Financial Stability Council
Report on Activities

(August 2018 – July 2019)

Kyiv 2019

Foreword

In the reporting period, macroeconomic and financial stability held in Ukraine, despite a number of political and economic challenges. The latter included a pause in cooperation with the IMF, peaking repayments on external debt, increased geopolitical risks, and elections period.

However, a number of challenges that had emerged in previous years remained a source of systemic risks. These are resolving NPLs of state-owned banks, preventing negative scenarios unfolding around PrivatBank, enhancing the financial condition of the DGF. The Financial Stability Council (Council) focused on resolution of those issues over the reporting period.

The Council published its Recommendations (principles) for state-owned banks on management of non-performing loans (NPLs). It stressed the need for all state-owned banks to turn into highly profitable and operationally efficient financial institutions, inter alia with support from supervisory boards recently established at them. The Council expects a remarkable intensification of off-loading NPLs from balance sheets of state-owned banks. Requirements on management of non-performing exposures at Ukrainian banks, which the NBU approved in July, should facilitate this process.

As usual, the issue of raising the efficiency of the financial sector, including introduction of necessary international standards, remained on the Council's agenda. At the end of the last year, the Council discussed and endorsed corporate financial reporting in a single iXBRL e-format. The regulators expect that the new procedures for compiling and submitting the financial reports will promote easier doing of business for Ukrainian companies. Higher transparency of financial information on business of Ukrainian companies should help to improve investment climate and help to develop capital markets.

Content

Composition of the Financial Stability Council[1]

Co-chairpersons of the Council:

Oksana **Markarova**	– Minister of Finance of Ukraine
Yakiv **Smolii**	– Governor of the National Bank of Ukraine (NBU)

Members of the Council:

Tymur **Khromaev**	– Head of the National Securities and Stock Market Commission (NSSMC)
Ihor **Pashko**	– Head of the National Commission for the State Regulation of Financial Services Markets (NCSRFSM)
Kostyantyn **Vorushylin** *(until 17 July 2019)* Svitlana **Rekrut** *(since 18 July 2019)*	– Managing Director of the Individuals' Deposits Guarantee Fund (DGF)
Kateryna **Rozhkova**	– First Deputy Governor of the National Bank of Ukraine
Yuri **Geletiy**	– Deputy Minister of Finance of Ukraine for European Integration

[1] As of July 2019

Key issues considered by the Financial Stability Council

The Council held three meetings between August 2018 and July 2019.

1. Overview of systemic risks

The National Bank of Ukraine presented an overview of current risks and their change at each Council meeting (Table 1).

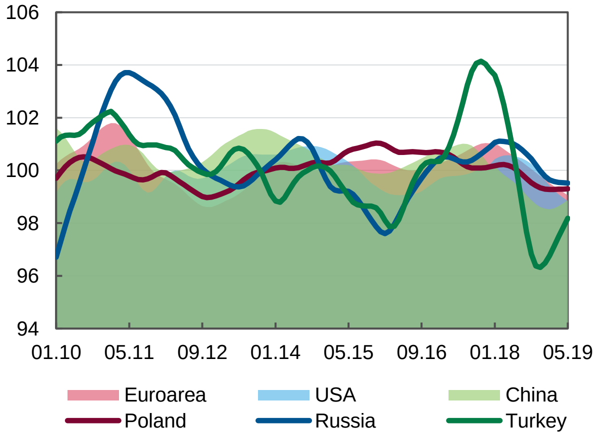
Table 1. Evolution of systemic risks

	2018		2019	
	Q3	Q4	Q1	Q2
Global economy	↗	↗	→	↗
External demand	→	→	↘	→
Economic conditions	→	→	→	→
Public finance	↗	→	→	→
FX market	↗	→	↘	→
Geopolitics	→	↗	→	→

Note:
Evaluation of change of risks. Arrows up – higher risks; arrows down – lower risks.

Global economy. Global economy has been decelerating over the past year. Economic growth of most of the major trading partners of Ukraine has also been slowing down. Global trade growth almost came to a halt because of protectionist measures, especially in relations between USA and China.

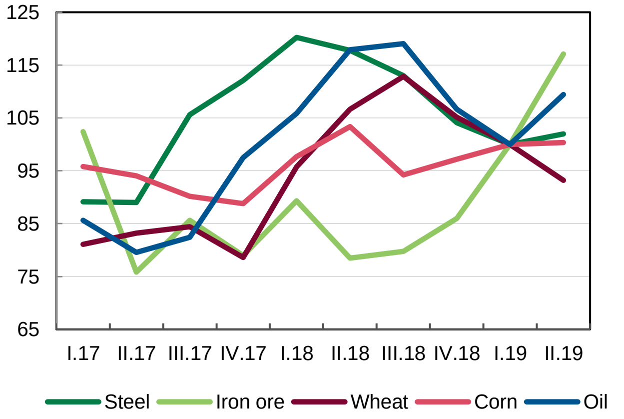
Figure 1. OECD's composite leading indicators (CLI) * for major trading partners of Ukraine



** CLIs are designed for early identification of turn of business cycle (six to nine months prior to the turn).*

Source: OECD.

