

**Barents Group of KPMG Consulting LLC**

*UKRAINE--NATIONAL BANK OF UKRAINE  
FINANCIAL INFRASTRUCTURE DEVELOPMENT  
BANK SUPERVISION  
Quarterly Report for Quarter ending December 31, 2000*

Project #: 2045-001  
Contract #: 121-C-00-98-00628-00  
Name of Project Officer: B. Von Hoffmann (Kiev)  
J. Lange (Washington, DC)

**Senior Policy Advisor  
Karen J. Wilson**

**Resident Advisors**  
Frank E. Blimling  
Larry D. Boren  
Glenn S. Tasky

**Legal Advisor**  
Gary A. Gegenheimer

### **Major Events in the Ukrainian Banking Sector/Bank Supervision, Fourth Quarter 2000**

The most significant event to take place in the sector was the long-awaited passage in December of the Law on Banks and Banking Activity (LBBA). Together with the Law on the National Bank of Ukraine, the LBBA establishes the legislative framework for the conduct of banking and bank supervision in Ukraine.

The Law, which was signed by the president in early January, contains many of the recommendations made by the USAID/Barents Group advisors (particularly the legal advisor) over the past few years, including a definition of essential participation, a test of "fitness and propriety" for essential participants of a bank (including not only founders but also subsequent acquirers), improved definitions of bank capital and capital requirements, and expanded powers for the NBU in applying enforcement actions, establishing provisional administrations, and liquidating banks. Careful analysis of the text of the law is required, because Ukrainian experience has shown that laws are frequently amended within the first six months of adoption to clear up technical deficiencies, as was the case with the NBU Law.

In addition, the NBU reorganized the bank supervision function. The Deputy Governor in charge of bank supervision, V. L. Krotyuk, appointed Petro Volodymyrovich Andrushchenko the Director of the General Department of Bank Supervision. Reporting directly to Mr. Andrushchenko are three Departments (Registration and Licensing, Inspection and Monitoring, and Reorganization and Liquidation) and four Units that do not have department status (Strategy, Planning, and Cooperation with International Financial Organizations; Methodology; Economic Analysis and Reporting; and Management and External Relations). The intent was to put a new management team in place quickly, following the appointment of Mr. Andrushchenko in early November; however, two months later the new management team is still not fully in place. Accordingly, no new policy initiatives have been undertaken by the NBU, and this delay has had an impact on the schedule of accomplishments, as the attached report makes clear.

Senior Policy Advisor

Benchmark	Adviser	Original Date	Revised Date	Date Completed	Status
<b>Senior Policy Adviser</b>					
Provide policy support to Deputy Governor	Wilson	11/30/00 (continuous)			None (advisor not in country this quarter). Policy support to Deputy Governor provided by off-site and on-site supervision advisors.
Provide oversight to on-site supervision advisor in development of quality control function.	Wilson	Proposal – 6/30/99 Approval – 9/30/99 Implemented – 11/30/00	Approval – 11/30/99	Approved – 11/17/99	Work on quality control continues in individual areas of on-site, off-site, and problem bank resolution.
Cooperate with IMF on as-needed basis in development of strategy for resolving large banks	Wilson	11/30/00			No activity (advisor not in country this quarter; IMF has not replaced its advisor).
Assist in improvement of management	Wilson	Proposal - 06/30/99 Implemented –	Proposal - 12/31/99 Implement	Proposal – 12/31/99	Offsite advisor has continued to work with NBU on the development of a dossier. NBU has continued to move forward with the dossier and has a finished product which requires

