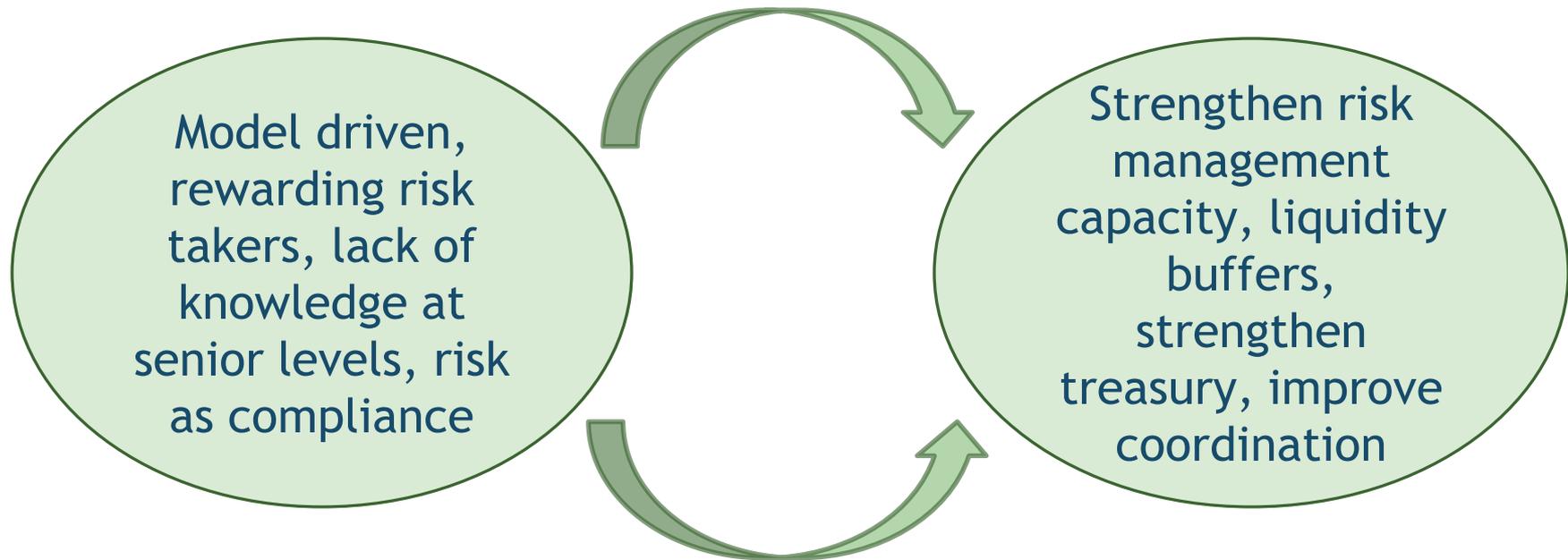




Improving Risk Management in Ukrainian Banking Sector

Kyiv, June, 13, 2013

Risk Management in a Ukrainian Context



Risk Management changes:

- Risk has a place at the head table
- Heavier regulation to come
- No longer assumption that funding is readily available and can be obtained at a reasonable cost
- Return to holistic risk management practices

What went wrong in risk management in Ukraine?

Risk transparency

Risk ownership

Governance and structure

Culture and incentives

Key failures

- Key decision makers/board not aware of the risk ahead and limited understanding of strategic implications
- Significant data availability and quality challenges - how to use
- Strategic decisions not risk based
- Lack of understanding leading to false (or no) assessment of risk appetite
- Risk often compliance rather than proactive.
- Management not capable or willing to take action due to lack of information, skills, delineation of responsibilities.
- Misaligned incentives promotes a culture of risk taking without risk limits.

Governance of Risk Management

Good corporate governance should contribute to better company performance by helping a board discharge its duties in the best interests of shareholders

Current State

- Oversight of risk appetite not operating
- Balance between risk taking and risk avoidance not functioning
- Balance between remuneration and appropriate risk taking not operating
- Governance voluntary
- Boards dependant on management
- Not all risk types covered

