

**Ukrainian Bank Accounting and Operations
Infrastructure Development Project
for the
NATIONAL BANK OF UKRAINE**

QUARTERLY PERFORMANCE REPORT

Quarter Ending June 30, 2000

USAID CONTRACT EPE-I-00-95-00062-00
Task Order #OUT-EPE-I-802-95-00056-00

Submitted to:

United States Agency for International Development
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**Quarterly Performance Report
For
International Business & Technical Consultants, Inc.
Contract #: EPE-1-00-95—0056-00
For the period April 1, 2000 to June 30, 2000**

A. CONTRACTORS REPORT -- NARRATIVE

1. Background:

USAID has been providing technical assistance to the National Bank of Ukraine (NBU) since April 1995, to help strengthen its capacity to regulate and supervise the banking sector. The primary focus of the program has been to help the Bank Supervision Department (BSD) build up the primary components of prudential regulation; on and off-site examination, problem bank resolution, and legal underpinnings. This program, however, would have reached an impasse unless the Ukrainian banking system converted to international accounting standards (IAS). There is no way that either the National Bank of Ukraine or the general public can get an accurate picture of the financial conditions of the banks unless the IAS system is adopted. The Gosplan accounting system previously in use was designed for a time when the so-called banks served not as allocators of financial resources to the most efficient uses based upon price, but were a funnel of centrally planned financial allocations. In such a system, risk and credit analysis had no role and the accounting system reflected this. Therefore, it was critical that this conversion to IAS was made as soon as possible.

The Governor of the NBU had asked USAID to broaden its program to include particular emphasis on the implementation stage of the development of international accounting standards in the commercial banks. Bank supervision and internationally accepted accounting conventions are interrelated priorities in building a market-oriented private banking sector. Conversion to IAS was one of the most important conditions in the World Bank's Financial Sector Adjustment Loan. The implementation of IAS in the Ukrainian commercial banks is a large undertaking and AID has been joined by EU/TACIS and the British Know How Fund in this program.

The National Bank of Ukraine has issued in 1997, an accounting chart for commercial banks and instructions on the new accounts, based on IAS and existing requirements set up by the supervision and statistics sections of the NBU. These documents were used as guidelines by commercial banks during the implementation phase that began in October 1997. Use of the new chart of accounts and revised reporting were mandatory for all commercial banks beginning January 1, 1998.

The ongoing project was divided into two components: to provide technical assistance to a group of Pilot Banks (PIBs) and to advise Participating Banks (PABs) in their conversion process. The final objective of the first component was to provide technical assistance to a group of PIBs so that they would have accomplished a rapid and correct transition from the existing, Soviet-based

accounting system to a new accounting system which would be in substantial compliance with international accounting standards (IAS). In addition, the technical assistance should be directed to ensure that PIB management comprehends and uses correctly the IAS data produced from the new system. The second component is to assist as many Ukrainian banks as possible, the PABs, with an analysis and approval of their conversion keys from the existing system to an IAS-based system, to advise on the use of IAS valuation and recognition rules for implementation beginning January 1, 1998, and assist in the development of possible management information systems which can be prepared from the new system. The initial project was completed on September 30, 1998 and was then extended for an additional two years. In September 1999, the project was modified effective October 1, 1999, to support additional bank restructuring initiatives through December 2000. Reporting on the project objectives, technical approach and planned benchmarks on the modified project begins in this quarterly report.

2. Expected Results:

The Task Order (TO) helps to fulfill the strategic objective of developing a more competitive and market-responsive private financial sector, and most specifically, to develop the financial infrastructure. The specific objectives are to assist the National Bank of Ukraine (NBU) in converting the commercial banks to international accounting standards (IAS) and to assist the commercial banks in upgrading their “back office” functions. The specific results expected are to achieve a transactions level conversion to IAS for banks covering at least two-thirds of the total assets of the banking system and, with a select group of banks, strengthen back office functions, such as internal audit, financial management, and fundamental systems.

The project components were restructured during the first quarter in collaboration with USAID and NBU. As of December 31, 1998, the project was divided into three components. The first component was to provide extensive in-bank technical assistance to a large bank in the system (the pilot bank-PIB). This bank was selected from the top ten banks in Ukraine and its viability is important to systemic stability.

The second component was the provision of in-bank technical assistance of lesser intensity to a group of medium-sized banks, the Partner Bank group (PAR). Collectively, the PAR group was significant to the banking system and, individually, the banks selected had the capability to provide leadership in the reform process to the rest of the banking system.

The third component was conducted jointly with the advisory team from EU/TACIS and focused on delivering a series of workshops to the Participating Bank group (PAB). This group, estimated at approximately 30 banks, was selected from the list of banks meeting NBU requirements. The workshops were directed to senior bank management and supervisory support staff and focused on the practical implementation of bank financial reporting and operational reforms using tested methodology from work in the PIB and PARs.