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reporting for bank supervision		12/31/99	ed – 6/30/00		implementation.
Recommend and assist in implementation of new organizational structure for bank supervision.	Selby/Johnson	03/31/99		Met completion date of 03/31/99. Chart approved, functions approved, Department and Unit Heads selected and BSD is functioning in its new mode.	Assisted with designing the organizational chart, advising and writing on functional responsibilities, and advised on selection of personnel to fill important managerial roles. Presented in March a memorandum ( to DG advising on the formulation of a BSD Management Committee to serve as an approval process of supervisory actions such as enforcement actions, CAMEL ratings, disagreements between Units, etc. DG approves of process and further work will be done by all of the Advisors.
Establish Senior Management Committee	Wilson	6/30/99		6/7/99	Committee approved by DG, Order to establish committee signed, charter developed and approved 6/7/99. First meeting held 6/7/99 with several projects undertaken or reported on. Regular meetings no longer being held. Work is being done at the level of the commission on supervision and regulation.
Provide oversight to on-site supervision advisor in developing personnel policy	Wilson	Proposal - 4/30/99 Plan – 9/30/99	Proposal – 12/31/99 Plan – 6/30/00		An overview of personnel processes was presented in 1999. Various discussions held on personnel areas and NBU management practices with Kiryeyev. Some changes made in practices, but a comprehensive plan was not designed. Although the original 2000 plan was to work on this more comprehensively this quarter, the change of management has

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for bank supervision					changed our priorities. Time had to be spent in educational efforts with 2 new DGs. This will not be completed as planned. A change of benchmarks is requested.
Utilize opportunities to develop relations in bank supervision between Poland and Ukraine.	Wilson	11/30/00 (continuous)			No activity this quarter (advisor not in country).
<b>Comment on revision of due dates</b>					
<b>Outside Contacts</b>		<b>Name</b>		<b>Affiliation</b>	<b>Time spent</b>
For quarter ending December 31, 2000		None			
<b>Additional assistance requested by NBU</b>					
<b>Other comments</b>		None; advisor not in country during fourth quarter 2000.			

**Off-site Supervision**

Benchmark	Adviser	Original Date	Revised Date	Date Completed	Status
Off-site Supervision					
Complete	Tasky	06/30/99	09/30/00	12/31/00	Inventory completed; bank supervision personnel surveyed, and

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inventory of reporting forms with aim to reduce frequency and amount of data					recommendations made (see Attachment 1).
Formal recommendations made to reduce data collection	Tasky	09/30/99	09/30/00	12/31/00	Completed. Recommendations made to Deputy Governor, Director of General Department of Bank Supervision, and Chief Accountant (see Attachment 1). NBU has not yet taken action on recommendations, pending reorganization of supervision. However, all parties agreed with need to reduce reporting burden and rationalize database.
Draft recommendations for revised early-warning system indicators	Tasky	06/30/99			Completed. Many discussions with chief of early warning subunit. NBU finished programming complete set of new indicators and "watch lists" of banks organized by major indicators of problems. In fourth quarter 1999, advisor began series of regional seminars to deepen knowledge of regional staff in meaning of indicators, how to prepare analyses based on indicators, and how to recommend supervisory action. In first quarter 2000, series of regional seminars was completed, and an additional one-day seminar on the topic was given to the regional heads of bank supervision. In second quarter 2000, advisor participated in writing of draft resolution on use of data for recommendations for supervisory action. (See NBU also improved visual presentation of data in second quarter 2000, more clearly summarizing indicators and showing trends in data.
Submit plan for development of ad-hoc screens to	Tasky	03/30/99			Completed

