/2015	Effectiveness:		09/15/2015
Appraisal:	08/20/2015	Restructuring(s):		
Approval:	09/15/2015	Mid-term Review:		
		Closing:	06/30/2016	06/30/2016

C. Ratings Summary

C.1 Performance Rating by ICR

Overall Program Rating	
Outcomes	Satisfactory
Risk to Development Outcome	Substantial
Bank Performance	Satisfactory
Borrower Performance	Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)

Overall Program Rating			
Bank	**Ratings**	**Borrower**	**Ratings**
Quality at Entry	Satisfactory	Government:	Satisfactory
Quality of Supervision:	Satisfactory	Implementing Agency/Agencies:	Satisfactory
Overall Bank Performance	Satisfactory	Overall Borrower Performance	Satisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Programmatic Financial Sector DPL 1 - P150677			
Implementation Performance	**Indicators**	**QAG Assessments (if any)**	**Rating:**
Potential Problem Program at any time (Yes/No):	No	Quality at Entry (QEA)	None
Problem Program at any time (Yes/No):	No	Quality of Supervision (QSA)	None
DO rating before Closing/Inactive status			

SECOND PROGRAMMATIC FINANCIAL SECTOR DEVELOPMENT POLICY LOAN - P151941			
Implementation Performance	**Indicators**	**QAG Assessments (if any)**	**Rating:**
Potential Problem Program at any time (Yes/No):	No	Quality at Entry (QEA)	None
Problem Program at any time (Yes/No):	No	Quality of Supervision (QSA)	None
DO rating before Closing/Inactive status			

D. Sector and Theme Codes		
Programmatic Financial Sector DPL 1 - P150677		
	Original	**Actual**
Major Sector		
Financial Sector		
Banking Institutions	100	100
Major Theme/Theme/Sub Theme		
Finance		
Financial Stability	44	44
Financial Sector oversight and policy/banking regulation & restructuring	44	44
Public Sector Management		
Rule of Law	56	56
Legal Institutions for a Market Economy	56	56

SECOND PROGRAMMATIC FINANCIAL SECTOR DEVELOPMENT POLICY LOAN - P151941		
	Original	**Actual**
Major Sector		
Financial Sector		
Banking Institutions	100	100
Major Theme/Theme/Sub Theme		
Finance		
Financial Stability	44	44
Financial Sector oversight and policy/banking regulation & restructuring	44	44
Public Sector Management		
Rule of Law	56	56
Legal Institutions for a Market Economy	56	56

E. Bank Staff

Programmatic Financial Sector DPL 1 - P150677		
Positions	**At ICR**	**At Approval**
Vice President:	Cyril E Muller	Laura Tuck
Country Director:	Satu Kristiina J. Kahkonen	Qimiao Fan
Senior Global Practice Director:	Ceyla Pazarbasioglu	Gloria M Grandolini
Global Practice Director:	Alfonso Garcia Mora	Sebastian-A Molineus
Practice Manager/Manager:	Mario Guadamillas	Aurora Ferrari
Task Team Leader:	Rinku Chandra	Alexander Pankov
ICR Team Leader:	Raquel Alejandra Letelier	
ICR Primary Author:	Raquel Alejandra Letelier	

SECOND PROGRAMMATIC FINANCIAL SECTOR DEVELOPMENT POLICY LOAN - P151941		
Positions	**At ICR**	**At Approval**
Vice President:	Cyril E Muller	Cyril E Muller
Country Director:	Satu Kristiina J. Kahkonen	Qimiao Fan
Senior Global Practice Director:	Ceyla Pazarbasioglu	Gloria M Grandolini
Global Practice Director:	Alfonso Garcia Mora	Sebastian A-Molineus
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Task Team Leader:	Rinku Chandra	Rinku Chandra
ICR Team Leader:	Raquel Alejandra Letelier	
ICR Primary Author:	Raquel Alejandra Letelier	

F. Results Framework Analysis

Program Development Objectives (from Program Document)

The Project Development Objective was to support the authorities in their efforts to deal with the current crisis and undertake reforms to strengthen the banking system. The program was anchored in three pillars: (i) strengthening the operational, financial and regulatory capacity of the Deposit Guarantee Fund for the resolution of insolvent banks; (ii) improving the solvency of the banking system through implementation of bank recapitalization/restructuring plans and timely enforcement action; and (iii) strengthening the legal and institutional framework to improve the resiliency and efficiency of the banking system. This PDO statement matches the statement in the Program Document and the Legal Document.

Revised Program Development Objectives (as approved by original approving authority)

Indicator(s)

Programmatic Financial Sector DPL 1 and 2 – (P150677 and P151941)				
Indicator	**Baseline Value**	**Original Target Values (from approval documents)**	**Formally Revised Target Values**	**Actual Value Achieved at Completion or Target Years**
Indicator 1:	Depositors reimbursed in banks that were declared insolvent in 2014 and 2015.			
Value (quantitative or Qualitative)	NA	100 percent		100 percent
Date achieved	12/31/2014	12/31/2016		12/31/2016
Comments (incl. % achievement)	Achieved. 100 percent of banks declared insolvent in 2014 and 2015 reimbursed depositors.			

Indicator 2:	Number of bank resolution plans adopted by DGF (cumulative).			
Value (quantitative or Qualitative)	2	20	54	80
Date achieved	12/31/2013	12/31/2016	12/31/2016	12/31/2016
Comments (incl. % achievement)	Exceeded. Number of bank resolution plans to be adopted by the end of the monitoring period was increased to reflect the larger number of banks failures between early 2014 and mid-2015.			
Indicator 3:	Bank recapitalization plans approved by the NBU for the top 20 banks (or resolution of those that cannot be agreed to) based on revised diagnostic studies			
Value (quantitative or Qualitative)	NA	100 percent		100 percent
Date achieved	12/31/2014	12/31/2016		12/31/2016
Comments (incl. % achievement)	Achieved. 4 of the 20 banks did not need recapitalization/restructuring. 13 of the remaining 16 successfully implemented their recapitalization/restructuring programs. Other 2 were declared insolvent and transferred to DGF for resolution, and one was nationalized.			
Indicator 4:	CAR for the top 20 banks that underwent the updated diagnostic process.			
Value (quantitative or Qualitative)	NA	>5%		>5%
Date achieved	12/31/2015	12/31/2016		12/31/2016
Comments (incl. % achievement)	Achieved. 17 of the top 20 banks had a CAR >5%. Other 2 were declared insolvent and transferred to DGF for resolution, and one was nationalized.			
Indicator 5:	Consolidation of banking sector in Ukraine (number of banks).			
Value (quantitative or Qualitative)	181	150	100	96
Date achieved	12/31/2013	12/31/2016	12/31/2016	12/31/2016
Comments (incl. % achievement)	Exceeded. The target was modified to reflect the larger number of bank failures between early 2014 and mid-2015, which allowed for a faster consolidation of the banking system by the end of the monitoring period.			

Indicator 6:	Agreement on related-party lending unwinding plans by the top 10 banks (or resolution of those banks that cannot agree on plans)			
Value (quantitative or Qualitative)	NA	100 percent		100 percent
Date achieved	12/31/2014	12/31/2016		12/31/2016
Comments (incl. % achievement)	Achieved.			

G. Ratings of Program Performance in ISRs

H. Restructuring

NA

1. Program Context, Development Objectives and Design

1.1 Context at Appraisal

Structural and institutional bottlenecks, coupled with weak macroeconomic policies prior to 2014, have undermined Ukraine's development prospects for more than two decades. Weak governance and corruption have been pervasive, undermining economic activity and public institutions across the board. Furthermore, prior to 2014, a de facto fixed exchange rate combined with large structural fiscal deficits, including quasi-fiscal deficits in the energy sector, and widespread related party lending and weak supervision in the financial sector, led to large macroeconomic imbalances. In addition, weak public infrastructure investment, an onerous tax regime, and complicated business regulations and contract enforcement depressed private investment and growth. As a result, growth essentially stagnated during 2008-13. Furthermore, the consolidated fiscal deficit, including Naftogaz, reached 6.7 percent of GDP in 2013 and the current account deficit reached 9.2 percent of GDP in the same year.

Unprecedented shocks from the conflict in Donbas and weak external conditions combined with accumulated structural bottlenecks precipitated a serious economic crisis in Ukraine during 2014 and 2015. The conflict in eastern Ukraine disrupted supply and distribution chains, impacted industrial production and revenue collection, and led to a decline in confidence in the overall economy. In addition, a drop in global commodity prices led to a deterioration of Ukraine's terms of trade. As a result, real GDP contracted sharply by 6.6 percent in 2014 and by a further 10 percent in 2015. Furthermore, structural bottlenecks and accumulating imbalances preceding the crisis necessitated a considerable fiscal and external adjustment in response to the shocks, which further compressed domestic demand. The currency depreciated by 47 percent in 2014 and inflation increased to 24 percent. The consolidated fiscal deficit, including Naftogaz, reached 10.1 percent of GDP in 2014, while public and guaranteed debt spiked to 70 percent of GDP. The deep recession and depreciation caused deposit outflows, rising levels of nonperforming loans, and large numbers of bank failures, further reducing confidence in the economy.

Deep-rooted structural weaknesses in Ukraine's banking sector have undermined development prospects and added to macroeconomic vulnerabilities for the last two decades. High level of non-performing loans (NPLs), weak corporate governance, widespread related-party lending, and ineffective banking supervision have accumulated over time to create large contingent liabilities, weak financial intermediation, and macroeconomic instability. Banks that were recapitalized using state funds prior to 2013 were not properly managed, and in some cases, were sold to private owners with political connections. At the end of 2013, there were 181 banks in Ukraine, amounting to US$160 billion (87.8 percent of GDP). Domestic private banks accounted for 52 percent of total banking assets, while domestic state-owned banks and foreign-owned banks accounted for

19 percent and 29 percent of assets, respectively. The largest 3 banks had a combined asset share of 31 percent.

The structural weaknesses in the banking sector combined with the sharp economic contraction and depreciation of the local currency in 2014-2015 resulted in a serious deterioration in the financial sector. Banks lost about 52 percent of foreign currency denominated deposits and 29 percent of Hryvnia denominated deposits from end-December 2013 to end-June 2015. As banks came under pressure, credit contracted sharply, capital adequacy declined from 18.3 percent in 2013 to 9 percent by end-June 2015, profitability (measured by return on assets, ROA) plummeted from 0.1 percent in 2013 to -11.7 percent as of mid-2015, and NPLs increased from 12.9 percent at end-2013 to 24.3 percent at end-June 2015.

Pressures to the banking system and increased vigilance from the supervisor led to the failure of many banks. In the first half of 2014, 11 banks were declared insolvent by the NBU and transferred for resolution to the Deposit Guarantee Fund (DGF).[1] By mid-2015, that number of failed bands had increased to 54, representing 21 percent of banking sector assets and 24 percent of retail deposits. Five of these banks failed due to inability to restructure/recapitalize after a first round of independent diagnostic studies undertaken in the second half of 2014 (see below) revealed capital shortfalls, while the remaining banks (33 in 2014 and 21 in the first half of 2015) were transferred to DGF as a result of an improved framework for identifying problem banks and for taking enforcement action.

The authorities responded swiftly to the unfolding crisis by putting in place a banking sector stabilization and restructuring reform program. The objective of the program was restoring and maintaining public confidence, and preserving the stability of the banking sector, given the continued overall pressure in the banking system. This program focused on five areas: (i) maintaining adequate liquidity via NBU instruments; (ii) conducting independent diagnostic studies of large and medium-sized banks to determine their financial condition; (iii) enforcing recapitalization/restructuring of banks that have capital shortfalls or other deficiencies based on the diagnostic studies; (iv) undertaking resolution of unviable banks through a properly resourced DGF; and (v) strengthening the legal and supervisory framework to make the sector more resilient to future shocks. Although the program was not recorded in a single policy document, its various elements

[1] The DGF is a key player in the financial safety net responsible for insured depositor payout and the resolution of insolvent banks, playing a critical role in maintaining the confidence of depositors. It was established in 1998 by Decree of the President, with the DGF Law being enacted in 2001. One of the important financial sector reforms implemented in the aftermath of the 2008-2009 financial crisis was the increase in the deposit insurance coverage limit and the transformation of the DGF from a pure deposit insurance and payout entity to a bank resolution entity. A new DGF Law was enacted in February 2012, and became effective in September 2012. Before the onset of the 2014 crisis, the DGF managed the provisional administration and resolution planning of two relatively small insolvent banks.

were articulated in decisions and regulations issued by the NBU, DGF, and Ministry of Finance (MoF).

At the same time, the authorities were committed to pursuing supervisory and regulatory actions that would result in a more resilient banking sector, better incentives to increase domestic savings, and restart the credit flow to the real sector to ensure sustainable growth in the medium to long term. This included the preparation of a longer-term strategy for the Ukrainian financial sector, setting the goals and policy priorities for financial sector development until 2020, with particular attention given to: (i) adaptation to EU standards; (ii) improving corporate governance; (iii) improving banking supervision; (iv) development of non-bank financial institutions (NBFIs); and (v) improving financial infrastructure.

In order to support the authorities in stabilizing and reforming the banking sector, the First Financial Sector Development Policy Loan (FSDPL1) was prepared in the first half of 2014, and approved by the by World Bank Board of Directors in August 2014. The FSDPL1 was the first of a series of two operations in the amount of $500 million each. The design of the FSDPL1 was guided by the urgent need to stabilize the banking system. Given that the IMF was already supporting the NBU's efforts at liquidity management, the FSDPL1 focused heavily on strengthening the capacity of the DGF to handle insolvent banks in a timely and orderly fashion, with minimal disruption to public confidence. The design of the FSDPL1 also built on the lessons from the 2008-09 financial crisis and long-standing policy dialogue with the authorities. The FSDPL1 was underpinned by significant analytical work that had been conducted by the World Bank through a programmatic financial sector technical assistance (TA) program, and a FIRST grant focused on the DGF, with the design of the prior actions and triggers largely based on the findings of these TA efforts.

Given the increased political and macroeconomic pressures in the second half of 2014 and the first half of 2015, efforts to strengthen the banking system and make it more resilient became the primary focus of the Government reform program. As a result, a banking sector program was structured around three areas: i) strengthening the financial and operational capacity of the DGF; ii) ensuring that the largest banks are adequately capitalized; and iii) improving the resiliency and efficiency of the banking system. Under the first area, DGF's financial and operational capacity was strengthened through the establishment of a mechanism for obtaining back-up funding, and changes to the legal framework to speed up the insured deposit reimbursement process and to improve the efficiency of asset recovery from the banks that are being liquidated. Under the second area, the authorities conducted independent bank diagnostics in mid-2014 of the largest 35 banks in the country to ensure that they were adequately capitalized based on various stress test scenarios, but the worsening conditions in the country required the NBU to launch an update of the diagnostic studies and subsequent recapitalization and restructuring programs

for the largest 20 banks. Under the third area, the primary focus was to decrease the level of related-party lending in the system, while measures were also being taken to enhance supervision, increase coordination among financial safety net players, and reduce the level of NPLs. Although the program was not recorded in a single policy document, its various elements were articulated in decisions and regulations issued by the NBU, DGF, and MoF.

In order to support the authorities in their continued efforts to deal with the crisis and undertake reforms to strengthen the banking system, the Second Financial Sector Development Policy Loan (FSDPL2) was prepared in the first half of 2015, and approved by the by World Bank Board of Directors in September 2015. The design of the FSDPL2 continued to be structured under the same pillars of the FSDPL1, but prior actions were strengthened to respond to the deteriorating environment in the economy and financial sector. The FSDPL2 was also underpinned by significant analytical work, which, in addition to those that were conducted before and during preparation of the FSDPL1, included also a SIDA TF and a comprehensive TA program to the DGF and NBU that was underway during preparation and implementation of the FSDPL2 and that complemented its objectives.