With the beginning of bank restructuring programs and the end of the EU/TACIS bank accounting project and related cooperative efforts, the project was again modified in September 1999, to support bank restructuring efforts and extend Kiev-based training programs on IAS and

Internal Audit implementation tools into the regions. The training programs focus, in part, on the in-bank use of the Bank Management Reporting System (BMRS), the financial reporting software developed by the project in 1998. The project modifications included an extension through December 2000.

3. Current Core Activity:

The core activity for this quarter continued on implementation of the two major components of the project as set forth in the June 1999 Strategic Work Plan (SWP): The Pilot Bank Program (PIB) and the Sector-wide Dissemination of IAS Implementation Tools (Dissemination Program). As indicated above, these components were modified and redefined beginning October 1, 1999.

Specific activities performed during the quarter within the PIB were as follows:

- Reviewed the key accounting procedures from the list of new accounting procedures to be implemented at Aval during year 2000 and finalizing the selection of the two management reports to be developed and incorporated into Aval's internal reporting system.
- Continued coordination of the MIS assistance program with the related Aval Bank Restructure Project being conducted by advisors from Booz-Allen & Hamilton (BAH).
- Monitored Aval's progress against the Strategic IT Plan, including detailed analysis and documentation of the new database and discussions with IT management at Aval and technical representatives at IBIS, Aval's software vendor.
- Supervised the planning and field work for the pilot internal audit conducted at the Kiev Branch 5 of Aval, including delivery of the Internal Audit Practice Set course to the audit supervisors in Aval's IA department.
- Assisted Ukrsibbank in Kharkiv on achieving the technical assistance goals agreed upon for year 2000.

Specific activities performed during the quarter within the Dissemination Program were as follows:

- Evaluated the feasibility of using regional training centers in Kharkiv and Lviv for sustained delivery of the BMRS-Basic and Internal Audit Case Study courses.
- Began the development of the BMRS-Advanced course scheduled to be delivered in Kiev and possibly the regions starting in September.
- Delivered the BMRS Basic and Internal Audit Case Study Courses in Kiev and the Internal Audit Case Study Course in Kharkiv
- Maintained the project website with current information, including revised versions of BMRS.

4. Performance (June 1999 SWP):

Benchmarks for Quarter Three (June 30, 2000):

- *Aval bank will have begun implementation of its MIS data base redesign.*

The November 1999 revision of the IT Strategic Plan called for the conversion of the database to be completed on or about September 20, 2000. At this time both Aval Bank and IBIS are still declaring that date to be valid. The new data base system has been implemented. Also, we were told that the first set of applications (Dealing, client bank, general ledger functions, operating day, and basic financial reports) have been converted to run against the new data base system. Field testing of these applications was recently begun in the Chernigiv branch. However, strictly speaking, the testing is being conducted in support of “limited operations” units of the branch, not the entire branch. Our review and verification of the test results is scheduled for next quarter, after Aval has had sufficient time to make any necessary modifications resulting from the initial tests.

In the head office, synchronization of the old and new systems with existing data, estimated to begin in March, had not been implemented by the end of the quarter. The significance of this is that while the new data base is operational, the additional data fields, many of which are required to support improved IAS financial and management reporting, are not being populated with data. It appears that problems came up in the new data base implementation and conversion at the head office and performance against the strategic plan has been delayed. Aval management was aware of the slippage and took action to correct the situation. They made the decision to develop the enhanced applications in-house using Aval IT staff instead of leaving that task with IBIS as originally planned. In that way, IBIS could increase the resources allocated to continuing data base development and conversion.

A fundamental assumption of the strategic plan was that IBIS would upgrade and develop new application systems and that no significant development would be undertaken in-house. Since Aval has assumed this task, its IT technicians and system users have to acquire knowledge and experience in system development in the technical environment created by IBIS before they can become as efficient as IBIS technicians. Therefore, further delays in the implementation schedule set forth in the strategic plan are almost certain to result. The extent of these delays will be evaluated next quarter as the test results are reviewed.

These delays will not affect the work of the projects short term consultants, and may even be an advantage because the delays we expect will improve the timeliness, and hence the impact, of our planned work on the quality and functionality of Aval’s systems.

It should also be recognized that Aval’s decision to move application development in-house is likely to restrict the ability to disseminate the results of our technical assistance and Aval’s experience throughout the banking sector. With Aval’s accounting system being developed internally it will be even more proprietary than if it had been developed by a third party (IBIS) who would have a vested interest in marketing a superior product to the banks.

The following planned sequence of application development continues to reflect the business priorities of Aval.

1. Dealing (sic), client bank, general ledger module (new), and financial performance – basic financial reports, currently being tested in the Chernigiv branch
2. Plastic card operations, including security, card issuance, and direct links to the new consolidated database for on-line analytical accounting and management reporting.
3. Revised and upgraded personnel and payroll systems.
4. Centralized fixed assets and tax accounting.
5. Securities trading and accounting (deferred until later in the year).
6. Profitability of bank instruments (*not* profit centers).

Our IT technical assistance program contemplates assistance in various aspects of systems covered in 1, 2, and 5 above.