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<b>identify banks vulnerable to macro risks</b>					
<b>Completion of at least one ad-hoc screen</b>	Tasky	09/30/99	03/31/00		<b>Completed. NBU has screens for foreign exchange exposure and net interest position (as an element of interest-rate risk exposure).</b>
<b>Submission of proposed interest-rate risk regulation</b>	Tasky	09/30/99	09/30/00	12/31/00	<b>Completed. Advisor formally introduced proposed regulation in seminar involving staff from all areas in bank supervision (see Attachment 2). No action taken on proposed regulation pending reorganization of bank supervision and naming of new chief of Methodology unit.</b>
<b>Comment on revision of due dates</b>					
<b>Outside Contacts</b>		<b>Name</b>	<b>Affiliation</b>		<b>Time spent</b>
For quarter ending December 31, 2000		Yuri Lupenko	Presidential administration of Ukraine		4 hours (1 hour preparation, 2 1.5-hour meetings)
		David Dod, Boris Von Hoffmann	USAID		3 hours
<b>Additional assistance requested by NBU</b> For quarter ending December 31, 2000		<ol style="list-style-type: none"> <li>1. Advisor asked to clarify certain concepts of ownership used in regulating transactions with insiders (Attachment 3).</li> <li>2. Advisor asked to comment on distribution of off-site supervision functions between head office and regional administrations (Attachment 4).</li> <li>3. Advisor asked to review amendments to policy on registration of commercial banks concerning assessment of the financial strength of a founder (Attachment 5).</li> </ol>			

	<p>4. Advisor asked for recommendations on what kind of information to demand from potential investors seeking to acquire an essential participation in the bank. The NBU intends to achieve compliance with Basle Committee Core Principle 4 on change in control and needed guidance on this issue (Attachment 6).</p> <p>5. Advisor asked for recommendations on what kind of information to demand from branches of Ukrainian banks located abroad (Attachment 7)</p>
<p><b>Other comments</b></p>	<p>1. Advisor was forced to intervene when he learned that a directive was to be issued by the Accounting Department that contradicted international accounting standards (Attachment 8). Despite advisor's recommendation, flawed directive was issued and issue will be addressed again in first quarter 2001.</p> <p>2. Advisor commented on several aspects of the revised structure of bank supervision (Attachments 9 and 10).</p> <p>3. Advisor made presentation to senior NBU officials on necessary ingredients for independent and effective supervision at forum organized by World Bank (Attachment 10a).</p> <p>4. Together with the on-site supervision advisor, the off-site advisor commented on several drafts the NBU prepared of position papers to implement the Presidential Decree of July 2000 on enhancing the banking system and bank supervision. (See on-site section for details.)</p> <p>5. Together with the on-site supervision advisor, the off-site advisor briefed the Deputy Governor on various issues in several meetings. (See on-site section for details.)</p> <p>6. The advisor also assisted in an annual quality-control review by the off-site unit of the written analyses prepared by regional administrations. As a result of this review, the NBU asked the advisor to participate in the creation of revised standards for these analyses. The work will be finished in the first quarter of 2001.</p>

### On-Site Supervision

Benchmark	Advertiser	Original Date	Revised Date	Date Completed	Status
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<b>On-site Supervision</b>					
<b>Assist training advisor in development and delivery of one course per quarter.</b>	Blimling	03/31/99 (and continuous)		12-31-00	Seminar 2-1-99 Seminar 4-7-99 Seminar 5-12-99 Seminar 6-16-99 Seminar 3-13-00 Seminar 6-6-00 (2 seminars two days ea.) Seminar 6-19-00 (2 seminars two days ea.) Seminar 6-26-00 (2 seminars two days ea.) Seminar 7-24-00 Seminar 7-31-00 Seminar 10-9-00 Seminar 11-13-00
<b>Propose process to revise, edit, and update on-site inspection manual.</b>	Blimling	06/30/99		3-31-99	The process for dealing with the on-site inspection manual is in place. Continued refinement and assistance was provided throughout the quarter.
<b>Develop first draft of quality control process for bank supervision</b>	Blimling	03/31/99	6/30/99	6-11-99	Proposal submitted to Mr. Kiryeyev and Senior Management Committee.
<b>Develop work plan for outreach to banks</b>	Blimling	03/31/99	6/30/99	6-11-99	Proposal submitted to Mr. Kiryeyev and Senior Management Committee.
<b>Secure counterpart approval of work plan for outreach to banks</b>	Blimling	09/30/99		8-30-99	Mr. Kiryeyev approved proposal and delegated to Ms. Faber.