Figure 2. Change in commodity prices*, Q1 2019 = 100%



** Brent oil; steel square billets; iron ore concentrate; global quarterly price average for wheat and corn.*

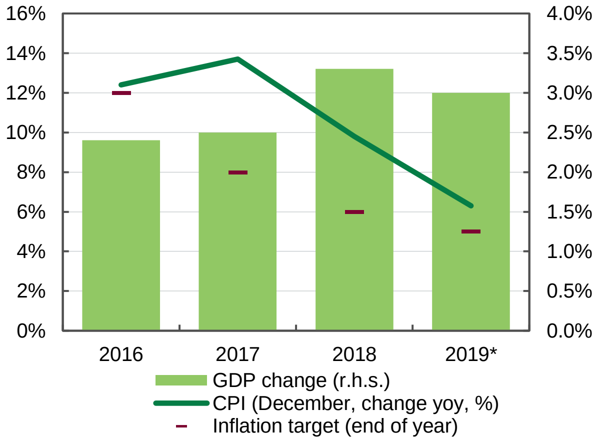
Source: the NBU, Inflation Report, July 2019

In H2 2018, monetary policy of major central banks (ECB and the US Federal Reserve) was a source of risk for economic development. However, in H1 2019, because of escalating negative economic trends ECB and the Fed signaled a slowdown in hiking key rates, and later – possible monetary easing. However, the signals from the central banks were not enough to shape sentiment of economic agents necessary to mitigate slowdown risks.

External demand. In 2018, prices for Ukrainian export and import commodities, including energy, were mostly declining. The notable exception was iron ore price, which hit a new three-year high. The unexpected price surge, which was driven by supply factors, also supported steel prices. Further spread of protectionist measures, in particular because of escalation of USA-China trade standoff, remains a constant systemic risk for commodity prices.

Economic conditions. Economic growth of Ukraine decelerated in H1 2019, in particular because of weaker global economic activity. Steady domestic demand, underpinned by higher wages and social benefits, was among key growth drivers. Inflation is slowing down further towards target rates, primarily thanks to tight monetary policy and responsible fiscal policy. Current account deficit widened in 2018; however, in 2019 it is expected to narrow thanks to a record high grain harvest and favorable terms of trade, including lower energy prices.

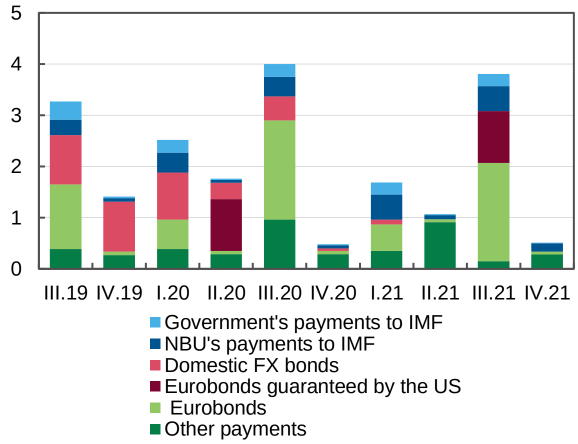
Figure 3. Change in GDP and Consumer Price Index (CPI), % yoy



** NBU forecast*

Source: the NBU, State Statistics Service of Ukraine.

Figure 4. FX repayments on public and state-guaranteed FX debt, USD billion*



** Including interest.*

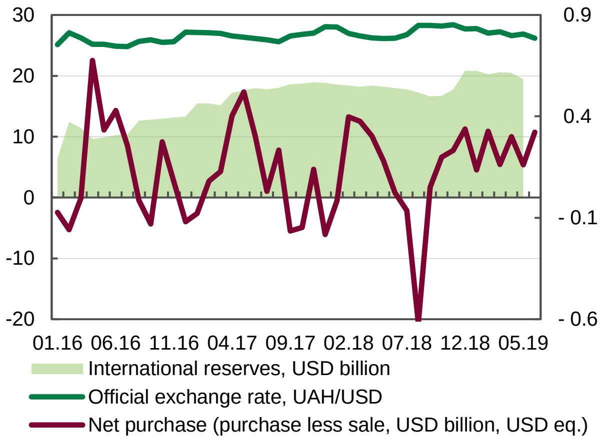
Source: NBU estimations.

Public finance. In 2019-2021, Ukraine is facing peak repayments on its external debt. Under limited opportunities for raising funds on international capital markets, a threat may emerge for financing budget deficit in full and for public debt refinancing. Thus, the Government takes steps to enhance fiscal sustainability. In particular, it undertook fiscal consolidation measures, including introduction of new fiscal rules in Budget Code of Ukraine (State Budget deficit may not exceed 3% of GDP, public and state-guaranteed debt – 60% of GDP; amount of public state guarantees is capped at 3% of planned revenues of the General Fund of the State Budget). Further cooperation with the IMF is important in view of receiving preferential financing from international partners (the EU, World Bank, and others) and wider access to international capital markets.