During the quarter, a thorough translation and analysis of the new data base design, including a comparison with the existing system, was completed. The new database is far larger and more complex than the old. Many new data fields and refinements of access security have been added, and the ability of users to add new data fields to tables improved. IBIS's design approach is sound, and appropriate for a software house developing a generic product useful across the banking sector. However it is more complicated than it needs to be except for all but the very largest full service banks. Therefore, its application to the banking sector as a whole will be limited. A disc of Aval's "Bank DataBase Structure" is enclosed as Exhibit I.

- *The BMRS--Advanced Workshop will be developed.*

The development of the BMRS Advanced Workshop was delayed as the management reporting enhancements to the revised BMRS software program ("Storm"), which underlie this workshop, were still in process at quarter end. However the workshop format and the "mock" data files that will be used in the workshop (approximately a dozen data files in the NBU format) were completed. A copy of the course outline and the datafile requirements are attached as Exhibit II.

- *The NCBT will have completed the train the trainer program for BMRS Advanced and be capable of delivering the two core implementation courses and the advanced course.*

As stated above, development of the BMRS Advanced Workshop was not completed during the quarter but is scheduled for introduction in September. With regards to the "training the trainer" component of the project courses, as indicated in the quarterly report for last quarter we were not successful in establishing a sustainable trainer cadre for the courses at NCTBP. As an example, on April 17-18 the Internal Audit Case Study Course was delivered at the National Center for Training Bank Personnel (NCTBP). Unfortunately, the NCTBP did not provide an assistant trainer for the course. We delivered this course three times at NCTBP and an assistant trainer was provided for only one of the course deliveries. Accordingly, it does not appear likely that the NCTBP will have qualified trainers to offer this course on a sustained basis in accordance with our original agreement with the center's management. In hindsight, the courses may require more technical expertise and practical implementation experience than can be provided from part-time

trainer resources. On the other hand, the NCTBP did conduct a workshop specifically for Aval's IA department and used elements of the project's IA case study course as part of the materials for that workshop. Accordingly, some components of the core courses are adaptable and are being used to disseminate technical training by the NCTBP.

Because of the difficulties experienced in developing a sustainable training program at NCTBP as well as the International Consulting Center in Kharkiv (ICC) (reference is made to our report for the quarter ended March 31, 2000), we decided to try using the university sector as the sustaining training resource. The universities have permanent faculty and they could offer the courses both as part of the normal curriculum and/or in an extension program to working students. Also, we may be able to find a university that has the IT resources and recognizes the value in maintaining the BMRS software after the project is completed.

After consultation with USAID, on April 24-25, the BMRS-Basic course was delivered to eleven faculty members of the Banking Department at the National Economic University in Kharkiv (NEUK). The Director of the Banking Department will decide whether it is feasible to integrate BMRS-Basic into the department's curriculum. Because of student exams and university vacations, the Internal Audit Case Study Course could not be scheduled until September.

- *One regional center will have completed the training the trainer program for the BMRS Basic and the Internal Audit Case Study Workshops and be capable of delivering these two courses on a sustained basis.*

The comments on the previous benchmark address in part the difficulties in establishing a sustainable training facility for the core courses in the Kharkiv region. However, we continue to believe it is important to establish a sustainable program in that region. Accordingly, in June we met with the Banking College of Kharkiv (BCK) which has, as a separate facility, the Bank Training Institute (BTI), supported by the regional NBU. This center provides permanent faculty and computer labs for sustainability as part of BCK and an outreach program to the banks through the BTI. The directors of both the college and institute were very receptive to incorporate the courses into their programs. Delivery of both courses to both bank participants and faculty (future trainers) are planned for next quarter.

On June 26-27, members of the team traveled to Lviv, Ukraine to meet with representatives of the Banking College in that city. The organization in Lviv was similar to Kharkiv in that there is a separate Banking Institute supported by NBU attached to the college. Again, the centers in Lviv provide both the permanent faculty and computer lab necessary to establish a sustainable program and the respective directors were enthusiastic about being able to offer the courses. Delivery of both courses is scheduled for September.

In addition to the training centers in Kharkiv and Lviv, in June, we met with the heads of the Banking Department and IT Department at the National Economic University of Kiev to discuss the project's software, BMRS, and our core courses. This meeting was followed by an on-site demonstration of BMRS and installation of the program in the IT Department laboratory. As of

the end of the quarter, a decision had not been made as to whether these courses would be appropriate for the curriculum of that university.

Further attempts to locate a suitable training center in Odessa were not successful. However, the NBU in Odessa requested that we deliver the two core courses using a training facility borrowed from IBIS, the Odessa-based software supplier. We agreed to do this next quarter even though it would not be a sustainable program after the project ends.

- *Follow-up advisory services and/or site visits will be conducted by the project instructor and training assistant for a majority of the banks represented in the course delivered by the project advisor at the regional center.*

As stated in the project report for the last quarter, demand for in-bank follow-up advisory services, which is part of the two core courses, has been disappointing. Only the Internal Audit Case Study Course delivered at ICC in March would have had an in-bank follow-up component during the quarter. But, despite the fact that letters were sent reminding the participants of this service, there were no requests. We will continue to offer the in-bank advisory service to those participants in the course offerings planned for next quarter and monitor the results.