Future State

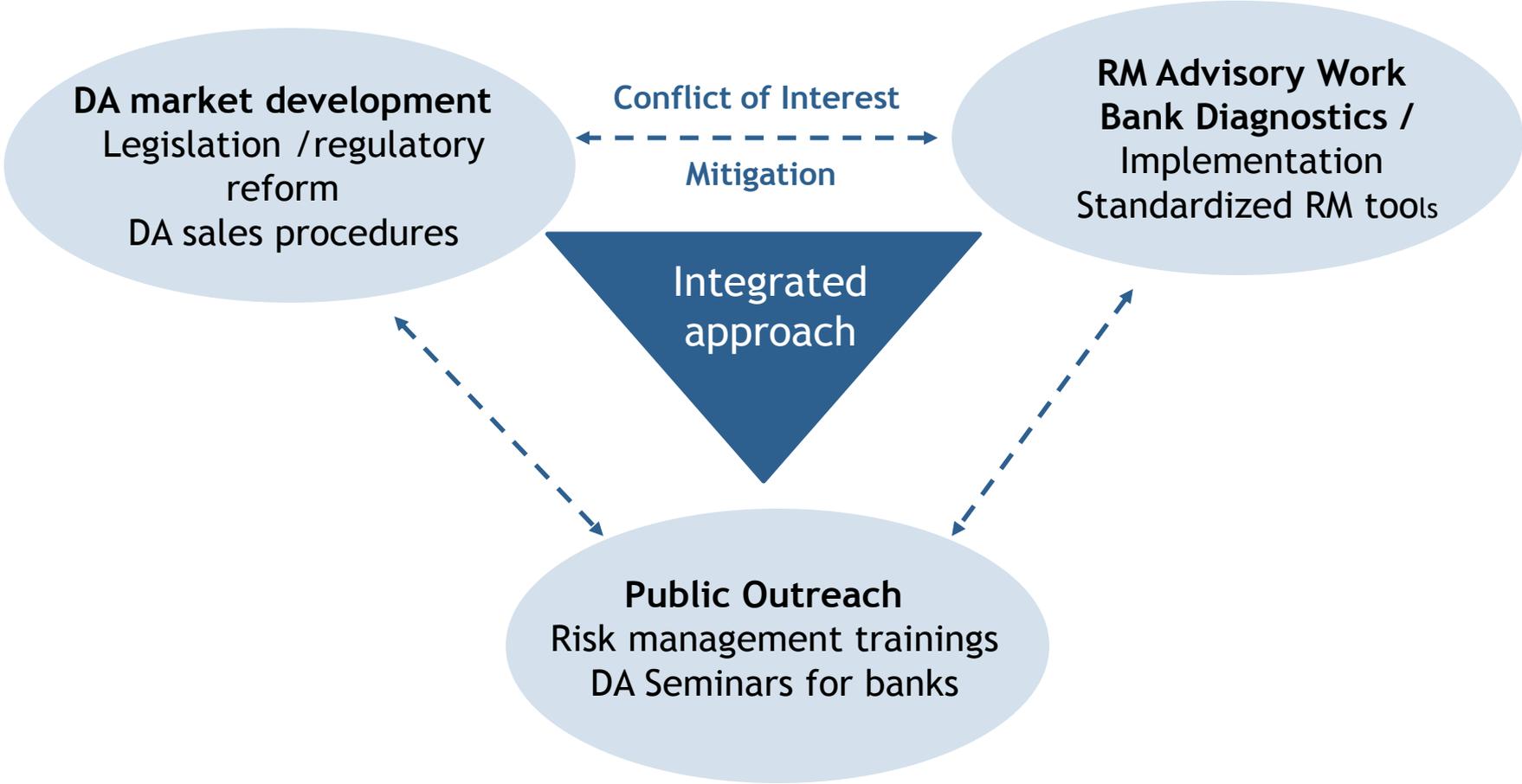
- Balanced approach
- Board level risk management expertise
- Functioning Risk Committee to set all risk parameters and appetite
- Defined responsibilities to cover all risk types
- CRO with real advisory capacity