The FSDPL program was part of a larger response by the Government and the international community to the crisis in Ukraine. It was prepared in parallel to a Multi-sector Development Policy Loan series (two operations amounting to $1.25 billion) that supported reforms to: (i) strengthen public sector governance; (ii) strengthen the business environment; and (iii) increasing the efficiency of energy sector subsidies while mitigating the impact on the poor. In addition, the FSDPL program was closely aligned to the financial sector policies supported by the IMF EFF (a 4-year arrangement amounting to $17.5 billion), with the World Bank and IMF teams working closely with the authorities to ensure consistency and complementarity of both programs. The World Bank also collaborated with the United States Agency for International Development (USAID), United States Treasury and the EBRD in supporting the DGF reform agenda. In addition, the German Government used some of the FSDPL program prior actions related to the DGF as part of its disbursement conditions for a EUR 200 million loan to Ukraine.

In addition, the FSDPL program was aligned with the strategic directions set out in the CPS (FY12-16), which envisaged a calibrated engagement depending on the pace and strength of reforms. The CPS[2] was structured around two pillars: i) improving public services and public finances; and ii) improving policy effectiveness and economic competitiveness, under which financial sector stability and development was one of the key areas.

[2] Country Partnership Strategy for Ukraine for the Period FY12-FY16 (Report No. 66279-UA).

The macroeconomic and sectoral context called for decisive and rapid action by the Government and the international community. The extremely difficult macroeconomic environment combined with a legacy of vulnerabilities in the banking sector, and the limited capacity of the bank resolution system to timely and adequately respond to the expected increase in the number of insolvent banks (resulting from the associated liquidity and capital pressures), heightened the risk of depositor panic, disorderly deposit outflows and bank runs, which in the extreme could lead to a full-fledged banking crisis. International experience has shown that the fiscal costs of a banking crisis can be quite significant,[3] thus decisive and rapid action by the Government and the international community was imperative to contain the risks and minimize its costs, and stabilize the banking sector. The commitment to reform shown by the authorities, the continued support provided by the World Bank through prior and parallel TA efforts, and the coordination with other partners, allowed for a rapid response in preparing, approving and implementing the FSDPL program towards this end.

1.2 Original Program Development Objectives (PDO), Policy Areas supported by the Program and Key Indicators[4]

The PDO of the FSDPL1 was to support the authorities in their efforts to deal with the current crisis and undertake reforms to strengthen the banking system. The program was anchored in three pillars: (i) strengthening the operational, financial and regulatory capacity of the DGF for the resolution of insolvent banks; (ii) improving the solvency of the banking system through implementation of bank recapitalization/ restructuring plans and timely enforcement action; and (iii) strengthening the legal and institutional framework to improve the resiliency and efficiency of the banking system. This PDO statement matches the statement in the Program Document and the Legal Document.

Pillar I aimed to strengthen the DGF to ensure that it could perform its deposit payout functions effectively by providing it with an adequate financial capacity. The workload of the DGF increased dramatically in the first half of 2014 as 11 banks –including two medium-sized institutions- were declared insolvent and transferred for resolution to the DGF. In addition, given the stress caused by the currency depreciation, downturn in the economy and conflict in the east, it was considered very likely that a number of additional banks could be transferred to the DGF for resolution in the following 12 months, and that

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[3] Although the Ukrainian case had a unique combination of characteristics not seen in other banking crisis (see Box 2 of FSDPL2 Program Document, Report No. 95400-UA), the closest comparisons were Indonesia (1997-98) with an estimated fiscal cost of 57 percent of GDP, Korea (1997-98) at 31 percent of GDP, Argentina (1980) at 55 percent of GDP and Venezuela (1994) at 15 percent of GDP.

[4] Sections 1.2 and 1.4 of the ICR template document were merged to allow for a smoother description of the program design and avoid excessive repetition and fragmentation. This change was agreed with the CMU.

the assets of the DGF at the time and the expected quarterly premium inflows were going to be insufficient to meet the insured depositor payout or resolution funding needs. A significant depletion of DGF resources or failure to comply with standard payout deadlines could lead to panic among depositors, withdrawal of deposits, and a further loss of confidence in the banking system. Therefore, it was imperative that a back-up funding mechanism for the DGF was created, in line with the projected needs.

Pillar I also supported policy efforts to address weaknesses in the legal and institutional framework, to ensure that the DGF had the operational capacity to deal with bank resolution. Amendments to the DGF Law were necessary to provide the DGF with adequate tools to deal with multiple bank failures during a systemic crisis, by expanding the range of available bank resolution mechanisms, and streamlining the resolution process. To undertake these functions, the DGF required an increase in budget and staffing to be adequately prepared to deal with multiple bank failures. In particular, the Bank Resolution Department was in urgent need of increasing its operational capacity, by optimizing the internal organizational structure and hiring experienced staff/short-term consultants. Finally, as the effective ability of the DGF to plan for a bank resolution is dependent on the availability of timely information from the NBU about problem banks, there was the need to improve coordination between the two institutions, by reviewing and expanding their Memorandum of Understanding.

Pillar II aimed to ensure that banks were adequately capitalized based on the findings of independent diagnostic assessments and that subsequent remedial action to address any weaknesses was identified. Considering the prospects of significant systemic distress, the NBU needed to use the full range of supervisory tools to ensure that banks maintained an adequate level of capital and met other prudential norms, or face enforcement action. In particular, independent diagnostic assessments of large and medium-sized banks were necessary to ensure the accuracy of balance sheet data and estimate the likely impact of adverse shocks. Based on the findings of these assessments, those banks found to be undercapitalized or having other deficiencies were to be required by the NBU to prepare and implement time bound recapitalization and restructuring plans. Banks that were unable to complete their recapitalization and restructuring plans within the agreed timeframe would be declared insolvent by the NBU and passed to the DGF for resolution, except for a few very large institutions that may have required to be recapitalized by the Government based on clearly defined criteria for the use of public funds.

Pillar III supported improvements in the regulatory and institutional framework for the banking sector to make the system more resilient to possible future shocks. The impact of the crisis on the banking system was exacerbated by long-standing structural vulnerabilities and issues that inhibited the effectiveness of bank supervision. While Pillars I and II supported urgent policy actions necessary to stabilize the banking sector in the short-term, Pillar III supported much-needed reforms in the legal and institutional

framework that should contribute to developing a more stable and efficient banking system in the medium to long-term. These reforms included: (i) timely identification of "problem banks"; (ii) improved corporate governance rules and disclosure of ultimate beneficiary owners[5]; (iii) enhanced regulatory and supervisory requirements for domestic systemically important banks; (iv) improved coordination mechanisms among financial safety net players; (v) measures aimed at promoting the consolidation of the banking sector; (vi) adoption of needed legal and regulatory changes aimed at facilitating the NPL resolution process; and (vii) implementation of a time-bound strategy for divestiture of those banks that were recapitalized with the state's participation during the previous crisis.

Tables 1 and 2 in Annex 6 present the prior actions and key indicators for the FSDPL1. Table 1 presents the nine prior actions under the FSDPL1, and the nine triggers for the FSDPL2, under the three pillars. Table 2 presents the key outcome indicators that were defined to measure results in the FSDPL1.

1.3 Revised PDO (*if any, as approved by original approving authority*), Policy Areas and Key Indicators, and Reasons/Justification[6]

The PDO of the FSDPL1 was not revised during preparation of the FSDPL2, but some policy areas for the three pillars were revised. In response to the deteriorating environment in the economy and in the financial sector, prior actions for the FSDPL2 were significantly strengthened, although the modifications did not affect the overall PDO of the FSDPL program. As a result, the FSDPL2 supported a set of ten prior actions to support high-priority financial sector reform measures. Table 1 in Annex 6 presents the triggers and the corresponding prior actions for the FSDPL2, under the three pillars.

Pillar I was strengthened to support the authorities in addressing key operational deficiencies in the DGF that became apparent as the number of bank failures increased. These deficiencies included additional weaknesses in reimbursing insured depositors and asset recovery, resulting in two additional prior actions being incorporated to this pillar to support policy reforms needed to improve the operational capacity of the DGF, besides the prior action linked to Trigger #1 from the FSDPL1, which focused on ensuring the financial capacity of the DGF.

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[5] The use of the term "ultimate beneficiary owner" throughout this document refers to the concept of "significant interest" under the Law of Ukraine "On Banks and Banking". Article 2 of the Law defines "significant interest" (qualifying holding) as the direct and/or indirect, independent or joint holding of 10 or more percent of the authorized capital and/or the voting rights granted by purchased shares (stakes) of a legal entity or the ability to exert decisive influence on the management or activities of the legal entity irrespective of the formal ownership. An entity is deemed the owner of an indirect qualifying holding regardless of whether the entity in question controls the direct owner of the holding in the legal entity or controls any other person in the chain of corporate rights ownership of the legal entity.

[6] Sections 1.3 and 1.5 of the ICR template document were merged to allow for a smoother description of the program design and avoid excessive repetition and fragmentation. This change was agreed with the CMU.

Pillar II was strengthened to include the launch of an updated set of diagnostic studies. These new diagnostic studies took into account the worsening economic condition, currency depreciation, and additional losses associated to the conflict in the eastern part of the country, and aimed to ensure that the banking system was adequately capitalized. In parallel, Pillar II supported the authorities in implementing the recapitalization and restructuring program for the largest banks based on diagnostic studies that were conducted in mid-2014 as envisaged in the first operation.

Pillar III was strengthened to enhance the focus on reducing related-party lending in the system, as it became apparent during 2014 that the levels in the system were much higher than originally expected. In addition to updating the legal and regulatory framework for related-party lending, Pillar III supported the launch of a diagnostic process to adequately assess and unwind exposures over the limit. Due to the depth of the crisis, Triggers #7 and #9 from the FSDPL1 were removed from the prior actions. Regarding the trigger on NPLs, the set of reforms to support the reduction in NPLs in the system had required additional time due to the magnitude of the crisis and the breadth of reforms needed. Regarding the trigger on divestiture of state-owned banks, the market conditions had not been appropriate to sell banks.

In addition to strengthening policy areas, some key outcome indicators were also revised. These revisions were made to i) reflect the deteriorating environment in the economy and in the financial sector, which made some of the original results unattainable in the short term; ii) update certain indicators to reflect the larger number of bank failures; and iii) include new result indicators to measure the new prior actions included in the FSDPL2. Table 2 in Annex 6 presents the key outcome indicators that were defined to measure results in the FSDPL2.

Under Pillar I, indicators were revised to reflect the failure of a much larger number of banks than originally expected during preparation of the FSDPL1. The large number of bank failures made the target funding ratio set in the FSDPL1 unattainable in the short term, and was therefore changed for an indicator that reflected the fulfillment of DGF's payout responsibilities as a result of bank failures. In addition, the number of bank resolution plans to be adopted by the end of the monitoring period was increased to reflect the larger number of banks failures between early 2014 and mid-2015.

Under Pillar II, the worsening economic conditions affecting the banking sector called for a revision of the minimum capital adequacy figures defined in the FSDPL1. The NBU agreed to ease capital requirements for undercapitalized banks identified in the new round of diagnostic studies (see below for more details). As a result, the minimum capital requirement for these banks was set at 5 percent for the six months after the corresponding recapitalization plans were approved by the NBU, to be gradually restored to 10 percent by end-2018. Therefore, the indicator related to capital adequacy for the overall banking system was modified, and instead focused on achieving a minimum 5 percent CAR target

ratio for the banks that underwent the first round of updated diagnostic studies (the 20 largest). In addition, a new indicator was added regarding the NBU approval of recapitalization plans of these banks.

Under Pillar III, indicators were modified to reflect the large number of bank failures, and new prior actions included in the FSDPL2. The target for the indicator related to the consolidation of the banking sector was modified to reflect the larger number of bank failures between early 2014 and mid-2015, which allowed for a faster consolidation of the banking system by the end of the monitoring period. In addition, an indicator on NBU's agreement on related-party lending unwinding plans for the largest 10 banks replaced the indicator on adoption of recovery plans for domestic systemically important banks (D-SIBs), as related-party lending problems were deemed more urgent to be resolved during the monitoring period than the adoption of recovery plans for D-SIBs.

For the purpose of the evaluation, the ICR uses the revised policy areas and outcome indicators in FSDPL2.

1.4 Other significant changes

As outlined above, the deteriorating economic conditions over the course of the FSDPL program and their impact on the banking sector led to an adjustment of some policy measures supported by the FSDPL2. The macroeconomic situation deteriorated further than originally expected in the FSDPL1 approval, as several risks identified during the preparation of that operation materialized, particularly due to the escalating conflict in the east and the ensuing loss of confidence. These developments had in turn a negative impact on the banking sector, as the sharp depreciation of the local currency caused significant deposit outflows, and a new round of diagnostic studies that reflected the worsening economic conditions had to be undertaken in 2015 to ensure the adequate capitalization of the banking system. In addition, certain actions agreed as triggers during the FSDPL1 had to be postponed until conditions improved, while others were added as prior actions under the FSDPL2 as they became more relevant. Finally, some of the results expected under the FSDPL1 had to be recalibrated during preparation of the FSDPL2 to reflect these changes.

2. Key Factors Affecting Implementation and Outcomes

The macroeconomic policy contributed to the successful implementation of the FSDPL program with the authorities adopting decisive policies to reduce fiscal and external imbalances in the face of considerable shocks. As a result of the economic contraction and revenue losses from Donetsk and Luhansk, the consolidated fiscal deficit, including Naftogaz, ballooned to 10.1 percent of GDP in 2014. In response, the authorities implemented tight controls on spending and considerably restructured energy sector subsidies. These measures, together with higher inflation, reduced the consolidated fiscal deficit to 2.1 percent of GDP in 2015. In November 2015, Ukraine successfully

restructured about $19 billion of its public external debt. In 2015, public and publicly guaranteed debt stabilized at 80 percent of GDP, up from 40 percent in 2013. In parallel, the NBU switched to a flexible exchange rate regime in February 2014 to avoid an imminent balance of payment crisis. The sharp depreciation of the Hryvnia, together with recession and administrative controls, compressed imports and narrowed the current account deficit to 0.2 percent of GDP in 2015 from 9.2 percent in 2013.

Official financing in support of the government's reform program also helped restore macroeconomic stability. The IMF approved a new two-year Stand-by Arrangement (SBA) in April 2014, which was converted into a four-year Extended Fund Facility (EFF) in March 2015. Total official financing in 2015 amounted to $8.5 billion and helped support private debt repayments and an increase in international reserves to $13.5 billion at end-2015, equivalent to 3.5 months of imports. The World Bank provided $2.25 billion in total during 2014-2015 through the Multi-sector series and the FSDPL program.

As a result of the reforms, the economy stabilized, with modest growth of 2.3 percent in 2016. In addition to the macroeconomic policies to reduce imbalances, significant structural reforms in other areas also helped stabilize investor confidence. These reforms included streamlining the business environment, improving public procurement and public investment management, establishing key anti-corruption agencies, and, of course, the financial sector reforms to resolve and recapitalize banks and strengthen supervision. As a result, real GDP grew modestly by 2.3 percent in 2016, supported by a bumper agriculture harvest and a rebound in fixed investment from a low level. In addition, inflation reached 12.4 percent in 2016 from 43.3 percent in 2015. At the same time, the pace of recovery remains modest due to weak external demand, the continuing conflict in eastern Ukraine, and remaining structural bottlenecks.