- *Summary of progress on Previous Benchmarks not yet accomplished and related project activities during the quarter:*

A. At Aval, agreement was reached in early April to develop and implement two management reports over the next six months. The first such report was a maturity gap report which would assist the Asset Liability Committee (ALCO) in evaluating liquidity risk and developing strategies to manage this risk. Various meetings were conducted with the head of the financial analysis department to identify the components of this report and define the assumptions that would be used to allocate these components by maturity. The analysis department then identified the modifications and additions needed to be added to Aval's database in order to automate the preparation of the report. A matrix of the report components and related assumptions is attached as Exhibit III.

The second report is an Interest Sensitivity Gap report which will feed off of elements in the maturity gap report but will measure Aval's risk to changes in market rate of interests. An IT specialist is scheduled to arrive next quarter to assist in designing database revisions and an automated program to prepare both of these reports.

B. In December 1999 Aval decided to program its internal systems to prepare a monthly, senior management financial report, including selected analysis schedules. The format decided upon was identical to the format developed as part of BMRS and used by us for demonstration purposes during 1999. The in-house program was scheduled to be completed in January 2000 but, by the end of this quarter, it had not yet been completed. In June, IBIS, who was developing the program, demonstrated progress to date on the development effort. It was apparent from the demonstration that IBIS was intent on developing a "clone" of BMRS. The program is independent of the of Aval's systems and, like BMRS, uses the NBU

report files as source material, not the bank's own database. While this will be another product available to the banking sector as a whole, it will not provide Aval with a proprietary system that can prepare customized reports within the specific context of Aval's operation.

- C. In April and June, we provided in-bank TA to Ukrsibbank in Kharkiv. As requested, Ukrsibbank prepared a list of internal financial reports for 2000 together with sample formats. Based on an overall review of the formats, these reports did not contain the analysis information we had recommended and which is part of the senior management reporting package in BMRS. Instead, the bank is preparing a daily income and expense statement that is not adequate and not necessary. Overall, Ukrsibbank has numerous technical questions but is not focusing on the year 2000 objectives that we had agreed to during the first quarter, specifically the development of IAS-compliant internal financial and management reporting. They have also not established a functioning internal audit department, which was to be operational next quarter.
- D. The "pilot audit" of Aval's Kiev Branch 5 was begun during May and the fieldwork was substantially completed by the end of June with the final report to be completed next month. The pilot audit is primarily an on-the-job training program that puts into practice the internal audit procedures taught in the theory and case study courses. Aval assigned a senior, in-charge branch auditor and four staff members to the pilot audit team. The initial phase of the audit focused on preparing the "Permanent File". This file documents the procedures and internal controls operating at the branch in each of the key audit areas. The audit staff was trained to prepare flow charts and internal control questionnaires as part of that process. From that information, they were trained to prepare an audit program and audit workpapers to document the audit steps performed. Standard audit procedures performed as part of the pilot audit included sample selection test of the loan loss reserve, and direct confirmation of loan and deposit balances with the customers. Samples of key documents prepared as part of the pilot audit are attached as exhibit IV.

We believe that several of the procedures and techniques used in the pilot audit will be available to disseminate to the banking sector as a whole through NBU's internal audit control unit.

5. Statement of Work:

The Statement of Work calls for the implementation of the following five specific tasks in order to support the overall strategic objective of developing a more competitive and market-responsive private financial sector:

- Deepening of the commercial bank IAS-conversion process
- Improving financial management
- Strengthening the internal audit function
- Systems analysis
- Accounting department organization

As set forth in the June 1999 SWP, the project's tangible results and benchmarks were modified effective October 1, 1999, to better achieve the strategic objectives of the original program and support restructure initiatives planned for the systemically significant financial institutions.

6. Role of and Coordination With Other Donors or International Financial Organizations:

Specific activities which support the role of other donor agencies of international financial organizations, which were conducted during the quarter, include:

- A. On April 13, the team advisors attended the USAID sponsored contractors meeting for those projects involved with accounting reform.
- B. On April 14, Gary Fechtmeyer met with Glenn Tasky, advisor to the off-site division of NBU's bank supervision department, to discuss changes in the commercial bank reporting to that department as a result of the IAS conversion process.
- C. In April and again in June, Gary Fechtmeyer and Glyn Phillips met with Stuart Ferency, USAID project officer for the Kharkiv Initiative Program, to discuss further cooperation with that program and the training and in-bank advisory efforts of the project in Kharkiv.
- D. During the period May 1 to May 15, Gary Fechtmeyer conducted a diagnostic review of the status of the conversion to IAS by the commercial banks in Georgia.
- E. On May 4, Jeanne Wehlau, the project's Internal Audit Advisor, met with Ms. Politiva, Head of the IA Supervision Department in NBU, to maintain on-going efforts for the coordination of training and exchange of technical information on our programs.
- F. During May, the advisory team at Aval provided assistance and information to Peter Hanney, the Advisor for Bank Treasury Operations, who was conducting an evaluation of that area as part of the bank restructuring project.