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<b>Training</b>	<b>Bilingual</b>	03/31/99		2-15-99	Finance & Credit Bank
<b>Examination at the regional level</b>		(one per quarter)		4-19-99	Creditanstalt Ukraine
				4-26-99	Kievsky/Rus. Kiev
				11-29-99	Ukrinbank, Kiev
				12-5-99	Nadra Bank, Kiev
				1-24-00	Creditprombank, Kiev
				2-14-00	Credit Lyonnais, Kiev
				4-14-00	ING, Kiev, Vabank, Kiev
				5-6-00	Pravex, Kiev
				6-6-00	Metalurgbank, Zaporizhia
				9-25-00	Reifemsen, Kiev
<b>Comment on revision of due dates:</b> None.					
<b>Outside Contacts</b>	<b>Name</b>	<b>Affiliation</b>		<b>Time spent</b>	
For quarter ending December 31, 2000	Angela Prigozhina	World Bank		1 hour	
	Yuri Lupenko	Presidential Administration		1 hour	
	George Mullinax	U.S. Treasury		10 hours	
<b>Additional assistance requested by NBU</b> For quarter ending December 31, 2000	<p>Provided input to NBU's response to the Presidential decree requesting proposals for the separation of bank supervision from the NBU, the restructuring of Bank Supervision area, and compliance with the Basle Committee's Principles of Effective Bank Supervision. (Attachments 11, 12, 13, 14).</p> <p>Held several meetings with the Deputy Governor of Bank Supervision, Mr. Krotyuk, and the Manager of the General Department of Bank Supervision, Mr. Andrushchenko, to discuss issues pertaining to effective bank supervision, e.g. major focus areas for the Deputy Governor (Attachment 15), Decision Making Process (Attachment 16), CAMELS Rating Proposal (Attachment 17), Duties and Responsibilities of department manager (Attachment 18), Supervisory Cycle and Integrated Bank Supervision.</p>				
<b>Other comments</b>	Completed additional work on the proposal to introduce "sensitivity to market risk" component to the				

	<p>existing CAMEL rating system (Attachment 19). When adopted the CAMELS rating system will be consistent with western rating systems and conform to the Basle Committee recommendations on the Core Principles of Effective Bank Supervision. The documents required to implement this initiative are a revised CAMELS policy, new section to the On-site Handbook addressing Sensitivity to Market Risk, and revised Report of Examination format. These documents have been approved by Bank Supervision management and are currently being reviewed by the NBU legal department and editing department.</p> <p>Assisted Barents advisor who provided technical assistance in a Tier 2 examination. This is the second of two advisors scheduled to work in Tier 2 examinations. The advisor assists in planning, examination management, and report preparation. He also provides advice on technical issues arising during the examination. The assignment was completed in nine weeks and reinforced NBU examiners' understanding of risk assessment techniques and examination procedures.</p> <p>Began reviewing in detail the work performed in the Problem Bank area. This will allow for a smooth transition from Larry Boren's initiatives to the work anticipated under the 2001 contract.</p>
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**Bank Resolution**

<b>Benchmark</b>	<b>Adviser</b>	<b>Original Date</b>	<b>Revised Date</b>	<b>Date Completed</b>	<b>Status</b>
<b>Bank Resolution</b>					

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<b>Teach course on Mergers and Acquisitions, in conjunction with Training advisor</b>	Boren	03/31/99		2/25/99	Eighteen individuals from the rehabilitation and liquidation units participated in the course given over a four day time frame. The pooling of interest and purchase methods were taught with a case study of two Ukrainian institutions included. The course also covered possible assistance packages utilized to finance purchase and assumptions.
<b>Develop plan to assess involvement of other departments in problem bank designation</b>	Boren	03/31/99		2/28/99	Interviews will be conducted to evaluate the current process utilized to determine problem bank status. These will include discussions with on-site, off-site, legal, problem bank resolution unit and the Kiev Regional Office. During February discussions were held with Kiev Regional Office, Off-site and Early Warning Analysis. Reviews will also be performed of all regulations, policies and procedures utilized to designate problem banks. Once all investigative work is complete, a formal written recommendation will be submitted to management during the second quarter of 1999.
<b>Submit outline of BRU operations manual to management</b>	Boren	03/31/99	4/30/99	June 25, 1999	The outline has been drafted and presented to management. A schedule will be drafted for completion of sections as soon as approved by management.