Table 3 in Annex 6 presents the key macroeconomic indicators underpinning the FSDPL program.

2.1 Program Performance

The policy actions supported by the FSDPL program were implemented by the authorities by the time each operation was approved by the World Bank (August 7, 2014 for the FSDPL1, and September 15, 2016 for the FSDPL2). As a result, disbursement of the respective tranches occurred shortly after approval. For the FSDPL1, the first tranche of $500 million was disbursed on September 4, 2014 (regular release), while for the FSDPL1, the second tranche of $500 million was disbursed on September 16, 2015 (regular release). Table 4 in Annex 6 presents a list of the measures implemented to meet all prior actions under the FSDPL1 and the FSDPL2, classified under each pillar of the program.

The reforms backed by the FSDPL program were successful in stabilizing and restructuring the banking sector in the face of considerable shocks. An unprecedented

clean-up of weak and non-transparent banks took place during 2014-2016, with 85 banks (including several large and medium-sized banks) out of 180 banks declared insolvent and sent for resolution to the DGF. In addition, the regulatory and supervisory framework has been significantly improved, setting the grounds for a more stable and resilient banking sector.

In particular, significant progress was achieved across the policy reform agenda supported by the FSDPL program (more details in Section 3.2):

- The operational, financial, and regulatory capacity of the DGF was strengthened through revisions to its operational budget, introduction of a staffing plan, signature of a revised memorandum of understanding (MoU) with the NBU, increased efficiency of its asset management function, the establishment of a mechanism for long-term back-up funding from the Government, and introduction of changes in the legal framework to expand the range of bank resolution instruments and improve the process of meeting its obligations to insured depositors.
- The solvency of the banking system was improved through diagnostic reviews of the banking sector to assess its capital adequacy, followed by the implementation of bank recapitalization and restructuring plans. In addition, a mechanism for state participation in bank recapitalization was introduced.
- The legal and institutional framework was strengthened to improve resiliency and efficiency of the banking system, through the introduction of additional quantitative and qualitative criteria to identify problem banks, strengthened corporate governance requirements of commercial banks, up-to-date and accurate disclosure of banks' ultimate beneficiary owners, strengthened requirements for identifying and reporting related-party lending (including a review of banks' related-party lending exposures), the establishment of a Financial Stability Council, and new regulatory and supervisory requirements for systemically-important banks.

2.2 Major Factors Affecting Implementation:

Adequacy of Government's commitment, stakeholder involvement, and/or participatory processes.

Discussions were conducted with key domestic stakeholders, IFIs and development partners. The World Bank team had supported the authorities' outreach to the banks that operate in Ukraine, as well as civil society organizations regarding the reform program supported by the FSDPL1 and the FSDPL2. In addition, legislative changes adopted as part of the FSDPL program were subject to extensive deliberation by members of Parliament, and with civil society. The FSDPL program was part of a coordinated package of international assistance to support Ukraine in undertaking critical structural reforms, restore confidence, and to meet external and fiscal financing needs. The timing and policy

content of the operation was closely coordinated with the IMF Extended Fund Facility (EFF), which was approved on March 11, 2015, as well as support from other bilateral and multilateral partners, including USAID, US Treasury, EBRD, the European Commission, and the Governments of Japan, Norway and Germany.

The Government's continued commitment to reform has been essential for a successful implementation of the program. The authorities committed to a reform program aimed at stabilizing the banking system and resuming sustainable financial intermediation during preparation and implementation of the FSDPL1. This commitment continued throughout the preparation and implementation of the FSDPL2, despite adjustments in timing and prioritization of measures as a result of the deteriorating economic conditions that occurred between the two operations. However, recent changes at the senior level in the DGF and impending changes at the senior level in the NBU may undermine the commitment to the financial sector reform program going forward, if new management does not have full ownership of the measures they will be responsible to implement.

Soundness of the background analysis supporting the operation(s), lessons learned incorporated, and the rationale for the Bank's intervention.

The design of the FSDPL program built on the lessons from the 2008-09 financial crisis and long-standing policy dialogue with the authorities. One of the most important lessons from the 2008-09 crisis in Ukraine was the need to have a strong, fully resourced entity in charge of bank resolution and insured deposit payout. Another key lesson was that the authorities should put in place a recapitalization program following diagnostic studies of the largest banks, and take prompt action against those banks whose owners are unwilling or unable to provide the required capital. Finally, any use of state funds for recapitalizing private banks due to stability concerns should be subject to clear, transparent, and narrow bank eligibility and governance criteria. In addition, the FSDPL program was underpinned by significant analytical work conducted by the World Bank in recent years through a programmatic financial sector TA program, a FIRST grant focused on the DGF, and more recently a SIDA TF. The design of the prior actions and triggers was based on the findings of this TA program.

The Bank's intervention reflected the urgent need to stabilize the banking system in Ukraine. At the time of preparation of the FSDPL1, it was critical for the authorities to maintain the confidence of depositors in banks through sound liquidity management by the NBU, clear public communications, and adequate capacity to deal with any failing banks. With the IMF program already supporting the NBU's efforts at liquidity management, the FSDPL1 focused on strengthening the capacity of the DGF to handle insolvent banks in a timely and orderly fashion, with minimal disruption to public confidence. Besides the financial resources provided by this operation, the Bank's support for the sector through the FSDPL1 was expected to serve as an important confidence building measure. The

economic conditions deteriorated after the Board approval of the FSDPL1, prolonging the instability in the banking sector, and requiring the implementation of a longer-term Government program along the same three pillars structured under the FSDPL1, which was supported by the FSDPL2.

Assessment of the operation's design

The FSDPL program was well designed in supporting the authorities in their efforts to deal with the 2014 crisis and undertake reforms to strengthen the banking system. The program was structured in three pillars, focusing on strengthening the capacity of the DGF to adequately perform its critical bank resolution and insured deposit payout function, ensuring that adequate solvency of the banking system was maintained through implementation of bank-specific recapitalization/restructuring plans and timely enforcement action, and supporting legal and institutional reforms necessary to improve the resiliency and efficiency of the banking system in the medium to longer term.

In response to the deteriorating environment in the economy and financial sector, the FSDPL program was strengthened during preparation of the second operation. Pillar I was strengthened to support the authorities in addressing key operational deficiencies in the DGF that became apparent as the number of bank failures increased. Pillar II was strengthened to include the launch of an updated set of diagnostic studies to ensure that the banking system is adequately capitalized, while also supporting the authorities in implementing the recapitalization and restructuring program for the largest banks based on diagnostic studies that were conducted in mid-2014. Pillar III was strengthened to increase the focus on decreasing the level of related-party lending in the system as it became apparent during 2014 that the levels in the system were much higher than expected. The modifications outlined above did not affect the overall development objectives of the operation.

Relevance of the risks identified at appraisal and effectiveness of mitigation measures

The overall risk assessment for the two operations of the FSDPL program was rated as high, with identified risks that were and continue to be highly relevant. Main risks identified were: i) political, governance and stakeholder risks; ii) macroeconomic risks; iii) risks related to sector strategies and policies, and technical design of the program; iv) risks related to institutional capacity for implementation and sustainability; v) fiduciary risks; and vi) social risks.

Political, governance and stakeholder risks were high, but partial mitigation measures were put in place. Renewed escalation of tension in the east of the country and/or in the region could have serious economic consequences if disruption in exports and/or gas supplies occur and remain for a prolonged period of time, and could undermine the authorities' ability to continue reforms, including those supported by the FSDPL program, risks that cannot be mitigated by this operation. Moreover, while there was wide-

spread public support for reforms, vested interests remained strong and continued to oppose certain reforms, which, in the presence of weak institutions, could undermine the reforms supported by the FSDPL program, even if the authorities maintain their strong commitment to reforms. The design of the program partially mitigated these political economy risks, as it sought a balanced burden-sharing of the reforms, by ensuring that a large majority of household depositors were covered up to the insured limit of UAH 200,000, while ensuring that the first loss was borne by the owners of the banks. In addition, the programmatic design of the operation moderated risks of reversals in reform measures. Finally, the World Bank worked with other partners and IFIs on designing and tracking the reform program and remains engaged through policy dialogue, TA, and public advocacy for strong reforms.

Macroeconomic risks were high and mutually reinforcing, with the potential to affect the implementation, impact and sustainability of the reforms supported by the FSDPL program. Resumption, escalation, or both of the conflict in the east had the potential to undermine confidence-building measures by the authorities, aggravate output losses, and derail overall stabilization efforts. A deeper contraction in 2015 and a more sluggish recovery in the following years –stemming from lower domestic and external demand – could complicate fiscal and external adjustment. Further currency pressures could lead to mutually reinforcing depreciation, capital flight and inflation in turn aggravating the banking crisis and hampering efforts to restore external and fiscal sustainability. Efforts to restore sustainable public finances could prove to be more challenging than expected. Finally, further instability in the banking sector could create a vicious circle between initial macroeconomic shocks, balance sheet problems in banks, and instability and liquidity in financial markets, which could then deepen the economic downturn and increase the burden on the budget. These risks were partially mitigated by steps taken by the authorities to stabilize the economy, underpinned by the IMF's EFF. In addition, the World Bank's Multi-sector DPL program and the FSDPL program also contributed to mitigate these risks.

Sector risks referred to the sustainability of the financial sector reform program if the stabilization of the banking sector took longer than expected, and longer term policy measures were not successfully completed. The Government's financial sector reform program extended well beyond the scope of the FSDPL program. In addition, and as shown during preparation of the FSDPL2, when the downturn in the banking sector became much worse than what was envisaged during preparation of the FSDPL1, prolonged instability in the sector could not be ruled out, with the associated impact in the structure, timeline and prioritization of the measures under the reform program. Banks' action plans resulting from the updated diagnostic process and review on related-party lending could have turned unsuccessful if macroeconomic and banking sector conditions did not improve, or if shareholders were unwilling to provide additional capital and/or undertake agreed measures. In addition, if economic conditions deteriorated beyond what was expected during preparation of the FSDPL2, a third round of diagnostic studies could

have been necessary, which could reveal further capital shortfalls. Further recapitalization needs could prove difficult in a sector that has already been subject to significant stress, and that had gone through two rounds of recapitalization and resolution in the past 2 years. These risks were partially mitigated by the recently introduced legal framework for resolving systemically important banks (supported by the FSDPL2). In addition, fiscal resources to deal with possible new bank failures were included in the baseline budget. Finally, the ongoing IMF's EFF and further World Bank TA have supported the authorities' ongoing financial sector reform program.

Despite the introduction of mitigating measures, institutional capacity risks could not be completely ruled out. The risk of lack of follow-through action after the FSDPL program was significant considering that Ukraine's previous FSDPL program in 2009-2010 was not satisfactory completed after the first operation. The risk of not being able to complete the FSDPL program was fully mitigated through an agreement with the authorities on a longer-term policy program supported by the FSDPL program, and by conditioning the FSDPL2 to the implementation of a bank recapitalization process resulting from the first round of diagnostic studies. While the FSDPL program was focused on strengthening the NBU and DGF, providing additional tools to deal with the current financial crisis and putting in place an improved legal framework, consistent implementation of reforms and continued institutional development of both institutions was required for these efforts to effectively translate into a resilient financial sector in the medium to longer term. Incomplete implementation, either due to lack of resources, capacity constraints, resistance from special interest groups, or deteriorating economic conditions could undermine the impact of the FSDPL program. Ongoing TA from the World Bank and other development partners to support the strengthening of the NBU and DGF were expected to contribute to proper institutional capacity and sustainability of reforms, while financial sector conditionality in the IMF's EFF was to contribute to ensure authorities' commitment to longer-term reforms.

The fiduciary assessment concluded that fiduciary risks for Development Policy Operations (DPOs) were substantial. This rating considered the ongoing political and economic situation in Ukraine, proposed prior actions under the two World Bank DPL programs, and also took into account: (i) ongoing Public Financial Management (PFM) reform efforts, including support for modernizing public procurement legislation (supported by the Fiscal Adjustment and Institutional Reform DPL program); (ii) modernization of treasury operations; and (iii) strengthening the effectiveness of the Accounting Chamber and the Public Internal Financial Audit and Control function.

Social risks were present, but the nature of the FSDPL program contributed to their mitigation. The continued instability in the banking sector has had widespread social costs, in particular for depositors (both household and corporate) that were at risk of losing money if banks failed. This was partially mitigated by the FSDPL program which aimed to support

the DGF in meeting its legally mandated responsibility to cover household depositors up to UAH 200,000 (which covers the large majority of households in full), and aimed to ensure that the system was adequately capitalized to restore confidence in the sector, reducing the potential of a full-blown banking crisis that would have had a significant negative impact on the population.

2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization:

The World Bank worked closely with the DGF, MoF, and NBU to monitor and assess reform progress and impact during the course of the FSDPL program. Monitoring and evaluation was supported by data that was readily available from the DGF, MoF and NBU data sources. Baseline and updated data was provided by each of these institutions and tracked according to the list of quantitative results indicators included in the Policy and Results Matrix.

Design: There were five indicators under the FSDPL1 for which a baseline and targets were established to capture the achieved results. Under the FSDPL2, indicators were updated and increased to six, to reflect the adjustments made to the prior actions under the respective three pillars, which in turn reflected the deteriorating economic conditions that had a longer than expected impact on the stability of the banking sector. Nevertheless, some of the updated indicators do not necessarily capture the effect of actions related to the respective pillar the indicator was attempting to measure, but were rather a natural consequence of the increasing number of bank failures. For example, the target number of resolution plans adopted by DGF equals the number of bank failures during 2014 and 2015, and therefore, it was already met by the time of Board approval. In addition, the indicator that measures the consolidation of the banking sector in Ukraine was mostly met by the time of Board approval due to the numerous bank failures occurred during 2014 and 2015, rather than through regulations aimed at the consolidation of the banking sector (e.g., streamlined M&A procedures). However, given the particular circumstances under which the FSDPL2 was prepared, better measurable results indicators were difficult to identify.

Implementation and Utilization: The M&E and implementation arrangements were continuous throughout the preparation phase and recorded the implementation of key reforms that contributed to the achievement of the program development objectives. Efforts were made with the authorities to define a mix of quantitative and qualitative indicators to facilitate monitoring.

2.4 Expected Next Phase/Follow-up Operation:

The longer term nature of the financial sector reform program, as well as reforms in other important areas, suggests importance of further engagement in the sector. The reforms supported by the FSDPL program are a long term effort that go beyond the time-span of the operation, with ongoing implementation and enforcement of a number of policy actions initiated in the past 3 years, and the overall regulatory and supervisory framework

under a continued process of being upgraded to best international practices. In addition, there are a number of reform areas in the financial sector that need to be fully addressed going forward to ensure a more stable, resilient and efficient financial sector in the medium to long term (see Section 4 for more details). The focus of these policy areas will gradually shift from stability to financial sector development. In light of the importance of the financial sector reform agenda, these policy areas can be considered in any further development policy lending for Ukraine.

Furthermore, a FSAP is suggested in the medium term. Once the situation of the financial system is stabilized, it is suggested to conduct a FSAP in order to assess the overall situation in the financial sector, with a particular emphasis in the identification of areas where the financial sector can further develop and contribute to economic growth.

3. Assessment of Outcomes

3.1 Relevance of Objectives, Design and Implementation

The objectives of the FSDPL program were aligned with the CPS (FY12-16) and with the Government's financial sector reform program. In particular, the objectives were consistent with the second pillar of the CPS (FY12-16)[7], which sought to improve policy effectiveness and economic competitiveness, under which financial sector stability and development was one of the key areas. In addition, the objectives and the design of the FSDPL program were highly relevant, as it practically mirrored the areas covered by the Government's financial sector reform program, which in turn responded to the urgent need of stabilizing the banking system in the short term and resuming sustainable financial intermediation in the medium term given the economic circumstances faced by Ukraine.