In H1 2019, Consolidated Budget achieved a substantial surplus, mostly on the back of 21.1 billion hryvnia surplus of local budgets. The State Budget was executed with a 0.9 billion hryvnia in H1 2019. Financing of expenditures was growing at a moderate rate in H1 2019 (11.7% yoy in H1).

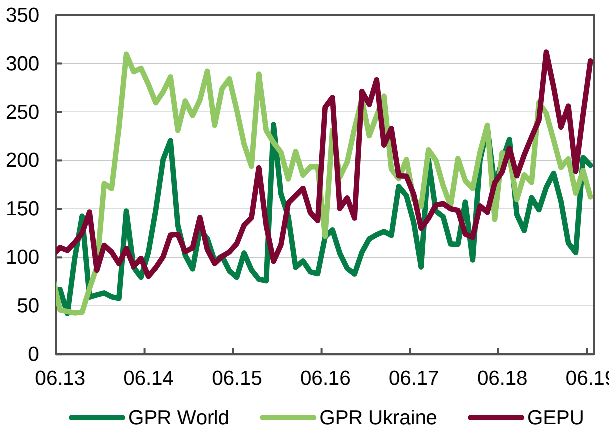
FX market. Coming of the new foreign currency legislation into effect did not cause instability on the FX market, partly thanks to stable supply of foreign currency by exporters and remittances from labor migrants. In 2019, growing investment of non-residents in domestic government bonds became an additional driver of FX supply. Thus, hryvnia exchange rate remained relatively stable and the National Bank of Ukraine was in a position to replenish international reserves through market interventions.

Figure 5. FX market dynamics.



Source: NBU

Figure 6. Geopolitical Risk (GPR) Index[2] and Global Economic Policy Uncertainty (GEPU) Index[3]



Source: Dario Caldara and Matteo Iacoviello; Davis, Steven J.

Geopolitics. Geopolitical situation remains tense because of confrontation between USA and Iran, trade war with China, threat of disorderly Brexit, increasingly stronger protectionist inclinations in economic policy, unrests in Venezuela, protests in France, and Russia's intrusions into other countries' affairs.

Geopolitical risks for Ukraine increased after escalation of Russian aggression in the Sea of Azov and signals from a number of European and global politicians about the need to "reset" policy towards Russia in spite of its constant aggressive stance. Advance of the "Nord Stream-2" gas pipeline project also raises risks for Ukraine, inter alia because of potential halt of gas transit through Ukrainian territory.

Council's position. Council Members repeatedly reiterated the need to resume active cooperation with the IMF, which remains a pledge of ongoing structural reforms and refinancing external debt at lower cost.

[2] For more details, see the December 2017 Financial Stability Report. https://www2.bc.edu/matteo-iacoviello/gpr.htm
[3] For more details, see the December 2018 Financial Stability Report. http://www.policyuncertainty.com/global_monthly.html

Box. Risks and key recommendations of financial stability councils/committees around the world

Council's Secretariat monitors systemic risks identified by international and leading national financial stability councils and committees as well as their respective recommendations. The key risks to financial stability that were identified this year are uncertainty of geopolitical prospects (disorderly Brexit, possible escalation of trade wars and further imposition of protectionist measures, primarily between USA and China) and trends of international economic policy, high debt burden on businesses and households in advanced countries, search for yield, including leveraged lending.

Table 2. Global risks to financial stability identified in H1 2019[4]

Systemic risks	Financial stability council / committee
Uncertain prospects of international (geo)political and economic policy developments	• FSB • ESRB • HCSF
(*separately*) disorderly Brexit	• FPC • HCSF • FSC (NL)
Leveraged lending	• FSB • FSOC • HCSF
High debt burden on households (*in advanced countries*)	• FSB • HCSF • FSC (NL)
Risk of repricing of assets / risks on global financial markets	• ESRB • FPC • HSCF
Worsening prosepects of economic growth and their consequences	• ESRB • HCSF
Problems in the housing sector	• ESRB • FSC (NL)
Migration of risks from banking to non-banking financial sector	• ESRB

Note:
FSB – Financial Stability Board (G20); ESRB – European Systemic Risk Board; FSOC – Financial Stability Oversight Council (USA); FPC – Financial Policy Committee of the Bank of England; HCSF – High Council for Financial Stability (France); FSC (NL) – Financial Stability Committee (the Netherlands).

At the regional level, Financial Stability Committee in Poland noted large-amount consumer loans. They do not pose a threat now, but they tend to grow fast. Banks were recommended to take a more conservative stance while considering such loans and to scrutinize their purpose.

[4] Systemic risks were aggregated and categorized; standalone risks identified in a single country were omitted.

Given the progress achieved in regulation and supervision of banks, financial stability councils/committees mostly focused in their recommendations on issues outside the banking sector.