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<b>Draft at least two chapters of proposed operations manual</b>	Boren	06/30/99	08/31/99	8/30/99	Two chapters for the handbook have been drafted (Introductory Section and then Supervisory Remedial Actions) The materials have yet to be translated and are scheduled to be presented to management and discussed during October. Revisions will then be made in November.
<b>Propose rules for coordination of work between rehabilitation and liquidation sections of BRU</b>	Boren	06/30/99	8/15/00	10/4/2000	The proposal for coordination was completed and submitted to management on October 4, 2000. A copy of this memorandum is attached to the quarterly report (see Attachment 20).
<b>Conduct review of operational enforcement procedures and report findings to management</b>	Boren	06/30/99	10/30/00	11/03/00	The review encompassed operational procedures within the Problem Bank Unit and resulted in recommendations made to Senior Management for Changes. A copy of this document is attached to this report (see Attachment 21).

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<p><b>Review timeliness of referrals to BRU and present findings to management</b></p>	<p>Boren</p>	<p>06/30/99</p>		<p>May 6, 1999</p>	<p>Review completed which concluded institutions are not transferred to BRU in a timely manner. Report issued to management with recommendations for corrective action. Significant criticisms concerning Regional Office, On-Site and Off-site functions in addition to BRU. Management stated general concurrence with the document and has begun to take steps to eliminate the numerous criticisms. First, a working group comprised of an individual from on-site, off-site and the BRU has been established. The task is to review all institutions, by August 1st, and determine whether CAMELS are accurate and whether additional actions should be taken. The previous recommendation by Senior Policy Advisor Selby to establish Supervision Senior Management Committee has been accepted. Advisor's review recommended this committee review and approve CAMEL rankings and determine enforcement actions. The committee has assumed this responsibility and is also providing oversight of the working group assessing the accuracy of current CAMEL rankings and whether to pursue additional enforcement actions. In addition, On-site has stated that it is implementing the recommendation that reports of examination which are not adequate should be rejected and returned to the originating office for correction. Other recommendations are also made within this document and this advisor will follow-up to ensure they are addressed.</p>
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<b>Teach course in Elements of Effective Rehabilitation Plan, in conjunction with training advisor</b>	Boren	06/30/99	7/19/99	7/19/99	Course taught jointly with Tacis. Barents Group, LLC. Advisor taught Effective Rehabilitation Plans and Provisional Administration, although the original agreement with Tacis had been that they would cover the Provisional Administration Section of the review.
<b>Recommend changes to process of problem bank designation</b>	Boren	06/30/99		9/2/99 5/20/00	Changes to Resolution #425 – Problem Bank Criteria were made and submitted to management on September 2, 1999. These were then modified on May 20, 2000 according to the content of the revised #38 (Now resolution #215). However, it is unlikely these will be addressed by management until #215 is approved by the Justice Ministry and reorganizational issues currently being addressed by senior management are complete. BRU has indicated it will not lead the effort in adopting these provisions as it is felt the methodology unit should address. Once #215 is approved by Justice, the issue of Revising Resolution #425 will be addressed with Prudential Supervision.