More importantly, the design of the operation was adjusted during preparation of the FSDPL2 to reflect the change in economic circumstances that had a lingering impact in the banking sector, and maintain the relevance of the overall program. The worsening economic conditions that occurred between the preparation of the two operations (and which were unexpected during preparation of the FSDPL1), resulted in longer than expected efforts to stabilize the banking sector. As a consequence, certain prior actions and result indicators were revised during preparation of FSDPL2 to reflect these developments.

The program objectives are expected to remain relevant in the coming years, as the full implementation of the reform program undertaken by the authorities will take time, and the economic environment will continue to be difficult in the short to medium term. Further recapitalization of banks is still underway, and future bank failures

[7] The next CPS is under preparation.

cannot be discarded. Moreover, continued institutional capacity building at the NBU (in regulation and supervision of the banking sector) and the DGF (in bank resolution and depositor payout) will be key in building a resilient banking sector going forward.

3.2 Achievement of Program Development Objectives

Overall, the program achieved the PDO as the authorities have undertaken a number of reforms to strengthen the banking system as reflected in the prior actions of the FSDPL1 and the FSDPL2. Although the crisis that Ukraine is facing is not yet over, the Government has kept its commitment to reform, and has undertaken regulatory and supervisory actions conducive to maintain the stability of the banking sector. While risks to the development outcome remain substantial (see Section 4 for details), the measures being undertaken under the financial sector reform program provide the authorities with an improved framework to deal with the current crisis, and set the grounds to have a resilient banking sector that contributes to the economic development of Ukraine in the medium to long term.

The achievement of objectives under each pillar is described below. Relevant measures are referenced against the corresponding prior actions outlined in Table 1 of Annex 6, and results reported against the key outcome indicators for the FSDPL2 outlined in Table 2 of Annex 6. Of the six key outcome indicators, two were exceeded, and four were achieved.

Pillar I - Strengthening the operational, financial and regulatory capacity of the DGF for the resolution of insolvent banks. Outcome rating: Satisfactory

Operational capacity of the DGF

The operational capacity of the DGF was strengthened through revisions to its operational budget and introduction of a staffing plan to respond to the increasing needs in resolution of insolvent banks (Prior Action #3 of the FSDPL1). As a result, the operational budget doubled in all key parameters (payroll, IT systems, etc.) over 2015 and 2016 (UAH 330.8 million by end-2016), while the number of staff increased from 200 in early 2015 to 399 by the end of 2016, mostly to staff the new Department of Consolidated Sales and Asset Management.

In addition, it signed a revised MoU with the NBU to improve the sharing of information on problem banks between the two institutions (Prior Action #4 of the FSDPL1). The revised MoU implemented the following coordination mechanisms: (i) the sharing of detailed and comprehensive information on problem banks by the NBU with the DGF; (ii) the NBU inviting DGF staff to participate in its supervisory meetings on corrective actions for problem banks; and (iii) the DGF making use of its right to conduct in depth on-site inspections at the problem bank stage. To date, the MoU has achieved its objectives.

Finally, the efficiency of the asset management function of the DGF was increased through improved efficiency of asset sales and auctions, enhanced management and financial controls, and increased transparency and oversight of the asset recovery process (Prior Action #3 of the FSDPL2). As a result, a new Department of Consolidated Sales and Asset Management was created and staffed, and the implementation of all the functions related to asset management was completed in April 2016. Although still low by international standards, asset recovery rates have risen from 2 percent in 2014 to 13 percent in 2016. Higher asset recovery rates will depend on reforms to the legal system to reduce the occurrence of litigations and uncertainty on their duration and outcome (see Section 4), an improved process at NBU for identification of problem banks (see Pillar III section below), and external factors that put constraints to the feasibility of asset sales at reasonable prices (e.g. assets located in conflict affected areas, low economic growth affecting capacity of borrowers to repay their loans, market for asset sales, etc.).

Financial capacity of the DGF

A mechanism for long-term back-up funding from the Government to the DGF has been established (Prior Action #1 of the FSDPL1 and the FSDPL2). The mechanism establishes quantitative criteria that trigger the possibility for the DGF to request such funding,[8] although conditions for repayment (interest rate, maturity, amortization schedule, etc.) are to be negotiated between the MoF and the DGF on a case-by-case basis. The back-up funding mechanism has been used in 2014 (UAH 10.1 billion), 2015 (UAH 41.5 billion) and 2016 (UAH 7.9 billion), with the MoF issuing bonds to the DGF for a total amount of UAH 59.6 billion (around US$ 2.2 billion), which were subsequently monetized at the NBU. In return, the DGF issued promissory notes to the MoF, in which it commits to repay both the principal and the accumulated interest (ranging from 9.99 percent to 12.5 percent) at maturity (ranging from 2025 to 2031). The DGF also received loans in the amount of UAH 20 billion from the NBU between 2014 and the first quarter of 2015, of which UAH 9 billion (around US$ 335 million) are outstanding. The loan carries an interest of 12.5 percent, and is due in two tranches (principal plus accumulated interest) in June and September 2017.

As of end-2016, the assets of the DGF reached UAH 16.5 billion, while new back-up funding from the MoF is expected to be requested for 2017. Inflows of the year included contributions from the banking industry (UAH 3.3 billion), and asset recoveries (UAH 6.7 billion), and the back-up funding from the MoF (UAH 7.9 billion). Liabilities amounted to UAH 101.3 billion, which includes the liabilities to the MoF and the NBU, and contingent liabilities for payout of depositors of insolvent banks. Projected cash flows for 2017, which

[8] Broadly, that the funding ratio of the DGF (reserves over insured deposits) falls below 2.5 percent. The specific formula that triggers the possibility to request Government funding is described in a Resolution of the Cabinet of Ministers.

take into account sufficient liquidity to cover payout of insured deposits and all deposits of state-owned banks,[9] indicate that the DGF will have to apply for new back-up funding from the MoF in the amount of UAH 23.5 billion.[10]

The use of the back-up funding mechanism has allowed the DGF to reimburse depositors of all the banks that were declared insolvent between 2014 and 2015 (Result #1). Insured depositors at all 69 banks that were declared insolvent in 2014 and 2015 have been reimbursed. In 54 cases the percentage of reimbursed deposits is 95 percent or above, and in 25 cases the percentage is 99 percent or 100 percent[11]. After adding the banks that were declared insolvent in 2016, insured depositors at a total of 85 banks have been reimbursed, and in 61 cases the percentage of reimbursed deposits is 95 percent or above. The total amount reimbursed to insured depositors by end-2016 reached UAH 81.8 billion (around US$ 3 billion), or 95.1 percent of total insured depositors at insolvent banks.

At the same time, the DGF adopted resolution plans for most of the 85 banks that were declared insolvent between 2014 and 2016 (Result #2). Although the DGF adopted resolution plans for all banks declared insolvent between 2014 and 2016, the owners of some of these banks have managed to suspend liquidation/resolution proceedings via court decisions. Despite this setback, the number of approved resolution plans adopted by the DGF is close to 80.

Regulatory capacity of the DGF

The regulatory capacity of the DGF was strengthened through the adoption of changes to the legal framework to expand the range of bank resolution instruments and streamline the resolution process (Prior Action #2 of the FSDPL1). These changes included, inter alia: (i) the use of bridge banks by the DGF without an identified investor; (ii) the ability of the DGF (or a bad asset entity) to sell and manage assets on a consolidated basis from multiple banks; and (iii) state participation in the bank resolution process.

In addition, legal provisions were introduced to improve the process of meeting the obligations of the DGF to insured depositors (Prior Action #2 of the FSDPL2). These provisions included the prequalification of bidders to speed up the decision making process of resolution, and the decrease of the legally mandated timeframe for reimbursing insured depositors, from more than 2 months (60 calendar days while the bank in under temporary

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[9] A recent amendment in legislation provides a blanket guarantee to deposits in state-owned banks (52 percent of banking sector assets and 54 percent of deposits as of end-2016).

[10] In order to optimize its cash flows, the DGF requested the NBU to extend the maturity of its debt to 2018, as the loan from the NBU is collateralized with securities owned by the DGF which mature between April 2018 and January 2019. If this request is granted, the request for back-up funding from the MoF for 2017 could be reduced by approximately UAH 10 billion.

[11] In most of cases, payout of 100 percent of insured deposits cannot be achieved, as some depositors cannot be reached, particularly if they hold negligible amounts (DGF pays all deposits above UAH 10, around US$ 0.35).

administration, plus 7 working days since the liquidation of the bank is initiated) to 20 working days since the day the bank is declared insolvent and transferred to DGF for resolution.

Justification of Pillar Outcome Rating: This pillar is rated as satisfactory as the operational, financial and regulatory capacity of the DGF for the resolution of insolvent banks was strengthened as a result of the policy actions undertaken by the authorities under the FSDPL program. Going forward, the sustainability of the funding model of the DGF will depend on: i) steady contributions from the banking industry; ii) the asset recovery rate from failed banks, which depend on a number of factors (see above); and iii) its ability to repay the loan from the Government (see Section 4).

Pillar II - Improving the solvency of the banking system through implementation of bank recapitalization/restructuring plans and timely enforcement action. Outcome rating: Satisfactory

Diagnostic studies of banks and recapitalization/restructuring plans

The banking sector has been subject to subsequent rounds of diagnostic studies to determine the adequacy of their capital levels. The authorities undertook diagnostic studies for the largest 35 banks in 2014 (Prior Actions #5 and #6 of the FSDPL1), where 18 banks were found to be undercapitalized. The NBU certified successful implementation of the recapitalization and restructuring program for 13 of these banks, while the remaining five banks were transferred to the DGF for resolution (Prior Action #4 of the FSDPL2). The deterioration in the macroeconomic environment in 2015 rendered these diagnostic studies outdated, and it was decided that the entire banking system would be subject to a new round of diagnostic studies in a sequenced fashion:

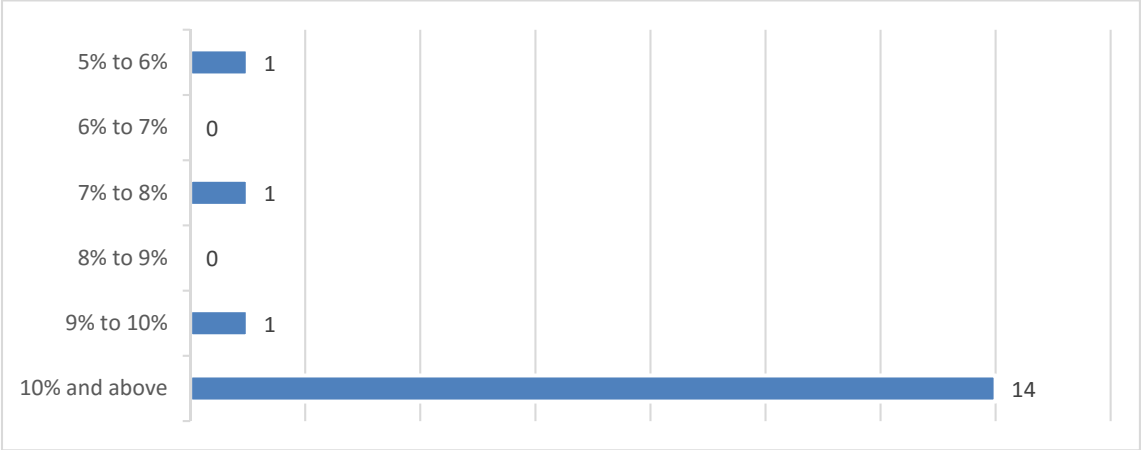
i) In 2015, an updated round of diagnostics was completed for the 20 largest banks (Prior Action #5 of the FSDPL2), where 16 were found to be undercapitalized, and were given until December 2016[12] to reach a CAR of 5 percent. Figure 1 below presents the distribution of CAR levels for the largest 17 banks as of December 2016 (the 4 banks that were found to be adequately capitalized plus 13 of the 16 banks what were found to be undercapitalized), showing that all were able to reach the minimum CAR of 5 percent (Result #4) by successfully implementing their recapitalization/restructuring programs. The remaining three banks failed to reach the minimum CAR by the specified deadline, two of which were declared insolvent and transferred to DGF for resolution, and the remaining one (Privatbank, the largest bank in the system), was nationalized (Result #3).

ii) In the first half of 2016, an updated round of diagnostics was completed for the next 19 largest banks, where 12 were found to be undercapitalized, 9 of which have been given until end-March 2017 to meet the minimum CAR of 5 percent (the other 3 banks were

[12] Originally, the deadline was September 2016, but it was subsequently postponed.

declared insolvent and transferred to DGF for resolution). By the end of 2016, 8 of these banks had already reached the minimum requirement.

Figure 1. Capital adequacy ratio (CAR) distribution for the largest 17 banks, December 2016



Source: NBU

iii) In the second half of 2016, an updated round of diagnostics was completed for the next 21 largest banks[13], where 11 were found to be undercapitalized, and have been given until end-March 2017 to submit their recapitalization plans, and until end-August 2017 to meet the minimum CAR of 5 percent. By the end of 2016, all of them had already reached the minimum requirement.

iv) Finally, in 2017, the remaining 32 banks (1.5 percent of total banking sector assets) will be subject to an asset quality review based on the new Resolution on Credit Risk Assessment, which took effect in 2017. This new regulation takes into account the findings of the updated diagnostic reviews of the largest 60 banks undertaken in 2015 and 2016. The review of these banks is expected to be completed by September 2017.

Implementation of mechanism for state participation in bank recapitalization

The authorities established a legal mechanism for state participation in bank recapitalization in cases where the resolution of a bank on a least-cost basis via the DGF could impact financial stability (Prior Action #5 of the FSDPL1 and #6 of the FSDPL2). The legal changes ensure that public funds are only injected after shareholders have been completely wiped out, liabilities to bank related-parties and non-deposit unsecured creditors are "bailed in", a professional management is hired to run the nationalized bank with a commercial business perspective, and all legal means are pursued to ensure the recovery of all loans related to former owners of the bank. On December 19, 2016, this mechanism was used for Privatbank, the largest bank in Ukraine, after it failed

[13] The 60 banks that underwent the diagnostic studies in 2015 and 2016 represent 98.5 percent of total banking sector assets.

to implement both its recapitalization program and its program to unwind related-party lending. The diagnostic studies had revealed significant capital shortfalls in the bank resulting from crisis-related factors and imprudent lending policies. Given its systemic nature, the Government decided to transfer Privatbank into the ownership of the State as a single shareholder[14], after wipe-out of shareholders, bail-in of Eurobond holders and other unsecured creditors. An independent auditor report will update the capital needs of the bank by end-March 2017, based on the financial figures as of end-2016 (after nationalization).

Justification of Pillar Outcome Rating: This pillar is rated as satisfactory, as the policy actions undertaken by the authorities have been directly aimed at ensuring the solvency of the banking system, through independent diagnostic reviews covering the majority of the banking system, and concrete follow-up actions in terms of restructuring or recapitalization plans. Banks that were unable to restructure or recapitalized were declared insolvent and transferred to the DGF for resolution (or nationalized in the case of Privatbank), and clear minimum capital requirements with specific timelines have been put in place. Since the time-span of these policy actions go beyond the monitoring period of the FSDPL program (see Section 3.3 for more details), the final outcome of the process will be instrumental in achieving the goal of ensuring a solvent banking system, and on the outcome of the Government's overall banking sector reform program.