Chart 1. Major courses of actions of financial stability councils/committees

Resilience of non-banking financial institutions

- progress in enhancement of regulation of non-banking financial institutions is insufficient: capital requirements to insurers, central counterparts, etc. should be enhanced

Study of consequences of technological innovations in finance

- study of potential consequences of spread of crypto-assets, FinTech, SupTech, BigData, and other technological innovations in finance

Development of macroprudential policy framework

- development of communications, framework for policy efficiency assessment, etc.

Cyber threats to financial stability

- development of toolkit for cyber-risk response

Reforms of benchmark rate framework

- after the scandal around manipulations with LIBOR, the work is underway at the global level on introduction of alternative benchmark rates

Risk monitoring and assessment, including stress tests

- discussions on stress tests of banks, professional pension funds, central counterparties, mutual funds, cyber security systems.
- introduction of international Unique Product Identifier (UPI), Legal Entity Identifier(LEI)
- establishment of global risk identification framework and inprovement of information exchange

Enhancement resilience of banks, primarily systemically important ones

- implementation of TLAC (total loss-absorbing capacity) standard for systemically important banks

Impact of climate change on financial stability

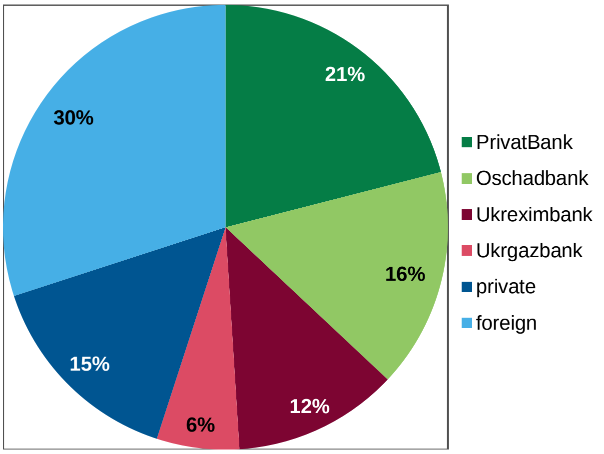
- inclusion of climate change assessment into risk monitoring frameworks

Other notable issues discussed by the councils/committees included decline in correspondent banking relations, securities market reform, primarily for derivatives, elimination of moral hazard in corporate governance and sound compensation practices (mostly at the FSB level) and macroprudential approaches to NPLs (at the ESRB level).

2. Non-performing loans of state-owned banks

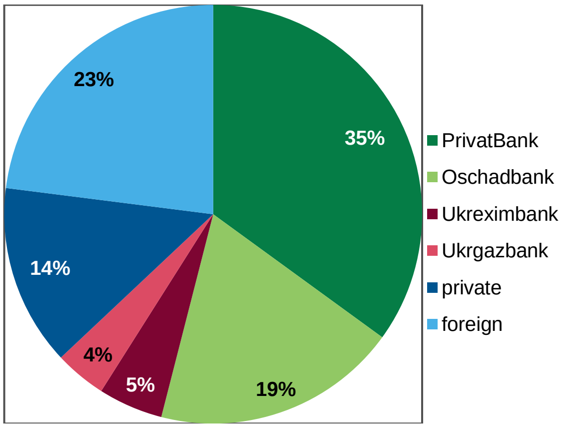
PrivatBank nationalization boosted the Government's share in banking sector. Currently, the state-owned banks make over 50% of the sector in terms of net assets and over 60% in terms of retail deposits. Due to systemic importance of these banks' efficiency, the Council paid a significant attention to analysis of their work.

Figure 7. Share of state-owned banks in net banking sector assets as of 1 January 2019



Source: Ministry of Finance of Ukraine.

Figure 8. Share of state-owned banks in retail deposit portfolio of the sector as of 1 January 2019



Source: Ministry of Finance of Ukraine.

Problem of the non-performing loans (NPLs) is the most acute at state-owned banks. As of early 2019, NPL ratio in gross loan portfolio of state-owned banks was 66.2%. Share of state-owned banks in the sector's NPLs was 69.8%, of which 40.7 pp belonged to PrivatBank.