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<b>NBU to have adopted changes to process of problem bank designation</b>	Boren	09/30/99	9/30/00	3/31/2001	The recommendations for revision to #425, problem bank designation, have been made and were included with the June quarterly report. Specifics within that document define problem banks as 3, 4, and 5's. No action has been taken by the NBU due to the reorganization issue and the Presidential Decree. The advisor's proposal contains rules for transfer of an institution to the BRU; however it is not clear at this point whether the BRU will remain in its current form. Some discussions have been held concerning the handling of institutions through the Prudential Supervision Department with a "Cradle to Grave" approach. If this is true, then the BRU will cease to exist. Nevertheless, substantial parts of the recommended Resolution #425 will continue to remain valid. The contents of Resolution #215, the enforcement document, clearly states that institutions which are rated "3" through "5" are problem institutions with actions to be taken. The importance of Resolution #425 was that it defined the office in the NBU which was assigned the responsibility for supervising the problem institutions. That responsibility still has yet to be defined by the new organizational structure of supervision for the NBU.
<b>Draft at least two further chapters of operations manual</b>	Boren	09/30/99	12/31/99	12/31/99	The chapters include the following: (1) Formal Written Agreements and Subsequent Supervisory Actions, and (2) Mergers and Acquisitions.

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<b>In cooperation with legal advisor, draft at least two sections of enforcement manual</b>	Boren	09/30/99	12/31/99	12/31/99 8/11/00	The initial draft was presented to management on December 31, 1999 awaiting final revisions to Regulation #38. Regulation #38 was reissued as #215 in July 2000. The enforcement manual was reissued August 11, 2000 reflecting the new #215. The revised manual is attached to this quarterly report (see Attachment 22). No actions have been taken to-date by Management concerning this document.
<b>Draft at least two further chapters of operations manual</b>	Boren	12/31/99	10/30/00	11/30/00	The manual has been completed and submitted to management on November 29, 2000 (see Attachment 23).
<b>NBU to have adopted rules for coordination between rehabilitation and liquidation</b>	Boren	12/31/99	9/30/00	3/31/2001	Recommendations for coordination were provided to management on October 4 <sup>th</sup> . However, the NBU is in the process of Reorganization and has not fully defined how the new structure will work. The proposed structure does recognize the need to separate the liquidation function from the Bank Rehabilitation Unit. Therefore, it is becoming increasingly crucial that the rules for coordination be adopted. The date for completion has been pushed forward to the end of the first quarter to allow the restructuring to take place.
<b>Teach course in Analytical Assessment of Banks, in conjunction with training advisor</b>	Boren	09/30/99	10/18/99	10/20/99	The financial analysis course included 20 participants and was structured around a case study. Extensive time was expended at the beginning of the instruction fully explaining the concepts to be utilized. After analysis was performed, the students were required to make a presentation of their findings. The course was well received and participation in discussions was extensive.

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<b>Teach course in liquidation criteria, in conjunction with training advisor</b>	Boren	12/31/99		11/10/99	A financial analysis course was taught instead of the liquidation seminar. This was taken after consultation with the NBU and agreement that liquidation issues are the prerogative of Tacis advisors. This course is a repeat of the presentation made in October, 1999 and included the same number of participants. The Deputy for the Bank Resolution Department (Ms. Donchenko) attended the entire seminar and participated fully in the case study.
Comment on the Revision of Due Dates					There are two items above that have been pushed to the first quarter of 2001 for completion. Both of these issues have been negatively impacted by the restructuring which is going on at the present time in Bank Supervision. The issues cannot be fully addressed by the NBU until such time as the structure has been fully defined and adopted, with individuals then assigned to the positions.
<b>Outside Contacts (for quarter ended December 31, 2000)</b>	<b>Name (None)</b>			<b>Affiliation</b>	<b>Time spent</b>
<b>Additional assistance requested by NBU</b>	None.				

<b>Other comments</b>	A seminar was conducted in November with all Regional Office Directors of Supervision Present. The seminar originally was intended to have 8 Regional Office representatives make presentations on a specific institution within their control. The Seminar was titled “Problem Bank Supervision – A Joint Effort Requiring Sharing of Ideas and Information”. However, Senior Management of the NBU decided to change the title to “Major tasks of Improving Bank Supervision at the Current Stage”. Management retained presentations to be made by the different regions and also committed the time of Krotyuk and Andrushchenko as well as a number of other individuals within the head office of the NBU. The final hours of the seminar included participation by Krotyuk with a two hour discussion of the deficiencies noted within the NBU. The advisor made a day long presentation concentrating upon the fact the NBU’s rehabilitation plans are focusing upon the symptoms of a problem bank rather than the causes
<b>Other comments</b>	None.