Pillar III - Strengthening the legal and institutional framework to improve the resiliency and efficiency of the banking system. Outcome rating: Satisfactory

The authorities introduced additional quantitative (capital adequacy, liquidity and asset quality) and qualitative criteria to identify problem banks (Prior Action #7 of the FSDPL1). These criteria led the NBU to identify 73 problem banks between mid-2014 and end-2016, of which 16 were able to undertake corrective action and 57 were declared insolvent and transferred to the DGF for resolution. Another 4 banks that were classified as problem banks in that period left such status, and were eventually declared insolvent and transferred to the DGF for resolution. In the period in which these criteria have been in place, the failing banks ended up in problem status for very short period of time, thus affecting the timeframe in which the DGF can prepare for the eventual resolution of the bank.[15] This had led to cases in which a bank is declared insolvent shortly after it has been

[14] Represented by the Ministry of Finance of Ukraine.

[15] The DGF can only start the process of preparing for resolution of a bank after it has been declared as a problem bank by the NBU.

identified as a problem bank,[16] leaving the DGF with no alternative but to liquidate the bank, considerably decreasing the value of the assets it can recover.[17]

The authorities strengthened the corporate governance requirements of commercial banks (Prior Action #8 of the FSDPL1). These requirements included: (i) more effective distribution of powers and responsibilities between the banks' shareholders, supervisory board and executive management; (ii) strengthened internal audit requirements; and (iii) enhanced professional requirements for supervisory board members and bank management. Amendments to the Banking Law were introduced, and the NBU approved several Regulations and amended others to incorporate these requirements. Banks in breach of the corporate governance requirements are subject to supervisory action by the NBU.

The NBU ensured the compliance of a special law passed in 2011 requiring banks to disclose up-to-date and accurate information about their significant ultimate beneficiary owners (i.e., owners with >10 percent of total equity), on their websites and the NBU website (Prior Action #9 of the FSDPL1). The NBU publishes in its website up-to-date information regarding ownership structure of banks, and periodically reviews such information in banks' websites to verify their accuracy, up-to-date status and ease of access. If a bank fails to comply with these requirements, the NBU can take supervisory action, ranging from written warnings, limitation, suspension or termination of certain operations of the bank (including limiting operations with bank-related parties), fines and classification of the bank in problem status.

The authorities have strengthened requirements for identifying and reporting related-party lending, and increased the NBU's powers for identifying bank related parties (Prior Action #7 of the FSDPL2). In the new framework, the NBU can identify and define a party as "related" based on objective criteria. If the bank cannot justify to the NBU within 15 days that its presumption is incorrect, the party will be considered as "related". In addition, the reporting framework of bank related parties has been improved and the definition of bank ownership has been widened to cover all key shareholders. The responsibility of related parties was increased substantially. Bank-related parties are now subject to an increased civil and administrative penalty for the breach of laws and regulations and for undertaking risky operations that pose a threat to the interests of depositors or other creditors of the bank.

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[16] A bank can be classified as a problem bank for a maximum of 180 days.

[17] In addition, delays in classifying a bank in problem status allow the owner of the bank to transfer assets of the bank elsewhere, which significantly affects asset recovery by the time the bank is transferred to the DGF for resolution.

The new framework for related-party lending was followed by a review of banks' related-party lending in a sequencing fashion (Prior Action #8 of the FSDPL2). The NBU undertook a diagnostic of related-party lending in the largest 20 private banks in late 2015, based on the new legal framework. Related-party lending unwinding plans with clearly defined quarterly targets were submitted and approved by the NBU in early 2016 (Result #6), with a final deadline of three years (i.e. early 2019) to unwind related-party exposures in excess of prudential limits[18]. All these banks have met their first year targets. By end-2016, the NBU had undertaken related-party lending diagnostics of the entire banking system, and by April 2017, it had approved related-party lending unwinding plans of a further 15 banks, with a 3-year deadline (counting from the approval date of the plan), and quarterly targets monitored by the NBU. Another 11 banks are still undergoing the process of agreeing their unwinding plans with the NBU, while 10 banks were resolved, and 8 banks adjusted their related-party exposures according to the NBU requirements.

The authorities established a high-level Financial Stability Council (Prior Action #9 of the FSDPL2) comprised of the heads of the NBU, MoF, DGF, the National Securities and Stock Market Commission, and the National Financial Services Commission, plus two additional representatives (one from the NBU and one from the MoF). This council, supported by an NBU-based secretariat, has a rotating chairmanship between the NBU and the MoF (one quarter each), and meets on a quarterly basis, although extraordinary meetings can be called by either the NBU or the MoF. In 2016, seven meetings were held, including three extraordinary meetings (two of them to discuss the situation of Privatbank). The council has become an efficient platform to discuss potential risks to the country's financial stability, and possible remedial actions required if the risks materialize, despite not having the authority to take binding decisions.

The NBU issued regulatory and supervisory requirements for systemically-important banks (Prior Action #10 of the FSDPL2), including Basel 3 requirements on capital buffers for systemic banks. Currently, three banks are classified as systemically-important, all of them state-owned banks: Privatbank[19], Oschadbank, and Ukreximbank. A Resolution of the NBU from 2015 introduced requirement on capital buffers for all banks, including a conservation buffer, a countercyclical buffer, and special buffers for systemically-important banks, in line with Basel 3 requirements, which will come into force in 2020. Finally, systemically-important banks are mandated to develop recovery plans in line with NBU requirements.

As of end-2016, there were 96 licensed banks in Ukraine (Result #5). Measures taken under Pillar II and Pillar III have resulted in a reduction of the number of banks in Ukraine from 181 in 2013, to less than 100 in 2016. Some additional banks are expected to exit the

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[18] One bank requested an extension of the deadline to five years.
[19] In the ownership of the state as a single shareholder represented by the Ministry of Finance of Ukraine.

market in the short to medium term, as recapitalization/restructuring plans and related-party exposure unwinding plans are completed, a strengthened regulatory and supervisory framework continues to be implemented, and new minimum regulatory capital requirements enter into force.[20]

Justification of Pillar Outcome Rating: This pillar is rated as satisfactory, as the legal and institutional framework to improve the resiliency and efficiency of the banking system has been strengthened as a result of the policy actions undertaken by the authorities under the FSDPL program. The only shortcoming -which does not materially affect the rating- are the deficiencies in the process of declaring a bank in problem status, with the impact in the ability of the DGF to maximize asset recovery if a problem bank is subsequently declared insolvent. Since the time-span of the policy actions associated with related-party lending go beyond the monitoring period of the FSDPL program, the final outcome of the process will be instrumental in achieving the goal of improving the resiliency and efficiency of the banking system, and on the outcome of the Government's overall banking sector reform program. In addition, policy actions that were triggers in the FSDPL1 and subsequently dropped from the FSDPL2 given the deteriorating environment, will still need to be fully addressed in the short to medium term to achieve the Government's goal of resuming sustainable financial intermediation (see Section 3.3 for more details).

3.3 Justification of Overall Outcome Rating

Ratings: Satisfactory

Despite the difficult environment and the short timeframe for preparation, approval and implementation, the program achieved the PDO. The FSDPL program was a high-risk and complex operation, as it was prepared during a period of severe economic downturn, significant fiscal pressures, and acute currency depreciation, which had a considerable impact on a banking sector that carried over numerous weaknesses from the 2008-09 crisis, including, but not limited to, high NPLs, weak corporate governance, high levels of related-party lending, ineffective banking supervision, and mismanagement and political interference in banks that had been previously recapitalized by the state. Despite this difficult environment, the program achieved the PDO of supporting the authorities in their efforts to deal with the crisis and undertake reforms to strengthen the banking system, anchored in three pillars.

All six results indicators were achieved, although they do not fully capture the effects of the financial sector reform program supported by the FSDPL program. In some cases, the results indicators were not necessarily the result of actions related to the

[20] All banks will have to meet a minimum regulatory capital of UAH 200 million (around US$ 7.4 million) by June 2017, and of UAH 500 million (around US$ 18.5 million) by 2020, up from the current UAH 120 million (around US$ 4.4 million). This requirement may be a challenge for smaller banks, and could lead to further consolidation of the banking system.

respective pillar the indicator was attempting to measure, although the circumstances made it difficult for identification of better measurable results indicators (see Section 2.3), and in others, they only capture initial milestones of longer-term efforts to ensure the solvency of the banking system, thus not measuring the achievement of results of the full process. Although banks that underwent the updated diagnostics in 2015 have met the minimum capital requirements set for end-2016 (or –if unable to meet those requirements- have been resolved or been subject to state recapitalization), they have yet to meet a required CAR of 10 percent by end-2018. For the second and third group of banks that underwent the updated diagnostics in 2016, the deadline for meeting the 5 percent CAR requirement is yet to come, and they will also be subject to the 10 percent CAR requirement by end-2018. In addition, banks that underwent diagnostics on related party lending will have three years to unwind the exposures in excess of the limits set by the NBU. Finally, the deteriorating economic conditions shifted the focus of the Government program to crisis stabilization, while medium to longer-term reforms –which are crucial in the Government's goal of resuming sustainable financial intermediation- are at early stages of implementation, such as the divestiture of banks recapitalized by the state, facilitation of NPL resolution, and development of the non-banking sector.

Overall, notwithstanding the caveats outlined above, the outcome of the program is rated as satisfactory.

3.4 Overarching Themes, Other Outcomes and Impacts

(a) Poverty Impacts, Gender Aspects, and Social Development

The policy reforms supported by the FSDPL program aimed to minimize the impact of the crisis on households. Global experience has shown that financial crises tend to disproportionally impact the poor and the bottom 40 percent. A banking crisis, if it were to occur, would cause economic conditions to further deteriorate and contribute to further increases in the poverty rate in Ukraine. The policy reforms supported by the FSDPL program focused on urgent actions that were necessary to minimize the risk of a loss of depositor confidence, and the short-term impact of the banking sector instability on the poor and bottom 40 percent. In particular, one of the pillars focused on strengthening the financial and operational capacity of the DGF, thus ensuring that almost all of the poor and bottom 40 percent have their savings fully reimbursed in the case of a bank failure[21]. In addition, smaller enterprises are often amongst the most vulnerable during a banking crisis, and the legal amendments supported by the FSDPL program expanded the deposit insurance coverage to individual entrepreneurs.

[21] The DGF insures deposits up to UAH 200,000 in privately-owned banks, and provides a blanket guarantee on deposits at state-owned banks (which represent 54 percent of total deposits), covering 98.6 percent of all household depositors in Ukraine.

In addition, the policy reforms supported by the FSDPL program contribute to economic and social development. Policy reforms that aim to create a healthier and more viable banking system will eventually help increasing access to finance, lowering costs by increasing efficiency of the system, something that is particularly important in a country like Ukraine, where access to finance was relatively low according to 2014 data from the Global Financial Inclusion Database by the World Bank. In addition, these reforms –in particular those aimed at addressing related party exposures- will eventually contribute to a better allocation of capital that can be mobilized for more productive uses, which, in turn, can lead to increased growth and job creation.

(b) Institutional Change/Strengthening

As part of the overall support to the authorities in undertaking reforms to strengthen the banking system, the design of the FSDPL program had a clear focus on institutional strengthening. One of the risks identified during preparation of the FSDPL program was institutional capacity for implementation and sustainability. The design of the program and the ongoing TA from the World Bank support the strengthening of capacity at the NBU and the DGF. In particular, reforms supported under Pillar I of the FSDPL program aimed at strengthening the DGF's capacity to perform its deposit insurance and bank resolution obligations, while ongoing TA from the World Bank to the DGF aims to eventually align the DGF with the EC Directives on Deposit Insurance. In addition, reforms supported under Pillars II and III of the FSDPL program and ongoing TA from the World Bank to the NBU aims, among other things, to bring the supervisory and regulatory framework for the banking system in line with international standards, and strengthen the capacity of the NBU in crisis preparedness and management.

(c) Other Unintended Outcomes and Impacts

Not applicable.

3.5 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops

Not applicable.

4. Assessment of Risk to Development Outcome

Ratings: Substantial

Structural and macroeconomic risks continue to be high. While the economy stabilized in 2016 and large macroeconomic imbalances have been reduced, growth prospects continue to be weak and macroeconomic vulnerabilities remain substantial. Considerable structural bottlenecks remain in a number of important areas, including governance, fiscal and financial sector stability, private sector competitiveness, and ineffective social services. Potential policy reversals and delays in the implementation of the reform agenda going forward, growing impatience from the public on the pace of reforms and improvement of their economic and social conditions, and potential escalation of the conflict in eastern

Ukraine are major risk factors. In addition, external risks could have an impact in the economic recovery of Ukraine.

The banking sector is still undergoing a painful but necessary restructuring, and although authorities have taken decisive action to bring back the sector to a sustainable path, risks to financial stability are still high. The closure of a significant number of banks and the nationalization of Privatbank are certainly major steps towards ensuring the solvency of the system following the diagnostic studies and subsequent recapitalization/restructuring programs being followed by banks, but further cases of resolution cannot be discarded, if banks are unable to meet higher capital requirements in the medium term and/or are unable to successfully complete their plans to unwind related-party lending exposures. Continuous monitoring by the NBU on the health of the banking sector will be essential to anticipate any risks to financial stability going forward, and take prompt action.

Further reforms to the financial sector will be important in mitigating risks to development outcomes. Key priorities going forward include:

i) *Reform at state-owned banks:*[22] Weak performance, corporate governance, NPL resolution[23] and risk management need to be addressed to avoid crowding out of the private sector and ensure fair competition in the market. In addition, a clear strategy for ownership divestiture, starting with non-core banks and gradually moving to partial or full privatization of larger banks is needed.[24]

ii) *Reform of the non-banking sector:* An essential next step is to bring a weak and underdeveloped non-banking sector to a healthy status, increase the regulatory and supervisory capacity of the non-bank regulator(s), and to further develop important segments of the market, such as capital markets, payment systems and credit reporting.

iii) *Reform of the legal system:*[25] Litigation settlement of disputes between borrowers and creditors are currently favorable to the former, with disputable court decisions,

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[22] The share of state-owned banks increased from 19 percent in 2013 to 52 percent in 2016, including the three largest banks.

[23] NPL resolution at state-owned banks is essential, as they are above 50 percent of total loans, much higher than for the rest of the banking system.

[24] The MoF has expectations to sell its full stake in Ukragazbank (5th largest, with a 4.3 percent asset share, nationalized in the 2009 crisis) in late 2017, and a partial stake in Oschadbank (2nd largest, with a 16.9 percent asset share) in 2018. A state-owned bank strategy was adopted in Feb. 2016, but after the nationalization of Privatbank, the MoF is in the process of updating the strategy (with the support of the World Bank and the EBRD), with a view of having it adopted by the Cabinet of Ministers by early June 2017. In parallel, legislation on corporate governance for state-owned banks was drafted in 2016 and should have been adopted by the Parliament by end-March 2017. However, the MoF was not able to submit it for the approval to the Cabinet of Ministers (prior step to Parliament submission), as internal clearances have taken much longer that initially envisioned. MoF expects to send the law for Parliament's approval in April 2017.