B. ADMINISTRATIVE INFORMATION

International Business & Technical Consultants, Inc.
 Contract # EPE-I-00-95-00056-00
 Ukraine Accounting Reform
 Quarterly Financial Report
 April – June 2000

<i>Level of Effort Mix</i>	Total Level Of Effort	Level of Effort Expended April – June 2000	Level of Effort Cumulative October 1998 – June 2000	Unused Level Of Effort
Fixed Daily Rate Professionals	1,440.00	164.00	1,190.50	249.50
Local/Third Country National Professionals	3,680.00	508.00	3,451.00	229.00
Total	5,120.00	672.00	4,641.50	478.50

<i>Contract Expenditure</i>	Total Task Order Budget	Budget Expended April – June 2000	Cumulative Expended October 1998 – June 2000	Balance Task Order Budget
Labor Cost (FDR)	\$2,757,733	253,804.12	1,799,914.44	957,819
Labor Cost (Local/Third Country)	\$365,833	64,253.34	293,225.21	72,608
Total Labor Cost	\$3,123,566	318,057.46	2,093,099.03	1,030,467
Travel Cost	\$82,430	10,269.96	63,893.95	18,536
Hotel Cost	\$267,446	20,754.78	153,732.51	113,714
Per Diem Cost	\$79,411	4,402.50	34,611.25	44,800
Other Direct Cost	\$270,844	10,039.97	105,237.28	165,606
Total Cost	\$3,823,697	363,524.67	2,450,574.02	1,373,123

EXHIBITS

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Bank Management Reporting System (BMRS) - Advanced Course
Course Outline and Teaching Points

General Course Framework:

- 1) The course will be a two-day course with an optional half-day “up-front” to familiarize participants with how to use BMRS-Basic if they do not already know how to use the program (Intro Day).
- 2) Day 1 is for chief and deputy chief accountants and/or heads of the financial analysis departments and will focus on preparation of the reports and identify for the preparors key variations that will be discussed on Day 2.
- 3) Day 2 is for line management and will focus on the analysis of the reports. The workshop format will be as follows: Line management participants will be asked to analyze the individual statements and will then ask the panel of statement preparors to respond to questions arising from the analysis. Each statement will have key analysis (teaching) points to be identified and discussed.

Estimated Time	Description of Module	Key Teaching Points
Intro Day-Those Participants not familiar with BMRS		
4 hours	Introduction to BMRS	<ol style="list-style-type: none"> 1. Installation of BMRS and preparation of data files. 2. Exporting to Excel detailed balance sheet and income statement formats. 3. Introduce “out of balance” problem/solution 4. Making adjustments (interbranch elimination, reclassify prior period adjustments) 5. Add/Delete/Change account codes and mapping
Day 1-For Statement Preparors		
2 hours	Preparation of BMRS	<ol style="list-style-type: none"> 1) Identification of case study data files 2) Identification of comparison periods to be created from data files. 3) Post correcting entries adjustments (interbranch elimination, reclassify prior period adjustments) 4) Preparation of detailed income statement and balance sheet. 5) Cursory review of detailed statements. <ol style="list-style-type: none"> a) Quick reconciliation of retained earnings. b) Identification of unusual balances for further investigation
1 hour	Preparation of FX position report	<ol style="list-style-type: none"> 1) Explain need to measure risk by maturity category 2) List FX dominated accounts “not mapped” and discuss why. 3) Explain reporting of FX dominated “reserve” accounts 4) Discuss relative FX risk in off-balances sheet accounts. 5) Compare BMRS FX position report with NBU regulatory report

2 hours	Preparation and Analysis of Senior Management Condensed Financial Reports and Analysis Schedules	<ol style="list-style-type: none"> 1) Income statement Compare condensed balance sheet and income statement to detailed BMRS report. 2) Components of NII <ol style="list-style-type: none"> a) Use of average balances. b) Demonstrate how improvements in asset and deposit "mix" affect NIM. 3) Operating expense comparison. <ol style="list-style-type: none"> a) Explain variations over 10% between periods b) Discuss Operating expense ratios 4) Condensed Balance Sheet 5) Analysis of Changes in Loan and Deposit accounts 6) Preparation of summary FX position report.
1 hour	Preparation of Daily Funds Flow	<p>Cash flow will be completed for five consecutive days and the program will be used in two ways:</p> <ol style="list-style-type: none"> 1. Estimate excess (deficient) statutory reserve and non-invested funds. 2. Plan the days treasury activity will be done in day 2.
1 hour	Preparation of Branch performance report for two branches over three months	<ol style="list-style-type: none"> 1) Program will introduce the use of "transfer" pricing for interbranch balances. 2) Analysis of performance will be left for day 2
Day 2-For Line Management Analysis		
1/2 hour	Overview of the basic, detailed reports prepared by BMRS	<ol style="list-style-type: none"> 1. Explanation of the data base for the reports 2. Comparison to NBU annual report format 3. How report data is used for preparation of management reports.
3 hours	Analysis and Discussion of senior management reporting package	Note: See teaching points 2 thru 6 above under the preparors component. Other variations will be added once test files are printed.
1 hour	Analysis of FX position report, summary and detail	<ol style="list-style-type: none"> 1. Report will show overall USD position balanced but will be short in the "short-term" column. 2. Listing of FX forwards will valuation problems 3. Effect of delinquent USD LC in off balance sheet accounts. 4. From summary schedule, increase in USD short-term short position.
2 hours	Daily Funds Flow	<ol style="list-style-type: none"> 1. Discussion of non-invested funds and effect on NII 2. Preparation of "What if" worksheet for daily funds investment (note: this will be done jointly by preparors and line management participant at the computer using "case study" listing of investment options) 3. Next day follow-up of fund investment performance.
1 hour	Analysis of Branch performance	<ol style="list-style-type: none"> 1. Branch trend will show poor NII and earnings trend tied to low "earning asset" to "total asset" ratio. 2. Employee to asset ratio will be compared between branches with lower ratio tied to better performing branch. 3. Discussion of transfer pricing.