**Legal**

<b>Benchmark</b>	<b>Adviser</b>	<b>Original Date</b>	<b>Revised Date</b>	<b>Date Completed</b>	<b>Status/remarks</b>
Legal					

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<p>Draft and deliver to NBU Law Department preliminary recommendations for harmonizing NBU regulations regarding bank supervision with EU banking directives</p>	<p><b>Gegenheimer</b></p>	<p><b>3/31/00</b></p>		<p><b>3/17/00</b></p>	<p><b>Memorandum delivered 3/17/00, focusing on large exposures and consolidated supervision</b></p>
<p>In cooperation with Problem Bank Advisor, provide recommendations for finalization of changes to NBU Resolution No. 38 (enforcement procedures)</p>	<p><b>Gegenheimer</b></p>	<p><b>03/31/00</b></p>		<p><b>03/03/00</b></p>	<p><b>Working with Problem Bank Advisor on an ongoing basis to finalize amendments to Regulation No. 38</b></p>

<p>Provide written commentary to NBU Law Department regarding proposed revisions to Law on the NBU; Law on Deposit Insurance; and Law on Banks and Banking</p>	<p>Gegenheimer</p>	<p>06/30/00</p>		<p>2/10/00 (Deposit Insurance Law)</p> <p>3/15/00 (Banking Law)</p> <p>3/15/00 (NBU Law)</p>	<p>Memorandum and “annotated” draft of Deposit Insurance Law provided to Legal Dept. 2/10/00 Memorandum on risk-based deposit insurance assessments provided to Legal Dept. 2/21/00</p> <p>Draft Law on Banks and Banking was submitted to the Verkhovna Rada 7/8/99, and is under consideration by a working group of the Finance and Banking Committee Continuing to work with NBU Legal Dept. to develop strategy to promote the law and educate members of Verkhovna Rada. Memoranda and annotated draft law articles submitted to NBU Law Dept. 3/15/00 on outstanding subjects.</p> <p>Memoranda provided to Legal Dept. focusing on role of central bank boards in international practice (3/15) and proposed amendments to NBU Law to clarify NBU’s responsibility to supervise non-bank financial institutions (3/17).</p>
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In cooperation with Problem Bank Advisor, provide recommendations for finalization of NBU enforcement manual, taking into account changes (if any) previously made in NBU Resolution No. 38 (enforcement procedures) and in Law on NBU	Gegenheimer	11/30/00		10/1/00	Manual recommendations completed. (See Bank Resolution section for more discussion.)
<b>Comment on revision of due dates</b>					
<b>Outside Contacts</b>	<b>Name</b>	<b>Affiliation</b>	<b>Time spent</b>		
For quarter ending December 31, 2000	Boris Von Hoffmann	USAID	1.5 hrs.		
	Angela Prigozhina	World Bank	2 hrs		
	Yuri Lupenko	Department of Economics and Social Policy, Presidential Administration of Ukraine	3 hrs (1.5 hour preparation, 1.5 hour meeting)		