[25] The latest Financial Stability Report (December 2016) highlights the ability of banks to use legal instruments to efficiently protect their rights as the area with the highest risk for the sector.

ineffective work of law enforcement agencies, and abuses of bankruptcy procedures. An efficient and functioning legal system for protection of creditor rights is therefore crucial to restart lending in the banking sector (through effective NPL resolution) and to improve the financial sustainability of the DGF (by maximizing asset recovery rates from failed banks).[26]

iv) *The sustainability of the DGF's funding model:* Estimates from the DGF indicate that the total amount to be repaid to the MoF between 2025 and 2031 will be UAH 144.6 billion (of which UAH 85 billion is interest only), while asset recovery of failed banks is estimated at UAH 51.7 billion[27], which could barely cover the principal (UAH 59.6 billion).[28] Therefore, the DGF may need to look for alternative sources of funding (market, IFIs, etc.) to repay its obligations to the MoF, in case no relief measures are agreed prior to the expiration of the promissory notes.

Finally, the capacity and continued commitment of the Government to undertake necessary reforms is essential, in an environment where vested interests keep playing a very influential role. Political instability at the Government level, recent changes in critical positions at the DGF,[29] and impending changes in the NBU management (including the Governor[30]) entail risks to continued commitment to reforms and the willingness/ capacity to implement them. Frictions between the Parliament and the NBU[31] make increasingly difficult to implement reforms that require legislative changes to be approved by Parliament.

The strong and continued support of the international community is an important mitigating factor. The four-year EFF program with the IMF continues to support Ukraine's efforts to strengthen its fiscal and debt sustainability, and support the implementation of numerous reforms across the board –including state-owned banks, non-banking sector and the legal system- to help bring back the economy to a stable and sustainable growth path. In addition, the ongoing World Bank's existing TA program to

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[26] Some initial steps have been taken by the authorities in this area (adoption of the Law on Financial Restructuring, which establishes a mechanism for voluntary out-of-court restructuring), but significant reforms have yet to be implemented.

[27] The total balance sheet value of failed banks is currently UAH 450 billion, including assets pledged as collateral to the NBU for UAH 145 billion. The estimated market value of these assets is UAH 100 billion, of which the DGF has already collected UAH 12.3 billion, while the NBU has priority over UAH 36 billion (estimated market value of the UAH 145 billion pledged as collateral). Thus, the remaining assets that DGF could recover amount to an estimated UAH 51.7 billion in an optimistic scenario.

[28] For interest payments, the DGF would need to tap into the contributions from the banking industry, which is not in line with best practices to cover the cost of bank failures, and would leave the DGF in a delicate financial position should new bank failures occur in the period where it is repaying its debt to the MoF.

[29] In particular, the recent departure of the Head of Department of Consolidated Sales and Asset Management.

[30] Parliament has to ratify the President's nominee for Governor of the NBU, a process that may prove complex in the presence of vested interests.

[31] Several banks declared insolvent by the NBU were owned by members of Parliament, or by people who provide financial support to members of Parliament.

the DGF and the NBU is important in supporting the Government's efforts in a wide range of reform areas, including: i) financial stability (recapitalization and restructuring of the banking sector, related-party exposure unwinding plans, supervisory reform roadmap, further reform of bank resolution/deposit insurance system); ii) banking sector development reforms aimed at resuming credit growth (governance of state-owned banks, NPL resolution), and iii) financial sector diversification reforms (supervision of the non-banking sector and financial infrastructure).

5. Assessment of Bank and Borrower Performance

5.1 Bank Performance

(a) Bank Performance in Ensuring Quality at Entry

Ratings: Satisfactory

Lessons learned from past experience and extensive policy dialogue were at the core of the design of the program. The design of the FSDPL program incorporated lessons from the World Bank's experience with the 2008-09 global financial crisis, as well as with previous economic and financial crises, and in particular, on the lessons learned from the outcome of the previous FSDPL program in 2009-2010. In addition, continued advisory work as part of the programmatic financial sector TA and best international practices in the areas of bank supervision, resolution and deposit insurance provided a solid background to design the operation. Extensive policy dialogue with the different stakeholders in the Government (NBU, DGF, MoF) ensured ownership of the technically complex and politically sensitive reforms in the financial sector. Coordination and complementarity with other development partners (IMF, EBRD, the European Commission, the Government of Germany, USAID and US Treasury), was critical to leverage results.

In addition, the program design was aligned with World Bank strategic documents and with the Government reform program, and a thorough analytical work was carried out to understand the environment and identify risks. The policy areas covered in the FSDPL program focused in addressing the urgent need to stabilize the banking system, maintaining the confidence of depositors and ensuring adequate capacity to deal with the increasing number of failed banks, being consistent with one of the pillars of the CPS (FY12-16) and with the Government reform program to stabilize the banking system and resume financial intermediation in the medium-term. Risks were openly identified, recognizing that they could not be fully mitigated. The macroeconomic and banking sector environment was thoroughly studied and documented. Considering the high level of effort and technical expertise engaged to prepare the FSDPL program in the midst of an uncertain macroeconomic environment and related vulnerability of the banking sector, the quality at entry of the Bank is assessed as Satisfactory.

(b) Quality of Supervision

Ratings: Satisfactory

Supervision was conducted as part of the continuous policy dialogue with the authorities, both as part of the FSDPL program and related technical assistance. The task team conducted supervision as part of the policy dialogue and preparation of the FSDPL2 operation, monitoring the progress of the reforms and of the macroeconomic and banking sector environment, which allowed to undertake the adjustments in prior actions and result indicators discussed in previous sections, in order to maintain the relevance of the operation and respond to the worsening conditions of the economy, and in turn, of the financial sector. In addition, the extensive technical assistance provided to the NBU and DGF in the policy areas covered in the financial sector reform program have contributed – and continue to contribute- to the effective implementation of the reform supported by the FSDPL program. The task team and the Ukrainian authorities have monitored performance of the agreed policy actions as well as the results framework included in the policy matrix of both program documents. Therefore, the quality of supervision has been assessed as Satisfactory.

(c) Justification of Rating for Overall Bank Performance

Ratings: Satisfactory

The overall performance is rated Satisfactory since the Bank performance in both Ensuring Quality at Entry and in Quality of Supervision were rated Satisfactory.

5.2 Borrower Performance

(a) Government and Implementing Agencies Performance

Ratings: Satisfactory

The authorities have shown a strong commitment to an ambitious financial sector reform program in an extremely difficult environment. The magnitude of the problem in the banking sector, with lingering vulnerabilities magnified by a deteriorating macroeconomic environment, called for a comprehensive, decisive and sustained response from the Government. The financial sector reform program put in place to stabilize the banking system in the short term and resume sustainable financial intermediation in the medium term required unprecedented commitment from the authorities to undertake a number of difficult but necessary regulatory measures, and particularly to enforce them, despite pressure from vested interests. The level of commitment from Government and the different implementing institutions (MoF, NBU and DGF) to carry out these measures has been recognized by the market and the international community as the key factor to transform the banking sector into a healthier and more stable one. In addition, insured depositors of failed banks did not lose access to their funds thanks to the efforts of the Government in providing the necessary funding to the DGF for it to continue carrying out its deposit payout functions as the number of bank failures increased.

Significant cooperation took place across all relevant stakeholders. The Bank, the MoF, the NBU and the DGF have maintained a continued technical and policy dialogue, with

candid discussions on the reform program implementation status, identifying issues that need to be addressed, and follow-up steps that need to be undertaken to ensure the sustainability of the objectives of the reform program. The market has also recognized the transparency shown by the authorities in providing the necessary information on legislative amendments and regulatory reforms, and carrying out consultations with stakeholders.

(b) Justification of Rating for Overall Borrower Performance

Ratings: Satisfactory

The performance of the Government and the Implementing Agencies is rated satisfactory, as shown by their commitment for reform, cooperation with stakeholders, the successful implementation of the prior actions and the achievement of the key outcome indicators.

6. Lessons Learned

The main positive difference seen in this operation in comparison to the previous crisis has been the ownership of reform by the authorities and commitment to its full implementation. All relevant stakeholders agreed that the Government financial sector reform program –as supported by the FSDPL program- has been broadly successful to date, and that the key success factor has been the ownership of the reform agenda to bring back the banking sector to a healthy status and to ensure adequate supervision and regulation, despite the extremely complex scenario under which it had to be put in place, and the required level of commitment by the authorities to implement it. Notwithstanding the technical and political difficulty of the reform program, the MoF, the NBU and the DGF have shown significant commitment to its full implementation, something that requires a notable amount of effort, cooperation, coordination, and determination to follow the necessary steps to bring it into successful completion. The Bank team worked extensively to build such ownership and commitment with the authorities during preparation and implementation of the FSDPL program, and with the continued TA engagement with the NBU and the DGF, which contributed to the alignment of the FSDPL program and the Government financial sector reform program.

The speed and quality of responsiveness from the international community, and cooperation and coordination among donors was also fundamental to the success of the reform program, given the urgency of the situation that Ukraine was facing. Given the difficult economic and financial sector environment faced by the country, a rapid and coordinated response by the international community was critical to support the Government efforts to stabilize the banking system. A continued technical and policy dialogue between the Bank and the authorities, anchored in previous operations and significant TA support to the NBU and DGF resulted in a swift response from the Bank team, and allowed for a streamlined process of preparing, approving and implementing the FSDPL program. The program design built on the uninterrupted TA engagement, lessons

learned from previous operations, best international practices, and coordination with other partners,[32] resulting in a set of comprehensive and relevant policy actions that were owned and implemented by the Government.

In particular, the ability to adjust policy actions and key indicators from the FSDPL1 to the FSDPL2, showed a degree of flexibility in the program design that contributed to its success. The team counted with endorsement from the Bank's management to make adjustments to certain policy actions and key indicators during preparation of the FSDPL2, to reflect the deteriorating economic conditions which in turn further impacted the stability of the banking sector. Although the PDO and the three pillars were not revised, the adjustments put greater emphasis in the efforts to strengthen the banking system and make it more resilient, in line with the focus of the Governments' financial sector reform program. The flexibility to make these adjustments contributed to the success of the FSDPL program.

The current financial sector reform program is a long term effort (going beyond the timespan of the FSDPL program) that requires continued ownership and commitment of the authorities at every level, and a lending operation has greater chances of achieving these objectives. Although a significant TA engagement has continued after the completion of the FSDPL program, it does not have the same impact as a lending operation, not only in terms of additional financial support to a country that has no alternative sources of funding (other than official loans), but also in getting traction for the implementation and completion of technically and politically difficult reforms within the Government, something that a TA is less likely to achieve.

7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

(a) Borrower/Implementing agencies

See Annex 4.

(b) Cofinanciers

Not applicable

(c) Other partners and stakeholders

Not applicable

[32] In addition to frequent bilateral meetings with partners and periodic reports to donors financing TA efforts during implementation of the FSDPL program, the IMF and the World Bank participated as observers in Steering Committees set up in the NBU to undertake the process of restructuring/recapitalization of banks, and on the review of banks' related party lending exposures and associated unwinding plans.

Annex 1. Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

First Programmatic Financial Sector Development Policy Loan (FSDPL1)

Names	Title	Unit	Responsibility/ Specialty
Lending			
Alexander Pankov	Lead Financial Sector Specialist	GFM03	Team Leader
Aurora Ferrari	Practice Manager	GFM1A	Team Member
Rinku Chandra	Lead Financial Sector Specialist	GFM03	Team Member
Vahe Vardanyan	Lead Financial Sector Specialist	GFM03	Team Member
Aquiles Almansi	Lead Financial Sector Specialist	GFM03	Team Member
Sebastian Eckardt	Program Leader	EACVF	Team Member
Colleen Mascenik	Senior Financial Sector Economist	GFM09	Team Member
Carl Chastenay	Senior Syndications Officer	CSLCU	Team Member
Carl-Johan Lindgren	Consultant	GFM03	Team Member
Steven Seelig	Consultant	GFM03	Team Member
Daria Gulei	Team Assistant	ECCUA	Team Member

Second Programmatic Financial Sector Development Policy Loan (FSDPL2)

Names	Title	Unit	Responsibility/ Specialty
Lending			
Rinku Chandra	Lead Financial Sector Specialist	GFM03	Team Leader
Lalita Moorty	Practice Manager	GMF03	Team Member
Vahe Vardanyan	Lead Financial Sector Specialist	GFM03	Team Member
Sebastian Eckardt	Program Leader	EACVF	Team Member
Colleen Mascenik	Senior Financial Sector Economist	GFM09	Team Member
Yevhen Hrebeniuk	Financial Sector Specialist	GFM03	Team Member
Anastasia Golovach	Economist	GMF03	Team Member
Alena Kantarovich	Financial Sector Analyst	GFM03	Team Member
Mikhail Matytsin	Research Analyst	GPV03	Team Member
Gordon Johnson	Consultant	GFM03	Team Member
Carl-Johan Lindgren	Consultant	GFM03	Team Member
Lalit Raina	Consultant	GFM03	Team Member
Joaquín Gutiérrez	Consultant	GFM03	Team Member
Charlotte Wu Homme	Consultant	GFM03	Team Member
Daria Gulei	Team Assistant	ECCUA	Team Member
Anastasia Soltis	Team Assistant	ECCUA	Team Member
Supervision			
Rinku Chandra	Lead Financial Sector Specialist	GFM03	Team Leader
Vahe Vardanyan	Lead Financial Sector Specialist	GFM03	Team Member
Yevhen Hrebeniuk	Financial Sector Specialist	GFM03	Team Member
Alena Kantarovich	Financial Sector Analyst	GFM03	Team Member

(b) Staff Time and Cost

Stage	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD (including travel and consultant costs)
First Programmatic Financial Sector Development Policy Loan		
Lending		
Total:	**32.87**	**212,634.29**
Supervision/ICR		
Total:	**N/A**	**N/A**
Second Programmatic Financial Sector Development Policy Loan		
Lending		
Total:	**52.78**	**397,808.91**
Supervision/ICR		
Total:	**31.14**	**162,374.79**

Annex 2. Beneficiary Survey Results
NA

Annex 3. Stakeholder Workshop Report and Results

NA

Annex 4. Summary of Borrower's ICR and/or Comments on Draft ICR

МІНІСТЕРСТВО ФІНАНСІВ УКРАЇНИ
(Мінфін)

вул. Грушевського, 12/2, м. Київ, 01008, тел. (044) 206-59-47, 206-59-48, факс 425-90-26
E-mail: infomf@minfin.gov.ua Код ЄДРПОУ 00013480

13.06.2017 № 19030-03-15/15514
На № _____ від _____

Директору Світового банку
у справах Білорусі, Молдови
та України
пані Сату Кахконен

Щодо Звітів про підсумки та результати позик на політику розвитку, наданих у 2014-2015 роках

Шановна пані Кахконен!

Дозвольте мені подякувати Вам за надання на ознайомлення Звітів про підсумки та результати позик на політику розвитку, які були надані Україні Світовим банком у 2014-2015 роках.

Серія багатогалузевих позик на політику розвитку була покликана надати підтримку плану реформ в Україні щодо усунення структурних причин економічної кризи, досягнення стабілізації економічної ситуації та зменшення впливу кризових явищ на малозабезпечені верстви населення. Основними сферами багатогалузевих позик були: (i) покращення урядування в державному секторі, (ii) просування дерегуляції та створення рівних умов в реальному секторі економіки та (iii) підтримка реструктуризації енергетичного сектору з одночасним зменшення негативного впливу на малозабезпечених.

Серія позик на політику розвитку у фінансовому сектору була спрямована на вирішення питання збанкрутілих банків, реалізації планів щодо рекапіталізації/ реструктуризації банків та покращення банківського нагляду. Основними компонентами позик на політику розвитку у фінансовому секторі були: (i) зміцнення операційної, фінансової та регуляторної спроможності Фонду гарантування вкладів фізичних осіб для виведення неплатоспроможних банків з ринку, (ii) поліпшення платоспроможності банківської системи шляхів реалізації планів рекапіталізації/ реструктуризації банків та вчасного вжиття заходів впливу, та (iii) зміцнення правової та інституційної бази для підвищення стійкості та ефективності банківської системи.