Figure 9. NPL ratio by groups of banks

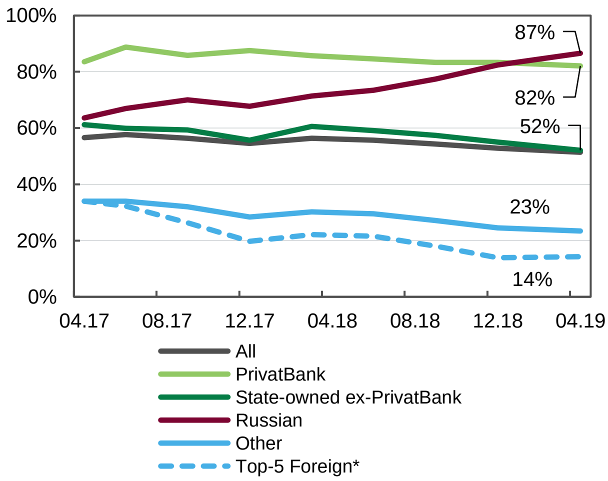
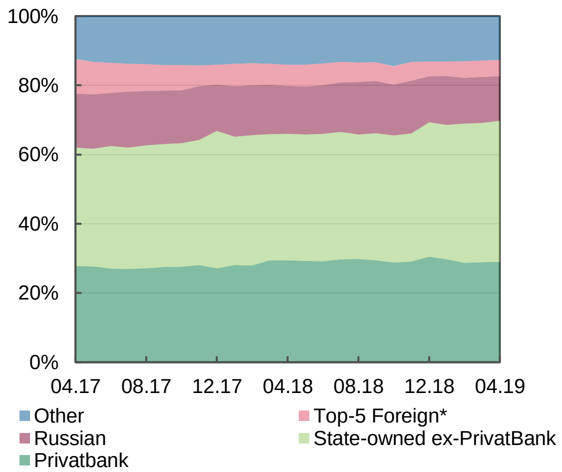


Figure 10. Distribution of NPLs by groups of banks



** The largest banks in terms of assets as of 1 May 2019, excluding Russian-owned bank.*
Source: NBU, Financial Stability Report, June 2019.

Development and implementation of approaches to NPLs in order to reduce pressure on balance sheets of state-owned banks and maximization of recovery value was one of four key components of the “Principles of the Strategic Reform of the State-Owned Banks”, which was endorsed by the Council.

In July 2019, the Council set up a Committee (working group) on NPL resolution at state-owned banks[5], which first convened met in October. The committee held eight meetings between October 2018 and July 2019.

In this timespan, the Committee:

- Developed for approval and publication the Recommendations (Principles) for the State-Owned Banks on Treating Nonperforming Loans (NPLs). The Council approved the Principles in line with commitments to the IMF and published them on 9 January 2019. The Principles cover only the restructuring process for large loans (over 5% of regulatory capital of a bank). They set basic terms that must ensure fair and transparent restructuring as well as protection of interests of the State as the ultimate beneficiary. In particular, the Principles stipulate that restructuring can only apply to viable companies, which are not in the position to service current obligations. The restructurings provide for enhanced creditor's right protection, improved reporting by the debtor and monitoring by the bank.
- Outlined general guidelines on improving efficiency of current and future restructurings (in particular, enhancing banks' positions as creditors and avoiding restructuring models that provide for repayment of bulk of the loan principal closer to the end of maturity).
- Reviewed and endorsed in general a few restructuring cases of Oschadbank.

In order to promote transparency, the Ministry of Finance of Ukraine started to publish semiannual reports on NPLs at state-owned banks.

Another key aspect of the mentioned Principles of Strategic Reforms was an improved corporate governance model at state-owned banks, first of all establishment of independent supervisory boards at those banks. In May, the Government appointed independent members as well as government representatives to the supervisory boards of three state-owned banks (JSC "Oschadbank", JSC "Ukreximbank", and JSC CB "PrivatBank"). They started to work in June 2019. One of their key tasks of the new supervisory boards will be speeding up of cleaning NPLs off the balance sheets of the state-owned banks.

Intensive cooperation of the banks' boards and supervisory boards on working out practical solutions is an important precondition for NPL resolution. Ukrgazbank offers an example of such cooperation: at this bank, NPL ratio fell much more drastically than at other state-owned banks thanks to efficient managerial decisions. That, in turn, promoted implementation of the Ministry of Finance plans on inviting International Financial Corporation's investment into the bank's equity.

The implemented measures have already yielded positive results. NPL ratio at state-owned banks is decreasing, although somewhat slow. In 2018, state-owned banks cut impaired debt by 5 billion hryvnia and held 21 billion hryvnia worth of restructurings. Oschadbank was the most successful at restructurings. Corporate loan portfolio of state-owned banks has notably improved thanks to completed restructurings.

In order to boost clearing state-owned banks balance sheets, the NBU approved Regulation on management of non-performing exposures at Ukrainian banks. Its provisions are in line with European practices and are based on ECB Guidance to banks on non-performing loans (March 2017) and EBA final guidance on management of non-performing and forborne exposures (EBA/GL/2018/06). Implementation of the Regulation's provisions is necessary for establishing an efficient system for non-performing exposure management. Banks will have to develop and

[5] The Committee consists of top-managers and experts representing Ministry of Finance, the NBU, and the Deposit Guarantee Fund.

implement a strategy and an action plan on non-performing exposure management. Implementation thereof will facilitate reduction of NPL amount and NPL ratio, inter alia at state-owned banks.

The priority task for the Ministry of Finance and the NBU is the fastest possible launch of tools and mechanisms that would facilitate swift NPL resolution. An important step in this respect is on-going cooperation with international partners, in particular under the Government of Japan-sponsored project. Under the project, a due-diligence of corporate portfolio of the largest NPLs of state-owned banks was completed and detailed recommendations on NPL resolution were already offered.