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Bank Management Reporting System (BMRS) - Advanced Course
Data File Requirements for Course Development

File 25: Year-end final reporting files for 1998 and 1999 with zero balances in 6 and 7 class.

File 02:

- 1st quarter report for 1999, consolidated only.
- 1st quarter file for 2000, consolidated only.
- Three month-end data files in 2000 that include the home office and at least two branches (three reporting entities).

File 01: Data files to cover a 5 calendar day reporting period during the last calendar month of the 1999 File 02 reporting period.

Reports to be developed:

- 1) Condensed Senior Management Financial Report and Analysis Schedules -
 - a) Balance sheet comparisons with opening balance sheet
 - b) Income Statement comparisons, 1st quarter 2000 with 1st quarter 1999.
- 2) FX position opening balance sheet and closing balance sheet.
- 3) Daily cash flow for 5 calendar days and estimate of non-invested funds.
- 4) Branch performance report for the two branches for each month in the 1st quarter of year 2000.

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AVAL Bank**Recommendations and Data Requirements for Components of Maturity Gap Report**

April 2000

1) General Structure:

- a) Period-end balances to be used not average balances
- b) Report should be segregated by foreign currency and National Currency
- c) Maturity intervals are: 1-7, 8-31, 32-92, 93-183, 184-365, and >365

Report Line Item	Components in Line	Groups of Accounts	Criteria for Reporting	Additional Data Base Components Needed
Assets				
Currency and Bank Metals	Minimum and maximum currency levels to be calculated	100,110	<ol style="list-style-type: none"> 1. Minimum classified as "> 365". 2. Excess over minimum "1-7" 3. Bank metals reported as "> 365". 	Ability to enter minimum reserve standards into the database
NBU account:	<ol style="list-style-type: none"> 1. Cash on demand accounts 2. Cash on term accounts 	<ol style="list-style-type: none"> 1.120; 1208 is not included 2.12; 1218 is not included 	<ol style="list-style-type: none"> 1. statutory reserve reported as "> 365" 2. Excess NBU balance reported in "1-7" 3. Recorded based on maturity 	Automatic calculation of statutory reserve in Vicont DB
Due From Banks	<ol style="list-style-type: none"> 1. Cash in demand accounts 2. Cash in time Accounts 3. Cash in Guarantee accounts 	<ol style="list-style-type: none"> 1.150; 1508,1509 are not included 2.151; 1518, 1519 are not included 3.1511 	<ol style="list-style-type: none"> 1) recorded as "1-7" 2) recorded based on maturity 3) Spread based on: <ol style="list-style-type: none"> a) Maturity of guaranteed transaction b) Balances guaranteeing plastic card operations reported as "> 365". 4) spread based on maturity 	

	<p>4. Non-classified Interbank Loans</p> <p>5. Classified interbank loans</p> <p>6. Loss Reserve(s)</p>	<p>4.152 (standard); 1528,1529 not included</p> <p>5.152 (watch, non-standard), 158; 1528,1529 not included</p> <p>6.159</p>	<p>5) spread based on some estimate of recovery, for example:</p> <p>a) Watch, Maturity + 30</p> <p>b) Substandard, Maturity + 90</p> <p>c) Doubtful, Maturity + 180</p> <p>d) Loss, ">365"</p> <p>6) Spread based on:</p> <p>a) General : pro-rata against non-classified loans</p> <p>b) Specific: consistent with related loan balance</p>	<p>No need to shift the maturity date, reserve adjustment only is needed</p>
Current Loans	<p>1. Current loans that will pay when due</p> <p>2. Current loans that will likely be extended</p> <p>3. General Reserve</p>	<p>20,21,22 (standard), except for 209, 219, 229 and accrued interest accounts</p> <p>3.2401</p>	<p>4. spread by maturity</p> <p>5. Estimated renewal maturity</p> <p>6. Spread in relation to current loan balances</p>	
Classified Loans	<p>1) Loan Balance</p> <p>2) Loss Reserve</p>	<p>20,21,22 (watch, non-standard, doubtful 209,219,229), except for accrued interest accounts</p> <p>2.2400</p>	<p>1) spread based on estimate of recovery:</p> <p>a) Watch, Maturity + 30</p> <p>b) Substandard, Maturity + 90</p> <p>c) Doubtful, Maturity + 180</p> <p>d) Loss, ">365"</p> <p>2) Consistent with related loan balance</p>	<p>No need to shift the maturity date, reserve adjustment only is needed</p>
Investments for sale	<p>1. Equity</p> <p>2. Vexels</p> <p>3. Promissory notes (except for OVDP, COVDP)</p> <p>4. Reserve against diminution in value</p>	<p>31</p> <p>4.319</p>	<p>classify as "1-7"</p>	