Why Improve Risk Management

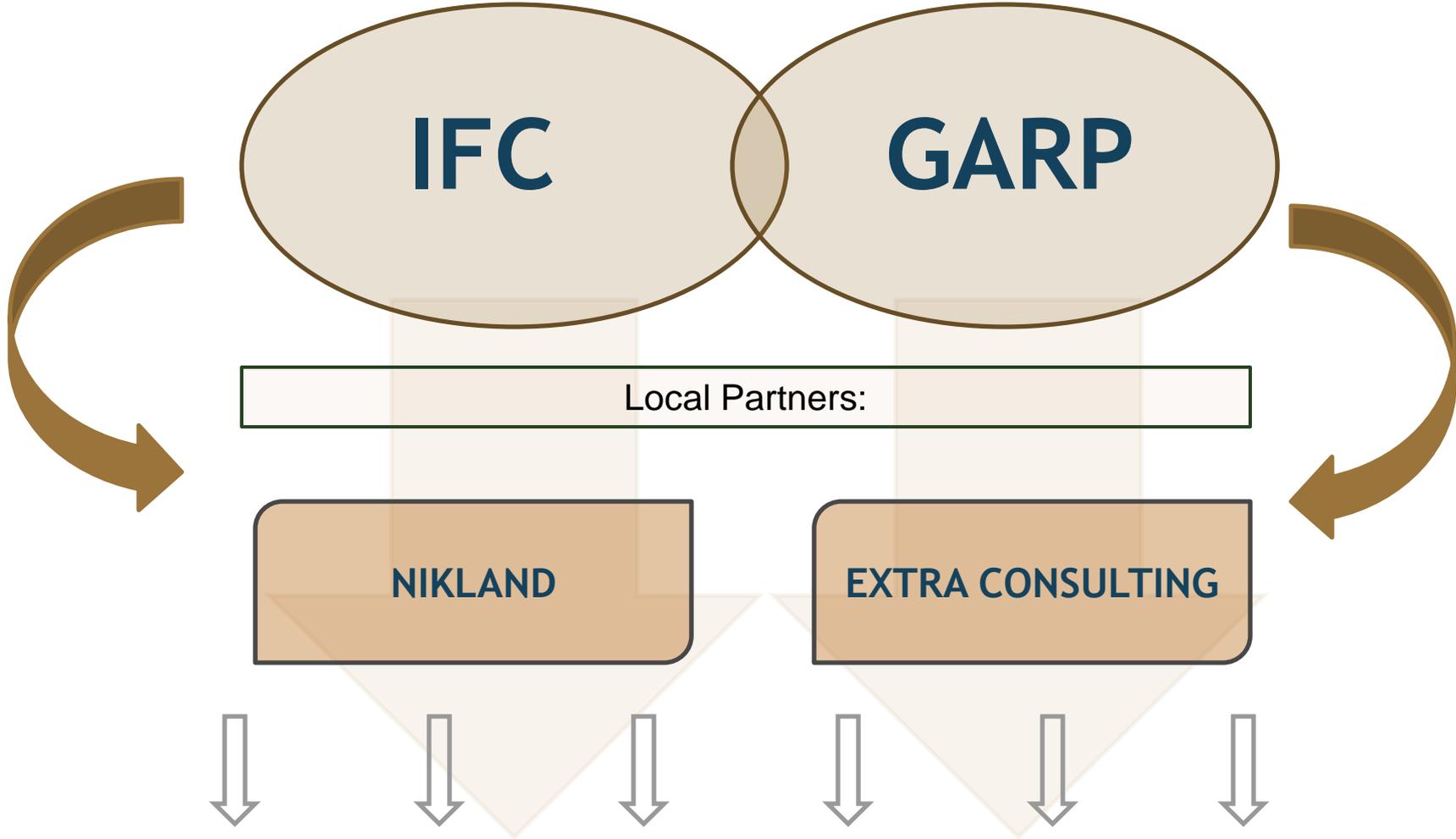


Ukraine FM Crisis Management: a comprehensive program

Goal: Knowledge Leader in Risk Management and Distressed Asset Resolution



Risk Management Strategy:



Certified Risk Managers, Better Risk Management Skills, Strengthening Financial Sector

The Project assists the banking sector to emerge from the crisis stronger than before

Sector outreach

- Ukrainian adapted risk management toolkit
- Ukrainian NPL Market Study
- Standards on Risk Governance in Financial Institutions, Handbook
- Distressed Assets Transfer in Ukraine, Handbook
- GARP Certification Program



Direct Advisory

- Diagnostics
- Improved Risk Management
- NPL disposition

Seminars

- Distressed Asset resolution
- Corporate/SME Workouts
- Ethical Collections
- Liquidity Risk Management
- Operational Risk Management



Lessons learned

- Risk Management no longer desirable but necessary
- Limiting exposures to external debt
- More proactive portfolio monitoring systems needed
- Risk Management becoming a more sought after profession and attracting
- Sound Risk Governance is required
- Central Bank role pivotal to avoiding more failures
- More focus on RAROC, capital usage etc.

Transitioning from “Crisis” to “Recovery”:

- Developing core Risk Management capacity and widening scope of work
- New focus on origination in addition to collection

Lack of Market for distressed asset transfers:

- Creating a transparent distressed assets market

IFC:

Garth Bedford
1, Dniprovsky Uzviz,
3rd floor, Kyiv,
01010, Ukraine

Tel: +38 (044) 490-6400
Email: *GBedford@ifc.org*