Upon discussions with the new supervisory boards of state-owned banks, the Cabinet of Ministers of Ukraine will approve this year decisions aimed at widening and improving the toolkit for further off-loading of NPLs from balance sheets of state-owned banks.

Council's position. The Council endorsed and approved publication of the Principles for the State-Owned Banks on Treating Nonperforming Loans.

The Council mandated the Committee (working group) on NPL resolution at state-owned banks to outline general criteria for selection of the NPL resolution scenario and approach (restructuring, sale at an auction, writing-off) with support of experts from international financial organizations.

3. Lending to state-owned monopolies

At its meeting in December 2018, the Council looked into risks arising from state-owned banks lending to state-owned monopolies. State-owned banks remain the major lender for state-owned monopolies.

Loan portfolio of state-owned companies at Ukrainian banks exceeded 110 billion hryvnia (including financial obligations) as of 1 November 2018; 84% of this amount went to six largest state-owned monopolies. Over 76% of liabilities of state-owned companies to banks concentrated at state-owned banks. Liabilities of state-owned companies to state-owned banks has edged down as of 1 July 2019. Meanwhile, EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) of state-owned monopolies increased thanks to higher tariffs and improved operating efficiency. Therefore, state-owned monopolies can raise funding on market.

Council members agreed that some bank loans would be difficult to repay in short term. Borrowers have sufficient operational cash flows to service their debts. However, they need substantial fixed and working capital investment. Given little progress in debt reduction by sate-owned companies to state-owned banks, the companies' management should be encouraged to diversify sources of finance, in particular to borrow from private banks and on international markets.

The Council discussed possible ways for settling of state-owned monopolies debt to state-owned banks.

Council's position. Participant of the meeting agreed on the need to establish a medium-term strategy for state-owned monopolies. That would require consultations with banks, state-owned companies-borrowers, and international financial institutions.

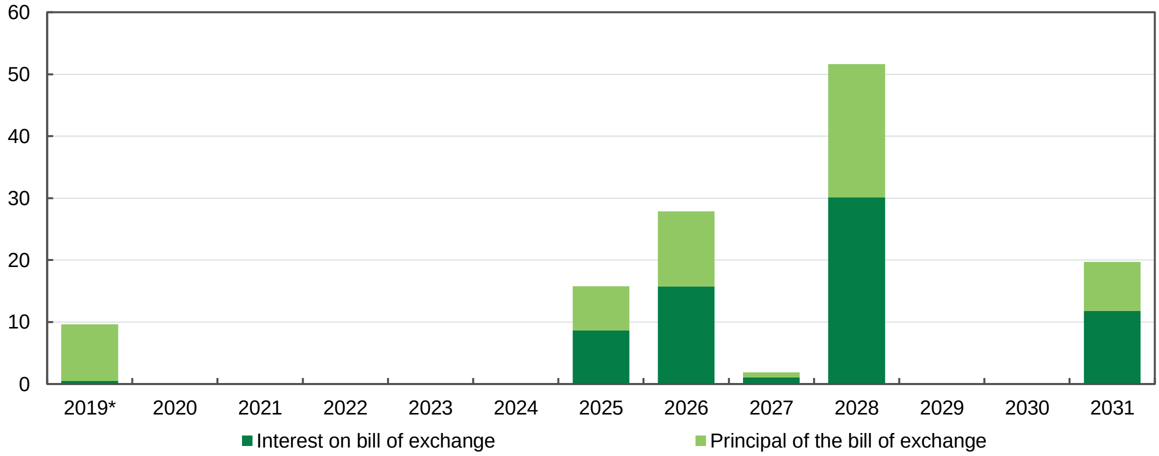
4. Resolution of potential DGF insolvency

In the reporting period, the Council continued discussions on ways of resolution of the problem of the excessive debt burden of the Deposit Guarantee Fund (DGF). In the period of massive repayments of guaranteed amount to depositors of insolvent banks, the DGF entered eight loan agreements totaling to 79.71 billion hryvnia. This DGF indebtedness causes certain anxiety of the banking sector participants and potential investors as for potential increase of burden on banks participating in the deposit guarantee scheme.

Despite of repayment of some of previous loans, total future repayments on DGF liabilities remain substantial, primarily because of interest. As of July 2019, total loans repayments exceeded 40 billion hryvnia, of which 20.15 billion hryvnia were repayments on NBU loans (the last repayment to NBU was in January 2019). The outstanding debt is made of bills of exchange provided to Ministry of Finance, totaling to 49.44 billion hryvnia. The DGF has to pay over 67.44 billion hryvnia in interest on the debt in the future. Therefore, restructuring of loans from the Ministry of Finance is crucial for ensuring future solvency of the DGF and effectiveness of the national financial safety net. According to commitments to the IMF, the issue must be resolved by the end of 2019.