OVDP/COVDP (Note: Liquidity, not intention of management relevant in measuring maturity gap)	1. Marketable 2. Not marketable 3. Reserve against diminution in value	14 3.149	1. "1-7" at market value 2. maturity date	
Other investments in debt and equity securities	1. Marketable 2. Not marketable 3. Reserve against diminution in value	32 3.329	1. 1-7 at market value 2. maturity date less valuation reserve	
Investments in affiliated companies		41,42	1. ">365"	
Accrued Income Receivable	1. Loans and deposits 2. COVDP and other securities 3. Other	1.1208,1218,1508,1509,1518,1519,1528,1529,2008,2018,2028,2029,2038,2039,2048,2049,2058,2059,2068,2069,2078,2079,2108,2109,2118,2119,2208,2209,2218,2219 2.1418,1428,1438,3108,3118,3119,3218,3219 3.357	1. Estimated payment date 2. Due date 3. Estimated payment date	
Misc. Receivables, etc	b. Misc. Receivables 7. Clearing Accounts	18,28,351,352,354,355,358,359 371	1. Estimated payment date 2. "1-7"	
All other assets	Prepays, low value items, fixed and intangible assets	34,350,39 A,43,44	Report ">365" unless material pending asset sale identified	
Liabilities and Capital				
Demand Deposits	2) State Budget 3) Business 4) Individuals	1.25 except for accrued interest and term deposit accounts 2.260 except for accrued interest accounts 3.262 except for accrued interest accounts	For each demand deposit category multiply lowest daily balance during last quarter by 90%. This is "core" deposit which will be reported ">365". Report amount over "core" deposit in "1-7"	
Time Deposits	1. State Budget 2. Business 3. Individuals	4.25 (term deposits), except for accrued interest accounts 5.261 except for accrued interest accounts 6.263 except for accrued interest accounts	Same formula as Demand Deposits	
Certificates of Deposit		332, except for 3328	Reported based on maturity	

Due to Banks	<ol style="list-style-type: none"> 1. Demand 2. Time 3. Interbank loans 	<p>1.160 except for accrued interest accounts</p> <p>2.161 except for accrued interest accounts</p> <p>ccrued interest accounts</p>	<ol style="list-style-type: none"> 1. Reported "1-7" 2. Deposit Maturities 3. Loan Maturities 	
Due to NBU		130, 131,132,133, except for accrued interest accounts	Loan Maturities	
Accrued Interest Payable	<ol style="list-style-type: none"> 1. Deposits 2. NBU 3. Subordinated debt 	<p>1.1608,1618,1628,2608,2618,2628,2638</p> <p>2.1308,1318,1328,1338</p> <p>3.3668</p>	<ol style="list-style-type: none"> 1. Pro-rata on deposit balances 2. Period payment due 	
Accounts Payable and accruals	<ol style="list-style-type: none"> 5. Accounts payable and accruals 6. Clearing accounts 7. Other Liabilities 	<p>1.19,290,360,361364,365,367,369,</p> <p>2.292,372,373,</p> <p>3.39L</p>	<ol style="list-style-type: none"> 1. Estimated period payment due 2. "1-7" 3. Estimated period payment due 	
Income Taxes	<ol style="list-style-type: none"> 1. Current 2. Deferred 	362	<ol style="list-style-type: none"> 1. "8-31" 2. ">365" 	
Stockholder investment pending registration		363	">365"	
Subordinated debt		3660	1.	
Capital	<ol style="list-style-type: none"> 1. Common Stock 2. Retained earnings and reserves 3. Treasury Stock 	5 Class	<ol style="list-style-type: none"> 2. ">365" 3. ">365" 4. "1-7" (if marketable) 	
Off Balance Sheet Accounts	<ol style="list-style-type: none"> 1. Group 90: Guarantees likely to be funded 2. Group 91: Claims under loans and deposits 3. Group 92: Claims under FX operations 4. Group 93: Claims under securities operations 		Estimate of period funds will be received or payment required.	