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	Rada Working Group on Banking Law (M.P.Igor Yushko et al)	Verkhovna Rada	3 hrs.
<b>Other comments</b>	<p>Advisor provided recommendations for several outstanding issues as the draft banking law was being prepared for second reading in the Verkhovna Rada. These issues included recommending a prohibition on unauthorized deposit-taking (Attachment 24), severe limitation on the role of the courts in the liquidation process (Attachment 25), and a "back-up" position to limit the role of the courts to a manageable level if the Parliament insisted on a role (Attachment 26). The final version of the law reflected some aspects of this "back-up" position. In essence, the courts do have a role to play, but their role is circumscribed. Either creditors or the National Bank can petition the court for liquidation. The court has one month to approve or reject. It appears that the only basis on which the court can accept or reject the petition is whether or not the bank is really insolvent according to the definition in the Law. It apparently cannot, for example, reject the petition concerning an insolvent bank on the grounds that it might be able to work its way out of its problems. If it confirms that the bank is indeed insolvent, it must approve the liquidation. Also, the liquidation must proceed while the court is considering approval or rejection. The Law seems to reduce the role of the courts or their ability to delay the process. The biggest flaw in the law seems to be that it does not clearly state that the NBU must revoke the license as soon as a bank becomes insolvent. It states grounds for license revocation, insolvency being one, but does not require the NBU to act.</p>		

**Training**

Benchmark	Adviser	Original Date	Revised Date	Date Completed	Status
<b>Training</b>					
<b>Initiate training</b>	Satterfield	03/31/99		March 1, 1999	Completed

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<b>needs assessment</b>					
<b>Complete training needs assessment</b>	Satterfield	06/30/99		May, 1999	Completed – Input from all regions and central office to the Methodology Unit
<b>Initiate development of formal training program, including determining core group of courses and identifying personnel</b>	Satterfield	03/31/99		January, 1999	Completed
<b>Complete development of formal training program</b>	Satterfield	06/30/99	12/30/99		In Process – Completed Formal Training Program Document and in accordance with Deputy Chairman Kiryeyev’s instructions, have given to the Methodology Unit for presentation to the Senior Management Committee for approval.
<b>Conduct training course</b>	Satterfield	03/31/99 (and continuous)		6/29-7/2/99	“Credit Seminar – 4 days in Yalta (Crimea) for BSD Regional Personnel
<b>Conduct seminar on specific topic</b>	Satterfield	03/31/99 (and continuous)		7/20-21/99	“Mergers and Acquisitions” 6 hours in conjunction with Liquidation Seminar for NBU Rehabilitation and Liquidation Units
<b>Establish training committee</b>	Satterfield	06/30/99	7/30/99	July 99	Completed - In series of discussions with Deputy Director Kiryeyev and Methodology Unit staff, the Senior Management Committee is also given responsibility for training committee function.

<p><b>Comment on revision of due dates - Development of Formal Training Program Document by advisor is completed. It has been submitted to the Methodology Department, which must present it to the Senior Management Committee for approval. This should be done in 4<sup>th</sup> quarter of 1999. When the Senior Management Committee meeting is scheduled to consider the Document, Methodology Department has indicated they may request Advisor assistance in the presentation</b></p>	
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**Bank Ukraina**

<b>Benchmark</b>	<b>Adviser</b>	<b>Original Date</b>	<b>Revised Date</b>	<b>Date Completed</b>	<b>Status</b>
<b>Bank Ukraina</b>					
<b>Advise on Development of Credit Policy and Procedures</b>	Satterfield	8/11/99 and continuous		Ongoing	(1) Reviewed draft credit document and met with credit management several times to discuss and advise on changes. (2) Discussed and worked with TACIS advisors concerning their role in developing a comprehensive credit underwriting policy and procedures in their new contract. (3) Reviewed Bank's loan loss "classification" findings and recommended appropriate entity (private, government, etc.) responsibility for guarantee of payment. (4) Reviewed draft NBU normative on lending and gave comments to legal advisor.
<b>Advise on Branch Network</b>	Satterfield	8/11/99 and continuous		Ongoing	(1) Worked with management to revise benchmarks for completing Branch Conversion process by July 1, 2000,

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<b>Restructuring</b>					<p>rather than December 31, 2000. (2) Advised management on need for second step to Branch Network Restructuring which is to restructure regional offices. (3) Advised management on need for and methodology to use for inter-branch pricing system – Also, discussed this with TACIS advisors in that it is planned to be a major part of their new contract responsibility</p>
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