The working group, which was established by the Council decision on 28 July 2018, developed a number of scenarios for resolution of potential insolvency of the DGF. Among those scenarios was a restructuring model that provided for turning a proportion of DGF repayments into conditional obligations. Repayments on these obligations are linked to actual recovery from managers and persons related to banks, who were responsible for bringing their banks into insolvency. The working group has to consider all options in detail and to suggest an optimal option (including possible legislative motions).

Figure 11. DGF repayments on bills of exchange of the Ministry of Finance (scenario without restructuring), UAH billion



**-actually repaid*
Source: DGF.

Achievement of positive readings of DGF capital is a precondition for expansion of covered institutions in line with the EU directives and gradual increase of covered deposit amount.

Council members also agreed on need to discuss further changes in the deposit guarantee scheme related to:

- Restructuring of the DGF debt obligations
- Inclusion of JSC Oschadbank into retail deposit guarantee scheme
- Legal amendments concerning the schedule for increase of covered deposit amount

- Implementation of the EU directive in part of extension of list of entities covered by the deposit guarantee scheme, early warning system, bank resolution mechanisms, DGF funding, etc.

In order to implement the measures mentioned above, the DGF intends to invite experts with support from the World Bank and the EBRD.

Council's position. The Council endorsed further changes in the deposit guarantee scheme, including implementation of the EU directive in part of expansion of list of covered entities, early warning system, bank resolution mechanisms, DGF funding, etc.
The Council suggested that the working group on measures on DGF insolvency resolution work over the options for ensuring DGF solvency by the end of 2019 with experts of the IMF and the World Bank.

5. Financial reporting in a single iXBRL e-format

The issue of high quality and accessible corporate financial reports was on the agenda of the Council's meeting in December 2018. Informational usefulness, correctness, integrity, comprehensiveness, and adequacy of financial reports are arguably the key precondition for trust in companies, markets, and economy as a whole. The Council expects that the new requirement on compilation and submission of financial reports will promote easier doing of business for Ukrainian companies.

Introduction of the new financial reporting framework (FRF) provides for submission of reports in unified iXBRL[6] e-format, complied according to UA XBRL IFRS taxonomy, in line with the 'single window' principle. The format is internationally accepted standard that allows processing larger volumes of qualitative and quantitative data. Currently, around 5,000 companies (accounting for 90% of GDP) will have to arrange financial reporting in line with the aforementioned taxonomy.

Chart 2. List of enterprises that must submit financial reports in single e-format

Public interest companies

- Issuers of listed securities or publicaly offered securities
- Banks
- Insurers
- Private pension funds
- Other financial institutions (except for micro and small institutions)
- Large enterprises

Public joint stock companies

Enterprises engaged in extraction of mineral resources of the national significance

Enterprises engaged in economic activities as listed by the Cabinet of Ministers of Ukraine

Both financial reports and annexes to them, including auditors' report, have to be submitted in iXBRL format according to legislation. VIZOR company (Ireland) won the tender for supply of software solutions. VIZOR will ensure development and integration of software for FRF. Massive training will support introduction of the system; a new information web site, frs.gov.ua, will be launched. VIZOR-certified experts will hold trainings. The National Commission for the State Regulation of Financial Services Markets (NCSRFSM) will be in charge of operational management of center for collection of financial report.

At the end of December 2018, the National Securities and Stock Market Commission, the NCSRFSM, the NBU, and the Ministry of Finance published financial reporting taxonomy: list of items and indicators of financial reporting for disclosure by publically significant enterprises. June 2019 saw a successful launch of the first stage of the FRF in test mode. Circa 1700 companies have submitted their data for registration in the FRF. In July 2019, the Managing Committee approved a high-level Plan for support and introduction FSF in test mode in 2019, in compliance with Memorandum of understanding on development and introduction of financial reporting in

[6] iXBRL (Inline eXtensible Business Reporting Language) – open standard for exchange of business information; a further evolution of XBRL format, both man- and machine-readable. It is widely used in many countries by securities and banking regulators, fiscal authorities, as well as national statistical agencies. The IFRS Advisory Council officially recommended XBRL for electronic reporting under IFRS standard.