Bank Aval
Internal Audit Department/Branch Pilot Audit
Operating Functions by Audit Area
Staff assignment and Flowcharting status

Date: 05/24/. 2000

#	Area	Responsible Employee	Operations	Approved	Pending
1.	Credit Operations	Kosyachenko Sasha	1. Granting of the loan 2. Accounting for the collateral 3. Accrual of the interest for the loan 4. Payment of the interest 5. Non-payment or untimely payment of the interest 6. Posting of the overdue interest to off-balance 7. Collection of the loan 8. Provision of the loan loss reserve	× × × × × × × ×	
2.	Deposits	Bondarenko Natalia	1. Opening of the account 2. Closing of the account 3. Recording deposits to the account 4. Recording withdrawals from the accounts 5. Charging wire transfers to the accounts 6. Writing off wire transfers from the accounts 7. Accrual of the interest for the account balances 8. Fees for the deposit services	× - (not ready)	× × × × × ×
3.	Forex operations and operations with cash	Gerasimenko Sveta	I. Non-trading operations 1. Purchase of the foreign currency by the bank from individuals 2. Sale of the foreign currency by the bank to individuals 3. Receipt of the wire transfers by means of various payment systems 4. Sending of the payments by means of the payment systems II. Forex operations 1. Purchase of the foreign currency by the bank under the contract for	× ×	× × ×

			non-resident settlements 2. Sale of the foreign currency received by the resident.		×
			III. Cash Operations 1. Replenishment of cash to the limited scope offices and branches 2. Check of the cash in the beginning of the day (reports). Check of the cash at the end of the day		×
4.	Fixed Assets, Payables and receivables	Marusyak Olga	1. Purchase of the fixed assets 2. Current repairs of the fixed assets 3. Capital repairs of the fixed assets 4. Depreciation of the fixed assets 5. Salaries 6. Rent 7. Communication 8. Utilities 9. Transportation 10. Payables and receivables (transfer of funds)	×	×
			Total:		×
				16	18
			All together:		
					34

BANK AVAL
INTERNAL AUDIT PROGRAMMES FOR CASH AND FOREIGN EXCHANGE
AUDIT DATE: JUNE 1, 2000

Step	Description	Done by/ Date	W/P reference	Time (Hours)
	Transfer of cash between the branch and sub units			
1.	Get a list of structural units of the branch of 1.6.2000 that are engaged in forex transactions with individuals.			
2.	In order to verify the reporting to H.O. for one month per year:			
2.1.	Get a reporting form on the amounts of currency sold and purchased for the month..			
2.2.	Reconcile the ODB to the above.			
3	Randomly choosing two transactions per month for the last 12 months, but ensuring that each exchange unit is included at least once in the sample. Based on the sample taken undertake the examination of forex transactions.			
3.1	Reconcile memo order to ODB data			
3.2	Check for availability of signatures on the MO.			
3.3	Verify that the amounts stated in the MO matches the consolidated statement prepared by the teller in the currency exchange site.			
3.4	Examine signatures in the consolidated statement.			
3.5	Reconcile the amount stated in the register to the report.			
3.6	Check for signatures in the register.			
3.7	Examine the receipt, namely number and amount against register.			
3.8	Check that the signature of the teller and the customer are on the receipt.			
3.9	Verify the rate stated on the report in the forex rate list.			
4	Purchase of foreign currency (to resident).			
4.1	Reconcile the 1% to be paid to the pension fund. Verify the availability of receipt and signatures of customer and teller.			
5	Check the amounts that were given to the teller in order to carry out the exchange transaction.			
5.1	Check the disbursement cash orders, availability of signatures, reconcile the amounts stated in the cash orders and the advance note.			
5.2	Reconcile cash order to ODB.			
5.3	Check receipt cash orders, availability of signatures, reconcile amount to the reference note.			
5.4	Reconcile cash order to ODB.			
6	Reconcile amount of income received from exchanging forex. (reconcile ODB to memorial order)			
	Western Union			
1.	Obtain the population list and take a sample.			
2.	Check that clients' card which is filled in by the client for receiving money is correctly filled in.			
3.	Reconcile withdrawal order to this card.			
4.	Reconciliation of this amount of money from the withdrawal order to the OBD.			
5.	Verify or check if money arrived on time and in full amount by			

Step	Description	Done by/ Date	W/P reference	Time (Hours)
	checking the OBD (account 2809). (Other Accounts Receivable with clients)			
	Purchase of Foreign Currency (for non resident)			
1	Chose sample of one transaction per month for the last year.			
2	Check the client's application for purchase of forex:			
2.1	Ensure it is complete and accurately filled in.			
2.2	Client's documents on exports and counterparty, agreement and customs declaration, 'akt' contract, in case of advance payment will check if registered in export and import journal control,			
3.	Ensure for hryvnia put into the transit account, (check account 6114, 3622)			
3.1	Calculation correct (interbank rate? Correct)			
3.2	The commission is correct			
3.3	Is the accrual of pension 1% correct			
4.	Putting of forex on the transit account of the branch			
4.1	Is the calculation correct			
4.2	Is the money transferred to the correct account and requisites of the foreign counterparty, account, name, address, bank,) checking contract to order			
	Sale of Forex (to resident):			
1.	Choose a sample			
2.	Check client's order to sale and currency transfer documents.			
3.	Check putting currency on branch's transit account 2900			
4	Putting Hryvnia on the bank's transit account account 2900.			
4.1	Check hryvna amount on sale of the currency			
4.2	Check the commission on this transaction.			