261327 ✻

(Unofficial translation)

Satu Kahkonen
Country Director
Belarus, Moldova, Ukraine
Europe and Central Asia Region
The World Bank

Regarding Implementation Completion and Results Reports for the 2014-15 Ukraine Development Policy Loans

Dear Ms. Kahkonen:

Thank you for sharing the Implementation Completion and Results (ICR) reports for the World Bank's 2014-2015 Development Policy Loan (DPL) series for Ukraine.

The objectives of the Multi-Sector DPL series were to support Ukraine's reform plan regarding tackling the structural causes of the crisis; stabilizing the economy; and cushioning the impact of the crisis on the poor. The main reform arears supported by Multi-Sector DPL series were: (i) promote good governance, transparency and accountability in the public sector; (ii) strengthen the regulatory framework and reduce costs of doing business; (iii) restructuring of the energy sector, while protecting the poor.

The Financial Sector DPL series supported failed banks' resolution; development of the plans for banks recapitalization/restructuring; and strengthening of the banks supervision. The main components of the Financial Sector DPL series were: (i) to strengthen the operational, financial and regulatory capacity of the DGF for the resolution of insolvent banks; (ii) to improve the solvency of the banking system through implementation of bank recapitalization/restructuring plans and timely enforcement action; and (iii) to strengthen the legal and institutional framework to improve the resiliency and efficiency of the banking system.

The reforms, supported by the Multi-Sector and Financial Sector DPL series, helped to stabilize Ukraine's economy. Substantial structural reforms helped to strengthen the banking system and to improve investors' confidence.

At the same time, the reform agenda remains vast, in particular there is an urgent need to reform the pension system, to launch the agricultural land reform and to deepen reforms, started in the energy sector and in the area of tax and custom administration.

We would like to thank the World Bank for its development policy support to Ukraine and we look forward to continuing our future collaboration in this area.

Sincerely,

Yuriy Butsa

Deputy Minister for European Integration

Summary of suggested edits from the NBU and the DGF, addressed to the Ministry of Finance of Ukraine, and forwarded to the World Bank via email on June 14, 2017.

1. Precisions and rewording of some sentences in section 2 "Key Factors Affecting Implementation and Outcomes".
2. Removal of a sentence in section 2.2. "Major Factors Affecting Implementation".
3. Removal of part of a sentence in section 3.2 "Achievement of Program Development Objectives", sub-section "Implementation of mechanism for state participation in bank recapitalization". In the same sub-section, clarification of the wording in accordance with Article 41 of the Law of Ukraine "On the System of Guaranteeing Individuals" Deposits' of February 23, 2012, No.4452-VI.
4. Precisions in section 3.2 "Achievement of Program Development Objectives", sub-section "Pillar III - Strengthening the legal and institutional framework to improve the resiliency and efficiency of the banking system. Outcome rating: Satisfactory", regarding identification of related parties.
5. Precisions in section "Achievement of Program Development Objectives", sub-section "Pillar III - Strengthening the legal and institutional framework to improve the resiliency and efficiency of the banking system. Outcome rating: Satisfactory", regarding the review of banks' related-party lending.
6. Precisions in section "Achievement of Program Development Objectives", sub-section "Pillar III - Strengthening the legal and institutional framework to improve the resiliency and efficiency of the banking system. Outcome rating: Satisfactory", regarding the name of the participant authorities of the Financial Stability Council.
7. Clarification of the intended meaning of the term "ultimate beneficiary owners" according to the Law of Ukraine "On Banks and Banking".
8. Precisions in the description of the ownership of Privatbank, according to Article 7 of the Law of Ukraine "On Banks and Banking".
9. Precisions regarding the origin of the contributions collected by the DGF, according to Article 19 of the Law of Ukraine "On the System of Guaranteeing Deposits of Individuals".

Annex 5. Comments of Cofinanciers and Other Partners/Stakeholders
NA

Annex 6. List of Supporting Information

Table 1. Policy Matrix for FSDPL Program		
Prior Actions under FSDPL1	**Triggers for FSDPL2**	**Prior Actions under FSDPL2**
Pillar I - Strengthening the operational, financial and regulatory capacity of the DGF for the resolution of insolvent banks.		
Prior Action #1: DGF's financial capacity was strengthened by establishing a mechanism for long-term back-up funding from the Government.	Trigger #1: The state budget law for 2015 includes a back-up funding provision for the DGF and the required funding is provided by the GoU to DGF in accordance with the latter's bank resolution and depositor payout needs.	Prior Action #1: DGF's financial capacity for bank resolution was strengthened by establishing a back-up funding provision to DGF from the Government.
Prior Action #2: The range of bank resolution instruments was expanded and the resolution process streamlined, to introduce improved provisions on, inter alia: (a) the use of bridge banks by the DGF without an identified investor; (b) the operation of bad asset entities to consolidate bad assets from multiple banks; and (c) state participation in the bank resolution process.		Prior Action #2: Authorities enabled the DGF to increase the speed of meeting its obligations to insured depositors.
Prior Action #3: DGF's administrative council approved a revised operational budget and a staffing plan for 2014.		Prior Action #3: Authorities increased the efficiency of the asset management function of the DGF.
Prior Action #4: The NBU and DGF signed a Memorandum of Understanding to improve the sharing of information on problem banks between the two institutions.		
Pillar II - Improving the solvency of the banking system through implementation of bank recapitalization/restructuring plans and timely enforcement action.		
Prior Action #5: Authorities established the key principles of the bank recapitalization and restructuring process through the adoption of a corrective action plan for dealing with undercapitalized banks, and the adoption of criteria for state participation in the bank recapitalization process.	Trigger #2: Adoption of regulations to operationalize the mechanism for state participation in bank recapitalization, including the details of decision making and governance arrangements.	Prior Action #6: Authorities established a legal mechanism for state participation in bank recapitalization.
Prior Action #6: NBU launched independent diagnostic studies for the 35 largest banks, based on acceptable terms of references, and the 15 largest	Trigger #3: Banks complete the implementation of time-bound recapitalization and restructuring plans,	Prior Action #4: The NBU certified the recapitalization of 13 out of the 35 largest banks in the amounts indicated by the independent

Table 1. Policy Matrix for FSDPL Program		
Prior Actions under FSDPL1	**Triggers for FSDPL2**	**Prior Actions under FSDPL2**
banks each signed a contract with a qualified audit firm.	as required, based on the results of independent diagnostic studies.	diagnostic studies, and that 5 out of the 35 largest banks were unable to be recapitalized in the amount indicated by said studies, thus transferring those banks to the DGF for resolution.
	Trigger #4: The NBU initiates a resolution process for all banks that were unable to implement the required recapitalization and restructuring plans in a timely manner.	
		Prior Action #5: NBU initiated updated diagnostic studies for the 20 largest banks, based on acceptable terms of reference.
Pillar III - Strengthening the legal and institutional framework to improve the resiliency and efficiency of the banking system.		
Prior Action #7: Authorities introduced additional criteria for the timely identification of problem banks.	Trigger #5: Establishment of a high-level Financial Stability Council, comprised of NBU, MoF, DGF and two other financial sector regulators.	Prior Action #9: A high-level Financial Stability Council was established.
Prior Action #8: Authorities strengthened the corporate governance requirements of commercial banks.	Trigger #6: The authorities adopt regulations aimed at the consolidation of the banking system (e.g., streamlined M&A procedure, stronger monitoring and enforcement of related party lending limits, etc.).	Prior Action #7: Authorities strengthened requirements for identifying and reporting related-party lending, and increased the NBU's powers for identifying bank related parties.
		Prior Action #8: NBU initiated a review of banks' related-party lending, based on acceptable terms of references.
Prior Action #9: The NBU commenced disclosure of banks' ultimate beneficiary owners as evidenced by up-to-date and accurate ownership information about the 35 largest banks published on the NBU website.	Trigger #7: The authorities enact regulations to address impediments for effective NPL out-of-court restructuring, sale, and write-off.	Removed.
	Trigger #8: NBU adopts regulations that set special regulatory and supervisory requirements for systemically-important banks.	Prior Action #10: NBU issued regulatory and supervisory requirements for systemically-important banks.
	Trigger #9: Progress in implementation of a time-bound strategy for divestiture of banks recapitalized with the state's participation.	Removed.

Table 2. Key Outcome Indicators for the FSDPL program	
FSDPL1 (August 2014)	**FSDPL2 (September 2015)**
Pillar I - Strengthening the operational, financial and regulatory capacity of the DGF for the resolution of insolvent banks.	
1. DGF maintains adequate financial capacity (funding ratio) Baseline (Q12014): 3.30% Target (2016): >2.5%	1. Depositors reimbursed in banks that were declared insolvent in 2014 and 2015 Baseline (2014): NA Target (2016): 100 percent Actual (2016): 100 percent
2. Number of bank resolution plans implemented by DGF (cumulative) Baseline (2013): 2 Target (2016): 20	2. Number of bank resolution plans adopted by DGF (cumulative) Baseline (2013): 2 Target (2016): 54 Actual (2016): 80
Pillar II - Improving the solvency of the banking system through implementation of bank recapitalization/restructuring plans and timely enforcement action	
3. Banking system remains adequately capitalized (% CAR) Baseline (Q12014): 14.8% Target (2016): >10%	3. Bank recapitalization plans approved by the NBU for the largest 20 banks (or resolution of those that cannot be agreed to) based on revised diagnostic studies Baseline (2014): NA Target (2016): 100 percent Actual (2016): 100 percent
	4. CAR for the largest 20 banks that underwent the updated diagnostic process Baseline (2015): NA Target (2016): >5% Actual (2016): >5%
Pillar III - Strengthening the legal and institutional framework to improve the resiliency and efficiency of the banking system.	
4. Consolidation of banking sector in Ukraine (number of banks) Baseline (2013): 181 banks Target (2016): 150 banks	5. Consolidation of banking sector in Ukraine (number of banks) Baseline (2013): 181 banks Target (2016): 100 banks Actual (2016): 96 banks
5. Adoption of recovery plans by domestic systemically important banks (D-SIBs) Baseline (2013): 0 Target (2016): all banks classified as D-SIBs	6. Agreement on related-party lending unwinding plans by the largest 10 banks (or resolution of those banks that cannot agree on plans) Baseline (2014): NA Target (2016): 100 percent Actual (2016): 100 percent

Table 3. Key Macroeconomic Indicators

	2013	2014	2015	2016	2017f	2018f	2019f
Real economy							
Nominal GDP, UAH *billion*	1465.2	1586.9	1988.5	2383.4	2735.0	3085.4	3449.5
Real GDP, *percent change*	0.0	-6.6	-9.8	2.3	2.0	3.5	4.0
Consumption, *percent volume change*	5.2	-6.2	-15.9	1.4	3.1	2.8	3.3
Investment, *percent volume change*	-8.4	-24.0	-9.2	20.1	15.4	7.9	7.7
Exports, *percent volume change*	-8.1	-14.2	-13.2	-1.6	1.6	3.0	5.0
Imports, *percent volume change*	-3.5	-22.1	-17.9	8.4	1.7	1.6	6.7
Unemployment rate (ILO definition), *percent*	7.2	9.3	9.1	9.3	8.5	8.0	9.0
GDP deflator, *percent change*	3.1	14.8	38.4	17.1	12.5	9.0	7.5
CPI (pa), *percent change*	-0.3	12.1	48.7	13.9	11.7	9.5	6.5
Fiscal Accounts							
Revenues, *percent GDP*	43.6	40.3	42.1	38.4	39.1	40.6	40.5
Expenditures, *percent GDP*	48.4	44.8	43.3	40.6	42.1	43.2	43.0
General Government Balance, *percent GDP*	-4.8	-4.5	-1.2	-2.2	-3.1	-2.6	-2.4
General Government and Naftogaz Balance, *percent GDP*	-6.7	-10.1	-2.2	-2.3	-3.1	-2.6	-2.4
PPG debt (eop), *percent GDP*	40.6	70.3	79.7	81.2	88.8	83.5	75.9
Selected Monetary Accounts							
Base Money, *percent change*	20.3	8.5	0.8	13.6	13.0	12.7	12.1
Credit to non-government (at program exchange rate), *percent change*	11.8	12.4	-1.0	-1.1	8.2	8.7	10.5
including exchange rate effect, *percent change*	9.5	-15.6	-19.4	-3.7	6.8	8.1	11.4
Interbank overnight rate (annual average), *percent*	3.8	12.2	21.5	16.9	…	…	…
Balance of Payments							
Current Account Balance, *percent GDP*	-9.2	-4.2	-0.3	-3.8	-4.1	-3.0	-3.3
Merchandise Exports, *percent GDP*	34.1	41.6	41.7	36.1	37.4	36.7	35.5
Merchandise Imports, *percent GDP*	44.6	46.2	45.6	43.7	43.3	42.9	42.0
Foreign Direct Investment, *percent GDP*	2.1	0.2	3.6	3.4	1.8	2.5	3.2
Gross Reserves, *billion US$, eop*	20.4	7.5	13.3	15.5	21.8	29.5	29.8
In months of next year's imports	*3.5*	*1.8*	*3.1*	*3.4*	*4.5*	*5.7*	*5.3*
External Debt, *percent GDP*	78.6	97.6	131.5	129.6	131.6	125.4	107.5
Terms of Trade, *percent change*	0.9	2.1	-7.3	1.2	4.4	-1.9	1.3
Exchange Rate, UAH/*US$ (average)*	8.2	12.1	23.4	25.7	28.2	29.4	29.6
Memo:							
Nominal GDP, *US$ billion*	177.4	130.7	85.0	92.6	97.0	104.9	116.5

Source: National authorities, IMF and World Bank staff calculations.