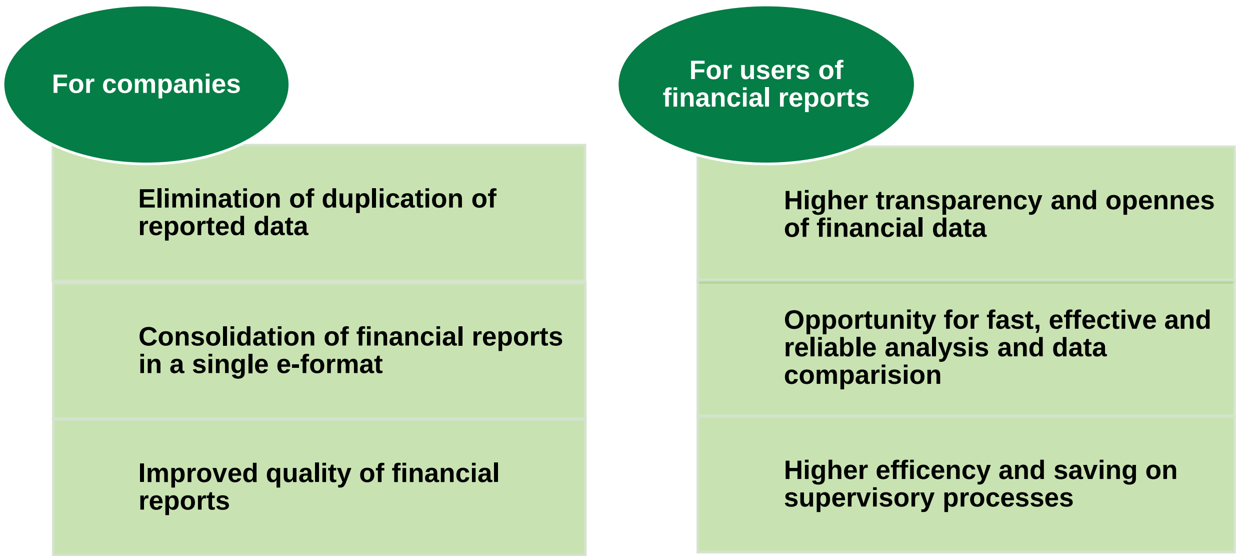
the single iXBRL e-format. The Managing Committee also decided to invite the State Statistics Service of Ukraine to join the Memorandum.

The next stages of the FSF introduction will be development of automated forms for collection of primary data and corporate profiles of reporting entities. In the future, the software package will be the only channel for submission of financial reports to public and regulatory authorities; that should eliminate duplication.

Full-fledged launch of the FRF is scheduled on 1 January 2020. The reporting entities will mostly have to submit audited annual reports by 30 April 2020 or in other terms according to legislation, with further transition to quarterly reporting.

Ukraine's transition to the new iXBRL format offers a range of benefits for users as well as for those who compile the reports. In particular, enterprises will have to improve the quality of their financial reports. Introduction of the new format offers users (including regulators) a substantial base for analysis, reduce the time for decision-making, allow timely identification and response to risks, boost efficiency, and cut the costs of supervision.

Chart 3. Major benefits from transition to the new iXBRL format



Greater openness of financial information on business of Ukrainian companies will facilitate improvement of investment climate and help Ukrainian capital markets to prepare for integration into the EU.

Council's position. The Council acknowledged the importance and endorsed introduction of the financial reporting framework in iXBRL format.

6. Consequences of court rulings on cases involving PrivatBank

In April 2019, the Council held an extraordinary meeting related to the ruling of the District Administrative court of the city of Kyiv on the case of PrivatBank withdrawal from the market; the ruling was against the NBU and the Ministry of Finance.

Council Members stressed that back in 2016 PrivatBank withdrawal from the market was thoroughly analyzed; the regulators' steps were the only option under the situation at that moment, given the bank's systemic importance and the number of its depositors. The State had to bail out the bank in order to save the financial stability of the whole country. That bail-out cost the taxpayers over 155 billion hryvnia. The PrivatBank nationalization was a necessary step; it proceeded in line with current legislation, and was endorsed by the National Security and Defense Council of Ukraine.

The Privatbank is currently the largest and most profitable domestic financial institution, with 22 million Ukrainians as customers. The bank works in a transparent and stable manner, and fully meets its obligations to clients.

Participants of the meeting discussed the possible ways and scenarios for defense of the state interests in courts.

Representative of international institutions who attended the meeting declared that their institutions had already made public announcements backing the position of Ukrainian financial sector regulators.

Council's position. Upon the discussion, the Council stated that:

- In the aftermath of the ruling of the District Administrative court of the city of Kyiv that withdrawal of insolvent PrivatBank from the market was illegitimate, the situation on markets remains calm and under control. The bank keeps business as usual and meets its obligations to customers in time.
- Decision to nationalize the PrivatBank in December 2016 was the only possible right option. The alternative was to liquidate the bank with consequent repayment to retail depositors covered by deposit guarantee schemes.
- Decision to withdraw the insolvent PrivatBank was perfectly grounded both in legal and economic terms.
- The scale of PrivatBank's losses caused by lending to businesses related to former owners exceeded 6% of GDP in 2016.
- The PrivatBank bail-out cost the State Budget over 155 billion hryvnia; that is over 3,500 hryvnia per one Ukrainian resident.
- The ruling of the District Administrative court of the city of Kyiv causes legal uncertainty, and thus substantial financial stability risks for Ukraine in the future.
- The ruling of the District Administrative court of the city of Kyiv poses risks to further cooperation with international financial institutions, including the IMF, the World Bank and the EBRD.
- The ruling of the District Administrative court of the city of Kyiv complicates protection of the State's rights in recovering losses in litigations with former owners in other jurisdictions.

Given all stated above, the Council recommended the NBU and the Ministry of Finance to hold regular communication with the public and international financial institutions, to inform them about appeals against the court ruling, potential consequences of materialization of different scenarios of litigation in the future.