Table 4. List of policy actions undertaken under the FSDPL program			
FSDPL1		**FSDPL2**	
Policy Action Details	**Status**	**Policy Action Details**	**Status**
Pillar I - Strengthening the operational, financial and regulatory capacity of the DGF for the resolution of insolvent banks.			
Prior Action #1 Amendments to two laws were enacted to set up a functioning mechanism for the GoU to be able to provide back-up funding to the DGF in a timely manner. Amendments to the State Budget Law authorized the MoF to use state bonds for long-term credit to the DGF, while amendments to the DGF Law entitled the DGF to receive back-up funding from the GoU in case its funding ratio falls below 2.5 percent. Finally, as required by the amendments to the DGF Law, a Cabinet of Ministers resolution was passed that described the specific operational details of the back-up funding mechanism. *The Law "On Amendments to the State Budget Law of Ukraine of Year 2014" was enacted.*	*Completed*	Prior Action #1 Amendments to the State Budget Law for 2015 were introduced to provide for increased back-up funding to DGF from the Government. A resolution by the Cabinet of Ministers was also issued to put in place the specific mechanism that allowed the Government to meet the increased financing needs of the DGF through the issuance of Government bonds to the DGF, which were subsequently monetized at the NBU and on the secondary market in order to reimburse insured depositors. *The Law of Ukraine #80-VIII "On the State Budget of Ukraine of Year 2015" was enacted on December 28, 2014, (Official Gazette "Golos Ukrainy" #254 published on December 31, 2014). The Cabinet of Ministers Resolution #156 "On provisioning the loan to the Individual Deposit Guarantee Fund" was adopted on April 4, 2015.*	*Completed*
Prior Action #2 Amendments to the DGF Law were introduced to provide the DGF with the additional tools necessary for effective bank resolution, including, inter alia: (a) the use of bridge banks by the DGF without an identified investor; (b) the operation of bad asset entities to consolidate bad assets from multiple banks; and (c) state participation in the bank resolution process. *The Law "On Amendments to the Legislation on Minimization of Negative Effect on Stability of the Banking System", amending the Law "On Individual Deposit Guarantee System", was enacted on February 23, 2012 (Official Gazette 4452-VI).*	*Completed*	Prior Action #2 Authorities enabled the DGF to increase the speed of meeting its obligations to insured depositors, through changes to the legal framework that, amongst other things, allow for the prequalification of bidders to speed up the resolution decision making process, increase information sharing on problem banks from the NBU to the DGF, and decrease the legally mandated timeframe for reimbursing insured depositors. *The Law of Ukraine #629-VIII "On Amendments to Some Legislative Acts of Ukraine in Respect of the Improvement of the Individual Deposit Guarantee System and the Resolution of Insolvent Banks" was enacted on July 16, 2015 (Official Gazette "Golos Ukrainy" #146 published on August 11, 2015).*	*Completed*

Table 4. List of policy actions undertaken under the FSDPL program			
FSDPL1		**FSDPL2**	
Policy Action Details	**Status**	**Policy Action Details**	**Status**
Prior Action #3 DGF's administrative council has approved a revised operational budget and a staffing plan for 2014, to allow for the hiring of additional staff to work on temporary administration and liquidation, in line with the possible number of banks to be resolved by the DGF in 2014. *A revised operational budget was approved through the Administrative Council Decision #12, dated April 2, 2014. In addition, a staffing plan for 2014 was approved through the DGF Executive Directorate decision #066/14, dated April 7, 2014.*	*Completed*	Prior Action #3 DGG has increased the efficiency of its asset management function through changes to the DGF Law and adoption of Decisions by the DGF Executive Board to increase the efficiency of the asset liquidation process, and to maximize the likelihood of recovery. Changes introduced include the ability of the DGF to sell and manage assets on a consolidated basis from the numerous failed banks, improve the efficiency of asset sales and auctions, enhance management and financial controls, and increase transparency and oversight of the asset recovery process. *The Law of Ukraine #629-VIII "On Amendments to Some Legislative Acts of Ukraine in Respect of the Improvement of the Individual Deposit Guarantee System and the Resolution of Insolvent Banks" was enacted on July 16, 2015 (Official Gazette "Golos Ukrainy" #146 published on August 11, 2015). The DGF Executive Board's Decisions #145/15, #196/15, and #198/15 were approved on June 30, 2015, August 17, 2015, and August 18, 2015, respectively.*	*Completed*
Prior Action #4 The NBU and DGF have signed a revised Memorandum of Understanding to improve the sharing of information on Problem Banks between the two institutions, by implementing the following coordination mechanisms: (i) the sharing of detailed and comprehensive information on problem banks by the NBU with the DGF; (ii) the NBU inviting DGF staff to participate in its supervisory meetings on corrective actions for problem banks; and (iii) the DGF making use of its right to conduct in depth on-site inspections at the problem bank stage. *The NBU and DGF have signed the "Agreement on Amendment to the Agreement on cooperation and coordination of activities" on May 8, 2014.*	*Completed*		

Table 4. List of policy actions undertaken under the FSDPL program			
FSDPL1		**FSDPL2**	
Policy Action Details	**Status**	**Policy Action Details**	**Status**
Pillar II - Improving the solvency of the banking system through implementation of bank recapitalization/restructuring plans and timely enforcement action			
Prior Action #5 Authorities have developed and adopted a corrective action plan that will guide the NBU throughout the bank recapitalization and restructuring process, and defined the criteria for the use of public funds. The action plan outlines the scope and timetable of the planned external diagnostic exercise and subsequent actions expected from bank management and shareholders. The decision on state participation in bank recapitalization adopted by the high level Steering Committee comprised of the Minister of Finance, NBU Governor, the DGF Director, and other senior Government and NBU officials, is based on the following principles: (i) limiting the use of state funds to a few large institutions (defined, inter alia, by share held in total assets and deposits) whose failure could cause a major impact on financial stability; (ii) state recapitalization should occur after dilution of existing shareholders; and (iii) ensuring that banks with state participation have sound corporate governance. *The NBU Board Decision #326, on a corrective action plan for dealing with undercapitalized banks, was adopted on May 30, 2014. The Decision by the high-level GOU/NBU/DGF Steering Committee, on the criteria for state participation in the bank recapitalization process, was adopted on July 3, 2014.*	*Completed*	Prior Action #4 The NBU certified the recapitalization of 13 out of the 35 largest banks in the amounts indicated by the independent diagnostic studies, and that 5 out of the 35 largest banks were unable to be recapitalized in the amount indicated by said studies, thus transferring those banks to the DGF for resolution, all through the adoption of a Decision. *The NBU Decision #429, "On Progress of Implementing Activities on Capitalization Based on the Results of the Diagnostic Studies", was adopted on July 3, 2015.*	*Completed*
Prior Action #6 Independent diagnostic studies for the 35 largest banks were launched to identify any weaknesses in their balance sheets and inform appropriate remedial actions. Standard terms of reference for the diagnostic studies were designed based on the 2014 ECB Asset Quality Review methodology, while the list of eligible audit firms was restricted to ensure quality. The studies for the largest 15 banks were expected to be completed by end-July 2014, while	*Completed*	Prior Action #5 NBU has initiated updated diagnostic studies for the 20 largest banks, based on acceptable terms of reference, taking into account the worsening economic conditions, depreciation of the local currency, and the additional losses associated with the conflict in the east. Based on the results of these studies, undercapitalized banks (CAR < 10%) will be required to present credible recapitalization plans to complete the recapitalization by end-2018. If a bank is	*Completed*

Table 4. List of policy actions undertaken under the FSDPL program			
FSDPL1		**FSDPL2**	
Policy Action Details	**Status**	**Policy Action Details**	**Status**
for the remaining 20 banks, they were expected to be completed by end-September 2014. *NBU issued Resolution #272, dated May 12, 2014, on launching independent diagnostic studies for the 35 largest banks, based on acceptable terms of references, and the 15 largest banks signed a contract with a qualified audit firm.*		unable to present a credible plan or implement the plan in an acceptable manner, it will be transferred to the DGF for resolution. *The NBU Board Decision #260, "On Implementation of the Diagnostic Studies of Banks", was issued on April 15, 2015.*	
		Prior Action #6 Authorities have created the legal mechanism for state recapitalization in cases where the resolution of a bank on a least-cost basis via the DGF could impact financial stability. The legal changes ensure that public funds are only injected after shareholders have been completely wiped out, and liabilities to bank related-parties and non-deposit unsecured creditors are "bailed in". The legal mechanism strictly limits the use of state recapitalization for private banks, and provides clear oversight by the authorities in the decision making to minimize the potential for state recapitalization for private banks that do not pose stability risks. *The Law of Ukraine #78-VIII, "On Measures to Promote the Capitalization and Restructuring of Banks", was enacted on December 28, 2014 (Official Gazette "Golos Ukrainy" #252-1 published on December 30, 2014). The Law of Ukraine #629-VIII "On Amendments to Some Legislative Acts of Ukraine in Respect of the Improvement of the Individual Deposit Guarantee System and the Resolution of Insolvent Banks", was enacted on July 16, 2015 (Official Gazette "Golos Ukrainy" #146 published on August 11, 2015).*	*Completed*
Pillar III - Strengthening the legal and institutional framework to improve the resiliency and efficiency of the banking system			
Prior Action #7 Authorities introduced additional criteria for the timely identification of Problem Banks through (i) amendments to the	*Completed*	Prior Action #7 Authorities have strengthened requirements for identifying and reporting related-party lending and have increased the	*Completed*

Table 4. List of policy actions undertaken under the FSDPL program			
FSDPL1		**FSDPL2**	
Policy Action Details	**Status**	**Policy Action Details**	**Status**
Law on Banks introducing new quantitative criteria related to capital adequacy, liquidity and quality of bank assets, and (ii) adoption of a special NBU regulation that introduces several additional qualitative criteria. *The Law "On Amendments to the Legislation on Minimization of Negative Effect on Stability of Banking System", amending the Law on Banks and Banking was enacted, and the NBU Regulation #332 was adopted on June 3, 2014.*		NBU's powers for identifying bank related parties. In the new framework, the NBU can identify and declare a party as related based on objective criteria. If the bank cannot justify to the NBU within 15 days that its presumption is incorrect, the party will be declared as related. In addition, the reporting framework of bank related parties has been improved and definition of bank ownership has been widened to cover all key shareholders. The responsibility of related parties has also been increased substantially. Bank-related parties are now subject to an increased civil and administrative penalty for the breach of laws and regulations and risky operations that pose a threat to the interests of depositors or other creditors of the bank. They will also be subject to criminal penalty for causing a bank insolvency, and will be held liable with all their personal property for the damages incurred by bank creditors if they are found to have caused a bank insolvency based on unlawful actions. *The Law of Ukraine #218-VIII, "On Amendments to the Legislative Acts on the Liabilities Associated with the Related Parties of Banks", was enacted on March 2, 2015, (Official Gazette "Golos Ukrainy" #42 published on March 7, 2015). The NBU Regulation #312, "On Amendments to the Instruction on Regulation of Banks' Operations in Ukraine", was adopted on May 12, 2015. The NBU Regulation #315, "On Approval of the Definition of Bank-related parties", was adopted on May 12, 2015. The NBU Regulation #328, "On Procedures for Reporting Bank Ownership Structure", was adopted on May 21, 2015. The NBU Regulation #357, "On Amendments to the Regulation on Bank Licensing", was adopted on June 4, 2015.*	
<u>Prior Action #8</u> Authorities strengthened the corporate governance requirements of commercial banks, by introducing amendments to the Law on	*Completed*	<u>Prior Action #8</u> NBU has initiated a review of banks' related-party lending, based on acceptable terms of references. The NBU will	*Completed*

Table 4. List of policy actions undertaken under the FSDPL program			
FSDPL1		**FSDPL2**	
Policy Action Details	**Status**	**Policy Action Details**	**Status**
Banks to include, inter alia, the following provisions: (i) more effective distribution of powers and responsibilities between the banks' shareholders' assembly, supervisory board and executive management; (ii) strengthened internal audit requirements; and (iii) enhanced professional requirements for supervisory board members and bank management. *The Law "On Amendments to the Law on Banks and Banking on defining the Peculiarities on Corporate Governance in Banks", amending the Law on Banks and Banking was enacted.*		utilize the new legal framework to conduct a diagnostic of the related-party lending in the largest 10 private banks. Independent accounting firms will review these reports to make a determination of the level of related-party lending. After this review, banks with levels of related-party lending exceeding the regulatory norms will be required to present unwinding plans and an NBU committee (with the World Bank and IMF as observers) will make a recommendation on whether or not to approve related-party exposure unwinding plans. Banks with related-party lending exceeding the regulatory norms whose plans are not approved will be resolved. Banks that have plans approved will be required to meet agreed upon milestones and two breaches during the implementation of the unwinding plans will lead to the bank being closed and resolved. A similar process will be conducted on the next 10 largest banks in the near future, and eventually for all the banks operating in Ukraine. *The NBU Board Decision #314, "On measures aimed at bringing banks' asset operations with related parties in compliance with the regulatory requirements", was adopted on May 12, 2015.*	
Prior Action #9 The NBU has commenced to enforce disclosure of banks' ultimate beneficiary owners, as per a special law passed in 2011 requiring banks to disclose up-to-date information about their significant ultimate beneficiary owners (i.e., owners with >10 percent of total equity) on their websites and the NBU website. *The requirements of the law on disclosure of banks' ultimate beneficiary owners have been met for the largest 35 banks, with up-to-date and accurate information published by end-May 2014 on the NBU website. The website also includes the same*	*Completed*	Prior Action #9 Authorities have established a high-level Financial Stability Council comprised of the heads of the NBU, MoF, DGF, and two other financial sector regulators. This council, supported by an NBU-based secretariat, will meet on a regular basis to discuss potential risks to the country's financial stability, and possible remedial actions required if the risks materialize. *The Presidential Decree #170/2015, "On Financial Stability Council", was enacted on March 24, 2015.*	*Completed*

Table 4. List of policy actions undertaken under the FSDPL program			
FSDPL1		**FSDPL2**	
Policy Action Details	**Status**	**Policy Action Details**	**Status**
information for all Ukrainian banks that have declared ultimate beneficiary owners in control of >10 percent of equity.			
		Prior Action #10 NBU has issued regulatory and supervisory requirements for Systemically-important banks. New Basel 3 requirements on capital buffers for systemic banks have been introduced. To further strengthen the resilience of systemic banks and increase the preparedness for dealing with potential crisis situations in a timely and orderly manner, the NBU is now mandating that systemic banks periodically prepare and submit recovery plans to the NBU. *The NBU Regulation #312, "On Amendments to the Instruction on Regulation of Banks' Operations in Ukraine", was adopted on May 12, 2015.*	*Completed*


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UKRAINE
BELARUS
RUSSIAN FEDERATION
POLAND
SLOVAK REPUBLIC
HUNGARY
ROMANIA
MOLDOVA
BULGARIA
Black Sea
Sea of Azov
CRIMEA
KYIV (KIEV)
VOLYN
RIVNE
ZHYTOMYR
CHERNIHIV
SUMY
KYIV
POLTAVA
KHARKIV
LUHANSK
LVIV
TERNOPIL
KHMEL'NYTS'KYI
VINNYTSYA
CHERKASY
KIROVOHRAD
DNIPROPETROVSK
DONETS'K
ZAPORIZHZHIA
ZAKARPAT
IVANO-FRANKIVSK
CHERNIVTSI
MYKOLAIV
ODESSA
KHERSON
Kovel
Sarny
Luts'k
Rivne
Korosten
Chernihiv
Sumy
Zhytomyr
L'viv
Ternopil'
Khmel'nyts'kyi
Vinnytsya
Cherkasy
Poltava
Kharkiv
Kremenchuk
Uman'
Kirovohrad
Dnipropetrovs'k
Donets'k
Sieverodonetsk
Luhans'k
Uzhhorod
Ivano-Frankivs'k
Chernivtsi
Hora Hoverla (2061 m)
Kryvyi-Rih
Nykopol
Zaporizhzhia
Mykolayiv
Melitopol
Berdiansk
Mariupol
Kherson
Odessa
Izmail
Yilkova
Kerch
Yevpatoriia
Teodosiia
Simferopol'
Sevastopol
Yalta
Dnieper Upland
Dnieper Lowland
Donets Basin
Carpathian Mts
Kyiv Reservoir
Kremenchug Reservoir
Kakhov Reservoir
Mouths of the Danube
Desna
Dnieper
Donets
Inhulets
Southern Bug
Northern Bug
To Minsk
To Zhlobin
To Bryansk
To Orel
To Voronezh
To Warsaw
To Tarnow
To Satu Mare
To Tirgu Mures
To Birlad
To Tecuci
To Buzau
To Medgidia
To Armavir
To Sochi
25°E
30°E
35°E
50°N
45°N
0 50 100 150 Kilometers
0 50 100 150 Miles
UKRAINE
SELECTED CITIES AND TOWNS
OBLAST CAPITALS
AUTONOMOUS REPUBLIC CAPITAL
MUNICIPALITIES (CITIES WITH SPECIAL STATUS)
NATIONAL CAPITAL
RIVERS
MAIN ROADS
RAILROADS
OBLAST BOUNDARIES
AUTONOMOUS REPUBLIC BOUNDARIES
INTERNATIONAL BOUNDARIES
MAY 2009
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